ABMF Online Workshop on Standardization of FX Reporting and Tax KYC

3 December 2020 | 10:00 AM-12:00 NN (Manila Time)
<table>
<thead>
<tr>
<th>TIME</th>
<th>PROGRAM</th>
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</table>
| 10:00 - 10:05 | **Opening Remarks**  
  - 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**  
  - Mr. Satoru Yamadera, Asian Development Bank |
| 10:20 - 10:45 | **Session 2: Global trend of DX and Standardization**  
  - Mr. Masayuki Tagai, Managing Director, ISO 20022RMG, JP Morgan |
| 10:45 - 11:10 | **Session 3: Standardization under SWIFT**  
  - 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**  
  - Mr. Jose Luis Syquia, Unit Head, Due Diligence (OAI), Asian Development Bank |
| 11:25 - 11:40 | **Session 5: Next step under ABMF**  
  - Mr. Satoru Yamadera, Asian Development Bank |
| 11:40 - 11:55 | Q & A |
| 11:55 - 12:00 | **Closing Remarks**  
  - 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

<table>
<thead>
<tr>
<th>TIME</th>
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</table>
| 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 |
| 10:45 - 11:10 | Session 3: Standardization under SWIFT  
               - Migration to ISO 20022  
               - E2E identification via SWIFT                                       |
| 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 Finance Ministers and Central Bank Governors’ Meeting

ASEAN+3 Deputy Ministers and Deputy Governors’ Meeting

CMIM* Regional safety net

ASEAN+3 Macroeconomic Research Office

ADB as the Secretariat

ABMI Asian Bond Markets Initiative

ASEAN+3 Bond Market Forum (ABMF)

Green, Social, Sustainability bond market development

TF 1 (Supply) CH TH

TF 2 (Demand) JP SG

TF 3 (Regulation) JP MY

TF 4 (Infra) KR PH

Sub-forum 1 AMBIF

Sub-forum 2 ISO 20022

Promoting LCY bond markets to address the double mismatch problem

Cross-border settlement Infrastructure Forum (CSIF)
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-)

8
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

```xml
<state code>IL</state code>
<country code>IL</country code>
```

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

```xml
<name>Yamadera</name>
<name>山寺</name>
```
### Implementation of ISO 20022 in ASEAN+3

Most of them will implement by 2025

<table>
<thead>
<tr>
<th>Country</th>
<th>CSD (Type of Organization)</th>
<th>Name of System</th>
<th>Gov. or Corp. Bond</th>
<th>Year of Operation</th>
<th>Online Local Time Operating Hours (Time Difference from Jakarta)</th>
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<td>AMBD (CB&amp;GA)</td>
<td>CSD</td>
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<td>CCDC (CbR)</td>
<td>CBGS</td>
<td>Both</td>
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<td>Y (2022X)</td>
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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 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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<td>11:25 - 11:40</td>
<td>Session 5: Next step under ABMF</td>
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Appendix
ABMF members
<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>INSTITUTION</th>
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<tbody>
<tr>
<td>Brunei Darussalam</td>
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<td>Indonesia Stock Exchange (IDX/Bursa Efek Indonesia))</td>
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<td>Indonesian Central Securities Depository (KSEI)</td>
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## ABMF members and Experts (continuation)

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### International Experts

<table>
<thead>
<tr>
<th>INSTITUTION</th>
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<tbody>
<tr>
<td>Mori Hamada &amp; Matsumoto</td>
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<tr>
<td>Nagashima Ohno &amp; Tsunematsu</td>
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<td>Capital Markets Association for Asia (CMAA)</td>
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<td>J.P Morgan</td>
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<td>The Bank of New York Mellon</td>
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**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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<td>Both</td>
<td>2013</td>
<td>09:00 a.m.–5:00 p.m. (+1)</td>
<td>Y: big bang</td>
<td>Y</td>
</tr>
<tr>
<td>CN CSDC (ExR)</td>
<td>MNS</td>
<td>Corp.</td>
<td>2011</td>
<td>08:00 a.m.–4:00 p.m. (+1)</td>
<td>Y (202X)</td>
<td>Y (202X)</td>
</tr>
<tr>
<td>CN SHCH (ExR)</td>
<td>SHCH-SSS</td>
<td>Corp.</td>
<td>2011</td>
<td>09:00 a.m.–5:00 p.m. (+1)</td>
<td>Y (202X)</td>
<td>Y (202X)</td>
</tr>
<tr>
<td>HK HKMA (CB&amp; GA)</td>
<td>CMU</td>
<td>Both</td>
<td>1990</td>
<td>08:30 a.m.–6:20 p.m. (+1)</td>
<td>Y (2022)</td>
<td>Y (2022)</td>
</tr>
<tr>
<td>ID Bi (CB)</td>
<td>BI-SSSS</td>
<td>Gov.</td>
<td>2003</td>
<td>07:30 a.m.–8:00 p.m. (0)</td>
<td>Y (202X)</td>
<td>Y (202X)</td>
</tr>
<tr>
<td>ID KSEi (ExR)</td>
<td>C-BEST</td>
<td>Corp.</td>
<td>2003</td>
<td>04:00 a.m.–5:10 p.m. (0)</td>
<td>Y (202X)</td>
<td>Y (202X)</td>
</tr>
<tr>
<td>JP BOJ (CB)</td>
<td>BOJ-NET JGB Services</td>
<td>Gov.</td>
<td>2015</td>
<td>08:30 a.m.–9:00 p.m. (+2)</td>
<td>Y: big bang</td>
<td>Y</td>
</tr>
<tr>
<td>JP JASDEC (ExR)</td>
<td>BETS</td>
<td>Corp.</td>
<td>2014</td>
<td>09:00 a.m.–5:00 p.m. (+2)</td>
<td>Y: 5 year coex.</td>
<td>Y</td>
</tr>
<tr>
<td>KH CSX (Ex)</td>
<td>(Power Screen)</td>
<td>Corp.</td>
<td>2014</td>
<td>08:00 a.m.–3:00 p.m. (0)</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>KR KSD (ExR)</td>
<td>SSS/e-SAFE</td>
<td>Both</td>
<td>2011</td>
<td>09:00 a.m.–5:30 p.m. (+2)</td>
<td>n.a.</td>
<td>Y (2020)</td>
</tr>
<tr>
<td>MM CBM (CB)</td>
<td>CBM-NET CSD</td>
<td>Gov.</td>
<td>2016</td>
<td>09:30 a.m.–3:00 p.m. (~0.5)</td>
<td>Y (2020)</td>
<td>Y (2020)</td>
</tr>
<tr>
<td>MY BNM (CB)</td>
<td>RENTAS-SSDS</td>
<td>Both</td>
<td>1999</td>
<td>08:00 a.m.–6:00 p.m. (+1)</td>
<td>Y (202X)</td>
<td>Y (202X)</td>
</tr>
<tr>
<td>PH BTr (GA)</td>
<td>BTr-NRoSS</td>
<td>Gov.</td>
<td>1996*</td>
<td>09:00 a.m.–6:00 p.m. (+1)</td>
<td>Y (202X)</td>
<td>Y (202X)</td>
</tr>
<tr>
<td>PH PTDTC (ExR)</td>
<td>PTDTC</td>
<td>Corp.</td>
<td>1995</td>
<td>08:00 a.m.–6:00 p.m. (+1)</td>
<td>Y (2021)</td>
<td>Y (2021)</td>
</tr>
<tr>
<td>SG MAS (CB&amp;GA)</td>
<td>MEPS+ SGS</td>
<td>Gov.</td>
<td>2006</td>
<td>09:00 a.m.–7:00 p.m. (+1)</td>
<td>Y (202X)</td>
<td>Y</td>
</tr>
<tr>
<td>SG CDP (ExR)</td>
<td>DCSS</td>
<td>Corp.</td>
<td>2015</td>
<td>08:30 a.m.–5:30 p.m. (+1)</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>TH TSD (ExR)</td>
<td>PTI</td>
<td>Both</td>
<td>2007</td>
<td>07:00 a.m.–8:30 p.m. (0)</td>
<td>Y (2021)</td>
<td>Y (2021)</td>
</tr>
<tr>
<td>VN VSD³</td>
<td>VSD-BES</td>
<td>Both</td>
<td>2010</td>
<td>08:00 a.m.–5:00 p.m. (0)</td>
<td>Y (2025)</td>
<td>Y (202X)</td>
</tr>
</tbody>
</table>

*Note: MM CBM (CB) and SG MAS (CB&GA) are two different organizations.*
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

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

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

- 222 jurisdictions are covered by LEIs.
- The top 3 markets are the US, the UK, and Germany
- 70.8% overall renewal rate

*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)

Supervisory Authorities/Law Enforcement

Financial Institutions

Clients

Better compliance: Simplification of lists management

Lower costs of compliance, risks reduction, higher STP

Lower costs of compliance Risk reduction, Less delays

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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

LEI coverage

- Close to 100% coverage in OTC derivative trades*
- Around 78% coverage of securities issuers in debt and equity securities*
- 101 rules published by FSB members referring to the LEI
- 49 rules mandate certain entities to have an LEI
- 12 FSB jurisdictions require renewal of LEIs for certain use cases

* 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*

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
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
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.
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

In the case where foreign investors open their own accounts in the local custodian.

SID : Single Investor Identification

KSEI(PT Kustodian Sentral Efek Indonesia )

Local Custodian

Conduct KYC

[1] Apply for SID

[2] Issue SID

[3] Reply SID

[4] SID

Resident Investor

Global Custodian

Conduct KYC

[5] SID

Foreign Investor

Information for account opening

KYC information for market entry collected by global custodian

KYC information for market entry collected by local custodian

Application and reply for SID
KYC information for collecting tax (Indonesia)

Ex: Investment in Indonesia

In the case where foreign investors open their own accounts in the local custodian.

DGT can be submitted by electrical form. DGT data is maintained for a year from initial submission and gets renewed on an annual basis.

Tax Authority certifies the investor’s status
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

<table>
<thead>
<tr>
<th></th>
<th>CSD</th>
<th>Account Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Bond</td>
<td>BTr (Bureau of the Treasury)</td>
<td>Omnibus</td>
</tr>
<tr>
<td>Corporate Bond</td>
<td>PDTC (Philippine Depository &amp; Trust Corp)</td>
<td>Omnibus</td>
</tr>
</tbody>
</table>

- 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

The account structure of CSD is omnibus. KYC information is not submitted to CSD.

Local custodian doesn’t conduct KYC process in this case.

BSP doesn’t conduct KYC process for each account opening. As an audit of local custodian, BSP confirms that local custodian conducts KYC process properly.

In the case where foreign investors’ accounts are included by the global custodian account.

In the case where foreign investors open their own accounts in the local custodian.

Information for account opening
KYC information for market entry collected by global custodian
KYC information for market entry collected by local custodian
KYC information for collecting tax (Philippines)

Ex: Investment in Philippines

In the case where foreign investors’ accounts are included by the global custodian account.

In the case where foreign investors open their own accounts in the local custodian.
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

<table>
<thead>
<tr>
<th>OTC Market</th>
<th>Account Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>CCDC (Central Depository &amp; Clearing Co., Ltd.)</td>
<td>Segregated</td>
</tr>
<tr>
<td>SHCH (Shanghai Clearing House)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exchange Market</th>
<th>Account Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSDC (China Securities Depository and Clearing Corporation Limited)</td>
<td>Segregated</td>
</tr>
</tbody>
</table>

- 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)

- Interbank Market
  - SHCH
  - CCDC
  - CFETS
  - KYC/AML Authority (PBOC)

- Exchange Market
  - CSDC
  - KYC/AML Authority (CSRC)

- Local Custodian
  - Conduct KYC
  - KYC info
  - Resident Investor

- Global Custodian
  - Conduct KYC
  - KYC info

- Overseas
  - Local Custodian
  - Conduct KYC
  - KYC info

- Foreign Investor (CIBM direct)
  - Conduct KYC
  - KYC info

- Foreign Investor (QFII)
  - Conduct KYC
  - KYC info

- Information for account opening
  - KYC information for market entry collected by global custodian
  - KYC information for market entry collected by local custodian
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

<table>
<thead>
<tr>
<th>CSD</th>
<th>Account Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Bond BOJ (Bank of Japan)</td>
<td>Omnibus</td>
</tr>
<tr>
<td>Corporate Bond JASDEC (Japan Securities Depository Center, Incorporated)</td>
<td>Omnibus</td>
</tr>
</tbody>
</table>

- 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

The account structure of CSD is omnibus. KYC information is not submitted to CSD.

Local custodian doesn’t conduct KYC process in this case.

The KYC/AML Authority (FSA)

JASDEC (CSD for Commercial Bond) BOJ (CSD for Government Bond)

Local Custodian

Conduct KYC

Local Custodian

Conduct KYC

Local Custodian

Conduct KYC

Resident Investor

KYC info

Information for account opening

KYC information for market entry collected by global custodian

KYC information for market entry collected by local custodian

Global Custodian

Conduct KYC

Foreign Investor

KYC info

Global Custodian

Conduct KYC

Foreign Investor

KYC info

In the case where foreign investors’ accounts are included by the global custodian account.

In the case where foreign investors open their own accounts in the local custodian.
KYC information for collecting tax (Japan)

Ex: Investment in Japan

In the case where foreign investors’ accounts are included by the global custodian account.

In the case where foreign investors open their own accounts in the local custodian.

Global Custodian

Foreign Investor

Global Custodian

Foreign Investor

LC can open accounts per client or per tax designated rates or per tax domicile.

JASDEC
(CSD for Corporate Bond)

BOJ
(CSD for Government Bond)

KYC/AML Authority
(FSA)

Tax Office / Tax Authority
(NTA)
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

<table>
<thead>
<tr>
<th>CSD</th>
<th>Account Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Bond</td>
<td>TSD (Thailand Securities Depository)</td>
</tr>
<tr>
<td>Corporate Bond</td>
<td>TSD (Thailand Securities Depository)</td>
</tr>
</tbody>
</table>
**KYC information for account opening (Thailand)**

**Ex: Investment in Thailand**

- **Thailand**
  - SET
  - TSD
  - **KYC/AML Authority** (Bank of Thailand [BOT])

- **Overseas**
  - **Global Custodian**
    - **Conduct KYC**
      - **Foreign Investor**
        - **KYC info**

- **Local Custodian**
  - **Conduct KYC**
    - **Resident Investor**
      - **KYC info**

**Key Points**
- Local custodian doesn’t conduct KYC process in this case.
- BOT doesn’t conduct KYC process for each account opening. As an audit of local custodian, BOT confirms that local custodian conducts KYC process properly.
- The account structure of CSD is omnibus. KYC information is not submitted to CSD.
- The account structure of CSD is omnibus. KYC information is not submitted to CSD.

**Legend**
- Green arrow: Information for account opening
- Orange arrow: KYC information for market entry collected by global custodian
- Blue arrow: KYC information for market entry collected by local custodian

**Additional Information**
- In the case where foreign investors’ accounts are included by the global custodian account.
- In the case where foreign investors open their own accounts in the local custodian.
- Ex: Investment in Thailand
KYC information for collecting tax (Thailand)

Ex: Investment in Thailand

In the case where foreign investors’ accounts are included by the global custodian account.

In the case where foreign investors open their own accounts in the local custodian.

KYC/AML Authority (Bank of Thailand[BOT])

Global Custodian
Foreign Investor
Info

Local Custodian
Info
Resident Investor

Local Custodian
Info

Global Custodian
Foreign Investor
Info

SET
TSD

Thailand

Overseas

→ KYC information for transaction
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

<table>
<thead>
<tr>
<th>CSD</th>
<th>Account Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Bond</td>
<td>BNM (Bank Negara Malaysia)</td>
</tr>
<tr>
<td>Corporate Bond</td>
<td>BNM (Bank Negara Malaysia)</td>
</tr>
</tbody>
</table>
The account structure of CSD is segregate. KYC information is submitted to CSD.

Ex: Investment in Malaysia

- **Malaysia**
  - Local Custodian
  - Conduct KYC
  - KYC info
  - Resident Investor

- **Overseas**
  - Global Custodian
  - Conduct KYC
  - KYC info
  - Foreign Investor

- **CSD, KYC/AML Authority (Bank Negara Malaysia [BNM])**
  - Conduct KYC

Information for account opening:
- Green arrow: KYC information for market entry collected by global custodian
- Grey arrow: KYC information for market entry collected by local custodian
KYC information for collecting tax (Malaysia)

Ex: Investment in Malaysia

- **Malaysia**
  - Local Custodian
  - CSD, KYC/AML Authority (Bank Negara Malaysia [BNM])
  - Tax Authority (Inland Revenue Board of Malaysia)

- **Overseas**
  - Global Custodian
  - Foreign Investor
  - Resident Investor

**KYC information for transaction**
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

<table>
<thead>
<tr>
<th>Bond Type</th>
<th>CSD</th>
<th>Account Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Bond</td>
<td>MAS (Monetary Authority of Singapore)</td>
<td>Omnibus</td>
</tr>
<tr>
<td>Corporate Bond</td>
<td>CDP (The Central Depository (Pte) Ltd)</td>
<td>Segregated/Omnibus</td>
</tr>
</tbody>
</table>
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
ABMF SECRETARIAT TEAM:
Satoru Yamadera
Principal Financial Sector Specialist
syamadera@adb.org

Kosintr Puongsophol
Financial Sector Specialist
kpuongsophol@adb.org

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THANK YOU
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 costs.

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

![Graph showing averages of global custodian fees in ASEAN+3]

Note: PRC=People’s Republic of China.

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. 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. In this case, a local custodian conducts the identification and verification of their client, being a

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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.

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.
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**

![Diagram showing 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. 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](https://www.gleif.org).

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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*
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. 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.

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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

<table>
<thead>
<tr>
<th></th>
<th>CSD</th>
<th>Account Structure</th>
<th>Single Investor ID (SID)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIBM</td>
<td>CCDC (Central Depository &amp; Clearing Co., Ltd.)</td>
<td>Segregated</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>SHCH (Shanghai Clearing House)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exchange Market</td>
<td>CSDC (China Securities Depository and Clearing Corporation Limited)</td>
<td>Segregated</td>
<td>No</td>
</tr>
</tbody>
</table>

- 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

![Diagram of KYC process for different market segments and investors.](image-url)
2. Indonesia

Overview

2.1.1. CSD (Account Structure and SID)

<table>
<thead>
<tr>
<th>CSD</th>
<th>Account Structure</th>
<th>Single Investor ID (SID)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Government Bond</strong></td>
<td>BI (Bank Indonesia) KSEI (Kustodian Sentral Efek Indonesia)</td>
<td>Omnibus</td>
</tr>
<tr>
<td><strong>Corporate Bond</strong></td>
<td>KSEI (Kustodian Sentral Efek Indonesia)</td>
<td>Omnibus</td>
</tr>
</tbody>
</table>

- 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)

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
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)

<table>
<thead>
<tr>
<th></th>
<th>CSD</th>
<th>Account Structure</th>
<th>Single Investor ID (SID)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government bonds</td>
<td>BOJ (Bank of Japan)</td>
<td>Omnibus</td>
<td>No</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>JASDEC (Japan Securities Depository Center, Incorporated)</td>
<td>Omnibus</td>
<td>No</td>
</tr>
</tbody>
</table>

- 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.
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)**

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

- **(Details of Payer of Interest)**

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

### 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
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)

<table>
<thead>
<tr>
<th>CSD</th>
<th>Account Structure</th>
<th>Single Investor ID (SID)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government bonds</td>
<td>PayNet (Payments Network Malaysia Sdn Bhd), wholly owned by Bank Negara Malaysia</td>
<td>Segregated</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>PayNet (Payments Network Malaysia Sdn Bhd), wholly owned by Bank Negara Malaysia</td>
<td>Segregated</td>
</tr>
</tbody>
</table>

- 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.
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

<table>
<thead>
<tr>
<th>No</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Asset Management</td>
</tr>
<tr>
<td>2</td>
<td>Central Bank</td>
</tr>
<tr>
<td>3</td>
<td>Government</td>
</tr>
<tr>
<td>4</td>
<td>Pension Funds</td>
</tr>
<tr>
<td>5</td>
<td>Insurance Companies</td>
</tr>
<tr>
<td>6</td>
<td>Non-Financial Corporation</td>
</tr>
<tr>
<td>7</td>
<td>Banking Institutions / Financial Intermediaries</td>
</tr>
<tr>
<td>8</td>
<td>Individual</td>
</tr>
</tbody>
</table>

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)

<table>
<thead>
<tr>
<th></th>
<th>CSD</th>
<th>Account Structure</th>
<th>Single Investor ID</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government bonds</td>
<td>BTr (Bureau of the Treasury)</td>
<td>Omnibus</td>
<td>No</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>PDTC (Philippine Depository &amp; Trust Corp)</td>
<td>Omnibus</td>
<td>No</td>
</tr>
</tbody>
</table>

- 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.
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

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 $100T impact through 2025

02 CHANGING TREASURY
80% of treasurers agree treasury will be playing a more strategic role 3yrs from now

03 CHANGING WORKFORCE
Millennials will make up 75% of the workforce by 2030

04 BANKING DISRUPTION
80% of traditional financial services firms will go out of business by 2030

05 MACRO GLOBAL SHIFTS
“Vast majority of CEOs believe that economic and financial volatility will increase over the next 12 months”

06 EMERGING TECHNOLOGY
>130Bn connected devices by 2030
AI will increase labor productivity by 40% through 2035

“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

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.

<table>
<thead>
<tr>
<th>Disruptions from COVID</th>
<th>Implications for payments and treasury</th>
</tr>
</thead>
<tbody>
<tr>
<td>Curtailed physical movement shifted activity from offline to online, disrupting BAU operations</td>
<td>Paper processes and those with physical needs (e.g. wet signature, branches) are disrupted</td>
</tr>
<tr>
<td>Move to a cashless society accelerated since the onset of COVID-19</td>
<td>~15%</td>
</tr>
<tr>
<td></td>
<td>- In overall consumer interest in mobile payments(^2)</td>
</tr>
<tr>
<td></td>
<td>- In share of B2B revenue driven by eCommerce(^3)</td>
</tr>
<tr>
<td>Supply chain disruptions led to large adjustments and pivots to accommodate</td>
<td>Greater focus on internal sources of liquidity and working capital release</td>
</tr>
<tr>
<td>Day-to-day behavior and engagement shifted to virtual</td>
<td>Increased demand for digital channels and solutions including eComm and self-servicing tools</td>
</tr>
<tr>
<td>10 years</td>
<td>64%</td>
</tr>
<tr>
<td>Experts estimate that COVID led to a leap of 10 years in consumer and business digital adoption(^1)</td>
<td>of treasurers said an increase focus on digital is what they would change post-COVID4</td>
</tr>
</tbody>
</table>

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-to-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
- Structured address fields
- Legal Entity Identifier (LEI)
- Time Stamps
- Status codes
- Transaction references

Key Industry / Client Messages

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

J.P. Morgan
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

1. Developing a common cross-border payments vision and targets
2. Implementing international guidance and principles
3. Defining common features of cross-border payment service levels
4. Aligning regulatory, supervisory and oversight frameworks for cross-border payments
5. Applying AMU/CFT rules consistently and comprehensively
6. Reviewing the interaction between data frameworks and cross-border payments
7. Promoting safe payment corridors
8. Fostering KYC and identity information sharing
9. Facilitating increased adoption of P2P
10. Improving (direct) access to payment systems by banks, non-banks and payment infrastructures
11. Exploring Issuer-to-issuer liquidity arrangements across central banks (liquidity bridges)
12. Expanding and aligning operating hours of cross-border payment systems to affect settlements
13. Pursuing interoperability of payment systems for cross-border payments

Source: CPMI: Enhancing cross-border payments: building blocks of a global roadmap - Stage 2 report to the G20 (July 2020)
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Session 3:
Standardization and Reporting: ISO 20022 Adoption

Joint ABMF and CSIF Online Workshop
3 December 2020
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 ISO 20022 Methodology

The methodology distinguishes 3 layers:

- **Business / Conceptual**
  - Defines business meaning of financial concepts, e.g., ‘Credit Transfer’

- **Logical**
  - Defines e.g. credit transfer messages, to serve the business process

- **Physical**
  - Defines physical syntax, e.g. XML, JSON, ASN.1
EU Regulation – Securities Financing (Shadow Banking)

Financial and non-financial counterparties

Trade Repositories

EU National Competent Authorities

ESMA

FSB

EU – Money Market Statistical Reporting

Header

- Business Application Header
- Sender information (LEI)
- Message Identifiers
- Market segment information (e.g. Secured, Unsecured, FX swaps or OIS)
- Time scope of the report

Common data

- Reporting agent’s LEI
- Reference date
- Unique transaction identifier (UTI)

Counterparty Information

- Counterparty’s LEI

Operation-specific data

- Specific details pertaining to each operation’s type, such as:
  - ISIN
  - Collateral haircut
  - Triparty agent’s LEI
  - Settlement date
  - Spread
  - Spot value date
  - …
Supporting the payments (and securities businesses) of financial institutions through instant and frictionless transactions

<table>
<thead>
<tr>
<th>Frictionless payments</th>
<th>Smarter securities</th>
<th>Rich data</th>
<th>Open state of the art platform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instant and frictionless transactions from account to account anywhere in the world, building on and extending gpi</td>
<td>Smarter securities services for greater simplicity and efficiency</td>
<td>End-to-end integrity and rich data services enabled by ISO 20022, to help our users innovate and grow</td>
<td>State of the art digital platform that enables messaging and transaction services with effortless customer experience</td>
</tr>
</tbody>
</table>

**SWIFT Strategy**

**Frictionless**

**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

... unlocks business benefits for the community

— **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

— **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 20022 adoption milestones

**Phases**

- MT remains the standard for cross-border payments, users train for CBPR+ and prepare back office systems for native ISO 20022 support

**Updated ISO 20022 adoption plan**

- **Milestones for Customer readiness**
  - Jul, CBPR+ messaging specs published (Completed)
  - Sep, Eurozone translation & validation pilot solution available (Completed)
  - Nov, FINplus messaging service pilot
  - Jul, gpi ISO support in pilot & SWIFT interface releases
  - End 2021, Start of Transaction Mgmt pilot testing

- **Milestones for Vendor readiness**
  - Sep, Start of FINplus vendor 2020 compatibility testing (Completed)
  - Mar, Initial API specs published
  - Mar, vendor 2020 compatibility completed
  - Sep, Start of CBPR+ maintenance & gpi 2021 vendor compatibility testing
  - Mar, vendor 2021 compatibility completed

**Transaction Mgmt Platform introduced, coexistence for ISO 20022 & MT**

- ISO 20022 based APIs or messaging live with Transaction Mgmt services

- **Nov 2022, Transaction Management Platform live**
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 counterparts 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

**Transaction management services**

**Debtor Agent**
- **Instructing your counterparties**
  - **Send** Customer Credit Transfer (CT), FI Credit Transfer and Cover
  - As MT, MX or API

**Intermediary Agent**
- **Receive and send** Customer Credit Transfer, FI Credit Transfer and Cover
  - As MT, MX or API
  - Optionally MX with MT embedded

**Creditor Agent**
- **Receive** Customer CT, FI CT and Cover
  - As MT, MX or API
  - Optionally MX with MT embedded

**Instructing your counterparties**
- **Send** Customer Credit Transfer (CT), FI Credit Transfer and Cover
  - As MT, MX or API

**Reporting to your counterparties**
- **Receive and send** cash management reporting
  - MT9xx or camt.xxx messages as per bilateral agreement

**Compliance**
- **Screen** instructed message with local solution; or
  - Use SWIFT embedded screening
  - Party details are stored in the transaction

**Access to data**
- Debtor Agent has rights to create and archive all payment data
  - Read payment data including immutable parts, update non-immutable fields
  - All data available for archiving

- Intermediary Agent can read the transaction data
  - All data available for archiving

- Creditor Agent can read the transaction data
  - All data available for archiving
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.
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

- FX Instructions
  - Voice trades
  - Proprietary systems
  - Messaging
    - MT300
    - MT380
    - MT54x w. FX indicator
    - MT599
  - Standing instructions

[Electronic means only]

- Custodian (Data)
  - Underlying Trade/CA
  - Transaction Data
  - Static Data (Client)
    - Client ID
  - Transaction Indicators
    - Product category
    - Purpose

- FX Reporting
  - By Transaction
    - Deal data
  - Daily
    - Transactions
    - Totals
  - Monthly
    - Volume/Turnover
    - CCY Pairs
    - Transaction Types
Relevance of standardized client ID

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

FX Instructions
- Voice trades
- Proprietary systems
- Messaging
  - MT300
  - MT380
  - MT54x w. FX indicator
  - MT599
- Standing instructions

[Custodian (Data)]
- Underlying Trade/CA
- Transaction Data
  - Static Data (Client)
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    - Purpose

FX Reporting
- By Transaction
  - Deal data
- Daily
  - Transactions
  - Totals
- Monthly
  - Volume/Turnover
  - CCY Pairs
  - Transaction Types

[Electronic means only]
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

<table>
<thead>
<tr>
<th>Entities with LEI</th>
<th>Entities without LEI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual investors</td>
<td></td>
</tr>
</tbody>
</table>
Relevance of standardized transaction identifiers

OTC derivative reporting will include UTI, UPI, and CDE

**FX Instructions**
- Voice trades
- Proprietary systems
- Messaging
  - MT300
  - MT380
  - MT54x w. FX indicator
  - MT599
- Standing instructions

**Custodian (Data)**
- Underlying Trade/CA
- Transaction Data
- Static Data (Client)

**Transaction Indicators**
- Product category purpose

**FX Reporting**
- By Transaction
  - Deal data
- Daily
  - Transactions Totals
- Monthly
  - Volume/Turnover
  - CCY Pairs
  - Transaction Types

*Electronic means only*
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.

Collecting FX reporting items in ASEAN+3

Map the data
- Entity info
- KYC process
- Transaction info
- Reason for transaction
- Map against the existing message standards

Propose standardization
- Propose a revision of existing message or creation of new messages
Annex: mapping exercise
Possible Approach (1)
Map MT54x against most common Reporting Format, identify Gaps

FX Instructions
- Voice trades
- Proprietary systems
- Messaging
  - MT300
  - MT380
  - MT54x w. FX indicator
  - MT599
- Standing instructions

Custodian (Data)
- Underlying Trade/CA
- Transaction Data
- Static Data (Client)
  - Client ID
  - LEI
- Statistical Indicators
  - Bank ID, Category
  - Frequency

FX Reporting
By Transaction
- Deal data
- Daily
  - Transactions
  - Totals
- Monthly
  - Volume/Turnover
  - CCY Pairs
  - Transaction Types

[Electronic means only]
Possible Approach (2)
Develop Matrix of Reporting Items by Market

Sample only

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<th>MTS41 (RVP)*</th>
<th>FX Deal</th>
<th>FX Reporting</th>
<th>Cambodia</th>
<th>Lao PDR</th>
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* With 11A tag FXIS
### BOK FX0015 versus MT300

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*County (ISO3166)*

*Entity (ISO17442)*

*ELF Code (ISO20275)*
‘Client Identity’ concept

KYC (Process)  leads to  Client Identity (Result)  used for  Reporting

Identifier
Entity or individual
Name
Address
Residency (legal)
Domicile (tax)
Legal register
Ownership
Articles of Association
Authorised persons
Authorised signatures
Power of attorney
Type of business
Credit (rating)
Financials
Product type(s)
...

Identifier
Entity of Individual
Name
Address
Residency (legal)
Domicile (tax)
Legal register
Ownership
Articles of Association
Authorised persons
Authorised signatures
Power of attorney
Type of business
Credit (rating)
Financials
Product type(s)
...

Legal Entity Identifier

leads to

FX reporting
Regulatory reporting
Tax processing
‘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