

KSD CHAIRMAN AND CEO URGES CSDs TO WORK TOGETHER TO SOLVE COMMON PROBLEMS

Mr. Lee Byungrhae, chairman and CEO of the Korea Securities Depository (KSD), will in December this year celebrate 12 months at the helm of one of the most dynamic and innovative central securities depositories (CSDs) in the Asia-Pacific region. Having assumed the leadership of the Asia-Pacific Central Securities Depository Group (ACG) in March, and the World Forum of CSDs (WFC) this month, Mr. Lee has now added to his perspective a panoramic view of the development of securities and fund market infrastructures throughout Asia. Adaptation, co-operation and collaboration, he says, remain the keys to the continuing development of the services of the CSDs of the region.

MI Forum: As executive committee chairman of the Asia Pacific Central Securities Depository Group (ACG), could you share with us what you regard as the most important projects currently being undertaken by the ACG?

Mr. Lee: The ACG hosted the Executive Committee (EC) Meeting, Task Force sessions, Senior Management Meeting, and the General Meeting in Hong Kong on 14 November, the day before the WFC opened. On the agenda this year were the introduction of a new position of vice-chairman, measures to put the funding of the ACG on a sounder footing, and a review of the medium-term plan of the ACG.

MI Forum: Why is the ACG EC vice-chairman role so important?

Mr. Lee: The introduction and nomination of the first ACG EC vice-chairman will provide a more balanced representation of the CSDs in the region, and so make participation in the organisation more inclusive. It will also ensure continuity of leadership, because the vice-chairman can act on behalf of the chairman in the event of his absence or unavailability. The vice-chairman will also enhance the efficiency of the EC by supporting and assisting the chairman, especially in sharing the burden of activities external to the ACG itself.

MI Forum: What are the objectives of the proposed changes to the funding of the ACG?

Mr. Lee: A more systematic approach to funding will help the ACG develop a richer programme of activities and events. At present the ACG does not collect membership fees. Instead, administrative expenses are absorbed on a voluntary basis by EC members. Until now, the costs of the ACG General Meetings and Cross Training Seminars (CTS) have been funded by the host organisations. The issue of membership fees has come up repeatedly in recent years, and systematic and transparent funding will enable us to plan ahead more effectively.

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MI Forum: Tell us more about the next three-year plan.

Mr. Lee: The principal objectives of the ACG are to develop the securities markets of the Asia-Pacific region, encourage local markets to adopt best practices, and to promote efficiency and cost-effectiveness in clearing, settlement and depository services. The ACG fulfils that remit by facilitating the exchange of information and promoting mutual assistance among members. The purpose of the three-year planning cycle is to re-visit regularly what the ACG is doing to fulfil its *raison d'être*. The ideas in the plan for the next three years include structural changes to improve the balance of regional representation within the Group, to strengthen the various Task Forces by setting defined end-goals, and to stimulate a richer programme of activities and events through financial incentives and the greater utilisation of social media. However, all decisions are ultimately made not by the EC, but by the members of the ACG at the General Meeting.

MI Forum: How would you characterise your approach to leading the ACG during your chairmanship?

Mr. Lee: The ACG must constantly adapt to an evolving environment to provide effective support to its members, so they can meet the demands of their respective markets. The plan is to re-consider the current organisation of the ACG, think about our activities on a larger scale, and explore and cultivate global alliances, while continuing to build on its strengths.

MI Forum: What concrete proposals do you have in mind?

Mr. Lee: We have three principal ideas. The first is the enhancement of ACG programmes. We aim to expand the horizons of the Cross-Training Seminars (CTSs). In addition to their key purpose - sharing business operations experience between members - we would like to use the CTSs to support the acquisition by our members

of a broader knowledge of global securities markets. We intend, for example, to include a themed session with speakers from other regional associations. We hope also to introduce a Member Matching Training Programme (MMTP), in which we will provide one-to-one or collective training programmes and workshops tailored to the demands and availability of members as they develop their businesses. Our second idea is to give consideration to the formation of a special contribution fund. The plan is to solicit voluntary contributions which can be used to support MMTP and other ACG activities. Thirdly, we want to expand the role of the ACG in international organisations, such as the WFC. By taking a more active role internationally, we believe we can not only increase the involvement of Asia-Pacific CSDs in international projects, but ensure that the interests of the Asia-Pacific region are reflected in global initiatives.

MI Forum: What progress are Asian CSDs making on implementation of the CPMI-IOSCO principles for financial market infrastructures?

Mr. Lee: Since the announcement of the 24 principles in 2012, ACG members have been sharing information about their progress towards compliance through presentations and discussions at our General Meeting, the CTSs, and Task Force sessions. Among the ACG members, 13 organisations from eight different countries have disclosed their degree of compliance with the CPMI-IOSCO principles through the ACG website.¹

MI Forum: Cyber-security is an issue identified by CPMI-IOSCO as of urgent importance. How can Asian CSDs help each other on this issue?

Mr. Lee: At the ACG19 event in 2015 in Taipei, a decision was made to form a group of Chief Information Security Officers (CISOs) to discuss implementation of best

practices in cyber-security by CSDs and central counterparty clearing houses (CCPs) in the Asia-Pacific region. The CISO Forum was launched in December 2016 with 14 active participants. It has since evolved into a working group of the Technical Task Force, and meets regularly. The goal is to collaborate and share views, knowledge and survey data, with a view to building and maintaining a cyber-resilient eco-system. In fact, the members hold executive level meetings during the ACG General Meetings, working level meetings during CTSs, and periodic on-line video conferences.

MI Forum: KYC, AML and sanctions screening is another issue of growing importance. Can Asian CSDs help each other on this issue too?

Mr. Lee: The ACG Legal Task Force, which is led by the China Securities Depository and Clearing Corporation Ltd. (CSDC), touches on the cross-border legal issues raised by KYC and AML. Ten other ACG members participate in the work of the Legal Task Force. KYC and AML are obviously critical issues in the banking industry, and discussed on a broader scale in that sector. In Korea, a lot of KYC and AML information is channelled through the Korea Financial Intelligence Unit (FIU), which has signed memorandums of understanding (MOUs) with over 60 countries around the world. KSD also exchanges information with the Bank of Korea under the terms of the Foreign Exchange Transaction Act, and with the Financial Action Task Force (FATF) Training and Research Institute, which is located at Busan in Korea.

MI Forum: KSD offers an international custody service to domestic institutions investing outside Korea. Who benefits from this?

Mr. Lee: As the Korean CSD, KSD tries to provide domestic investors with efficient foreign settlement services by working

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closely with international banks and CSDs. Our international settlement and corporate actions services are especially beneficial to domestic retail investors using local securities firms to invest abroad. It is hard for domestic institutions to obtain practical settlement information, and negotiate affordable custody fees, when clients invest abroad. KSD can act as the collective voice of the Korean securities industry when it comes to outbound settlement issues that need to be resolved.

MI Forum: How does this impact your relationship with domestic and foreign custodian banks active in the Korean market?

Mr. Lee: All domestic and foreign custodian banks active in the Korean in-bound and out-bound custody markets also benefit from the KSD service, since they can acquire information about Korean investors, investment trends, and regulatory policies that apply to both the domestic and international markets. It is also easier for them to market their custodial services to domestic investors, and negotiate and manage omnibus accounts, by using KSD services. In short, our service provides a win-win situation for both custodian banks and domestic out-bound investors.

MI Forum: KSD also has a funds platform. What services does it offer, which funds does it cover, who are the services offered to, and what advantages does it offer fund managers and fund service providers in Korea?

Mr. Lee: The KSD funds platform, which is called FundNet, provides subscription, redemption, trade matching and settlement instruction as part of the services we supply to both domestic and international fund managers. Services for international funds are provided through our links to Euroclear and Clearstream. These services are used by fund managers, custodians and fund distributors.

MI Forum: Can you describe the services in more detail?

Mr. Lee: KSD calculates the net asset value of funds, including mutual funds and investment trusts, and provides back office services to fund managers. We also assist in the establishment of mutual funds under the commercial law, the registration of funds with the regulator, the Financial Services Commission (FSC), and the liquidation of funds at maturity. KSD provides management information services to participants in the fund markets, including transaction details, compliance with regulations, order management, risk management, and performance measurement. We deal with the administrative work arising out of the management of mutual funds too, including calling and managing meetings of boards of directors, and general meetings of shareholders. KSD also prepares regular reports to management, and contributes to the audited accounts of funds.

MI Forum: It sounds like a full fund administration service. In what ways do the mutual fund markets benefit from the involvement of the KSD rather than commercial administrators?

Mr. Lee: The fund services supplied by KSD help to create a stable and efficient fund market for institutional investors and pension funds in particular. It helps investment advisory companies market funds to retail investors as well, by providing a degree of assurance and reliability, and protects investors by ensuring net asset value calculations are accurate.

MI Forum: What new fund services (if any) are you planning to develop?

Mr. Lee: We aim to expand gradually into the asset management markets as a whole. Good examples of this are our expansion into the insurance market through the collaborative development of the retirement pension platform, PensionClear, which was launched in December 2015, and our individual savings

account support system, ISA-Net, which opened in March 2016.

MI Forum: Can you tell us more about PensionClear?

Mr. Lee: PensionClear was developed in collaboration with the pension industry in Korea. It is a comprehensive, standardised pension platform. Its aim is to support the government policy of revitalising the pension market in Korea, by making the back-office processing of pension contributions and the management of pension assets cheaper and more efficient. PensionClear automates the exchange of messages between pension plan sponsors, fund managers and custodians, and stores the information. The service was launched in a phased approach, with a partial offer to some participants in December 2015, before it was opened to the entire industry in June 2016. So far, a total of 46 corporate pension plan sponsors - 14 banks, 17 insurance companies, 13 securities companies and two other corporates – are using the service.

MI Forum: And what about ISA-Net?

Mr. Lee: The Korean government introduced individual savings accounts (ISA), with the goal of increasing private savings at a time of record-low interest rates, as part of its strategy of providing for an ageing population. ISA-Net was developed by KSD to ensure ISAs were launched and implemented successfully. It does so through the automation of the processing of subscriptions between ISA providers appointed by investors and fund management firms that offer ISA products, and the automation of transfers of ISAs between providers. The service opened with the subscription service in March 2016, and the ISA transfer service followed in July 2016. At the moment, 74 companies - 15 banks, 17 securities companies, two insurance companies and two other institutions – make use of ISA-Net.

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MI Forum: Asian markets have adopted international standards such as ISO 20022 for cross-border transactions but not always for domestic transactions. What explains that?

Mr. Lee: Currently, only foreign currency securities and foreign mutual fund subscriptions and redemptions make use of ISO 20022-compliant messages. There are no plans in the immediate future for the implementation of international standards in domestic markets, since all participants are already using standardised domestic message types.

MI Forum: Do you expect this to change?

Mr. Lee: To adopt ISO 20022 for domestic transactions, market participants would have to make duplicate investments in IT systems. At the moment, when only overseas trades make use of ISO 20022, the necessary investment is made by third party service providers. Domestic fund and securities transactions in Korea, for example, are covered by the Korea Financial Telecommunications and Clearings Institute (KFTCI) standards, and by the KSD systems, so most participants do not feel any urgent need for change.

MI Forum: The Asia Fund Standardisation Forum (AFSF) is discussing the creation of domestic fund platforms throughout Asia, with a view to linking them to create an efficient cross-border marketplace for funds. What impact do you expect this to have on the openness of the domestic fund markets of Asia?

Mr. Lee: It would boost activity in regional and local fund markets. AFSF focuses on the standardisation of back-office processes and, since several CSDs in the region are operating unique systems, standardisation can only help expand cross-border transactions. The Asia Region Funds Passport promoted by Asia-Pacific Economic Co-operation (APEC),

which focuses on front office issues such as the harmonisation of international regulations, is also potentially helpful in increasing intra-regional activity.

MI Forum: In addition to your role at the ACG, you are assuming the chairmanship of the WFC. What is your vision for the period of your chairmanship?

Mr. Lee: Harmony and co-operation are the keywords. The assumption of a prominent role in the WFC by the chairman of the ACG comes at an opportune time, as the global securities markets are facing new challenges from the significant advances in technology as well as the numerous regulatory changes introduced since 2008. By promoting harmony and co-operation, we believe we can provide an environment conducive to discussing the current challenges and future prospects of CSDs in the global financial markets. The aim is to make the WFC a venue for knowledge-sharing and networking, not only for CSDs, but for securities exchanges, central banks, regulators, global custodians, trade associations and vendors. At WFC, they can meet and come up with the ideas that will help CSDs to meet their local challenges.

MI Forum: Has ACG or WFC or KSD formed a view of how distributed ledger, artificial intelligence (AI), machine learning and robotics technologies can be applied to CSDs?

Mr. Lee: All regional CSD associations and the WFC are interested in these technologies, and the changes they will bring to the financial services industry. At the KSD we actively support proposals to apply technological innovations. Providing the test bed for robo-advisors is one example of how we apply innovative ideas.

MI Forum: What about distributed ledger technologies in particular?

Mr. Lee: At the WFC meeting last week, the first session was dedicated to blockchain.

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Between them, the moderator and the panellists represented CSDs, consulting firms, and a service provider, which ensured our discussion was balanced and objective. The title of another of the sessions at the WFC on the first day - Digital Strategy for CSDs - was dedicated to helping CSDs respond creatively to the new technological opportunities.

MI Forum: What digital initiatives does the KSD have in hand at the moment?

Mr. Lee: At KSD we are considering the application of distributed ledger technologies to our business. Its use for our electronic proxy voting system is on the agenda of the in-house Technology Innovation Committee. We are also expecting to launch our electronic registration system by 2019.

MI Forum: KSD has already developed many new services that reach well beyond settlement, corporate actions processing and even mutual fund settlement. Have the services been well received by the clients of the KSD or do they see KSD as competing with them?

Mr. Lee: We focus on our clients' demands first and foremost when developing new services. We also offer reliability. So local market participants are supportive of our new services, including electronic proxy voting, Legal Entity Identifier (LEI) issuance, the PensionClear platform, the ISA-Net individual savings account service, our securities information management services, and CrowdNet, our new crowdfunding service.

MI Forum: What services does CrowdNet offer?

Mr. Lee: CrowdNet provides data repository, transfer agency and securities deposit services to crowd-funding platforms. Overall, KSD was designated as the central repository for Korea by the FSC in 2015.

MI Forum: What additional services is KSD focusing on at the moment?

Mr. Lee: The next big project is the introduction of the electronic registration system in 2019. But KSD is also working on trustee services and the provision of financial information services, including the development of repo-related indices.

MI Forum: To what extent would you encourage other Asian CSDs to diversify their services into new types of transactions, new asset classes and products, and even banking services?

Mr. Lee: In our view, the securitisation of precious and base metals, trade finance, trustee services, and the development of foreign securities settlement services, are the most promising areas for collaboration between Asian CSDs. But KSD supports any steps which help the CSDs of the region to meet international standards. In a number of instances, other CSDs have consulted the KSD on the how to develop value-added services. Likewise, the proposed MMTP of the ACG follows an idea put forward by KSD. Its purpose is to offer advice and assistance to ACG members looking to develop new services, while respecting the local market context.

MI Forum: If settlement of foreign securities is a priority, how important to the development of Asian markets are cross-border linkages of the kind pioneered by the Shanghai-Hong Kong and Shenzhen-Hong Kong Stock and Bond Connect links?

Mr. Lee: The links are part of China's plan to internationalise the Renminbi, and open its economy, so they could serve as a reference point for other Asian markets looking to open their economies. As major investors in the region, Korean institutions have always secured investment quotas in China. Our settlement platform for the Stock and Bond Connect services in China has certainly helped Korean investors approach the Chinese markets with a higher degree of confidence. If other Asian CSDs adapt their services and support their

local investors in the same way, it can only be good for the development of regional investment flows.

MI Forum: What lessons can CSDs in other parts of the world learn from the development of Asian CSDs over the last ten years?

Mr. Lee: In terms of financial market infrastructure, Asia is one of the fastest growing and most rapidly changing regions in the world. Its markets survived the Asian financial crisis of 1997 and the world financial crisis of 2008, chiefly by being adaptable. The members of the ACG try constantly to adapt their services to a rapidly evolving environment, so they can provide effective support to their users. In fact, the ACG provides a platform that helps its members to do this, by sharing knowledge, representing their interests in global initiatives, and promoting the development of Asian markets. The members of the ACG share experience as well as know-how at the annual CTSSs, and through the separate Task Forces that focus on information exchange, new business initiatives, technical issues, legal challenges, and risk and recovery management. Sometimes, sharing takes the form of consulting services or systems developments. KSD has certainly shared its experience in several areas – securities lending and borrowing, repo and fund management – with other CSDs, as formal consulting assignments. So the most important lesson we offer the world is our willingness to share knowledge and experience. It is through sharing information that members of the ACG learn about best practices, and adopt them as the benchmark in their own markets. It saves members a great deal of time and effort, and reduces operational risk.

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