GLOBAL INVESTOR | ISF FOW

MAY / JUNE ■ 2017

SUB-CUSTODY GUIDE 2017

HANDBOOK OF MARKET TRENDS & SUB-CUSTODIAN PERFORMANCE IN EVERY MAJOR MARKET

49 ◆ AMERICAS

57 ◆ ASIA PACIFIC

73 ◆ EUROPE

96 ◆ MIDDLE EAST & AFRICA

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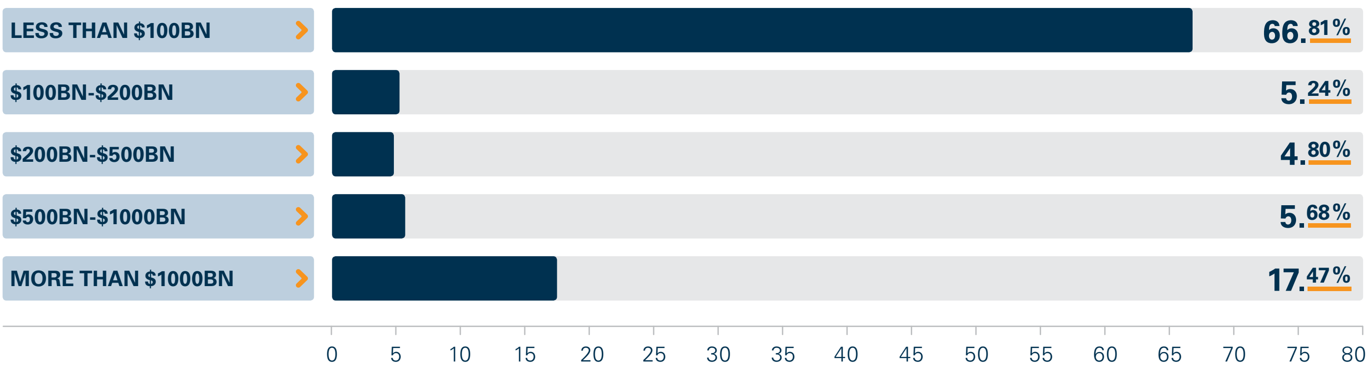
Global Investor invited all entities that use the services of sub-custodians, from broker-dealers to global custodians, to rate their performance. Sub-custodians were rated across the twelve service categories, separately for each market.

The unweighted tables include simple averages of respondents' scores. The weighted tables take into consideration how important each service category is to the survey respondents and the assets under custody of the respondent rating the sub-custodian. The full methodology can be found at www.globalinvestorgroup.com.

SURVEY RESPONDENTS

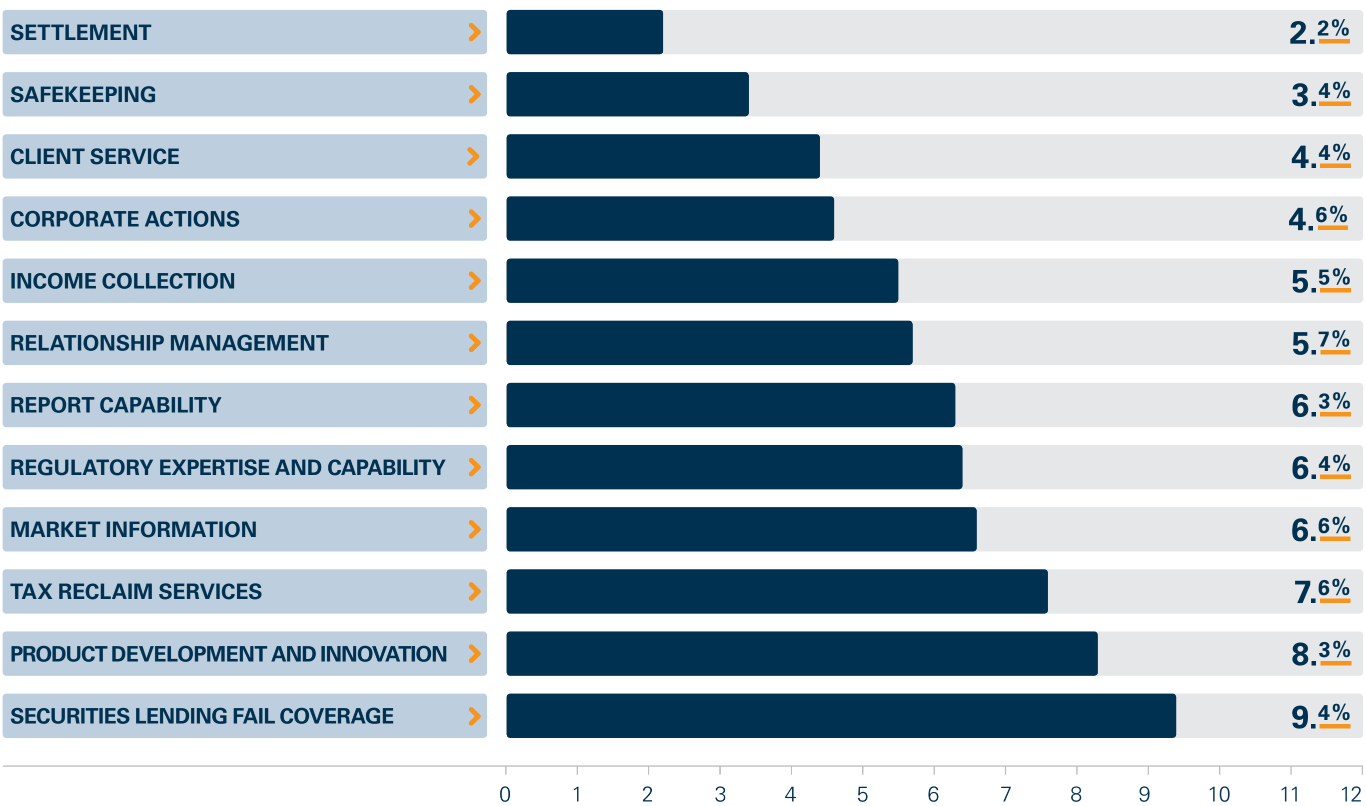
ASSETS UNDER CUSTODY (ALL MARKETS)

PROPORTION OF RESPONDENTS



IMPORTANCE OF SERVICE CATEGORIES

AVERAGE RANKING (1 MOST IMPORTANT)



AMERICAS

ARGENTINA

UNWEIGHTED		
RANK		Score
1	Citi	5.00

WEIGHTED		
RANK		Score
1	Citi	5.80

MSCI will announce whether it will reclassify the MSCI Argentina Index from frontier to emerging market status in June 2017. It was excluded from emerging status in May 2009 as a result of continued restrictions to inflows and outflows of capital in the equity market. MSCI considered only American Depositary Receipts (ADRs) of Argentinean companies as eligible securities for inclusion in the MSCI Argentina Index.

"An external vote of confidence in Argentina's reform efforts would help. A potential MSCI upgrade of the Argentine equity market from frontier to emerging market status could attract meaningful foreign flows to the local equity market," Guilherme Paiva, Morgan Stanley's chief equity strategist for Latin America Paiva wrote in recent client note.

The Macri administration has introduced a bill that reforms the existing capital markets law, including provisions on limiting government intervention in capital markets and reforming taxes. Rapid approval and implementation by congress could bolster foreign investor confidence.

"Eight years after being downgraded Argentina seems poised for a turnaround, one that offers investors long-term opportunity and returns," Fernando Sedano, Morgan Stanley's Latin America economist, added.

"Now that the administration has addressed many macro imbalances, Morgan Stanley economists believe the focus should shift toward longer-term structural challenges. We are confident that Argentina will push reforms to boost its capital market infrastructure in order to absorb foreign capital and ultimately attract more foreign direct investment."

Argentina's stock market capitalisation is still relatively small. Capitalisation of $61bn (just 11% of 2016 GDP of $538bn) means it is the second smallest equity market among emerging markets, just above Egypt. "We see ample potential for new issuance, especially in financial and consumer stocks," Paiva added. "We believe overall market capitalisation in Argentina can more than double over the next five years, if we consider new listings and price gains."

BERMUDA

UNWEIGHTED		
RANK		Score
1	HSBC	5.00

WEIGHTED		
RANK		Score
1	HSBC	4.66

In recent months, challenges facing Bermuda have been amplified by ongoing changes in the international landscape with Brexit negotiations recently activated, proposed reforms in the US tax system that could affect Bermuda, OECD initiatives and European Union tax policy initiatives targeted against so-called low/no income tax jurisdictions.Bermuda's Financial Policy Council has stated that it recognises the importance attached by the European Union to clamping down on tax evasion and avoidance and promoting fairer taxation. However, Bermuda believes that its regulatory and tax systems meet relevant international criteria,

"We are confident that Argentina will push reforms to boost its capital market infrastructure"
Fernando Sedano, Morgan Stanley

especially with regard to transparency and the exchange of information, harmful business taxation and, most recently, the fundamental principles underpinning the OECD's 15 Actions on Base Erosion and Profit Shifting. .

› BRAZIL

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.74
2	Citi	5.40

WEIGHTED

RANK		Score
1	Citi	6.98
2	BNP Paribas Securities Services	5.04

The combination of stock exchange BM&FBovespa and Cetip, the largest depository for private sector debt securities in Latin America, led to the creation of B3 earlier this year. Together they should bring benefits to market participants from synergies of scale and range of products.

B3 offers the market is greater capital efficiency for clients through the possibility of using, for example, OTC and exchange-traded derivatives with the same central counterparty. Regulatory costs should also be lowered.

Executives at B3 also believe the integration of activities will increase revenue diversification, which will allow custodians, registrars, asset managers and brokerage houses to consolidate their back office and treasury systems, with reductions to operating costs and risk for the entire financial system, as well as more efficiency interact with regulators.

Three-quarters of Brazilian assets under custody are in the hands of Itaú Unibanco Holding SA, Bradesco, Banco do Brasil and Citi. In October, Citi reached a definitive agreement to sell its consumer banking business in Brazil to Itaú Unibanco. Bradesco purchased of HSBC's local unit last year. Meanwhile, BNP Paribas Securities Services is one of the more recent entrants.

The economy is expected to emerge from a two-year recession in 2017, as private investment and production improve, although consumption will be subdued by high unemployment. The recovery is heavily dependent on the government's ability to pass reforms, reduce fiscal imbalances and restore confidence.

The MSCI Brazil dropped 15% in US dollar terms on May 18 after President Temer was implicated in a corruption scandal. The news reversed the market gains over the past year as a result of government reforms.

"Any news that compromises his [Tenner's] position will be used by other political parties to withdraw support for these unpopular reforms or even initiate another impeachment process," said Ivo Luiten, senior portfolio manager at NN Investment Partners.

"If there are no reforms, there is more downside to both the domestic stock market and the currency. How much more is hard to tell because it depends to a large extent on how future politics will evolve."

Commodity prices have been recovering over the past year and Brazilian corporate earnings were rising for the first time since 2011, which should give support to the market.

CANADA

UNWEIGHTED		
RANK		Score
1	RBC Investor and Treasury Services	5.76
2	CIBC Mellon	5.56

WEIGHTED		
RANK		Score
1	RBC Investor and Treasury Services	5.26
2	CIBC Mellon	5.19

Canada's market remains attractive to global investors with its AAA-rating, strong economy, natural resources and highly skilled workforce. It offers robust market infrastructure, a stable financial sector and an effective regulatory environment.

Canadian market participants are working to meet the same September 5 2017 deadline for shortening the settlement cycle from T+3 to T+2 as the US. In April, the Canadian Capital Markets Association (CCMA) issued a request for comments from investment industry stakeholders on a list of Canadian security types, identifying whether they are expected to be affected by T+2.

"Dozens of countries around the world have reduced their securities settlement cycle to a standard of T+2," said Keith Evans, executive director of the CCMA. "Making this change seamlessly and in tandem with the US is essential to maintaining Canada's capital markets' reputation as efficient, cost-effective and secure."

About 40% of trades on Canadian exchanges are in inter-listed securities (a single security listed in both markets) and about a quarter of the trades settling in Canada are from cross-border transactions. Evans added: "Different settlement dates may lead to market distortions, be confusing for investors and increase both the risk of errors and the need for manual corrections."

James Rausch, head of Canadian client coverage and global head of banks, brokers & exchanges, RBC I&TS, added: "The new settlement cycle also impacts our Non-Western Hemisphere clients. With this in mind, we are proactively identifying trade instructions received after 12:00 noon on T+1 and encouraging clients to work with their underlying clients and internal partners to make the adjustments to ensure the timely provision of trade instructions in line with expected industry standards."

The Canada Revenue Agency (CRA) made modifications to its guidance for Part XVIII of the Foreign Account Tax Compliance Act (Fatca) and new guidance for Part XIX of the Common Reporting Standard (CRS) in March 2017.

Shane Kuros, vice president, business development and relationship management, CIBC Mellon, said: "The CRA indicated that the information – aimed at Canadian financial institutions and their account holders – is intended to provide an understanding of the administrative aspects of the Canada-US intergovernmental agreement and the CRS."

Rausch added: "Account opening requirements for new accounts in phased-in jurisdictions under CRS begin July 1 2017. In an effort to streamline due diligence processes, we are developing a combined Fatca and CRS self-certification form, including Canadian withholding tax declaration information for our sub-custody clients."

CHILE

UNWEIGHTED		
RANK		Score
1	Citi	5.15

WEIGHTED		
RANK		Score
1	Citi	5.93

Growth in 2017 is expected to be 1.7% according to the IMF, only slightly up from 1.6% in 2016, reflecting disruptions to copper production, dampened consumption and investment as well as political uncertainty, with both presidential and congressional elections in the next 12 months.

An export-led recovery is expected to gain traction in late 2017 and strengthen in 2018. Monetary policy is accommodative, but there is scope for further easing. Fiscal consolidation needs to continue given the growth outlook.

Law N° 20.848, in force since January 1 2016, established a new institutional framework for foreign direct investment. The aim is to transition from a "passive reception" policy to an "active attraction". Fortunately, copper prices seem to have bottomed out in this cycle with price increases in late 2016 helping to restore confidence.

In May 2017, Santiago Stock Exchange (SSE), Bolsa de Comercio, announced that an IBM-designed platform will be implemented within the exchange's short selling system.

"The solution creates a securities lending chain repository for a key master contract between institutions, exchange and banks," an IBM spokesperson told Global Investor. "All entities involved in securities lending – banks, the stock exchange, clients, regulators and brokerages – can exchange information in a highly secure manner, assuring financial transparency and increasing the process end to end efficiency."

When a broker and institutional client sign a master agreement to engage in lending activity, the broker enters the details and signs off on a blockchain for audit purposes. Upon

> "The SBL blockchain solution could help SSE cut its back-office processing time by 40%"

successful execution of the order, the platform will register the lending contract on the blockchain on behalf of brokerage. A smart contract will be executed to the short for an allowed security.

SSE will own and operate the network but anyone with the key can access the information, which includes the master agreement, secure lending contracts and contracts with banks. The SBL blockchain solution could help SSE cut its back-office processing time by 40%.

COLOMBIA

UNWEIGHTED		
RANK		Score
1	BNP Paribas Securities Services	6.25
2	Citi	5.09

WEIGHTED		
RANK		Score
1	BNP Paribas Securities Services	6.84
2	Citi	6.34

2016 brought improvements for foreign investment and preparation for some of the biggest projects that the Colombian market will experience during this decade.

In the recent years Colombia has been experienced political change, including a peace agreement with Farc in December 2016, as well as economic reforms.

Fiscal reform in late 2016 brought significant change to post-trade processes and foreign portfolio investments. FX transactions related to funds repatriation deriving from foreign portfolio investments were exempted from the 40bps transaction tax (GMF), facilitating the use of multiple FX providers.

A new tax on dividends of 5% was introduced, to apply to profits obtained from 2017, and the value-added sales tax increased from 16% to 19%.

Armanda Mago, managing director, head of direct custody and clearing, Latin America excluding Brazil and Mexico, Citi, said: "The government expects to reduce the fiscal deficit – mostly driven by the decrease in oil prices – to attend the IMF recommendations and remain investment grade with a stable outlook."

While Colombia continues being a segregated market for securities accounts, regulatory change means omnibus cash accounts are now available for foreign portfolio investors.

"The use of omnibus cash accounts has been finally recognised in the market and the final version of the new foreign investment regime took shape," said Claudia Calderon, head of Colombia, BNP Paribas Securities Services. "This benefits those entities offering services to multiple investors, such as global custodians, that can set different cash structures according to their needs, having the possibility to use multiple providers."

The Superintendence of Finance is working on a new regulation to establish higher capital requirement for trust entities in order to adequately support the custody business.

During 2017 the market will be working on important projects such as an extension of the CCP model to equities, a move to a T+2, implementing an integrated trading platform for the securities exchange and a new platform for the CSD, Deceval.

Mago added that the stock exchange, the CSDs, local brokers and custodians including Citi are working to promote the participation of foreign portfolio investors in securities lending and implement a CCP for equities spot transactions, sell buy backs and repos.

MEXICO

UNWEIGHTED		
RANK		Score
1	Santander	5.22
2	Citi	5.21

WEIGHTED		
RANK		Score
1	Citi	6.27
2	Santander	5.95

Mexico's economic priority is to maintain macroeconomic stability and market confidence amid heightened US-related uncertainty, accord-

> At times, US-Mexico bilateral relations might fuel volatile market-moving events
>
> **Scotiabank**

ing to an IMF report in April.

Mexico remains the pre-eminent jurisdiction in Latin American debt markets with large-scale foreign portfolio investor participation, Scotiabank executives wrote in their April outlook. Monetary policy is critical in keeping the interest rate premium as a key magnet for inflows.

"There is evidence of a divergent trend in monetary policy dynamics between the North (USA and Mexico) and the South (Brazil, Colombia and Chile)," Scotiabank added. "The stark contrast between rising central bank rates in Mexico—which helped stabilise Mexican currency market stress—and steady rate declines in Brazil is proof of this divide."

Mexico's capital markets remain uneven, with a very liquid government bond market but shallow corporate debt and equity markets. Government bond markets are deep and well-diversified in terms of range of instruments and maturities, providing liquidity in all relevant benchmarks. The strong presence of foreigners has supported the yield curve lengthening and secondary market liquidity. However, corporate equity and bond markets are still not a reliable source of long-term financing as they are small, expensive and illiquid.

"Equity markets amount to only 38% of GDP, are less dynamic than in peer countries and are tilted towards large enterprises and family owned corporations," the IMF added. "The development of hybrid capital markets instruments, via private equity funds, could provide a promising venue for much needed mature infrastructure investments. There is significant scope to broaden existing debt instruments to include infrastructure debt funds, covered bonds, and standardised securitisation bonds to appeal to a larger range of private sector investors."

Scotiabank noted that a June 4 2017 election will provide a clear hint of sentiment ahead of the July 2018 presidential vote. "At times, US-Mexico bilateral relations might fuel volatile market-moving events," added Scotiabank.

PERU

UNWEIGHTED

RANK		Score
1	Citi	5.12

WEIGHTED

RANK		Score
1	Citi	6.28

The Peruvian securities market has grown and become more sophisticated in recent years but the latest International Capital Markets Review suggests it is still a highly concentrated market where institutional investors and big businesses are essentially the only participants.

"The Peruvian securities market is not yet perceived by local individuals and small and medium-sized companies as a real alternative providing accessible investment and financing opportunities," wrote Nydia Guevara and Alvaro Del Valle from Peruvian law firm Miranda & Amado.

To attract a higher number of issuers and potential investors Peru's Superintendency of Capital Markets (SMV), the Superintendency of Banks, Insurance Companies and Private Pension Fund Managers (SBS) and the Lima Stock Exchange (BVL) need to simplifying access requirements, according to Guevara and Del Valle. "[This] in turn should lower the costs involved in the participation of new actors in the securities market. This goal has not yet been achieved."

However, both lawyers expect that the reforms and incentives approved during 2015 and 2016 – aimed at increasing the number of securities listings, improving the number of participants in the market and attracting investors by reinforcing transparency – will fuel securities markets expansion and integration.

"2015 and the first half of 2016 were particularly slow periods because of the uncertainty surrounding the presidential and congressional elections held between April and June 2016. Mr Kuczynski, who has a pro-investment and pro-market policy, was sworn in as the president for a five-year term on July 28 2016, along with a new congress, which should have a very positive impact on the economy and development of the local capital market."

UNITED STATES

UNWEIGHTED		
RANK		Score
1	Brown Brothers Harriman	6.50
2	BNP Paribas Securities Services	5.93

WEIGHTED		
RANK		Score
1	Brown Brothers Harriman	7.37
2	BNP Paribas Securities Services	3.99

[pullquote] ""

The Depository Trust & Clearing Corporation (DTCC), alongside other association partners, has committed to helping the US market follow Europe in moving from a T+3 settlement cycle to T+2. The move, which is scheduled to happen in September 2017, is seen by many as a precursor to eventually moving to T+1 globally.

The European switch took place in 2014 and has largely been judged as a success in the buy side. The level of industry preparation means market participants are hopeful of replicating this in the US.

Law firm Deloitte noted T+2 will require changes across the entire corporate actions lifecycle, from announcements to booking and reconciliation. "Under T+2, existing processes that are paper-based, error-prone, and highly manual will have one less day to be completed – increasing the risk of failure. In preparing for T+2, organisations will need to ensure their internal data is up to par," Deloitte's Bob Walley, a New York-based principal focused on regulation and capital markets, wrote in a recent note to clients.

Deloitte's experts have also suggested vendors and service bureaus assess their delivery systems and incorporate T+2 information into event announcements, such as shortened periods for expiration dates and cover/protect dates. Eligible positions will need to be established based on ex-dates for mandatory and income corporate actions that are one day earlier under T+2.

Cover/protect date calculations for voluntary corporate actions will need to be shortened for T+2 settlement, and organisations will need to notify customers of the shortened date period. Ex-date calculations need to be shortened to "record date minus one," and calculations for "take-off sheet" adjustments and dividend reinvestment need to be adjusted for T+2.

Systems and operations that support dividend reinvestment processes also need to be reviewed and adjusted. Failure to process these payments for T+2 could create financial risks, including the direct cost of late payments in forgone interest for investors. Finally, firms should review position booking systems for coding related to settlement date and then make adjustments for T+2.

A recent study by Aite Group suggested fund managers are hesitant over a move to T+1 because of the potentially high cost of the required move from batch overnight cycles to real-time processes for settlement.

> "Under T+2, existing processes that are paper-based, error-prone, and highly manual will have one less day to be completed"
>
> **Bob Walley, Deloitte**

URUGUAY

UNWEIGHTED		
RANK		Score
1	Banco Itau	4.84

WEIGHTED		
RANK		Score
1	Banco Itau	5.86

Uruguay has managed the recessions of its large neighbours Brazil and Argentina relatively well. The economic slowdown in Uruguay bottomed out in 2016, with growth picking up in the second half of the year. Inflation has decreased toward the upper bound of the central bank's target range. Given rising debt and still-elevated inflation, the room for countercyclical fiscal or monetary policy is limited. "The fiscal consolidation package for 2017 is a crucial step for putting net debt on a downward trajectory, while tight monetary conditions are needed to keep supporting continued disinflation," IMF officials noted in a recent report.

VENEZUELA

UNWEIGHTED		
RANK		Score
1	Citi	4.50

WEIGHTED		
RANK		Score
1	Citi	6.06

Venezuela is one of the countries most affected by the drop in oil prices. The South American country was already battling economic difficulties when a barrel was above $100. So now, barrels around $50, the socialist revolution of its late leader, Hugo Chavez, and president Nicolas Maduro is facing an acute funding crisis. IMF officials have noted that projecting the economic outlook in Venezuela – including assessing past and current economic developments as the basis for those projections – is complicated. There is a lack of discussions with the authorities, long intervals in receiving data that has information gaps, incomplete provision of information and difficulties in interpreting certain reported economic indicators in line with economic developments.

ASIA PACIFIC

AUSTRALIA

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	6.21
2	HSBC	5.33

WEIGHTED

RANK		Score
1	HSBC	6.59
2	BNP Paribas Securities Services	4.66

The ASX is continuing its project to replace its existing Chess platform, which has serviced cash equities in Australia since 1994. The assessment of distributed ledger technology (DLT) is being undertaken by the ASX with Digital Asset Holdings. ASX expects to be in a position to make a decision on the technology and vendor towards the end of 2017.

"The current focus for the ASX and the market participants is being directed to the business requirements for the system, irrespective of the underlying technology," said David Braga, head of securities services Australia and New Zealand, BNP Paribas. "Moreover, the ASX acknowledged that the existing Chess proprietary messages are not compatible with other international systems and standards."

ASX will replace the current proprietary format with ISO20022 standard and has contracted Swift. This work will feed requirements for the Chess replacement solution but is re-usable to any system – the specifications are technology-agnostic.

Peter Snodgrass, head of direct custody and clearing HSBC Australia, said: "The ASX stated that the investments in technology will help deliver greater innovation, efficiency and liquidity to customers. The initial six to twelve months will be used to develop a solution that demonstrates the benefits of DLT, while Chess will continue as normal alongside. This allows stakeholders to assess the benefits and implications before a final decision is made."

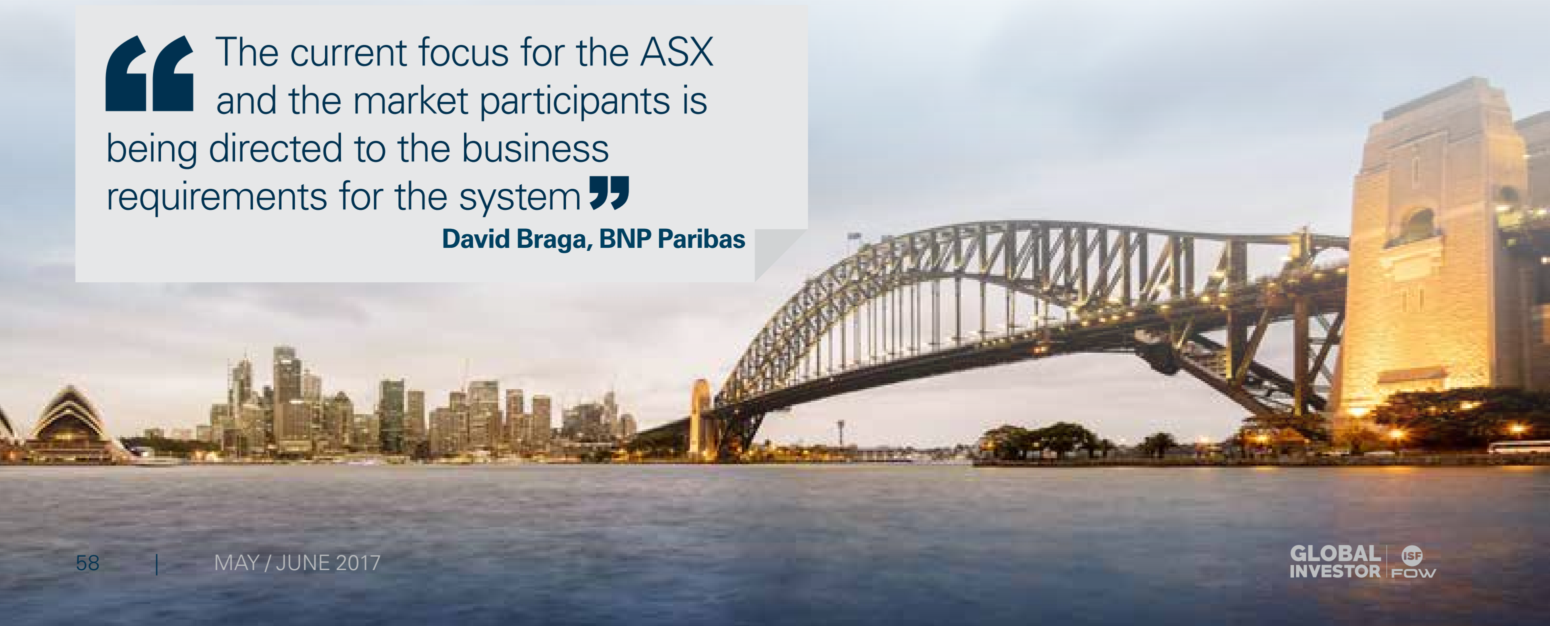
The Council of Financial Regulators (COFR) issued a Consultation Paper on Safe & Effective Competition in Cash Equities Settlement in Australia. The COFR seeks to ensure ASX remains responsive to user needs, and maintains transparent and non-discriminatory pricing of its monopoly cash equity clearing and settlement.

The Australian Securities Exchange (ASX) is looking into adopting pre-matching for debt securities. An automated process would decrease failed trades by enhancing the ability of clients to resolve unmatched trades before settlement date. "This step will provide a significant benefit to the cross border investment community," added Snodgrass.

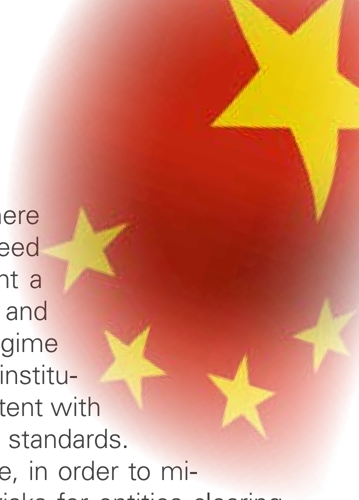
The Australian Government enacted the new Attribution Managed Investment Trust (AMIT) legislation on 5 May 2016, with the aim of provide qualifying MITs with greater tax treatment certainty. The new regime has been mandatory since July 1 2016. Under the international Common Reporting Standards (CRS), Australian banks and other financial institutions will collect and report to the Australian Taxation Office (ATO) financial account information of their non-resident customers, and shares it with other participating authorities. This comes into effect in Australia from July 1 2017.

Stock exchange and derivatives market operator Chi-X is to launch Transferable Custody Receipts (TraCRs), which are intended to provide beneficial holders with the beneficial ownership of shares in leading global companies on the world's largest markets. Initially, the underlying securities will be US tradeable securities on the NASDAQ and the NYSE (S&P500). TraCRs issuers are separate entities to the company issuing the underlying assets. The TraCRs will trade on Chi-X at a set ratio to the underlying security, cleared and settled via ASX Settlement.

Australia moved to a T+2 settlement cycle, from T+3, for both cash equities and debt securities in March 2016. "It was the biggest change or challenge facing HSBC Australia and its clients in the last year," said Snodgrass.



> "The current focus for the ASX and the market participants is being directed to the business requirements for the system"
>
> **David Braga, BNP Paribas**



BANGLADESH

UNWEIGHTED

RANK		Score
1	Standard Chartered	4.57

WEIGHTED

RANK		Score
1	Standard Chartered	5.83

The Bangladeshi economy is dominated by a single industry, garment making, which makes up more than 70% of total exports. Business is once again booming, having recovered enough from the 2013 factory-collapse disaster to fuel 7% growth this year. $81m was taken from the Bangladesh central bank account at the Federal Reserve Bank of New York in 2016. The theft was linked to malware, which the FBI has alleged was developed by North Korea, and local lapses in security around Swift messaging passwords. The World Bank has been in talks with the government on financial reforms for several years but the country is reported reluctant to take the multinational lender's development policy credit to support reform.

CHINA

UNWEIGHTED

RANK		Score
1	HSBC	5.51
2	Deutsche Bank AG	5.43
3	Standard Chartered	5.08
4	Industrial and Commercial Bank of China	4.46
5	China Construction Bank	4.06

WEIGHTED

RANK		Score
1	Deutsche Bank AG	7.51
2	HSBC	6.72
3	China Construction Bank	5.54
4	Standard Chartered	5.52
5	Industrial and Commercial Bank of China	5.27

China's capital markets have progressed rapidly in recent years. Achievements include the opening of the Chinese Interbank Bond Market (CIBM) to a wide range of international investors in early 2016, the introduction of registration systems for the Qualified Foreign Institutional Investor (QFII) and RMB QFII (RQFII) programmes and the Stock Connect scheme. In 2017 market developments have centred largely on broadening access for foreign investors into China's Interbank bond market (CIBM) with the PBOC delivering on its commitment to liberalise access for international investors.

"With the inclusion of CIBM's bonds in global indices as a core objective, the PBOC and SAFE have led several key developments, most notably allowing foreign participation in the CNY (onshore) FX derivatives markets for the purposes of hedging. This is a key requirement for global insurance companies in particular and is part of a continuing programme of reform which we expect to see continue through 2017," said a spokesperson for Standard Chartered Bank, adding these reforms could potentially include the simplification of market entry documentation, extended trading hours and tax clarifications for QFII investors.

However, several reforms need to occur if China's capital and financial markets are to reach their full potential. The Asia Securities Industry and Financial Markets Association (Asifma) published a detailed study in March, China's Capital Markets: Navigating the Road Ahead.

Adopting global standards on trading suspensions, stock borrowing and lending, short selling, delisting of substandard companies and trading suspensions, and settlement of securities are among the recommendations proposed by Asifma in order to attract foreign investment in equities. The continued development of a liquid secondary bond market is needed to transition away from the majority of issues being held to maturity on banks' balance sheets.

Asifma also says China's capital markets would benefit from greater transparency and consistency in policy and regulation, which would improve international investor confidence. There is also a need to implement a resolution and recovery regime for financial institutions consistent with international standards.

Meanwhile, in order to minimise the risks for entities clearing on the Shanghai Clearing House (SHCH) there is a need to incorporate the enforceability of close-out netting in statute, support the exchange of margin through amendments to the Securities Law and allow for third-party custodians to hold initial margin on behalf of the posting counterparty. Asifma suggests the authorities, in conjunction with the SHCH, should prioritise the application of the SHCH to be recognised as an equivalent clearing house under European and US legislation.

"We believe facilitating access to China's capital markets by permitting international investors to use omnibus accounts would be welcomed by international players as it would allow them to benefit from cost savings and efficiencies through simplification of operating models," Asifma stated. "While China's priority is to develop its own market infrastructure, it is important to ensure that it is compatible with international standards if China is to expand the use of the RMB as an international currency."

HONG KONG

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.96
2	HSBC	5.82
3	Standard Chartered	4.92

WEIGHTED

RANK		Score
1	HSBC	6.24
2	Standard Chartered	5.22
3	BNP Paribas Securities Services	4.67

2017 has been an active year with key initiatives including the imminent

launch of Bond Connect scheme as well as developments around real-time delivery versus payment (DVP) for China Connect, holiday trading, ETF Connect and Primary/IPO connect.

The development of the Hong Kong – China Stock Connect has resulted in global players such as Standard Chartered partaking in bilateral discussions on the applications of Ucits V in a Hong Kong and China context, leading to the approval of the "market DVP" mechanism by the Luxembourg Financial Sector Supervisory Commission (CSSF).

Cindy Chen, managing director and head of securities services for Hong Kong at Citibank, described these changes as new challenges to foreign investors, such as operating in a T+0 environment and associated risks with a compulsory buy-in market, choosing a solution that would satisfy Ucits, AIFMD and '40 Act requirements and understanding all changes related to the various China market access channels.

"The enhanced connectivity and interaction between Mainland China and Hong Kong authorities and a more stable market environment provide a good platform to expand China market access to other asset classes," said Chen. This effectively creates opportunities for foreign investors to introduce new products and lower the frictional cost of accessing China's "increasingly open, yet complex market."

With the Hong Kong Exchange (HKEx) working actively to extend its capabilities, developments in 2017 have focused on two key areas: the finalisation of the Hong Kong – China Stock Connect and the launch of the Hong Kong – China Bond Connect.

On the Stock Connect, banks including Standard Chartered have continued discussions with European regulators to secure support for the existing settlement models for A-shares in Hong Kong. "This has involved extensive bilateral discussions on the applications of Ucits V in a Hong Kong and China context and has successfully led to the approval of the market DVP mechanism by the CSSF in Luxembourg as a major milestone," said a Standard Chartered spokesperson. "Global investors are now able to fulfil their need under Mifid to demonstrate best execution on the Stock Connect – which was previously not possible."

On the Bond Connect, he added: "We have been a partner to the HKEx in the evolution of the operating model and, as the model now takes shape with investors we will continue to play a key role in reconciling the needs of global managers with those of the HKEx and HKMA."

INDIA

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	6.20
2	Société Générale Securities Services	6.20
3	Citi	5.59
4	Deutsche Bank AG	5.51
5=	Standard Chartered	5.40
5=	HSBC	5.35

WEIGHTED

RANK		Score
1	Citi	7.75
2	Deutsche Bank AG	6.34
3	HSBC	6.26
4	BNP Paribas Securities Services	5.09
5=	Standard Chartered	4.45
5=	Société Générale Securities Services	3.89

India continues to be an important investment destination for foreign investors, both in terms of portfolio and strategic investments on the back of strong fundamentals and well-developed capital markets. Net foreign portfolio inflows into India crossed $10bn in 1Q 2017.

The debt segment has been a focus area for increased reforms. "Regulators have taken various steps to streamline this segment for FPIs [foreign portfolio investors] including flexibility to transact in corporate bonds without involving brokers, direct access to online trading platform for government securities trades in secondary markets and allowing investment in unlisted debt securities," said Anuj Rathi, head of HSBC Securities Services India.

> "Regulators have taken various steps to streamline the debt segment for FPIs"
>
> **Anuj Rathi, HSBC**

There were also some important developments in taxation. India signed protocols to amend existing tax treaties with Mauritius, Cyprus and Singapore which came into force from April 1 2017. Furthermore, the Budget has clarified that Cat I &II FPIs are exempted from provisions of indirect transfer tax.

Regarding market entry simplification, the PAN verification process for FPI account opening has been relaxed. FPIs are now permitted to provide PAN card copies within 60 days of account opening or before remitting funds outside India, whichever is earlier.

"We are now awaiting the roll-out of the common application form for FPI registration and PAN card as announced in the Budget. This is a really

positive step as it will not only simplify the overall process but will also reduce the time-lag for the FPIs to start trading in the market," added Rathi.

The Reserve Bank of India (RBI) has notified new Central KYC Records Registry (CKYCR) rules aimed at centralising information for bank accounts. Foreign portfolio investors that follow Sebi uniform KYC under KYC registration agency (KRA), will be especially impacted by the new rules. A spokesperson for Standard Chartered Bank said: "Custodians had extensively discussed this requirement and in particular with regard to FPIs with MOF/RBI/SEBI to use exiting information with KRA and only seek additional information from FPI."

Custodians, including Standard Chartered Bank, have been in discussions with Sebi, RBI and the Ministry of Finance to introduce single application form for FPIs which should cover FPI registration including KYC requirements, in order reduce documentation complexity and worked with Sebi, RBI and the depository NSDL to formalise the consolidated form.

Regulators are consulting on the relaxation of rules for foreign investment in Indian government securities. A spokesperson for Standard Chartered Bank said: "We are working with RBI and [clearing house] CCIL in offering the facility to foreign portfolio investors to access the execution platform for trading and subsequent settlement of GOI trades. We had provided feedback for the automation of NDS OM WEB system.

RBI, in consultation with CCIL, is setting up a mechanism to monitor investments limits on real time basis applicable for FPI investments in GOI securities. "This will do away with exiting auction-based mechanism where FPIs post 90% utilisation need to bid for the limits," added the spokesperson.

› INDONESIA

UNWEIGHTED

RANK		Score
1	HSBC	5.72
2	Citi	5.33
3	Standard Chartered	4.84

WEIGHTED

RANK		Score
1	HSBC	6.97
2	Standard Chartered	5.77
3	Citi	4.92

President Joko Widodo (Jokowi) became president of Indonesia two-and-a-half years ago and is gaining the confidence of the market after reforming the country's fiscal budget, including big cuts to Indonesia's fuel subsidies, largely to finance the acceleration of infrastructure projects. Analysts at Lazard Asset Management note that there has also been a notable policy shift, with the government promoting a pro-business climate and an open door policy to foreign investors, which should ultimately improve the competitiveness of the country.

According to David Jauregui, senior vice president, product manager and Lazard Asset Management, since assuming the presidency, Jokowi has also begun reversing Indonesia's restrictive foreign investment policy to boost trade and competitiveness. "The government has been focused on satisfying the balance between domestic and foreign interests, attracting foreign companies where local expertise is lacking while protecting domestic small and medium enterprises," Jauregui noted.

Indonesia New Fund System (INFS) is an integrated system initiated by the Indonesia Financial Services Authority (OJK) and the local Indonesian CSD (KSEI) that provides a centralised platform for Indonesian investment fund-related participants.

"This initiative aims at digitising current paper/faxes/emails instructions, by implementing a standardized and automated channel for all Indonesia mutual fund market participants, including, but not limited to, custodian banks, selling agents or fund's distributors, and brokers," a spokesperson for Standard Chartered Bank said.

INFS is the first system in Asean to connect all mutual fund managers, and improves efficiency and reducing operational risk. Phase one of the programme went live in Sep 2016 by bringing more transparency in the funds ecosystem. OJK and KSEI is working closely with banks including Standard Chartered Bank on phase 2, which aims to further enhance and automate the process for asset managers to integrate with the trading and back-office platforms.

Indonesian depository has been working with custodian banks to build an online connectivity with their post-trade. "This will improve the turnaround times for settlement make the entire process faster and streamlines, added the Standard Chartered spokesperson, adding that the bank is currently working with Indonesian regulators and agen-

ASEAN demands attention

CLIVE TRIANCE

HSBC

Clive Triance, HSBC's Managing Director, Global Head of Banks and Broker Dealers Sector in Hong Kong, explains why the ASEAN region is increasingly important to Asia's capital markets for international investors

WHAT REGULATORY AND DEMOGRAPHIC FACTORS ARE DRIVING ASIAN CAPITAL MARKETS?

Regulatory change and the development of Asian infrastructures are driven, in large part, by what happens in the US and the EU. In the same way, investors from the US and the EU, who represent about two-thirds of global portfolio flows into Asia, are the principal target of efforts by regulators in the region to improve and extend their capital markets and the regimes that govern them.

The reforms include changes to make markets fairer, more efficient and safer. Progress signals to key index providers, and the investors that watch them, that these markets are capable of transitioning from frontier to emerging markets. When the designation becomes official – by inclusion in the appropriate MSCI index, for example – the effect is considerable additional inflow into the market in question.

Specific recent examples of improvements to the securities servicing environment in Asia can be found in the growing adoption of T+2 across the region. Australia, New Zealand and Vietnam made the shift in 2016; Singapore should achieve T+2 sometime in 2018.

WHY SHOULD INVESTORS PAY SPECIAL ATTENTION TO THE ASEAN BLOCK?

The ASEAN region – Thailand, Malaysia, Singapore, Vietnam, Philippines and Indonesia – has attracted a good deal of excitement over the last couple of years.

The region's favourable demographic picture is already beginning to have an effect on the economic one; the region has a combined population of 568m. Between 2007 and 2015, ASEAN recorded an annual growth rate of 5.3%, and its 2015 GDP of \$2.4trn makes it the third largest

> "The demographic case for investing in the ASEAN region is compelling."

economy in Asia and the 6th largest globally. In 2015, the region also accounted for the fourth largest share of global trade, at $2.3trn[1].

In the near term, the demographic case for investing in the ASEAN region is compelling. By 2015, according the World Bank, ASEAN countries boasted a quarter of the world's total population. By 2030, the IMF estimates that 55% of these will be in the middle class, a total of about 400m people (by the same date two-thirds of the world's middle class will be Asian).

If the ASEAN region is treated as a single country it would rank first in the world for the number of cities in the top 100 business process outsourcing (BPO) locations worldwide, second in total foreign direct investment (FDI) flows; second in the number of monthly Facebook users, as well as third in overall population, annual gross national savings and the number of households with an income of $10,000 or more.

› WHAT INFLUENCE WILL DEMOGRAPHIC AND ECONOMIC FACTORS HAVE ON THE DEVELOPMENT OF ASEAN CAPITAL MARKETS?

In addition, the region is enjoying a process of rapid urbanisation, a broad shift to representative democracy and a young, tech-savvy population. The factors combine to provide circumstances that could be ideal for the growth of financial services. In particular, growing affluence and a favourable demographic balance bodes well for the growing penetration of investment and insurance products.

With Chinese GDP growth figures continuing to slow – despite small recent gains, the growth rate remains below its recent historical average – investors and companies are looking increasingly to ASEAN countries as alternative investment destinations. While increasing labour costs have ramped up the cost of manufacturing in China, for example, those in ASEAN countries continue to be low. This likely result in the coming years could be a continuing shift of manufacturing to ASEAN countries. I think this will, in turn, continue to favour the development of the region's local securities markets.

› ON BALANCE, HOW DO THE PROSPECTS FOR ASEAN COMPARE WITH THOSE FOR CHINA AND INDIA?

At the level of individual countries, none of the ASEAN members may attract as much interest from international investors as say, China or India. Collectively, however, the ASEAN region's strong demographics should ensure the stories of these countries remain compelling ones over the mid-term.

HSBC has been active in helping shape the regulatory and commercial landscape in each of these countries. Regulators have consulted with us, seeking advice and insight into what neighbouring countries are doing and how far they should adopt the same approach. We will continue to have a central role and an exclusive perspective on how these markets develop in the coming years.

1 ASEAN.org

The prospects of ASEAN countries

› SINGAPORE

With around 5.8m of ASEAN's total of 568m people, Singapore is small in population terms. However, the country has developed as a leading regional economy and has established itself in particular as an offshore financial services location.

The country's regulator is looking to attract further foreign investment by positioning the country as the financial technology hub of Asia. To this end it has committed itself to developing a "regulatory sandbox" in the coming years: a safe space in which financial technology firms can develop and test products under more flexible regulatory standards. In exchange for appropriate safeguards in their testing models, companies can be confident that their experimental innovations will not be curbed by sudden regulatory crackdown.

In 2014, Prime Minister Lee Hsien Loong announced plans to make the city state into the world's first smart nation by 2030. The government has pledged to use technology throughout the economy – and in all areas of society - to improve citizens' standard of living. At the heart of the new vision are efforts to promote collaboration between the sectors of technology, financial services, the research industries and institutions of higher learning as well as other innovation professions and government agencies.

In financial services efforts are focussed on developing Application Programming Interfaces (APIs) to open up the banking system. (APIs refer to the system or programming innovations that allow existing applications to interact – combining mobile retail banking interfaces with back office settlement systems, for example).

All this is helping to build a vibrant ecosystem for innovation, which should attract the best in international talent, specialising in the cutting edge research necessary to achieve ground-breaking discoveries that propel industry and society forward. A recent report by Ernst & Young for the UK Treasury put Singapore fourth in the world for the quality of its innovation, ahead of Germany and Hong Kong and behind only the east and west coasts of the US and the UK.

Singapore may not be about to win the population race – or even the competition for the world's fastest growing economy – but it may yet become one of the world's leading centres for innovation in general and financial technology in particular.

> MALAYSIA

A recent $32bn bilateral agreement was signed between Malaysia and China, as part of China's Belt and Road initiative. Malaysia is also pursuing a national transformation plan, the goals of which include increasing the population from its current 31m to 50m by 2050.

In March, the Alibaba Group and the Malaysia Digital Economy Corporation (MDEC) launched Malaysia's Digital Free Trade Zone. It is the world's first special trade zone and targets the growth of e-commerce by providing a supportive environment in which small and mid-sized companies can transact products and services. The project is aiming to account for $65bn in trade for Malaysia by 2025. Jack Ma, Alibaba's founder, launched the project and it will be the firm's first e-hub outside its home market of China.

> INDONESIA

The world's fourth most populous country holds considerable potential when it comes to the development of its capital markets. Demographically, it boasts a young and increasingly affluent population; 100m monthly Facebook users and a capital city, Jakarta, where residents are the world's most active Twitter users. Its proximity to China and key role in the ASEAN network means it is well placed for future development, which is set to include considerable infrastructure investment. Financial markets, and the involvement of international investors, will be the key to the financing of this.

> "These markets are capable of transitioning from frontier to emerging markets."

> PHILIPPINES

The Philippines also benefits from the favourable macro-economic trends that are helping many of its ASEAN neighbours develop their capital markets. With big commitments to infrastructure spending, a young population and high domestic consumption the fund industry is set to grow, led by the insurance and trust sectors. The labour force is well educated, has strong language skills and a reputation for working hard.

The regulator is working to develop an investor-friendly environment as well, approving new products, including dollar-denominated listings for public-private partnerships. The central bank has relaxed FX regulations, including the purchase limit for domestic residents, which allows residents to trade more. Reforms have also speeded up the cheque clearance system, which is now achieved in one day.

> THAILAND

In 2015, the Thai government announced a 20-year national strategy including a five-year economic plan. The latter includes changes in tax regulations, improvements to government transparency, reform of state enterprises and moves to improve governance standards. A recent memorandum of understanding has been signed with China to create a $5bn high-speed rail link – once again, part of China's Belt and Road initiative.

Further government initiatives have targeted innovation, technology, aviation and the creation of a medical and biotech hub, with another for robotics. Capital markets are benefitting from plans to introduce T+2 as well as a national e-payment initiative. Progress on the former includes the establishment of a pre-settlement matching system, which should see T+2 go live in September.

> VIETNAM

Vietnam enjoys low labour and input costs and a young workforce, both of which are helping to attract a high level of foreign development capital to the country. The government has embarked on a programme of selling stakes in many of the country's state-owned enterprises, helping to raise government revenue, reduce the costs of subsidies and increase dollar investment in the country.

cies during testing and implementation of these platforms.

JAPAN

UNWEIGHTED

RANK		Score
1	Mizuho Bank Ltd	6.48
2	Bank of Tokyo-Mitsubishi UFJ, The	5.64
3	Sumitomo Mitsui Banking Corporation	5.54

WEIGHTED

RANK		Score
1	Mizuho Bank Ltd	6.07
2	Sumitomo Mitsui Banking Corporation	6.04
3	Bank of Tokyo-Mitsubishi UFJ, The	5.04

Increasing foreign investment in equities, the Japanese Exchange Group's (JPX) business-model shift amid severe global exchange competition and the gradual shift from deposits to investment by domestic retail investors continue to be the dominant trends influencing the Japanese capital markets, according to experts at Aite Group.

"The relative stability and reliability of the Japanese securities market continue to attract investment and trading flow into the Japanese market from the active foreign investor community," Gabriel Wang, analyst at the capital markets consultancy, wrote in a 2016 report.

Explosive growth of ETF trading has been driven by domestic retail investors, the good performance of the equities markets and foreign institutions that took a market-making position. Among institutional investors, banks are rapidly increasing ETF ownership.

Aite's study Japanese Securities Market: The Sun Rises Again suggests that low trading fees and long operation times are not enough for Japanese proprietary trading systems (PTSs) to increase their shares under current regulations. "The market structure monopolised by JPX will not change, at least not in the next five years, because of its overwhelming liquidity and sophisticated trading platform."

Meanwhile JPX has also the importance of derivatives trading to attract foreign investors and to stabilise the revenue under global exchange competition. The bourse also plans to enhance partnerships and derivatives cross-listing between Asian exchanges rather than consolidating other derivatives exchanges. "The biggest challenge for JPX is its high dependence on equities trading over derivatives trading, compared with other main Asian exchanges. Its primary IT investments are derivatives trading systems and OTC clearing systems," added Aite's Wang.

Japan Securities Clearing Corporation (JSCC) is a subsidiary company of JPX and is responsible for clearing cash products in exchanges in Japan. After July 2013, when the clearing operation of exchange derivatives was moved to JSCC from Osaka Exchange, JSCC began to undertake all exchange futures and options clearing (index futures and options such as Nikkei 225 and TOPIX), individual options and Japanese government bonds futures and options, and OTC government bonds.

For OTC derivatives, JSCC started clearing indexed CDS (July 2011), Libor interest rate swaps (October 2012), Japanese overnight index swaps (November 2014), DTIBOR swaps (December 2014), and non-JPY IRS clearing (September 2015), keeping pace with regulation updates about OTC derivatives after the financial crisis. In Japan, the current clearing cycle of stocks is mostly T+3.

It's also worth noting that over twenty companies are taking part in a blockchain consortium spearheaded by the JPX. The capital markets infrastructure-focused project was announced last November, with the Tokyo Stock Exchange and the Osaka Exchange, in conjunction with the JSCC, forming the initial members of the group. On March 17, new members were revealed, including Mizuho Bank, Daiwa Securities Group, Merrill Lynch Japan Securities and Nomura Holdings, among others.

KAZAKHSTAN

UNWEIGHTED

RANK		Score
1	Citi	5.00

WEIGHTED

RANK		Score
1	Citi	6.31

Kazakhstan has become something of an economic model in its region, having been granted market economy status by the United States, and now accounts for 60% of the central Asian GDP. It has suffered from declining commodity prices and is pursuing economic diversification, although this is at a relatively early stage. It does not lack ambition, however; its Strategy 2050 aims for it to become one of the world's top 30 economies and join the OECD.

MALAYSIA

UNWEIGHTED

RANK		Score
1	Deutsche Bank AG	5.52
2	HSBC	5.52
3	Standard Chartered	5.19

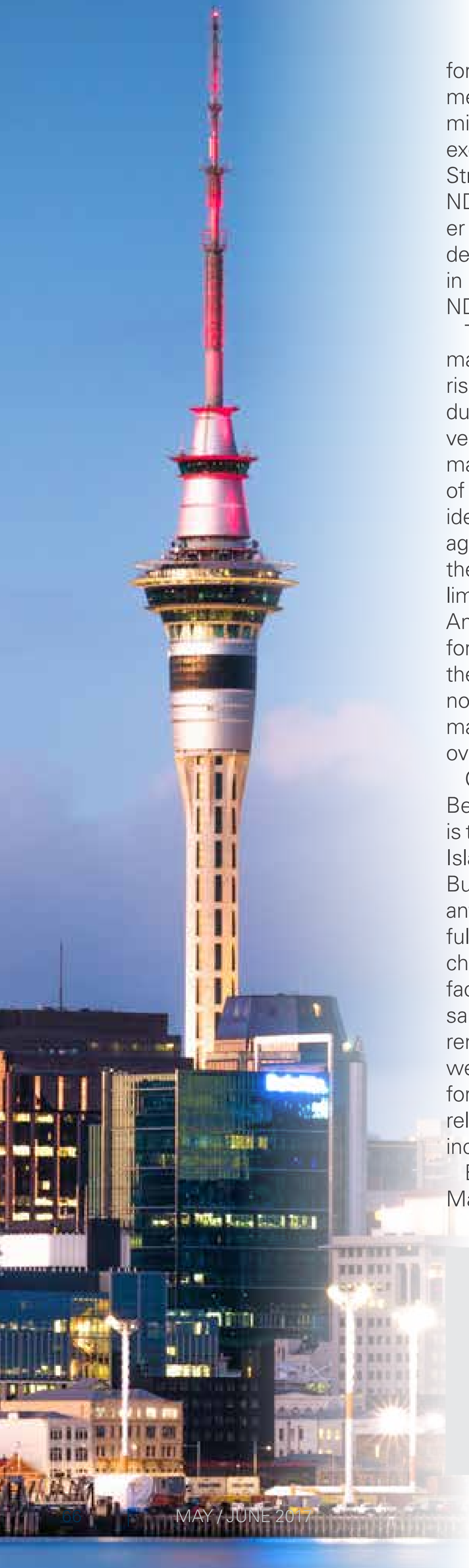
WEIGHTED

RANK		Score
1	HSBC	6.61
2	Deutsche Bank AG	6.07
3	Standard Chartered	5.17

The central bank, Bank Negara Malaysia (BNM), has successfully enabled Swift message interface for securities-related messages between their Real-time Electronic Transfer of Funds and Securities System (RENTAS), Scripless Securities Depository System (SSDS) and its SSDS participants.

"This platform has provided a more efficient and straight-through processing environment by eliminating manual pre-matching of bonds transactions. It will transform the competitive dynamics of Malaysia's capital market," said Aloysius Wee, head of HSBC Securities Services Malaysia.

"In an effort to restrict the usage of the MYR NDF [non-deliverable



forward], we saw stronger enforcement of the Foreign Exchange Administration Rules by BNM to curtail excessive speculation on the MYR. Stringent efforts in reducing MYR NDF activities brought about greater migration of flows to the onshore deliverable market, which resulted in subsequent reduction in the MYR NDF market."

To provide greater flexibility for market participants to manage FX risks, new measures were introduced. Resident and institutional investors can register with BNM and manage their FX exposure up to 25% of their Ringgit invested assets. Residents (including resident fund managers) may freely and actively hedge their USD and CNH exposure up to a limit of MYR6m per client per bank. And, to broaden the accessibility of foreign investors and corporates to the onshore FX market, offshore non-resident financial institutions may participate in the appointed overseas office (AOO) framework.

On the exchange, Bursa Malaysia Berhad's long-standing commitment is to make Malaysia a comprehensive Islamic investment. Bursa launched Bursa Malaysia-i, a shariah-compliant platform and the world's first fully-integrated Islamic securities exchange platform. "In creating a more facilitative trading environment, Bursa has effectively enabled multi-currency fixed income instruments in its web-based Electronic Trading Platform (ETP) to ensure the ongoing relevance of the platform for fixed income instruments," said Wee.

Bursa also launched the Equities Margining Framework to meet Principle 6 of the Principles for Financial Market Infrastructures issued by the Committee on Payment and Settlement Systems and the Technical Committee of the International Organization of Securities Commissions.

Bursa Malaysia recently expanded the Securities Borrowing and Lending Negotiated Transactions (SBLNT) framework to facilitate settlement of potential failed trades and revised the uptick rule on regulated short selling (RSS). The withholding tax on REIT distributions for non-resident companies will be 24% arising from amendments introduced in the Finance Act 2015, gazetted on December 30 2015 for distributions in 2016 and subsequent years. This will reduce tax obligations, making investments more attractive to both local and foreign investors.

NEW ZEALAND

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	6.73
2	HSBC	5.44

WEIGHTED

RANK		Score
1	HSBC	6.63
2	BNP Paribas Securities Services	4.83

The Reserve Bank of New Zealand has previously advised that they are replacing the NZClear and ESAS systems. "Replacement is required to significantly improve system resilience and security," says David Braga, head of securities services Australia and New Zealand BNP Paribas [SS].

NZClear has chosen to partner with SIA-Perego to develop and deliver a

> "SECP published a comprehensive Capital Market Development Plan outlining the future roadmap for the capital market, including reforms"

new CSD platform aimed at delivering as close to current functionality as possible. NZClear is also considering whether to use this re-platforming project to remove non-core CSD functionalities such as NZClear existing cash payment facilities.

In the meantime, the NZX is proposing to offer a competitive CSD and OTC settlement for all listed and unlisted equity and debt products offered by NZClear leveraging on their existing platform (e.g .BaNCS Market Infrastructure) relying on existing and published messaging interface.

"This competition in the post-trade settlement sector will hopefully offer to domestic and foreign investors the benefits of lower market charges and enhanced market capabilities in the near future," added Braga.

PAKISTAN

UNWEIGHTED

RANK		Score
1	Deutsche Bank AG	5.20

WEIGHTED

RANK		Score
1	Deutsche Bank AG	5.76

The three stock exchanges located in Karachi, Lahore and Islamabad were integrated into a single, unified, national level trading platform under the name of Pakistan Stock Exchange Limited (PSX) in 2016. More recently, the country has been upgraded by the MSCI from a frontier to an emerging market.

The Securities and Exchange Commission of Pakistan (SECP) published a comprehensive Capital Market Development Plan (2016-18), outlining the future roadmap for the capital market, including reforms for issuers and capital market intermediaries and reforms for product and market development.

Elsewhere, central depositories (licensing and operations) regulations were approved last year. Private fund management regulations introduced in 2015 continue to be promoted to facilitate the launch of private equity, venture capital and alternative funds including SME, infrastructure, debt and hedge funds.

Growth in the commodities' market is continuing and can be attributed to the listing of new products such as red chilli weekly futures contracts and gold futures contracts denominated in Canadian and Australian dollars, and Swiss francs.

In order to promote Islamic finance in the country and on the SECP's proposal, a 2% tax rebate for Sharia-compliant listed manufacturing companies was also approved in the Finance Act, 2016. Subsequently the federal government, on the recommendations of the SECP, has accorded tax neutrality to sukuk by allowing certain tax exemptions that were earlier available only to conventional securitisation issues.

It is hoped these measures would result in growth of Islamic finance in the country as the corporate entities have the compatible option to raise capital requirements in accordance with Sharia. Various pieces of legislation were promulgated, including the Futures Market Act, 2016, establishment of NCCPL as a central counterparty and settlement guarantee fund, new brokers' regime and others have contributed to better superintendence and control over capital and financial services market.

The National Clearing Company of Pakistan Limited (NCCPL) is responsible for computing and collecting capital gains tax (CGT) on behalf of the Federal Board of Revenue in Pakistan. "In order to streamline the process, SCB made number of suggestions to improve the way the information is gathered and communicated to the investors for their action i.e. to validate and make the tax payment," said a spokesperson for Standard Chartered Bank.

Two suggestions have been accepted and implemented by NCCPL. Firstly, CGT reports should be available on a fixed date every month and the information should be given at the investor level to allow custodian banks to immediately pass on the details to clients/investors without any manual intervention. The second change is the extension of the payment deadline by three to five additional days to allow sufficient time to review, and instruct local custodian to make the payment.

PHILIPPINES

UNWEIGHTED

RANK		Score
1	Deutsche Bank AG	5.62
2	HSBC	5.19
3	Standard Chartered	5.08

WEIGHTED

RANK		Score
1	HSBC	6.51
2	Standard Chartered	5.29
3	Deutsche Bank AG	5.05

The Philippines economy continues to grow at one of the fastest rates in the region, anchored on strong economic fundamentals and efforts to enhance the country's capital markets. In 2016, regulators approved several new regulations to introduce new products in the market, including equities trading of dollar-denominated securities and listing of public-private partnership (PPP) companies.

A plan to merge the country's stock and fixed income markets has been on the cards since 2013 and has not lost steam despite delays. In the Philippines, the trading platform for equities is run by the Philippine Stock Exchange (PSE) while the bond exchange is run by the PDG Group. The PSE has offered PHP2.25bn ($0.45bn) to buyout of PDS Group as a way to push forward unification.

The merger has to gain approval of the SEC – and in March 2013 the regulator unanimously denied the request, not being convinced it was in the public interest. "On the other hand, the SEC said that its decision to deny the proposed merger 'is without prejudice to any subsequent application by the PSE for similar reliefs in the future'. The PSE is currently reviving its plan and has signed agreements to resume discussions on the merger with some of the stakeholders," said a spokesperson for Standard Chartered Bank. "The merger is expected to deliver efficiencies and the lowering of costs."

The Philippine Central Bank, Bangko Sentral ng Pilipinas (BSP), relaxed foreign exchange regulations, including an increase in residents' FX purchase limit without BSP approval and providing an additional one-year grace period for the registration of foreign direct investments.

Maris Flores, head of HSBC Securities Services Philippines, said: "Two much-awaited regulatory changes expected within the year include the relaxation of foreign exchange regulations to enable repatriation of funds from disapproved rights subscriptions and the streamlining of the tax treaty relief process for dividend, interest and royalty income."

The launch of the Securities National Market Practice Group in November 2016 is expected to bring in best practices/standardisation and short-term efficiencies, especially in the trading and settlement as well as corporate actions streams.

The Bureau of Internal Revenue (BIR) released Revenue Memorandum Order (RMO) No. 8-2017, which prescribes the procedures for claiming tax treaty benefits for dividend, interest and royalty income of non-resident income earners in the Philippines. The RMO simplifies the procedure for claiming tax treaty benefits for dividend, interest and royalty income of non-resident income earners and amends RMO 72-2010.

"Instead of filing tax treaty relief applications (TTRA), non-residents' income earned in the Philippines can automatically be applied with the preferential rate or exemption prescribed under tax treaties on these types of income by submitting, to the International Tax Affairs Division of the BIR (BIR-ITAD), a Certificate of Residence for Tax Treaty Relief (CORTT) duly accomplished by the non-resident and withholding agent," said a spokesperson for Standard Chartered Bank.

SINGAPORE

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.58
2	DBS Bank Ltd (formerly Development Bank of Singapore)	5.42

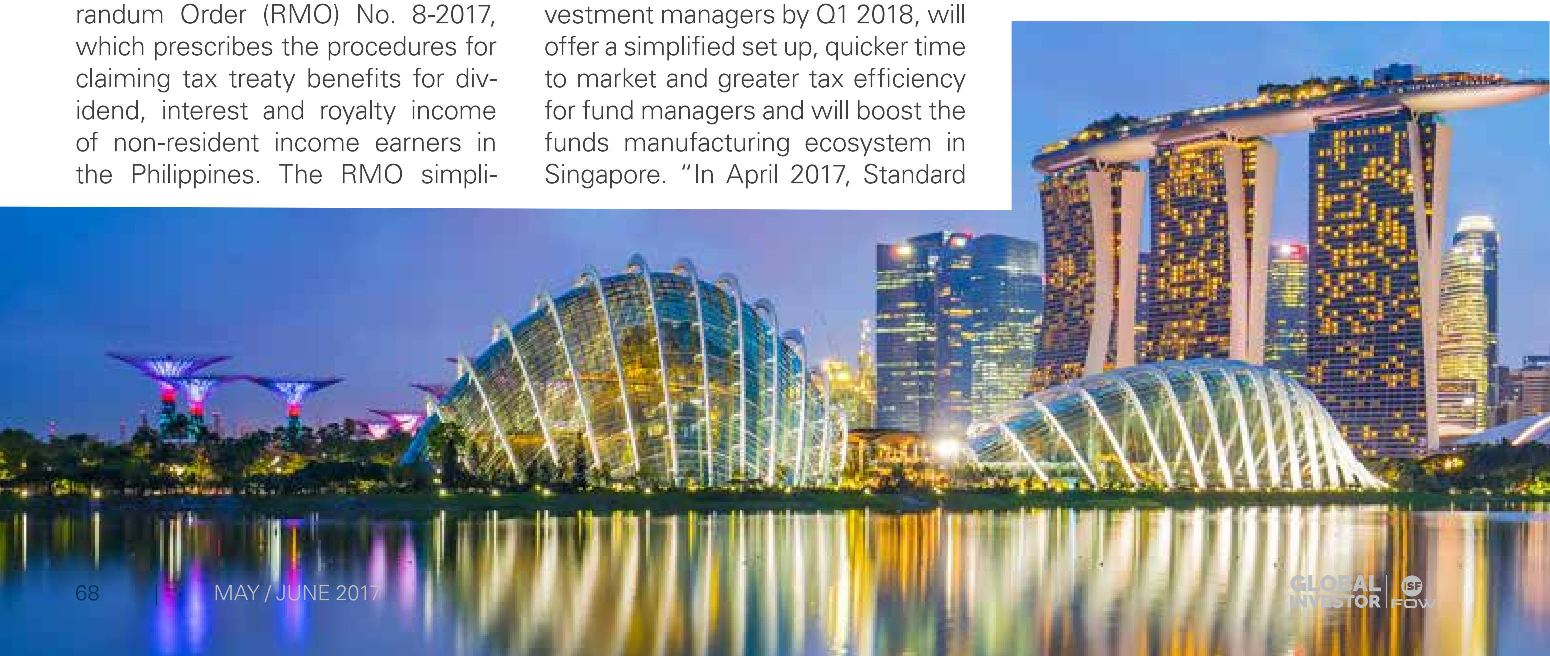
WEIGHTED

RANK		Score
1	DBS Bank Ltd (formerly Development Bank of Singapore)	7.19
2	BNP Paribas Securities Services	4.34

The Monetary Authority of Singapore (MAS) is establishing a Singapore Variable Capital Company (S-VACC) structure, which will provide an alternative fund vehicle for asset managers. S-VACC, to be available to investment managers by Q1 2018, will offer a simplified set up, quicker time to market and greater tax efficiency for fund managers and will boost the funds manufacturing ecosystem in Singapore. "In April 2017, Standard Chartered was the first bank in Singapore to host an S-VACC event and will be embarking on a series of road shows in Europe to promote Singapore as a leading fund centre in APAC," a spokesperson for Standard Chartered Bank said.

There have been significant developments in the post-trade market infrastructure for the Singapore Exchange (SGX). Standard Chartered is as a leading provider of account operator services to international broker dealers managing more than 60% of volumes on the exchange for its clients. In Q1 2017 it successfully transitioned all its broker-dealer clients to ISO20022. SGX has initiated the next phase and will incorporate changes to both cash and securities settlement frameworks and will affect numerous depository agents functions.

"Standard Chartered is excited to be working with SGX on making these transformative changes that include the removal of two tier bank guarantees, moving buy in process to the day of settlement date and simultaneous DVP. These changes will benefit the broker-dealer community tremendously and strengthen the overall settlement process," said the spokesperson, who added that the bank is an active participant in the project working committee and that the industry is working to



build industry standards and new frameworks.

MAS has embarked on an ambitious initiative on cross-currency payment and delivery versus payment (DVP) using cash on ledger concepts and utilising new technologies. In its end state, it will allow banks and custodians to have longer service windows and queueing algorithms to resolve deadllocks to transactions.

SGX is conducting a proof-of-concept for a blockchain project for a platform in the fixed income market that to be launched within the next two years, to improve secondary trading in the OTC fixed income market.

SOUTH KOREA

UNWEIGHTED

RANK		Score
1	Deutsche Bank AG	5.54
2	HSBC	5.41

WEIGHTED

RANK		Score
1	HSBC	6.20
2	Deutsche Bank AG	6.11

The Korean Exchange (KRX) announced the extension of trading hours of the regular trading session of its markets (equity, derivatives and commodities) by 30 minutes from August 1 2016, to improve global competitiveness and investment efficiencies.

The FSC shared detailed proposal procedures for placing an order through special nominee accounts

> "The Korean regulator, Financial Supervisory Service, introduced an omnibus account structure for foreign investors, effective from March 2017"

(SNA) for bond transactions but advised that the bond omnibus account structure will not be in scope of the July 2017 implementation, mainly due to complex capital gains tax issues. An amendment to Regulation on Financial Investment Business to include provisions of the SNA will appear before July 2017.

FSS amended the Enforcement Decree of the Regulation on Financial Investment Business regarding the omnibus account structure for foreign investors. Effective March 10 2017, a global firms may apply for omnibus IRC/account structure, with supporting documentation and permissions, with IRC applications requiring an additional report.

The Korean regulator, Financial Supervisory Service (FSS), introduced an omnibus account structure for foreign investors, effective from March 2017. The Omnibus Account allows settlement of multiple end investors to be done in a single settlement instruction. Trading orders and settlements of each end investor registered with the FSS had to be made separately for each end investor before the Omnibus Account was introduced.

"The Omnibus Account is not mandatory but optional as per investor's needs and is only applicable to trading and settlement of equities. Only Global Investment Managers and Global Broker-Dealers are qualified to apply for an Omnibus Account to the Korean regulator," said a spokesperson for Standard Chartered Bank. "All the existing regulatory obligations imposed on each underlying investor remain the same."

The KRX has detailed its plans to introduce a member margin requirement in the securities market, to enhance settlement stability, effective September 2017. For securities, KRX members will be required to deposit with the KRX a member margin in order to guarantee the repayment of debt to the KRX. Eligible transactions are equities in the KOSPI/KOSDAQ/KONEX market and listed equity-linked products such as ETF, ETN, ELW – so it will be applied to equities and equity-linked products with a settlement cycle of T+2. The KRX will decide whether to expand the requirement to products with a shorter settlement cycle (ie T+1, T) after further review.

The FSC has proposed legislation on short-sale position reporting, which would mean the KRX will designate overheated short-selling issues at the close of market under the following conditions: Short-selling ratio is 20%, or 15% Konex and Kosdaq; the short-selling ratio increases to more than double the 40 trading-day average; or there is a fall of 5% from the previous closing price. Rajesh Atal, head of HSBC Securities Services Korea, said: "In case of being designated as an overheated short-selling issue, the stock will be suspended from short-selling the following day."

The deadline on disclosure of short sale net positions will be cut by one day. Currently, investors need to disclose their short sale net position via the exchange immediately after the market close (ie after-hour session close) of the third business day following the date of trigger. "However, the proposal amendment requires the investor to disclose their short sale position immediately after the market close (ie after-hour session close) of the second business day following the date of trigger," added Atal.

FSC (Financial Services Commission) revised regulations to enable collateral top-up via securities lending; Korea Securities Depository (KSD) and Korea Securities Finance Corporation (KSFC) added 'collateral transaction' as one of the transaction types in March 2017. "With this regulation change, collateral pledge can be done in the form of an SBL transaction type called collateral transaction. Before, there were regulatory limitations for utilisation of SBL transactions to top-up collateral," the Standard Chartered Bank spokesperson added.

SRI LANKA

UNWEIGHTED

RANK		Score
1	HSBC	5.23

WEIGHTED

RANK		Score
1	HSBC	6.58

The Securities and Exchange Commission of Sri Lanka (SEC) rolled out its Capital Market Strategy 2020 in March 2017. The document outlines plans to strengthen regulation, address a scarcity of liquidity, enhance the country's product offering to investors and fill market infrastructure and technology gaps.

Regulatory enhancements include the establishment of a clearing house acting as a central counterparty (CCP), regulating demutualised exchanges, recognising new categories of market intermediaries and introducing a wide range of enforcement tools to deal with market misconduct.

The changes follow a recent invitation from the SEC to the International Organisation of Securities Commissions (IOSCO), the global standard-setter for securities market regulation, to conduct a country review and developing a roadmap for enhanced compliance.

Sri Lanka has also placed significance on the procurement of an advanced system for market surveillance and regulatory reporting to ensure that transactions are carried out in compliance with the rules governing capital market activity.

In order to better evaluate and address systemic risk, the SEC intends to adopt a risk-weighted capital adequacy framework for capital market institutions and intermediaries. This initiative is now underway and would address prevailing post-trade risks including asset commitment risk and counterparty risk.

Meanwhile, the implementation of new listing platforms for issuers of varied size, scale, maturity, and value-recognition needs is underway collaboratively with the Colombo Stock Exchange (CSE). The SEC along with the CSE is also keen to improve the efficiency and cost-effectiveness of the equity fundraising process through both operational and technological enhancements. Creating a robust bond market is also a significant component of the Capital Market Strategy 2020.

Funds and pension funds are also being encouraged to diversify their portfolios and increasing asset allocation to capital market investments. Headway has also been made in terms driving the implementation of a common stock broker back office and customised order management systems in conjunction with the CSE. This sets the infrastructural foundation for the proposed phased implementation of a CCP.

To increase portfolio choice of investors, the SEC is developing a sequencing framework for the introduction of new products ranging from real estate investment trusts (REITs) and exchange-traded funds (ETFs) to derivatives.

Over the medium to long term, far-reaching reforms proposed as part of the Capital Market Strategy 2020 would support the proposition to Morgan Stanley Capital International (MSCI) to reclassify Sri Lanka as an emerging market, providing for broader visibility as an attractive portfolio investment destination.

TAIWAN

UNWEIGHTED

RANK		Score
1	Standard Chartered	5.63
2	HSBC	5.46
3	Citi	5.44
4	Bank of Taiwan	5.32
5	JPMorgan	5.29

WEIGHTED

RANK		Score
1	Citi	7.53
2	Bank of Taiwan	7.17
3	JPMorgan	7.06
4	HSBC	6.75
5	Standard Chartered	5.96

In 2016, the Financial Supervisory Commission (FSC) and the Exchanges implemented a number of initiatives to improve corporate governance, boost trading and further enhance market efficiency, including three major changes. The first was to requiring all listed companies adopt e-voting as one of the options for shareholders' voting exercise with effect from 2018.

The second was revising the regulations governing public tender of-

> "The Securities and Exchange Commission of Sri Lanka rolled out its Capital Market Strategy 2020 in March 2017"

fers, which simplified the shares delivery process for foreign institutional investors (FINIs) to directly transfer the shares to the escrow account. The third was to allow dual-currency ETF trading, exempted transaction tax for corporate bonds/financial debentures and listed bond ETFs for ten years.

Furthermore, the Taiwan Stock Exchange (TWSE) planned several other initiatives, including extending SBL trading hours from January 9 2017, allowing all FINIs to engage in securities borrowing and lending trades from March 15 2017, and submitting a proposal for legislators' approval on reduction of transaction tax on day trading from 0.3% to 0.15%.

Eric Jai, head of direct custody and clearing, Taiwan, HSBC, said: "Following continuous industry efforts in 2016, FSC recently lifted the daily limit for short-selling of borrowed securities and exempted privately placed convertible corporate bonds from the 30% rule of non-equity investment."

As the chair of the custodian working group and co-chair of the Capital Markets Committee of the American Chamber of Commerce, HSBC Taiwan was engaged in the discussions related to market initiatives with the local regulators and industry members, and collected international market practices and institutional investors' suggestions to continuously lead market development.

Recent initiatives include developing market standard Swift message types for rights issues in Taiwan. The TWSE has worked with participants to build up a platform to permit custodians to collect details of SBL trades booked under broker-scheme SBL for client reporting.

THAILAND

UNWEIGHTED

RANK		Score
1	HSBC	5.64
2	Standard Chartered	5.32

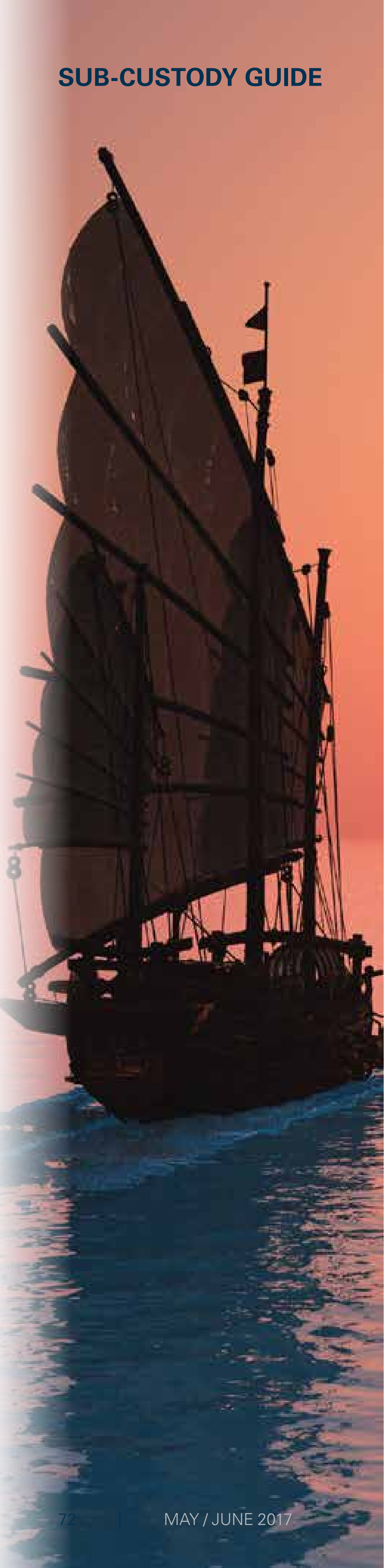
WEIGHTED

RANK		Score
1	HSBC	6.38
2	Standard Chartered	5.63

In 2016, Thailand was focused on the implementation plan to move the settlement cycle for equities from T+3 to T+2 to align with other markets within the region. The Stock Exchange of Thailand (SET) announced that the targeted first trade date under a T+2 scheme will be March 2 2018.

One of the key factors for T+2 is to bring more automation and STP in the process through the Pre-Settlement Matching System (PSMS). There are two projects to complete in advance – the enhancement of PSMS function for onward transactions, tentatively by September 11 2017, and the pending settlement model by November 6 2017.

The T+2 sub-committee meetings bring together the SET and regulators, which include the Bank of Thailand (BOT), Securities and Exchange Commission (SEC), Association of Thai Securities Companies (ASCO), and the Thai Bank Association (TBA) as well as Utumporn Viranuvatti, head of HSBC Securities Services Thailand and chairperson of the



Custodian Club.

"HSBC Thailand is a member of the industry working group that closely works with SET and other representatives on these two market initiatives and led the discussion with the SET to adopt the concept of using Swift to auto-link onward transactions with POOL ID in order to perfect PSMS functionality."

The Securities and Exchange Commission (SEC) is working to relax the annual documentation renewal for notarisation and consularisation by foreign juristic investors. It has consulted on the non-standard validity period of documentation required by some issuing companies to participate in voluntary corporate events, such as proxy voting, warrant exercise and rights offering. "As a result of continued advocacy and lobbying, the SEC has issued guidelines for all listed companies to rely on documentation submitted by local custodian banks acting as agents for foreign juristic customers," said Viranuvatti.

The issued guidelines aim to help reduce the burden of investors in preparing documentation, to gain good corporate governance in the Thai market and to be in line with other countries' practices in the region.

VIETNAM

UNWEIGHTED

RANK		Score
1	HSBC	5.33

WEIGHTED

RANK		Score
1	HSBC	6.90

There are currently two stock exchanges in Vietnam – the Hanoi Stock Exchange and the Ho Chi Minh City Stock Exchange. It was announced in October 2016 that the Hanoi and Ho Chi Minh exchanges will merge, with a target completion date of 2018.

"Drivers for the merger include a more prominent profile for Vietnam's capital markets sector generally and a competitive edge for Vietnam over its Asean neighbours, which have smaller exchanges – particularly those of Thailand and the other CMLV countries [Cambodia, Myanmar and Laos]," experts at law firm LNT Partners wrote in a note to clients in January.

In 2016 certain industries including, securities firms, were opened up to 100% foreign holding encourage foreign investment in the country. This has encouraged private equity and M&A interest from Thailand, Japan, China, Korea and Indonesia. There are 18 sectors including transportation, construction and real estate where offshore investors can take a degree of ownership subject to certain conditions.

Meanwhile, Vietnam's benchmark VN Index (VNI) has been one of the fastest growing markets in Southeast Asia. The country plans to open a derivatives market in June this year in a bid to draw more investment to its capital markets, with futures contracts set to launch first.

"In frontier countries, the equity markets tend to be the focus for foreign investors seeking access to and participating in the rapid growth these countries are experiencing, and Vietnam is no exception," experts at VinaCapital wrote in a note last year. "After starting the year affected by global issues, Vietnam's stock markets have recovered well, breaking through several historical barriers and reaching eight-year highs.

"Corporate earnings are generally solid, liquidity has been increasing, and additional privatisations and the lifting of foreign ownership limits all point to continued market growth. In contrast, Vietnam's bond markets have, until very recently, shown little such promise. While government bonds continue to be an important vehicle for raising funds and have seen reasonably robust sales in the past six months, corporate bonds have been relatively static."

EUROPE

AUSTRIA

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.95
2	UniCredit	5.12

WEIGHTED

RANK		Score
1	BNP Paribas Securities Services	6.81
2	UniCredit	5.89

Austria is a bearer market and the vast majority of securities are held in the form of global certificates deposited with OeKB GmbH, which eliminates the need for physical securities. Custodians maintain custody accounts at Austrian Central Securities Depository (OeKB), which are updated automatically upon settlement.

"Austria is fully G30 recommendation-compliant and the nominee concept is recognised," according to Tina Fischer, senior relationship manager at UniCredit GSS Austria. She added that the key regulatory change this year involved Austria's successful migration to Target2-Securities (T2S) as of February 6 2017, in the fourth wave.

The initiative was launched by the ECB to harmonise securities settlement in central bank money. Austria is one of the 16 CSDs that have migrated to the T2S platform (22 are planned).

"The forthcoming changes in the Austrian market revolve around Emir and AIFMD as well as Ucits V," said Fischer. "Currently, the Austrian CSD prepares for CSD regulation (CSDR) certification. In the future, settlement discipline should be increased by implementation of penalties for over-the-counter transactions in line with CSDR. However, currently no further details are available and there is no schedule as to when this will be introduced."

The Austrian capital market switched service providers in September 2015 to the OeKB, which opens settlement securities custody accounts and exchange cash amounts for stock exchange members and section member banks, as well as settlement securities accounts for custodians.

BELGIUM

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.13
2	Deutsche Bank AG	4.97

WEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.20
2	Deutsche Bank AG	4.39

Euroclear Belgium acts as the CSD for all domestic and foreign certificates, including most international depositary receipts (IDRs), warrants and corporate bonds listed on Euronext Brussels.

On March 29 2016, the National Bank of Belgium Securities Settlement Systems (NBB-SSS) completed its outsourcing of settlement to T2S, representing the second wave in the project and necessitating industry-wide changes.

Euroclear Belgium, unlike the NBB-SS, finalised its T2S migration to the third wave on September 12 2016, alongside its French and Dutch depositories. In a statement, the group said that it would "work closely with the ECB, the CSD community and our clients to evaluate possible alternative migration scenarios, in order to minimise the impact of this delay."

In December 2016, Euronext announced it had completed the acquisition of a 20% equity stake in Euro CCP, the leading CCP for pan-European equity markets, for an amount of €13.4m ($15m) in EuroCCP, providing clearing and settlement services.

BOSNIA AND HERZEGOVINA

UNWEIGHTED

RANK		Score
1	UniCredit	5.25

WEIGHTED

RANK		Score
1	UniCredit	5.05

The recent changes in the regulations for the capital markets of Bosnia and Herzegovina (FBiH) are related to the laws on the securities market and investment funds, according to Lejla Sabljica, head of UniCredit GSS Bos-

nia and Herzegovina.

Sabljica said: "Amendments to the Law on Securities Market in FBiH, which came into force January 25 2017, introduced obligation for investors to obtain approval from Securities Commission (SC) for reaching ownership thresholds in broker-dealer companies – equal to or exceeding 10%, 20%, 33%, 50% and 66% – and to inform SC about intentions to decrease their shares."

The request for approval is also required for reaching above noted thresholds in the capital of the stock exchange, Sabljica said.

These amendments to the Law on Securities Market in FBiH were published in April 2017, introducing new conditions for approval and circumstances under which the SEC will refuse to issue approval for legal entities and natural persons to acquire or increase their qualified share (10%, 20%, 30% or 50%) in the capital of professional intermediaries or the stock exchange. "The conditions are mainly related to anti-money laundering and combating the financing of terrorism controls," said Sabljica.

Additionally, amendments to the Law on Investment Funds in FBiH introduced obligations for investors that intend to acquire shares or increase their share in capital of a fund management company equal to or exceeding 20%, 30% or 50% to obtain approval from the SC.

BULGARIA

UNWEIGHTED

RANK		Score
1	Eurobank	6.16
2	Citi	5.27
3	UniCredit	5.00

WEIGHTED

RANK		Score
1	Citi	6.52
2	UniCredit	6.31
3	Eurobank	3.69

Bulgaria's central depositary AD (CDAD) launched its new IT system in February 2016, bringing "significant changes" to the post-trading market infrastructure, said Borislav Hitov, head of UniCredit GSS Bulgaria.

Among the most important amendments, according to Hitov, were: separating register and settlement & clearing models; omnibus accounts designated by CDAD and visible in shareholder books; and the establishment of a settlement guarantee fund.

CDAD is currently working on the introduction of a third daily settlement cycle for against-payment transactions to align its activity with CSDR requirements.

Trading in government securities on a regulated market will be introduced at some point in 2017. Hitov said that this measure will "reduce settlement risk, improve trading access of foreign institutional investors and possibly make government securities more attractive for investment as after the listing certain tax benefits for capital gains and interest income will be available".

The local regulatory framework has changed and investment intermediaries are no longer required to check securities' availability with custodians before a sale trade, which simplifies trading and ensures no rejected or delayed sale orders result.

CROATIA

UNWEIGHTED

RANK		Score
1	Splitska Banka	6.28
2	Privredna Banka Zagreb d.d.	5.13
3	UniCredit	5.00

WEIGHTED

RANK		Score
1	Privredna Banka Zagreb d.d.	6.37
2	UniCredit	6.21
3	Splitska Banka	4.43

The Croatian capital market is regulated and supervised by three legal bodies: Croatian Financial Services Supervisory Agency (HANFA), Croatian National Bank (HNB) and the Ministry of Finance.

Croatia, as the youngest member of the EU, has continued to harmonise with EU regulation, transposing it into market practice, primarily with reference to AIFMD, CSDR, Ucits V and Mifid II, according to Jelena Bi-

lusic, head of relationship management, UniCredit GSS Croatia.

"Low liquidity, a prolonged period of recession and the introduction of capital gains tax have had an unfavourable impact on turnover and the market trend in general," said Bilusic.

Bilusic said that encouraging macroeconomic data, political stability, changes to regulation and market infrastructure are expected to have positive influence: "GSS Croatia retains proactive approach in lobbying efforts to make the market more appealing and accessible to investors."

Securities on the Croatian market are traded on the sole stock exchange, Zagreb Stock Exchange (ZSE), and settled by the only CSD, the Central Depository & Clearing Company (CDCC).

"ZSE separated the regulated market from CE Enter in June 2016, in order to emphasise the difference in the entry requirements regarding transparency of issuers and financial instruments traded between the two markets," said Marina Šonje Tomorad, deputy director at Splitska Banka.

In August 2016, ZSE itself listed. "Zagreb Stock Exchange is the first regional self-listed stock exchange, setting new standards of transparency and acting as a corporate governance benchmark, and making a new step in further regionalisation, allowing ZSE to efficiently raise new capital for further growth if necessary," said Tomorad.

The SKDD is the sole depository in Croatia, with links to the Austria's OekB and Clearstream Banking Luxembourg.

In order to align with the provisions of CSDR Regulations and associated technical standards, a project team within the SKDD has developed a plan of activities.

"For all changes resulting from CSDR and RTS provisions [except settlement discipline measures], the operating rules of the process will be prepared by the deadline for submitting the authorisation request application, and the application and implementation of the aforementioned changes will be performed upon receiving the authorisation from Hanfa," said Tomorad.

Further, for all the changes resulting from the RTS on settlement discipline, the predicted deadline for implementation is the date of entry into force on RTS on settlement discipline, at the latest.

CDCC acts as the central registrar of dematerialised securities and performs the role of clearing and settlement for all types of dematerialised securities. The settlement cycle has been T+2 since October 2014.

Bulisic said: "CDCC's focus is on harmonisation with provisions of CSDR, expected to introduce significant changes to its business process, its members and participants of the Croatian capital market."

The scheduled go-live of the formal CCP, which was established to take over the clearing services for on-exchange trades from the CDCC and abolish guaranteed settlement for OTC trades, has been delayed until further notice.

CYPRUS

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	6.18

WEIGHTED

RANK		Score
1	BNP Paribas Securities Services	6.30

The Cyprus Stock Exchange hosts all listed corporate and public securities. Since April 20 2015 the regulated markets consist only of the main market and the alternative market. The country's biggest bank, Bank of Cyprus, moved its listing to London in January 2017 and almost immediately returned to the debt market for the first time since it defaulted in 2013. It had also just paid back the last tranche of its bailout.

Cyprus is a growing fund jurisdiction; assets under management

> New thresholds and new sanctions for non-compliance with reporting obligations were introduced in 2016
>
> **Jitka Hulinská, UniCredit GSS Czech Republic**

have tripled since 2013 and are now above €3bn ($3.4bn). The Cyprus Investment Funds Association (CIFA) achieved an important milestone in June 2016, when the National Association of the European Fund and Asset Management Association (EFAMA), the representative association of the European investment management industry, approved its full and formal membership.

Cyprus is expected to grow by 3% in 2017, one of the fastest rates in the EU.

CZECH REPUBLIC

UNWEIGHTED

RANK		Score
1	Société Générale Securities Services	6.43
2	Citi	5.12
3	UniCredit	5.03
4	Raiffeisen Bank International	4.63

WEIGHTED

RANK		Score
1	UniCredit	6.00
2	Citi	5.64
3	Société Générale Securities Services	4.47
4	Raiffeisen Bank International	4.10

The Czech National Bank (CNB) regulates the market. There are two CSDs: Central Securities Depository Prague (CDCP), a depository for all book-entry securities excluding T-Bills, owned by the Prague Stock Exchange (PSE) and the Short Term Bond System (SKD), a depository for T-Bills, operated by CNB.

RM-Systém Czech Stock Exchange is the market where stocks of the largest Czech and foreign companies are traded. Stocks that are not available on the PSE are traded online.

Last year, there was an amendment to the Capital Market Act that adapted the local legislation to CSDR. Lukáš Osoha, custody head at KB Bank, expects some changes to the settlement period (currently T+2) after CSDR implementation.

2016 also saw the amendment of disclosure requirements, according to Jitka Hulinská, relationship manager, UniCredit GSS Czech Republic. "New thresholds and new sanctions for non-compliance with reporting obligations were introduced."

Last year, the board of CNB decided to stop the interventions against the strengthening of CZK below the level of CZK27 per euro in 2017. "The interventions have lasted since November 2013," she added.

In 2015 the Czech CSD initiated the transposition of European Market Standard for Corporate Action, which would require changing laws. The proposed changes include centralising of dividend payments through the CSD. Osoha said: "The implementation has not been finished yet but when the time comes it will change the whole process of CA which is quite complicated."

In September 2014, the PSE and CDCP introduced further plans for implementation of a central counterparty for on-exchange trade. The CCP will be provided by Austrian company CCP.A. "The timeframe for CCP implementation is not entirely clear, although it is obvious that the CCP will not be launched earlier than in 2017 or 2018," Osoha added.

There are no foreign ownership limits, except for armament companies where there is a 49% limit, but investing in some sectors does have pre-approval obligations."Foreign investors are required to obtain pre-approval from the CNB prior to acquiring 20%, 33%, 50% or more of the total outstanding voting rights of a Czech investment fund, investment company or brokerage firm," said Osoha.

Foreign investors may freely repatriate any gain, income and capital previously invested in the Czech Republic.

There are also further amendments planed for the Capital Market Act implementation EU regulations Mifid II, Mifir, MAR and CSDMAD, according to Hulinská. She also noted an upcoming amendment to the Income Tax Act: "Among other things, it will include a change relevant to custody, that is the tax payer may turn to the withholding agent for explanation or amendment up to two years from the date of the income payment."

CSD Prague will implement Swift communications at the end of 2017 or start of 2018.

DENMARK

UNWEIGHTED

RANK		Score
1	SEB	5.45

WEIGHTED

RANK		Score
1	SEB	5.61

The local sub-custodian in the Danish settlement market has a fully automated system, which is directly linked to the local CSD, VP Securities A/S. When the settlement has STP requirements, the instruction is automatically forwarded electronically to the CSD. The settlement period is T+2.

Almost all Danish securities listed on the Nasdaq Copenhagen Stock Exchange are issued in dematerialised form, except government premium bonds. Securities positions are transferred automatically as sub-custodian accounts at VP Securities. The name of a foreign investor can be linked to a specific account upon request. There is no central registrar in Denmark and issuers usually appoint agents as registrars.

Securities lending is practised in Denmark, but there is no centralised stock lending facilities with the CSD or the exchange – lending is available via commercial bank programmes. However, the volume in borrow/lending transactions is very limited.

"Two topics are of primary interest from a sub-custody point of view," said Lasse Larsen, head of investor services at SEB Denmark. The first, according to Larsen, is the fact the Danish market is focused on adapting to "regulation and harmonisation", exemplified by T2S and CSDR.

"VP Securities will connect to T2S in two phrases," said Larsen. "The first phase covering euro settlement took place in September 2016. The second phase will include DKK settlement and is expected to take place during October 2018, or sometime in the fourth quarter."

The second topic is the dividend tax treatment and the aftermath from a dividend tax fraud case, which was made public in August 2015. "The Danish Tax Authorities are working on mitigating risk under current tax law, while work is ongoing in regards to presenting a long-term solution, that will minimise the risk while at the same time enabling a more investor-friendly environment in that area," said Larsen.

› ESTONIA

2017 is a significant milestone for the Estonian securities market. "In the last two years, we have witnessed an appreciable increase in assets under custody for sub-custody clients," said Keili Oja, head of custody at SEB Estonia.

The Estonian CSD will migrate to the ECB's Target2 Securities (T2S) during the fifth wave on September 18 2017. As a direct holding market, Estonia will be the first market using the all-accounts-in model within

T2S, according to Oja.

Clearstream announced in February that it had successfully migrated to the ECB's T2S platform, making it the largest participant and adding around 40% to the overall volume on the ECB's settlement platform.

"Prior to joining T2S, Estonian, Latvian and Lithuanian CSDs will merge into one license legal entity, Nasdaq CSD SE," said Oja. "The new entity will be subject to regulatory approval and it will be re-licensed under the European CSD regulation."

Nasdaq CSD will operate three securities settlement systems, which will be governed by the laws of each respective country. All three will work on a common IT platform called 'Depend', which is a version of the one Estonia currently uses.

The merger means that members of the Baltic stock exchanges and their customers do not need to open securities and cash accounts in each of the three Baltic countries to settle transactions; all they need is a single securities and cash account in one Baltic country.

Oja also revealed that Nasdaq CSD is developing a new web-based voting platform on the Nasdaq Tallinn Stock Exchange (the only regulated secondary securities market in Estonia), using blockchain technology.

The e-Residency platform is an electronic identity system that Estonian residents and those with business interests in Estonia use to access government services. "They already have a functioning proof of concept with web-based user interfaces," said Oja. "The first e-votings in actual meetings are expected to be carried out during 2017."

Nasdaq announced in January this year that the pilot project in Estonia was a success, concluding that blockchain technology can be safely used to authenticate e-voting by shareholders at a company's AGM.

Nasdaq said in a report that it had

successfully built and operated four web-based user interfaces that allowed shareholders in Estonia to login using their verified national online ID and vote at the AGM of Tallinn-listed tech company LVH Group.

FINLAND

UNWEIGHTED

RANK		Score
1	SEB	5.41
2	Nordea Bank	4.94

WEIGHTED

RANK		Score
1	SEB	5.59
2	Nordea Bank	5.09

"The Finnish market looked to 2016 with great anticipation, as it was to be when the Finnish CSD, Euroclear Finland (EFi), was to roll out the second release of the new CSD platform, Infinity," said Jopi Sairio, head of investor services at SEB Finland.

However, Euroclear Finland announced in January that it was to delay migration to T2S, which was scheduled for September this year, as its Infinity timetable slipped. A revised timetable for the Infinity Release 2 was due to be discussed in the meeting with the Finnish Market Advisory Committee in mid-February but nothing has been released publicly. The future of Infinity is unknown, but EFi pledged to clarify its plans at some point this year.

"The market was working hard to meet the set deadline," said Sairio. "Fixed income products had been migrated to the new platform in February 2015, and it was the time for equity-based products and the central register in 2016." The launch was postponed several times due to "various technical challenges".

Sairio said: "The Infinity project is heavily interlinked with the necessary CSDR compliance functionality adding on the pressure of EFi." EFi will apply for a CSD license under CSDR during 2018, according to Sairio.

During the summer of 1016, the Finnish government ratified amendments to the Tax at Source legislation according to the government bill HE 29/2016, shortening the statute of limitations from five to three years. The changes will be applied on dividends paid from the beginning of year 2017 onwards, said Sairio.

Citibank is entering the Nordic market, having done its own custody in Sweden since 2006. It hasn't yet won any mandates. Now the US bank is in the process of entering the Finnish and the Danish markets. Meanwhile, Swedbank has exited the sub-custody business.

FRANCE

UNWEIGHTED

RANK		Score
1	Société Générale Securities Services	6.43
2	BNP Paribas Securities Services	5.62
3	Deutsche Bank AG	5.29

WEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.58
2	Deutsche Bank AG	4.52
3	Société Générale Securities Services	3.57

Euroclear France migrated to T2S in wave three on September 12 2016, alongside its sister Belgium and Netherlands CSDs, as well as VP Lux (Luxembourg) and VP Securities (Denmark). The move follows a delay of six months to ensure a "safe and stable" migration.

Euroclear France said in February it had launched investor CSD services for German securities, following the launch of Wave 4 CSDs to the T2S platform on February 6.

As a result of the direct link, Euroclear France has established with Clearstream Banking Frankfurt, the German CSD, securities primarily issued by CBF are eligible for cross-CSD settlement on the ESES platform. Its clients can now benefit from DVP settlement with counterparties in CBF, or any CSD that is an investor CSD in CBF, as well as safekeeping and corporate actions processing for German securities.

"When CBF migrates to T2S, the T2S cross-border logic applies and the segregation needs by Euroclear France (in ESES) will affect CBF customers," Clearstream said in a statement to clients on January 20.

Mathias Bellier, global head of relationship management, banks and brokers, for Euronext markets France, Netherlands and Belgium: "2016 saw another increase of assets under custody for BNP Paribas Securities Services in France."

GERMANY

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.94
2=	Commerzbank	5.35
2=	Deutsche Bank AG	5.35

WEIGHTED

RANK		Score
1	Commerzbank	5.47
2	Deutsche Bank AG	5.42
3	BNP Paribas Securities Services	5.06

The Frankfurt Stock Exchange (FSE), operated by Deutsche Börse, is one of the world's largest trading centres for securities, and accounts for more than 85% of German trading turnover.

Clearstream Banking Frankfurt (CBF) is Germany's central securities depositary (CSD). Its corporate legal

> "Nasdaq announced in January this year that the pilot project in Estonia was a success, concluding that blockchain technology can be safely used"

THE CASE FO COMP

THOUGHT LEADERS

Rob Scott, head of custody and clearing at Commerzbank, explains how the bank's domestic roots shape the way it supports its corporate clients as they expand into new markets

COMMERZBANK

CAN YOU SAY A LITTLE ABOUT YOUR IDENTITY AS A GERMAN BANK?

Both today and historically Commerzbank has focused its efforts on servicing German corporates, with an emphasis on small and mid-sized companies. This has made us an integral part of the German financial services landscape. Our participation in Germany's key financial services infrastructures, including Deutsche Börse Group and its Eurex and Clearstream business lines is evidence of these roots. Our evolution at the heart of Germany's financial sector has provided us with a deep resource of regulatory and operational expertise from which our domestic clients continue to benefit.

We offer a breadth of financial solutions to clients – from securities services, through cash management, to trade finance – and the range of capital markets products, including bond issuance, warrants, certificates and so on. Providing this end-to-end and integrated product suite gives us the opportunity to build familiarity with and a deep understanding of our clients' businesses that we feel is unrivalled. We feel that we know them better than anyone else and our solutions are more tailored and focused to their needs as a result.

Working in a client-centric way has become something of a truism in the industry in recent years. But there remains a significant difference between providers in terms of the longevity of their client relationships. Most of ours span more

> “An excellent example of how our client-centric model works in practice is our recent drive towards digitalising our business”

R CORE ETENCY

> We can offer customised multi-jurisdictional solutions tailored to a client's needs and markets

than five years; many span more than 25 years. Our highly experienced and dedicated custody client services team located in Frankfurt provides clients with personal contacts for account and settlement management, plus multi-lingual support. Unlike some other custodians, we believe in being local and ensuring a focused service in our home market.

› HOW FAR DO YOU SEE DIGITAL INNOVATION AS SUPPORTING THESE PRIORITIES?

An excellent example of how our client-centric model works in practice is our recent drive towards digitalising our business. We looked to enhance a range of digital tools and the client's interaction with our web portal, which enhances client service and interaction, provides near real-time information for example around positions, settlement status, valuations, corporate actions and reporting. This is an extension of the very high level of digitalised service already afforded in our retail/private client franchise. We see increasing demand from clients for the digitalisation of financial solutions.

In line with its 4.0 strategy, Commerzbank announced it will become an enterprise with 80% of its relevant processes digitalised by 2020. One of the pillars of the Commerzbank 4.0 transformation is the establishment of the "Digital Campus", in which agile, dedicated teams drive forward digitalisation projects and work to automate and optimise relevant everyday processes. Currently home to around 600 staff, the Campus is expected to host up to 1,000 employees by the end of the year and is tasked with digitalising 80% of relevant processes by 2020. This will achieve the sort of efficiency gains that clients have a right to expect from an effective digital architecture in their bank and their custody provider. Our main focus is on improving the existing customer experience.

These efforts are already bearing fruit, as the reports of our customers testify: innovation awards, leading rankings in custody surveys including, most recently, our win in the unweighted category in the Global Investor sub-custody awards this year (we also placed second in the weighted category).

› HOW DOES THIS CLIENT-CENTRIC DOMESTIC FOCUS PLAY WHEN SERVICING CLIENTS ABROAD?

Our focus on the German domestic market is made possible partly because of the central role played by Germany's economy in the Eurozone. This influence in Europe is matched by the driving force of German companies as they expand beyond Europe. In supporting their efforts to branch out into markets across the world, a key pillar of our approach is to partner with local custodians where we are not present, rather than establishing operations ourselves. In our custody business, we may be present in 58 markets around the world, but we are there purely because that's where our clients need us to be. We can offer customised multi-jurisdictional solutions tailored to a client's needs and markets, with tailored operational coverage and support from our local specialists.

To see the benefits of our approach it is worth considering the alternative model, popular among most of our competitors, of building a local servicing presence in multiple countries around the world. In practice, these banks will enter a new market through a couple of anchor mandates, which can sometimes lead to becoming unfocussed, seeking commercial local success over client solutions and innovation ultimately in the interests of benefit of the client .

In our case, by contrast, if a client wants to go into a new market where we are not already present, we will not set up a local subsidiary from which to service them. Instead, we will select a local agent that can demonstrate the level of competence and cultural fit that best suits the client in question.

Finding the best and most suitable local custodians is more efficient than establishing our own infrastructure in a country. The time and money we save is better spent fitting the servicing solution provided by our chosen partner with the needs of our client. And because we already have such a close grasp of our client's business, that shaping process works relatively quickly and smoothly. We can procure the best services – from account structures to collateralisation – by imparting all that knowledge to the local custodian.

› WHAT ARE THE BENEFITS TO CLIENTS OF PRIORITISING AN INTEGRATED VIEW OF LIQUIDITY?

Clients may have securities holdings and activities around the world. Our job is to focus on the integration task, allowing the firm to, for example manage its liquidity across all of these locations, with comprehensive and transparent reporting in every case.

Pooling all of that information into a single source allows them an immediate, fully transparent overview of their entire liquidity. This makes them better informed and, as a result, better placed to make decisions quickly and effectively in order to optimise their collateral obligations. A margin requirement for a transaction in Europe, for example, can be met by perhaps optimising and mobilising assets in Hong Kong that the firm is long in. This saves the time and cost of going back into the market to find the required assets or liquidity to service the obligation in another time zone. A single central oversight facility allows the firm to use a time difference – between Hong Kong and London, say – to transfer them for use in one market while the other is closed.

Bringing disparate information to bear in this way can help to facilitate major transactions, too. One recent example was a US client involved in a capital raising transaction in the Nordic markets, including the conversion of a tranche of non-tradable shares to a tranche of tradable shares. In this case, some of the key and fundamental settlement aspects had been overlooked. We were able to present the knowledge that the lead manager and settlement agents could then apply. The result had a material impact on the speed, effectiveness and success at which the issue was placed.

› CAN YOU SAY SOMETHING ABOUT WHY YOU HAVEN'T PURSUED THE TRADITIONAL OUTSOURCING MODEL WITH THE INTENSITY OF SOME OF YOUR COMPETITORS?

The cost-benefit of the widespread adoption of outsourcing in our industry is well documented. However, less time has been devoted to the possible drawbacks of handing-off client queries to these low cost jurisdictions.

The conventional outsourcing approach will invariably see the client handed-off to another part of the bank or service provider – to a colleague or provider who is, in effect, a stranger with little or no understanding of the client's wider business and history. Inevitably, outsourcing in this way means creating distinct silos in an organisation between which fast, effective communication is harder to achieve. In this way, the drive for profit and low servicing costs has driven a silo-based model that may compromise the quality of the client service offering.

We have pursued outsourcing with less vigour by comparison with many of our competitors. Instead, we have focused on maintaining client servicing teams that are based in the same country as our core clients. The result is that, in a typical case, a member of that team handles a given client query through to its resolution in the same language and with the same cultural understanding, reaching into the wider bank for a solution and returning with the answer himself or herself.

This makes the process more responsive since the team member understands the client's wider business and is in a position to shape the solution while it is being fashioned. It also makes it quicker since that team member can address additional questions that the process throws up without having to return to the client for guidance.

Both of these elements reduce the burden on the client and make it easier to interact in an efficient manner. In addition, quicker resolution carries with it material benefits for clients. If you need to decide whether to optimise and mobilse liquidity for example you typically don't have three days to wait for the information on which the choice will be based. Finally, a larger, deeper, and better skilled relationship management team is best placed to serve up easy-win solutions that the client may not have considered. For example, if a client is phoning multiple times a day with settlement enquiries, pretty soon we will suggest that we start sending out a full and comprehensive settlement report automatically at a time of the client's choosing, which fit around their schedule.

I think it is worth bearing all this in mind and the potential impacts to client engagement and servicing when discussions about the pros and cons of outsourcing take place. It may be the most salient trend in our sector in recent years: without exception, the large global firms have looked to shift core services into low cost jurisdictions, away from the markets in which most of their customers are based. Therefore, getting the balance right is the key to a successful business model and satisfied clients.

> “We have focused on maintaining client servicing teams that are based in the same country as our core clients”

status and its function as the German CSD has remained unaffected, i.e. German law continues to apply, particularly with regard to the safe custody business, whereby CBF is subject to supervision by the Federal Financial Supervisory Authority.

"There have been considerable efforts, in recent years to provide elements of standardisation and harmonisation across EU member states in respect of trading and post-trade activities," said Rob Scott, managing director and head of custody and collateral solutions at Commerzbank. "Regulation has been on-going but has provided transparency and a more consistent approach from many participants across the value chain."

T2S, a decade in the making, is in its final stages of roll-out with the significant volume now successfully introduced by Clearstream in recent weeks, said Scott. "The rollout in the German market is being carefully managed and executed. The introduction of Germany is significant, more than doubling all the settlement volume on the platform to date, taking overall levels to around 80% of all member markets."

The initiative helps deliver against the original promise to make cross-border settlement more efficient and with easier access. Scott says it is time to look at harmonisation at market level, for example to focus on the insolvency law across member states. "However, with the current political uncertainty, coupled with nationalistic tendencies emerging, there is currently considerable stress in the overall Capital Market Union (CMU) project."

Recent reports shows international cross-border business up around 2% year-to-date in terms of overall securities deposits but an increase of nearly 30% in terms of transaction volume. Domestic business declined by 8% for deposits and 4% in transactional volumes. Investment funds services show robust increases of 16% in securities deposits and 20% increase in transaction volume. Global securities financing continues to decline, showing a reduction of 6% year-to-date year-on-year. The market continues to show positive momentum, with net increases in assets under custody of 4% year-to-date compared to 2016.

"We are seeing a number of corporates now actively engaging in activities ranging from execution to security service provision as well as OTC clearing," said Scott. "We have seen a significant increase in client engagement from the corporates, often seeking an institutional-like client servicing model and solution as they look to expand and grow their business models."

GREECE

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.94
2	HSBC	5.51

WEIGHTED

RANK		Score
1	HSBC	6.41
2	BNP Paribas Securities Services	5.75

Clearing of shares, bonds and derivatives that are listed and traded in Athex takes place through the company AthexClear, the clearing house that was established by Athex in July 2010.

In the shares and bonds segments, AthexClear has established a CCP-like clearing model, as the concept of full CCP does not exist in the spot market and therefore the ultimate responsibility of the trade lies with the clearing members and not the clearing house. Effective February 16 2015, AthexClear started participating in the market as a CCP.

Post-2008, the Greek banking sector continues to face significant economic burden in terms of the high level of distressed loans stemming mainly from the fragile operating environment, according to Kelly Kakanaki, head of Greece at BNP Paribas Securities Services.

"The high level of non-performing loans undermine credit growth, holding back investment," said Kakanaki. "To deal with this, the authorities implemented already-legislated incentives and performance targets for banks to monitor their progress in reducing bad debt."

The huge public debt undercuts confidence in the Greek economy. Despite this, growth rebounded in H2 2016 and is projected to gain strength in 2017 and 2018 as structural reforms start to bear fruit.

Eurobank's full-year results for 2016 point to a recovery in the Greek banking sector. Fokion Karavias, CEO of Eurobank, said the last year was the "first profitable and capital accretive year for Eurobank since the eruption of the Greek sovereign crisis," boasting a new profit of €230m ($257m) compared to losses of €1.2bn in 2015.

Kakanaki added: "The conclusion of a policy review with creditors raises business and consumer confidence and the economic and political environment stabilises." Exports of services are underperforming because of "structural rigidities and capital controls."

HUNGARY

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	6.76
2	UniCredit	5.12
3	Citi	5.10
4	Raiffeisen Bank International	4.85

WEIGHTED

RANK		Score
1	BNP Paribas Securities Services	7.24
2	UniCredit	6.13
3	Citi	5.93
4	Raiffeisen Bank International	4.30

T2S and the related CSD system replacement have been the two major projects during 2016.

"Following the multiple reshaping of the system replacement project, the Budapest Stock Exchange (BSE) is the market for equities, corporate bonds, ETFs, government bonds and T-Bills," said Lívia Mészáros, head of Unicredit GSS Hungary. MTS Hungary is the secondary market for government bonds, treasury bills and corporate bonds.

Keler Central Depository (responsible for all traded securities) is planning to go live with the market infrastructure TCS BaNCS solution by July 3 2017 for T2S settlement.

The multi-asset class, multi-entity platform will enhance Hungarian post-trade processes with improved services to its depository participants, custodians and cash settlement banks, both in domestic and cross-border markets. Keler will also leverage the standard set of interfaces of TCS BaNCS for interacting with the T2S platform.

On February 6 2017, Hungary joined T2S in the fourth wave with the partial entry model, in order to ensure that all domestically-issued securities are available in T2S. However, Hungarian forints were not brought into the T2S platform from its start.

Mészáros said: "Due to the postponement of the implementation of Keler's new system, Keler operates in the T2S environment in BCP mode as Keler enriches and sends the euro RVP/DVP instructions manually to T2S via the T2S GUI user platform."

The operating model will be applied by Keler until BaNCS is implemented. The volume of T2S activity is currently very low in the market, according to Mészáros, as market participants are not fully utilising T2S services yet, due to the constraints of the BCP solution.

As a result of an almost two-year on-boarding procedure, CLS settlement in forints started on November 16, 2015. It has since been "running smoothly" and settlement members had the chance to join the forints CLS settlement in three waves. "CLS facilitates a low risk and efficient platform to settle FX transactions for the participants," added Mészáros.

ICELAND

UNWEIGHTED		
RANK		Score
1	Islandsbanki hf	4.62

WEIGHTED		
RANK		Score
1	Islandsbanki hf	5.50

Iceland has performed a remarkable recovery since its 'too big to bail out' banking crisis. Its economy has surged in recent years to the extent that the central bank had been raising interest rates to tackle inflation. This problem has now been tamed, largely through a stronger currency, so the central bank has reversed its policy and reducing rates, which now stand at 4.75%. Capital Economics predicts one final cut in August.

The capital controls in the Icelandic market have been lifted, effective March 14 2017. However, rules apply to inflow of foreign currency for investment entering Iceland after 4 June 2016, according to a report but RBC Investor & treasury Services, will affect new investment and reinvestment.

The following are covered: bonds and bills issued in ISK and electronically registered; domestic currency deposits resulting from new inflow, or reinvestment of a new inflow; unit share certificates of funds that invest in the above; equity of a company that is established for the purpose of investing, directly or indirectly in the above; loans granted to resident entities that are used for investment in the above for the benefit of the lender.

The registered owners of the above are subject to a special reserve requirement of 40%, where the investor needs to deposit 40% of the value of the inflow into a special

> As additional markets migrated to the new settlement platform, the Italian CSD, Monte Titoli, opened new links… to process cross-border transactions
>
> **Dario Locatelli, BNP Paribas**

non-interest-bearing account.

Nasdaq Iceland is part of Nasdaq OMX Nordic, which includes the exchanges in Copenhagen, Stockholm, Helsinki and Iceland.

IRELAND

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	6.67

WEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.73

Ireland, one of the EU countries most impacted by the financial crisis having paid for a crippling bail out of banks, is now booming. Unemployment is just 6% and it pays less on sovereign debt than the UK. It rebounded following budget cuts, restructuring its bank and economic reforms.

Ireland is among the dominant fund domiciles in the EU, second only to Luxemburg in terms of assets under administration. Its funds industry is world class and is a potential beneficiary of Brexit, especially if the UK loses its funds passport.

The Irish central bank authorises fund administrators located within the country's boarders and requires them to follow its specific operating rules. Approaching 50 fund administrators service more than €4trn ($4.5trn) of assets. State Street, BNY Mellon, Northern Trust, JP Morgan, Citi and Brown Brothers Harriman all have administration businesses in Ireland.

The Minister for Finance, Michael Noonan, announced in May 2017 an end of end stamp duty on the purchase of shares in Irish companies listed on the ISE's Enterprise Securities Market (ESM). The exemption from 1% stamp duty comes into effect from 5 June 2017 and will reduce the cost for pension funds and individuals of investing in Irish growth companies.

"This is about making it easier for Irish businesses to scale-up" said Deirdre Somers, ISE CEO. "This is great news for Ireland and Irish companies looking to raise equity finance on the Enterprise Securities Market… This measure will benefit Irish companies looking to attract much needed Irish and international investment.

ITALY

UNWEIGHTED

RANK		Score
1	Société Générale Securities Services	5.91
2	BNP Paribas Securities Services	5.65
3	Intesa San Paolo	5.21
4	Deutsche Bank AG	4.29

WEIGHTED

RANK		Score
1	Société Générale Securities Services	5.95
2	BNP Paribas Securities Services	5.31
3	Intesa San Paolo	4.64
4	Deutsche Bank AG	3.62

Italy migrated to T2S in August 2015 and the process is generally considered a success by the market participants. "The market worked on implementing what had been left out from the migration to T2S," said Dario Locatelli, head of clearing, settlement and custody business at BNP Paribas Securities Services Italy.

"As additional markets migrated to the new settlement platform, the Italian CSD, Monte Titoli, opened new links with other central depositaries to process cross-border transactions."

Euroclear France announced on April 5 2017 that it had now established a direct link with Monte Titoli for Italian debt securities. The new partnership provides participants with DVP settlement with Monte Titoli counterparties, safekeeping and corporate actions for processing Italian debt securities and auto-collateralisation and tri-party collateral management with a central bank or payment bank for Italian debt securities.

BNY Mellon also revealed plans in December 2016 to migrate clients' assets to direct accounts with Monte Titoli using its connection to T2S, settling transactions in listed securities with the Italian CSD.

In addition, the Italian market prepared for the introduction of the "rolling exercise" model for rights issue with dilutive effect. Following successful testing, this was introduced in December 2016.

"During the course of the year, the Italian market community governance was reformed," said Locatelli. "The new governance, through the Post Trade Participant Committee (PTPC), was created, focusing on two key areas – overseeing local market changes and defining the position of the Italian market on European matters."

LATVIA

UNWEIGHTED

RANK		Score
1	SEB	5.39

WEIGHTED

RANK		Score
1	SEB	6.07

There are no physical securities in the Latvian market. "The market is record date-based and there are no cash of FX or other restrictions for foreigners," said Gatis Simsons, head of custody at SEB Latvia. "Foreign financial institutions must have a local bank as a clearing agent."

Off-exchange trades settle on a Real Time Gross Settlement (RTGS) basis at T+2. The region also has no upcoming changes it needs to prepare for, according to Simsons, and it has no plans to introduce a once-mooted financial transaction tax.

The new legal entity Nasdaq CSD, which will be a merger of CSDs in Latvia, Lithuania and Estonia, will have its headquarters in Latvia, with branches in Lithuania and Estonia.

LITHUANIA

UNWEIGHTED		
RANK		Score
1	SEB	5.60
WEIGHTED		
RANK		Score
1	SEB	6.30

Lithuania is the largest out of the three Baltics states by market capitalisation, boasting efficient procedures for settlements and the required custody infrastructure, said Darius Semenas, business manager for SEB Lithuania's custody services.

The Central Securities Depository of Lithuania (CSDL) acts as the depositary and central registrar for equities and debt instruments.

Together with Nasdaq, the Vilnius Stock Exchange is part of Nasdaq Baltic's joint offering of Nasdaq's exchanges in Tallinn, Riga, and Vilnius, and Nasdaq Baltic CSDs.

The Bank of Lithuania is responsible for the supervision of markets in financial instruments and other functions in accordance with the law on markets in financial instruments. It operates as the payment system for settlements in euros.

"The Lithuanian market is on the edge of significant changes with joining the T2S fifth wave on September 18," said Semenas. "After migration, custody clients would be able to benefit from extended T2S settlement

functionalities, with the possibility to open nominee account at a CSD level and other enhancements."

LUXEMBOURG

UNWEIGHTED		
RANK		Score
1	Société Générale Securities Services	6.06
WEIGHTED		
RANK		Score
1	Société Générale Securities Services	4.62

The Luxembourg Stock Exchange operates two markets: the Bourse de Luxembourg (BdL) and the Euro MTF market, which is a multilateral trading facility. The trading and surveillance rules, regulations and trading mechanisms are identical. The market harmonised to the T+2 settlement cycle on October 6 2014.

Luxembourg is the largest fund jurisdiction and fund administration centre in the EU. In February 2017 it announced it accounted for €3.7trn ($4.1trn) assets under management at year end, a new record for the market.

"2016 was a challenging year in many respects," said Denise Voss, chair of Alfi. "First the UK vote to exit the EU has brought uncertainty to cross-border distribution in Europe, with the possible loss of both fund and fund manager passports for UK asset managers." Second, she noted the threat of US protectionism with the election of Donald Trump.

"However, these challenges can bring opportunities. UK asset managers, and those asset managers from other non-EU countries who currently use the UK to access investors in Europe will, once the UK

leaves Europe, have to domicile their funds in an EU member country."

She noted that M&G has already sought permission from the Luxembourg authorities to launch a new Ucits fund. "We understand other firms will make public similar plans in the next weeks and months."

NETHERLANDS

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.33
2	Deutsche Bank AG	5.04

WEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.46
2	Deutsche Bank AG	5.00

The Netherlands grew by 0.4% in Q1 2017, according to official statistics, notching up its twelfth straight quarter of growth and a growth rate for the last 12 months of 3.4%. Government debt was €32bn ($35.8bn) lower than projected at the end of 2016. Its debt-to-GDP ratio is 62.3%, just over a couple of percentage points above the euroarea limit, and the government is running a budget surplus, of €2.9bn last year.

The Netherlands moved to Target2 Securities (T2S) in the third wave. Transactions on the Euroclear Settlement of Euronext-zone Securities (ESES) markets are settled with a rolling settlement on T+2 basis. As of September 12 2016, the ESES settlement system migrated to T2S. The T2S settlement system is composed of two different settlement cycles: the night settlement cycle (NTS) and the real settlement cycle (RTS).

NORWAY

UNWEIGHTED

RANK		Score
1	SEB	5.46
2	Nordea Bank	5.08

WEIGHTED

RANK		Score
1	SEB	5.76
2	Nordea Bank	5.30

Oslo Børs is the only regulated Stock Exchange in Norway. It has a strategic partnership agreement to co-operate across their equities, fixed income and derivatives markets with a view to improving market efficiency and liquidity.

London Stock Exchange Group provides Oslo Børs with Millennium for its equities and fixed income markets and the Sola trading platform, under licence from TMX Group, for its derivatives markets.

Oslo Børs participants are registered stockbrokers active in Norway and approved by the Stock Exchange Committee, notes RBC Investor & Treasury Serices in a report. All equities traded at Oslo Børs are subject to mandatory clearing at a CCP, members can choose between SIX x-clear and LCH Clearnet.

Merkur Market was established 13 January 2016. It offers listing and electronic trading of shares and equity certificates for both small and large companies as a supplement to the regulated Oslo Børs markets. It is available to companies that are not public limited companies.

POLAND

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	6.52
2	Société Générale Securities Services	5.84
3	ING	5.69
4	UniCredit	5.07
5	Citi	4.87

WEIGHTED

RANK		Score
1	ING	6.31
2	BNP Paribas Securities Services	5.94
3	Citi	5.92
4	UniCredit	5.17
5	Société Générale Securities Services	5.12

2016 represents the first full year of Law and Justice (PiS) governance resulting in the implementation of various initiatives declared before elections.

According to Marek Rudnik, head of sales and relationship management at Societe Generale Securities Services Poland, the most significant measures include a bank tax and the "re-Polandisation" of the banking sector (with repurchase of Pekao SA from UniCredit by the Polish State and Polish Fund for Development), as well as coal energy promotion.

While 2015 was tough for the Polish capital markets, 2016 and 2017 (so far) has seen a boom in share prices and turnover growth. Rudnik stressed that the fixed income market with Bondspot platform has been growing substantially due to both corporate and mortgage bonds, following the new Act on Mortgage Banks.

One of the main changes affecting the securities services business in Poland last year were Ucits V and AIFM, which were finally introduced into local regulations in June 2016.

"They imposed a number of new duties on local custodian banks performing depository functions for domestic investment funds," said Mariusz Piekos, director of foreign clients, UniCredit GSS Poland. "As a consequence, local custodians had to amend their procedures and agreements with domestic investment funds."

"The Polish Custodian Banks Council members are still finalising the automatic pre-matching process with the first banks ready for implementation for OTC bonds transactions," said Rudnik.

The Polish CSD started preparation for CSDR implementation by announcing changes to its IT and technical systems for the next couple of years. These changes will be made in planned implementation windows, one in April (spring window) and October (autumn window).

The first set of changes was successfully implemented on April 24 2017 and included the ISO 20022 implementation and standardisation of corporate actions. Other changes involved the volume of debt securities, which are defined by face value as opposed to units, and the introduction of a clearing field to the settlement instructions.

One of the biggest challenges that the Polish market currently faces, according to Rudnik, is the implementation of Mifid II with additional local amendments, which can completely change the situation for investment firms and asset managers.

April also saw changes to the settlement process of repo/buy-sell-back transaction and also to the KDPW accounts numbering system.

"The Polish Ministry of Finance has announced proposed changes to several domestic laws implementing the Mifid II directive," said Piekos. "The amended laws are subject to a public consultation process and the expected implementation date is January 3 2018."

The partial transition of pension funds into standard investment funds is also another change to look out for, with another 25% of assets taken over by the Demographic State Fund.

Further legal changes that are being discussed in the market include the obligatory dematerialisation of physical shares and the introduction of a central database of accounts.

PORTUGAL

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.22

WEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.16

Portugal has rebounded remarkably since the dark days of the financial crisis, when it was ingloriously grouped one of the PIIGS and then required an IMF bailout in 2011. In mid-May the EU formally announced it was no longer in breach of EU budget rules. Its deficit stable at a just 2% – it's lowest in 40 years – and comfortably below the 3% euroarea threshold but its total debt remains the second largest as a proportion of GDP in the EU.

Portugal's finance ministry welcomed the news by saying "confidence in the Portuguese economy is now spreading to international institutions".

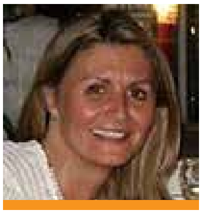
The European commission has recommended it loses its so-called excessive deficit procedures status. This should further fuel growth that is predicted at 1.8% for 2017 and

DNB

VOLATILITY SPURS VOLUME

DNB traders **Karin Aronsen** and **Dag Rudilokken** say there is a growing role for mutual funds in Norway's securities lending market but challenges are posed by EU regulatory change

DAG RUDILOKKEN
Trader



KARIN ARONSEN
Trader

WHAT HAS BEEN BEHIND THE GROWTH IN NORWEGIAN SECURITIES LENDING VOLUMES?

DAG RUDILOKKEN: In the last two years the Oslo Stock Exchange has launched two influential new indices. The mid-cap index was launched in August 2015 and the seafood index in April 2016. Together, the two new indices represent nearly a third of the total market cap of the Oslo Stock Exchange.

Both have proved popular with foreign clients, which have always been important and currently own 37% of the total Norwegian equities market. They are increasingly important as lenders and borrowers of securities as well, with a tendency to borrow a wider range of names than domestic participants. Domestic clients tend to focus on particular companies, lately often in the seafood and oil sector.

KARIN ARONSEN: This growth in demand has been shadowed by an increase in supply, facilitated by rule changes for mutual funds. In particular, counterparty lending limits have increased from 10% to 50% of a fund's total portfolio, following an earlier shift from 5% to 10%.

This has considerably reduced the workload for mutual funds. As funds realise that they can engage in lending more cost efficiently, an increasing number are entering the market. Growth in supply benefits both lenders and borrowers – as more funds lend, more borrowers are attracted to the market, which, in turn, incentivises funds to lend more.

The rule change for mutual funds, which was long-awaited and had been delayed, comes as part of the amendment of Norway's Securities Funds Act. Funds will now be able to utilise up to 50% of their market value using efficient portfolio management techniques, including securities lending and repo.

TO WHAT EXTENT IS MARKET VOLATILITY ATTRACTING PARTICIPANTS?

RUDILOKKEN: It is attracting them significantly. The sustained market volatility across Nordic markets has cemented the appeal of the new indices. We have seen a lot of specials, even among traditional GC names, for some time. In large part this has been due to the turbulence in energy markets, following the drop in the oil price. Of the 25 stocks comprising the main OBX index on the Oslo Stock Exchange, typically ten are connected to oil.

As long as volatility continues to provide opportunities there will be extra revenue available to both borrowers and lenders. Lenders, in particular, are benefitting from the higher prices available on the two new indices. The prospect of higher fees has helped attract mutual funds into the market in larger numbers, adding supply.

WHAT IMPACT IS REGULATORY CHANGE HAVING IN NORWAY?

RUDILOKKEN: A key focus in the coming years will be the impact of EU regulations on the economics of securities lending, notably the treatment of margin, haircuts and the costs of holding collateral.

Currently, the increased costs associated with these regulations, such as increasing capital requirements, have not yet been matched by changes in the size of margins or haircuts. The industry needs to confront the question of which entities will absorb these increased costs. Will it be the borrowers, through higher margins? Will it be the lenders, through lower revenues? Or, a combination? Unless fees for low-margin GC names move it could soon become uneconomical for providers. It will be interesting to see who will be the first to put their head above the parapet and shift their pricing.

ARONSEN: The quality of providers' back offices will come under increasing scrutiny from clients in the coming years. Assuming Norway follows the EU's regulatory lead – as it has done so far – fees for settlement failure are likely to be introduced. This would increase the benefit of working with a good counterparty. The ability to provide a strong post-trade service will become, increasingly, a competitive advantage. For local clients the benefits of a simple integrated solution – encompassing elements such as reporting – are especially useful. They, particularly, will seek quality in this area.

lead to the prime minister demanding its debt to be upgraded by credit rating agencies from its junk status.

ROMANIA

UNWEIGHTED

RANK		Score
1	Société Générale Securities Services	6.08
2	Citi	5.69

WEIGHTED

RANK		Score
1	Citi	6.87
2	Société Générale Securities Services	4.86

Starting April 1 2017, a new law regarding the issues of financial instruments and market operations entered into force.

Viviana Traistaru, relationship manager at UniCredit GSS Romania, said: "The new law transposes into the national legislation the provisions of several EU directives on areas such as transparency requirements in relation to the information about issuers whose securities are admitted to trading on a regulated market, prospectus to be published when securities are offered to the public or admitted to trading."

Also starting on April 1, a new law on undertakings for collective investment in transferable securities and investment management companies become applicable. The new law transposes into the national legislation the provisions of the EU directives on the coordination of laws, regulations and administrative provisions relating to Ucits funds as regards depository functions, remuneration policies and sanctions.

Beginning February 1 this year, the Romanian Central Depository (RCD) aligned the Romanian practise related to corporate actions with European standards. The CSD code of rules was amended accordingly.

The Bucharest Stock Exchange (BSE) announced in June 2016 that it had concluded a coordination agreement with Sibiu Stock Exchange (Sibex), which paves the way for the two Romanian bourses to merge. The agreement will allow the implementation of critical elements for the process, including the evaluation phase of the companies.

There is a new code of corporate governance and dividends are now paid through a centralised system managed by the central depository. "There are continued efforts to promote the Romanian market to an emerging market from a frontier market," said Claudia Inoescu, director of BRD's securities division.

Further forthcoming developments include: a fiscal stimulus for listing to attract new issuers on the market and improve liquidity; the BSE's plan to change the structure of trading fees; the implementation of a CCP; reducing the section one's dimension; and improving the lending and borrowing services.

One of FSA's objectives for 2017 is to evaluate the Central Depository System RoClear from the perspective of RSCB-CESR Recommendations within the context of a T2S platform, according to Traistaru.

FSA will also issue a draft regulation with the aim of improving the registry function of the RCD and will identify capital market entities interested in establishing a CCP in a working group.

> "There are continued efforts to promote the Romanian market to an emerging market from a frontier market"
>
> **Claudia Inoescu, BRD**

RUSSIA

UNWEIGHTED

RANK		Score
1	Société Générale Securities Services	6.13
2	Citi	5.16

WEIGHTED

RANK		Score
1	Citi	6.16
2	Société Générale Securities Services	4.31

The Russian CSD, National Settlement Depositary (NSD), successfully rolled-out electronic pre-matching solution in 2016.

It is supported with a hold & release facility, allowing participants to run the fully-automated submission of instructions to NSD and suspend/release necessary instructions for settlement via early submission for pre-matching even in the case of insufficient assets.

As a result, Societe Generale Securities Services (SGSS) Russia has fully automated trade settlement lifecycle reducing the manual operation workload, according to Mikhail Bratanov, head of SGSS in Russia and CIS.

Recently, NSD officially announced the launch of the settlement platform for local investment funds subscription and redemption. Bratanov said: "The new system will enable NSD clients to get access to opera-

tions with mutual funds of the asset management companies connected to it."

The first phase of this project being implemented now will offer a unified technological platform to market participants operating via the nominee holder accounts at NSD.

On July 1 2016, the corporate actions reform fully came into force, bringing Russian procedures to international standards. The reform introduced the following: changes in the procedure for preparing lists of securities owners; a cascade approach towards exercising securities holders' rights in the course of corporate actions in a centralised manner through securities record-keeping institutions; and new methods of participation in general meetings of securities holders (such as e-proxy voting).

Last year was marked by the introduction of the new legislation aimed to reframe and renovate the legal basis of custody activities in the Russian market, which previously had remained unchanged for 20 years, according to Yuliya Umnova, head of relationship management and product development at UniCredit GSS Russia.

The new legislation introduced specific requirements, effective April 5 2017, in the following aspects of the custody business: a new approach to unified custody records and documents keeping system; requirements for protection and custody record keeping procedures; BCP/DRP and documents' storage; location of the technical means for processing and storage of custody records; and maintenance of backup storage of information.

"In line with the central bank's intention to draw a greater focus on the regulations governing the activities of Russian professional market participants, self-regulating organisations on the securities market will be assigned with the additional control function over Russian custodians, brokers and registrars," Umnova explained. "Such control will be enacted in accordance with the new basic standards to be elaborated on the basis of the new custodians' regulations."

The Russian payment system has also seen major changes in terms of its functionality, which started this year. Now each amount larger than RUB100m ($1.77m) is mandatorily sent via the real time gross settlement system (BESP) that is expected to result in better STP, quicker processing time and improvement in liquidity management, Umnova said.

Deutsche Bank decided to pull the plug on its custody business in Russia in November 2015. Consequentially Societe Generale Securities Services said it has been successful in winning "all the major RFPs," according to Bratanov. "As a result we have significantly expanded out international client base increasing the market share."

SERBIA

UNWEIGHTED

RANK		Score
1	Société Générale Securities Services	6.26
2	UniCredit	5.26

WEIGHTED

RANK		Score
1	UniCredit	6.31
2	Société Générale Securities Services	4.20

Supervision of financial markets and monetary policy is carried out by the National Bank of Serbia (NBS. The Republic of Serbia Securities Commission safeguards the orderly functioning of capital markets.

Belgrade Stock Exchange (BELEX) is a self-regulating organisation supervised by the Securities Commission and is the centre of the Serbian capital market. The CSD is a closed joint-stock legal entity, fully owned by Republic of Serbia. It is the only CSD, registrar and clearing house in Serbia.

"The Securities and Exchange Commission of Serbia (SEC) has adopted a regulation on capital requirements and liquidity management for brokerage firms," said Stevo Delic, senior relationship management at UniCredit GSS Serbia.

This regulation determines factors including the minimum requirements for a broker's liquidity risk management, reporting requirements and timelines, and minimum permissible liquidity levels.

The NBS has adopted new regulations introducing Basel III standards to the Serbian banking market, in line

with a strategy for the implementation of these standards. The regulations come into force on June 30 2017.

As of December 12 2016, Belex has become a fully active member of the SEE Link. The SEE Link platform was launched by Bulgarian, Croatian and Macedonian bourses with the purpose of creating a regional infrastructure for securities trading, which are listed on their respective markets. Currently there are 27 brokerages licensed to trade via SEE link and seven members of Belex, according to Delic, are in the process of obtaining licenses for the platform.

As of October 21 2016, Belex has introduced new types of special orders, said Delic. These are orders with hidden total quantity (Iceberg), all-or-none (fill or kill, FOK) and immediate or cancel (IOC).

An Iceberg order can be placed as an order limit whose total quantity is not visited at the main board of Belefix and at the same time has visible quantities that must be placed within the order. "Visible quantities have to be equal to or less than the total non-visible quantities," explained Delic. "They can only be used in all trading methods and in all trading phases."

An FOK order can only be used if it is possible to match it completely with the order of a counterparty and only when using the continuous trading method and only in the phase of continuous trading.

Finally, an IOC order can be posted as a limit or as a market order that will be matched immediately with the order of a counterparty, partly or in total. It can be used only when using the continuous trading method and only in the phase of continuous trading.

SLOVAKIA

UNWEIGHTED

RANK		Score
1	Citi	5.34
2	UniCredit	5.23

WEIGHTED

RANK		Score
1	Citi	5.85
2	UniCredit	5.11

Changes to regulation, both adopted in 2016 and under preparation, are focused on the transposition of EU directives (CSDR, EMIR and Mifid II) into local legislation.

Parliament also passed the Income Tax Act Amendment, effective from January 2017, introducing a withholding tax on dividends generated from 2017 onwards, if paid to individuals (7% or 35%) or to legal entities residing in off-shore countries (35%).

T2S was successfully completed in February 2017. Slovak CSD-CDCP modified its information system and implemented ISO 20022. "With the focus on further harmonisation, T2S remains a hot topic," said Zuzana Milanová,'s head of UniCredit GSS Slovakia.

"Furthermore, CDCP readies the documentation and improves the technical standards so as to be authorised under CSDR."

T2S positively impacted trades of government bonds and Debt and Management Liquidity Agency (ARDAL) as a counterparty on both the primary market and the secondary market. Settlement method changed from non-DVP to DVP.

Milanová added: "With the aim to further boost liquidity, Ardal plans to implement market making on the secondary market for government bonds. Trading will take place in the new MTS, starting January 2018."

Slovakia's second CSD, NCDCP, commenced operations in June 2016. It became an active member of CDCP and established a one-way link to CDCP. They have four members and hence may begin clearing and settlement operations. NCDCP migration to T2S is planned for October, after the stabilisation stage of the fifth wave.

SLOVENIA

UNWEIGHTED

RANK		Score
1	Société Générale Securities Services	5.70
2	UniCredit	5.14

WEIGHTED

RANK		Score
1	UniCredit	6.02
2	Société Générale Securities Services	4.11

Slovenia migrated to T2S in the fourth wave. Vanda Mocnik-Kohek, senior relationship manager, UniCredit GSS Slovenia, said: "The layered model has been used for connection with T2S due to the prevailing segregated securities account structure."

The ISO 15022 Swift standard has been used for communication. New Swift standard ISO 20022 has been used only between KDD and T2S. New matching and settlement standards, which also include changes required for T2S, were issued in April 2015.

The new corporate action process has been implemented with T2S. The CAs have been executed through the KDD and its members in line with international CAJWG/CASG standards. Important days for execution of the CA, include also Ex-New – date, which was not a market practice before T2S migration.

Since a changeof ownership in Ljubljana Stock Exchange (LjSE) in 2016, several measures have been accepted to increase trading, including the LjSE joining the SEE Link.

New AML legislation, effective November 2016, set additional requirements for clients, said Mocnik-Kohek, but a new classification of countries according to the AML risk, published at the end of February 2017, improved the classification of Luxembourg, Singapore and Switzerland to a "simplified procedure and significantly eased the documentation requirements for clients from these countries".

The Slovenian CSD KDD already started with the implementation of CSDR. They are working on the first step of implementation, which includes licences and links. The second step, which imposes penalties for on-market and OTC trades, buy-in process and calculations of penalties, is expected 2018-19.

SPAIN

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.91
2	Société Générale Securities Services	5.82
3	Deutsche Bank AG	5.56
4	BBVA	5.02

WEIGHTED

RANK		Score
1	BBVA	5.67
2	Deutsche Bank AG	5.61
3	BNP Paribas Securities Services	5.18
4	Société Générale Securities Services	4.72

The first phrase of the Spanish reform for settlement, clearing and registry went live at the end of April 2016 and was implemented in May 2016, preparing the environment for T2S, which is due to go-live in the autumn. "All attention is now focused on the preparation for T2S Wave 5 in September," said Soledad Lecube, head of BNP Paribas Securities Services Spain.

"We have been very focused on this migration these last months," said Alexis Thompson, head of Global Securities Services at BBVA. "Spanish reform is one of the best cases of harmonisation in the post-trade landscape, together with a very good example of the T2S role as catalyst of harmonisation in Europe. However, it has implied and it is implying a tremendous effort for the Spanish market infrastructure."

Fixed income will move onto the same reformed T2S settlement platform as equities, uniting the settlement processes.

The May 2016 reform meant an important project of changes to its systems and procedures for equities, according to Sally Matthews, relationship manager at Societe Generale Securities Services Madrid. "Since its go live last year, successful for the market, we have moved our focus to the preparation for T2S, for which SGSS Madrid will be an Indirect Participant, accessing T2S via Iberclear."

Added Thompson: "The upcoming European regulation and initiatives such as T2S and the changes in the Spanish securities market will foster an increasingly competitive scenario in which there will be changes in the roles and business models of custodian and CSDs."

BBVA sees the focus on value-added services such as corporate actions and tax reclaim services will be "the name of the game" in the T2S environment.

SWEDEN

UNWEIGHTED

RANK		Score
1	SEB	5.55
2	Nordea Bank	5.20

WEIGHTED

RANK		Score
1	SEB	5.83
2	Nordea Bank	5.40

During 2016, several measures were taken by the local Swedish CSD Euroclear Sweden. It implemented a penalty of SEK50,000 ($5,748) on March 1 2016 for clearing members who violate the Euroclear Sweden general terms and conditions for account operations and clearing regarding the expected net payment amount as settlement headroom.

The measure was decided in order to "improve settlement performance for fixed income securities," according to Catharina Buresten, head of SEB custody Sweden.

The next step in terms of on-going efforts is to improve the settlement ratio, this time for CCP transactions. Euroclear Sweden has started to send requests for explanation on failing trades to clearing members applicable when the Swedish market has a settlement ratio for a specific day for CCP cleared transactions below 90% of settlement value and the total value of fails in the Swedish market is above SEK2bn, Buresten explained.

Euroclear Sweden then gathers the information received by participants and sends a compiled report of market fails to the regulator.

In late 2015, Euroclear Sweden announced it would implement a new CSDR-compliant CSD platform. The implementation of the new system, EuroclearSafe, was tentatively planned to take place in November 2018, but in December 2016, Euroclear Sweden took the decision to prioritise implementing changes related to CSDR rather than the platform replacement.

"Accordingly, a CSDR-compliant version of the VPC system will be launched first with target date end- 2017," said Buresten. The EuroclearSafe project has not been closed, but deployment has been postponed and priority will be given to the VPC re-build.

SWITZERLAND

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	6.51
2	SIX Securities Services	5.91
3	UBS AG	5.37
4	Credit Suisse	5.19

WEIGHTED

RANK		Score
1	Credit Suisse	5.75
2	SIX Securities Services	5.58
3	UBS AG	5.53
4	BNP Paribas Securities Services	5.09

In April the Swiss Financial Market Supervisory Authority (Finma) issued guidance on the Financial Market Infrastructures Act: reporting requirements / trade repositories. It provided information about the authorisation of a Swiss trade repository and the recognition of a foreign trade repository.

Their recognition and authorisation means that Swiss market participants will now be subject to a phased-in entry into force of derivatives transactions reporting requirements by notifying a trade repository.

Finma says it has a "differentiated approach" to supervision and regulation, where the intensity of supervision by Finma is determined by the size and risk profile of each institution.

Thomas Bauer, chair of Finma's board of directors, said: "Finma focuses on the essentials and, wherever possible, gives supervised institutions flexibility and responsibility when implementing principle-based regulation".

He emphasised that Finma has a highly differentiated supervisory approach and has established itself as an efficient and lean authority. Bauer wants to see increased efficiency so that resources are freed up "to deal with newly emerging issues" and specifically mentioned cyber attacks and the risks inherent in the outsourcing of operational activities by supervised institutions.

TURKEY

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	6.72
2	Citi	5.33
3	Deutsche Bank AG	5.30

WEIGHTED

RANK		Score
1	BNP Paribas Securities Services	6.93
2	Citi	6.36
3	Deutsche Bank AG	5.62

Turkish capital markets infrastructure projects are still on track. "Albeit the unfortunate local and regional politi-

> "Market authorities continued implementing Bistech systems developed in partnership with Nasdaq OMX"
>
> **Ertunc Gurson, TEB Securities Services**

cal, geopolitical and military events that have shaped 2016 and the momentum continues in 2017," said Ertunc Gurson, head of TEB Securities Services, a joint venture between BNP Paribas and TEB.

2016 started off with the renewal of Temporary Article 67 of the Income Tax Law (related to the taxation of incomes and revenues from securities) until December 31 2020.

"Market authorities continued implementing Bistech systems developed in partnership with Nasdaq OMX," said Gurson.

Some projects including Takasbank becoming the CCP in Borsa Istanbul (BIST) equity market and Bistech implementing BIS VIOP have been postponed to mid-2017 from 2016. Meanwhile the changes in the trading platform of BIST have been completed in three phrases.

Takasbank applied to Esma to become a compliant CCP for BIST Futures and Options Market. The local CSD, the Central Registry Agency, implemented the Public Disclosure Platform 4.0 Project that brought its platform technology up to par with global standards, going live on June 11 2016.

Gurson added: "The introduction of Turkish Wealth Fund in August 2016, and initiation of mandatory pension savings in November 2016, plus the new BIST money market are post-July 2015 examples of the government's attempts to rejuvenate the capital markets."

UNITED KINGDOM

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	6.22
2	HSBC	5.31

WEIGHTED

RANK		Score
1	HSBC	6.00
2	BNP Paribas Securities Services	5.59

The United Kingdom has arguably the most compete ecosystem of financial services in the world. The extent to which this is impacted by the Brexit vote, to leave the EU, is unknown by the consensus view is that there will be a very limited effect.

While the City appears impervious, the same cannot be said for the currency. Sterling depreciated from above \$1.45 to below \$1.25 in the months after the referendum, although it has since partically recovered to around \$1.30.

Despite Brexit, it is expected that all EU legislation currently in train to be implemented in full – not least because it may effect whether the United Kingdom can retain its funds passport. Mifid II entered into force on 2 July 2014 and had to be transposed into national law by 3 July 2016. It is now due to apply from 3 January 2018 (previously 3 January 2017).

Market capitalisation on the dominant exchange, the London Stock Exchange (LSE), is close to £4trn (\$5.1trn) and it attracts listings from across the world. It is not part of Target2 Securities T2S. The LSE Group had attempted to merge with Deutsch Borse, for the third time in 17 years, but the EU competition commissioner blocked the move as it would have created a "de facto" monopoly in fixed income markets.

The UK faces another election, just two years after the last one, on June 8 2017. The political discourse remains focussed on the fallout from the Brexit vote and the Conservatives are expected to be returned to office with a larger mandate.

London is also a major fintech hub, centred around the so-called Silicon Roundabout. The UK market is regulated by the Financial Conduct Authority.

UKRAINE

UNWEIGHTED

RANK		Score
1	Citi	5.20

WEIGHTED

RANK		Score
1	Citi	6.00

In the second half of 2017 Ukraine plans to return to foreign capital markets, as part of a plan to replace IMF funding and other international organisations.

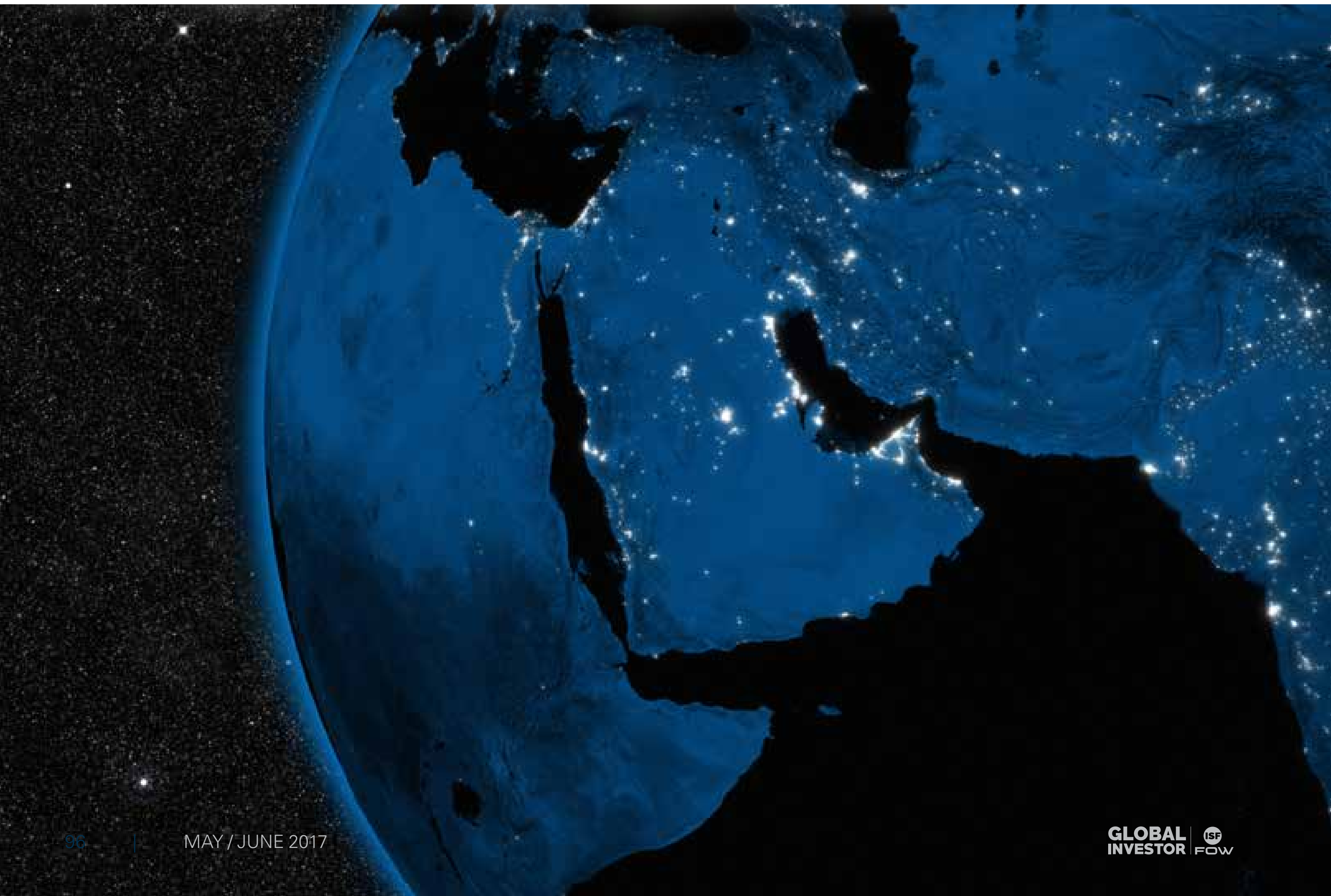
"The program [with the IMF] is coming to an end in 2019, and we need to be self-sufficient and have the opportunity to enter foreign markets. We should start this year," he told Interfax, the Ukrainian news agency. "We plan to enter the markets this year, in the second half of this year," he added.

The National Bank of Ukraine (NBU) said in a statement last November that the need for financial sector reform is a "principal" requirememt. "By definition, [reforms] cannot be easy and painless," NBU Governor Valeriya Gontareva said. "We see how difficult it is for our parliament to pass crucial and important financial bills and how courts operate, overturning central bank decisions on recognising banks as insolvent."

She added that "cleansing" the banking sector and improving transparency were priorities and that reforms need to be comprehensive if the economy is to be modernised and function effectively. Tough and effective anti-corruption measures, at all levels, would be needed.

SUB-CUSTODY GUIDE

MIDDLE EAST & AFRICA



BAHRAIN

UNWEIGHTED		
RANK		Score
1	HSBC	5.29

WEIGHTED		
RANK		Score
1	HSBC	6.01

Bahrain's economy and government revenues have unsurprisingly has been negatively affected by sharply lower oil prices over the past three years. Its debt-to-GDP ratio stands at 80% and its budget deficit is still wide at 18% of GDP. However, growth was a healthy 3.7% in 2016, up from 2.9% in 2015, and it is undertaking meaningful fiscal reform, including raising taxes and reducing waste *(see full MEAMC report pages 112-114)*.

"However, the apparent stabilisation of global oil prices in 2016 has brought a similar firming of the main index and, after a year of shrinking stock prices, some increasingly attractive valuations," Oxford Business Group stated in a report. "The larger story of 2016, however, has been of some important structural advances, such as the introduction of real estate investment trusts (RIETS) and the emergence of a vibrant secondary debt market."

More legislative and infrastructural developments due in 2017 promise to sustain this forward momentum.

BOTSWANA

UNWEIGHTED		
RANK		Score
1	Standard Bank	5.26
2	Standard Chartered	5.03

WEIGHTED		
RANK		Score
1	Standard Chartered	6.10
2	Standard Bank	4.38

Botswana has taken legislative action to properly define the scope of regulation in the non-bank financial services sector. The Non-Bank Financial Institutions Regulatory Authority (NBFIRA) Act, which was passed into law in November 2016, aims to reset the regulatory and supervisory architecture of the NBFI sector by establishing a 2-tier approach to NBFI regulation in Botswana. It brings the regulatory and supervisory structure in line with international standards, according to a spokesperson for Standard Bank.

The Botswana Stock Exchange (BSE) undertook various initiatives in 2016 in order to internationalise the local bourse, including hosting the inaugural listing conference to encourage local companies to list, as well as the first ever bond market conference in October, said Vincent Baituti, head of investor services at Stanbic Bank Botswana.

Thapelo Tsheole, CEO of the BSE, was elected to the main committee of the African Securities Exchanges Association (ASEA) as its AGM in November 2016, hosted in Kenya.

The BSE also joined both the World Federation of Exchanges in June 2016 and the United Nations Sustainable Stock Exchanges initiative in July 2016.

The Central Securities Depositary of Botswana (CSDB), a subsidiary of the BSE, saw its Thomas Murray rating bumped up to BBB, with an A+ for its asset safety risk.

The Securities Act came into effect on April 1 2017, along with the subsidiary legislations including the Securities (Institutions Licensing) Regulations 2017 and the Securities (Persons Operating a Securities Infrastructure Business) Regulations 2017. Its commencement introduces concepts such as market makers and CCPs.

"This legislation is meant to consolidate and amend the laws relating to the regulation and supervision of the securities industry in Botswana," said Baituti. "We also witnessed a wave of fee increments by the BSE and the CSDB in 2016, which affected market participants as well as both local and international investors."

Fees were also adjusted on the back of rising costs by the BSE and the CSDB, which was particularly significant because fees had not been reviewed since CSDB's inception in 2008. Stanbic Botswana successfully lobbied the CSD to provide daily statements to market participants, allowing them to reconcile daily to the CSDB, said Baitu

> "The Securities Act is meant to consolidate and amend the laws relating to the regulation and supervision of the securities industry in Botswana"
>
> **Vincent Baituti, Stanbic Bank Botswana**

COTE D'IVOIRE

UNWEIGHTED		
RANK		Score
1	Société Générale Securities Services	5.24
2	Standard Chartered	4.50

WEIGHTED		
RANK		Score
1	Standard Chartered	5.09
2	Société Générale Securities Services	4.69

It has been a decade since the civil war officially ended and, despite post-election violence in 2010, the international community said says US-educated economist Alassane Ouattara's election and re-election in 2015 was "credible". Cote D'Ivoire is the world's largest cocoa producer and is relatively prosperous relative to countries in the region.

The country is also home to West Africa's regional stock exchange,

the Bourse Régionale des Valeurs Mobilières, which one of the fastest-growing stock exchanges on the continent.

An Oxford Business Group report stated: "Côte d'Ivoire's capital markets are closely linked to the broader fortunes of the eight-state UEMOA of which it is a member. On the back of strong macroeconomic growth, equity activity has been increasing steadily over the past five years, with a strong rise in the volume of transactions. Nonetheless, the bourse continues to face challenges common to emerging and frontier market exchanges around the world, including liquidity issues."

EGYPT

UNWEIGHTED

RANK		Score
1	HSBC	5.33
2	Citi	5.22

WEIGHTED

RANK		Score
1	Citi	6.25
2	HSBC	6.03

After four years of negotiation, the Egyptian government reached a preliminary agreement in November 2016 with the IMF for a loan of $12bn. To qualify for this financial assistance, the Central Bank of Egypt (CBE) floated the Egyptian pound to help the country's external competitiveness, support exports and tourism, and attract foreign investment.

The currency subsequently dropped approximately 60% against the US dollar year-on-year in December 2016, reaching historic lows of 19.7 Egyptian pound per US dollar. The IMF indicated in January 2017 that the Egyptian pound was trading at equilibrium exchange rate after the November float.

Also in November, the Egyptian government announced a further delay to the introduction of capital gains tax on equity for three more years in order to target foreign investors.

However President Abdel Fattah el-Sissi has undertaken other investment reforms, including introducing VAT of 14% in August 2016, which will rise to 15% in the next fiscal year.

Listed shares are held in dematerialised form and are managed by Misr for the Central Clearing Depositary and Registry (MCDR), which is the sole central depositary company in Egypt. Clearing and settlement is done on a DVP basis, whereby MCDR acts as the clearing house between the buying and selling member firms.

It was announced in April that year that E-Finance, the electronic payment company that operates the Egyptian government network, has signed a protocol of cooperation with Misr for MCDR and with Nile Information Technology and Dissemination (NITD). The agreement will activate the electronic payment for investor and brokerage firms for the first time in the Egyptian markets, allowing for a faster transaction of securities.

GHANA

UNWEIGHTED

RANK		Score
1	Standard Bank	5.39
2	Standard Chartered	4.73

WEIGHTED

RANK		Score
1	Standard Chartered	5.23
2	Standard Bank	3.60

The medium growth outlook of the Ghana economy is generally positive but contingent on sustained improvements in the energy supply, continued stability in the FX market and additional oil production, according to William Sowah, head of investor services at Stanbic Bank Ghana.

A new system for merged depositary went live on March 29 2016, delivering a single client depository account and single venue for settlement for all securities types. The depositary system is integrated with the Automated Trading System of the Ghana Stock Exchange (GSE) and the Ghana Interbank Settlement System (GIS) of Bank of Ghana.

The new platform delivers a single client depositary account and single venue for settlement for all securities types. The project involved the migration of all depositary accounts for debt and equity onto a new platform.

"The introduction of a new CSD system supports an improved settlement environment, including the removal of the trading account concept, thereby reducing the risk of having client securities held out of custody," said Andy Osborne, global head of network management at Northern Trust.

Osborne highlighted how the CSD also introduced a new fee for the settlement of fixed income instruments, which had initial issues relating to the interpretation of how the fee should be applied. "This appears to have now been addressed," he said.

As a result of the funding challenges experienced by non-resident clients, the bonds settlement cycle has been switched from T+0 to T+2.

The Ghana Commodities Exchange (GCX) Project, launched in 2015 by the Ministry of Trade and Industry government and the private sector, is expected to be fully operational by the first half of 2017.

The 2017 government budget statement proposed to waiver capital gains tax (GCT) for those realised on securities on the GSE, reverting to the pre-November 2015 arrangement.

"One potential large-scale reform that could drive increased trading and listings is the West African Capital Markets Integration (WACMI) programme," said Sowah. The programme will align the stock exchanges Ghana, Côte d'Ivoire, Nigeria, Sierra Leone and Cape Verde, as well as the regional Bourse Régionale des Valeurs Mobilières. Eventually it will allow brokers from each country to trade directly on any of the four exchanges.

ISRAEL

UNWEIGHTED

RANK		Score
1	Bank Hapoalim	4.79

WEIGHTED

RANK		Score
1	Bank Hapoalim	4.16

The Tel Aviv Stock Exchange (TASE) announced a three-goal strategic plan in April 2017 to restore to its among local investors and capital-raising firms. Local investor numbers in the exchange have decreased from 250,000 in 2011 to 160,000 in 2016.

The first measure is to build listings via both repatriation of some of the 90 Israeli companies listed abroad, with a market cap of NIS250bn ($69.9bn), as well as plan to encourage private SMEs, real estate and infrastructure projects and technology companies to list.

The second is to expand the array of services offered by TASE, such as the provision of custodial services for institutional investors, the creation of a central securities lending pool, trading in securitised financial instruments and the introduction of an innovative digital registration service for companies.

The third is to enhance market liquidity. TASE aims to boost retail participation, which is low by international standards. It is seeing to make public distribution more efficient, with local and international institutions providing non-advisory brokerage.

TASE CEO Ittai Ben-Zeev, stated: "TASE should and can be a significant value creator in the Israeli economy – and can revert to being a dominant driver of corporate growth and the means through which the Israeli public can take part in the success of the local economy. The situation in which only a few are partners in Israel's long-term economic success needs to be rectified and we believe that the Israeli capital market is the best and most efficient platform for accomplishing this.

"The action plan includes operational measures which are implementable in the relatively short term, and which, in large part are based on TASE's existing internal capabilities and strengths – so that we will be able to see results in the foreseeable future."

JORDAN

UNWEIGHTED

RANK		Score
1	Bank of Jordan	6.71
2	Standard Chartered	5.12

WEIGHTED

RANK		Score
1	Standard Chartered	5.71
2	Bank of Jordan	4.09

The Amman Stock Exchange (ASE) announced in July 2016 that it plans to start applying the Regulating Directives for Trading in unlisted securities on August 4 2016, in cooperation with the Jordan Securities Commission (JSC) and the Securities Depositary Center (SDC).

It also issued the Listing Securities Directives for 2016 before launching a new OTC exchange, which is a by-product of these two sets of regulations. 29 companies joined the exchange by September, according to ASE figures. Companies wishing to trade must be registered with the Jordan Securities Commission and the Securities Depository Centre, and disclose financial and non-financial information.

Mohammed Aburoub, executive

manager for Bank of Jordan's securities services, also highlighted the JSC's commitment to approaching "higher strategic objectives," such as issuing a draft proposal for securities lending and borrowing, short selling and securities depositary receipts instructions for 2016. "The JSC aims to introduce a new investment tools to increase the market performance, strength and confidence in investing securities," he said.

The ASE chairman has confirmed the transfer of the ASE to a public shareholding company, 100% owned by the government, in the first quarter of 2017.

The SDC recently completed all the system development and legislative changes to implement a new cash clearing model that will fully involve local custodians in the clearing of cash and securities on behalf of investors, Aburoub said.

The Central Bank of Jordan introduced the automated clearing house (ACH) system, which includes the JOD, USD, EUR and GBP. "ACH is a secure clearing and settlement facility established to process the exchange of electronic transactions between participants," Aburoub added.

Jordan follows a T+2 settlement cycle but for foreign investors, using local custodian banks are subject to an exceptional process whereby custodian clients can deliver the securities by TD+1 12.00 hours.

Under the new proposed model, custodians would be party to the settlement process run by the SDC. In order to ensure seamless settlement, the new process requires the custodian to affirm transactions – currently proposed at TD+1 12.00 hours.

These are various challenges facing this move, according to an expert at Standard Chartered Bank, including the requirement to pre-fund the account or secure credit limits, shorter time put strain on pre-matching of turnaround trades that is manual and holiday coverage.

KENYA

UNWEIGHTED

RANK		Score
1	Standard Bank	5.93
2	Standard Chartered	5.22

WEIGHTED

RANK		Score
1	Standard Chartered	6.52
2	Standard Bank	5.79

The Kenya financial system has been under severe strain. "2016 will remain etched in the minds of the banking industry players and general public following the placing under receivership, in April 2016, of the third commercial bank in a span of eight months," said Janet Waiguru, head of investor services at Standard Bank East Africa.

This greatly impacted the confidence of the banking sector, according to Waiguru, and witnessed flight to safety to tier one banks, resulting in liquidity challenges for tier two and three banks.

The signing of the Banking (Amendment) Bill 2015 introduced interest rate capping to the rates offered by banks on deposits and for credit facilities. The Central Bank Rate (CBR) at 10% is the industry reference rate.

"The Nairobi Securities Exchange (NSE) did not have a good year," said Waiguru. "Performance, as tracked by the NSE 20 share index and equity turnover, was 25.2% and 29.6% down year-on-year."

Market development gained traction as the Capital Markets Authority (CMA) continued to push on with the initiatives in its 10-year masterplan. This included the issuance of the draft regulations to govern securities lending and borrowing and short selling and a policy guidance note on Global Depositary Receipts (GDRs) and Global Depositary Notes (GDNS) in Kenya. "This provided an additional framework on how foreign issued securities may be introduced for trading in Kenya as depository receipts or notes," said Waiguru.

The allowable foreign investment in listed companies, in general terms, was increased to 100% by the end of 2016 but the abolition of the capital gains tax on January 1 2016 gave this market liberalisation measure its real impact and brought much needed certainty.

Ahead of the upcoming general election in Kenya on 8 August, "the prospects for the capital markets and investments in key sectors remain optimistic," she added.

> "The Nairobi Securities Exchange did not have a good year. Performance, as tracked by the NSE 20 share index was 25.2% down year-on-year"
>
> **Janet Waiguru, Standard Bank East Africa**

KUWAIT

UNWEIGHTED

RANK		Score
1	HSBC	5.19

WEIGHTED

RANK		Score
1	HSBC	5.86

Kuwait issued its first ever sovereign bond issue in March 2017. It was a milestone event for the county's capital markets and the wider GCC, as it was the remaining sizable country not to have issued. It collected $8bn in five-year ($3.5bn) and ten-year ($4.5bn) notes.

The country does not really need

the money and the issue was more about building its markets. It has the lowest breakeven oil price in the GCC and debt-to-GDP remains sub-20%.

The issue was oversubscribed (it could have raised $9.5bn) and was deliberately placed in internationally. MENA was allocated 26% of each tranches while US funds took over 50% of the ten-year bond and Europe 46% of the five-year bond. The AA rated country is paying 2.75% on five-year paper and 3.5% on ten-year. It was considered a solid success, with prices rising modestly after floating. Deutsche Bank, NBK capital and Standard Chartered supported.

Kuwait is expected to build out a yield curve with future issues. On this occasion the global coordinators were Citigroup, JP Morgan and HSBC.

The equities market has also developed over the last couple of years; Boursa Kuwait Securities Company took over management of the Kuwait Stock Exchange in April 2016. "The move was widely understood to indicate the beginning of a new era for Kuwait's capital market," according to an Oxford Business Group report. "This shift follows on from a series of major reforms initiated by the passage of the 2010 Capital Markets Law, under which the sector regulator – the Capital Markets Authority – and other state entities have worked to transform the bourse, with the long-term objective of boosting the market's performance and overall value."

LEBANON

UNWEIGHTED		
RANK		Score
1	HSBC	5.19

WEIGHTED		
RANK		Score
1	HSBC	5.79

In May 2017 the central bank governor Riad Salame was granted a fifth six-year term by Parliament, in a move praised for maintaining stability in an often politically volatile country. He is renowned for steering the financial sector away from collapse.

While the economy remains weak, and the government budget deficit is a cause of concern, according to Salame, speaking at a recent Euromoney conference, the state now has stable foreign currency reserves to back the economy financial sector.

Between June and August 2016 the central bank engaged in what the IMF described as "unconventional" financial engineering. The central bank exchanged some of its Lebanese pound-denominated debt holdings for dollar-denominated finance ministry Eurobonds, while private banks provided dollars in exchange for newly issued dollar certificates of deposit.

Lebanon has strict banking regulations as well as bank secrecy laws, which may prove an obstacle to adopting incoming international standards *(see MEASC event review, pages 112-114)*.

MALAWI

UNWEIGHTED

RANK		Score
1	Standard Bank	5.04

WEIGHTED

RANK		Score
1	Standard Bank	3.41

In 2016 Malawi saw moderate activity relating to capital markets development and two local custodians dominate their market.

"The market is dominated by local pension funds and institutions that are typically focussed on the long-term," said Wilson Kuyokwa, head of investor services Malawi at Standard Bank, adding that foreign investor activity is limited.

The Malawi Stock Exchange (MSE) has 13 listed counters and no listed corporate bonds. "The Malawi market is fairly small and is challenged with low liquidity as investable assets available on the MSE are limited."

The MSE plans to introduce a CSD in 2017. Kuyokwa stressed that listed equities and corporate bonds will first need to be dematerialised. "The change aims to give an improved capital market offering in Malawi with possible reduction in the settlement cycle, improved asset safety, improved turnaround times and processing efficiency," he said.

The Reserve Bank of Malawi (RMB) circulated a draft Securities (Amendment) Bill in November 2015 to capital market participants to amend the Securities Act 2010. The RMB held a workshop to review responses in April 2016 and has submitted its final draft to the Ministry of Justice. Major changes in the amendment bill include rules on insider trading and the winding up of capital market participants.

"The bill is expected to improve the legal framework of the securities market and attractiveness of the securities market to investors," said Kuyokwa.

MAURITIUS

UNWEIGHTED

RANK		Score
1	HSBC	5.11

WEIGHTED

RANK		Score
1	HSBC	5.32

The economy is performing well with unemployment down to 7.3% for the year, from 7.9% in 2015. It is at its lowest lever since 2008, according to official statistics. Economic growth is also gaining traction with 3.8% predicted for 2017, up from 3.5% in 2016.

Mauritius has diversified in recent years, from sugar and textiles, to build meaningful sectors in offshore banking and business outsourcing, as well as tourism. It is considered one of Africa's most stable and prosperous economies.

Despite being geographically part of Africa its links economic links with India are strong – Mauritius is in the top two (with Singapore) biggest recipients and sources of foreign direct investment with India. In May 2017, Mauritius was been offered a $500m credit line by India in a deal connected with maritime security, given its strategic position in the South Indian Ocean.

MOROCCO

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	6.43
2	Citi	5.36
3	Société Générale Securities Services	5.11

WEIGHTED

RANK		Score
1	BNP Paribas Securities Services	6.22
2	Citi	5.86
3	Société Générale Securities Services	5.59

The Casablanca Stock Exchange has the second largest market by capitalisation in Africa, at $55bn split between 75 firms. It is also expanding – it had its largest initial public offering (IPO) in eight years in June 2016 had reportedly has two firms planning to list in 2017/18 and has a programme to encourage small and medium sized firms to list.

The Casablanca Stock Exchange (CSE) announced last November that it planned to list 20% of its shares and sell a further 15-20% to a strategic investor (possibly at the same time) at some point over the next five years. In preparation it changed its ownership structure in June 2017 from a mutual company for brokers.

"However, the bourse's all-share index remains below the levels seen before the global financial crisis, as do IPO and trading activity more generally, and it seems likely to be some time before these return to pre-crisis levels," stated a Oxford Business Group report. "Nevertheless, the coming years will see a wide range of reforms applied across the kingdom's capital markets, including the launch of new exchanges and a variety of products, all of which should help to boost the CSE's substantial potential."

NAMIBIA

UNWEIGHTED		
RANK		Score
1	Standard Bank	4.76

WEIGHTED		
RANK		Score
1	Standard Bank	4.34

2016 was a year of change for business with the implementation of TCS BaNCS custody system. All custody assets are on a single platform allowing additional functionality to service domestic and international clients, said Corny Zaaruka, head of investor services at Standard Bank Namibia. The Namibian market initiated discussions in 2015 to launch a CSD for local listed and unlisted securities (including government securities).

"These discussions are progressing well and there has been a material stretch made on the regulatory side of things during 2016 in order to enable the operations of this national infrastructure in 2017 at the back of the implementation of the Financial Institutions Market Bill (FIM Bill)," said Zaaruka.

Two significant regulatory requirements that were implemented in the market in 2016: disclosure requirements and withholding tax on interest.

The disclosure requirements saw the amendment of the Companies Act Administrative regulations, which were published in the government gazette on September 1 2016, and are line with the FIA for collecting, requesting, receiving and analysing suspicious transaction reports.

A new section 35B was added to the Income Tax Act in respect of withholding tax on interest (WTI) paid to a non-resident.

> "2016 was a challenging macro story in Nigeria as the country formally slid into recession"
>
> **Akeem Oyewale, Stanbic IBTC Nigeria**

NIGERIA

UNWEIGHTED		
RANK		Score
1	Standard Bank	5.51

WEIGHTED		
RANK		Score
1	Standard Bank	6.54

There is a single central depositary in Nigeria for NSE (Nigerian Stock Exchange) and NASD (National Association of Securities Dealers OTC Exchange) trade instruments, the Central Securities Clearing System (CSCS). The Central Bank of Nigeria introduced a depositary system for government-issued securities in April 2014, the scripless securities settlement system (S4).

"2016 was a challenging macro story in Nigeria as the country formally slid into recession," said Akeem Oyewale, head of investor services at Stanbic IBTC, Nigeria. The foreign exchange situation was also "dire", as the country suffered from increased unmet foreign exchange demand by investors who sought to repatriate proceeds of investments sold and delayed divided/coupon remittances. The Naira was also officially devalued in the middle of the year as the CBN allowed the NGN to trade from N199 to N285 to the US dollar in June 2016.

Despite the significant macro headlwinds, Nigeria's economy is expected to recover, said Oyewale, with many experts predicted a 1% GDP growth and further spending on infrastructure by the government.

There were also positive changes in the market, according to Oyewale. The FMDQ OTC Exchange (the licensed OTC market operator), in conjunction with the CBN, introduced the Naira-settled OTC FX Futures, stretching out to one year.

The NSE also conveyed its desire to have a CPP. "This would facilitate derivatives trading in the market and also enhance the confidence levels in the Nigerian market," said Oyewale.

The plan to demutualise the market was deferred to 2017. A major announcement was also made regarding the potential listing of MTN Nigeria, the largest telecommunications operator in Nigeria, on the NSE. "Its listing would provide a major boost to the Nigerian bourse, which had been bereft of major listings for the last few years."

The Securities & Exchange Commission (SEC) continued in its drive to implement the recommendations of its 10-year masterplan. The Nigerian Sovereign Wealth Fund was involved in the setting up of the supra agency for Infrastructure Credit Guarantee, which would enhance credit ratings for transactions in the country.

OMAN

UNWEIGHTED		
RANK		Score
1	HSBC	5.29

WEIGHTED		
RANK		Score
1	HSBC	5.99

As an oil exporter, Oman has been hit by sharply lower oil prices in the last couple of years. Its budget deficit peaked at 22% in 2016 and is now heading in the right direction; it is projected to almost halve to 12% this year. In May it announced another $2bn Islamic bond issue to bridge the shortfall, adding to the $5bn it has already borrowed in 2017. Earlier issues were heavily oversubscribed.

The authorities are confident of a further improvement in the budget situation, having embarked on a programme of privitisation and public-private partnerships. It is also has a policy of reducing and rationalising spending generally. As a GCC state, it is also set to implement VAT of 5% from some point during 2018, although perhaps not meeting the January target.

These increases in taxes, combined with an increse in the corporation tax rate from 12% to 15%, has not yet harmed the economy but more appear to be planned and could combine to be a drag on activity. "Parliament's vote to raise corporate taxes in May 2016 is among the most significant financial developments in Oman in recent years. A low-tax environment is a key incentive to invest across the GCC, and the tension between drawing growth-promoting investment and maintaining state revenues has made such increases a contentious issue for decades," an Oxford Business Group report stated. "The ramifications will become apparent over the course of 2017, but the taxation debate looks unlikely to end there."

In common with many oil producing nations it is also seeking to diversify its economy. The IMF estimates that its oil revenue will fall by 2.5% this year but this is will more than be made up by the growth of non-oil activity.

PALESTINE

The World Federation of Exchanges (WFE) approved the full membership application made by the Palestine Exchange (PEX) in 2015 at its 56th AGM in Colombia in November 2016.

The FTSE Russell indices upgraded the Palestine Exchange (PEX) to frontier market status during its annual review.

The Bank of Palestine received a safe custody licence in 2014 from the Palestinian Capital Market Authority (PCMA) and in 2015 from PEX to perform safe custody for securities for local and foreign investors, according to Suleiman Nasr, head of investment and placements at the Bank of Palestine.

"PEX was fully automated upon establishment – the first fully-automated stock exchange in the Arab world and the only Arab exchange that is publicly traded and fully owned by the private sector," said Nasr.

The Bank of Jordan entered the market, starting to provide custody and clearing services in Palestine in May 2016. "After having obtained the custody license, the membership of the Clearing Depository and Settlement and completed a successful User Acceptance Testing on the custody system," said Mohammed Aburoub, executive manager of services at the Bank of Jordan.

QATAR

UNWEIGHTED		
RANK		Score
1	HSBC	5.52

WEIGHTED		
RANK		Score
1	HSBC	6.07

Since the MSCI upgrade to emerging status in 2014 sub-custodians agree that they have seen a significant uptick of activity and have witnessed a move towards more transparency and effective governance.

Continuous trading in rights shares has been permitted on the Qatar Stock Exchange since October 2016. Previously, rights shares were permitted as one-time sales and could not be traded further.

The first Qatar-based ETF is expected to be launched in the second quarter of 2017, according to Shreen Abeysekera, head of HSBC Securities Services, Qatar.

The stock exchange is considering the introduction of the CCP concept, covered short selling and Islamic structured products similar to futures and options. "The exchange is working with Sharia scholars to determine how to best structure these products," said Abeysekera.

The Qatar Central Securities Depositary (QCSD) introduced an ultimate beneficial owner disclosure requirement for account opening at the central depositary, effective December 4 2016 and focussed on upping AML and KYC standards.

Abeysekera said that HSBC is

currently working closely with the QCSD and Qatar Financial Markets Authority to simplify the process further by adopting international best practices. "One of the changes we hope to see in the near future is the introduction of bulk order execution. This will enable brokers to trade on behalf of multiple NINs (National Identification Number) through one single trading account and by end of day allocate the shares to clients' NINs."

HSBC also hopes to implement an "error trade correction window" to rectify error trades without impacting clients.

SAUDI ARABIA

UNWEIGHTED		
RANK		Score
1	HSBC	5.37

WEIGHTED		
RANK		Score
1	HSBC	5.84

Saudi Arabia's Tadawul stock market has switched to a two-day settlement cycle for equities, bonds, Reits and ETFs, effective at the end of April 2017. Trades were previously settled on the same day, or T+0.

The bourse had outlined the details of its T+2 settlement plans in January 2017 along with draft rules on covered short-selling and the borrowing and lending of securities, which also commenced in April.

Officials first announced the proposed changes in 2016 in a move to align its market model with international standards, attract foreign investors, improve trading efficiency and reduce risk.

The Saudi Stock Exchange had consulted on its T+2 and securities lending plans, ending on February 8 2017.

Securities Depository Center (SDC) acts as Saudi Arabia's CSD, performing securities settlement safekeeping and registry functions.

As a member of the GCC, Saudi has agreed to implement VAT of 5% from an unconfirmed point in 2018. An initial deadline of January was set but there is a 12-month window built into the agreement.

Saudi Arabia has been tapping the bond markets heavily in response to its budget deficit and shrinking foreign reserves. It set a new record for emerging or frontier market issuance in October 2016 when it attracted $67bn in investor bids for a $17.5bn issue.

SOUTH AFRICA

UNWEIGHTED		
RANK		Score
1	Standard Bank	5.86
2	RMB Custody and Trustee Services	5.35
3	Société Générale Securities Services	5.31
4	Standard Chartered	4.82

WEIGHTED		
RANK		Score
1	Standard Chartered	6.59
2	Société Générale Securities Services	5.72
3	Standard Bank	5.06
4	RMB Custody and Trustee Services	4.56

In 2016 the South African capital market saw a number of changes to infrastructure, operations, participation, rules and regulations, according to Rajesh Ramsundhar, head of investor services at Standard Bank South Africa.

The South African equities market shifted to a T+3 trading and settlement cycle on July 11 2016 and is now aligned with international best practice. Following this change, volumes have increased by around 3-5% and there is an improvement in liquidity. "Surprisingly though, settlement expectations and failures have been low and well below expectations of the market," said Ramsundhar.

2016 also saw a new strategic project introduced, replacing South African CSD Strate's UnexCor system. Strate launched the new system for the settlement of money market securities in April last year, beginning Strate's wider plan to replace its IT infrastructure for all asset classes.

Strate is also progressing towards the introduction of a Debt Instrument Solutions (DIS) project, which is to manage the implementation of its new bond system for the clearing, settlement and asset servicing of debt instruments, said Andy Osborne, global head of network management at Northern Trust. This will subsequently result in the migration of bond securities onto the TCS BaNCS MI platform will be carried out during 2017.

In addition to replacing Strate's core custody and settlement system for bonds, the DIS project will also introduce a new settlement model for bonds. "The initiative is aimed at creating efficiency and reducing risk for bond settlement and will be a welcome development for foreign investors," said Osborne.

Phase one of the project is to replace the technology coupled with the introduction of a new settlement model and an AS-IS account structure. Phase two involves the migration from the AS-IS account structure to a more transparent securities holding and ownership model.

Ramsundhar said that Standard Bank is in the process of migrating clients to its new online platform for custody services and investor services online.

The South African capital market saw the emergence of a number of new stock exchange licence applications during 2016, including ZAR X and four African exchanges, which were officially licensed by the Financial Services Board (FSB).

The Johannesburg Stock Exchange (JSE)'s Integrated Trading and Clearing initiative (ITaC) is a multi-year programme of work focused on the introduction of an integrated solution for the JSE's trading and clearing services. "The project is making good headway and is expected for delivery in Q1 2018," said Ramsundhar.

ITaC will implement multi-product solutions to enhance the JSE's current trading and clearing functions by migrating all derivatives and cash bond markets into the Millennium IT trading platform. Clearing members will be allowed to hold securities as collateral of up to 20% of their margin requirements, freeing up their cash for other uses and resulting in greater utilisation of Strate's collateral solution.

Granite (an alternate Bond CSD) has a conditional license and is currently engaging with Strate to work on interoperability, said Ramsundhar.

South Africa increased the capital gains tax and introduced a Special Voluntary Disclose Programme for tax and exchange controls in 2016.

› SWAZILAND

UNWEIGHTED

RANK		Score
1	Standard Bank	4.65

WEIGHTED

RANK		Score
1	Standard Bank	5.45

The Capital Markets Association (CMA) was formed in December 2016, comprising of trustees, custodians, investment advisors, brokers and asset managers. "It will be instrumental in the identification and resolution of issues within the market," said Lindiwe Manana, head of investor services Swaziland at Standard Bank.

A review of both the listing requirements and the Swaziland Stock Exchange (SSX) Rule Book is underway. Amendments have been drafted and submitted by SSX for approval by the Financial Services Regulatory Authority (FSRA).

The SSX has also advised the industry on its intention to launch of an automated trading system (ATS). Manana said that the implementation is delayed due to issues with the "mobile trading platform integration" but added "the change is expected to give improved efficiency and accuracy, as well as increased activity".

Manana said that there has however been development in the local market and particularly in terms of investments from local institutions. The formation of the FSRA has seen an increase in the adherence of the

30% local market investment requirement for insurance and retirement funds. The FCA has intimated a 50% increase by the end of 2017.

The Central Bank of Swaziland has implemented phase 1 of its CSD, which has resulted in the dematerialisation and creation of an electronic register and transfer system for government securities.

TANZANIA

UNWEIGHTED		
RANK		Score
1	Standard Bank	5.64
2	Standard Chartered	4.50

WEIGHTED		
RANK		Score
1	Standard Bank	5.00
2	Standard Chartered	4.96

> Tanzanian capital markets have gone through notable developments over the last few years
>
> **Avith Massawe, Standard Bank Tanzania**

"Tanzanian capital markets have gone through notable developments over the last few years," said Avith Massawe, head of investor services at Standard Bank Tanzania.

One of these was the removal of foreign ownership limits on equities and corporate bonds listed on the Dar es Salaam Stock Exchange from the previous cap at 60%. It has also seen partial removal of limits on participation in government debt trading by foreign investors, allowing residents from East Africa to participate up to 40% of the total issuance.

The Dar es Salaam Stock Exchange (DSE) was demutualised and self-listed in 2016, in order to "enhance its financial and operational capacity, corporate governance, increase access to efficiently priced funds to finance the exchange's growth and capital markets development in the country," said Massawe. Investment is being make in trading technology and the introduction of new products and services.

In December 2016, the DSE revised the settlement guidelines for equities and corporate bonds following their inclusion of custodian banks as settlement participants for foreign investors and local institutional investors, effective April 2017. "With the new settlement guidelines, the risk faced on the sale side, where securities were transferred to the brokers' trading account prior to trade date, has been addressed," said Massawe.

The initiative has also reduced the time difference between movement of cash and securities to five minutes. This is a "major step towards achieving true DVP", according to Massawe.

However, an adverse requirement to pre-advise on sale transactions was also introduced.

Up until early 2016, the pension industry was governed, regulated and serviced by the Social Securities Regulatory Authority (SSRA). The tabling of administrative guidelines on management of segregated schemes would open the industry to entry by intermediary participants such as administrators and custodians; this is expected H1 2017.

TUNISIA

UNWEIGHTED		
RANK		Score
1	Société Générale Securities Services	5.43

WEIGHTED		
RANK		Score
1	Société Générale Securities Services	6.39

The sole depositary is Tunisie Clearing, responsible for safekeeping and clearing its electronic book-entry system. All securities are dematerialised at the Tunisie Clearing; however, it does not act as a central registrar.

The Tunis Stock Exchange (TSE), "Bourse des Valeurs Mobilieres de Tunis" (BVMT), signed a new agreement with Euronext, which will provide electronic trading technology through its multi-market and multi-asset platform of Optiq by January 2018. It manages the cash and derivatives markets.

TSE is also planning to implement a certified quality management system ISO 9001. An RFP has been published by the CSD for the acquisition of a new system with better STP capabilities. It should be operational by 2018, according to Wagih Gacem, Societe Generale's head of Tunisia: "The provider has been chosen and will be disclosed in the coming weeks."

Decree number 2017-393 of March 28 2017, states that a non-resident person or entity is allowed to sell securities to a non-resident person or entity versus an abroad payment. This applies to OTC trades where CSD, CBT and TSE are not involved.

The 50% foreign ownership limit was removed by the new investment law, effective September 30 2016.

A new general regulation governing the Tunisian CSD was approved in early 2016, which includes participant requirements and conventions, mandatory monthly reconciliation custodian records, and the setting of an audit committee within the CSD.

Three projects have been submitted by the Tunisian regulator, CMF, for public consultation and have been approved. These are: insider trading, (approved March 2017); brokers (approved January 2017); professional cards to access the CSD secured platform (approved November 2016).

The CMF is yet to give final approval to the extension of market trading hours to between 8.30am and 3.40pm, from 9am to 2.05pm, and the extension of the maximum variation range from 6.09% to 9%.

March 2017 also saw a memorandum of understanding signed between the TSE and Nasdaq Dubai, as well as a cooperation convention signed between the CMF and the financial authority of Qatar.

UGANDA

UNWEIGHTED		
RANK		Score
1	Standard Bank	5.37
2	Standard Chartered	4.75

WEIGHTED		
RANK		Score
1	Standard Chartered	5.29
2	Standard Bank	4.06

The main driver of custody business in 2016 was the high level of activity in fixed income, particularly government securities, said Andrew Omiel, head of investor services at Stanbic Bank Uganda. "These continue to be very attractive securities in the Ugandan market into 2017," said Omiel. "This fact is attributable to the prevailing macroeconomic fundamentals, which have led to fairly high yields for government securities and also the desire for capital preservation."

With regards to the equities market, the Uganda Securities Exchange (USE) All Share Index (ALSI) showed a marginally declining trend in 2016, especially in the second half of the year due to the subdued activity at the bourse and effect of the cross-listed stocks from the Nairobi Stock Exchange (NSE), which lost significant value.

Omiel added: "However, the outlook is positive as the USE tries to attract more products, including new listings, especially for the alternative market segment, for 2017 and beyond."

USE is in advanced discussions with the central bank, Bank of Uganda, to start trading in treasury bonds. Currently treasury bonds, although listed at USE, are traded OTC through primary dealers.

"The trading of treasury bonds at the USE will increase activity at the bourse and also allow the investors full benefits of price discovery and competitive pricing by the traders," said Omiel.

Other USE initiatives in 2017 include the linking of the CSD with the national payment system (RTGF) to allow "true DVP settlement," facilitated by Bank of Uganda, rather than using commercial banks at settlement banks, expected H2, 2017. There are also plans to dematerialise all securities listed at USE by the second half of 2017 and also to demutualise the exchange, and eventually list the USE on the bourse.

UNITED ARAB EMIRATES

UNWEIGHTED		
RANK		Score
1	HSBC	5.64

WEIGHTED		
RANK		Score
1	HSBC	5.93

Over the last year, UAE witnessed several significant announcements and measures to enhance the regulatory framework and modernise the markets. The UAE regulator, Securities and Commodities Authority (SCA), has an ambitious five-year plan to elevate the UAE stock market to a developed market status by 2020.

The plan was co-developed with Dubai Financial Market (DFM) and the Abu Dhabi Securities Exchange (ADX) and included measures to meet MSCI requirements, including the transfer of the governance role currently undertaken by the SCA to the UAE-based exchanges, so that the exchanges become "self-governing."

Another initiatives are the issuance of derivatives and options for providing liquidity, developing the technological infrastructure related to disclosures and general electronic services, and introducing a CCP.

As per the new CCP regulation, clearing functions will be performed by a company legally segregated from the financial markets and will operate under a license granted by the SCA. The specialised CCP clearing entity is expected to ring-fence the risks associated with the clearing and settlement of trades, enhance

collateral efficiency, increase liquidity and create a settlement default fund.

The long-awaited new insolvency law came into effect on December 29 2016, which modernises bankruptcy regulations and allows troubled business owners to reschedule debt, said Georges Cattan, head of HSBC Securities Services UAE.

The DFM and ADX are both enhancing their systems and have introduced several measures, including allocation accounts and appointing Central Bank of the UAE as their settlement bank.

The UAE is an investor ID market, requiring investors to obtain an investor number (NIN) from the exchanges prior to initiating trading. Investors are only allowed to keep assets under one NIN with a specific local sub-custodian.

This has been perceived by many investors as restrictive for various reasons including the inability to appoint a contingent service provider in line with AIFMD and Ucits V regulations, the inability to support certain Islamic structures and repo transactions, according to Standard

Chartered Bank.

However, the regulator approved an amendment in Q3 2016 to cater to different scenarios by allowing investors to open multiple sub-NINs under different custodians.

Local depositaries are making changes to their systems to implement this arrangement, which is likely to be completed by the end-2017. Global custodians (and their underlying investors) could then keep their assets with multiple sub-custodians if they so wished.

ZAMBIA

UNWEIGHTED

RANK		Score
1	Standard Bank	5.17
2	Standard Chartered	4.89

WEIGHTED

RANK		Score
1	Standard Bank	5.99
2	Standard Chartered	5.45

The major driver of the custody business in 2016 was the strong activity in the fixed income market, specifically government securities towards the end of the year. "Government bonds will continue to be very attractive securities in the Zambian market," said Chenge Besa-Mwenechanya, head of investor services at Stanbic Bank Zambia. "This is attributable to the prevailing macro-economic fundamentals, which have led to high yields for government securities."

Looking ahead, the government has indicated the need to scale down its expansionary fiscal policy and coordinate fiscal and monetary policy. "This will likely put downward pressure on borrowing costs, in turn warranting further monetary policy easing, enhancing access to credit and increasing investor confidence," said Besa-Mwenechanya.

The project to separate the CSD from the exchange is still underway, as well as the process to link the Bank of Zambia CSD to the Lusaka Stock Exchange CSD. Both of these have reached advanced stages. The long-awaited new SEC Act was finalised and signed off at the end of 2016, regulating the CSD, tackling inefficiency and enhancing investor protection.

"Given prevailing global conditions for economic growth and domestic challenges, GDP growth is projected by the World Bank to improve to 4% in 2017 and 4.2% in 2018," said Besa-Mwenechanya. "This is assuming significant strides in the economic recovery programme, improved electricity generation, implementation of an IMF programme and higher copper exports."

ZIMBABWE

UNWEIGHTED

RANK		Score
1	Standard Bank	5.21

WEIGHTED

RANK		Score
1	Standard Bank	4.73

The Zimbabwean economy has been under huge pressure in the past 12 months due to foreign currency shortages.

Chengetedzai Depository Company (CDC), the central securities depository for Zimbabwe and the Reserve Bank of Zimbabwe (RBZ), changed the settlement process from BIS DVP model one to DVP model two.

Settlement is now occurring using central bank rather than commercial bank money. The new process has banks funding net cash positions and securities positions settling on a gross basis. RBZ now oversees the regulation of the cash settlement with the Securities and Exchange Commission while retaining supervision of the securities leg of the process.

At some point in 2017, the settlement cycle is to shorten from T+5 to T+3. The market will also explore the possibility of migrating from DVP model two to DVP model three. DVP three will see settlement happening on a net basis for both securities and cash.

The Zimbabwe Stock Exchange is currently working on a process to introduce the trading of fixed income instruments on the bourse. The listing of corporate bonds and government debt will provide the domestic market with a secure mechanism for trading and settling fixed income instruments.

"For instruments issued in Zimbabwe, an improved settlement mechanism should attract more investors, both foreign and local, which is positive for the economy," said Takunda Magumise, head of investor services at Stanbic Bank Zimbabwe. The foreign currency shortages have had an impact on firms that are dependent on importing raw materials and trading stock. "This, together with the increased selling pressure, will have an adverse impact on the bourse in 2017."

Contrarians believe that local investors will seek to switch their positions from money markets to the capital market in order to hedge against a possibility of a weaker currency such as the rand being adopted.