

Global & Local Custodians and Clearing & Settlement with IT system

Korea Securities Depository,
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Agenda

- Custodian in the Korean Securities market
- Legal framework
- Work with custodians in KSD's settlement system
- Current clearing and settlement system
- Tasks of custodians in SAFE+
- KSD as a custodian
- IT framework

Custodian in Korean securities market

- Custodian starts with institutional investors settlement since 1990 when KSD began institutional investors settlement
- In 1993, foreign investors were allowed to invest the all listed stocks by securities exchange act (in 1992, narrowly allowed)
 - Foreign investment registration
 - Standing proxy and custodian

History of KSD

37 years

(1975~2012)

23 years

(1990~2013)

July. Implemented 'CCP risk management system' for institutional investors stock transaction

2013

Jan. New settlement system for stock and bond began

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Sept. Agreement with KRX about the reformation of clearing and settlement in Korean stock market

2006

History:

25 brokerages requested separate settlement for institutional investors trade, originally traded by securities market stabilization fund

1994
1990

July, 1994 Cross-boarder Depository and settlement began

* July, 1993 legally permitted foreign direct investment by 3 steps Financial liberalization & Opening market plan

(1993~1997)

Dec. 1990 Institutional settlement began

1975

July Settlement (account transfer) began for stock traded on exchange

1962 Law on fostering Capital market

1972 Public corporation inducement LAW

1956 stock exchange with 12 listed companies

Custodian

- Legal obligation
 - Custodian is obligation,
 - Article 6-21 [Regulation on Financial Investment Business]
 - **Every foreigner shall deposit the securities**
- Most foreign standing proxies are custodian contracted with foreign investors at the same time
- Acquired domestic securities Safe keeping
- Qualification of Custodian
 - Korean Securities Depository
 - Foreign exchange bank
 - Securities company
 - Internationally acknowledged foreign custodian

Standing proxy

- No legal obligation
 - Standing proxy is optional
 - Article 6-22 [Regulation on Financial Investment Business]
 - **Every foreigner may appoint a depository**
- Trade order, settlement, corporate action
- All business relevant to stock transaction on behalf of foreign investors
- Qualification of Standing Proxy
 - Korean Securities Depository
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Article 6-21

[Regulation on Financial Investment Business]

- Article 6-21. (Safekeeping of Securities)

(1) Every foreigner shall deposit the securities that he/she acquires (excluding securities acquired or disposed of in accordance with Article 6-7 (1) 8 and 9 or bonds registered and issued without issuing certificates) in the Korea Securities Depository, a foreign exchange bank, an investment trader or broker, a collective investment business entity, or a foreign depository under Article 4-15 (2) (hereinafter referred to as "depository"): Provided, That the same shall not apply in cases where the securities are required for exercising a right to the securities or conducting an inspection for verifying the physical instruments.

(2) Every depository (Custodian) shall deposit the securities deposited by foreigners in accordance with paragraph (1) with the Korea Securities Depository (limited to securities, etc. to be deposited under Article 308 of the Act): Provided, That the same shall not apply in cases where it is deemed improper by the Governor of the Financial Supervisory Service because of a conflict with Acts and subordinate statutes of a specific foreigner's home country or due to any other reason.

(3) Every foreigner shall, when he/she intends to subscribe for stocks issued for rights issue, file a subscription application with the Korea Securities Depository through his/her regular agent (Standing proxy) or the investment trader or broker with whom he/she is dealing so that the Korea Depository can grasp the details of the subscription.

Article 6-22

[Regulation on Financial Investment Business]

Article 6-22. (Appointment of Regular Agent)

(1) Every foreigner may appoint a depository under Article 6-21 (1) as his/her regular agent in accordance with Article 188 (2) 1 (b) of the Decree, but shall not engage any person other than the regular agent so appointed to act as a representative or an agent for him/her in relation to the exercise of the rights to securities that he/she has acquired or any other matters relating to such rights: Provided, That the same shall not apply in cases where it is deemed unavoidable by the Governor of the Financial Supervisory Service because of a conflict with Acts and subordinate statutes of the foreigner's home country or due to any other reason.

(2) Every regular agent appointed in accordance with paragraph (1) shall exercise due care as a fiduciary for the relevant foreigner in good faith.

Market Big Picture

Accounts

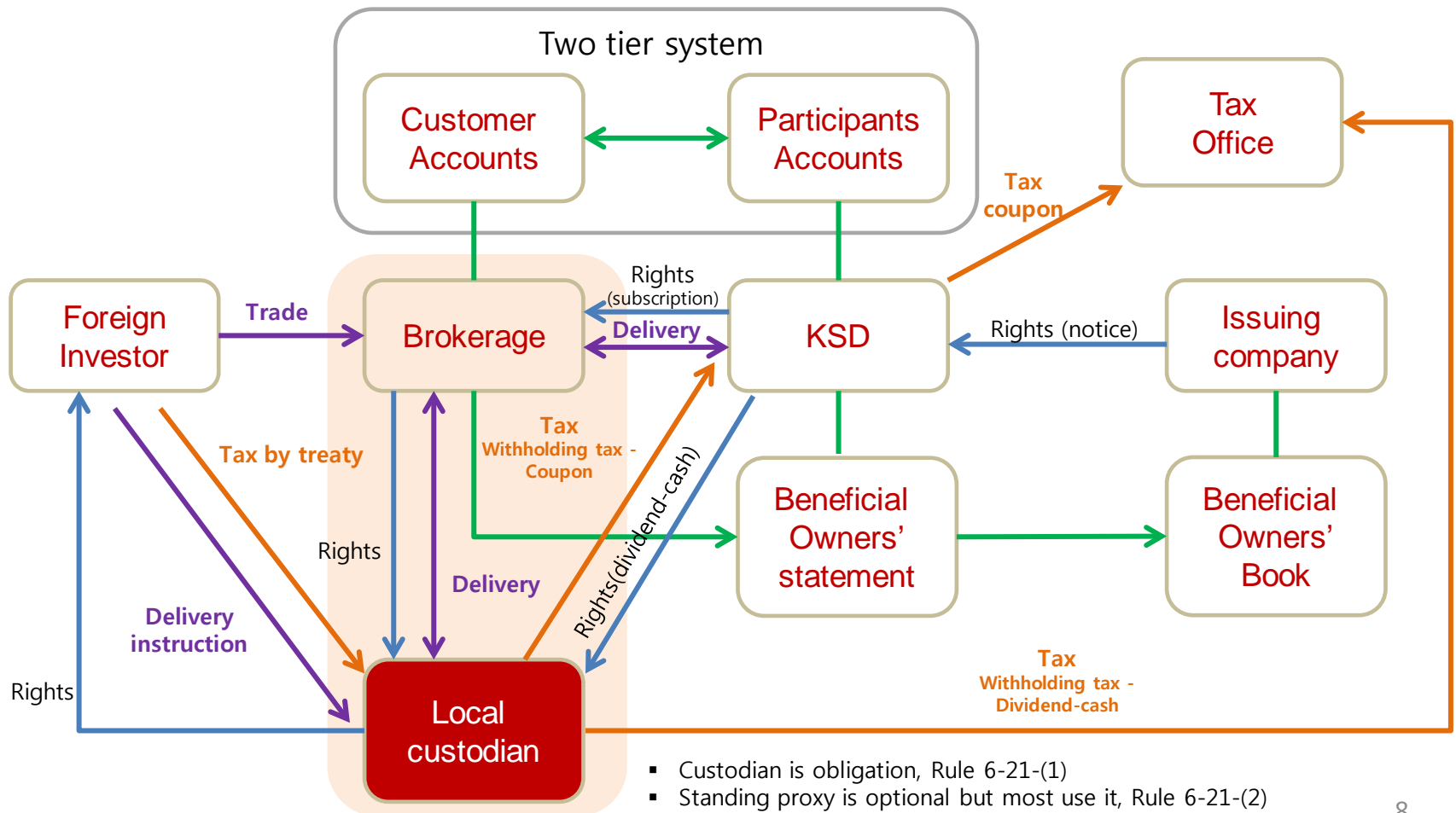
➤ Participants Accounts and Customer Accounts

Settlement

➤ Exchange & Institutional Settlement

Rights

➤ Beneficial Owners' system



- Custodian is obligation, Rule 6-21-(1)
- Standing proxy is optional but most use it, Rule 6-21-(2)
[Financial Investment Rule of Financial Services Commission]

Foreign Investment registration Certificate

- IRC, this is the number, registered in Financial Supervisory Services for foreign investors to trade, clear and settle

No.	Custody acct	Name of Custodian	IRC	Registered name of investor	Residence
1	1500-0000	Name of custodian	1000	Name of investors	USA
2	1500-0000		1003		UNITED KINGDOM
3	1500-0000		10036		BRITISH VIRGIN ISLAN
4	1500-0000		1004		UNITED KINGDOM
5	1500-0000		10072		UNITED STATES
6	1500-0000		10112		USA
7	1500-0000		10143		CAYMAN ISLANDS
8	1500-0000		10171		CAYMAN ISLANDS
9	1500-0000		1018		USA
10	1500-0000		10221		USA

- Source : KSD SAFE+, Institutional investors stock settlement system

Why we work with Brokerages ?

Trust banks & Local custodian included

■ Basic concept

- To reduce social cost & for investors convenience
- Therefore, KSD works with brokerages (exchange member) only and the brokerages work with individual or institutional investors

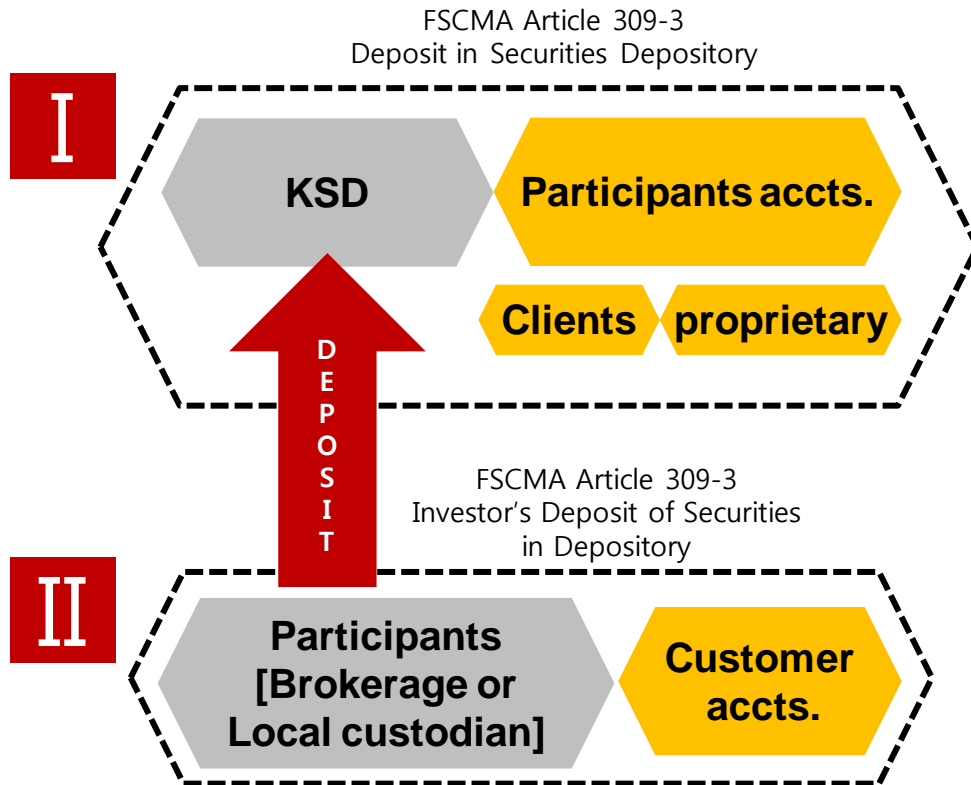
■ How we work with them ?

- Depository accounts system

① **Participants accounts** for brokerages in KSD Depository account

② **Clients & Proprietary accounts** of participants accounts

Account structure in KSD



Deposit Participants

- ❖ Securities Companies
- ❖ Banks
- ❖ Insurance Companies
- ❖ Future Companies
- ❖ Institutional Investors
- ❖ Foreign Depositories
- ❖ Those deemed appropriate by KSD

- KSD uses '**Participants accounts**' for securities keeping, settlement, shareholders' rights and etc.
- We call this trust-action as "**Deposit**"

Def. & Effects of participants accounts

- **Legal ledger** prepared by KSD and its participants to protect investor rights - Financial Investment Services and Capital Market Act, Article 311, 312

- **Legal Effects**
 - ① Presumption of Possession right
 - Accountholder is presumed to possess the quantity of shares in the respective account book **at the time of entry**

 - ② Delivery
 - **Book entry transfer** has the same effect as the delivery of physical certificates

 - ③ Rights against a third party
 - Trust of deposited securities can be created **against a third party** with the entry of trust property in the relevant account book

Roles of Deposit to participants accts.

Securities Keeping

Co-ownership

- KSD keeps all securities deposited in a mixed form according to the types and items (FSCMA Article 309-4)

Settlement

- KSD settles securities in each participants accounts
- Book-entry transfer means securities delivery

Right exercise

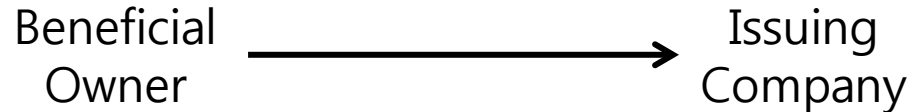
- KSD changes shareholder's name to **the name of KSD**
 - ❖ Commercial Law Article 337
- The shareholder's right is valid for the deposited securities at the time of designated day by issuing company

Corporate Action by beneficial owner

Voting right - Three types

- Beneficial owners can exercise their rights **directly**, or if they choose, **indirectly** through third party or KSD

Direct Voting



Proxy Voting by Third party

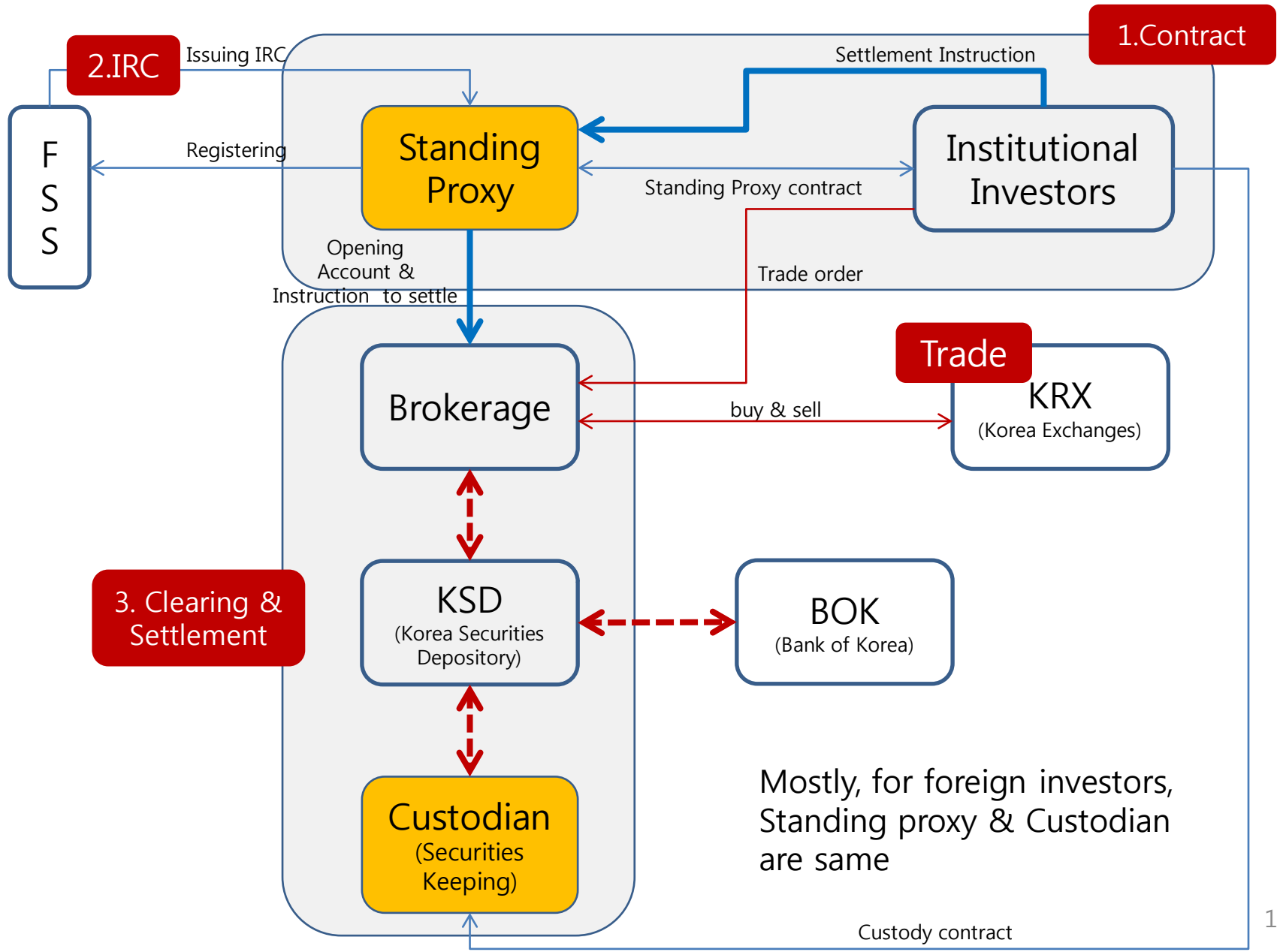


Proxy Voting by KSD



- The **foreign beneficial owners** may request **KSD via their local custodian** to exercise their voting rights as a shareholder
- KSD, then, exercises their rights **in KSD name** and submits the application lists of proxy voting to the issuing company.

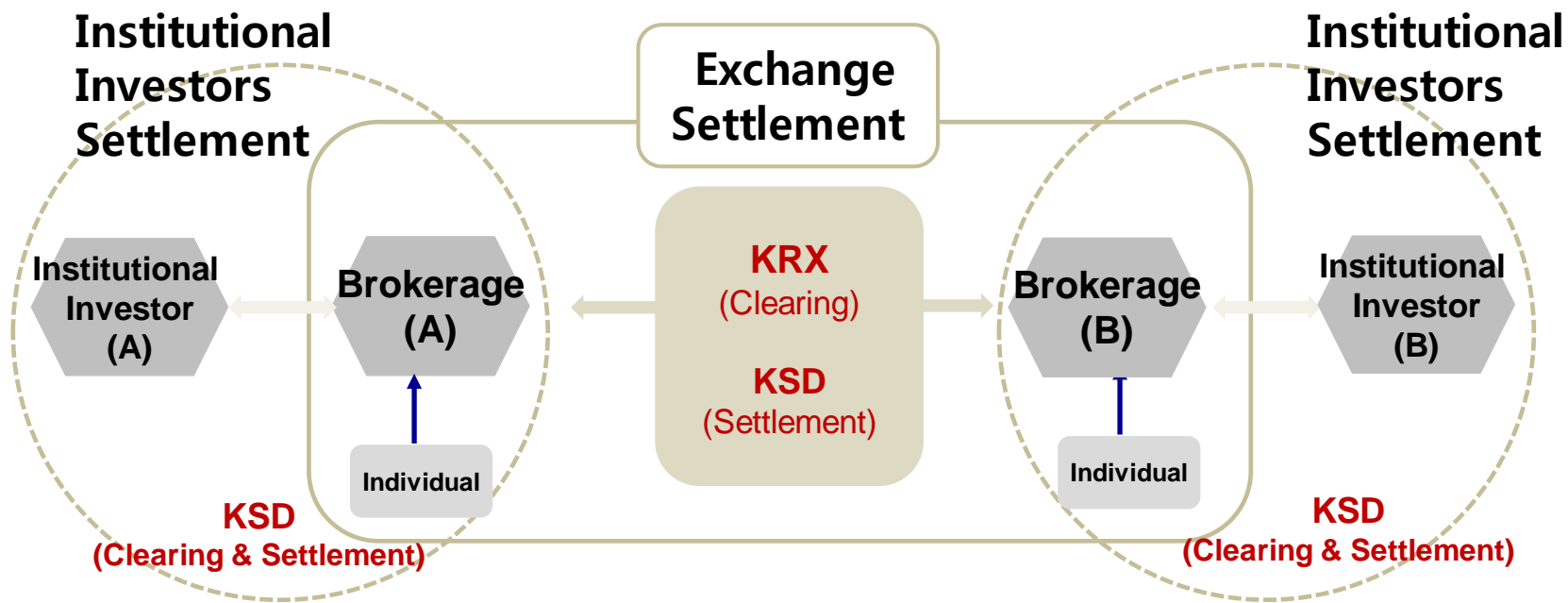
Custodian & Standing proxy for institutional investors transaction



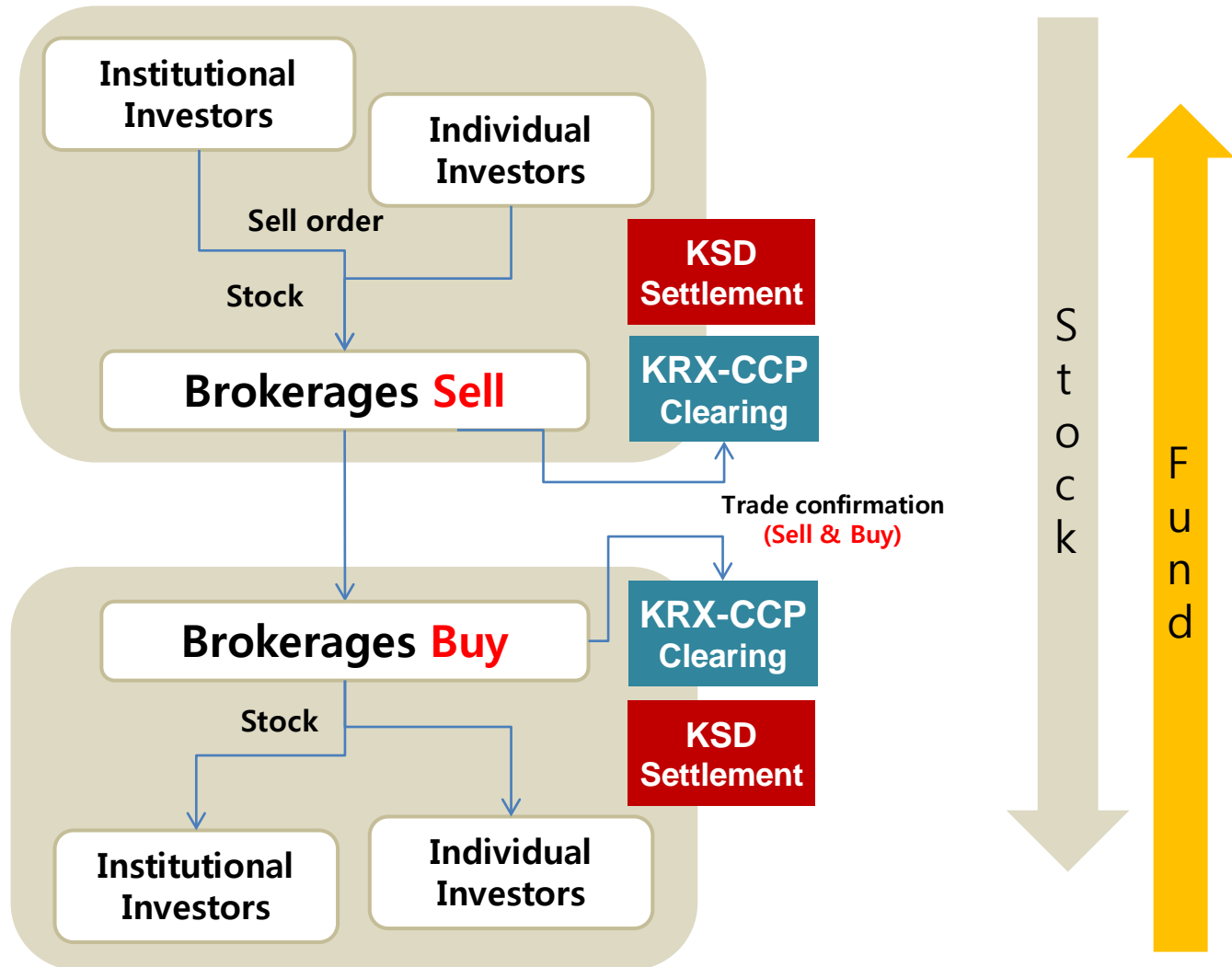
How it looks like?

Exchange & Institutional investors Settlement

Key : Market Compatibility

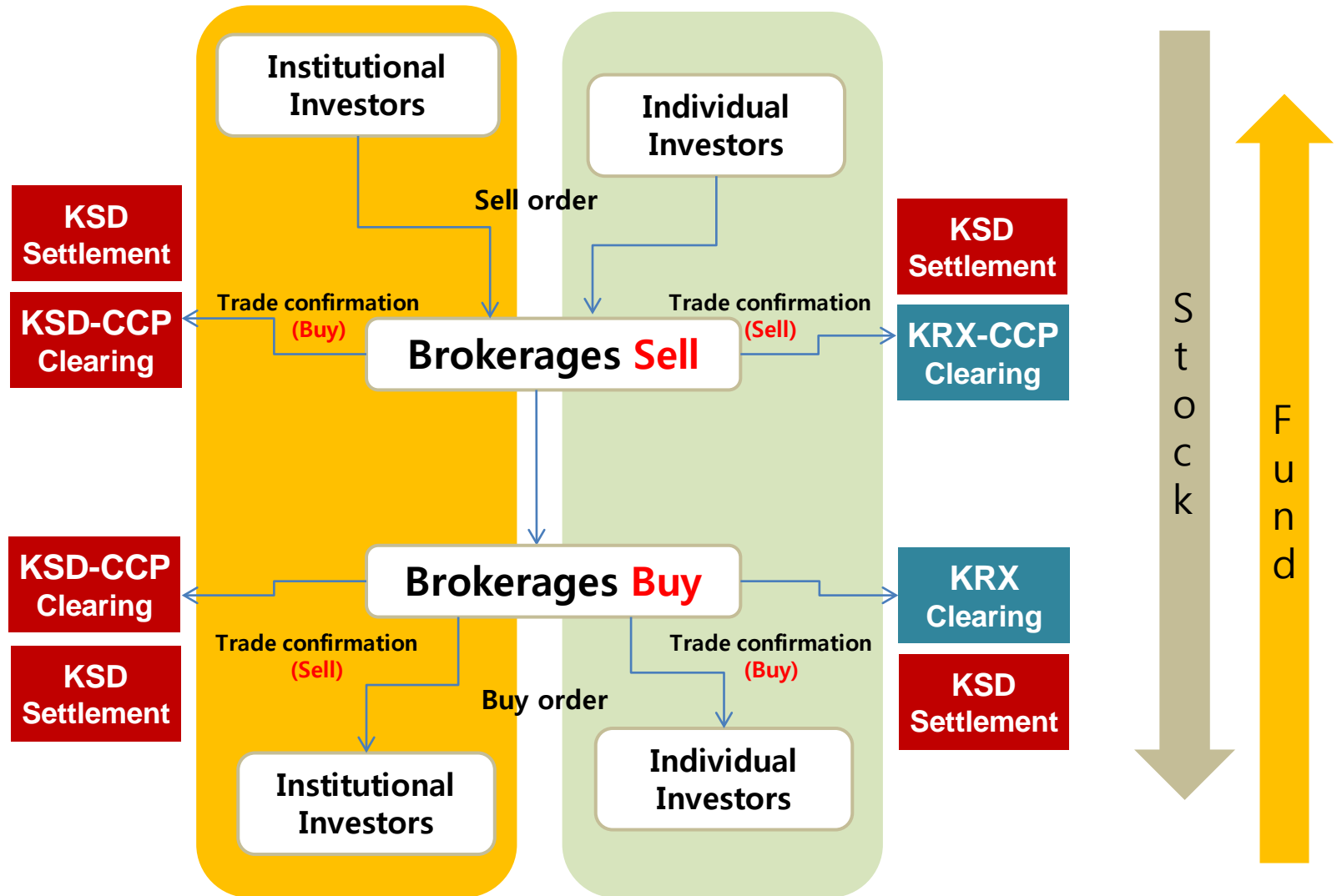


(Before) How it looked like?



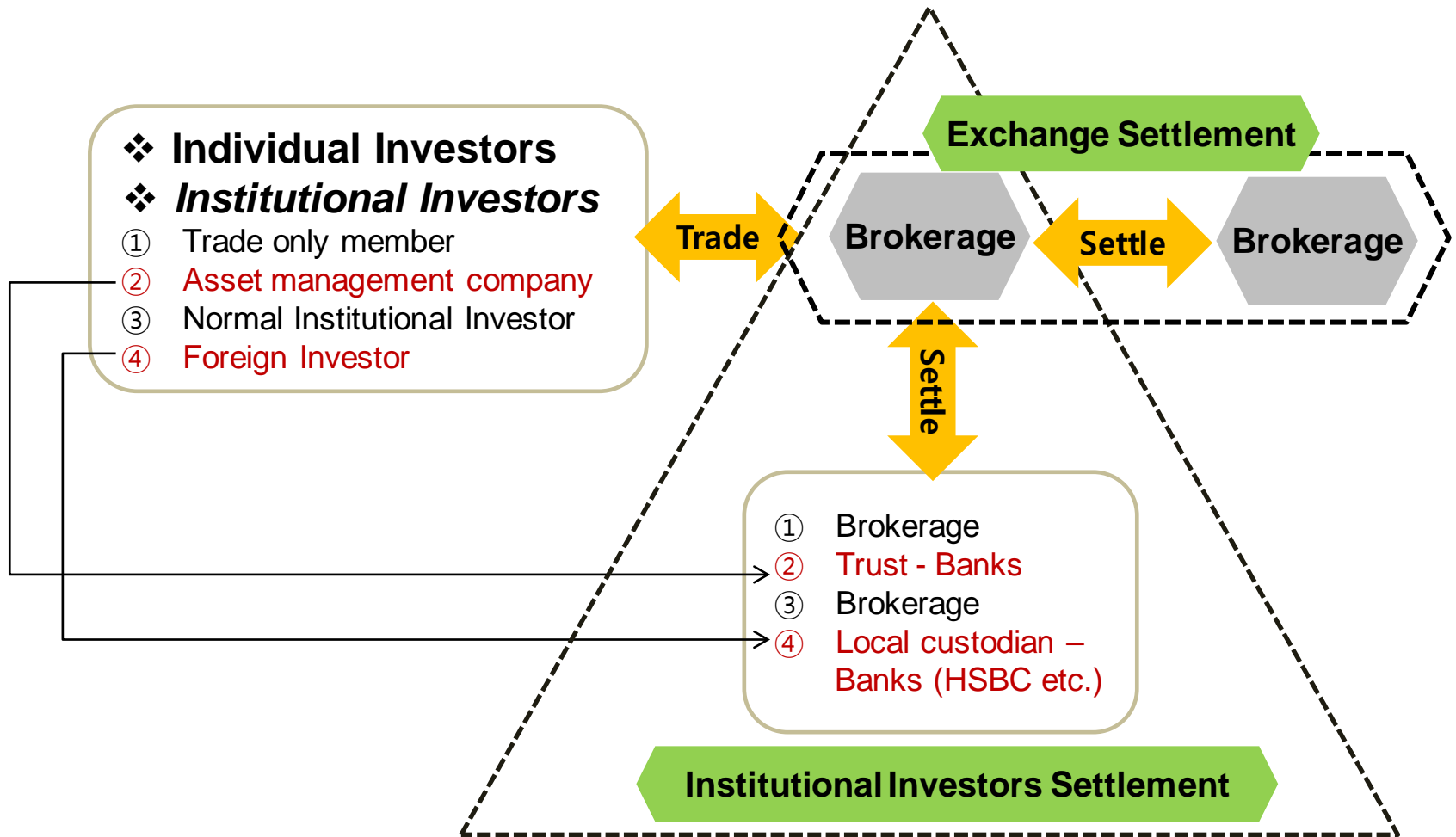
Before Dec.01 1990

(After) How it looks like?



Trade and Settlement

Institutional investors & Brokerages



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Legal Framework for CCP

Enforcement Decree of the Financial Investment Services and Capital Markets Act Addenda

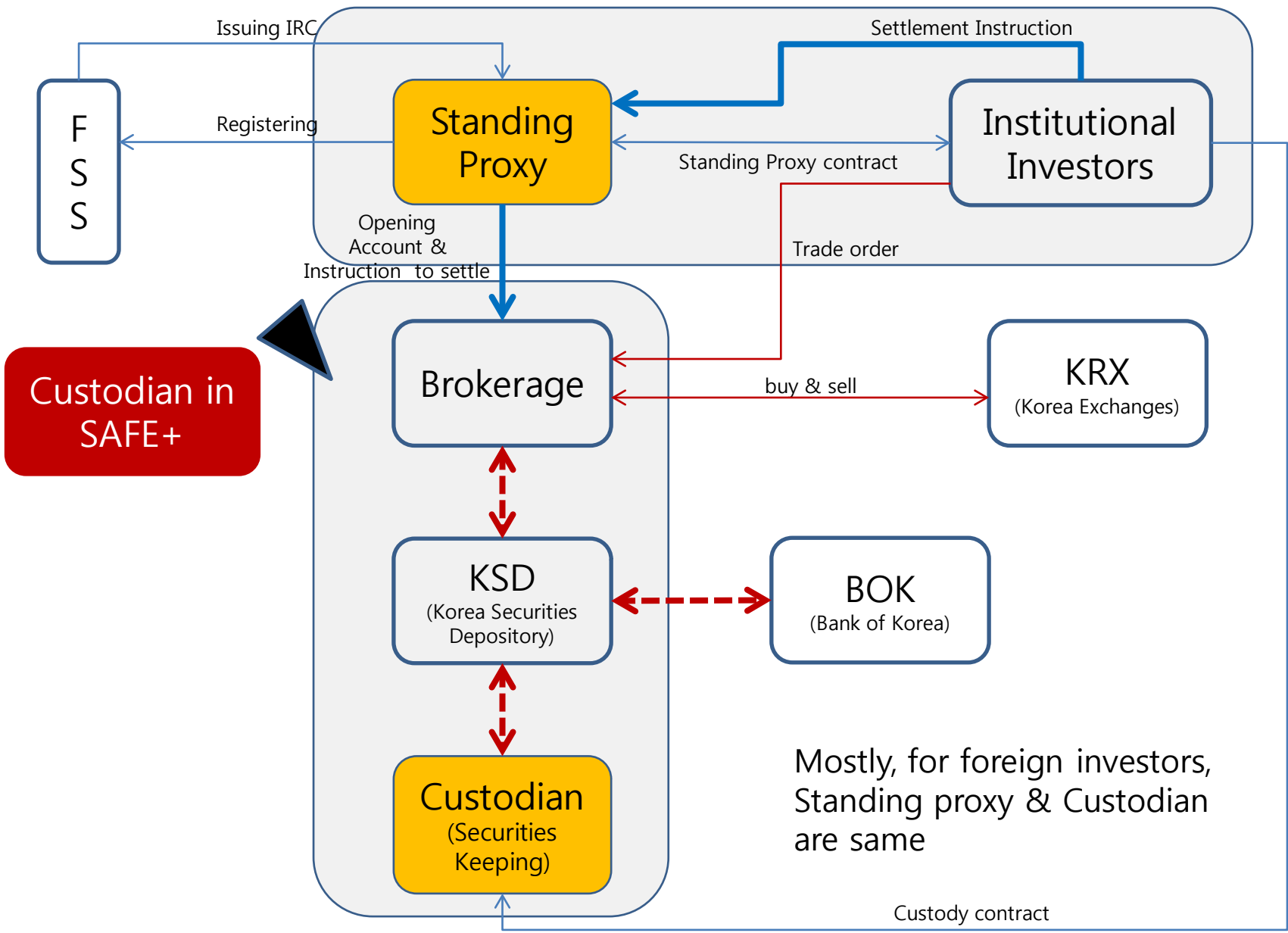
- **Article 1 (Enforcement Date)**

This Decree shall take effect on July 6, 2013.

- **Article 2 (Interim Measure on Clearing of
Consignment Transactions by KSD)**

① At the time this Decree enters into force, KSD, which has performed clearing activities for consignment transactions pursuant to the revised regulations stated in Article 14-2 (2) 3, is deemed to be licensed to clear financial investment products with respect to consignment transactions under the revised regulation in Article 14-2 (2) 3 in accordance to the revised regulation under Article 318 (2). Therefore, it shall meet the licensing requisitions specified in Article 323-3 (2) within three months of the enforcement date.

Custodian in SAFE+



The tasks of participant in SAFE+

① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫

증권예약 증권결제 국제발행/예약 증권대차 장외파생 선물대용 펀드설정판매 ETF 공통업무 증권정보 증권등록 SAFE지원

주식기관고객(보관기관)정보조회

참가자: 1520 - 0000 | 홍콩상하이은행[보관] | 적용일: 2012-10-18

보관기관정보내역

순번	보관기관계좌번호	보관기관명	외국인투자등록번호	등록명칭	거주지
1	1520-0000	홍콩상하이은행[보관]	1	THE	D-KC LUXEMBOURG
2	1520-0000	홍콩상하이은행[보관]	1000	MOR	ENT U.S.A.
3	1520-0000	홍콩상하이은행[보관]	10003	CER	AUSTRALIA
4	1520-0000	홍콩상하이은행[보관]	10019	EMP	AN C U.S.A.
5	1520-0000	홍콩상하이은행[보관]	10020		A.
6	1520-0000	홍콩상하이은행[보관]	10031		A
7	1520-0000	홍콩상하이은행[보관]	10033		A
8	1520-0000	홍콩상하이은행[보관]	10034		MURITIUS
9	1520-0000	홍콩상하이은행[보관]	10043		GAPORE
10	1520-0000	홍콩상하이은행[보관]	10058		ITED KINGDOM
11	1520-0000	홍콩상하이은행[보관]	1006	THO	FRANCE
12	1520-0000	홍콩상하이은행[보관]	10061	BAN	N DE UNITED KINGDOM
13	1520-0000	홍콩상하이은행[보관]	10064	DEX	LUXEMBOURG
14	1520-0000	홍콩상하이은행[보관]	10072	THE	UBLI U.S.A.
15	1520-0000	홍콩상하이은행[보관]	1008	SCER	ND CA
16	1520-0000	홍콩상하이은행[보관]	10084	BOW	ETIRE U.S.A.
17	1520-0000	홍콩상하이은행[보관]	10088	BIH	SWITZERLAND
18	1520-0000	홍콩상하이은행[보관]	10093	DEV	TY FI JAPAN
19	1520-0000	홍콩상하이은행[보관]	101	GAM	IC BRITISH VIRGIN ISL
20	1520-0000	홍콩상하이은행[보관]	10133	NOR	COM U.S.A.
21	1520-0000	홍콩상하이은행[보관]	10134	VAL	ON I U.S.A.
22	1520-0000	홍콩상하이은행[보관]	10136	ABER	FUNI U.S.A.
23	1520-0000	홍콩상하이은행[보관]	10137	CON	BANH GERMANY
24	1520-0000	홍콩상하이은행[보관]	10138	NEW	CE LL U.S.A.
25	1520-0000	홍콩상하이은행[보관]	10161	FIDE	Y FU CANADA
26	1520-0000	홍콩상하이은행[보관]	10167	GRE	U.S.A.
27	1520-0000	홍콩상하이은행[보관]	10168	GRE	U.S.A.
28	1520-0000	홍콩상하이은행[보관]	10169	THE	WLE U.S.A.
29	1520-0000	홍콩상하이은행[보관]	10170	IMPE	NATI CANADA

HSBC (custodian)

Foreign investors

❖ Tasks of custodian

- ① Securities Deposit
- ② Securities settlement
- ③ International issue/deposit
- ④ Securities SLB
- ⑤ OTC Derivatives
- ⑥ Futures collateral
- ⑦ Fund set-repurchase
- ⑧ ETF
- ⑨ Common task
- ⑩ Securities information
- ⑪ Securities registrar
- ⑫ SAFE support

The inside of SAFE+

Institutional investor settlement process in SAFE+

Trust bank & custodian

Brokerage

Citi bank (Custodian)

Transaction details

Brokerages

HSBC (Custodian)

순번	기관고객결제계정명	증권회사결제계정명	증권사부대	납부원료	입부원료	증권수령대상	수령원료	수령미원료	결제상태	실미납건수	실미수령건수
2967	(주)한국비티은행(보관)	미래에셋증권				1	0	1	결제미완료	0	1
2968	(주)한국비티은행(보관)	키움증권				0	0	0	결제완료	0	0
2969	(주)한국비티은행(보관)	노무라금융투자	29	29	0	11	0	11	결제미완료	0	11
2970	(주)한국비티은행(보관)	하나대우증권	1	1	0	3	0	3	결제미완료	0	3
2971	(주)한국비티은행(보관)	도이치증권	6	6	0	2	0	2	결제미완료	0	2
2972	(주)한국비티은행(보관)	KTB투자증권	1	1	0	0	0	0	결제완료	0	0
2973	(주)한국비티은행(보관)	한국스탠다드차타드증권	0	0	0	0	0	0	결제완료	0	0
2974	(주)한국비티은행(보관)	비에스투자증권	2	9	0	10	7	3	결제미완료	0	3
2975	(주)한국비티은행(보관)	다이와증권캐피탈마켓코리아주				0	0	2	결제미완료	0	2
2976	(주)한국비티은행(보관)	비엔피파리바증권				0	0	14	결제미완료	0	14
2977	홍콩상하이은행(보관)	신한금융투자	1	1	0	1	0	1	결제미완료	0	1
2978	홍콩상하이은행(보관)	한국투자증권	54	54	0	53	1	52	결제미완료	0	52
2979	홍콩상하이은행(보관)	대신증권	4	4	0	7	0	7	결제미완료	0	7
2980	홍콩상하이은행(보관)	대우증권	11	11	0	113	0	113	결제미완료	0	113
2981	홍콩상하이은행(보관)	우리투자증권	68	68	0	99	3	96	결제미완료	0	96
2982	홍콩상하이은행(보관)	현대증권	13	13	0	31	0	31	결제미완료	0	31
2983	홍콩상하이은행(보관)	전원투자증권	1	1	0	0	0	0	결제완료	0	0
2984	홍콩상하이은행(보관)	동양증권	4	4	0	2	0	2	결제미완료	0	2
2985	홍콩상하이은행(보관)	삼성증권	84	84	0	62	0	62	결제미완료	0	62
합계				66	50,865	2,708	48,157	501	45,121		

총 3790 건

○ 대체실명서면(16:10)까지 대체실명된 모든 건이 대체완료되면 결제상태는 '결제완료'로 표시됩니다.
 ○ 대체실명서면(16:10)까지 대체실명되지 않은 건은 미결제현황 탭에서 조회 가능합니다.

Fund payment in BOK-wire+

Institutional fund settlement in BOK-wire+

The screenshot shows the BOK-Wire+ web interface. The top navigation bar includes '수신', '증권', '여신', '국제금융', '결제리스크', and '공통'. The main content area is titled '장내주식시장 대금결제정보 조회'. A search filter shows '결제일자' as '2011-10-04'. Below the search bar, there is a table with columns: '번호', '정보구분', '매매일자', '결제일자', '결제회원명', '결제회원거래소코드', '결제회원BOK코드', and '결제회원'. The text 'Institutional Fund settlement request' is overlaid on the table area. A red dashed box highlights the '장내주식시장 대금결제정보 조회' menu item in the left sidebar. Another red dashed box highlights the 'Institutional Fund settlement request' text. The bottom status bar shows '승인요청' (0건/0건), '알림', '우리은행', '차장', 'DSHBPC15', and the date/time '2011-10-05 10:03:19'.

The tasks of custodian in clearing & settlement

- Settlement confirmation (T+1)_clearing
 - Roll over for settlement confirmation until T+2, 10:30
 - Undelivered instruction, mostly from Europe
- Stock delivery and Settlement fund payment (S, T+2)
 - Stock delivery: Intraday from 9:00 AM to 4:10 PM
 - Fund payment: From 4:10 to 4:50PM
 - Instruction
- Settlement facilitation payment (S, T+2)
 - Intraday at the moment when Surplus value less than 0

Risk & Collateral management

- Default fund : 50 Bill KRW
- Deposit & Settlement reserve: 300 Bill KRW
- Credit-Line: 200 Bill KRW
- Net debit cap: Maximum 100 Bill KRW
- Hair cut : 30%
- Surplus value
- Credit and Market VaR
- Stress and scenario test

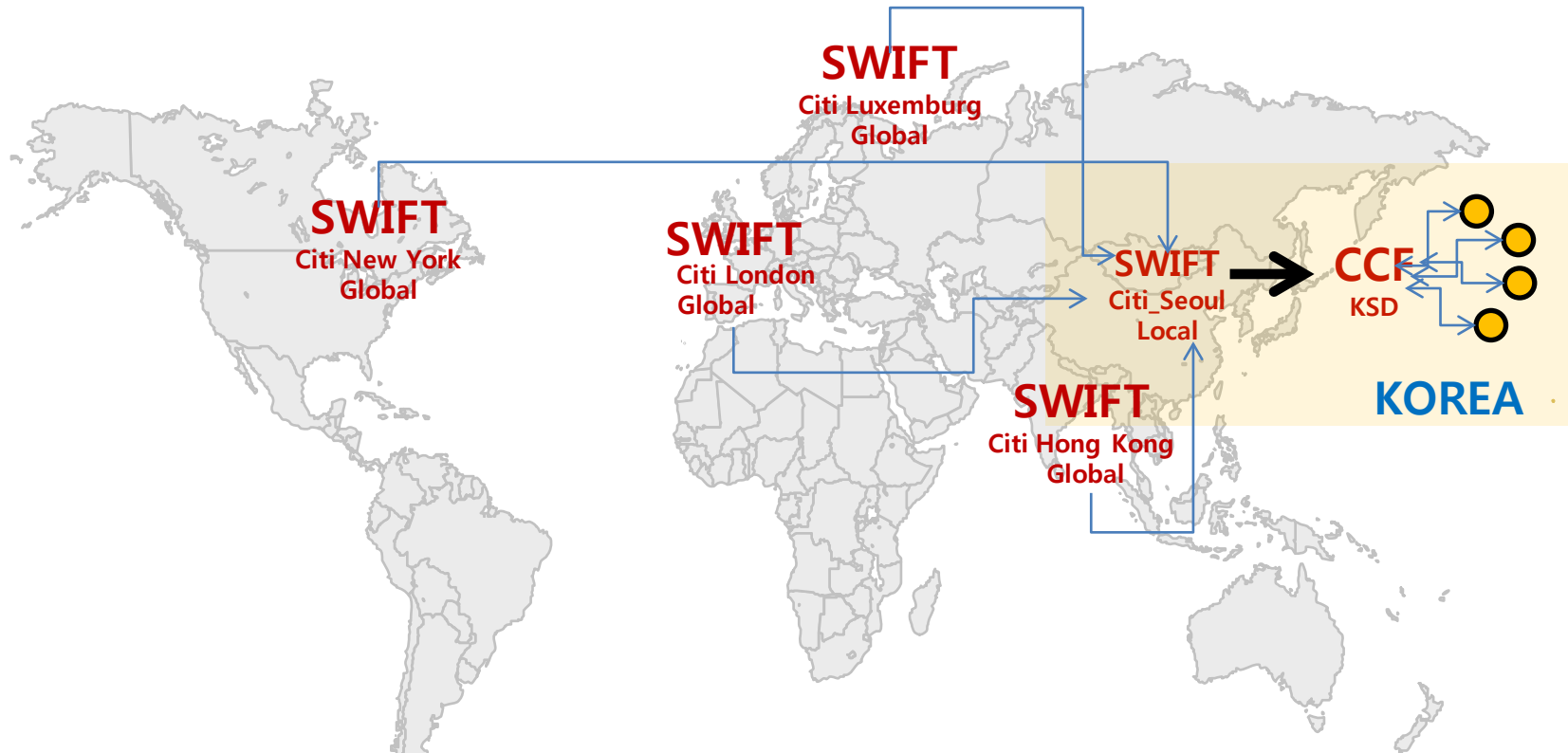
KSD as a Custodian

- KSD Local Custody Service (since 1998)
 - Custody services: securities and cash account opening and management, settlement and balance reports
 - Standing proxy Services: exercise of voting rights and dividend distribution, reports to the regulator, investment registration to FSS etc.
- Unique model that CSD functions as a local custodian by 'disintermediation' for cross border investment.
 - Mostly, use global custodian and local custodian

Models for foreign Investors' Securities custody

- **Global custodian –Local custodian model**
 - via (SWIFT) global and local custodian (CCF:CSD)
 - IRC in the name of investor
 - Trade focus, corporation act, **FX, Fund settlement**
- **Direct custody model**
 - via (Email, Fax)KSD (**issue: banking**): ex) long-term debt safekeeping, government bond pledge, SLB etc.
 - IRC in the name of investor
- **ICSD custody model**
 - via (SWIFT) ICSD and KSD (Omnibus account)
 - IRC in the name of ICSD

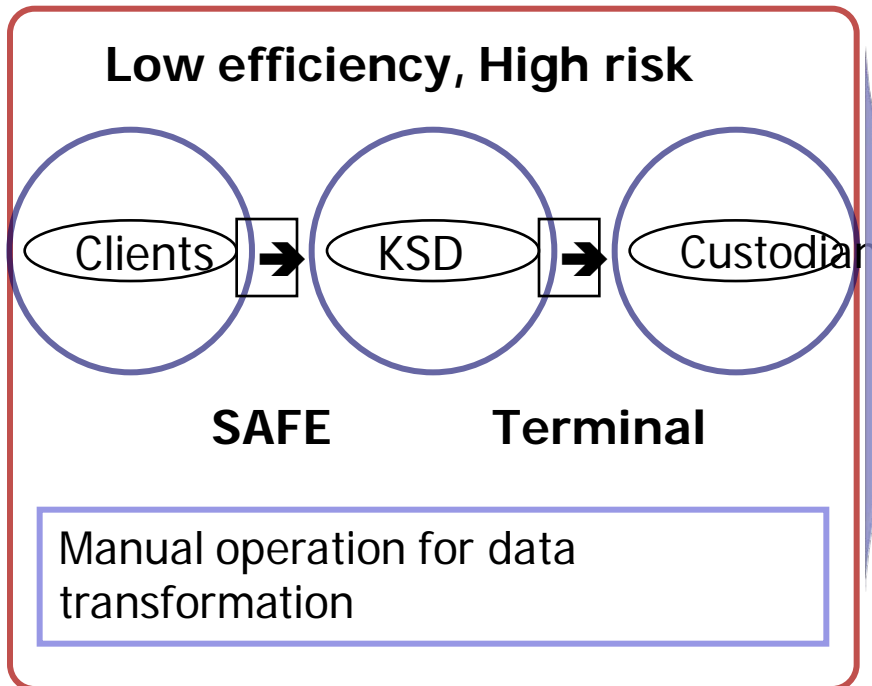
Global Custodian and Local custodian



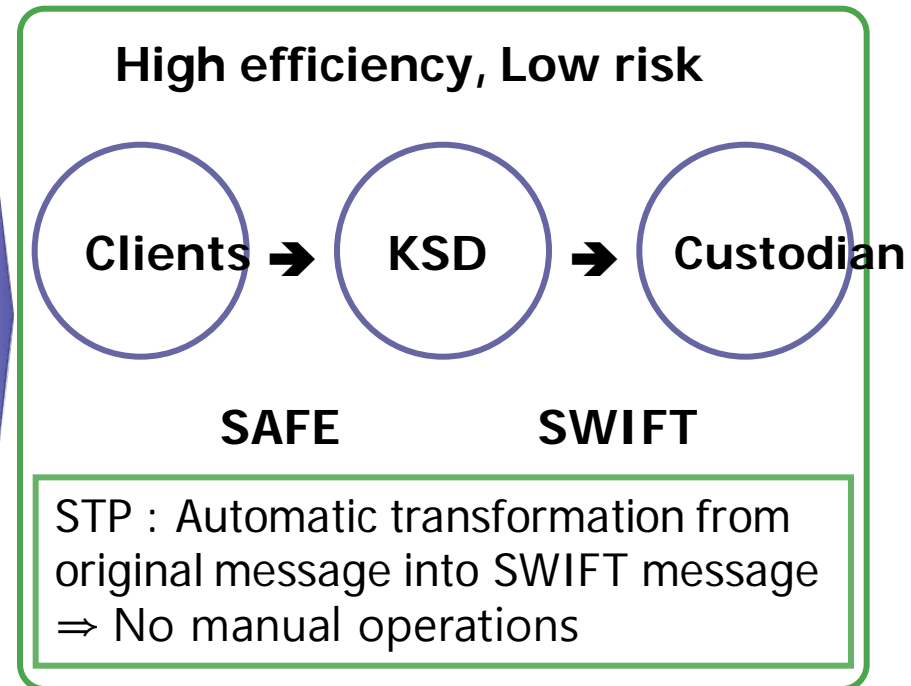
STP in KSD

- **Why** Increase in settlement volume → Time demanding for input data
Inefficiency of manual operations → Higher operational risk
- **Principle** : No manual operations with automated SWIFT message
Connection between KSD IT system and custodian IT system

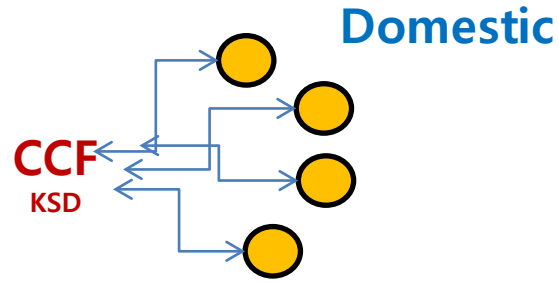
Before STP



After STP



Example



Lay-out definition

Categories	Value
Electronic code	SS03OS0918
Electronic name	Exchange Trade settlement
Message	Online sending(KSD→KRX)
Standard layout	RDR118
Total length	200
receipt Ptask	ksd.safe.bss.mkst.cmm.process.KrxRecvPTask
receipt Action	sendKrxCcf
Counterparty	KRX
taks peiod	daily
taks hour	09:00~19:00
IT manager	****
BIZ manager	****

KSD → KRX
Consent of
Electronic document messaging

Lay-out definition

Message list

MT 564 Corporate Action Notification

MT 564 Scope

This message is sent by an account servicer (account servicing institution) to an account owner or its designated agent. Th institution or a broker/dealer.

This message is used to provide an account owner with the details of a corporate action event along with the possible elect information.

This message will also be used to provide the account owner with details of the impact a corporate action event will have or

This message may also be used to provide the account owner with a preliminary advise of upcoming postings or reversal c

This message may also be sent by an information provider, such as a market data provider or a stock exchange, to provide

This message may also be used to:

- request the cancellation of a previously sent corporate action notification
- re-send a corporate action notification previously sent
- provide a third party with a copy of the message.

MT 564 Format Specifications

Status	Tag	Qualifier	Generic Field Name
Mandatory Sequence A General Information			
M	16R		
O	28E		
----->			
M	20C	4!c	Reference

M	23G		
----->			
M	22F	4!c	Indicator

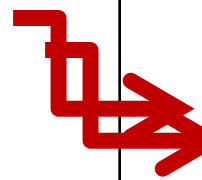
O	98a	PREP	Date/Time
M	25D	PROC	Status Code
-----> Optional Repetitive Subsequence A1 Linkages			
M	16R		
O	22F	LINK	Indicator
O	13a	LINK	Number Identification
M	20C	4!c	Reference
M	16S		
----- End of Subsequence A1 Linkages			
M	16S		
End of Sequence A General Information			

Index of Messages

- 1**
- MT 101 Request for Transfer
 - MT 102 Multiple Customer Credit Transfer
 - MT 102+ Multiple Customer Credit Transfer
 - MT 103 Single Customer Credit Transfer
 - MT 103+ Single Customer Credit Transfer
 - MT 104 Direct Debit and Request for Debit Transfer Message
 - MT 105 EDIFACT Envelope
 - MT 107 General Direct Debit Message
 - MT 110 Advice of Cheque(s)
 - MT 111 Request for Stop Payment of a Cheque
 - MT 112 Status of a Request for Stop Payment of a Cheque
 - MT 190 Advice of Charges, Interest and Other Adjustments
 - MT 191 Request for Payment of Charges, Interest and Other Expenses
 - MT 192 Request for Cancellation
 - MT 195 Queries
 - MT 196 Answers
 - MT 198 Proprietary Message
 - MT 199 Free Format Message
- 2**



- MT 547 Deliver Against Payment Confirmation
- MT 548 Settlement Status and Processing Advice
- MT 549 Request for Statement/Status Advice
- MT 558 Triparty Collateral Status and Processing Advice
- MT 559 Paying Agent's Claim
- MT 564 Corporate Action Notification**
- MT 565 Corporate Action Instruction
- MT 566 Corporate Action Confirmation
- MT 567 Corporate Action Status and Processing Advice
- MT 568 Corporate Action Narrative



- 3**
- MT 296 Answers
 - MT 298 Proprietary Message
 - MT 299 Free Format Message



```
Appl/Serv = SWIFT Interface
RP & Ft = _SI_from_SWIFT
Date/Time = 21/12/11 07:06:33
Text =
Block 4:
:16R:GENL
:20C::CORP//39134800172
:20C::SEME//39135404047/001
:23G:REPE
:22F::CAEV//DVOP
:22F::CAMV//CHOS
:98C::PREP//20111221004858
:25D::PROC//COMP
:16R:LINK
:13A::LINK//564
:20C::PREV//HK1134800173
:16S:LINK
:16S:GENL
:16R:USECU
:35B:ISIN US02082E1064
ALPINE GLOBAL DYNA
COM STK NPV
:16R:FIA
:94B::PLIS//EXCH/XNYS
:16S:FIA
:16R:ACCTINFO
:97A::SAFE//1461850000
:93B::ELIG//UNIT/394,
:93B::INBA//UNIT/0,
:93B::UNBA//UNIT/394,
:16S:ACCTINFO
:16S:USECU
:16R:CADETL
:98A::RDTE//20111223
:98A::XDTE//20111221
:22F::DIVI//INTE
:16S:CADETL
:16R:CAOPTN
```

Message Data
Corporate Action

**Message
parcing**

**KSD
DB Server**



SAFE+
KSD system

T H E
E N D
T H A N K Y O U