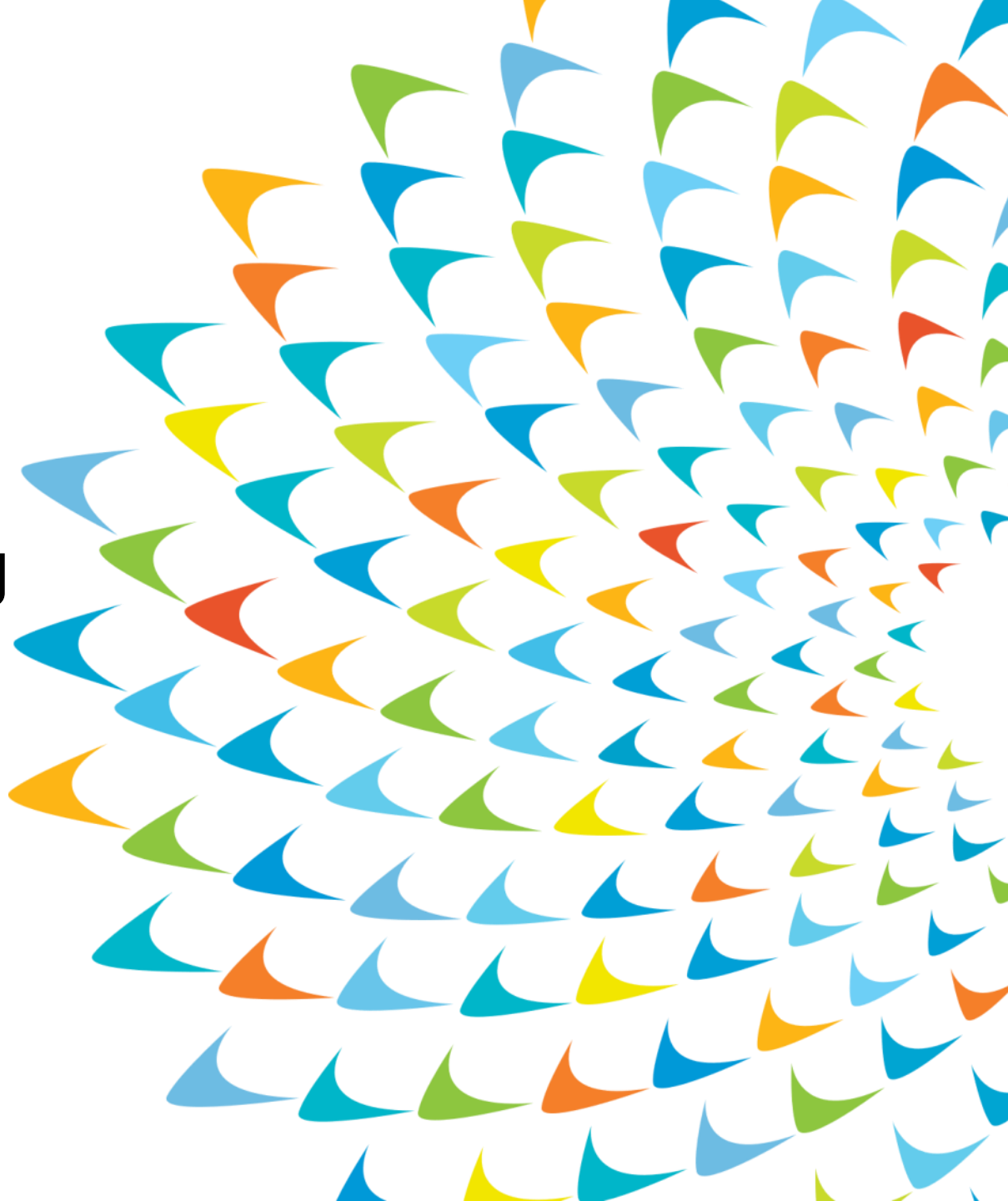




ABMF Online Workshop on Standardization of FX Reporting and Tax KYC

3 December 2020 | 10:00 AM-12:00 NN (Manila Time)





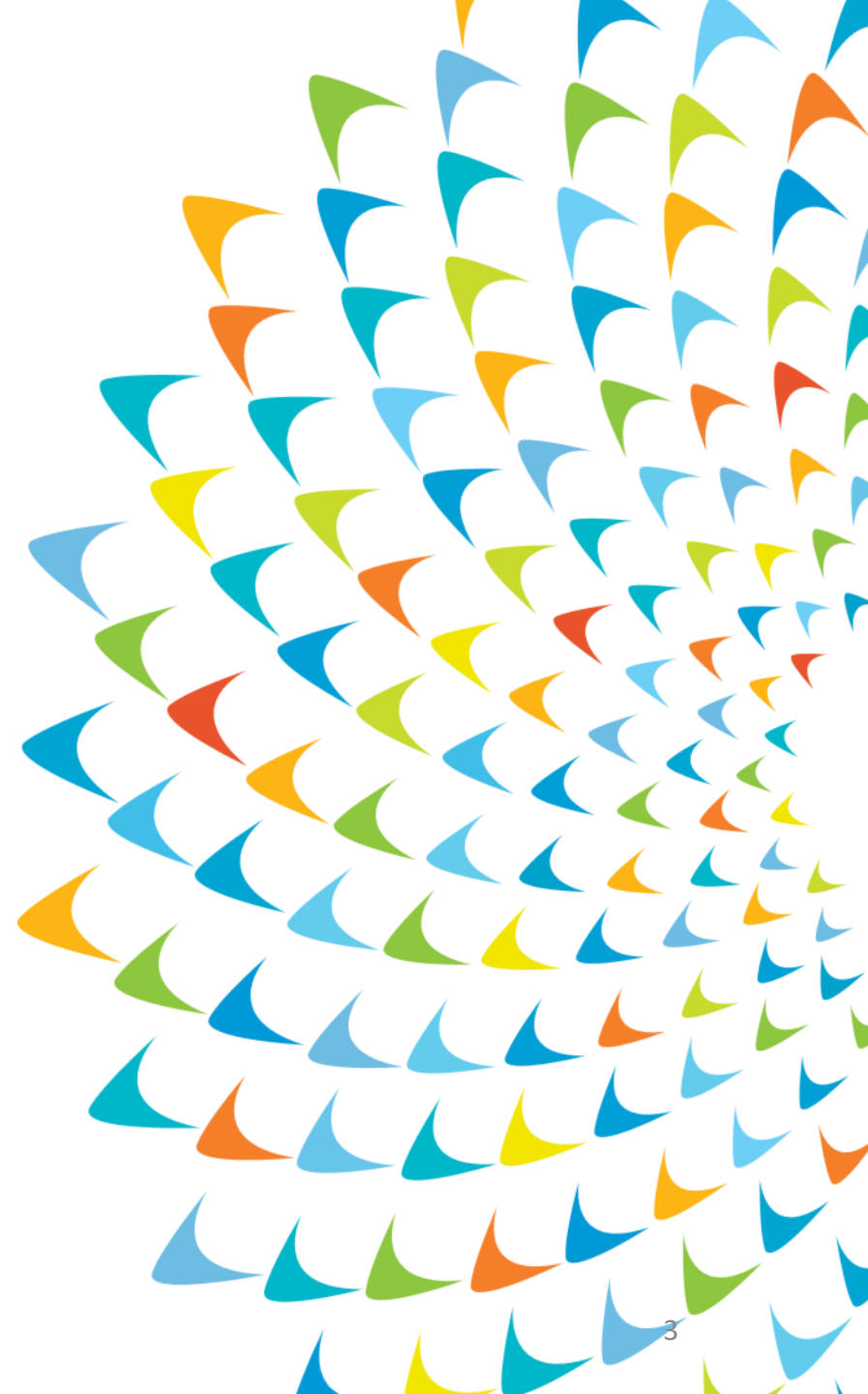
AGENDA

TIME	PROGRAM
10:00 - 10:05	Opening Remarks <ul style="list-style-type: none">• Mr. Satoru Yamadera, Principal Financial Sector Specialist, Asian Development Bank
10:05 - 10:20	Session 1: Progress of standardization to date under ABMF and outline of the workshop <ul style="list-style-type: none">• Mr. Satoru Yamadera, Asian Development Bank
10:20 - 10:45	Session 2: Global trend of DX and Standardization <ul style="list-style-type: none">• Mr. Masayuki Tagai, Managing Director, ISO 20022RMG, JP Morgan
10:45 - 11:10	Session 3: Standardization under SWIFT <ul style="list-style-type: none">- Migration to ISO 20022- E2E identification via SWIFT• Mr. Paul Janssens, Programme Director & Mr. Carlos Ugalde, Lead Standards Specialists, SWIFT
11:10 - 11:25	Session 4: ADB Regional Hub <ul style="list-style-type: none">• Mr. Jose Luis Syquia, Unit Head, Due Diligence (OAI), Asian Development Bank
11:25 - 11:40	Session 5: Next step under ABMF <ul style="list-style-type: none">• Mr. Satoru Yamadera, Asian Development Bank
11:40 - 11:55	Q & A
11:55 - 12:00	Closing Remarks <ul style="list-style-type: none">• Satoru Yamadera, Asian Development Bank

Session 1:

**Progress of standardization to date
under ASEAN+3 Bond Market Forum
and outline of the workshop**

Mr. Satoru Yamadera, ADB



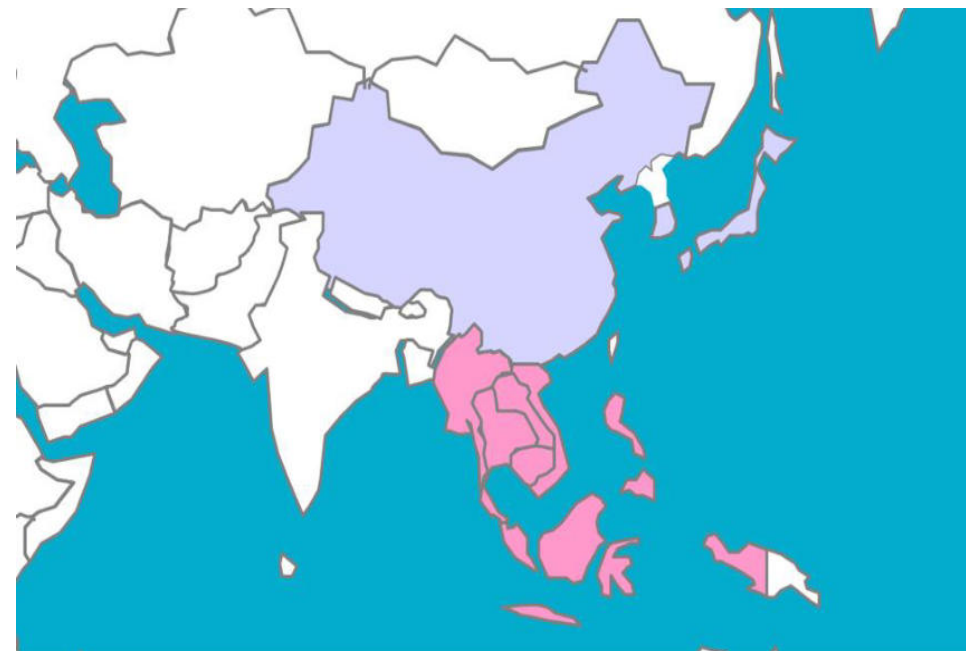


Outline of the workshop

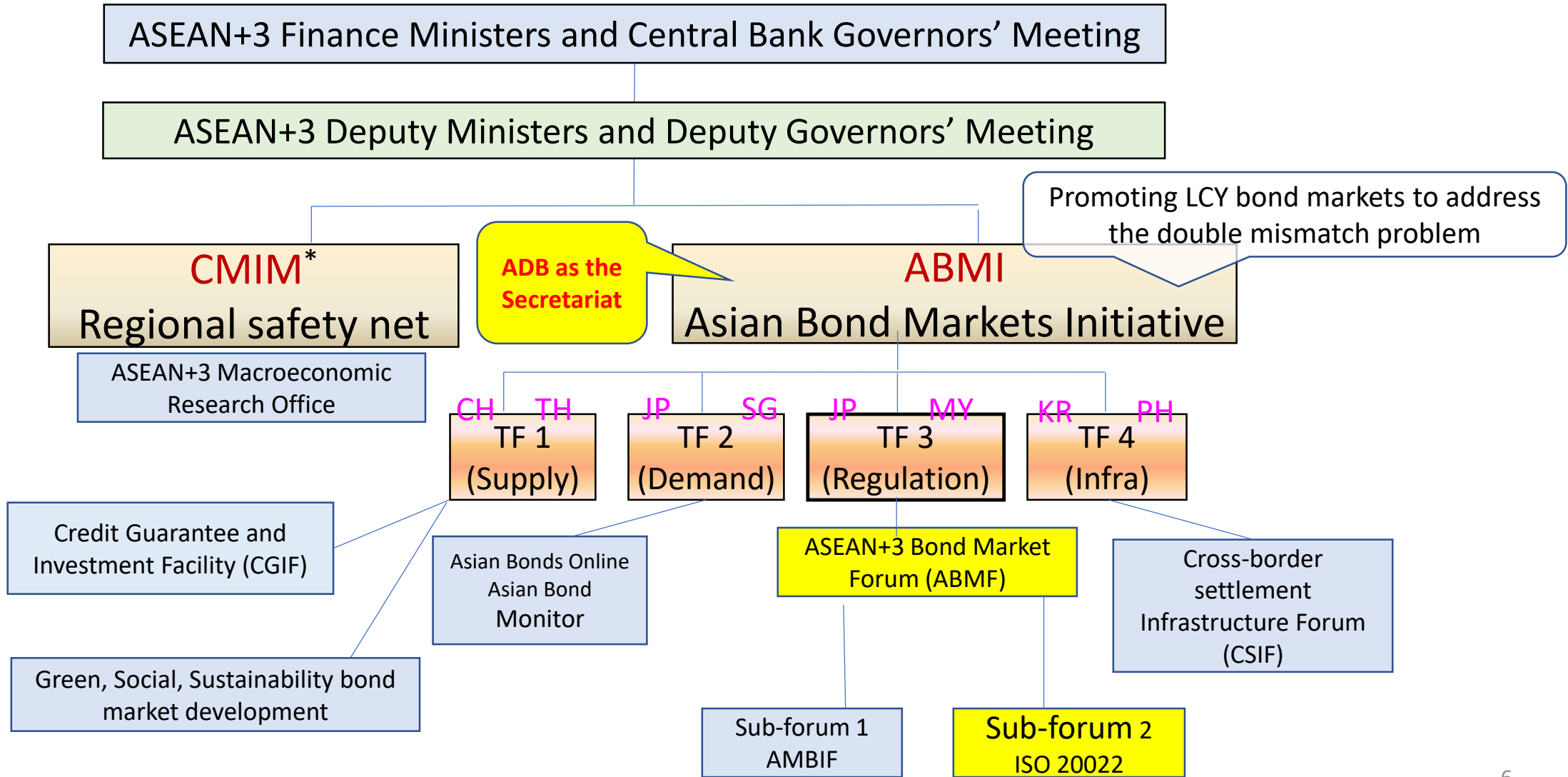
TIME	PROGRAM
10:05 - 10:20	Session 1: Progress of standardization to date under ABMF and outline of the workshop - Recap of progress under ABMF
10:20 - 10:45	Session 2: Global trend of Digital transformation (DX) and standardization - Why we need to promote standardization - Necessary digital transformation financial institutions must consider
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11:10 - 11:25	Session 4: ADB Regional Hub - Collaboration between ABMF and the regional Hub will be considered.
11:25 - 11:40	Session 5: Next step under ABMF

What is ASEAN plus Three?

- ASEAN+3 is a group of East Asian countries, consisting of ten countries of the Association of Southeast Asian Nations (ASEAN), the People's Republic of China, Japan, and the Republic of Korea.
- There are various ministerial meetings of ASEAN+3, but the most active one is ASEAN+3 Finance Ministers and Central Bank Governors Meeting (AFMGM+3)
- There are two initiatives led by AFMGM+3: Chiang Mai Initiative (CMIM), and [Asian Bond Markets Initiative \(ABMI\)](#) as a reaction to the Asian Currency Crisis in 1997-98

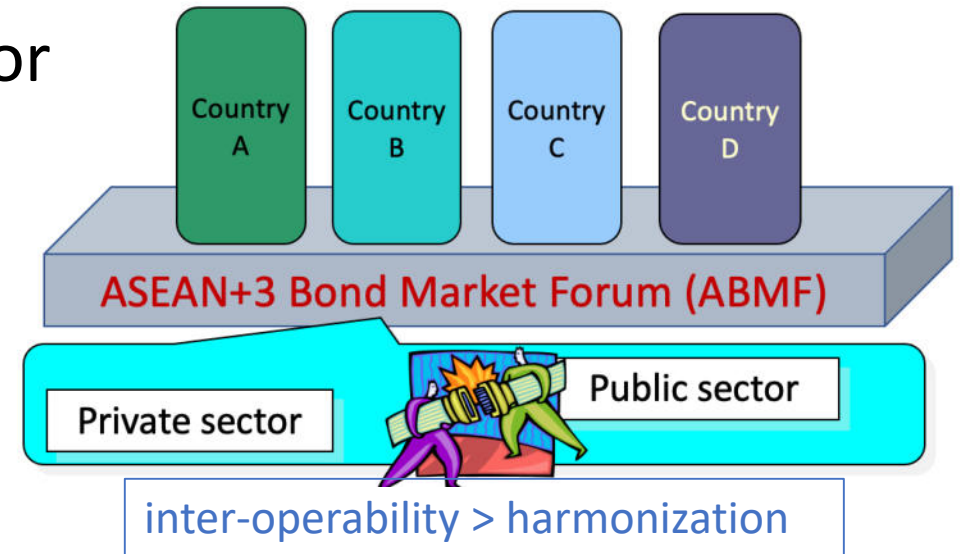


Organizational chart of ABMI and ADB's involvement in the regional policy process



ASEAN+3 Bond Market Forum as a regional platform for collaboration

- The ABMF, operating under the ambit of ASEAN+3 and comprising of bond market experts from the region, was established in September 2010 as a common platform to foster standardization of market practices and harmonization of regulations relating to cross-border bond transaction in the region.
- Collaboration between public and private sector experts
 - Utilize private sector expertise to build regional institutional framework
- Voluntary participation with commitments
 - Participants bear costs of participation
 - Establishing acceptable market practices and standards





Standardization efforts under ABMF

- (Step 1): Identification of transaction flows of payment and market infrastructures in each ASEAN+3 market as well as cross-border transaction flows by drafting of the Bond Market Guides (2010-)
- (Step 2): Promotion of international standards such as ISO 20022, LEI, BIC, and ISIN (2012-)
 - ASEAN Economic Community Blueprint 2025
 - Collaboration with Cross-Border Settlement Infrastructure Forum
- (Step 3): Account Structure Study to improve Know-Your-Customer Process for regulatory and tax reporting (2017-)
- (Step 4): Identification of message items to be harmonized and standardized (2021-)

Banking network and XML

- To support various new businesses with enormous data exchange through banking network, migration to ISO20022 is indispensable.
 - Proprietary format to XML format, which makes data machine-readable.
 - Machine-readable and universally accepted data format is indispensable for data exchange

Example

We can identify “IL” means state or country code

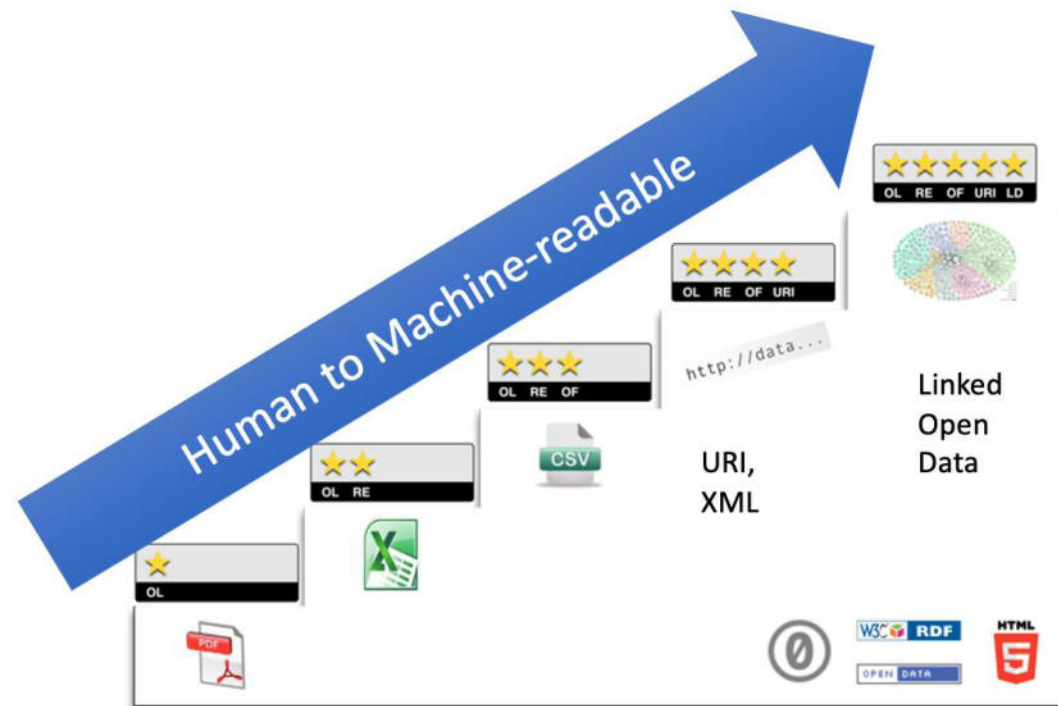
`<state code>IL </state code>`

`<country code>IL</country code>`

We may be able to use national language character which can enhance KYC

`<name>Yamadera</name>`

`<name>山寺</name>`



Implementation of ISO 20022 in ASEAN+3

Most of them will implement by 2025

	CSD (Type of Organization)	Name of System	Gov. or Corp. Bond	Year of Operation	Online Local Time Operating Hours (Time Difference from Jakarta)	ISO 20022 Local Approach (Plan)	ISO 20022 Cross-Border
BN	AMBD (CB&GA)	CSD	Gov.	2017	9:00 a.m.–4:45 p.m. (+1) ¹	Y: big bang	Y
CN	CCDC (CbR)	CBGS	Both	2013	9:00 a.m.–5:00 p.m. (+1)	Y: big bang	Y
CN	CSDC (ExR)	MNS	Corp.	2011	8:00 a.m.–4:00 p.m. (+1)	Y (202X)	Y (202X)
CN	SHCH (ExR)	SHCH-SSS	Corp.	2011	9:00 a.m.–5:00 p.m. (+1)	Y (202X)	Y (202X)
HK	HKMA (CB& GA)	CMU	Both	1990	8:30 a.m.–6:20 p.m. (+1)	Y (2022)	Y (2022)
ID	BI (CB)	BI-SSSS	Gov.	2003	7:30 a.m.–8:00 p.m. (0)	Y (202X)	Y (202X)
ID	KSEI (ExR)	C-BEST	Corp.		4:00 a.m.–5:10 p.m. (0)	Y (202X)	Y (202X)
JP	BOJ (CB)	BOJ-NET JGB Services	Gov.	2015	8:30 a.m.–9:00 p.m. (+2)	Y: big bang	Y
JP	JASDEC (ExR)	BETS	Corp.	2014	9:00 a.m.–5:00 p.m. (+2)	Y: 5 year coex.	Y
KH	CSX (Ex)	(Power Screen)	Corp.	2018	8:00 a.m.–3:00 p.m. (0)	n.a.	n.a.
KR	KSD (ExR)	SSS/e-SAFE	Both	2011	9:00 a.m.–5:30 p.m. (+2)	n.a.	Y (2020)
MM	CBM (CB)	CBM-NET CSD	Gov.	2016	9:30 a.m.–3:00 p.m. (–0.5)	Y (2020)	Y (2020)
MY	BNM (CB)	RENTAS-SSDS	Both	1999	8:00 a.m.–6:00 p.m. (+1)	Y (202X)	Y (202X)
PH	BTr (GA)	BTr-NRoSS	Gov.	1996 ²	9:00 a.m.–6:00 p.m. (+1)	Y (202X)	Y (202X)
PH	PDTC (ExR)	PDTC	Corp.	1995	8:00 a.m.–6:00 p.m. (+1)	Y (2021)	Y (2021)
SG	MAS (CB&GA)	MEPS+ SGS	Gov.	2006	9:00 a.m.–7:00 p.m. (+1)	Y (202X)	Y
SG	CDP (ExR)	DCSS	Corp.	2015	8:30 a.m.–5:30 p.m. (+1)	Y	Y
TH	TSD (ExR)	PTI	Both	2007	7:00 a.m.–8:30 p.m. (0)	Y (2021)	Y (2021)
VN	VSD ³	VSD-BES	Both	2010	8:00 a.m.–5:00 p.m. (0)	Y (2025)	Y (202X)



Legal Entity Identifier (LEI)

- 20-digit reference code to uniquely identify legally distinct entities that engage in financial transactions and associated reference data.
- LEI for RegTech
 - The Financial Markets Committee (FMC) and Bank Negara Malaysia **mandated all investors to obtain LEI** for securities account opening and reporting purposes in 2018.
 - Bank of England plans to **make LEIs mandatory for transactions** between financial institutions during the Enhancement Phase, **provisionally around 2023**. The Bank plans to extend the mandatory use of LEIs to a wider range of transactions depending on the wider adoption and use of LEIs
 - Reserve Bank of India published the **“Payment and Settlement Systems in India: Vision – 2019-2021”** in May 2019. Increasing **LEI usage** for large value cross border payments has been identified as one of the goals.
 - European Central Bank requests **LEI to be reported for euro money market statistical data collection** in the EU since 15 March 2019.
 - The use of LEI in payment messages might speed with the migration (provisionally around November 2021) of correspondent banking payment messages to ISO 20022. The **LEI is in the process of being embedded in ISO 20022**.



Account Structure Study to improve Know-Your-Customer Process for regulatory and tax reporting in ASEAN+3

Objective

- High transaction cost impedes cross-border bond investments.
 - Cumbersome process of KYC is one of sources of high transaction costs.
 - But, depending on the structure, flows of KYC information may vary.

Focus of the study

- Identify procedures and necessary information for KYC.
 - necessary information to be collected for market entry.
 - approval procedures if involved.
- Identify procedures and necessary information for taxation as a tax rate may vary depending on the status of investors such as resident and non-resident.
- Check whether the account structure would affect the procedures of market entry and taxation.
- Propose standardization of KYC procedures, where possible.

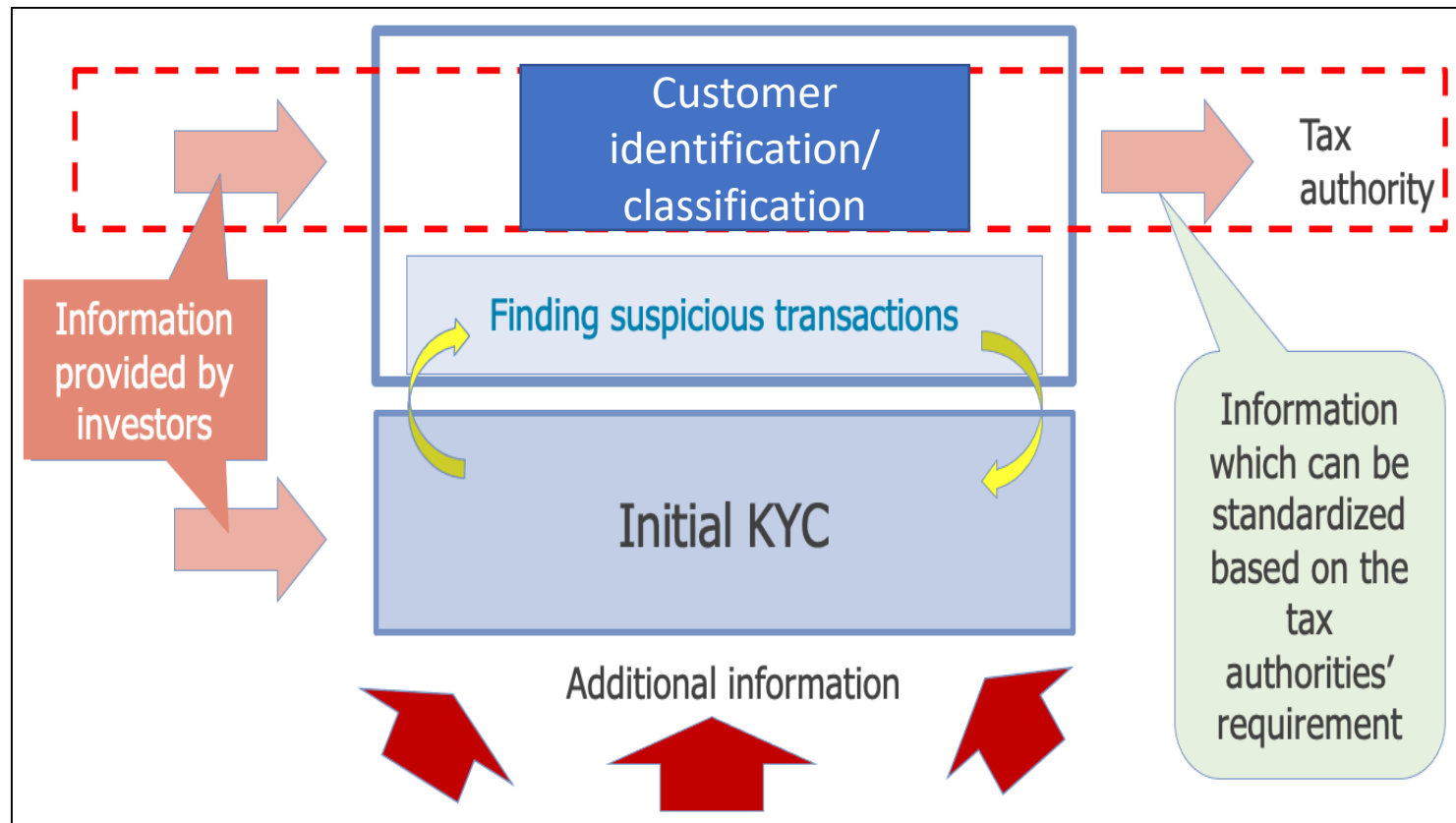


Key findings from the study

- In ASEAN+3, account structures are categorized in three ways:
 - omnibus account
 - segregated account
 - omnibus with single investor ID
- Financial institutions must check a customer when establishing a business relationship.
 - Required KYC information can differ from one institution to another.
 - There may be 1) local KYC requirements of the market receiving investments; 2) global custodian's requirements; and 3) requirements of the market where investors are located.
 - What information can satisfy regulatory KYC may not easily be to defined.
- As a withholding agent and tax agent, custodians need to collect information of customers to file tax procedures.
- Comparing to the onboarding KYC, information collected for taxation to identify and classify a customer may be clearer but repetitive.

Recommendation: Standardization of KYC process

- Based on the flows of information to fulfill the requirement of KYC, there are two types of KYC: initial KYC and transactional KYC (customer identification/ classification).
- We may be able to consider LEI for transactional KYC (customer identification/ classification).





How we can maximize benefit of standardization?

- We need to standardize process of information, i.e., transaction flows.
- We need to move from human-readable to machine-readable.
- But, to do so, we need to establish taxonomy for financial transactions.
 - Taxonomy: the scientific process of classifying things*

Financial transactions are classified and recognized based on a legal and regulatory framework. In other words, depending on a jurisdiction, characteristics of financial transactions may differ. Therefore, we need to have a good understanding of different legal and regulatory framework to establish the taxonomy for the region.
- Collaboration among experts will be the key for success.

* Source: Oxford Learner's dictionaries



Outline of the workshop

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Appendix



ABMF members



ABMF members and Experts

COUNTRY	INSTITUTION
Brunei Darussalam	Autoriti Monetari Brunei Darussalam (ABMD)
Cambodia	National Bank of Cambodia (NBC)
	Securities and Exchange Commission of Cambodia (SECC)
China, PRC	Bank of China (Hong Kong)
	China Central Depository & Clearing Co. Ltd. (CCDC)
	China Foreign Exchange Trade System / National Interbank Funding Center (CFETS)
	China Securities Depository and Clearing Corporation Limited Shanghai (CSDC)
	China Securities Regulatory Commission (CSRC)
	Hong Kong Monetary Authority (HKMA)
	National Association of Financial Market Institutional Investors (NAFMII)
	Shanghai Clearing House (SCH)
Indonesia	Financial Services Authority (OJK)
	Indonesia Clearing and Guarantee Corporation (ICGC/KPEI)
	Indonesia Stock Exchange (IDX/Bursa Efek Indonesia))
	Indonesian Central Securities Depository (KSEI)
	Ministry of Finance, Indonesia
Japan	Daiwa Securities Co. Ltd.
	Japan Exchange Group, Inc (JPX)
	Japan Securities Dealers Association (JASDA)
	Japan Securities Depository Center, Inc. (JASDEC)
	Mizuho Bank, Ltd.
	MUFG Bank
	Nomura Securities Co. Ltd.
Korea, Republic of	Sumitomo Mitsui Banking Corporation (SMBC)
	Bank of Korea (BOK)
	Korea Exchange (KRX)
	Korea Securities Depository (KSD)
	Korea Financial Investment Association (KOFIA)
	Korea Capital Market Institute (KCMI)
Lao, PDR	Ministry of Finance
	Securities and Exchange Commission Office, Bank of the Lao PDR

ABMF members and Experts (*continuation*)

COUNTRY	INSTITUTION
Malaysia	Bond Pricing Agency Malaysia (BPAM)
	Financial Market Association of Malaysia
Myanmar	Central Bank of Myanmar
	Securities and Exchange Commission of Myanmar
Philippines	Bankers Association of the Philippines (BAP)
	Bureau of Treasury
	Philippine Dealing System Holdings Corp/PDS Group (PDS)
	Securities and Exchange Commission (SEC)
Singapore	Singapore Exchange (SGX)
Thailand	Fiscal Policy Office, Ministry of Finance
	Securities and Exchange Commission (SEC)
	The Stock Exchange of Thailand (SET)
	Thai Bond Market Association (Thai BMA)
Viet Nam	Hanoi Stock Exchange (HNX)
	Vietnam Bond Market Association (VBMA)
	Vietnam Securities Depository (VSD)



International Experts

INSTITUTION
Mori Hamada & Matsumoto
Nagashima Ohno & Tsunematsu
Capital Markets Association for Asia (CMAA)
NTT DATA
Citibank
Deutsche Bank AG
J.P Morgan
HSBC
State Street Bank and Trust
SWIFT
Clearstream
Depository Trust & Clearing Corporation (DTCC)
Euroclear
The Bank of New York Mellon

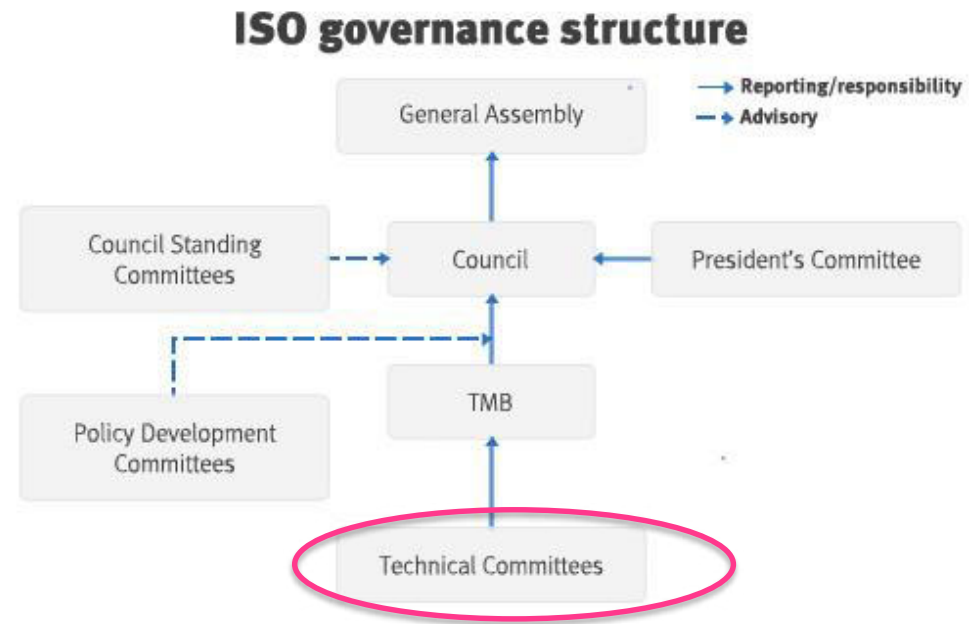
International Experts. With the consent of other national members and the endorsement of TF3, a national member may nominate international experts as participants in the ABMF.



ISO 20022

What is ISO?

- ISO (International Organization for Standardization) is an independent, non-governmental membership organization.
- 166 member countries who are the national standards bodies around the world, with a Central Secretariat that is based in Geneva, Switzerland.
- ISO has published more than 19,500 International Standards covering almost every industry, from technology, to services including finance, to agriculture and healthcare.





What financial standards are created by ISO?

- ISO 4217 Codes for the representation of currencies and funds
- ISO 6166 International Securities Numbering System (ISIN)
- ISO 9362 Business identifier code (BIC)
- ISO 9564 Personal Identification Number (PIN)
- ISO 10383 Codes for exchanges and market identification (MIC)
- ISO 10962 Classification of Financial Instruments (CFI code)
- ISO 13616 International bank account number (IBAN)
- ISO 15022 Scheme for messages (Data Field Dictionary)
- ISO 20022 Universal financial industry message scheme
- ISO 17442 Legal Entity Identifier (LEI)



What is ISO 20022?

- ISO 20022 - Universal financial industry message scheme (which used to be also called "UNIFI") is the international standard that defines the ISO platform for the development of financial message standards.
- The first focus of ISO 20022 is on international (cross-border) financial communication between financial institutions, their clients and the domestic or international 'market infrastructures' involved in the processing of financial transactions. There is, however, a strong opportunity to use ISO 20022 for the development of new domestic financial messages as well, thereby streamlining all communications for financial institutions.
- Its business modelling approach allows users and developers to represent financial business processes and underlying transactions in a formal but syntax-independent notation. These business transaction models are the "real" business standards. They can be converted into physical messages in the desired syntax. At the time ISO 20022 was developed, XML (eXtensible Mark-up Language) was the preferred syntax for e-communication. Therefore, the first edition of ISO 20022, published in December 2004, proposed a standardized XML-based syntax for messages.
- The second edition of the standard, published in May 2013, included the possibility to use ASN.1 as well. The standard was developed within the Technical Committee TC68 - Financial Services of ISO - the International Organization for Standardization.

Implementation of ISO 20022 in ASEAN+3

Most of them will implement by 2025

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JP	BOJ (CB)	BOJ-NET JGB Services	Gov.	2015	8:30 a.m.–9:00 p.m. (+2)	Y: big bang	Y
JP	JASDEC (ExR)	BETS	Corp.	2014	9:00 a.m.–5:00 p.m. (+2)	Y: 5 year coex.	Y
KH	CSX (Ex)	(Power Screen)	Corp.	2018	8:00 a.m.–3:00 p.m. (0)	n.a.	n.a.
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MM	CBM (CB)	CBM-NET CSD	Gov.	2016	9:30 a.m.–3:00 p.m. (–0.5)	Y (2020)	Y (2020)
MY	BNM (CB)	RENTAS-SSDS	Both	1999	8:00 a.m.–6:00 p.m. (+1)	Y (202X)	Y (202X)
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SG	CDP (ExR)	DCSS	Corp.	2015	8:30 a.m.–5:30 p.m. (+1)	Y	Y
TH	TSD (ExR)	PTI	Both	2007	7:00 a.m.–8:30 p.m. (0)	Y (2021)	Y (2021)
VN	VSD ³	VSD-BES	Both	2010	8:00 a.m.–5:00 p.m. (0)	Y (2025)	Y (202X)



Know-Your-Customer

What is KYC?: Customer due diligence

Financial institutions should be prohibited from keeping anonymous accounts or accounts in obviously fictitious names.

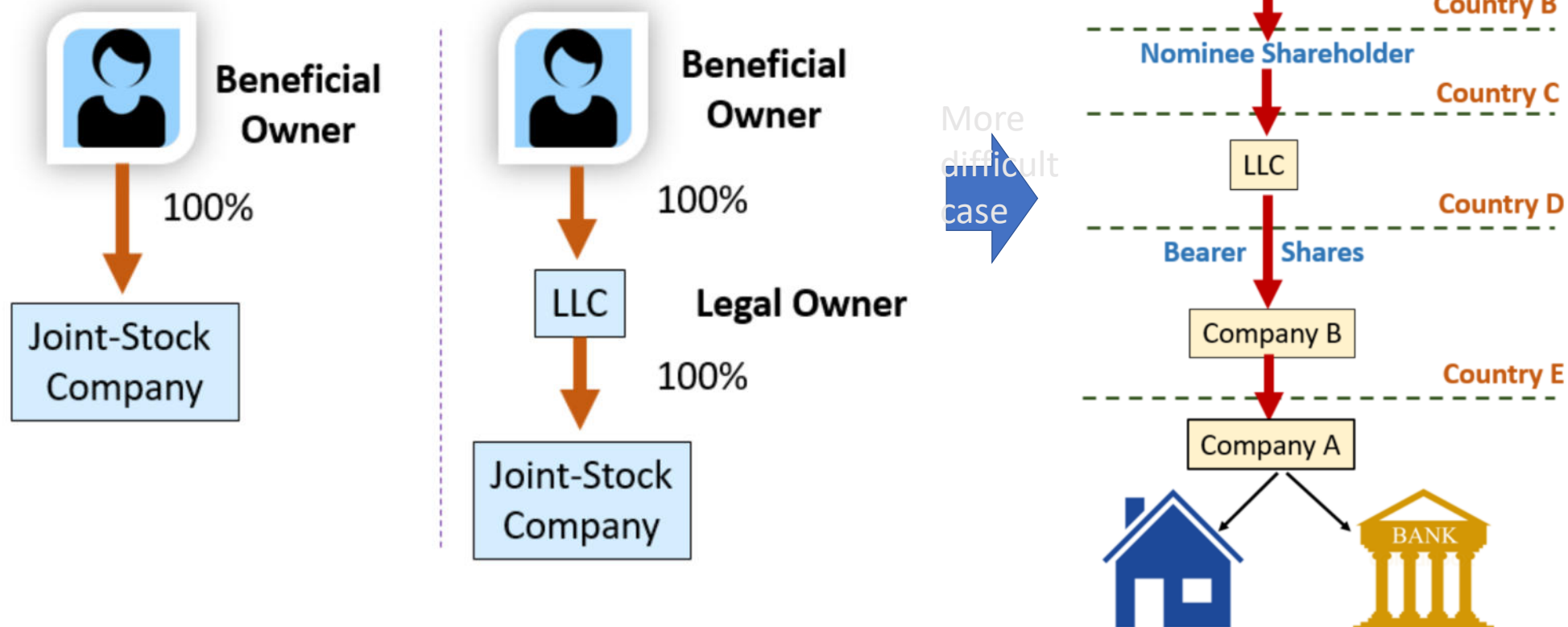
Financial institutions should be required to undertake customer due diligence (CDD) measures when:

1. establishing business relations;
2. carrying out occasional transactions: (i) above the applicable designated threshold (USD/EUR 15,000); or (ii) that are wire transfers in the circumstances covered by the Interpretive Note to Recommendation 16;
3. there is a suspicion of money laundering or terrorist financing; or
4. the financial institution has doubts about the veracity or adequacy of previously obtained customer identification data.

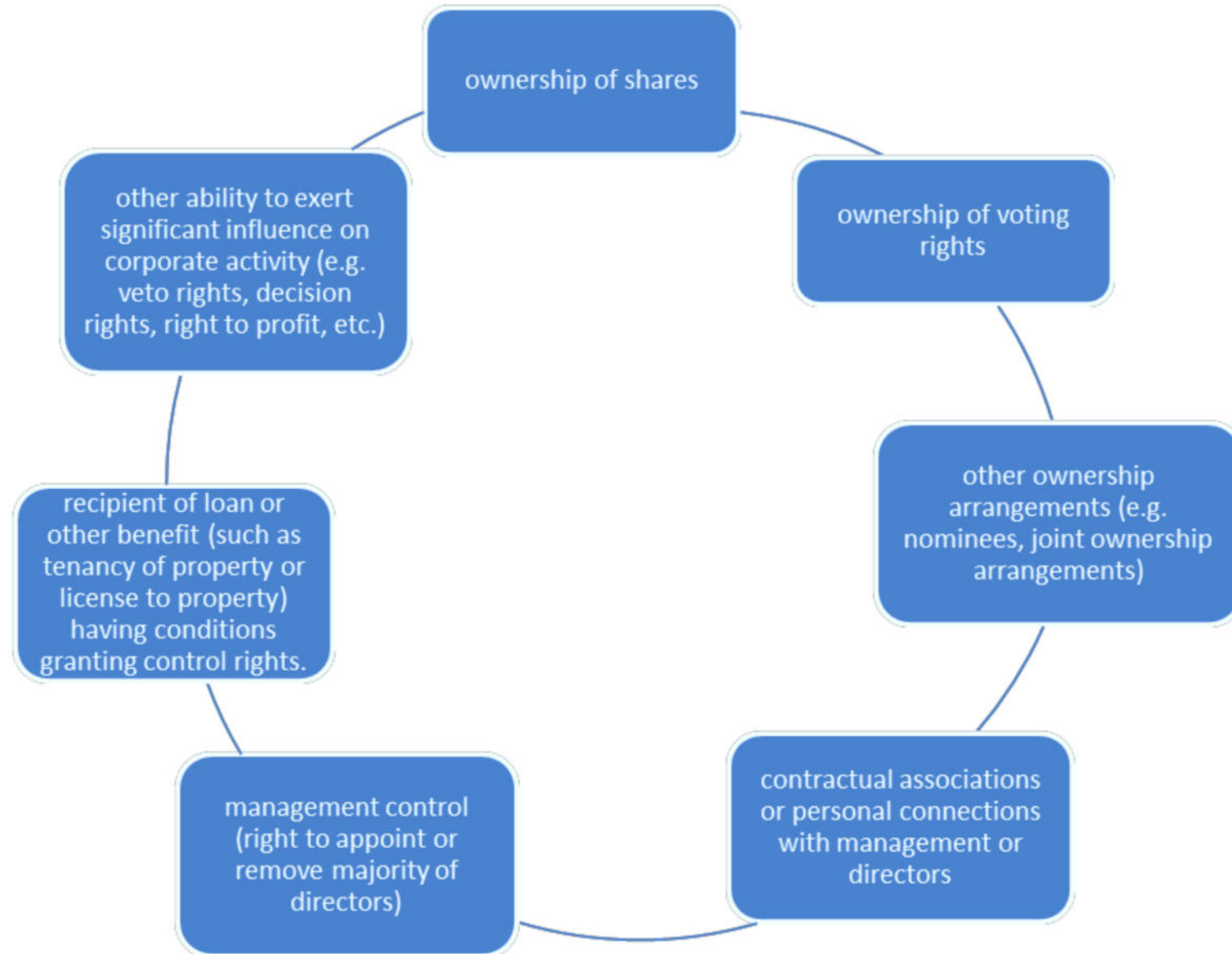
Beneficial owner refers to the natural person(s) who ultimately owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person or arrangement (FATF)

Beneficial owner

The BO is the individual or individuals who effectively owns or controls a legal vehicle.



Beneficial owner: Direct and indirect ownership and control



Source: OECD&IDB. 2019. A Beneficial Ownership Implementation Toolkit



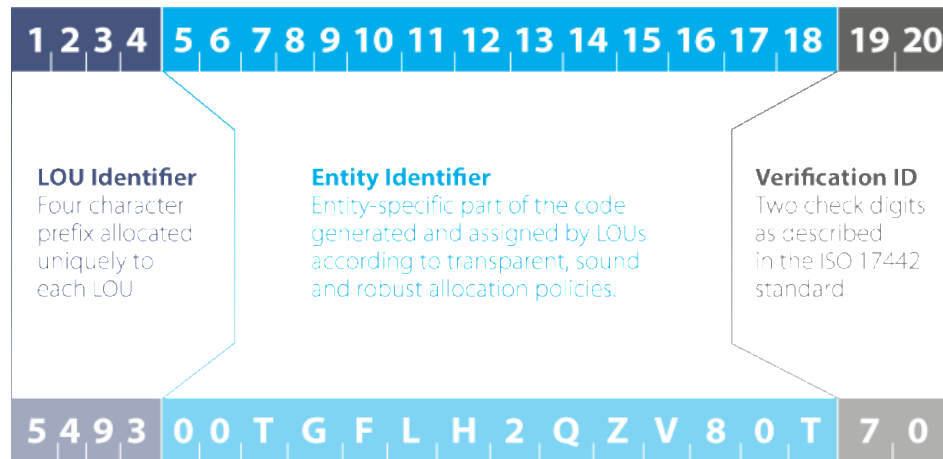
Legal Entity Identifier

The Legal Entity Identifier (LEI)



LEI is the linchpin that connects the dots across the universe of entity identification in the digital age

- 20-digit, alpha-numeric code based on the ISO 17442 standard developed by the ISO

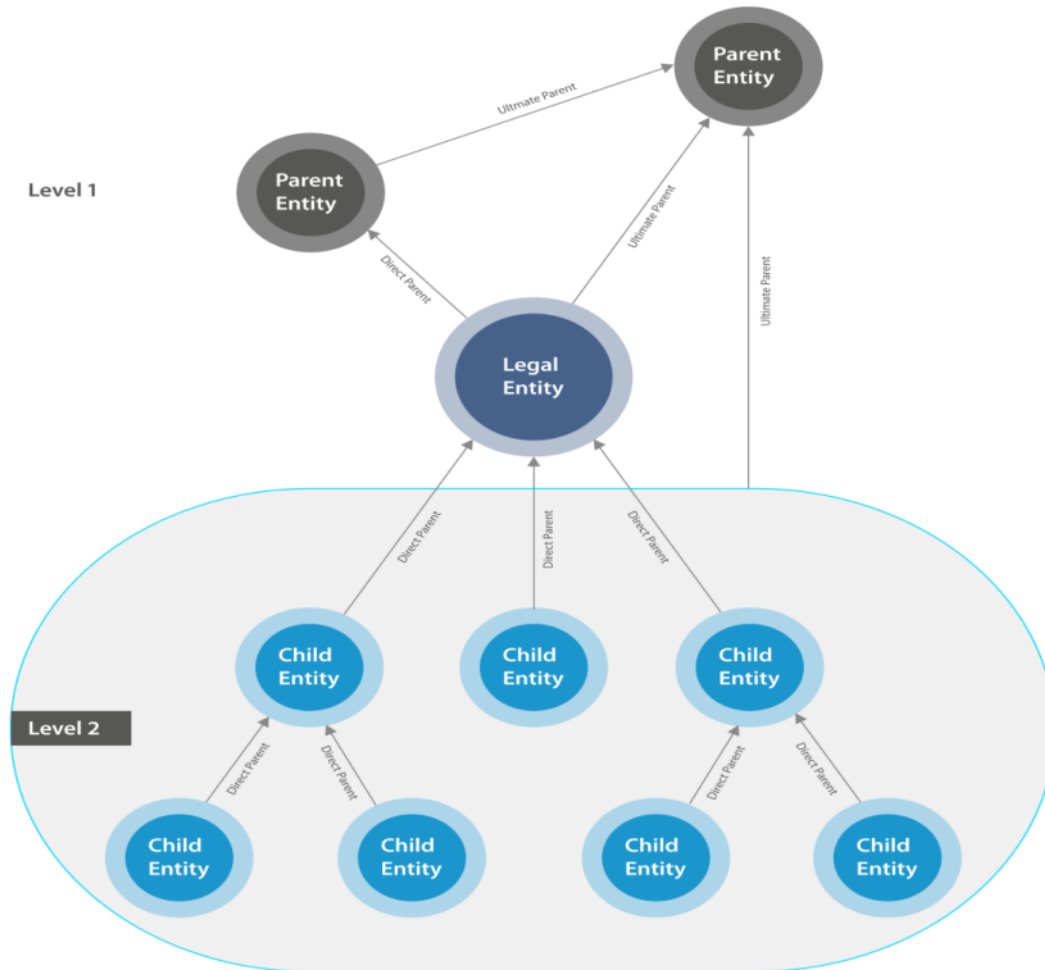


Example: ABB Sécheron S.A., Switzerland

- Connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions

LEI Data Record			[1..*]
LEI	LEI		[0,1]
Entity			[1]
LegalName	Name		[1]
OtherEntityNames	OtherEntityName		[0..n]
LegalAddress	Address		[1]
HeadquartersAddress	Address		[1]
OtherAddresses	OtherAddress		[0..n]
BusinessRegisterEntityID	BusinessRegisterEntityID		[0,1]
LegalJurisdiction	JurisdictionCode		[0,1]
LegalForm	Name		[0,1]
AssociatedEntity	Associated		[*]
EntityStatus	EntityStatusEnum		[1]
EntityExpirationDate	DateTime		[0,1]
EntityExpirationReason	EntityExpirationReasonEnum		[0,1]
SuccessorEntity	Successor		[0,1]
Registration			[1]
InitialRegistrationDate	DateTime		[1]
LastUpdateDate	DateTime		[1]
RegistrationStatus	RegistrationStatusEnum		[1]
NextRenewalDate	DateTime		[1]
ManagingLOU	LEI		[1]
ValidationSources	ValidationSourcesEnum		[0,1]
Extension			[0,1]

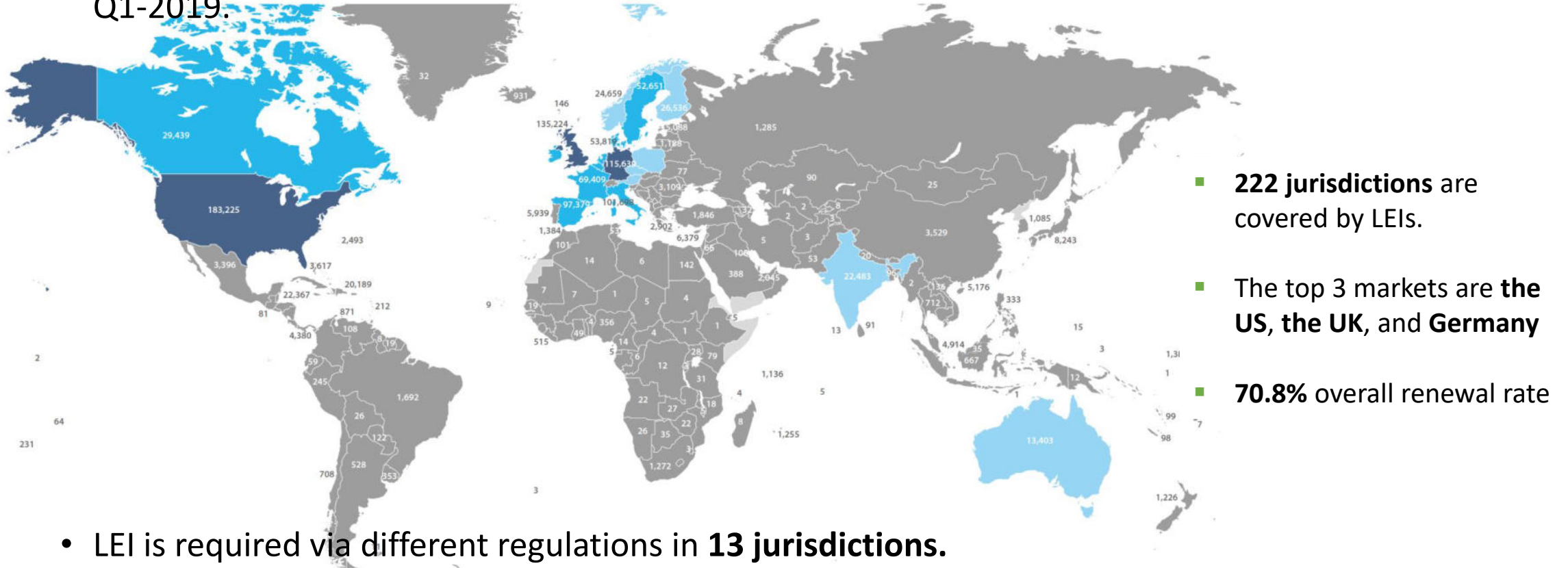
Information Available with the LEI: Data on 'Who owns Whom'



- Following information on '**who is who**', the LEI data pool is enhanced to include information on '**who owns whom**'. This allows the identification of direct and ultimate parents of a legal entity and, vice versa, so that the entities owned by individual companies can be researched.

Global LEI System Q1 2019 Business Update

- **1.36 million** active LEIs* exist in global LEI depository by the end of Q1-2019.



- LEI is required via different regulations in **13 jurisdictions**.

*Active LEIs refer to LEIs with RegistrationStatus ISSUED, LAPSED, PENDING TRANSFER and PENDING ARCHIVAL.

Use of the LEI in payment messages to support sanction screening and due diligence (1 of 2)

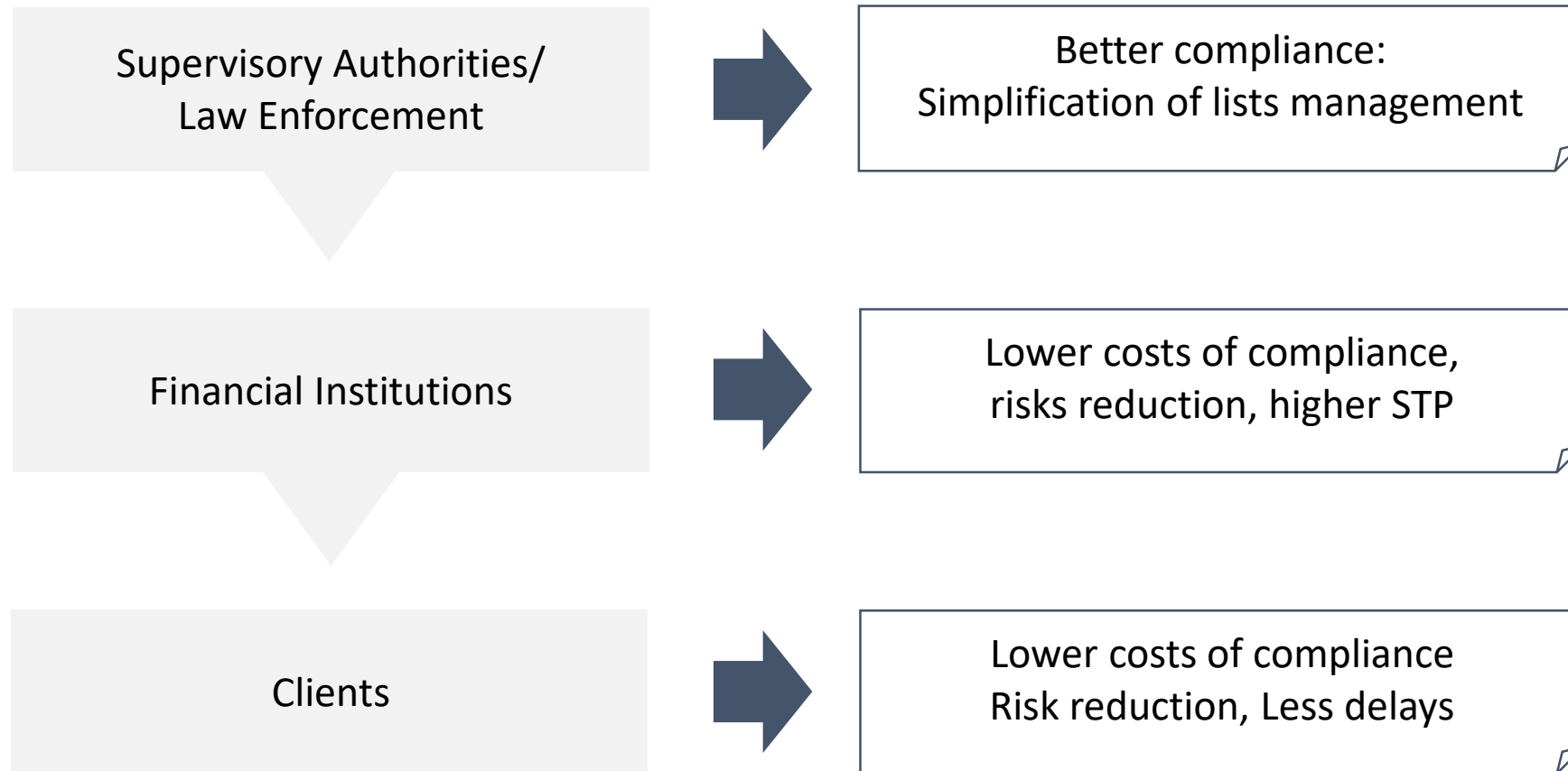
- **SWIFT Payments Market Practice Group, the LEI in Payments Market, November 2017:**

“the ability to clearly identify the originating and beneficiary parties with LEI (and therefore having additional transparency on these parties) could bring significant quantitative and qualitative benefits on a strategic basis, mainly for compliance and risk management functions”

- **Wolfsberg Group, Payment transparency principles, October 2017:**

“wide adoption of LEIs might support more rapid elimination of false positive alerts generated by commonly deployed screening and monitoring systems for sanctions and AML purposes, while ensuring more efficient payment processing through the provision of certainty of identity.”

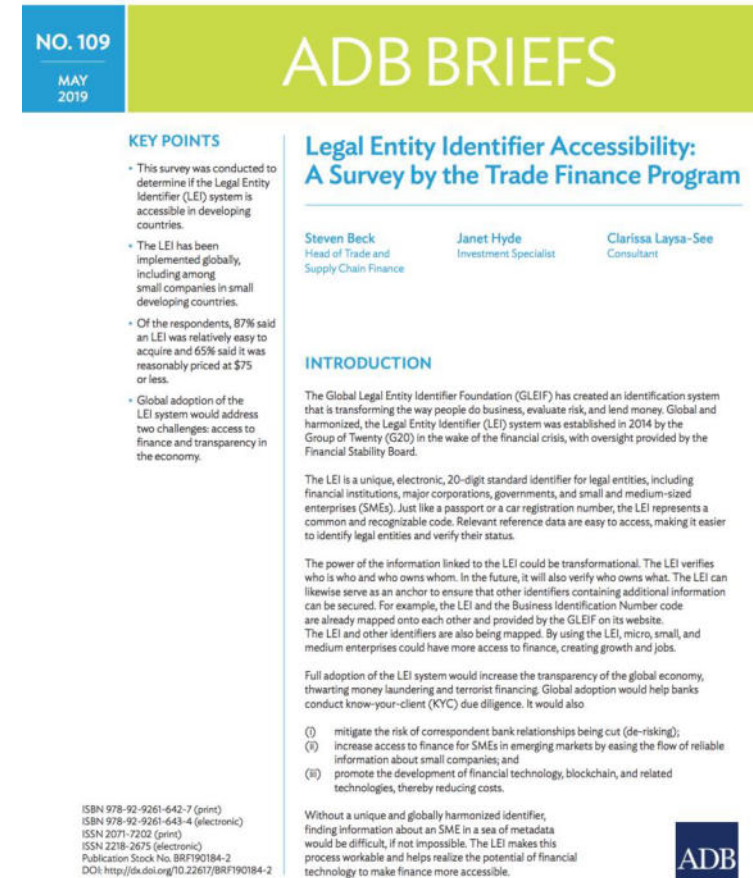
Use of the LEI in payment messages to support sanction screening and due diligence (2 of 2)



Potential use of LEI in Trade Finance

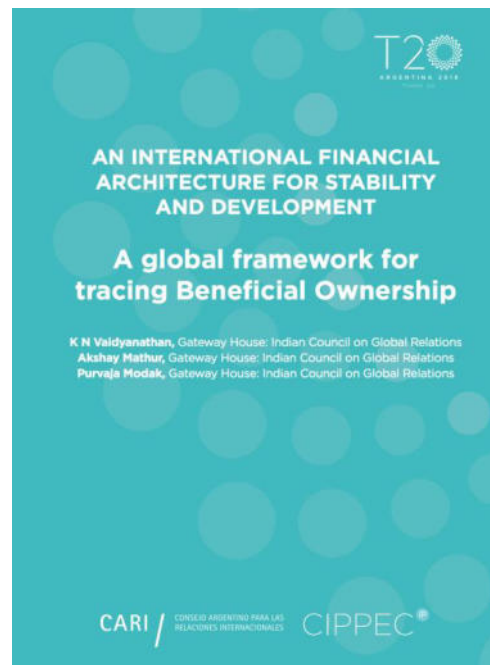
ADB Survey as a case study

- Asian Development Bank (ADB): *“The power of the information linked to the LEI could be **transformational**...Without a unique and globally harmonized identifier, finding information about an SME in a sea of metadata would be difficult, if not impossible. The LEI makes this process workable and helps realize the potential of financial technology to make **finance more accessible**.”*
- ADB conducted a survey for companies including SMEs in a range of small and large developing countries in Asia-Pacific.
- The survey result demonstrates that both large and small companies in large and small relatively easily and at reasonable cost.
- ADB concluded that global adoption of the LEI system would address two challenges: (i) access to finance and (ii) transparency in the economy.

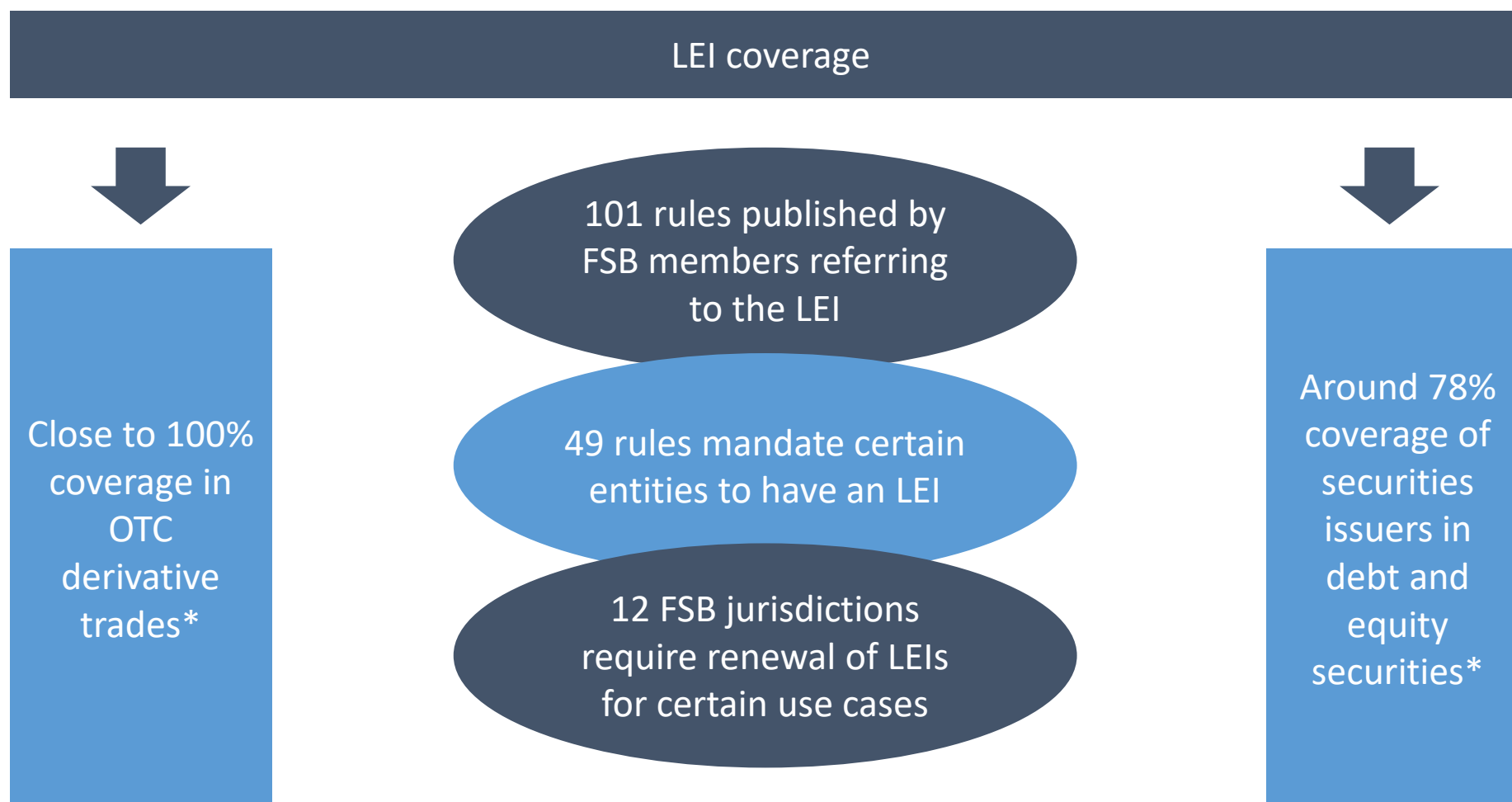


Potential use of LEI for KYC and Anti-Money Laundering Requirements

- According to a report released by the International Finance Corporation (IFC) of World Bank '*Navigating Essential Anti-Money Laundering and Combating the Financing of Terrorism Requirements in Trade Finance: A Guide for Respondent Banks*', **LEI is identified as one of the emerging innovations** that can contribute to both the efficiency and effectiveness of a bank's efforts at AML/CFT compliance.
- The report states that one essential capacity the Correspondent Bank needed before adopting a KYC utility include: "*National identification systems (to establish beneficial owner of a company, for example). For banks in countries that lack such a system, **LEI may be an alternative.***"
- T20 Argentina Report on '*A global framework for tracing Beneficial Ownership*' states: "*In addition to bringing transparency on entities and their transactions, **LEI is being recommended** for conducting diligence on borrowers, on-boarding clients in securities and fixed-income markets, and for verifying buyers and sellers in a cross-border trade ."*



Use of LEI in regulatory space



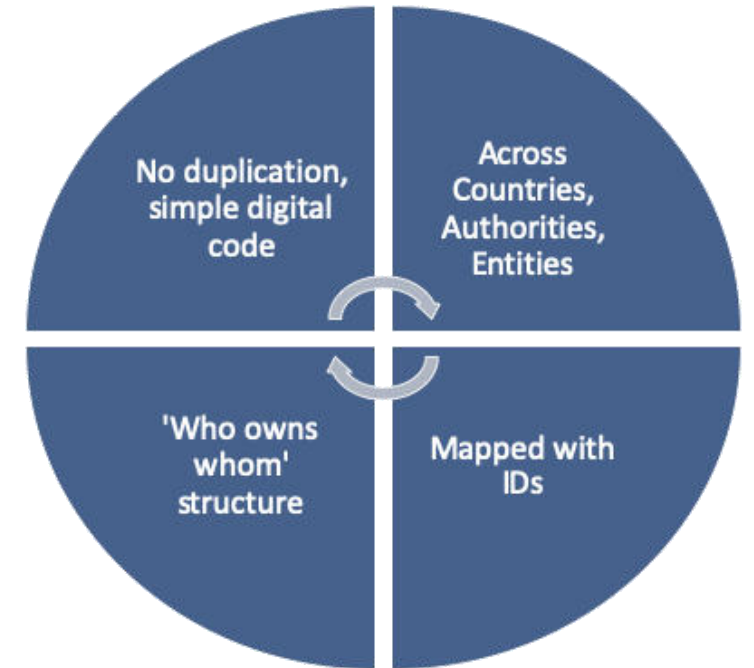
Regulatory uses – FSB Thematic Review on Implementation of the Legal Entity Identifier*

1. Monitoring financial risks

- Understand and identify the build-up of risk across multiple jurisdictions and across global financial processes
- SWAP activity (CFTC)
 - Identifies the counterparties of majority of swaps reported to CFTC, permitting it to analyze the swap trading activity and exposure of entities

2. Exposure aggregation

- Can facilitate the aggregation of data across all relevant entities
- Borrower concentration(ECB)
 - Identify and monitor risks stemming from significant borrower concentrations
 - Link Centralised Securities Database (CSDB)with other micro database



* Source: *Thematic Review on Implementation of the Legal Entity Identifier Peer Review Report*

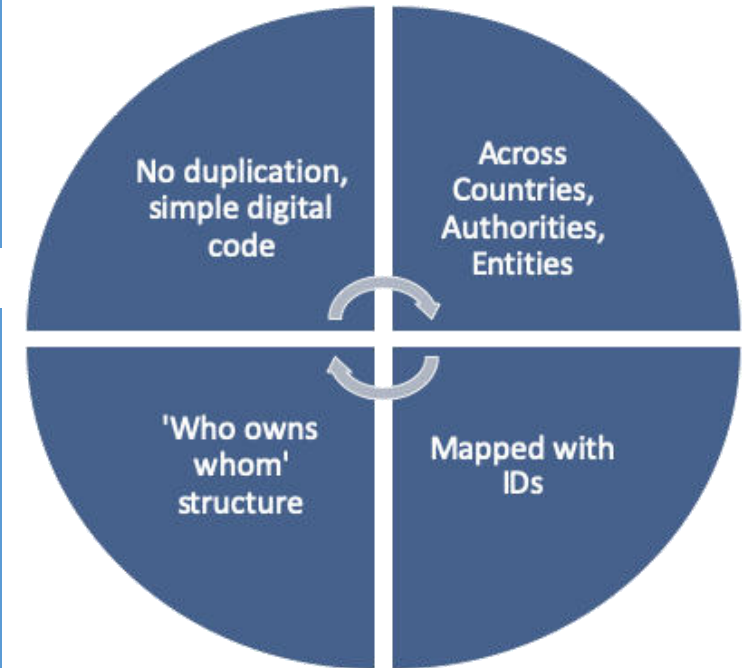
Regulatory uses – FSB Thematic Review on Implementation of the Legal Entity Identifier*

3. Statistical analysis

- IMF is exploring the use of LEI in its coordinated portfolio investment survey (CPIS) database to provide users with from-whom-to-whom CPIS positions by economy and sector of holder and issuer

4. Understanding company structures

- Better understand multinational enterprise company structures and activities for statistical and supply chain assessment purposes
- The Bank of Russia used LEIs to build the accounting structures of Russian holding companies and monitor the loans granted by Russian banks to entities at a group level



* Source: *Thematic Review on Implementation of the Legal Entity Identifier Peer Review Report*

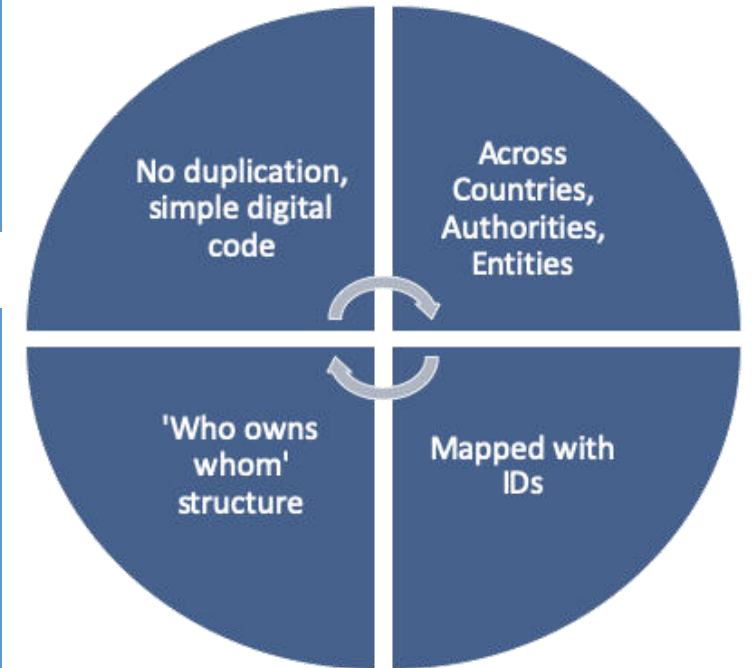
Regulatory uses – FSB Thematic Review on Implementation of the Legal Entity Identifier*

5. Understanding market structures

- Interconnectedness among 900 clearing members identified with their LEI, as well as their liquidity providers and custodians (ESMA)

6. Support transparency for the benefit of investors

- Can augment the information provided to investors on securitized products and their underlying assets
- Use LEI to identify underlying reference entity for single name Credit Default SWAPs (CDSs) and to identify the issuers of the underlying bond for bond futures.



* Source: *Thematic Review on Implementation of the Legal Entity Identifier Peer Review Report*



Account structure study: case study

Information required for market entry in Indonesia

1. Investor Type (individual or institutional)
 2. Name
 3. Nationality
 4. Legal domicile
 5. Identity Number (i.e. Tax ID and/or personal ID for individual)
 6. Date of Birth / Date of company establishment
 7. Address
 8. Type of Business (only for institution), please choose from the below categories:
 - a. Corporate (CP)
 - b. Foundation (FD)
 - c. Financial institution - bank (IB)
 - d. Financial institution - non bank (IB)
 - e. Insurance (IS)
 - f. Mutual Fund (MF)
 - g. Pension Fund (PF)
 - h. Securities company (SC)
 - i. Others (OT), i.e. government entity or international organization
- ✓ Starting March 2018, financial institution clients are required to disclose the business principles, whether Sharia-based or conventional, when opening securities accounts.
 - ✓ Starting December 2018, clients are required to provide the reference documents when creating SID to KSEI participants (local brokers or custodian banks). The reference documents are the basis of the data / information required to open SID. These documents will be administered by KSEI participants, which will be submitted to KSEI if required.

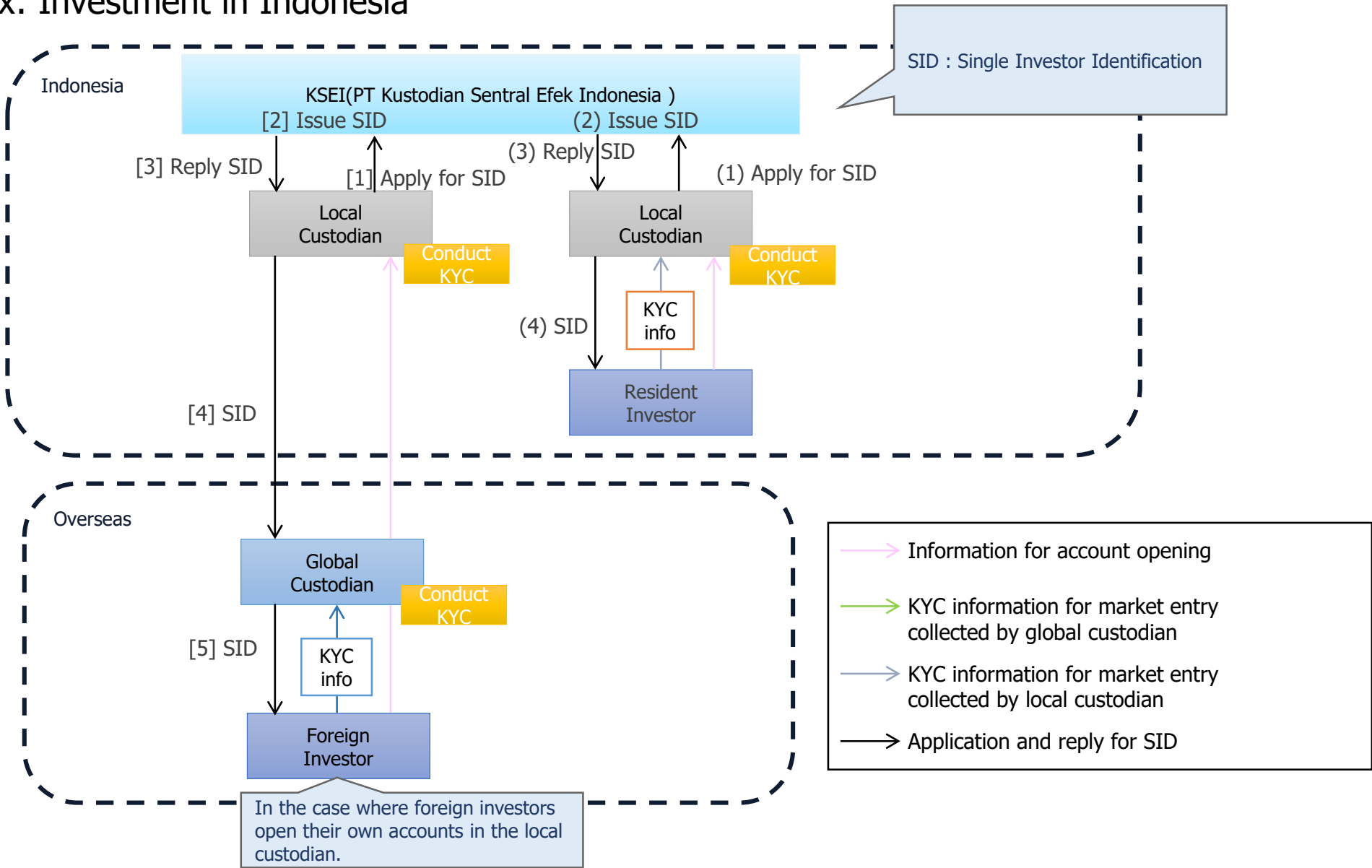
Account Structure of CSD in Indonesia

	CSD	Account Structure
Government Bond	BI (Bank Indonesia)	Omnibus
Corporate Bond	KSEI (Kustodian Sentral Efek Indonesia)	Omnibus

- The equities market is segregated at KSEI. Fixed income products are Omnibus at Bank Indonesia with KSEI for limited listed products.
- GC conducts KYC of Foreign Investor (FI) and obtains any additional information required for each local market / account opening requirement from the FI.
- The domestic investor provides KYC info to LC as part of local onboarding requirements.
- The DGT data is now maintained for a year from initial submission and gets renewed on an annual basis.
- The general flows of information are all different between Government debt and Corporate, different by trade venue (listed or trading platform) which results in different withholding agents and submission routes. For example a Transfer Agent of an issuer that could be a custodian directly submits the DGT to the Tax Office for certain trade types.

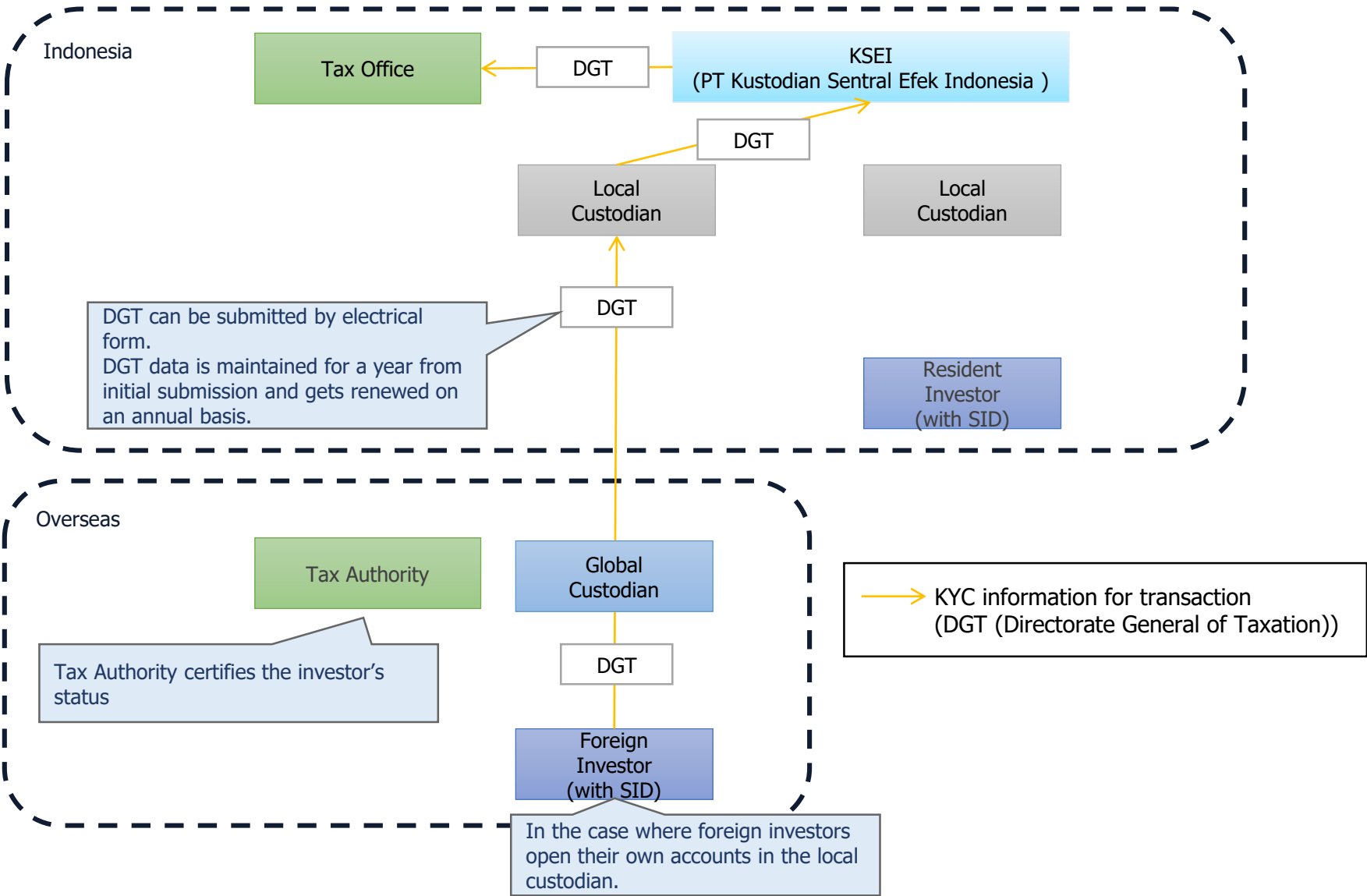
KYC information for account opening (Indonesia)

Ex: Investment in Indonesia



KYC information for collecting tax (Indonesia)

Ex: Investment in Indonesia



Information required for market entry in the Philippines

- No specific requirement set by CSD or regulators
- Custodians will open custody accounts for their clients based on the respective banks' KYC documentary requirements and all other information required for account opening.

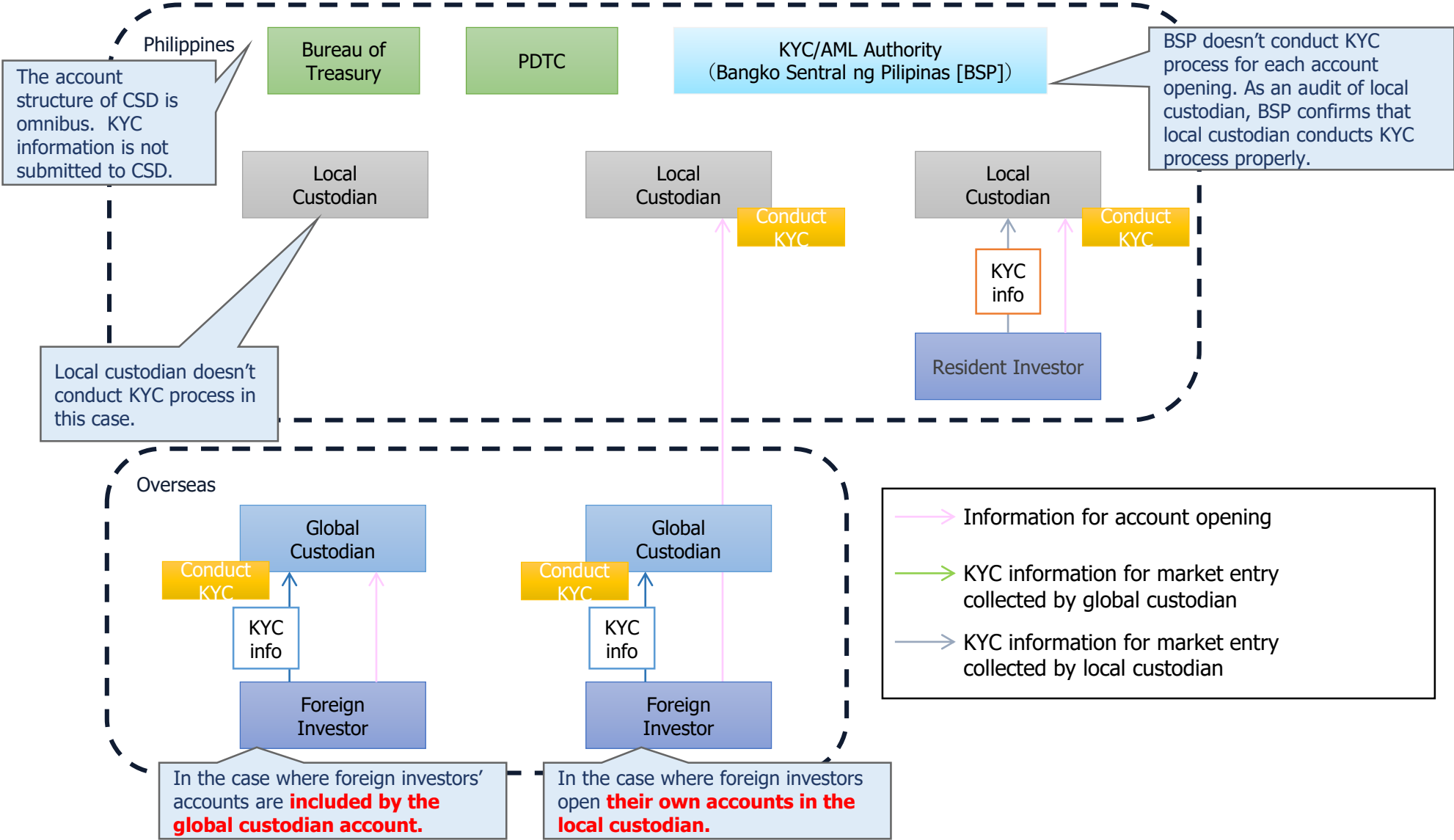
Account Structure of CSD in Philippines

	CSD	Account Structure
Government Bond	BTr (Bureau of the Treasury)	Omnibus
Corporate Bond	PDTC (Philippine Depository & Trust Corp)	Omnibus

- The special account holding at the BTR when the Bureau of Internal Revenue gives a ruling for tax exemption where the yellow arrow could be directly from the Foreign Investor to BTR. Need to check with the local market.
- A large majority of foreign investors still do not apply for exemption as historically BTR did not support the application of tax documents and paying standard withholding tax in practice.

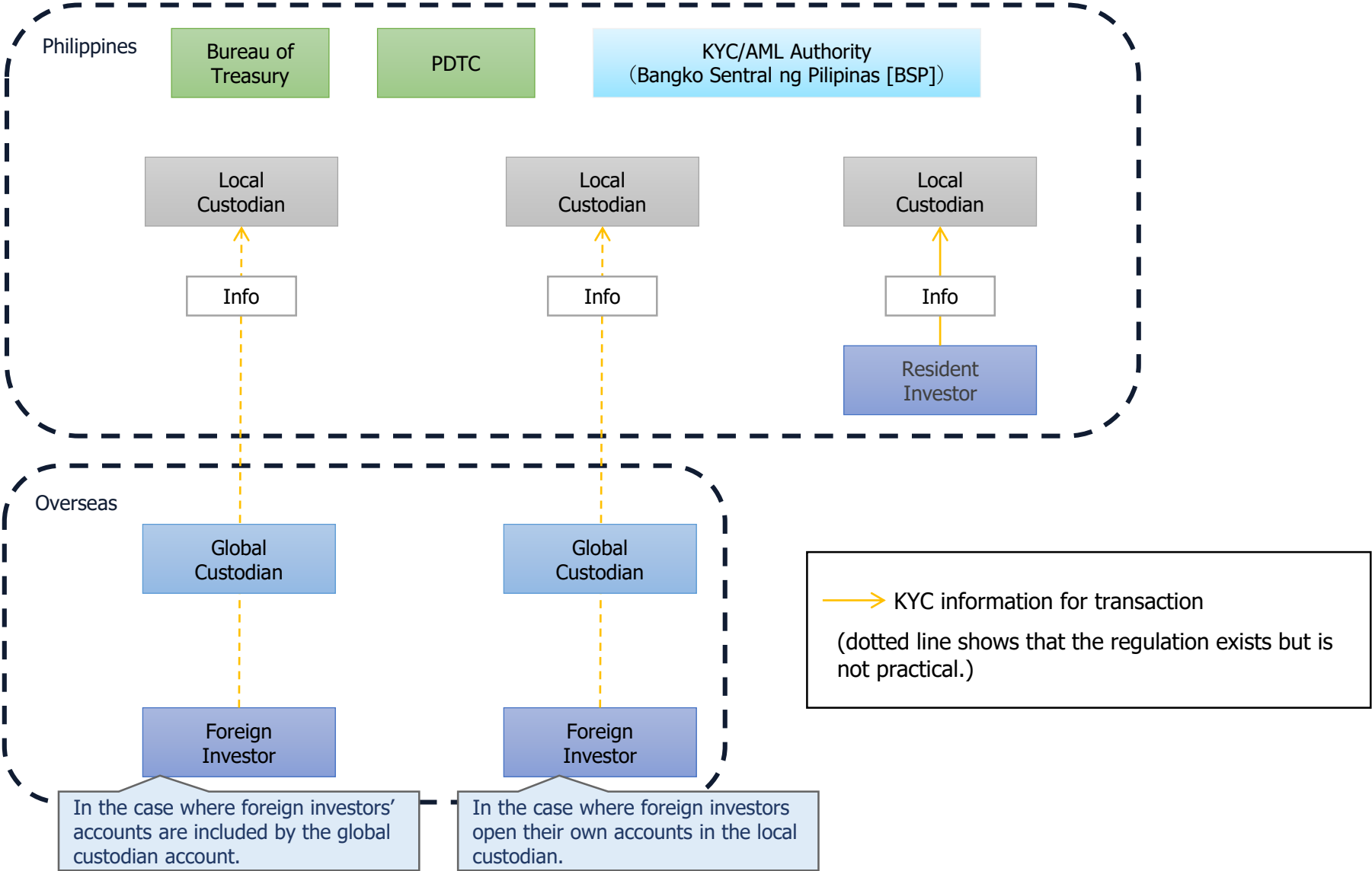
KYC information for account opening (Philippines)

Ex: Investment in Philippines



KYC information for collecting tax (Philippines)

Ex: Investment in Philippines



Information required for market entry in the People's Republic of China (PRC)

- A custodian needs to provide an information of investors as a result of customer due diligence, but there is no specific list of information set by CSD or regulator.
- Custodians will open custody accounts for their clients based on the respective banks' KYC documentary requirements and all other information required for account opening.

Account Structure of CSD in PRC

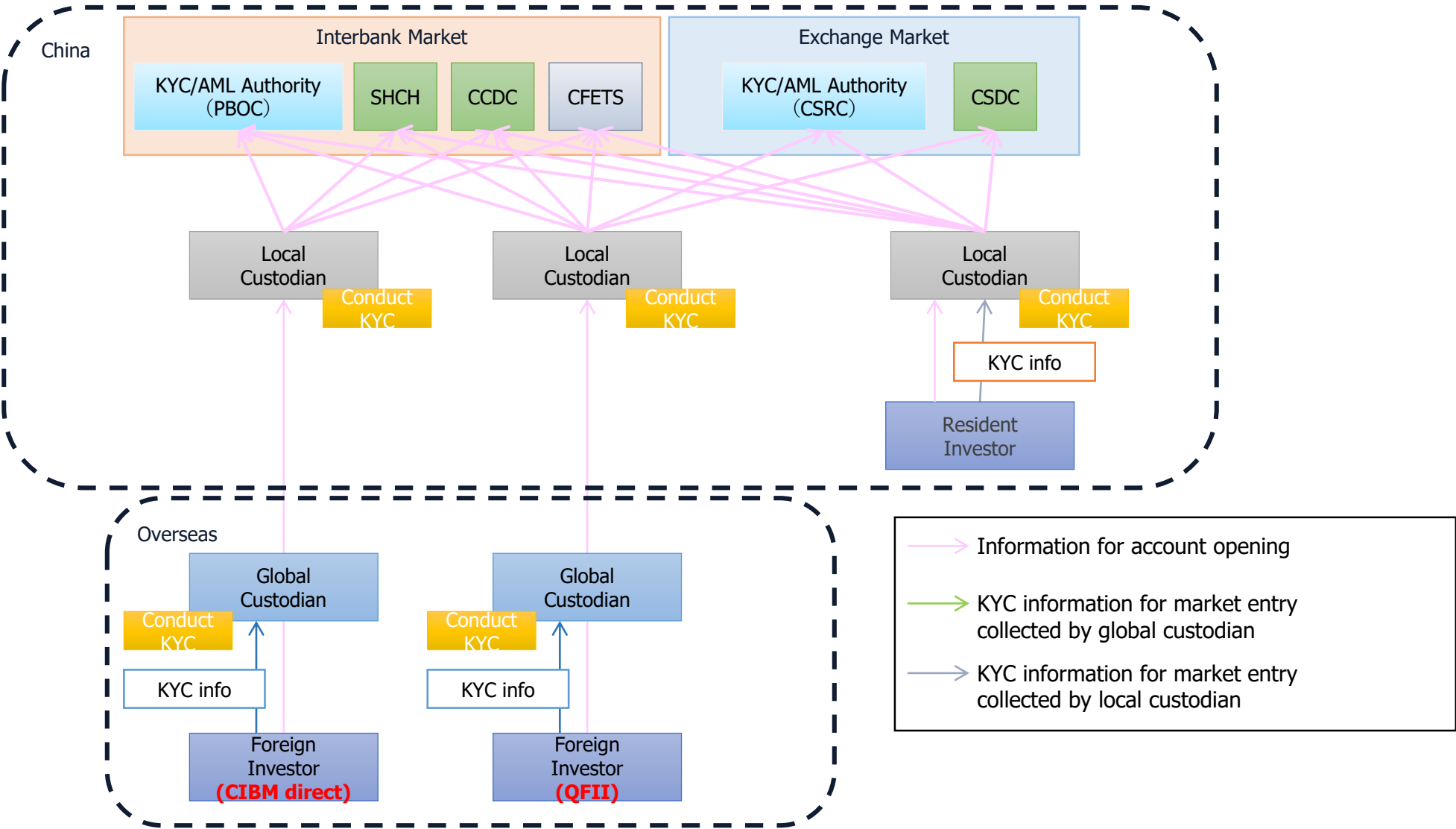
<CIBM direct / QFII>

	CSD	Account Structure
OTC Market	CCDC (Central Depository & Clearing Co., Ltd.) SHCH (Shanghai Clearing House)	Segregated
Exchange Market	CSDC (China Securities Depository and Clearing Corporation Limited)	Segregated

- Each Market Infrastructure and each local custodian have their own onboarding / KYC requirements where each and every one are different.
- The account structure where the FI opens an account in its own name at the LC which is mirrored at the CSD.
- GC conducts KYC of Foreign Investor (FI) and obtains any additional information required for each local market / account opening requirement from the FI.

KYC information for account opening (PRC)

Ex: Investment in China (CIBM direct, QFII, Domestic)



Information required for market entry in Japan

- There are no specific requirements set out by the CSD or regulator.
- Local custodians will open custody accounts for their clients (which are the GCs) based on the respective banks KYC documentary requirements as well as account opening requirements.

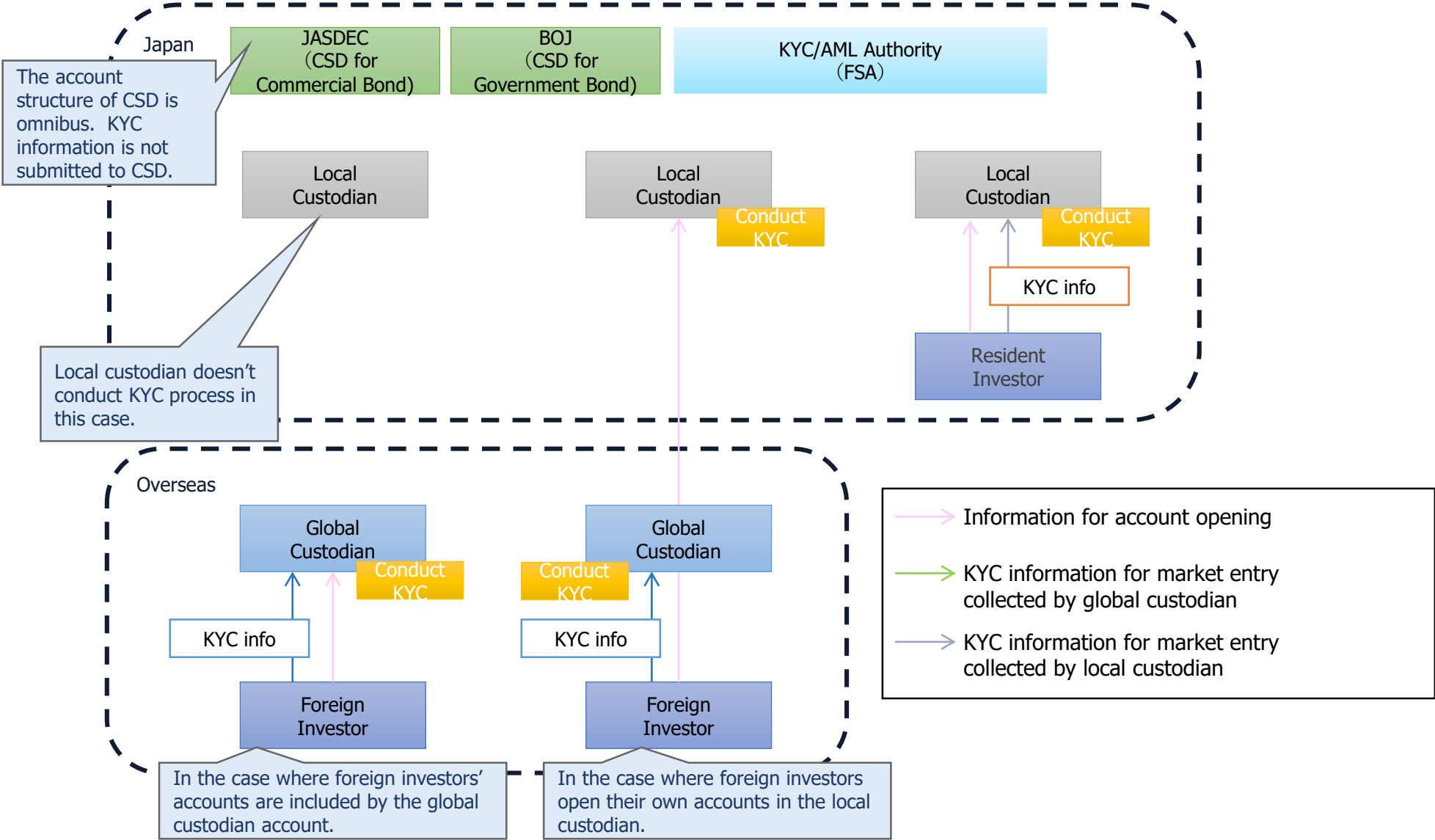
Account Structure of CSD in Japan

	CSD	Account Structure
Government Bond	BOJ (Bank of Japan)	Omnibus
Corporate Bond	JASDEC (Japan Securities Depository Center, Incorporated)	Omnibus

- Local Custodian can open accounts per client or per tax designated rates or per tax domicile.
- Even when the FI has segregated accounts in their own name with the LC, the KYC is still between LC and GC.
- Equities are omnibus.

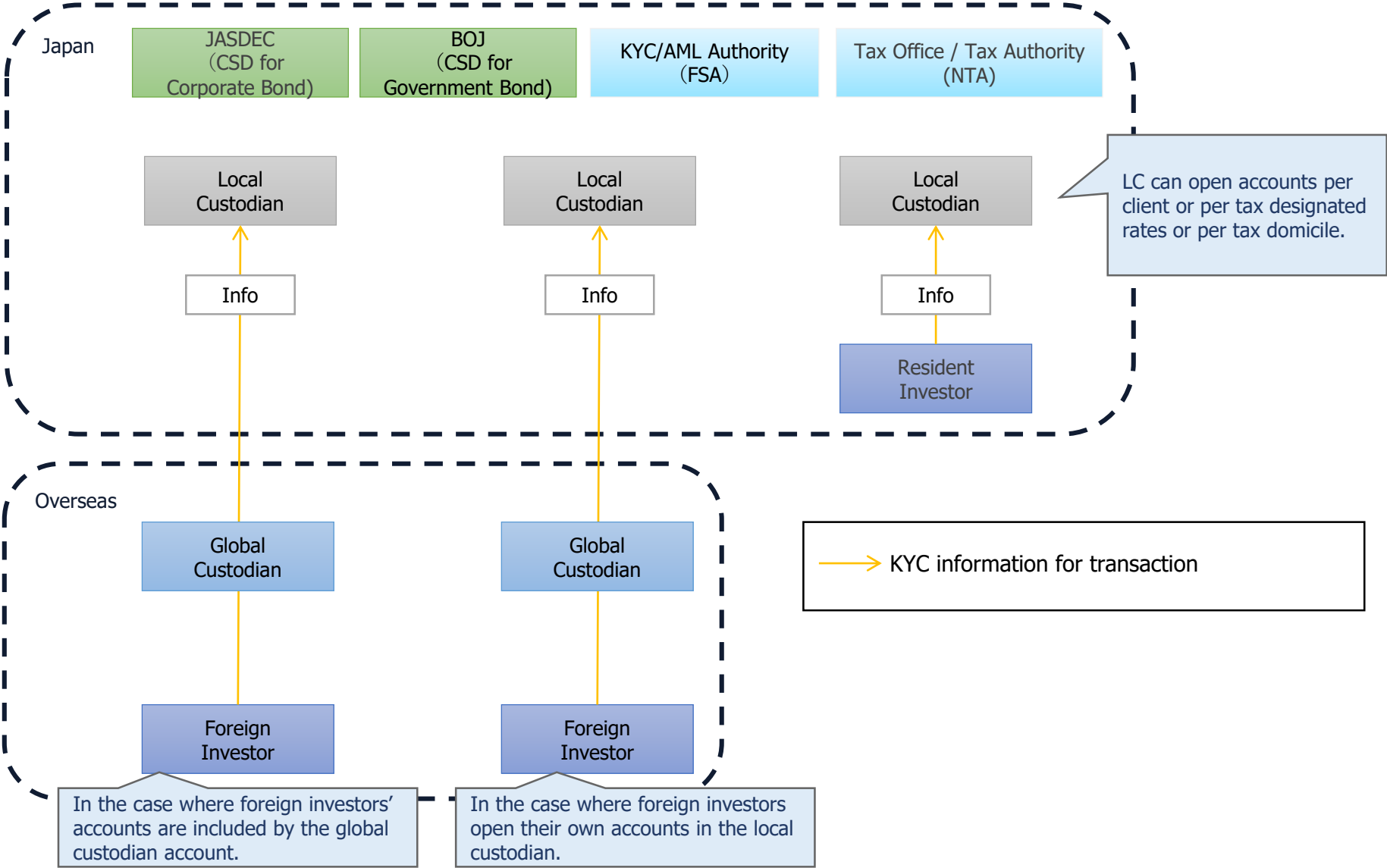
KYC information for account opening (Japan)

Ex: Investment in Japan



KYC information for collecting tax (Japan)

Ex: Investment in Japan



Information required for market entry in Thailand

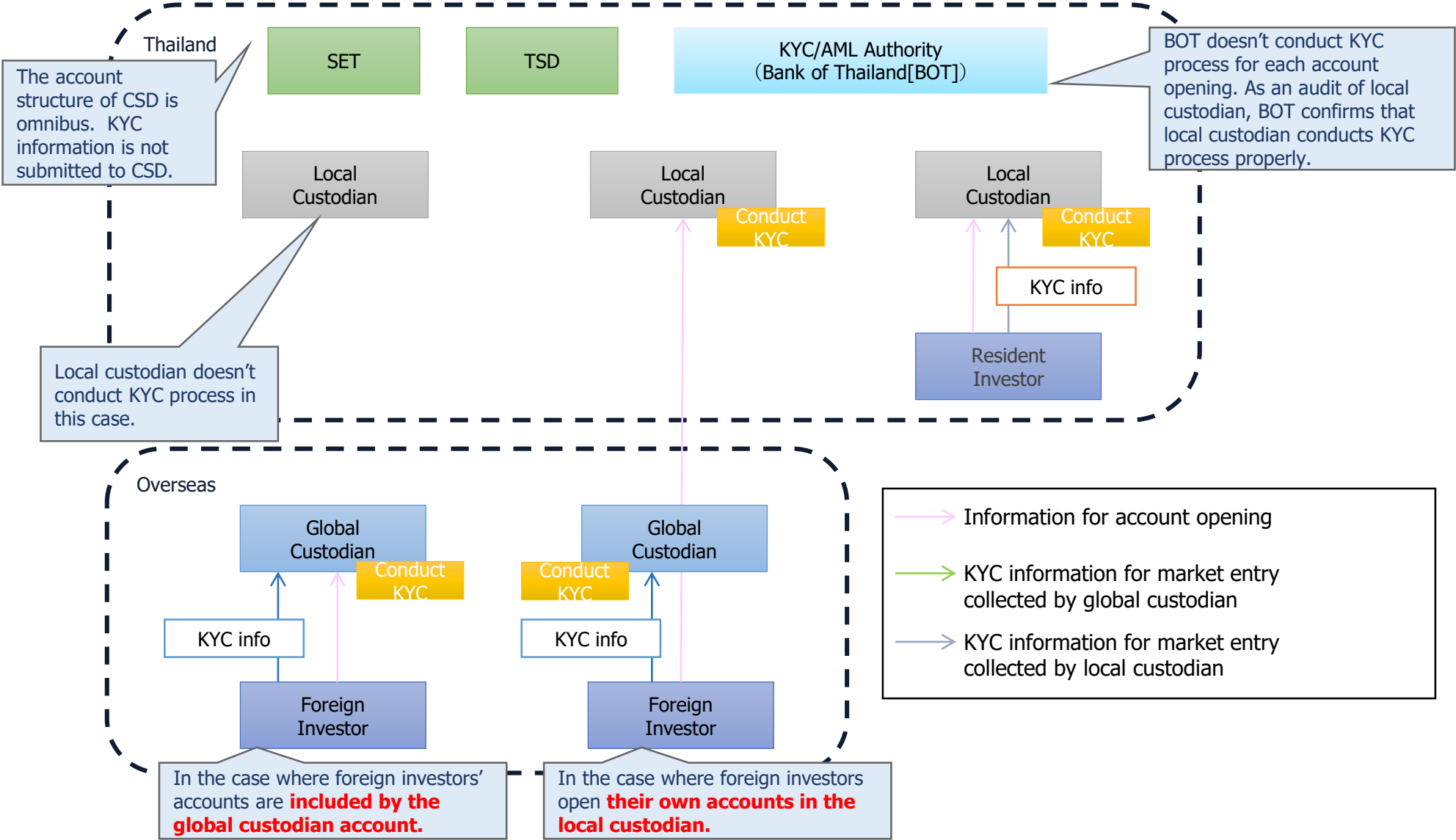
- No specific requirement set by CSD or regulator .
- Custodians will open custody accounts for their clients based on the respective banks' KYC documentary requirements and all other information required for account opening.

Account Structure of CSD in Thailand

	CSD	Account Structure
Government Bond	TSD (Thailand Securities Depository)	Omnibus
Corporate Bond	TSD (Thailand Securities Depository)	Omnibus

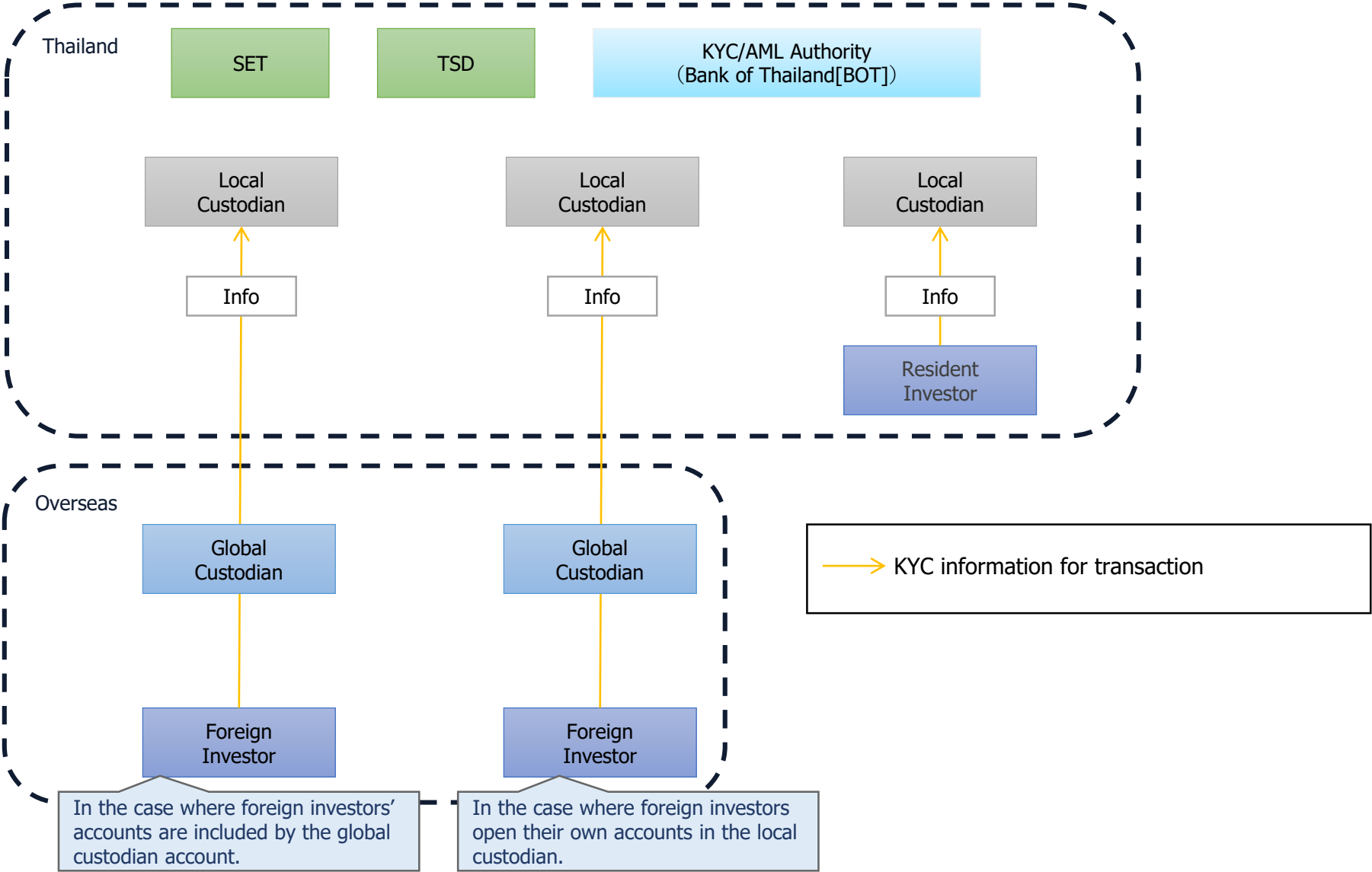
KYC information for account opening (Thailand)

Ex: Investment in Thailand



KYC information for collecting tax (Thailand)

Ex: Investment in Thailand



Information required for market entry in Malaysia

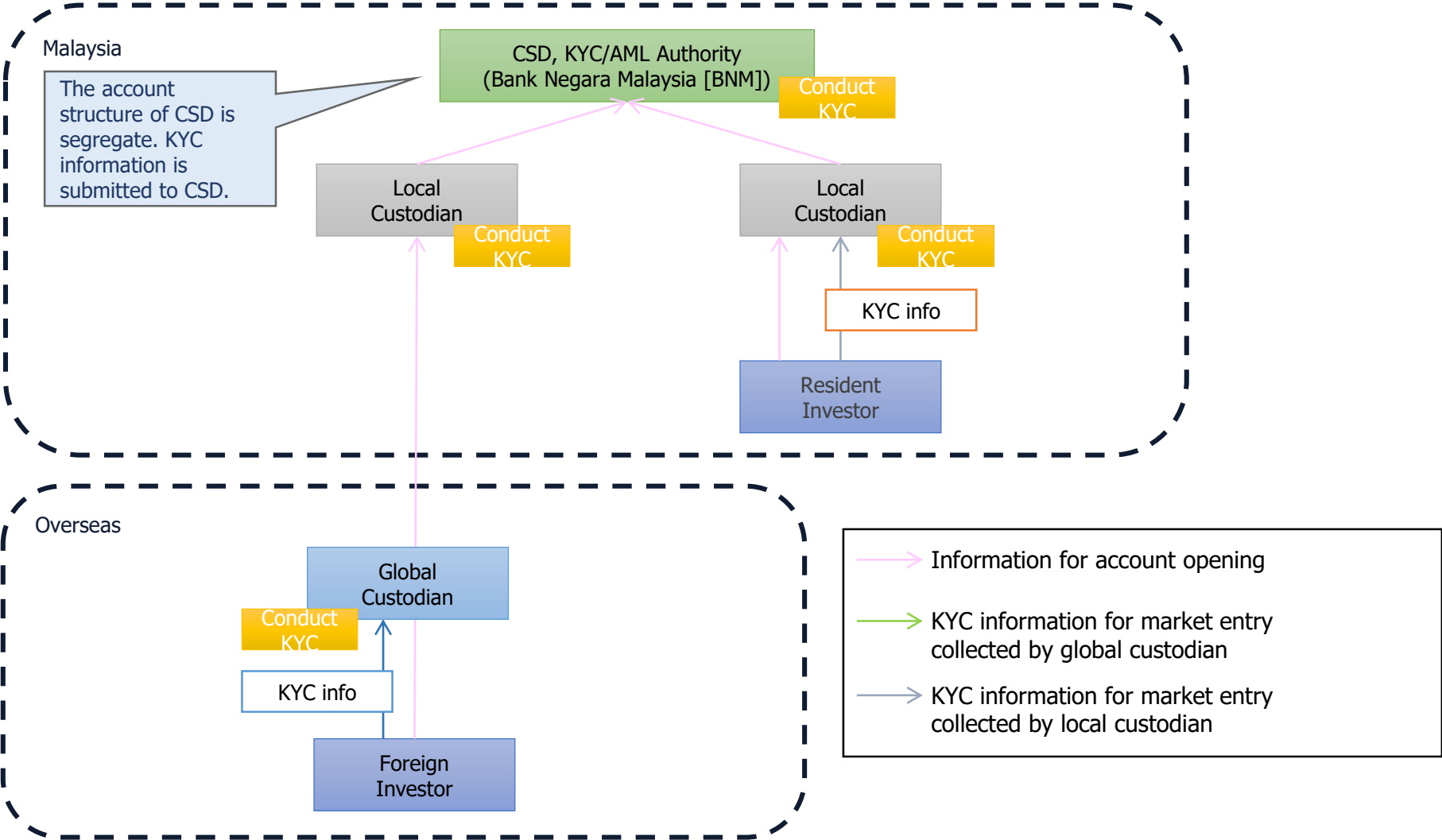
- (a) Beneficial owner name that corresponds to the LEI name
 - (b) LEI number
 - (c) Domicile
 - (d) Investor type (based on types prescribed by the Central Bank)
-
- Above information is submitted online via PayNet (CSD) system

Account Structure of CSD in Malaysia

	CSD	Account Structure
Government Bond	BNM (Bank Negara Malaysia)	Segregated
Corporate Bond	BNM (Bank Negara Malaysia)	Segregated

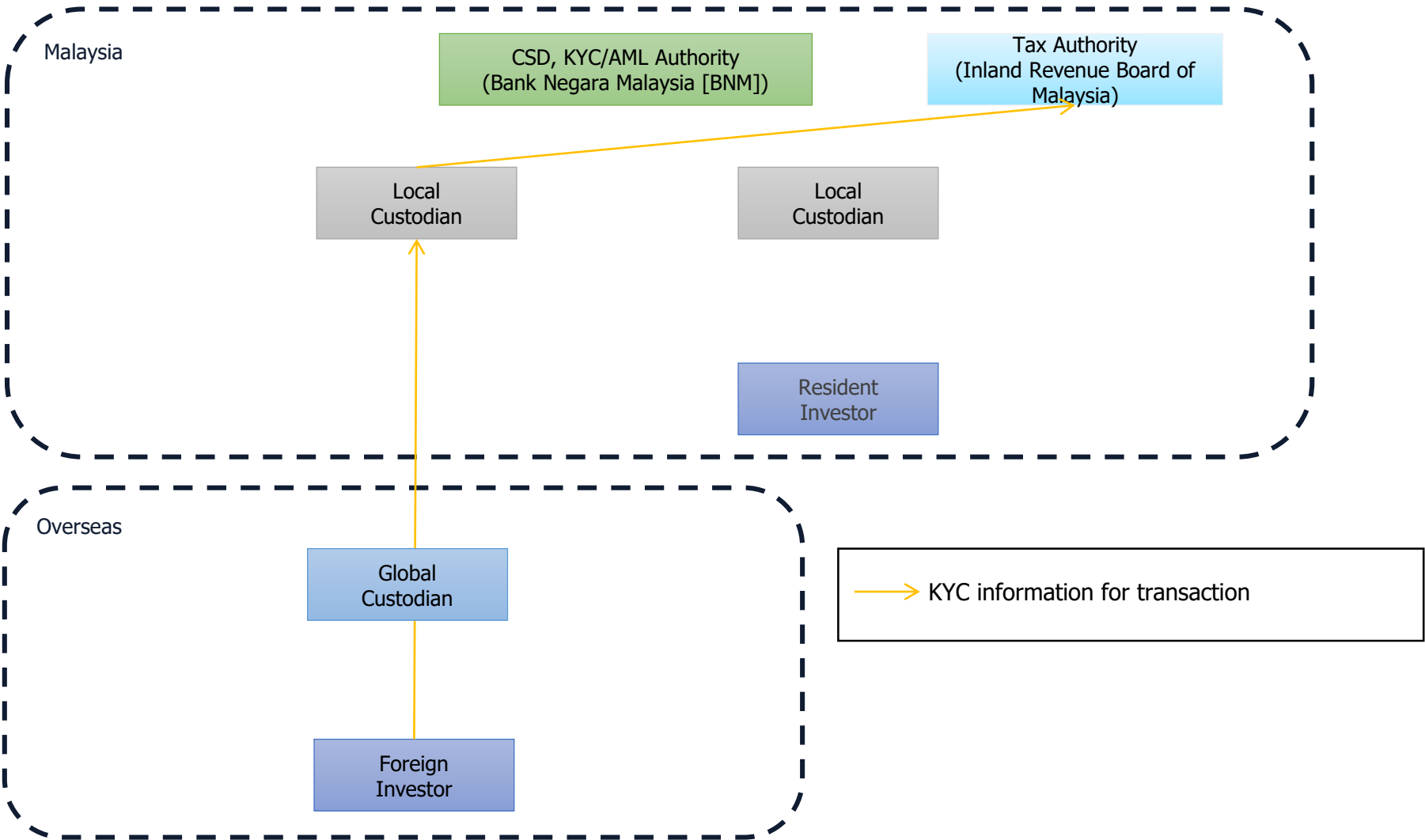
KYC information for account opening (Malaysia)

Ex: Investment in Malaysia



KYC information for collecting tax (Malaysia)

Ex: Investment in Malaysia



Information required for market entry in Singapore

- CDP account opening form
 - Nationality
 - Category code
 - INDIVIDUAL
 - JOINT
 - STOCK BROKER.EXCLUDE SGX-ST MEMBER
 - NOMINEES
 - CORPORATE
 - TRUSTEES...
 - Corporation code
 - FULL LICENSED BANK
 - MERCHANT/OFFSHORE/RESTRICTED BANK
 - STATUTORY BOARD
 - INSURANCE COMPANY
 - FINANCE COMPANY
 - UNIT TRUST/INVESTMENT TRUST
 - PENSION FUND...
 - Residence code
 - Malaysian
 - Hong Kong, China
 - Japan
 - UK
 - Europe
 - US...

Account Structure of CSD in Singapore

	CSD	Account Structure
Government Bond	MAS (Monetary Authority of Singapore)	Omnibus
Corporate Bond	CDP (The Central Depository (Pte) Ltd)	Segregated/ Omnibus



Use of LEI for transactional KYC

- **Basic data elements for taxation**
- 1. individual or **non-individual (entity)**
- 2. **Name**
- 3. Nationality / **Legal domicile**
- 4. Identity Number (i.e. Tax ID and/or personal ID for individual)
- 5. Date of Birth / **Date of company establishment**
- 6. **Address**
- 7. **Type of Business** (only for institution)
 - a. Corporate (CP)
 - b. Foundation (FD)
 - c. Financial institution - bank (IB)
 - d. Financial institution - non bank (IB)
 - e. Insurance (IS)
 - f. Mutual Fund (MF)
 - g. Pension Fund (PF)
 - h. Securities company (SC)
 - i. Others (OT), i.e. government entity or international organization

LEI can provide the information in red.

LEI can cover most of investors

Entities with LEI

Entities
without
LEI

Individual investors

THANK YOU

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Supplementary Materials



Account Structure Study to Improve Know-Your-Customer Processes for Regulatory and Tax Reporting in ASEAN+3

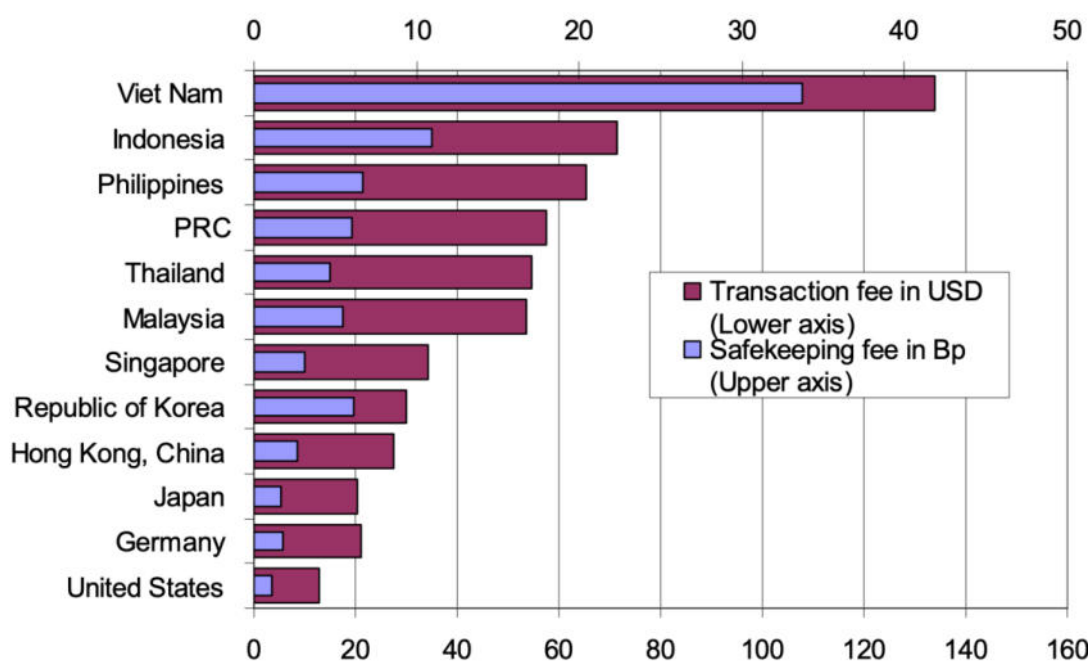
- Working paper for ABMF discussion-

December 2020

I. Introduction

As a part of the outputs of the ADB's Regional Research and Development Technical Assistance: *Support for ASEAN+3 Bond Market Forum under the New Asian Bond Markets Initiative Medium-Term Road Map*, the ASEAN+3 Bond Market Forum (ABMF) conducted a study on account structure and tax procedures to identify regulatory and tax hurdles for intraregional bond transactions. The study focused on tax procedures related to the Know-Your-Customer (KYC) concept because KYC is becoming more cumbersome and complex. Cumbersome KYC procedures increase operational costs and reduce returns. To promote a recycling of ample savings into investments within the region, it is necessary to make intraregional bond investments more attractive. Though there is no major capital control in the region, small but cumbersome procedures will create frictions which result in much higher costs compared to the other markets. It is not easy to collect information of actual transaction costs, but according to the *Group of Experts Report*, some of the ASEAN+3 markets tend to have relatively high operational costs¹.

Figure 1: Averages of Global Custodian Fees in ASEAN+3



Note: PRC=People's Republic of China.

Source: ADB. 2010. Group of Expert Report. Manila.

¹ ADB. 2010. Group of Expert Report. Manila.

Of course, it is necessary to bear in mind that more developed markets have lower cost due to volume discounts. But according to anecdotal information, the cost of account maintenance and transactions in parts of ASEAN+3 is still relatively high compared to other markets.

This study also focuses on the account structures because, depending on the structure, flows of KYC information to open an account may vary. The study identifies the necessary information and procedures for opening an account, i.e., market entry, and approval procedures if involved. The study also identifies procedures and necessary information for taxation and reporting. Depending on the status of investors such as resident or nonresident, the application of tax and the applicable tax rate may vary. In addition, due to laws and regulations governing anti-money laundering (AML) and the countering of the financing of terrorism (CFT), strict customer due diligence is required. In other words, by focusing on account structure and the necessary information for approval and reporting, the study can identify challenges for a further expansion of intraregional bond investments. Finally, the study proposes a standardization of KYC processes and next steps.

To develop the study, the ABMF Secretariat (Satoru Yamadera, Kosintr Puongsophol, Matthias Schmidt, Shigehito Inukai) and ABMF International Experts from NTT Data System Technology (Shinya Kim, Saotaka Shibasaki, Daisuke Yachi) conducted a series of study visits to the People's Republic of China (PRC), Indonesia, and the Philippines to identify transaction flows and procedures for account opening and tax reporting procedures.² The ABMF Secretariat would like to express its sincere appreciation to ABMF colleagues in the PRC, Indonesia, and the Philippines for their kind support during the visits. The results of the study visits are summarized in the annex.

II. Key Findings

A. Account Structures in ASEAN+3

In ASEAN+3, account structures are categorized in three ways:

- **Omnibus account:** accounts established by and in the name of financial institutions in order to process securities transactions on behalf of their clients.³ In this case, a local custodian conducts the identification and verification of their client, being a

² ADB as the Secretariat of ABMF would like to thank Mr. Kim, Mr. Shibasaki, Mr. Yachi for their kind contribution as ABMF International Experts.

³ IOSCO. 2004. Principles on Client Identification and Beneficial Ownership for the Securities Industry.

global custodian, bank, broker/dealer, or asset manager. Investment through an omnibus account is a common market practice globally because it is efficient and probably cheaper for a custodian to manage. Particularly for nonresident investors, it is common to invest through an omnibus account. While a custodian may hold information of beneficial owners and transactions under an omnibus account, a central securities depository (CSD) may not be aware of the identity of the end investors. A custodian is held responsible for investors and represents them in the domestic market.

- **Segregated account:** accounts held by a single investor who is expected to be the beneficial owner of assets held in the account. In this case, the CSD must be able to identify an end investor as beneficial owner of an account. Investors are required to submit necessary information. As a practice, the application for the account has to be done by a financial institution that is a participant of the CSD and which is held responsible to conduct due diligence before applying for an account at the CSD for investors. Segregation and identification of a beneficial owner may have a potential implication for ownership of and entitlements from assets but is often linked with taxation. Segregation may be possible in many cases, but there may be a practical difficulty to identify and ask an ultimate beneficial owner to be an account holder, particularly if investing through a fund. In the PRC and the Republic of Korea, a nonresident investor is required to obtain a recognition as a qualified investor or to have an investor registration certificate from regulatory authorities prior to commencing investment. Though the process of opening segregated accounts can be streamlined, the cost of maintaining an account may be high because a link between account holder and ultimate beneficial owner could remain a potential source of dispute.
- **Single investor ID:** an investor ID may be issued for tax or financial regulation purposes. Though an account may be omnibus, investors kept in the omnibus account need to be reported under a single investor ID. Investors need to apply for an investor ID when starting to invest in a jurisdiction that requires the investor ID. A local custodian may help investors to acquire the investor ID. An investor ID is required in Cambodia, Indonesia, the Republic of Korea, and Viet Nam and all investors, resident and nonresident investors, are required to have investor IDs. But for nonresident investors, it is not certain whether the ID can be linked with an ultimate beneficial owner due to practical difficulties, particularly for investment

through a fund.

In ASEAN+3, not only financial regulators but also tax authorities may influence the account structure and market practice of customer due diligence. It is necessary to understand information flows of customer identification and due diligence by financial institutions. It may be assumed CSDs (for segregated accounts) and an issuer of investor IDs obtain the information of the beneficial owner. But as a matter of fact, a segregation of accounts and an investor ID alone may not be considered as sufficient. Thus, financial institutions may be required to do more to ensure KYC compliance.

B. KYC processes

As a result of our market visits, we found that required KYC information particularly in the process of starting business (onboarding) and opening an account may differ from one institution to another because

- there may be local KYC requirements of the market receiving investments;
- there may be a global custodian's requirements which a local custodian needs to follow; in addition, the requirements may differ from one global custodian to another; and
- there may be requirements of the market where investors are located. Particularly, some jurisdictions may have a very tight control of and restriction over personal information which prevents sending the information outside of its jurisdiction.

Therefore, it is not easy to define and state what information can satisfy the KYC requirements of financial regulators and tax authorities in a given market.

We also noticed operational processes and information required for KYC may not always be the same for each institution. There is neither a common understanding nor a consensus of what would satisfy customer due diligence by default. Depending on the judgement of each financial institution, customer due diligence may differ. This is inevitable because the legal environment each financial institution faces may differ depending on their business. Some financial institutions operate solely in one jurisdiction while others may operate in many jurisdictions.

Box 1: What is KYC? Customer due diligence

Financial institutions should be prohibited from keeping anonymous accounts or accounts in obviously fictitious names.

Financial institutions should be required to undertake customer due diligence (CDD) measures when:

1. establishing business relations;
2. carrying out occasional transactions: (i) above the applicable designated threshold (USD/EUR 15,000); or (ii) that are wire transfers in the circumstances covered by the Interpretive Note to Recommendation 16;
3. there is a suspicion of money laundering or terrorist financing; or
4. the financial institution has doubts about the veracity or adequacy of previously obtained customer identification data.

Source: Financial Action Task Force. 2020. *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation*. FATF. Paris. France.

Besides, depending on an institution's lines of business, risk(s) associated with customer due diligence would be different. To make things more complicated, a judgement and understanding what would satisfy its legal responsibility and make a financial institution comply with customer due diligence regulations is not static; financial institutions need to pass their own judgement and define their actions subject to circumstances that may change due to various factors including the political situation.

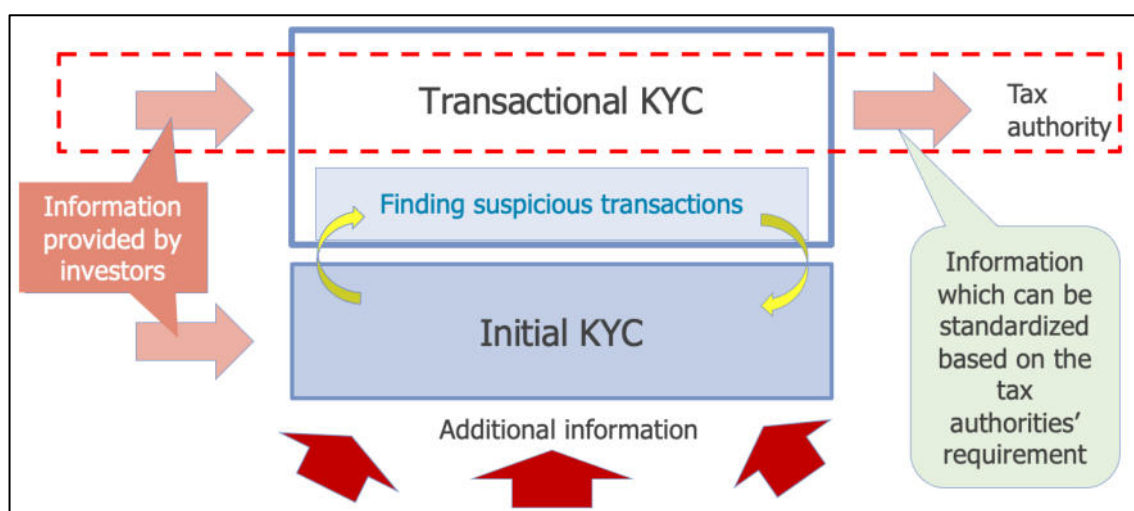
On the other hand, compared to the KYC process for onboarding, information collected for customer identification and classification for taxation may be clearer (more concise), but is also highly repetitive and also often still paper-based (e.g., requiring documentary proof). As withholding agent or tax agent (as may be applicable), custodians need to collect information from customers to file for tax procedures.

Therefore, based on the flows of information to fulfill the requirements of taxation and financial regulation, we can categorize two types of KYC: "initial KYC" and "transactional KYC". It is, thus, better to distinguish the KYC processes into these two categories as described below:

- KYC for market entry (initial KYC): Financial institutions must perform checks on a customer when establishing a business relationship.
 - Name of entity, nationality, legal status, etc.

- A strict AML/CFT investigation may be necessary, such as additional proof of existence and clear identification of business, etc.
- KYC for tax status (transactional KYC): As a withholding or tax agent, a custodian may need to collect information from customers to file for tax procedures. Such information includes information on and proof of the tax status (nonresident or resident) and nationality or domicile to determine eligibility for tax relief or concessions under a double tax treaty to apply the appropriate tax rate.

Figure 2: Two KYC Processes



Source: developed by ADB Secretariat.

Transactional KYC builds on the initial KYC process, which allows the establishment of a business relationship and the opening of accounts. Transactional KYC may not involve the need to collect the same level of information as the initial KYC. Information required for transactional KYC is to comply with tax and regulatory requirements, which may be standardized and set by tax authorities and regulators. For example, basic data elements for taxation in ASEAN+3 are as follows:

- (i) Individual or non-individual (entity)
- (ii) Name
- (iii) Nationality / legal domicile
- (iv) Identity number (i.e. Tax ID and/or personal ID for individual)
- (v) Date of birth / date of company establishment
- (vi) Address
- (vii) Type of business (only for institution)

- Corporate (CP)
- Foundation (FD)
- Financial institution - bank (IB)
- Financial institution - nonbank (IB)
- Insurance (IS)
- Mutual fund (MF)
- Pension fund (PF)
- Securities company (SC)
- Others (OT), e.g., government entity or international organization.

C. Proposal to Improve and Standardize KYC Processes

(1) Promote Further Use of LEI in KYC Processes in ASEAN+3

In ASEAN+3, we found there are two types of accounts, omnibus account and segregated account. In addition, a single investor ID may be required. Who keeps a beneficial owner's information may differ depending on the account structure; for omnibus accounts, custodians retain the information while CSDs also store the information in the case of segregated accounts. In addition, a single investor ID may be issued for both segregated and omnibus accounts.

We also found that, regardless of the account structure, financial institutions have in place strict customer due diligence processes for new customer relationships and new accounts. Even for an omnibus account, the KYC process and required information could differ from one custodian to another.

Given such market practices, we would like to propose to differentiate initial KYC and transactional KYC processes, which classifies customers' status for regulatory and tax reporting purposes. Initial KYC will always be required, regardless of whether future transactions of a customer include securities and have tax relevance; many stakeholders influence initial KYC, not least due to prevailing AML and CFT prescriptions. On the other hand, transactional KYC processes may be streamlined and standardized by stakeholders within the region as reporting items are similar, highly repetitive, and often still paper-based; the objective of transactional KYC is to identify the investor and prove the tax status of the investor, and determine which tax rate is to be applied under available double tax treaties.

In this regard, we would like to propose to consider the introduction of a globally recognized and accepted entity ID called “Legal Entity Identifier” (LEI) for use in the transactional KYC process in ASEAN+3. The LEI has already been adopted by financial regulators for reporting of over-the-counter (OTC) derivative transactions. More than 1.7 million LEI have already been issued and are used for financial regulatory reporting.

The LEI is allocated to an entity which can conduct a financial transaction. The term “legal entities” includes, but is not limited to, unique parties that are legally or financially responsible for the performance of financial transactions or have the legal right in their jurisdiction to enter independently into legal contracts, regardless of whether they are incorporated or constituted in some other way (e.g. trust, partnership, contractual). It excludes natural persons but includes governmental organizations and supranationals.

⁴ Information of a legal entity can be publicly accessible and freely useable under the Global LEI System, which is contrary to personal information which is protected to ensure privacy. In other words, by focusing on legal entities, the KYC process on such entities may be able to be standardized by utilizing the Global LEI System.

Box 2: The Legal Entity Identifier (LEI)

LEI is a 20-character, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization (ISO). It connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions. Each LEI contains information about an entity’s ownership structure and thus answers the questions of ‘who is who’ and ‘who owns whom’. A LEI code does not contain embedded intelligence, but the information of the entity can be accessed from the Global LEI Foundation website. The publicly available LEI data pool can be regarded as a global directory, which greatly enhances transparency in the global marketplace. Global LEI adoption underpins “multiple financial stability objectives” such as improved risk management in firms as well as better assessment of micro and macro prudential risks. The publicly available LEI data pool is a unique key to standardized information on legal entities globally. The data is registered and regularly verified according to protocols and procedures established by the LEI Regulatory Oversight Committee.

Source: Global LEI foundation website: <https://www.gleif.org>.

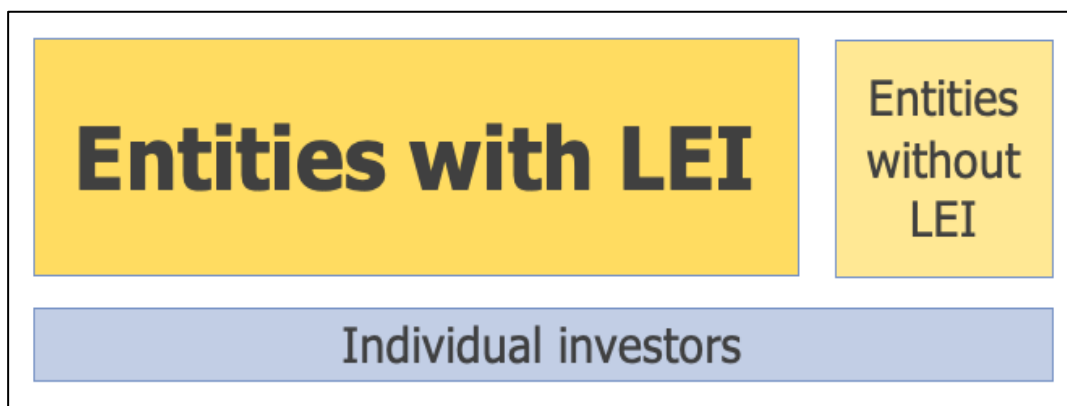
⁴ ISO. 2019. *ISO 17442/2019 Legal Entity Identifier (LEI)*.

By utilizing LEI, a number of the basic data elements transmitted for the establishment of tax status and taxation processing (identified in bold underline) can be covered:

- (i) individual or **non-individual (entity)**
- (ii) **Name**
- (iii) Nationality / **legal domicile**
- (iv) Identity number (i.e. Tax ID and/or personal ID for individual)
- (v) Date of birth / **date of company establishment**
- (vi) **Address**
- (vii) **Type of business (only for institution)**
 - **Corporate (CP)**
 - **Foundation (FD)**
 - **Financial institution - bank (IB)**
 - **Financial institution - nonbank (IB)**
 - **Insurance (IS)**
 - **Mutual fund (MF)**
 - **Pension fund (PF)**
 - **Securities company (SC)**
 - **Others (OT), e.g., government entity or international organization**

Though LEI is not a complete solution to cover the identification of all entities and individuals, it would cover a large part of those entities that need to report and prove their tax status. At the same time, the use of LEI in financial regulatory reporting is expected to increase. Therefore, more and more entities will be required to have an LEI, thus, the coverage of LEI will increase automatically.

Figure 3: Image of LEI Coverage in Tax Identification



Source: developed by ADB Secretariat.

(2) Maximize Benefit of Standardization by Linking Implementation of ISO 20022, Legal Entity Identifier, Common Reporting Standard, and Other Reporting

In the financial sector, ISO 20022, a global and open standard for information exchange, is going to be implemented globally by 2025 for cross-border payments through the SWIFT network.⁵ The current message standard, ISO 15022, has limitations and cannot accommodate LEI because it is too long to be included in an ISO 15022-based financial transaction message. In contrast, ISO 20022 can accommodate LEI in its extensible mark-up language (XML) syntax. ISO20022 also has inherent features that allow the building of messages for specific, underlying business processes. In other words, the KYC processes can be improved and even automated in the context of the implementation of ISO 20022 and LEI, based on agreed XML syntax and semantics. The benefit of XML-based data exchange for the KYC process can be expanded if we can coordinate with the Common Reporting Standard (CRS). CRS is a standard for tax authorities to exchange information on financial accounts of nonresidents, developed by the OECD with G20 countries. CRS also uses XML as a schema for holding and transmitting information.

COVID-19 made us realize the importance of digitization and technology to support government actions and policy implementations. It is imperative for the governments to consider maximizing benefits of digital technology by linking similar initiatives together to make various governmental and regulatory-related administration efforts more efficient

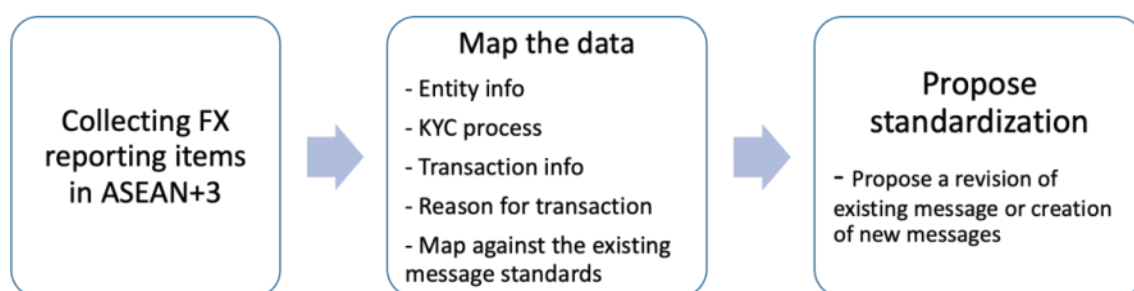
⁵ The Society of Worldwide Interbank Financial Telecommunication (SWIFT) is a financial message service provider, a cooperative owned by global banks. All cross-border financial transactions through the banking system are executed via SWIFT, whose messaging services are used by more than 11,000 financial institutions in more than 200 countries and territories around the world. Thus, SWIFT is considered as the backbone of global financial communication.

and effective as well as speedy and comprehensive. We can bring further benefits by linking the implementation of ISO 20022, LEI, and CRS. In addition, we can maximize the benefits of standardization if we can also standardize the existing foreign exchange reporting in ASEAN+3 through ISO 20022. Many of the ASEAN+3 markets mandate foreign exchange reporting, but the reporting is managed independently with a proprietary system in each jurisdiction. If we can standardize the FX reporting through ISO 20022, we may be able to capture various cross-border transactions more easily, comprehensively, and in a timely manner. In addition, the standardization will not only reduce the regulatory and tax reporting burden by linking individual submissions through a standardized reporting system but also help facilitate regional data collection and exchange, hence, the authorities can gain more transparency of cross-border financial transactions.

Next Step

Under the work of ABMF, we can collect the necessary information and data elements for regulatory and FX reporting as well as tax processing from all ASEAN+3 markets. Then, we can map the data elements to find out the maximum common denominator for data exchange, which can be done along with the implementation of ISO 20022 by 2025. Standardization can support the improving and streamlining of regulatory and tax reporting as well as the digital transformation (DX) of financial institutions and financial markets at large.

Figure 4: Steps to Standardize KYC Process in ASEAN+3



Source: developed by ADB Secretariat.

Annex

Country case studies and findings

1. People's Republic of China
2. Indonesia
3. Japan
4. Malaysia
5. Philippines

Note: the information in the annex is still tentative and subject to further validation.

1. People's Republic of China

Overview

1.1.1. CSD (Account Structure and SID)

- CIBM Direct / QFII

	CSD	Account Structure	Single Investor ID (SID)
CIBM	CCDC (Central Depository & Clearing Co., Ltd.) SHCH (Shanghai Clearing House)	Segregated	No
Exchange Market	CSDC (China Securities Depository and Clearing Corporation Limited)	Segregated	No

- The account structure requires each nonresident investor to open an account in its own name at the local custodian which is mirrored at the CSD.
- The domestic custodian conducts KYC on the nonresident investor and obtains any additional information required for each local market / account opening requirement from the nonresident investor.
- A single investor ID (SID) for identifying investors is not issued.

1.2. Market Entry / Account Opening for Resident and Nonresident Investor

- A resident investor opens an account with a local custodian, bank, or broker and proceeds with transactions through that intermediary.
- In CIBM Direct and QFII, a nonresident investor opens an account with a local custodian that will help open a securities account with the CSD for the investor.

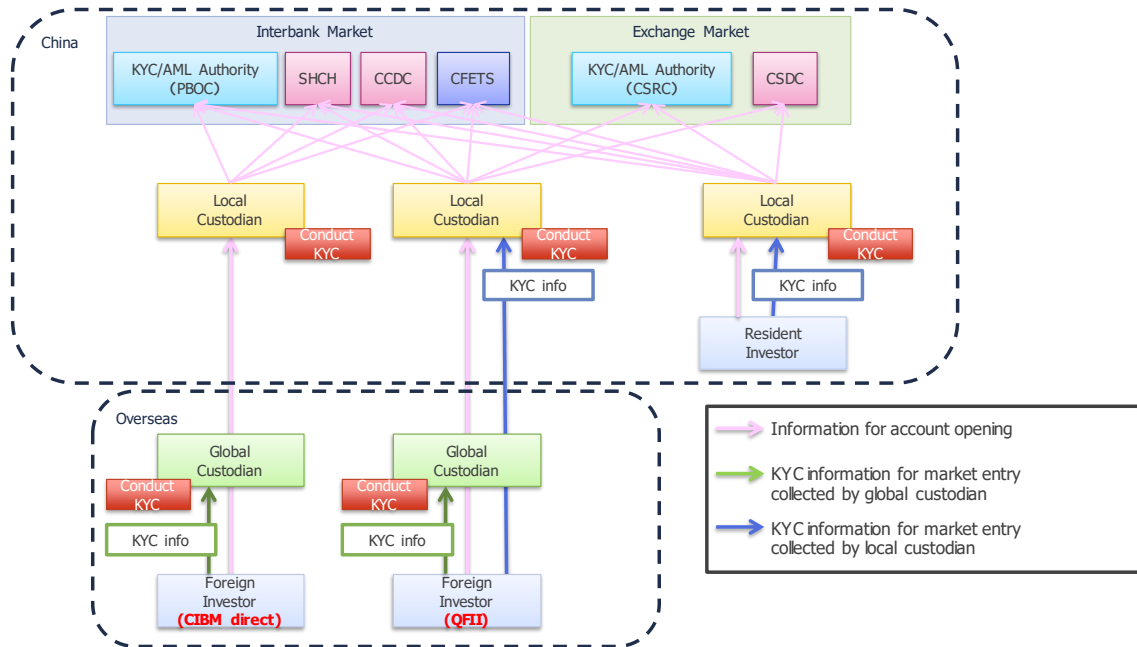
1.2.1. Tax on Coupons - Withholding Tax System and Withholding Agent System

- Resident and nonresident investors are not required to pay withholding tax at this stage.

KYC

1.2.2. KYC for Account Opening

- CIBM Direct / QFII



2. Indonesia

Overview

2.1.1. CSD (Account Structure and SID)

	CSD	Account Structure	Single Investor ID (SID)
Government Bond	BI (Bank Indonesia) KSEI (Kustodian Sentral Efek Indonesia)	Omnibus Omnibus	Yes
Corporate Bond	KSEI (Kustodian Sentral Efek Indonesia)	Omnibus	Yes

- The CSD for government bonds is BI (Bank Indonesia). BI operates BI-SSSS (Bank Indonesia Scripless Securities Settlement System). KSEI (Kustodian Sentral Efek Indonesia) acts as one sub-registry for government bonds and is one of the participants of BI-SSSS, facilitating government bond settlement for participants that hold government bonds through their account with KSEI.
- The CSD for corporate bonds is KSEI.
- The account structure for both BI and KSEI is omnibus in principle.
- To identify an investor, KSEI issues a Single Investor ID (SID) on behalf of OJK.
- The equities market is segregated at KSEI. Fixed income products can be held in omnibus accounts with KSEI for limited listed products.
- The global custodian conducts KYC on foreign investors and obtains additional information required for account opening; nonresident investors that access the market directly need to provide their information to the domestic custodian who will conduct their KYC.
- The domestic investor provides KYC information to the local custodian as part of local onboarding requirements.
- Directorate General of Taxation (DGT) data is maintained for a year from initial submission and will need to be refreshed on an annual basis.
- Due to different trade venues, tax procedures for government and corporate bonds may be different. For example, a custodian as a registrar of bond holders may submit the DGT form to the tax office for certain trade types.

2.1.2. Market Entry / Account Opening for Resident and Nonresident Investor

- An investor is free to choose and trade with counterparties, and settlement occurs via a local custodian.

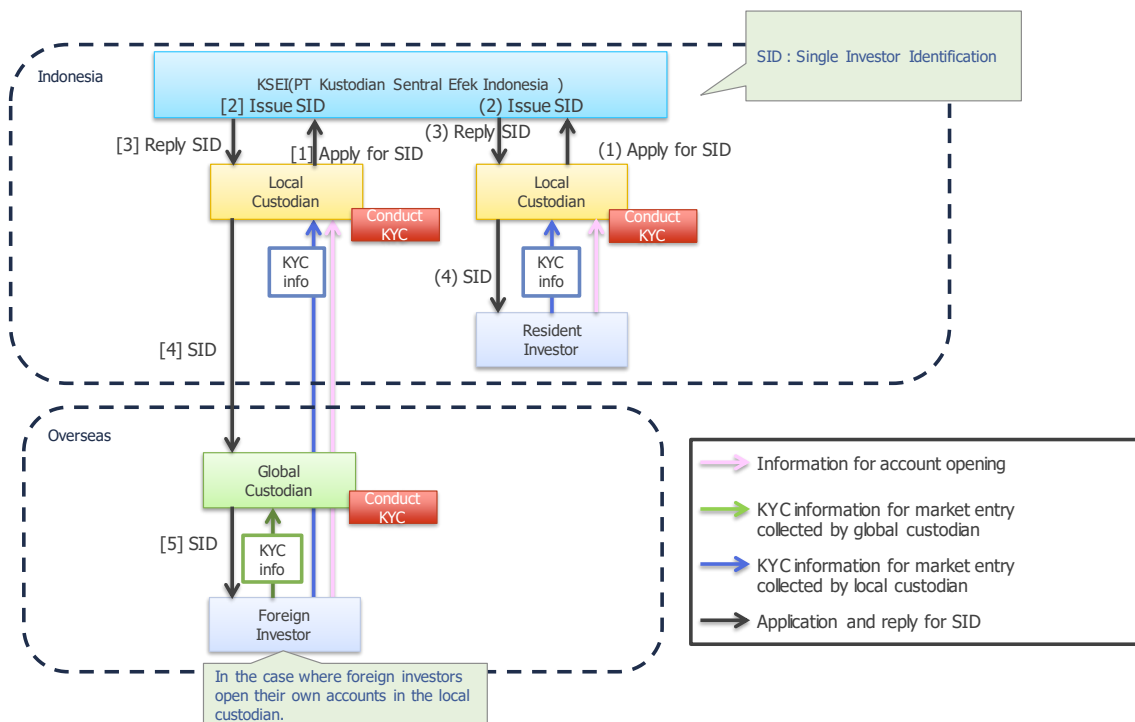
- A nonresident investor may settle its transactions in the following two ways:
 1. A nonresident investor opens an account with a local custodian directly and settlement occurs via the local custodian.
 2. A nonresident investor settles its trades through a global custodian.

2.1.3. Tax on Coupons – Withholding Tax System and Withholding Agent System

- Tax structure upon interest payment
 - Resident investor
 - Withholding tax is levied. Tax is withheld at the time of interest payment.
 - Nonresident investor
 - Withholding tax is levied and tax is withheld at the time of interest payment. The tax rate may be reduced in accordance with a double tax treaty.
- Tax withholding agent
 - Government bonds
 - ✧ KSEI and local custodian are tax withholding agents and calculate applicable tax amounts.
 - Corporate bonds
 - ✧ KSEI is a tax withholding agent and calculates the tax amount.

KYC

2.1.4. KYC for Account Opening



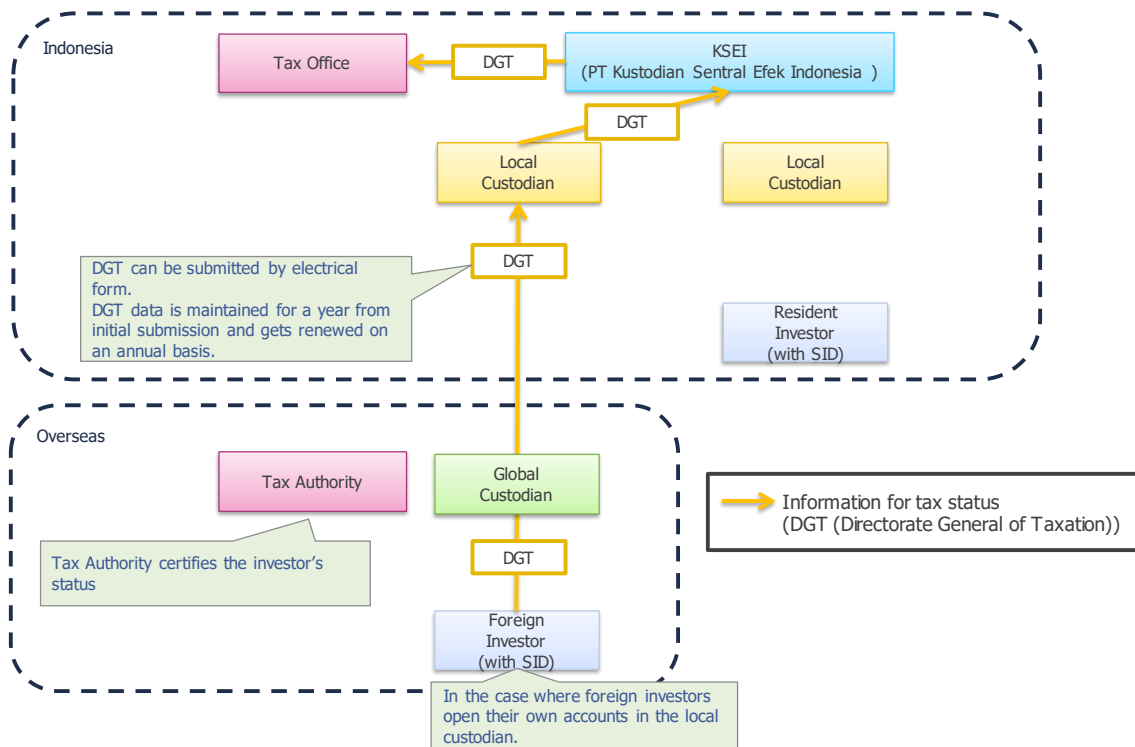
2.1.4.1. KYC Information Collection by the CSD

- OJK (Otoritas Jasa Keuangan) defined Concerning Principles of Knowing-Your-Customers by Financial Services Providers in Capital Markets Sector Number 22/POJK.04/2014.

2.1.4.2. KYC Information Collection

- Resident investor
 - A resident investor submits account opening documentation to a local custodian. The local custodian conducts KYC on the basis of the submitted information and applies for an SID to KSEI on behalf of the investor.
- Nonresident investor
 - In the case of opening an account with a global custodian
 - The global custodian conducts KYC based on the rules of its home jurisdiction.
 - This nonresident investor may not need to supply information to identify themselves to a local custodian. But if they want to claim a lower rate applied in accordance with a double tax treaty, they need to supply the information and get an SID..
 - In the case of opening an account with a local custodian
 - The global custodian may support KYC processes by providing the investor's information to a local custodian which is required for the SID application.
 - The local custodian conducts KYC on the basis of the received information and applies for an SID.

2.1.5. Information for Tax Status (Resident and Nonresident Investor)



2.1.5.1. Collected Information for the Tax Status

The following information is required by DGT (pursuant to regulation No. PER-25/PJ/2018):

PART-1 : INCOME RECIPIENT

- (1) Tax ID Number
- (2) Name
- (3) Address
- (4) Country
- (5) Contact number
- (6) Mail address

PART-4 : THE INCOME RECIPIENT IS AN INDIVIDUAL

- (1) Date of birth
- (2) Acting as an agent or a nominee or not
- (3) Having permanent home in Indonesia
- (4) Ordinal living country
- (5) Living experience in Indonesia

(6) Office or place of business in Indonesia

PART-5 : THE INCOME RECIPIENT IS NON INDIVIDUAL

- (1) Country of registration/incorporation
- (2) Country where the entity has a management function
- (3) Address of head office
- (4) Address of branches, offices, or other place of business in Indonesia

2.1.5.2. The Flow of Collecting Information for the Tax Status

- Nonresident investor
 - A nonresident investor submits a Directorate General of Taxation (DGT) form to the local custodian via the global custodian, if a GC is appointed.
 - The local custodian submits a DGT form using the National Tax Service website (Revision from January 1, 2019).

2.1.5.3. Process Cycle Frequency

- A DGT form may only be submitted once during its validity period. A DGT form is valid for up to 12 months regardless of the fiscal year, from the date of signing by the tax office or other relevant authority of the jurisdiction (domicile or tax treaty country) of the nonresident investor (Revision from January 1, 2019).

3. Japan

Overview

3.1.1. CSD (Account Structure and SID)

	CSD	Account Structure	Single Investor ID (SID)
Government bonds	BOJ (Bank of Japan)	Omnibus	No
Corporate bonds	JASDEC (Japan Securities Depository Center, Incorporated)	Omnibus	No

- A local custodian keeps client information per domicile and applicable tax rate in accordance with a double tax treaty.
- Nonresident investors can maintain accounts of their own under their names. In this case, they need to supply the necessary information to identify themselves. The account opening application can be supported by a local custodian through a global custodian.

3.1.2. Market Entry / Account Opening for Resident and Nonresident Investor

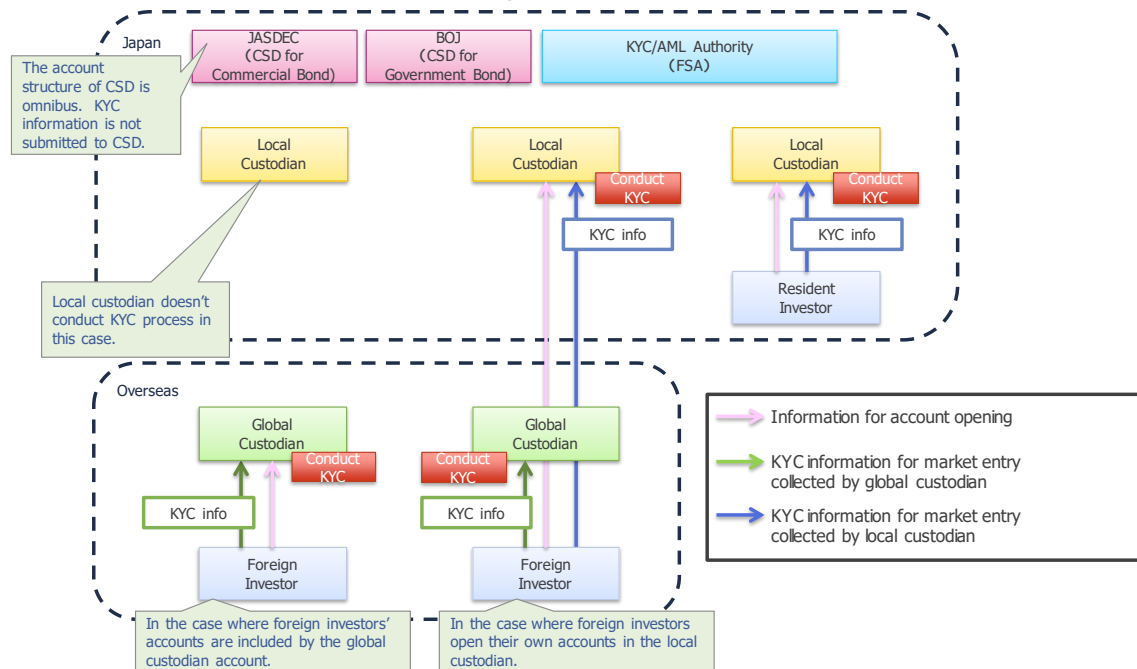
- A resident investor opens an account with a local custodian and settles through the local custodian.
- A nonresident investor can open an account with a local custodian or the nonresident investor's account is included in a global custodian's omnibus account.

3.1.3. Tax on Coupons – Withholding Tax System and Withholding Agent System

- Resident investor
 - Withholding tax is normally applied at the time of an interest payment.
- Nonresident investor
 - Withholding tax can be exempted or reduced in accordance with a double tax treaty. A custodian needs to manage the tax return or exemption procedure on behalf of its customers by submitting information requested by the tax authority.
- Withholding agent
 - A custodian for an investor is a withholding agent.

KYC

3.1.4. KYC for Account Opening



3.1.4.1. KYC Information Collected by the CSD

- There is no specific list of information set out by the CSD or the regulator to satisfy KYC requirements.

3.1.4.2. KYC Information Collected by the Custodian

A custodian collects the KYC information below and the necessary documents to substantiate the information from an investor:

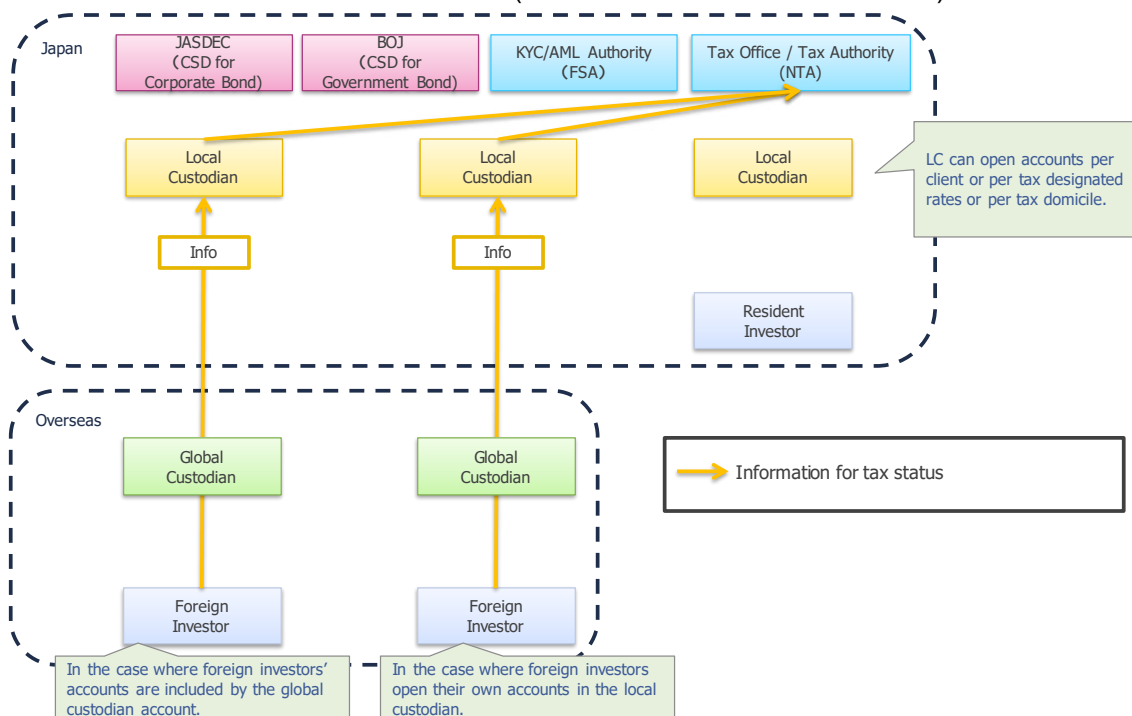
- Individual
 - Name
 - Address
 - Date of birth
- Corporate
 - Name
 - Address of main office

Additional information may be required to satisfy customer due diligence.

3.1.4.3. The Flow of Collecting KYC Information

- Resident investor
 - The investor submits a required application to a local custodian, and the local custodian conducts KYC.
 - As part of an audit of the local custodian, the FSA confirms whether the local custodian conducted KYC properly.
- Nonresident investor
 - If a nonresident investor's account is included in a global custodian's account, a the global custodian conducts KYC based on the regulation of its own jurisdiction.
 - Though a local custodian may not conduct KYC of nonresident investors included in the omnibus account of a global custodian, the local custodian may know the nonresident investors or may know the classification of the tax status of nonresident investors in the account of the global custodian.
 - If a nonresident investor opens an account with a local custodian, the local custodian conducts KYC based on their KYC rules and requirements.

3.1.5. Information for tax status (resident and nonresident investor)



3.1.5.1. Collected Information for the Tax Status

To apply a reduced rate based on a double tax treaty, the following information needs to be submitted:

- (Details of Recipient of Interest)

No	Field
1	Full name
2	Individual number or corporate number (Limited to case of a holder)
3	Individual
4	Domicile or residence
5	Telephone number
6	Nationality
7	Corporation or other entity
8	Place of head office or main office
9	Telephone number
10	Place where the corporation was established or organized
11	Place where the business is managed and controlled
12	Telephone number
13	Community where the recipient is taxable as resident on Interest and the place where he is to pay tax
14	Taxpayer Identification Number
15	Permanent establishment in Japan If "Yes", explain:
16	Name
17	Address
18	Details of business
19	Telephone number

- (Details of Payer of Interest)

No	Field
1	Full name
2	Domicile (residence) or place of head office (main office)
3	Telephone number
4	Individual number or corporate number (Limited to case of a holder)
5	Office, etc. located in Japan.
6	Name
7	Details of business
8	Address
9	Telephone number

3.1.5.2. The Flow of Collecting Information for the Tax Status

- Resident investor
 - A resident investor submits KYC information to a local custodian.
- Nonresident investor
 - A nonresident investor submits KYC information to a local custodian via a global

custodian.

- A local custodian can open accounts per client or per tax rate which is a designated rate or distinguished by tax domicile. As, a nonresident investor is exempt from tax, a local custodian only separates investors into residents and nonresidents.

3.1.5.3. Process Cycle Frequencies

- The application for a reduced tax rate needs to be submitted to the tax office via a withholding agent one day before receiving the interest.
- The processes are largely based on paper.

4. Malaysia

Overview

4.1.1. CSD (Account Structure and SID)

	CSD	Account Structure	Single Investor ID (SID)
Government bonds	PayNet (Payments Network Malaysia Sdn Bhd), wholly owned by Bank Negara Malaysia	Segregated	No
Corporate bonds	PayNet (Payments Network Malaysia Sdn Bhd), wholly owned by Bank Negara Malaysia	Segregated	No

- The account structure prescribes segregated accounts.
- A single investor ID (SID) for identifying investors is not issued, but institutional investors are required to provide an LEI for account opening. The LEI is carried into selected market activity and regulatory reporting.

4.1.2. Market Entry / Account Opening for Resident and Nonresident Investor

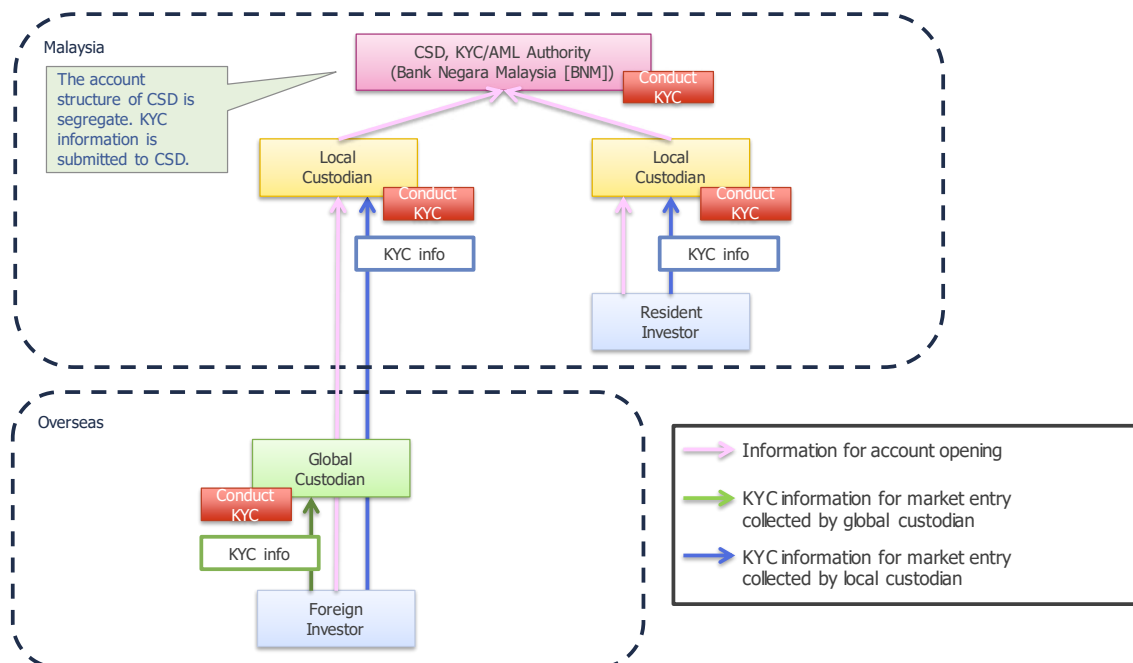
- Resident and nonresident investors are required to open an account in RENTAS (the debt securities settlement system operated by PayNet) via the local custodian and global custodian (if appointed).

4.1.3. Tax on Coupons – Withholding Tax System and Withholding Agent System

- Withholding tax system
 - Resident investor
 - ✧ A resident investor is not required to pay withholding tax.
 - Nonresident investor
 - ✧ Withholding tax is withheld when interest is paid by a paying agent. Withheld withholding tax is reduced or exempted by some procedures.
- Withholding agent
 - On behalf of an issuer, a paying agent withholds tax on coupons.

KYC

4.1.4. KYC for Account Opening



4.1.4.1. KYC Information Collected by the CSD

- Resident investor and nonresident investor
 - An investor is required to submit the information below via their custodian:
 - Client legal name as per registered LEI
 - Client LEI
 - Client investor type

No	Type
1	Asset Management
2	Central Bank
3	Government
4	Pension Funds
5	Insurance Companies
6	Non-Financial Corporation
7	Banking Institutions / Financial Intermediaries
8	Individual

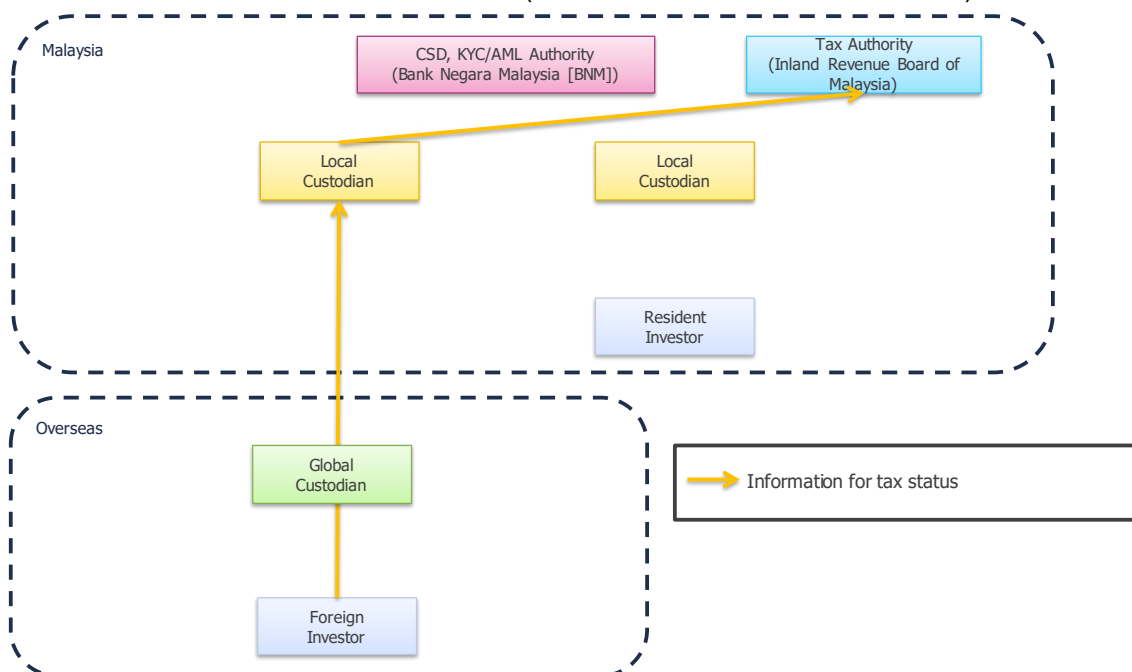
4.1.4.2. The KYC Information Collected by the Custodian

Information required may differ by custodian.

4.1.4.3. The Flow of Collecting KYC Information

- Investors submit KYC information to the CSD via global and local custodian, as the case may be.

4.1.5. Information for Tax Status (Resident and Nonresident Investor)



4.1.5.1. Collected Information for the Tax Status

- The information below is collected.
 - Reference no. (Passport no./Registration no. of company/business)
 - Malaysian income tax no.
 - Full name of payee
 - Address
 - Foreign country

4.1.5.2. The Flow of Collecting Information for the Tax Status

- A nonresident investor submits the required information to the tax authority via global custodian (if appointed) and local custodian.

4.1.5.3. Process Cycle Frequencies

- The application to receive benefits under a double tax treaty needs to be submitted within one month after receiving the interest.

5. Philippines

Overview

5.1.1. CSD (Account Structure and SID)

	CSD	Account Structure	Single Investor ID (SID)
Government bonds	BTr (Bureau of the Treasury)	Omnibus	No
Corporate bonds	PDTC (Philippine Depository & Trust Corp)	Omnibus	No

- A large majority of nonresident investors still do not apply for exemption as historically BTr did not support the application of tax documents and paying standard withholding tax in practice.

5.1.2. Market Entry / Account Opening for Resident and Nonresident Investor

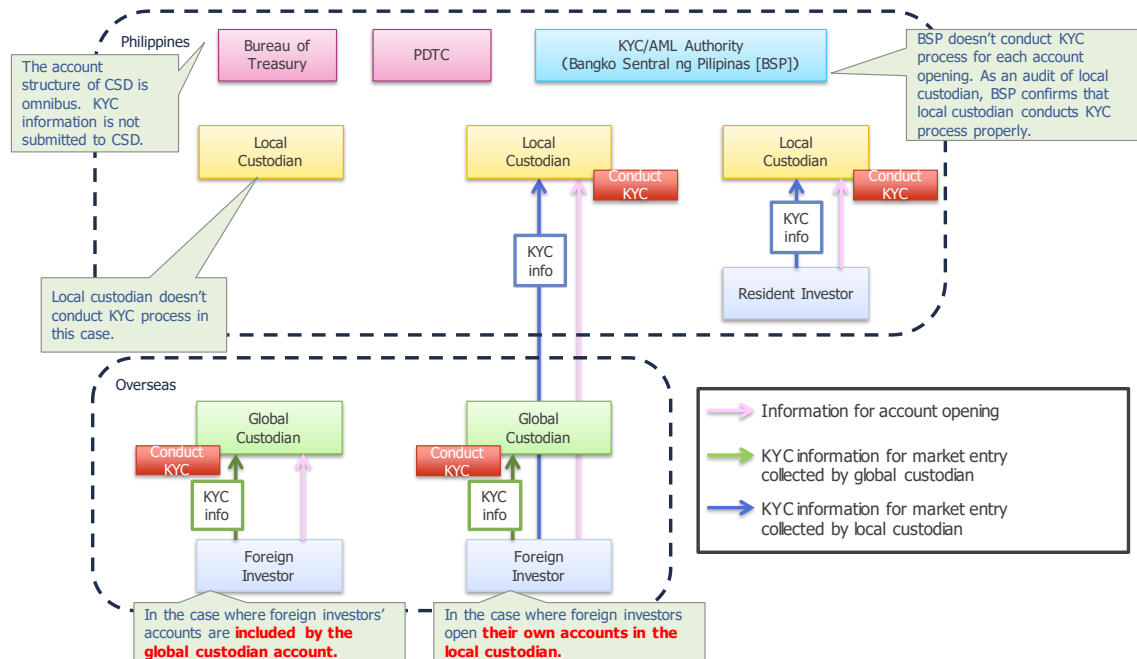
- A resident investor opens an account with a local custodian and settles through a local custodian.
- A nonresident investor can open an account with a local custodian directly or the nonresident investor's account is included in the global custodian's account.

5.1.3. Tax on Coupons – Withholding Tax System and Withholding Agent System

- Resident investor
 - Withholding tax is withheld when the interest is paid.
- Nonresident investor
 - The tax can be exempted or reduced by submitting the CORTT forms, but it is regarded as not practical.
- Withholding agent
 - BTr is the withholding agent for government bonds.

KYC

5.1.4. KYC for Account Opening



5.1.4.1. KYC Information Collected by the CSD

- There is no specific list of information set out by the CSD or regulator to satisfy KYC requirements.

5.1.4.2. The KYC Information Collected by a Custodian

A custodian collects the KYC information below and necessary documents to substantiate the information from an investor:

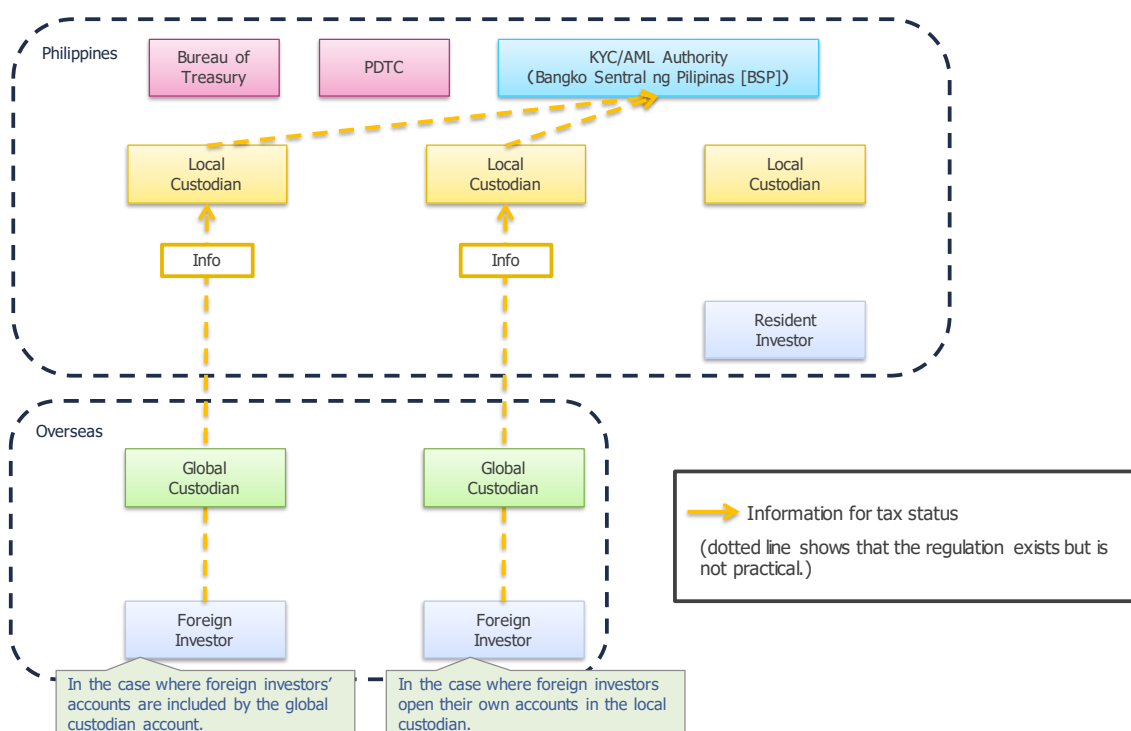
- Individual
 - Name
 - Address
 - Date of birth
- Corporate
 - Name
 - Address of main office

5.1.4.3. The Flow of Collecting KYC Information

- Resident investor
 - The investor submits the required information to a local custodian, and the local custodian conducts KYC.

- As part of an audit of the local custodian, BSP confirms whether the local custodian conducted KYC properly.
- Nonresident investor
 - If a nonresident investor's account is included in a global custodian's account, a global custodian conducts KYC based on the regulations of its own jurisdiction.
 - If a nonresident investor opens an account with a local custodian, the local custodian conducts KYC based on their KYC rules and requirements.

5.1.5. KYC for Collecting Tax (Resident and Nonresident Investor)



5.1.5.1. The Flow of Collecting KYC Information

- Resident investor
 - A resident investor submits KYC information to a local custodian.
- Nonresident investor
 - A nonresident investor submits KYC information to a local custodian via a global custodian (if so appointed).

Session 2:

The Industry Issues View of DX and the role of Standards

Opportunities for Data | December 3, 2020

**Prepared for the Joint ABMF-CSIF Workshop on Standardization
of FX (cross border payments) Reporting & Tax KYC and Cross-
Border Use of Local Currency Collateral of ASEAN+3**

Masayuki Tagai

Managing Director
Treasury Services Industry Issues, Wholesale Payments, JPMorgan
ISO 20022 Registration Management Group (RMG) Vice Convenor

The Accelerating Digital Scene

Treasury and payments need to accelerate their digital transformation or risk falling behind

Industries are going through various stages of disruption at an accelerating pace of change

01 INDUSTRY DISRUPTION

Digitization will have a \$100Tr impact through 2025²

04 BANKING DISRUPTION

80% of traditional financial services firms will go out of business by 2030⁵

02 CHANGING TREASURY

80% of treasurers agree treasury will be playing a more strategic role 3yrs from now³

05 MACRO GLOBAL SHIFTS

"Vast majority of CEOs believe that economic and financial volatility will increase over the next 12 months"⁶

03 CHANGING WORKFORCE

Millennials will make up 75% of the workforce by 2030⁴

06 EMERGING TECHNOLOGY

>130Bn connected devices by 2030⁷
AI will increase labor productivity by 40% through 2035⁸

"There are two kinds of pivots: the pivots you initiate, which are good for the company, and the pivots you have to suffer or constrained to by your environment"

– Jean-Pascal Tricoire, CEO of Schneider Electric, 2019

SOURCE 1. Wall Street Journal; 2. World Economic Forum; 3. Marsh & McLennan; 4. Forbes; 5. Gartner ; 6. A.T. Kearney Global Business Policy Council; 7. HIS Markit ; 8. Accenture

COVID could be seen as the ultimate digital accelerant, and amplified the impact of business shifts on payments and treasury, and the importance of an end-to-end digital transformation

Disruptions from COVID



Curtailed physical movement shifted activity from offline to online, disrupting BAU operations



Move to a cashless society accelerated since the onset of COVID-19



Supply chain disruptions led to large adjustments and pivots to accommodate



Day-to-day behavior and engagement shifted to virtual

10 years

Experts estimate that COVID led to a leap of 10 years in consumer and business digital adoption¹

Implications for payments and treasury



Paper processes and those with physical needs (e.g. wet signature, branches) are disrupted

~15%↑

- In overall consumer interest in mobile payments²
- In share of B2B revenue driven by eCommerce³



Greater focus on internal sources of liquidity and working capital release



Increased demand for digital channels and solutions including eComm and self-servicing tools

64%

of treasurers said an increase focus on digital is what they would change post-COVID⁴

ISO 20022 Migration – Data Foundation and Basis for Transformation

Key Industry Message: Accelerating MI adoption of ISO 20022 is a catalyst for data innovation

ISO 20022 obliges banks to handle expanded and flexible data in addition to the traditional payment information. It means that banks need to be capable of handling data in a more granular way. This transition will create end-2-end efficiencies and a better client experience.

- ISO 20022 is a **standard** for exchanging electronic messages using XML syntax and offers structured rich data
- Currently hundreds of messages exist and are widely used across the financial industry (<http://www.iso20022.org>)
- Regulatory needs for richer and granular data is driving adoption whilst the FI segment is overdue in transition*

Typical Rich / Structured Data Opportunities

- ✓ Purpose codes For regulatory reporting
- ✓ Structured party identifiers e.g. SG - Ultimate beneficiary, Ultimate debtor becomes regulatory
- ✓ Structured address fields: becomes regulatory
- ✓ Legal Entity Identifier (LEI) becomes regulatory
- ✓ Time Stamps enables effective / consistent RTP processing
- ✓ Status codes enables effective / consistent RTP processing
- ✓ Transaction references enables consistent track & trace (e.g. UETR)



Timeline

2020 onwards

- Community awareness raising (MIs, SWIFT, PMPG efforts)
- APAC MI adoption (L-4-L or Full)
- Early adopters version changes

November 2022

- SWIFT Transaction Management Platform (TMP) ready for API native data management
- All banks need to receive ISO 20022 messages
- Intermediary banks need sending capabilities

Towards November 2025

- Global MI adoption (EU, US)
- SWIFT users transition to ISO over 3-year "co-existence" towards MT sunset

Key Industry / Client Messages



Additional functionality

- Richer and structured data enables further automation and a basis for innovation



Do not underestimate preparation

- Client data, sanctions screening, payments processing / reporting are all impacted. This is not an additional standards release



Consistency for FIs / Community

- Ultimate need for seamless management of multiple clearing houses and systems to 'speak' in the same grammar



Complex Planning

- Multi-year project for FIs to implement value-added services to enhance experience

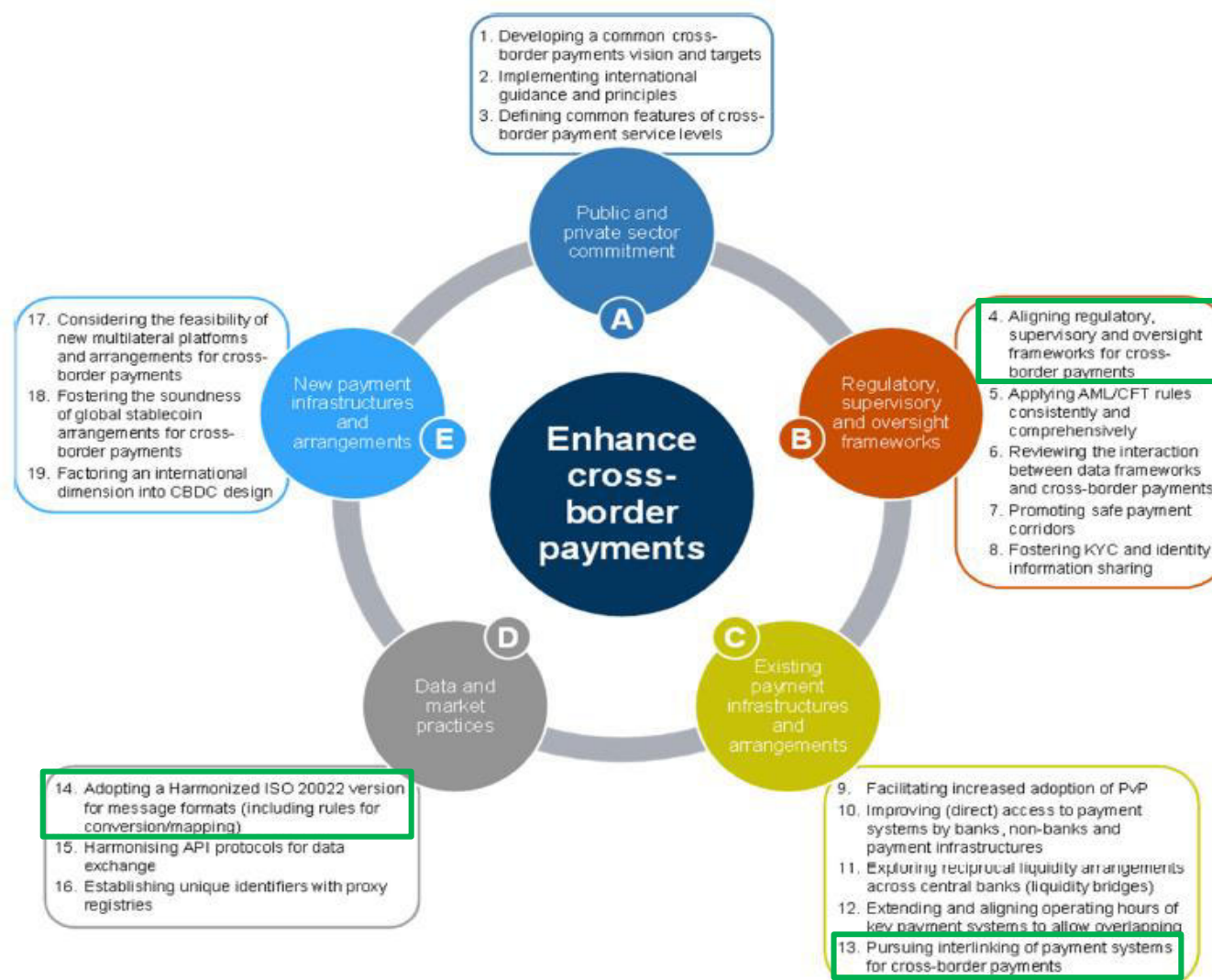
* ISO20022 is also the anticipated standard for API based data exchanges on or off SWIFT, in addition to, or as an alternative to 'messages'

Enhancing Cross Border Payments – The Regulatory View

Enhancing Cross-border Payments - a G20 / FSB Agenda

- ✓ **April 2020; The FSB's Stage 1 report**, identified the four challenges to be addressed – **high costs, low speed, limited access and insufficient transparency** – and the frictions that contribute to those challenges. Those frictions include: **fragmented data standards or lack of interoperability; complexities in meeting compliance requirements, including for anti-money laundering and countering the financing of terrorism (AML/CFT) and data protection purposes; different operating hours across different time zones; and outdated legacy technology platforms.**
- ✓ Additionally, the frictions increase the need for intermediaries involved in cross-border payments to hold precautionary funding – often in multiple currencies. Furthermore, depending on the country corridor and payment process, the length of the transaction chain can add to costs and delays. The costs from these frictions create barriers to entry that may weaken competition in providing cross-border payments services.
- ✓ **July 2020; The CPMI Stage 2 report**, set out the necessary elements of a response to address those challenges, as a set of **19 building blocks** that can be used flexibly, combining enhancements to the current cross-border arrangements and infrastructures with the exploration of more ambitious yet more uncertain longer-term possibilities.
- ✓ **October 2020; FSB Stage 3 report**, sets out for G20 endorsement the **roadmap** itself, as a comprehensive plan for addressing the identified challenges, including practical steps and indicative timeframes needed to do so and paves the way for implementation.

Overview of the focus areas and associated building blocks



Source: CPMI: Enhancing cross-border payments: building blocks of a global roadmap - Stage 2 report to the G20 (July 2020)

Source: <https://www.fsb.org/wp-content/uploads/P131020-1.pdf>

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Session 3:

Standardization and Reporting: ISO 20022 Adoption

Joint ABMF and CSIF Online Workshop

3 December 2020

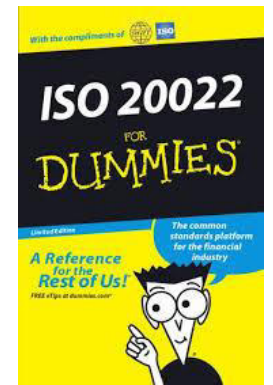
ISO 20022 – Regulatory Reporting

Paul Janssens
Standards – Registration Authorities

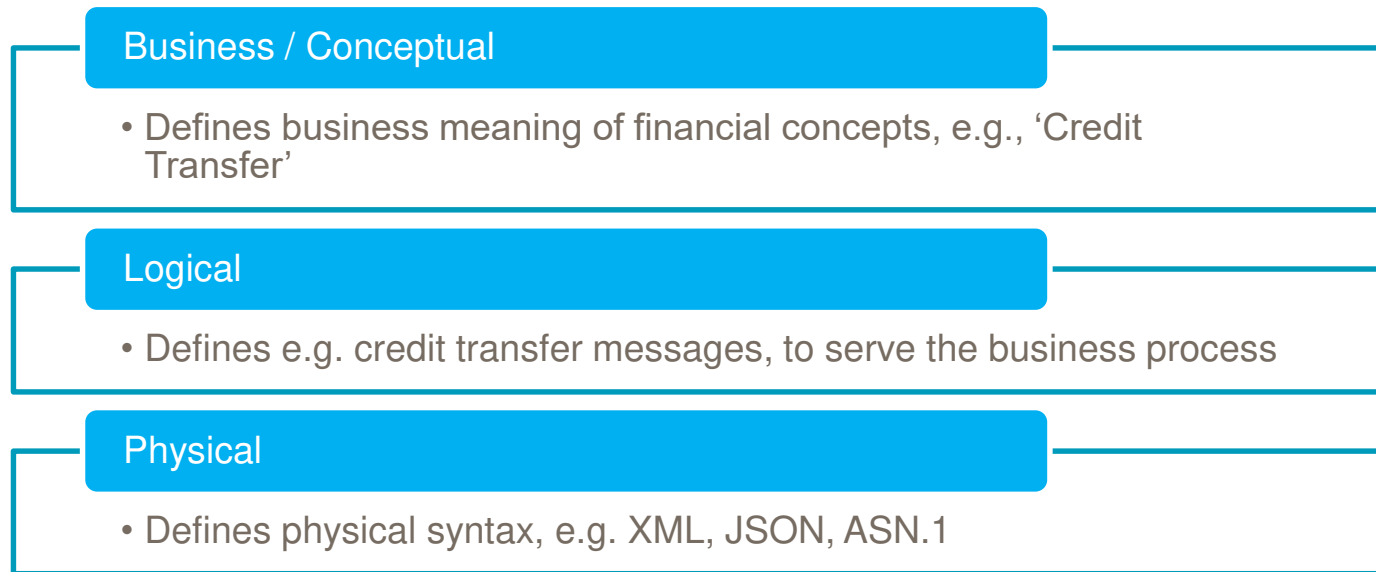


ISO 20022 is

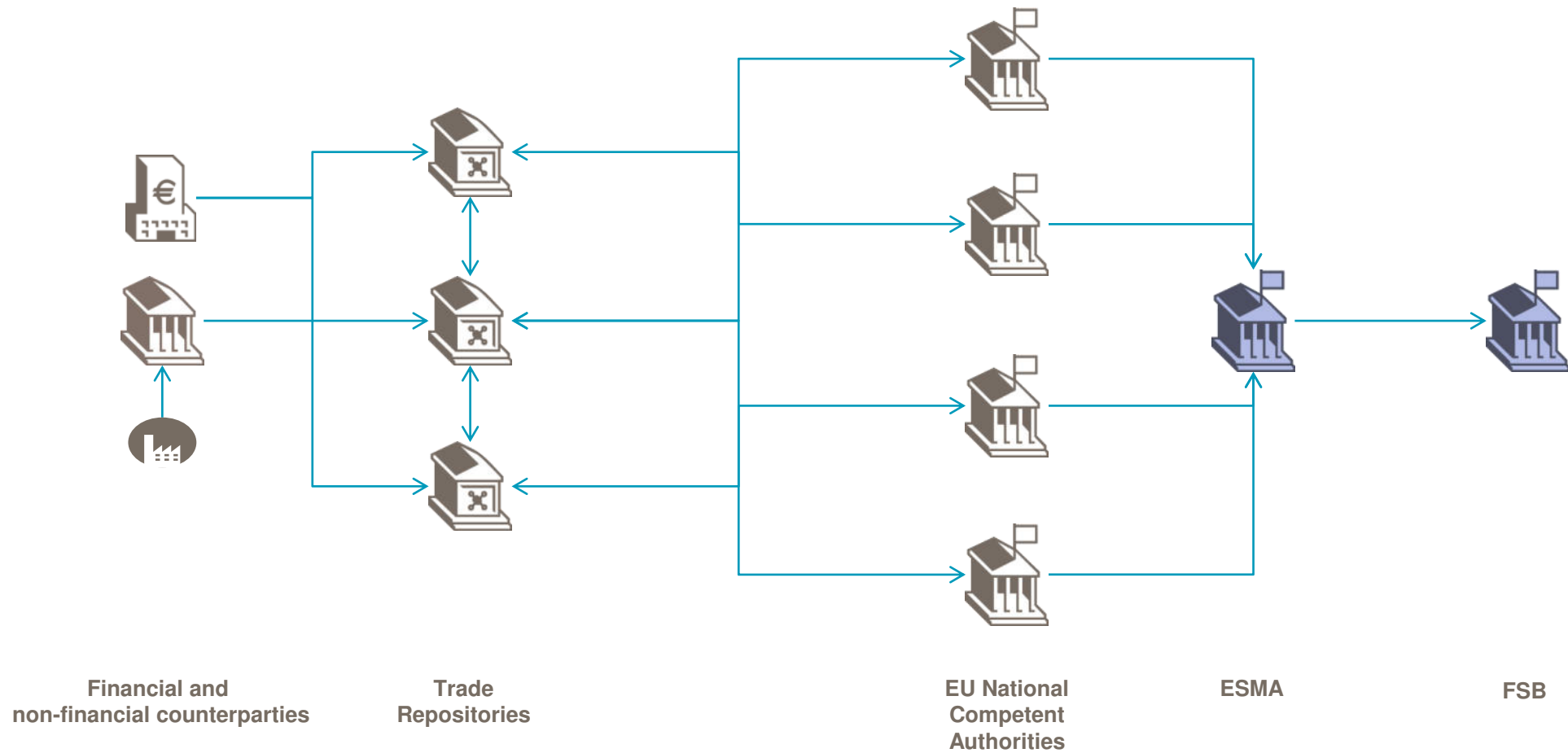
- a methodology for the development of message standards based on business process modelling
- a central financial repository (dictionary + catalogue of messages)



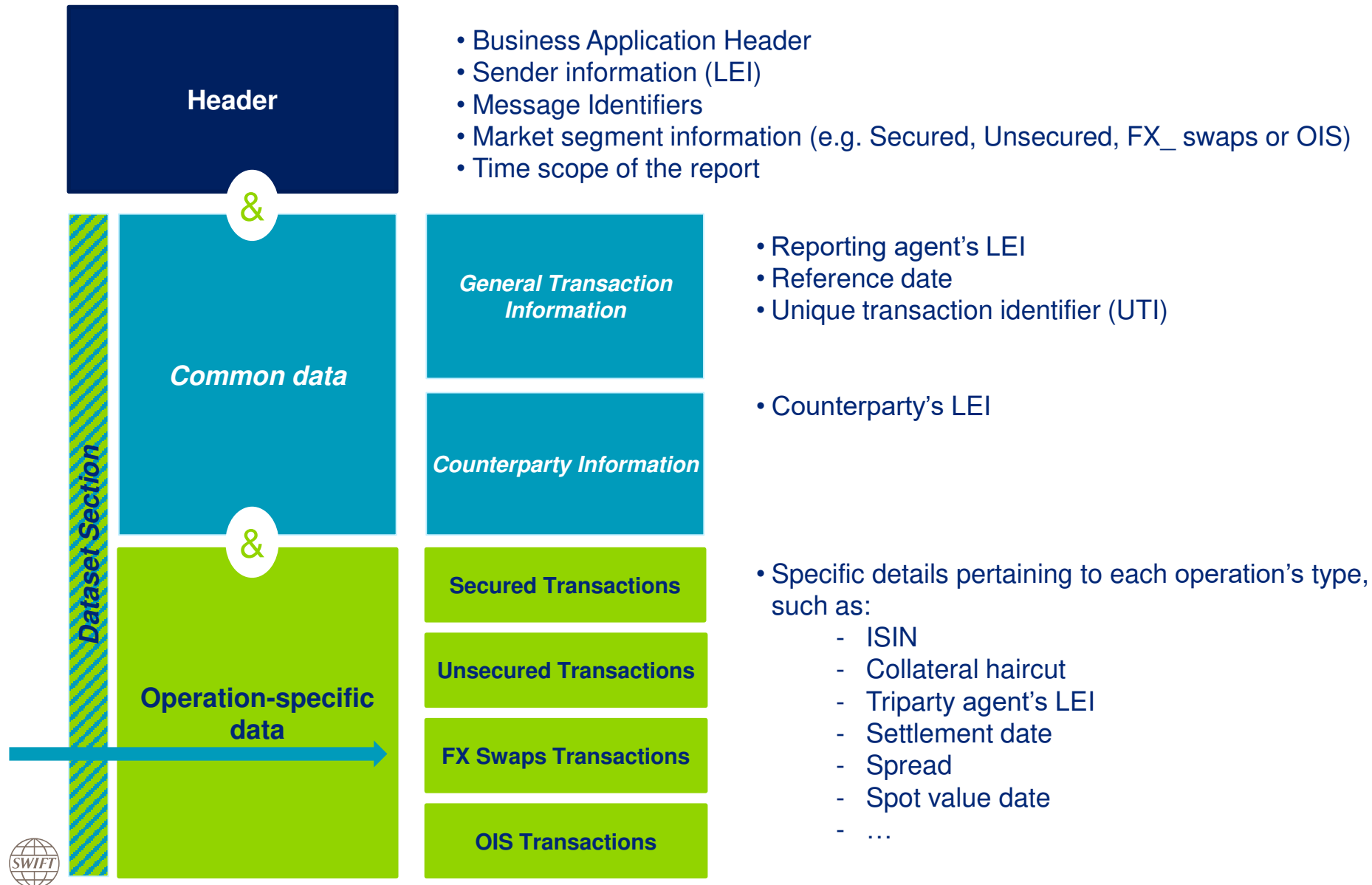
The methodology distinguishes 3 layers:



EU Regulation – Securities Financing (Shadow Banking)



EU – Money Market Statistical Reporting



SWIFT Strategy

**Supporting the payments
(and securities
businesses) of financial
institutions through
instant and frictionless
transactions**

**Frictionless
payments**

Instant and frictionless transactions from account to account anywhere in the world, building on and extending gpi

**Smarter
securities**

Smarter securities services for greater simplicity and efficiency

Rich data

End-to-end integrity and rich data services enabled by ISO 20022, to help our users innovate and grow

**Open state of
the art platform**

State of the art digital platform that enables messaging and transaction services with effortless customer experience

Smarter

Faster

Better



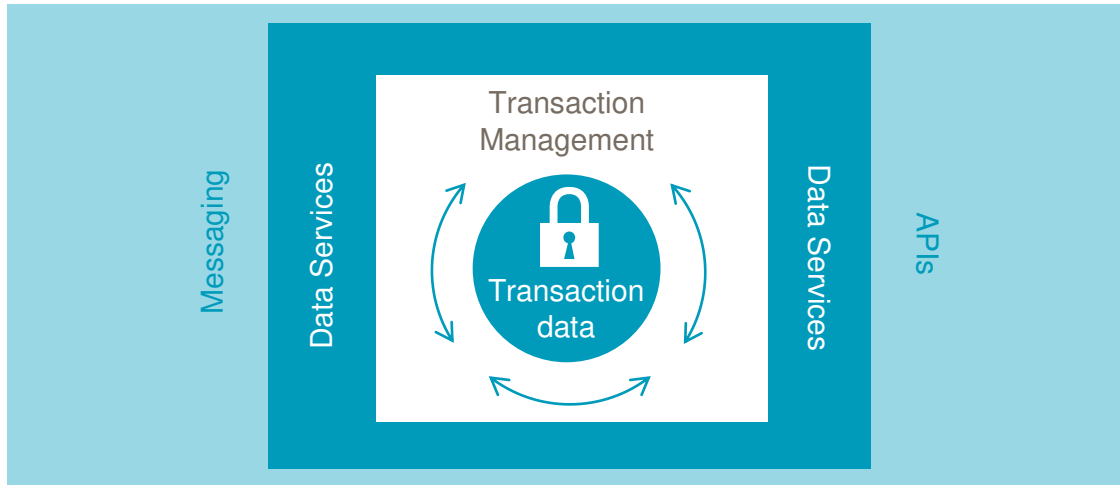
Standards & ISO 20022

What's changing?

Carlos Ugalde
Lead Standards Specialist (Payments & FX)



A state of the art platform with rich data



Our platform will evolve to manage transactions end-to-end and deliver new capabilities:

End-to-end transaction integrity – access to a shared, complete and definitive representation of each business transaction

Backward compatibility – messaging and APIs will co-exist and interoperate. Customers will be able to adopt at their own pace

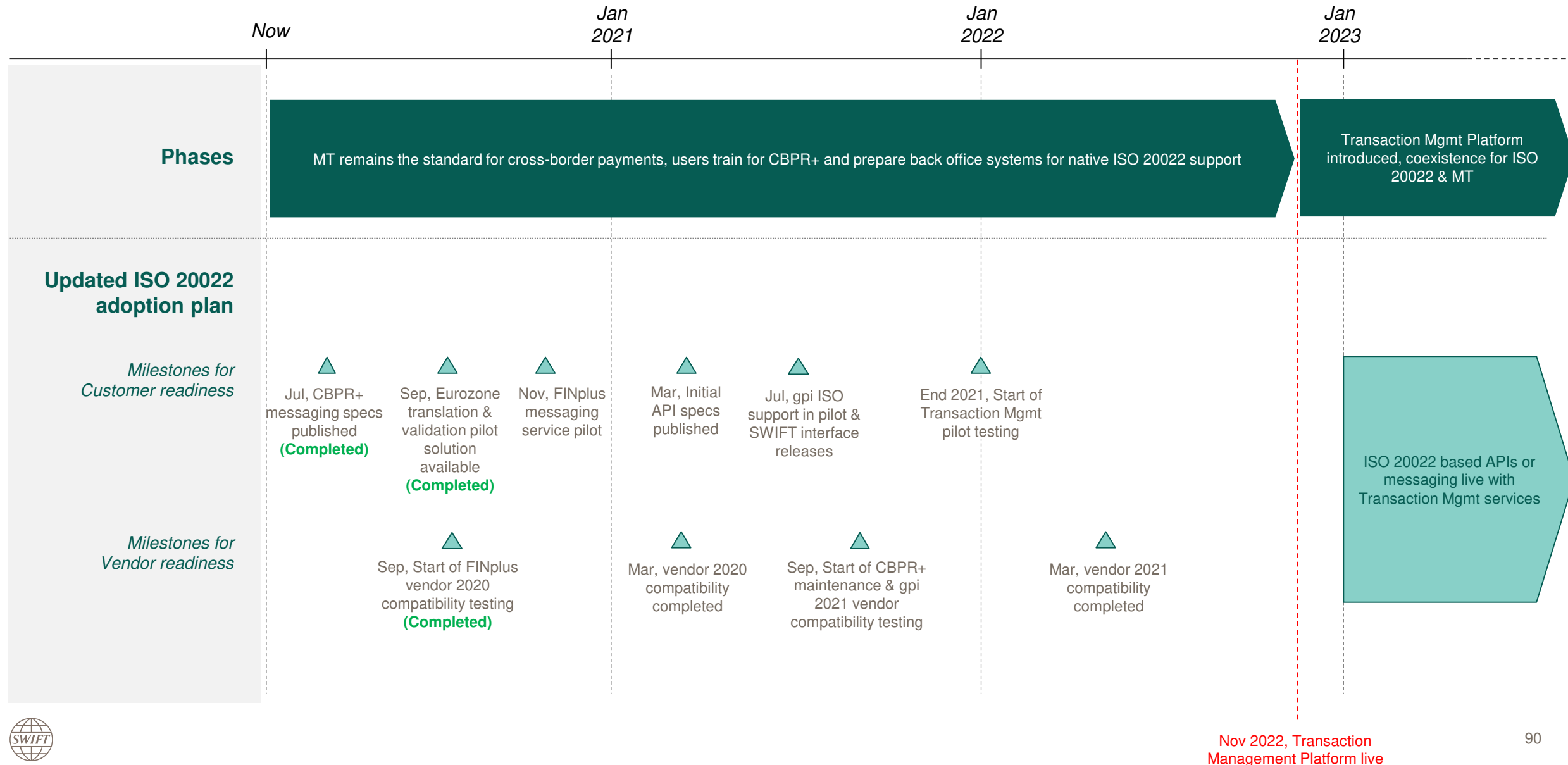
Rich and open ecosystem - bringing together data services in one managed place, making it easier to access mutualised services



... unlocks business benefits for the community

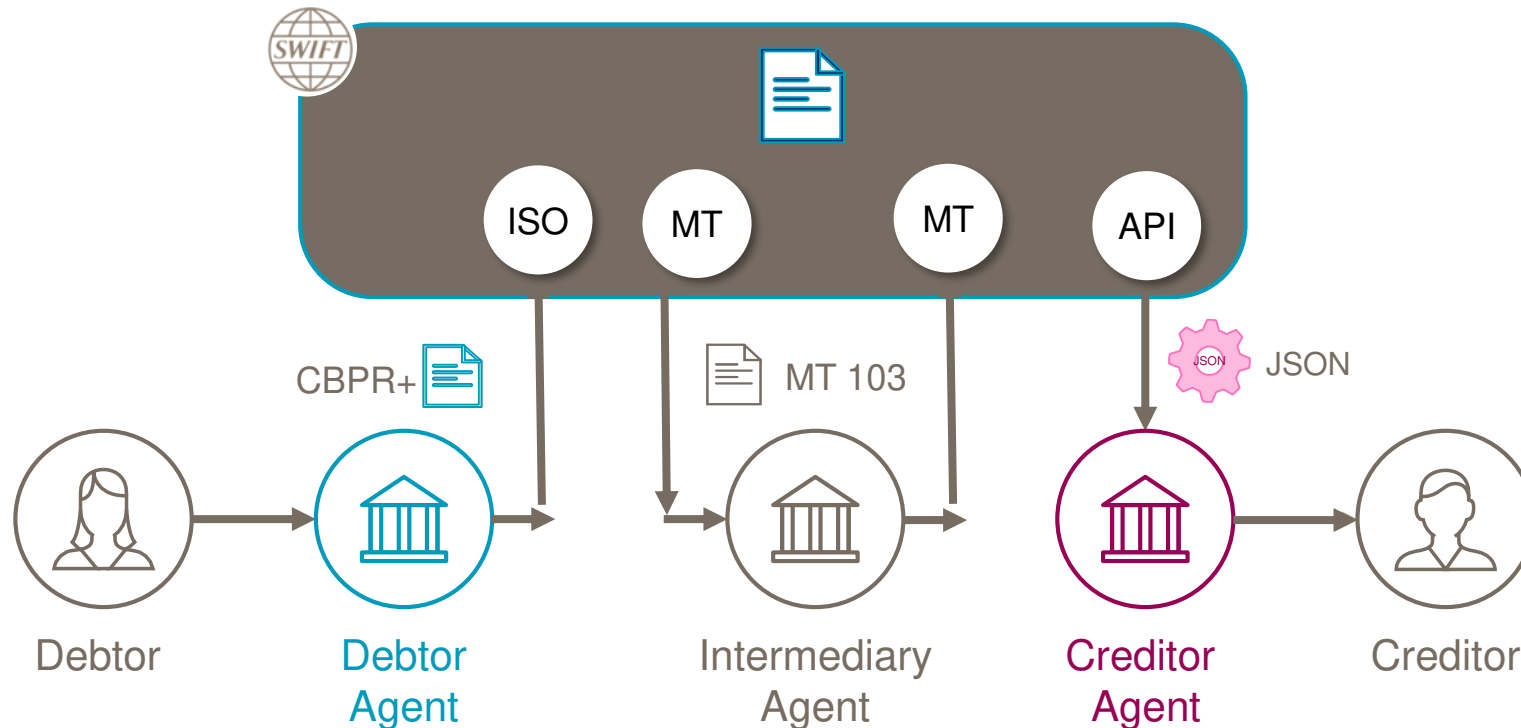
- **Ability to compete more effectively** with differentiated services based on low friction, efficiency and global reach
- **Provide better services to end customers** with end-to-end transparency, predictability, and rich data
- **Extend services into new market segments** leveraging new capabilities
- **Reduce cost and investment levels** with easier access to mutualised platform and data services

2021 & 2022 updated ISO 2022 adoption milestones



Key design principles

Supports backwards compatibility with SWIFT MT, and interoperability across formats and channel protocols



The new transaction management capabilities enable

- Sending and receiving ISO 20022 based APIs or messages, or MT messages
- Retrieval of rich data and consumption of services over APIs

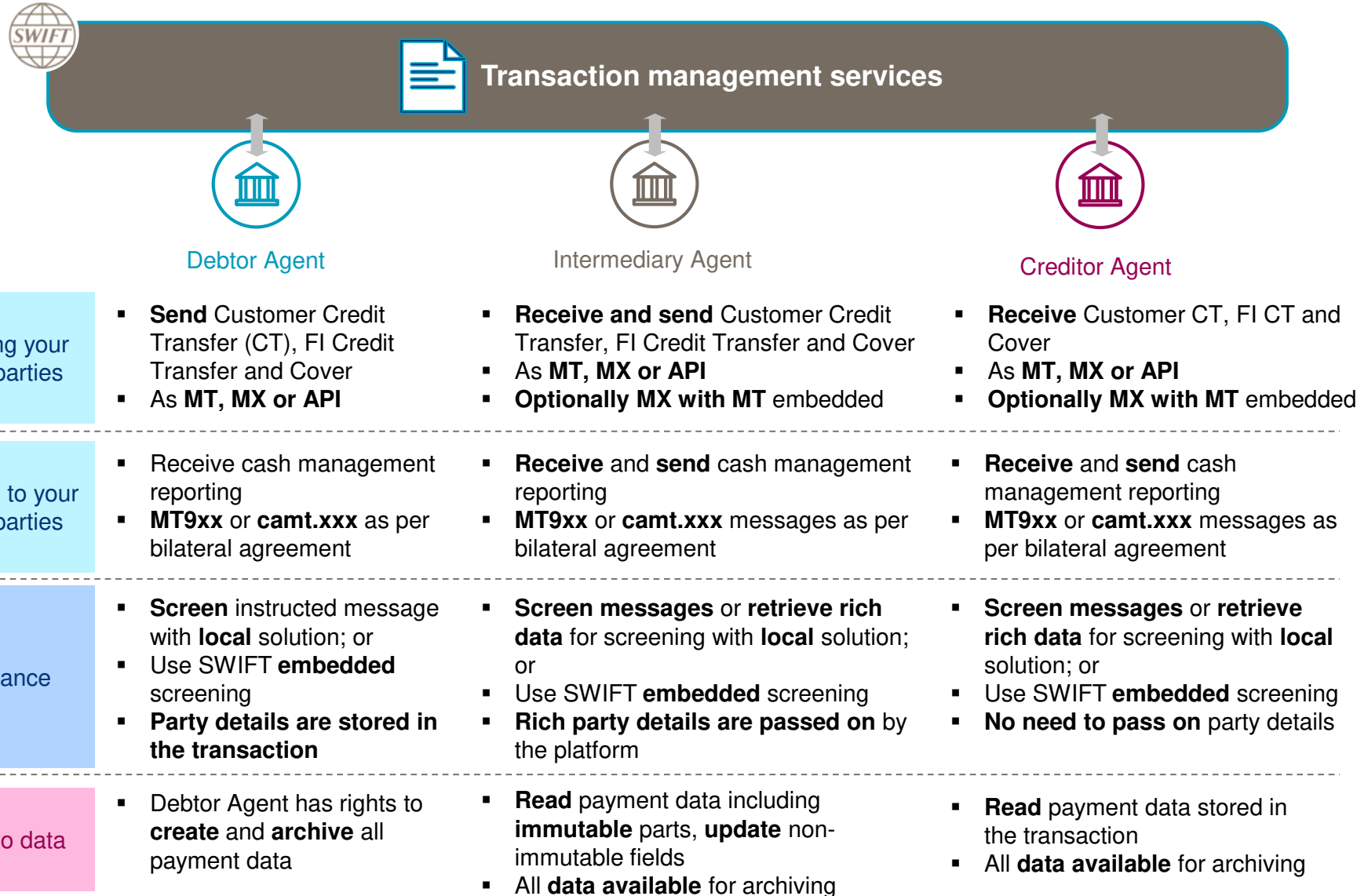
This will allow users to

- Transact with their counterparties using the format and protocol they are capable of using
- Move to ISO 20022 for cross-border payments at their own pace during the coexistence period

Current business practices are maintained:

- Existing correspondent banking principles of a serial & cover payment and cash management continue

Coexistence measures and key considerations for customers



Coexistence period - will see banks adopting ISO format progressively on the cross-border payment flows

Instructing – instruct your counterparties in the format and protocol of choice

Reporting – can be done as MT9xx or camt.XXX messages depending on bilateral agreement

Compliance – screening can be done locally or supported by the SWIFT embedded screening service. Rich data can be retrieved from the platform or passed-on to the next Agent

Transaction data – the Debtor Agent can create the transaction data, the intermediary can read the immutable part and update other parts, the Creditor can read the transaction data

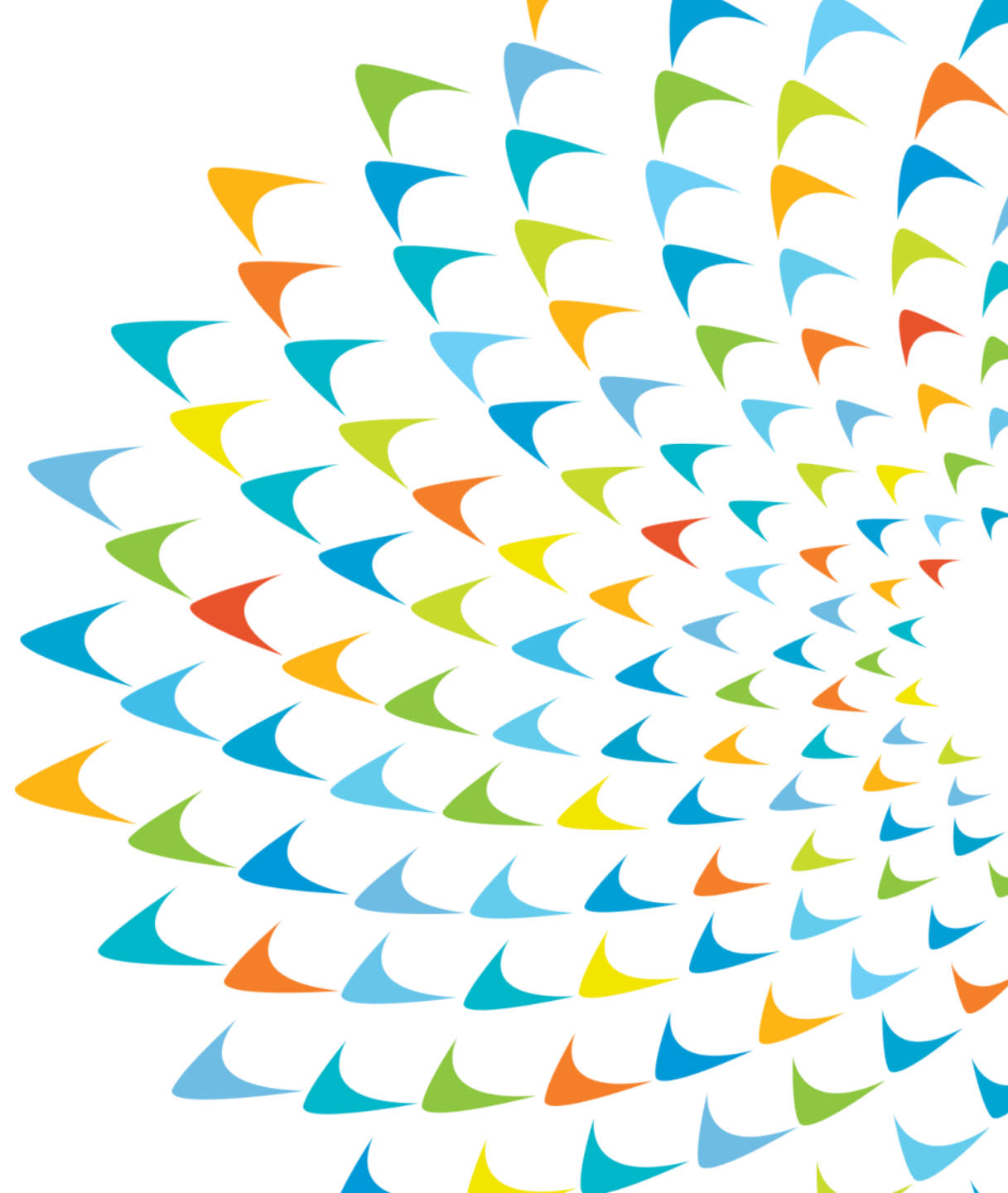
Question and Answer





Session 4: ADB Regional Hub

Mr. Jose Luis Syquia
Unit Head, Due Diligence (OAI)
Asian Development Bank
3 December 2020





ADB's Regional Hub

Responsibilities and mandate

- ❖ The Regional Hub will serve **as an open and inclusive platform** for (i) strategic policy dialogue, (ii) knowledge sharing, and (iii) collaboration and development coordination.
- ❖ The hub will **help each DMC to define DRM and ITC goals** that will be appropriate for their respective circumstances and level for development.
- ❖ **The key objectives** of the Regional Hub are as follows:
 - 1) **Develop awareness** on the value and importance of DRM and ITC among all stakeholders;
 - 2) Stimulate **strategic dialogue** in the region on critical reforms on DRM and ITC.
 - 3) Promote the **formulation of country specific medium-term revenue strategies** for DMCs;
 - 4) Develop **strategic DRM and ITC programs** through broad collaboration among DPs and DMCs;
 - 5) Bring **innovation to DRM and ITC** across the region.



Potential Synergies (ABMF and Regional Hub)

Strategic level

- ❖ Proactive information sharing between platforms
 - ❖ International standards/initiatives updates and harmonization efforts
 - ❖ Global Forum standards on EOI/AEOI
 - ❖ FATF standards on CDD and Beneficial Ownerships
 - ❖ Legal Entity Identifier
 - ❖ Country-level programs and initiatives

Operational level

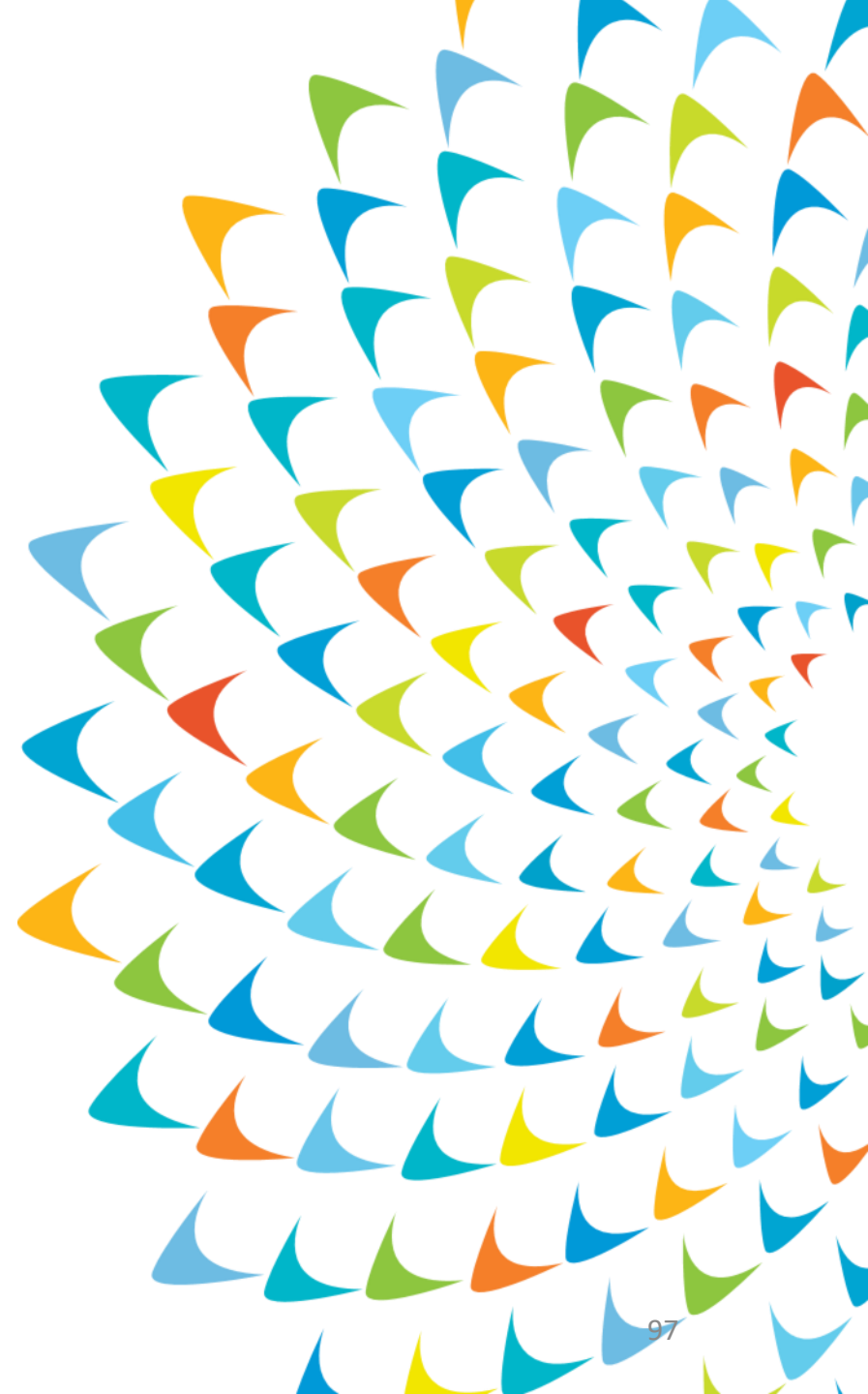
- ❖ Promotion of standards across sub-regions
- ❖ Flow-down of standards and initiatives to DMCs
 - ❖ Law reforms
 - ❖ Regulatory reforms
 - ❖ Institutional reforms
 - ❖ Capacity development for regulators and financial institutions



Session 5:

Next Step under ABMF

(Mr. Satoru Yamadera, ADB)



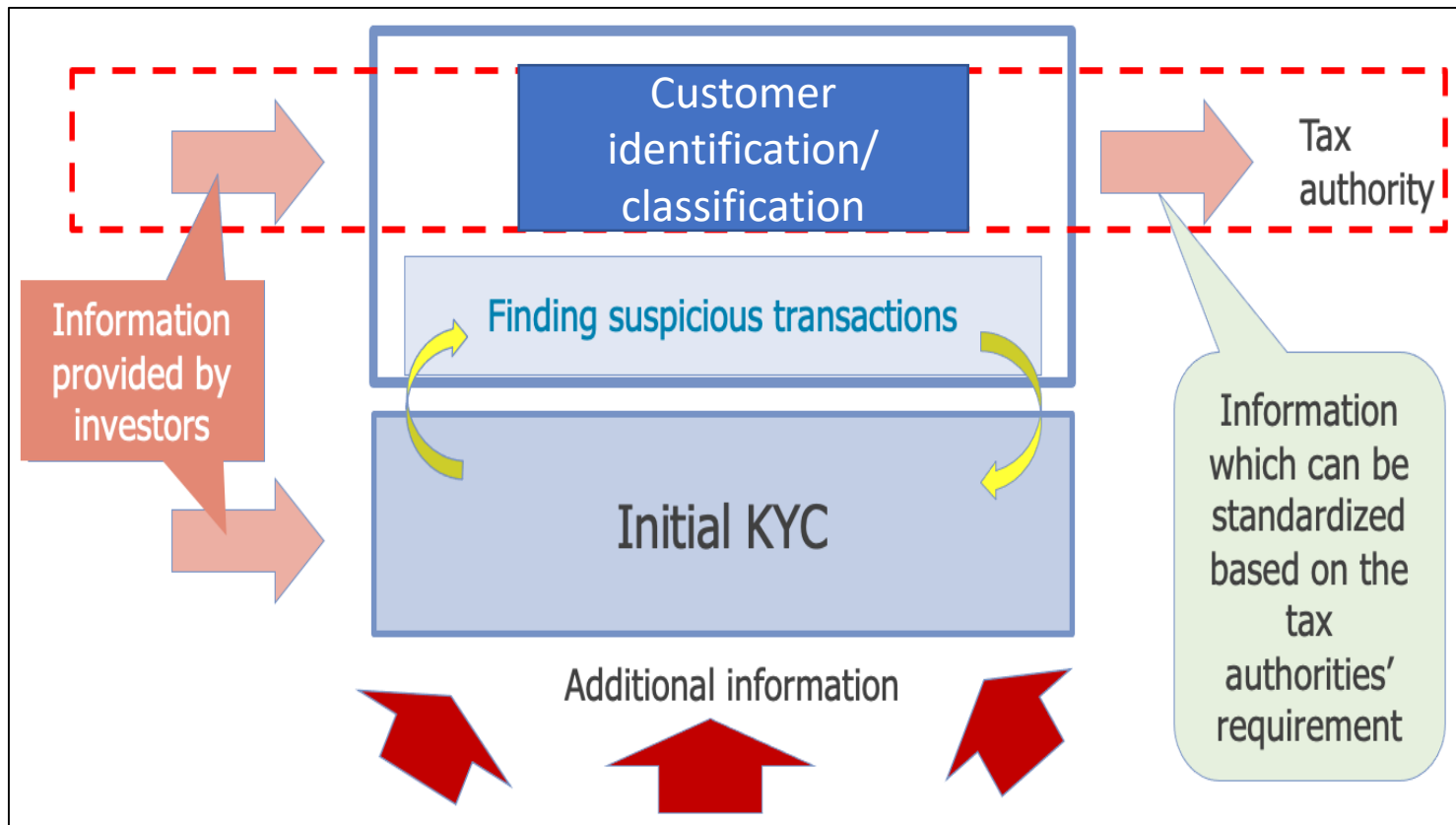


Assumptions

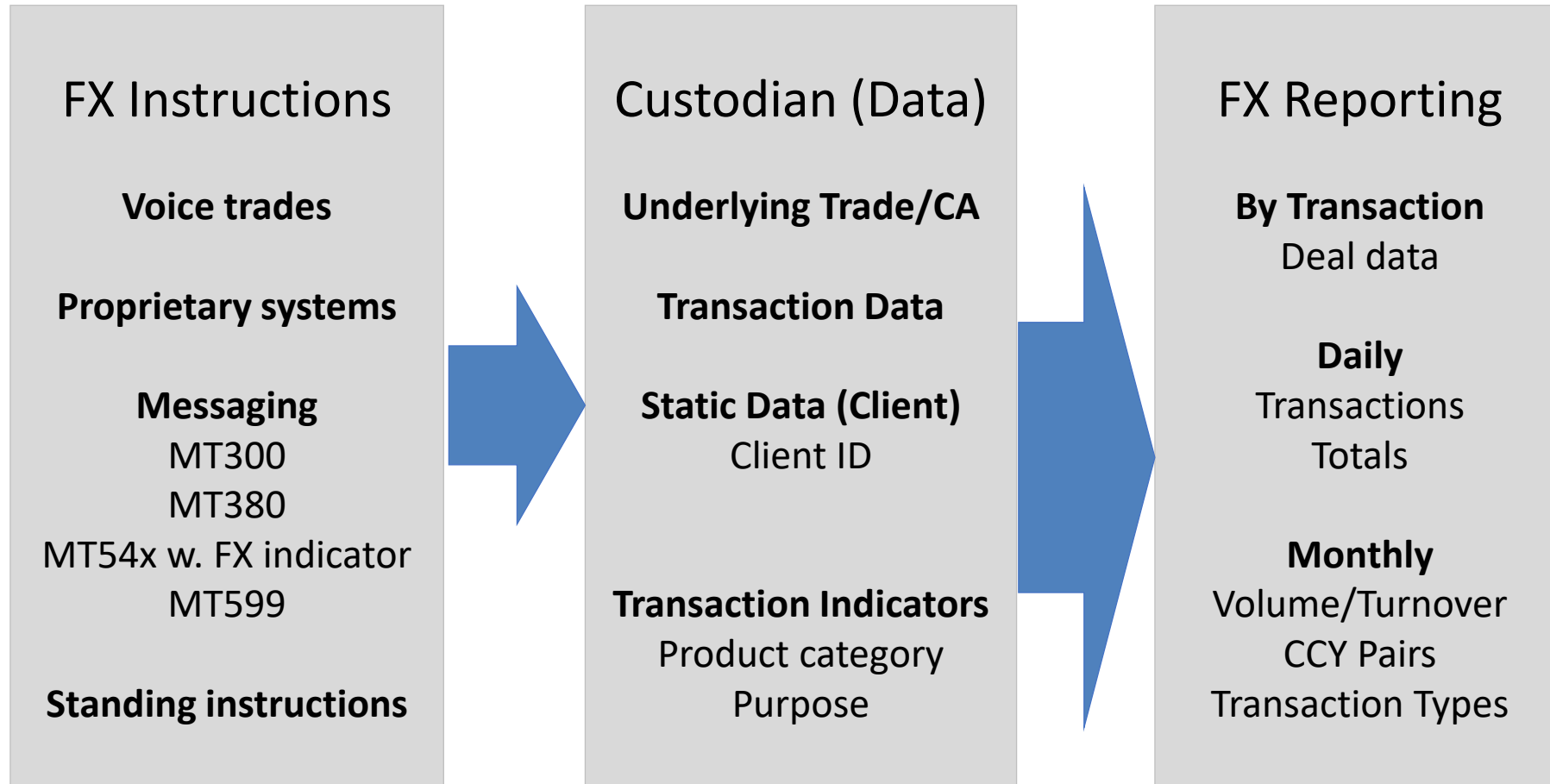
- Market participants in all or selected markets need to report FX transactions as they occur, in formats specific to each market and set by central banks.
- However, reporting items are expected to be similar.
- The reporting is (said or perceived to be) onerous, highly repetitive, not necessarily aligned with instruction or transaction timing, and in proprietary format(s).
- A transaction-based, standard reporting triggered by available data in FX instruction or transaction and custodian static data with required key reporting items offers to streamline reporting,
- In addition, FX reporting may be able to link with tax reporting for customer identification and categorization for taxation.

FX reporting and client identification for taxation

- Based on the flows of information to fulfill the requirement of KYC, there are two types of KYC: initial KYC and transactional KYC (customer identification/ classification).
- We may be able to consider LEI for transactional KYC (customer identification/ classification).



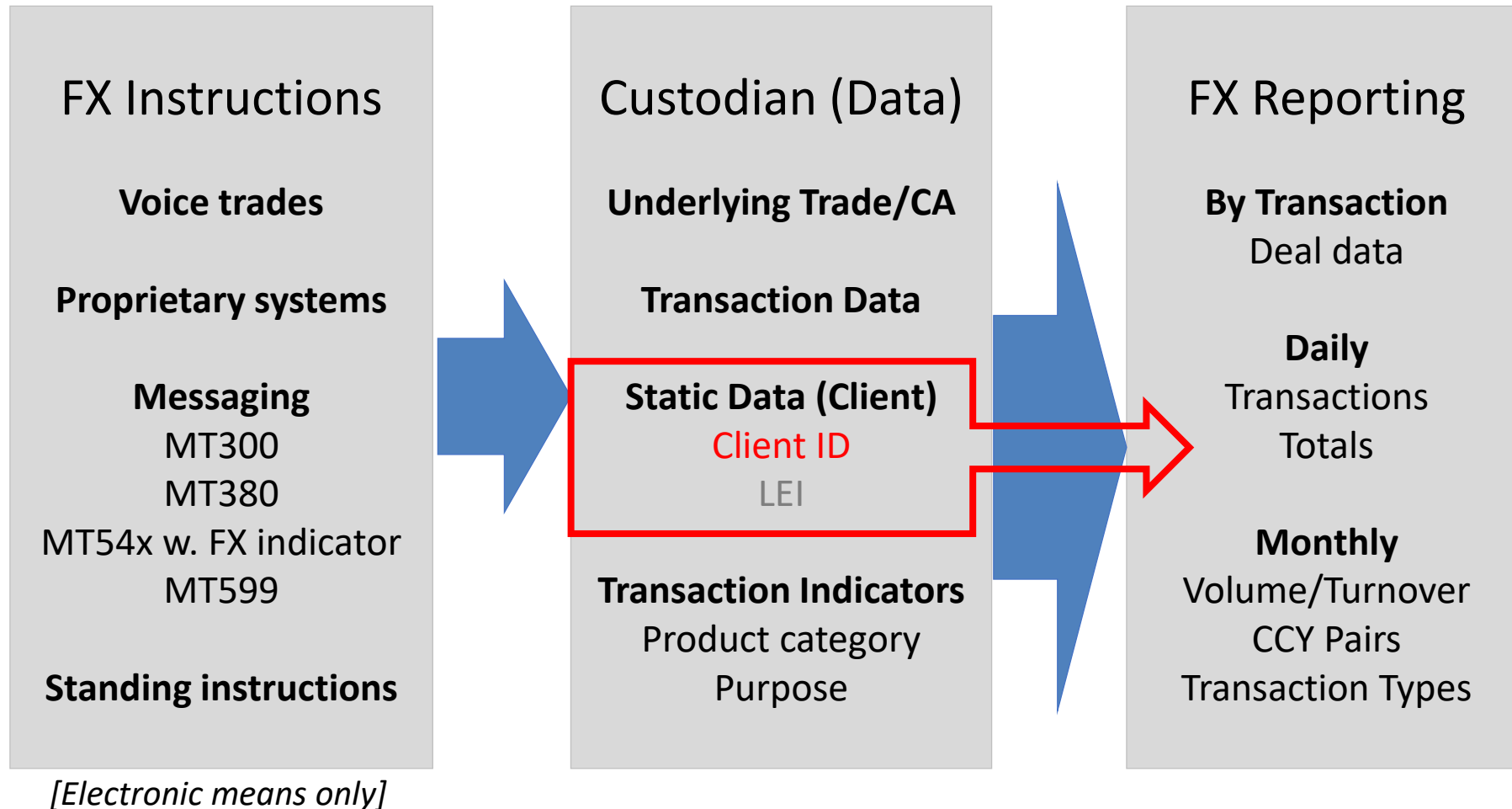
Approach to identify data element: Starting from existing transaction and message flows



[Electronic means only]

Relevance of standardized client ID

Statutory FX Reporting likely identifies (all) Entities by Client ID (at least proprietary ID within a custodian)





Use of LEI for customer identification and classification in transaction flows

- **Basic data elements for taxation**
- 1. individual or **non-individual (entity)**
- 2. **Name**
- 3. Nationality / **Legal domicile**
- 4. Identity Number (i.e. Tax ID and/or personal ID for individual)
- 5. Date of Birth / **Date of company establishment**
- 6. **Address**
- 7. **Type of Business** (only for institution)
 - a. Corporate (CP)
 - b. Foundation (FD)
 - c. Financial institution - bank (IB)
 - d. Financial institution - non bank (IB)
 - e. Insurance (IS)
 - f. Mutual Fund (MF)
 - g. Pension Fund (PF)
 - h. Securities company (SC)
 - i. Others (OT), i.e. government entity or international organization

LEI can provide the information in red.

LEI can cover most of investors

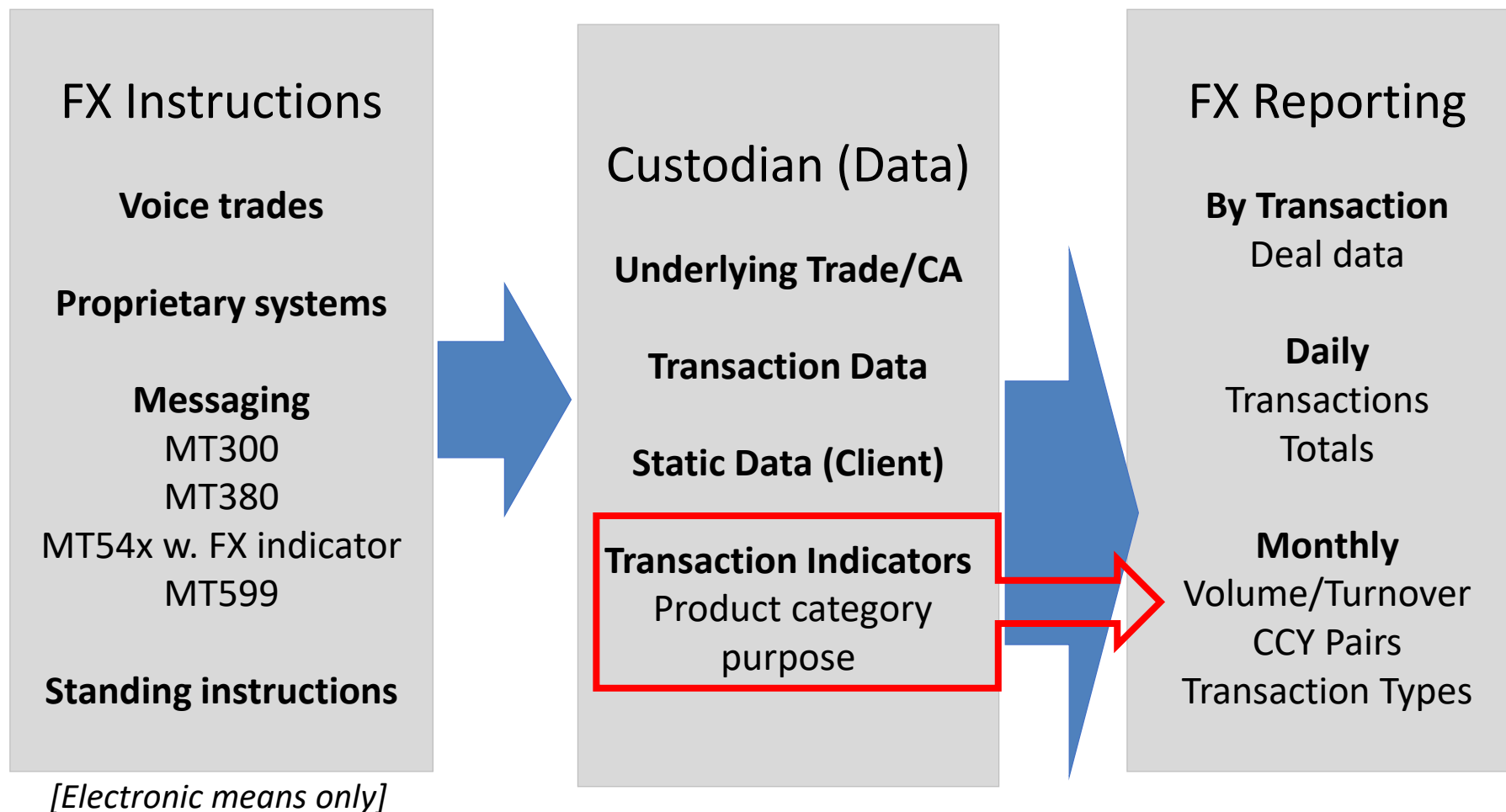
Entities with LEI

Entities
without
LEI

Individual investors

Relevance of standardized transaction identifiers

OTC derivative reporting will include UTI, UPI, and CDE





Globally agreed transaction indicators

- Unique Transaction Identifier (UTI)

uniquely identify individual OTC derivatives transactions required by authorities to be reported to TRs.

- Unique Product Identifier (UPI)

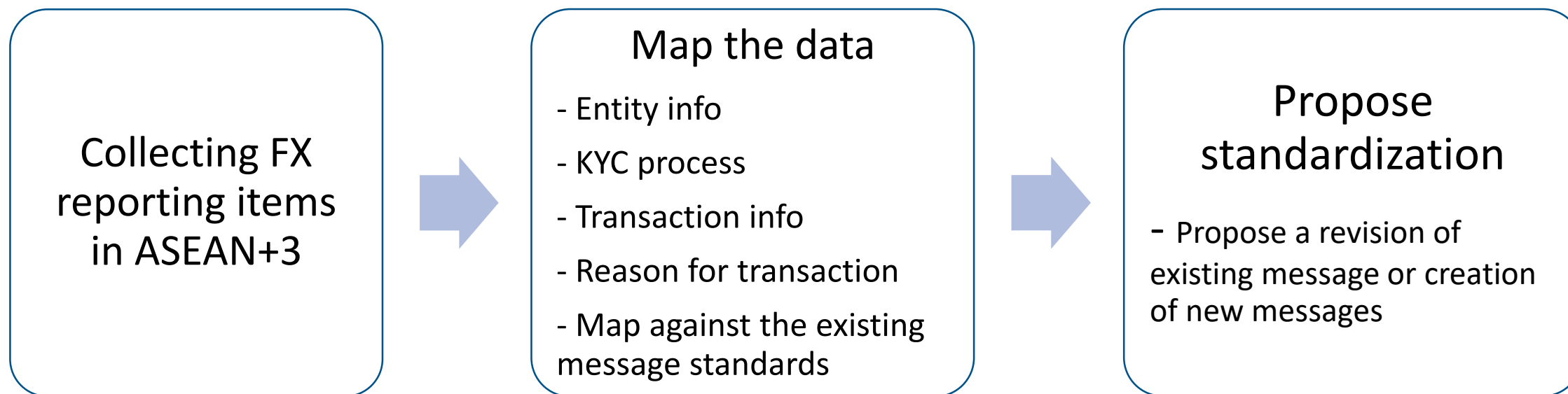
uniquely identify the product involved in an OTC derivatives transaction that an authority requires, or may require in the future, to be reported to a trade repository (TR).

- Critical Data Element (CDE)

critical OTC derivatives data elements other than those in the UPI and UTI

Next step: Standardization and FX reporting data mapping exercise

- Along with the implementation of ISO 20022 by 2025, there is a possibility that existing foreign exchange reporting in ASEAN+3 to be standardized.
- Not only reporting process can be streamlined and reporting burden would be reduced, but also the authorities may be able to have access to more data, hence, can gain more transparency in financial transactions.
- Standardization can support improving and streamlining of regulatory and tax reporting as well as digital transformation (DX) by financial institutions.
- LEI can be used for not only FX reporting but also other reporting including taxation.

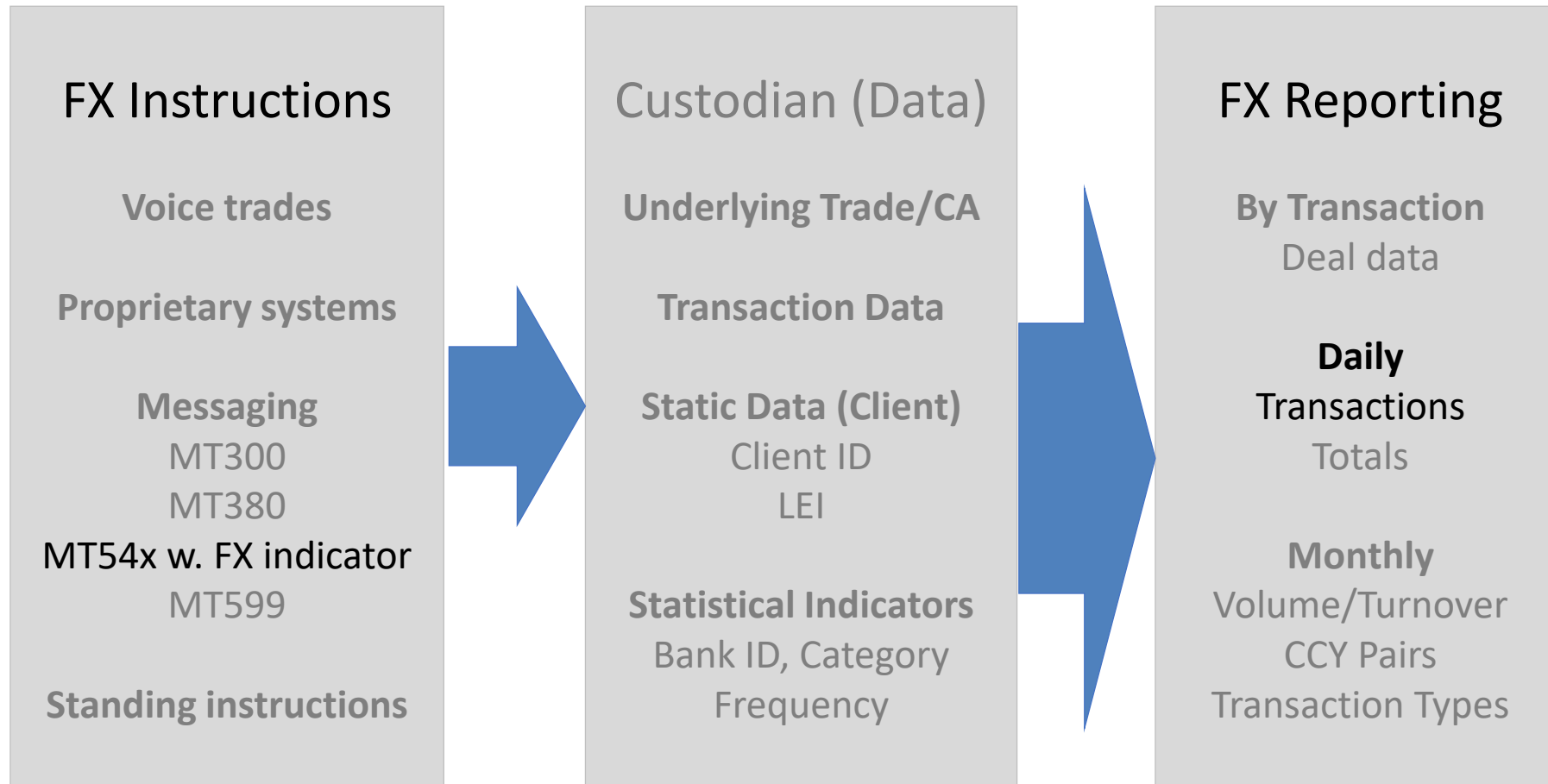




Annex: mapping exercise

Possible Approach (1)

Map MT54x against most common Reporting Format, identify Gaps



[Electronic means only]

Possible Approach (2)

Develop Matrix of Reporting Items by Market

Sample only

MT541 (RVP)*	FX Deal	FX Reporting	Cambodia	Lao PDR	Malaysia	Myanmar	Korea
Funding Currency	Selling Currency	Selling Currency					Present
	Selling Amount	Selling Amount					Present
Settlement Currency	Purchase Currency	Purchase Currency					Present
Settlement Amount	Purchase Amount	Purchase Amount					Present
Date of Instruction							Present
	Transaction (Deal) Date	Transaction (Deal) Date					Present
Settlement Date	Value Date	Value Date					Present

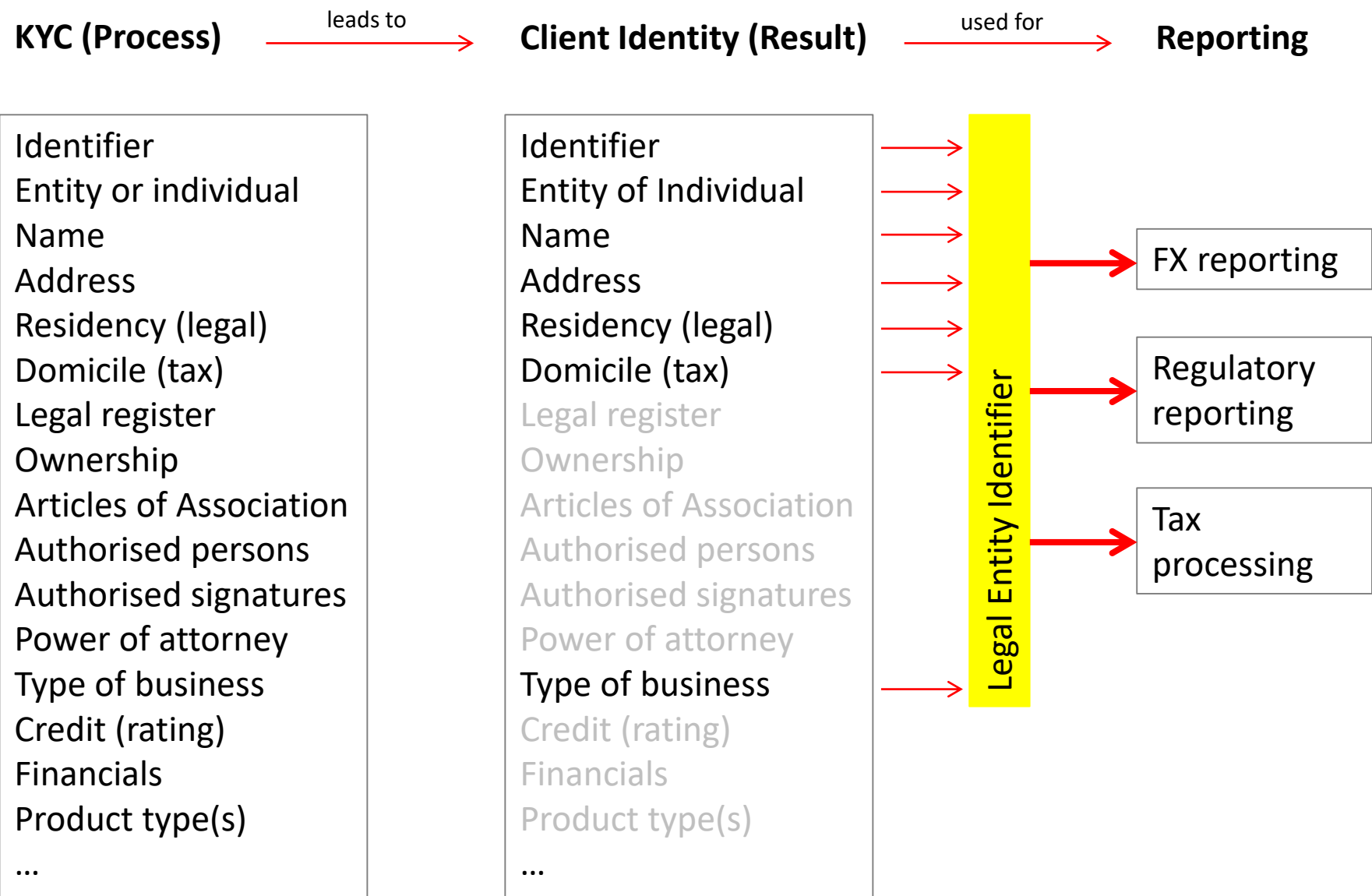
* With 11A tag FXIS

BOK FX0015 versus MT300

No.	Data Element	Data set by	Bank receives	Bank stores	Bank generates	BOK generates	Transaction specific?	Comments
1	Code of reporting institution	BOK					No	
2	Code of bank branch	KFTC					No	
3	Branch location identification number	external					No	
4	Bank branch (location/nature of business; code)	BOK					No	
5	Date of report	generated					No	
6	Date of transaction (value date)	Bank					Yes	check purpose
7	Time of report	generated					No	
8	Nature of report	BOK					No	
9	Registration/Reception number	(BOK)					No	
10	Transaction reference number	Bank					Yes	
11	FCY purchase or sale code	BOK					Yes	
12	Date of FCY purchase or sale	Bank					Yes	check vs 6
13	FCY currency code (ISO)	ISO					Yes	
14	FCY amount	Bank					Yes	
15	USD equivalent	Bank					Yes	USD rate missing
16	Reason code	BOK					Yes	
17	Country code (to/from FCY is remitted; ISO)	ISO					Yes	to be confirmed
18	N/A							
19	N/A							
20	Legal nature of FCY buyer/seller (code)	BOK					Yes	
21	Size of FCY purchaser/seller (code)	BOK					Yes	
22	Name of FCY purchaser/seller	Bank					Yes	
23	Investor Registration Certificate number	FSC					Yes	
24	Identification number of FCY purchaser/seller	?					Yes	to be confirmed
25	Residency of FCY purchaser/seller (code)	ISO					Yes	
26	Domicile of FCY purchaser/seller (code)	ISO					Yes	
27	Nationality of FCY purchaser/seller (code)	ISO					Yes	

Entity			[1,1]
LegalName	lei:NameType		[1,1]
OtherEntityNames	lei:OtherEntityNamesType		[0,1]
TransliteratedOtherEntityNames	lei:TransliteratedOtherEntityNamesType		[0,1]
LegalAddress	lei:AddressType		[1,1]
HeadquartersAddress	lei:AddressType		[1,1]
OtherAddresses	lei:OtherAddressesType		[0,1]
TransliteratedOtherAddresses	lei:TransliteratedOtherAddressesType		[0,1]
RegistrationAuthority	lei:RegistrationAuthorityType		[0,1]
LegalJurisdiction	lei:JurisdictionCodeType	County (ISO3166)	[0,1]
EntityCategory	lei:EntityCategoryTypeEnum	Entity (ISO17442)	[0,1]
LegalForm	lei:LegalFormType	ELF Code (ISO20275)	[0,1]
AssociatedEntity	lei:AssociatedEntityType		[0,1]
EntityStatus	lei:EntityStatusEnum		[1,1]
EntityExpirationDate	lei:LEIDateTimeProfile		[0,1]
EntityExpirationReason	lei:EntityExpirationReasonEnum		[0,1]
SuccessorEntity	lei:SuccessorEntityType		[0,1]

'Client Identity' concept



‘Client Identity’ concept (2)

Rationale:

- KYC is the process to establish whether client exists, is legally established, able to do the products or transactions required, is financially viable and not in sanction lists
- The result of the KYC is a ‘client identity’ (not ‘client ID’, that is just one expression of the identity but it represents the client identity, e.g. via LEI)
- The authorities requiring the reporting (FX, regulatory, tax) do not need or want to follow the KYC process and all of its component tasks; they just want a proven client identity, expressed through an ID and some specific indicators, as the case may be
- If authorities are able to obtain the necessary information (indicators), via a client identity, they might be more agnostic as how those indicators are transmitted
- LEI is one possible way of transmitting a client identity
- LEI data attribute needs to contain a code of industry classification to be utilized for statistics

THANK YOU

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- End of ABMF Workshop -

THANK YOU

