



# **Post Trade Services & Roles of Global Custodian Banks**

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**Presented to ASCO**

**April 19, 2017**

# Post Trade Services & Roles of Global Custodian Banks

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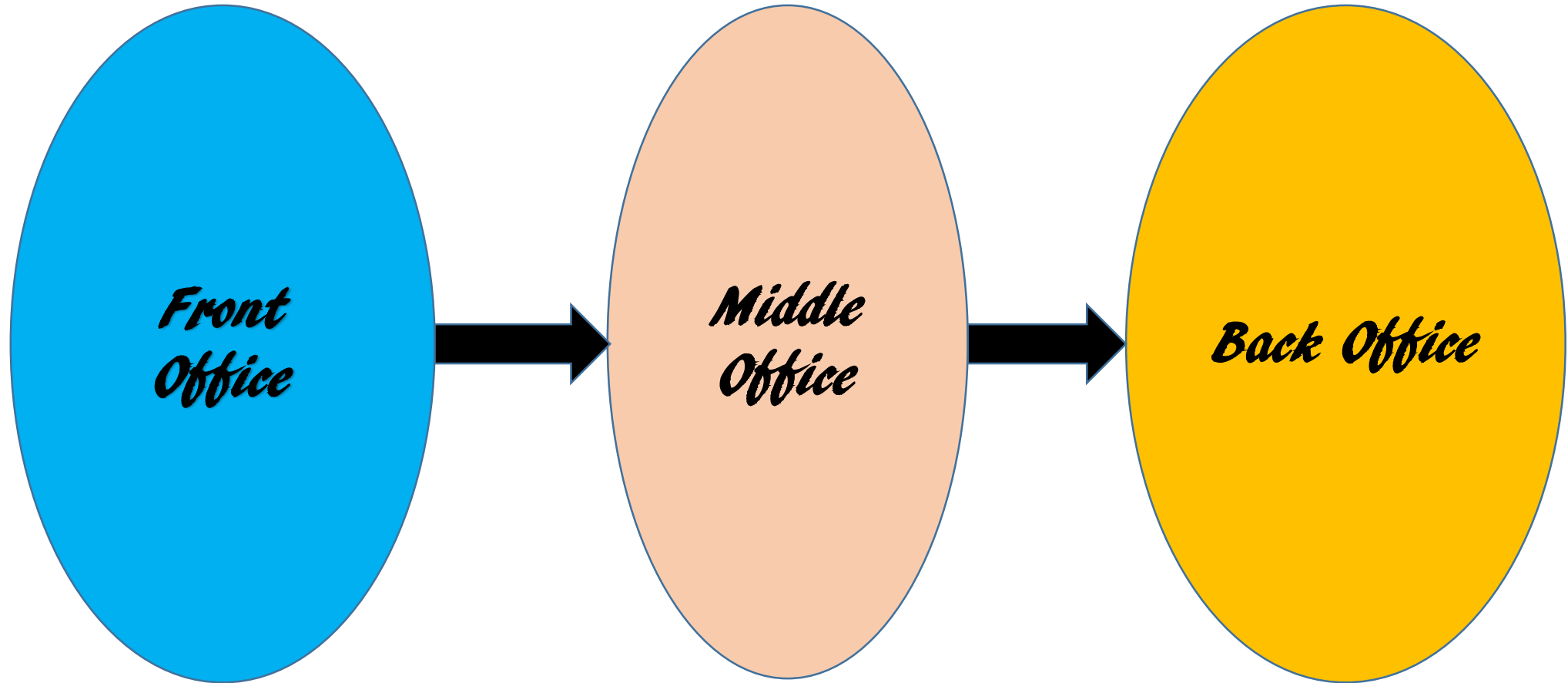
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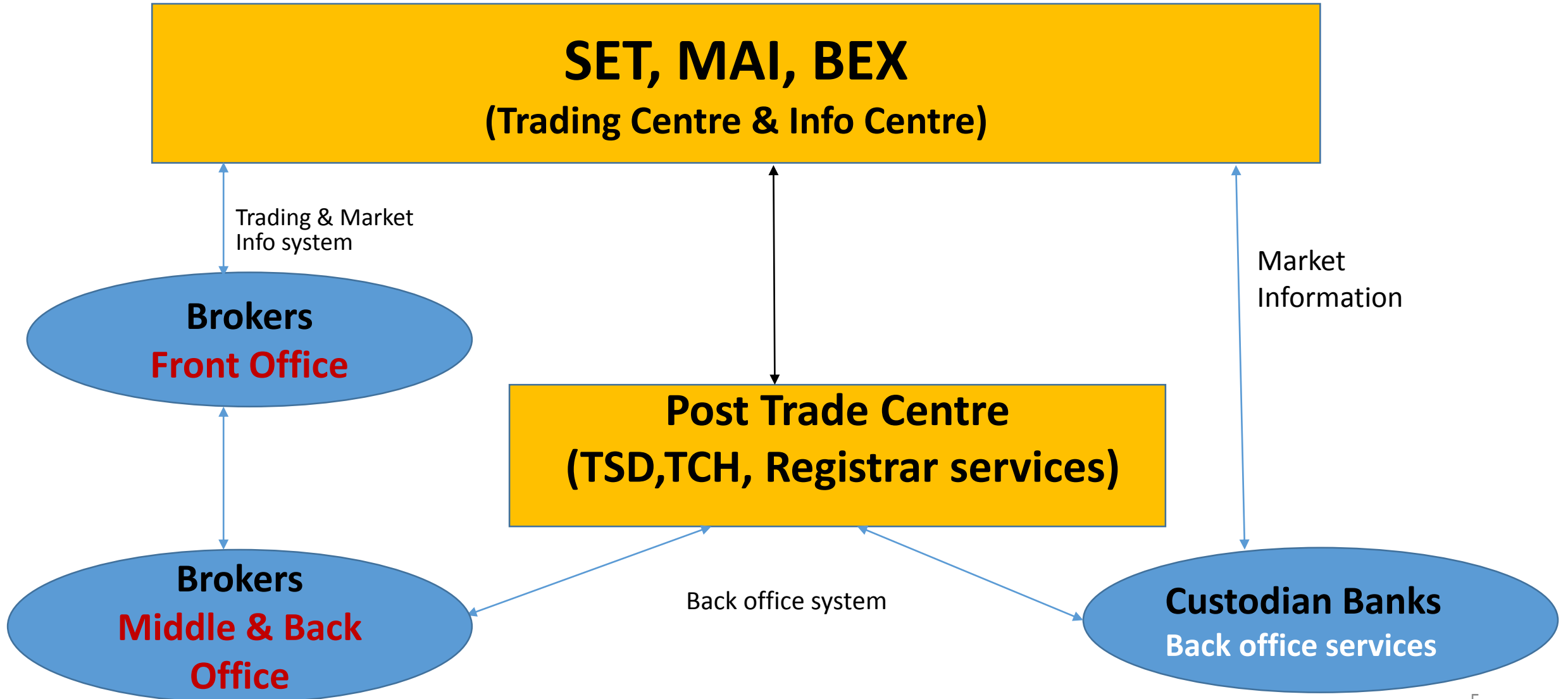
# ***Part 1 : Post Trade Services in Global Platform***

- Link between Exchanges/CSD – Brokers – Custodian Banks*
- Global Trading & Transactions Flow*
- Inbound & Outbound Settlement Flow*
- Global Custodian Banks and their differentiators*

# *Secondary Market Mechanism*



# *Local Market Trading*



# *Dimension of Duties*

## Front Office



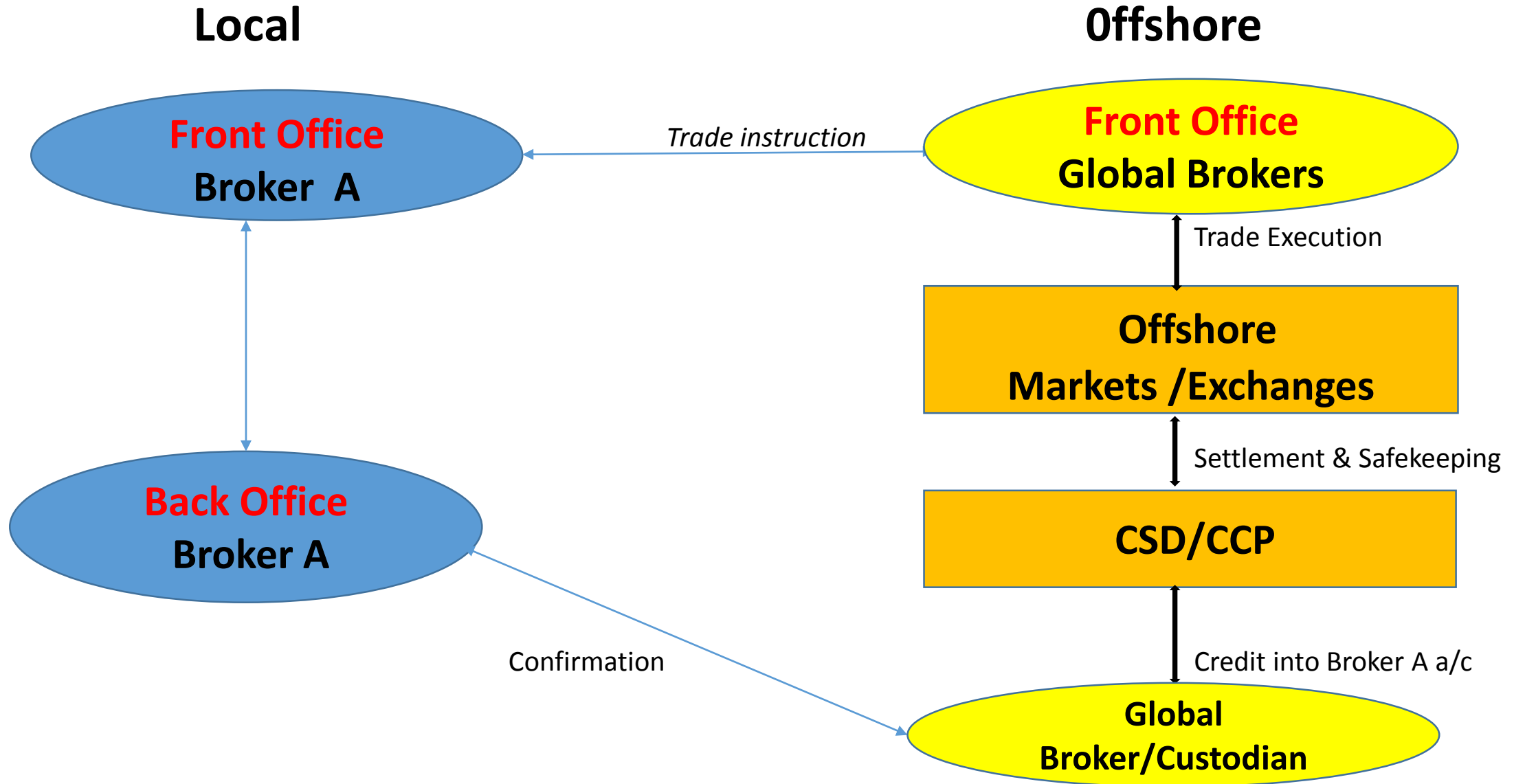
## Middle Office



## Back Office



# Trading in Offshore Markets



# *Multiples Market Trading*

## Markets to invest

North America

South America

Europe

Asia

- Japan

- Hong Kong

- China

- Taiwan

- Korea

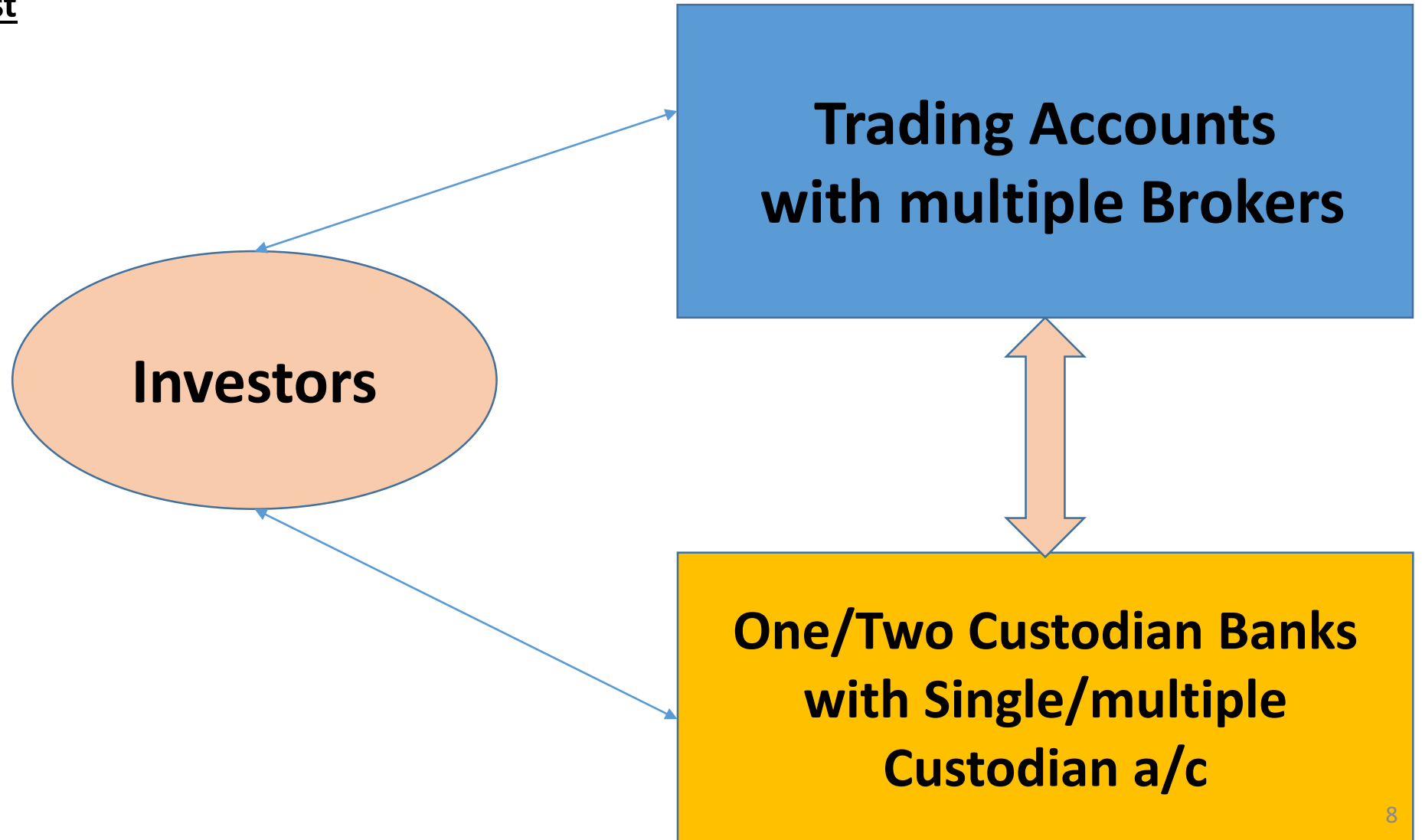
- Malaysia

- Indonesia

- Thailand

- Vietnam

....etc.....





# *Securities Companies & Custodian Banks in Thailand*

## *Custodian Banks*

- **Licensed by BoT** under the Banking License
  - **Licensed by SEC (Trustee Services)**
    - Mutual Fund Supervisor (Custody & Trustee service to Local funds)
    - Bond Trustee
  - **Custodian Clients ;**
    - **Inst'l Investors** (both Local and Foreign)
      - Foreign Banks, Global funds, Large Invt' com
      - Local Funds, Insurance companies, Foundations
- \* Generally those who **are required by Law to appoint 3rd party** to safekeep their securities or to perform trustee services.

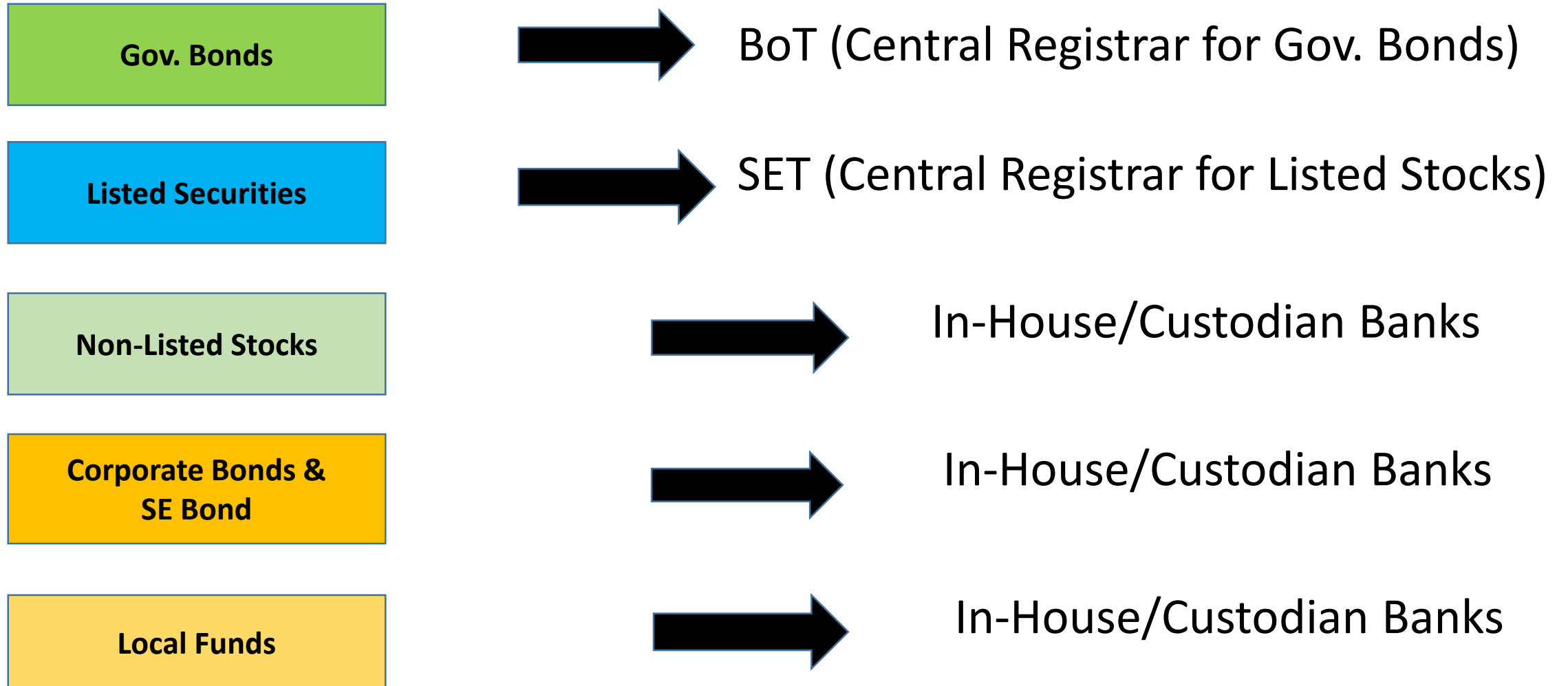
## *Securities Companies*

- **Licensed by SEC**
  - Member of SET and eligible to safekeep clients' asset
- **Clients**
  - Individual Investors
  - Inst'l Investors who are **NOT** required by Law to appoint 3<sup>rd</sup> party custody

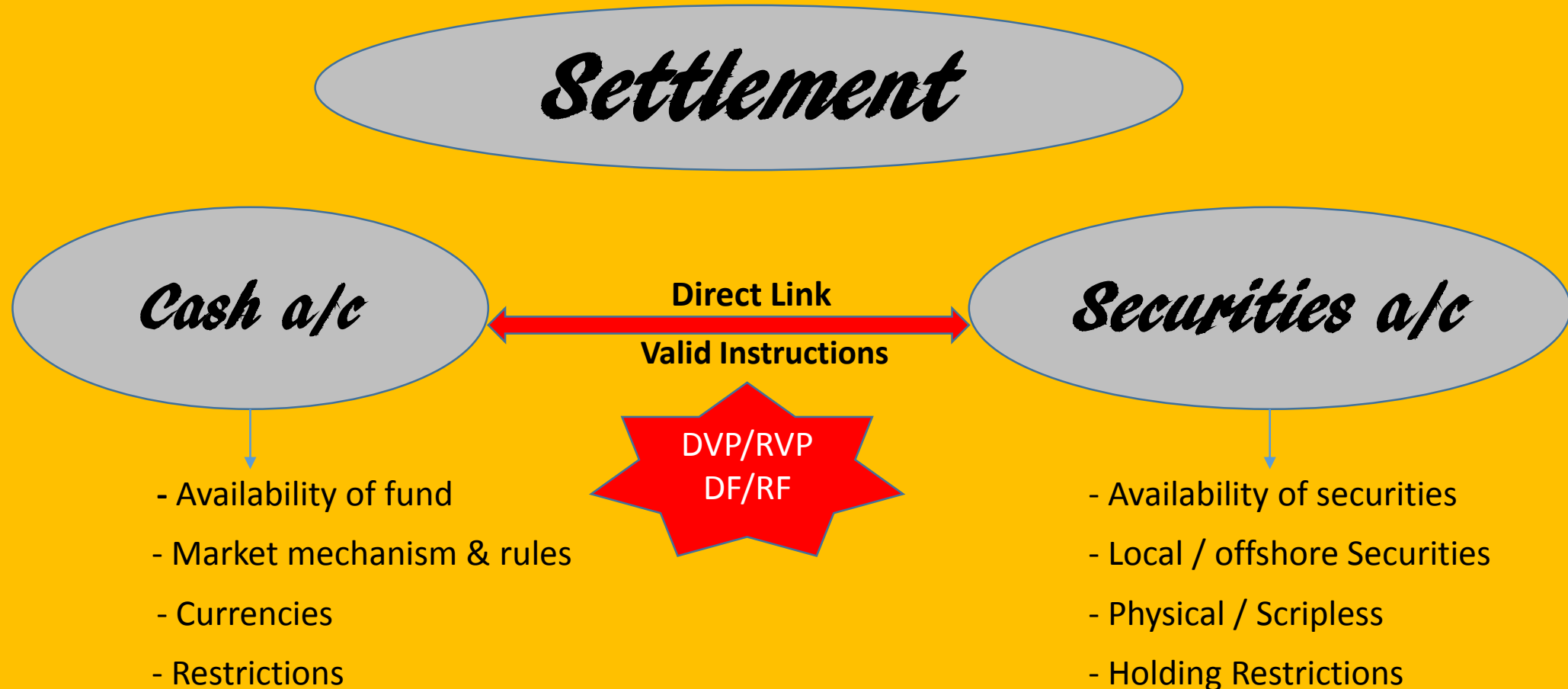
# *Settlement & Safekeeping in Multiple Markets*

- Safekeeping in CSD / Euroclear eligible => Cost
- Listed / Non-listed => Cost
- Scripless / physical securities => Cost
- CSD Settlement system and market practise
- Settlement Cycle => T+ ?
- Market Rules and Regulations
- SWIFT instructions for automation processing
- CSD is complied with Global Market regulations and requirements
- Registrar system & CA services

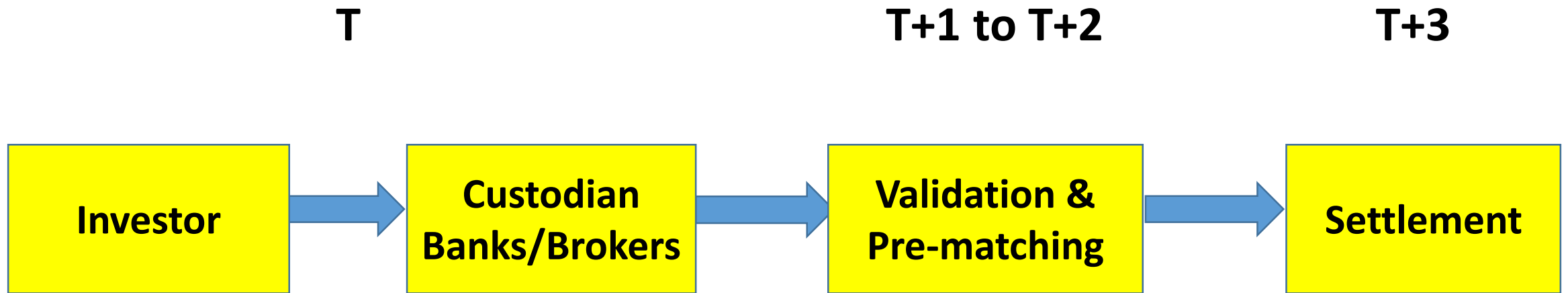
# *Registrar Services in the Thai Market*



# *Custodian Settlement Processing*



# *Equities Settlement Cycle*



- T (Trade Date) : Investor sends settlement instructions to Custodian bank/broker
- T+1 to T+2 : Check, validate and follow up on availabilities of cash and securities and pre-matching of transactions
- T+3 (Settlement Date/SD) : Trades are matched and settled by TSD in net basis, securities are transferred via PTI System and funds are settled via Bahtnet

# *Comparison of Trading Hours and Settlement Cycle*

Markets	Trading Hours	Market Settlement Time	Settlement Cycle
Thailand	10.00-17.00	14.00	T+3
Singapore	09.00-17.00 (08.00-16.00 BKT)	12.00 SGT (11.00 BKT)	T+3
Hong Kong	09.30-16.00 (8.30-15.00 BKT)	15.45 HKT (14.45 BKT)	T+2
UK	08.00-16.00 (14.00-22.00 BKT)	16.30 GMT (23.30 BKT)	T+3
US	09.30-16.00 (21.30-04.00 next day BKT)	15.00 EST (03.00 BKT)	T+3

\* Stock Markets in South-East Asia are planning to move to T+2 settlement cycle expected by 2017-2018

# *TSD's Plan in moving toward T+2 Settlement Cycle*

- **Pre-Settlement Matching System (PSMS)** was introduced on August 24, 2015
- **PSMS has increased automation and straight through processing (STP)**
  - Trade transactions and Settlement transactions are STP
  - Replaced manual telephone pre-matching with system auto-matching
- **Segregation of accounts at ultimate beneficial owner (UBO) level** in TSD system which mirror those accounts that are set up with Brokers and Custodian Banks

# ***FUND Flow in Multiple Markets***

## ➤ **Restrictions on Foreign Investors**

*eg. A/C Opening requirement, Trading ID, Pre-funded market, Foreign ownership....???*

## ➤ **Open or Restricted Currencies**

*eg. THB →USD, THB →SIN, THB →USD →KRW and vis versa*

## ➤ **Remittance & Tax requirements**

*eg. Tax advisor is required for India and Taiwan markets*

## ➤ **Other Regulatory Restrictions**

*eg. Fx Control, THB 300 mm outstanding limit in cash a/c*



## Example of Market's Requirements in some Asian Countries

Countries	Investor Trading ID	Investor's Custody Accounts	Others
Thailand	not required	Segregated by TSD new system (PSMS)	Measures to prevent THB speculations
Indonesia	not required	Omnibus / Segregated	Tax complications
Singapore	not required	Omnibus / Segregated	Established market
Hong Kong	Not required	Omnibus / Segregated	Established Market
India	FII	Segregated	Limitations on foreign investors, tax consultant
Taiwan	FINIs	Segregated	Tax consultant
China	QFII, RQFII	Segregated	Regulations change
Korea	IRC	Segregated	Tax complications
Lao PDA	yes	Segregated	Pre-funded, complicated structure

# *Global Custodian Banks and their Differentiators*

- ❑ Global Platform <=> Global Network & Franchise
- ❑ **Efficient Custody System**
  - Automation & STP
  - Direct linkage to CSD system
  - Accuracy in Transactions Processing
  - Reliable CA services and Income Collection
  - Daily Reconciliations with CSD
  - Other additional services eg. Fx, SBL.....etc.
  - Accuracy Statements & Reports to Clients
- ❑ Capability to support safekeeping of both scripless and physical securities
- ❑ Customized Solutions & Strong influential on regulatory changes
- ❑ Operation **Control & Risk** Management
- ❑ Market Leadership & Experience Teamwork
- ❑ Global **Insurance coverage**
- ❑ Local & Global Market Advocacy Efforts...**Timely & Accuracy**

## ***Part 2 : Depository Receipt (DR)***

## *What is Depository Receipts (DR)?*

DR represents ownership in the shares of a foreign company, listing and trading on SET.  
DR enables Thai investors to buy shares in foreign companies without undertaking cross-border transactions

<b>Issuance and Cancellation</b>	<ul style="list-style-type: none"><li>• Created by “<b>DR Issuer</b>”, authorized by SEC, and listed in SET</li><li>• Issued against the deposit of the underlying securities (u/s).</li><li>• U/S are placed with the CSD in the relevant offshore markets</li><li>• <b>No raising capital purposes, and NOT an IPO</b></li><li>• Issued in book-entry form</li><li>• Cancellation of DR is against the release of the u/s held with the relevant CSD</li></ul>
<b>Underlying Securities (u/s)</b>	<ul style="list-style-type: none"><li>• <b>DR price</b> in local market is closely related and moving in the same direction as the u/s in the offshore markets</li><li>• DR holders are <b>entitled to the same rights</b> as the holders of the u/s</li></ul>
<b>Trading DR</b>	<ul style="list-style-type: none"><li>• Quoted and traded on the main board of SET, as a <b>new International Market Segment</b></li><li>• Follow SET rules and practises as other listed securities</li></ul>
<b>Product for Investors</b>	<ul style="list-style-type: none"><li>• DR is <b>Demand-driven by local investors</b></li><li>• A shelf product from “supermarket of securities”</li></ul>

# Key Benefits of DR

<b>Local Market &amp; Economy</b>	<ul style="list-style-type: none"><li>• The value chain of transactions are <b>retained in the local market</b></li><li>• <b>Increased market volume</b> and turn over in SET</li><li>• New business as Registrar to DR</li><li>• <b>Access to cross-border securities</b> and enable diversification for investment of retails investors</li><li>• <b>Exposure to cross-border market practise and corporations</b></li></ul>
<b>Brokers</b>	<ul style="list-style-type: none"><li>• <b>New products and lower cost</b> to clients</li><li>• Opportunities to <b>expand brokering services</b> into regional &amp; global markets</li><li>• Provide nurturing ground to move to that of regional /global market arena</li></ul>
<b>Investors</b>	<ul style="list-style-type: none"><li>• Enable to <b>trade foreign securities in the local market</b> with familiar environment</li><li>• <b>Priced in local currency and exchangeable</b> into the u/s</li><li>• DR holders are <b>protected</b> by SET rules and in similar way to the u/s</li><li>• Provides <b>same rights/entitlements</b> as the u/s holders</li><li>• <b>CA services</b> are provided in the local market in the same manner as the local securities</li></ul>

# *Roles and Responsibilities*

<p><b>SEC</b></p>	<ul style="list-style-type: none"> <li>✓ Established the <b>regulatory framework</b> for DR and protection to investors</li> <li>• Files and <b>monitors DR Issuance</b> and cancellation activities</li> <li>• Establishes framework for market education</li> </ul>
<p><b>SET</b></p>	<ul style="list-style-type: none"> <li>• Create a “<b>Regional/International Market Segment</b>” for DR</li> <li>• Establish additional <b>Listing rules and Trading rules for DR</b></li> <li>• Monitoring trading and transparencies</li> <li>• Provide access to information of u/s market and securities/companies</li> <li>• Provide education to investors</li> </ul>
<p><b>TSD</b></p>	<ul style="list-style-type: none"> <li>• <b>Registrar</b> function and services to DR</li> <li>• Disseminated of <b>CA</b> information and entitlement of DR</li> </ul>
<p><b>DR Issuers &amp; Custodian Banks</b></p>	<ul style="list-style-type: none"> <li>• <b>Filing and listing</b> of DR program</li> <li>• Settle the u/s in foreign market as instructed by brokers</li> <li>• <b>Holding of the u/s</b> in the foreign market as custodian</li> <li>• <b>Issue and cancel</b> of DR in the local market</li> <li>• Dissemination of <b>DR information and CA activities</b> to SET and its website</li> </ul>
<p><b>Brokers</b></p>	<ul style="list-style-type: none"> <li>• Trading of DR in secondary market in the same manner as local securities</li> <li>• Provide DR Research and information to clients in the same manner as local securities</li> </ul>

## *Mechanism to create Liquidities for DR*

- DR to be issued on the same day of settlement of the u/s in the foreign market
- Brokers are allowed to trade DR in SET while simultaneously executes the u/s in the offshore market
- Settlement cycle is to be in line with u/s market or to follow local market practice

# Summary

## DR Trading Rules & Regulations

- Should follow the market's existing rules and regulations
- One DR Issuer per one u/s for better enforcement of duties and dissemination of price and info on u/s
- NO minimum size to provide access to retail investors

## DR Issuer

- Global network and the same entity with foreign custodian
- Licensed by SEC with full capabilities and functions on custody services
- Efficiency in disseminating of info on u/s

## Underlying Securities & Markets

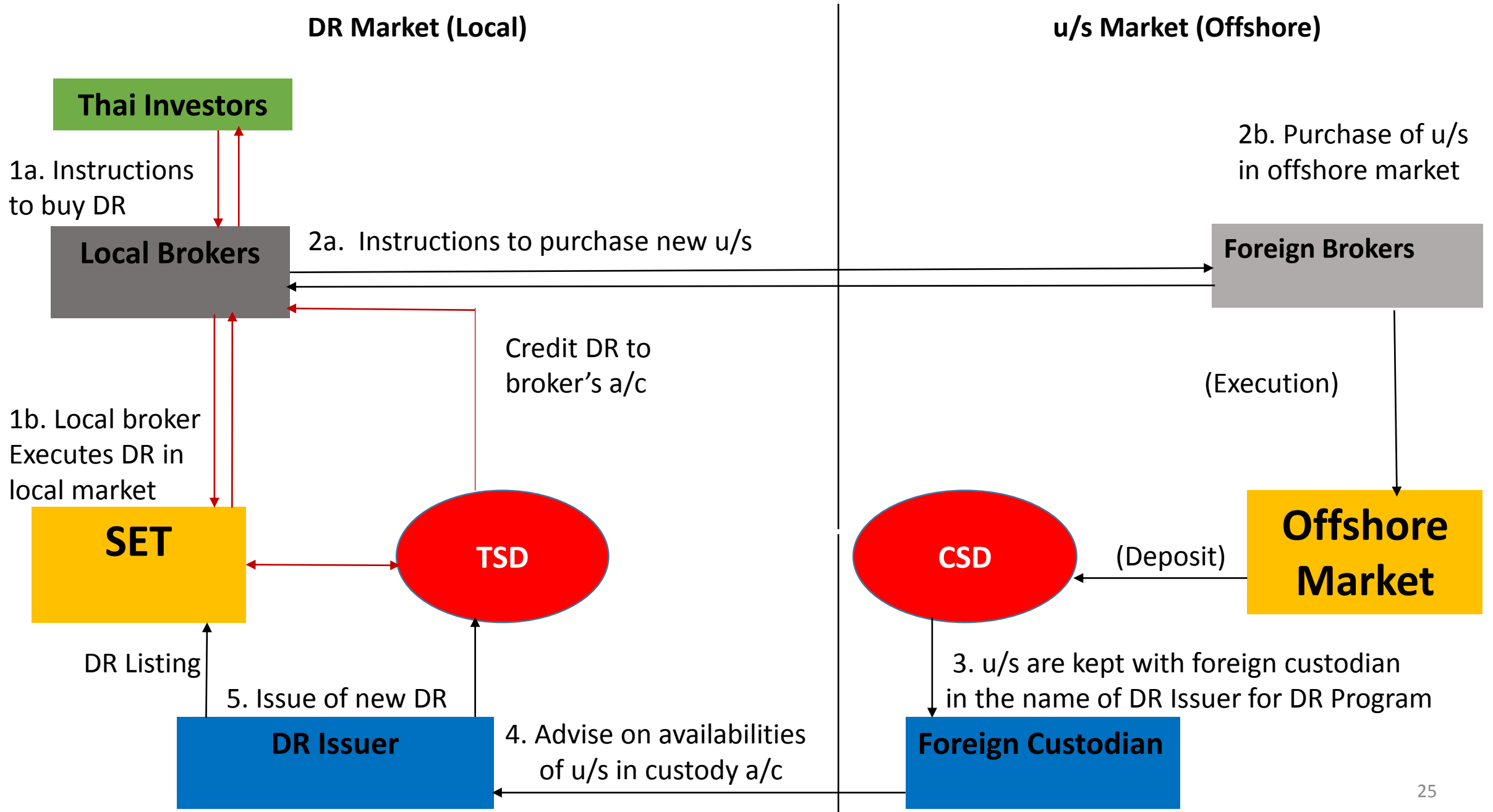
- Criteria on Stock selection and transparency of info
- Offshore markets with acceptable standard in Information disclosure
- Transparency to Investors

## Others

- Clear understanding of Issuance, Cancellation, CA Flow
- Tax neutrality



# DR Issuance Flow



**Q & A**

