

# Global Market Structure

## Asia Pacific Newsletter

### Special Edition - Issue 41, 2016

*Passion to Perform*



2016  
Year  
of the  
Monkey





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# Issue 41, 2016

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### Editor

Jessica Morrison, Head of APAC Market Structure  
jessica.morrison@db.com

### Quantitative Content

Winnie Khattar, Head of APAC Analytics  
winnie.khattar@db.com

### Contributors

Kirsten Yam, Nithin Nath, Shailendra Kumar, Gyanendra Agrawal, Amy-ZW Zhang, Wesley Wise

# APAC and ASEAN Summary

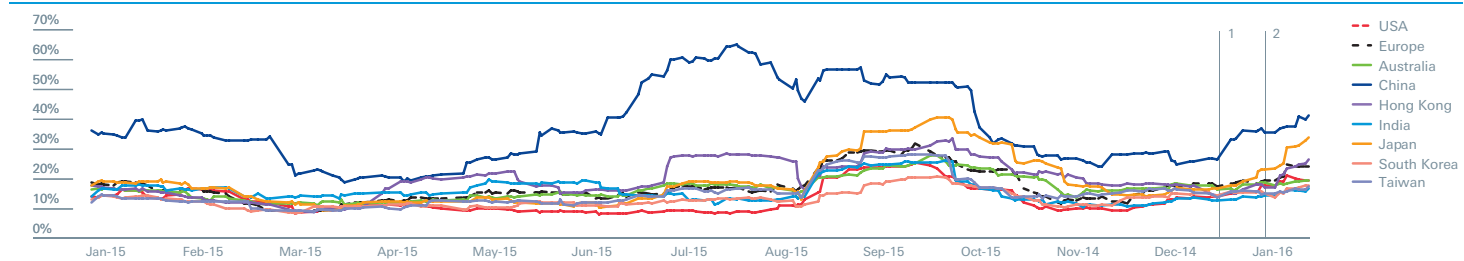
Welcome to 2015-16 Special Edition Newsletter which provides a summary of APAC macro and micro market structure developments in 2015, and a forward looking 2016 review.

2015 was a tumultuous year with China market seeing a 47% rise to the peak of 12th June followed by a fall of 43% within 12 weeks. Reforms were a combination of required evolution with the new Margin Trading and Stock Borrow Lending rules and SDR inclusion being the most prominent example - to more reactionary such as the reduction of new positions in the CSI300 to 10 lots. China continues the opening measures in 2016 by relaxing the QFII rules, and new CSRC chief Liu has confirmed Shenzhen Connect must go forward this year with IPO reform, new listing and delisting rules and the potential introduction of electronic trading ("Program Trading") rules.

In Hong Kong, the Connect programme is seeing buying from mainland investors. Per Ashley Alder, SFC CEO, Connect has changed the character of HK and an investor level ID system is likely to come. South Korea in comparison is moving away from IDs as it looks to attain MSCI DM status. Blockchain, cyber security are focus points for ASX and TSE, after ASX bought stake in a company and TSE starts testing Blockchain. Japan is also looking into electronic trading, sending questionnaires to brokers around HFT, pre trade controls and dark pools. It is likely the market will see some new rules in this area. India continues to consider off shore tax routes with GAAR implementation coming in 2017. We may see the listing of NSE, BSE as well as KRX.

We look forward to working with you in 2016, any further thoughts or questions, please do get in touch.

Fig 1: APAC Volatility (30 day index return volatility)



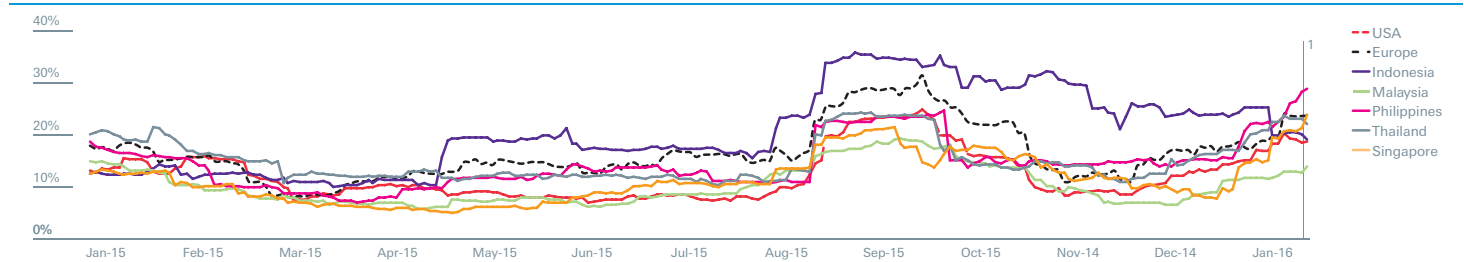
Source: Thomson Reuters

APAC Volatility	Jan-15	Jan-16	YoY%
Australia	18%	16%	12%
China	37%	36%	1%
Hong Kong	19%	16%	22%
India	14%	17%	-14%
Japan	24%	19%	31%
South Korea	15%	13%	16%
Taiwan	15%	13%	18%

1. New year started with very volatile markets in China as index hit its newly created index circuit breaker twice in one week, by dropping over 7%. The circuit breaker mechanism has since been removed.

2. Japanese Yen has been the most volatile currency in the past 6 months, fuelling the impact to equities markets as well. Japan benchmark index futures turnover surpassed all of APAC markets for the first time since last year.

Fig 2: ASEAN Volatility (30 day index return volatility)

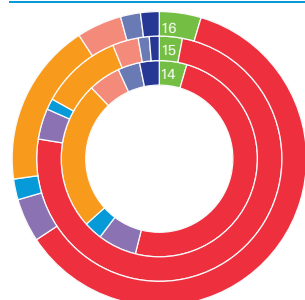


Source: Thomson Reuters

ASEAN Volatility	Jan-15	Jan-16	YoY%
Thailand	21%	20%	3%
Singapore	17%	13%	29%
Malaysia	12%	14%	-9%
Indonesia	23%	13%	72%
Philippines	22%	17%	32%

1. In 2015 FDI investments in the ASEAN region accounted for 24% of total trading in the region, this has been steadily on increase since 2008 and ASEAN markets now put together is 7th largest in the world.

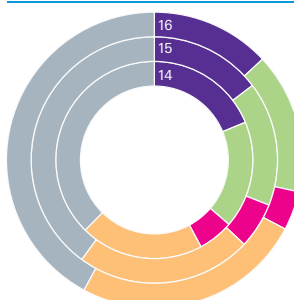
Fig 3: APAC Market Share Distribution



	2014	2015	2016
Australia	5%	3%	5%
China	49%	75%	61%
Hong Kong	6%	4%	5%
India	3%	1%	2%
Japan	24%	11%	18%
South Korea	5%	3%	5%
Taiwan	4%	1%	2%
ASEAN	3%	1%	2%

Source: Thomson Reuters

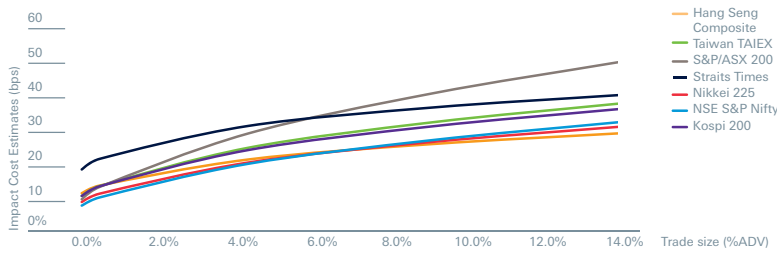
Fig 4: ASEAN Market Share Distribution



	2014	2015	2016
Indonesia	19%	15%	13%
Malaysia	18%	16%	15%
Philippines	6%	6%	4%
Singapore	20%	23%	25%
Thailand	38%	40%	42%

Source: Thomson Reuters

Fig.5 Impact Cost Estimate



Source: Thomson Reuters

Fig.5a Impact cost trend by time (5% ADV order size)

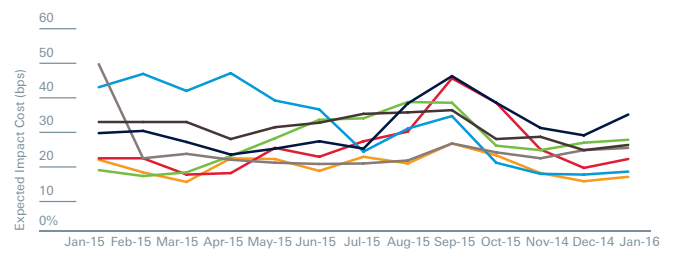
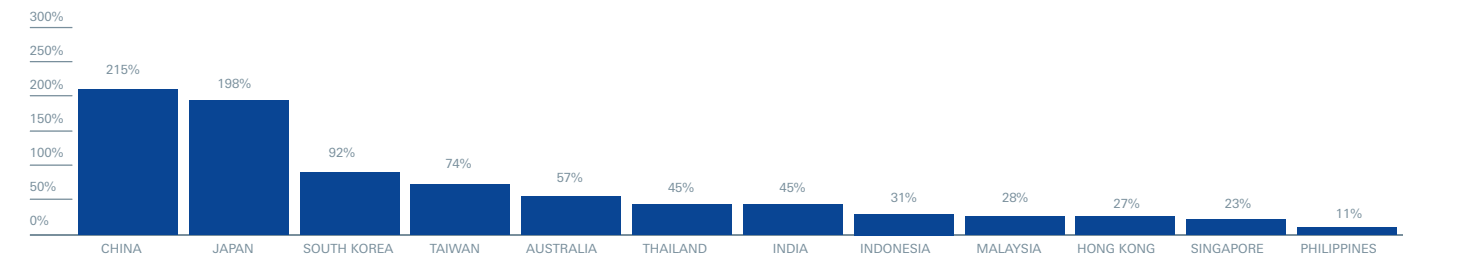


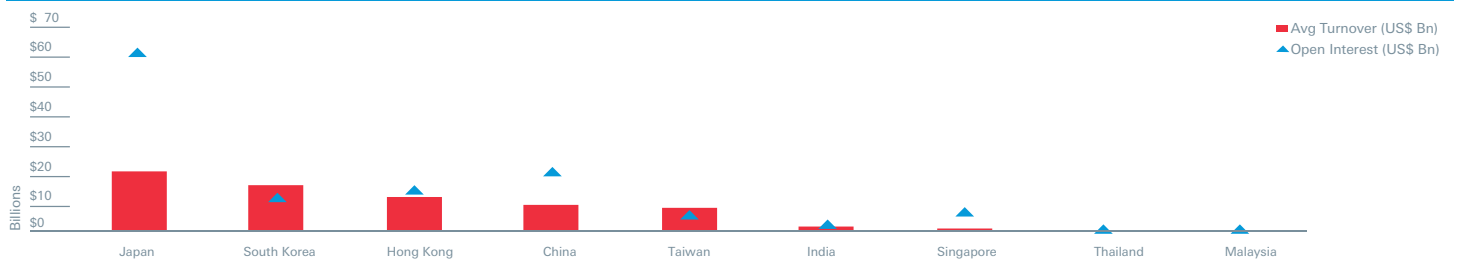
Fig.6 Turnover Velocity



Source: Thomson Reuters

Fig 6. Turnover velocity in China has come close to Japan, as volatility in China subsides and trading volumes once again pick up in Japan

Fig.7 Primary Futures Turnover vs Open Interest



Source: Thomson Reuters

Fig.8 APAC Market Microstructure Matrix

Country	% APAC Market Share	Turnover Velocity	Primary/ATS Market Share	Expected Arrival Cost 5% ADV Order Size (BPS)	MTD Index Return	YTD Index Return	Avg Spread (BPS)	Avg Trade size	20D Avg. Volatility	Avg. Daily Equity Volume (Mn USD)	Avg. Daily Futures Volume (Mn USD)	Avg. Daily ETF Volume (Mn USD)
CHINA	61%	198%	100%	-	-15%	-15%	12	6,203	30%	81,756	10,978	149
JAPAN	18%	215%	95%	19.9	-6%	-5%	29	1,319	20%	25,384	20,699	220
SOUTH KOREA	5%	92%	100%	23.6	-7%	-1%	21	65	13%	6,601	15,838	85
HONG KONG	5%	31%	99%	20.8	-12%	-8%	14	5,703	19%	6,394	15,674	127
AUSTRALIA	5%	57%	84%	28.6	-3%	-5%	13	744	17%	6,455	5,790	23
INDIA	2%	45%	100%	19.5	-6%	-5%	7	115	12%	3,053	2,752	5
TAIWAN	2%	74%	100%	24.3	-5%	0%	52	3,814	15%	2,794	9,674	53
THAILAND	1%	45%	100%	-	-10%	4%	45	10,833	16%	1,155	2,495	0
SINGAPORE	1%	28%	100%	30.9	-12%	-7%	20	2,359	25%	691	626	2
MALAYSIA	0%	27%	100%	-	0%	1%	20	2,624	10%	445	294	0
INDONESIA	0%	23%	100%	-	5%	2%	20	6,891	25%	358	15	0
PHILIPPINES	0%	11%	100%	-	-7%	-2%	17	5,405	18%	117	-	1

Source: Thomson Reuters

Contact

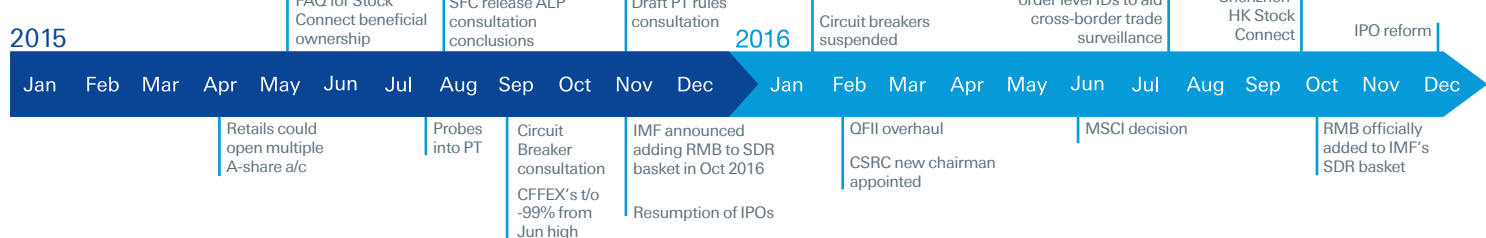
Email: [global.marketstructure@list.db.com](mailto:global.marketstructure@list.db.com)  
 Tel: +852 2203 5710

# Timeline Summaries

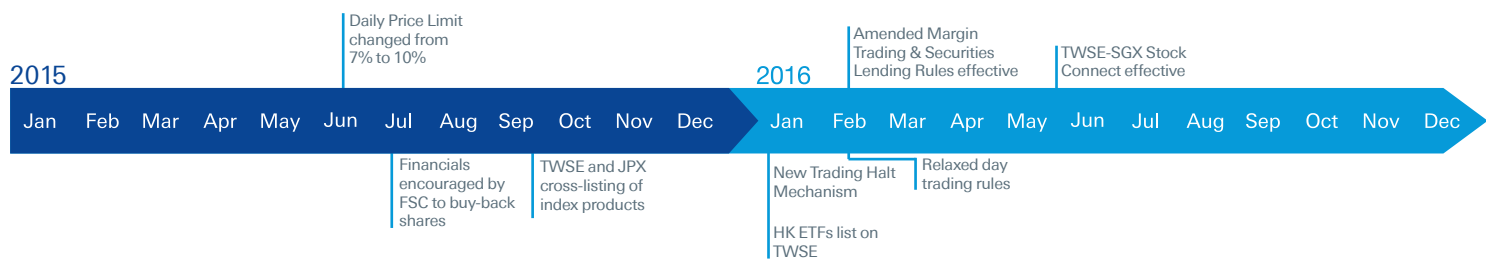
## Hong Kong



## China



## Taiwan



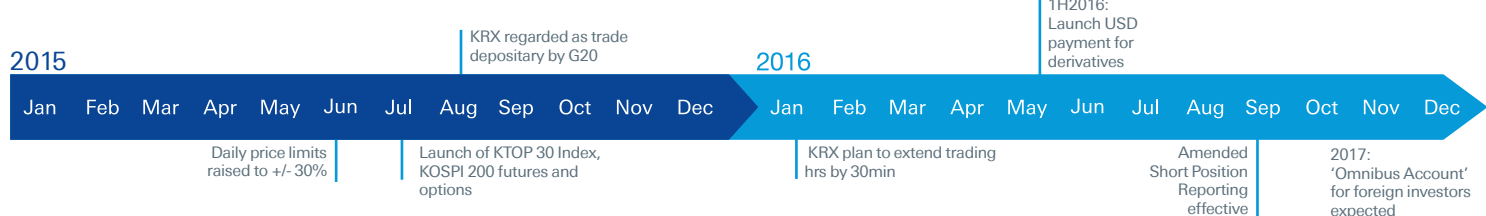
## Japan



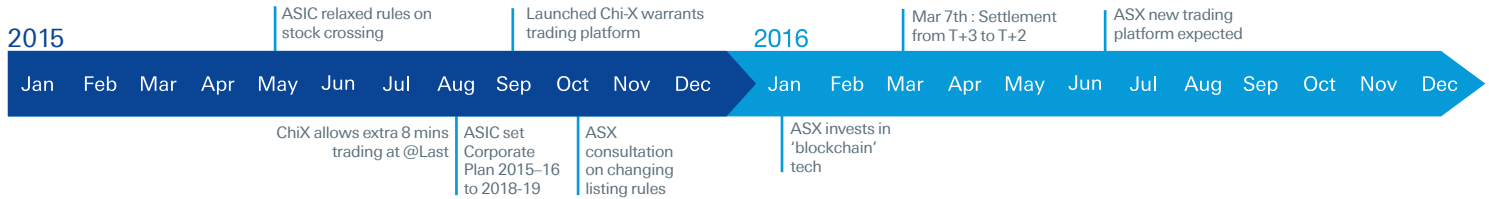
## India



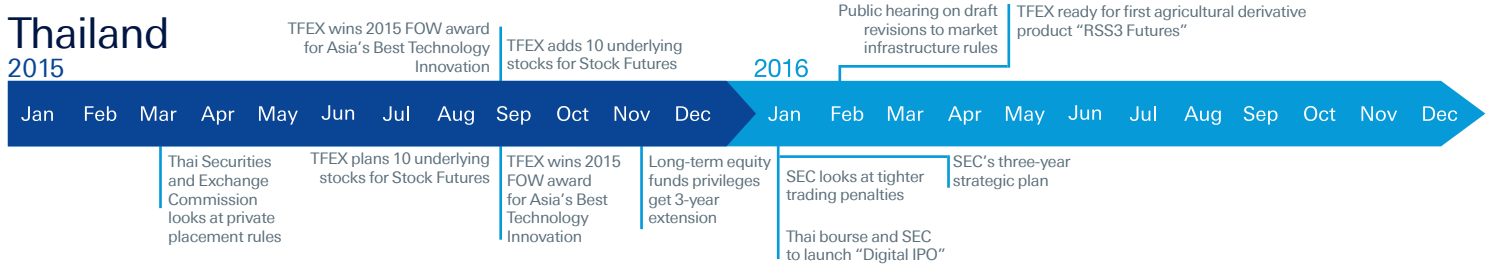
## South Korea



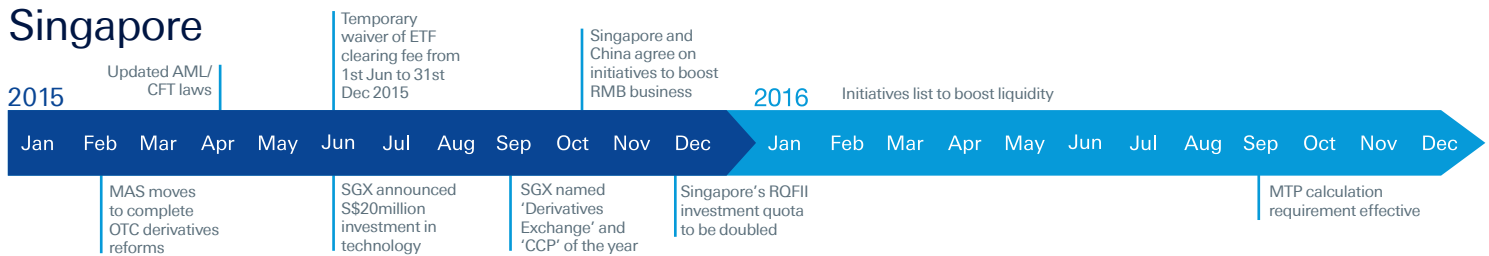
## Australia



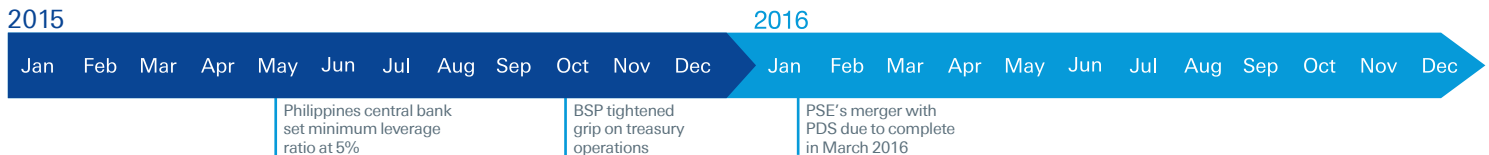
## Thailand



## Singapore



## Philippines



## Indonesia



## Malaysia





## Hong Kong

### 2016 Market Structure

#### SFC plans to introduce identification system at investor level for better surveillance of trading misconduct

Bloomberg reported on 9th March that the SFC is looking to develop ID at investor level and will seek consultation on the plan prior to implementation. This aligns with the speech given by Ashley Alder, CEO of the SFC, last October at the 6th Pan-Asian Regulatory Summit where he said that the regulator was examining the feasibility of client-level identification. According to Bloomberg, Keith Lui, an Executive Director for Market Supervision of the SFC said

“Under the proposal, the watchdog will assign an identity record to each investor trading in the market. Unless the SFC can access client-level information, we are skimming on the surface,” he said. Liu declined to comment on the timing of the planned consultation.

Reactions in the Hong Kong industry so far are mixed. Jeffrey Chan, a founding partner at Oriental Patron Financial Group in Hong Kong and also a Director at Hong Kong Securities Association, said the industry has few concerns. Among the worries are additional costs incurred for brokerages and potential information leaks about client trading strategies. On the other hand, David Webb, a shareholder activist and also a member of the SFC’s Takeovers and Mergers panel, said this may give the SFC too much unpublished information about market participants.

For some markets, having IDs at investor level is not new, especially investors for China who need to comply with the ID regime. At a global level there is a trend towards introducing identifiers. SFC is developing policies and data protection measures for the new ID system. No disclosure about the timing of consultation yet.

To read the full Bloomberg story click here:

[http://www.bloomberg.com/news/articles/2016-03-08/hong-kong-plans-to-uncloak-investors-with-new-see-through-system+](http://www.bloomberg.com/news/articles/2016-03-08/hong-kong-plans-to-uncloak-investors-with-new-see-through-system)

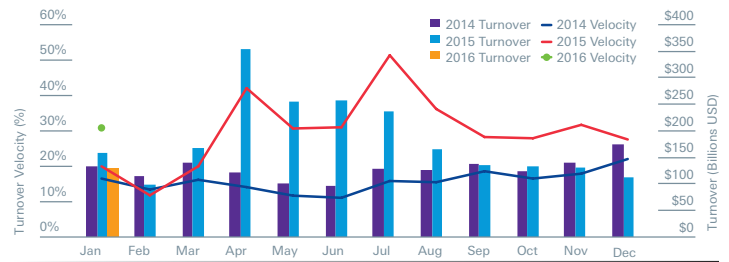
#### Amended Professional Investor Regime and Client Agreement Requirements will come into force in March 2016 and June 2017 respectively

On 25th September 2014, the Securities and Futures Commission (“SFC”) issued “Consultation Conclusions on the Proposed Amendments to the Professional Investor Regime and Further Consultation on the Client Agreement Requirements” (“PI Regime Conclusion Paper”) following public consultation in 2013. The paper sought to address concerns that although PIs may have significant assets, by making private placements exempt from disclosures the investors may not have sufficient information to assess the risk of the transaction, the suitability of such placements and any changes that should be made to client agreements.

To access SFC’s PI Regime Conclusion Paper (25th September 2014) please click:

<https://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=14PR113>

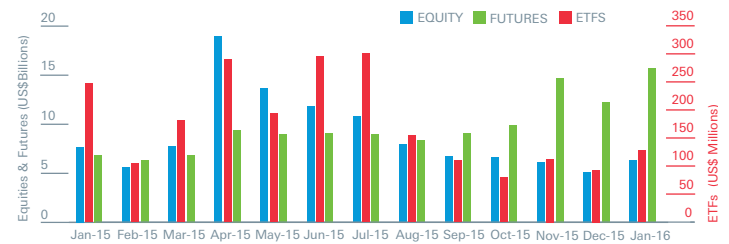
Fig 1: Turnover Velocity



Source: Thomson Reuters

Fig 1. Turnover velocity in Hong Kong on average for the year 2015 was 93% higher compared to year before. January 2016 has also kicked off with higher than average turnover velocity of 30%.

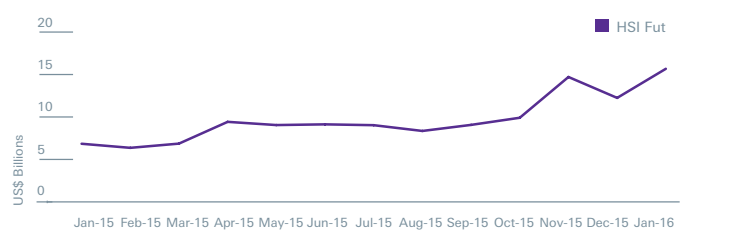
Fig 2: Equities(Cash), Futures and ETFs Monthly ADV



Source: Thomson Reuters

Fig 2. Equities turnover year on year in January 2016 is down, but 2015 overall was the year of largest turnover in Hong Kong equities since 2010.

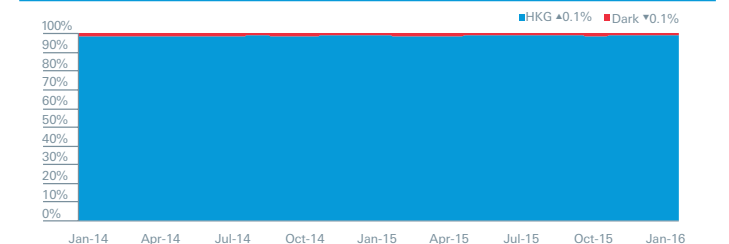
Fig 3: YoY futures average daily turnover



Source: Thomson Reuters

Fig 3. Futures volumes in Hong Kong have seen a steady growth rate through 2015 and in January as volatility picked up, futures trading volumes rose further sharply. Up 125% YoY January.

Fig 4: Lit versus Dark Market Share



Source: Thomson Reuters

Fig 4 New ALP rules that were implemented in December last year have not had significant impact to dark volumes in Hong Kong and it continues to be under 2% market share.

Following the PI Regime Conclusion Paper, the SFC issued FAQs in January 2015 to provide practical guidance to intermediaries in applying the new Corporate Professional Investors Assessment (“CPI Assessment”) and outline expectations of service descriptions in client agreements.

To access SFC’s FAQs (22nd January 2015):

<http://www.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=15EC4>

Overview of the key features of the FAQs (by law firm Baker& McKenzie) please click:

<http://f.datasrvr.com/fr1/015/32665/2015-058.pdf>

Furthermore, last December the SFC issued “Consultation Conclusions on the Client Agreement Requirements” highlighting the introduction of a suitability clause (“the New Clause”) for client agreements to govern the sale of financial products by intermediaries.

For more details please access SFC’s “Conclusion Paper of the Client Agreement Requirements” (8th December 2015) at:

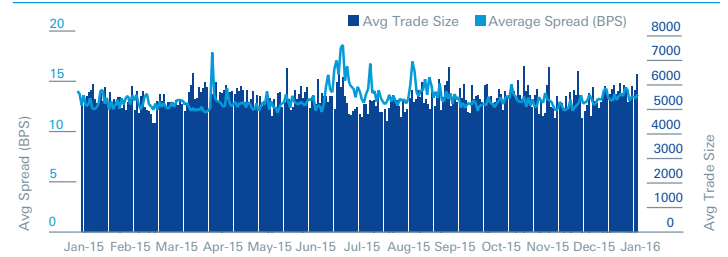
<http://www.sfc.hk/edistributionWeb/gateway/EN/consultation/conclusion?refNo=14CP7>

In terms of timeline, amended PI Regime will come into effect on 25th March 2016 whereas Client Agreement Requirements will be effective on 8th June 2017. For an overview please see summary table below.

Topic	Industry response	SFC conclusion
Private placement activities	To allow individual PIs (those with HK\$8 million in assets) and Corporate PIs (those with a single portfolio of \$8 million, HK\$40 million in total assets or owned by a qualifying individual PI) to continue to be eligible to participate in placements	SFC agreed that participation could continue at same thresholds as practice of setting thresholds based on assets is in line with other jurisdictions such as the US, Singapore and Australia.
Removal of Intermediaries exemption from Code requirements (including suitability, assessment of client knowledge, certain disclosures)	Majority of market did not support the removal of exemption. It was felt that there were other protections available for PIs such as the general Know Your Client requirements and the need to obtain client consent to be treated as a PI	The SFC will split the exemptions into those it believes to be essential to investor protection and those that are more administrative in nature. When serving Individual PIs, it was decided that an exemption could no longer be made for the following requirements: – Suitability Requirements – The need to establish investor’s financial situation, investment experience and investment objectives; – assess investor’s knowledge of derivatives and characterise the investor based on that knowledge – disclosure transaction-related information – enter into a written agreement and provide a risk disclosure – for discretionary accounts, obtain a written client authority prior to trading on at least an annual basis
Removal of exemptions for intermediaries dealing with investment vehicles wholly owned by Individual PIs	Market felt that such vehicles were often sophisticated and so did not need additional protections	Not all vehicles are sophisticated and proposes a Corporate Professional Investor (“CPI”) Assessment to identify those with teams of competent and qualified investment professionals making decisions on behalf of the vehicle. Only where such criteria is met will intermediaries be exempt from the Code provisions

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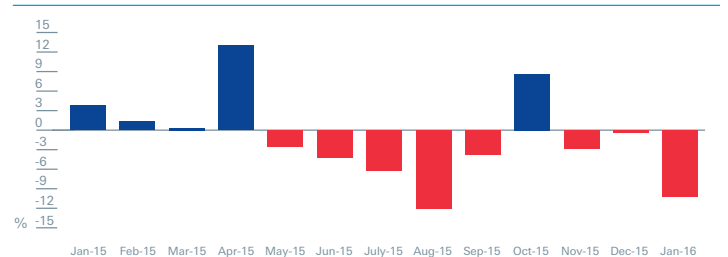
Fig 5: Average Index Spread and Trade Sizes



Source: Thomson Reuters

Fig 5. A slow change through 2015, average trading spreads have narrowed by 12% and average trade size has increased by 12%.

Fig 6: MoM Index Price Change



Source: Thomson Reuters

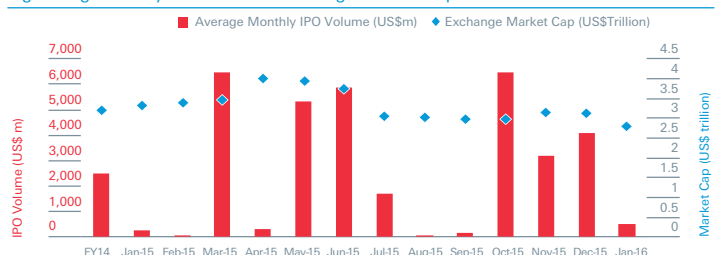
Fig 6. Volatility in oil prices has driven global markets indices downwards in January this year, Hang Seng Index was down 10% at end of January this year.

Fig 7: Large and Mid Cap Index movers

Market Movers - Large Cap				Market Movers - Mid Cap			
Stock	Price Return	Volume traded (US\$)	20D/100D ADT	Stock	Price Return	Volume traded (US\$)	20D/100D ADT
1088.HK	1%	731,629,300	1.20	1928.HK	4%	1,543,373,000	1.21
0941.HK	1%	3,870,369,000	1.04	0006.HK	2%	517,475,800	0.81
0883.HK	-2%	1,804,491,000	1.07	0002.HK	0%	478,264,100	1.00
0700.HK	-3%	8,472,633,000	1.25	0027.HK	-1%	1,102,854,000	0.91
0386.HK	-4%	1,364,475,000	1.06	0823.HK	-3%	697,193,900	1.38
1398.HK	-11%	3,192,373,000	1.02	0388.HK	-12%	3,618,068,000	1.21
3328.HK	-11%	472,797,700	0.92	1109.HK	-12%	813,707,700	1.18
2318.HK	-14%	4,488,578,000	1.17	0688.HK	-13%	1,675,711,000	1.12
0267.HK	-18%	462,808,900	0.74	0004.HK	-15%	530,286,700	1.17
2628.HK	-21%	3,603,362,000	1.30	1113.HK	-15%	819,807,200	0.86

Source: Thomson Reuters

Fig 8: Avg Monthly IPO size and Exchange Market Cap

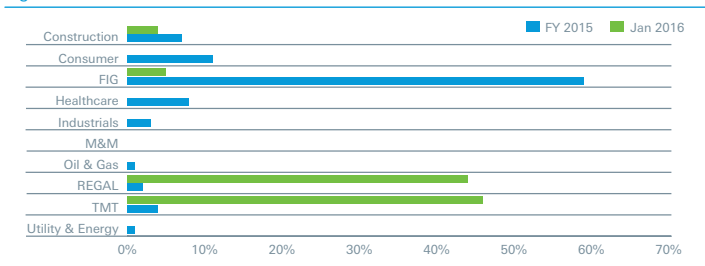


Source: Dealogic

Fig 8. Hong Kong continued to dominate its position as world’s biggest IPO market in 2015 as well with 121 new listings. The finance services was the biggest source of new IPOs, with 10 Chinese banks and brokers raising nearly US\$15 billion, accounting for almost half of all share offerings in Hong Kong IPOs, according to Dealogic data.

Topic	Industry response	SFC conclusion
CPI Assessment to become principles based rather than apply bright line tests	Most were in support of a move to principles based application	Move to principles based assessment confirmed with three new principles to be applied:  That the CPI has appropriate corporate structure and investment process and controls in place  That the persons making investment decisions have appropriate background for the role  That the CPI is aware of the risks involved in the investment
Changes to suitability requirement	Responses were described as diverse with a number asking for more clarity and guidance from the SFC, particularly on the trigger point for application	A detailed internal study is carrying out by the SFC as to the current principles based requirements. This is a separate exercise which will take some time to complete.
Incorporation of Suitability requirement into Client Agreements	Proposal opposed on basis that the increased costs, that there exist adequate legal remedies, difficulties in representing a principle with sufficient precision for inclusion in a contract, the changing nature of a client over time and the risk of opening to floodgates to litigation.	Adding in the New Clause to Client Agreements:  <i>"If we [the intermediary] solicit the sale of or recommend any financial product to you [the client], the financial product must be reasonably suitable for you having regard to your financial situation, investment experience and investment objectives. No other provision of this agreement or any other document we may ask you to sign and no statement we may ask you to make derogates from this clause."</i>  Intermediaries are expected to start reviewing, revising and re-execute their client agreements immediately before the new requirements come into effect on 8th June 2017.

Fig 9: IPO Sector Distribution



Source: Dealogic

Fig 10: IPO Performance

	# of IPO	1 day	1 month	Current
Jan-15	10	7%	34%	31%
Feb-15	4	475%	277%	1015%
Mar-15	12	149%	188%	74%
Apr-15	3	348%	363%	254%
May-15	6	297%	260%	-46%
Jun-15	21	98%	58%	53%
Jul-15	5	446%	148%	421%
Aug-15	2	22%	34%	16%
Sep-15	9	802%	179%	149%
Oct-15	15	417%	185%	257%
Nov-15	13	79%	152%	106%
Dec-15	22	17%	8%	14%
Jan-16	6	78%	8%	130%

Source: Dealogic

### SFC proposes to expand short position reporting

In order to improve monitoring and enhance market transparency, the SFC launched a consultation last year in November to extend short position reporting to:

- all securities that can be short sold in the Stock Exchange of Hong Kong (“SEHK”);
- covering collective investment schemes (“CIS”) with HK\$30 million as the reporting threshold (reporting threshold for stocks will remain unchanged - current threshold is the lower of 0.02% of the stock’s market capitalisation, or HK\$30 million)

Consultation ended on 31st Dec 2015 and the SFC published its Conclusion Paper on 24th February 2016 to conclude above. The SFC tentatively plans for the amended rules to come into effect on 15th March 2017, subject to the legislative process.

SFC’s consultation paper:

<http://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=15PR114>

Short position reporting regime was first introduced in 2012. With the introduction of this expanded regime, the SFC aims to improve monitoring and enhance market transparency.

SFC’s conclusion paper dated 24th Feb 2016:

<http://www.sfc.hk/edistributionWeb/gateway/EN/consultation/conclusion?refNo=15CP6>

List of Designated Securities that can be short sold in SEHK:

[http://www.hkex.com.hk/eng/market/sec\\_tradinfo/stkcdorder.htm](http://www.hkex.com.hk/eng/market/sec_tradinfo/stkcdorder.htm)

### SFC exploring ways to build stronger ties with CSRC in cross-border trade surveillance

Last October, SFC’s Chief Executive Officer Ashley Alder gave a speech in the 6th Pan-Asian Regulatory Summit that the regulator was exploring ways to strengthening ties with CSRC, in particular trade surveillance on Stock Connect, and shared the themes which it is working on. One of the themes that may have a fundamental impact on the market structure in Hong Kong is the potential introduction of identification (“I.D.s”) information for the better detection of misconduct. The move towards having I.D.s for surveillance purposes can be seen in other jurisdictions such as the requirement for large trader IDs in the US and the proposal for IDs on algo orders in MiFID II.

Mr. Alder stated:

“Our next step is usually to require the broker who handled the trades to tell us more, including who was behind the trades, and this in turn can lead to a broader investigation. [...] Specifically we’ll see whether it would be feasible for us to identify market orders directly at a client level rather than at a broker level to better detect potential misconduct.”

The project will be a longer term initiative.

Other highlights from the speech include:

#### 1. Further integration of Mainland and Hong Kong

- In light of strengthening supervision, Mr. Alder noted that Information sharing between the two agencies has been working well with “consistently rapid responses” to enquiries.
- The increased integration has also allowed further coordination of supervision with the CSRC on Mainland-headquartered financial firms who have subsidiaries in HK licensed by the SFC. Information sharing can give the SFC a far better idea about how those firms function, how they manage risks across Hong Kong and China markets.
- The SFC has established a dedicated Mainland Affairs Unit this year,

headed by an experienced former CSRC Deputy Director General, who most recently worked as a Deputy General Manager at the Dalian Commodity Exchange.

## 2. Key themes that the SFC is currently working on

- To extend Hong Kong's lead as an Asian asset management centre, including MRF.
- To enhance the SFC's Fund Manager Code of Conduct around topics such as commissions and distribution channels. Currently, distribution channels are dominated by banks which makes fund investment too expensive for investors. The introduction of different types of distribution platforms means the SFC will need to issue more guidance on suitability and Know Your Clients requirements.
- The SFC is in early stage of discussion with the HKEx on an exchange-based platform aimed at fund distribution through brokers.
- Continued focus on listing regulation. They are "very conscious" of issues to do with small public floats ripe for manipulation, problems with backdoor listings and corporate misconduct.

To read the complete speech by the SFC's CEO, Mr Ashley Adler, at 6th Pan-Asian Regulatory Summit, please click:

<http://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=15PR98>

## Shenzhen-Hong Kong Stock Connect will be delayed to 2H2016

HKEx Chief Executive Charles Li said the launch will be delayed to second half of 2016 due to recent market volatility and asked investors to be patient. HSI fell over 5% on 11th February 2016 on the first day of trading after stock market resumed from Chinese New Year holidays ("CNY"), the largest drop in 22 years compared to the first day after CNY.

The next MSCI inclusion decision is due in June 2016 and when referring to the previously set criteria, the changes made in Q1 to the QFII rules, bringing them further in line with RQFII, seems to be the last major rule change needed in addition to the broadening of the names and the relaxation of the quota mechanism. The exchanges have previously indicated the market would be given a few months to prepare following announcement.

It should be noted that the Shenzhen link was mentioned in the below Hong Kong budget, as well as by various Mainland officials from CSRC and the Shenzhen Exchange (see the China section for further details on their plans for 2016).

## Hong Kong 2016-2017 budget

The Financial Secretary announced budget for 2016-2017 on 24th February 2016. The forecast for real GDP growth in 2016 is 1-2%, lower than 2015. Forecasted headline inflation for 2016, 2.3%.

Following are highlights of planned developments, the detail for a number of these items are included below.

### Cross-boundary Services

- The government will continue to explore with the Mainland authorities ways to open up more channels for the two-way cross-boundary RMB fund flows, including increasing the investment quota for Hong Kong under RQFII Scheme.
- About Stock Connect, the government has discussed with the Mainland authorities about the launch of Shenzhen-Hong Kong Stock Connect and the enhancement of the Shanghai-Hong Kong Stock Connect. Hong Kong is all set with preparatory work and ready, subject to the announcement of the Central Government in China.

- Hong Kong is the world's largest offshore RMB hub. In 2015, RMB trade settlement conducted through Hong Kong banks totalled RMB 6.8 trillion, +9% yoy. Outstanding loans recorded RMB 300 billion at end-2015, +58% yoy.

### Securities Market

- The Securities and Futures Commission ("SFC") and the Hong Kong Exchanges and Clearing Limited ("HKEx") are planning to conduct shortly a joint public consultation exercise on enhancing the regulatory structure in respect of IPO.
- In 2015, Hong Kong ranked 1st globally in terms of funds raised through IPOs with HK\$260 billion, +12% yoy. The government will review the relevant regulatory regimes, streamline procedures and enhance market efficiency and quality to reinforce Hong Kong's status as the premier capital formation centre.

### Asset Management

- The government has submitted a bill into LegCo in January 2016 to provide a legal framework for introducing an open-ended fund company structure to further diversify the fund domiciliation platform.
- As at the end of 2014, the combined fund management business amounted to (HK)\$18 trillion, +10.5% YoY. Funds from overseas investors continued to increase and recorded growth of nine per cent in 2014, accounting for over 70 per cent of the fund management business.

For the full Hong Kong Financial Budget 2016-2017 click here:

[http://www.budget.gov.hk/2016/eng/pdf/e\\_budgetspeech2016-17.pdf](http://www.budget.gov.hk/2016/eng/pdf/e_budgetspeech2016-17.pdf)

### SFC issues Q3 2015 report

SFC published its quarterly report summarising key developments from October to December 2015. Highlights of product development in Q3 2015 include:

- Mutual Recognition of Funds scheme ("MRF") and a revamp of the authorisation process for new public investment fund applications.
- Consultation conclusions on client agreement requirements, proposing changes which provide fairer terms of business for investors.
- Consultations were also launched on a proposal to extend the short position reporting requirements to all securities that can be short sold under stock exchange rules
- Proposed updates to the guidelines for the regulation of automated trading services.

The SFC received 1,916 licence applications (+12% QoQ) in this quarter. On the enforcement front, four licensed corporations were disciplined, resulting in total fines of HK\$34 million.

SFC's Q3 2015 report:

[http://www.sfc.hk/web/EN/files/ER/Reports/QR/201510-12/Eng/00\\_full.pdf](http://www.sfc.hk/web/EN/files/ER/Reports/QR/201510-12/Eng/00_full.pdf)

### SFC said no room for expansion of the Mutual Recognition of Funds scheme ("MRF")

Julia Leung, an executive director of SFC's investment products division, said currently there is no room of rule expansion of the scheme for more fund domiciles, fund types and investment quotas. However, regulators in Hong Kong and China will review the scheme in the first quarter of 2016.

MRF went live in July 2015. Under the current scheme, only Hong-Kong domiciled funds are eligible to participate and the value of shares (or units) sold to China investors cannot exceed 50% of the fund's AUM. Funds cannot delegate management of their MRF funds to their overseas group companies. Since the launch, there have been more new funds set up in Hong Kong and a 10% rise in fund manager licence applications last year.

In December 2015, the SFC approved the first batch of four Mainland funds under the initiative for public offering in Hong Kong. This was a major breakthrough in the opening up of the Mainland's funds market to offshore funds. The initiative aims to open up more fund products for investors in both jurisdictions. In the same month, CSRC approved the first batch of three Hong Kong funds for public offering in Mainland.

As of 4th March 2016, the SFC has approved 25 Hong Kong domiciled funds under MRF.

For more information please visit SFC's MRF web site:

<http://www.sfc.hk/web/EN/faqs/mainland-hong-kong-mutual-recognition-of-funds.html>

For a list of HK-domiciled funds approved under MRF please click:

<http://www.sfc.hk/productlistWeb/searchProduct/UTMF.do>

### [Hong Kong Government proposes to introduce a new open-ended fund company regime](#)

On 15th January 2016, Hong Kong Government published the Securities and Futures (Amendment) Bill 2016 to introduce a new open-ended fund company ("OFC") structure in Hong Kong. The Amendment Bill covers the legal, regulatory and tax frameworks for an OFC. It had its first reading in the Hong Kong's Legislative Council on 27th January 2016, and will go through a second reading and a third reading before being enacted into law later this year.

The proposed OFC structure is to address the market need for a more flexible option of investment fund vehicle. Currently, open-ended investment funds can only be established in the form of a unit trust but not in corporate form due to various restrictions on capital reduction under the Companies Ordinance ("CO"). The proposal will allow funds to be set up in company form – either public or private – and allow creation and cancellation of shares for investors to trade the funds.

### [OFC Structure](#)

Like an international corporate fund, an OFC is an open-ended collective investment scheme:

- in corporate form,
- with limited liability,
- with variable share capital, and
- can be set up as public or private fund

The OFC's day-to-day management and investment functions must be delegated to an investment manager licensed by or registered with the SFC, while individual directors of the OFC board will not be required to be licensed. The SFC will be responsible for the registration and regulation of OFCs. The Registrar of Companies ("CR") will be responsible for the incorporation and administration of statutory corporate filings of OFCs, as well as maintain a register for OFCs and provide the public with OFC information. Use of overseas custodians will be allowed and there will be removal of the requirement of one board director resided in Hong Kong (subject to several conditions).

### [Investment Scope](#)

Publicly offered OFCs will only be allowed to invest in asset classes subject to the SFO. Privately offered OFCs can invest up to 10% of the gross asset value of the fund in other asset classes.

### [Tax framework](#)

Publicly offered OFCs would be subject to profits tax exemption, regardless of the location of its central management and control. However, privately offered OFCs with central management and control located in Hong Kong will be subject to Hong Kong profits tax.

### [Stamp Duty](#)

Stamp duty is only applicable to transfer of shares in OFCs; not applicable to initial subscription and cancellation of OFC shares upon redemption. In respect of an umbrella OFC, each sub-fund under an OFC would be regarded as a separate OFC for stamp duty, meaning that transfer of interest from one sub-fund to another and transfer of assets between sub-funds will be subject to stamp duty. Stock transactions involving in-kind allotment and redemption of shares of public OFCs will not be subject to stamp duty.

For more information, please click:

<http://www.gld.gov.hk/egazette/pdf/20162002/es3201620022.pdf>

FAQ of OFCs:

(English): [http://www.fstb.gov.hk/fsb/ppr/consult/doc/ofc\\_faqs\\_e.pdf](http://www.fstb.gov.hk/fsb/ppr/consult/doc/ofc_faqs_e.pdf)

(Traditional Chinese): [http://www.fstb.gov.hk/fsb/simpchi/ppr/consult/doc/ofc\\_faqs\\_c.pdf](http://www.fstb.gov.hk/fsb/simpchi/ppr/consult/doc/ofc_faqs_c.pdf)

### [SFC and HKMA release conclusions on introducing mandatory clearing and expanding mandatory reporting for OTC derivatives market](#)

On 5th February 2015, the two regulators released conclusions after public consultation last September on their proposals of introducing mandatory clearing and expanding mandatory reporting for the second stage of OTC derivatives regulatory regime.

Highlights according to the SFC:

#### [Introducing mandatory clearing \(phase 1 clearing\)](#)

- deferring commencement of phase 1 clearing from 1st July to 1st September 2016;
- defining "financial services provider";
- one single clearing threshold which applies to all prescribed persons incorporated locally or overseas;
- excluding both deliverable FX forwards and deliverable FX swaps from the clearing threshold calculation;
- providing a mechanism for exiting from the clearing obligation; and
- exempting clearing obligation of certain transactions resulting from a multilateral portfolio compression cycle.

#### [Expanding mandatory reporting \(phase 2 reporting\)](#)

- further deferring commencement of phase 2 reporting from 1st January to 1st July 2017, subject to the legislative process;
- narrowing the backloading requirement for transactions reported prior to phase 2 reporting so that it does not apply to transactions maturing before 1st July 2018; and
- excluding from the reporting obligation FX forwards which are entered into for the purposes of buying or selling securities in a foreign currency and which are settled within the settlement cycle for the securities.

Central counterparties who are authorised to provide automated trading services will be subject to mandatory reporting in its current form (phase 1 reporting) from 1st September 2016 to align with the commencement of phase 1 clearing.

A separate conclusions paper on the specific data fields to be completed under phase 2 reporting will be issued shortly.

Conclusion paper:

<http://www.sfc.hk/edistributionWeb/gateway/EN/consultation/conclusion?refNo=15CP4>

Consultation paper in September 2015:

<http://www.sfc.hk/edistributionWeb/gateway/EN/consultation/doc?refNo=15CP4>

### [SFC proposes changes to the ATS Guidelines](#)

SFC released a consultation paper last November on proposed changes to update the Guidelines for the Regulation of Automated

Trading Services (“ATS”). It aims to reflect the regulatory and other developments over the past years since the launch of the original 2003 Guidelines - Guidelines for the Regulation of Automated Trading Services - and to align with international standards. Consultation ended on 31st December 2015.

Highlights of the proposed changes:

Amendments of the new OTC derivatives regulatory regime (will be implemented in phases)

- (1) Expansion of ATS definition: to include trading or clearing services of OTC derivatives (in addition to securities and futures contracts);
- (2) Mandatory Clearing: specified OTC derivatives should clear through designated CCPs that are either recognised clearing houses (“RCHs”) or Part III ATS providers;
- (3) Mandatory Trading: specified OTC derivatives may only be traded on designated trading platforms that are either recognised exchange companies (“RECs”) or Part III ATS providers;
- (4) Expansion of licensing regime: Type 7 regulated activity (providing ATS) and Type 9 regulated activity (asset management) will be expanded to include OTC derivatives. Two new OTC derivatives-specific regulated activities will be introduced, i.e. Type 11 regulated activity (dealing in and advising on OTC derivative products) and Type 12 regulated activity (providing client clearing services for OTC derivative transactions).

Above will be implemented in phases with clearing leg of the expanded ATS and mandatory clearing to be introduced first (targeted for mid-2016). Trading leg of the expanded ATS, mandatory trading and the expanded licensing regime to be introduced later.

When mandatory clearing comes into force, this will mean that:

- CCPs (including those based overseas) which currently provide ATS for clearing OTC derivative transactions in Hong Kong will be required to get SFC authorisation if they wish to continue providing such services; and
- Overseas CCPs which intend to be designated CCPs in Hong Kong to provide mandatory clearing obligation will also need to seek SFC authorisation.

On 1st March 2016, the SFC released a conclusion paper of the Revised ATS Guidelines. It intends to implement the revised guidelines from the date when mandatory clearing of OTC derivative transactions is also implemented (mentioned in above story). This is expected to be on 1st September 2016.

For CCPs who wish to provide clearing services for OTC derivatives from the day mandatory clearing is implemented, they should ensure that their applications for ATS authorisation and CCP designation, with full and complete information and documentation, reach the SFC on or before 29th April 2016.

To access the SFC’s conclusion paper (1st March 2016):

<http://www.sfc.hk/edistributionWeb/gateway/EN/consultation/conclusion?refNo=15CP5>

To access the SFC consultation paper:

<http://www.sfc.hk/edistributionWeb/gateway/EN/consultation/doc?refNo=15CP5>

### SFC’s circular on Leveraged and Inverse Products

In February, SFC published a circular to set additional requirements from product naming to market making arrangements of leveraged and inverse products structured as ETFs (“L&I Products”). SFC will authorise these products as a new type of CIS.

Leveraged Products aim to deliver a daily return equivalent to a multiple of the underlying index return that they track. Inverse Products aim to deliver the opposite of the daily return of the underlying index that they

track. In view of the novelty and the technical complexity, L&I products should meet the additional requirements set out in the circular.

Highlights:

#### Product Naming

– L&I Products should include “Daily”, “Leveraged Products” or “Inverse Products” in their names but not “ETFs”, for example:

(a) a two-time Leveraged Product should be called “[Issuer] [Index] Daily (2x) Leveraged

#### Product

(b) a one-time Inverse Product should be called “[Issuer] [Index] Daily (-1x) Inverse Product”

– L&I Products will be put in a standalone section in the SFC and HKEx web sites.

#### Product Structure

- Swap-based synthetic replication and futures-based replication structures are allowed for L&I Products with SFC authorisation;
- Leveraged Products are subject to a maximum leverage factor of two times (2x);
- Inverse Products are subject to a maximum leverage factor of one time (-1x). (i.e. Inverse Products cannot be leveraged);
- Initially, only accept L&I Products tracking liquid and broadly non-Hong Kong, non-Mainland foreign equity indices. The SFC will conduct a review 6 months after the launch of the initial batch to consider extending eligible indices to include Hong Kong-based equity indices; and
- L&I Products trading China indices will not be accepted.

For more details please read into the circular:

<http://www.hkex.com.hk/eng/market/partcir/sehkc/2016/Documents/MKDCMS00116E.pdf>

SFC’s FAQ on Leveraged and Inverse Products:

[http://www.sfc.hk/web/EN/files/PCIP/FAQ-PDFS/FAQs%20on%20leveraged%20and%20inverse%20products%20\(18%20Feb%202016\).pdf](http://www.sfc.hk/web/EN/files/PCIP/FAQ-PDFS/FAQs%20on%20leveraged%20and%20inverse%20products%20(18%20Feb%202016).pdf)

## 2016 Venue News

### HKEx’s Strategic Plan for 2016-2018

The CEO of HKEx presented the strategic plan for the next three years which outlines the development roadmap for HKEx and Hong Kong’s financial markets. The goal is for the exchange to be the bridge for China with the world for all asset classes and for international investors to gain exposure in China. The plan includes HKEx’s strategies for its three asset classes: equity, fixed income and currency (“FIC”) and commodities. It also covers the goals in client relationship management, platform enhancement, market microstructure and regulations.

Highlights of key initiatives:

#### Equity

- To enhance the functionality of Shanghai-Hong Kong Stock Connect, to launch Shenzhen-Hong Kong Stock Connect, and to add Exchange Traded Funds (“ETFs”), listed bonds and convertible bonds to the two Stock Connect schemes.
- To work with Hong Kong and China regulators to relax trading restrictions of Stock Connect including: investment quotas, eligible securities and investors, holiday trading, and stock borrowing and lending.

- To introduce a “Primary Equity Connect” structure which will give investors in China and overseas the option of subscribing to IPOs in Hong Kong and China.
- To implement reforms that will strengthen HKEx’s listing regime and attract a wider range of issuers from different economic sectors.
- To expand derivatives suite by covering China, Hong Kong and international underliers, including listing A-share index benchmarks, adding sector-specific products, and exploring international benchmark derivatives in Hong Kong.

#### FIC

- To launch more interest rate and currency derivatives to hedge exposure to RMB assets, including derivatives on onshore interest rates
- To launch new products and services in OTC Clear, including deliverable foreign exchange forward and swap contracts, cross-currency swaps, OTC currency options and client clearing.
- To explore creation of “Bond Connect” scheme to provide cross-boarder cash bond trading and settlement

#### Platform Enhancements

- Orion Trading Platform will be introduced to replace the current securities trading system
- Phased replacement of the cash clearing system
- Creation of Platform Development Division to consolidate resources and improve efficiency

#### Market Microstructure

- Closing Auction Session (“CAS”) Phase 1 targeted to launch in Q3 2016; Phase 2 in 1H 2017
- Volatility Control Mechanism (“VCM”) to be launched in Q4 2016
- Details about CAS and VCM mechanisms please see Issue 38 and link below:

[https://www.hkex.com.hk/eng/market/sec\\_tradinfra/vcm\\_cas/vcm\\_cas.htm](https://www.hkex.com.hk/eng/market/sec_tradinfra/vcm_cas/vcm_cas.htm)

For more details of HKEx’s Strategic Plan for 2016-2018:

<http://www.hkexgroup.com/eng/about/hkexgroup/strategicplan.htm>

Charles Li’s speech about Primary Equity Connect:

<https://www.hkex.com.hk/eng/newsconsul/blog/blog.htm>

#### To delivery of proceeds Shanghai-Hong Kong Stock Connect investments to come in April 2016

Starting from 18th April 2016, all RMB cash Designated Banks under Stock Connect will be able to support T0 DVP settlement in CNH.

Prior to this enhancement, post-trade delivery in China Connect Securities from custodians to brokers via Settlement Instruction (“SI”) batch settlement runs on trade day (“T”), corresponding money RMB settlement happens at 9:30am on T+1. Overnight exposure of counterparty risk is a key concern for investors and brokers.

After this enhancement, the Hong Kong Securities Clearing Company (“HKSCC”) will introduce an additional RMB interbank bulk settlement run with Hong Kong Interbank Clearing Limited (“HKICL”) at night to support same-day settlement finality of both stock and money settlement for China Connect SIs settled on a DVP basis. T0 DVP could also expand to other currencies such as USD given this is already available for T+1 DVP.

For more details please see HKEx Information Packages:

<http://www.hkex.com.hk/eng/market/clr/secclr/ccass3/FurtherCCASSEenhancements.htm>

HKEx Circular on further CCASS Service Enhancements (2nd batch) effective 18th April 2016:

[https://www.hkex.com.hk/eng/market/partcir/hksc/2016/Documents/CE\\_020\\_2016.pdf](https://www.hkex.com.hk/eng/market/partcir/hksc/2016/Documents/CE_020_2016.pdf)

HKEx posts a list of designated banks in its web site at: <http://www.hkex.com.hk/eng/market/clr/secclr/ccass3/FurtherCCASSEenhancements.htm>

In addition, an area still to watch is the short selling of cash equities. On 17th February 2015, the FAQs were updated to show who could lend per the below table:

	Who can be lenders?	Who can they lend to?		
		Clients	China Connect EPs	Trade-Through EPs
EPs	(a) China Connect EPs	✓	✓	✓
	(b) Trade-Through EPs	✓	✓	✓
	(c) Non-Registered EPs	✗	✓	✓
QIs	(d) Qualified Institutions	✗	✓	✓

Although short selling went live on 2nd March 2015, the framework has not as of yet facilitated activity as global firms acting as Prime Brokers (“PB”) tend to hold their inventory in a different legal entity to the exchange member meaning the availability of stock to lend has been marginalised. Similarly, those who would look to lend stock on an agency basis, described below as Qualified Investors (“QIs”) are not able to lend to other clients meaning they cannot facilitate the covering of short selling. This in turn has restricted the ability of the market to short sell given short selling must be covered by a borrow.

Exchange Participant FAQ:

[http://www.hkex.com.hk/eng/market/sec\\_tradinfra/chinaconnect/Documents/EP\\_CP\\_FAQ\\_En.pdf](http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/Documents/EP_CP_FAQ_En.pdf)

Short sell FAQ:

<http://www.hkex.com.hk/eng/market/partcir/sehk/2015/Documents/CT00415E2.pdf>

#### Government-appointed council supports HKEx’s proposal of launching a new board for start-ups

Financial Services Development Council (“FSDC”) supports HKEx’s proposal to launch a third board for start-ups, adding to the existing Main Board and the Growth Enterprise Market (“GEM”). The proposed board is for companies that do not have the requisite profit or operational requirements to qualify for GEM listing.

Mixed opinions have been seen in market participants. Some worry that the low entry threshold would draw companies with poor performance and corporate governance. Some think this makes perfect sense as it could address the high hurdle which have driven successful companies to list elsewhere, and would be a step forward for Hong Kong to be a place for all sizes and stages of growth.

## 2016 Personnel News

### HKMA appoints PBoC executive as senior adviser

HKMA appointed Mr. Bao Mingyou as a Senior Adviser effective from 16th February 2016. Mr. Bao is seconded from the PBoC to the HKMA. He will offer advice and assistance in financial cooperation between Hong Kong and China, promotion of Hong Kong’s financial services in China and further development of RMB businesses in Hong Kong. Prior to this secondment, he was the Chief Representative of the PBoC’s Representative Office for Europe.

HKMA announcement:

<http://www.hkma.gov.hk/eng/key-information/press-releases/2016/20160216-7.shtml>

### SFC appoints new head of intermediaries division

Julia Leung, currently an Executive Director of SFC Investment Products division, will replace James Shipton to Head the Intermediaries Division effective from 19th June 2016. Julia is one of the four executive directors at the SFC who sit under SFC CEO Ashley Alder and SFC Chairman Carlson Tong.

Before joining the SFC last year, Julia was an advisor to three policy and academic institutes and the under-secretary for financial services and the treasury from 2008 to 2013. She also worked for the HKMA from 1994 to 2008. SFC said in a statement that it will search for Julia's successor to head its Investment Products.

SFC statement:

<http://edistributionweb.sfc.hk/t/ViewEmail/i/6B3E1017B4368F01/D2ED7DAA16BEE84E6B5BE456C00C2519>

## 2015 Market Structure

### SFC signed MoU with CFTC to enhance supervision of cross-border regulated entities

In December, SFC entered into a memorandum of understanding ("MoU") with the U.S. Commodity Futures Trading Commission ("CFTC") to cooperate and exchange information of regulated entities that operate in both Hong Kong and United States. The MoU came into effective on 21st December 2015 and covers regulated markets and organised trading platforms, central counterparties, intermediaries, dealers and other market participants. It also lays out particular circumstances under which each regulator will inform the other regulator promptly (event-driven notifications), request-based information sharing and on-site visit procedures.

For more details please click:

[http://www.sfc.hk/web/EN/files/ER/PDF/MOU/MOU\\_U.%20S%20Commodity\\_Dec%202015.pdf](http://www.sfc.hk/web/EN/files/ER/PDF/MOU/MOU_U.%20S%20Commodity_Dec%202015.pdf)

### SFC signed MoU with ESMA to exchange information on derivatives contracts reported to trade repositories

In November, the SFC signed a MoU with the European Securities and Markets Authority ("ESMA") to facilitate information exchange in regards to information on derivative contracts held in trade repositories in Hong Kong and the European Union. The MoU allows SFC and ESMA to have indirect access to information for fulfilling their responsibilities and mandates. The MoU came into effective on 19th November 2015.

For more details please click:

<http://www.sfc.hk/web/TC/files/ER/PDF/ESMA-SFC%20indirect%20access%20to%20TR%20data.PDF>

### ALP rules come into force 1st December

The new Alternative Liquidity Pool ("ALP") rules came into force following a consultation and preparation period of over 18 months. Previous to the rules coming into play, the operators of ALPs (more commonly known as 'dark pools'), were subject to individually agreed licenses which depending on when the license was granted could contain differing conditions. By bringing the requirements into regulation, these conditions were harmonised and a level playing field created for the providers.

According to the SFC's conclusions, the regulatory requirements relevant to the new rules were:

- (a) Restricting user access to ALPs to "institutional investors";
- (b) Enhancing the level of disclosure to users of ALPs through ALP guidelines;
- (c) Ensuring user order priority over the proprietary orders of ALP operators and their affiliates;

- (d) Restricting the level of visibility of trading information that is available to the staff of ALP operators;
- (e) Not restricting the hours of operation of ALPs;
- (f) Allowing ALPs to transact overseas listed securities as well as Hong Kong listed securities;
- (g) Ensuring the system adequacy of ALPs by addressing issues such as system controls, reliability, capacity, security and contingency measures; and
- (h) Enhancing risk management control, record keeping and reporting requirements.

SFC's announcement:

<https://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=15PR15>

### SFC and CSRC authorised first batch of funds under Mainland-Hong Kong Mutual Recognition of Funds initiative ("MRF")

In December, the SFC approved the first batch of four Mainland funds under the initiative for public offering in Hong Kong. This was a major breakthrough in the opening up of the Mainland's funds market to offshore funds. The initiative aims to open up more fund products for investors in both jurisdictions. In the same month, CSRC approved the first batch of three Hong Kong funds for public offering in Mainland.

For more information please visit the MRF page in the SFC's web site:

<http://www.sfc.hk/web/EN/faqs/mainland-hong-kong-mutual-recognition-of-funds.html>

### SFC launched pilot initiatives to enhance retail fund authorisation process

Effective in November, SFC started a new retail fund authorisation process ("revamped process") for new Mandatory Provident Funds ("MPF") and Pooled Retirement Funds ("PRF").

The pilot period lasts for 6-month from 9th November 2015 to 9 May 2016. The SFC may extend the pilot period beyond 9th May 2016 and may make refinements before the initiatives adopted as policy. The regulator also released an information checklist and FAQ on the revised procedures and transitional arrangements.

The key points of the revamped process are as follow, according to law firm Dechert:

1. The SFC decided to accept or reject a new application for fund authorisation processing within 5 business days since receipt of application.
2. The initial vetting period allows the SFC to categorise the applications into
  - (i) Standard Applications; or
  - (ii) Non-Standard Applications
3. A "Standard Application" is one where the fund under application is a new sub-fund of an existing SFC-authorized umbrella fund. Authorisation (if granted) will be granted, on average, within 2 months from the date of receipt of application.
4. A "Non-Standard Application" is any application which is not a Standard Application. By definition, all applications for the authorisation of a new fund or umbrella fund range will be classified as a Non-Standard Application. Authorisation will be granted, on average, within 3 months from the date of receipt of the application. In order for Non-Standard Applications to be authorised within 3 months, applicants will be given strict timelines to respond to SFC requisitions, and such timelines may not be extended. All requisitions and responses must be finalised within 1 month (in total).
5. The revamped process only affects new fund and sub-fund applications, and no change applied to the existing process of applying for scheme changes of an existing SFC-authorized fund, or of notifying the SFC of immaterial changes or other changes that do not require prior SFC approval.

To access the SFC's "Circular to management companies of SFC-authorized unit trusts and mutual funds - Launch of pilot revamped fund authorization process" for more details:

<http://www.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=15EC49>

SFC's announcement about the issuing the Circular:

<http://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=15PR96>

## 2015 Venue News

HKEx clarified its stance on beneficial ownership and other Stock Connect matters

Last March, HKEx updated their FAQs to more clearly set out the relevant pieces of law that supply to the more troublesome areas of the Connect project.

- Capacity in which HKSCC holds shares (as nominee)
- Concept of nominee is accepted in China, function of nominee holder
- Who are the beneficial owners
- How beneficial owners can be sure their rights will be recognised in Mainland
- How beneficial owner can exercise rights and take legal action in Mainland
- How the certificate of SSE securities provided by HKSCC will be recognised
- Is the role of nominee inconsistent with role as CSD
- Segregation of positions held

The points on the role of the HKSCC as nominee are important to those funds that are required to hold stock on a physical basis and be able to demonstrate their control over the stock (including the ability to exercise voting rights and receive corporate actions). Investor that hold their own QFII or RQFII license voiced concerns that the form of ownership through Connect may not be as strong given it would be the HKEx name on the share register rather than the investor name. The FAQ released in May 2015 resolved these concerns by clarifying that Connect gave as strong a right of ownership as QFII/RQFII.

FAQ on Beneficial Ownership under SH-HK Stock Connect:

[https://www.hkex.com.hk/eng/market/sec\\_tradinfra/chinaconnect/resources.htm](https://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/resources.htm)

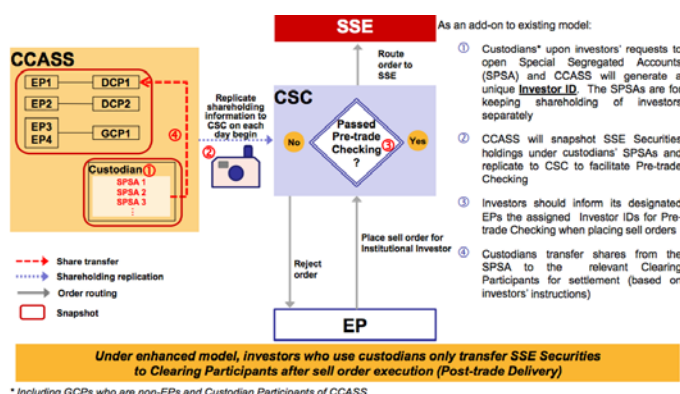
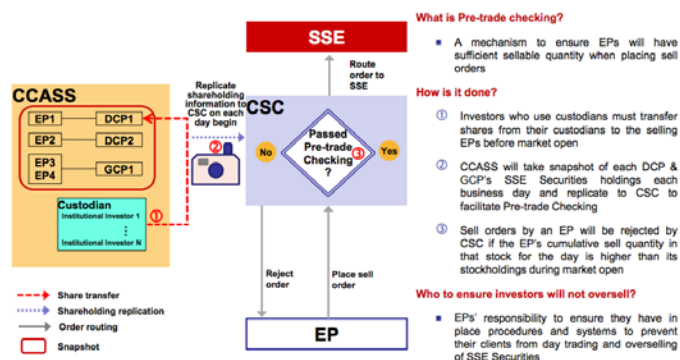
### Launch of SPSA grows from small beginnings

The Special Segregated Account ("SPSA") structure for selling shares through the Shanghai-Hong Kong Stock Connect went live on 30th March 2015 to resolve two fundamental issues:

1. To allow funds to fulfil their responsibility to provide best execution by using multiple execution brokers
2. To allow the shares to remain in the account of the custodian until after the execution has been completed.

The model requires IDs to be allocated to the underlying funds, which are then supplied to brokers of the clients choice. The broker will then attach the ID to the order and so allow for the HKEx to check the stock position snapshot prior to execution of the sell order. A client can share their IDs with up to 20 designated brokers and so allow fund managers to trade with brokers in line with their global best execution and broking voting results.

The two following excerpts from HKEx materials show the pre-trade checking model before and after the introduction of SPSA. The main change is that the client positions held in the new SPSA accounts at the sub custodian will now be included in the morning snapshot - previously it was only the broker accounts that were included.



Initially, the model saw very limited take up due to the tight time constraints involved in post trade processing and custodial push back. For those subject to the UCITs regulation there is still a degree of concern. UCITs IV (the version most EEA states currently have implemented) considers the risk of products whereas UCITs V (notably in place for Luxembourg and pointed to by Ireland as a point of concern) also looks to the chain of ownership from the perspective of default risk and the safe keeping of assets. That there is a timing gap between the release of the stock and the receipt of the proceeds has led some to conclude the process is not true Delivery vs Payment ("DVP") settlement offered by the HKSCC is still proving difficult for those regulators working with UCITs V standards in mind. It is hoped this concern will be relieved with the T0 cash run in April.

Additionally, Global Custodians ("GCs") are reluctant to have a set up that involves one sided instructions - they like to have the opportunity to confirm the trade (give a two way confirmation). However, GCs are not often in the local time zone and being able to accept the trade within the 2 and a half hour window available is not practical. Concerns are compounded by the Mainland no fail structure that leaves little room for errors.

The market is starting to see major long only investors starting to use this channel as the access route of choice for cash equities, particularly US funds governed by the 40 Act. According to a presentation given by the Irish Funds Association in January 2016, over 400 SPSA accounts had been opened contributing 10%-15% of the overall trading volume. At that time, 13 custodians were supporting the SPSA model.

This area is sure to continue developing as the market participants better understand the various moving parts.

SPSA model:

[http://www.hkex.com.hk/eng/market/sec\\_tradinfra/chinaconnect/Documents/Enhanced%20Pre\\_trade%20Checking%20Model\\_Final.pdf](http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/Documents/Enhanced%20Pre_trade%20Checking%20Model_Final.pdf)

SPSA description from HKEx EP FAQ (13th April 2015), Q 2.7:

[http://www.hkex.com.hk/eng/market/sec\\_tradinfra/chinaconnect/Documents/EP\\_CP\\_FAQ\\_En.pdf](http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/Documents/EP_CP_FAQ_En.pdf)

## 2015 Personnel News

### HKEx announced senior appointment

HKEx appointed Brian Roberts as a Senior Vice President in its Product Development Department. Mr. Roberts joined HKEx on 22nd October 2015, and oversees ETF business. He reports to Rebecca Brosnan, Head of Product Development.

Before joining HKEx, Mr. Roberts worked for 12 years at Vanguard's global ETF business. He led in the launch of Vanguard's Canadian ETF business, and was critical in expanding the company's ETF business in Asia.

HKEx News Release:

<http://www.hkex.com.hk/eng/newsconsul/hkexnews/2015/151022news.htm>

### Sources:

<https://www.hkex.com.hk>

<http://www.sfc.hk>

<http://www.scmp.com>

<http://www.gld.gov.hk>

<http://www.pwchk.com>

<http://ignitesasia.com>

### Contact

Email: [global.marketstructure@list.db.com](mailto:global.marketstructure@list.db.com)

Tel: +852 2203 5710



# China

Following IMF's announcement last November to add Renminbi ("RMB") to its Special Drawing Rights ("SDR") basket, China took another step forward to expedite liberalisation of its economy by overhauling the Qualified Foreign Institutional Investors ("QFII") scheme in early 2016. The introduction of daily repatriation for QFII and the removal of the cap on number of sub-accounts opened provide foreign investors with greater accessibility to the China market, and brings the market structure more in line with MSCI's requirements.

The introduction – and subsequent removal – of the circuit breaker may give the new head of CSRC, Mr. Liu Shiyu, food for thought when bringing new regulations to market. He has indicated his focus will be on effective surveillance. Looking forward into 2016, we expect to see China keeping up the momentum to open up its market by enhancing certain access programs (like adding in Shenzhen Stock Exchange to the Connect programme) or carrying out financial reforms (like IPO Reform), as well as improving supervision and introducing new measures to protect legitimate rights of investors' interest in accordance with the law.

Below summarises the themes to watch in 2016:

- QFII and RQFII
- Program Trading Rules
- IPO Reform
- Shenzhen-Hong Kong Stock Connect
- Potential A-shares inclusion into MSCI indices
- Free Trade Zones
- State-owned Enterprises Reform
- Effective date of RMB inclusion into IMF's SDR basket

For more information about the themes please read into below stories of this special edition.

## 2016 Market Structure

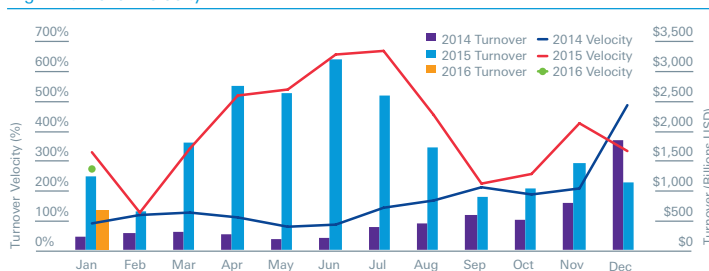
### Chinese government to carry out 13th 5-year plan and to look after stock market investors

Bloomberg interviewed China's Vice President Li Yuanchao at the World Economic Forum in Davos on 21st January. With regard to the stock market fluctuations of 2015, Mr. Li commented that China's stock market is less than 30 years old so still immature, including the rules and factors. The Chinese government will look after the interest of most investors so they will ensure steady and healthy development of the stock market by strengthening regulations of the stock market and handling systemic risks.

His comment on China's economic performance in 2015: China's growth rate (6.9%) was the highest amongst major countries with GDP exceeds US\$10 trillion. The economy has steady progress and maintained stability which is reflected in three aspects: (1) medium-high growth under the new normal; (2) consumption-driven growth; (3) the service sector has become the lead of China's economy.

Looking ahead to 2016, the Chinese government is working on the 13th 5-year plan determined last November which guides the nation's social, political and economic developments. The plan lays out the vision of the

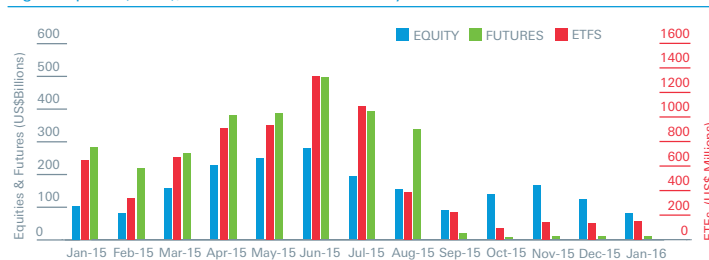
Fig 1: Turnover Velocity



Source: Thomson Reuters

Fig 1. Turnover velocity in China seems to be steady near 200% level in recent months after having peaked to over 600% in mid-2015. 200% implies that China market is still turning over 2x its market capitalization on average.

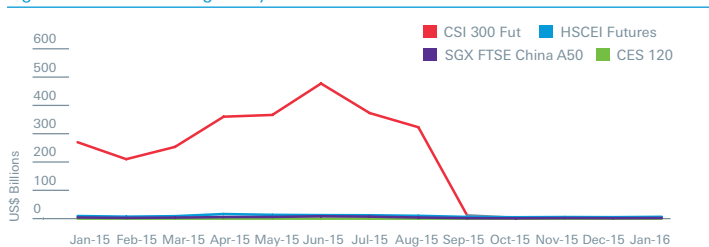
Fig 2: Equities(Cash), Futures and ETFs Monthly ADV



Source: Thomson Reuters

Fig 2. Trading volumes across equity instruments dropped significantly since July last year after China issued margin trading rules, and rules governing trading futures contracts to eliminate speculative trading and grey market lending. Equities -20%, ETFs -77%, Futures -96% YoY January.

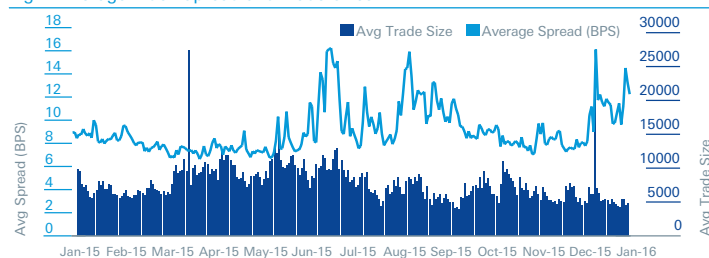
Fig 3: YoY futures average daily turnover



Source: Thomson Reuters

Fig 3. Futures turnover continues to be suppressed since the rules governing "abnormal trading" activities in futures continue to be in place since August last year.

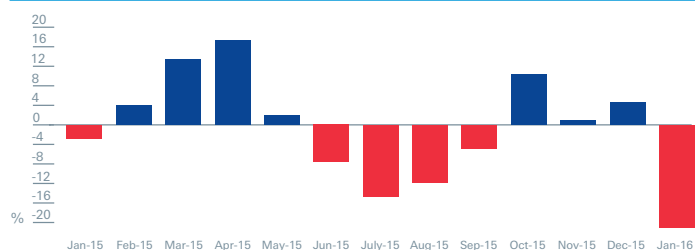
Fig 4: Average Index Spread and Trade Sizes



Source: Thomson Reuters

Fig 4. Average stock trading spreads in China have widened by 56% since last year in turn impacting the cost of trading in the market.

Fig 5: MoM Index Price Change



Source: Thomson Reuters

Fig 5. After two circuit break triggers in the first week of January, China's benchmark index is down 17% YTD. Year 2015 ended positive, up ~5% despite the big swings throughout the year.

Fig 6: Large and Mid Cap Index movers

Market Movers - Large Cap				Market Movers - Mid Cap			
Stock	Price Return	Volume traded (US\$)	20D/100D ADT	Stock	Price Return	Volume traded (US\$)	20D/100D ADT
600383.SS	30%	2,729,213,000	1.78	600188.SS	7%	349,816,000	1.17
002252.SZ	0%	641,110,100	0.62	000738.SZ	7%	2,655,301,000	0.82
600019.SS	0%	2,162,061,000	1.75	300015.SZ	2%	439,730,600	0.78
601238.SS	-3%	183,894,800	0.42	300017.SZ	-3%	2,534,421,000	0.93
000625.SZ	-4%	1,354,912,000	0.62	000709.SZ	-5%	3,564,613,000	1.44
600485.SS	-26%	3,834,406,000	0.89	601216.SS	-34%	607,775,600	0.37
002739.SZ	-28%	2,317,291,000	0.90	600588.SS	-35%	1,436,250,000	0.54
601618.SS	-29%	1,477,099,000	0.70	000156.SZ	-35%	888,460,100	0.64
601989.SS	-29%	5,225,055,000	0.54	600649.SS	-36%	2,576,981,000	1.03
600050.SS	-30%	1,733,399,000	0.60	002153.SZ	-41%	832,428,300	1.04

Source: Dealogic

Chinese leaders, media said details are expected to come out in March 2016. The leaders also set an annual economic growth target of 6.5% from 2016 to 2020, and to double GDP/capita income in 2020 (vs 2010).

The following are some highlights of the 13th 5-year plan:

1. In the last 5 years, China has become the world's second-largest economy with per capita GDP increasing to [US]\$7,800. Agricultural production rises continually and proportion of permanent residents in urban areas reaches 55%.
2. Further improving competition in natural monopoly sectors including electricity, telecommunications, transportation, petroleum, natural gas and public services.
3. Expanding the cyber economy and implementing the Internet Plus plan. Increasing network speed and lowering fees, along with supporting innovation in cyberspace and pushing related industries, business methods, supply chains and logistics chains.
4. Financial reform to be accelerated. Issuance and trading system for stocks and bonds to be improved.
5. Social insurance system to be improved to cover all residents living in China legally. Insurance rates to be lowered to reasonable level.
6. Reasonable adjustments to pension fund. Investment channels for this fund to be increased and investment returns raised.

According to Xinhua, the 13th 5-year plan is the first era of sub-7% economic growth since Mr. Deng Xiaoping (ex-paramount leader of the CPC) opened China to the outside world in late 1970s. The current Chinese leaders indicated 6.5% GDP target "must be met" and China's GDP/capita income in 2020 to be doubled that of 2010. The latest GDP/capital released on 3rd November is about US\$7,800 (~RMB49,600); the Chinese economy +6.9%yoy in 3Q 2015.

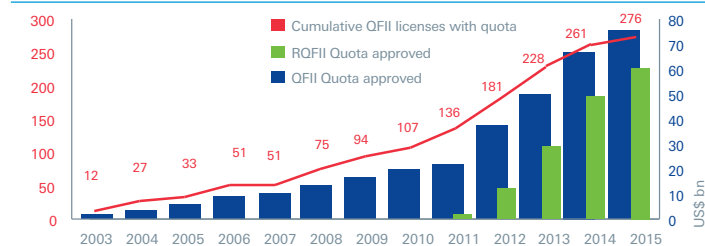
For the full version of 13th Five-Year Plan (Simplified Chinese), please click:

<http://cpc.people.com.cn/n/2015/1104/c64387-27773659.html>

The full interview script with China's Vice President (English):

<http://www.bloomberg.com/news/articles/2016-01-21/china-s-vice-president-reassures-on-economic-growth-transcript>

Fig 7: Cumulative QFII and RQFII Licenses and Quota Granted



Source: Deutsche Bank, CSRC, SAFE

Fig 7. New rules regarding QFII were announced in first week of February, the changes announced to QFII rules now make it easier for applicants to apply for new QFII, and has a formula to set the minimum QFII quota in ratio with size of fund

Fig 8: Avg Monthly IPO size and Exchange Market Cap

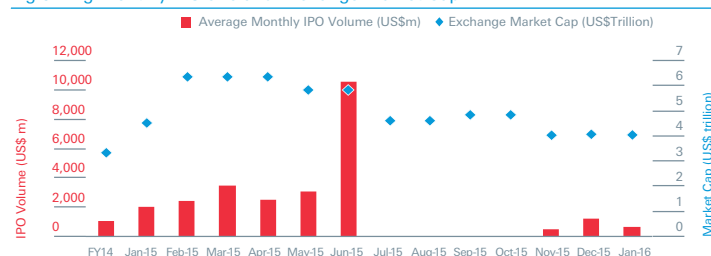
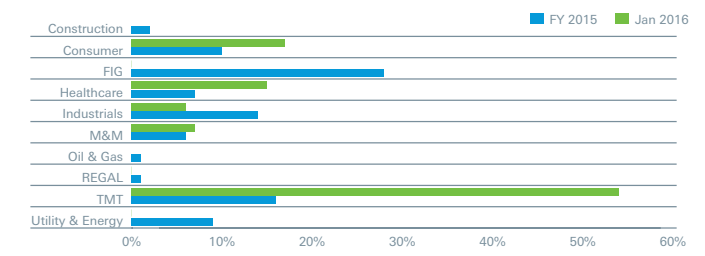


Fig 8. China has a large pipeline of new listings pending this year, more than 10 companies have been approved for the new registration based IPO listing process is 2016 which is yet to start.

Fig 9: IPO Sector Distribution



Source: Dealogic

## QFII scheme overhaul

On 3rd February 2016, SAFE announced revised Foreign Exchange Administrative Rules on the Domestic Securities Investment by Qualified Foreign Institutional Investors ("Revised Regulation") with immediate effect. The Revised Regulation loosens certain restrictions in terms of administration of the investment quota, lock-up period and capital inflow and outflow of QFIIs. All licensees will be awarded an initial quota of up to US\$5 billion and no less than US\$200 million, depending on their assets under management ("AUM").

Below are the key changes:

1. Introduction of "Base Quota" concept

SAFE published a formula to calculate QFII 'base quota' according to QFII's total assets or assets under management (called "Assets"). The minimum base quota is US\$20 million, while the maximum base quota is capped at US\$5 billion.

- If the QFII's Assets are mainly offshore: Base Quota = US\$100 million + average Assets of latest 3 years x 0.2% - approved RQFII quota in US\$ equivalent if any

– If the QFII's Assets are mainly onshore: Base quota = US\$ equivalent of [RMB 5 billion + last year's Assets x 80% - approved RQFII quota if any]

– If the QFII applicant is a sovereign wealth fund, central bank, monetary authority, the QFII may determine the desired investment quota at its discretion but subject to maximum base quota cap of US\$5 billion.

## 2. Simplified Quota Application Procedure

– If QFII's requested quota is within the base quota, QFII shall submit the required documents to the custodian bank to review. Upon reviewing the documents, custodian bank will affirm the base quota and requested quota, and file the quota registration form with SAFE within the first 10 days of the month. SAFE would issue the acknowledgement to the custodian bank.

– If QFII's requested quota is more than the base quota, QFII shall file required application documents with SAFE via the custodian bank. SAFE would grant respective QFII quota accordingly.

– QFII doesn't need to wait for 1 year since the last investment quota approval, but can register or apply for additional quota according to investment needs.

## 3. Relaxation in Capital Injection and Repatriation

– Removal of 6 months capital injection period requirement.

– Lock-up period is shortened to 3 months for all types of QFII account

– QFII Open-ended Fund can now conduct daily injection or repatriation according to offshore fund subscription and redemption (previously is on weekly basis).

– QFII can convert foreign currency needed for investment to RMB within 30 working days prior to their actual investment (previously is 10 working days).

## 4. Liberalisation in Clients' Assets Account

– Previously, QFII can only open up to six Special RMB Accounts for clients' assets under its management with minimum initial capital amount of US\$20 million per account. SAFE removed such restriction in the new QFII rule.

For more information please read SAFE's announcement (Simplified Chinese):

[http://www.safe.gov.cn/resources/wcm/pages/wps/wcm/connect/safe\\_web\\_store/safe\\_web/zcfg/zbxmwhgl/jwrzyyjjgl/node\\_zcfg\\_zbxm\\_kjzwtz\\_store/fd4a9a804b8ed99bbfb2ff196274af30/](http://www.safe.gov.cn/resources/wcm/pages/wps/wcm/connect/safe_web_store/safe_web/zcfg/zbxmwhgl/jwrzyyjjgl/node_zcfg_zbxm_kjzwtz_store/fd4a9a804b8ed99bbfb2ff196274af30/)

In respond to China's QFII overhaul, MSCI said this is a significant step to MSCI inclusion of A-shares as it will be easier for foreign institutions to access the market. MSCI will start gathering feedback on the changes and other market developments from investors in April and will announce a decision on inclusion of Chinese stocks at its June review this year.

A bit background information, last June MSIC held off from adding China A-shares to its global benchmark index and formed working group to address remaining issues related to market accessibility especially quota allocation, capital mobility restrictions and ownership of investments.

MSCI welcomes China's overhaul (English):

<http://www.reuters.com/article/msci-china-idUSL3N15L03N>

MSCI statement in Jun 2015 (English):

<https://www.msci.com/documents/10199/238444/Results+of+MSCI+2015+Market+Classification+Review/5f8d9f3b-67b9-4f9f-83d1-ce6227a496a2>

## Conclusion of Program Trading Draft Rules ("PT Draft Rules") to be expected in 2016

It is believed that Yishidun case (mentioned in another story of this newsletter - Police investigation into 'malicious' shorting of index futures) led to the development of PT Draft Rules. Consultation ended on 8th Nov 2015. No official implementation date has been announced yet the draft rules states the rules will become effective 30 days from the launch. Market anticipates that the rules will come into effect in 2016.

Highlights of the CSRC's PT Draft Rules:

– Art. 19 prohibits on shore PT traders from connecting to offshore systems, and the remote control from off shore. Clarification is needed to understand whether this will apply to QFII/RQFII and Stock Connect.

– Low bar for inclusion in definition of PT Trading (more than 5 times of 5 orders per second a day; 2000 orders or more per day).

– Both execution and investment strategies will need to be registered.

– CSRC retains the right to require the source code in case of enforcement.

– A PT trader should have one account.

– The net buy quota applies to on shore, proprietary business only. It does not apply to Connect/QFII/RQFII.

– Implementation time line – draft rules state 30 days following release of the final rules.

– A closing auction for the Shanghai Stock Exchange would help reduce large moves on close.

– Given there is no ability to amend an order (it is always cancel/new), order to execution ratios may be inflated at times of price volatility particularly for passive strategies.

To access the full text click here (Simplified Chinese):

CSRC:

[http://www.csrc.gov.cn/pub/zjhpublic/G00306201/201510/t20151009\\_284758.htm](http://www.csrc.gov.cn/pub/zjhpublic/G00306201/201510/t20151009_284758.htm)

SSE:

[http://www.sse.com.cn/aboutus/hotandd/ssenews/c/c\\_20151009\\_3997231.shtml](http://www.sse.com.cn/aboutus/hotandd/ssenews/c/c_20151009_3997231.shtml)

SZSE:

<http://www.szse.cn/main/aboutus/bsyw/39757156.shtml>

CFEEX:

[http://www.cffex.com.cn/gyjys/jysdt/201510/t20151009\\_19307.html](http://www.cffex.com.cn/gyjys/jysdt/201510/t20151009_19307.html)

## IPO reform

Liberalisation of the IPO market has been an area highlighted by the authorities as one of great importance. Market participants have been waiting for the IPO reform to abolish the upfront payment and shifting to registration-based mechanism.

As a first step, China abolished the upfront payment rule starting 1st January to avoid big liquidity swings. In the past, when new companies were being listed, the money-market rates hiked and the Shanghai Composite Index fell as pre-funding locked up investors' cash for their IPO bids.

Since the abolishment of pre-funding, sixteen companies has received CSRC approvals (as of 16th February) to go public in Shanghai or Shenzhen stock exchanges.

Moreover, last December, the Chinese government granted CSRC a two-year window to install a registration-based IPO system as early as 1st March 2016 or as late as February 2018, which will allow companies

to determine their pricing and go public quicker. Since then, there have been market rumours that the new system will become effective 1st March 2016, yet CSRC denied it on 26th February and said they are still drafting rules. CSRC will make announcement once rules are finalised.

CSRC announcement about abolishing pre-funding (Simplified Chinese):

[http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwdd/201512/t20151231\\_289348.html](http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwdd/201512/t20151231_289348.html)

CSRC announcement about registration-based won't come shortly after 1st Mar (Simplified Chinese):

[http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwdd/201601/t20160113\\_289881.html](http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwdd/201601/t20160113_289881.html)

### China to deepen reforms of State-Owned Enterprises (“SOEs”)

Last year, the State Council issued guidelines to deepen reforms of SOEs to speed up economic transition in the coming years. This came two years after President Xi called for resource allocation. The general theme is to enhance SOEs' efficiency with more focus on SOEs' capital returns, introducing “mixed ownership” by bringing in private investors to buy stakes, strengthening decision-making power of SOEs' board of directors, tightening corporate governance and forbidding intervention by government agencies.

In addition, a flexible and market-based salary system will be established, more professional managers will be hired, SOE employees will be paid at market rates and evaluated based on company performance. Deputy Director of the China Enterprise Reform and Development Society said these programs will result in diversification of shareholders and rationalise the corporate decision making process.

Official guidelines (Simplified Chinese):

[http://www.gov.cn/zhengce/2015-09/13/content\\_2930440.htm](http://www.gov.cn/zhengce/2015-09/13/content_2930440.htm)

### CSRC says circuit breaker not for China

Following the introduction and removal of the new circuit breaker mechanism in the first trading week of 2016, CSRC Vice Chairman Mr. Fang Xinghai admitted that it was not appropriate for China although it is a standard practice in many Western countries. The circuit breaker (at 5% and 7%) was launched at the start of 2016 with an aim to protect small investors by providing a calm-down period amid sharp market swings. However, it turned out to fuel sell-offs in the markets. He said China's current economic transition from manufacturing to service sector would take another 3 to 5 years so market volatility will be part of the “new normal”.

Separately, the former CSRC Chairman Xiao Gang made a comment in January after the circuit breaker suspension that “the abnormal stock market volatility has revealed an immature market, inexperienced investors, an imperfect trading system and inappropriate supervision mechanisms.”

The regulators also have plans to dial back from market interventions for markets to fluctuate more naturally.

CSRC press briefing (in Simplified Chinese):

[http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwdd/201601/t20160107\\_289611.html](http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwdd/201601/t20160107_289611.html)

SSE announcement (in Simplified Chinese):

[http://www.sse.com.cn/aboutus/hotandd/ssenews/c/c\\_20160107\\_4033448.shtml](http://www.sse.com.cn/aboutus/hotandd/ssenews/c/c_20160107_4033448.shtml)

SZSE announcement (in Simplified Chinese):

<http://www.szse.cn/main/aboutus/bsyw/39758314.shtml>

CFEX announcement (in Simplified Chinese):

[http://www.cffex.com.cn/tzgg/jysgg/201601/t20160107\\_19584.html](http://www.cffex.com.cn/tzgg/jysgg/201601/t20160107_19584.html)

CNN interviewed CSRC Vice Chairman:

<http://money.cnn.com/2016/01/20/investing/china-market-volatility-regulator/>

### New requirements about stake cut by substantial shareholders

On 9th January 2016, CSRC lifted the 6-month sale restriction of position over 5% by announcing new requirements:

- Controlling shareholders and shareholders holding more than 5% stake (commonly known as “substantial shareholders”), as well as directors, supervisors and senior managers of listed companies holding over 5% of a company may only reduce positions by 1% every 3 months
- % of shares sold is calculated in aggregation of the A, B and H shares
- The rules do not apply to substantial shareholders whose shares were bought from the secondary market
- Holders should disclose stake reduction plan 15 days in advance before taking action, including but not limited to disclose the following information: intended stake cut quantity, source, when to start share sale, price range, reason for reducing stake
- Substantial shareholders can reduce holding via stock exchanges, transfer agreements or other methods that are allowed by law
- If any pledge is made over the stock, such majority shareholder should inform the listed company within 2 days and make announcement
- If any substantial shareholders do not follow these rules, conduct insider trading or manipulate markets, CSRC will take regulatory action

CSRC's announcement (Simplified Chinese):

[http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwdd/201601/t20160107\\_289586.html](http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwdd/201601/t20160107_289586.html)

CSRC's new requirement (Simplified Chinese):

<http://www.csrc.gov.cn/pub/zjhpublic/G00306201/201601/P020160107377221063497.pdf>

### Chinese regulators denied rumours of deferral or suspension of new QDII products

SAFE and CSRC denied mounting rumours reported by domestic and overseas media that they have deferred or suspended new QDII products approval. According to The Beijing News, SAFE has issued six statements in its local microblog (Weibo) since 28th Dec 2015 to deny related rumors. Simultaneously, CSRC said in its press briefing on 19th February that the media reports are not true.

SAFE statement (Simplified Chinese):

<http://www.bjnews.com.cn/finance/2016/02/02/393497.html>

CSRC Press Briefing (Simplified Chinese)

[http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwfbh/201602/t20160219\\_291426.html](http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwfbh/201602/t20160219_291426.html)

### Free Trade Zones (“FTZs”)

Shanghai was chosen as China's first-ever FTZ in 2013 and has been used by Chinese policymakers as a testing ground for new policies. President Xi said Shanghai should continue to serve as a pioneer in reform and innovation. The city should accelerate measure that will help developing itself to a globally influential centre for technology and innovation. Speaking highly of Shanghai's efforts in reform and innovation, President Xi said he hopes Shanghai can continue to focus on its FTZ and urged Shanghai to develop science and explore core technologies. He also asked the city to speed up its industrial restructuring, identify and support new growth opportunities to improve the real economy.

Recap of President Xi's speech (English):

<http://en.china-shftz.gov.cn/News-Information/News-update/684.shtml>

Last April, China opened three pilot FTZs in other cities and expanded Shanghai FTZ boarders to capture advantage of each zone's geographic location:

- Tianjin: will integrate the northern municipality with Beijing and the Hebei Province, as well as focus on modern service industries, such as shipping, culture, and equipment manufacturing.

– Guangdong: will integrate mainland China with Hong Kong and Macao, with bases in Guangzhou, Shenzhen, and Zhuhai.

– Fujian: will integrate mainland China with Taiwan, covering areas in Xiamen, Fuzhou, and Pingtan.

– Shanghai: expanded to include three districts including Lujiazui Financial Area

All FTZs are required to adhere to the “negative list” (industries that foreign companies cannot invest in). China hopes that new FTZs can facilitate similar economic activity like that in Shanghai which had almost 12,000 registered enterprises a year since its establishment in September 2013:

More information about each FTZ:

Tianjin:

<http://www.china-tjftz.gov.cn/html/cntjzymyq/yysy/List/index.htm>

Gongdong:

[http://www.gzns.gov.cn/pub/nszmsyq\\_en/about/201503/t20150308\\_155616.html](http://www.gzns.gov.cn/pub/nszmsyq_en/about/201503/t20150308_155616.html)

Fujian:

<http://ftz.fuzhou.gov.cn/English/About/Introduction/>

Shanghai:

<http://en.china-shftz.gov.cn/>

### China’s largest pension fund adds RMB 10 billion (~US\$1.5 bn) into A-shares

China’s National Social Security Fund (“NSSF”) followed normal practice to provide its 18 onshore managers collectively an additional RMB10 billion (~US\$1.5 billion) to invest in A-shares. NSSF currently outsources investment management to 18 onshore managers (including Harvest Fund Management, China Southern Asset Management, Bosera Asset Management, China Asset Management and Changsheng Fund Management). The money could be invested into A-shares as early as February 2016.

The fund was established in 2000 with around RMB1.5 trillion (~US\$230 billion) AUM as of end 2014. Considering that the RMB10 billion makes up less than 1% of its total assets, market does not view this as significant increase of the fund’s position in A-shares.

### PBoC abolishes bond investment quota to open up its interbank bond market to foreign investors

On 24th February 2016, the PBoC abolished the quota restriction to China Interbank bond (“IBB”) market, giving foreign real money investors including commercial banks, insurance companies, fund/asset management companies, pension funds and endowment funds free access to the world’s 3rd largest bond market. Hedge funds have not explicitly been given approval to use this route.

This is believed to be a move for China to offset the pressure of capital outflows after reportedly the slowest economic growth last year in over a decade, as well as a step forward to help China to enter global benchmark indices. According to Bloomberg, IBB totalled RMB35 trillion at the end of January and foreigners held less than 2% of this; China’s 10-year sovereign yield at 2.87% vs 1.69% in US (the world’s largest bond market) and sub-zero in Japan (2nd largest).

Detailed execution rules have yet to be announced.

PBoC Statement (Simplified Chinese):

<http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3021203/index.html>

PBoC Notice (Simplified Chinese):

<http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3021206/index.html>

### IMF to add RMB to the Special Drawing Right (“SDR”) basket effective 1st October 2016

On 30th November 2015, IMF decided to include RMB into the SDR basket effective 1st October 2016. RMB was included as the fifth currency, along with the U.S. dollar, Euro, British pound, and Japanese yen. The 3-month benchmark yield for China Treasury bonds is the RMB-denominated instrument in the SDR interest rate basket.

IMF also adopted a new formula to determine currency weighting in the basket. New weighting was effective on 1st October 2016:

- U.S. dollar 41.73% (vs 41.9% at the 2010 Review)
- Euro 30.93% (vs 37.4% at the 2010 Review)
- Japanese yen 8.33% (vs 9.4% at the 2010 Review)
- Pound sterling 8.09% (vs 11.3% at the 2010 Review)
- Chinese renminbi 10.92%

Factsheet of Review of SDR Currency Basket:

<http://www.imf.org/external/np/exr/facts/sdrfb.htm>

IMF Q&A on 2015 SDR Review:

(English):

<http://www.imf.org/external/np/exr/faq/sdrfaq.htm>

(Simplified Chinese):

<http://www.imf.org/external/np/exr/faq/sdrfaqc.htm>

### Michael Bloomberg and former US top officials set up a working group to push for RMB trading and clearing in US

Last November, former NYC Mayor Michael Bloomberg and former senior leaders in finance set up The Working Group on RMB Trading and Clearing in US (“the Working Group”) before IMF’s SDR review decision. Priorities of the Working Group include:

- Involving a diverse group of representatives from U.S. industry and the financial community.
- Reviewing different operating models, including characteristics of RMB hubs in other countries.
- Considering types of RMB products and services that could be most useful for U.S. markets.
- Educating the U.S. marketplace on the benefits and mechanics of RMB trading.
- Recommending new RMB trading and clearing capabilities for the U.S. consistent with existing market practices and regulatory requirements.

The Market Structure team shall be watching the developments coming from this group through 2016.

### Number of investor accounts reaches new high while participation level drops

According to CSRC, as of 28th January 2016, the total number of investor accounts reached 100.4 million in China (natural and non-natural persons). The daily average number of new accounts +38% yoY to 67,500 in January.

In terms of investors’ participation level, data shows a drop of 23% from 21.7 million investors in the 1st week of January to 16.6 million in the 3rd week.

For more details please see CSRC announcement (Simplified Chinese):

[http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwfbh/201601/t20160129\\_290469.html](http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwfbh/201601/t20160129_290469.html)

### CSRC bans Guotai Junan from OTC market for 3 months

CSRC banned Guotai Junan Securities from acting as a market maker in China's OTC market from 29th February – 29th May 2016, according to SCMP. Guotai Junan was found to have manipulated shares in 16 companies listed on the new third board which has many start-ups lacking the profit records for IPO. The brokerage quoted prices for the stocks at levels substantially different from market prices, which caused huge volatility (share prices for 13 of the companies fell over 10% on 31st December 2015)

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## 2016 Venue News

### SZSE's plans for 2016

SZSE will put emphasis on five key areas in 2016 to facilitate China's opening-up strategy and economic transition to a supply-side economy. The following are highlights of the plan:

- 1) SZSE will implement tasks for registration-based IPO system reform, expand the Main Board and the SME Board, deepen reforms in the ChiNext Market, diversify bond and asset-backed securities products, and to improve financing function.
- 2) In order to facilitate China's "One Belt One Road" initiative, SZSE will:
  - (i) research the promotion of strategic cooperation with countries and regions along "One Belt and One Road" in terms of financial infrastructure and services;
  - (ii) launch Shenzhen-Hong Kong Stock Connect (pending announcement of launch date);
  - (iii) promote recognised Hong Kong funds to list and trade on SZSE LOF platform and recognised ETFs to cross-list on SZSE and HKEx;
  - (iv) facilitate planning of Guangdong Free Trade Zone and develop Qianhai cross-border financial product trading platform;
  - (v) develop indices and promote cross-listing of cross-border fund products;
  - (vi) develop offshore information disclosure and investment service platforms and foster international innovative enterprise community.
- 3) SZSE will improve the Main Board and the SME Board, reform trading systems and the ChiNext market. Improve front-line supervision, guidelines on information disclosure and regulations on high-risk companies, major shareholders' sell-off and companies with delisting risk. Strengthen investor education and protection.
- 4) SZSE will implement market and operational risk controls and will strengthen its ability to assess, alert, detect and handle cross-product, cross-market and cross-border risks.
- 5) SZSE will focus on talent retention and speed up the formation of a highly qualified team.

For more information please click on SZSE's announcement:

(Simplified Chinese):

<http://www.szse.cn/main/aboutus/bsyw/39758431.shtml>

(English):

<http://www.szse.cn/main/en/AboutSZSE/SZSENews/SZSENews/39758452.shtml>

### SSE's plans for 2016

SSE laid out general plans for 2016 to help propel China's supply-oriented economic reform and growth. Highlights of the plans:

- (1) Preparations for the registration-based IPO system should be made according to CSRC;
- (2) Preparations of regulations, technical specifications and markets for the establishment of the Strategic Emerging Board;
- (3) SSE's bond market should be further developed by perfecting all systems as well as risks control;
- (4) Continue to enhance systems for SSE 50 ETF Option pilot program;
- (5) To build a trading platform of international financial assets in the Shanghai Free Trade Zone;
- (6) Cross-border: to optimize the Shanghai-Hong Kong Stock Connect program; study the Shanghai-London Stock Connect and support the growth of China Europe International Exchange (CEINEX);
- (7) To strengthen monitoring, assessing and alert mechanisms of market risks; raise SSE's overall ability to mitigate systematic risks;
- (8) To strengthen the regulation on listed companies' information disclosure and behaviors of major shareholders and senior managers;
- (9) To enhance SSE's ability in terms of technological support.

More information about SSE's 2016 plans:

(Simplified Chinese):

[http://www.sse.com.cn/aboutus/mediacenter/hotandd/c/c\\_20160118\\_4037408.shtml](http://www.sse.com.cn/aboutus/mediacenter/hotandd/c/c_20160118_4037408.shtml)

(English):

<http://2016en.sse.com.cn/aboutsse/news/newsrelease/c/4037689.shtml>

### SSE released rules consultation about stocks suspension; pending conclusions

In order to prevent a repeat of large batch of stocks suspension like last July, SSE released consultation draft last November to limit trading halts to a maximum of 5 months. Under the new draft rules, listed companies can suspend up to 3 months when they plan for asset restructuring or mergers and acquisitions, but can only extend for 2 months once afterwards (so a maximum halting period of 5 months) if circumstances warrant. Conclusions to be announced.

To access the Suspension and Resumption of listed companies and related Information Disclosure Notice (Opinion Soliciting Draft) issued by SSE (in Simplified Chinese):

[http://www.sse.com.cn/disclosure/announcement/general/c/c\\_20151106\\_4009870.shtml](http://www.sse.com.cn/disclosure/announcement/general/c/c_20151106_4009870.shtml)

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## 2016 Personnel News

### CSRC replaces its Chairman

Agricultural Bank of China head, Liu Shiyu, was appointed as the new chairman of CSRC on 20th February to replace Xiao Gang. Mr. Liu spent most of his career at the PBoC, rose through ranks and became the deputy in 2006. In 2014, he joined Agricultural Bank, the third largest lender in China. He holds a Master Degree from the Economic Management School of Tsinghua University.

According to the People's Daily, Mr. Liu said in Two Sessions an annual political meeting in Beijing on 5th March:

“My philosophy on supervision is clear-cut: to supervise in accordance with the law, to supervise strictly and comprehensively...I will do my best to protect the legitimate rights and interest of investors in accordance with the law of the People’s Republic of China.”

News agency SCMP reported on 7th March that he attended the Hong Kong delegates’ discussion of Two Sessions but did not make any clear statements or share any plans like most Mainland officials. Instead, he asked questions on matters raised by delegates. “It was very unusual for a CSRC chairman to attend the National People’s Congress discussion. Clearly, Liu wants to collect as much information as he can before formally announcing his plans,” said SCMP’s informed source.

Bloomberg also reported that he has indicated to take a ‘tough stance’ on misconduct and support the stock market by driving more capital into it.

Market is still waiting to see a clearer agenda of Mr. Liu as he has yet to make his formal speech to the public after becoming the new CSRC Chairman.

The former CSRC Chairman Xiao Gang has joined CSRC for nearly three years. There were rumours earlier in January saying he was resigning after the suspension of circuit breaker but CSRC said those reports were ‘inaccurate’.

CSRC announcement:

[http://mp.weixin.qq.com/s?\\_\\_biz=MzA4NzAzMDgwMw==&mid=402760944&idx=1&sn=807d344529f89e00900fd6431173c45b&scene=0#wechat\\_redirect](http://mp.weixin.qq.com/s?__biz=MzA4NzAzMDgwMw==&mid=402760944&idx=1&sn=807d344529f89e00900fd6431173c45b&scene=0#wechat_redirect)

### China’s State Council sets up a new department to coordinate economic and financial affairs

The State Council has set up a new department to coordinate financial and economic affairs, and to streamline the government’s oversight and management. This new department will provide administrative coordination amongst the central bank (“PBoC”), insurance (“CIRC”), stock (“CSRC”) and banking (“CBRC”) regulators. It will also be responsible for gathering data from local offices, streamlining documentation and assisting the State Council in emergency responses.

The market speculates that this arrangement might serve as a transition before the super regulator (which brings together CSRC, CIRC and CBRC) is determined.

Bloomberg’s informed source said that the Vice President of Agricultural Bank of China, Li Zhenjiang, might become the deputy director for this new office’s daily operations. No official announcement made.

## 2015 Market Structure

### Resumption of IPO in November

CSRC resumed IPO on 6th November after suspending it for around 4 months as market performance gradually recovered from summer slide. Upon resumption, 28 companies went public before end of 2015 and raised about RMB 10 billion (~US\$ 1.6 billion).

CSRC Q&A on 6th November (Simplified Chinese):

[http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwdd/201511/t20151106\\_286123.html](http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwdd/201511/t20151106_286123.html)

CSRC’s supplementary information on 15th November (Simplified Chinese):

[http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwfbh/201511/t20151113\\_286592.html](http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwfbh/201511/t20151113_286592.html)

### Police investigation into ‘malicious’ shorting of index futures and suspension of a number of trading accounts

In July, many media reported that police assisted CSRC to investigate into ‘malicious’ short selling of stocks and indexes. Asked for a definition of ‘malicious short selling’ at a press conference last year, the CSRC spokesman Deng Ge said it was “cross-market or cross-maturity manipulation”.

After 3 months of intensive investigation, Shanghai Police arrested two executives of Yishidun (and international trading company) and the technical director of Huaxin Futures. State-owned news agency Xinhua said Yishidan was jointly invested by two HK-based companies respectively set up by Georgy Zarya and Anton Murashov, both of foreign nationalities. According to Shanghai Police’s statement, investigations showed these traders manipulated futures trades by executing significant volumes of buy and sell at prices that materially deviated from market standards. The trades were executed through automated systems. The traders were reported to have made over RMB 2 billion illegally (~US\$316 million).

Shanghai Police’s statement (Simplified Chinese):

<http://www.police.sh.cn/shga/wzXxfbGj/detail?pa=110ef360e4374a413e830a876d55c7100a3f7d0825010f8d8856dbce95c58682>

Separately in last Summer, international and domestic press reported a 3-month suspension from trading on the SSE and/or the SZSE against several accounts due to frequent order cancellations via ‘program trading’ or other irregularities. Press accounts varied on the exact number of accounts suspended with Reuters and the South China Morning Post reporting 38 accounts, Xinhua saying 28 accounts and other outlets citing 34 accounts.

While official information is limited, according to the Shanghai Stock Information Service Corporation ([www.cnstock.com](http://www.cnstock.com)), the accounts were suspended mainly for:

- Excessive order cancellations, for example, on 8th Jul 2015, a trading account reported around 16,000 accumulated ‘sell’ transactions during the day with a total size over RMB 1.5 billion and a cancellation rate of 99.28%.
- Suspicion of intra-day market manipulation by influencing trading volume and individual stock prices. By doing so, they allegedly induced other investors to trade and thereby took opportunity to profit take or bargain hunt, especially near the close.

Citadel Shanghai Trading, an onshore wholly owned subsidiary of the Chicago-based Citadel Investment Group, was the only foreign account named in press accounts. Citadel Shanghai Trading’s account was suspended on SZSE but its other accounts can still operate normally on SSE.

Citadel issued a public statement following the suspension of its trading account frozen on SZSE:

“Citadel has been actively investing in the region for 15 years, and has always maintained a constructive dialogue with regulators, including during the recent market volatility...We can confirm that while one account has had its trading on the Shenzhen Exchange was suspended, we continue to otherwise operate normally from our offices, and we continue to comply with all local laws and regulations.”

### CSRC banned intra-day short selling

In August, both SSE and SZSE modified their short sell rules to ban intra-day short selling (i.e. borrowing and then repaying the borrowed stocks on the same day). Short sellers must now hold their position for at least one day.

Previously, investors could short sell and close positions in the same day. Both exchanges took a view that short day trading tends to “add to abnormal volatility of stock prices and affect market stability.”

SZSE announcement:

<http://www.szse.cn/main/en/AboutSZSE/SZSENews/SZSENews/39756431.shtml>

SSE announcement:

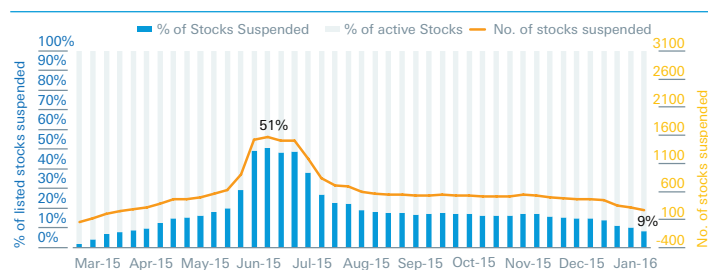
<http://english.sse.com.cn/aboutsse/news/newsrelease/c/3984744.shtml>

### Stock suspensions stayed constant despite renewed market volatility

As detailed in Issue 38, over 1,500 A-shares (about 50% of the stocks listed in Shanghai and Shenzhen) were suspended between 1st - 17th July on companies' requests that were within the scope of listing rules. Different reasons including "major event discussion" and "asset restructuring". To understand each individual case you must look to each company's announcements:

For listed company announcements in SSE:  
<http://english.sse.com.cn/listed/announcements/>

For listed company announcements in SZSE:  
<http://www.szse.cn/main/en/Disclosure/Companies/>



Source: Deutsche Bank Analytics, Bloomberg

Please refer to DB APAC Market Structure Issue 38 for more details about stock suspension story and figures in July for further details.

### Revised Measures for the Administration of the Margin Trading and Short Selling Business of Securities Companies 《证券公司融资融券业务管理办法-修订》

The revised measures came into force on 1st July which sets out new requirements:

—Lenders must:

- Be a qualified securities business with approval from CSRC to conduct these activities
- Review the compliance record of the borrower and match products appropriately
- Only lend up to 4x their net capital (1st time official cap)
- Funds and securities must now be kept in a special fund account

—Borrowers must:

- Demonstrate 6 month trading record in financial products
- Have a minimum of RMB 500,000 in the securities account (NB the same base line as required for Southbound trading through Shanghai-Hong Kong Stock Connect)

—A new investor protection fund was created

—Rates are negotiated and settled between securities companies and clients

—Stock exchanges are responsible for establishing margin ratios, the underlying securities range, scope and the discount rate applied to securities used as margin and the minimum maintenance ratio

For more information please click:

[http://www.csrc.gov.cn/pub/zjhpublic/G00306201/201507/t20150701\\_280175.htm](http://www.csrc.gov.cn/pub/zjhpublic/G00306201/201507/t20150701_280175.htm)

### CSRC released FAQ on beneficial ownership in regards to Shanghai-Hong Kong Stock Connect

In May, CSRC released a FAQ summarising the position of investors trading through the Shanghai-Hong Kong Stock Connect programme specifically about the interpretation of terms including 'beneficial owner', 'nominee' and 'ability to take action on shore'.

For the full FAQ click here:

[http://www.csrc.gov.cn/pub/csrc\\_en/newsfacts/PressConference/201505/t20150515\\_277108.html](http://www.csrc.gov.cn/pub/csrc_en/newsfacts/PressConference/201505/t20150515_277108.html)

### Changes in the CFFEX market during July-August 2015

China's futures market was once ranked as the most active market for index futures by the World Federation of Exchange. However, after series of tightening rules, index futures trading volume shrank from 1.9 million contracts (on 31st July) to 38,000 contracts (on 7th September). Bloomberg said trading volumes of CSI300 index and CSI500 Index futures fell to record lows on 8th September, dropped 99% from June highs.

For a full summary of changes see Issue 39.

### July – August 2015: The role of the China's Securities Finance Corporation ("CSFC")

The China Securities Finance Corporation ("CSFC") was established in 2011 with the approval of State Council and CSRC. It is 100% state-owned and its shareholders include the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Shanghai Futures Exchange, and the Dalian and Zhengzhou commodities exchanges.

CSFC performs three functions:

- (1) Providing margin financing to qualified domestic brokerages to facilitate margin loans to brokerage client. This is collectively referred to as margin trading;
- (2) Providing securities lending services to local brokerages to facilitate short sales; and
- (3) Stabilising the market amid abnormal volatility through the investor protection fund created through the Measures for the Administration of the Margin Trading and Short Selling Business of Securities Companies promulgated on 1st July.

Its market stabilisation role has elevated its profile significantly. Official information about the funding size and trading activity has been limited, with most information coming through media. For example, the Shenzhen Daily said CSFC injected RMB 200 billion (~US\$32 billion) from mid-July to the beginning of August into five Chinese funds managed by China Asset Management, Harvest Fund Management, China Southern Asset Management, China Merchants Fund Management and E Fund Management. Each received RMB 40 billion (~US\$6.3 billion).

In addition, CSRC announced in July that CSFC would increase its capital base from RMB 24 billion (~US\$3.8 billion) to RMB 100 billion (~US\$16 billion), and PBoC would provide additional liquidity to CSFC. No additional details provided.

For more information please look to Issue 39 and the links below.

CSFC web site (English & Simplified Chinese):

<http://www.csf.com.cn/publish/english/index.html>

CSRC announcement on the CSFC capital injection (Simplified Chinese):

[http://www.csrc.gov.cn/pub/newsite/zjhxfwb/xwdd/201507/t20150703\\_280388.html](http://www.csrc.gov.cn/pub/newsite/zjhxfwb/xwdd/201507/t20150703_280388.html)

CSRC announcement on the PBOC liquidity provision to the CSFC (Simplified Chinese):

<http://finance.sina.com.cn/stock/y/20150705/201622594530.shtml>

## President Xi's state visit to UK opened 'golden era' of China-UK ties

China and UK issued a joint statement after President Xi met with UK Prime Minister David Cameron on 21st October. The statement reiterates the feasibility study of London-Shanghai Stock Connect for a long-term partnership. China seeks UK's support to join the European Bank for Reconstruction and Development. The UK will expand cooperation with China in finance, energy, creative industry and visa policy, and welcomes Chinese investment and supports China in reaching a free trade agreement with the European Union.

Following the state visit, CSRC hinted that the feasibility study would not simply copy the current Shanghai-Hong Kong Stock Connect model because of big differences in several factors: time zones, regulatory regimes, trading systems, market infrastructure, etc.

China-UK Joint Statement (English):

<https://www.gov.uk/government/news/uk-china-joint-statement-2015>

CSRC's comment on London-Shanghai feasibility study (Simplified Chinese):

[http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwfbh/201509/t20150925\\_284398.html](http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwfbh/201509/t20150925_284398.html)

## 2015 Venue News

### Senior CSRC official referenced Shenzhen in the 1-year anniversary for Shanghai-Hong Kong Stock Connect

In November, CSRC Vice Chairman Fang Xinghai said in the one-year anniversary symposium of the Shanghai-Hong Kong Stock Connect that CSRC will increase the investment quota and expand product scope once condition is matured, further strengthening cross-border supervisory cooperation with the SFC. He said the securities industry still needs to learn from Hong Kong in regards to market-orientation, internationalisation and legal aspects.

According to SSE, the program overall recorded a total trading amount of RMB2.13 trillion in its first year. Specifically, the Shanghai Stock Connect ran 230 trading days traded RMB1.54 trillion, with RMB120.7 billion (40%) of the total limit used; the Hong Kong Stock Connect ran 225 trading days traded RMB589.86 billion, with RMB92.148 billion (37%) of the total limit used.

Fang Xinghai's speech in the 1-year anniversary symposium in Shanghai (Simplified Chinese):

[http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwdd/201511/t20151117\\_286790.html](http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwdd/201511/t20151117_286790.html)

### China Europe International Exchange ("CEINEX") officially launched

CEINEX, a JV between Deutsche Borse, Shanghai Stock Exchange and China Financial Futures Exchange, was launched in Frankfurt on 18th November 2015 to offer RMB-denominated instruments. Initial product offerings are ETFs on Mainland Chinese's underlying assets and RMB-denominated bonds.

The two RMB-denominated ETFs that first started trading in CEINEX:

- Bank of China International (BOCI) Commerzbank SSE 50 A Share Index UCITS ETF (the "SSE 50 ETF", ISIN LU1306625283), and
- Commerzbank CCBI RQFII Money Market UCITS ETF (the "Money Market ETF", ISIN GB00BVJF7G73)

CEINEX web site:

<http://www.ceinex.com/>

## SSE new website, mobile app debut and more English information

In respond to the 25th anniversary of its opening, the SSE unveiled its new website and mobile app to improve information transparency and better communication with investors in December 2015. More English information of different investment channels for offshore investors under "International Investors" section of the main page, including QFII, RQFII and Shanghai-Hong Kong Stock Connect.

To access SSE's web site:

<http://english.sse.com.cn/>

## 2015 Personnel News

### CSRC announced responsibilities of two new Vice Chairmen

CSRC named two new Vice Chairmen and their responsibilities:

- Li Chao, former Deputy Head of SAFE, is charge of areas including intermediary and investment fund supervision, private equity funds supervision, Securities Association of China ("SAC"), China Futures Association ("CFA") and Asset Management Association of China ("AMAC");
- Fang Xinghai, a senior economic adviser of President Xi and former head of the International Economic Bureau at the Central Leading Group on Financial and Economic Affairs. He is responsible for the international cooperation and accounting departments.

Li Chao's profile:

(English):

[http://www.csrc.gov.cn/pub/csrc\\_en/about/who/lichao/201509/t20150918\\_284108.html](http://www.csrc.gov.cn/pub/csrc_en/about/who/lichao/201509/t20150918_284108.html)

(Simplified Chinese):

<http://www.csrc.gov.cn/pub/newsite/zjhjs/dbz/lichao/>

Fang Xinghai's profile:

(English):

[http://www.csrc.gov.cn/pub/csrc\\_en/about/who/fxh/201510/t20151030\\_285864.html](http://www.csrc.gov.cn/pub/csrc_en/about/who/fxh/201510/t20151030_285864.html)

(Simplified Chinese):

<http://www.csrc.gov.cn/pub/newsite/zjhjs/dbz/fangxinghai/>

### Sources:

<http://www.csrc.gov.cn>

<http://www.police.sh.cn>

<http://www.ceinex.com/>

<https://www.gov.uk>

<http://english.sse.com.cn>

<http://www.szse.cn>

<http://www.cffex.com.cn>

<http://www.imf.org>

<http://ignitesasia.com>

<http://www.bloomberg.com>

<http://www.chinamoneynetwork.com>

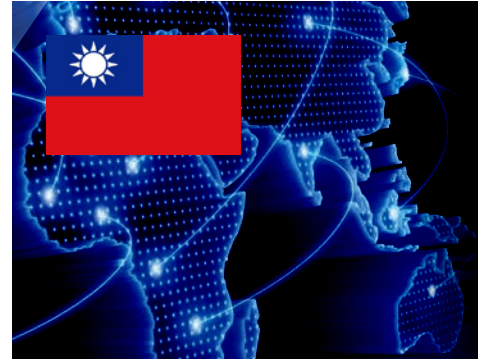
<http://www.reuters.com>

<https://www.msci.com>

<http://finance.sina.com.cn>

### Contact

Email: [global.marketstructure@list.db.com](mailto:global.marketstructure@list.db.com)  
Tel: +852 2203 5710



# Taiwan

## 2016 Market Structure

### Taiwan-Singapore Stock Connect to be launched in 2Q2016, further connections planned

TWSE and SGX sealed strategic partnership on 27th January 2016 to launch Taiwan-Singapore Stock Connect in 2Q 2016. The Connect will initially be limited to Taiwanese investors trading Singapore-listed stocks only (Southbound Trading) as the commencement of Northbound Trading is awaiting further announcement. The link was originally expected to come last year in July 2015 but was postponed.

TWSE's subsidiary, Global Link Securities, will join SGX as a remote trading member, allowing member brokers to directly trade SGX-listed securities through Global Link. As of end 2015, there were nearly 770 companies listed on the SGX with a total market capitalisation of S\$905 billion, and healthcare sector was the best performing sector last year.

It is expected that this link can help Taiwanese investors to save a significant amount of trading costs because the cost of trading overseas securities is 10 times that of trading Taiwanese stocks, according to news agency Financeasia which quoted TWSE President Michael Lin. Before this link, Taiwanese investors needed to place orders to a Taiwanese broker who then forwarded the orders to a broker in Singapore to execute the trades, in which each step increased the costs.

For the SGX statement see here:

[http://infopub.sgx.com/FileOpen/20160127\\_TWSE\\_and\\_SGX\\_sign\\_Strategic\\_Partnership\\_Agreement\\_TWSE\\_subsidary\\_to\\_join\\_SGX\\_as\\_remote\\_trading\\_member.ashx?App=Announcement&FileID=387454](http://infopub.sgx.com/FileOpen/20160127_TWSE_and_SGX_sign_Strategic_Partnership_Agreement_TWSE_subsidary_to_join_SGX_as_remote_trading_member.ashx?App=Announcement&FileID=387454)

### Taiwan eased day trading rules starting 1st February

Taiwan further relaxed its day trading rules for investors to construct more effective investment strategies and to boost turnover. Under the new regulations, day trading now includes stocks that are eligible for margin trading and short sales, so a total of 907 eligible stocks (~99% of total market capitalisation).

Since 2014, Taiwan has picked up the pace in expanding the scope of day trading. Before this expansion, there were about 250 stocks eligible for day trading, mainly large-cap stocks of major indices such as FTSE TWSE Taiwan 50 Index and the FTSE Taiwan Mid-Cap 100 Index, ETFs, and stocks used as underliers for warrants.

TWSE's announcement:

(English): [http://www.twse.com.tw/en/about/press\\_room/tsec\\_news\\_detail.php?id=18234](http://www.twse.com.tw/en/about/press_room/tsec_news_detail.php?id=18234)

(Traditional Chinese): [http://www.twse.com.tw/ch/about/press\\_room/tsec\\_news\\_detail.php?id=18198](http://www.twse.com.tw/ch/about/press_room/tsec_news_detail.php?id=18198)

To access the amended measures (Traditional Chinese):

<http://www.selaw.com.tw/LetterContent.aspx?Soid=7877>

For more information about day trading in TWSE:

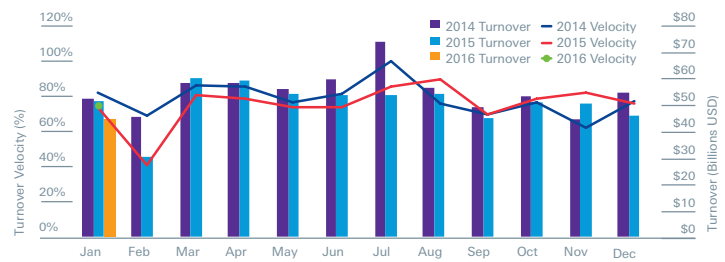
(English): [http://www.twse.com.tw/en/products/trading\\_rules/day\\_trading.php](http://www.twse.com.tw/en/products/trading_rules/day_trading.php)

(Traditional Chinese): <http://www.twse.com.tw/ch/trading/information/information5.php#9>

TWSE's Youtube briefing about the relaxation (Traditional Chinese):

[https://www.youtube.com/watch?v=svdq\\_tQqFr8](https://www.youtube.com/watch?v=svdq_tQqFr8)

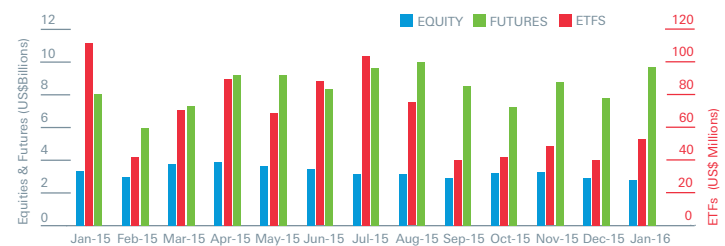
Fig 1: Turnover Velocity



Source: Thomson Reuters

Fig 1. Turnover velocity January 2016: 73% January 2015: 73% January 2014: 81%

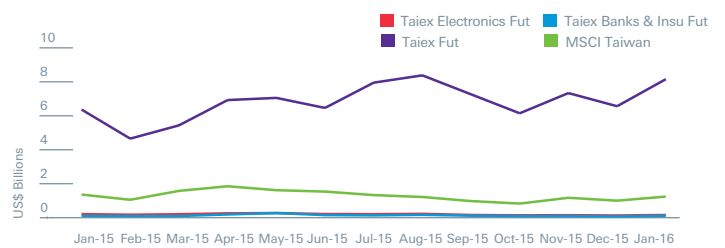
Fig 2: Equities(Cash), Futures and ETFs Monthly ADV



Source: Thomson Reuters

Fig 2. Foreign institutional investors have been net sellers across the Asian markets in January 2016, with Korea and Taiwan witnessing the largest outflow at US\$ 2.4 billion each. Foreign investors have withdrawn over US\$ 7Bn worth of funds so far from Asian equities in 2016, which is the largest fund outflow since 2008.

Fig 3: YoY futures average daily turnover



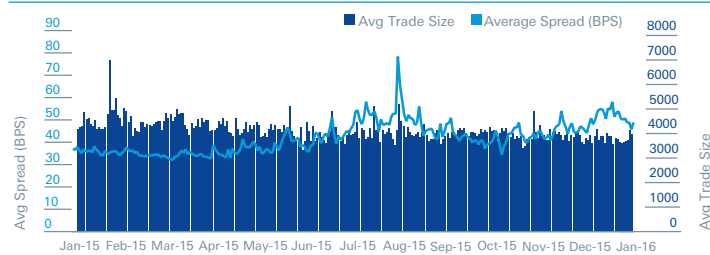
Source: Thomson Reuters

Fig 3. TWSE and TAIEX introduced "Trading halt mechanism" from 15th January 2016. Under this mechanism when TWSE stops trading on a specific security for a certain time, trading of corresponding futures and options contracts at TAIEX would be halted till the trading of that particular security at TWSE is resumed.

### Amended margin trading and securities lending rules become effective

In Issue 38 and 40, we highlighted FSC's liberalisation of the securities lending market by allowing consenting retail long holders to lend securities to their brokers outside of the margin system. Previously, retail brokers in Taiwan were able to lend only the collateralised securities of their margin trading clients. The amendments also extended certain maximum loan term to 18 months from 12 months.

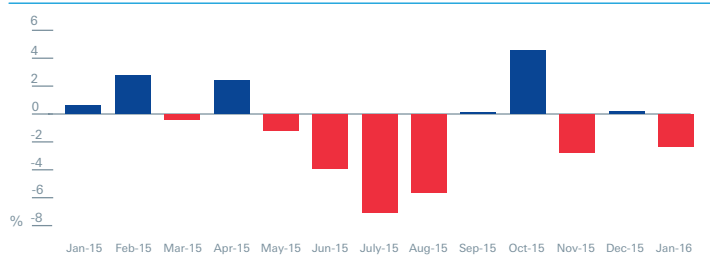
Fig 4: Average Index Spread and Trade Sizes



Source: Thomson Reuters

Fig 4. Liquidity continues to become costlier to access as trading spreads widen and average trade sizes become narrower.

Fig 5: MoM Index Price Change



Source: Thomson Reuters

Fig 5. Compared to global markets Taiwan index was relatively less impacted from the market volatility in January, down only 2% after closing the year 2015 positive up 0.3%.

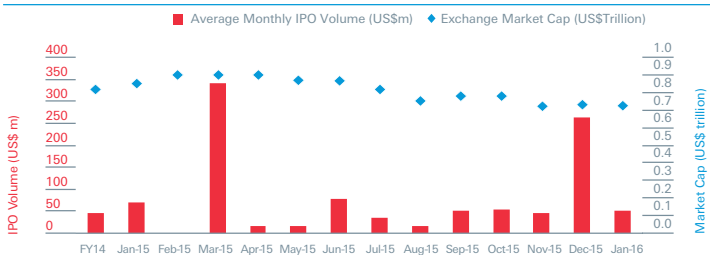
Fig 6: Large and Mid Cap Index movers

Market Movers - Large Cap				Market Movers - Mid Cap			
Stock	Price Return	Volume traded (US\$)	20D/100D ADT	Stock	Price Return	Volume traded (US\$)	20D/100D ADT
5264.TW	30%	127,496,100	0.98	3041.TW	41%	114,597,000	2.34
4426.TW	21%	230,666,400	0.73	3062.TW	37%	79,827,830	3.41
2103.TW	20%	26,677,320	0.88	2419.TW	34%	208,361,200	4.36
2393.TW	19%	176,399,500	1.55	1473.TW	27%	58,574,100	5.04
6230.TW	19%	245,383,600	2.29	1541.TW	26%	18,832,470	0.54
2514.TW	-12%	7,783,427	1.02	6120.TW	-13%	3,868,645	0.41
2227.TW	-13%	16,774,110	0.48	6443.TW	-14%	13,250,350	0.44
3673.TW	-14%	711,179,500	0.72	1467.TW	-15%	30,777,700	1.85
2849.TW	-17%	6,802,939	0.82	4119.TW	-16%	88,287,420	0.81
2337.TW	-18%	14,233,320	0.84	2534.TW	-18%	6,719,915	0.95

Source: Thomson Reuters

Fig 6. 47 new listings in the year 2015, PricewaterhouseCoopers (PwC) expect the number of companies doing IPO in Taiwan is expected to remain the same in 2016, with technology and bio-tech sectors again leading the listings.

Fig 7: Avg Monthly IPO size and Exchange Market Cap



Source: Dealogic

Fig 7. 47 new listings in the year 2015, PricewaterhouseCoopers (PwC) expects the number of companies doing IPO in Taiwan is expected to remain the same in 2016, with technology and bio-tech sectors again leading the listings.

On 1st February 2016, the rules came into effect and retail investors now have more exposure to the new securities lending program so most brokerages are running marketing campaigns onshore to promote this new business opportunity.

To access the amended rules (Traditional Chinese), please click below:  
[http://www.fsc.gov.tw/ch/home.jsp?id=128&parentpath=0,3&mcustomize=law\\_new\\_view.jsp&dataserno=201511020001&aplistdn=ou=newlaw,ou=chlaw,ou=ap\\_root,o=fsc,c=tw&toolsflag=Y&dtable=NewsLaw](http://www.fsc.gov.tw/ch/home.jsp?id=128&parentpath=0,3&mcustomize=law_new_view.jsp&dataserno=201511020001&aplistdn=ou=newlaw,ou=chlaw,ou=ap_root,o=fsc,c=tw&toolsflag=Y&dtable=NewsLaw)

TWSE's news announcement (English):

[http://www.twse.com.tw/en/about/press\\_room/tsec\\_news\\_detail.php?id=18256](http://www.twse.com.tw/en/about/press_room/tsec_news_detail.php?id=18256)

Taiwan introduced trading halt mechanism for companies announcing material information

Starting 15th January 2016, firms listed on Taiwan's main stock exchange and in its OTC market can apply to the Taiwan Stock Exchange ("TWSE") for temporary suspension ahead of disclosing potentially price-impacting material information.

Items of material importance include: reducing capital, suspending operations, announcing new technology, merger activity, shares conversion or transfer, and stock splits and swaps. Additionally, an issuer may apparently request suspension in the event of a pending profit warning or media reports about the issuer with the potential to impact its share price. TWSE could initiate trading suspension as well if circumstance warrants.

Media reports suggested TWSE looked to foreign exchanges including Singapore, Hong Kong and the NASDAQ in setting the new rules.

Highlights of the mechanism:

- Length of trading suspension: at least 1 day but not more than 3 business days
- Products scope: TWSE-listed securities, including its warrants, convertible bonds and futures. ETFs which include that particular stock are not in scope.
- Resumption of trading if any of the following requirements is met:
  - (i) A full explanation is provided of the information relevant to the cause for the suspension
  - (ii) The suspension is no longer necessary due to a change of circumstances

Investors can find information and the list on trading halt (resumption) on TWSE's Market Information System (<http://mis.twse.com.tw>), and related material information on trading halt (resumption) announced by TWSE-listed companies can be found on the Market Observation Post System (<http://mops.twse.com.tw>).

For more information:

English version of the rule:

<http://eng.selaw.com.tw/LawArticle.aspx?LawID=FL007111&ModifyDate=1040713>

Chinese version of the rule:

<http://twse-regulation.twse.com.tw/TW/law/DAT01.aspx?FLCODE=FL007111>

TWSE's announcement (Chinese):

[http://www.twse.com.tw/docs1/data01/set/public\\_html/1041803064.htm](http://www.twse.com.tw/docs1/data01/set/public_html/1041803064.htm)

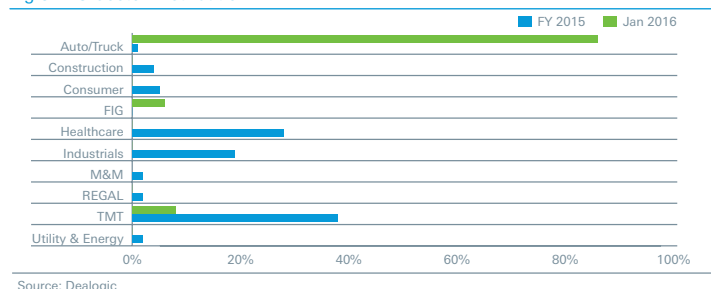
TWSE's announcement (English):

[http://www.twse.com.tw/en/about/press\\_room/tsec\\_news\\_detail.php?id=17771](http://www.twse.com.tw/en/about/press_room/tsec_news_detail.php?id=17771)

TWSE's summary in Youtube (Traditional Chinese):

<https://www.youtube.com/watch?v=mC-U2Gr6xfg>

Fig 8: IPO Sector Distribution



	# of IPO	1 day	1 month	Current
Jan-15	5	36%	26%	-5%
Feb-15	-	-	-	-
Mar-15	8	17%	33%	51%
Apr-15	2	52%	30%	13%
May-15	4	44%	10%	76%
Jun-15	2	35%	53%	2%
Jul-15	2	3%	-25%	-8%
Aug-15	1			
Sep-15	2	31%	88%	33%
Oct-15	5	30%	73%	39%
Nov-15	7	132%	49%	48%
Dec-15	9	6%	-9%	-9%
Jan-16	3	67%		53%

Source: Dealogic

### Taiwan still backed by stabilisation fund

While the Central Bank reassured the public that Taiwan unlikely hit by an economic crisis, the Finance Minister Chang Sheng-ford said in early January that Taiwan’s stabilisation fund (the National Stabilisation Fund, “NSF”) was still in place to buoy the Taiwan markets.

“While current fund numbers are not convenient to disclose, the Finance Ministry will continue to keep a close eye on Taiwan’s markets,” Mr. Chang said. He also stated that only a “portion” of the funds totalling NT\$500 billion have been used as of early January. “There is still a large portion of the funds yet to be employed.”

NSF, a NT\$ 500 billion asset pool established by Taiwan’s government in 2000 and charged with maintaining stability in Taiwan’s stock market, had its first intervention in 4 years and market rose sharply following its announcement on 26th August 2015. Previously, it bought shares to support the market in 2008 financial crisis and in 2011 the European debt crisis.

At a pledging ceremony organised by the FSC amid market slump last summer, about 200 participants, including senior bank managers and members of the Taiwan Financial Services Roundtable, the Bankers Association, the Life Insurance Association and the Fire and Casualty Insurance Association, were called upon to help stabilise the market.

The FSC was also reportedly considering measures to allow domestic commercial banks to increase their equity holdings from 25% of their net worth to 30%.

### Reinforcing regulatory requirements for credit rating agencies

On 31st December 2015, the FSC introduced amendments to the “Regulations Governing the Administration of Credit Rating Agencies” to enhance the quality of domestic credit rating services.

Highlights of the amendments include:

- (1) enhancing sound business operation of credit rating agencies and quality of credit ratings;

- (2) strengthening the requirements around the scope and content of information disclosure by credit rating agencies;
- (3) requiring credit rating agencies to comply with international financial reporting standards recognized by the FSC when preparing financial reports;
- (4) adding provisions regarding prevention of conflict of interests to strengthen independence of credit rating agencies.

For more information (Traditional Chinese):

[http://www.fsc.gov.tw/ch/home.jsp?id=128&parentpath=0,3&mcustomize=lawn\\_ew\\_view.jsp&dataserno=201512310002&toolsflag=Y&dtable=NewsLaw](http://www.fsc.gov.tw/ch/home.jsp?id=128&parentpath=0,3&mcustomize=lawn_ew_view.jsp&dataserno=201512310002&toolsflag=Y&dtable=NewsLaw)

### Taiwan to help local banks to expand into Southeast Asia

Last November, Taiwan Presidential Ma said in the Asian Bankers Association 32nd Conference that the government will relax investment regulations and provide assistance to help local banks to expand into Southeast Asia. According to World Bank’s annual “Doing Business” rankings, Taiwan rose to 11th from 61st since his first term in 2008.

Taiwanese financials should continue to increase their capital size while the government will help them to expand by removing unnecessary regulatory restrictions, which will help boost the Taiwanese economy.

### Taiwan Index Plus Corp. launched to develop index investments

Taiwan Index Plus Corp. (“TIP”), as a wholly-owned subsidiary of TWSE, was launched in late January 2016 to promote index investment in Taiwan. It is Taiwan’s first professional index and information service provider with goals to accelerate and diversify index development, promote cross-market product collaborations, and will collaborate with foreign stock exchanges, index companies and investment companies to develop indices.

TIP’s announcement said that domestic investors are used to active investment by selecting their own stocks or purchase open-ended funds, however, this gives rise to non-systemic risks caused by human misjudgment. Therefore, there is increasing demand for passive investment (i.e. index investment) and the concept is maturing in Taiwan.

Investors are welcome to visit the TIP official website for more information at: <http://www.taiwanindex.com.tw>

To access TIP’s announcements (Traditional Chinese):

<http://www.taiwanindex.com.tw/news/3>

<http://www.taiwanindex.com.tw/news/2>

### FSC may expand investment scope for ministries to include domestic equity ETFs

As mentioned in Issue 37, the FSC was planning to extend domestic Taiwanese equity ETF investment opportunities to 57 related financial entities and institutions of 15 ministries in Taiwan. This move is aimed at helping the financial entities generate better returns and enhance their assets whilst also helping to reduce the concentration of China-A share related ETF investment that is currently observed in the Taiwan market. It is also hoped that this relaxation of investment scope will increase the scale of Taiwan’s capital market and market liquidity.

This move is likely to include ministries such as Ministry of Economic Affairs and Ministry of Transportation and Communication which currently hold approximately US\$6.32 billion in assets with an annual return of under 1%. The annualised ROI for 17 domestic Taiwanese equity ETFs over the last 10 years was 4.36%.





## Japan

### 2016 Market Structure

#### Japan's regulator queries brokerages on high frequency trading ("HFT") and dark pools

According to Bloomberg, the Japan's Securities and Exchange Surveillance Commission ("SESC") sent out questionnaires to brokerages in late January about trading operations of their HFT and dark pools. Currently, Japan has limited formalised regulation aimed specifically at electronic trading and this is an area that global regulators have been focussed on in recent years.

In the questionnaire, it defines HFT firms as clients who place trading instructions at or close to the exchange, who have "fast direct electronic access" to the market, use machines to place orders and who place orders rapidly. It also asks brokers about the following:

- Services scope, fee structures between HFT and non-HFT clients, as well as client accessibility to dark pools
- Sampling of order and trading data
- Employment of pre trade checks and brokers' ability to trigger a "kill switch" for client trading in the case of an emergency
- Management of proprietary trading system hosted at overseas exchanges
- Roles of HFT firms in broker's dark pools

This move came after local regulators mentioned 'algo trading' in their annual administration report for the first time last year, saying there were not enough regulatory efforts to monitor HFT which made up 53% of transactions on TSE last September. Given this commentary it is not unlikely that the questionnaire will be followed by further regulation.

Brokers were requested to complete a questionnaire by 12th February 2016.

#### JSDA publishes interim report on reducing settlement cycle of Japanese equities

Last December, the Japan Securities Dealers Association ("JSDA") published an interim report on the settlement cycle reduction from T+3 to T+2 of Japanese equities. A final report will be released in Q2 2016.

The interim report addresses expected impacts and possible measures, tentatively setting the target date in H1 2019. The change will apply to domestic trades and cross border/offshore trades. Therefore, settlement cycle will be tightened by 1 day for non-resident investors and intermediaries as well.

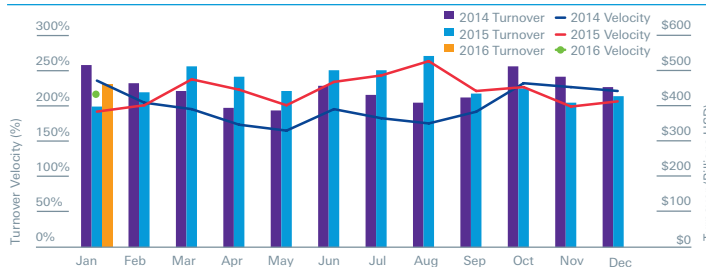
JSDA will continue to discuss remaining items which include the following:

- To speed up stock lending and borrowing process, with further trading platform arrangement
- To study settlement failure rules and remedy
- To examine cover transaction flow for stock lending and borrowing through securities finance company

JSDA interim report:

[http://www.jsda.or.jp/en/newsroom/researches-studies/html/t2\\_interim\\_report.html](http://www.jsda.or.jp/en/newsroom/researches-studies/html/t2_interim_report.html)

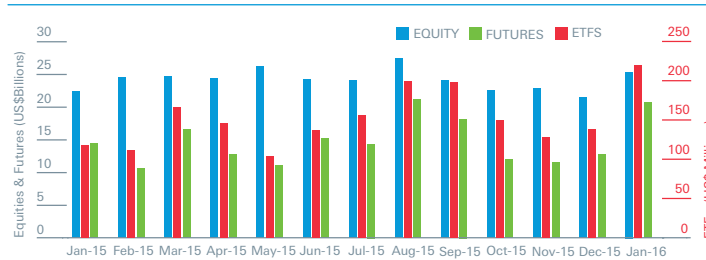
Fig 1: Turnover Velocity



Source: Thomson Reuters

Fig 1. Turnover velocity January 2016:215% January 2015:192% January 2014:235%

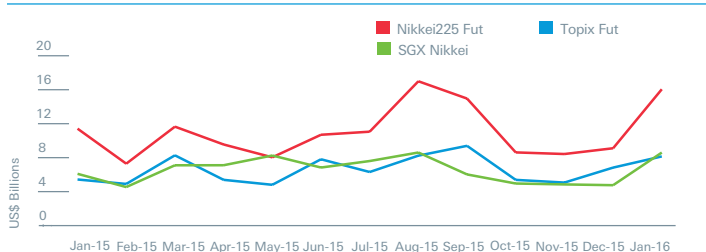
Fig 2: Equities(Cash), Futures and ETFs Monthly ADV



Source: Thomson Reuters

Fig 2. BOJ announced in December 2015 that it will allocate JPY 300Bn of assets annually in purchasing ETFs that seek to follow the JPX-Nikkei Index 400, which comprises companies that carry out operation without violating the corporate-governance criteria.

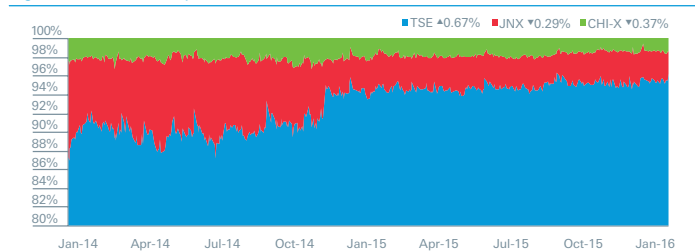
Fig 3: YoY futures average daily turnover



Source: Thomson Reuters

Fig 3. Trading volumes in index futures is up 50% for Nikkei 225, and up 40% for Topix and SGX Nikkei futures. In 2016, Tokyo stock exchange plans to add 3 new futures contracts – TSE Mothers Index Futures, FTSSSE China 50 Index Futures, TAIEX Futures.

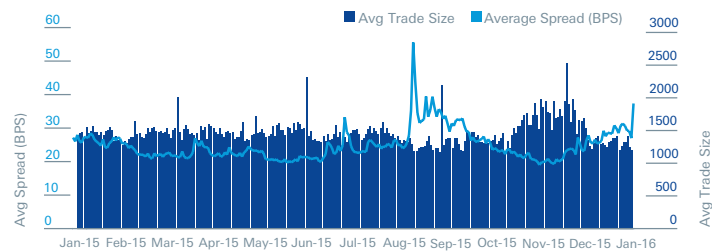
Fig 4: Market Share by Venue



Source: Thomson Reuters

Fig 4. Following the last round of tick optimization program in Japan, the market share of TSE has not changed significantly. Chi-X and Japannext together still keep ~4% of total equities market share.

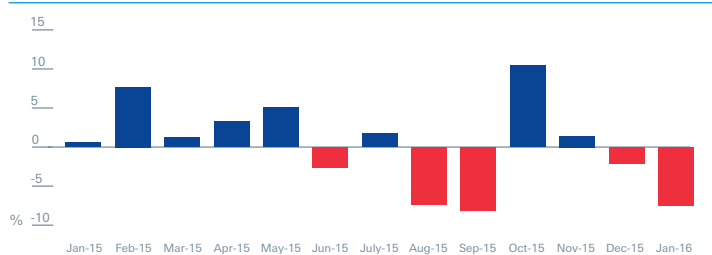
Fig 5: Average Index Spread and Trade Sizes



Source: Thomson Reuters

Fig 5. Similar to rest of the region, average spreads are wider owing to increased volatility and average trade size small

Fig 6: MoM Index Price Change



Source: Thomson Reuters

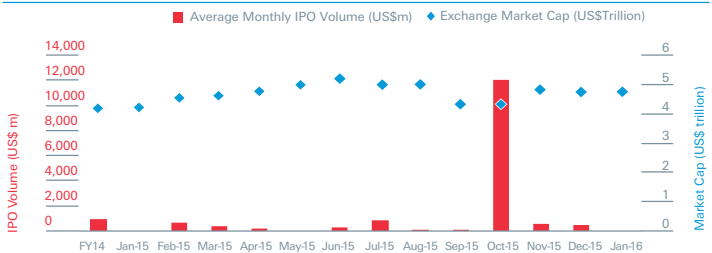
Fig 6. Nikkei index in Japan dropped 7% in the first month of January 2016 after closing 2015 down 2% for the full year.

Fig 7: Large and Mid Cap Index movers

Market Movers - Large Cap				Market Movers - Mid Cap			
Stock	Price Return	Volume traded (US\$)	20D/100D ADT	Stock	Price Return	Volume traded (US\$)	20D/100D ADT
8114.T	22%	67,823,230	1.87	3778.T	85%	2,468,258,000	5.95
4044.T	19%	139,075,500	1.56	2792.T	24%	27,494,650	2.09
4666.T	17%	674,757,300	1.65	3333.T	20%	49,945,810	1.69
8060.T	17%	125,692,300	1.46	3091.T	18%	28,459,630	1.18
7262.T	17%	887,946,500	1.52	4549.T	17%	53,139,630	1.79
7013.T	-23%	1,158,959,000	1.20	6816.T	-26%	186,424,100	1.36
6770.T	-26%	2,403,428,000	0.94	7312.T	-28%	180,512,700	0.81
4733.T	-27%	82,857,690	1.13	7408.T	-30%	78,126,430	0.81
6807.T	-30%	344,453,200	1.00	9517.T	-33%	214,701,800	2.96
2193.T	-38%	1,017,011,000	2.31	9424.T	-34%	94,921,350	0.66

Source: Thomson Reuters

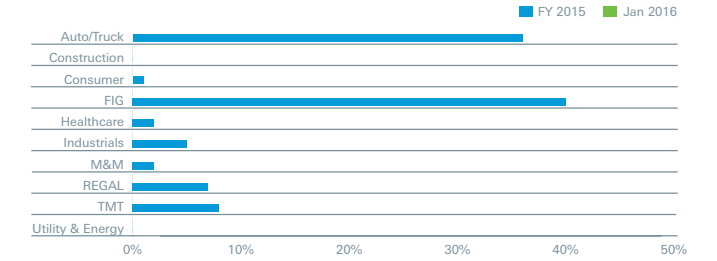
Fig 8: Avg Monthly IPO size and Exchange Market Cap



Source: Dealogic

Fig 8. New IPOs in Japan totaled 99 in FY 2015, which is the highest level since 2007 and up from 80 in 2014. Companies that are expected to go public in 2016 include JR Kyushu, which is one of Japan Railways Group firms born out of the 1987 breakup and privatization of the Japanese National Railways.

Fig 9: IPO Sector Distribution



Source: Dealogic

Fig 10: IPO Performance

	# of IPO	1 day	1 month	Current
Jan-15	-	-	-	-
Feb-15	7	50%	34%	10%
Mar-15	17	47%	77%	17%
Apr-15	11	49%	102%	74%
May-15	-	-	-	-
Jun-15	14	65%	78%	14%
Jul-15	7	42%	71%	31%
Aug-15	9	14%	16%	-9%
Sep-15	3	67%	64%	65%
Oct-15	8	65%	65%	1%
Nov-15	8	87%	120%	97%
Dec-15	15	51%	12%	10%
Jan-16	-	-	-	-

Source: Dealogic

### JPX explores Blockchain technology for its financial business operation

The Japan Exchange Group (“JPX”), operator of the Tokyo Stock Exchange and Osaka Securities Exchange, further announced in February a collaboration with IBM Japan on proof-of-concept (“PoC”) tests on Blockchain technology.

JPX notes Blockchain technology might be used to construct shared infrastructure to provide high availability and reliability at low costs, yet cautions are there are still issues to be resolved in the technology before it can be applied to actual financial business operations.

The purpose of the proof-of-concept testing is to “to evaluate the limits and possibilities of the technology in markets that have low transaction data volume”.

News release, Japan Exchange Group, February 16, 2016:

<http://www.jpx.co.jp/english/corporate/news-releases/0010/20160216-01.html>

### Asian Investor Top Net Foreign Buyers of Japan Equities in 2015

Asian nations bought a net JPY428.2 billion (US\$3.62 billion) of equities on the Tokyo Stock Exchange in 2015, compensating for a drawdown in foreign holdings by American and European funds.

Asia’s upper class are expected to have combined assets of US\$43 trillion by 2020 according to consultancy PWC. This figure amounts to more than double the asset base of upper class Asian investors in 2012, and exceeds the current total assets of their European and North American counterparts.

### Japan keen to join China’s RQFII programme

Last November, Japan’s finance minister Taro Aso asked his Chinese counterpart to include Japan in the RQFII programme, according to Wall Street Journal. RQFII allows foreign investors to invest directly in China’s bond and stock markets using RMB raised offshore.

If Japan is admitted into the programme, Japanese asset managers would be able to create more investment products and help funnel more of Japan’s trillions of yen in savings into Chinese markets.

## 2016 Venue News

### JPX's key initiatives for derivatives in 2016

While JPX is planning cash equities initiatives for 2016, it has already fixed some key developments for 2015 in its Osaka Stock Exchange. Highlights:

#### 1. New derivatives matching engine, extending trading hours and products [Effective: Mid 2016]

– New derivatives matching engine “Genium INET Trading” to replace current J-GATE(Click XT)

– New features: New products, extended trading hours, mandatory pre-trade risk control functions (see tables below)

– ITCH protocol for market data feed

#### Key Features

Item	Changes
Extension of Trading Hours	- Equity Index Futures and options: 9:00 AM to 3:00 AM > 8:45 AM to 5:30 AM - Nikkei VI Futures: 9:00 AM to 3:15 PM > 9:00 AM to 7:00 PM
Introduction of Non-Cancel-Period	- Time periods where order amendments/cancellations are not allowed.
Application Based Strike Price	- Participants' request based strike price can be added. - Requested strikes will be listed on the next day from the application.
Mandatory Use of Hard Limit Function	- ALL Market participants are required to use the Hard Limit feature provided by OSE.
New Products	- TSE Mothers Index Futures - JPX Nikkei Index 400 options - FTSE China 50 Index Futures - TAIEX Futures

Source: JPX

#### New products

Item	TSE Mothers Index Futures	FTSE China 50 Index Futures	TAIEX Futures
Underlying Index	TSE Mothers Index	FTSE China 50 Index	TAIEX
Trading Hours	8:45-15:15, 16:30-5:30 (JST, GMT+9)	8:45-15:15, 16:30-5:30 (JST, GMT+9)	8:45-15:15 (JST, GMT+9)
Contract months	5 quarterly contract months	Nearest 2 contract months and 3 quarterly contract months	Nearest 2 contract months and 3 quarterly contract months
Last Trading Day	The business day prior to the 2 <sup>nd</sup> Friday	The trading day which ends on the day prior to the last day of each contract month.	The trading day which ends on the third Wednesday* of each contract month.
Contract Size	TSE Mothers Index * JPY 1,000	FTSE China 50 Index * JPY 100	TAIEX * JPY 100
Tick Size	0.5pts. (= JPY 500)	5.0 pts. (= JPY 500)	1.0 pts. (= JPY 100)
Price Limit	(Normal) 8% / (1st expansion) 12% / (2 <sup>nd</sup> expansion) 16%	(Normal) 10% / (1st expansion) 15% / (2 <sup>nd</sup> expansion) 20%	10%
Circuit Breaker	Applicable	Applicable	Not Applicable
Trading Hours	8:20-16:00, 16:15-5:30(T+1 session) *JST, GMT+9	8:20-16:00, 16:15-5:30(T+1 session) *JST, GMT+9	Not Applicable
J-NET (block trade) Tick Size	0.0001 pts. (= JPY 1)	0.0001 pt. (= JPY 0.01)	Not Applicable
Price Range	Last Traded Price +/- Base Price x 8%	+/- 8% of the base price for the daily price limits	Not Applicable

- Tokyo Stock Exchange Mothers Index Futures
- FTSE China 50 Index Futures
- TAIEX Futures (TWSE Capitalization Weighted Stock Index)
- JPX-Nikkei Index 400 Options

Item	Outline						
Underlying Index	JPX-Nikkei index 400						
Trading Hours	9:00-15:15, 16:30-5:30 (T+1 session) *JST, GMT+9						
Contract months	5 quarterly contract months						
Last Trading Day	The business day prior to the 2 <sup>nd</sup> Friday of the month						
Contract Size	JPX-Nikkei Index 400 * 1,000JPY						
Tick Size	<table border="1"> <thead> <tr> <th>Premium</th> <th>Tick Size</th> </tr> </thead> <tbody> <tr> <td>Less than 50pts.</td> <td>1.0 pt.</td> </tr> <tr> <td>50pts. or more</td> <td>5.0 pts.</td> </tr> </tbody> </table>	Premium	Tick Size	Less than 50pts.	1.0 pt.	50pts. or more	5.0 pts.
Premium	Tick Size						
Less than 50pts.	1.0 pt.						
50pts. or more	5.0 pts.						
Price Limit	(Normal) 8% / (1st expansion) 12% / (2 <sup>nd</sup> expansion) 16%						
Circuit Breaker	Applicable						
Strategy	Applicable (calendar spread only: implied function NOT available.)						
Trading Hours	8:20-16:00, 16:15-5:30(T+1 session) *JST, GMT+9						
J-NET Transaction (block trade) Tick Size	0.0001pt.						
Price Range	Last Traded Price +/- Base Price x 8%						
Min. quantity	1 contract						
Last Settlement	Cash settlement by 5Q Price						
Exchange Fee	7 JPY per contract						
Clearing Fee	2 JPY per contract						

Source: JPX

## 2. JPX JGB Futures Index Series [Effective: Mid 2016]

The indices of “JPX JGB Futures Index Series” will be calculated based on the daily rate of return of the JGB Futures.

Item	Outline
Index Name	JPX JGB Futures Index JPX JGB Futures Inverse Index JPX JGB Futures Leveraged Index JPX JGB Futures Double Inverse Index
Calculation Method	The nearest contract month will be used for calculation (the second contract month will be used from the business day prior to the last trading day of the first contract month).
Frequency of Calculation and Publication of Index Value	Published once a day on daily base by “J-GATE” (closing price basis)
Start of Calculation and Publication	Middle of 2016 (Cut over day of the Next “J-GATE” )

Source: JPX

### J.C. Flowers buys Chi-X Japan, Chi-X Australia and Chi-Tech Hong Kong

Chi-X Global Holdings has sold its Japan and Australia venues as well as the technology support based in Hong Kong to private investment firm J.C. Flowers in 1Q 2016, pending regulatory approvals. According to Bloomberg, Chi-X handles about 11% of on-market trades in Australia and less than 2% of equity transactions in Japan. Makoto Nagahori will remain as head of Chi-X Japan under J.C. Flowers.

### JPX announced change in organisational structure

In February, JPX said they are formulating its second medium-term management plan for FY2016-FY2018. The detailed plan will be announced in March 2016 and come into effective on 1st Apr 2016.

Outline of the main changes by JPX:

#### 1. Promotion of asset formation by retail investors

New Financial Literacy Support departments will be set up in Tokyo Stock Exchange (“TSE”) and Osaka Exchange (“OSE”) to strengthen promotion to retail investors and investor education for the purpose of supporting asset building by individuals.

#### 2. Expansion of the derivatives market

A new Derivatives Business Development department will be set up in OSE to strengthen the sales and marketing functions for derivatives. Along with this change, the Market Business Development department in TSE will be reorganized as a new Equities Business Development department.

#### 3. Strengthening of foundations for global business

A new Global Strategy department will be set up in JPX to allow the corporate group to swiftly and adequately forge deeper ties with other exchanges, strengthen its overseas offices, and secure overseas business opportunities.

#### 4. Strengthening of coordination on clearing and settlement

A Clearing & Settlement Development department will be set up in JPX to strengthen and facilitate coordination in the field of clearing and settlement among the corporate group. The new department will take over the coordination and planning functions of the current Clearing and Settlement department in TSE.

For more information see here:

<http://www.jpjx.co.jp/english/corporate/news-releases/0063/b5b4pj000000xmzr-att/20160223EN.pdf>

## Japanese automotive Network eXchange (“JNX”) key initiatives in 2016

SBI Japannext (“JNX”) is planning to upgrade its system to from current 100,000msg/sec to 200,000msg/sec after JPX upgraded theirs in September last year. Official launch will be sometime in May 2016. Further details to be announced.

## Japanese Stock Exchanges Commit To Transitioning to 100-Share Trading Units with Deadline

In a joint announcement on 17th December, 2015, all domestic stock exchanges in Japan committed to reducing trading unit to a single 100-share standard, down from the two lots (100-share and 1000-share) currently in force. Approximately 73% of all listed companies are currently being traded in 100-share lots, leaving 27.4% of listed companies in 1000-share lots yet to transition.

The relevant domestic exchanges include: Tokyo Stock Exchange (TSE), Nagoya Stock Exchange (NSE), Fukuoka Stock Exchange (FSE) and Sapporo Stock Exchange (SSE).

The deadline for transition is 1st October, 2018.

For the full notice click here:

<http://www.jpx.co.jp/english/news/1020/b5b4pj000000v6j8-att/20160107-01.pdf>

## 2015 Market Structure

### New Corporate Governance Code came into effective

Japan’s new Corporate Governance Code (“the code”) became effective in June 2015. It was introduced to help align Japan with internationally accepted best principles and therefore addressing a perceived gap between Japan and their peers. The code is split into the following five sections:

1. Shareholder rights and equal treatment of shareholders;
2. Proper cooperation with stakeholders;
3. Proper disclosure and transparency;
4. Responsibilities of the boards; and
5. Shareholder engagement.

It is intended to be applicable to all companies listed in Japan though the code is deliberately drafted under a principle-based approach. Companies are therefore encouraged to comply with the spirit of the principles but are not forced to so long as their reasons for not doing so are explained.

The full code details can be accessed here:

<http://www.jpx.co.jp/english/equities/listing/cg/index.html>

### Japanese government created a study group for ‘fintech’

Japanese government has created a panel headed by the Ministry of Economy, Trade and Industry to explore ways for financial technology (“fintech”) to be a growth industry. “Fintech” refers to financial services using the latest technologies, such as settlement services and asset management using smartphones, big data and artificial intelligence.

The panel members meet a couple of times a month to discuss possible collaboration between financial institutions and venture companies, and how fintech can change the way companies raise funds and households build up their assets.

It is worth noting that Financial Services Agency (“FSA”) had already created similar study group and had its first meeting in May 2015.

## 2015 Venue News

### TSE went live with Arrowhead renewal, including Phase III tick size changes

In Issue 39, we mentioned that TSE revamped its matching engine last September with the following key changes:

1. TSE Arrowhead+
  - TSE Equity matching engine protocol upgrade;
  - Dummy symbols for testing with live exchange intra-day;
  - Cancel on disconnect;
  - Kill switch (disable trading on a given virtual terminal upon broker instruction);
  - Limit controls per exchange connection (virtual terminal);
  - Increased bandwidth per exchange connection (60 msg/sec -> 200 msg/sec);
  - Microsecond time stamp on exchange executions and;
  - Market data changes – new fields.

### 2. TSE Phase III Tick Size Optimisation

The tick size changed for TOPIX 100 constituents. For more details on Phase III tick size optimization please refer to

<http://www.jpx.co.jp/english/news/1030/20150908-01.html>

### 3. TSE Access Point 3

New access point for faster connectivity between Cube, the @Tokyo Data Center and the TSE matching engine with the new interconnect point AP3 reducing the latency “speed bump” for accessing the matching engine from outside co-location from around 250us to around 54us.

4. Significant increase in capacity and decrease in latency with:
  - Total exchange daily capacity going from 135 million messages to 270 million messages;
  - Order placement maximum total throughput at the matching engine from 30K messages/second to 50K messages/second;
  - Market data propagation latency from 2-2.5ms to less than 1ms; and
  - Ack latency from about 1ms to 500us

Details of September 2015 enhancements:

<http://www.jpx.co.jp/english/systems/equities-trading/renewal.html>

[http://www.jpx.co.jp/english/news/detail/detail\\_1152.html](http://www.jpx.co.jp/english/news/detail/detail_1152.html)

### GPIF increased exposure to offshore fixed income

In Issue 37, we mentioned that The Government Pension Investment Fund (“GPIF”), the world’s largest public pension fund with ¥ 137 trillion (~US\$ 1.2 trillion) of assets, had radical change to their investment strategy to diversify its portfolio as it was previously heavily invested in onshore sovereign credits. New changes were : domestic bond allocation target reduced to 35 %; Japanese and foreign equities up from 12 % each to 25 % each; foreign bonds up from 11 % to 15 %; alternative investments can account for up to 5 %.

To know which are the selected managers for different assets please refer to:

<http://www.gpif.go.jp/en/topics/>

### High frequency trading through TSE's co-location service was 50% of TSE transactions as of October 2015

High-frequency trading through TSE's co-location service took up a record of 53% executed TSE trades last September. The average daily figure for August and September was around 46%. No. of orders placed by high frequency users represented 70% of total TSE.

The co-location service began in 2010 with TSE revamped its trading system and enhanced risk-management tools in response to the rise of high-speed trading. At the time the number of orders from high frequency executed transactions were only around 10% according to Nikkei Asian review.

Global market makers Susquehanna International Group and KCG Holdings Inc. gained 'remote membership' to stock exchanges in Japan, becoming the first to do so since Japan made it possible in 2009.

### TOPIX ETFs listed in TWSE; JPX to list TAIEX futures in mid-2016

Last September, Taiwan launched first ever ETFs to track Japanese stocks:

- Fubon TOPIX Leverage 2X Index ETF (BBERG: 00640L TT) and
- Fubon TOPIX Inverse -1X Index ETF (BBERG: 60641R TT)

The two ETFs try to provide 2 times leveraged returns and the inverse return on the TOPIX Index.

In addition to the listing of Japanese ETFs in Taiwan, Taiwan index futures will be listed in Japan in mid-2016 under an agreement signed between JPX-subsiary Osaka Exchange ("OSE") and the TWSE. The OSE has opened a public comment period for the contract specifications, which is based on the Taiwan Stock Exchange Capitalisation Weighted Stock Index ("Taiex"). The consultation ended in October 2015. For more details about the consultation please click: <http://www.jpx.co.jp/english/rules-participants/public-comment/detail/d08/20150908-1.html>

### S&P and JPX launched S&P/JPX Smart Beta Index series in Japan

S&P Dow Jones Indices ("S&P DJI"), Japan Exchange Group ("JPX") and Tokyo Stock Exchange ("TSE") announced the launch of the S&P/JPX GIVI (Global Intrinsic Value Index), an innovative benchmark measuring the risk-adjusted performance of Japanese equities. It was the first index launched as part of the S&P/JPX Smart Beta Index Series:

1. S&P/JPX GIVI (Global Intrinsic Value Index): Constructed from the universe of the Tokyo Stock Price Index (TOPIX), seeks to provide better risk adjusted exposure to Japan equities by combining low volatility with an alternative weighting scheme based on stocks' calculated intrinsic value, rather than market capitalization.
2. S&P/JPX Dividend Aristocrats Index: It measures the performance of constituents within TOPIX that have followed a policy of consistently increasing dividends every year for at least ten years.
3. S&P/JPX Risk Control Index (5%, 10% and 15%): This index series applies the S&P DJI risk control framework to TOPIX. It consists of a position in the TOPIX Total Return Index and a cash position based on the Domestic Interbank Unsecured Overnight Call Rate, with target volatility of 5%, 10% and 15%, respectively.

JPX press release:

[http://www.jpx.co.jp/english/news/1044/b5b4pj000000te8s-att/hp\\_en.pdf](http://www.jpx.co.jp/english/news/1044/b5b4pj000000te8s-att/hp_en.pdf)

### Japan Exchange Regulation ("JPX-R") opened new office to conduct market surveillance on cross-border transactions

Last September, JPX-R set up the International Surveillance Office ("ISO") to study foreign trends and regulations in "unfair trading" and "conduct surveillance of cross-border transactions" as majority of orders on the TSE and the OSE are originated outside the country.

The role of the ISO according to JPX-R:

- Monitor cross-boarder transactions
- Share information on market surveillance with foreign SROs
- Track foreign regulations and developments in "unfair trading"
- Engage in dialog with foreign participants in the Japanese market

JPX-R press release:

<http://www.jpx.co.jp/english/corporate/news-releases/20150828-01.html>

### Osaka Stock Exchange cut Nikkei 400 futures fees for Sep to Dec 2015

In a bid to increase retail participation in JPX-Nikkei 400 Futures, the OSE introduced a fee discount on JPX-Nikkei 400 Futures from September to December 2015 for trading participants. The OSE waived trading fees of ¥7 per contract, leaving traders to pay only the ¥2 per contract clearing fee.

JPX product page of Nikkei 400 Futures:

<http://www.jpx.co.jp/english/derivatives/products/domestic/jpx-nikkei400futures/index.html>

## 2015 Personnel News

### Senior Management changes at JPX

Last April, JPX announced a number of senior management changes including the following:

- Hiroki Tsuda appointed Chairperson of the Board of Directors at JPX, effective 16th June 2015.
- Koichiro Miyahara appointed President and CEO at TSE.

Hiromi Yamaji and Takafumi Sato were also reappointed as President and CEO of OSE and President of Japan Exchange Regulation respectively.

### Sources:

<http://www.jpx.co.jp>

<http://www.gpif.go.jp>

<http://www.tradersmagazine.com>

<http://www.jsda.or.jp>

<http://www.bloomberg.com>

<http://asia.nikkei.com>

### Contact

Email: [global.marketstructure@list.db.com](mailto:global.marketstructure@list.db.com)  
Tel: +852 2203 5710



# India

## 2016 Market Structure

### India Budget Highlights

2016-17 Union budget of India was presented before the parliament on 29th February 2016 by the Finance Minister of India, Arun Jaitley. Mr. Jaitley laid much emphasis on farmers, agriculture, growth, investment and infrastructure in his speech.

Below were some of the highlights from the 2016-17 Union budget of India:

- Reiteration of GAAR being introduced in 2017
- STT increased for options
- Liberalisation in FDI policy
- Clarity on MAT
- Depth to be created in WDM
- Recap of Public sector banks
- No change in duration of long term capital gains on equities
- Share of plan expenditure rise from 26.7% to 28%
- Removal of Dividend distribution tax on Real Estate/Infrastructure Investment Trust

For more information click here

<http://indiabudget.nic.in/ub2016-17/bh/bh1.pdf>

### SEBI may reexamine high frequency trading following RBI recommendations and NSE whistle blower case

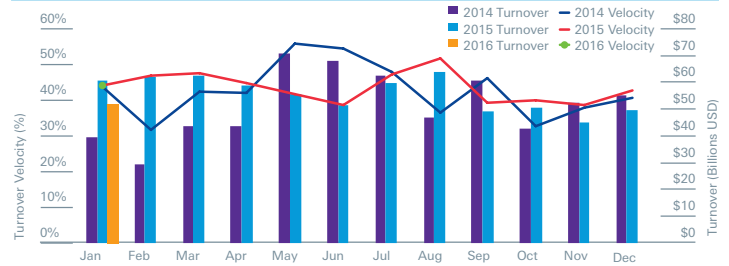
Previous newsletters have touched on the growing scrutiny of algorithmic and high frequency trading in India, alongside other regional and global regulators. In Issue 38 we mentioned that the Reserve Bank of India (“RBI”) referred to the topic in their annual Financial Stability Report released each June. The report stated:

“The fact that the share of algo orders in total orders and the share of cancelled algo orders in the total number of cancelled orders is around 90% creates concerns relating to systemic risks”. It also notes that SEBI is closely watching the views and recommendations of the Senior Supervisors Group, a working group of market supervisors from 10 large developed markets, on control principles in this space.

While the report’s footnotes make clear that HFT is a “special class” of algo trading “in which computers make elaborate decisions to initiate orders”, much of the discussion groups the two trading types. The RBI noted that algo trading and high-frequency trading (HFT) has grown from between 10%-15% in 2011 to around 40% [in 2015].

Last year, the Bombay High Court has requested information from the National Stock Exchange (“NSE”) with regard to its co-location practices and Mr. Veerappa Moily, Chair of the Parliamentary Standing Committee on Finance, has asked SEBI to “submit a report on alleged malpractices at the NSE involving allotment of co-location servers and sharing price-sensitive information.” The request followed a story on personal-finance website Moneylife about a letter on co-location practices at the NSE from a Singapore-based hedge fund. The NSE said it has received no requests from SEBI on the matter and reports suggest NSE may be taking action for defamation.

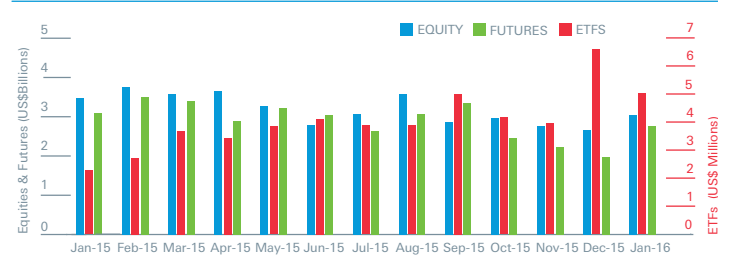
Fig 1: Turnover Velocity



Source: Thomson Reuters

Fig 1. Turnover velocity January 2016:45% January 2015:44% January 2014:44%

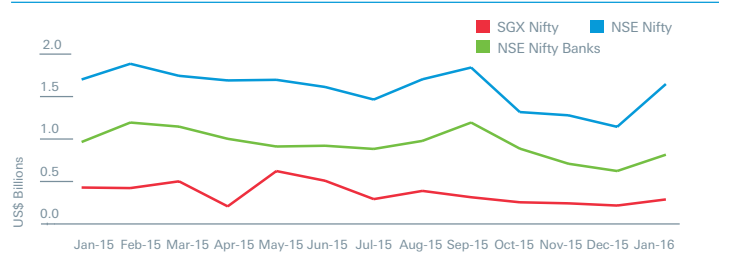
Fig 2: Equities(Cash), Futures and ETFs Monthly ADV



Source: Thomson Reuters

Fig 2. Equities markets in India showed resilience to global market volatility through last year as volumes remained consistent across months. Government of India took several measures to boost foreign investments through 2015 which included attempts to bring more clarity to the tax treatment of the gains of the transactions in the securities market, the retrospective tax treatment, and FDI reforms (foreign direct investment) in various sectors.

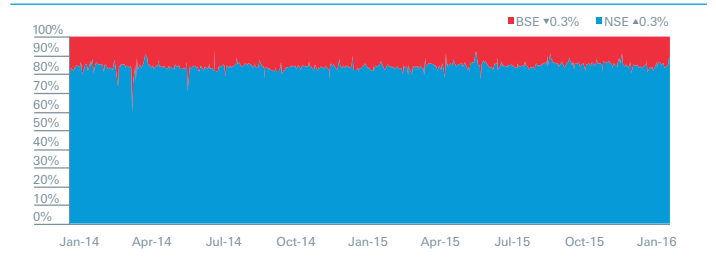
Fig 3: YoY futures average daily turnover



Source: Thomson Reuters

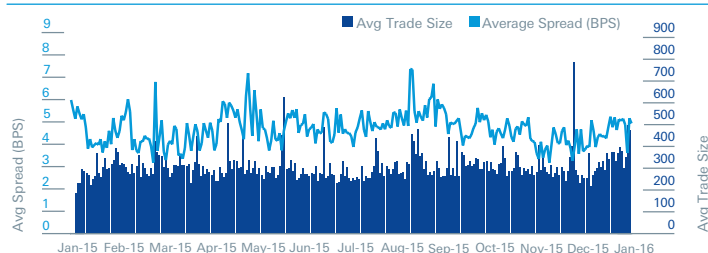
Fig 3. Futures turnover in India dropped steadily throughout 2015 across all futures listings before picking up in January 2016 but still 3% lower than 2015 January.

Fig 4: Market Share by Venue



Source: Thomson Reuters

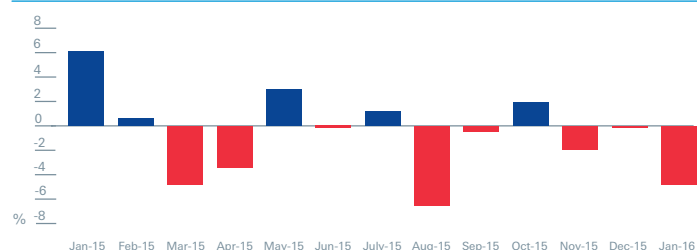
Fig 5: Average Index Spread and Trade Sizes



Source: Thomson Reuters

Fig 5. Average spreads in Indian market are slightly wider than January last year (+6%), and average trade sizes are also similarly larger by 19% versus same time last year.

Fig 6: MoM Index Price Change



Source: Thomson Reuters

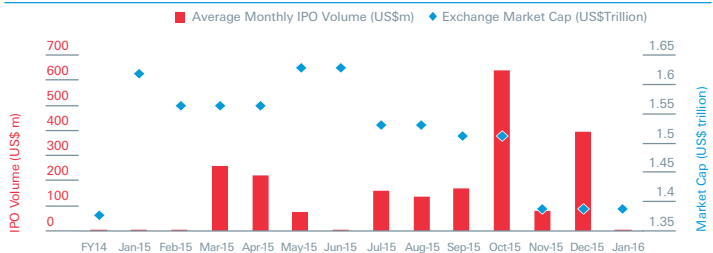
Fig 6. India's benchmark index is trading down 5% from beginning of this year.

Fig 7: Large and Mid Cap Index movers

Market Movers - Large Cap				Market Movers - Mid Cap			
Stock	Price Return	Volume traded (US\$)	20D/100D ADT	Stock	Price Return	Volume traded (US\$)	20D/100D ADT
SUN.NS	7%	682,159,200	0.77	PGRD.NS	5%	212,104,500	2.10
SUN.BO	7%	50,519,480	0.69	WIPR.BO	2%	19,870,590	1.42
INFY.BO	6%	77,200,300	1.30	ULTC.NS	1%	268,937,900	1.14
INFY.NS	5%	1,296,726,000	1.09	REDY.NS	0%	351,290,500	0.53
HCLT.NS	3%	410,307,000	0.91	BPCL.NS	0%	331,753,200	1.13
TCS.BO	-1%	55,351,630	1.05	LUPN.BO	-7%	25,417,170	0.53
ITC.BO	-2%	22,715,810	0.60	BOSH.NS	-9%	111,532,100	0.79
HDBK.BO	-4%	36,452,340	1.27	AXBK.NS	-9%	1,439,988,000	1.08
COAL.BO	-4%	25,446,880	0.90	AXBK.BO	-9%	122,228,000	1.14
HLL.BO	-5%	22,573,180	0.81	CIPL.NS	-11%	194,428,800	0.72

Source: Thomson Reuters

Fig 8: Avg Monthly IPO size and Exchange Market Cap



Source: Dealogic

Fig 8. Vodafone listing in India is expected to raise more than US\$ 2Bn, which will be the biggest private-sector IPO since utility Reliance Power raised US\$ 2.9Bn in 2008. According to local media Indian IPOs are set to raise more than US\$ 5Bn in 2016, which will be a six-year high.

The Association of National Exchanges Members of India (“ANMI”) has proposed adding bulk cancel or kill switch functionality to allow for mass cancellation of orders, and also suggested offering drop copy to enable real time reconciliation.

Also, according to Live Mint, a group of algo providers plans to engage SEBI with suggestions on how to ‘make high speed trading safer’.

“We want Sebi to adopt a consultative approach. We understand there are concerns, but extreme knee-jerk reactions would hurt market liquidity as well. There are restrictions on maximum order size. There are also around 10-12 pre-order checks and we are fine with more of such checks,” said an unnamed spokesperson.

The group is reported to include AlphaGrep Securities Ltd, Tower Research Capital India Pvt. Ltd, Tradeworx Inc., Blackhat Capital, Mansukhani Securities Ltd, iRage Capital Ltd and uTrade Solutions Ltd.

While there is no formal consultation posted on the SEBI website, press reports suggest that SEBI is currently gathering feedback on measures including:

- Order randomisation – Bunching orders in the Exchange system and submitting them on a random basis to remove the potential advantage of one order arriving just head of another;
- Minimum resting times - Imposing a minimum time between submitting and canceling an order to make ‘spoofing’ (rapidly submitting and canceling orders) more difficult;
- Batch auctions – Collecting all orders within frequent auction windows, matching bids and offers and then executing the trades to remove the time advantage; and
- Prohibiting stock exchanges from distributing tick data real time.

There is no timeline for action by SEBI.

To read the full article click here:

<http://www.livemint.com/Money/dzpjFcLN3NXMMsAXfSIMbK/NSE-denies-employees-connived-with-trading-member-for-faster.html>

For the full RBI report click here:

<https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=821>

SEBI’s 13th May 2015 Circular on co-location is available at:

[http://www.sebi.gov.in/cms/sebi\\_data/attachdocs/1431512252858.pdf](http://www.sebi.gov.in/cms/sebi_data/attachdocs/1431512252858.pdf)

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<http://www.livemint.com/Industry/F3LUyGix8dPhzDthZotvqL/Moily-panel-seeks-Sebi-report-on-alleged-malpractices-at-NSE.html>

<http://www.hindustantimes.com/business-news/machines-vs-humans-algo-trade-impacts-stock-market-traders/article1-1381011.aspx>

<http://www.livemint.com/Industry/EpMeK2sGnFRxnoajD9U2wJ/Algo-software-venders-to-write-to-Sebi.html>

<http://www.livemint.com/Money/dzpjFcLN3NXMMsAXfSIMbK/NSE-denies-employees-connived-with-trading-member-for-faster.html>

### GAAR dates final, clarity and guidance to be provided before implementation

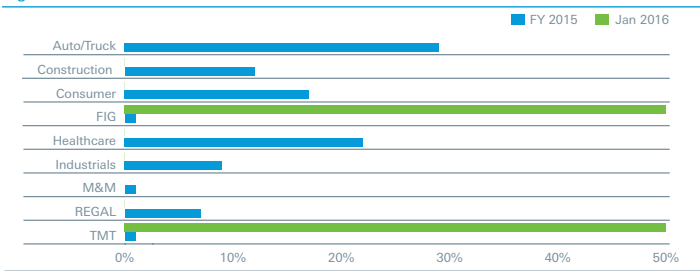
It was reported on 4th March 2016 that the anti-avoidance in the framework in the form of General Anti-Avoidance Rules (“GAAR”) will be effective from April 2017, but the government will give guidance and provide clarity before implementation.

“GAAR is definitely coming in from 1st April 2017. When we said in the Budget we are postponing implementation of Place of Effective Management rules (‘PoEM’) by one year we did not want you to get an impression that this government is also going to postpone GAAR,” Revenue Secretary Hasmukh Adhia said on 3rd March 2016.

“Now PoEM and GAAR are both set to come. Our rules are already laid. If any guidance is required for offshore funds we will provide,” Mr Adhia added.

<http://economictimes.indiatimes.com/news/economy/policy/government-to-provide-clarity-on-gaar-before-implementation-hasmukh-adhia/articleshow/51247596.cms>

Fig 9: IPO Sector Distribution



Source: Dealogic

Fig 10: IPO Performance

	# of IPO	1 day	1 month	Current
Jan-15	1	1%	2%	7%
Feb-15	4	-5%	-8%	29%
Mar-15	8	19%	24%	19%
Apr-15	4	8%	-1%	-5%
May-15	1	-5%	3%	37%
Jun-15	8	13%	52%	67%
Jul-15	7	10%	13%	28%
Aug-15	7	4%	-7%	45%
Sep-15	12	2%	29%	29%
Oct-15	2	-1%	5%	-11%
Nov-15	2	7%	4%	-1%
Dec-15	5	41%	31%	35%
Jan-16	4			

Source: Dealogic

### FII holding falls to three-year low in December quarter

Foreign Institutional Investors (“FIIs”)’s ownership fell for the fourth consecutive quarter in December and in the process, declined to the lowest level in last three years. FII holding stood at Rs 17.7 lakh crore (US\$258 billion) at end of December 2015, down significantly from the March 2015 peak of Rs 19.4 lakh crore (US\$283 billion).

As of February 2016, FIIs have already withdrawn US\$2 billion from stocks and if the selling pressure continues, this quarter could see as much as US\$2.6 billion withdrawn from equities.

[http://www.business-standard.com/article/markets/fii-shareholding-falls-to-a-three-year-low-in-december-quarter-116021100339\\_1.html](http://www.business-standard.com/article/markets/fii-shareholding-falls-to-a-three-year-low-in-december-quarter-116021100339_1.html)

### BSE takes concrete steps on IPO plans, asks regulator for listing approval

After SEBI approved the new listing norms for NSE and BSE on 30th November, it outlined the broad guidelines for an initial public offer (“IPO”) by the two exchanges. SEBI had asked the exchanges to take steps for maintaining a 51% shareholding of Public Category and ensuring that holding of trading members, associates or agents does not exceed 49%. The new norms also aimed to put in place necessary controls and procedures with respect to shareholding norms, fit and proper criteria, and other issues of conflict of interest.

On 22nd January, BSE told SEBI that it is fully compliant with its regulations and is ready for initial public offering. This is the first concrete step towards an IPO since January 2013 when it could not procure an in-principal approval from SEBI due to lack of clarity on some SECC norms. BSE had faced hurdles on monitoring the post-listing shareholding thresholds and ensuring every shareholder is ‘fit and proper’ as per SEBI norms. However, BSE has now overcome these hurdles with the depository mechanism to monitor shareholding thresholds and by obtaining an exemption to accept self-declaration for the ‘fit and proper’ norm. BSE has also setup a committee to review milestones to be achieved ahead of listing.

Having invested for over five years now, the existing investors will have an offer to sell their stake as the exchange plans to dilute 25% through the IPO. The major investors in BSE currently are foreign bourses such as Deutsche Borse AG, Singapore Exchange Ltd and foreign investors such as Quantum’s Mauritius investment arm Quantum (M) Ltd, Caldwell India Holdings Inc and Argonaut Private Equity.

### Sources

<http://economictimes.indiatimes.com/markets/stocks/news/foreign-investors-pitch-to-expedite-listing-of-nse-bse/articleshow/49969762.cms>

<http://www.livemint.com/Companies/LeXRjQD8GV7Ya1TRAW8uoK/NSE-tells-shareholders-that-it-has-submitted-restructuring-p.html>

<http://www.livemint.com/Money/mcHdiP5S4pwza3v6M6dsQP/BSE-reapproaches-Sebi-for-listing-approval.html>

### AMFI approaches SEBI on agent commission disclosure issue

The Association of Mutual Funds (“AMFI”) will approach SEBI to discuss the proposed disclosure of individual agent commissions in the larger interest of its members. The AMFI also discussed the issue of dividend stripping – an illicit practice used for tax evasion. Most of the fund houses have confirmed that they do not indulge in this practice in a response to SEBI’s query.

SEBI on the other hand has stood firm and is of the view that such disclosures will help boost transparency, help address ‘trust deficit’ with investors in the long term.

The timeline has not yet been confirmed.

[http://articles.economictimes.indiatimes.com/2016-01-21/news/69960814\\_1\\_amfi-dividend-stripping-fund-houses](http://articles.economictimes.indiatimes.com/2016-01-21/news/69960814_1_amfi-dividend-stripping-fund-houses)

### Sources

<http://www.mydigitalfc.com/mutual-funds/sebi-firm-agent-payout-disclosure-amfi-drags-feet-527>

### SEBI proposes task force to attract global pension funds

SEBI has proposed to setup a taskforce to attract global pension funds in order to draw long term and more stable money into Indian capital markets. The issues impeding the flow of global pension money into India are mostly regulatory, taxation and governance issues and the task force would suggest ways to iron out such issues.

The task force would identify global pension funds in US, Europe, Japan, and US platforms such as San Francisco-based non-profit Pacific Pension and Insurance Institute. As of December 2015, pension funds investments in India stood at US\$17.7 billion which is a trickle compared to global pension fund assets of US\$36 trillion (as reported by Global Pension Assets study reports from February 2015).

### Sources

<http://www.livemint.com/Money/nhApk5tcMgEvv0nCJ7UJJP/Sebi-suggests-task-force-to-attract-global-pension-funds.html>

### Strong IPO pipeline for India’s stock market

Five companies, including Mahanagar Gas and Equitas holdings have received SEBI approval to launch their IPOs in 2016 along with GVR Infra Projects, GNA Axles and Maini Precision. They are expected to collectively raise Rs 2,500 crore (US\$ 365 million), which they plan to use for business expansion and working capital requirements.

According to Prime Database this year 20 companies have secured SEBI’s approval to raise Rs 7,315 crore (US\$ 1.07 billion) and 11 are still on wait-list, expected to raise Rs 5,445 crore(US\$ 794 million). In 2015, there were 20 main-board IPOs who collectively raised Rs 15,000 crore (US\$ 2.18 billion).

SEBI eased the norms for local listing of early stage companies in June 2015 and following this move, BSE and NSE have put in place a sub-platform based on their Institutional Trading Platforms (“ITPS”) for listing of start-ups. SEBI rules allow hi-tech start-ups to list on the ITP of exchanges if at least 25% of their pre-issue capital is held by qualified institutional buyers (QIBs) such as PE firms, VC firms and non-banking financial companies. Other start-ups can also opt to get listed, provided at least 50% of their pre-issue capital is held by QIBs.

[http://www.business-standard.com/article/pti-stories/five-cos-get-sebi-nod-for-ipo-fund-raising-may-hit-rs-2-5k-cr-116012400083\\_1.html](http://www.business-standard.com/article/pti-stories/five-cos-get-sebi-nod-for-ipo-fund-raising-may-hit-rs-2-5k-cr-116012400083_1.html)

<http://www.livemint.com/Companies/VL379geKEu4phiz6ALNWzK/Easier-Sebi-rules-fail-to-lure-startups-to-launch-IPOs.html>

<http://qz.com/539841/indias-biggest-ipo-in-the-last-five-years-charted/>

### Investors to have an exit option if funds raised via IPO not utilised appropriately says SEBI

While there have been no actual talks on the subject yet, SEBI is planning to discuss options for Investors to exit companies if the promoters fail to utilise the IPO funds for the stated purposes. This plan was in line with section 13 (8) of the companies Act. 2013, which states a company left with unutilised funds after raising money from public cannot change the objects stated in the prospectus.

<http://www.businessinsider.in/Investors-to-soon-have-an-option-to-exit-companies-if-funds-raised-via-IPO-not-properly-utilised-says-SEBI/articleshow/49981299.cms>

### ETF growth in India and SEBI proposals to promote ETFs

On 27th October 2015, The Times of India reported SEBI is open to changing the rules which regulate financial products including Exchange Traded Fund ("ETFs") to spur their growth. SEBI Chief U K Sinha said the decision of the government to take the Central Public Sector Enterprises ("CPSE") route for divesting its stakes in public sector companies and the Employee Provident Fund Organisation planning to invest 5% of its incremental inflows in the stock market through the index ETF route are the two recent decisions that are expected promote ETF growth in India.

Mr. Sinha expects that owing to their low trading costs, other funds along with Employee Provident Funds should also look at them as potential investment vehicles. As of October 2015, the ETF market was valued at approximately Rs 9,000 crore (US\$1.5 billion).

In a separate but related news story released on 26th October 2015, Chief Executive Officer of National Stock Exchange ("NSE"), Chitra Ramkrishna said that the exchange is planning to launch new ETFs based on various asset classes like fixed income and commodities.

"NSE has taken several initiatives to launch ETF products in India and abroad. From here on we expect interests and inflows in India to grow manifolds. Soon we expect ETF sector to have INR 1 lakh crore (\$15.15 Billion) AUM," she added.

These ETFs have not yet been launched.

Sources:  
<http://timesofindia.indiatimes.com/business/Sebi-open-to-ETF-rule-changes-to-spur-growth/articleshow/49545528.cms>  
<http://indiatoday.intoday.in/money/story/nse-to-consider-etf-based-on-various-asset-classes/1/507998.html>  
<http://www.thehindubusinessline.com/markets/stock-markets/etf-regulations-sebi-chief-says-open-to-suggestions/article7806499.ece>

## 2016 Venue News

### Algo trading test facility launched by BSE

BSE has launched an algorithmic trading test facility for its equity and derivatives platform in partnership with Symphony Fintech Solutions. This will allow the members to test their trading algorithms with live and historical market data, free of cost. A provision has been made by SEBI to generate data analytics reports to check the performance of the strategies.

[http://articles.economictimes.indiatimes.com/2016-01-18/news/69870432\\_1\\_test-facility-stock-exchange-bse-today-trading](http://articles.economictimes.indiatimes.com/2016-01-18/news/69870432_1_test-facility-stock-exchange-bse-today-trading)

### Foreign exchanges may get to own 15% in domestic exchanges

The Finance ministry is preparing to raise the shareholding cap for foreign bourses in domestic stock exchanges to 15% from the current 5%. This is in line with government's plan to allow more FDI across sectors. Former RBI governor Bimal Jalan, said "Hiking ownership cap for foreign exchanges is not a problem anymore as our markets have expanded fairly since the recommendations were made."

[http://articles.economictimes.indiatimes.com/2015-12-10/news/68899696\\_1\\_exchanges-ownership-cap-nse](http://articles.economictimes.indiatimes.com/2015-12-10/news/68899696_1_exchanges-ownership-cap-nse)

### NSE and LSE to set up joint trading platform in GIFT City

NSE and LSE have entered into a partnership to explore possibilities of setting up a joint trading platform at the Gujarat International Finance Tec-City (GIFT city). There are also plans of setting up a joint research center to launch new trading products. However, GIFT project is yet to fully take-off due to lack of clarity on key taxation issues.

[http://www.business-standard.com/article/markets/nse-lse-join-hands-to-set-up-trading-platform-in-gift-city-115120900772\\_1.html](http://www.business-standard.com/article/markets/nse-lse-join-hands-to-set-up-trading-platform-in-gift-city-115120900772_1.html)

### Indian exchanges to implement monthly reporting of suspicious trades

Under the Prevention of Money Laundering Act ("PMLA"), BSE trading members are required to report to the BSE monthly the number of Suspicious Transaction Reports filed by them with the Financial Intelligence Unit (FIU-IND) of the Indian federal government.

Reports published in October 2015 stated the BSE would publish details of brokers' submission requirements "soon".

[http://articles.economictimes.indiatimes.com/2015-07-10/news/64282542\\_1\\_unusual-or-unjustified-complexity-financial-intelligence-unit-trading-members](http://articles.economictimes.indiatimes.com/2015-07-10/news/64282542_1_unusual-or-unjustified-complexity-financial-intelligence-unit-trading-members)

## 2015 Market Structure

### Foreign portfolio investors exempt from retrospective MAT

The Finance Ministry accepted the recommendation of the Justice AP Shah Committee that the Minimum Alternate Tax ("MAT") should not be imposed on foreign investors for any period prior to 1st April 2015.

Finance Minister Mr. Arun Jaitley announced that Foreign Institutional Investors ("FII") and Foreign Portfolio Investors ("FPI") would not be liable to pay the MAT for the period prior to April 1, 2015. He also said that the required clarifying amendments will be made to the Income Tax Act, 1961 in the next session of Parliament.

The confusion around the payment of MAT by foreign portfolio investors began after the February Budget which granted the MAT exemption on a forward looking basis from April 2015 without specifying whether the MAT exemption applied prior to that date. As a result, tax authorities pursued demands against 68 FII taxpayers of about INR 6 billion for the previous years. The Indian government has announced it will instruct field offices to drop these cases.

In announcing that the Finance Minister commented that:

"Confidence among investors will be a consequence of this. Having certainty and clarity in the tax laws is an essential function of the government. There was ambiguity on account of various interpretation of the law. The ambiguity needed to be resolved."

The full report of the Justice AP Shah Committee is available at:

<http://finmin.nic.in/reports/ReportonApplicabilityofMinimumAlternateTax%20onFIIsFPIs.pdf>

Sources

<http://www.livemint.com/Politics/P853Z0PdEEya8qe6fhZ9KN/No-retrospective-MAT-on-FIIs-govt-accepts-AP-Shah-panel-r.html>  
<http://economictimes.indiatimes.com/news/economy/policy/foreign-portfolio-investors-may-get-mat-relief/articleshow/48646308.cms>  
<http://www.dnaindia.com/money/report-foreign-companies-with-no-permanent-base-may-get-minimum-alternate-tax-relief-2118880>  
<http://www.pressreader.com/india/the-times-of-india-mumbai-edition/20150902/282570196871114/TextView>  
[http://www.moneycontrol.com/news/economy/govt-decides-to-not-pursue-mat-cases-against-fiis-sources\\_2856161.html](http://www.moneycontrol.com/news/economy/govt-decides-to-not-pursue-mat-cases-against-fiis-sources_2856161.html)  
[http://www.moneycontrol.com/news/economy/govt-decides-to-not-pursue-mat-cases-against-fiis-sources\\_2856161.html](http://www.moneycontrol.com/news/economy/govt-decides-to-not-pursue-mat-cases-against-fiis-sources_2856161.html)

### New SEBI rules creating stock exchange based mechanism for tendering of shares under takeovers, buy backs and delisting take effect

Effective 1st July 2015, tendering shares into a takeover, buy-back or delisting moved to an "Acquisition Window", a separate window (the "Acquisition Window") by which an acquirer or company have the option to facilitate on-exchange share tenders. In addition to making tenders more operationally efficient by allowing sellers to place eligible shares through their stock broker during normal trading hours and streamlining settlement,

The on-exchange mechanism may also be more tax efficient: in a 2014 discussion paper on delisting regulations, SEBI found that

"[in] the transfer of shares ...[in] an off market deal...securities transaction tax ("STT") is not applicable [as].. the transaction as it is not routed through the stock exchange. Hence, the transaction through the tender route has tax implications and would attract long term capital gains tax. Tendering of shares [off market]...attracts higher capital gains tax as compared to transaction through the stock exchange which attracts STT and therefore, lower capital gain taxes are applicable."

By moving tenders to the Exchanges where trades are subject to the securities transaction tax thus making them eligible for the long term capital gains tax exemption.

The full SEBI circular can be found at:

[http://www.sebi.gov.in/cms/sebi\\_data/attachdocs/1399633833837.pdf](http://www.sebi.gov.in/cms/sebi_data/attachdocs/1399633833837.pdf)

#### Sources

[http://www.business-standard.com/article/pf/a-tax-efficient-way-to-tender-shares-during-buybacks-115042200384\\_1.html](http://www.business-standard.com/article/pf/a-tax-efficient-way-to-tender-shares-during-buybacks-115042200384_1.html) [http://articles.economictimes.indiatimes.com/2015-04-13/news/61102923\\_1\\_open-offers-stock-exchange-platform-off-market-transactions](http://articles.economictimes.indiatimes.com/2015-04-13/news/61102923_1_open-offers-stock-exchange-platform-off-market-transactions)

<http://www.thehindubusinessline.com/markets/delisting-offers-sebi-may-allow-share-tender-through-bourses/article5998111.ece>

### SEBI to allow Foreign Venture Funds to register as FPIs

In response to a question from a Designated Depository participant (custodian), SEBI issued Circular CIR/IMD/FIC/05/2015 which clarified that Foreign Venture Capital Investors' ("FVCI") can register as Foreign Portfolio Investors if they meet certain criteria. FVCI's are investment vehicles which provide seed capital to start-ups in exchange for a stake in the company.

The SEBI circular states that FVCI's may become FPIs if they meet the below requirements, among others:

1. Comply with FPI Regulations on eligibility
2. Clearly segregate FVCI funds from FPI funds when raising, allocating and investing capital
3. Maintain separate accounts with the same custodian and segregate securities held under FVCI and FPI

The circular is available at the link below.

[http://www.sebi.gov.in/cms/sebi\\_data/attachdocs/1434103102740.pdf](http://www.sebi.gov.in/cms/sebi_data/attachdocs/1434103102740.pdf)

### SEBI empowers stock exchanges to annul trades

In Circular CIR/MRD/DP/15/2015, SEBI set out guidelines for the exchanges in setting up mechanisms for annulment. Measure include:

- Permission for annulment to be taken up by the stock exchange at its discretion or in response to a request from a stock broker;
- A framework for stock brokers to submit annulment requests including minimum application fees (Exchanges will charge "5% of the value of trade(s) for accepting annulment request from a stock broker, subject to minimum fee of INR 100,000 and maximum fee of 1,000,000" and time limits (stock brokers have 30 minutes to submit requests but may have up to 60 minutes "only in exceptional cases");

- Requirement that stock exchanges "examine and decide upon" requests no later than the start of the following trading day;
- Allowance for stock exchanges to be able to reset the price of trades "if price reset is deemed to be...less disruptive...compared to trade annulment"; and
- Creation of a process to review decisions made by exchanges with regard to annulment.

The full SEBI circular is available at:

[http://www.sebi.gov.in/cms/sebi\\_data/attachdocs/1437033678905.pdf](http://www.sebi.gov.in/cms/sebi_data/attachdocs/1437033678905.pdf)

### SEBI bars 59 entities for tax-evasion via illiquid BSE stock options; BSE halts trading in deep out-of-the-money contracts

The Securities and Exchange Board ("SEBI") barred 59 entities and high net worth individuals from the securities market and referred the cases to the Income Tax Department for follow-up. The 59 can square off existing positions but cannot open fresh ones. This was apparently the first time that SEBI took action against alleged tax evasion through the futures and options market.

According to SEBI's Order in the matter of Illiquid Stock Options:

"Trading of these entities appeared abnormal because they were consistently seen making significant loss(es) by their trades which were reversed with the same counterparties either on the same day or the next day. The Order also noted that the "trades by these loss-making entities, in many cases, contributed to 70% to 100% of total traded volume for the contracts on those days".

In addition to SEBI action on the issue, the Bombay Stock Exchange ("BSE") announced that it had stopped trading "deep out of the money options" from July 2015. The Exchange now provides just 3 options series vs the 7 offered previously. According to the Business Standard:

"In Indian markets, close to 90 per cent of equity derivatives contracts available are not traded every day and are, therefore, illiquid...(b) stopping the trading in deep out of the money contracts, BSE took a precautionary step in this regard in July. BSE is looking into the issue relating to price bands for stock options, on the lines of equity markets."

SEBI's Order on this matter (WTM/RKA/ISD/106/2015) is available at:

[http://203.199.247.102/cms/sebi\\_data/attachdocs/1440073317427.pdf](http://203.199.247.102/cms/sebi_data/attachdocs/1440073317427.pdf)

The BSE has also notified the market that as of 31st July for newly generated contracts expiring from 3rd September, the number of strikes available on the day of generation shall be 1 each for In the Money, At the Money and Out of the Money contracts. New strikes may be added at the end of the day based on the daily volatility of the underlying.

For the BSE notices see here:

[http://www.bseindia.com/markets/MarketInfo/DispNoticesNCirculars.aspx?Noticeid=%7B89CC2FC7-940A-4607-9B20-0BF482B624E%7D&notice\\_no=20150821-15&dt=08/21/2015&icount=15&totcount=39&flag=0](http://www.bseindia.com/markets/MarketInfo/DispNoticesNCirculars.aspx?Noticeid=%7B89CC2FC7-940A-4607-9B20-0BF482B624E%7D&notice_no=20150821-15&dt=08/21/2015&icount=15&totcount=39&flag=0)

#### Source

<http://www.bseindia.com/markets/marketinfo/DispMediaRels.aspx?page=46e9d6a7-261d-40fa-825d-f854288e821d>

### SEBI relaxes public offer norms, removes cap on number of anchor investors

SEBI has announced the easing of anchor investor norms by removing the cap on the number of anchor investors in a public offer. At SEBI's board meeting on 24th August, the previous hard limit of 25 anchor investors was replaced in public issues worth more than INR 250 crore(US\$ 36.4 Million). Under the new approach, 10 additional investors are permitted for every additional allocation of INR 250 crore(US\$ 36.4 Million) in share issuance, subject to a minimum allotment of INR 5 crore(US\$ 728,500) per investor.

The SEBI board memo on the Anchor Investor change is available at:

[http://www.sebi.gov.in/cms/sebi\\_data/boardmeeting/1441083937731-a.pdf](http://www.sebi.gov.in/cms/sebi_data/boardmeeting/1441083937731-a.pdf)

The press release for the 24th August 2015 board meeting is available at:  
[www.sebi.gov.in/cms/sebi\\_data/docfiles/31803\\_t.html](http://www.sebi.gov.in/cms/sebi_data/docfiles/31803_t.html)

Source  
<http://www.vccircle.com/news/finance/2015/08/25/sebi-relaxes-ipo-anchor-investment-norms>

## 2015 Venue News

### BSE enlarges lot-size in foreign index derivatives

Through September and October 2015, the Bombay Stock Exchange ("BSE") has implemented SEBI's July 2015 directive to raise the minimum market lot size for equity derivatives from INR 200,000(US\$ 2,900) to INR 500,000(US\$ 7,300). The BSE index derivative market lots, which refer to the number of contracts that make up one derivative security, have been changed as per below for FTSE/JSE Top 40 Futures, Hang Seng Index Futures, Micex Index Futures and iBovespa Futures.

Sr No.	Name of Underlying indices	Asset Code	Existing Market Lot	Revised Market Lot	Effective Date
1	FTSE / JSE Top40 Futures	ALS	10	15	September 18, 2015 (for new generated and existing contracts)
2	Hang Seng Index Futures	HSI	15	20	September 30, 2015 (for November 2015 and subsequent Expiries)
3	MICEX Index Futures	MIX	150	300	September 16, 2015 (for new generated and existing contracts)
4	iBovespa Futures	IBV	5	10	October 15, 2015 (for new generated and existing contracts)

Source: BSE

The BSE circular is available at:  
<http://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20150828-25>

Source  
[http://articles.economicstimes.indiatimes.com/2015-08-30/news/66032845\\_1\\_minimum-contract-size-micex-index-futures-ftse-jse-top-40-futures](http://articles.economicstimes.indiatimes.com/2015-08-30/news/66032845_1_minimum-contract-size-micex-index-futures-ftse-jse-top-40-futures)

### SEBI releases disclosure rules for listed companies

On 9th September 2015, SEBI released the circular asking listed companies to inform stock exchanges within 30 minutes of the closure of the board meeting if held to consider or decide on the following matter:

- buyback of securities;
- financial results;
- dividends;
- cash bonuses;
- any cancellation of dividend; or
- voluntary delisting.

According to SEBI, this was released in order to enable investors to make well-informed investment decisions and to increase transparency on these listed firms.

For the SEBI circular click here:  
[http://www.sebi.gov.in/cms/sebi\\_data/attachdocs/1441799529193.pdf](http://www.sebi.gov.in/cms/sebi_data/attachdocs/1441799529193.pdf)

### PAN-Based Self Trade Prevention Checks in Equity Derivatives segment by BSE

BSE had started to conduct self-trade prevention checks based on Permanent Account Number ("PAN") of investors trading on its Equity derivatives segment, from 14th September. Current checks prevent matching between a buy and a sell order entered in the same order book for the same client code. BSE has asked its trading members to verify PAN details of clients registered in the exchange's UCC (Unique Client Code) system.

Self-trades do not result in change of ownership as the buyer and the seller are the same. Capital market regulator SEBI takes action against those entities conducting such activity with mala fide intent under its 'Prohibition of Fraudulent and Unfair Trade Practices' norms.

NSE also introduced the mechanism in the capital market segment with effect from 12th October.

For the full notice from the BSE click here:  
<http://www.bseindia.com/markets/marketinfo/DispMediaRels.aspx?page=74c76409-7ea1-4776-82fc-a3da105a452b>

### BSE and NSE fines companies without women directors

After issuing guidelines in February 2014 asking companies to appoint at least one woman director on their board by 1st October 2014, BSE later relaxed this and postponed deadline to 1st April 2015. BSE issued notices to more than 500 companies for failure to comply with SEBI rules before the deadline.

According to press reports, listed companies complying by 30th June 2015 were fined INR 50,000(US\$ 725), those in compliance by 1st October 2015 for about INR 140,000(US\$ 2,000) and those by 1st October 2015 were fined INR 140,000(US\$ 2,000) + INR 5,000 (US\$ 70)per day. While 90% of companies listed on NSE have complied, the reform is yet to be implemented in spirit as women currently occupy only 12.3% directorship positions in listed companies and most companies have just one woman director on their board.

Sources  
<http://in.reuters.com/article/2015/07/15/india-women-corporations-idINKCN0PP0CA20150715>  
<http://www.dnaindia.com/money/report-bse-issues-notice-to-530-firms-for-non-complianceon-women-directors-2104277>  
<http://timesofindia.indiatimes.com/business/india-business/Women-still-small-part-of-cos-boards/articleshow/50690432.cms>

## 2015 Personnel Moves

### Hunt for next SEBI chief on, three contenders shortlisted

Economic times on 1st February 2016 reported that, State Bank of India chairman Arundhati Bhattacharya, former Forward Markets Commission chairman Ramesh Abhishek and former capital markets joint secretary Thomas Mathew, have been shortlisted for chairman's post of the Securities and Exchange Board of India.

It was reported that the selection panel led by cabinet secretary PK Sinha has submitted the three recommendations to the government and that the Appointments Committee of Cabinet (ACC) led by Prime Minister Narendra Modi will pick the chairman after the contenders are cleared by the Central Vigilance Commission (CVC).

Sources  
[http://articles.economicstimes.indiatimes.com/2016-02-01/news/70252305\\_1\\_central-vigilance-commission-ramesh-abhishek-thomas-mathew](http://articles.economicstimes.indiatimes.com/2016-02-01/news/70252305_1_central-vigilance-commission-ramesh-abhishek-thomas-mathew)



## South Korea

### Market Structure 2016

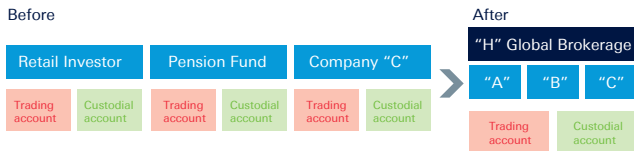
#### Move to omnibus accounts for foreign investors a step close to MSCI DM status

The Financial Services Commission ("FSC") announced in February that it plans to introduce omnibus accounts in 2017 for foreign investors investing in local stocks. An asset manager will be able to conduct transactions through one omnibus account on behalf of multiple foreign investors, compared to the current system requiring each investor to open an account. MSCI has maintained South Korea's emerging market status since 2009, while dropping the nation from its review list of DM index candidates in 2014.

A test run for the omnibus account system will be carried out from May 2016 before formally introducing it at the beginning of 2017.

Expected changes after introducing of omnibus account according, according to the FSC:

1. Account management, trading, and settlement procedures will be made more convenient for global asset management companies. The introduction of omnibus account will greatly reduce inconvenience and transaction costs for global asset management companies by integrating separate accounts for each of funds into one.



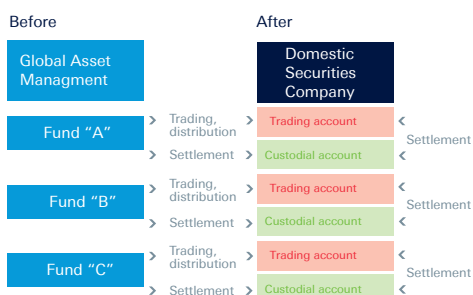
Source: FSC

2. Foreign retail investors or small and medium-sized institutions will be able to invest in Korean stocks more easily through global brokerage companies. They will no longer have to open separate accounts for each funds to invest in the Korean stock market.



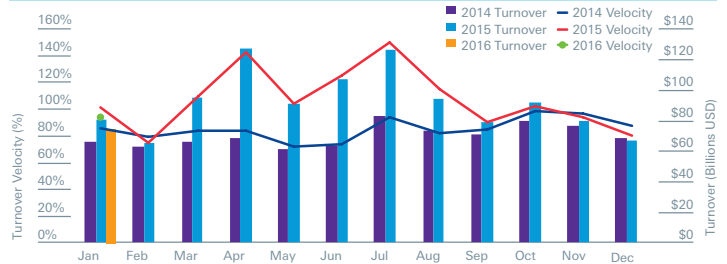
Source: FSC

3. Administrative work burdens for domestic securities companies and custodian banks will be greatly reduced



Source: FSC

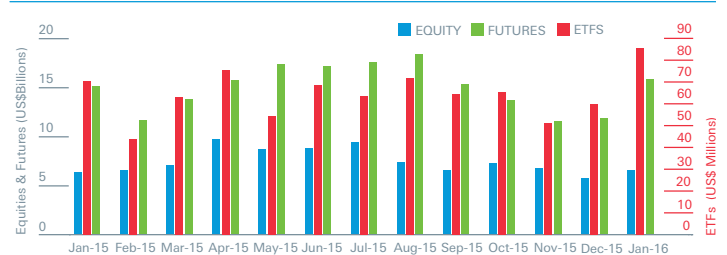
Fig 1: Turnover Velocity



Source: Thomson Reuters

Fig 1. Turnover velocity January 2016:92% January 2015:101% January 2014:92%

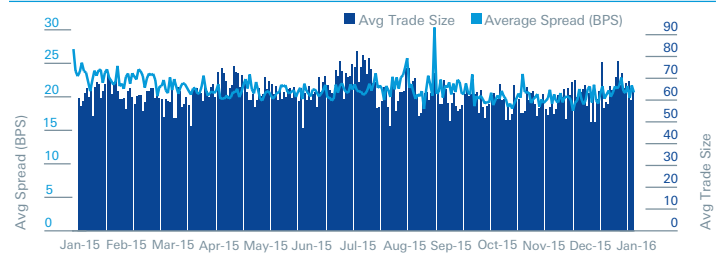
Fig 2: Equities(Cash), Futures and ETFs Monthly ADV



Source: Thomson Reuters

Fig 2. Foreign Institutional Investors have been net sellers across the Asian markets in January 2016, with Korea and Taiwan witnessing the largest outflow at US\$ 2.4 billion each. Foreign investors have withdrawn over US\$ 7Bn worth of funds so far from Asian equities in 2016, which is the largest fund outflow since 2008.

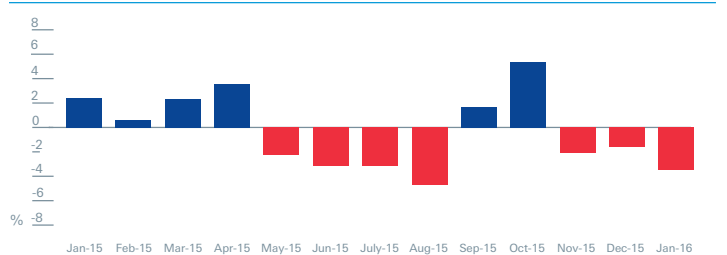
Fig 3: Average Index Spread and Trade Sizes



Source: Thomson Reuters

Fig 3. Average trading spreads in Korea are slowly narrowing, on average they are down by 16% since 2014 which is a positive given the historical wide spreads in Korea that made it one of the most expensive market in terms of implicit cost of trading.

Fig 4: MoM Index Price Change



Source: Thomson Reuters

Fig 4. KOSPI index is down 3.5% this year so far, and it has been a continuous slide since November 2015 last year.

More information can be found in the following FSC Press Release:

<http://www.fsc.go.kr/downManager?bbsid=BBS0048&no=103019>

### Changes to Short Position Reporting

'Public disclosure of Short sell' regulation was passed by the Assembly plenary session in Korea on 2nd March 2016. As per new disclosure regulation, short selling entity have to make public disclosure to FSS if the total short sell balance of listed company is over 0.5% of outstanding shares versus current limit of 0.01%

This new regulation is expected to be enforced on Sept. 2016 but the actual implementation date is yet to be confirmed.

For more information (Korean):

<http://news.einfomax.co.kr/news/articleView.html?idxno=209438>

### FSC looked to convert KRX into a holding company

The FSC plans to transform the KRX into a holding company with the aim of strengthening the competition between markets. In 2015, the FSC temporarily named the Korea Exchange Holdings will control the KOSPI Exchange in charge of the benchmark stock index, the KOSDAQ Exchange handling the tech-loaded minor bourse, and the Derivatives Exchange, a platform for trading derivatives. The FSC also said that it would push for an IPO of the holding company to help the company draw more funds to be invested in overseas markets and carving out new revenue sources.

However KRX's union members had criticised the government for seeking to separate the KOSDAQ from the company, which it argued was to undermine the interests of individual investors.

This will be a continued area of focus in 2016 given the move has been marked on the below political roadmap.

### FSC's financial policy roadmap for 2016

The FSC outlined its financial policy roadmap for 2016 with focuses on financial reform and financial stability. The regulator will speed up the implementation of financial reform to promote competition and innovation in the financial sector, while strengthening financial stability in response to internal and external risks.

Highlights of the roadmap:

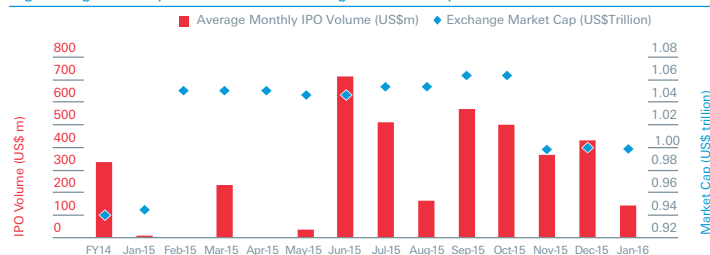
1. Financing innovative start-ups and venture companies
  - Further stimulate investments in tech start-ups through tech investment funds which is worth KRW 750 billion
  - To help the newly introduced crowd funding system
  - To make KRX into a holding company to bring in competition into local bourse system
  - KOSDAQ and KONEX will be reformed to attach more listings
  - Industrial Bank of Korea ("IBK") and Korea Development Bank ("KDB") will be realigned to provide policy loans and state-back guarantees for start-ups and SMEs
2. Encouraging cultural changes in financial institutions
  - To encourage more private initiatives
  - To require launching of performance-based compensation and stricter internal rules in ethics and compliance
3. Ensuring stability and fairness in financial markets
  - Strengthen regulations to align with international standards
  - Introduction of foreign currency liquidity coverage ratio ("LCR") in order to strengthen domestic banks' buffer against systemic risks

Fig 5: Large and Mid Cap Index movers

Market Movers - Large Cap				Market Movers - Mid Cap			
Stock	Price Return	Volume traded (US\$)	20D/100D ADT	Stock	Price Return	Volume traded (US\$)	20D/100D ADT
018880.KS	400%	117,827,800	1.05	185750.KS	45%	1,432,269,000	4.90
000720.KS	33%	614,243,200	1.48	010620.KS	44%	216,546,200	1.33
029780.KS	26%	146,935,600	1.45	000080.KS	30%	220,563,700	2.23
007070.KS	26%	205,125,600	0.82	003000.KS	30%	826,485,800	4.33
000100.KS	22%	228,790,500	1.40	007570.KS	28%	582,611,900	2.10
000270.KS	-11%	874,347,900	1.05	064350.KS	-14%	79,682,640	1.64
018260.KS	-12%	548,654,300	1.35	003450.KS	-14%	225,600,700	1.69
139480.KS	-13%	268,558,600	1.09	042660.KS	-16%	98,992,920	0.60
051910.KS	-13%	1,616,023,000	1.35	108670.KS	-17%	159,861,000	1.19
006400.KS	-17%	805,613,900	0.95	008770.KS	-17%	1,026,941,000	1.41

Source: Thomson Reuters

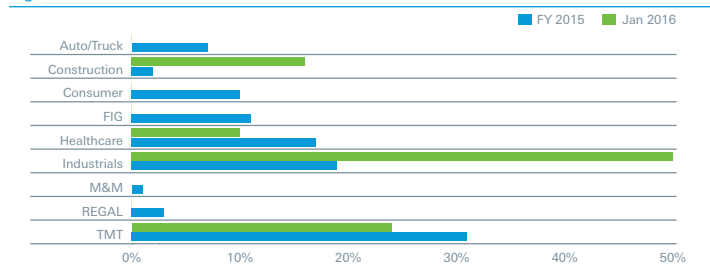
Fig 6: Avg Monthly IPO size and Exchange Market Cap



Source: Dealogic

Fig 6. KRX expects this year to rank as the best for IPOs with over 130 companies going public on the main bourse KOSPI and the secondary tech-heavy KOSDAQ to raise a combined KRW 11Tn (US\$ 9Bn), beating the record high of KRW 10.9Tn in 2010.

Fig 7: IPO Sector Distribution



Source: Dealogic

Fig 8: IPO Performance

	# of IPO	1 day	1 month	Current
Jan-15	1	76%	30%	-23%
Feb-15	-	-	-	-
Mar-15	3	19%	12%	-45%
Apr-15	-	-	-	-
May-15	2	63%	117%	35%
Jun-15	12	62%	49%	27%
Jul-15	8	76%	55%	68%
Aug-15	2	-	-	-
Sep-15	7	-2%	4%	2%
Oct-15	5	-	-	-
Nov-15	9	-15%	-13%	-17%
Dec-15	17	19%	58%	73%
Jan-16	6	-	-	-

Source: Dealogic

- Implement Basel III for banks
  - Review regulations on insurers to prepare for IFRS4 Phase 2
  - Introduction of 'omnibus account' for foreign investors (detailed above)
  - Introduction of 'stewardship code' to improve corporate governance in Korean companies
  - Improve accounting rules for companies

4. Expanding policy support for microfinance
  - Stimulate lending markets for mid- or low-credit borrowers by encouraging banks to develop loan products with interest rates 10% or above
  - Policy funds of KRW 5.7 trillion will be injected to lend small loans to low-income household and small businesses
  - More ‘debt restructuring programs’ depending on borrower’s repayment ability
5. Strengthening Financial Consumer Protection
  - Close monitoring of sale practices to protect financial consumers
  - Work closely with home and foreign regulators to crack down financial crimes e.g. AML
6. Promoting financial industry as new growth driver
  - Continue to support local Fintech companies to develop global competitiveness by changing regulations and practice
  - To hold Fintech Days on overseas market to offer global networking opportunities
  - Continue to launch regulatory reforms in insurers
  - To amend regulations for securities firms to provide better corporate financing services and expansion
7. Enabling more convenient and innovative financial services
  - Further introduction of online or mobile-based financial services
  - Non-face-to-face identification will be introduced into financial transaction of non-banking sector.
  - “Payinfo” service which enables bank customers to switch between their main accounts between banks will be further improved with wider range of services such as automatic money transfer and cancellation
  - Internet-only banks will be launched for the first time under the Banking Act
  - IRevision of the Banking Act to attract more diverse players
8. Supporting household wealth growth
  - Introduction of robo-advisor service or independent financial advisors to support households
  - Individual Savings Accounts (“ISAs”) will be introduced in March 2016 to provide competitive asset management vehicle for households (no further information disclosed by FSC)
9. Managing potential risks of household debt
  - For screening mortgage applications, banks will adopt stricter screening standards in February in Seoul and its metropolitan area, and May in provincial areas
  - To have policy incentives to stimulate reverse mortgage to reduce debt burden of older people
10. Managing corporate default risks preemptively
  - Carry out credit risk assessment to place troubled companies under a “debt workout program”
  - To restructure sectors like shipbuilding, shipping, petrochemical, steelmaking and construction industries, credit banks will then conduct restructuring of individual companies

For full version of the roadmap:

<http://www.fsc.go.kr/downManager?bbsid=BBS0048&no=103355>

#### FSC plans for Fintech in South Korea

The FSC announced its annual plans to carry out innovative reforms in the financial sector under the theme of Fintech for 2016. Account Info, an integrated electronic system to manage an individual’s different bank accounts, including inactive accounts, will be launched in the fourth quarter of this year, FSC said in its second report to President Park Geun-hye.

The FSC said Koreans have 5.4 bank accounts on average, the second-highest in the world after Japan. Across all banks in the country, as many as 107 million accounts, about 49% are dormant. And as of March 2015, a total of 5.5 trillion won (USD 4.5Bn) was still being

deposited in such unused accounts. Account Info stands to resolve these issues by allowing consumers to track all of their banking information, transfer funds from dormant to active accounts and cancel dormant accounts.

New web-based banks led by Kakao and KT have also announced their plans to provide the Robo Adviser service when they start operations in the latter half of this year. The plan requires easing the current Investment Advisers Act to allow asset management advisers to sign online contracts with their clients without meeting in person. If the act is revised, online asset management firms can have just one adviser to provide such a service versus currently, when those firms must have at least three advisers for operations.

#### Crowd-funded capital raising for start-ups

Crowdfunding, a form of capital raising whereby individual investors pool together to fund projects of all kinds, offers investors an equity stake in return for cash investment rather than rewards, products or interest payments. This new scheme came into effect on 25th January allowing individuals to invest up to KRW 2 million (approx USD 17,000) in a start-up in any 12-month period, with a total cap per year set at KRW 5 million. The shares are locked-in for one year after purchase.

The investment cap is higher at KRW 10 million per start-up and KRW 20 million per year for those deemed as professional investors and whose annual financial income exceeds KRW 20 million. There is no limit at all for angel investors, or professionals who specialise in investment in early-stage business ventures.

The government-run website, [www.crowdnet.or.kr](http://www.crowdnet.or.kr), offers introductions to the basic rules, investor-friendly information about some 30,000 local start-ups as well as links to government-certified websites where the fund-raising campaigns take place.

It is expected that crowd funding would channel much-needed capital to the local start-ups, while providing new investment opportunities for individuals.

#### FSC plans for Fintech in South Korea

The FSC approved the revised business regulations aimed at expansion of daily price limit and improvement of market stabilisation facilities for the KOSPI, KOSDAQ and Derivates Markets of the KRX on 29th April, 2015. Some implementations dates have been announced since April 2015, while rest are yet to come in 2016. Highlight of the changes include:

1. Expansion of daily price limit (implemented in Jun 2015): The daily price limit for stocks, DRs, ETFs, ETNs and beneficiary certificates of the KOSPI and KOSDAQ market was expanded from  $\pm 15\%$  to  $\pm 30\%$  based on base price. \* Daily price limit for stocks in the KONEX Market remained with current  $\pm 15\%$ .
2. Introduction of Static Volatility Interruption (VI): Dynamic Volatility Interruption was introduced in September 2014, and Static Volatility Interruption which sets a cooling-off period for two minutes for a sudden price change by 10% or more based on the most recent price will be introduced to control larger price change.
3. Improvement in random end trading mechanism
4. Providing information on VI triggering: KRX will provide investors with information on current Volatility Interruptions and details on the past VIs on KRX home-page by issue and date for reference of trading activity to investors.

5. Improved Circuit Breakers(CB):

PHASE	Criteria for triggering CB	Details of Market Management
1	– 8% or more decline of KOSPI or KOSDAQ market index from previous day, lasting 1 minute	– The entire market halts trading for 20 minutes (cancellation quotation only accepted)  – Resuming with single price auction for 10 minutes
2	– 15% or more decline of KOSPI or KOSDAQ market Index from previous day.  – Additional decline of 1% or more from the time of Phase 1 CB triggering (Both conditions must be met, lasting 1 minute)	– The entire market halts trading for 20 minutes (cancellation quotation only accepted)  – Resuming with single price auction for 10 minutes
3	– 20% or more decline of KOSPI or KOSDAQ market Index from previous day.  – Additional decline of 1% or more from the time of Phase 2 CB triggering (Both conditions must be met, lasting 1 minute)	– The entire market shall be closed (Entire quotations including cancellation quotation are not accepted)  – After-hour market shall not open.

6. Tightened conditions to trigger VI on the last trading day: In case of last trading day's closing price for equity-related derivatives product (settlement price for derivatives products), more stringent conditions are applied to trigger dynamic VI, which aims to limit the risk of a steep change in the closing price of the stock

## 2016 Venue News

### KRX 2016 plans:

#### 1. Extension of trading hours

The Korean Exchange ("KRX") will work on extending daily trading time by 30 minutes, saying that its relatively shorter hours limit trading opportunities, exchange operator said in January this year. The Korean market currently operates for six hours a day from 9 a.m. to 3 p.m.

KRX CEO Choi Kyung-soo was quoted saying in an interview

"As the position and significance of Asian economies like China, Singapore and Hong Kong on the global stage is getting higher, it is time for us to follow the global trend of boosting transactions by extending hours. The KRX has already reached consensus with the financial regulator and our member securities firms."

The operator tried to extend hours in 2014 as well but the attempt failed because of opposition from the securities market, who said longer trading hours do not necessarily lead to either more transactions or profits for the firms. The KRX union also opposed it because of the increase in working hours.

No dates or timelines for this implementation have been announced yet.

#### 2. Listing of overseas instrument derivatives

In the local derivatives market, KRX will work on including the futures of global companies like Apple and Google, as well as the derivatives that follow major overseas indices.

#### 3. USD denominated payment system

KRX also plans to implement a payment system in U.S. dollars in local markets within the first half of 2016. The system will begin in the derivatives market, and will subsequently be extended to the bond market. If successful, other payment systems in other currencies like the yen, euro and yuan will follow, a KRX official explained at a press conference.

#### 4. Expects a big year for IPOs

The KRX forecast that 2016 will be a big year of initial public offerings (IPOs), as major conglomerates are currently working towards going public on the benchmark KOSPI. IPO transactions in the local market reached a 13-year high in 2015, with 190 companies going public.

### KRX Members Allowed to Deal Futures Directly with US customers

US's Commodity Futures Trading Commission ("CFTC") has issued an order to KRX allowing certain KRX members to deal KRX derivatives products (such as KOSPI 200 futures) directly with US customers without registering as futures commission merchants ("FCMs"). Eligible member firms are able to solicit, accept orders and provide information and infrastructure directly to US qualified investors without the additional layer of US FCM.

KRX will soon kick start administrative procedures for qualified member firms. Also, KRX plans to seek to allow its index options product become legally accessible to US investors through relief by the Securities Exchange Commission.

KRX announcement:

<http://global.krx.co.kr/contents/GLB/02/0203/0203000000/GLB0203000000.jsp#ab8758eced0475769e200e7e309baf77=1&view=20424>

US CFTC announcement:

<http://www.cftc.gov/PressRoom/PressReleases/pr7322-16>

### KRX published KOSPI 200 Total Return Index Series

KRX announced on 11th January 2016 its development of four KOSPI 200 Total Return index series, not only gains from the stock price but the income from dividend. Two return indices based on KOSPI 200, Total Return index and Net Total Return index, are denominated in both Korean Won and US Dollar. WM/Reuters exchange rates will apply to these indices.

The Total Return index reflects the gains from stock price and the profits potential if the dividends are re-invested.

The Net Total Return index is similar to the Total Return index but it deducts dividend tax from dividend income.

No further disclosure in the announcement about the remaining two indices.

KRX announcement:

<https://global.krx.co.kr/contents/GLB/02/0203/0203000000/GLB0203000000.jsp#ab8758eced0475769e200e7e309baf77=1&view=20412>

### KRX sets up a task force to help blue-chip companies in Asia to list on KRX

KRX established a taskforce in January this year which composes of external specialists - including investment bankers, attorneys and accountants - to help blue-chip companies in Asia to be listed on KRX markets. The taskforce focuses on Vietnam and Indonesia first but it plans to expand to other countries gradually.

The taskforce will hold listing conferences and offer strategic listing consulting to blue-chip companies. In addition, KRX has started a research project on laws, accounting issues, and other information including obstacles that Vietnamese and Indonesian corporations are facing when they list on KRX market.

Separately about KOSPI, Mr. Wondae Kim, vice president of the KOSPI market, said that he will invigorate the listing of foreign companies on KOSPI Market in 2016.

KRX announcement:

<http://global.krx.co.kr/contents/GLB/02/0203/0203000000/GLB0203000000.jsp#ab8758eced0475769e200e7e309baf77=1&view=20415>

### KRX to unveil new corporate responsibility index

KRX announced last November its plans to release a new index for measuring a listed company's environmental, social and governance performance. The Environmental, Social and Governance index, or ESG, is one of the United Nations' principles of responsible investment, which encourages investors to look into corporate responsibility factors in making investment decisions.

For the ESG index to gain investors' support, the KRX said the market needs an enhanced evaluation model for corporate government structure and development of new financial derivatives, such as ETFs and funds, that benchmark this index.

### KRX sets up Global Marketing Department to promote KOSPI Market to global investors

KRX debuted its Global Marketing Department on 15th February 2016. The department will also promote a range of listed products of KOSPI Market, including stocks, bonds, ETFs, and ETNs. It will also attract overseas promising companies to list in KOSPI market and collaborate with other exchanges to create indices and listing products.

KRX announcement:

[http://global.krx.co.kr/contents/GLB/02/0203/0203000000/GLB0203000000.jsp#a\\_b8758eced0475769e200e7e309baf77=1&view=20425](http://global.krx.co.kr/contents/GLB/02/0203/0203000000/GLB0203000000.jsp#a_b8758eced0475769e200e7e309baf77=1&view=20425)

## 2015 Market Structure

### Korean government planned to exempt taxes on investments in foreign products

The Korean government announced last June that it would launch a new fund product exempt from income taxes on earnings from foreign stock purchases in an effort to encourage domestic investors to invest abroad and eventually ease the strengthening of KRW against USD. The new tax-free fund product can invest more than 60% of its assets in foreign stocks for maximum of 10 years and individuals can invest up to a total of KRW 30Mn (US \$26,716) within the next two years. The ceiling for investing in foreign bonds of emerging countries will be 30% of total assets. Tax exemptions on this product will apply to profits due to foreign exchange fluctuations, Finance Ministry said.

However Finance Ministry also confirmed that the government would not provide tax exemptions for the current fund products that support foreign stock purchases.

### Domestic institutional investor's investments in foreign securities near record level

South Korea's institutional investors steadily increased their investment into overseas securities last year, and in the second quarter of 2015 this investment reached close to its record high.

The amount of foreign securities held by Korean institutional investors was US\$ 115.3Bn at end of June 2015, versus the record level of US\$ 116.5Bn observed in 2007, according to data from the Bank of Korea.

## 2015 Venue News

### KRX completed requirement for EU recognition as International Clearing House

KRX cleared the last requirements to be recognised by the European Union as an international clearing house after the National Assembly passed a bill in early June to revise a related law.

With the revision, the KRX said it can compensate investors directly as a central counterparty clearing house ("CCP") when a member brokerage house fails to pay investors in the case of default. A CCP

carries out clearing and settlement of market transactions.

EU recognition is crucial for the bourse operator which seeks to become a global player. So far, only four markets in the Asia Pacific region - Japan, Hong Kong, Singapore and Australia have been recognised by the European authority as of February 2016.

European investors account for about 8% of the derivatives market in Korea. This recognition should help foreign investors, particularly from Europe, invest in local derivatives markets more comfortably with few worries about a possible contagion of a financial crisis stemming from Korea.

### KTOP30 Index started trading from 13th July

KRX launched a new industrial index of 30 blue-chip firms in a bid to better reflect the country's economic growth. The new KTOP 30 index, benchmarked from the U.S.-based Dow Jones Industrial Average, will consist of 30 major companies.

Members of the index includes Samsung Electronics, Hyundai Motor, POSCO and cosmetics manufacturer AmorePacific. The market cap of KTOP 30 will stand at KRW 609TN (US\$ 541Bn), which is nearly 45% of Korea's primary exchange, according to the KRX. Similar to KOSPI200 technology-related firms will constitute 32% of the index.

### KRX listing of mini KOSPI200 futures and options

Mini KOSPI200 futures and options started trading on 20th July 2015. Trading has been smooth since launch and investors from all the investor groups are evenly participating on this market.

Trading proportion by investor group

Mini futures: (Institutions) 24.2%, (Foreigners) 41.6%, (Individuals) 34.2%

Mini options: (Institutions) 11.3%, (Foreigners) 61.2%, (Individuals) 27.5%

## Personal News

### FSC's new chairman Yim Jong-yong

FSC's new chairman Yim Jong-yong was appointed on 13th March last year replacing Shin Je-Yoon. Prior to assuming the chairmanship, Mr. Yim served as Chairman & CEO of NongHyup Financial Group and has been with the government since 1981.

#### Sources:

[www.yonhapnews.co.kr](http://www.yonhapnews.co.kr)

[www.eng.krx.co.kr](http://www.eng.krx.co.kr)

[www.complinet.com](http://www.complinet.com)

<http://english.donga.com>

<http://www.koreaherald.com>

<http://global.krx.co.kr>

#### Contact

Email: [global.marketstructure@list.db.com](mailto:global.marketstructure@list.db.com)  
Tel: +852 2203 5710



# Australia

## 2016 Market Structure

### Reduction of settlement cycle from T+3 to T+2

Australia will transition to T+2 settlement for cash equity trades on 7th March 2016, including trades executed on ASX and other Australian market operators for which ASX provides clearing and settlement services. This came after strong industry endorsement following market consultation in 2014 and market participants had confirmed readiness. According to ASX, the Australian market enjoys a high level of post trade STP rates, with a settlement success rate of over 99.9%, a fact that further supports the efficacy of the transition.

This move aims to help investors in reducing capital and margin savings, as well as to align with settlement practices in leading markets such as Hong Kong and Europe. The US has already proposed to move to T+2 for equities, corporate and municipal bonds, and unit investment trusts trades with expected target date of 5th September 2017.

To support the change, ASX had agreed with the industry to maintain the single settlement batch each day, but to move the timing of the batch from 10.30am to 11.30am Sydney time. The change also impacts corporate actions, where the ex-period is reduced from 3 to 2 days (inclusive of ex- and record dates) to match the settlement period. The change has also been coordinated with the Australian fixed interest market, and the New Zealand market to maintain regional efficiencies.

#### ASX announcement:

<http://www.asx.com.au/services/t2.htm>

#### Chi-X Australia announcement:

<http://cmsau.chi-x.com/Portals/15/Docs/Compliance%20Notice%200001-16.pdf>

### ASIC unveiled Corporate Plan 2015–16 to 2018-19

ASIC published its Corporate Plan 2015–16 to 2018-19 with the key focus on 2015-2016. The document lays out ASIC’s strategic priorities and challenges over the coming years.

ASIC identified its long term challenges as “balancing a free market-based system with investor and financial consumer protection, digital disruption, structural change, financial innovation-driven complexity, and globalisation”.

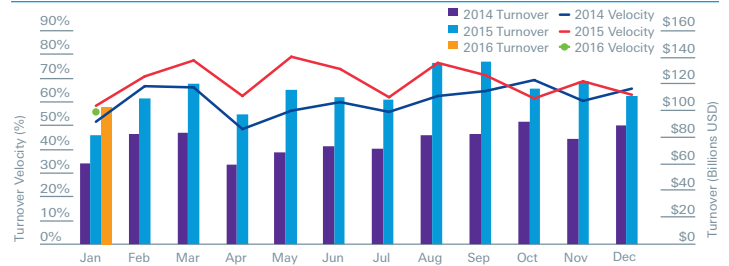
In order to address these challenges, the agency will focus on “areas of gatekeeper conduct, cyber-attacks, poor financial advice, misalignment of retail product design and distribution with consumer understanding, and cross-border businesses, services and transactions”.

ASIC articulated its strategic priorities as promoting “investor and financial consumer trust and confidence ensure fair, orderly, transparent and efficient markets...and providing efficient and accessible registration”.

For Markets, ASIC’s focus on gatekeepers from a surveillance perspective includes:

- Reviewing market practices on confidential information;
- Benchmarking investment banks’ approaches to managing conduct risk;

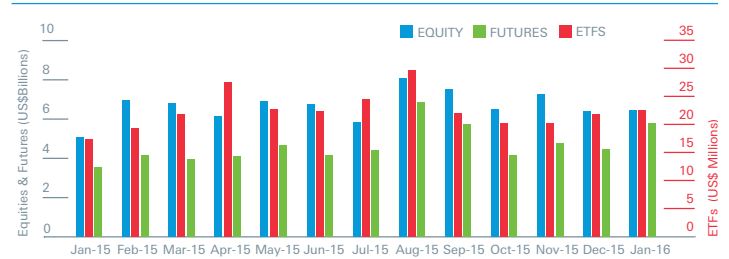
Fig 1: Turnover Velocity



Source: Thomson Reuters

Fig 1. Turnover velocity January 2016: 57% January 2015: 58% January 2014: 51%

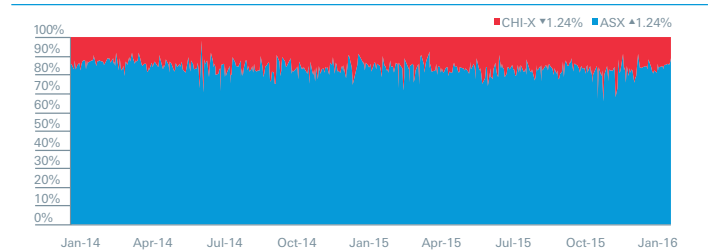
Fig 2: Equities(Cash), Futures and ETFs Monthly ADV



Source: Thomson Reuters

Fig 2. – Australian business confidence has remained resilient despite recent market turmoil, according to National Australian Bank (NAB) business survey at end of December last year. This is evident from equities as well as futures and ETFs turnover in Australia which is up versus same time last year.

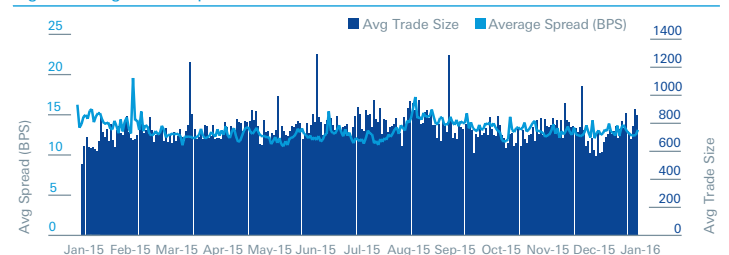
Fig 3: Market Share by Venue



Source: Thomson Reuters

Fig 3. Chi-X market share has dropped slightly in January 2016 since the announcement of JC flowers buy-out of Chi-X Australia and Japan. 17.3% average market share in December 2015 to 16.05% average market share in January 2016.

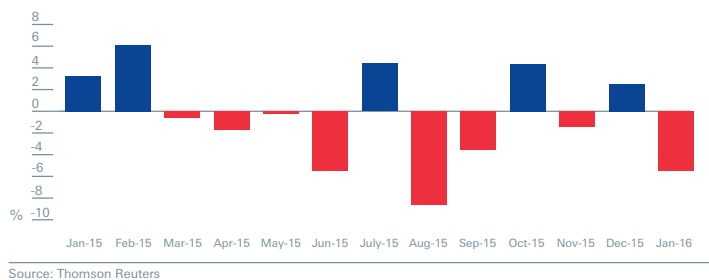
Fig 4: Average Index Spread and Trade Sizes



Source: Thomson Reuters

Fig 4. Average trading spread in Australia has narrowed by 12% while average trade sizes have widened by the same amount versus same period January 2015.

Fig 5: MoM Index Price Change



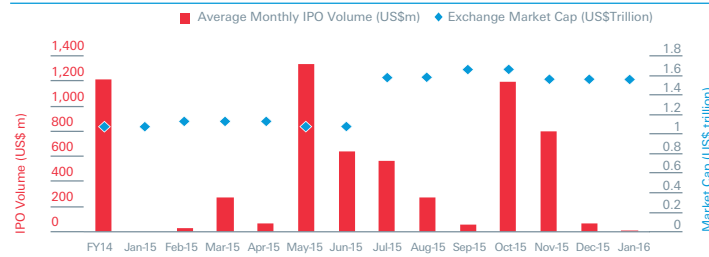
Source: Thomson Reuters  
Fig 5. 2015 was a very volatile year for the region and Australia included as visible from the alternate positive and negative index performance almost every alternate month since June last year. ASX index was down 5.4% in January 2016.

Fig 6: Large and Mid Cap Index movers

Market Movers - Large Cap				Market Movers - Mid Cap			
Stock	Price Return	Volume traded (US\$)	20D/100D ADT	Stock	Price Return	Volume traded (US\$)	20D/100D ADT
MPL.AX	14%	816,614,700	0.94	JBH.AX	17%	696,997,900	1.52
TWE.AX	11%	815,906,400	1.05	MTU.AX	11%	248,055,300	0.96
RMD.AX	8%	613,982,900	0.89	MTS.AX	7%	285,890,000	1.21
SYD.AX	6%	1,314,801,000	1.17	VOC.AX	7%	209,772,200	1.00
WFD.AX	5%	1,207,142,000	0.91	SGR.AX	7%	385,230,000	1.10
BHP.AX	-14%	5,254,032,000	0.87	BTT.AX	-16%	196,274,600	0.98
AZJ.AX	-15%	952,370,600	0.97	HSO.AX	-17%	387,565,400	0.29
ORG.AX	-16%	1,066,597,000	0.70	MFG.AX	-18%	378,915,600	1.23
STO.AX	-17%	1,023,921,000	0.67	PTM.AX	-19%	230,899,800	1.20
IPL.AX	-22%	614,845,100	0.95	NUF.AX	-20%	202,886,800	0.85

Source: Thomson Reuters

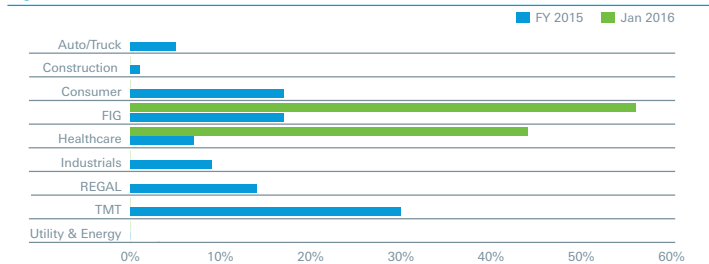
Fig 7: Avg Monthly IPO size and Exchange Market Cap



Source: Dealogic

Fig 7. There were 78 new IPOs in the full year 2015, with TMT sector IPOs seeing the biggest share of it.

Fig 8: IPO Sector Distribution



Source: Dealogic

Fig 9: IPO Performance

Month	# of IPO	1 day	1 month	Current
Jan-15	-	-	-	-
Feb-15	3	8%	62%	-20%
Mar-15	6	24%	18%	36%
Apr-15	4	36%	23%	37%
May-15	7	17%	3%	-4%
Jun-15	10	-4%	-4%	14%
Jul-15	7	11%	21%	25%
Aug-15	4	7%	11%	6%
Sep-15	5	9%	51%	46%
Oct-15	10	16%	20%	19%
Nov-15	15	17%	24%	25%
Dec-15	7	18%	16%	12%
Jan-16	2	24%		46%

Source: Dealogic

- Performing proactive surveillance in the wholesale market, particularly around "benchmark manipulation through bank bill issuance/trading and benchmark submitters;
- Assessing ASX standards and administration of its securities listing function ;
- Reviewing certain transactions "that pose a high conduct risk", particularly backdoor listings, substantial overseas assets or management and business models based on intangibles and;
- Identifying "inappropriate conduct by assessing breach reports and reports of misconduct and deciding whether further action is warranted we expect licensees to report breaches promptly so it can rectify problems with individual entities quickly and effectively";

Specifics among the ASIC's other priorities highlighted in the document which may touch on Markets:

- Reviewing "advice in large, vertically-integrated institutions, including how the largest banks deal with 'bad apple' advisers";
- Reducing the "sale of inappropriate products" with a focus on retail over-the-counter derivatives and;
- Contributing to the development and implementation of the Asia Region Funds Passport.

ASIC focuses on the importance of culture throughout the report, noting in the Markets gatekeeper section that it will "incorporate culture and incentives more explicitly into [it's] risk-based surveillance reviews, use the findings to better understand how culture and incentives are driving conduct, and communicate to the markets [it] regulate where [it] see[s] problems with their culture, incentives and conduct."

The full report is available at:

<http://asic.gov.au/about-asic/what-we-do/our-role/asics-corporate-plan-2015-2016-to-2018-2019/>

### ASIC reviewed 'double geared' margin loans lenders

ASIC has reviewed the margin lending standards of 6 margin lenders that took up 90% of the market. It found that 5 out of the 6 lenders approved "double geared" margin loans, and 4 out of these 5 lenders did not take additional steps in approving such loans. Following ASIC's review, 1 double geared margin lender ceased offering this service while the remaining 4 made several commitments to reduce risks including policy enhancements and the following:

- extra buffers to allow for interest rate rises and/or changes in expenses;
- lower maximum allowable loan amounts; and
- lower loan to value ratios

"Double geared" margin loans are where a consumer borrows money (using another asset as security, such as their home) to purchase shares, and then obtains a margin loan on these shares to purchase additional shares. Because of the extra risks associated with double gearing, Australian law requires margin lenders to meet responsible lending obligations.

In addition, the regulator also reviewed 2 "double geared asset-lend" lenders. These are loans that customers would not be able to service the margin loan with their incomes alone, and would need to sell assets to cover the interest payments. ASIC said such margin loans were unsuitable and both lenders decided to cease approving such business.

ASIC announcement:

<http://asic.gov.au/about-asic/media-centre/find-a-media-release/2016-releases/16-010mr-margin-lenders-improve-lending-standards-following-asic-review/>

## 2016 Venue news

### ASIC Chief supports 'blockchain' technology

Greg Medcraft, the ASIC Chief, said on 15th February during a discussion forum for public and private financial institutions in London that the blockchain technology will have profound implications to regulators in regulating the marketplace. In his speech, he discussed digital disruption in capital markets, with emphasis on blockchain technology which might reshape how regulators operate. He said potential adoption of it may boost market efficiency, reduce transaction costs, improve transparency and improve market access for investors.

Medcraft also said ASIC is working to understand how enforcement actions over transactions recorded in blockchain can be taken while striking the right balance between enforcement and innovation.

For more information:

<http://asic.gov.au/about-asic/media-centre/speeches/capital-markets-and-digital-disruption/>

### ASX invests in blockchain technology

In January, the Australian Stock Exchange ("ASX") announced it has spent AU\$14.9 million (US\$11 million) to buy 5% stake in Digital Asset Holdings, a US company, to develop tribute ledger technology called blockchain. Digital Asset is a blockchain start-up led by former JP Morgan executive Blythe Masters.

A blockchain allows settlement between financial transactions without a third party in between, such as a bank, by sending transaction through a secured network which continuously maintain transaction records. ASX said this technology could 'significantly simplify and speed-up' post-trade processing, remove risks and reduce back-office and compliance costs, while able to provide near real-time equity settlement for investors.

ASX announcement:

<http://www.asx.com.au/documents/about/ASX-Selects-Digital-Asset-to-Develop-Distributed-Ledger-Technology-Solutions.pdf>

### ASX plans wide scale technology upgrades

ASX announced that it is committed to upgrade all its major trading and post trade platforms in the coming 3-4 years. This investment is expected to enhance innovations, liquidity and efficiency to customers, and also establish ASX as one of the leading stock exchanges in the world.

The first stage of implementation will involve replacing current equities and derivatives platforms, market monitoring systems and risk management systems and is expected to take between 18-24 months. The second stage will include an upgrade of post trade services, cash market clearing and central securities depository services.

In 2016, ASX will be replacing its ASX Trade 24 and ASX Trade trading platforms. ASX's investment in its New Trading Platform will help deliver greater innovation, efficiency and liquidity to customers. A core benefit of the upgrade will be the use of a global standard protocols that should allow customers to reduce their development and connectivity costs.

The New Trading Platform will continue provide all existing functionality in ASX Centre Point:

- Dark Limit execution – Allows Centre Point orders to execute any permitted dark price up to the price you specify just not mid-point. These executions are based on time priority.
- ASX Sweep – Integrates ASX displayed and non-displayed liquidity. Allows Execution against Centre Point liquidity at all price levels on the way to the lit market. Note that trades will require at least half a tick of price improvement to the NBBO.
- Any Price Block – Allows Execution of a block size order at any price, including at or outside the NBBO. The trade must be above block size.

- Single Fill MAQ (Minimal Acceptable Quantity) – Allows Execution with only one counterparty at user defined minimum trade size.

ASX's New Trading Platform will improve flexibility and implementation time, allowing ASX to deliver new products and services to market more efficiently and to continue ASX's track record of innovating to meet the needs of investors.

For the 2015 announcement:

[http://www.asx.com.au/documents/investor-relations/ASX\\_Ltd\\_Technology\\_Upgrade.pdf](http://www.asx.com.au/documents/investor-relations/ASX_Ltd_Technology_Upgrade.pdf)

### ASX's consultation on changes to listing rules

In 2012 the ASX introduced a new listing rule (7.1A) which allowed "mid to small caps" to obtain a 12 month shareholder mandate to issue up to 10% of issued capital without further shareholder approval (in addition to the 15% permitted under rule 7.1). In October 2015, ASX introduced a set of requirements to protect the interests of investors of the additional 10% mandate:

- Shareholder approval by special resolution at subsequent AGM
- Enhanced disclosure requirements
- A floor on the issue price at 75% of the market price
- A 12 month limit on the mandate before it must be refreshed.

The consultation ended in November 2015. Conclusions have yet to be announced.

For the proposed full rules:

<http://www.asx.com.au/documents/public-consultations/asx-consultation-listing-rule-7.1a.PDF>

### J.C. Flowers buys Chi-X Japan, Chi-X Australia and Chi-Tech Hong Kong

Chi-X Global Holdings decided to sell these venues to a private investment firm J.C. Flowers in 1Q 2016, depends on regulators' approvals. According to Bloomberg, Chi-X handles about 11% of on-market trades in Australia and less than 2% of equity transactions in Japan. Makoto Nagahori will remain as head of Chi-X Japan under J.C. Flowers.

Chi-X announcement:

[http://cmsau.chi-x.com/Portals/15/Docs/Chi-X\\_Global\\_Press\\_Release\\_J.C.Flowers\\_EN.pdf](http://cmsau.chi-x.com/Portals/15/Docs/Chi-X_Global_Press_Release_J.C.Flowers_EN.pdf)

### Chi-X seeks to list offshore companies in Australia

Australian press reports that Chi-X was in talks with ASIC to list offshore stocks in Australia. ASX's plans to list offshore shares in 2012 were rejected by ASIC but ASX's CEO said in May 2015 that the exchange continues to explore the option.

Among the concerns that Chi-X and ASX need to address in listing foreign companies are compliance with ASIC's continuous disclosure rules and protection of retail investors. Potential options include sponsored depository receipts or restricting trading in offshore shares solely to institutional investors.

### Chi-X releases ETF Attributed Market technical specifications and new order types

A technical notice was released on 27th January 2016, covering the following:

- The quoting of ETFs on Chi-X as the next stage of Chi-X's Investment Product initiative, including participant attribution when trading Chi-X quoted ETFs;
- The handling of participant attribution for ASX quoted ETFs when trading on Chi-X;

- The inclusion of a Calculated Value message which may include Closing Price, iNAV, Index values and FX Rates;
- A new order type 'BestX' to allow order entry to be priced at the best price level on the same side of the market;
- A new order type 'MarketX' to allow order entry to be priced at the best price level on the opposing side of the market.

The timing of launch has yet to be finalised.

For the full Chi-X announcement see here:

<http://cmsau.chi-x.com/Portals/15/Docs/Chi-X%20Technical%20Notice%200001-16.pdf>

## 2015 Market Structure

### ASIC repealed certain Market Integrity Rules, allows more crossing flexibility

Last May, ASIC repealed certain obligations under the ASIC Market Integrity Rules to reduce the onerous requirements for market participants. This action specifically included a change to the special crossing rules.

Previously the rule prohibited the transacting of special crossings and late crossings in companies subject to takeover bids, and companies carrying out an on-market buyback. Effectively this meant you could only cross at the mid-point for stocks under takeover, even if the cross was special size. However the amendment of this rule means that brokers can now be able to cross stock in special size outside the spread.

ASIC announcement:

<http://asic.gov.au/about-asic/media-centre/find-a-media-release/2015-releases/15-097mr-asic-repeals-select-market-integrity-rules/>

### ASIC released Report 452: Review of High Frequency Trading and Dark Liquidity

Last October, ASIC issued a review report on High Frequency Trading ("HFT") and Dark Liquidity. It was found that negative views associated with HFT have tapered off as market users had become better informed and equipped to operate in an electronic and high-speed environment.

HFT in Australia was comparable to Canada, EU and Japan at around 27% of total equity market turnover, but was concentrated amongst fewer high-frequency traders (30% fewer high-frequency traders). On average, positions were held for 52 minutes (equities), 31 minutes (SPI), and 39 minutes (bond futures).

Over the 12 months to 31st March 2015, HFT had gross trading revenue of AU\$110-180 million in aggregate. This translated to a cost of 0.7-1.1 basis points for other market users. Though this was a material cost, ASIC recognised that HFT could provide benefit too. HFT represents nearly 50% of resting orders around best price, which suggests that HFT may be filling gaps in short term supply and demand.

Dark liquidity has remained reasonably constant in the past few years at between 25-30% of total equity market turnover. While the level of dark liquidity has remained consistent, its composition had changed, partly as a result of rule changes by ASIC. Dark liquidity has been increasingly used for large block trades.

For the full report please click here:

<http://download.asic.gov.au/media/3444836/rep452-published-26-october-2015.pdf>

### Australia, US collaborated to supervise cross-border regulated firms

The Australian Prudential Regulation Authority ("APRA") and the US Commodity Futures Trading Commission ("CFTC") have signed a memorandum of understanding ("MoU") to collaborate in the supervision of cross border regulated firms. The agreement between the two bodies is expected to facilitate cooperation and exchange of information necessary in oversight and supervision of firms operating on a cross border basis in Australia and USA. The MoU covers swap dealers and major swap participants.

Through this agreement, the bodies have agreed to consult each other on supervision of institutions that increase risk to the financial markets, the authorisation of swap dealers and the laws that apply to dealers in the US and Australia.

### ASIC published its Regulator Performance Framework

Last July, ASIC published a metrics for demonstrating compliance with the Federal Government's requirement that Australian regulators "undertake their functions with the minimum impact necessary to achieve regulatory objectives".

ASIC's metrics for meeting the Government's 6 key performance indicators ("KPI") include:

KPI 1: Regulators do not unnecessarily impede the efficient operation of regulated entities

- Regular meetings of stakeholder panels such as the Market Supervision Advisory Panel, the Registry and Licensing Business Advisory Committee Panel
- Publishing feedback after all formal consultations
- Attendance at international meetings to better coordinate regulatory activity globally and publish peer review results against international 'practices and standards'
- Regularly publishing (every 4 months) decisions on relief applications

KPI 2: Communication with regulated entities is clear, targeted and effective

- Extensive use of ASIC's website as a repository of information and guidance
- Standardised communication on routine questions
- Stakeholder surveys

KPI 3: Actions undertaken by regulators are proportionate to the regulatory risk being managed

- Published approach to enforcement with 'options for a graduate approach to compliance and enforcement'
- Semiannual report on enforcement actions
- Clear consultations papers on existing or potential market failures

KPI 4: Compliance and monitoring approaches are streamlined and coordinated ASIC senior staff and legal office sign off prior to all formal information requests

- Awareness of and coordination with other information requests to regulated entities

KPI 5: Regulators are open and transparent in their dealings with regulated entities

- Reporting against corporate plan and service charter with explanations 'where outcomes or standards are not met'
- Leaving consultations on major new policy initiatives where possible

KPI 6: Regulators actively contribute to continuous improvement of regulatory frameworks

- Regular meetings with key stakeholders

The complete Regulator Performance Framework for ASIC is available at:

<http://download.asic.gov.au/media/3293662/regulator-performance-frameworkevidence-metrics-published-10-july-2015.pdf>

## 2015 Venue News

### ASX's Q2 trading platform enhancements, new block trading rule

ASX announced a number of trading platform enhancements including:

- Block Trading - Enhancement of ASX Centre Point to support block trading at or outside the NBBO (National Best Bid or Offer). This optional functionality requires two conditions:
  - i. The participant needs to indicate their willingness to trade at or outside NBBO on their order entry; and
  - ii. The trade must be above block size. (A\$ 1 million for Tier 1, A\$ 500,000 for Tier 2 and A\$ 200,000). Orders above block size that do not carry the required willingness indicator will continue to trade in the current manner.

Two new order types have been added to ASX Trade OUCH to support these conditions:

- i. OUCH Order Type = C: Any Price Block order.
- ii. OUCH Order Type = E: Any Price Block order with single fill MAQ.
  - Crossing Dealing Capacity (i.e. Principal / Agency) – Simplified process whereby a new field is utilised to send back crossing dealing capacity in real time (requires a mandatory upgrade of Participants' systems).
- c. Further enhancement to ASX Trade OUCH which will include:
  - i. Explicit confirmation of whether an order was executed aggressively or passively.
  - ii. Support for Minimum Acceptable Quantity ("MAQ")
  - iii. 3 new order types will be added to ASX Trade OUCH to support single fill MAQ ("B" for Mid-point, Centre Point block order, "F" for Dark Limit, Centre Point block order & "T" for Limit Sweep Order).
  - iv. Support for Mid Tick on Mid Point Orders with 8 order types permitting entry of limit prices at half-tick (optional).
  - v. Order Priority Changes in Centre Point:
    - 1) Amendment of Mid-Tick – order time priority is lost for any amendment of the mid tick c field. (Previously only amending from "with half tick improvement" to "without half tick improvement" or vice-versa results in a loss of time priority).
    - 2) Dark Limit Execution – the previous matching sequence for dark limit orders was time priority for mid-point executions and price time priority for price levels other than mid-point. This priority was changed such that allocations are made based on time priority at each possible execution price.

For further details on the changes see the full notice here:

<http://www.asx.com.au/communications/notices/2014/1509.14.12.a.pdf>

### ASX FY2015 listing results

The market capitalisation of new listings in cash equity markets +15.9% YoY in FY15 to AU\$33.4 billion, up from AU\$28.8 billion in 2014. Overall, 126 new entities listed in 2015 (+15.6% YoY vs 2014). The largest IPOs came from the information technology, financials and consumer discretionary sectors.

ASX increased global investment opportunities for local investors as a number of foreign firms completed successful listings. The majority came from New Zealand, USA and Asia, with the most significant floats.

### Chi-X launched warrants trading platform with lower costs

In Issue 39, we mentioned Chi-X Australia put out consultation paper last September on rule changes for listed warrants and ETFs. In November 2015, Chi-X Australia finally debuted its warrants trading platform, with warrants on Commonwealth Bank and BHP Billiton being the first batch of products available. This was its first step in its investment products initiative with ETFs and a range of investable indices to follow and exclusively traded on Chi-X in 1H2016.

John Fildes, CEO of Chi-X Australia, said the new warrant platform would be 'significantly cheaper' than ASX which is charging AU\$350 for each warrant whereas Germany only charges [AU]\$15. He did not disclose the rate for this new platform.

Chi-X Australia "Investing in warrants" booklet:

<http://cmsau.chi-x.com/Portals/15/Docs/Chi-X%20Australia%20InvestingInWarrantsbooklet2015.pdf>

### After hours trading window opened at Chi-X

Chi-X's @Last came to market last August, which allows trading for additional 8 minutes after the markets close at 4:12pm. The after-hours window allows brokers more time to lay off risk from activities like warrant market making.

Chi-X Australia CEO John Fildes once said: "It is often the case that brokers will say 'oh a client would have done more of that at that price or a client didn't get as much as they wanted in the closing-price auction' – we are trying to extend that ability to trade a little bit longer at that closing price."

### Launch of ASX Total Return Single Stock ("TORESS") Options

Total Return Single Stock Options were launched in November 2015. Available as low exercise price options on ASX listed markets, ASX TORESS Options offer single stock options trading whilst securing the direct payment of dividends between parties. This new ASX offering in Australian equity options enables the dividend component to be taken out of the option premium calculation allowing a tighter pricing than standard options.

For more information:

<http://www.asx.com.au/documents/products/TORESSBooklet.pdf>

### ASX offered sector and volatility futures

ASX derivatives markets offered trading exposure to S&P/ASX 200 key sector constituents, mainly its Resources, Financials-ex A-REIT and A-REIT (Property) sectors, with futures listed over the relevant indices. In 2015 the ASX A-REIT Index Futures was transferred from ASX Trade™ over to ASX Trade24™, making all three sectors futures available alongside the two S&P/ASX 200 Index Futures and the S&P/ASX 200 VIX Futures. The move to one single trading platform has paved the way for market makers liquidity and cross trading opportunities over all six futures contracts.

For more information:

[www.asx.com.au/documents/products/ASX-Sector-Futures-Brochure.pdf](http://www.asx.com.au/documents/products/ASX-Sector-Futures-Brochure.pdf) ; [www.asx.com.au/documents/products/SP-ASX-200-VIX-Futures.pdf](http://www.asx.com.au/documents/products/SP-ASX-200-VIX-Futures.pdf)

## 2015 Personnel News

### Chi-X Australia appointed a new Head of Market Operations

Last November, Peter Warton was appointed as the new Head of Market Operations of Chi-X Australia, succeeding Jamie Crank who has moved to a new role as Head of Product for developing trading solutions. Mr. Warton's appointment came after the exchange entered into its 4th year of operations with a record turnover in October 2015 with market turnover of AU\$20.34 million (10% market share).

For more information please click here:

[http://cmsau.chi-x.com/Portals/15/Docs/Chi-X\\_Australia\\_Appoints\\_New\\_HeadofMarket\\_Operations\\_1311204.pdf](http://cmsau.chi-x.com/Portals/15/Docs/Chi-X_Australia_Appoints_New_HeadofMarket_Operations_1311204.pdf)

### Sources:

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<http://asic.gov.au>

<http://www.coindesk.com>

<http://www.smh.com.au>

### Contact

Email: [global.marketstructure@list.db.com](mailto:global.marketstructure@list.db.com)  
Tel: +852 2203 5710



# Thailand

## 2016 Market Structure

### Public hearing on draft revisions to market infrastructure rules

The SEC is seeking public comments on draft revisions to the rules governing the operation of capital market infrastructure to be in line with international standard principles and changing advanced technologies.

The proposed revisions would apply to future exchange, derivative clearing house, securities clearing house and securities depository with regard to the following areas:

- Improvement of business contingency management;
- IT security;
- Operational outsourcing; and
- Complaint handling.

All but the futures exchange would be required to comply with new rules on organisational structuring, capital resources and risk management.

The public hearing ended on 8th March 2016, for the full materials click here:

<http://www.sec.or.th/EN/Pages/SearchNews.aspx>

### SEC three-year strategic plan aims to build robust market ecosystem for sustainable growth

On 14th January 2016, Secretary-General Rapee Sucharitakul announced the SEC Strategic Plan 2016-2018 to stakeholders from all sectors, placing a special focus on well-balanced and fundamental development of ecosystem in the Thai capital market. This aims to enhance trustworthiness as well as efficiency, competitiveness of intermediaries and the overall market. Fundraising, market and intermediaries, financial products and SEC organizational development are the four main areas the strategic plan will cover.

“The SEC will continue to develop the capital market by exercising our core value of openness, insightfulness, collaboration and integrity. Market participants and stakeholders can rest assured that the SEC will move forward with all sectors to achieve the goals set forth in the strategic plan and the sustainable growth of the capital market,” said Mr. Rapee.

For the full news release click here:

<http://www.sec.or.th/EN/Pages/SearchNews.aspx>

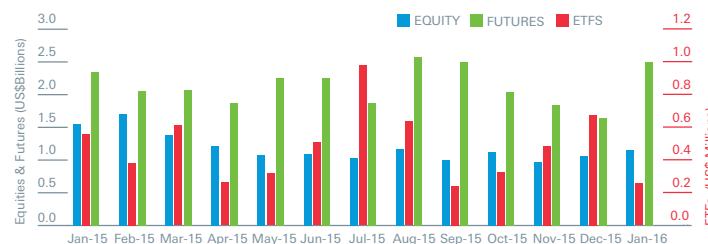
### SEC looks at tighter trading penalties

On 15th January 2016, the Bangkok Post reported that the SEC is set to tighten the penalty for executives of listed companies found guilty of unfair securities trading practices.

This came after some strong public criticism for being lenient over insider trading fines of 33.3 million baht (US\$ 935,000) on four top executives from a corporation.

Secretary-general Rapee Sucharitakul said, guidelines for new punishment are expected to be finalised this year and the new penalties might be similar to those used for securities and mutual fund companies.

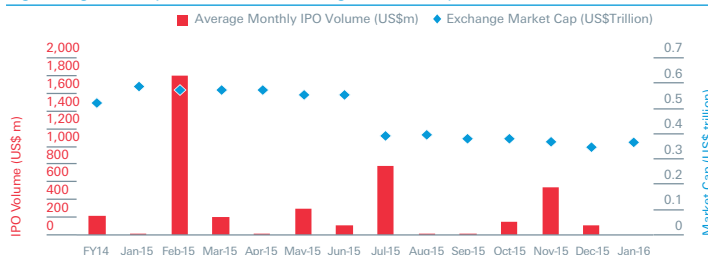
Fig 1: Equities(Cash), Futures and ETFs Monthly ADV



Source: Thomson Reuters

Fig 1. Futures turnover in Thailand is up 6% YoY, while Equities and ETFs turnover is down 25% and 55% respectively.

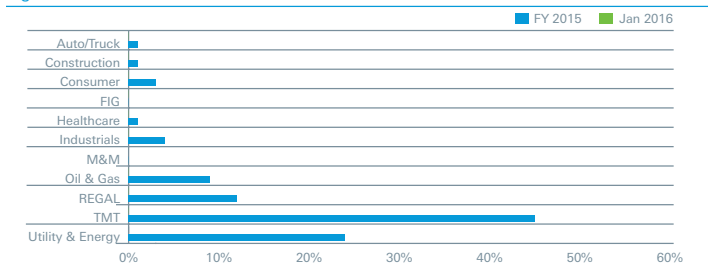
Fig 2: Avg Monthly IPO size and Exchange Market Cap



Source: Dealogic

Fig 2. Thailand recorded the highest number of new IPOs by market cap in the ASEAN region for the third consecutive year in 2015. In 2015, the number of initial public offerings (IPOs) launched in Thailand reached 40 - 21 on the Stock Exchange of Thailand (SET), 13 on the Market for Alternative Investment (MAI), and 6 real estate investment trusts and property funds. Media reports expect that Thailand's IPO market this year will further grow and reach THB270bn (USD7.4bn).

Fig 3: IPO Sector Distribution



Source: Dealogic

Fig 4: IPO Performance

	# of IPO	1 day	1 month	Current
Jan-15	1	107%	106%	52%
Feb-15	4	121%	79%	76%
Mar-15	3	10%	-7%	-28%
Apr-15	1	5%	-8%	-7%
May-15	1	-4%	-3%	-13%
Jun-15	2	83%	38%	20%
Jul-15	7	69%	21%	36%
Aug-15	1	73%	24%	58%
Sep-15	1	52%	26%	-29%
Oct-15	4	14%	30%	20%
Nov-15	8	19%	14%	17%
Dec-15	3	17%	26%	39%
Jan-16	-	-	-	-

Source: Dealogic

## 2016 Venue News

### Thai bourse and SEC to launch “Digital IPO”

On 21st January 2016, The Stock Exchange of Thailand (SET), jointly with The Securities and Exchange Commission (SEC), announced the launch of digital listing services (Digital IPO). This would enable all new securities, including initial public offering (IPO), infrastructure fund (IFF), real estate investment trust (REIT), exchange-traded fund (ETF) to be listed via electronic system starting from 25th January 2016.

### TFEX ready for first agricultural derivative product “RSS3 Futures”

The Thailand Futures Exchange PCL (“TFEX”) planned to launch its first agricultural derivatives product ‘RSS3 Futures (Ribbed smoked rubber sheet futures)’ on 15th February 2016. The exchange merged with the Agricultural Futures Exchange of Thailand (AFET) aiming to internationalise agricultural futures trading in order to drive Thai economy.

The SET President said

“The integration will enable investors to trade all types of derivatives in single accounts, and to effectively manage margin, as well as trading via all TFEX members. All these are for investors’ benefit and convenience. Since third quarter of 2015, TFEX has adjusted related regulations and systems, provided training for TFEX and AFET members, as well as Organising roadshows to enhance knowledge among investors and entrepreneurs in Thailand and overseas continuously.”

During the initial period, RSS3 Futures will be traded on both exchanges to ensure a smooth transition from AFET to TFEX. It was also reported, the contract specifications of RSS3 Futures to be traded on TFEX are similar to AFET’s. However, TFEX will make minor adjustments to cater to investors’ demands such as extending trading hours without a lunch break to align with international markets, setting a circuit breaker, increasing position limits and enhancing alternatives for settlement to maximise investors’ benefits.

## 2015 Market Structure

### Thai Securities and Exchange Commission looks at private placement rules

Last August, the SEC revamped its private placement rules for newly issued shares with the goal of protecting shareholders and preventing exploitation of this mechanism for the benefit of an individual or a group.

The press release explained the new rules require the listed companies’ board of directors to be responsible for consideration on reasonableness of capital increase proposal for private placement, feasibility and objective for company’s interest including appropriateness of placement method, placement price and price determination as well as share allotment. The opinion of board of directors must be clearly disclosed in the notice calling for shareholders’ meeting to provide sufficient information for decision making of shareholders.

The full press release is available at:

[http://www.sec.or.th/en/Pages/News/Detail\\_News.aspx?tg=NEWS&lg=en&news\\_no=87&news\\_vy=2015](http://www.sec.or.th/en/Pages/News/Detail_News.aspx?tg=NEWS&lg=en&news_no=87&news_vy=2015)

### Long-term equity funds privileges get 3-year extension

The Thai Finance Ministry has extended the Long-Term Equity Funds (“LTF”) tax deduction privileges for three years as the popular tax breaks were due to expire in 2016. The Ministry recognised the negative impacts on the stock market if these privileges were lifted as a significant portion of investors are locked in these LTFs for their tax benefits – up to 15% of their personal income or 500,000 baht (US\$ 14,000), whichever is lower.

The lock-up period for investments in LTFs has been extended from the previous five calendar years to the date of purchase until a full five years at a minimum. In addition, the Finance Ministry will cut the upfront fee for Treasury Department land in special economic zones by half, an attempt to attract private investment.

These reductions came after repeated requests by private investors to reduce the charges.

## 2015 Venue News

### TFEX wins 2015 FOW award for Asia’s Best Technology Innovation

On 24th September 2015, it was announced that the TFEX has been selected as “Best Technology Innovation by an exchange” for outstanding trading system innovation, at the 2015 Futures and Options World Awards for Asia event in Singapore.

### TFEX plans 10 underlying stocks for Stock Futures

TFEX plans to add 10 underlying securities for its Stock Futures in addition to the 60 currently available. This is to accommodate higher demand on this product, enabling investors to manage portfolios more efficiently and increase trading opportunity.

It was reported that the additions will include Bangkok Airways pcl (BA), Carabao Group pcl (CBG), CK Power pcl (CKP), Energy Earth pcl (EARTH), Hana Microelectronics pcl (HANA), Ichitan Group pcl (ICHI), Samart Corporation pcl (SMART), Srisawad Power 1979 pcl (SAWAD), TTCL pcl (TTCL), and VGI Global Media pcl (VGI).

These were planned to be added effective 5th October 2015.

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<http://www.bangkokpost.com>

<http://www.cinnober.com>

<http://www.nasdaq.com>

#### Contact

Email: [global.marketstructure@list.db.com](mailto:global.marketstructure@list.db.com)  
Tel: +852 2203 5710



# Singapore

## 2016 Market Structure

### Monetary Authority of Singapore is refining the regulatory oversight of SGX

With the emergence of rival derivatives bourses in the city, the Monetary Authority of Singapore ("MAS") is refining the regulatory system in which Singapore Stock Exchange ("SGX") operates. Starting this year, as long as exchange members are licensed by the MAS, the central bank will no longer require bourses to inspect their members in areas of capital and reserves, business conduct, anti-money laundering and counter terrorist financing, and operational resilience, according to MAS's Deputy Managing Director Ong Chong Tee.

The MAS also plans to boost its market surveillance capabilities across markets, according to Ong Chong Tee. With above proposed changes, the bourses can focus on the supervision of members with significant risk exposures, including foreign entities not under the MAS's oversight, Ong said.

Competition is coming from the Intercontinental Exchange Inc. ("IEX") which opened its futures venue in Singapore in November, and Deutsche Boerse AG that plans to start a derivatives market next year.

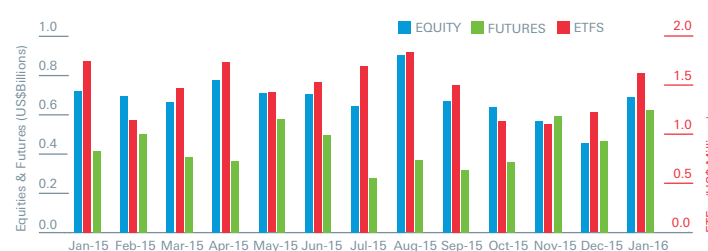
### MAS to complete OTC derivatives reforms, proposes new short selling regime

In February 2015 the MAS published a consultation paper focused on completing its reforms in the OTC derivatives market which set out amendments to the Securities and Futures Act ("SFA"). MAS commenced OTC reforms about 3 years ago by introducing regulation that allowed for the introduction of trade repositories and central counterparty clearing houses to enable mandatory reporting and central clearing of OTC derivatives.

The consultation proposals from the MAS include the following key points:

- New definitions – broadening the definition of derivative contracts to include OTC derivatives and futures.
- New licensing rules - introducing licensing requirements for individuals dealing in derivatives contracts. Previously certain OTC derivatives activities were not captured as licensed activities but now all dealing in securities, futures, derivatives and leveraged FX will be collectively regulated as 'dealing in capital market products'.
- Commodity derivative oversight - transferring the function of commodity derivative regulatory oversight from the International Enterprise Singapore to the MAS.
- Organised Markets - introducing of the concept of 'organised markets' being defined by their 'underlying function of facilitating the exchange, sale or purchase of specified products regulated under the SFA, including derivative contracts'. Such organised markets will be either approved exchanges (systematically important Singaporean companies such as the SGX and ICE) or recognised market operators (either less systematically important or overseas companies such as Australia Stock Exchange, Chicago Mercantile Exchange and Eurex who all have members in Singapore).

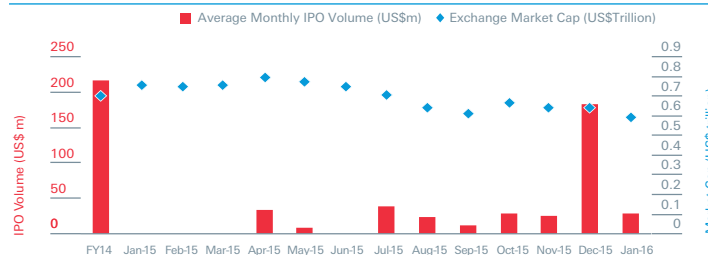
Fig 1: Equities(Cash), Futures and ETFs Monthly ADV



Source: Thomson Reuters

Fig 1. Similar to Thailand, Singapore futures turnover is also up 51% while Equities and ETFs turnover has dropped 4% and 7% respectively YoY.

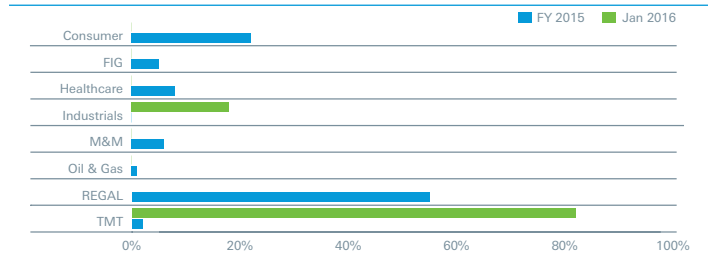
Fig 2: Avg Monthly IPO size and Exchange Market Cap



Source: Dealogic

Fig 2. The number of IPOs on the SGX dropped by 57% in 2015 versus 2014. The drop in performance could be attributed to a weak market outlook and competition from a much stronger Hong Kong. Only 13 IPOs were launched in Singapore last year.

Fig 3: IPO Sector Distribution



Source: Dealogic

Fig 4: IPO Performance

	# of IPO	1 day	1 month	Current
Jan-15	-	-	-	-
Feb-15	-	-	-	-
Mar-15	-	-	-	-
Apr-15	2	-19%	-39%	-49%
May-15	1	154%	164%	208%
Jun-15	-	-	-	-
Jul-15	4	8%	-25%	-29%
Aug-15	1	-18%	-30%	-52%
Sep-15	1	30%	-34%	-56%
Oct-15	1	36%	70%	78%
Nov-15	2	-15%	-27%	-43%
Dec-15	1	0%	0%	0%
Jan-16	3	5%	-	-4%

Source: Dealogic

The MAS consultation also included the potential introduction of a new section to the SFA to cover short selling. The new SFA section would set out the regulatory framework for short selling including the marking of short sell orders and short position reporting. It is expected that detailed requirements will be separately consulted at a later date.

Consultation ended in March 2015, we are still pending to see an announcement of the results of consultation.

To access the consultation paper:

<http://www.mas.gov.sg/News-and-Publications/Media-Releases/2015/MAS-Proposes-Legislative-Amendments.aspx>

## 2016 Venue News

### SGX 2016 initiatives to boost trading volumes

SGX is implementing a range of initiatives per below to encourage trading and improve market liquidity in order to enhance the attractiveness of the exchange for companies and retail investors.

- SGX has already announced the rules regarding MTP and changes to MTP calculation methodology, detailed in separate article below.
- SGX has set up a team to review the need for quarterly reporting and dual class shares. Changes made earlier in the Companies Act allow public companies to have classes of shares with different voting rights.
- SGX will continue efforts to improve market access for retail investors by reviewing a proposal to allocate 5% of the shares in main board IPOs to retail investors which has proposed in the past well.
- Removal of the automatic penalties for investors who short sell shares for the first time and fail to deliver the shares for settlement. According to SGX CEO Loh Boon Chye, the majority of fails are by first-timers and are of small value. Removing the automatic penalty eliminates the administrative burden for investors and brokers who no longer need to send in an appeal for a waiver.

### Taiwan Stock Exchange and Singapore Exchange to partner in 2016

In January 2016, the TWSE and SGX announced the establishment of a strategic partnership, where a subsidiary of TWSE, Global Link Securities Co. Ltd, will join SGX as a remote trading member. The agreement will allow TWSE member brokers to directly trade SGX-listed securities, thus making such international trades more efficient and cost effective for Taiwan investors. Trading of Singapore listed securities through Global Link is expected to go live in second quarter of 2016.

To allow Taiwan investors, both institutional and retail, explore and better appreciate the long-term investability and investment opportunities in Singapore's equities market, SGX and TWSE will jointly launch a series of market education and awareness programmes in Taiwan.

The average dividend yield of the Straits Times Index ("STI") constituents stood at 4.2% as at 31st December 2015, versus average dividend yield of Asian markets at 2.5%.

### SGX Consultation of changes to listing rules

SGX is seeking public feedback on proposals to change listing rules aimed at aligning listing rules with the amended Companies Act passed in October 2014. SGX proposes to allow listed companies to send certain notices and documents, such as circulars and annual reports, electronically if shareholders agree. SGX expects concerns that investors are not receiving physical copies of such material.

Another proposed change is not to consider insurance coverage and indemnities for directors as interested person transactions if the insurance coverage and indemnity are specifically permitted under

the Companies Act. This will apply to all listed companies, whether incorporated in or outside Singapore. Foreign-incorporated companies must also comply with their respective company laws.

Public consultation ended on 12th February 2016, to access the full paper click here:

[http://www.sgx.com/wps/wcm/connect/sgx\\_en/home/regulation\\_v2/consultations\\_and\\_publications/PC/Consultation-Paper-on-proposed-amendments-to-align-Listing-Rules-with-Companies-Act](http://www.sgx.com/wps/wcm/connect/sgx_en/home/regulation_v2/consultations_and_publications/PC/Consultation-Paper-on-proposed-amendments-to-align-Listing-Rules-with-Companies-Act)

### SGX gives a 6-month extension to companies, and revises MTP calculation requirement

On 2nd March 2015, SGX introduced a Minimum Trading Price ("MTP") requirement for shares of mainboard companies to improve the quality of market and reduce the risk of excessive speculation following the extreme volatility of low-capitalisation stocks in October 2013. The requirement took effect 1st March 2016 after a 1-year transition period.

SGX is giving affected companies carrying out a share consolidation a 6-month extension until 1st September 2016 before they are reviewed for compliance with the MTP requirement. The extension will only apply to companies which have consolidated their shares before 1st March 2016.

SGX has also announced changes to the methodology used to determine whether a company share price meets the MTP requirement. This change follows SGX's extension announcement in January to 1st September 2016, the date of the review of the VWAP of shares of companies which consolidate their shares before 1st March 2016. In addition, SGX is granting the same extension to 1st September 2016 for companies which have experienced - for the first time - a dip in their VWAP below S\$0.20 due to the extreme market volatility in January 2016. SGX will be contacting these companies. The extension will allow these companies – which number about 20 as at end-January 2016 – time to evaluate their options and take action to comply with the MTP requirement.

SGX notice on changes to MTP calculation:

[http://infopub.sgx.com/Apps?A=COW\\_CorpAnnouncement\\_Content&B=AnnouncementToday&F=XL47DF5V35A0CCNY&H=3a2b0fc6e4aa347f56e76aa015694d3c186300ec672cf2fc165e623d3f696dc7](http://infopub.sgx.com/Apps?A=COW_CorpAnnouncement_Content&B=AnnouncementToday&F=XL47DF5V35A0CCNY&H=3a2b0fc6e4aa347f56e76aa015694d3c186300ec672cf2fc165e623d3f696dc7)

### SGX adds more detail to "Red Alerts"

SGX has refined its red flag alerts on unusual stock trading activity following industry feedback that these warnings either disrupt trading momentum or are not taken seriously.

Effective since December 2015, SGX will start detailing its concerns about unusual stock trading activity in "trade with caution" or TWC alerts - where previously there was little information. SGX says the alerts will now be more targeted as they will be issued on a case-by-case basis and these alerts may also contain details from SGX's review of trading activities according to Mr Tan Boon Gin, SGX's chief regulatory officer.

## 2015 Market Structure

### Singapore's RQFII investment quota to be doubled

MAS announced on 9th November that the Singapore Renminbi Qualified Foreign Institutional Investor ("RQFII") quota will be doubled to RMB 100 billion (~US\$ 16 billion). This came after Chinese President Xi Jinping's state visit to Singapore to commemorate the two countries' 25 years of diplomatic relations.

MAS further reported that it has reached a deal with China's PBoC to renew the bilateral currency swap agreement that is set to expire in March 2016. The deal allows up to RMB 300 billion (~US\$ 47 billion) liquidity to be made available to eligible financial institutions operating in Singapore, and up to S\$60 billion liquidity to be available to eligible financial institutions in China.

To access MAS's media release click here:

<http://www.mas.gov.sg/News-and-Publications/Media-Releases/2015/CrossBorder-RMB-Flows-and-Capital-Market-Connectivity-Between-China-and-Singapore-to-Strengthen.aspx>

### Singapore and China agreed on new initiatives to boost RMB business

Over the 12th Joint Council for Bilateral Cooperation ("JCBC"), Singapore and China reached an agreement on new initiatives to enhance the international use of the Renminbi ("RMB") through Singapore. The JCBC, held on 13th October 2015, was co-chaired by Singapore Deputy Prime Minister and Coordinating Minister for National Security, Mr. Teo Chee Hean, and China's State Council Vice Premier, Mr. Zhang Gaoli.

The new initiatives will further promote the cross-border RMB channels between Singapore and China through the following:

- (i) The existing cross-border RMB initiatives will be expanded to the cities of Suzhou and Tianjin. As a result of this change, banks in Singapore will be entitled to lend RMB to corporates across Suzhou and Tianjin, while corporates in Suzhou and Tianjin will be allowed to issue RMB bonds in Singapore.
- (ii) Corporates in Suzhou and Tianjin will be able to repatriate 100% of their proceeds raised from bonds issued in Singapore.
- (iii) Corporates in SIP will be allowed to borrow from Singapore-based companies so as to facilitate their overseas expansion through Singapore and to incentivise them to set up Finance and Treasury Centres in Singapore.
- (iv) Qualifying privately-owned banks in Singapore-Sino Tianjin Eco-City ("SSTEC") will be allowed to borrow from Singapore-based banks. This provides support for the banks in SSTEC and facilitates the building of their commercial links with Singapore-based banks.

Singapore also supports the inclusion of the RMB in the International Monetary Fund's (IMF) Special Drawing Rights' basket of currencies. Both countries looked forward to enhanced financial relationship overall under the "One Belt One Road" initiative, which should facilitate access by Chinese companies to ASEAN markets through Singapore.

More details on the agreement can be accessed on MAS website <http://www.mas.gov.sg/News-and-Publications/Media-Releases/2015/Singapore-and-China-Agree-on-New-Initiatives-to-Boost-RMB-Business.aspx>

### Consultation on Margin Requirements for Non-Centrally Cleared OTC Derivatives

On 1st October, the MAS published a consultation paper on margin requirements for non-centrally cleared over-the-counter ("OTC") derivative trades ("uncleared derivatives"). The role of margin requirements is to reduce counterparty credit risks from such uncleared derivatives and to make OTC derivatives trading safer. This consultation closed on 1st November 2015.

MAS proposed imposing margin requirements on all OTC derivatives that are not cleared by a Qualifying Central Counterparty ("QCCP"), except physically-settled foreign-exchange forwards and swaps. Rules would apply to those entities conducting regulated activities on shore in Singapore, if implemented, this will be conducted in phases, beginning with banks as they carry the highest exposures.

This proposal complements MAS's earlier plan to mandate central clearing of specified OTC derivative contracts, and they are made after taking into account the international framework for margin requirements for uncleared derivatives developed by the Basel Committee on Banking Supervision and the International Organization of Securities Commissions.

The MAS will be conducting a quantitative survey to determine the potential market impact of the proposals by working closely with the industry to ensure that the availability of eligible collateral is sufficient to satisfy the margin and other regulatory requirements.

For the full consultation click here:

<http://www.mas.gov.sg/News-and-Publications/Consultation-Paper/2015/Policy-Consultation-on-Margin-Requirements-for-NonCentrally-Cleared-OTC-Derivatives.aspx>

## 2015 Venue News

### SGX encouraged ETF access for retail investors, temporarily waives ETF clearing fees

The Singapore bourse has launched last year educational programs for investors through its website ([http://www.sgxacademy.com/index.php?option=com\\_sgx&view=sgx&layout=listing&Itemid=8](http://www.sgxacademy.com/index.php?option=com_sgx&view=sgx&layout=listing&Itemid=8)) along with fee incentives until end of December 2015 to encourage retail access to ETFs. This latest development was preceded by the MAS amending of the definition of Excluded Investment Products ("EIPs") for collective investment schemes which allowed retail investors to more easily access ETFs. These steps are intended to provide a simple and low cost option for retail investors to build a diversified portfolio.

To help the investors better understand the products offered on the exchange, the SGX is providing a new ETF investor guide along with informative seminars on a monthly basis. In addition to this, the exchange has also declared that it will waive the ETF clearing fees for both institutional and retail investors from 1st June to 31st December 2015.

In this regard, Chew Sutat, Executive Vice President at SGX commented that, "we expect to see several ETFs converting to EIP status over the course of the next few weeks, giving investors better access to international markets and other asset classes."

To access the announcement please click:

[http://www.sgx.com/wps/wcm/connect/sgx\\_en/home/highlights/news\\_releases/findings-and-recommendations-of-the-sgx-board-committee-of-inquiry-into-the-breakdown-on-5-november-2014](http://www.sgx.com/wps/wcm/connect/sgx_en/home/highlights/news_releases/findings-and-recommendations-of-the-sgx-board-committee-of-inquiry-into-the-breakdown-on-5-november-2014)

### SGX announced a S\$20 million investment to improve technology systems

Following a software error and power failure in November and December 2014 which resulted in two disruptions that halted stocks and derivatives trading activities, the MAS has given strict orders for SGX to improve its technology risk management. In respond to that, SGX announced on 24th Jun 2016 that it would invest S\$20 million to strengthen its technology infrastructure to improve the robustness of its systems and recovery processes. A moratorium will also be implemented that bar any increase of fees to the securities and derivatives market until trading glitches fixes.

MAS noted in June 2015, that remedial actions were taken to address the immediate root causes of the power outage, to improve service recovery MAS has directed SGX to take the following actions which it will closely monitor -

- i. strengthen its monitoring system capabilities to allow timely and accurate problem identification when incidents occur;
- ii. strengthen its business continuity management and disaster recovery procedures to improve crisis preparedness;
- iii. improve its crisis communications processes to provide prompt information to all stakeholders.

MAS has also directed SGX to improve its service recovery and how it implements technical changes.

To access the announcement by SGX please click:

[http://www.sgx.com/wps/wcm/connect/sgx\\_en/home/highlights/news\\_releases/findings-and-recommendations-of-the-sgx-board-committee-of-inquiry-into-the-breakdown-on-5-november-2014](http://www.sgx.com/wps/wcm/connect/sgx_en/home/highlights/news_releases/findings-and-recommendations-of-the-sgx-board-committee-of-inquiry-into-the-breakdown-on-5-november-2014)

### SGX named 'Derivatives Exchange' and 'CCP' of the Year 2015 by Asia Risk

The SGX held onto the title of "Derivatives Exchange of the Year" and won "Clearing Counterparty of the Year" at Asia Risk Magazine's Asia Risk Awards in 2015.

Key contributors to SGX's win were its position as Asia's most liquid offshore market for pan-Asian listed derivatives, acting as a single point of access for exposure to 90% of Asia's GDP, and the diversity of its product offering. SGX's increased contribution to the Clearing Fund (in the event of a member default) provides more protection to clearing members than other leading global clearing counterparties.

To access SGX announcement please click:

[http://www.sgx.com/wps/wcm/connect/sgx\\_en/home/highlights/news\\_releases/SGX-named-Derivatives-Exchange-and-CCP-of-the-Year-by-Asia-Risk](http://www.sgx.com/wps/wcm/connect/sgx_en/home/highlights/news_releases/SGX-named-Derivatives-Exchange-and-CCP-of-the-Year-by-Asia-Risk)

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#### Contact

Email: [global.marketstructure@list.db.com](mailto:global.marketstructure@list.db.com)

Tel: +852 2203 5710



# Philippines

## 2016 Market Structure

### PSE's merger with Philippine Dealing System & Holdings Corp. ("PDS") might be announced in March 2016

Philippine Stock Exchange ("PSE") was supposed to merge with PDS, the operator of the bond trading platform, last year but the Securities and Exchange Commission ("SEC") withheld its approval and asked PSE to further clarify its business plan on the merger. Specifically, the SEC wants more information on the following topics according to news agency Manila Bulletin:

- Future platform model for both bourses;
- Delivery-versus-payment ("DVP") schemes;
- Settlement and clearing systems and cycles;
- Consolidation of the depositories;
- Information Technology stability and Continuity of Business;
- Trade information collection, storage, and dissemination;
- Exchanges' ability to meet ASEAN Economic Integration targets.

The SEC's final decision is expected in March 2016.

### SEC intends to implement draft 2016 Rules of Procedure of the Commission ("Draft Rules of Procedure")

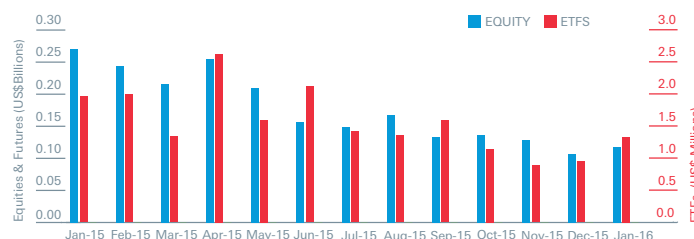
Early this year, the SEC has issued Draft Rules of Procedure to revise the 2006 version and to solicit public comments by 4th February 2016. The public was encouraged to indicate the specific section and provision therein to which their comments pertain.

The purpose of the Rules of Procedure of the SEC is to provide a standardized, just, speedy and inexpensive resolution of disputes and complaints over which the SEC has jurisdiction over. Therefore, the rules are updated on a regular basis to reflect current market conditions. The new 2016 version has updates to all 11 sections of the 2006 rules.

See full details here:

[http://www.sec.gov.ph/notices/notices/Draft\\_2016\\_Rules\\_on\\_Procedure\\_SEC.pdf](http://www.sec.gov.ph/notices/notices/Draft_2016_Rules_on_Procedure_SEC.pdf)

Fig 1: Equities(Cash), Futures and ETFs Monthly ADV



Source: Thomson Reuters

Fig 1. Presidential elections will take place in Philippines in 1H 2016, as President Aquino will step down after 5 years. Run-up to the elections is generally a good time for corporations, especially those in the consumer and media segments, as political party campaigns boost the spending.

## 2015 Market Structure

### BSP tightened grip on treasury operations amid global financial uncertainties

The Bangko Sentral ng Pilipinas ("BSP"), the central bank of Philippines, has tightened the regulations on the treasury operations of banks and other financial institutions to manage operational risks from treasury activities amid potential of an interest rate hike by the US Federal Reserve ("the Fed") and the economic slowdown in China.

The new regulations specifically set the expectation on BSP-supervised financial institutions' treasury activities and emphasized the roles of the board of directors and senior management in proper control of the company and in enforcing the necessary standards, including adherence to market conduct rules. The new regulations also require financial institutions to distinguish clearly between the job functions of the treasury unit from other business units, separating any conflicting duty which can include risk taking and recording; reconciliation and settlement.

In addition, BSP expected companies' Risk Management, Compliance, and Audit departments to take an active role in monitoring their treasury functions.

### 2015 GDP growth slowed to 5.8%

The Philippines' economy grew 5.8% YoY in 2015 to the slowest in four years, below government's target range of 7-8%. The slowdown was attributed to government under-spending, sluggish farm production and a significant drop in exports. That being said, it was the best performer amongst ASEAN countries.

Separately, the Gross National Income, which includes foreign exchange inflows, grew by 6.2% QoQ in Q4 2015 and 5.4% YoY in FY2015.

### Philippines central bank set minimum leverage ratio at 5%

The Bangko Sentral ng Pilipinas ("BSP"), Philippines central bank, issued guidelines for commercial and universal banks under Basel III requiring them to maintain a leverage ratio of at least 5%. The leverage ratio measures Tier 1 capital vs a bank's total exposures - the 5% threshold limits Philippines banks to lending no more than 20x their capital base.

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The higher leverage ratio requirement takes effect on 1st January, 2017 but the central bank will ask for period reports between now and then.

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## 2015 Venue News

### New PSEtrade XTS system went live 1st June

The Philippine Stock Exchange, Inc. and Nasdaq announced in June that PSE had a successful migration to the PSEtrade XTS trading system, powered by Nasdaq's X-stream Trading technology. PSEtrade XTS can handle more volumes and trades even as the local stock market had seen the number of trades increased almost five-fold from 2010. The new system also provides same-day recovery in case the disaster recovery site is utilised. It is also capable of facilitating new products and services that are being planned to be rolled-out by the exchange.

For the full press release click here:

[http://www.pse.com.ph/stockMarket/pressRoom-pressReleases.html?id=PSE\\_PRRLS20150000064](http://www.pse.com.ph/stockMarket/pressRoom-pressReleases.html?id=PSE_PRRLS20150000064)

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<http://www.thestandard.com.ph>

#### Contact

Email: [global.marketstructure@list.db.com](mailto:global.marketstructure@list.db.com)

Tel: +852 2203 5710



# Indonesia

## 2016 Market Structure

### Relaxation of foreign ownership limits for 35 sectors

In February, Indonesia removed foreign capital limits in 35 sectors that were previously restricted or closed, allowing foreigners to own 100% stake in industries like toll roads, film production and distribution, restaurants, and non-toxic waste management to facilitate economic growth after the economy fell to 6-year low in 2015.

Full foreign participation in toll road construction reflects Indonesian President Mr. Widodo's goal of stimulating infrastructure, whereas that in cold storage facilities is to improve the business supply chain.

### Indonesia to boost REIT market

In order to deepen its capital market and to boost infrastructure development in the country, the Indonesian Financial Services Authority ("OJK") is planning to increase the number of listed real estate investment trusts ("REITs") onshore.

Currently there is only one REIT listed on Indonesia Stock Exchange with value around US\$40 million, but there is about US\$3 billion Indonesian property listed in Singapore, according to the chief executive of OJK. To help incentivise, OJK is calling for tax cut on REITs from current 5% to 1% which might come in 1H2016.

### Indonesia encourages locals to investment into mutual funds

In January, Indonesia launched the biggest mutual fund expo in Jakarta to encourage capital investment in the country. According to IDX, currently there is very low public participation in the market, with about 250,000 registered investors out of the 250 million population. IDX sees mutual funds as the first step for investors to get to know a financial market before investing in stocks or bonds, and then derivatives.

The other benefit of Indonesian mutual funds is their affordability with some priced at Rp 100,000 (US\$7.20) according to news agency The Jakarta Post. The net asset value of the Indonesia mutual fund market +11% YoY to Rp. 268 trillion as at end of 2015 according to IDX.

### Indonesia considers creating new board for SMEs to go public

Indonesian financial authority OJK is finalising rules to allow small and medium enterprises ("SMEs") to source funding. A new board for SMEs, separate from the main board, is being studied for trading SMEs. According to OJK, SMEs in Indonesia (including start-ups), contribute 60% to GDP and have become a major employer in the country as they represent 97% of the workforce.

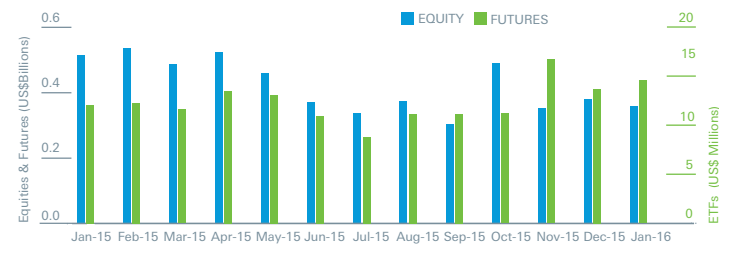
The regulator was expected to announce the new rule in Q12016 but delayed to June this year until further announcement.

### Indonesia not going to join ASEAN stock trading platform

Joining ASEAN Trading Link – the trading link set up four years ago with the goal to link all ASEAN exchanges - is not yet on Indonesia's plan given very small turnover. Turnover of the link only accounted for 0.018% of the total turnover of Singapore, Malaysia and Thailand last year according to the Financial Services Authority ("OJK").

Other drawbacks are that the link does not have a common post-trade linkage across member exchanges, and no clear regulatory supervision responsibility defined to protect investors. OJK said Indonesia would only reconsider joining the link if those problems are resolved.

Fig 1: Equities(Cash) and Futures Monthly ADV



Source: Thomson Reuters

Fig 1. Indonesia's central bank cut its benchmark interest rate (by 25bps to 7%) for the second time this year in efforts to improve sluggish economic growth.

### Introduction of 'capital surcharges' on large banks

Following the consultation last year, at the beginning of 2016 the Financial Services Authority ("OJK") officially required systematically important banks ("SIBs") to set aside more capital this year in an effort to reduce risks to the financial sector. OJK has internally ranked SIBs based on size, interconnectedness with the financial system and their business complexity.

Under this new regulation, SIBs are required to set aside "capital surcharges" of 0.25%-0.625% of risk-weighted assets depending on their level of systematic importance, and OJK may impose 1% surcharge if a bank is even more important. This would be in addition to the capital adequacy requirement which is set at minimum 8% of risk-weighted assets.

### Emerging market regulators reinforce commitment to strengthen resilience

Global emerging capital market regulators met at the IOSCO Growth and Emerging Markets ("GEM") Committee annual meeting in Indonesia. This was hosted by the Indonesian Financial Services Authority in January 2016 to further work on strengthening systemic resilience while remaining alert to market risks.

At the roundtable discussion with leading global market analysts, the GEM Committee discussed current global financial risks including the implications of declining economic growth and divergent monetary policies. Discussions also focused on the factors underlying some tight liquidity conditions and pressures on emerging markets corporate debt exposure, particularly given rising USD and interest rates.

The Chairman of the GEM Committee, Ranjit Ajit Singh said "Ongoing structural shifts in an increasingly interconnected global financial landscape and synchronised cycles require deep and resilient capital markets that are able to withstand global volatility whilst allowing markets to operate in an orderly manner".

GEM Committee discussed its on-going work on digitalisation and the regulatory impact of financial technology (FinTech) on regulation, supervision, market surveillance, as well as the implications on market risks, incentives and behaviour. The Committee also held a regulatory exercise featuring a world first cyber-attack simulation involving participants across more than 40 jurisdictions, and focused specifically on the role of securities regulators when dealing with cyber-attacks on regulated entities.

It was decided that the GEM Committee will hold a public Conference on Optimising Innovation and Strengthening Governance in Emerging Markets, which will be officiated by Darmin Nasution, the Indonesian Coordinating Minister for Economic Affairs.

## 2016 Venue News

### IDX plans to ease margin trading rules with levels of classification

Onshore news agency Jakarta Post said IDX is considering allowing securities companies with higher working capital to have more flexibility in providing margin trading facilities to clients. The higher a brokerage's working capital, the more freedom it will have in choosing stocks for its clients in margin trading. Currently, according to a 1997 Financial Service Authority rule, margin lenders are required to have minimum net assets of IDR 1 billion (~US\$76,594), with an annual income of at least IDR 200 million (~US\$15,313).

The new plan as follow according to onshore news agency Jakarta Post:

Level of Net Adjusted Working Capital	Margin trading activity
Below IDR 50 billion (~USD 3.7 million)	Securities companies are prohibited from providing margin trading facility to their clients
From IDR 50 billion - IDR 250 billion (~USD 18.5 million)	Securities companies can provide margin trading facility to their clients on 'selected' listed shares
Above IDR 250 billion	Securities companies can provide margin trading facility to their clients on 'all' listed shares

The plan would provide more latitude for securities companies to provide margin trading facility to suitable client segments. A launch date has not yet been confirmed.

Source:

<http://www.thejakartapost.com/news/2016/01/20/rule-margin-trading-be-eased.html>

## 2015 Market Structure

### State firms buy-back shares, IDX imposed new measures to curb volatility

Last year, IDX introduced a new rule for listed stocks to prevent stock prices from decreasing over 10% per day in any one company. Starting 1st September 2015, stocks that fall by 10% intraday will automatically be blocked from further trading until the following day.

The previous loss-limit depended on individual stock prices and was banded between 20%-35%. The new rule followed announcements that Indonesian state-owned companies could buy-back as much at US\$700 million worth of their own shares.

See here for the IDX official announcement of the new measures (in Indonesian): [Perubahan Batasan Auto Rejection](#)

### Indonesia to develop Sharia Hub; competition from Malaysia

Indonesia has the world's largest Muslim population, and it strives to compete with Malaysia as the Asian Islamic finance hub. To do this, Deputy Governor of Bank Indonesia Perry Warjiyo, shared on 28th October 2015 that the central bank would offer four measures to develop its Sharia economy:

- (i) Regulations and policies to support Sharia financing and economy;
- (ii) Enhancement of knowledge on Sharia economy and financing for banks, business actors, and financial sector;
- (iii) Provision of Sharia economy and financing models; and
- (iv) Implementation of international initiatives, such as the core principles of zakat and wakaf.

Indonesia President Joko Widodo also has dedicated IDR5,519 trillion (~US\$423 billion) to develop the country's infrastructure. Comparatively, Malaysia was already one step ahead of Indonesia by widening its tax exemptions to environmentally friendly Sharia-compliant bonds in its 2016 budget, a measure to spur project funding via sukuk sales.

For the Bank Indonesia's media release click here:

<http://www.bi.go.id/en/ruang-media/info-terbaru/Pages/BI-Tawarkan-4-Langkah-Pengembangan-Ekonomi-Syariah-ISEF2015.aspx>

### Bank Indonesia intervened in the forward currency market

Bank Indonesia introduced a new regulation last October allowing banks and intermediate financial institutions to participate in currency market auction with a minimum transaction size of US\$ 1 million. These tenders will be either fixed or variable in rate, with 1 Rupiah as the minimum forward point bid. The minimum holding period for the Bank Indonesia issued Rupiah-denominated certificates will also be decreased to one week. The original holding period was one month.

Also, Bank Indonesia Governor Agus Martowardojo announced through the central bank's website that it would start issuing foreign currency denominated certificates from mid November 2015 onwards, in addition to offering cheaper rates for longer duration foreign currency swaps for infrastructure projects.

These announced measures are all part of the central bank's policy package to address the volatility in its foreign exchange rate seen in latter half of 2015.

#### Sources:

<http://www.straitstimes.com>

<http://www.nasdaq.com>

<http://www.thejakartapost.com>

<http://www.reuters.com>

<http://www.nationmultimedia.com>

<http://business.asiaone.com>

<http://www.bi.go.id>

<http://www.sc.com.my>

#### Contact

Email: [global.marketstructure@list.db.com](mailto:global.marketstructure@list.db.com)  
Tel: +852 2203 5710



## Malaysia

### 2016 Market Structure

#### IOSCO to set up APAC hub in Malaysia

The International Organisation of Securities Commissions (“IOSCO”), the global body of capital market regulators, is set to establish an Asia-Pacific regional hub in Kuala Lumpur by the end of 2016 according to the Securities Commission Malaysia (“SC”).

The new hub was announced by IOSCO after their board meeting on 22nd February 2016. This will be the first time the international regulatory organisation will have offices outside of its headquarters in Spain. The new hub will play a key role in building IOSCO’s regulatory capabilities in the Asia-Pacific region. It would also facilitate cross-border regulatory cooperation while contributing to the development of the region’s capital markets and is expected to attract leading market and regulatory experts, SC said in their statement.

### 2015 Market Structure

#### Malaysia’s central bank authorised under Financial Services Acts to take enforcement actions

Bank Negara Malaysia released a statement confirming that it is authorised under the Financial Services Act 2013 and the Islamic Financial Services Act 2013 (altogether know as “the Financial Services Acts”) to take enforcement actions against parties found in breach of the Financial Services Act regulations. These can be implemented concurrently with, and are separate and distinct from, criminal proceedings which are under the discretion of the Attorney General.

Examples of enforcement actions include “monetary penalties, issuance of an order to comply, making restitution to any person aggrieved by a breach, public and private reprimands and an order to take steps to mitigate or remedy a breach,” according to the central bank’s statement.

Bank Negara published this statement with the objective of highlighting the central bank’s power to enforce compliance with regulatory laws administered by it. It emphasizes its duty to maintain the integrity of, and confidence in, the financial system.

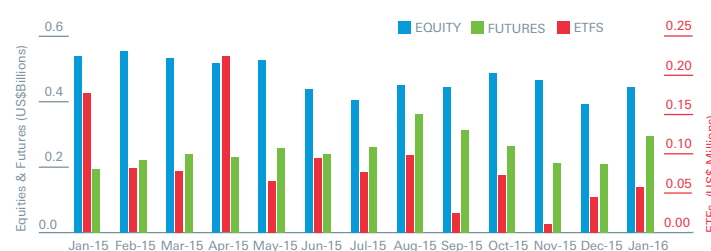
To access Bank Negara Malaysia’s press release:  
[http://www.bnm.gov.my/index.php?ch=en\\_press&pg=en\\_press\\_all&ac=3278&lang=en](http://www.bnm.gov.my/index.php?ch=en_press&pg=en_press_all&ac=3278&lang=en)

To read more about the Financial Services Acts in relation to the press release, please click:  
[http://www.bnm.gov.my/index.php?ch=en\\_legislation&lang=en](http://www.bnm.gov.my/index.php?ch=en_legislation&lang=en)

#### 6 % GST now in effect

The Malaysian Government implemented a new Goods and Services Tax (“GST”) on 1st April 2015. The 6% tax is applicable to the fees and commissions charged on the supply of services in relation to equity transactions. Brokerage, clearing and settlement services are all included, the fees charged by Bursa Malaysia are within scope (including the trading fees and clearing fees in both the securities market

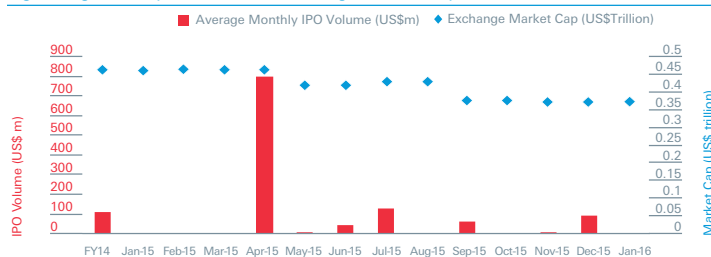
Fig 1: Equities(Cash), Futures and ETFs Monthly ADV



Source: Thomson Reuters

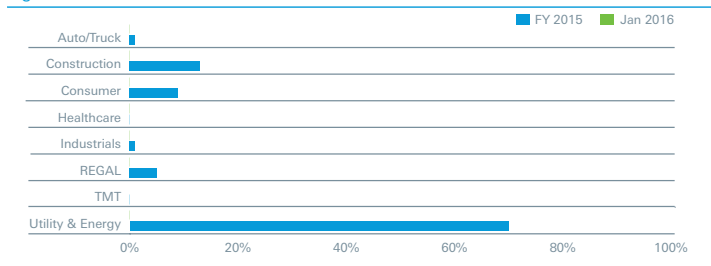
Fig 1. Malaysia has seen stable volumes through the course of last year that did not increase or fall drastically. According to MIDF research, foreign shareholding in Malaysian equities is relatively low and most foreign funds are very underweighted in Malaysia.

Fig 2: Avg Monthly IPO size and Exchange Market Cap



Source: Dealogic

Fig 3: IPO Sector Distribution



Source: Dealogic

and derivatives market). The gross consideration of equity purchase or sale transactions is not subject to the GST.

Bursa Malaysia’s FAQ on this topic is available here:  
<http://www.bursamalaysia.com/misc/system/assets/12173/GST%20FAQ.pdf>

The Royal Malaysian Customs Department has also released a General Guide, which can be found here:  
[http://gst.customs.gov.my/en/rg/SiteAssets/general\\_guides/GENERAL%20GUIDE%2016032015%20\(1\).pdf](http://gst.customs.gov.my/en/rg/SiteAssets/general_guides/GENERAL%20GUIDE%2016032015%20(1).pdf)

#### Securities Commission Malaysia implements Lodge and Launch mechanism for wholesale products

With the aim of reducing time to market for wholesale finance products, the SC implemented a new Lodge and Launch framework. Under the previous rules, approvals to launch new products took 2-3 weeks. The Lodge and Launch framework enables financial firms to launch wholesale products as soon as the requisite information is lodged through the SC’s online submission system.

In announcing the initiative, the SC said that it fits with the “new regulatory philosophy which advocates proportionality of regulation and recognises the maturity of the Malaysian capital market and the sophistication of investors within the wholesale market.”

To access the Lodge and Launch framework and guidelines click here:  
<http://www.sc.com.my/legislation-guidelines/lodge-and-launch-framework/>

## 2015 Venue News

### New e-service released by Bursa Malaysia

A new listing information network system, Bursa Link, and an online listing enquiry service AskListing@Bursa, were launched. All enquiries for listed issuers have moved online, the disclosure and submission processes digitised. The exchange is looking to ‘serve our listed issuers, directors of listed issuers and their advisors with regards to interpretation and compliance with the Listing Requirements (“LR”) for the Main and ACE Markets.’ InterActiveLR provides a new means to access including access to the Main and ACE LRs with hyperlinks to definitions and a FAQ.

To register for the new services see the instructions given in this PDF:  
<http://customer.bursamalaysia.com:8080/MainLR/PublishingImages/Pages/Home/Registration%20with%20AskListing@Bursa.pdf>

### Bursa changes rules for ACE Market

Bursa’s ACE Market, Malaysia’s ‘alternative sponsor-driven market’, has clarified that companies showing losses or low profitability are still welcome to apply for listing if they can provide ‘acceptable justifications on (their) prospects’. While current rules don’t prohibit firms that have not yet shown profits from listing, very few such companies have successfully listed.

The new rules let corporate financiers act as independent advisors in ACE Market listings, a role limited to solely licensed investment banks previously. Bursa will also permit companies and promoters to seek free IPO consultations from the Exchange to get direction on criteria for admission to the bourse.

Sources:

<http://www.sc.com.my> <http://www.dealstreetasia.com>

### Derivatives Exchange wins award

In a ceremony hosted in Singapore on 23rd September 2015, the Derivatives Exchange of Bursa Malaysia won Best Emerging Exchange at the Futures and Options World Awards. It was noted that the exchange had been awarded CFTC Foreign Board of Trade status in January 2015.

Bursa Malaysia CEO Dato’ Tajuddin Atan, said:

“It has been an eventful year for the derivatives market. It started with the US CFTC granting BMD the Foreign Board of Trade in January this year, allowing US participants to directly access BMD market through the electronic order entry and trade matching system on CME’s GLOBEX®. The opening of the BMD market to US participants is the final regulatory building block for BMD. It has opened up more opportunities for US participants to trade, hedge and arbitrage on our derivatives products.”

### Bursa Malaysia moves to boost disclosure and corporate governance framework

Bursa Malaysia published a consultation paper on 16th October 2015 about a list of proposed changes to the Listing Requirements targeted at improving the quality of its disclosure and corporate governance framework. In the same consultation, it addresses the post-listing obligations for mineral, oil and gas listed issuers.

These proposals were made after taking into consideration the developments in the international standards of auditing, the resulting impact of such standards, greater disclosure on audit results and the need to further enhance shareholder engagement and participation.

In order to achieve aforementioned, the following review scope should be taken into consideration:

- (i) Enhancing annual reports’ contents by prescribing non-financial information such as disclosure of management discussion and analysis;
- (ii) Enhancing relevant provisions of the Listing Requirements arising from the international standards of auditing on key audit matters and going concern by requiring immediate and periodic disclosures of matters requiring significant auditor’s attention; and
- (iii) Improving shareholder engagement and strengthening corporate governance practices of listed issuers.

Bursa Malaysia intends to create a specific disclosure framework for those that involved in mineral, oil and gas exploration or extraction activities (“MOG activities”) post-listing (“Proposed MOG Amendments”).

To read more about the media release and specific obligations, please click:

<http://www.bursamalaysia.com/corporate/media-centre/media-releases/3673>

#### Sources:

<http://www.bursamalaysia.com>

<http://www.nasdaq.com>

<http://www.bloomberg.com>

<http://www.bnm.gov.my>

<http://english.astroawani.com>

#### Contact

Email: [global.marketstructure@list.db.com](mailto:global.marketstructure@list.db.com)  
Tel: +852 2203 5710



## Chart Definitions

**Volatility:** Standard deviation of index price returns over last 30 day period

**Market Share:** Percentage distribution of total value traded (USD) on the exchange/venue year to date

**Estimated Cost of Trading:** Expected arrival price impact calculated using Deutsche Bank's internal market impact model for all index constituents, weighted average

**Turnover Velocity:** Ratio of USD volume traded on the exchange versus exchange market cap for the given month, annualised

**ETF Volume:** Total traded value (USD) of listed equity ETFs for the given month, average

**Futures Volume:** Total traded value (USD) of equity index futures for the given month, average

**Equities Volume:** Total traded value (USD) of listed stocks on equity exchanges in respective country for the given month, average

**Primary Index\* Spread:** Primary index bid/ask spread, averaged over the trading day

**Average Trade Size:** Bid/Ask size of primary index constituent averaged over the day, across constituents

**Index Price Change:** Monthly percent change in country's primary index level benchmarked to beginning of the year level

**Market Movers:** Stock constituents of the primary index with biggest change in price levels in the given month

**Total IPO Volume:** Aggregated US\$ size of all new equity listings in the given month

**Exchange Market Cap:** Aggregated US\$ market capitalisation value of all individual equity instruments listed on the exchange

**IPO Performance:** Percentage change in price level from day of listing of the equity instrument, until the close of next following day (1day), month (1month) and last trading day of previous month (current)

\*List of primary indices by country:

Australia	S&P/ASX 200 Index
China	Shanghai Shenzhen CSI 300 Index
Singapore	FTSE Straits Times Index
Hong Kong	Hang Seng Index
Indonesia	Jakarta SE Composite Index
Malaysia	FTSE Bursa Malaysia KLCI Index
Korea	Korea SE Kospi 200 Index
India	CNX Nifty Index
Philippines	Philippine SE Composite Index
Thailand	SET 50 Index
Japan	TOPIX Stock Price Index
Taiwan	Taiwan SE Weighted Index
United States	S&P 500 Index
Europe	Europe 600 EUR Price Index

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