

# ASIA PACIFIC SECURITIES LENDING MARKET USER GUIDE 2020

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CHINA/HK STOCK CONNECT

HONG KONG

INDIA

INDONESIA

JAPAN

MALAYSIA

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**EQUILEND**

**PASLA**



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# EXECUTIVE SUMMARY

As we go to print, the world is dealing with an array of macro events that create volatility—some negatively and, as always, some with opportunity. With the ongoing U.S.-China trade negotiations, Britain leaving the European Union, civil unrest in Hong Kong and a new type of virus spreading across the globe, stocks are trading in uncertain ranges as the market grapples with the ultimate impact of all these events.

PASLA is officially 25 years old this year, and along with RMA and EquiLend we have consolidated this user's guide to most of the markets with SBL platforms across the Asia Pacific region. As well as presenting the nuances and access capabilities of each market, in this guide we offer a sense of where markets are heading with illustrative content. This is all subject to change, of course, but we have endeavored to share the same information that we have right now from our interactions with market participants, exchanges and regulators.

We open up the next 25 years with a rapidly growing and developing Chinese market, where the pace of reform and levels of engagement are hugely encouraging. China remains one of the most exciting opportunities to navigate as we look forward. We are also encouraged by the evolution of the Indonesian market and its desire to grow the product mix, including the expansion of its securities lending program. Into the development mix is also the Philippine Stock Exchange, which announced in late December the approval of securities lending and short selling.

Growing Asian markets, including growth in the corporate bond market, has enabled APAC to overtake European Union trading in revenue terms for the first time. The perception has been that the newer markets of Korea and Taiwan—which have, respectively, seen year-on-year market gains—are the main drivers of this dynamism, yet Japan retains its capital crown. Maintaining its position as the second largest global exchange after NYSE/AMEX, contributing 30% to 50% of yearly regional profit, the Tokyo Stock Exchange remains the backbone of Asian markets, despite the perception that new markets will always present the most attractive opportunities to investors as drivers of growth.

PASLA, RMA and EquiLend would like to offer our sincerest appreciation to all the Asia-Pacific securities finance experts who have contributed to this user guide. The information contained in this guide was compiled from publicly available information as well as contributions from domestic and international market participants, exchanges and independent consultants. We welcome any feedback and suggestions. Most of all, we look forward to our continued work with the Asia-Pacific securities finance industry and updating this guide yearly as advancements are made across the region.

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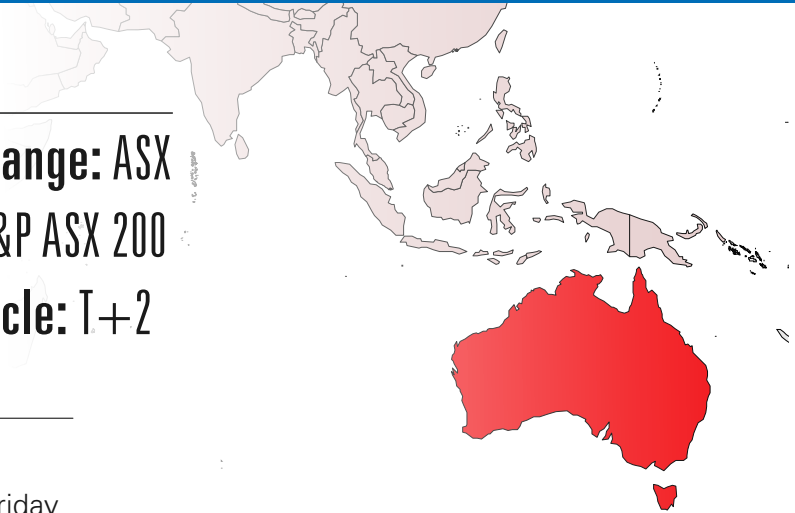






# AUSTRALIA

**Principal Exchange:** ASX  
**Main Index:** S&P ASX 200  
**Settlement Cycle:** T+2



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### AUSTRALIA

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### Trading Hours

Open: Monday to Friday

10:00 - 16:00

**Time Zone:** GMT + 10

**Currency:** AUD

### General Market Overview

The Australian Securities Exchange is a top 10 global securities exchange by value and is owned by the Australian Securities Exchange Ltd, or ASX Limited, an Australian public company. Prior to December 2006 it was known as the Australian Stock Exchange, which was formed on April 1, 1987, as an amalgamation of the six state securities exchanges. It merged with the Sydney Futures Exchange in 2006.

### Exchange Highlights

<b>Indices</b>	S&P ASX 200
<b>Listed Companies</b>	2,189 at January 2019
<b>Total Market Cap</b>	AU\$2.153 trillion (US\$1.443 trillion) as of November 2019

### Fixed Income

A domestic fixed income central securities depository (CSD) is offered through Austraclear. The repurchase (repo) market utilizes the global master repurchase agreement (GMRA), which allows for cash collateral versus the repo of fixed income securities. Repos or reverse repos are conducted as delivery versus payment (DVP) to eliminate intraday exposure risk, and bonds can be delivered bilaterally or via tri-party through ASX.

Fixed income repo or loans are conducted on a T+1 basis and can be open or termed (where the repo or loan is executed between set dates) with tri-party repo becoming increasingly popular.

Historically, beneficial ownership of Australian government securities has been majority held offshore, although the proportion has declined recently from nearly 70% to around 50%.

Beneficial owners can utilize the repo market to provide leverage via repo or securities lending.

If securities are not recycled back to the market and become scarce, the Australian Office of Financial Management (AOFM) can lend specific Australian Government Securities (AGS) to those who are short to cover ongoing obligations. Liquidity in the repo market or the availability of cash to domestic deposit takers is monitored by the Reserve Bank of Australia (RBA), which conducts daily market operations to lend cash via repo on pre-specified terms at 9:20 a.m. daily with a further operation at 5:10 p.m. if needed. The RBA will also conduct operations in the foreign exchange (FX) forward market to satisfy demand for Australian dollars for institutions that do not have repo capabilities.

Collateral for repos with the RBA include Australian government and semi-government (state-issued) bonds, foreign AAA-rated government bonds and bank paper issued by deposit taking institutions down to BBB- or A1 and higher-rated Australian ABS. Both AGS and semi-government bonds count as high-quality liquid assets (HQLA) domestically, with semis generally trading with a slight discount to Australian government bonds.

#### Fixed Income Data

ACGB: AU\$565 billion (US\$379 billion)

Total Australian government securities: AU\$626 billion (US\$420 billion)

#### Key Regulators

Australian Securities & Investment Commission (ASIC): <https://asic.gov.au/>

#### Access Methods

The Australian market historically used a legal agreement known as the Australian Master Securities Lending Agreement (AMSLA). The AMSLA was based on the Overseas Stock Lending Agreement (OSLA). However, the Global Master Securities Lending Agreement (GMSLA) is used more broadly today. Both allow for the collateralization of loans by cash or alternative collateral of equity or fixed income securities which are delivered prior to the loan of Australian securities (prepay).

The AMSLA can be used for both agency and principal transactions. An agent lends securities on behalf of the beneficial owner and does not take on any risk for the transaction. Subsequently, the counterparty risk lies with the beneficial owner and the borrower. Loans and the collateral are transferred on a title transfer basis.



**DATALEND Market Data (Equity Lending Market) 2019 Averages**

On Loan (USD)	Lendable (USD)	Utilization (%)	VWAF (bps)
21,850,783,764	351,032,564,374	6.22	52.99

**Short Selling Rules****Is short selling permitted?**

Short selling is permissible under the Corporations Act 2001.

**Definition of short sale**

Generally, where a person executes a short sale and relies on an existing securities lending arrangement to have a “presently exercisable and unconditional right to vest” the products in the buyer at the time of sale, the sale of the products is a covered short sale. (RG 196.2 Corporations Act 2001)

**Pricing requirement for short sale**

None

**Short Position Reporting****Disclosure of short position**

Public disclosure is required under certain conditions.

The threshold for reporting is when a firm’s short position is more than AU\$100,000 or 0.01% of the total quantity of securities or products in the relevant class of securities or products.

**When does a report need to be made?**

A person must report their short positions as at 7 p.m. on each reporting day. Short position reports must be received by ASIC before 9 a.m. three reporting days after the date of the short position. (RG 196.133 Corporations Act 2001)

**Buy-Ins**

Settlement participants, i.e. selling brokers, are required to close out settlement shortfalls that remain after batch settlement on T+4 by purchasing or borrowing the shares required to complete the settlement. An outstanding settlement position that has not been resolved by T+8 will be referred to ASX Markets Supervision for investigation and possibly to the Disciplinary Tribunal.

The price bid for the buy-in is based on the last recorded sale price adjusted by either a higher bid price or a lower offer price, as at 12:00 noon on settlement

day (SD) plus a margin above the market price of the securities. This margin rises each day that the trade remains outstanding.

### **Collateral Requirements**

Borrowing in Australia across both domestic and international lenders requires collateral to be lodged before the physical shares can move. Collateral can be USD, GBP, AUD or JPY cash, or forms of equities and government debt depending on the underlying clients' preferences and internal compliance approval. Normal collateral headroom is 105% of the stock's market value.

### **Foreign Investor Limits**

Individual foreign ownership is capped at 15%; anything more than 15% requires approval from the Foreign Investment Review Board. The aggregate limit is 40%. Certain industries such as ASX, telecommunications, gaming, etc., have further restrictions.

### **Operational and Post Trade**

Scheduled Settlement (101) – 11:30 a.m. – a full DVP system allowing simultaneous turnaround and simultaneous exchange of securities and cash in CHES (the Australian settlement system).

Demand Settlement (005) – For off-market trades or to process a same-day turnaround trade that is not matched in time for the scheduled settlement process. Payments (if any) are made by 4:30 p.m. via the Austraclear system, while the securities transfers are processed through CHES. Subject to the agreement of both settlement parties, securities can settle until 7 p.m.

Failed Trade Fees – Equities – 0.1% of the value of the shortfall, subject to a daily minimum fee of AU\$100 and maximum fee of AU\$5,000. The value of the shortfall is calculated based on the failed trade quantity multiplied by the valuation price of the security.

On some state holidays, the ASX remains open for trading and settlement. Such days are considered as trading, but not business days.

### **Special Auction Rules**

Pre-open: 7:00 - 10:00

Opening auction: 10:00 - 10:09:15 (staggered for different groups of equities)

Opening takes place at 10:00 a.m. Sydney time and lasts for about 10 minutes. ASX Trade calculates opening prices during this phase. Securities open in five groups, according to the starting letter of their ASX code:

Group 1: 10:00:00 +/- 15 secs 0-9 and A-B, e.g. ANZ, BHP

Group 2: 10:02:15 +/- 15 secs C-F, e.g. CPU, FXJ

Group 3: 10:04:30 +/- 15 secs G-M, e.g. GPT

Group 4: 10:06:45 +/- 15 secs N-R, e.g. QAN

Group 5: 10:09:00 +/- 15 secs S-Z, e.g. TLS

The time is randomly generated by ASX Trade and occurs up to 15 seconds on either side of the times given above—e.g., Group 1 may open at any time between 9:59:45 and 10:00:15.



Pre-close: 16:00 - 16:10  
Closing auction: 16:10 - 16:12

### **Talking Points & Future Developments Facing the SBL Model**

AFMA / ASIC: Give-up of cash and swap contracts. Exemption notice 1020F(1) (a) relating to short selling market making exemption. ASIC is clarifying the multiple exemptions that apply when firms are selling to hedge swaps. AFMA (Australian Financial Markets Association) and ASIC are working together to ensure that the rules are correctly understood and applied by market participants. A decision is expected in 2020.

ASLA (Australian Stock Lending Association): Working group to add an Australian addendum to the GMSLA.

DOI / ASIC relief application: ASIC is asking agent lenders to disclose positions greater than 5% on a combination of lending pool, on loan and collateral received balances. The first reporting day has been deferred to December 2020 to finalize requirements.





# CHINA

## Main Stock Exchanges:

Shanghai Stock Exchange (SSE)

Shenzhen Stock Exchange (SZSE)

Main Indices: SSE Composite, SZSE Composite

Settlement Cycle: T+0 (A-shares)

## TRADING HOURS

Morning Session: 9:30 a.m. – 11:30 a.m.

PM session: 1 p.m. – 3 p.m. (Shanghai)

PM session: 1 p.m. – 2:57 p.m. (Shenzhen)

**TIME ZONE:** GMT+8

**CURRENCY:** RMB

## General Market Overview

As of September 2019, China's overall market capitalization (across Shanghai and Shenzhen exchanges) was US\$7.6 trillion.

## Exchange Highlights

The Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE) are the main exchanges in China. Both exchanges were opened in 1990, with Shanghai listing most of China's large-cap companies, state-owned enterprises, banks and energy firms. Shenzhen has been viewed as listing more "growth" stocks, such as small- to mid-cap private sector companies.

While domestic residents and funds are free to trade the market on a relatively unrestricted basis, offshore access is through the Qualified Foreign Institutional Investor (QFII) and RMB Qualified Foreign Institutional Investor (RQFII) regimes.

QFII is a program introduced in 2002 that allows international investors to participate directly in the mainland stock exchanges. China's markets were previously closed to foreign investors. Quotas are granted by State Administration of Foreign Exchange (SAFE) and to obtain a license an investor must meet certain prerequisites.

RQFII was launched in 2011 and allows the use of RMB funds raised in Hong Kong to invest in China's domestic securities markets. RQFII is only available for qualified financial institutions in designated offshore RMB markets.

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The total QFII quota was increased in January 2019 to US\$300 billion. At the point of going to press, the China Securities Regulatory Commission (CSRC) had recently conducted a QFII/RQFII consultation with the industry. The outcome of that consultation is still pending, but we expect some easing and expanded access as a result of this.

### **Hong Kong/China Connect**

Covered in more detail separately, the Hong Kong/China Stock Connect mechanism was set up in November 2014 with the aim of providing “mutual market access” between Hong Kong and China.

### **China A-Shares Versus B-Shares**

China A-shares are different from B-shares. A-shares are only quoted in RMB, while B-shares are quoted in foreign currencies, such as USD. Some companies have historically listed their stock on both the A-share and B-share market, to allow foreign and mainland investors to invest. Trading in B-shares is on the rise, especially after the advent of the HK/China Connect.

#### **Indices**

Shanghai Stock Exchange Composite Index (SHCOMP)  
Shenzhen Stock Exchange Composite Index (SZCOMP)  
ChiNext Index  
Shanghai Stock Exchange STAR Board (New)

#### **Listed Companies**

SSE: 1,572 at December 2019  
(source: <http://english.sse.com.cn/news/newsrelease/c/4980870.pdf>)  
SZSE: 2,208 stocks at January 2020  
(source: <http://www.szse.cn/English/home/index.html>)

#### **Total Market Cap**

US\$7.6 trillion across both exchanges at September 2019  
(Source: WFE/Bloomberg)

### **Fixed Income**

Besides the exchange markets, more than 90% of fixed income products are traded in the China Interbank Bond Market (CIBM), which is an OTC market. In addition, around 2% of government bonds are available to local retail investors over the bank counter.



## **Key Regulators**

China Securities Regulatory Commission (CSRC) – National regulatory body for the securities and futures exchanges in China.

China Securities Finance Corporation (CSF) – Provides margin financing loan services to the market, including margin financing and securities lending activity.

China Securities Depository and Clearing (CSDC) – Undertakes all securities registration, clearing and settlement activity for the market.

State Administration of Foreign Exchange (SAFE) – China's foreign exchange regulatory agency

## **Useful Links:**

1. SSE website: <http://english.sse.com.cn/>
2. SZSE website: <http://www.szse.cn/English/index.html>
3. CSF Website: <http://www.csf.com.cn/publish/english/index.html>
4. CSRC website: [http://www.csrc.gov.cn/pub/csrc\\_en/](http://www.csrc.gov.cn/pub/csrc_en/)

## **Securities Borrowing and Lending (SBL)**

### **Access Methods**

Borrowers of securities are currently limited to approved domestic brokers, which can act as lenders as well as borrowers. Theoretically, any asset owner could lend, although clarification around accounting is still needed for some. QFII participation is restricted for now, and regulatory approval would be required to change that.

Shares are borrowed through the CSF for a fixed period at a fixed rate.

### **Useful links:**

Securities eligible for lending and relevant rates: <http://www.csf.com.cn/publish/english/1072/1079/index.html>

## **Short-Selling Rules**

Only local securities companies are allowed to conduct margin trading and short selling. Short selling is conducted through the CSF, which acts as principal to all transactions. The CSF maintains a list of short-sellable securities.

### **Is short selling permitted?**

Covered short selling is currently permitted onshore for a specific list of securities and is centralized through the CSF. A borrow must be in place prior to selling.

The CSF acts as principal in all transactions and will source inventory through a variety of onshore brokers in order to offer short access. The CSF does not provide collateral when borrowing from lenders but does receive 20-25% collateral from the short selling, thus limiting leverage.

Excess inventory is not maintained; all borrowing is done on a one-to-one basis, versus the actual short sell.

### Definition of short sale

Margin trading and securities lending refers to the practice where an investor purchases securities with borrowed money from a member, or sells securities borrowed from a member, by providing collateral to the member. In order to participate in margin trading and securities lending, a member shall apply to the exchange for the trading access to margin trading and securities lending.

### Pricing requirement for short sale

The declared price for investors to sell securities must not be lower than the last transaction price; if there have been no transactions recorded on the day of the short sell order, then the price must not be lower than the previous day's closing price, in that security. If the price instruction on the margin selling order is lower than the aforementioned price, the transaction is to be treated as invalid and the order rejected.

## Short Position Reporting

### When does a report need to be made?

No short reporting needed as all information is centralized at the CSF.

### Useful links:

Securities that are eligible for short selling:  
<http://www.csf.com.cn/publish/english/1072/1080/index.html>

### Buy-Ins

There are no buy-ins due to the T+0 market. It is not possible to execute an SBL transaction if the shares aren't there.

### Collateral Requirements

The CSF does not pass any form of collateral through to the lender of securities but does guarantee the return of those securities back to the lender. The broker borrowing shares is required to hold and ring-fence in a segregated account 170% collateral prior to borrowing. In addition, any short-sell proceeds must sit in the same ring-fenced account. There is a margin call to that account if the value falls below 150%, and monies can be withdrawn if the value exceeds 300%. The CSF will constantly monitor the credit situation of all signed participants in the program and will also set leverage restrictions on firms for margin and stock lending.

### Foreign Investor Limits

A single foreign investor's total shareholding in a company listed in SSE and/or SZSE may not exceed 10% of the company's total shares. When and if aggregated foreign shareholding exceeds 30%, the foreign investors will be

requested to sell the shares on a last-in-first-out basis within five trading days.

On July 28, 2018, the National Reform and Development Commission (NDRC) announced on its website the lifting of foreign ownership caps on brokerages, life insurers and commercial banks. The changes included a plan to remove the cap entirely by 2021. Rules limiting a single foreign financial institution's ownership in a Chinese commercial bank to 20% were abolished, along with a rule limiting investment by multiple overseas financial institutions to 25%. In addition, the NDRC cut the negative list for foreign investment from 63 industries to 48, easing or lifting ownership caps on businesses including ship and aircraft manufacturing, power grids and crop breeding excluding wheat and corn. The plan is to remove foreign ownership limits for passenger car manufacturing by 2022, together with ownership limits on passenger rail transport and shipping.

### **Tax**

- 10% under corporate income tax (CIT) and 20% under individual income tax (IIT) for foreign investors
- Dividends subject to 10% withholding tax (WHT), unless a specific tax treaty has negotiated otherwise
- Stock borrowing exempted from stamp duty

Capital gains taxes and business taxes were temporarily exempted for China A-shares or similar investments for QFIIs and RQFIIs from November 17, 2014, onward. There was no specific expiration date mentioned at the time.

### **Operational and Post Trade**

All billing is handled by the CSF.

On-exchange crossing is through the block trading system with the CSF.

Hours are the same for both exchanges: 9:30 a.m. - 11:30 a.m. and 1 p.m. - 3:30 p.m., and the trading price should be within that day's range.

### **Talking Points & Future Developments Facing the SBL Model**

The recently launched STAR board is an indication of where the market is likely to develop. From a securities lending perspective, the CSF and CSRC are testing a securities lending model that is more bilateral in nature, but still centrally cleared through the CSF. We expect these developments to continue onshore before any further offshore changes to the SBL Connect platform. Transparency of reporting will be paramount, so we expect the CSF to continue to centrally manage and clear all securities lending activity.

In addition, we expect the QFII/RQFII registration and licensing process to continue to ease and a more level playing field to result. We expect clarity on the eligibility of asset managers and owners to be allowed to lend their securities onshore, and we expect that to drive a growth in actual short-selling activity onshore.

Lastly, we continue to believe that short access to China either through direct securities lending or other short-access products will become the largest and most important for investors over the next five years.







# CHINA / HK STOCK CONNECT



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**Main Indices:**  
SSE Composite, SZSE Composite  
**Settlement Cycle:** T+0

### Trading Hours

Morning Session: 9:15 a.m. - 11:30 a.m.

Afternoon Session: 13:00 - 15:00

**Time Zone:** GMT+8

**Currency:** RMB

### General Market Overview

Shanghai Connect and Shenzhen Connect (known collectively as Stock Connect) are securities trading and clearing link programs developed by the Hong Kong Exchange (HKEx), Shanghai Stock Exchange (SSE), Shenzhen Stock Exchange (SZSE), China Securities Depository (CSD) and Clearing Corporation Limited (ChinaClear) with the aim of providing mutual market access between mainland China and Hong Kong.

In November 2014 the Connect pilot scheme was launched, enabling investors across Shanghai and Hong Kong's exchanges to access certain listed securities on the other market. In December 2016, this was expanded to include certain names on the Shenzhen Exchange.

Stock Connect allows eligible Chinese residents to invest in designated Stock Exchange of Hong Kong Limited (SEHK) listed stocks (Southbound Stock

Connect) and international investors to invest in designated SSE and SZSE listed stocks (Northbound Stock Connect) without the need for QFII or RQFII, as defined in the China market summary section. The scheme now covers more than 2,000 eligible equities in Shanghai, Shenzhen and Hong Kong. Further general information can be found at [https://www.hkex.com.hk/Mutual-Market/Stock-Connect?sc\\_lang=en](https://www.hkex.com.hk/Mutual-Market/Stock-Connect?sc_lang=en).

### **Fixed Income**

HKEx, with the approval of the People's Bank of China (PBOC) and the Hong Kong Monetary Authority (HKMA), launched Bond Connect in July 2017 with the aim of facilitating Mainland and overseas investors to trade bonds in the respective markets. The Bond Connect Access Rule Book (<https://www.china-bondconnect.com/en/Rules-And-Policy/Overall-Scheme.html>) provides further information on the current regulations, and the plans for further opening up are summarized at [https://www.hkex.com.hk/-/media/HKEX-Market/News/Research-Reports/HKEx-Research-Papers/2019/FIC\\_BondConnect\\_201901\\_e.pdf?la=en](https://www.hkex.com.hk/-/media/HKEX-Market/News/Research-Reports/HKEx-Research-Papers/2019/FIC_BondConnect_201901_e.pdf?la=en). Prior to trading cash bonds in the China Interbank Bond Market (CIBM Bond) through the Northbound trading of Bond Connect, eligible investors must be recognized by the PBOC, admitted by the Bond Connect Company and open a trading account with China Foreign Exchange Trade System (CFETS).

#### **Bond Connect Volumes**

In 2019 there were 26,941 tickets with average daily turnover of RMB 10.7 billion.

### **Key Regulators**

The Securities and Futures Commission (SFC) – <https://www.sfc.hk/web/EN/>

China Securities Regulatory Commission (CSRC) – [http://www.csrc.gov.cn/pub/csrc\\_en/](http://www.csrc.gov.cn/pub/csrc_en/)

### **Securities Borrowing and Lending (SBL)**

#### **Access Methods**

While Stock Connect remains an evolving structure, the current regulations are listed below. The rules unfortunately result in a limited amount of participation, but future changes are expected to address this issue.

The following persons may lend Connect Securities:

- China Connect Exchange Participants (CCEPs)
- Trade-Through Exchange Participants (TTEPs), i.e., Exchange Participants (EPs) registered with the Stock Exchange of Hong Kong (SEHK), a wholly owned subsidiary of HKEx, to conduct trading in Connect Securities through CCEPs for the account of their clients
- EPs other than (a) and (b) who own or hold Connect securities for their own account or on a propriety basis (Non-Registered EPs)
- Qualified institutions (QIs), which include:



- » Hong Kong Securities Clearing Company (HKSCC) participants (other than Investor Participants)
- » Funds, unit trusts or collective investment schemes managed by persons licensed or registered to carry out Type 9 (asset management) regulated activity under the SFO (refer to SFC website for details)
- » Other persons accepted or specified by SSE or SZSE

Connect securities to be lent by a CCEP or a TTEP must be either securities held or owned as principal, or securities borrowed from other CCEPs, TTEPs, non-registered EPs or QIs, in each case, who are lending as principal.

Connect securities to be lent by a non-registered EP or QI must only be securities held or owned as principal.

CCEPs and TTEPs must provide SEHK with an undertaking or a confirmation in the prescribed form depending on whether they act as stock lender or stock borrower. They must also file a monthly report to SEHK providing details of their stock borrowing and lending activities with respect to Connect securities in the prescribed form, which will include details such as stock name, name of borrower, name of lender, number of shares borrowed/lent, number of shares outstanding, date of borrowing/returning, etc. The form is available on the HKEx website, and CCEPs and TTEPs shall follow the procedures and means of submission specified by SEHK from time to time.

Non-registered EPs and QIs lending stock to CCEPs and TTEPs must provide the borrower with an undertaking in the prescribed form confirming, among others, that they are not restricted from engaging in stock lending activities.

### **Short-Selling Rules**

Short selling is, at this point, restricted to EPs only, which has resulted in minimal usage.

The list of securities eligible for short selling is limited and does not include all stocks in the market.

The eligible stocks for Northbound and Southbound trading can be found at [https://www.hkex.com.hk/eng/csm/securities\\_eligible\\_stocks.htm](https://www.hkex.com.hk/eng/csm/securities_eligible_stocks.htm).

Stock lenders are restricted to certain types of persons determined by SSE or SZSE, and SBL activities must be reported to SEHK through short-selling weekly reporting and large open short positions reporting rules.

Additionally, there is a quantity restriction on amounts being short sold: 1% on a daily basis and 5% for a rolling period of 10 trading days, based on the total number of shares held in CCASS by all investors. Any short selling order that, if executed, will cause the 1% limit or the 5% cumulative limit to be exceeded during the course of a CSC trading day, will be rejected by the CSC.

Further information is available at:

[https://www.hkex.com.hk/-/media/HKEX-Market/Mutual-Market/Stock-Connect/Getting-Started/Information-Booklet-and-FAQ/FAQ/FAQ\\_En.pdf](https://www.hkex.com.hk/-/media/HKEX-Market/Mutual-Market/Stock-Connect/Getting-Started/Information-Booklet-and-FAQ/FAQ/FAQ_En.pdf)

**Is short selling permitted?**

Naked short selling is prohibited for Northbound trading.

Covered short selling of Connect securities is allowed, subject to the following requirements:

SBL for the purpose of short selling is limited to Connect securities that are eligible for both buy orders and sell orders through Shanghai and Shenzhen Connect, i.e., excluding Connect securities that are only eligible for sell orders

- SBL for the purpose of meeting the pre-trade checking requirements covers all Connect securities, including Connect securities that are only eligible for sell orders through Shanghai and Shenzhen Connect
- SBL agreements for the purpose of short selling cannot be longer than one calendar month
- SBL agreements for meeting pre-trade checking requirement cannot be longer than one day, and roll-over is not allowed
- Stock lenders are restricted to certain types of persons determined by SSE or SZS
- SBL activities will need to be reported to SEHK

For the purpose of covered short selling in accordance with the rules of the exchange:

a) An investor borrows Connect securities and sells them on the relevant Connect Market through a CCEP via Northbound trading

b) A CCEP client must sell Connect securities when it is unable to effect a transfer of the relevant Connect securities to the CCEP's clearing account in time to meet the pre-trade checking requirement set out in the rules of the exchange

**Short Position Reporting****Disclosure of short position**

CCEPs shall submit reports to the exchange on the open short positions of any short-selling security and other information required by the exchange at such intervals as the exchange may require.

For the purposes of this rule, "open short position" means the total number of shares of a short-selling security that has been short sold by the China Connect exchange participant (whether as principal or agent) through the China Connect services less the total number of shares borrowed for the purpose of short selling that have already been returned to the relevant stock lender.

In addition to the reports referred to above, a China Connect exchange participant shall submit a report to the exchange if the open short position of any short selling security it has executed for its own account or for the account of any of its clients exceeds the reporting thresholds prescribed by the Exchange.

China Connect exchange participants must comply with such other reporting requirements as the exchange may prescribe.

### When does a report need to be made?

CCEPs shall field a monthly report with the exchange providing details on its stock borrowing and lending activities with respect to China Connect securities.

### Foreign Investor Limit

Mainland China rules apply to Northbound trades.

Only professional foreign investors can access ChiNext under SZSE through Stock Connect.

There is no regulatory restriction applicable to ownership of securities traded under Bond Connect.

### Special Auction Rules

Opening Call Auction: 9:15 a.m. to 9:25 a.m. [9:20 to 9:25: will not accept order cancellation]

Closing Auction details: 2:57 p.m. to 3:00 p.m. [2:57 p.m. to 3:00 p.m.: SZSE will not accept order cancellation]

No closing auction in SSE.

### Talking Points & Future Developments Facing the SBL Model

Stock Connect continues to evolve, with the ability to hedge as one of the biggest asks for the next stage of evolution. It should be noted that this has been acknowledged and is well understood by all parties that PASLA is in regular discussions with. At the point of writing there were a number of initiatives that were also progressing well and of higher priority through the Connect, such as holiday trading and omnibus trading. There is also the need to ensure that the development of one platform/access route does not accelerate beyond the other, so expect the short selling and hedging capabilities to closely mirror those that exist onshore. Encouragingly, the STAR board short-sell rules are more of a CCP/bilateral hybrid and look to be where developments will go from here.







# HONG KONG

**Principal Exchange:**  
Hong Kong Exchange (HKEx)  
**Main Index:**  
Hang Seng Index (HSI)  
**Settlement Cycle:** T+2



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### Trading Hours

9:30 a.m. - 12:00 & 1:00 p.m. - 4:30 p.m.

**Time Zone:** GMT +8:00

**Currency:** HKD

### General Market Overview

Hong Kong is a mature, well-established and efficient financial market with no barriers of access to overseas investors trading Hong Kong-listed shares via brokers. Additionally, there are no restrictions on capital inflows or outflows other than anti-money laundering regulations, which investors should take into consideration. Hong Kong is the global hub for offshore RMB investment activities.

The HKD is freely convertible and officially linked to the U.S. dollar.

### Exchange Highlights

The recognized exchange is Hong Kong Exchanges and Clearing Limited (HKEx). HKEx is the third largest stock exchange in Asia with a total market capitalization of HK\$38.2 trillion (US\$4.8 trillion) as of 31st December 2019. HKEx is the operator of Hong Kong's central securities and derivatives marketplace and the front-line regulator of listed issuers (including listed companies).

Securities lending transactions are undertaken on a bilateral model. There is currently no CCP model used in Hong Kong.

In 2014 and 2016, respectively, HKEx worked in conjunction with Mainland exchanges and regulators to launch Shanghai Connect and Shenzhen Connect (known collectively as Stock Connect) with the aim of providing mutual market access between the Mainland and Hong Kong. Please see the China Connect summary for further information.

<b>Indices</b>	Hang Seng Index (HSI) Hang Seng China Enterprises Index
<b>Listed Companies</b>	12,795 as at 31st December 2019
<b>Total Market Cap</b>	HK\$38.2 trillion (US\$4.8 trillion) at 31st December 2019

### **Fixed Income**

Fixed income is traded OTC with Central Clearing and Settlement System (CCASS) and Central Moneymarkets Unit (CMU) being operated by Hong Kong Monetary Authority (HKMA), which provided a review of the Hong Kong debt market in 2018 (<https://www.hkma.gov.hk/media/eng/publication-and-research/quarterly-bulletin/qb201903/fa1.pdf>).

Please see the China and China Connect section for further information on Bond Connect.

#### **Market Cap of HKEx Listed ETPs (Exchange-Traded Products)**

HK\$325 billion (US\$41.6 billion) at June 2019

### **Key Regulators**

The Securities and Futures Commission (SFC) was set up in 1989 as the independent statutory body to regulate Hong Kong's securities and futures markets, safeguarding market integrity and enforcing securities and futures market legislation. Parties regulated by the SFC include HKEx and its subsidiaries (including the stock and futures exchanges and associated clearing houses), investors and financial market intermediaries (namely securities dealers including exchange participants, sponsors, share registrars, fund managers and investment advisers).

The HKMA is the government authority in Hong Kong responsible for maintaining monetary and banking stability.

### **Securities Borrowing and Lending (SBL)**

#### **Access Methods**

Exchange participants (EPs)/registered participants are eligible to participate in the SBL market under the Securities and Futures Ordinance (SFO).

While securities lending (in and of itself) is not one of the 12 "types" of regulated activity under the SFC licensing regime, if the activities of the counterparties in connection with SBL transactions amount to regulated activities



such as Type 1 (“dealing in securities”) or Type 9 (“Asset Management”), they will require a license from the SFC for onshore participants.

Participants can access the market using GMSLA or MSLA to document transactions. Most participants also require a Hong Kong-specific addendum to be in place. Under the common-law principle of “freedom of contract,” Hong Kong law allows parties to a contract to be free to choose any law to govern that contract so long as the choice of law is bona fide, legal and is not against public policy.

### **DATALEND Market Data (Equity Lending Market) 2019 Averages**

On Loan (USD)	Lendable (USD)	Utilization (%)	VWAF (bps)
33,907,570,885	477,707,804,658	7.10	103.29

### **Short Selling Rules**

#### **Is short selling permitted?**

Covered short sales are allowed for “Designated Securities” as announced on HKEx’s website: ([http://www.hkex.com.hk/Services/Trading/Securities/Securities-Lists/Designated-Securities-Eligible-for-Short-Selling?sc\\_lang=en](http://www.hkex.com.hk/Services/Trading/Securities/Securities-Lists/Designated-Securities-Eligible-for-Short-Selling?sc_lang=en)).

Market convention requires short sellers to put a borrow or a hold in place before executing a short sale, with physical or electronic evidence as proof. The SFC has created a guidance note (<https://www.sfc.hk/web/EN/assets/components/codes/files-current/web/guidance-note-on-short-selling-reporting-and-stock-lending-record-keeping-requirements/guidance-note-on-short-selling-reporting-and-stock-lending-record-keeping-requirements.pdf>) that provides several examples of what is considered sufficient assurance to avoid a transaction being considered naked or uncovered short selling.

Under Section 170 of the SFO, naked or uncovered short selling is prohibited and can be a criminal offense.

Section 170(1) does include some exemptions from covered short selling, which extend to:

- Hong Kong Monetary Authority-appointed market makers, and their agents on their behalf, may sell short exchange fund notes, exchange fund bills and specified instruments
- Securities market makers conducting jobbing business
- Futures market makers conducting jobbing business

Section 170 applies only to short sales conducted at, or through, the Stock Exchange of Hong Kong Limited (SEHK). It does not apply to off-exchange short sales.

**Definition of short sale**

Defined by HKEx in Schedule 11 ([https://www.hkex.com.hk/-/media/HKEX-Market/Services/Trading/Securities/Overview/Regulated-Short-Selling/sch-11\\_eng.pdf?la=en](https://www.hkex.com.hk/-/media/HKEX-Market/Services/Trading/Securities/Overview/Regulated-Short-Selling/sch-11_eng.pdf?la=en))

**Pricing requirement for short sale**

Short sales must abide by the up-tick rule (i.e., short sale must be placed at or above the current best ask price) except for some exempted securities (mostly ETFs).

The short sale order must be properly indicated as “short sale” when inputted into the AMS/3 system. The number of designated securities for short selling is revised on a regular basis.

**Short Position Reporting****Disclosure of short position**

Any person who has a reportable short position is required to file submissions to the SFC via its online service portal within two business days from the day on which the reporting obligations arise. Threshold for reporting is the lower of:

- 0.02% of the closing price multiplied by total number of specified shares issued by the corporation
- a value of HK\$30 million

**Definition of short position**

Per the Securities and Futures (Short Position Reporting) Rules (<https://www.elegislation.gov.hk/hk/cap571AJ!en@2013-04-25T00:00:00>), a short position is the position in the specified shares that a person has as a result of selling the specified shares at or through the stock exchange or by means of any one or more specified ATS, or any combination of these methods of selling, where:

- at the time of each sale comprised in the position, the person did not have a presently exercisable and unconditional right to vest the specified shares in the purchaser, or
- each sale comprised in the position was the subject of a short selling order

**When does a report need to be made?**

Within two business days (unless a daily reporting requirement is in force) if the person's net short position value (calculated by the number of specified shares in the position multiplied by the closing price of the specified shares on the reporting day) reaches the reporting threshold at the close of trading each Friday.

**Remarks**

Specified shares include constituent stocks of HSI and HSCI and others determined by the HKEx and designated as classified by Hang Seng Indexes Company Ltd.

**Other reporting required:**

Notifiable Interest: Disclosure is required when a shareholding of 5% of issued voting share capital is acquired/ceases to be held. The impact of shares being loaned out or returned needs to be considered when calculating this figure. Exemptions do apply. Lenders can choose to register with the SFC as Approved Lending Agents (ALA), which provides certain exemptions from disclosure of substantial shareholdings within a simplified disclosure regime described in further detail at: <https://www.sfc.hk/web/EN/rules-and-standards/sfo-part-xv-disclosure-of-interests/guidelines-for-the-approval-of-corporations-as-approved-lending-agents.html>.

**Useful links:**

- HKEx's Short Selling Regulations: [http://www.hkex.com.hk/-/media/HKEX-Market/Services/Rules-and-Forms-and-Fees/Rules/SEHK/Securities/Rules/sch-11\\_eng.pdf?la=en](http://www.hkex.com.hk/-/media/HKEX-Market/Services/Rules-and-Forms-and-Fees/Rules/SEHK/Securities/Rules/sch-11_eng.pdf?la=en)
- SFC's Guidance Note on Short Selling Reporting and Stock Lending Record Keeping Requirements: <https://www.sfc.hk/web/EN/assets/components/codes/files-current/web/guidance-note-on-short-selling-reporting-and-stock-lending-record-keeping-requirements/guidance-note-on-short-selling-reporting-and-stock-lending-record-keeping-requirements.pdf>
- SFC's Short Position Reporting: <https://www.sfc.hk/web/EN/regulatory-functions/market-infrastructure-and-trading/short-position-reporting/>
- Securities and Futures (Short Selling and Securities Borrowing and Lending) Rules: [https://www.elegislation.gov.hk/hk/cap571R?xpid=ID\\_1438403476845\\_004%20](https://www.elegislation.gov.hk/hk/cap571R?xpid=ID_1438403476845_004%20)

**Buy-Ins**

There is a mandatory buy-in on T+3 if a trade is not matched by 15:45 local time on T+2. Compulsory buy-in exemptions are possible for, amongst others, clerical, documentation and calculation errors, but no more than three times in 10 consecutive days. The penalties on defaulting brokers include the buy-in price, default fees and suspension of trades for repeated offenders. Further information can be found at <https://www.hkex.com.hk/-/media/HKEX-Market/Services/Rules-and-Forms-and-Fees/Rules/HKSCC/Operational-Procedures/SEC10.pdf?la=en>.

Useful link:

- HKEx Chapter 35 – Late Delivery of Securities: <https://www.hkex.com.hk/-/media/HKEX-Market/Services/Rules-and-Forms-and-Fees/Rules/HKSCC/General-Rules-of-CCASS/r35.pdf?la=en>

**Collateral Requirements**

It is possible for parties to SBL transactions to take collateral located offshore.

Depending on the type of collateral, the laws of the jurisdiction where the collateral is located may be relevant in determining the relevant legal requirements for taking such collateral.

It should be noted that the Companies Ordinance (Cap. 622) provides that if a Hong Kong-incorporated company or a registered non-Hong Kong company creates a charge over property situated outside Hong Kong, a certified copy of the instrument creating or purporting to create the charge may be delivered to the registrar for registration (if the charge is registrable) even though further proceedings may be necessary to make that charge valid or effectual according to the law of the place in which the property is situated.

### **Foreign Investor Limits**

In general, there are no laws in Hong Kong which limit foreign ownership of companies except in very limited circumstances. TV broadcasting is one of the limited areas in which foreign ownership is restricted (the Broadcasting Ordinance Cap. 562), but there is no restriction on foreign ownership on banks.

### **Tax**

The documentation of an SBL transaction must be registered with the Collector of Stamp Revenue in Hong Kong in order to obtain relief from stamp duty obligations. The onus for agreement registration usually falls on the borrower rather than the lender, an aspect that is commonly covered within a Hong Kong addendum.

Useful link:

- Inland Revenue Stamp Office Interpretation and Practice Notes: [https://www.ird.gov.hk/eng/pdf/e\\_soipn02.pdf](https://www.ird.gov.hk/eng/pdf/e_soipn02.pdf)

### **Operational and Post Trade**

Clearing and settlement of transactions in eligible securities are carried out through the Central Clearing and Settlement System (HKSCC), which is a wholly owned subsidiary of the HKEx.

### **Auction Rules**

### **Hong Kong Securities Market**

Trading is conducted on Monday to Friday (excluding public holidays) at following times:



		Full Day Trading	Half Day Trading
Auction Secssion	Pre-opening Session	9:00 a.m.	1:00 p.m.
Continous Trading Session	Morning Session	9:00 a.m.	1:00 p.m.
	Extended Morning Session	12:00 noon - 1:00 pm	Not applicable
	Afternoon Session	1:00 noon - 4:00 pm	Not applicable
Auction Secssion	Closing Auction Secssion	4:00 p.m. to random closing between 4:08 p.m. and 4:10 p.m.	12:00 noon to random closing between 12:08 p.m. and 12:10p.m.

Note: There is no Extended Morning Session and Afternoon Session on the Eve of Christmas, New Year and Lunar New Year.

### **Talking Points & Future Developments Facing the SBL Model**

The Hong Kong SBL market is a mature and liquid market, which functions well and efficiently.

PASLA has been working in conjunction with the SFC and HKEx to enhance already well-established practices.

### **Talking Points**

- Suspended securities – Securities can be suspended for up to 18 months for the Main Board and 12 months for the GEM Board. This is significantly longer than comparable markets and means that, if securities are on loan when suspended, it is difficult to unwind the SBL agreement. The Exchange and SFC recognize the need for a short possible period of suspension whilst protecting investors.
- Short selling list – There are a restricted number of shares available for investors to short relative to other regional markets, although this is being reviewed under the current strategic plan.
- Parallel trading – Market splits and reverse splits can result in parallel trading, creating operational challenges. Historically Hong Kong is not a purely scripless market, and, although HKEx has previously explored abolishing parallel trading, multiple exchange participants objected. The SFC is looking to enhance current processes following the Uncertificated Securities Market (USM) Consultation (<https://www.sfc.hk/edistributionWeb/gateway/EN/consultation/doc?refNo=19CP1>), but implementation is unlikely to happen before 2022.

### **Developments**

HKEx launched a three-year strategic plan ([https://www.hkexgroup.com/strategic\\_plan\\_2019/index.htm](https://www.hkexgroup.com/strategic_plan_2019/index.htm)) in early 2019, which includes the aim of providing international investors options to access a range of Chinese securities investments.



# INDIA

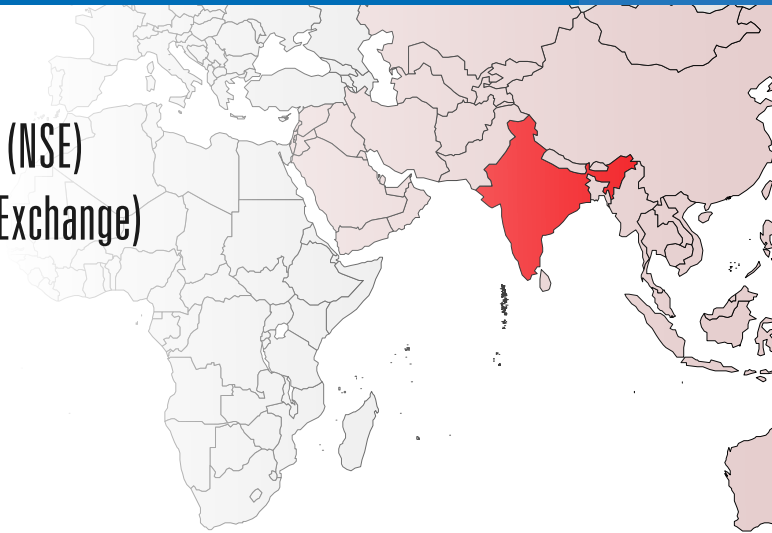
## Principal Exchanges:

National Stock Exchange of India (NSE)

BSE Ltd (formerly Bombay Stock Exchange)

Main Index: NSE Nifty Index

Settlement Cycle: T+2



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## Trading Hours

NSE Continuous Trading

9:15 a.m. - 3:30 p.m.

**Time Zone:** GMT +5:30

**Currency:** INR

## General Market Overview

The National Stock Exchange (NSE) and the BSE (formerly the Bombay Stock Exchange) are the main exchanges within India. The BSE was Asia's first stock exchange, established in 1875, while the NSE was recognized as a stock exchange in 1993.

The NSE's benchmark index is the NIFTY, representing a weighted average of the 50 most liquid companies listed on the NSE. The S&P SENSEX is the benchmark index, which comprises the 30 most actively traded companies listed on the BSE.

## Exchange Highlights

<b>Indices</b>	S&P BSE Sensex, Nifty 50 Index
<b>Listed Companies</b>	BSE: 5180 at December 2019, NSE: 1,923 at December 2019

## Key Regulators

Securities and Exchange Board of India (SEBI): <https://www.sebi.gov.in/>

**Securities Borrowing and Lending (SBL)****Access Methods**

While SEBI has put in place a Securities Lending and Borrowing Scheme (SLBS) in conjunction with the stock exchanges, the securities lending system is currently limited as to who can use it from an offshore perspective.

Under SLBS, borrowers and lenders are required to access the platform for lending/borrowing set up by Approved Intermediaries (AIs) through the clearing members (CMs), including banks and custodians, who are authorized by the AIs in this regard. The NSE Clearing Ltd. (NCL, formerly known as National Securities Clearing Corporation Limited) is the AI for SBL transactions on the NSE, and Indian Clearing Corporation Ltd. (ICCL) is the AI for SBL transactions on the BSE.

There is no requirement to use GMSLA (Global Master Securities Lending Agreement) as there are prescribed agreements within either the NCL or ICCL. Generally, there is very little room for negotiations to modify the provisions of the standard draft. Tenure of borrowing can be extended to a maximum of 12 months, whereupon the transaction must be “reversed.”

The NCL and the ICCL both guarantee settlement in the market, thereby acting as CCPs. Lending and borrowing are via an automated screen-based platform, with participants needing to quote lending fees per share. Order matching through this system is on price-time priority.

Institutional investors can only borrow within SLBS to honor the delivery of short-sale trades.

Securities and asset categories available for SLBS are limited to derivative stocks, non-derivatives and ETFs.

All clearing members of NCL, including banks and custodians, referred to as “participants,” are eligible to participate in SLBS. Participants can do so either on their own account or on behalf of their clients. If on behalf of clients, an agreement with each client must be signed, as per the format specified. From an offshore perspective, a participant must be a registered foreign portfolio investor (FPI) or foreign institutional investor (FII).

There are no reporting obligations on the borrowers or lenders pursuant to SLBS. However, CMs are required to submit a daily transaction report, i.e., a list of all the SBL transactions undertaken by them on each trading date, to SEBI.

The primary lenders are insurance companies, mutual funds and FPIs, followed by high net worth individuals (HNIs) and the retail segment. Insurance companies are only permitted to lend securities up to 10% of their portfolio. Although there is no official data provided by the exchange, the institutional percentage engaged in lending is very low.

**Useful Links:**

- NSE website: [https://www.nseindia.com/index\\_nse.htm](https://www.nseindia.com/index_nse.htm)
- BSE: <https://www.bseindia.com>
- SEBI circulars: [https://www.sebi.gov.in/legal/circulars/nov-2017/circular-on-re-view-of-securities-lending-and-borrowing-mechanism\\_36609.html](https://www.sebi.gov.in/legal/circulars/nov-2017/circular-on-re-view-of-securities-lending-and-borrowing-mechanism_36609.html)
- RBI: <https://www.rbi.org.in/>



## Volumes

1.33 billion shares from January - December 2019 – an increase of 76% relative to the previous year.

## Fees

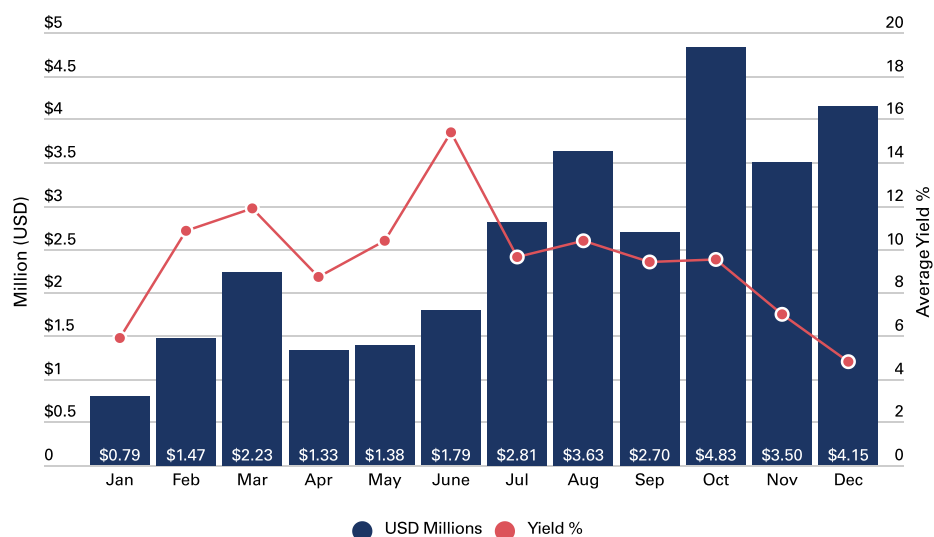
Total market lending revenue for 2019 (January – December 2019) was approx. US\$33 million.

33% was from NIFTY 50 stocks.

Loan value (Value of the Lendable Stock) was approx. US\$5 billion for the same period.

The average yield across the market was around 9%.

### Lending Fees & Yield Movement



Source: Monthly data from the NSE

## Short-Selling Rules

For foreign investors, the ability to short or to hedge is challenging and ever evolving. Following a crackdown on foreign investors using the futures market for short exposure, short access and hedging tools are more challenging than ever.

In July 2017, India's regulator instituted a crackdown on foreign access to the country's derivatives market. So called "participatory notes" were required to be liquidated or matured by the end of 2020. The Securities and Exchange Board of India (SEBI) stated that these p-notes (also known as offshore derivative instruments, or ODIs) were not to be used to take unhedged positions in Indian derivative markets. The move was made while also easing some of the registration requirements for applying to be an FPI in order to encourage more investors to directly register with SEBI.

**Is short selling permitted?**

Naked short selling is not permitted.

Institutional investors can borrow within SLBS to honor the delivery of short sale trades.

Actual short sale of a security can happen on T+1 and not T0 (for FPIs only) given the time taken to physically settle the borrowed shares.

**Definition of short sale**

Selling by acquiring a borrow.

**Pricing requirement for short sale**

Pricing is quoted on exchange.

**Short Position Reporting****Disclosure of short position**

There are no reporting obligations on the borrowers or lenders pursuant to SLBS. However, CMs are required to submit a daily transaction report, i.e., a list of all the SBL transactions undertaken by them on each trading date, to SEBI.

**When does a report need to be made?**

Reporting required monthly. For more information, visit <https://rbi.org.in/scripts/NotificationUser.aspx?Id=10094&Mode=0>

**Buy-Ins**

For all such short deliveries, NCL conducts a buying-in auction on T+2, after completion of the pay-out, through the NSE trading system. If the buy-in auction price is more than the valuation price, the CM is required to make good the difference. All shortages not bought in are deemed closed out.

Close out will be at the highest price prevailing in the NSE from the day of the trading until the auction day, or 20% above the official closing price on the auction day, whichever is higher.

For bonds, the closing-out price will be the highest rate prevailing on the exchange from the first day of the relevant trading period until the day of closing out, or 5% over the official closing price on the auction day, whichever is higher for debentures assigned a credit rating of triple-A and above. For other debentures and bonds without the triple-A credit rating, a close-out mark-up of 20% will be applicable.

In case of non-rectification/replacement of company objection and rectified/replaced company objections reported as bad delivery, the closing price will be 5% over the official closing price on the auction day.

## **Collateral Requirements**

SLBS does not allow for collateral located offshore. SLBS allows participants to deposit collateral in the form of cash, fixed deposit receipts (FDRs) or a bank guarantee. Both FDRs and bank guarantees must be from certain approved banks. FDRs are not applicable to FPIs.

## **Foreign Investor Limits**

The purchase of equity shares of each company by a single FPI or an investor group shall be below 10% of the total issued capital of the company.

Aggregated Equity Investment Limit – the individual ceiling of below 10% by a single FPI or an investor group is subject to an overall investment ceiling for total FII investment of 24% of the total paid-up equity capital of a company (20% in the case of public sector banks). The overall ceiling of 24% can be raised up to the sectoral limit if the concerned company passes a resolution by its Board of Directors in the General Body Meeting.

Exceptions to these limits apply to individual companies and sectors.

## **Tax**

There are no market-related taxes applicable on SBL trades, but the lending fees earned by the lender are subject to tax under the income tax guidelines. CGT should be applicable on short-sale transactions.

The standard form agreement between the CM and the AI is required to be stamped with INR 300.

The borrower of securities shall be liable to discharge GST at 18%.

## **Auction**

Pre-open 9:00 a.m. - 9:08 a.m.

After hours 15:40 -16:00

## **Talking Points & Future Developments Facing the SBL Model**

The SBL market in India has typically been a borrower-driven market with the presence of very few lenders. The borrowing side in India is primarily proprietary traders, whereas in other countries the borrowing side is more diversified with prime brokers active on behalf of underlying hedge fund clients. Increasing the participation of FPIs by removing the 10% limit on insurance companies and encouraging global pension funds would increase the participation and liquidity.

Expand the purpose for borrowing securities beyond the current rule, which only permits the borrowing of shares to cover short sales. By extending the purpose to allow for covering technical/operational fails trades in the market (fails coverage), failed trades will be prevented in the cash segment and liquidity will be increased in the SBL segment.

One of the deterrents for active participation in SBL segment is higher margin cost, which needs to be paid in the form of cash by foreign investors and cash/cash equivalent by domestic investors. By extending acceptable collateral types to include, for example, approved securities, the net transaction costs would be reduced.

Since the securities loan is made on the exchange platform and covered by the clearing house, there is no risk to the lender of not receiving the lending fee. However, the risk of not procuring the security lent, on early recall, persists. An early recall request is fulfilled by the clearing house on a best-effort basis only. A strengthening of the mechanism for the recall and repay of securities would help.

The introduction of an OTC model would provide additional flexibility to market participants and be in line with regional markets.











# INDONESIA

**Principal Exchange:** IDX

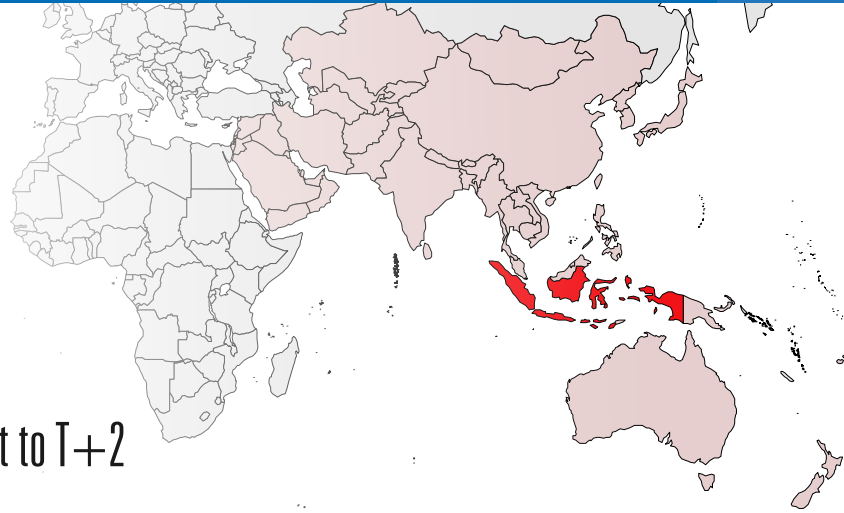
**Main Index:** JCI

**Settlement Cycle:**

T+2 (Regular Market)

T+0 (Cash Market)

As per agreement or default to T+2  
(Negotiated Market)



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TAIWAN  
THAILAND

### Trading Hours

Monday - Thursday 09:00 - 12:00, 13:30 - 15:50

Friday 09:00 - 11:30, 14:00 - 15:50

**Time Zone:** GMT+7

**Currency:** IDR

### General Market Overview

#### Exchange Highlights

The Indonesia Stock Exchange (IDX) was created by the merger of the Jakarta Stock Exchange and the Surabaya Stock Exchange in 2007. The Jakarta Stock Exchange Composite Index (JCI) is a modified, capitalization weighted index of all stocks listed on the regular board of the IDX. The Indonesia Sharia Stock Index (ISSI) was launched in 2011 and is a composite index of Islamic stocks listed on the IDX and on the List of Islamic Securities (DES) which is issued by the Financial Services Authority (known locally as the OJK). The Jakarta Islamic Index consists of the 30 most liquid Islamic shares listed on the IDX.

<b>Indices</b>	JCI – Jakarta Composite Index JII – Jakarta Islamic Index
<b>Listed Companies</b>	JCI: 673 at January 2020, ISSI: 420 members in December 2019
<b>Total Market Cap</b>	US\$470 billion as of December 2019

**Key Regulators**

The OJK regulates financial services activities within Indonesia.

**Securities Borrowing and Lending (SBL)****Access Methods**

Since 1995, under the capital market law, SBL has been allowed as a part of exchange transactions. Clearing members must have an SBL agreement with KPEI (Indonesian Clearing and Guarantee Corporation) to be granted a short-selling license. There are two types of transactions: regular (fixed fee) and front end (bid-offer fee), and under both types you can either have a fixed term or an open term. Under the fixed-fee transaction, the set fee to the borrower is high at 15%.

The market remains very illiquid for now with the prohibitively high fixed-rate fee keeping participants away. Additionally, liquidity providers providing inventory to the pool are scarce, so SBL tends only to be used for covering potential market fails.

KPEI has been considering the implementation of a bilateral SBL model in recent years subject to regulatory changes/approval by OJK. Other priorities (including tri-party repo) have delayed the project.

Useful links:

- IDX: <http://www.idx.co.id/en-us/>
- KPEI SBL Overview: <http://www.kpei.co.id/page/securities-borrowing-and-lending-overview>
- KSEI: <http://www.ksei.co.id/>
- OJK: <https://www.ojk.go.id/en/Default.aspx>

**Short-Selling Rules****Is short selling permitted?**

In March 2020 the IDX placed a temporary ban on short selling and stated that they will not be publishing a list of stocks eligible for short selling until further notice. The notes below refer to the system prior, and hopefully subsequent to, the ban.

Local brokers are normally allowed to short sell. On the last trading day of each month, IDX publishes the list of securities eligible for short selling and margin trading.

**Definition of short sale**

Short selling transaction means a sales transaction of securities that at the time of the transaction, has not been owned by the seller

**Pricing requirement for short sale**

The selling price inputted in the Stock Exchange trading system must be set



at or above the last listed price; and the Securities Company must indicate “short” when inputting the sell order into the Stock Exchange’s trading system.

### **Short Position Reporting**

#### **Remarks**

Securities companies must record margin transactions and short selling transactions in accordance to the existing Securities Company accounting standards.

To be eligible for margin financing or short selling transactions, the client must meet certain requirements, including opening a regular securities account and a Securities Financing Account with a Financing Agreement and deposit initial collateral.

It is required to maintain a Securities Transaction Financing Agreement to outline details around margin calls, the obligation on both parties to fulfil margin call requests and the rights in the event of failing to comply. In addition, all other financing conditions are outlined, including but not limited to financing period, interest calculations and other financing conditions.

### **Buy-Ins**

KPEI does not initiate “buy-ins” in the market, because when brokers fail to deliver scripless shares to KPEI by noon on T+3, KPEI will convert the obligation-to-deliver-shares to obligation-to-pay-cash to KPEI. This feature is called “Alternative Cash Settlement (ACS)” by KPEI. The shares that failed to be delivered are valued with the highest market price in the market between T+0 to T+3. The market value will be times 125% by KPEI for the conversion to cash obligation, and funds are taken from the guarantee fund. The cash obligation will be transferred to the buying broker’s cash account on the same day (T+3) and must also be paid on same day before 13:00.

### **Collateral Requirements**

KPEI requires clearing members to deposit collateral for a variety of reasons. For securities borrowing and lending, the primary forms of collateral are IDR cash and stocks but only stocks with ‘a high level of liquidity’. IDR Cash has a 0% haircut and stocks have a haircut range of between 5% and 100%, as determined by KPEI on a per stock basis.

### **Foreign Investor Limits**

No general restrictions except for banks and broadcasting companies. Banks are allowed to list for foreign ownership of up to 99% of their total capital. Foreign investors are allowed to invest in broadcasting companies only if they are buying newly issued shares, not to be above 20% of total capital.

### **Operational and Post Trade**

Please see below link for the current settlement, post trade and billing process

with KPEI, as it stands.

<https://www.kpei.co.id/page/securities-borrowing-and-lending-settlement>

### **Special Auction rules**

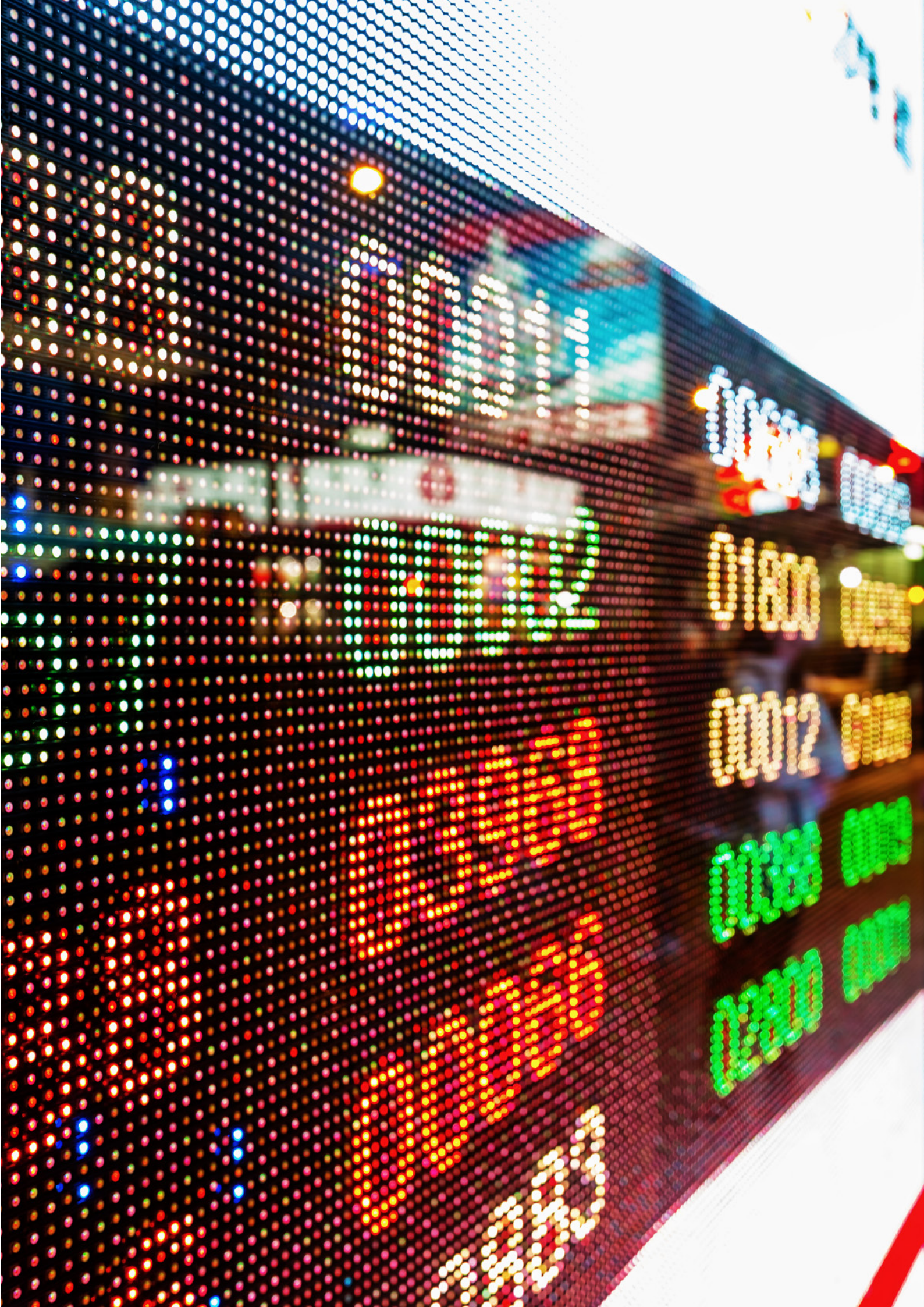
- Pre-open: 08:45 - 08:55
- Pre-closing: 15:50 - 16:00
- Post-trading session: 16:05 - 16:15

### **Talking Points & Future Developments Facing the SBL Model**

The exchange, regulators and policymakers are keen to expand the product offering available to investors in Indonesia. This will include ETFs and futures, and amongst those plans there is a clear understanding of the need for an SBL product to anchor that product expansion. KPEI has, in association with the onshore and offshore market participants, developed three new models for which it is working on an implementation timeline. Those three new models look to address access routes for all current and future market participants in SBL:

- Arranged SBL
- Customized SBL
- Offshore collateral SBL







MEDIA 24  
激安販売  
高額



冒険しつづけよう。  
DMM.com



次は太陽か。  
DMM.make solar



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COM ZIN



メイドカジノ  
POKER STARS



HELLSING OVA  
DRIFTERS COMICS 6



cat home cafe



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メイドカジノ



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# JAPAN

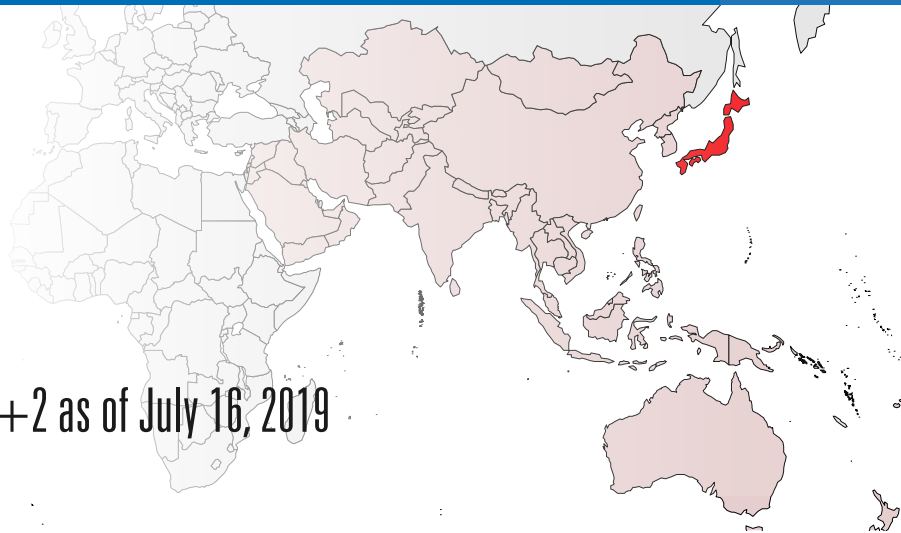
## Principal Exchange:

TSE, OSE, JPX-R JSCC

## Main Indices:

TOPIX, Nikkei 225

Settlement Cycle: T+2 as of July 16, 2019



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TAIWAN  
THAILAND

## Trading Hours

Open: Monday to Friday  
09:00 - 11:30, 12:30 - 15:00

**Time Zone:** GMT+9

**Currency:** JPY

## General Market Overview

The Japan stock market is the third largest in the world in terms of market capitalization (US\$6.1 trillion) as at December 2019 and the JPX is larger than Nasdaq and NYSE by the number of listed companies.

To provide investors with more investment opportunities, the Osaka Stock Exchange (OSE) expanded its derivatives product line-up, such as JPX-Nikkei 400 Options from July 2016.

To realize a more diverse marketplace that enables one-stop trading in various products ranging from financial securities to commodity derivatives, JPX and Tokyo Commodity Exchange (TOCOM) will combine in the near future.

## Exchange Highlights

The recognized exchange is the Tokyo Stock Exchange Inc. (TSE) under Japan Exchange Group, Inc. (JPX) and Japan Securities Clearing Corporation. TSE has about 80% market share of Japan equity trading. Most Japanese retail order flow directly comes to the exchange market. About 60% of order flow comes from overseas. JPX is the world's fifth most liquid stock market by value of shares traded; the value of share trading is US\$6.1 trillion at December 2019.

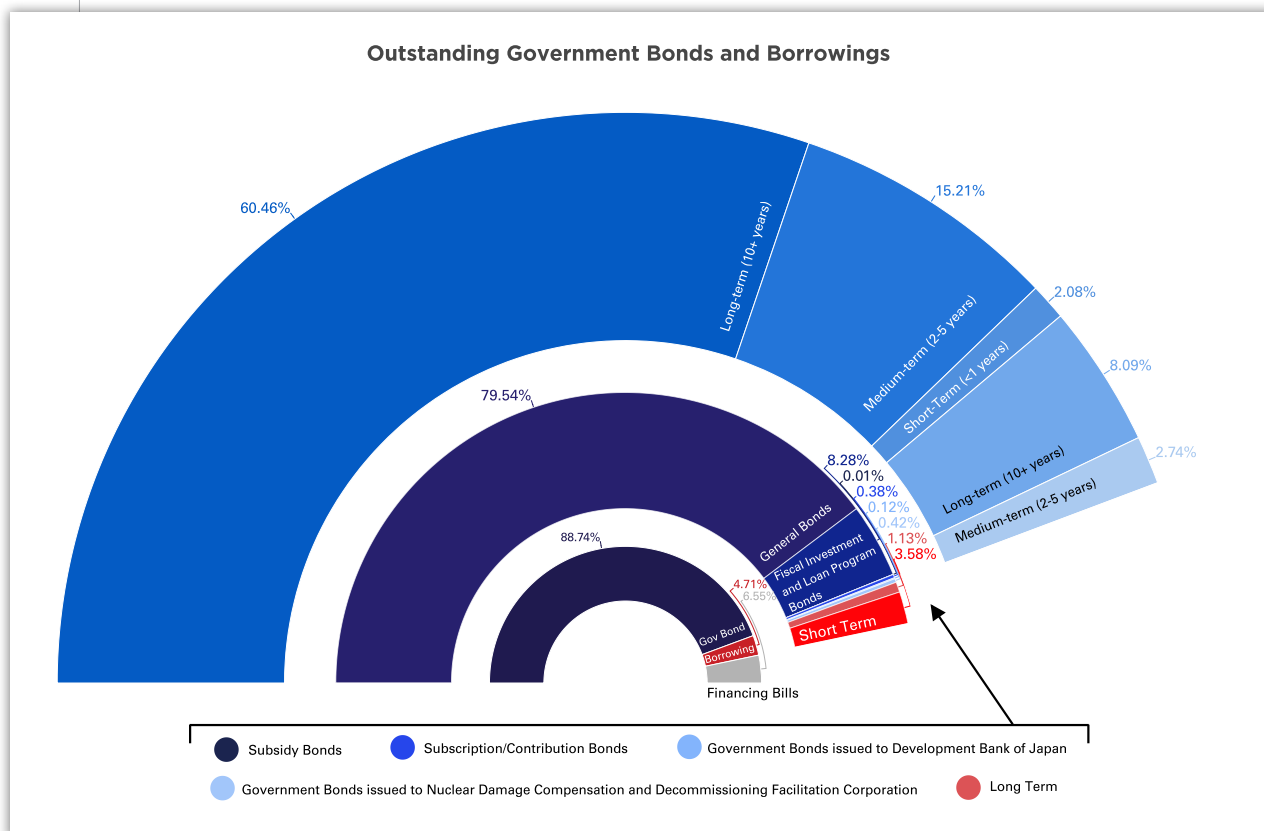
TSE has started to provide daily trading volume data per symbol for short selling/margin trading.

<b>Indices</b>	Nikkei 225 TOPIX JPX400, JPX, TSE2, TSE Mothers, JASDAQ, TSEREIT + more
<b>Listed Companies</b>	3,706 as of December 31, 2019
<b>Total Market Cap</b>	JPY 672.5 trillion as of December 2019 (US\$6.1 trillion)

### Fixed Income

There are three kinds of Japanese government bonds offered: general bonds, such as construction bonds and debt financing bonds; fiscal investment and loan program (FILP) bonds used to raise funds for the investment of the Fiscal Loan Fund; and subsidy bonds. Japanese government bonds (JGBs) have various maturities ranging from six months to 40 years. The short-term bonds with one year or less maturity dates are issued at a discount to par and are structured as zero-coupon bonds. However, at maturity, the value of the bond can be redeemed at its full-face value. The medium- to long-term bonds have fixed coupon payments, which are determined at the time of issuance and are paid on a semi-annual basis until the security matures.

### Fixed Income Data



As of August 9, 2019

Source: <https://www.mof.go.jp/english/jgbs/reference/gbb/e201906.html>

## **Key Regulators**

The Japan Financial Services Agency (JFSA) is the government authority in Japan responsible for maintaining monetary and banking stability.

## **DATALEND Market Data (Equity Lending Market) 2019 Averages**

On Loan (USD)	Lendable (USD)	Utilization (%)	VWAF (bps)
111,140,662,396	939,243,481,414	11.83	71.76

## **Stock Loan Rules**

Under Japanese law, market participants can use English and/or New York law standard SBL agreements to document securities lending transactions.

Limited securities lending activity has been onshore since the mid-1980s for institutional business but has been generally available for all brokers via the various securities finance companies for many years.

In December 1998, rules specifically designed to develop and grow the business were introduced, which has increased the size and scope of the domestic securities lending market. The market size increased fourfold from December 1998 to September 2002.

Along with settlement cycle change to T+2, the SBL market working group, comprised of Japanese institutions and foreign participants with Japanese presence, had a discussion for JSDA to set SBL guidelines.

## **Useful links:**

JSDA rule: Rules Concerning Handling for Borrowing and Lending Transactions of Share:

<http://www.jsda.or.jp/en/rules-guidelines/E40.pdf>

Guidelines on Borrowing and Lending Transactions of Share Certificates:

[http://www.jsda.or.jp/shijyo/minasama/content/gl\\_e.pdf](http://www.jsda.or.jp/shijyo/minasama/content/gl_e.pdf)

## **Short-Selling Rules**

Permitted. In the second half of 2008, during the height of global stock market turmoil, regulatory authorities around the world tightened short-selling regulations. The Japanese regulators enacted tighter short-selling regulations on October 27, 2008.

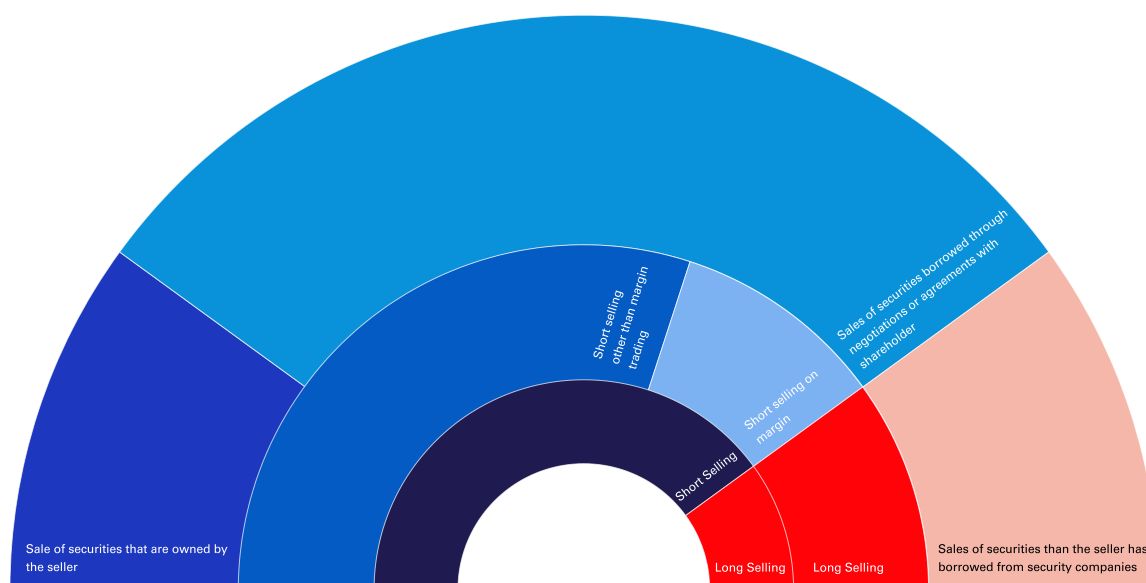
Uptick rules apply. The short-sale circuit breaker is triggered when the price of the security falls below 10% of the base price.

### **Is short selling permitted?**

Covered short selling is allowed.

**Definition of short sale**

Short selling is the sale of financial instruments that are not owned by the seller, or that the seller has borrowed. Sale on margin is a type of short selling, but the concept of short selling is broader, including the sale of borrowed financial instruments other than margin trading.



Source: JPX website: <https://www.jpx.co.jp/english/equities/trading/regulations/02.html>

Marking requirements, price restrictions and short-sale position reporting obligations are imposed to short-selling orders, according to Financial Instruments and Exchange Act and Order for Enforcement of the Financial Instruments and Exchange Act ("FIEA Enforcement Order").

**Pricing requirement for short sale****Up-tick rule**

The price of a short sale must be at a price above the last traded price of the security if that price was lower than the price in the previous trade, or at the last traded price if that price was higher than the price in the previous trade (FIEA Enforcement Order, Article 26-4). The price restrictions are not always applied. It becomes active once the traded price drops by 10% from the base price of each issue (trigger rule).

(Source: JPX website: <https://www.jpx.co.jp/english/equities/trading/regulations/02.html>)

**Short Position Reporting****Disclosure of short position**

Private disclosure is required for a short position at or above 0.2% of



the outstanding issued listed securities of an issuer and 0.1% positive or negative increments thereafter (e.g., at 0.3%, 0.4%, etc.).

Public disclosure is required for a short position at or above 0.5% of the outstanding issued listed securities of an issuer and 0.1% positive or negative increments thereafter (e.g., at 0.6%, 0.7%, etc.)

### When does a report need to be made?

Short sales positions of listed securities (mainly, share of stock) must be sent by 10:00 a.m. T+2 (Tokyo time).

### Buy-Ins

The buy in process for on exchange transactions is not initiated on an automated basis by the exchange as it is in countries like Hong Kong and Singapore. Consequently, buy-ins in Japan are relatively rare. Fail-affected participants may request the Japan Securities Clearing Corp (JSCC) to buy and deliver the fail-affected securities (this action is referred to as "buy-in") in the case where a fail persists beyond the securities settlement cut-off time for delivery on the next day after the day when the fail originally occurred (original settlement day). This buy-in request may be submitted from the next business day (between 1:30 p.m. and 2:30 p.m.) after the original settlement day.

### Collateral Requirements

It is possible for parties to SBL transactions to take collateral located offshore. There are no restrictions under Japanese law on parties to SBL transactions taking collateral located outside Japan.

### Foreign Investor Limits (FOL)

The law requires foreign investors to report to the Japanese government and undergo inspection in case they buy 10% or more of stocks in listed Japanese companies or acquire shares of unlisted firms. If the government finds any shortcomings, it can order foreign investors to change or cancel their investment plans.

In some cases, offshore lenders are providing these names conditional upon an FOL side letter to GMSLA. As holding/reporting conditions are case specific, custodians should be consulted.

Foreign ownership in broadcasting stocks is capped at 20% and airline and telecom industry stocks at 33.3%, with each industry applying unique requirements.

### Special Auction rules

Opening auction: 09:00 / Closing auction: 15:00

Trading hours at TSE are split into two sessions: Morning Session 09:00 – 11:30 and Afternoon Session 12:30-15:00. The hours at which orders from securities companies are accepted by TSE are 08:00 ~ 11:30 and 12:05 ~ 15:00.

Visit the JPX website for an overview and more detail: <https://www.jpx.co.jp/english/equities/trading/domestic/index.html>

**Talking Points & Future Developments Facing the SBL Model**

The July 2019 change to a T+2 settlement cycle may have caused short-term challenges for the market but is also serving as a catalyst for participants' technical and procedural enhancements. Participants are, for example, reducing day lag requirements relating to lending and receiving returns.

**Developments**

- TSE implemented several changes to the Corporate Governance Code effective June 1, 2018. The revised code can be found at : <https://www.jpx.co.jp/english/news/1020/b5b4pj000000jvvr-att/20180601.pdf>
- TSE launched ETF MM Scheme in July 2018

Current issues with the ETF application process and OTC settlement make creation/redemption costly and inefficient.

To facilitate the formation of closing prices, TSE expanded the price range to double at the afternoon closing auction in November 2019. However, the mechanism of the closing auction itself will stay the same.

TSE is launching a Proof of Concept program to verify the possibility of providing new data and services with the potential to contribute to the development of the securities market.











# MALAYSIA

## Principal Exchanges:

Bursa Malaysia Berhad

Main Index: Kuala Lumpur Composite

Settlement Cycle: T+2

## Trading Hours

Open: Monday to Friday

9:00 - 12:30

14:30 - 17:00

**Time Zone:** GMT+8

**Currency:** MYR

## General Market Overview

Malaysia is the 10th largest stock lending market in APAC based on total loan value with over US\$740 million on loan across nearly 250 securities. Approximately US\$600 million of this balance is in equity securities. As of December 2019, there were 228 names on the list of SBL eligible securities.

## Exchange Highlights

Bursa Malaysia, previously called the Kuala Lumpur Stock Exchange, is an exchange holding company, established in 1976 and publicly listed in 2005. It has multiple subsidiaries that, together, provide a fully integrated exchange, central depository and clearing house incorporating Sharia-compliant products and services.

There are three main markets:

- Main market for established companies
- ACE market for companies with growth potential
- LEAP market for emerging companies

<b>Indices</b>	Bursa Malaysia KLCI
<b>Listed Companies</b>	949 as of December 31, 2019, Main Market: 789 ACE Market: 130, LEAP Market: 30
<b>Total Market Cap</b>	RM1.7 trillion (US\$403 billion) at December 31

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 SINGAPORE  
 SOUTH KOREA  
 TAIWAN  
 THAILAND

**Key Regulators**

The Securities Commission (SC), which is overseen by the Ministry of Finance.

**Securities Borrowing and Lending (SBL)****DATALEND Market Data (Equity Lending Market) 2019 Averages**

On Loan (USD)	Lendable (USD)	Utilization (%)	VWAF (bps)
591,031,024	14,114,840,201	4.19	253.82

**Access Methods**

There are two SBL frameworks offered in Malaysia:

1. Negotiated Transaction Model (SBLNT), which offers an option to lend and borrow on an over-the-counter (OTC) basis and to report such transactions to Bursa Malaysia via onshore lending representatives or borrowing representatives.

2. Central Lending Agency (CLA) model, where the Bursa acts as the central lending agent between authorized lenders and authorized borrowers that are subject to the Bursa Clearing's SBL CLA Terms and Conditions.

SBL, under both models, is restricted by:

1. The principal parties must apply to Bursa Clearing and be approved.
2. All securities must be eligible securities as published by Bursa Securities on its website.
3. A borrower under SBL may only use the loaned securities for approved purposes as set out in the Bursa Clearing rules (see Rule 7.6 in Bursa Clearing rules listed below).

**CLA Model**

In general, foreign investors participate on the SBLNT model. Before focusing on that model, it is worth summarizing the CLA model. Any person who has the requisite number of shares shown in the SBL CLA Lending Pool can lend stocks to the CLA. Only approved participating organizations—i.e., local brokers—qualify to become borrowers. Collateral taken against loans through the CLA are Malaysian equities. More information on the CLA model can be found at [https://www.bursamalaysia.com/trade/post\\_trade/securities\\_borrowing\\_lending/central\\_lending\\_agency/overview](https://www.bursamalaysia.com/trade/post_trade/securities_borrowing_lending/central_lending_agency/overview)

**SBLNT Model****Documentation**

Standard international SBL agreements (e.g. GMSLA) may be used with appropriate modification to render them compliant with the rules and directives of Bursa Clearing. SBL agreements under SBLNT should contain, amongst other items:

- representation from each party that it has obtained approval from Bursa Clearing to participate in SBLNT as an approved SBLNT lender and/or an

approved SBLNT borrower

- representation from the approved SBLNT borrower that its loans will be for the approved purposes set out in the Bursa Clearing rule
- the name of the local representative for SBLNT

The SBL Agreement need not be lodged with Bursa Clearing. The performance of the SBL is processed electronically through the systems of Bursa Clearing. The local regulators do, however, have the power to require production of the SBL Agreement and any other relevant documentation.

The Bursa Malaysia website has a comprehensive SBL section, which contains a detailed overview of the SBLNT Model and Operational Guidelines ([https://www.bursamalaysia.com/trade/post\\_trade/securities\\_borrowing\\_lending/negotiated\\_transaction/overview](https://www.bursamalaysia.com/trade/post_trade/securities_borrowing_lending/negotiated_transaction/overview)). A list of lending and borrowing representatives is also on the website.

### **Reporting**

Parties to an SBLNT transaction must notify Bursa Clearing of the prescribed details of the SBLNT through their representatives in the manner prescribed by Bursa Clearing in order to have the loaned securities delivered. Each party to the SBLNT must inform Bursa Clearing of the loan through the SBLNT electronic system.

As listed securities are traded scripless, Bursa Clearing requires that all loaned securities be held in and, where relevant, transferred to the designated securities accounts as prescribed by Bursa Clearing. Hence, although there is no express reporting apart from that stated above, the segregated accounts enable the regulators to monitor a party's positions in SBL transactions in Malaysia.

### **Lending Period**

Lending period can be for any pre-determined period of time.

### **Fees**

Bursa will charge an intermediary fee for services provided. This fee is computed by the SBLNT system. The fee structure is one of two types:

- 0.02% (2 basis points) per annum of the outstanding loan (based on the daily closing price of the securities transacted) with a minimum of RM100 levied on both the borrowing representative and lending representative, or
- 0.04% (4 basis points) per annum of the outstanding loan (based on the daily closing price of the securities transacted) with a minimum of RM200 on the borrowing representative only

### **Other reporting required:**

Substantial shareholders (holding 5% or more of the company's voting shares) are required to report their interest directly to the company and Registrar of Companies Commission of Malaysia (SSM) within three calendar days (five calendar days for unlisted securities) after the investor becomes a substantial shareholder. Any increase or decrease in this position is also required to be reported within three calendar days of the transaction.

**Useful Links:**

Bursa Website: <http://www.bursamalaysia.com/>

Chapter 7 in the Rules of Bursa Malaysia Securities Clearing: <https://www.bursamalaysia.com/sites/5bb54be15f36ca0af339077a/assets/5d5bbea339f-ba23371abb581/CHAPTER7-15082019.pdf>

List of eligible securities: [https://www.bursamalaysia.com/trade/post\\_trade/securities\\_borrowing\\_lending/sbl\\_eligible\\_securities](https://www.bursamalaysia.com/trade/post_trade/securities_borrowing_lending/sbl_eligible_securities)

**Short-Selling Rules**

Short selling is not permitted in Malaysia except pursuant to specific statutory exceptions, which are listed below.

**Is short selling permitted?**

In March 2020 it was announced that IDSS, RSS and intraday short-selling by proprietary day trading would be temporarily suspended until 30th April 2020. The notes below refer to the system prior and, hopefully subsequent to, the ban.

Regulated Short Selling (RSS) can only be undertaken if is accompanied by an authorized SBL transaction.

Intraday Short Selling (IDSS) was launched in 2018 and allows eligible investors to engage in short selling of RSS Approved Securities, but all short positions must be closed off within the same trading day.

The Bursa releases a list of RSS- and IDSS-approved securities on its website on a regular basis.

**Definition of short sale**

Per the Capital Markets and Services Act (CMSA) of 2007, short selling is the action of a person selling shares, which he or she does not own at the time of selling.

Essentially, the law provides that a person shall not sell securities to a purchaser unless, at the time when he or she sells them:

1. he or she has (or, when selling as agent, his or her principal has) or
2. he or she believes on reasonable grounds that he or she has (or when selling as agent, his or her principal has)

presently exercisable and unconditional right to vest the securities in the purchaser.

**Pricing requirement for short sale**

RSS orders can only be keyed-in at a price at or above the best current ask price.

Rule 7.5.2 in the Trading Manual: The daily short-selling trade limit for a



particular security is set at 3% based on the total gross short selling (RSS + short selling under PDT + IDSS) volume for the day against the issued number of shares of the said securities.

Rule 7.5.4 in the Trading Manual: The net trade limit for RSS over a period of time is set at 10% based on the net outstanding volume of RSS against the issued number of shares of the said securities. The Bursa sends a weekly report showing the percentage RSS limit at a stock level.

## **Short Position Reporting**

### **Disclosure of short position**

High-level statistics are required on a weekly basis, but nothing at the stock position level.

### **Remarks**

All RSS trades must be executed via a designated RSS trading account.

### **Useful links:**

- FAQs on Regulated Short Selling: [https://www.bursamalaysia.com/sites/5bb54be15f36ca0af339077a/assets/5bb54d4f5f36ca0c38d98a9b/faqs\\_bm\\_securities-rss.pdf](https://www.bursamalaysia.com/sites/5bb54be15f36ca0af339077a/assets/5bb54d4f5f36ca0c38d98a9b/faqs_bm_securities-rss.pdf)
- Bursa RSS and IDSS Approved Securities: [https://www.bursamalaysia.com/trade/trading\\_resources/equities/regulated\\_short\\_selling](https://www.bursamalaysia.com/trade/trading_resources/equities/regulated_short_selling)
- Capital Markets and Services Act 2007: <https://www.sc.com.my/api/documentms/download.ashx?id=c4365eea-fb8b-4527-b876-4ab6129f0168>
- Futures Industry Act 1993: <https://www.sc.com.my/api/documentms/download.ashx?id=0549c4e4-51f0-41d1-9e65-e5c7bcfcddb8>

## **Buy-Ins**

Bursa Securities has automatic buy-in rules when a seller fails to make the securities available in the relevant securities account by the scheduled delivery time (4:30 p.m. on T+1). When Bursa Clearing informs Bursa Securities of the failed contract, Bursa Securities will affect an automatic buy-in against the defaulting broker without notice, which will occur on T+2.

## **Withholding From Buying-in Facility**

The scheduled delivery time for a redelivery of loaned securities is T+2. Under a sale, the securities have to be delivered by 4:30 p.m. on T+1 (where T is the date of contract), so there will be a mismatch where the approved lender sells and recalls the loaned securities on the same day.

A lender may sell and recall a loan on the same day where he or she complies with the Capital Markets and Services (Securities Borrowing and Lending) Regulations 2012 (the 2012 Regulations). The 2012 Regulations introduced a "Withholding From Buying-in Facility" effective for one business day only. This facility is provided to an approved SBLNT lender to facilitate the withholding of their sell trade from buying-in due to mismatch in settlement time when the

loaned securities are sold and recalled on the same day. Bursa Clearing will be able to withhold buying-in under the 2012 Regulations, which would otherwise take place for the recalled securities, provided that certain conditions are met:

- the sale is a bona fide sale transaction
- at the time of sale, the lender is entitled to recall from the borrower, at least the number of loaned securities that are the subject of the sale
- the lender recalls the loaned securities as soon as practicable within the same market day the loaned securities were sold
- the sale of the loaned securities is settled on the settlement date as may be prescribed by the stock exchange or the clearing house

The final point above shall NOT apply to a lender if the borrower fails to deliver the loaned securities to the lender in circumstances where:

- the securities have been suspended
- the borrower is only able to make partial delivery of the recalled loaned securities, or
- the borrower is unable to make delivery of the recalled loaned securities

More details are contained in section 5.2 of the SBLNT Operational Guidelines.

#### **Useful links:**

- Capital Markets and Services (Securities Borrowing and Lending) Regulations: <https://www.sc.com.my/api/documentms/download.ashx?id=7c3a4be4-79b7-458d-aa51-9d09755a9630>

#### **Collateral Requirements**

Unlike the CLA model, in the SBLNT model, there is no collateral held at the Bursa. The collateral approach is entirely between the approved SBLNT lender and approved SBLNT borrower.

For Malaysian residents, collateral may be located offshore as long as a resident party complies with the applicable foreign exchange administration requirements for providing collateral to, and obtaining collateral from, a non-resident party. Residency for foreign exchange administration purposes is specifically defined in section 213 of the Financial Services Act 2013.

#### **Foreign Investor Limits**

Foreign ownership restrictions are sector-specific with differing ownership levels.

#### **Tax**

The Minister of Finance (MOF) has specified the tax treatment for SBL transactions in respect to Malaysian securities (see Income Tax (Exemption) (No. 30) Order 1995 and Tax Guidelines on Securities Borrowing & Lending).

The SBL Exemption Order and MOF Tax Guidelines exempt a borrower and a lender from tax on "any income (other than dividends, lending fees, interest earned on collateral and rebate) arising from loan of securities listed under Bursa Malaysia Securities Bhd, the return of the same or equivalent securities and the corresponding exchange of collateral in respect of securities borrowing and lending transaction under a Securities Borrowing and Lending Agreement."

Capital gains are not taxed in Malaysia, except disposal of real property or on the alienation of shares in a real property company.

Malaysia does not levy withholding tax on dividends, but where a borrower makes a manufactured payment to a non-resident lender, the payment is subject to withholding tax in accordance with the provisions of the ITA.

Lending fees made by a borrower to a lender are subject to income tax under the Income Tax Act (ITA) when received by the lender.

Further, interest earned on collateral is subject to income tax when received by the borrower.

#### **Useful link:**

- Tax Guidelines on SBL: <https://www.sc.com.my/api/documentms/download.ashx?id=e33278d2-86d4-410a-8056-a8d73e49df80>

### **Talking Points & Future Developments Facing the SBL Model**

#### **Talking Points:**

- Expansion of the approved SBL securities list would improve liquidity in the SBL market.
- Holds – There is a lack of clarity concerning whether a hold sufficiently satisfies the requirement that the approved securities to be short sold are available to settle the sale, meaning that pre-borrows are often required.
- The widening of permitted participants in SBLNT via the expansion of the permissible participants list and further clarity on the definition of an “authorized SBL participant” under the SBLNT rules would increase participation.
- The “Withhold From Buy-In” process is onerous, and a buy-in at the end of T+2 or on the morning of T+3 may be a good alternative.

#### **Developments:**

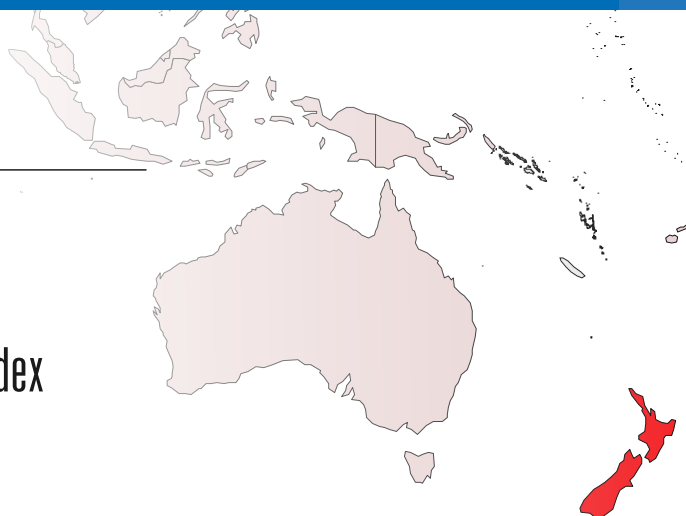
- Tri-party/financing trades – PASLA has been involved in several recent workshops to help clarify the benefits of tri-party financing and how it would reduce risk from an operational and counterparty perspective.
- Improvement in technology/systems
- Pledge structure
- Create end-user demand by permitting local funds to borrow







# NEW ZEALAND



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**Principal Exchange:**  
New Zealand Exchange (NZX)  
**Main Index:** S&P/NZX All Index  
**Settlement Cycle:** T+2

### Trading Hours

Pre-Open: 9:00-10:00 Normal Trading: 10:00-16:45

Closing Auction: 17:00 ±30 sec Adjust: 17:00-17:30

**Time Zone:** GMT+12 (winter), GMT+13 (summer)

**Currency:** NZD

### General Market Overview

New Zealand is home to a developed market infrastructure and established equity market. Owing to the relative size of the country, the New Zealand equity market is the smallest among developed countries in the APAC region. The New Zealand Exchange (NZX) was established in its current form in 2002 and is the only registered securities exchange in New Zealand.

### Exchange Highlights

The NZX Equity Market (NZSX) is the primary exchange for listed equities in New Zealand, providing access to 180 securities with a market cap in excess of NZ\$170 billion as of January 2020.

<b>Indices</b>	S&P/NZX All Index
<b>Listed Companies</b>	180
<b>Total Market Cap</b>	NZD 160 billion (US\$100 billion) at December 31, 2019

**Fixed Income**

The NZX Debt Market (NZDX) provides a venue for listed debt securities, including both NZ and APAC corporate and government debt instruments.

**Fixed Income Data**

Number of Listed Instruments: 143

Total Value Outstanding: US\$23 billion

**Key Regulators**

The Financial Markets Authority (FMA) is the government agency with responsibility for oversight of financial services and securities markets in New Zealand. The FMA regulates securities exchanges, financial advisers and brokers, auditors, trustees and issuers. The FMA holds joint oversight of designated settlement systems with New Zealand's other major financial regulator, the Reserve Bank of New Zealand.

The Reserve Bank of New Zealand regulates banks, insurers and non-bank deposit takers with the goal of maintaining a sound and efficient financial system.

**Securities Borrowing and Lending (SBL)****Access Methods**

Securities lending and borrowing is permitted in New Zealand with an OTC non-centralized model, used by offshore participants, in addition to a centralized model launched by NZX Clearing in 2010 for depository participants. Both models permit the use of the GMSLA, and parties are free to choose any law to govern that transaction.

**OTC Model**

The OTC model allows offshore agent lenders, banks and brokers to trade actively and freely, with fees and other aspects of the trade being negotiated between lender and borrower as they see fit.

Short-selling activity is not robust in New Zealand, and SBL activity remains low relative to market size.

**DATALEND Market Data (Equity Lending Market) 2019 Averages**

On Loan (USD)	Lendable (USD)	Utilization (%)	VWAF (bps)
811,066,643	9,618,781,604	8.43	40.36

**CDP Model**

NZX Clearing offers a securities lending facility for depository participants. The clearing house acts as the central counterparty for all securities lending transactions initiated through the depository. The securities lending facility provides depository participants with the opportunity to earn additional income

on securities held in the depository. Clearing participants, given the provision of adequate collateral, are eligible to borrow securities from the lending pool.

Fee Schedule for NZX Stock Loan Facility:

#### **Borrowing (minimum one day) [CHO432]**

OCR plus 52 bps (per annum)

#### **Lending Fee Income [CHO431]**

OCR minus 51 bps (per annum)

NZD borrowing and lending fees are invoiced exclusive of GST.

### **Short-Selling Rules**

#### **Is short selling permitted?**

Yes, short selling is permitted. All short sale orders must be flagged accordingly at time of trade.

#### **Definition of short sale**

A sale of any financial product where, at the time of the sale, the seller does not have a presently exercisable and unconditional right to vest the financial product in the buyer except where the seller has an unconditional agreement to acquire that right before the date required to settle the sale or, the financial product being sold has been borrowed, and the seller has a presently exercisable and unconditional right to vest the product in the buyer

Source: FCMA 2013 Article 266

#### **Pricing requirement for short sale**

No uptick rule; short-sale orders can cross the bid-offer spread.

### **Short Position Reporting**

#### **Disclosure of short position**

There is no reporting requirement for short positions on NZX.

### **Other Reporting Required:**

Disclosure is required for relevant interest in excess of 5% of quoted voting products in a listed company. Subsequent changes in holdings resulting in a 1% movement in holdings require disclosure.



**Useful links:**

<https://map.nzx.com/static/forms/docs/20170927-Guidance-on-substantial-product-holder-disclosures.pdf>

**Buy-Ins**

If the clearinghouse (CHO) elects to buy in a security, the affected clearing participant will be notified by 9:30 a.m. on the relevant trading day, and the buy-in procedure will begin at 10:30 a.m. at a price that is not more than 2% above the last transacted price, or current bid price, whichever is highest.

If sufficient securities are not obtained by CHO within 30 minutes, the price will be reset to a price at an additional 2% above the then-current last transacted price, or the current bid price, whichever is highest.

This process may be repeated every 30 minutes during that day and each successive trading day until the required quantity of securities has been acquired.

**Useful link:**

<https://www.nzx.com/regulation/nzx-rules-guidance/clearing-depository-rules>

**Collateral Requirements**

No specific restrictions on eligible collateral for bilateral transactions enacted under a standard GMSLA. For SBL transactions entered through the New Zealand Depository facility, collateral must be either US\$, AU\$, NZ\$ or designated eligible securities, which currently includes NZX50 or ASX200 constituent securities, or approved products issued by the New Zealand Government.

**Foreign Investor Limits**

Approval is required for the acquisition of securities by a foreigner or foreigners in concert if the following thresholds are breached:

- Ownership or controlling interest exceeds 25% of outstanding shares
- The value of a security interest exceeds NZ\$100 million

Source: Overseas Investment Act 2005

**Tax**

SBL activity is not a taxable event in New Zealand.

The statutory dividend tax rate is currently 30%; however, New Zealand has various double-tax treaty agreements, which may result in different levels of liability depending on domicile.

Additionally, New Zealand companies may pay a supplementary dividend accompanying a fully imputed dividend to compensate non-resident shareholders outside of certain jurisdictions.

This commentary only serves as a guideline and should not be construed as tax advice. Please consult a tax professional for further information.

**Useful links:**

<https://www.classic.ird.govt.nz/technical-tax/legislation/2006/2006-3/2006-3-taxation-share-lending-transactions/leg-2006-3-share-lend-transact.html>

<https://www.ird.govt.nz/income-tax/withholding-taxes/non-resident-withholding-tax-nrwt>

<https://www.classic.ird.govt.nz/technical-tax/legislation/2009/2009-63/2009-63-taxation-act-2009/2009-63-outbound-dividends/leg-2009-63-ta-outbound-dividends.html>

**Operational and Post Trade**

New Zealand Clearing (NZC) serves as a CCP for all on-market cash and derivatives trades. NZC also serves as a central counterparty for all securities lending transactions initiated through the securities depository.

**Auction Rules**

The Opening Auction occurs at a random time 30 seconds on either side of 10:00 a.m., and the closing auction occurs at a random time 30 seconds on either side of 5:00 p.m. In both cases, the auction methodology is the same. The market-clearing price where the greatest number of bids and offers can match is determined, and this level will execute at a single print price.

In the case where there are no trades in the opening auction, the first sale during the regular session will become the official opening price. Conversely, if there are no trades in the closing auction, the last sale of the regular session becomes the official closing price of the day.

**Talking Points & Future Developments Facing the SBL Model**

The NZX has identified a number of hurdles facing the New Zealand secondary equity market and, in turn, SBL liquidity and demand. Primary inhibitors to the growth of the industry are a dearth of IPO activity and lack of asset-allocation choices for KiwiSaver, which is projected to reach NZ\$70 billion in AUM by 2020 and could serve as a source of liquidity for the underinvested portion of New Zealand's equity market. In the case of private market potential, it is estimated that there are more than 1,200 privately held companies in New Zealand with revenue in excess of NZ\$30 million.







# PHILIPPINES

**Principal Exchange:**  
Philippine Stock Exchange (PSE)

**Main Index:**  
PSEi comprises 30 of the largest and most actively  
traded stocks listed on the exchange

**Settlement Cycle:** T+3

## Trading Hours

Open: Monday to Friday  
9:30 - 12:00, 13:30 - 15:30

**Time Zone:** GMT+8

**Currency:** PHP

## General Market Overview

The Philippines is the 12th largest financial market in APAC by market capitalization as of the December 31, 2019.

## Exchange Highlights

The Philippine Stock Exchange (PSE) is the only stock exchange in the Philippines following the unification of the Manila Stock Exchange and the Makati Stock Exchange in 1992. Since 2003 the PSE has been a listed, for-profit entity.

<b>Indices</b>	PSEi
<b>Listed Companies</b>	217 listed companies as at December 31, 2019
<b>Total Market Cap</b>	PHP 13,705 billion (US\$270.54 billion) as of December 31, 2019

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**Key Regulators**

Securities and Exchange Commission (SEC)

**Securities Borrowing and Lending (SBL)****Access Methods**

There is a functioning onshore SBL system, but there remain concerns for offshore participants which effectively render the current system unusable. Concerns include, amongst others, the ability to use offshore collateral and the reliance on Philippines law.

**Onshore system**

There is no centralized SBL system for borrowers and lenders in the Philippines, but, instead, it is guided by rules issued by multiple sources including the SEC, PSE, Bangko Sentral ng Pilipinas (BSP), PDEX, the Insurance Commission and the Bureau of Internal Revenue (BIR).

Parties can enter into SBL transactions on an agency basis as well as on a principal-to-principal basis. A lending agent must be registered with the SEC.

Ordinary shares or other securities listed in the PSE can be included in an SBL transaction unless declared by the SEC or the PSE as ineligible for borrowing and lending under the SBL program.

SBL documentation (MSLA) must be approved and registered by the BIR. It is the borrower that applies for prior approval and registration of the documentation, but subsequently the BIR must be notified by the lender that it has entered into the registered agreement so that the SBL transaction will not be assessed as liable for the corresponding taxes. If acting as a lending agent, a Securities Lending Authorization Agreement (SLAA) must be executed.

In addition, the BSP requires the registration of SBL transactions covering PSE-listed shares borrowed by foreign borrowers from local lenders to enable the former to purchase foreign exchange from local banks for remittance abroad using the peso sales proceeds of the borrowed shares.

The SEC requires lending agents and direct lenders to submit a biannual summary report of their SBL transactions within 30 days after the end of the covered period.

There is a maximum lending period of two years from the date of execution of the SBL Confirmation Notice.

The Philippine Peso (PHP) is not fully convertible. Repatriation of funds needs to be supported by a Bangko Sentral Registration Document (BSRD).

**Additional Reporting**

Beneficial owners are required to disclose ownership to the SEC when ownership exceeds 5% and 10% of the outstanding shares held by a company listed in the PSE. Any material change would have to be reported within three business days from trade date. Such disclosure must likewise be made to the PSE and the Issuer.

**Useful Links:**

PSE website: <https://pse.com.ph/SBLShortSelling/>

**Short Selling Rules**

The PSE's Revised Short Sell Guidelines have been approved by the SEC, but implementation has yet to follow.

**Useful Links:**

PSE Guidelines for short selling transactions:

[https://pse.com.ph/SBLShortSelling/resources/ShortSelling/RulesandRegulations/files/Short\\_Selling\\_02\\_Rules\\_Regulations\\_PSE\\_Guidelines\\_for\\_Short\\_Selling\\_Transactions\\_rev\\_Jan2019.pdf](https://pse.com.ph/SBLShortSelling/resources/ShortSelling/RulesandRegulations/files/Short_Selling_02_Rules_Regulations_PSE_Guidelines_for_Short_Selling_Transactions_rev_Jan2019.pdf)

**Buy-Ins**

No failed settlement is allowed. In the case of a failure, the broker will arrange a stock loan to cover the position. Failure to cover the position results in the broker getting a trader suspension from the exchange plus a penalty. The broker has the right to pass on any related costs to the client.

**Collateral Requirements**

There is a lack of clarity on whether offshore collateral is permitted. Onshore SBL requires collateral to at least the value of the borrowed shares and marked to market. The SEC prescribes eligible collateral as cash, equity or government securities (Section 12 of the SEC Rules).

**Useful Links:**

SEC Rules on Securities Borrowing and Lending: <http://www.sec.gov.ph/wp-content/uploads/2015/11/sec-memo-7s2006.pdf>

**Foreign Investor Limits**

No general restrictions except in areas where foreign investment is not allowed. Such areas include mass media, nuclear weapons, mining and advertising.

The restrictions are laid out in the Foreign Investment Negative List (List A and List B). List A enumerates the companies reserved only for Philippine nationals as per the Constitution or laws. List B enumerates the companies in which foreign ownership is limited to 40% on economic activities regulated by law.

**Tax**

Neither SBL transactions or the delivery of collateral will be subject to stock transaction tax (STT) or capital gains tax (CGT) and documentary stamp tax (DST) provided that:

- a valid MSLA is executed by the parties and registered with and approved by the BIR
- the SBL program is in accordance with the SEC rules, and
- the SBL program is under the administration and supervision of the PSE
- All other applicable taxes prescribed by the Philippine Tax Code and special laws shall continue to apply.



**Talking Points & Future Developments Facing the SBL Model****Talking Points**

Several steps are required to induce international participation in SBL in the Philippines:

1. Allow market participants to use the international GMSLA with an addendum/supplemental agreement. Both documents would need to be governed by U.K. law to avoid contradictions of different legislatures.
2. Offshore collateral – The acceptance of offshore collateral would improve liquidity and demand.
3. Lending agent domicile – Clarification of the rules on whether lending agents need to have a branch in the Philippines.
4. Failed sales and failed returns – The Philippines is currently a “no fail” market, which doesn’t allow for operational issues that may cause a delayed return. The resulting risk-mitigation procedures are restrictive and discourage market participation.

**Developments**

1. Launch of short sale program – The PSE is spending a considerable amount of time reviewing its short-selling proposal to ensure that it will be in line with market requirements.
2. The Philippines will eventually move to a T+2 settlement cycle, but this will only occur once a new clearing and settlement system has been implemented by the SCCP.
3. The introduction of tri-party collateral would support lending arrangements onshore.









# SINGAPORE

## Main Index:

Straits Times Index (STI) tracks the performance of the 30 largest and most actively traded stocks on the Singapore Exchange.

**Principal Exchange:** SGX

**Settlement Cycle:** T+2

## Trading Hours

Monday to Friday:

9:00 to 11:59, 13:00 to 17:00

**Time Zone:** GMT+8

**Currency:** SGD

## General Market Overview

Singapore is currently the 11th largest equity market in the Asia Pacific region. The Singapore Stock Exchange is considered the largest in Southeast Asia and serves as home to more than 700 companies.

## Exchange Highlights

The Singapore Stock Exchange (SGX) operates three major business segments, including equities and fixed income, derivatives and market data and connectivity. The equities and fixed income segment are further subdivided.

<b>Indices</b>	STI, FTSE ST Catalyst, FTSE ST All-share, FTSE ST Mid Cap, FTSE ST Small Cap, FTSE ST Fledgling
<b>Listed Companies</b>	716 as of December 31, 2019
<b>Total Market Cap</b>	US\$754 billion as at 31 December 2019

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**Fixed Income**

Singapore has one of the most developed bond markets in Asia. Based on MAS's corporate debt market review, the market capitalization was about US\$754.2 billion in 2019 of which about two-thirds were in SGD and the rest mostly in US dollars.

The SGD bond market is made up of Singapore Government Securities (SGS), quasi-government bonds, corporate bonds and structured securities. The SGD bond market is fully accessible to all issuers and investors globally. There are no capital controls, hedging restrictions or withholding taxes. As a result, the market's profile is international in nature, with foreign entities accounting for more than a quarter of bond issuance. Regulations were fine-tuned in 2009 to qualify high-grade securities issued by foreign entities as regulatory liquid assets. Since then, there has been an increase in issuances by well-known, AAA-rated foreign issuers such as the African Development Bank, KfW Bankengruppe, International Finance Corp (IFC) and International Bank for Reconstruction & Development (IBRD).

**DATALEND Market Data (Equity Lending Market) 2019 Averages**

On Loan (USD)	Lendable (USD)	Utilization (%)	VWAF (bps)
2,033,955,959	48,441,859,179	4.20	141.94

**Key Regulators**

The Monetary Authority of Singapore (MAS) - Singapore's central bank and sole bank regulator oversees all financial institutions in Singapore.

The Ministry of Finance (MOF) - Assigns regulation and monitoring of financial markets to MAS and SGX.

The Securities Industry Council (SIC) - Advisory and consultative body to the MOF.

**Securities Borrowing and Lending (SBL)****Access Methods**

Securities lending and borrowing is permitted in Singapore, with an OTC non-centralized model, used by offshore participants, in addition to a centralized model launched in 2002 by the Central Depository (CDP) and used by the onshore market. Both models permit the use of the GMSLA, and parties are free to choose any law to govern that transaction.

**CDP Model**

The main objective of SGX's SBL program is to improve liquidity in the stocks traded on the SGX. The program was launched in January 2002 by the CDP. The account structure of CDP is the foundation of the SBL program. The stocks from a large number of direct securities accounts provide a steady supply to the lending pool.

The CDP acts as the principal to both borrowers and lenders. The borrowers and lenders remain mutually anonymous. The CDP collects collateral from the

borrowers but does not pass it onto the lenders. For cash collateral provided by the borrowers, the CDP will pass back the interest to them at a lower rate.

The direct securities account holders are the major lenders. Currently, about 6,000 direct securities account holders have signed up to lend out their stocks. They can specify to lend out (1) all stocks, (2) specific stocks only or (3) specific stocks with maximum quantities only. The stocks remain in the accounts of the potential lenders. The CDP uses a separate system to keep track of the lending pool. Stock movements are only required for executed SBL loans and recalls.

SGX brokers are the major borrowers. A majority of them have participated in the program. Most of their loans are on second and third liners for retail trades. The loan sizes are usually small with an average of 60,000 to 70,000 shares per transaction. The custodians seldom participate because they have their own lending desks and will focus on larger transactions.

The 200 stocks with the highest transaction volumes are eligible for the program, and the minimum borrowing size is 1,000 units. Fees are fixed: Borrowers pay 6% and lenders get 4%. The CDP has implemented various risk-management measures on the price risks and concentration risks for the outstanding loans and the collateral. However, it is up to the borrowing brokers to monitor the risks of their clients.

The transaction volume of the CDP SBL program has been low. It is difficult to attract investors to participate. Borrowers see the program as a complement to the OTC market. They will usually obtain large loans for blue chips through the OTC market and small loans or loans for second or third liners from the CDP.

### **OTC Model**

The OTC model allows offshore agent lenders, banks and brokers to trade actively and freely, with fees and other aspects of the trade being negotiated between the lender and the borrower on a bilateral basis.

It is difficult for the CDP to compete with the OTC market on the pricing and services. Short-selling activity is not robust in Singapore, which is a further reason for the low demand for SBL loans.

### **Short-Selling Rules**

#### **Is short selling permitted?**

Permitted subject to local restrictions. Investors must mark their sell order as a normal sell or short sell order at the point of arrangement to avoid settlement failure.

#### **Pricing requirement for short sale**

Uptick rule does not apply.

### **Short Position Reporting**

#### **Disclosure of short position**

The MAS has required investors to report short positions and short sale



orders in securities listed on the Singapore Exchange since October 1, 2018. A person who has a short position in any specified capital markets products (e.g., shares, business trusts and REITs listed on SGX) that hits the short position threshold will be required to report the short position.

The short position threshold is the lower of:

- (a) 0.2% of total issued shares in the relevant class of shares or units, or
- (b) SG\$2,000,000

Short positions are determined on Position Day, which is the last trading day of each week (typically a Friday).

#### When does a report need to be made

Short position holders must submit their short position reports within two business days from Position Day.

#### Buy-Ins

The SGX enforces a buy-in when the seller fails to deliver the shares for settlement by 1:30 p.m. on T+2. Executions by the exchange are sometimes at punitive prices. The investor will pay the difference between the selling price and the buy-in price, including brokerage and buy-in fees. CDP charges a processing fee of SG\$75 (SG\$80.25 inclusive of GST) for each failed contract. A brokerage rate of 0.75% will be levied on each buy-in contract.

A penalty of 5% of the value of the failed trade or \$1,000 (whichever is higher) is imposed on all trades that are not delivered. This is waived if the buy-in is successful on T+2. Continued non-delivery by the end of T+7 can lead to the clearing member being referred to the disciplinary committee.

If the buy-in is unsuccessful on T+2 and sufficient shares are available on the morning of T+3, a withdrawal request can be submitted to CDP.

#### Collateral Requirements

In March 2002 the MAS amended regulations to allow for non-SGD collateral to be received for SBL transactions.

Offshore lenders/borrowers can pledge/hold collateral as agreed bilaterally, with no restrictions being imposed by local authorities, either being held directly or managed via tri-party agents. There are no restrictions on either title transfer or pledge.

#### Foreign Investor Limits

In general, there are no foreign ownership level restrictions for local shares, unless specifically stated in the company's Memorandum and Articles of Association (M&A). Regulatory approval may be required for share ownership (local or foreign) beyond a certain threshold in banking or media companies, air aviation and newspapers.

## **Tax**

In November 2001 the IRAS issued a guide on the tax implications of SBL and repo. SGX plans to enhance key Central Depository (Pte) Limited (CDP) Clearing and Settlement processes to further improve operational efficiency and risk management. Key enhancements provide for earmarking of securities for FOP settlement with SGX Trading Member and management of failed deliveries through buying-in on the afternoon of T+2.

## **Operational and Post Trade**

### **Auction Rules**

Pre-open: 8:30 to 8:58 / 8:59 (random finish)

Pre-close: 17:00 to 17:04 / 17:05 (random finish)

Non-cancel: 17:04 / 17:05 to 17:06

Close: 17:06

## **Talking Points & Future Developments Facing the SBL Model**

### **Talking Points**

SGX moved to T+2 settlement on December 10, 2018, in line with other global markets. The unintended consequences of this change have left lenders and their counterparties less time to source substitute securities to cover client sales; this could result in higher instances of automatic buy-ins and has resulted in a contraction of liquidity from lending pools.

Additionally, the transfer of suspended securities can be cumbersome. SGX requires a statutory declaration to be completed by both transferor and transferee during a transfer of shares where there is a change in beneficial owner. However, no declaration is needed where there is no change in beneficial owner. All requests to transfer suspended securities are subject to the review and approval of the central depository. This process is time-consuming and inefficient for market participants.

### **Developments**

Efforts to remedy the unintended consequences of the change in settlement cycle in December 2018 continue. The industry is seeking to add transparency to the pre-matching of the settlement process or add additional settlement runs to allow for greater opportunities to avoid automatic buy-ins. This would help undo the contraction of liquidity from lending pools.

PASLA continues to work on a consultative basis with the SGX and other market participants to identify solutions.







# SOUTH KOREA

## Principal Exchange:

Korea Exchange (KRX)

**Main Indices:** KOSPI, KOSDAQ

**Settlement Cycle:** T+2

## Trading Hours

Pre-Market Session: 7:30 - 9:00

Normal Trading Hours: 9:00 - 15:20

Close Auction: 15:20 - 15:30

After-Market Session: 15:40 - 18:00

**Time Zone:** GMT+9

**Currency:** KRW

## General Market Overview

South Korea is the 5th largest financial market in Asia and the 11th largest in the world with a market capitalization of US\$1.5 trillion as of December 2019.

KRW may only be exchanged and cleared onshore as it is a restricted currency. Unlike some currencies, KRW may be freely traded in the local market without necessarily having to link the buys or sells to an underlying transaction. Overseas investors must use licensed foreign exchange banks to trade KRW and reference the IRC number and investor.

## Exchange Highlights

The Korea Exchange (KRX) is composed of four sub-markets: KOSPI Market Division, KOSDAQ Market Division, KONEX Market Division and Derivative Market Division.

Access to the KRX is restricted to members of the KRX only. Non-members may access the market through KRX member firms.

Foreign investors are required to be approved by the Financial Supervisory Service (FSS) in order to trade listed securities of the exchanges in Korea. This process involves applying for an investor identification, the Investment

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Registration Certificate (IRC), through the FSS. The IRC is obtained at the ultimate beneficial owner level, with each IRC issued being unique to that foreign investor. The IRC is required in order to open accounts and trade securities in Korea. The documentation process is managed by a local custodian bank for the prospective investor.

<b>Indices</b>	<p>KOSPI – The main benchmark stock market in Korea.</p> <p>KOSDAQ – Launched in 1996 to primarily provide funding for start-up companies and companies in the technology space.</p> <p>KONEX – Established in 2013, the Korea New Exchange was established for early-stage companies to access investor funding without needing to draw on bank loans.</p>
<b>Listed Companies</b>	<p>KOSPI: 799</p> <p>KOSDAQ: 1,403</p> <p>KONEX: 151</p> <p>As of January 2020</p>
<b>Total Market Cap</b>	<p>KRW: US\$1.5 trillion</p> <p>KOSPI: US\$1.3 trillion</p> <p>KOSDAQ: US\$2 billion</p> <p>KONEX: US\$430 million</p> <p>As of January 2020</p> <p><a href="http://global.krx.co.kr/main/main.jsp">http://global.krx.co.kr/main/main.jsp</a></p>

### Fixed Income

In Korea's fixed income market there are two main types of bond: government and corporate. Government bonds, or KTBs, are the most traded asset class with 3-year, 5-year, 10-year, 20-year, 30-year and 50-year maturities. The government also issue National Housing Bonds (NHBs) and Foreign Exchange Equalization Bonds.

Rehypothecation and repledging of KTBs is complex and restrictive as a result. Some firms accept KTBs as collateral but overall the rehypothecation or collateralization of KTBs is still limited. Under Korean law a party may lend KTBs to another party as collateral, effectively as a title transfer, which in turn may only be used for a repo transaction or for provision of collateral to a third party.

### DATALEND Market Data (Equity Lending Market) 2019 Averages

On Loan (USD)	Lendable (USD)	Utilization (%)	VWAF (bps)
12,282,730,881	142,150,134,155	8.64%	337.91

### Key Regulators

FSS is South Korea's integrated financial regulator, which examines and supervises financial institutions under the broad oversight of the Financial Services Commission (FSC), the government regulatory authority.

**FSS Activities Include:**

Supervision of financial institutions: (Preliminary) review of license applications (for bank, non-bank, financial investment company, insurance company, credit card company, financial holding company or any other kind of financial institution), review of the terms and conditions of financial institutions; supervision of the soundness of business management and business activities.

Examination of financial institutions: Analysis and evaluation of financial companies' business activities, financial position and risk management capacity; verification of companies' compliance with relevant statutes.

Supervision of the capital market: Operation of disclosure system to maintain the sound operation of primary and secondary markets for marketable securities; capital market investigation to prevent unfair trade practices.

Supervision of accounting: Alignment of accounting standards to international accounting standards to achieve enhanced transparency; supervision of accounting to ensure a fair operation of the external audit system.

Protection of customers of financial services: Consultation and handling of customer complaints regarding financial services; protection of customer rights through dispute mediation; financial education of consumers.

**Securities Borrowing and Lending (SBL)****Access Methods**

SBL transactions can only be conducted through authorized intermediaries in Korea. Authorized intermediaries include the Korea Securities Depository (KSD), Korea Securities Finance Corporation (KSFC) and local securities firms.

KSD is the central securities depository and is majority owned by the KRX. The KSFC intermediates, arranges and acts as an agent in SBL transactions. Both KSD and KSFC guarantee the performance of the borrower in return for receiving the collateral from that borrower under most transactions except customized transactions. The KSFC will only guarantee the performance of the lender under so-called cash-backed transactions.

The main types of SBL are settlement coverage, bid-offer, customized and arranged. The borrower and the lender choose the type and enter the application details into the intermediary system. Most offshore activity is under the "customized" model, as that allows the collateral to be held offshore. All loans must be intermediated.

GMSLA may be used where the collateral under an SBL transaction is Korean securities. There is a need for modification because collateral is provided by way of pledge or title transfer through "lending for collateral purposes" in the case of Korean Treasury Bonds (KTBs) and Monetary Stabilization Bonds (MSBs) under Korean law. In addition, Korean securities companies are required to use the standard lending agreement prepared by Korea Financial Investment Association for SBL transactions.

If an SBL transaction is to be intermediated by KSD, the parties will need to have an account with KSD. In principle, KSD will open an account only for financial institutions (whether Korean or non-Korean institutions).



**Short-Selling Rules****Is short selling permitted?**

Short selling is normally permissible in South Korea.

Only covered short selling is allowed in Korea. When placing a short sale at the executing broker, the investor must specify it is a covered short sale and ensure the borrowing of shares is executed before the covered short sale order is placed.

Naked short sales are not permitted. Sanctions against uncovered short sellers can be onerous.

KRX requires to tag long sell and short sell correctly on all sell orders.

Regulators can ban short selling in exceptional circumstances, such as after the Global Financial Crisis in October 2008 and, more recently, during the SARS-CoV2 outbreak in March 2020.

**Definition of short sale**

Short sale is defined as a sale of stocks not in possession on trade date.

**SBL transaction Eligible Securities**

SBL trades are allowed for KOSPI and KOSDAQ listed securities only and are not allowed for KONEX-listed securities. SBL trades are not allowed on synthetic ETFs even when listed on KOSPI or KOSDAQ, such as KODEX-leveraged and inverse ETFs.

**Pricing requirement for short sale**

There is an uptick rule when placing short-sale orders, which requires short sales to be placed at the last traded price or higher. However, when the price is on the rise (the most recently matched price is higher than its previous price), it is exceptionally allowed that short selling is quoted at the most recently matched price.

The price limit does not apply to selling for arbitrage trading, LP and market-making selling for hedging and negotiated transactions.

**Short Position Reporting & Disclosure****Definition of net position**

The net long position is the net asset (asset minus liability) of the securities, which is equal to the accumulative aggregation of the purchase and sale orders.

If there is no net long position equivalent to the quantity of sale, it qualifies as a short sale.

To summarize,

If net long position > 0, long position. No reporting obligation for short position.

If net long position < 0, short position, where reporting obligation kicks in if it meets the criteria noted below.

### Short sell position reporting

A reporting obligation is in place when a person's (an IRC's) net short position reaches or exceeds  $\geq 0.01\%$  of the issued share number of a KRX listed company and over KRW 100 million, or  $\geq 1$ bn KRW, regardless of ownership percentage.

Reporting deadline: By 9 a.m. of T+3 to the FSS

### Disclosure of Large-Scale Holders of outstanding short position

In case the investor's net short-sale position is equal to or over 0.5% of the outstanding listed shares, information on the seller is required to be disclosed publicly.

(<http://global.krx.co.kr/contents/GLB/05/0501/0501120800/GLB0501120800.jsp>)

The disclosure should be made via the Korea Exchange where the relevant stock is listed. The information that is to be disclosed is as follows:

1. Details of the stock
2. Details of the seller – name, address, nationality, date of birth (foreign investors: IRC number) and details of the proxy agent in case the disclosure is done by a proxy agent
3. Date when the short-sale position became applicable for disclosure

## KRX Overheated Short Sell

### Announcement & implication

KRX announces Overheated Short Sell stocks around 5:15 p.m. KRT daily. (<http://global.krx.co.kr/contents/GLB/05/0501/0501121000/GLB0501121000.jsp>)

Once a stock is designated as a KRX overheated short-sell stock, short selling is banned for a period of time that is usually one day. However, during times of stress and volatility that period can be adjusted as we saw in March 2020 when the FSC extended the ban to 10 trading days for an initial three month period.

Criteria				
	KOSPI			KOSPI (extended)*
Trading Days Requirement	20 / last 40 trading days	20 / last 40 trading days		20 / last 40 trading days
Stock Price Decrease	5 - 10%	>10%		>20%
Short Sale Ratio	>18% of daily turnover	-		
Short Sale Value	Short sell value is 3 times that of the past 40 day's average	Short sell value is 3 times that of the past 40 day's average		Short sell value is 2 times that of the past 40 day's average
Destination Type	1	2		New

	KOSDAQ			KOSDAQ (extended)*
Trading Days Requirement	20 / last 40 trading days	20 / last 40 trading days	20 / last 40 trading days	20 / last 40 trading days
Stock Price Decrease	5 - 10%	>10%	-	>20%
Short Sale Ratio	>12% of daily turnover	-	Average short sell ratio in the past 40 days >5%	
Short Sale Value	Short sell value is 2 times that of the past 40 day's average	Short sell value is 2 times that of the past 40 day's average	Short sell value is 2 times that of the past 40 day's average	Short sell value is 1.5 times that of the past 40 day's average
Destination Type	1	2	3	New

\* FIRST BROUGHT IN, MARCH 2020

**Other reporting required:****Foreign Exchange Reporting Limits**

There are certain lending limits under Korean foreign exchange laws that, if exceeded, give rise to reporting obligations with respect to SBL transactions (involving a Korean Intermediary) in which Korean securities are lent to a foreign borrower by a resident lender:

- a report must be filed with the Bank of Korea within three business days from the date when the outstanding loan amount exceeds KRW 30 billion, and
- its details must be reported to the Bank of Korea by the 10th day of the immediately following month. If an SBL transaction does not involve a Korean Intermediary, all SBL transactions must be reported to the Bank of Korea.

**5% Rule**

Under the Financial Investment Services and Capital Markets Act of Korea (FSCMA), any person whose direct or beneficial ownership of equity securities issued by a company listed on the KRX (such company, a "Listed Company") accounts for 5% or more of the total issued equity securities of such Listed Company, is required to report the details of such holdings to both the FSC and the KRX.

**Buy-Ins**



Korea is generally considered a no-fail market. However, the KRX imposes a delayed settlement charge of 20 bps on trades not settled by 4 p.m. Korea time. An automatic buy-in will occur if the failure of settlement lasts for two days.

The FSS has the ability to suspend or cancel the registration of foreign investors for a number of reasons, including failing to complete and settle a transaction within five days from the settlement date.

### **Collateral Requirements**

KSD and KSFC may take foreign currency collateral under their regulations, but in practice will generally only take USD cash and U.S. Treasury bonds. That is being further developed. With respect to customized transactions, there is no restriction on the form and type of collateral located offshore.

### **Foreign Ownership Limits (FOLs)**

Foreign ownership restrictions do exist but are largely limited to companies of national importance, each of which has a ceiling on foreign holders. Those include strategically important stocks in specific industries as well as stocks issued by public companies. Once the limit on foreign ownership has been reached, foreign investors are unable to buy more shares on the exchange.

One nuance of these FOL companies is that they must be physically held in the client's account prior to selling. If those shares are lent out or otherwise onward delivered, a sale will be held up until the securities are returned to the beneficial owners' IRC.

SBL trades on FOL names are prohibited between onshore and offshore entities.

### **Tax**

There is a securities transaction tax on sales of stock, levied on the seller only and only applicable to stock trading. This amounts to 0.25% on KOSDAQ and KOSPI names with KONEX names 0.10%.

The tax rate on dividend and interest income for non-residents is a standard 22% but may vary depending on the tax treaty agreed on a country-by-country basis. For specific tax advice investors should consult a tax professional – the above is to be used as guidance only.

### **Operational and Post Trade**

In principle, Korea is a segregated account structure market. But lately, global investment managers or securities broker-dealers have been permitted to open omnibus accounts for trade settlement as well as execution, effective from March 6, 2017. In spite of this change, the existing IRC scheme will stay as is. Each beneficial investing entity or vehicle (beneficial investor) should be registered with the FSS as per the existing pre-investment requirement, obtaining its own IRC. Then, the beneficial investors' IRCs will be linked to the agency investors' omnibus IRCs. Omnibus account holders may place orders only for the beneficial investors pre-linked to the omnibus account.

### **Corporate Actions & SBL Implications**

**Repurchase Offers (Tender Event)**

Article 165-5 of the Financial Investment Services and Capital Markets Act allows shareholders to “dissent” to a resolution of the board of directors and requires the corporation to purchase the stocks they own, assuming that they held the shares prior to public notice of the resolution. Under Article 354 (Closure of Register of Shareholders and Record Date) of the Commercial Act, companies may choose to suspend changes in the register of shareholders for entitlement as of a specified date. This specifically allows for a tender event to be triggered with a retrospective date, and therefore any shares out on loan are not entitled to be tendered as the shares are not under that shareholder’s name on the register.

As such, some repurchase offers with dissent options would need to be recalled on T+1 from the announcement date, which in a T+2 market can be challenging. It is important for lenders to be aware of this risk in lending and for brokers to be aware of the potential to receive a tender election that they may need to manufacture back to the short.

**Rights Issue**

When a company announces a right issue and an investor has their stock in that company lent out, if the rights will be listed and traded, the lender of those shares will not usually recall the ordinary shares. However, it has become standard market practice to usually recall the resultant rights position once those rights are listed and start trading. If the rights are unlisted and not traded, there is no way to physically return the rights via the intermediary; therefore, the lenders will usually recall the ordinary shares ahead of record date.

**Stock Split/Reverse Split**

Not subject to any recalls unless there are special conditions around corporate actions. Intermediaries will process manufactured positions and will be paid out accordingly.

**Stock Dividend**

No recall triggered by stock dividend event. Manufactured stock dividend will be paid out on pay date.

**Penalties for Short Sell Regulation Violation****Period for pre-delivery by scale of violation**

An investor who violates any short-selling rules (i.e., naked short selling, reporting violations or disclosure obligations) will be required to pre-deliver securities, for a certain period of time, when placing further orders for covered short selling. That period, which is determined based on the frequency and accumulation of violations, is 40 days, 80 days or 120 days.

**Short-selling verification**

For cases where an investor conducts short-selling through an account committed not to submit covered short-sale orders, executing brokers are required to verify for a certain period whether that investor’s orders are indeed for covered short selling, and the settlement obligation can be fulfilled following

the trade execution. The verification period has been extended from 90 to 120 days.

Any breach of applicable short-sale regulations may result in:

- Relevant entity and/or individual being subject to administrative sanctions and an order of suspension of business
- Fines up to KRW 1 billion (approximately US\$1 million), and increased fine can be imposed at the FSC's discretion

### **Short-Sale Ban**

If there are concerns about the undermining of market stability and fair price formation due to extreme market changes, the exchange may limit covered short selling of some or all listed securities after getting approval from the FSC. Previously, when drastic market changes took place in the wake of the global financial crisis in 2008 (for eight months) and the downgrade of the U.S. federal government credit rating in 2011 (for three months), short selling was banned for all listed securities.

### **Talking Points & Future Developments Facing the SBL Model**

Macro and geopolitical events notwithstanding, borrow liquidity across the KOSPI tends to be deep and robust as a well-held group of stocks with a variety of liquid hedging tools. However, inventory in KOSDAQ names can fall off dramatically as the hedging tools (futures, ETFs, etc.) are either not there or not liquid enough. It is in this universe that price volatility can be higher, and so the demand to short sell and either hedge or normalize these movements is highest.

Market participants constantly look to develop this area of the market to increase fairer valuation and all other associated benefits of short selling in a capital market. KOSDAQ ETFs now exist but not as a significant component of the total market, and demand for borrow/short selling continues to be highest lower down the market capitalization spectrum.

### **Developing Regulation**

Following a number of high-profile events in Korea that have been linked to short selling or the sale of securities not held, as of June 2018, legislative efforts to revise the capital market law are currently underway. Proposals to enhance this have discussed short-sale violators potentially facing up to 10 years in prison or penalties equivalent to 150% of the ill-gotten gains.

Development of systems and products that allow the retail market to access shorts or leverage on margin continue to be explored as a means of ensuring a level playing field across investors.





# TAIWAN

## Principal Exchange:

Taiwan Stock Exchange (TWSE), Taipei Exchange (TPEX)

## Main Indices:

TWSE (TWSE Index), TPEX (TWOTC Index),

Taiwan 50 Index (0050TT Equity)

## Settlement Cycle: T+2 DVP

## Trading Hours

9:00 a.m. - 1:30 p.m.

**Time Zone:** GMT+8

**Currency:** TWD

## General Market Overview

Taiwan Stock Exchange Corporation (TWSE) was established in 1961 and began operating as a stock exchange on February 9, 1962. It is regulated by the Financial Supervisory Commission. As of December 2019, the Taiwan Stock Exchange had 942 listed companies with a combined market capitalization of US\$1.2 trillion.

Taipei Exchange (TPEX), formerly the Gre Tai Securities Market (GTSM), is a foundation organized for serving the over the counter (OTC) market and Taiwan's bond trading. It was formally founded on November 1, 1994. In February 2015, the Gre Tai Securities Market changed its name to Taipei Exchange. As of December 2019, the Taipei Exchange had 775 listed companies with a combined market capitalization of US\$114.5 billion.

## Exchange Highlights

Indices	TWSE	TPEX
<b>Listed Companies</b>	942 as of December 2019	775 as of December 2019
<b>Total Market Cap</b>	US\$1.2 trillion as of December 2019	US\$114.5 billion as of December 2019

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**Fixed Income****Useful Link:** <https://www.tpex.org.tw/web/bond/index.php?l=en-us>**DATALEND Market Data (Equity Lending Market) 2019 Averages**

On Loan (USD)	Lendable (USD)	Utilization (%)	VWAF (bps)
8,376,707,873	79,009,248,928	10.60	309.38

**Key Regulators**

Financial Supervisory Commission – Securities and Futures Bureau:  
<https://www.sfb.gov.tw/en/index.jsp>

**Securities Borrowing and Lending (SBL)****Access Methods**

FINI (ID) market for foreign investors.

There are two platforms: **TWSE platform** and Broker type.

The **TWSE platform** has three types:

- Fixed-rate: Transactions are executed at a fixed-rate publicly announced by the TWSE. The rate as of December 2019 was 3.5% per annum.
- Competitive bid: The SBL fee rate should be determined by the bids and offers quoted by the borrower and the lender subject to a maximum interest rate of 20% per annum.
- Negotiated transaction: All the terms and conditions, including the loaned securities, traded volume, SBL fee rate, collateral ratio, return date, etc., are negotiated and determined by the counterparties. Maximum interest rate is 20% per annum as well.

**Broker type** is similar to the TWSE negotiated transaction.

The billing mechanism for onshore borrows under the negotiated type is settled on a monthly basis based on open positions. Other types pay the borrowing fee on return.

The list of lendable securities is available at: <http://www.twse.com.tw/en/page/trading/exchange/TWT60U.html>

In order to participate in securities lending in Taiwan, an SBL participant is required to open an equity trading account with a securities company located in Taiwan. The SBL participant (FINI) is required to enter into a "Letter of Entrustment for Securities Borrowing and Lending Transaction" with the securities firm. This enables the FINI's account to be linked with the TWSE SBL system. All loans must be intermediated for reporting purposes by onshore securities companies.

**Useful Links:**

- SBL Disclosures: [https://www.twse.com.tw/en/page/products/sbl/sbl\\_info.html](https://www.twse.com.tw/en/page/products/sbl/sbl_info.html)
- TWSE's Operating Rules for Securities Lending:  
<https://twse-regulation.twse.com.tw/ENG/EN/law/DAT0203.aspx?FLCODE=FL041484&keyword=securities%20lending&sHid=N>



- Day tradable list where market participants can recycle buys and sells within the market: <https://www.twse.com.tw/en/page/trading/exchange/TWTB4U.html>

### **Short-Selling Rules**

#### **Is short selling permitted?**

Naked short selling is banned.

#### **Definition of short sale**

Sell transactions settled by the delivery of borrowed securities under an SBL arrangement.

#### **Pricing requirement for short sale**

In principle, the short selling of borrowed stocks is subject to the uptick rule, which requires SBL short sales for borrowed shares to be entered at a price equal to or higher than the previous day's closing price.

However, since September 23, 2013, borrowed stocks eligible for margin trading are exempted from the uptick rule.

The waiver does not apply if the borrowed security's closing price of the previous day reaches the limit down price, or if no close price but best offer at limit down price on the previous trading day, then the uptick rule applies for the following trading day.

As of March 2020, however, the FSC announced that investors are not allowed to short sell borrowed securities at a price lower than the last closing price when the closing price of the previous day falls 3.5% or more.

### **Short Position Reporting**

#### **Disclosure of short position**

Not required.

#### **When does a report need to be made?**

Not required. TWSE collects short sale and borrow data from brokers at the end of each day.

Three ceilings are adopted to monitor the volume of short selling borrowed shares over the whole market:

- Daily maximum short selling of borrowed stocks cannot normally exceed 30% of their average daily trading volume over the previous 30 trading sessions. Please note that, from 19th March 2020 for a period of 3 months, the volume control was reduced to 10% of average trading volume of the stock during the previous 30 days.
- Total outstanding short positions from borrowed stocks across all market participants cannot exceed 10% of outstanding shares per lending stock.
- The total volume of short sold positions and margin short sales cannot exceed 25% of outstanding shares per stock.

If the short sale and borrow are executed through the same broker, the TWSE permits settlement on T+1, but the borrow needs to be reported and pre-matched on the trade date. If, however, the short sale and borrow are executed via different brokers, the borrow needs to be arranged and settled on

the trade date.

### **Useful links:**

- Daily short sell quota: static at <http://www.twse.com.tw/en/page/trading/SBL/TWT96U.html>
- Daily short sell quota: live at <http://mis.twse.com.tw/stock/sblInquiryCap.jsp>
- Securities exempted from SBL short selling price constraints at: <http://www.twse.com.tw/en/page/trading/SBL/TWTACU.html>

### **Buy-Ins**

Buy-ins don't occur due to the existence of cash and securities with a custodian and confirmed by a broker before they will trade (fails can carry the threat of suspension of up to three years). Taiwan is a no-fail market as there is no settlement for trades past their value date.

### **Collateral Requirements**

Type: Currency (USD, GBP, AUD, HKD permitted, EUR and JPY suspended due to negative interest rates, TWD only allowed for onshore participants), TWSE & TPEX listed stock (<https://www.twse.com.tw/en/page/trading/exchange/TWT59U.html>), Taiwan Government Bond and bank guarantees (yet to be used).

Margin level (initial/maintain): TWSE competitive/fixed (140%/120%), TWSE negotiate/Broker type (variable).

### **Foreign Investor Limits**

Foreign ownership limits (FOL) apply to some stocks. The TSE website publishes the list of names and respective ownership daily at [http://www.twse.com.tw/en/page/trading/fund/MI\\_QFIIS.html](http://www.twse.com.tw/en/page/trading/fund/MI_QFIIS.html)

### **Tax**

Manufactured dividends are treated as the lenders' dividend income or capital gains depending on whether borrowers hold borrowed securities as of the record date. If held on the record date, manufactured dividends are treated as the lenders' dividend income and are subject to income tax. If sold, manufactured dividends are deemed to be capital gains, which are currently tax free in Taiwan. In addition, no business tax is levied on dividend income or capital gains.

With regard to dividend reimbursement for competitive and fixed rate types, treatment is also dependent on whether borrowers hold the borrowed shares over record date.

### **Hold over record date**

- Cash dividend: borrower needs to reimburse 100% of the dividend amount minus borrower's withholding tax.
- Stock dividend: borrower needs to return gross stock dividends to lenders.

### **Sold before record date**

- Cash dividend: borrower needs to reimburse 100% of the dividend amount minus lender's withholding tax.
- Stock dividend: borrower needs to return gross stock dividends to lenders.

During negotiation, the treatment is agreed by the two parties.

SBL fees are considered Taiwan-sourced income and are subject to income tax as well as business tax. The Tax Authority further clarified that when both parties are FINIs without permanent establishments in Taiwan, the SBL fees are outside of business tax coverage.

Regarding offshore agent fees, when all of the agency services are provided offshore, and all parties including the lender, the borrower and the offshore agent do not have permanent establishments in Taiwan, the agent fees are not subject to income tax or business tax.

The interest on the onshore cash collateral received by the borrower shall be subject to income tax. However, if the borrower is a financial institution or trust investment company, business tax shall also be levied. In addition, interest on offshore collateral is not considered Taiwan-sourced income and is therefore not subject to tax in Taiwan.

No securities transaction tax or capital gain tax will be levied on the SBL transactions. If, however, a borrower defaults, and equivalent cash instead of the physical securities is returned to a lender, it shall be deemed that the lender has sold the loaned securities and shall be subject to securities transaction tax.

Useful link: <https://www.twse.com.tw/en/page/products/sbl/faq.html>

### **Special Auction Rules:**

8:30 a.m. to 9:00 a.m.

Open price determined at 9:00 a.m.

Closing price is determined during 13:25 to 13:30 (normal trading hours)

Odd lots trading period: 1:40 p.m. to 2:30 p.m.

Block trades session: 8:00 a.m. to 8:30 a.m., 9:00 a.m. to 5:00 p.m.

Block trade threshold: size > 500,000 shares, or notional > TWD 15,000,000

### **Talking Points & Future Developments Facing the SBL Model**

#### **Talking Points**

The following are areas in which the market could become more efficient:

- Remove the maturity for borrow. The market currently has a six-month maturity and is rollable twice if it remains on the loanable list. It would be a positive step to remove the maturity to be consistent with other mature SBL markets.
- Reduce the mandatory recall causes. Currently all capital reduction names or merger target companies will get mandatory recalls from the exchange. Flexibility in these events would be an improvement.
- Remove the short-sell quota restraint. Other mature markets do not have a similar short-sell quota system.
- Currently unable to on-lend.
- Expanding the acceptable collateral to foreign government bonds - e.g., JGBs, which is a liquid and efficient instrument and fits well during Asia trading hours.

#### **Developments**

Continuous trading will be officially online in March 2020.







# THAILAND

## Principal Exchanges:

The Stock Exchange of Thailand (SET)

Thailand Futures Exchange (TFEX)

— a derivative exchange

Market for Alternative Investment (MAI)

**Main Indices:** SET Index, SET 50 Index

**Settlement Cycle:** T+2

## Trading Hours

Mon- Fri, 10:00 a.m. to 12:30 p.m., 14:00 to 16:30

**Currency:** Thai Baht (THB)

**Time Zone:** GMT+7

## General Market Overview

### Exchange Highlights

<b>Indices</b>	SET, SET50, SET100, sSET, SETHD, FTSE SET Large Cap, FTSE SET Mid Cap, FTSE Small Cap, FTSE Mid/Small Cap, FTSE SET All-Share, FTSE SET All-Share Industry, FTSE SET Fledgling, FTSE SET Shariah
<b>Listed Companies</b>	794 companies as of December 2019 <a href="https://www.set.or.th/en/company/companylist.html">https://www.set.or.th/en/company/companylist.html</a>
<b>Total Market Cap</b>	US\$543 billion as of December 2019

## Key Regulators

- Security and Exchange Commission (SEC)
- Central Bank of Thailand (BoT)
- Central Securities Depository (CSD)
- Thailand Securities Depository Company Ltd (TSD)

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**THAILAND**

**Securities Borrowing and Lending (SBL)****Access Methods**

Securities Borrowing and Lending (SBL) is allowed in Thailand but only in designated securities.

SBL programs were launched by the TSD on April 2, 1999, to minimize settlement failure of securities traded on the Stock Exchange of Thailand. On February 15, 2010, when the Thailand Securities Depository Co Ltd (TSD) migrated its roles as the central counterparty (CCP) to the Thailand Clearing House Co Ltd (TCH), the SBL function was also transferred and is now operated by the TCH.

There are two categories of SBL available in the market:

- Mandatory TSD borrowing to cover settlement failure
- Standard SBL

**Mandatory SBL Program**

Under this program, securities borrowing is mandatory for all brokers who are short of securities in their clearing account with the TCH. Settlement failures on the broker side can be decreased. If a broker is short of securities on the settlement date, the TCH will process the settlement as normal. The counterparty's account will be credited, and the broker's account will be debited, thus resulting in a negative securities balance. The TCH will then go into the market and try to borrow the necessary securities to cover the account shortfall. It will do so as principal for the account and on behalf of the broker.

There are two attempts to borrow: first attempt in the afternoon at 1:30 p.m. on T+2 (SD) and another attempt at the end of that day (EOD).

If the TCH is unable to borrow enough securities by T+2, the defaulted selling broker will have one day (on T+3) to regularize their position independently. If this fails, the TCH will trigger buy-in on behalf of the defaulted selling broker on T+3 by 11:30 a.m.

Unless there is an error on the broker's side, all expenses related to borrowing and/or a buy-in will be for the seller's account, along with penalty fees charged by the TCH for late settlement. However, if the TCH manages to borrow securities on the first attempt (at 1:30 p.m. on T+2 SD), no late settlement penalty will be charged to the broker.

**DATALEND Market Data (Equity Lending Market) 2019 Averages**

On Loan (USD)	Lendable (USD)	Utilization (%)	VWAF (bps)
1,640,098,968	32,570,410,732	5.04	230.89



## **Standard SBL**

The standard SBL model is open to foreign investors and, if both investors are foreign, then they are not subject to local SBL regulations. Transactions are conducted OTC between lenders and borrowers. Overall, the offshore SBL market has more liquidity than onshore. However, it is important to note some restrictions pertaining to foreign investor limits as outlined below.

## **Foreign Investor Limits**

Foreign ownership is capped at 49% of total shares for most companies, and at 25% for banks, finance companies and telecommunications companies.

Local and foreign shares trade in the stock market under different ISINs. Foreign investors are eligible to buy local shares; however, foreign investors that hold local shares will not be entitled to corporate action proceeds or voting rights. Apart from local and foreign shares, there is also another type called Non-Voting Depository Receipt (NVDR), which is designed to stimulate trading activity on the Thai stock market and to help eliminate foreign investment barriers, such as foreign investment limits.

The difference between local, foreign and NVDR shares for foreign investors can be illustrated in the table below.

Share Type	Corporate Action (CA) Entitlement for Foreign Investors
Local	No
Foreign	All
NVDR	All, except voting rights

As a result of different CA entitlements for foreign investors, foreign investors therefore have the option to buy local shares and NVDRs and then convert them to foreign shares if there is enough room in the foreign line (i.e., meaning the foreign shares threshold is still under 49%).

Local shares and NVDRs can be converted to foreign shares if there is foreign room available, though there can be a premium charged for converting to the foreign line. Foreign shares can also be converted back to local shares by the custodian. However, for NVDRs, once converted to foreign shares, some custodians will not be able to convert back easily, especially if the NVDR headroom is reached, so the investor would need to contact their own broker in advance to see if it is possible. See the illustrated table below:

Share Type	Share Type	Method	Cost	Responsible Party
Local	Foreign	PTI	Depository fees	Custodian Bank or Local
NVDR	Foreign	PTI	Depository fees	Broker
NVDR	Local	Put Through	Brokerage Fee	Foreign NVDR

In summary, local custodians can generally support the following:

1. Maintain shares as local (no conversion required)

2. Convert local to foreign shares and vice versa. However, there can be a premium to converting from local to foreign shares.
3. Convert NVDR to foreign shares. Conversion from foreign to NVDR can be more complicated.

Investors must maintain a dual cash account structure to separate funds specific to investments. Non-resident Baht account for securities (NRBS) is used for all securities-related transactions, and the non-resident Baht account (NRBA) is used for direct investment. Cash cannot be transferred between the two types of accounts.

The Bank of Thailand (BoT) imposes a maximum aggregate limit of THB 300 million on daily end-of-day balances for non-resident cash accounts (both NRBS and NRBA) at the global custodian level. Investors are encouraged to avoid holding long balances.

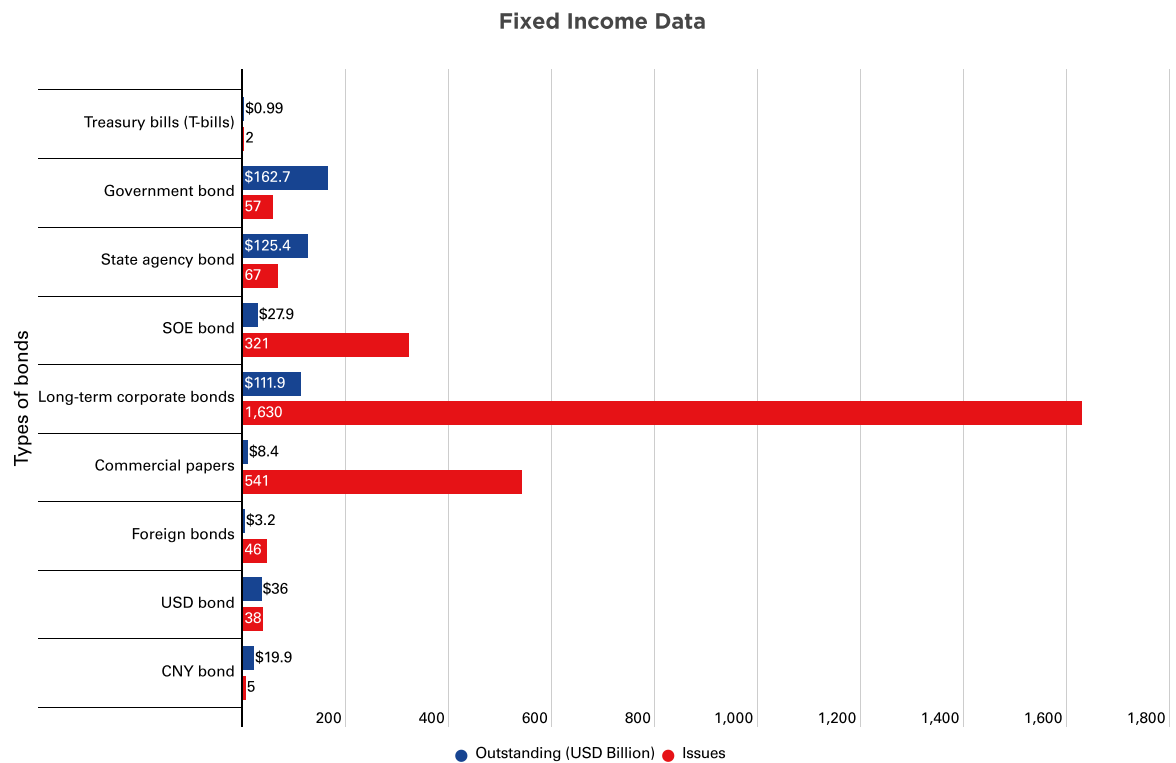
### **Fixed Income**

The fixed-income market went from being dominated by corporate bonds and short-term corporate bills of exchange to fully tradable government bonds with the yield curve extending out to 29 years.

The Bank of Thailand (BoT) supervises the operation of banking and finance businesses, while the Securities and Exchange Commission (SEC) supervises the primary and secondary market for securities businesses. The issuance and offering of securities are governed by the Securities and Exchange Act of 1992 (BE 2535).

In supervising the Thai bond market, the Thai Bond Market Association (Thai BMA) under the Securities and Exchange Commission Act BE 2535 was officially established on September 8, 2005, with the main purpose of being a self-regulatory organization for the fair and efficient operation of the bond market and to be an information center for the bond market. It also plays functional roles in market development, market convention and standards, and as the bond-pricing agency for the industry. In addition, the Thai BMA provides a forum through which industry professionals can respond to current issues and play a role in shaping the future of the Thai bond market.

## Fixed Income Data



*As of November 2019 per HSBC Thailand, the ThaiBond Market Association*

### Government debt securities consist of four major types:

1. T-bills are short-term debt instruments with maturities of less than one year. The bills are sold on a discount basis.
2. Government bonds are medium- to long-term debt instruments issued by the Ministry of Finance (MOF). There are two types of government bonds outstanding: loan bonds (LB) and savings bonds (SB). LBs are issued for financing budget deficit. SBs are issued to provide households with an alternative source of saving.
3. SOE bonds are medium- to long-term debt instruments issued by SOEs. This can be categorized into two types: guaranteed and non-guaranteed by the MOF.
4. State agency bonds, or Bank of Thailand (BOT) bonds, are bonds issued by the BOT with a one- to two-year term. Most are issued at a discount (e.g., CBXXXXXX), while some issues are with a coupon (e.g., BOTXXXX).

### Corporate debt securities

The corporate sector began to issue bonds in 1992 after the enactment of the SEC Act, which eased criteria for the issuance of corporate bonds. Among the features of outstanding corporate bonds are straight, floating rate notes, amortizing and convertible.

### Foreign bonds

Foreign bonds are THB-denominated bonds issued for sale in Thailand by the international organizations.



**Short-Selling Rules****Is short selling permitted?**

Yes, only specific securities. See link under “Short Position Reporting”

**Pricing requirement for short sale**

There is no uptick rule, but a participant must flag a short sale transaction at the point of execution if it is a short (as opposed to long) sale.

A member may conduct a short sale only at a price that is not lower than the last trading price.

**Short Position Reporting****Disclosure of short position**

In a short sale, a member shall make an offer by means of recording it into the trading system for automated order matching (AOM) in accordance with the rules. See link under “Short Selling Regulations”

**When does a report need to be made**

A member shall prepare a short sale record in accordance with the form prescribed by the exchange, and the record shall at all times be updated.

A member shall, at the end of each day and in accordance with the form prescribed by the exchange, submit a report on short positions not yet covered, classified according to each individual security. See link under “Short Selling Regulations”

**Useful links:**

Securities Eligible for Short Selling:

<https://www.set.or.th/rulebook/#/regulation/content/7017;keyword=short%20selling>

**Short Selling Regulations:**

<https://www.set.or.th/rulebook/#/regulation/content/10628;keyword=short%20selling>

**Buy-Ins**

If a custodian bank fails to settle its securities and payment obligations, the TCH will impose a fine of up to 5% of the market value of the transactions and four times the defaulted payment amount, respectively. Such fines are rare as custodian banks are allowed to revoke transactions before the actual transfer of securities and payments takes place at the TCH.

For inter-broker settlement, if a transaction fails to settle on T+2, TCH will invoke the mandatory stock-borrowing program. If the borrowing is successful by 12:30 p.m., no penalty will apply, but the selling broker will have to bear the borrowing cost. If borrowing is successful only at the end of the day, a one-day late settlement penalty and the borrowing cost will be charged to the selling broker.

If the TCH is unable to borrow sufficient securities by T+2, it will allow the default member to regularize its position in the morning of T+3 until 10:30 a.m., i.e. the net clearing cut-off time. Otherwise, the TCH will start to buy-in on the next day following the default date, i.e., T+3 for settlement on the same day. If the buy-in is not successful by T+3, the TCH will continue the buy-in attempt until T+7. After that, the default will be negotiated between the TCH and the default member outside the system as per current procedure.

### **Collateral Requirements**

In the onshore market, the TCH will act as the guarantor of collateral for the lender. The borrower shall place the collateral with the TCH at a rate of 130% of the value of the borrowing securities. The collateral must be placed on SD by 2 p.m.

### **Tax**

The Revenue Department of Thailand published revenue ruling no. Gor. Kor.0706/10946 in April 2006. The ruling, dated December 30, 2005, states that a securities lending transaction is considered to be a service under Section 77/1(1) of the Revenue Code. As such, fees arising from securities lending are classified as income from a tax standpoint and are treated in a similar way to the taxation of interest income.

The ruling outlines that the lending fee would be subject to 7% VAT plus WHT since the fee is regarded as interest income (for example, if the recipient is an off-shore entity, 10% or 15% WHT would be applied depending on the Double Tax Treaty and as to whether or not the recipient is a financial institution).

This tax ruling applies to the lending fee arising from transactions in which one or both counterparts are onshore entities.

The tax ruling does not provide any interpretation for offshore transactions between offshore non-Thai entities. In line with general Thai tax law, where both lender and borrower are offshore non-Thai entities, and neither carry on business in Thailand, the lending fee would not be subject to Thai tax.

### **Operational and Post Trade**

Effective from March 2, 2018, trade date (T) with settlement date (SD) on March 6, 2018, the settlement cycle for equities market was shortened from T+3 to T+2, in line with the standard settlement cycle for fixed-income instruments. Custodians and brokers are members of the TSD's post-trade integration (PTI) system. TCH implemented the new clearing system named SET Clear for cash clearing products (equities and bonds), effective August 24, 2015. Thus, clearing functions under the PTI system have transferred to the new clearing system. The PTI is now mainly for depository and registration and operated by TSD.

The TSD enhanced its PTI system to allow depository account segregation in the TSD system and enable automatic pre-matching via SWIFT or file upload between counterparties (i.e., custodians and brokers) through the Pre-Settlement Matching System (PSMS). TSD participants now have an option to maintain their depository account at an omnibus level or segregations at their client-account level.

Effective August 24, 2015, pre-matching between counterparties (brokers/ custodians) is auto processed via PSMS by SWIFT (for SWIFT users, i.e., custodian banks), Application Programming Interface (API) message or file upload (for brokers that are non-SWIFT users). Pre-matching via telephone would be required in some exceptional cases or in case of unmatched transactions.

Pre-matching criteria for PSMS:

- Type of trade (RVP, DVP, RFP, DFP)
- Settlement date
- Nominal amount (share quantity)
- Settlement amount – for against payment trade (DVP/RVP)
- ISIN code
- Client's custodian settlement account at CSD level
- Settlement account of counterparty at CSD level

### **Auction rules**

Pre-open (a.m.): 9:30 to 9:55/10:00 (random open between 9:55 to 10:00 for the morning trading session)

Pre-open (p.m.): 14:00 -to 14:25/14:30 (random open between 14:25 to 14:30 for the afternoon trading session)

Pre-close: 16:30 to 16:35/16:40 (random close between 16:35 to 16:40 for calculating the closing price)

Off-hours trading: 16:35/16:40 to 17:00

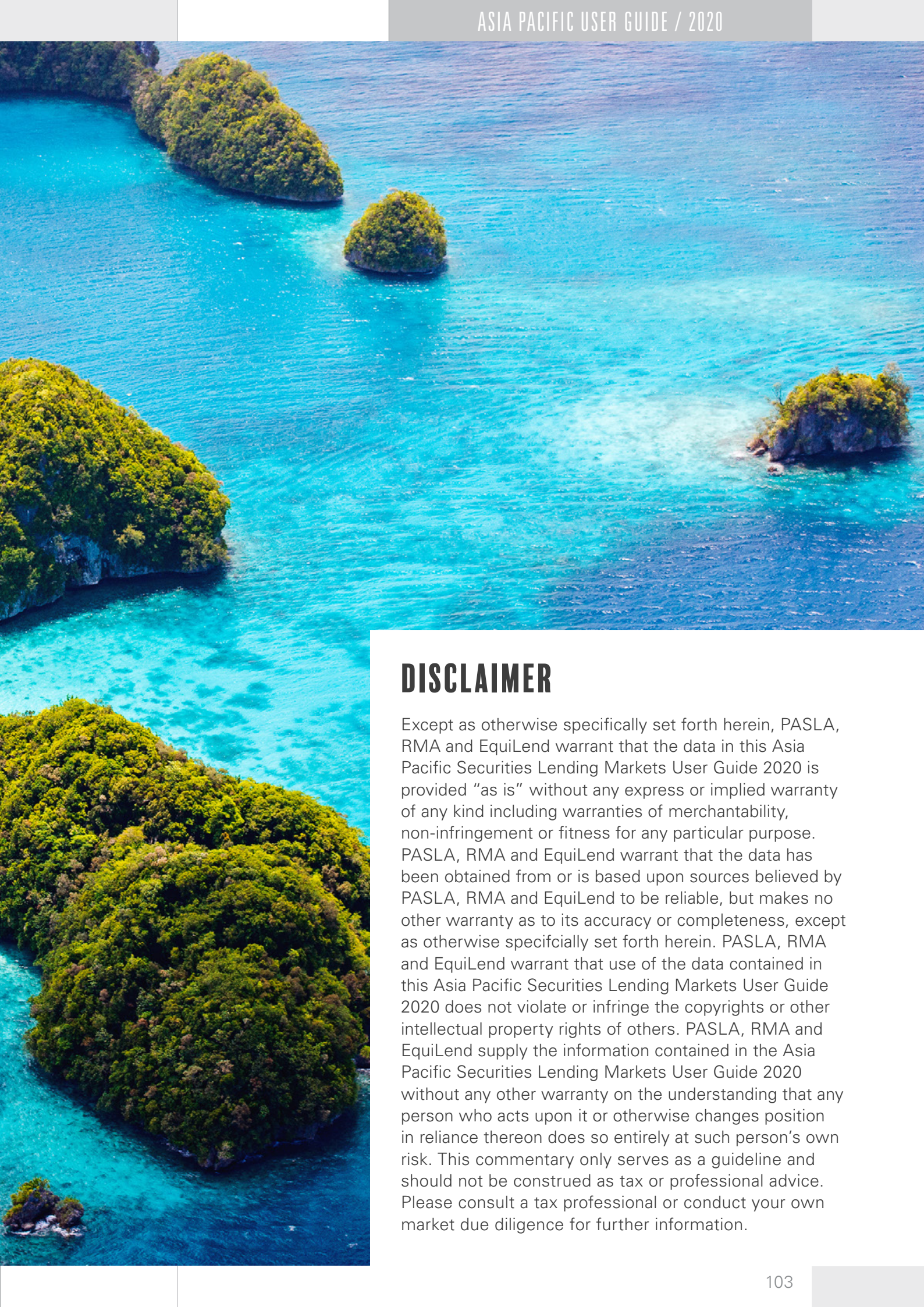
Market close: 17:00

### **Talking Points & Future Developments Facing the SBL Model**

The Foreign/Local/NVDR structure is unique to Thailand and can result in operational issues for market participants. A revamp of the existing structure or relaxation of rules related to converting shares between the different lines would be beneficial.

Penalties for failing DVP trades on settlement date can be punitive. This results in a reduction of liquidity as lenders (both principal and agent) hold back significant amounts of lendable supply to counter any risk of failing trades.





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