Asia's CSD: Future and Challenges

September 10, 2015

Dr. Jaehoon YOO
Chairman & CEO
Korea Securities Depository

Agenda

- Evolution of CSD Business Model
- KSD in the Korean Market
- Promoting Regional Market Integration
- The Way Forward

Evolution of CSD Business Model

Business Model

- ✓ **Conventional Service** Post-trade services for on-exchange transactions
- ✓ **Advanced Service** Comprehensive services for capital market transactions
- ✓ **Global Service** International central securities depository (ICSD)
  - Post-trade services for on-exchange and off-exchange transactions, plus focusing on optimizing securities holdings and asset Services

Place of Trades		Euroclear (ICSD)	Clearstream (ICSD)	DTCC (US)	Japan (JASDEC)	China (CSDC)	KSD
On-Exchange	Equity, Bond, Fund	●	●	●	●	●	●
Off-Exchange	Equity, Bond, Fund	●	●	●	●	●	●
	Derivatives	●	●	●	○	○	●
	Lending and Borrowing	●	●	○	○	○	●
	Repo	●	●	●	○	○	●
	Collateral	●	●	●	○	○	●
	Insurance	○	○	●	○	○	○
Global Trade		●	●	○	○	●	●

Evolution of CSD Business Model

CSDs in Asia: Varying Degrees of Business Sophistication

- ✓ **Safety and Efficiency in Safekeeping and Settlement**
- ✓ **Effective Optimization of Deposited Securities**
- ✓ **Diversity of Services**

Scope of Business		China (CSDC)	Japan (JASDEC)	India (NSDL)	Singapore (CDP)	Korea (KSD)
Issuance		●	●	●	○	●
Safekeeping		-	-	-	●	●
Settlement		●	●	●	●	●
Optimizing Securities Holdings	Intermediary of SLB	○	○	●	○	●
	Collateral Mgt. for SLB	○	○	●	○	●
	Settlement of Repo	○	○	○	○	●
	Collateral Mgt. for Derivatives, etc.	○	○	○	○	●
Supporting Fund Industry	Subscription & Redemption	●	●	●	○	●
	Portfolio Assets Mgt.	○	○	○	○	●

KSD in the Korean Market

Korea Securities Depository is . . .

More than a CSD



KSD

More than an Exchange



KSD in the Korean Market

Plan for Restructuring KSD's Ownership

✓ On July 7: the FSC announced a plan for reducing KRX's stake (70.4%) in KSD to less than 50%, pending its conversion into a holding company and subsequent IPO

KSD will be a separate entity from the KRX holding company structure

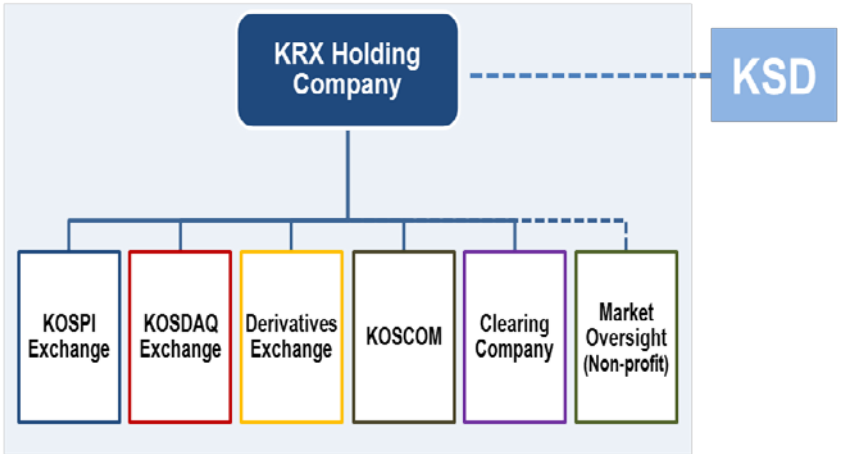
① Resolve corporate governance issues with KRX holding company

- **Redistribute KRX stake in KSD to users**
  - ✓ Reduction of KRX's majority stake in KSD
  - ✓ User-oriented ownership structure

② Maintain public control over KSD

- **Maintain public function of KSD and prevent conflict of interest**
  - ✓ FSC approval of KSD's Articles of Incorporation and business regulations
  - ✓ Review of KSD's fees

KRX Holding Company Structure



KSD in the Korean Market

KSD in Deepening the Korean Market

✓ Developing a More Advanced Primary Market

- DR depositary/custodian for DR underlying shares for cross-border listing
- Transfer of shareholder's name, plus corporate actions support (Shadow Voting)
- Bond Trustee Services for corporate bonds issuers
- Supporting crowdfunding for ventures and start-ups (*in progress*)

✓ Cost Efficiency in Secondary Market

- Settlement of exchange trades as well as OTC trades (equity, bonds, funds, etc.)
- Central counterparty (CCP) for institutional investor settlement

✓ Enhancing Safety & Security

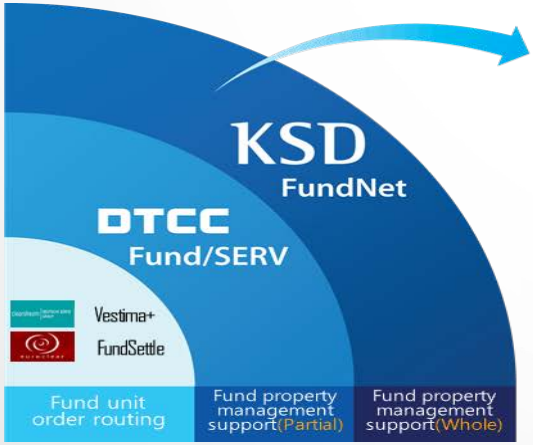
- Local operating unit (LOU) for allocation of legal entity identifiers (LEI)
- Central data registry for crowdfunding

KSD in the Korean Market

KSD Value-added Services: Providing New Services

✓ **FundNet Service** Single platform for fund settlement in Korea





Regulation/Policy change

- Distribution company transfer(2010)
- Hedge fund service (2011)
- Centralized fund report management(2012)
- Managed asset platform (2013)

Market demand

- Support for discretionary investment(2007)
- Fund portfolio matching (2011)
- Link to Euroclear Bank (Off-shore fund service, 2012)

Globalization

- Linkage to Omgeo (2009)
- Support for foreign fund commissioned Investment (2009)

KSD in the Korean Market

KSD Value-added Services: Providing New Services

- ✓ Securities Information Portal: SEIBro
- ✓ Electronic Voting Platform: K-evote
- ✓ Single Platform Facilitating Automatic Processing of All Back-office Operations Related to Corporate Pensions: PensionClear
- ✓ LEI Management Service: LEI-K
- ✓ Platform for Electronic Short-term Bond
- ✓ Gold Safekeeping, Settlement of Exchange Traded Gold







Promoting Regional Market Integration

Initiatives for Regional Market Integration

✓ Bond Market Initiatives

- Asia Bond Market Initiative (ABMI)
- ASEAN+3 Bond Market Forum (ABMF)
- Cross-border Settlement Infrastructure Forum (CSIF)

✓ Fund Market Initiatives

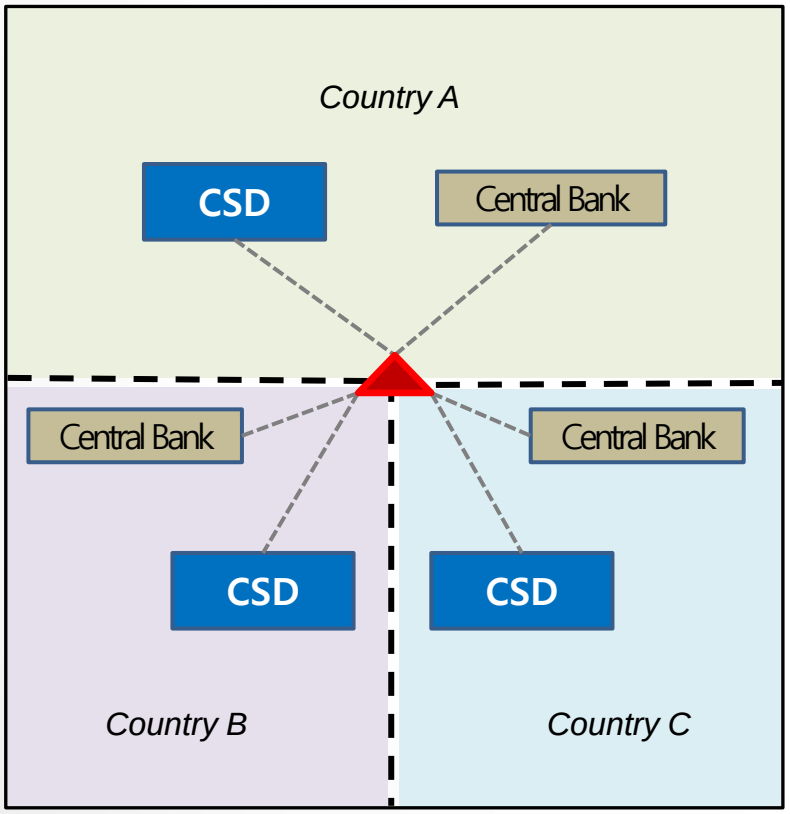
- ASEAN CIS
- Asia Region Fund Passport
- Asia Fund Standardization Forum (AFSF)

✓ Offshore RMB Market Development

- Shanghai-HK Stock Connect
- Shenzhen-HK Stock Connect

Promoting Regional Market Integration

CSD-RTGS Linkage for Cross-border Settlement

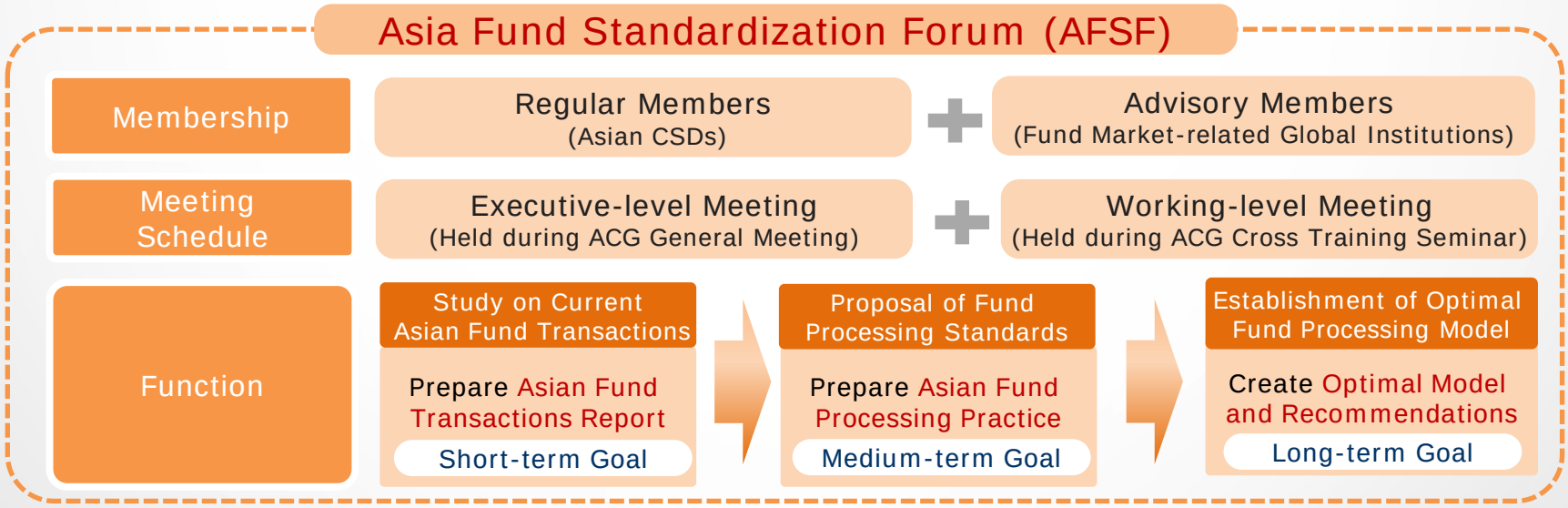


Type
• CSD-CSD Linkage for securities settlement • CSD-RTGS Linkage for cross-currency DVP • RTGS-RTGS Linkage for PVP
KSD Involvement
• Joint Study on KSD-CCDC Linkage (2015) - Benchmark Model for CSD-CSD Linkage

Promoting Regional Market Integration

Asia Fund Standardization Forum (AFSF)

- ✓ Asia CSDs' discussion on "Back-office standardization" of fund processing initiated by KSD (18th ACG General Meeting in Xi'an, 18 Oct. 2014)
- ✓ Initiative for development of optimal fund processing model
- ✓ To be launched in November 2015 with 12 Asian CSDs at the 19th ACG General Meeting in Taipei



Promoting Regional Market Integration

KSD's RMB Market Business

- ✓ Establishing DVP settlement system for RMB denominated bonds transactions
- ✓ Supporting RMB denominated CDs and bonds issuance by registration
- ✓ Providing settlement service for Shanghai-HK Stock Connect transactions

The Way Forward

Business in non-capital market segments

- ✓ Expand CSD business beyond traditional areas to develop new services e.g. Individual Savings Account (ISA)

Power of platform business model

- ✓ Maximize business potential based on existing CSD platform

Seek Creating Shared Value (CSV)

- ✓ Contribute to capital market efficiency while developing a new revenue base

Regional Standardization & Harmonization

- ✓ Proactively participate in regional efforts towards standardization and harmonization to enhance regional markets and improve cross-border connectivity

Thank You

Jaehoon YOO (ceo@ksd.or.kr)