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# ASIA 2024

# Welcome to the 2024 Securities Finance Times Asia Annual

This volume describes how macroeconomic and geopolitical conditions, combined with regulatory amendments to short-selling and collateral requirements, have contributed solid growth expectations for APAC securities lending, funding and financing markets.

In Japan, strong equity market inflows pushed the Nikkei 225 to its highest level for more than three decades. Contributors describe how long-held negativity towards hostile takeovers is beginning to subside, with resultant dealmaking and arbitrage opportunities providing a fillip for securities lending revenues.

In Taiwan, equities market indices have climbed towards an all-time high, with strong investor interest particularly in microchip and technology sectors, and this surge in the market has contributed to strong demand for borrowing across large cap and small cap sectors.

In November, the Philippine Stock Exchange gave the go-ahead to introduce short selling as a stimulus for market liquidity and trading volume, with contributors highlighting how the Philippines and Indonesia are making good progress in developing their securities-based lending models.

In India, the Securities and Exchange Board of India (SEBI) has released a preliminary ruleset for short selling activity, although market participants are waiting on further clarification regarding what the final design will look like.

From a macroeconomic perspective, the Bank of Japan is expected to test conditions for winding down its yield curve control policy from around the end of Q1. With the US Federal Reserve nearing the peak of its tightening cycle, respondents indicate that the resulting USD-JPY cross-currency spread may offer opportunities in JPY funding markets and these developments may also provide a stimulus for JGB borrowing.

A number of APAC markets are driving research in digital asset and tokenisation, along with broader pan-industry initiatives to improve automation, speed and transparency of securities and cash processing.

These sit alongside an integrated settlement project, Synapse, at the Hong Kong Stock Exchange designed to complement the existing post-trade infrastructure for northbound flows to the Chinese mainland via Stock Connect.

In closing, we thank all sponsors for the support that makes this 2024 Asia-Pacific Annual possible.

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# Inside this annual



## Regulation for digital payment token services strengthened by MAS

The Monetary Authority of Singapore (MAS) has proposed tighter regulations on digital payment token (DPT) service providers in Singapore.

The proposals limit potential consumer harm and require DPT service providers to meet minimum technology and cyber risk management requirements.

DPT service providers are encouraged to dispel cryptocurrency speculation created by retail customers. MAS states that the providers should consider their customer's rush awareness and should not offer incentives to trade in cryptocurrencies.

MAS expects DPT service providers to maintain availability and recoverability of all of their critical systems.

MAS states that it will issue guidance for DPT service providers to help implement these new measures. The regulations are set to come into effect in phases from mid-2024.

Ho Hern Shin, deputy managing director at MAS, says: "DPT service providers have the obligation to safeguard the interests of consumers who interact with their platforms and use their services. While these business conduct and consumer access measures can help meet this objective, they cannot insulate customers from losses associated with the inherently speculative and highly risky nature of cryptocurrency trading.

"We urge consumers to remain vigilant and exercise utmost caution when dealing in DPT services, and to not deal with unregulated entities, including those based overseas."

## South Korea ban short selling

South Korea's Financial Services Commission has posed a ban on stock short selling in domestic markets as it looks to 'improve the system'.

The ban will commence from 6 November 2023 until the end of June 2024, and will prohibit the short selling of all KOSPI, KOSDAQ and KONEX listed items.

Following the discovery of a number of illegal naked short selling practices — conducted by foreign and institutional investors — the FSC finds this activity in the market 'very dire'.

The commission says the illegal activity "can erode the fair pricing function of the market and degrade confidence in the market".

During the period of banning short selling, the South Korean government will work on a three-fold plan to improve the system and root out illegal activities when short selling resumes in 2024.

The FSC will focus on measures to 'level the playing field' between institutional and retail investors, which remains 'not levelled'.

Further, the authorities will search for an alternative to building a real-time illegal naked short selling detection and prevention system. It will also analyse the recent cases in this area and seek guidance from market experts and stakeholders

Thirdly, the authorities will step up efforts to detect and punish naked short selling activities with the launch of a special short selling investigation unit which aims to 'thoroughly' look into this sector.

At a media briefing on 5 November, FSC chairman Kim Joo-hyun said that the top priority of the government's capital market policy is to create a fair and efficient market to protect investors and ensure confidence in the market.

Joo-hyun added that the government will do all it can to bring improvements to the country's short selling system, so that it can develop into one where every investor can have confidence.

Commenting on the decision, the Pan Asia Securities Lending Association (PASLA) says: "We regret the Financial Services Commission's announcement to reimpose a full ban on short selling in South Korea. There is never any place for illegal, naked short selling.

"PASLA is fully committed to promoting open, transparent and regulated securities lending, which is a prerequisite for covered short selling, across Asia Pacific equity markets.

"We will continue our close engagement with our Korean stakeholders and support the review of the market structure, rules and infrastructure. We look forward to the introduction of a new framework for regulated short selling in the near future."

## Evergrowing Bank mandates Adenza

Evergrowing Bank has selected software development provider Adenza to support its technology modernisation and risk-management optimisation programme.

The Chinese bank will use Adenza's Calypso Treasury front-to-back solution to support its modernisation, consolidation and risk management strategy.

The solution will also expand Evergrowing's cross-asset front-office support, including pre-trade compliance for money market, fixed income and foreign exchange products.

Using a real-time pre- to post-trade platform, the Calypso Treasury solution aims to support local-market growth and increased volumes as the business expands.

Tang Yuanliang, general manager of the treasury operation centre at Evergrowing Bank, says: "This solution drives straight-through processing, new real-time valuation, compliance and risk metrics — a solid foundation for expanding our business."

RG Manalac, managing director for APAC at Adenza, adds: "By leveraging our comprehensive collection of interactive dashboards that bridge front-office data, pre-trade compliance and risk analytics, the bank can simplify its capital markets ecosystem while adapting to new market products and regulations."

## SEBI introduce new guidelines for short selling

The Securities and Exchange Board of India (SEBI) has released new guidelines for short selling in the Indian securities market.

These rules build on SEBI's 'Short-Selling and Securities Lending and Borrowing Scheme' that was implemented in October 2023.

Under the new guidelines, all classes of investors, including retail and institutional investors, are permitted to short sell.

However, to ensure transparency and increase market credibility, the framework imposes stringent measures around disclosure practices.

Naked short selling is not permitted in the market, and all investors are required to deliver the securities at the time of settlement.

Institutional investors are required to disclose upfront whether the transaction is a short sale at the time of placing the trade order. Retail investors, however, are permitted to make a similar disclosure by the end of the trading hours on the transaction day.

SEBI indicates that failure to comply with the guidelines will result in 'appropriate action' from the stock exchanges, in a bid to mitigate risks associated with short selling.

Hruda Ranjan Sahoo, deputy general manager of SEBI, says that the guidelines are issued "to protect the interests of investors in securities and to promote the development of, and to regulate, the securities market."

## Haswani joins HSBC

HSBC has appointed Bhavna Haswani as director of digital assets and currencies.

Based in Hong Kong, Haswani will focus on the firm's digital strategy, investigating business opportunities to move from traditional finance (TRAFI) into decentralised finance (DEFI).

She brings extensive experience in trading, quant analytics and product management, having held multiple senior positions across the APAC market.

Prior to HSBC, Haswani held a five-year tenure as vice president at J.P. Morgan.

Before this, she was an executive board member of the Pan Asian Securities Lending Association (PASLA) and was vice president of BNY Mellon between 2015 and 2018.

## DIC joins CLSSettlement

CLS has announced that DIC Corporation has become the third Japanese manufacturing company to indirectly access its settlement platform, CLSSettlement, as a third-party participant.

DIC, global chemical manufacturer of printing inks, will access CLSSettlement via the platform's third-party provider, MUFG Bank. CLS claims that DIC will benefit from streamlined data processing from trade execution through to settlement.

Lisa Danino-Lewis, chief growth officer at CLS, comments: "This latest development is a progressive approach for manufacturing and service companies, as it allows them to effectively manage their treasury functions and align with market best practices."

## Deutsche Bank appoints Kim in South Korea

Deutsche Bank has appointed Samuel Kim as chief country officer for South Korea.

Based in Seoul, Kim takes over from Sungeun Ahn who will be leaving the bank after more than 10 years.

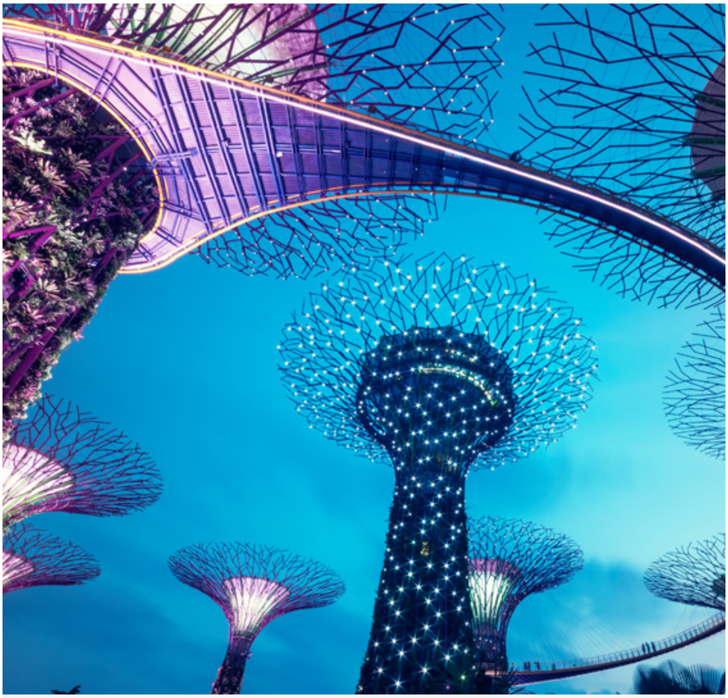
Kim joined Deutsche Bank in September 2023 as chairman of mergers and acquisitions in Asia Pacific, a role which he will continue in addition to being chief county officer of Korea.

He will work with Hyun-Nam Park, Deutsche Bank Korea branch manager.

Chandra Mallika, CEO of Developed Asia Pacific, says: "We look forward to leveraging Sam's deep C-suite relationships across the region and his experience with leading local financial sponsors and large conglomerates to take our platform to the next level."

## UBS, SBI and DBS complete cross-border repo on public blockchain

UBS, SBI and DBS have launched the 'world's first' live repo transaction with a natively-issued digital bond



## PhillipCapital launches institutional broking business

Singapore-based financial services provider Phillips Securities, a member of the PhillipCapital Group, has launched its institutional broking business.

The business aims to expand coverage for institutional investors, offering a suite of services including customised trading solutions, research and analysis, account management and access to global markets.

Additional enhancements are planned for the trading platform to achieve 24-hour coverage for real-time US stock execution.

To oversee electronic trading and the institutional equity business, Phillip Securities has hired Mihai Bistriteanu as a director.

With more than 20 years' experience in securities markets across stock lending, equity execution and algorithmic trading, Mihai has held senior positions in equity sales and trading at SBI Sec, Credit Suisse and Citigroup in Tokyo and Singapore.

Luke Lim, managing director of Phillip Securities, says: "We are excited to combine our industry knowledge with the unique needs and objectives of institutional investors."

## Edaa delays shortening settlement cycle

Edaa, Qatar's central securities depository, has postponed the jurisdiction's shift from a T+3 to a T+2 settlement cycle.

The move, which was originally scheduled for 2 January 2024, has been pushed back to March.

This decision was made in response to custodian requests, and was coordinated with the Qatar Financial Market Authority (QFMA).

Edaa CEO Sheikh Saif bin Abdullah Al-Thani assures that the company's infrastructure is prepared to implement the shorter cycle. However, he explains that this longer preparation window will allow market participants, financial intermediaries and custodians to update their systems and notify clients of new procedures.

This will benefit the Qatar financial market as a whole, he adds, encouraging greater investments in securities and providing a faster environment process turnover service.

A shorter settlement cycle aims to improve Qatar's presence in global capital markets.

on a public blockchain.

The transaction settled a repo, digital bond purchase and redemption using regulated digital payment tokens across entities in Japan, Singapore and Switzerland.

It was conducted as part of MAS' Project Guardian — a collaborative initiative with policymakers and the financial industry that aims to test the feasibility of applications in asset tokenisation and decentralised finance, while managing risks to financial stability and integrity.

According to the three firms, the transaction highlights how blockchain technology enables cross-border distribution and settlement of capital market instruments in a "highly efficient, flexible and cost-effective manner", while enhancing liquidity management.

A number of benefits have been showcased through this event, the firms say, including real-time 24/7 settlement, operational and capital efficiency, all the while ensuring compliance and security requirements.

The transaction involved a repo to borrow tokenised Japanese Yen (JPY) against a JPY-denominated natively-issued digital bond, with the borrowed tokenised JPY used to finance the purchase of the same bond.

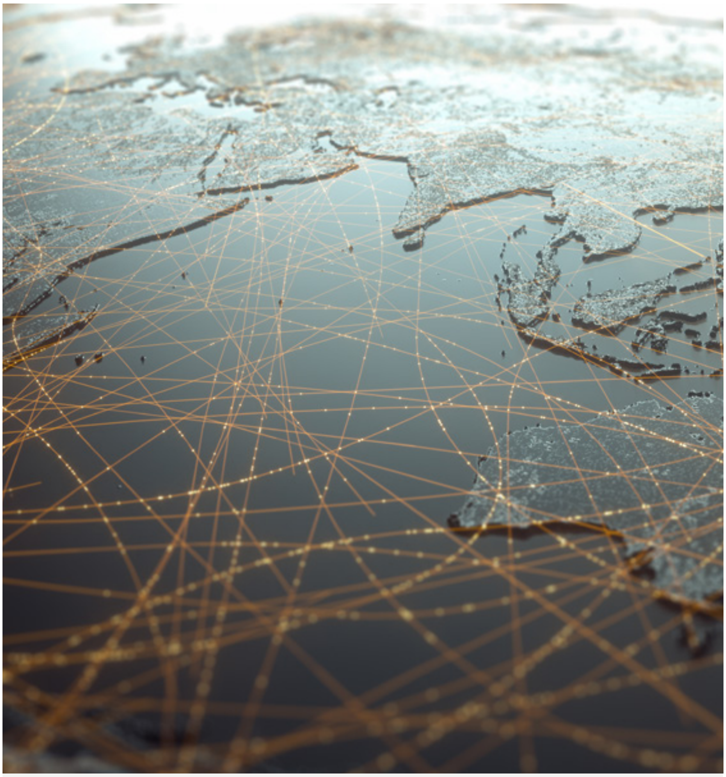
The subsequent digital bond redemption and payment of principal and interest at maturity was executed on-chain, demonstrating the potential to cover an entire transaction lifecycle on a public blockchain.

Commenting on the milestone, Mike Dargan, UBS Group chief operations and technology officer, says: “With this pioneering transaction, we proved the feasibility of executing a fully automated and instantly settled transaction across several jurisdictions by leveraging a public distributed ledger technology (DLT) network under a strict compliance framework.

“The flexible nature of our UBS Tokenize service allowed our partners to easily adapt and leverage our innovative product framework and technology capabilities to their infrastructure and transaction needs.”

Fernando Luis Vázquez Cao, SBI Digital Asset Holdings CEO, adds: “At SBI Digital Asset Holdings (SBI DAH), we are building an institutional grade digital asset ecosystem and are ready for its commercialisation.

“This transaction demonstrates what can be done in Japan and cross-border, in providing innovative and efficient products and services to the market and clients. It is also an example of the strength of partnerships SBI DAH has with large global institutions and across the SBI group, with SBI Securities as counterparty to the repo transaction and Shinsei Trust & Banking as the issuer of JPY stablecoin.”



## Chan named as BlackRock’s new head of Asia Pacific

BlackRock has named Susan Chan as head of Asia Pacific, with Andrew Landman and Hiroyuki Shimizu becoming deputies.

Chan’s predecessor, Rachel Lord, has relocated to London to become BlackRock’s head of international.

Chan will lead the Asia Pacific region and be responsible for business, client, investment and operational platforms serving wealth and institutional investors via BlackRock’s active, index, ETFs, alternatives and technology offerings.

Chan has more than three decades of experience in financial services and asset management, serving as deputy head of Asia Pacific and head of greater China at BlackRock since 2021. She currently sits on BlackRock’s Global Executive Committee.

Chan has been at the company for more than 10 years, helping to develop BlackRock’s onshore business in mainland China and leading both the trading, liquidity and lending and ETFs and index investment businesses in the APAC region.


## State Street to further consolidate their operating model in India

State Street is finalising plans to assume full ownership of its joint venture operations with HCLTech. These arrangements are expected to be completed in the first half of 2024.

Joint Venture operations (JV) State Street HCL Services was formed in 2012 to provide business operations services in India. By taking full ownership, State Street is aiming to streamline and simplify its global operations.

State Street claims that by bringing the services under one ownership, it will be able to provide its clients with a simplified model. The company says that this will facilitate faster and more informed decision making.

Mostapha Tahiri, executive vice president and incoming chief operating officer of State Street, says: “This integration is a natural evolution of our successful relationship with HCLTech, which remains a strategic technology partner. By creating additional scale, we remain committed to further advancing our operational model with client needs at the centre.”

## Deutsche Bank and CIMB Islamic partner on Shariah custody

Deutsche Bank has partnered with CIMB Islamic Bank Berhad to provide Shariah compliant custody services to clients in Malaysia. The firm has also been selected to support foreign custody services for CIMB Islamic with its CustodyOne product.

Fund managers governed by the Securities Commission’s guidelines for Shariah capital markets products are the focus of the initiative, Deutsche Bank says.

The firm has also launched Shariah-compliant custody services in Singapore, facilitating easier global access for clients and complementing the existing CustodyOne offering in the region.

This new offering follows a growing demand for Shariah custody services in Singapore, particularly from domestic clients seeking to expand their ASEAN operations, according to the bank.

## Mirae Asset Securities acquires Sharekhan

Mirae Asset Securities (MAS) has acquired Sharekhan Limited in a US$370 million deal.

MAS signed a shared purchase agreement with BNP Paribas SA for the acquisition of Sharekhan, one of India’s major brokerages.

The acquisition is representative of the parent company, Mirae Asset

Financial Group's, desire to expand into the country having launched MAS, its Indian subsidiary, in 2018.

An official from MAS said: "With the acquisition of Sharekhan Limited, Mirae Asset Securities has seized the opportunity to predominate the brokerage business in India, which will show long-term growth. We plan to create synergy with Mirae Asset Global Investments, the only foreign asset manager in India."

## MUFG Investor Services opens Malaysia operational centre

MUFG Investor Services has opened an operational centre in Kuala Lumpur, Malaysia. Puneet Gupta has been appointed managing director and head of Malaysia.

The centre will provide a full range of fund accounting administration and asset services for MUFG Investor Services clients in Asia, and will support the firm's 16 locations.

Gupta has more than 20 years of industry experience and joins MUFG from Texas-based manufacturing firm Kimberly-Clark, where he was director of global business services and responsible for the APAC region.

More recently, he was global head for corporate actions and settlement streamlining at HSBC Global Banking and Markets.

John Sergides, CEO of MUFG Investor Services, says: "Marking a milestone in our growth trajectory,

## AsiaNext offers crypto derivatives trading

Global digital asset exchange AsiaNext has launched crypto derivatives trading.

Headquartered in Singapore, AsiaNext is a collaborative venture from SBI Digital Asset Holdings and SIX.

Specifically designed for institutional investors, it offers an institutional-grade end-to-end digital assets value chain and provides reduced counterparty and settlement risk.

The exchange received regulatory approval from the Monetary Authority of Singapore in September 2023, and aims to provide a range of products, including digital securities, tokenised real-world assets and sustainability-oriented listings.

It was launched in response to institutions' increased exposure to digital assets over recent months, along with greater client demand for tokenised securities.

The exchange's risk management processes, flexibility and intraday margining and settlement run capabilities create capital efficiencies for investors, the company says, with low-latency and high-frequency trading of crypto derivatives available on a 24/7 basis.

## BMLL completes China data offering

BMLL, data and analytics provider for global equities and futures markets, has added Shanghai data to its Data Lab, completing its China equity data offering.

Level 3, order book data from all major mainland China Equity Exchanges is now accessible in a consistent format, at the most granular level available.

The announcement continues BMLL's APAC equities and ETF data coverage expansion.

In April, the company added Level 3 CBOE Japan, Janannext and Singapore Exchange data to its product suite, while ASX and CBOE Australia were added to its Asian markets coverage in July.

Asian exchanges are able to perform venue comparisons against their local and international equivalents, BMLL says, enabling an understanding of market quality and liquidity provider performance.

Enhanced APAC data coverage will allow buy- and sell-side firms to improve their trading decisions across Asia, the firm says, and will help sell-side execution firms to leverage order book data and analytics to strengthen their product offerings.

Paul Humphrey, BMLL CEO, says: "We continue to invest heavily in making sure that our customers can access the most granular order book data across the US, EMEA and APAC. This is another milestone in our APAC data coverage expansion and another step on our mission to democratise access to highly granular data and analytics across global jurisdictions.

"Demand for China data has never been higher. This is set against a general industry trend of increased market participant sophistication, and an increasing demand for quality historic market data to understand market microstructure and venue behaviour."

our new operational centre in Malaysia enhances our ability to support our clients across the globe."

## Siason to lead Deutsche Bank's Philippines outpost

Deutsche Bank has appointed Rodolfo (Dino) Siason as chief country officer and head of corporate bank for the Philippines, effective 1 April.

In the role, Siason will be responsible for the company's corporate and investment banks in the region and one of its APAC service hubs.

He will report to Burkhard Ziegenhorn, head of corporate bank for Southeast Asia and Australia, and Kaushik Shaparia, CEO of emerging Asia and chief country officer for India. He replaces Michael Chua, who has held the role for close to three decades.

## Taipei Fubon Bank commits to CLSNet

Taipei Fubon Bank has committed to using CLSNet, becoming the first Taiwanese bank to do so.

CLSNet, a bilateral payment netting calculation service, offers standardisation and automation through a centralised platform. CLS claims that the service mitigates risk, reduces operational costs and optimises liquidity for its participants.

CLSNet's average daily notional value of net calculations consistently exceeds US$105 billion — in September 2023, it netted a record daily notional value of US$367 billion.


From left to right: Paul Collard, James Aris, Reshad Mullboccus

# Asian lending on a global basis

## Look offshore to maximise your lending potential, say MUTB's Global Securities Lending Solutions team Paul Collard, James Aris and Reshad Mullboccus

As a global lender, the Global Securities Lending Solutions (GSLS) team at Mitsubishi UFJ Trust and Banking (MUTB) has a mantra that says one of our key roles is to find the demand for our client's securities wherever that demand exists in the world.

That requires our traders to scour the global markets to identify demand and to generate revenue on as many asset classes as possible, even if they are far removed from the trader's geographical location. Moving and lending assets to the market where there is the greatest demand has underpinned much of our success at MUTB. However, for a long time this did not include a significant amount of lending of Japanese government bonds (JGBs).

For as long as we can recall, JGBs have been one of the most actively traded asset classes in the world's fixed income markets, but that was almost completely confined to their use as collateral. Various lenders have long extracted value from US Treasury portfolios by lending them against the receipt of JGBs as collateral. However, for clients with long positions in their portfolios, achieving lending revenue remained little more than a pipe dream. That is, until now.

Demand for JGBs started to increase early in 2023 and it has continued to pick up pace since the start of the year with a large number of JGBs currently in demand from multiple borrowers based outside of Japan. The initial driver for this demand emerged from a change of interest rate policy at the Bank of Japan (BOJ) in December 2022. This change in BOJ policy spurred borrowing demand for JGBs, especially for bonds with a maturity between 5-years and 10-years, as well as for bonds deliverable into the futures contracts. As many as 20 to 30 different JGBs are now in demand, with a range in value from 10-30 bps.

Some sources of supply cannot mobilise their JGB holdings due to the operational constraints of lending in the Japanese time zone. Adapting a lending model to overcome those constraints is vital — and to capture the value in JGBs, the lending agent's operational set up is crucial. The key is quite simple and involves lending the in-demand securities in the domestic Japanese market, in the Japanese time zone with the collateral being received prior to the loaned security being delivered to the borrower.

Domestic settlement in the time zone is key. Where collateral needs to be delivered in Euroclear, as is the case with many lenders, this adds a complication that prevents same day settlement of both legs and this removes nearly all of the opportunity to lend.

Significantly, the demand for JGBs seems to be holding steady and, for the first time in our experience, we are starting to see JGBs offer a good degree of potential for lending.

For the first time, we are finding ways of mobilising those JGBs that are not seeing any level of special demand. Structuring transactions against other collateral is allowing us to generate revenue even on the most GC JGB. Borrower selection, collateral eligibility and tenor of the transaction is key, and that key unlocks additional revenue. Coupled with the specific issue value, you can start to see a compelling case for international lenders to be tasked with what has hitherto been a dormant asset class.

That compelling case is only strengthened when paired with the value in lending Japanese stocks. That lending market is much more established but, once again, international lenders are perfectly placed to generate additional revenue that cannot necessarily be found in the domestic market.

## Market outlook

Looking ahead to 2024, the Japanese stock market appears poised for success, driven by a combination of strong economic growth and noteworthy changes in corporate management practices facilitated by the Tokyo Stock Exchange (TSE). The TSE's proactive approach in encouraging listed companies to enhance their value and profitability via increased dividends and share repurchases adds a significant boost to the overall positive prospects for the market.

In addition to these changes, the introduction of the new Nippon Individual Savings Account (NISA) programme in January 2024 is expected to further fortify the stock market. This initiative is likely to attract more local investors looking for alternatives to low-interest bank deposits, potentially expanding the investor base. The combination of economic growth, improved corporate management practices and greater investor participation creates a favourable environment for the increased securities lending activities in Japan for 2024.

To make the most of these opportunities, MUTB GSLS will work closely with clients to boost revenue. Just as we do for JGBs, we will use our position as a global lender to generate revenue from Japanese equities by sourcing and fulfilling demand outside of the domestic market. That allows us to utilise a client's portfolio to its full potential by smartly using a combination of different forms of collateral and trading structures to tap into global demand through our trading desks in all regions.

This global approach makes a compelling case for clients to look outside of the traditional, domestic markets to generate revenue on their portfolios. Global lenders can offer more options and, crucially, this can lead to additional returns and stronger performance than can be achieved by lending solely in a local market.

# Pioneering efficiency in asset inventory management

**J.P. Morgan's Cathy Duan and Emily Li, APAC collateral service product managers for Securities Services, explore the firm's new Collateral Transport 2.0 solution as the market faces UMR challenges**

In navigating the terrain of financial regulations, an increasing number of buy-side firms are confronted with the challenges of uncleared margin rules (UMR), necessitating a responsive vehicle for dynamic collateral mobilisation. J.P. Morgan's Collateral Transport, an end-to-end asset inventory management solution, not only addresses margin obligations but also preserves trading and lending opportunities with minimum operational efforts.

By combining J.P. Morgan's Agency Securities Finance (ASF) and Collateral Services capabilities, Collateral Transport serves as a strategic tool, facilitating the mobilisation, deployment and servicing of assets between custodians and triparty collateral agents.

## Optimising asset utilisation

Collateral Transport maximises the financial benefits of unencumbered assets by mobilising the assets from their custodian to a triparty collateral agent to cover margin obligations with counterparties.

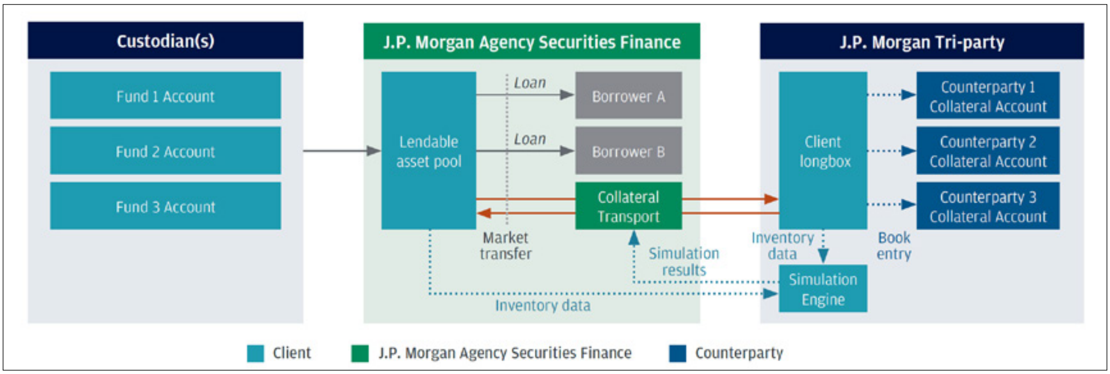
By integrating with J.P. Morgan triparty's collateral simulation engine, Collateral Transport can minimise asset movements by generating recommendations based on the simulation results. The simulation takes into account available inventory across the client's triparty longbox and lendable asset pool in custody. This ensures optimal asset delivery or recall before any physical transfer of assets.

## Efficiency in day-to-day trading

A key strength of Collateral Transport lies in its minimal impact on daily trading and lending activities. The ASF platform facilitates asset delivery to a triparty collateral agent and the return of assets for lending or sales opportunities. Currently, securities lending traders monitor outstanding collateral transport margins, recall and substitute assets when lending demand or sale opportunities arise.

By Q3 2024, Collateral Transport will be able to assess how clients can use their assets optimally by incorporating supply and demand, bid-offer

**Collateral Transport**



levels, and portfolio activity in the lending space. Assets in high demand will be automatically recalled and substituted from triparty collateral agents to maximise lending returns.

### Preserving standard processes

Collateral Transport ensures minimal disruption to the client's asset servicing activities as assets can be substituted and returned to its custodian ahead of the income or corporate action events.

To further reduce clients' operational burden by Q2 2024, clients will have the option to delegate instruction generation to Collateral Transport. The platform will automatically generate free-of-payment trade instructions on clients' behalf to move assets between triparty collateral agents and custodians — whether to top up collateral accounts, satisfy sale trades, corporate actions or lending opportunities, removing the operational burden associated with instructing Collateral Transport.

As Collateral Transport evolves with these new functionalities, it not only meets current industry challenges but helps to facilitate increasing collateral convergence across lending, financing and derivatives.

**Emily Li**
APAC collateral services product manager, Securities Services
**J.P. Morgan**

**Cathy Duan**
APAC collateral services product manager, Securities Services
**J.P. Morgan**

# Asia-Pacific securities finance panel

Key participants in APAC securities finance speak about market dynamics, the impact of short sale bans, the advance of emergent markets and growth prospects for 2024 and beyond

## Panellists

**Jansen Chua,** head of financing solutions, APAC, **State Street**

**Phil Garrett,** head of securities finance, APAC, **Northern Trust**

**David Lai,** product manager, agency securities finance, APAC, **J.P. Morgan**

**Reona Sasaki,** director, institutional sales department, **Japan Securities Finance**

**Paul Solway,** head of securities finance, APAC, **BNY Mellon**

**How do you assess the performance of APAC securities lending markets during 2023? What key lessons have you learnt from this period that will help guide your business through the next 12 months?**

**Reona Sasaki:** The APAC market was strong overall in 2023 as EquiLend and other sources have indicated. Japan, in particular, has attracted attention from foreign investors in an unprecedented way. This is partly due to the Bank of Japan's (BOJ's) monetary policy, and such global recognition benefitted JSF's business as well. We have had more opportunities to do transactions with overseas financial institutions. Therefore, we feel it is crucial to analyse international market trends to obtain a better understanding of the background of our business partners' needs.

Over the past few years, APAC securities lending markets have been subject to regulatory revisions related to collateral and short-selling. As a result, expectations for APAC as a growth market are increasing steadily. Our immediate priority is to further strengthen our commitment in the APAC region outside of Japan.

**Jansen Chua:** Performance across the region was mostly in line with expectations and demonstrated growth. However, the short sale ban in South Korea did register as an unfortunate surprise in the later part of the year and this dampened further demand for borrowing.

**Phil Garrett:** Like most other years, 2023 produced winners and losers across the APAC markets. Japan was the strongest performing stock market, buoyed by investor inflows, and this drove the Nikkei 225 to its highest level for 33 years. Stricter governance rules, performance pressures and an increase in activist shareholder activity were catalysts to drive stock valuations higher and foster an environment ripe for M&A deals, placements and other corporate activity. The long-held taboo of hostile takeovers in Japan is also slowly eroding, further encouraging dealmaking, drawing in the arbitrageurs and giving a significant boost to securities lending revenues. This pushed Japan into the top spot for 2023.

Taiwan also performed strongly once again, with the mania surrounding artificial intelligence driving the technology-heavy TWSE index higher. This provided a fertile hunting ground for directional, relative value and long-short strategies. Elsewhere, China's stock market suffered from post-Covid blues, with the troubled property market and low consumer confidence dragging on the economy. Hong Kong's stock market, intrinsically linked to China's fortunes, remained subdued. While there was strong borrow demand across certain sectors, including real estate and electric vehicle (EV) manufacturers, the depressed market valuations resulted in lower outright lending returns relative to other markets. South Korea (EVs) and Australia (lithium miners) produced other pockets of good performance.

If 2023 taught us anything, it reinforced the lesson that we should always expect the unexpected. At the beginning of 2023, investors hoped that the end of Covid lockdowns in China would stimulate growth and drive markets higher. The consequence would be to allow share prices to be driven by fundamental factors, allowing short sellers to make better informed decisions and increase market exposures, as well as inducing the type of conditions we have seen in Japan, perhaps giving rise to increased deals and capital raising activity. As we now know, this has been far from the case.

In early 2023, there was also a growing confidence that South Korea's regulator would remove the short selling ban for constituents of the KOSPI 200 and KOSDAQ 150 indices. Again, this did not happen — and, in fact, a total short sell ban across all listed stocks was implemented in early November and this is set to remain in place until at least the end of June 2024. It is therefore a dangerous tactic to rely heavily on any single market to produce next year's performance numbers. Diversity is the key. For Northern Trust, this means diversity across our product suite, working with our clients to capture opportunities by providing access across multiple financing markets and asset classes through customised and innovative technology-driven solutions.

**David Lai:** In 2023, the Hang Seng Index in Hong Kong experienced a tough year compared to some of the other markets. China's post-Covid recovery was slower than anticipated, coupled with widespread credit concerns in the property sector, and this has adversely affected investor and consumer sentiments. The Chinese tech sector faced headwinds in 2023 off the back of tightening regulations initiated in 2020. This resulted in some diversion of foreign tech investments away from China. Industries such as Quantum Computing, Artificial Intelligence, and Advanced Semiconductors witnessed significant reductions in investment.

In Japan, the Japanese stock market saw strong increases in the first half of 2023, with momentum continuing into the second half of last year. The Nikkei 225 recorded its strongest performance since the late 1980s. The continued strength of the US dollar against the Japanese Yen further boosted offshore investments into Japan, contributing to overall market increases. Upbeat sentiments in Japan promoted an increase in capital-raising activities, resulting in the highest number of IPO listings in nine years, including substantial offerings like Kokusai Electric and Rakuten Bank. In addition to primary listings, increased stock placements and takeover activities have contributed to heightened borrower demand. Japan continues to lead in terms of overall market lending revenues in APAC, owing to the size and depth of its equity markets.

Investor confidence remained high in Taiwan, particularly tech-heavy and chipmaker sectors, attracting foreign investments into the equity markets last year. The stock market approached an all-time high, last seen at the beginning of 2022, making it one of Asia's best performers last year. The surge in the market has led to strong demand for borrowing Taiwanese equities across both large and small-cap spaces. Despite onshore lenders becoming more sophisticated, the demand for stable and efficient offshore supplies remains strong, solidifying Taiwan's position as a key revenue market globally for beneficial owners and market participants.

**Paul Solway:** On the backdrop of the Nasdaq, S&P and MSCI All World index rallying more than 44.22 per cent, 24.58 per cent and 20.38 per cent respectively, the Hang Seng Index has been losing investors' interest as one of the worst performing benchmarks globally (-13.93 per cent) in 2023. Q4 marked the surprise imposition of new gaming curbs, reviving market fears of a government crackdown on the Internet sector. Riding on the AI-Tech theme, South Korea and Taiwan indexes have been again excelling in Q4 (TWSE +9.64 per cent, KOSPI +7.72 per cent) and have achieved a year-to-date positive gain (TWSE +26.83 per cent, KOSPI +18.73 per cent)

South Korea's securities market lending revenue was up around 23 per cent YoY, but dropped close to 25 per cent QoQ in Q4 with the introduction of another short sell ban which drove the closure of fund positions. Hong Kong's market revenue was slightly up, with Taiwan's revenue slightly down. Japanese specials took a more active role in 2023 with significant revenue inflow across the market.

2023 will be remembered for increased geopolitical tensions, high interest rates, banking balance-sheet scrutiny, market volatility, heightened regulatory oversight, and a continued investor search for safe-havened, sustainable, quality investments. S&P called 2023 a 'banner' year for securities lending, producing the highest revenues (US$12.9 billion) since 2008 — with APAC coming in at US$2.2 billion. DataLend has it at US$10.7 billion, representing a record year for the region across a decade of data.

This is a reminder that uncertainty and volatility are fundamental factors that help to drive the industry's revenues.

**Lai:** I will provide an update on two further markets. In South Korea, the market operated under a partial short-sell ban, where only the constituents of the KOSPI200 and KOSDAQ150 could be short sold. Despite this restriction, the Korean market still saw strong demand, remaining one of the highest-spread markets in Asia along with Taiwan. Top lending revenue stocks for

the second half of 2023 were dominated by stocks from both Korea and Taiwan. However, market sentiment took a downturn towards the end of 2023 as the country's regulators re-implemented a full short sell ban from November 2023 until at least June 2024. The Financial Services Commission is exploring improved regulations and frameworks as part of its ongoing investigations.

The Australian Securities Exchange faced pressure in the second half of 2023, declining to a 52-week low at the end of October before rallying in the last two months of 2023 to approach all-time highs. Market optimism was fuelled by easing inflation locally and the anticipation of the central banks easing monetary policies earlier than expected in 2024. Australia's resource dominance once again underpinned domestic performance, receiving tailwinds from China's reopening after its Covid recovery. The lithium sector, in particular, garnered attention as spot prices declined amid increasing global supply. M&A activity for smaller resource players surged as global mining giants and investors sought to dominate the supply of commodities crucial to the clean energy transition.

**In which APAC markets do you identify new opportunities for growth of your lending business during 2024?**

**Lai:** There have been recent market developments and announcements that are encouraging for the industry. For instance, the Philippines Stock Exchange recently allowed short selling of certain designated securities and the Securities and Exchange Board of India (SEBI) has updated its short-selling framework. These developments highlight the region's progress, though it is noted that other countries are at different stages of their development work.

As an established agent lender, J.P. Morgan Agency Securities Finance is committed to working with our clients, stakeholders, as well as external partners, to align with the established securities lending frameworks.

It is important to recognise that developments in short selling and the introduction of new securities lending frameworks are also beneficial to the respective marketplace. For instance, numerous articles highlight how short selling contributes to enhanced liquidity in financial products by facilitating hedging and arbitrage strategies.

Moreover, recent articles have sought to establish a correlation between increased liquidity and the criteria for defining a market as developed.

**Solway:** Respective overhangs remain for the Hong Kong property sector and, for China, 'have we bottomed?' Taiwan tech will always have a place in the hearts of directional investors — especially as AI chips become the norm.

In 2023, the Tokyo Stock Exchange (TSE) pushed corporate governance and shareholder value by requesting listed companies with low price-to-book ratio to action which included — but was not limited to — dividend hikes and share buybacks. Corporate events such as merger and acquisitions (M&A) have been more active, with cash-heavy Japanese companies deploying capital to add value. We believe this will continue in 2024, with more companies making concerted efforts to raise return on equity amid TSE reform.

In a high interest rate environment, we see rising interest in rights issues, which some issuers believe offers a cheaper funding option than debt financing.

Last November, The Philippine Stock Exchange gave the green light to introduce short selling for the first time to boost trading volume and to improve market liquidity. However, we do not have a new market ready for domestic and foreign participation just yet. Legal remediation in the Philippines is only being considered at this point by the financial authorities and this will not fly for the heavyweight offshore lenders or borrowers. However, we hope this legal landscape will open up soon.

**Garrett:** There have been extremely encouraging developments in the ASEAN securities lending space, with the Philippines and Indonesia both making great strides to develop their domestic SBL models. China offers huge potential and its evolution is attracting close attention from the majority of international lenders. More recently, we heard news from the SEBI that short selling will be allowed in India. However, at the time of writing, few details have been provided. Given the lead times necessary to get to the point of first trade execution, it is unlikely that any of these market development stories will have a material impact on revenue growth for 2024.

At Northern Trust, we will deliver continued growth through our multi-pronged, client-focused approach to bring differentiated solutions. Regulation and alpha generation are the driving forces. On the one hand, we are working with our lending clients to deliver tools that will help with optimal asset deployment, enhanced liquidity solutions and bespoke collateral profiles. On the other, engaging with our market counterparts to deliver balance sheet efficient trading strategies is key to this growth.

**Sasaki:** We see business opportunities in Taiwan, Hong Kong and South Korea, and opportunities in Malaysia, Indonesia and the Philippines have been growing rapidly. We have now started funding with securities from these countries. APAC has diverse regulations and characteristics for each country and therefore we identify opportunities to provide solutions in these markets. Although we have no office outside of Japan, we are collaborating with triparty collateral management services to conduct transactions that comply with local rules. The APAC market is expected to develop further beyond 2024. We will continue to concentrate on this region and would like to contribute to its expansion as a player from an Asian country.

**Chua:** We anticipate increasing demand from both buy-side and sell-side firms across the APAC region for central clearing solutions in the US Treasury securities market. This is to get ahead of rule changes for repo activity adopted by the Securities and Exchange Commission (SEC) in late 2023. Having collaborated closely with the Fixed Income Clearing Corporation (FICC) for many years on their centrally cleared repo offering in the US, we are actively engaging with our clients in preparation for the proposed rule changes.

**Which regulatory initiatives in APAC markets will consume most attention for your agency lending and collateral management teams over the coming 12 months? What programmes are ongoing within PASLA, and at industry-level more broadly, to support this agenda?**

**Solway:** In November, South Korea re-imposed (for a fourth time) a short sell ban until June 2024 to improve the short-selling mechanism. The previous ban was lifted in May 2021 for KOSPI 200 and KOSDAQ 150, with short selling now accounting for about 0.6 per cent of the KOSPI's market value and 1.6 per cent of the KOSDAQ. The ban might complicate South Korea's bid to seek developed market status in the MSCI indices.

In October, the China Securities Regulatory Commission (CSRC) announced that steps will be taken to strengthen management of securities lending and re-lending businesses, including higher margin requirements (the margin ratio is to increase from 50 per cent to 80 per cent for ordinary securities borrowing and to 100 per cent for hedge funds), as well as restricting lending of shares by strategic investors and senior management in newly listed companies. Unfortunately, the CSRC has just published a press release announcing that it will suspend the lending of 'restricted stocks', effective from 29 January 2024.

PASLA continues to lobby and proactively interact with the Korean (FSS, FSC, KSD) and Chinese (CSRC, CSFC) authorities to shape market practices, ideas and solutions for all stakeholders — domestic and foreign.

**Garrett:** The current ongoing regulatory review on short selling by the South Korean authorities was the focus of attention for Northern Trust, PASLA and most of the securities finance industry in APAC in the latter part of 2023. This will continue until at least June 2024 while the short selling ban remains in place. The importance of engagement across the key Korean institutions cannot be underestimated and this will shape the future of short selling and securities lending in South Korea for years to come. It is critical that open and candid dialogue leads to a consensus-based outcome that supports an open, transparent and liquid market. This will be beneficial for both domestic and international investors.

APAC markets which are still in the early stages of their SBL and short selling journeys will continue to evolve. For some, including China, Philippines and Indonesia, regulatory clarifications or adjustments are still necessary to allow for full international investor participation in those markets. Northern Trust is well represented within PASLA through the executive committee and working groups and it is committed to driving the advancement of our industry. The important work being undertaken by PASLA, engaging with regulators and regional stakeholders to promote securities lending and short selling in capital markets, will continue through 2024.

**Chua:** The APAC region remains an area of huge opportunity for our clients and we are engaged with various industry bodies such as PASLA and the Asia Securities Industry & Financial Markets Association (ASIFMA) to advocate for market structure development and reform. We believe markets such as China, Indonesia and the Philippines will require further collaboration to promote market evolution and adoption of best practices — and there will need to be continued engagement with South Korean regulators on short-selling issues.

**Lai:** J.P. Morgan Agency Securities Finance now has representatives actively participating in two PASLA working groups, including a native speaker who previously served on the executive committee. This transition aims to enhance value and synergies, leveraging their expertise more effectively within these groups.

From a regional perspective, our firm proactively monitors regulatory initiatives in terms of their applicability to our business — for example, recent updates regarding the management of 'outsourced services' and various developments in the area of digital assets.

This year marks the implementation of the T+1 settlement cycle in the US, Canada and Mexico and it is likely that some APAC markets will look to move towards a similar set-up. This will be interesting in markets which can impose mandatory buy-ins for unsettled sale trades. Therefore, at J.P. Morgan, we have advanced our efforts to identify and develop the support and tools our clients require, spanning from trade instruction to trade processing.

**What investments and adaptations to technology and working practices have you made during 2023 to sustain and grow**

**your securities lending activity in the Asia Pacific region?**

**Solway:** The complexities of the individual markets must always be accounted for: differing rules and regulations, settlement cycles, intermediaries, reporting requirements, and buy-in or no-fail requirements dictate how we approach our internal processes. This, in turn, defines our commercial client offerings.

Globalising and unifying settlement teams across time zones is critical. Investing in people talent remains a key directive at BNY Mellon. While London has traditionally been the ‘quarterback’ region for international settlements and collateral, we continue to invest in our teams across India, Hong Kong, Singapore and Japan for local talent and expertise — powering our culture in every region.

Technological advancement is crucial as we run our company and businesses better across the globe, connecting our technology either with external partners, including Pirum and HQLA$^{X}$, or internally across lines of business such as custody, triparty, liquidity and margin or treasury. Securities finance enables timely optimisation and allocation of securities and cash.

**Lai:** We have progressed the client experience by enhancing transparency across all aspects of the J.P. Morgan Agency Securities Finance programme. This builds on recently completed initiatives such as digitising our Rules and Limits framework to help define a client’s programme. In 2023, additional investment was made to enhance data accessibility further through API gateways. New data sets were made available, capturing the series of activities that represent the full trade lifecycle of a loan transaction. The enhanced reporting offers an additional dimension, capturing upcoming changes to loan positions.

Our client portal, Securities Finance Central, hosted within the J.P. Morgan Markets platform, remains a valuable resource for gaining insights into programme performance. The platform empowers end-users to analyse revenue, and we have enriched it further by incorporating analytics, highlighting simulated revenue opportunities, while also supporting oversight and governance.

**Chua:** We developed and launched our operating model to support APAC clients within the FICC's Sponsored Member Repo (SMR) programme. The FICC SMR programme provides clients with access to highly liquid investment and financing at competitive rates with the benefit of reduced counterparty credit risk. Our operating model allows APAC clients to access this liquidity during APAC business hours, supported by a high-touch client service and operational support element in the region.

Our client-facing treasury and liquidity platform, Venturi, offers cutting-edge pre- and post-trade decision-making tools while allowing them to seamlessly execute optimal strategies in an industry-first peer-to-peer (P2P) marketplace. We have seen a lot of traction across the suite of modules, with a major focus on three: the P2P repo marketplace, the liquidity optimisation engine and the Agency Lending Portal (ALP). The P2P platform brings new liquidity opportunities to repo markets by directly connecting participants (or peers) on a stable, secured and trusted system. Participants can trade bilaterally, and State Street guarantees the payment of the repurchase price to the buyer, inclusive of proceeds from liquidating the repo securities.

The liquidity optimisation engine offers solutions to drive greater portfolio transparency and decision-making through its margin analytics and optimisation modules in derivatives and collateral trading. Finally, ALP allows direct connection and execution for our Agency Lending product, delivering real-time availability and a self-service request for quote (RFQ) workflow for all lendable assets. The industry sees this as a cost-efficient venue and a resiliency option for lending transactions.

**Garrett:** Nexus is our multi-year transformational project to reinvent securities finance data, consolidating it into a single platform which supports a suite of new and existing financing solutions. Making use of both cloud-based architecture and event-driven data streams, Nexus performs calculations and provides access to transaction level information on a real-time basis, enabling data-driven decision making.

Northern Trust launched Nexus in early 2023 and, as part of a multi-year investment, the platform is continuously evolving to bring together a suite of new and existing services across securities lending, borrowing, financing, liquidity and collateral management that would serve as the single point of interface with our capability set.

Foundationally, this includes the provision of real-time securities lending data across the client portfolio and will enable users to evaluate datasets via various pre- and post-trade analytical tools.

Through interrogation of data, users will be equipped to make data-driven decisions, to identify optimal use of financial resources while realising efficiencies and enhanced alpha within their desired risk framework.

The continuous, agile development of Nexus and regular addition of new data, views and functionality enables Northern Trust to act on user feedback, delivering benefits more quickly to clients.

**In June, the Monetary Authority of Singapore published its findings on Project Guardian which reviewed designing open and interoperable networks for digital assets. How do you interpret the use of digital assets and the stability of its future incorporation in the region?**

**Chua:** The Monetary Authority of Singapore has taken a lead regionally in establishing an operable framework for tokenisation. Project Guardian is a collaborative initiative with policymakers and the financial industry that seeks to test the feasibility of application in asset tokenisation and decentralised finance (DeFi), while managing risks to financial stability and integrity. While we applaud efforts taken by the industry in cooperation with financial regulators, investors should be aware that tokenisation is relatively nascent and has yet to receive regulatory backing across any jurisdiction. We continue to work with regulators and industry groups to advance the discussion around digital assets and to participate actively in conversations with clients expressing interest in this cutting-edge technology.

**Solway:** There are many proof of concept projects surrounding the digital asset space – either at a corporate, exchange or regulatory framework, often resulting in a partnership or memorandum of understanding (MOU) across participants.

There are further examples, in addition to Singapore, that explore digital assets, tokenisation and other technologies that aim to provide better real-time data synchronisation, improved scalability and other steps to improve the speed, efficiency and transparency of security and cash processing. Bursa Malaysia established a project to explore blockchain in 2019, for example. There is also the Hong Kong Exchange's Synapse in 2023 and ABD's Project Tridecagon relating to bond cross-border settlements.

**Garrett:** MAS has long been an advocate for digital asset innovation and continues to nurture an environment in the region for financial institutions to research, develop and pilot new capabilities via initiatives such as Project Guardian. Its emphasis on creating an ecosystem via a cohort of participants enables all to learn from the journey in a safe space, with MAS themselves then able to craft appropriate guardrails and risk-based regulatory regimes to foster progress and adoption.

At Northern Trust, we absolutely see a role for digital assets to be incorporated into our future state vision and servicing for our client base. In our "Custody reimagined" paper launched in 2021, we estimated that 10 per cent of our asset universe could be digital by 2030. We still believe this number is reasonable and we will continue to invest in this space to be ready for these eventualities. The digital asset landscape is made up of a broad range of sectors and can offer value and efficiencies to different parts of the value chain.

The range of potential use cases is vast — whether digitally issued (or tokenised) assets or digital cash or equivalents — and these should be in unison to unlock the promise that is on offer through gains in capital efficiency, settlement or increased liquidity.

Through the mission and efforts of our Digital Assets and Financial Markets group, we continue to drive the exploration and development of new digital asset capabilities which will position us to support clients in

their pursuit of digital assets. For us, market access, connectivity and asset safety will remain critical in our offering as a trusted partner across both traditional and digital ecosystems.

**Lai:** Onyx by J.P. Morgan serves as the firm's blockchain-focused business unit, leveraging blockchain technology to transform the movement of money and assets for our clients.

Last year, as a part of Project Guardian, Onyx by J.P. Morgan and Apollo Global Management collaborated with various partners to develop a technical proof of concept, where we demonstrated how the implementation of tokenisation and smart contracts could significantly improve the management of discretionary portfolios, including streamlined incorporation of alternative investment funds in these portfolios. Having proven the technological feasibility of automating portfolio management for asset managers, our aim is to productionise this through 2024 and beyond.

Onyx Digital Assets (ODA) is J.P. Morgan's digital assets platform that enables the creation of innovative financial products through tokenised traditional assets. Through our current live products, we enable our clients to enhance utilisation of their assets, boost settlement efficiency and mitigate settlement risks.

We created the first application on ODA — called Digital Financing — to significantly enhance active intraday liquidity management and to reduce reliance on unsecured funding. Through this application, we provide access to secured financing through the exchange of cash for tokenised collateral using the mechanics of repo.

In October 2023, we launched the Tokenized Collateral Network (TCN), the second offering on the ODA platform. Focused initially on tokenising money market fund (MMF) units, TCN aims to bring greater mobility to collateral, expanding the universe of assets available for use as collateral.

**How have monetary conditions shaped securities lending opportunities in the Japanese market? How are you positioning yourself to maximise opportunities for lenders and borrowers in this environment?**

**Lai:** The Bank of Japan's monetary policy normalisation is likely to start adjusting from March or April and market consensus is that the negative interest rate policy is likely to be removed in around mid-2024. On the other hand, the market is almost certain that the Fed has completed its rate hike cycle and the next move will be a cut in interest rates. The resulting USD and JPY cross-currency spread could bring increased opportunities in JPY funding requirements. Also, Japanese Government Bonds (JGBs) could continue to grow, given borrowers' requirement for both liquidity and directional trading. In November, the Philippines Stock Exchange welcomed the decision to permit short selling of index stocks within the region, while South Korea's Financial Services Commission has posed a ban on stock short selling in domestic markets.

**Solway:** Japan was a big winner in the region for securities lending during 2023: the Topix and Nikkei 225 both touched 33-year highs with a YoY increment of 25.09 per cent and 28.24 per cent respectively.

Specials and seasonal activity have always upheld sustainable alpha revenues for Japanese equity portfolios for our clients and we expect 2024 to be no different, despite proxy voting (and subsequent recalls) becoming more in focus to many ESG-aware clients. We look forward to helping our clients to balance such needs with educated, commercial outcomes in the year ahead.

In the fixed income space, JGB lending is picking up via 'specials' activity and we are looking forward to monetising those assets as demand grows.

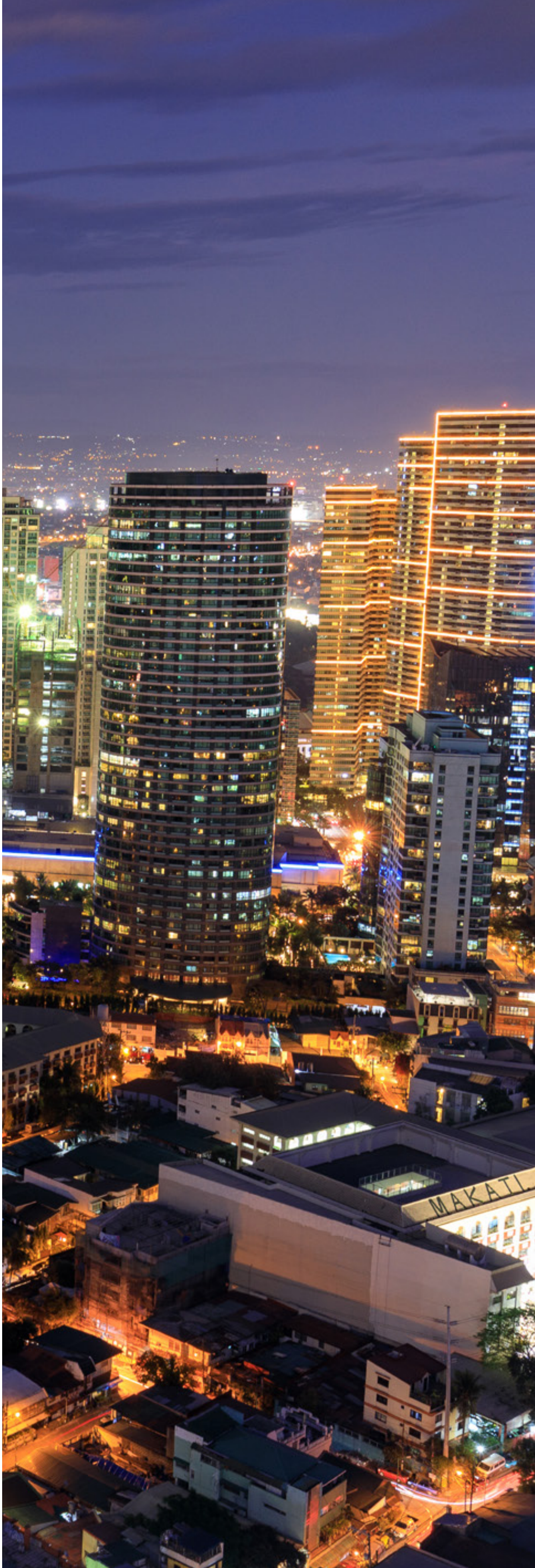
**Garrett:** Continued loose monetary policy allowed the cross-currency basis spread between the USD and the JPY to remain wide through 2023, while heightened geopolitical concerns and banking crises also acted to drive the dollar premium wider. This meant that arbitrage opportunities remained strong, notably the US Treasuries versus JGB as the standout trade. In addition, volatility in the JGB curve prompted significant specials value, meaning lenders could finally enjoy intrinsic value from lending in-demand assets. Low interest rates and the cheaper yen also played a material role in the heightened M&A activity and the ability to do deals.

2024 is likely to see the end of Japan's yield curve control policy as inflation starts to take hold. At some point during Q2 or Q3 it is expected that the BoJ will raise rates. This will lead to a shift in market dynamics which may affect the status quo of the past few years. However, geopolitical risk remains a constant theme that is impacting sentiment in the wider market and in securities finance activity. The war in Ukraine continues to threaten geopolitical stability and, more recently, the Israel-Palestinian conflict has further heightened market risk. Any escalation is likely to prompt a flight-to-quality bid for US treasuries and dollar-denominated assets in general, therefore pushing the USD-JPY cross-currency basis wider and increasing on-loan fees when accepting JGBs as collateral.

Lastly, with market participants preparing for new Basel Endgame regulations, we should expect regulatory capital efficient trades, while constraints on dealers' balance sheets might force them away from capital intensive, low reward cross-currency FX and repo trades. As such, lenders and beneficial owners should remain nimble to take advantage of these opportunities when they arise.

**Chua:** The negative rate environment has presented both challenges and opportunities. Our JPY cash collateral facility was established more than 10 years ago and continues to deliver significant competitive differentiation for our clients and counterparties. The facility supports cross-currency trading, enabling lenders to achieve higher utilisation of their assets and, for borrowers, a means of generating value from their JPY cash collateral holdings.

**Sasaki:** Short transactions of JGBs, mainly implemented by hedge funds and other overseas firms, have been increasing due to speculation about changes in the BOJ's monetary policy. In the equity market, the rising market price of Japanese equities has led to increased demand from investors and traders for all Japanese assets. JSF has more than 70 years of history operating



domestic margin transactions and covers most financial institutions in Japan. Having this strength, we play an important role as an intermediary between the domestic and overseas repo markets. Furthermore, in accepting a wide range of collateral and supplying liquidity across a range of durations, we provide an optimal solution to each of our customers.

**In November, the Philippines Stock Exchange welcomed the decision to permit short selling of index stocks within the region, while South Korea's Financial Services Commission has posed a ban on stock short selling in domestic markets.**

**How do you assess potential for growth of securities lending and short selling activity in APAC?**

**Garrett:** Potential is an often used term when it comes to the opportunities that APAC presents. There is still so much untapped opportunity in markets such as China and India. The developmental progress in Indonesia and Philippines during 2023 is just the start for those markets. International lender participation will take time to grow, but they are moving in the right direction. On the farther horizon are markets including Vietnam and Sri Lanka. We see a region filled with potential, which is integral to the future success of Northern Trust's securities finance offering.

It is obviously a drawback when regulatory decisions are made that result in a contraction in lending activity. However, we will always face challenges, whether these are caused by economic uncertainty, geopolitics, disruptive technology or some other unforeseen event. These challenges also present opportunities. With South Korea, the opportunity is there for the regulators and market participants to build a consensus-driven solution for short selling and securities lending activity which will hopefully reduce or eliminate the need for future intervention.

**Solway:** No two markets are the same in APAC when it comes to short-selling rules and guardrails for investors, whether retail or institutional. While this can be challenging as clients navigate the region, it also provides a natural diversification of opportunities for lending. We saw this during 2023, with Korea tightening its regulations while the Philippines did exactly the opposite — within days of each other.

At BNY Mellon, we have made significant investments and improved our lifecycle management for Taiwanese equities. This will enable more of our clients to take advantage of the significant fees that are available in Taiwan, with an average fee of 250 bps in 2023.

**How do you assess the outlook for APAC securities lending markets for 2024?**

**Sasaki:** Although the current focus is on the growing uncertainty in the Chinese market, other markets in APAC are steadily growing. Regarding securities lending markets, many countries are in the process of developing market systems to attract overseas investors — such as the recent launch of a short-selling system in the Philippines. We expect that this growing trend in APAC's securities lending markets will continue as they become more attractive. With such expectation, we recently assisted in the establishment of PT Pendanaan Efek Indonesia, an Indonesian securities finance company. We will continue to foster our unique business to connect the rapidly growing Asian market with the global market. By doing so, we will enhance our presence as Asia's leading institution specialising in securities finance.

**Solway:** There is a lot ahead in 2024. Retailers are coming out to play. Advanced and progressive brokerage platforms now have inventory and scale, mostly born out of the meme era of 2020. Global brokers are actively asking about lending participation. I sometimes fear that the more traditional asset owners will be left behind as more modern, versatile supply sources expand and become more attractive.

Settlement and reporting standards are not just in APAC anymore. T+1 settlement and 10c-1 reporting is coming to the US. If we compare with Korea or Taiwan, these are similar challenges involving tight settlement cycles and stringent reporting mechanisms. In fact, the cultural expectation right across Asia is to settle on time while meeting specific obligatory reporting requirements.

US central clearing for US Treasuries will have a significant impact globally, especially in Asia where timing will be key for navigating solutions in the US time zone. Fortunately, BNY Mellon has turnkey solutions for our clients that are seeking to repo or reverse-repo US Treasuries.

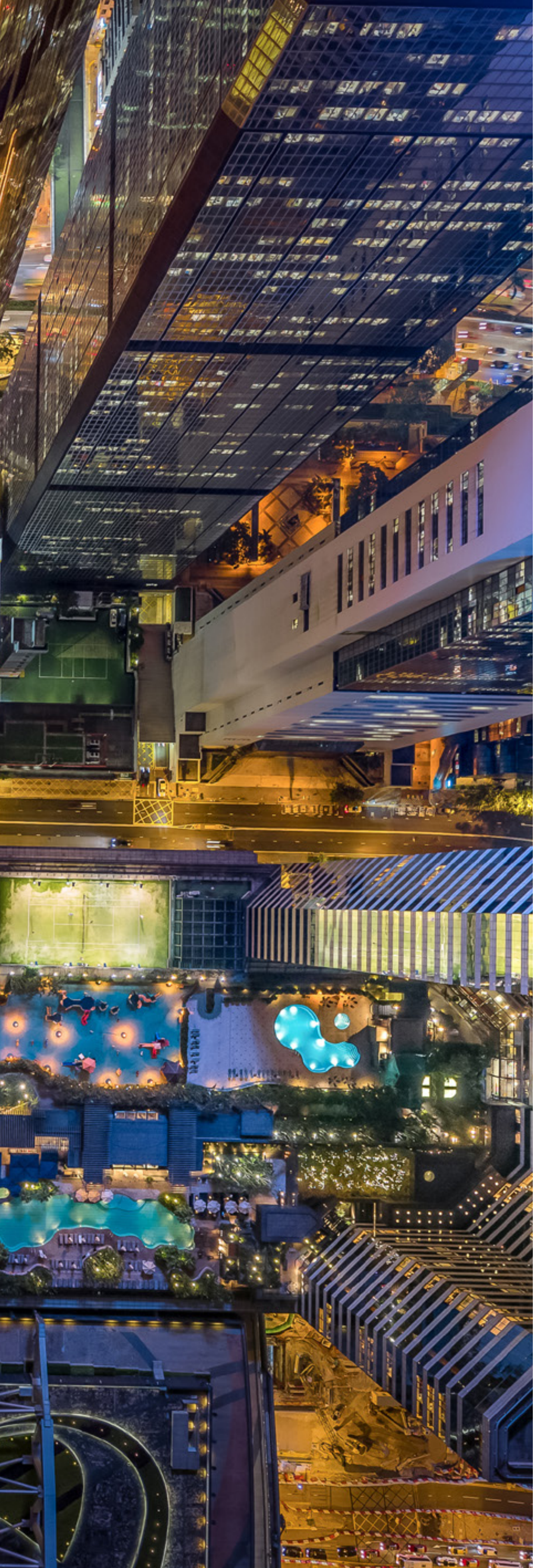
Given the relative consolidation of global brokers in APAC, there is the constant drumbeat of competition, relative de-globalisation and optimisation of finite resources. BNY Mellon continues to seek out quality regional counterparties that add diversified and differentiated distribution channels for both equities and fixed income.

Finally, expanding into new segments such as Chinese qualified domestic institutional investors (QDII), which connects previously restricted supply to global demand, is an exciting opportunity for 2024 and beyond.

**Chua:** The Philippine and Indonesian authorities made positive strides to align their securities-based lending (SBL) rules to global industry standards in 2023 and we expect this momentum to continue through 2024. Changes in monetary conditions, and the continued push by authorities to increase competition and accountability in 'Corporate Japan', should also support corporate event deal flow. This, in turn, will assist stock borrowing and lending demand.

The de-risking theme by offshore investors from China and Hong Kong investments is likely to remain a challenge for these markets and will continue to negatively impact SBL demand in those markets. The industry will also continue to innovate for capital efficiency solutions (such as central clearing, pledge collateral) with the Basel III endgame approaching, thereby creating opportunities for borrowers and lenders. However, the fragmentation of jurisdictions in the region will continue to present a significant challenge in making central clearing platforms a reality in 2024.

**Garrett:** We are looking forward to a strong year in the APAC securities finance markets. As I mentioned previously, most years will see some markets win and



some markets lose a little. 2024 will be no different. The effects of higher interest rates in Japan and the pivot to lower rates elsewhere will change market dynamics. It will be interesting to see how this plays out across the APAC markets, the impact on regional investment deployment, and ultimately lending demand.

Finally, we look forward to continued long term growth across all APAC markets enabled by development of legal, regulatory and operational infrastructure forged through the collaboration and partnership of market participants and supported by industry bodies such as PASLA.

**Lai:** Ongoing credit concerns across the China and Hong Kong property sector stocks will affect consumer and investor confidence throughout 2024. Asset prices are at decade lows in Hong Kong and indications that the US Federal Reserve will pause or reverse its rate hiking cycle could help to encourage more spending again. The outcome of the Taiwanese presidential elections could influence US-China relations going forward. Taiwan's semiconductor industry continues to trend strongly and its broader equity markets are trading near historical highs.

In South Korea, securities-based lending activity will continue to be muted in the first half of the year as the short-sell ban will limit demand to borrow stock. The Korean presidential elections in April could address the ban and bring some clarity to the government's stance on this issue as we head into the middle of 2024. In 2023, the Japanese stock market was one of the strongest globally and there is expectation that this strength will continue in 2024. The Tokyo Stock Exchange's corporate governance reforms in 2023 have helped to boost company performance while promoting the efficient use of capital.

Finally, the focus in Australia will be on the Reserve Bank of Australia's (RBA's) easing of monetary policy. Prospective interest rate cuts will help keep bank debt levels low and spark a lift in borrowing activity, aiding higher profits in the financial sector. This will be accompanied by continued strong commodity demand for the all-important resources sector.

# Short selling in the Philippines: regulations, opportunities and challenges

**Nearly three decades after short selling was initially proposed, Sophie Downes explores the impact of the new guidelines on the Philippines stock market and why the time is finally right**

"Short selling is integral for securities lending," says Hannah Nunez, head of financing and securities services for the Philippines at Standard Chartered.

Be that as it may, the introduction of short selling has been a protracted process for the Philippines Stock Exchange (PSE). First proposed in 1996, the move has been beset by regulatory changes, Covid-19 and multiple revisions from market participants. As a result, the immediate implementation of short selling on 6 November 2023 marked an eagerly anticipated development in the Philippine market. Nunez believes revisions between the local market and policymakers were necessary for improving the current equities landscape. In contrast to previous iterations, the short selling guidelines include enhancements such as allowing offshore collateral, and a lending agency service through the depository.

The guidelines, published by the PSE and subject to the advice of the Securities and Exchange Commission (SEC), the securities market regulator, demonstrate the conservative manner in which the PSE is adopting short selling. These allow short selling for 52 stocks and one exchange-traded fund, along with select equities from the PSE MidCap and PSE Dividend Yield Index constituents. The guidelines also include further stipulations to ensure fair practice, including the application of the uptick rule and conditions about who can trade.

Under the uptick rule, the last trade price of a stock has to be higher than its previous trade price to be shorted. This prevents the price of a declining stock being driven down even further. Moreover, in a bid to prohibit 'naked' short selling, the SEC has set out clear guidelines about the format and wording used to record securities borrowing and lending (SBL) in legislation. A depository participant that transfers shares to another depository participant shall indicate 'SBL Borrow – Short Selling' or, for buyback transactions, 'SBL Return – Short Selling' in the depository's system in a bid to increase transparency around transactions.

Similarly, trading participants must enter the short selling on behalf of their client, even if this client already has direct market access (DMA). The DMA client is allowed to trade on its own behalf if the trading participant verifies that they have borrowed the subject securities prior to the entry of any short selling order, and upon compliance with possible further requirements imposed by the SEC. Failure to comply with the new guidelines will result in penalties sanctioned by the PSE and, according to trading rules, may risk "restrict(ing) or prohibit(ing) short selling indefinitely or for such period as it may deem necessary or advisable for the protection of investors".

## The time is right

Timing was key in shaping the introduction of short selling to the Philippine markets. "There is never not a right time, but there are times that are going to be more optimal than others", observes Stephen Howard, CEO of the Pan Asian Securities Lending Association (PASLA).

Against a backdrop of low volumes and valuations in equities in the Philippine market, there have been various discussions on necessary reforms, spanning foreign investments, taxation and a lack of robust facilities for stock borrows and shorting, among others. Nunez describes how "there was resounding support from policymakers to push reforms, and those that have been underway, such as SBL and short-selling, were prioritised and addressed".

For Nunez, the question of timing comes down to the numerous revisions the PSE were subject to and she suggests that the guidelines were implemented as early as they could have been. "Efforts to improve and simplify guidelines took longer and had to be queued for regulatory approvals, which in some areas were subject to changes in existing laws," she explains. These include approval for offshore collaterals for SBL transactions and the agency lending licence of the equities depository, which were only granted in 2023. The PSE also needed to ensure the operational readiness of the central depository, the Philippine Depository and Trust Corporation (PDTC), to participate in the short selling programme as a central lending agent.

For Howard, it was also crucial that the wider market was prepared. "When you look at the arc of progression of a capital market and equity capital market and its structure, there are certain component pieces that need to be in place.

"Looking at that arc of travel, now could be the opportunity for the Philippines to test that water and see how short selling it can be applied, with the aim of growing the market structure further."

## Market impact

So what impact can we expect on the market? For Howard, "it can only be constructive".

Indeed, a significant benefit of short selling is that it opens up new opportunities for hedge funds and traders. "By providing that market structure change, you are inviting different market participants to enter the Philippines market," says Howard.

Standard Chartered is one bank that has already seen increased interest from various participants. According to Nunez, the firm has been fielding queries from foreign market players on securities borrowing and lending, demonstrating a foreign interest both to borrow and to lend. She explains that "domestic real-money players such as insurance companies and asset managers have interest to lend stocks. SBL is primarily eyed to support facilitation of settlements and for hedging".

Howard is confident that the "sensible" approach that the PSE has adopted to the introduction of short selling is likely to protect against a proliferation of short-bias funds destabilising equities prices. "If you look at the range of investment strategies that can be conducted that use short selling as a part of their investment thesis, [this] is just one component piece of the portfolio," he says.

**"There is never not a right time, but there are times that are going to be more optimal than others."**

This may mitigate commonly held criticisms of short selling by those who believe it encourages opportunistic behaviour at the expense of the general market. APAC markets saw this play out in real time in November 2023, when South Korea reinstated a short-selling ban due to illicit trading practices by foreign firms. The framework issued by the PSE, particularly the application of the uptick rule, aims to mitigate potential market volatility in response to short selling.

While the new guidelines may precipitate greater activity, it will take some time to see a definitive impact on the market. Howard comments: "I do not expect a sudden surge in volume and activity, but what I would expect to see is a gradual progression of business activity, calibrated based on the underlying market liquidity."

With current market conditions reporting multi-year lows and a lack of liquidity, opportunities for short selling are not immediately available. Currently, there are no volumes reported on both facilities, except for the occasional stock borrow — mainly for the management of trade settlement fails. Instead, Howard argues that the region can expect a "gradual growth (in market liquidity) as it attracts new capital, new investors and supply is then brought into the market by other participants".

## Looking forward

Both Nunez and Howard agree that the new guidelines are a source of optimism for the future of the Philippine stock market. While Nunez concedes that the current market conditions may not readily present opportunities for short selling, "the advantage is that the facility is now available to assist investors' trading strategies, and local discussions are ongoing to continue fine-tuning the mechanisms and guidelines and to ensure wider participation".

Standard Chartered believes that educating market participants may be a step in the right direction. "We are seeing ongoing discussions and seminars to help more local participants to be aware of the opportunities and requirements to engage in short selling and SBL transactions since their re-launch in late 2023," says Nunez.

For the PSE, short selling is only the beginning of further expansion in the Philippine market. Commenting on its plans for the future, PSE president and CEO Ramon Monzon says: "The exchange will continue to introduce new products and push for new laws and regulatory reforms that will promote and encourage wider stock market participation and entice foreign investors back into our market. We will likewise continue to pursue our various initiatives to help and attract companies to list their shares in the exchange."

# Be unique. Be a pioneer. The evaluation of DLT in securities finance

**Japan Securities Finance's Yutaka Okada, senior managing executive officer, shares with SFT the significance of its findings on the use of distributed ledger technology in the securities finance market**

Japan Securities Finance (JSF) has contributed to the development of Japanese securities and financial markets for a number of years as the only securities finance company in Japan. Being aware of its public role as an infrastructure in the markets, JSF is also striving to enlarge its frontier and has engaged in empirical research in how distributed ledger technology (DLT) can be applied in securities financing.

**As a securities finance company, how does the service JSF provides contribute to the market?**

JSF is a securities finance company licensed under the Financial Instruments and Exchange Act and was established in 1950. Through our core loans for margin transactions business, we have played an infrastructure role for the Japanese securities market, especially in providing liquidity as a lender of last resort for the stock market for more than 70 years, while developing various services related to securities finance to meet diverse client needs.

**What initiatives are JSF undertaking with respect to the use of DLT?**

In collaboration with the Graduate School of Engineering of The University of Tokyo, Laboratory of Professor Kenji Tanaka, we conducted empirical research to explore the feasibility of using DLT to facilitate securities financing transactions (SFTs) and released a report compiling the results on 30 May 2023.

Looking at the scale of SFTs in Japan, the balance stood at around JPY 200 trillion. However, there has been little research using DLT in Japan focusing on SFTs. It would be very valuable to explore the feasibility of using digital tokens in SFTs, which are essential for providing liquidity to the market. JSF therefore decided to conduct this empirical research.

**How did you carry out this research and what were the key findings?**

The empirical research addressed three key points of inquiry.

The first was the feasibility of SFT execution with regards to individual bilateral transactions. JSF tested whether various types of SFTs, including those involving the exchange of assets denominated in different currencies, can be smoothly implemented from the start of transactions through margin calls to the end of transactions. In addition to the exchange of security against cash (typical repo), we also tested the exchange of security against security.

The second evaluation focused on the system performance when processing transactions on a market-wide scale. Transactions that occur in the entire market were input into the system and its performance was evaluated. We analysed how resilient the developed system is in terms of a high concentration of transactions during market stress or recovery from system disruptions. In addition, we measured how resilient it is to the anticipated large system workload when marking to market and implementing margin calls every business day, where the system burden is considered to be heavy.

The third research focus involved the impact of collateral diversification and threshold setting for margin calls on net credit amount and necessary liquidity, including the impact in times of market turmoil.

We conducted simulations for each market scenario — normal time and market turmoil including rapid increase, rapid decrease and high volatility — depending on how diverse collateral is and whether or not a threshold is set when implementing a margin call.

**What implications were identified within your research and what are the advantages of using tokenised assets for SFTs?**

From this research, we drew five principal conclusions.

### Transaction feasibility

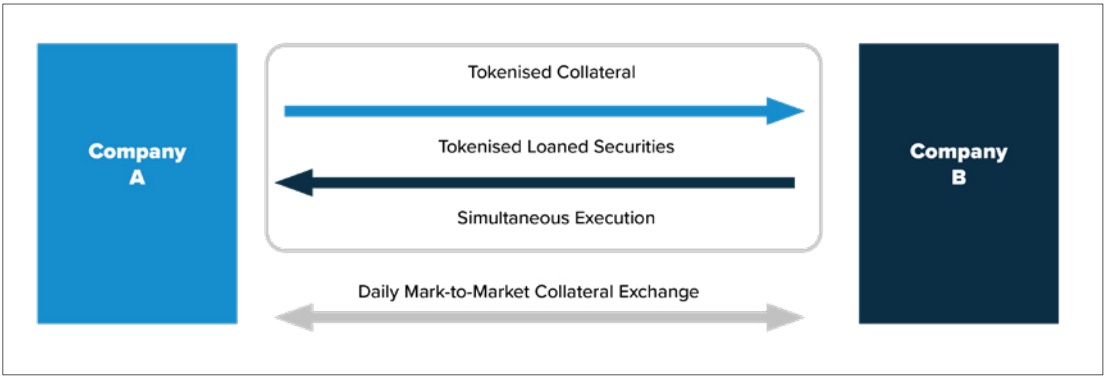
We confirmed that various types of SFTs can be smoothly implemented from the start of transactions through margin calls to the end of transactions.

With regard to the start of transactions, the recording and approval process was carried out smoothly even in times of market stress when the daily market-wide transactions were concentrated in one hour. Mark-to-market and margin call processing were possible, although it took a certain period of time even when assuming that one-third of outstanding transactions that exist in the entire market are concentrated.

### Reduction of settlement risks and simultaneous execution of transactions denominated in different currencies

Blockchain technology can be utilised to exchange tokens for tokens simultaneously without a time difference. In the case of exchanges in existing settlement systems, which involve foreign currencies or foreign securities, the transfer of funds and securities must be executed during local time at the local transfer

**Fig 1: Conceptual diagram of empirical research**




institution. For this reason, generally a time difference occurs before completion of transaction settlement or completion of margin call.

In this empirical research, on recording and approving the transaction on the blockchain after deal, the exchange of tokens for tokens on the blockchain could be executed simultaneously in real time — even if the underlying assets are denominated in different currencies. Also, margin calls can be automatically implemented after updating the daily market value without the need for operations by the transaction parties.

## Reduction of credit risk and flexibility in economising liquidity

The project confirmed that automation of margin calls using blockchain technology reduces operational burden, making it easier to make margin calls and, as a result, this can also reduce credit risk.

Automation can almost eliminate the operational burden involved in managing collateral diversification and adjusting multiple assets posted as collaterals in margin calls. As a result, collateral diversification reduces volatility not only in collateral value but also in net credit amount, having a positive effect on credit risk management. In cases where a threshold is set to reduce operational burden associated with margin calls, the automation offered through blockchain and smart contracts is itself important in relieving the operational burden. Therefore, threshold setting also provides the benefit of controlling system burden following an increase in the number of margin calls.

When a threshold is set, margin calls will not be executed until the net credit amount reaches the threshold. Therefore, the net credit amount will increase compared to when no threshold is set. We confirmed that this effect can be mitigated or offset by diversifying the collateral securities.

Furthermore, the credit risk reduction effect and liquidity economising effect gained through such a combination of the threshold and collateral diversification effect proved to be particularly effective during market turmoil.

## Streamlining of operations

Using blockchain in SFTs enables automated execution without manual intervention following predetermined conditions in a smart contract with regard to settlements. This captures details related to the start and end of the transaction and margin calls during the transaction term.

These results suggest that the use of blockchain can make it possible for straight-through processing (STP), improving the efficiency of SFT operations and managing operational risks. In particular, this has the potential to significantly reduce the operational overhead and time required to exchange transaction information and check execution status with counterparties located in foreign countries, thereby improving the efficiency of transactions.

### Utilisation of assets with low liquidity

There are cases where the transfer of the rights of certain securities with low liquidity, such as unlisted shares, involves a significant operational burden and time as the actual certificate must be transferred or changes must be made to the registry. It will become easier to transfer rights of low-liquidity assets by tokenisation. This provides potential not only to hold these low-liquidity assets, but also to utilise them as collateral in SFTs. Furthermore, it is believed that increasing the usage as collateral in this manner has the potential to increase the valuation of the underlying assets.

The results of this research are published in a paper entitled "Empirical Research on SFTs using Distributed Ledger Technology" (https://www.jsf.co.jp/english/media/report_dlt_en.pdf).

**What future initiatives do you have in the pipeline for the use of DLT in SFTs?**

Through this research, we found that there are various possibilities for utilising blockchain to support SFTs. Although there are issues to be addressed, such as connection to external systems and handling of legal considerations, we aim to explore the possibility of conducting actual transactions on a trial basis.

**Is there anything else you would like to share with our readers?**

In November 2023, JSF formulated and published the Long-Term Management Vision, which includes the corporate message "Be unique. Be a pioneer". In the field of DLT, we aim and strive to be unique and a pioneer.

We also proactively participate in international conferences organised by the International Securities Lending Association (ISLA) and the Pan Asia Securities Lending Association (PASLA). We look forward to engaging in exciting discussions with market participants on such occasions.

## Yutaka Okada

Joined the Bank of Japan in 1987. He was engaged mainly in the financial stability, payment and settlement systems and financial markets. He also participated in the Committee on the Global Financial systems, at the BIS and the Committee for Financial Markets at the OECD. From 2015 to 2018, he was head of Currency Issue Department of the bank. In 2018, he joined JSF. As senior managing executive officer of JSF, he currently oversees corporate strategy, business development, treasury and international relations.

# The move to T+1: short-term pain will lead to gain for securities lending

**Firms already operating in an STP environment are well positioned for the shift to a shorter settlement cycle, according to Ryan Barrett, head of securities finance, North America at Northern Trust and Phil Garrett, head of securities finance, Asia-Pacific, who breaks down how market participants can best prepare for the transition**

The May 2024 transition to T+1 in North America will have a significant impact on a wide range of financial services functions and products. With this shift, securities and cash transactions will settle within one business day after trade-date versus the current two-day standard. This will have the benefit of increasing market efficiencies and reducing settlement and counterparty risk. However, industry participants need to be prepared for the changes to daily trading functions that will likely result.

For securities lending programmes in particular, T+1 will create an immediate need for streamlined processing. The most poignant example of this is when securities on loan need to be returned to meet sale obligations that fund purchases. Timely notification, standardised communication and efficient collateral management are of paramount importance. Facing a shorter settlement window means market participants will have to expedite their processes, including establishing earlier instruction deadlines and intraday trade notifications, to improve their efficiency.

As market participants grapple with this shortened timeline, those that currently operate in a straight-through processing (STP) environment are well positioned because they have automated systems that allow data to flow between multiple parties. Those that do not may struggle with the shortened settlement window and will need to quickly ramp up their automation, either by making changes to their systems or by working with providers that already operate in a straight-through environment. These short-term pains can lead to efficiency gains that help market participants reap the benefits of T+1.

## The impact on securities lending

The securities lending industry is anticipating unique challenges as it transitions to T+1. The shift means that borrowers and lenders will have to shorten notification timeframes to process transactions within hours instead of days. For example, the current cut-off time for recalls is up to 15:00 Eastern Time on trade date + 1, but this will be incompatible with the compressed settlement cycle. It will be important for investment managers to relay sale notifications as close to market execution as possible so that, in the case of recalls, the recall due date and contractual settlement date align. Without timely sale notifications, there is a risk of delay or settlement failure, which can have financial consequences.

Communications standards will go a long way in easing the transition to T+1. Establishing industry standards for recalls, for example, would cater to the needs of lenders and borrowers. This means agreeing on cut-off times, across different time zones, and receiving more real-time information to complete multiple automated security recalls within a single day.

The shift to T+1 also puts collateral management under the spotlight as borrowers may be required to put up collateral more quickly to meet margin and settlement requirements. Market participants with automated collateral management systems will more easily adapt to the shortened timelines, with access to more efficient processing and improved data tracking.

While the transition to T+1 may create short-term pains for securities lending, the shortened settlement window has the potential to create long-term gains. First, the shift to T+1 is driving industry wide automation, improved communication standards and heightened use of technology to help minimise challenges. This will make markets more efficient to better serve investors.

Second, T+1 may drive counterparties to consider securities lending to source securities to meet a compressed settlement window, increasing securities lending volumes. Finally, the shift may alleviate associated market risk, since the time one party is exposed to counterparty risk will be shorter than before, therefore reducing the potential exposure to a default or other adverse events.

## How to prepare for T+1

The goal of T+1 is to create a more efficient market environment by enabling more thorough STP. Improving automation and communicating more efficiently will be of the utmost importance for a smooth and successful transition.

As the shift to T+1 nears, it may be helpful for market participants to review their preparedness — the following questions are important to consider.
Considerations for beneficial owners via their investment managers:

- Do you operate in a straight-through processing environment when instructing trades?
- Have you considered any technology upgrades to

meet the condensed settlement window?
- Is your sale notification process automated and aligned with trade execution?
- Have you assessed the impact of T+1 on your liquidity management?

Considerations for borrowers:
- Does your securities lending programme utilise automated processes?
- Is your recall communication process automated?
- Do you operate in a straight-through processing environment for recalls?
- Have you considered any technology upgrades to meet the condensed settlement window?
- Have you assessed the impact of T+1 on your liquidity management?
- Are you prepared to provide collateral more quickly?
- Are you currently using a service provider to manage non-cash collateral?

If the answer is ‘no’ to any of these questions, market participants should seek to improve their processes and technology or find a service provider that can help them to automate more quickly. For instance, borrowers that manually manage their non-cash collateral will benefit from automated collateral management capabilities. In addition, it is vital for market participants to assess the efficiency of their middle and back-office procedures as they undergo the shift to T+1 since the success of securities lending is dependent on timely notification and accurate communication. A service provider with efficient investment operations that is prepared for the changing market environment will be best suited for this transition.

## Embracing automation

The move to T+1 is quickly approaching, and market participants need to adapt to ensure they are prepared. It will be critical for post-trade processes to be timely and automated, considering the significant narrowing of the window between trade communication and settlement. T+1 will reconfigure a number of the ways the securities lending market operates, leading to short-term pain — but participants in securities lending programmes will ultimately gain from the improved efficiency and increased automation that will result.

**Ryan Barrett**
Head of securities finance, North America
**Northern Trust**

**Phil Garrett**
Head of securities finance, Asia-Pacific
**Northern Trust**

# The road to T+1: process efficiencies for Asia Pacific

**State Street's Chris Rowland discusses how APAC firms must amend processes to keep up with the US and Canada's move to a T+1 settlement cycle**

The investment industry has only a few months to get ready for the transition from a T+2 to a T+1 settlement cycle in the US and Canadian markets. The US Securities and Exchange Commission (SEC) confirmed Tuesday 28 May 2024 — the day after the Memorial Day holiday — as the implementation date. The SEC's final rule provides an extra two months of preparation time from the original draft rule proposal's compliance date of 31 March, although the industry had broadly advocated for a 3 September transition. Meanwhile, the Canadian market confirmed that it will transition on Monday 27 May: a day earlier than the US, since it does not have the benefit of a long weekend.

There are additional Asia Pacific (APAC) region impact considerations for asset managers and owners, which will require their attention if they are to successfully meet the new truncated deadlines under T+1.

Upcoming changes to affirmation cutoff time
The Depository Trust and Clearing Corporation (DTCC) cutoff time for having affirmed institutional transactions automatically introduced into the National Securities Clearing Corporation (NSCC) and Depository Trust Company (DTC) in the T+2 environment is currently 11:30 a.m. ET. For the T+1 settlement cycle, the affirmation cutoff time will change to 9:00 p.m. ET on trade date. Today, under T+2, the affirmation process is usually done by global custodians on behalf of the asset managers or owners in the APAC region, following the receipt of trade instructions. It is a time-consuming process for the custodian to match the received instructions to the broker confirmations. While we will continue to support this model under T+1, it will require asset managers and owners to apply for their own DTCC institutional identification.

In addition, technology exists that can make the affirmation process more-or-less instantaneous (for example, the DTCC's Central Trade Manager and Match to Instruct products). In order to meet the tighter deadlines, asset managers and owners should consider adopting such technologies to perform the affirmation process on behalf of their clients.

## Tight deadlines for allocation processes

In order to meet the affirmation deadline, brokers will have to provide allocations significantly earlier, concluding the process within minutes — half an hour maximum — of the trade being executed. In the current trading environment, this process takes hours. Brokers and asset managers in the APAC region should invest in order management technologies to ensure that they have adequate automated systems in place to accommodate the tighter deadline for their allocation processes. This will be an essential element of the trading institutions' due diligence as part of the readiness preparations for T+1.

### Automated FX processes

For investors with base currencies different from the US dollar or the Canadian dollar, a timely FX transaction will be needed to ensure settlement of the security trade, purchase equity funding currency or repatriate back to base currency. Though FX can be arranged at any point during the security life cycle, it is conventional to instruct the FX after security affirmation to allow for accurate funding for the underlying security trade. We believe automation of the FX execution process will be paramount in meeting these new shortened deadlines.

APAC investors will generally need to execute the FX by T+1 for same-day value. Considering the same-day value liquidity, investors are encouraged to adopt automated FX instruction and workflow solutions. This connects the FX to the securities trade instruction automatically, so that funding can be executed in a timely manner.

### Partnering with external providers

APAC- and EMEA-based investors who rely solely on local trade processing resources should consider if their existing infrastructure can support the new workflows required for trading in US and Canadian securities in a T+1 environment. Identifying and addressing gaps in the process by the cutoff date will be dependent on the resources available internally. Alternatively, investors can look to partner with external providers that are already set up to meet these requirements.

The solutions to the challenges presented by the shift to T+1 are predominantly technological in nature. The existing T+2 scenario enables both investment institutions and their various service providers — brokers, investment managers and custodians — a degree of leeway for performing tasks manually. With the new compressed time frames there will be no room for manual processing. Asset managers and owners need to evaluate their own technology stack and those offered by third-party vendors in order to eliminate the tedious back-and-forth in process flows. ■

**"Asset managers and owners need to evaluate their own technology stack and those offered by third-party vendors to eliminate the tedious back-and-forth in process flows."**

**Chris Rowland**
Head of custody, cash and depositary bank services
**State Street**

# Indian Custody



# A smooth landing

**The Indian custody market embraced last year's switch to T+1 and, according to three of the nation's leading custodians, there is cause for more optimism**

On 27 January 2023, India's equities market made the move to a T+1 trade settlement cycle. A year on, the markets are set to celebrate its one-year anniversary after an impressive year of growth and buoyancy in the face of global market turmoil.

With North America and potentially Europe to follow, the Indian custody markets have set the standard for the transition to shorter settlement cycles. Anuj Rathi, HSBC's head of securities services for India, is keen to underline this fact.

"The Indian market moved ahead of others going into T+1. Now, the Indian markets are talking of T+0 settlements for retail in 2024 and instantaneous settlement coming into 2025," Rathi says.

"Market participants have worked very well aligning the requirements of the regulators with the investors. It's been more than 12 months that the markets have been on T+1 and been quite a smooth transition."

The T+1 cycle means that all equities trades, be it exchange traded funds (ETFs) or shares, must be completed within one day. The move from the previous T+2 cycle aimed to increase efficiency in the market and settle trades faster.

Preparing for the major shift posed a challenge for the Indian custody market. Chaitanya Joshi, Standard Chartered's head of securities services for India, explains his bank's preparations: "We made necessary changes in our local settlement system well before the market went live, and also introduced a night desk to process client instructions that are received overnight."

## A growing market

Vivek Gupta, Axis Bank's president and head of wholesale banking products for India, credits the strength of the Indian market for the seamless transition to T+1. He suggests that the markets have capitalised and successfully seized the advantage of China Plus One (C+1) policies, which discouraged investment in Chinese production in order to diversify markets and prevent an over-reliance on one nation — a chasm India has more than filled.

Gupta explains with gusto, "Positively, there has been a shift on a C+1 basis towards India. We are seeing [in action] what customers are telling us: that India is a leading investment destination. This is also the case in the capital markets. Whether it's liberalisation on the bond front or interests from overseas investors into India, we see strength across the board."

**"We have seen significant growth in assets under custody, due to the market increasing in size and the market cap crossing US$4 trillion"**

**Anuj Rathi**
HSBC

HSBC's Rathi shares Gupta's enthusiasm, explaining that the strength of the market will enable further growth. "A lot of positive developments have taken place. India has been included in the J.P. Morgan Global Bond Emerging Markets Index (GBI-EM), so that will be a big focus area for 2024."

The induction into the GBI-EM will begin in June 2024 and is set to allow for several billion dollars of foreign investment into Indian government bonds.

The admission has been long sought by both the Indian government and regulators as the Indian bond market expands to allow vast investment and boost an already buoyant market.

### Strong and stable makes a trickle

The Indian government, headed by Prime Minister Narendra Modi, has been in power since 2014 and has vowed to make India the world's third-largest economic power. It is widely expected that in this year's general election, Modi will win a third term as Prime Minister.

**"Positively, there has been a shift on a C+1 basis towards India. We are seeing [in action] what customers are telling us: that India is a leading investment destination"**

**Vivek Gupta**
Axis Bank

Axis' Gupta explains that the strength of the Indian markets can be attributed to the stability in the nation's parliament. He says, "There's a lot of promise. We've recently had domestic political elections that have gone favourably with the ruling party, so stability issues have been addressed. We have one of the few economies that is chugging along quite well.

"There is a genuinely strong belief that [India is a promising market], led by and centred around a strong, stable government with strong, stable policies. With many foreign direct investments coming in as the C+1 strategy plays out, clients I speak to have a strategic plan with an India aspect to it."

Yet, while the Indian markets are growing, it has to be acknowledged that wealth inequality is also increasing across the country. A 2023 Oxfam report on inequality in India revealed that the richest one per cent in India own over 40 per cent of the entire nation's wealth. The country also remains the nation with the highest number (228.9 million) of people living in poverty in the world — over double the next highest, Nigeria's, 96.7 million. Oxfam says this inequality is only set to increase.

The previous year's report on inequality in India from the charity was critical of the government's economic policies, stating: "the stark wealth inequality in India is a result of an economic system rigged in favour of the super-rich over the poor and marginalised."

Questioned whether such inequalities will affect the custodian market, Gupta rebutted the suggestion. He claims, with real emphasis, that "the country is in a good space and a lot of good work is being done. I think progressively. I'm very confident that that will lead to trickle-down benefits that will help the masses in multiple ways. I'm very confident [about India's future]."

Questioned again on if there really are any merits of a trickle-down economic system, Gupta insists: "The amount of [infrastructural] work happening is heartening to see. All that work means there is a trickle-down effect to the supply chain, employment, et cetera. The leading indicators, from what I observe around the country and from clients, are full of optimism."

### Looking to the future: The mask is off

The Indian markets have had to shift to adjust to the implementation of T+1 and, with the market growing further and wider, custodians have to remain on top of all developments.

HSBC's Rathi reflects on the growth of custodial assets. He says: "We have seen significant growth in assets under custody, due to the market increasing in size and the market cap crossing US$4 trillion."

The growth of the Indian markets is epitomised by the expansion of retail investment in the country, with an unprecedented 10 million depository accounts reportedly opened with the Indian Central Depository Services since April 2023.

“Retail investors have grown significantly,” Rathi says, “which helps indirectly as they will potentially be investing in domestic mutual funds and insurance. Retail investor growth contributes to the widening growth of the mutual fund and insurance industry. Foreign portfolio investors bought Indian equities, which includes both primary and secondary markets, worth US$21.23 billion in 2023 — a target segment for us.”

## But, with markets expanding, how will HSBC adapt?

“Technology investment becomes the key for all custodian banks.” Ruthi explains plainly. “There is a big focus on application programming interfaces (APIs), flexible micro services-based tech architecture and a progressive move to batch-less systems to ensure that the connectivity between the offshore clients and the custodians in India improves significantly.”

Similarly, Standard Chartered are also looking to invest in technological advancements. Joshi explains: “We will explore use cases for robotics and automation to reduce manual processes, increase efficiency and assurance, and provide more efficient solutions to our clients in both custody and fund accounting.”

For all three custodians, the shift to T+1 dominated our discussions on regulation in the industry. All three participants agreed that the transition had been successful, and credited the regulator for the achievement.

Joshi suggests that there will be further regulatory pressure as regulators look to protect investors and the market. “This will result in additional requirements in line with those recently seen, including greater disclosure requirements and ownership verification. The regulators and the infrastructure will continue to push India to be a ground-breaking jurisdiction,” he says.

Axis’s Gupta echoes the sentiment and heaps praise on the regulator’s drive.

He says: “One thing I’d like to point out is the intent of the regulator to make sure that India is in-line with best-in-class practices globally. T+1, and potentially T+0, are very visible manifestations of a very strong intent from the regulator.”

## Closing in on T+0?

The successful transition to T+1 across the Indian markets has given hope that the same feat can be repeated with T+0. However, making yet another transition to settle trade cycles on the same day will be difficult.

Joshi reveals the way in which Standard Chartered would deal with another shortening trade cycle.

He says: “To meet T+0 settlement timelines, we would need to make further changes to our operating model and local settlement system.

“While we enhanced the equity trade matching process through internal automation to make it near real-time, we would look to further enhance internal automations and explore API use cases for a T+0 settlement scenario.”

HSBC’s Rathi dismisses the notion that adapting to a shortened cycle would pose any difficulty. He retorts: “There are regulatory aspects which one has to keep abreast of, and we must work closely with policymakers and investors to ensure that the transition is in the best interest for both parties.”

Rathi argues that his bank would be more than capable of adapting and rules out any uncertainties that it would pose too much of a change, too quickly.

“The regulators in India will allow for a consultative process and adequate time to ensure all views are well understood before rolling out any changes.” Rathi ends with a final flourish. “Infrastructure changes are not really a challenge.”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(1) Based on market capitalization as at October 31, 2023
(2) Global Investor ISF and R&M Surveys, 2022

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