

# PASLA Regional Markets Initiatives – What Have You Been Missing?

6<sup>th</sup> March 2018

## **PASLA Executive Committee Members:**

**Hong Kong:** Matthew Ketley, JP Morgan, Hong Kong

**Japan:** David Egliskis, BNP Paribas, Tokyo

**ASEAN:** Zubair Nizami, Brown Brothers Harriman, Hong Kong

**India:** Martin Corral, Citi, Hong Kong

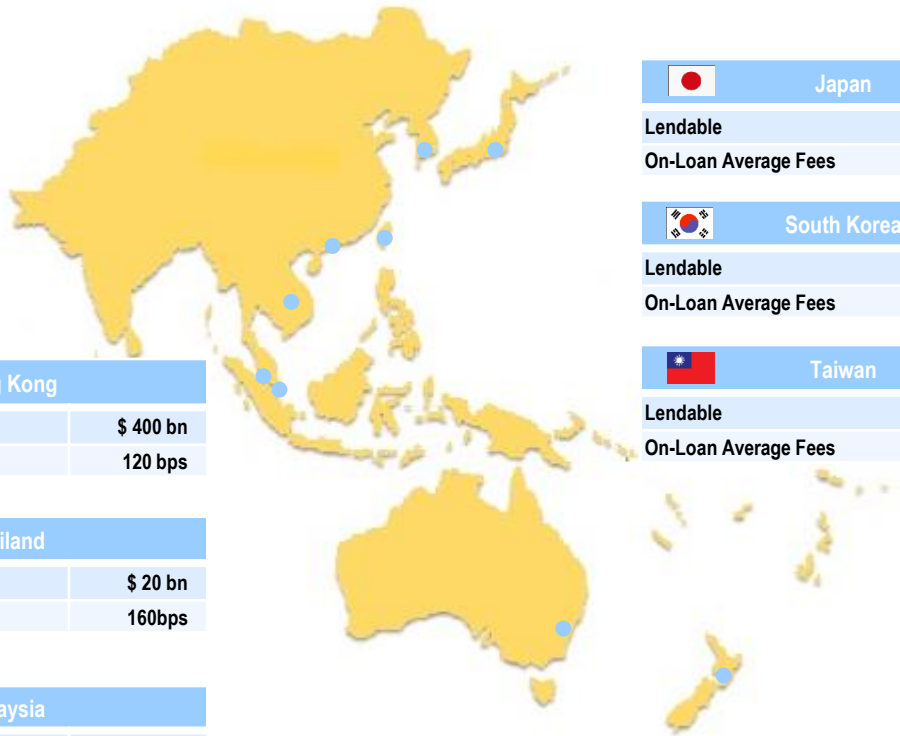
**South Korea:** Tim Butcher, Goldman Sachs, Hong Kong

**Taiwan:** Adam Smith, HSBC, Hong Kong

Facilitated by Paul Solway, BNY Mellon, Hong Kong

# Where is Equity Lending Open in Asia Pacific?

## Open Models



Hong Kong	
Lendable	\$ 400 bn
On-Loan Average Fees	120 bps

Thailand	
Lendable	\$ 20 bn
On-Loan Average Fees	160bps

Malaysia	
Lendable	\$ 15 bn
On-Loan Average Fees	300bps

Singapore	
Lendable	\$ 50 bn
On-Loan Average Fees	140bps

Australia	
Lendable	\$ 250 bn
On-Loan Average Fees	65 bps

New Zealand	
Lendable	\$ 6 bn
On-Loan Average Fees	90 bps

Japan	
Lendable	\$ 850 bn
On-Loan Average Fees	100 bps

South Korea	
Lendable	\$ 130 bn
On-Loan Average Fees	280 bps

Taiwan	
Lendable	\$ 60 bn
On-Loan Average Fees	230 bps

## Restricted Models

 China: Onshore only

 India: CCP

## Emerging Models

 Indonesia

 Philippines

# Hong Kong Update

## Market group members:

Valerie Rossi (ABN Amro), Brian Leung (DB), Adam Smith (HSBC), Matthew Ketley (JP Morgan),  
Dane Fannin (Northern Trust), Ariel Winiger (Societe Generale)

### SFC

- Parallel Trading
- Short sell Eligible list
- Clarity on short sell procedures & sale treatment of certain assets
- Suspended Securities

### Hong Kong Exchange

- Parallel Trading
- Feedback on proposed changes on website
- Feedback on Suspended securities
- SBL101 training & market forum

# Japan – growth through infrastructure build

## Market group members (On-shore / off-shore – Lender / Borrower):

David Egliskis (BNPP), Emiko Ida (Nom), Paul Skurr (DB), Phian Cheung (BNYM), Toshifumi Kamitani (DB)

### F1 & F2 - Settlement Cycle to T+2

#### Domestic institutional lenders

- Technical development
- T+1 ability expected
- Later cut-offs on returns
- Broader collateral schedule
- 'No-fail' environment

#### Domestic retail lenders

- Technical development
- Operational flexibility
- Intra-day recalling - no
- Broader collateral schedule

### F3 - Tri-party

- JPM & BNYM provided teach-in
- Goal – operational flexibility
- Limited current use on-shore

### Corporate Actions

- Achieving uniformity of booking
- Abundant position → billing breaks
- Seeking, suggesting best practice

Market  
Expansion

FORWARD

THINKING



'17

'18

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### CCP

- Model the benefits borrowers & lenders
- Cost effective
- JSCC platform? Other?

### Automation

- Fintech in SBL
- Industry-wide developments vs. firm specific competitiveness

### Additional

Your concerns, objectives, suggestions please.

**\*\* Raise your priorities \*\***

# ASEAN update – Markets continue to evolve

## Market group members:

Jacob Boeding (UBS), Martin Corral (Citi), David Egliskis (BNPP), Andrew Geggus (Northern Trust), Jason Kendall (BAML), Zubair Nizami (BBH), Ed Oliver (eSecLending) and Roy Zimmerhansl (HSBC).

### The Philippines

- Consultation paper on short selling regulations issued in November 2017
- Proposed rules submitted to SEC for discussion / approval. Proposal uses existing SBL infrastructure. (Tentatively 2018 launch).
- Roundtable/seminar discussions in Manila between PASLA, PSE and market participants in January 2018.

### Malaysia

- Islamic Securities Selling & Buying Negotiated Transaction (“ISSB-NT”) announced in December 2017. Contractual documentation awaited. Looks like equity REPO with payments netted at closure.
- Various other reforms to the overall short selling market introduced / proposed

### Indonesia

- PASLA and KPEI held discussions in early 2017 on the development of a bilateral SBL model.
- PASLA are monitoring developments and have offered KPEI assistance.

### Settlement Cycle Changes

- Indonesia (Tentative – Nov 2018); Malaysia (TBC – 2018), Singapore (Tentative - late 2018) and Thailand (Confirmed – 2<sup>nd</sup> March 2018) moving from T+3 to T+2 settlement cycles.

# India Sub Market group – Some developments

## Market group members:

Martin Corral (Citibank), Adam Smith (HSBC), Prem Purohit (Deutsche Bank), Harshil Badani (Scotiabank), Roy Zimmerhansl (HSBC), David Egliskis (BNP Paribas), Ed Oliver (eSecLending)

### SLB framework via CCP NSE / NSCCL & BSE / ICCL since 2008

- Exchange traded (screen based) bid/offer intermediated trades.
- Defined list of eligible securities
- Fixed tenures 1mth > 12mths (2 rollovers permitted)
- Recalls permitted BUT effectively borrow for same expiry date of loan.
- Fees paid upfront on settlement T+1
- COACS initiate mandatory foreclosure (excl. dividends & stock splits) – fees repaid pro-rata
- FPI's collateral non-rebate INR cash
- Market wide and participant position limits

2016

### SEBI initiated working groups on FPI access to Capital Markets 2015/16

Sub Group 3 – Recommendations for Securities Lending & Borrowing Mechanism (SLBM)  
Consolidated feedback submitted April 2016 – laundry list of items

2017

### SEBI issues guidelines for issuance of Offshore Derivative Instruments

(ODI's) – July 2017 – Foreign Portfolio Investors (FPI's) prohibited from issuing ODI's with derivatives as the underlying hedge.

2018

### Effective 01 Jan 2018 – SEBI revises SLB framework

- Tenure – contracts allowed for tenures 1day > 12mths
- Position limits – for institutional investors increased in line with market wide limits.
- Corporate Actions – contracts allowed for not voting positions avoiding foreclose
- Rollovers – multiple rollovers to a maximum of 12mths from the date of original contract

### Effective 01 Mar 2018 – revised transaction charges announced by NSE.

Reduced. Max 2% and lower capped at INR250 (US\$4) / trade.

# Korea Sub Market group – What happened this year?

## Market group members (On-shore / off-shore – Lender / Borrower):

Tim Butcher (GS), Ed Oliver (eSecLending), Ji Su Lee (DB), Susan Moon (Hana Financial), Kevin Park (HSBC), Jinny Chang (JPM), Eric Champion (MS), Dane Fannin (NT), Alex Prince (UBS)

May'17

### **KRX announced short sale portal:** <http://short.krx.co.kr>

- Reporting publically: list of largest short holdings, short position balance per stock, Stock balance for market, short transaction data and overheated stock list

June'17

### **FSS implemented changes to short reporting rules effective Jun 30<sup>th</sup>.**

- Highlights: Net Short position larger than 0.5% of total issued shares, Net shorts 100m KRW notional or greater must be reported, disclosure applies for physical short position under short seller's ID.

Sep'17

### **KRX announced changes in criteria for overheated stocks in Kosdaq market.**

- Highlights: Short-sell ratio on trading day is 3 times previous quarters aggregate quarterly short sell ratio of all KOSDAQ150 names

Jan'18

### **The MOSF retracted its proposal to lower the threshold at which CGT on listed securities transactions from 25% to 5%.**

- The decision was made following inputs from various organizations during the consultation period.



# Korea Sub Market group – current focus

## Market group members (On-shore / off-shore – Lender / Borrower):

Tim Butcher (GS), Ed Oliver (eSecLending), Ji Su Lee (DB), Susan Moon (Hana Financial), Kevin Park (HSBC), Jinny Chang (JPM), Eric Champion (MS), Dane Fannin (NT), Alex Prince (UBS),

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### **Korea Corporate action processing:**

- Building ability to reconcile tender events at the KSD / KSFC for onloan positions.
  - Giving flexibility to process events will move closer to international standard, reduce volatility for borrower and lender, reduce price volatility for any forced recalls resultant from tender announcement

### **Introduce collateral concept into Korea:**

- Following the 2017 update to add KTB's as a form of collateral in repo transaction. We are looking to help expand the collateral eligibility of equities.
  - Help to improve funding of Korean equities and move closer to international standard.
  - Help define event of default scenario

### **Provide Korea legal opinion accessible to PASLA members:**

- Interpretation of Korea law in regards to lent securities for beneficial owners
- Interpretation of default scenario between relationships with local lenders/intermediaries.

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# Taiwan Sub Market group – Right direction; more to come?

## Market group members (On-shore / off-shore – Lender / Borrower):

Adam Smith (HSBC), Billy Kwong (Citi), Paul Skurr (DB), Dawson Koo (DB), Tim Butcher (GS), Jennifer Chen (HSBC), James Aitchison (Macquarie), Jeff Coyle (Robeco), Rick Lin (Yuanta)

2017

### Change of rules over the last 12 months specific to SBL and Short selling:

- Feb 2017 – amendment of total short selling daily volume control limit for 20% to 30% of average trading volume of previous 30 business days
- June 2017 – TWSE announced enhanced control mechanism to prevent blocking short-sell quota without justification
- July 2017 – extended the ability to roll over SBL transactions from 1 to 2 times to allow trades to have an increased maximum tenor of 18 months

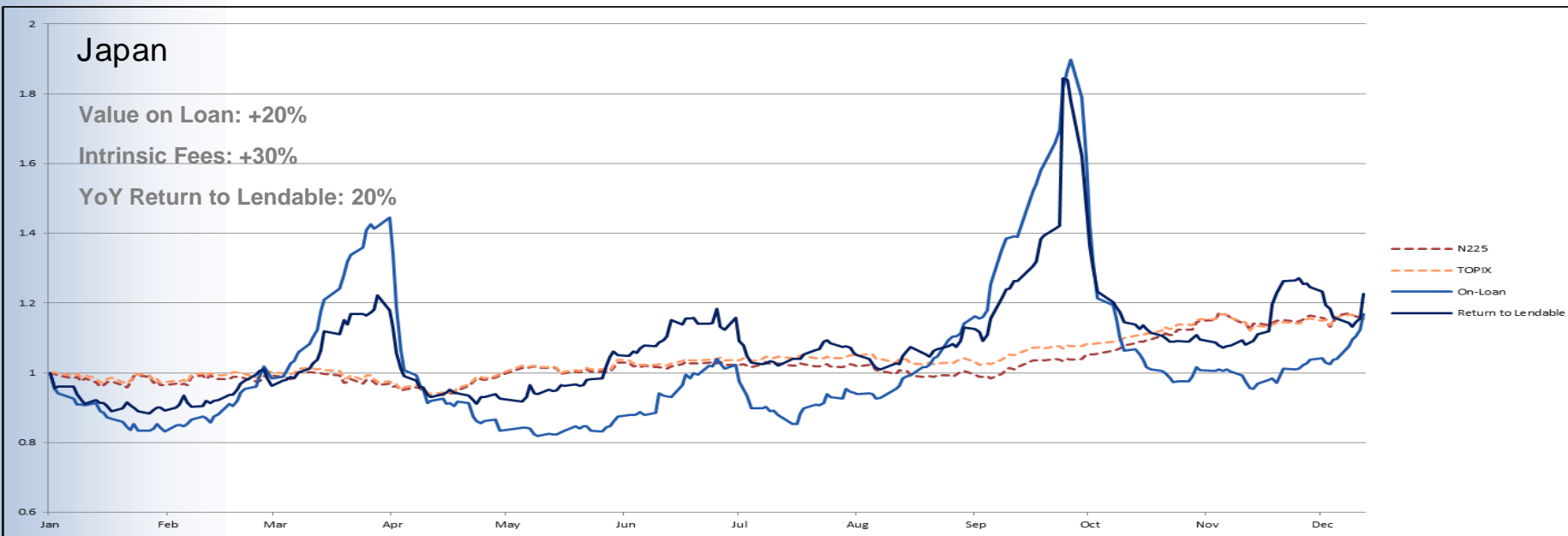
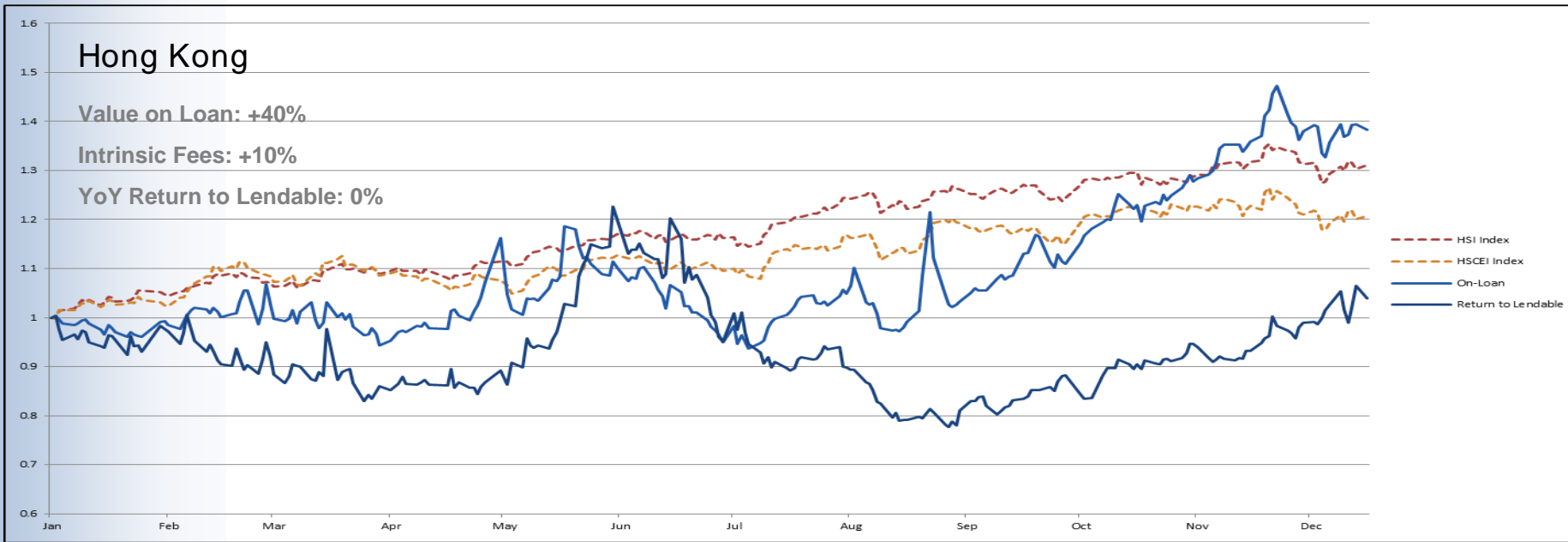
2017 was fairly quiet with regard to market developments, however the rule changes that did take place were positive towards SBL although relatively minor in impact. Focus onshore seems to be enhancing the short sell quota system so it continues to provide the protection that it is perceived to offer whilst also bringing back liquidity to the short selling mechanism

2018

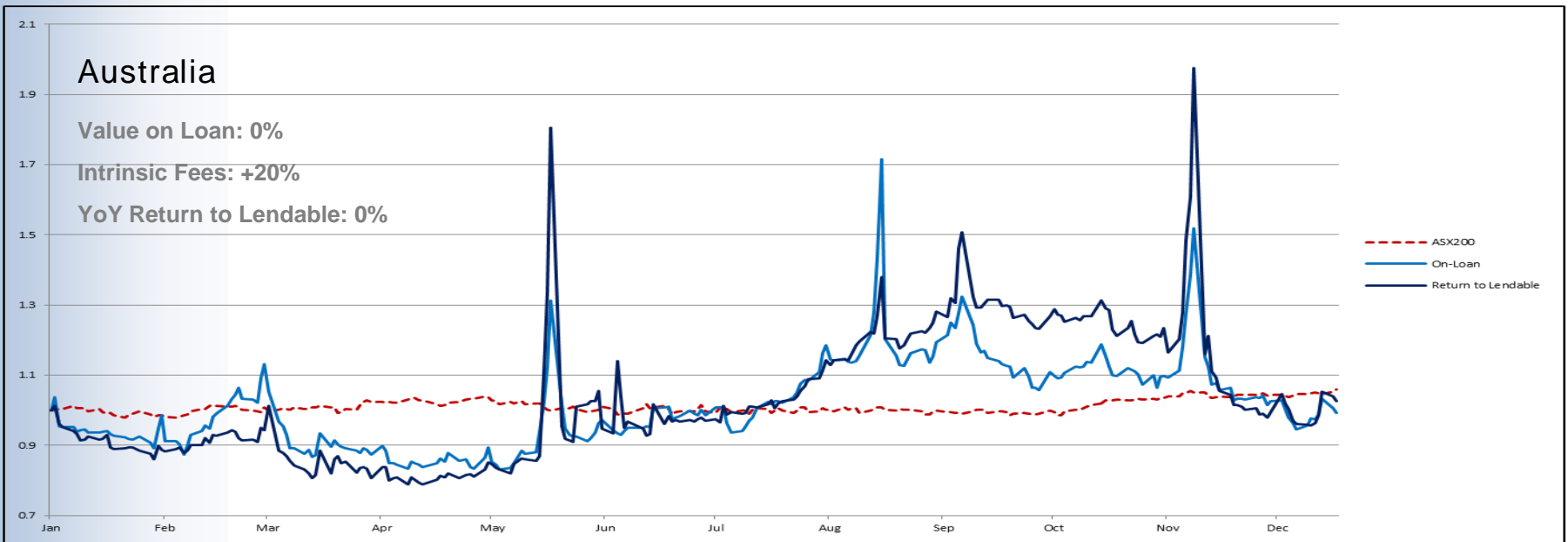
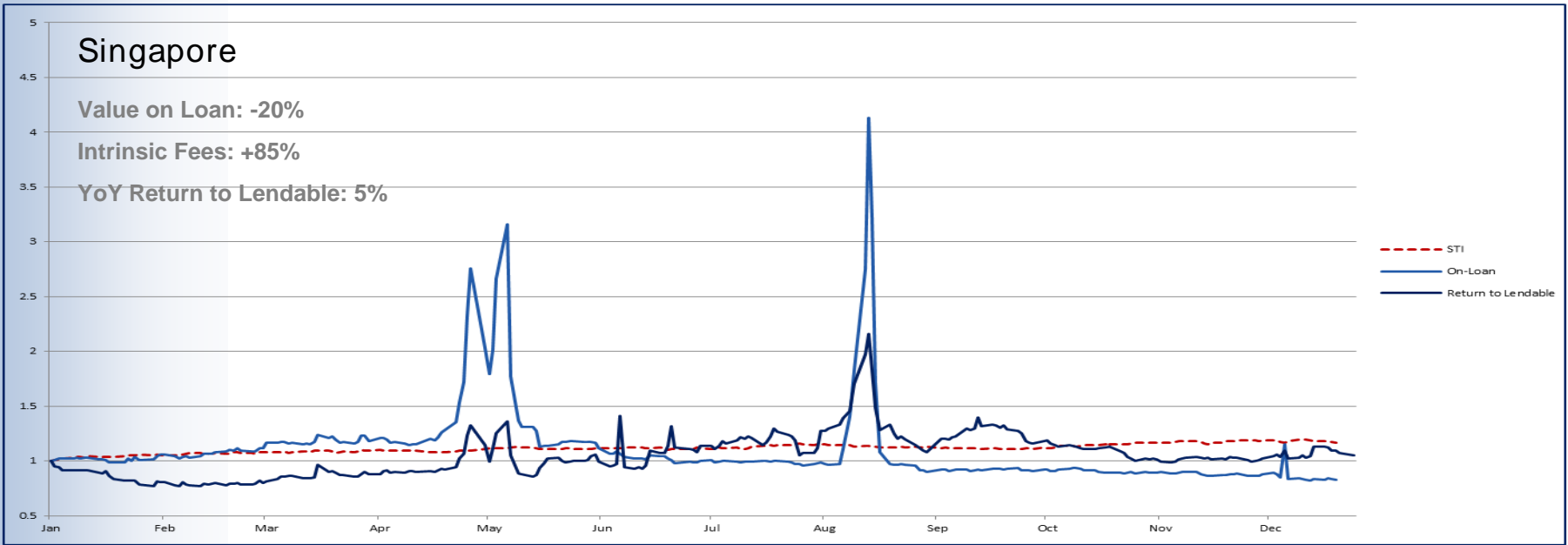
### The working group will continue to focus on a number of topics in 2018, including:

- Further liaison with TWSE on easing (or removal of) the short sell quota.
- Pre-sale borrow matching and/or recall delivery requirements.
- On-lending for financing and/or entity switching (Brexit implications).
- Corporate Action reforms (Rights issues, Tender offers, Retroactive Entitlements)
- Review of Local lending income tax and dividend tax requirements.

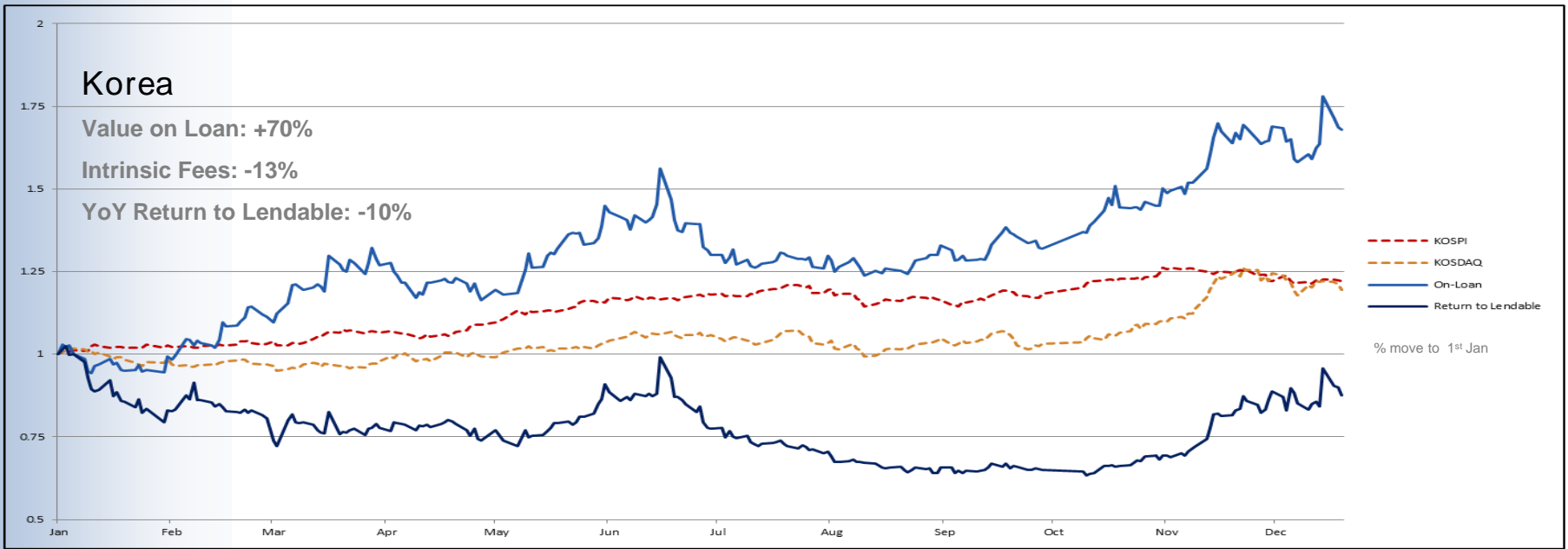
This list is not exhaustive and we continue to work in the best interests of the market and our stakeholders for a streamlined Taiwanese SBL market



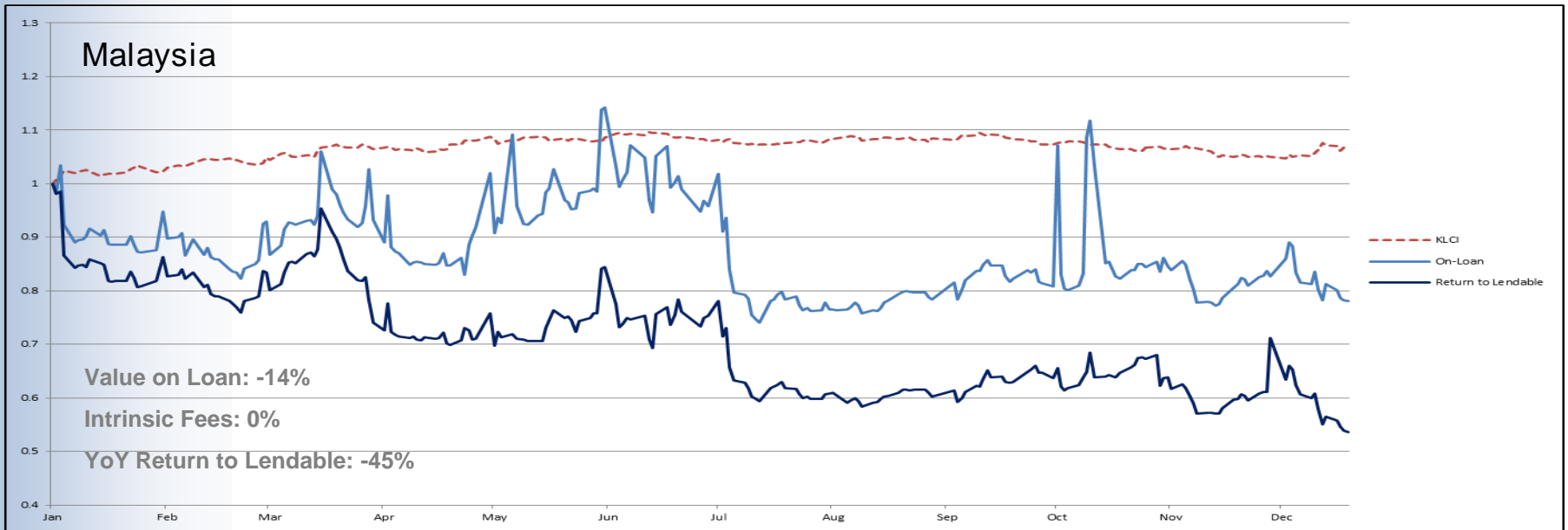
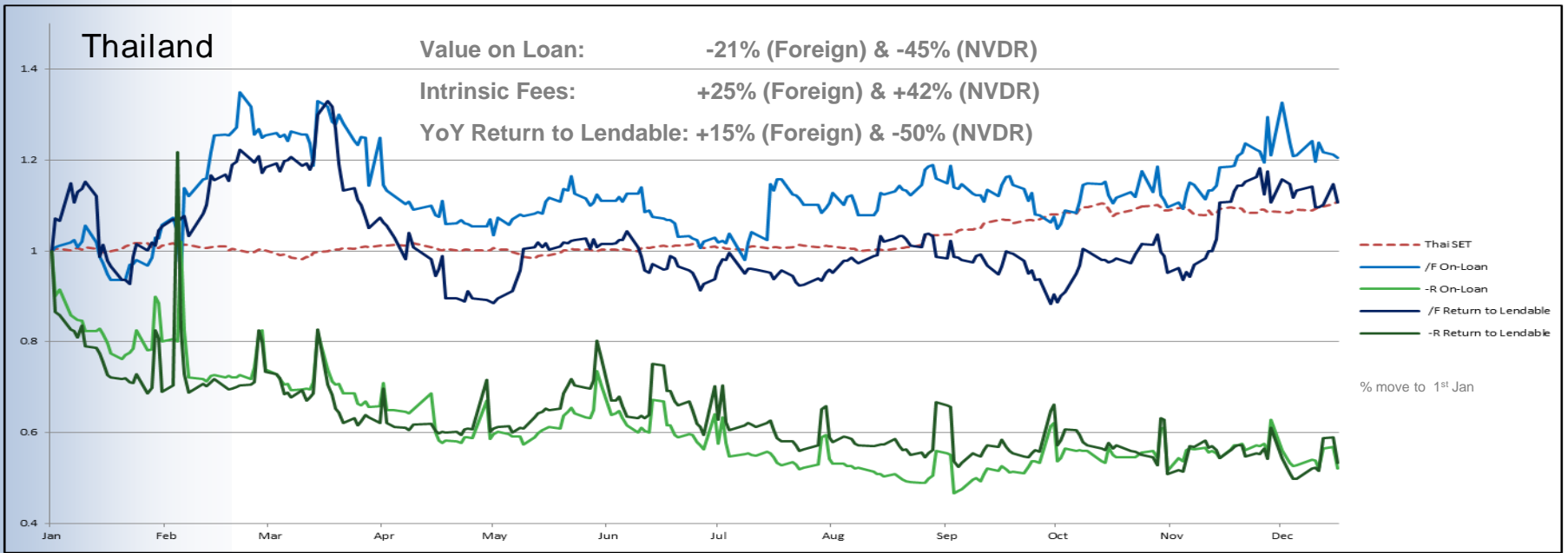
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