



# ASIA PACIFIC

## Securities Lending User Guide

- 2024 -

AUSTRALIA

HONG KONG

MALAYSIA

SOUTH KOREA

CHINA

INDIA

NEW ZEALAND

TAIWAN

CHINA/HK STOCK  
CONNECT

INDONESIA

PHILIPPINES

THAILAND

JAPAN

SINGAPORE

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Cover Art; Illustration of Bali Island with Balinese Hindu Temple, World Travel, Paradise. By GHArtwork

## EXECUTIVE SUMMARY

PASLA and EquiLend are pleased to present the APAC Securities Lending Market User Guide 2024, marking the long-awaited return of this publication after the last edition in 2021.

The previous edition was released during the midst of the COVID-19 pandemic, which significantly impacted global markets. Today Asia Pacific securities finance markets are once again robust and we are looking forward with confidence as, around the region, more regulators and exchanges are taking steps to integrate securities finance into market structures with the aim of increasing participation in equity markets and boosting liquidity. There have been several encouraging developments recently, including the launch of short-sale infrastructure by the Philippine Stock Exchange and the soft launch of the Bilateral Securities Borrowing and Lending (SLB) Facility by Indonesia's IDCclear. At the recent PASLA/RMA Conference on Asian Securities Lending, which was attended by over 380 market participants from more than 28 countries, we heard first-hand from regional exchanges about their plans to continue liberalising securities finance activity.

However, there are still market-driven challenges and more progress to be made in promoting an open, transparent, and efficient securities finance market across the entire APAC region. With market access and fragmentation being one of the biggest challenges faced by market participants, our APAC Securities Lending Market User Guide provides

a valuable resource for our members, helping them understand the latest developments and opportunities in each market and make better-informed decisions as a result.

PASLA has a pivotal role in supporting the development of market structures across Asia Pacific. As well as promoting market transparency with resources like this User Guide, we also proactively engage with our members and advocate on their behalf, including active engagement with a range of Korean authorities as they navigate the complex task of potentially lifting their self-imposed ban. We also recently co-hosted our first China Securities Borrowing & Lending Seminar in Shanghai, with over 50 market participants discussing best practices across the region. We look forward to planning similar thematic events in the near future.






We would like to express our sincere gratitude to all the Asia Pacific securities finance experts who have contributed to this User Guide. The information contained in this Guide was compiled from public sources as well as contributions from domestic and international market participants, exchanges, and independent consultants. We welcome any feedback and suggestions to make this Guide even more useful in future. Most of all, we look forward to our continued work with the Asia Pacific securities finance community and to updating this Guide consistently as the market evolves.

**For any questions, feedback or additional information about this user guide, please contact:**

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# PASLA SUMMARY OF REQUIREMENTS JULY 2024










					
	AUSTRALIA	CHINA A	CHINA CONNECT	HONG KONG	INDIA
REGULATORS	ASIC	CSRC, CSFC	CSRC, SFC	SFC	SEBI
NON-DELIVERABLE CURRENCY	NO	YES	N/A	NO	YES
SETTLEMENT CYCLE	T+2	T+0	T+0	T+2	T+1
<b>SBL ACCESS METHODS</b>					
GMSLA PERMITTED	YES	NO	YES	YES	NO
SPECIFIC GMSLA ADDENDA	YES (TAX)	N/A	YES	YES	N/A
SBL ELIGIBLE OR PROHIBITED LIST	NO	YES	NO	NO	YES
ON-LENDING PERMITTED	YES	NO	NO	YES	NO
FAIL COVER FACILITIES AVAILABLE	YES	N/A	N/A	YES	NO
EXCHANGE INITIATED BUY-INS	YES	NO	NO	YES	YES
MAX SBL RATE	NO	N/A	NO	NO	NO
PRE-DELIVERY STOCKS	NO	N/A	N/A	NO	NO
SEGREGATED ACCOUNTS	NO	YES	YES	NO	YES
RESTRICTED TENOR OF CONTRACT	NO	YES	YES	NO	YES
<b>SHORT SELLING RULES</b>					
NAKED SHORT SELL PERMITTED*	NO	NO	NO	NO	NO
SHORT SELL ELIGIBLE OR PROHIBITED LIST*	NO	YES	YES	YES	NO
UPTICK RULE*	NO	YES	YES	YES	NO
SHORT POSITION LIMITS	NO	NO	YES	NO	YES
SHORT POSITION REPORTING	YES	YES	YES	YES	YES
<b>COLLATERAL</b>					
COLLATERAL RESTRICTIONS	NO	N/A	NO	NO	YES (ONSHORE ONLY)
COLLATERAL - PLEDGE OR TRANSFER TITLE	BOTH	N/A	PLEDGE ONLY	BOTH	N/A
NETTING AGREEMENT	YES	N/A	YES	YES	NO
<b>OTHER SETTLEMENT ASPECTS</b>					
FOREIGN OWNERSHIP LIMITS	YES	YES	YES	VERY LIMITED	YES
CENTRAL COUNTERPARTY CLEARING HOUSE MARKET	NO	YES	NO	NO	YES
POTENTIAL BUY IN TIME FRAME PER EXCHANGE RULES	T+4 to T+8	NON FAIL MARKET	T+1	T+3 BUT CAN APPLY FOR WAIVER	T+2
PENALTY FOR BUY IN	FINANCIAL	Potential Suspension of QFI	FINANCIAL	FINANCIAL	FINANCIAL
<b>MARKET NUANCE</b>	<ul style="list-style-type: none"> <li>CGT impact if loan tenor exceeds 365 days year</li> <li>Franking credits for local investors on dividends</li> </ul>			*GMSLA only available for specific qualified circumstances	

\*Exemptions can occur based on your individual market status e.g. Market Makers

<sup>1</sup> short selling banned until March 2025 as system is under review at time of going to print.

- To be confirmed, under review

# PASLA SUMMARY OF REQUIREMENTS JULY 2024

								
INDONESIA	JAPAN	MALAYSIA	NEW ZEALAND	PHILIPPINES	SINGAPORE	SOUTH KOREA	TAIWAN	THAILAND
OJK	JSFA	SC	FMA	SEC, PSE	SIC, MAS	FSS, FSC	FSC	SEC
YES	NO	YES	NO	YES	NO	YES	YES	YES
T+2	T+2	T+2	T+2	T+2	T+2	T+2	T+2	T+2
YES	YES	YES	YES	YES	YES	YES	YES	YES
NO	NO	YES	NO	YES	NO	YES	YES	YES
NO	NO	YES	NO	YES	NO	NO	NO	NO
YES	YES	YES	YES	YES	YES	YES	NO	YES
YES	YES	YES	YES	YES	YES	YES	YES	YES
NO	NO	YES	YES	YES	YES	YES	NO	YES
NO	NO	NO	NO	NO	NO	NO	YES	NO
NO	NO	YES	NO	YES	NO	NO	YES	NO
YES	NO	YES	NO	NO	NO	YES	YES	NO
YES	NO	NO	NO	YES	NO	NO	YES	NO
NO	NO	NO	NO	NO	YES	NO	NO	NO
YES	NO	YES	NO	YES	NO	YES <sup>1</sup>	YES	YES
YES	Only if stock fall by 10% from previous days close.	YES	NO	YES	NO	YES <sup>1</sup>	YES	YES
YES	NO	YES	NO	NO	NO	NO	YES	NO
YES	YES	NO	NO	YES	YES	YES <sup>1</sup>	NO	NO
YES (ONSHORE ONLY)	NO	NO	NO	NO	NO	NO	PRESCRIBED LIST	NO
BOTH	BOTH	TRANSFER TITLE	BOTH	BOTH	BOTH	Transfer title - CCP, Korean law pledge	TRANSFER TITLE (CCP)	BOTH
NO	YES	NO	YES	NO	YES	YES	YES	YES
YES	YES	NO	YES	YES	VERY LIMITED	YES	YES	YES
YES	NO	NO	NO	NO	NO	BOTH	NO	NO
T+2	CAN BE REQUESTED ON T+3	T+2	T+6	TBC	T+2	T+4	TRADES PRE-MATCH	T+3
FINANCIAL	FINANCIAL	NO	FINANCIAL	FINANCIAL AND POSSIBLE SUSPENSION	FINANCIAL	FINANCIAL AND CRIMINAL	POSSIBLE SUSPENSION IF FAIL	FINANCIAL
*GMSLA only available for Bilateral SBL						OVER HEATED SHORTS	Short sell quota, Daily Maximums, Total Outstanding Limited	



# AUSTRALIA



**Principal Exchange:** ASX

**Main Index:** S&P ASX 200

**Settlement Cycle:** T+2

## Trading Hours

**Open** Monday to Friday 10:00 - 16:00  
(16:10 closing auction)

**Time Zone** GMT+10

**Currency** AUD

## Exchange Highlights

Indices	Listed Companies	Total Market Cap
S&P ASX 200	2,049 as at March 2024	US\$1.8 trillion as at March 2024

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## Key Regulators

Australian Securities & Investment Commission (ASIC):  
<https://asic.gov.au/>

## Securities Borrowing and Lending (SBL)

## Access Methods

The Australian market historically used a legal agreement known as the Australian Master Securities Lending Agreement (AMSLA). The AMSLA was based on the Overseas Stock Lending Agreement (OSLA). However, the Global Master Securities Lending Agreement (GMSLA) is used more broadly today. Both allow for the collateralization of loans by cash or alternative collateral of equity or fixed income securities which are delivered prior to the loan of Australian securities (prepay).

In April 2024 an industry standard addendum to the GMSLA was created and is available to all PASLA members.

The AMSLA can be used for both agency and principal transactions. An agent lends securities on behalf of the beneficial owner and does not take on any risk for the transaction. Subsequently, the counterparty risk lies with the beneficial owner and the borrower. Loans and the collateral are transferred on a title transfer basis.

### DATALEND Market Data (Equity Lending Market) 2024 Averages

On Loan (USD)	Lendable (USD)	Utilization (%)	VWAF (bps)
17,817,259,765	442,081,087,473	4.03%	61.03

### Short Selling Rules

#### Is short selling permitted?

Short selling is permissible under the Corporations Act 2001.

#### Definition of short sale

Generally, where a person executes a short sale and relies on an existing securities lending arrangement to have a “presently exercisable and unconditional right to vest” the products in the buyer at the time of sale, the sale of the products is a covered short sale. (RG 196.2 Corporations Act 2001)

#### Pricing requirement for short sale

None

### Short Position Reporting

#### Disclosure of short position

Public disclosure is required under certain conditions.

The threshold for reporting is when a firm’s short position is more than AU\$100,000 or 0.01% of the total quantity of securities or products in the relevant class of securities or products.

#### When does a report need to be made?

A person must report their short positions as at 7 p.m. on each reporting day. Short position reports must be received by ASIC before 9 a.m. three reporting days after the date of the short position. (RG 196.133 Corporations Act 2001)

### Other Reporting Required

Substantial holdings of over 5% of voting shares in a listed company must be disclosed (Corp Act 2001). Parties to a securities lending transaction may be required to provide substantial holding notices at various stages in the transaction and the need for disclosure must be analyzed on a case-by-case basis. Some forms of exemption are available and further information can be found at:



- ASIC Corporations (Securities Lending and Substantial Holding Information)  
Instrument: <https://www.legislation.gov.au/Details/F2021L01333>

### **Buy-Ins**

Settlement participants, i.e., selling brokers, are required to close out settlement short-falls that remain after batch settlement on T+4 by purchasing or borrowing the shares required to complete the settlement. An outstanding settlement position that has not been resolved by T+8 will be referred to ASX Markets Supervision for investigation and possibly to the Disciplinary Tribunal.

The price bid for the buy-in is based on the last recorded sale price adjusted by either a higher bid price or a lower offer price, as at 12:00 noon on settlement day (SD) plus a margin above the market price of the securities. This margin rises each day that the trade remains outstanding.

### **Collateral Requirements**

Borrowing in Australia across both domestic and international lenders requires collateral to be lodged before the physical shares can move. Collateral can be USD, GBP, AUD or JPY cash, or forms of equities and government debt depending on the underlying clients' preferences and internal compliance approval. Normal collateral headroom is 105% of the stock's market value.

### **Foreign Investor Limits**

Individual foreign ownership is capped at 15%; anything more than 15% requires approval from the Foreign Investment Review Board. The aggregate limit is 40%. Certain industries such as ASX, telecommunications, gaming, etc., have further restrictions.

### **Operational and Post Trade**

Scheduled Settlement (101) – 11:30 a.m. – a full DVP system allowing simultaneous turnaround and simultaneous exchange of securities and cash in CHES (the Australian settlement system).

Demand Settlement (005) – For off-market trades or to process a same-day turnaround trade that is not matched in time for the scheduled settlement process. Payments (if any) are made by 4:30 p.m. via the Austraclear system, while the securities transfers are processed through CHES. Subject to the agreement of both settlement parties, securities can settle until 7 p.m.

Failed Trade Fees – Equities – 0.1% of the value of the shortfall, subject to a daily minimum fee of AU\$100 and maximum fee of AU\$5,000. The value of the shortfall is calculated based on the failed trade quantity multiplied by the valuation price of the security.

On some state holidays, the ASX remains open for trading and settlement. Such days are considered as trading, but not business days.

### **Special Auction Rules**

Pre-open: 7:00 - 10:00

Opening auction: 10:00 - 10:09:15 (staggered for different groups of equities)

Opening takes place at 10:00 a.m. Sydney time and lasts for about 10 minutes. ASX Trade calculates opening prices during this phase. Securities open in five groups, according to the starting letter of their ASX code:

**Group 1:** 10:00:00 +/- 15 secs 0-9 and A-B, e.g., ANZ, BHP

**Group 2:** 10:02:15 +/- 15 secs C-F, e.g., CPU, FXJ

**Group 3:** 10:04:30 +/- 15 secs G-M, e.g., GPT

**Group 4:** 10:06:45 +/- 15 secs N-R, e.g., QAN

**Group 5:** 10:09:00 +/- 15 secs S-Z, e.g., TLS

The time is randomly generated by ASX Trade and occurs up to 15 seconds on either side of the times given above—e.g., Group 1 may open at any time between 9:59:45 and 10:00:15.

Pre-close: 16:00 - 16:10

Closing auction: 16:10 - 16:12





Indigenous Australian art Dot painting background. By Rafael Ben-Ari



Taoism Chinese Landscape Painting A serene landscape painting in the style of traditional Chinese art, depicting mountains, rivers, and a Taoist temple nestled amongst the natural beauty. By F@tboy

# CHINA



**Main Stock Exchanges:** Shanghai Stock Exchange (SSE), Shenzhen Stock Exchange (SZSE), Beijing Stock Exchange (BSE), Star Board, ChiNext

**Main Indices:** SSE Composite, SZSE Composite

**Settlement Cycle:** T+0 (A-shares)

## Trading Hours

**Morning Session:** 9:30 a.m. - 11:30 a.m.

**PM session:** 1 p.m. - 3 p.m. (Shanghai)

**PM session:** 1 p.m. - 2:57 p.m. (Shenzhen Beijing)

**Time Zone:** GMT + 8

**Currency:** RMB

## General Market Updates

China as a trading venue and market has seen some dynamic changes over the last 3 years. The market has attracted sustained foreigner interest and is arguably the most important trading venue for market participants in the region.

Since 2020, the market has made positive strides in opening its doors to foreign participants. The removal of securities investment quotas in May 2020 and the merger of QFII and RQFII schemes in Sept 2020, followed with the relaxation of eligible institution for QFII application and the broadening of the investment scope of QFII has made it substantially easier for foreigners to trade its markets.

In the past year, one of the major developments in China's primary markets was the expansion of registration-based IPO regime to all listed boards, products, and activities. This was on the back of prior pilot programs implemented on the SSE STAR Market, SZSE ChinaNext Board and the Beijing Stock Exchange (BSE). In August 2023, the CSI2000 Index and associated onshore future was also launched to provide more means for market participants to gain broad based exposure to small cap securities.

## Exchange Highlights

The Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE) are the main exchanges in China. Both exchanges were opened in 1990, with Shanghai listing most of China's large-cap companies, state-owned enterprises, banks, and energy firms. Shenzhen has been viewed as listing more "growth" stocks, such

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as small- to mid-cap private sector companies. Both exchanges have their own subsidiaries that focus on smaller, newer companies - the SSE created Star Board in 2019 and SZSE launched ChiNext in 2009. The Beijing Stock Exchange (BSE) was established in end-2021 with the aim of supporting growth companies with less stringent requirements for listing. While domestic residents and funds are free to trade the market on a relatively unrestricted basis, offshore access can be conducted through the QFII regime.

QFII is a program introduced in 2002 that allows international investors to participate directly in the mainland stock exchanges - China's markets were previously closed to foreign investors. Historically, quotas were granted by the State Administration of Foreign Exchange (SAFE). Since 2021, the requirements to be approved as a QFII participants have been loosened and the associated quotas also scrapped.

### China market capitalization US\$ 9 trillion

Index Name	Main Indices	Listed Companies
Shanghai Stock Exchange Composite Index	SHCOMP	2266
Shenzen Stock Exchange Composite Index	SZCOMP	2845
ChiNext Index	CNT	1,333
Star Board	STAR50 / STAR100	567
BSE	CBSE50	241

### Hong Kong/China Connect

Covered in more detail separately, the Hong Kong/China Stock Connect mechanism was set up in November 2014 with the aim of providing “mutual market access” between Hong Kong and China.

### China A-Shares Versus B-Shares

China A-shares differ from B-shares. A-shares are only quoted in RMB, while B-shares are quoted in foreign currencies, such as USD. Some companies have historically listed their stock on both the A-share and B-share markets, to allow foreign and mainland investors to invest. Trading in B-shares is on the rise, especially after the advent of the HK/China Connect.

### Key Regulators

- China Securities Regulatory Commission (CSRC) – National regulatory body for the securities and futures exchanges in China.
- China Securities Finance Corporation (CSF) – Provides margin financing loan services to the market, including margin financing and securities lending activity.
- China Securities Depository and Clearing (CSDC) – Undertakes all securities registration, clearing, and settlement activity for the market.
- State Administration of Foreign Exchange (SAFE) – China's foreign exchange

regulatory agency.

### Useful Links:

- SSE website: <http://english.sse.com.cn/>
- Star Market website: <http://star.sse.com.cn/en/>
- SZSE website: <http://www.szse.cn/English/index.html>
- BSE website: <https://www.bse.cn/index.html>
- CSF Website: <http://www.csf.com.cn/publish/english/index.html>
- CSRC website: [http://www.csrc.gov.cn/pub/csrc\\_en/](http://www.csrc.gov.cn/pub/csrc_en/)

## Securities Borrowing and Lending (SBL)

### Access Methods

Flexible SBL Terms and Rates for STAR Market, GEM and Main Boards	
Term	1-182 Day
Lending rate	Negotiated between lenders and brokers
Broker's Borrowing Rate	Lending Rate + 60bps (CSF fee)

One of the major developments with the QFII Rules announced in November 2020 was the expansion of the investment scope of QFIIs to include SBL/margin financing. QFIIs are now allowed to participate in short selling activities, as well as to lend their assets through an approved onshore broker.

These brokers can act as lenders as well as borrowers where SBL transactions are cleared through the CSDC at an agreed rate and term.

CSF maintains a list of securities eligible for margin financing. As of 2023, mutual funds are allowed to lend.

### Useful Links:

Securities eligible for margin lending and relevant rates:

<http://www.csf.com.cn/publish/english/1072/1080/index.html>

<http://www.csf.com.cn/publish/english/1072/1079/index.html>

### Source of Onshore Inventory

- Broker Internal Inventory
- Mutual Funds
- Pension Funds
- Corporate Shareholders
- Hedge Funds
- QFII/RQFII

## Short-Selling Rules

### Is short selling permitted?

Covered short selling is currently permitted onshore for a specific list of securities and is centralized through the CSF. A borrow must be in place prior to selling.

The CSF acts as principal in all transactions and will source inventory through a variety of onshore brokers in order to offer short access. The CSF does not provide collateral when borrowing from lenders but does receive 20-25% collateral from the short selling, thus limiting leverage. Borrowing is typically done versus a short sell order.

### Definition of short sale

Margin trading and securities lending refers to the practice where an investor purchases securities with borrowed money from a member, or sells securities borrowed from a member, by providing collateral to the member. In order to participate in margin trading and securities lending, a member shall apply to the exchange for the trading access to margin trading and securities lending.

### Pricing requirement for short sale

The declared price for investors to sell securities must not be lower than the last transaction price; if there have been no transactions recorded on the day of the short sell order, then the price must not be lower than the previously day's closing price, in that security. If the price instruction on the margin selling order is lower than the aforementioned price, the transaction is to be treated as invalid and the order rejected.

## Short Position Reporting

### When does a report need to be made?

No short reporting is needed as all information is centralized at the CSF.

Short selling is conducted through the CSF, which acts as principal to all transactions.

SBL borrowing must be pre-arranged through the onshore SBL broker, where short selling can only take place once the borrowing has been agreed and confirmed. On the main boards there is usually a 1-day lag in setting that up but on the STAR board and ChiNext that can be done the same day.

Short-selling orders must be flagged as such and are subject to a tick rule: the input price of a short-selling order must not be lower than the most recent execution price (or the previous closing price if there have been no executed trades on a given day) of the relevant short-selling security.

In the event that shares borrowed for short selling remain outstanding and have not yet been returned to the lender, participants are required to comply with the



tick rule requirement as mentioned above in respect of any instructions for the sale of that security, except for those instructions that exceed the number of the outstanding and unreturned shares.

In 2023, the CSF allowed short sale proceeds to buy Chinese Bond ETFs.

### **Useful Links:**

<http://www.sse.com.cn/market/othersdata/margin/sum/>

<https://www.szse.cn/disclosure/margin/margin/index.html>

### **Buy-Ins / Forced Liquidation**

There are no buy-ins due to the T+0 settlement of shares. From an SBL perspective, it is not possible to execute an SBL transaction if limits are not generated through an SBL confirmation by the broker. However, forced liquidation of shorts can be instituted by the SBL broker if the borrow contract is overdue.

### **Collateral Requirements**

The CSF does not pass any form of collateral through to the lender of securities but does guarantee the return of those securities back to the lender. The broker borrowing shares is required to hold and ring-fence in a segregated account 170% initial margin as well as the full 100% of the short sell proceeds on top. There is a margin call to that account if the value falls below 130% and a top-up warning if the level hits 150%, and monies can be withdrawn if the value exceeds 300%, but not to below 270%.

The CSF will constantly monitor the credit situation of all signed participants in the program and will also set leverage restrictions on firms for margin and stock lending. In 2023, the CSF expanded eligible collateral to allow short sell proceeds to buy Chinese ETFs.

### **Collateral Haircuts:**

- Cash 0%
- Equities:  $\geq 30\%$
- ETFs, Corp Bonds:  $\geq 20\%$
- Money market fund and Treasury Bonds:  $\geq 95\%$

### **Foreign Investor Limits**

A single foreign investor's total shareholding in a company listed in SSE and/or SZSE may not exceed 10% of the company's total shares. When and if aggregated foreign shareholding exceeds 30%, the foreign investors will be requested to sell the shares on a last-in-first-out basis within five trading days.

When the aggregate foreign shareholding of an individual A share reaches 25%, the SSE or SZSE will publish a notice on their website. SSE/SZSE Securities purchased through Shanghai Connect and Shenzhen Connect are considered in totality with those purchased under QFII and RQFII, and subject to the same foreign shareholding restriction. Once SSE/SZSE informs SEHK that the aggregate foreign shareholding of an SSE/SZSE Security reaches 28%, further Northbound buy orders in that SSE/SZSE Security will not be allowed, until the aggregate foreign shareholding of that SSE/SZSE Security is sold down to 26%.

## Tax

- 10% under corporate income tax (CIT) and 20% under individual income tax (IIT) for foreign investors
- Dividends subject to 10% withholding tax (WHT), unless a specific tax treaty has been negotiated otherwise
- Stock borrowing exempted from stamp duty

Capital gains taxes and business taxes were temporarily exempted for China A-shares or similar investments for QFIIs and RQFIIs from November 17, 2014, onward. There was no specific expiration date mentioned at the time.

## Talking Points & Future Developments Facing the SBL Model

Participation in this product hasn't seen the expected uptick previously predicted in part due to some large hurdles such as, non-industry standard documentation, adherence to unique local regulations around SBL practices and processes, and the uniqueness of how QFIIs participate in securities through the CSFC (non-bilateral).

On the supply side of things, there have also been industry efforts to encourage QFIIs to lend their holdings through the CSFC. However, the operationally onerous process, the non-receipt of collateral from the CSFC and the lack of approvals of third parties (agents) to help in this process has hampered progress.

In July 2024 the CSRC announced measures to restrict flows via securities lending, short selling and margin financing. It is anticipated that these will be temporary and will be adjusted back when overall market performance improves.

Despite these initial impediments to the onshore model taking off, the market remains an important potential growth area for SBL in the region.





*Minimalistic mountain landscape with watercolor brush in Japanese traditional style. Wallpaper with abstract art for prints or covers. By Zaleman*



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A bustling Asian market in pop art style, bold colors, stylized food stalls, and exaggerated figures. By ktianngoeno128

# CHINA / HK STOCK CONNECT



<b>Main Stock Exchanges</b>	SSE Composite, SZSE Composite
<b>Settlement Cycle:</b>	T+0
<b>Trading Hours</b>	
<b>Morning Session:</b>	9:15 a.m. - 11:30 a.m.
<b>Afternoon Session:</b>	13:00 p.m. - 15:00 p.m.
<b>Time Zone:</b>	GMT + 8
<b>Currency:</b>	RMB

## General Market Overview

Shanghai Connect and Shenzhen Connect (known collectively as Stock Connect) are securities trading and clearing link programs developed by the Hong Kong Exchange (HKEx), Shanghai Stock Exchange (SSE), Shenzhen Stock Exchange (SZSE), China Securities Depository (CSD), and Clearing Corporation Limited (ChinaClear) with the aim of providing mutual market access between mainland China and Hong Kong.

The Connect pilot scheme was launched in November 2014, enabling investors across Shanghai's and Hong Kong's exchanges to access certain listed securities on the other market. In December 2016 this was expanded to include certain names on the Shenzhen Exchange.

Stock Connect allows eligible Chinese residents to invest in designated Stock Exchange of Hong Kong Limited (SEHK) listed stocks (Southbound Stock Connect) and international investors to invest in designated SSE and SZSE listed stocks (Northbound Stock Connect) without the need for QFII, as outlined in the China market summary section. The scheme now covers close to 3,000 eligible equities in Shanghai, Shenzhen, and Hong Kong. Further general information can be found at [https://www.hkex.com.hk/Mutual-Market/Stock-Connect?sc\\_lang=en](https://www.hkex.com.hk/Mutual-Market/Stock-Connect?sc_lang=en).

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## Key Market Developments

There have been some significant milestones reached in the Connect scheme over the last several years. Firstly, the gap of Connect versus the full accessible product list through QFII has narrowed with the program now covering close to 3,000 tickers across both supported exchanges. SSE's Starboard securities was supported in early 2021 and Onshore ETFs being supported from July 2022.

In 2023, HKEX also introduced three additional Northbound trading days in connect and 6 additional southbound trading days by enhancing the Stock Connect calendar, this allows market participants to better manage their risk and broaden cross boarder connectivity.

## Key Regulators

The Securities and Futures Commission (SFC): <https://www.sfc.hk/en/>

China Securities Regulatory Commission (CSRC): <http://www.csrc.gov.cn>

## Securities Borrowing and Lending (SBL)

### Access Methods

While Stock Connect remains an evolving structure, the current regulations are listed below. The rules, unfortunately, result in a limited amount of participation, but future changes are expected to address this issue.

The following persons may lend Connect Securities:

- a. China Connect Exchange Participants (CCEPs)
- b. Trade-Through Exchange Participants (TTEPs), i.e., Exchange Participants (EPs) registered with the Stock Exchange of Hong Kong (SEHK), a wholly owned subsidiary of HKEx, to conduct trading in Connect Securities through CCEPs for the account of their clients
- c. EPs other than (a) and (b) who own or hold Connect securities for their own account or on a propriety basis (Non-Registered EPs)
- d. Qualified institutions (QIs), which include:
  - Hong Kong Securities Clearing Company (HKSCC) participants (other than Investor Participants)
  - Funds, unit trusts or collective investment schemes managed by persons licensed or registered to carry out Type 9 (asset management) regulated activity under the SFO (refer to SFC website for details)
  - Other persons accepted or specified by SSE or SZSE

Connect securities to be lent by a CCEP or a TTEP must be either securities held or owned as principal, or securities borrowed from other CCEPs, TTEPs, non-registered EPs, or QIs, in each case, who are lending as principal.

Connect securities to be lent by a non-registered EP or QI must only be securities held or owned as principal.

CCEPs and TTEPs must provide SEHK with an undertaking or a confirmation in the prescribed form depending on whether they act as a stock lender or stock borrower. They must also file a monthly report to SEHK providing details of their stock borrowing and lending activities with respect to Connect securities in the prescribed form, which will include details such as stock name, name of borrower, name of lender, number of shares borrowed/lent, number of shares outstanding, date of borrowing/returning, etc. The form is available on the HKEx website, and

CCEPs and TTEPs shall follow the procedures and means of submission specified by SEHK from time to time.

Non-registered EPs and QIs lending stock to CCEPs and TTEPs must provide the borrower with an undertaking in the prescribed form confirming, among others, that they are not restricted from engaging in stock lending activities.

### **Short-Selling Rules**

Short selling is, at this point, restricted to EPs only, which has resulted in minimal usage.

The list of securities eligible for short selling is limited and does not include all stocks in the market.

The eligible stocks for Northbound and Southbound trading can be found at [https://www.hkex.com.hk/eng/csm/securities\\_eligible\\_stocks.htm](https://www.hkex.com.hk/eng/csm/securities_eligible_stocks.htm).

Stock lenders are restricted to certain types of persons determined by SSE or SZSE, and SBL activities must be reported to SEHK through short-selling weekly reporting and large open short positions reporting rules.

Additionally, there is a quantity restriction on amounts being short sold: 1% on a daily basis and 5% for a rolling period of 10 trading days, based on the total number of shares held in CCASS by all investors. Any short selling order that, if executed, will cause the 1% limit or the 5% cumulative limit to be exceeded during the course of a CSC trading day will be rejected by the CSC.

Further information is available at: [https://www.hkex.com.hk/Mutual-Market/Stock-Connect/Getting-Started/Information-Booklet-and-FAQ?sc\\_lang=en](https://www.hkex.com.hk/Mutual-Market/Stock-Connect/Getting-Started/Information-Booklet-and-FAQ?sc_lang=en)

#### **Is short selling permitted?**

Naked short selling is prohibited for Northbound trading.

Covered short selling of Connect securities is allowed, subject to the following requirements:

- SBL for the purpose of short selling is limited to Connect securities that are eligible for both buy orders and sell orders through Shanghai and Shenzhen Connect, i.e., excluding Connect securities that are only eligible for sell orders
- SBL for the purpose of meeting the pre-trade checking requirements covers all Connect securities, including Connect securities that are only eligible for sell orders through Shanghai and Shenzhen Connect.
- SBL agreements for the purpose of short selling cannot be longer than one calendar month.
- SBL agreements for meeting pre-trade checking requirement cannot be longer than one day, and roll-over is not allowed.
- Stock lenders are restricted to certain types of persons determined by SSE or SZS.
- SBL activities will need to be reported to SEHK.

For the purpose of covered short selling in accordance with the rules of the exchange:

- An investor borrows Connect securities and sells them on the relevant Connect Market through a CCEP via Northbound trading.
- A CCEP client must sell Connect securities when it is unable to effect a transfer of the relevant Connect securities to the CCEP's clearing account in time to meet the pre-trade checking requirement set out in the rules of the exchange.

## Short Position Reporting

### Disclosure of short position

CCEPs shall submit reports to the exchange on the open short positions of any short-selling security and other information required by the exchange at such intervals as the exchange may require.

For the purposes of this rule, "open short position" means the total number of shares of a short-selling security that have been short sold by the China Connect exchange participant (whether as principal or agent) through the China Connect services less the total number of shares borrowed for the purpose of short selling that have already been returned to the relevant stock lender.

In addition to the reports referred to above, a China Connect exchange participant shall submit a report to the exchange if the open short position of any short selling security it has executed for its own account or for the account of any of its clients exceeds the reporting thresholds prescribed by the Exchange.

China Connect exchange participants must comply with such other reporting requirements as the exchange may prescribe.

### When does a report need to be made?

CCEPs shall field a monthly report with the exchange providing details on their stock borrowing and lending activities with respect to China Connect securities.

## Foreign Investor Limit

Mainland China rules apply to Northbound trades. Only professional foreign investors can access ChiNext under SZSE through Stock Connect. There is no regulatory restriction applicable to ownership of securities traded under Bond Connect.

## Special Auction Rules

Opening Call Auction: 9:15 a.m. to 9:25 a.m. [9:20 to 9:25: will not accept order cancellation]

Closing Auction details: 2:57 p.m. to 3:00 p.m. [2:57 p.m. to 3:00 p.m.: SZSE will not accept order cancellation]

No closing auction in SSE.

## Talking Points & Future Developments Facing the SBL Model

Stock Connect continues to evolve and mature as a market access product. The



accessibility and short to-market time makes It a default option for new entrants to the market. Despite the QFII model leading the way in terms of market reform, Connect continues to be an important channel for investors to access China for now, and PASLA will be supportive of ongoing developments.





# HONG KONG



**Principal Exchange:** Hong Kong Exchange (HKEx)

**Main Index:** Hang Seng Index (HSI)

**Settlement Cycle:** T+2

## Trading Hours

**Open:** 9:30 a.m. - 12:00 & 1:00 p.m. - 4:00 p.m.

**Time Zone:** GMT + 8:00

**Currency:** HKD

## Exchange Highlights

Indices	Listed Companies	Total Market Cap	CONTENTS
Hang Seng Index (HSI) Hang Seng China Enterprises Index (HSCEI)	2,606 as at April 2024	US\$4.1 trillion as at April 2024	AUSTRALIA CHINA CHINA / HK STOCK CONNECT <b>HONG KONG</b> INDIA INDONESIA JAPAN MALAYSIA NEW ZEALAND PHILIPPINES SINGAPORE SOUTH KOREA TAIWAN THAILAND

## Key Regulators

The Securities and Futures Commission (SFC) was set up in 1989 as the independent statutory body to regulate Hong Kong's securities and futures markets, safeguarding market integrity and enforcing securities and futures market legislation. Parties regulated by the SFC include HKEx and its subsidiaries (including the stock and futures exchanges and associated clearing houses), investors, and financial market intermediaries (namely securities dealers including exchange participants, sponsors, share registrars, fund managers, and investment advisors).

The HKMA is the government authority in Hong Kong responsible for maintaining monetary and banking stability.

## Securities Borrowing and Lending (SBL)

### Access Methods

Exchange participants (EPs)/registered participants are eligible to participate in the SBL market under the Securities and Futures

Ordinance (SFO).

While securities lending (in and of itself) is not one of the 12 “types” of regulated activity under the SFC licensing regime, if the activities of the counterparties in connection with SBL transactions amount to regulated activities such as Type 1 (“dealing in securities”) or Type 9 (“Asset Management”), they will require a license from the SFC for onshore participants.

Participants can access the market using GMSLA or MSLA to document transactions. Most participants also require a Hong Kong-specific addendum to be in place. Under the common-law principle of “freedom of contract,” Hong Kong law allows parties to a contract to be free to choose any law to govern that contract so long as the choice of law is bona fide, legal, and is not against public policy.

### **DATALEND** Market Data (Equity Lending Market) 2024 Averages

On Loan (USD)	Lendable (USD)	Utilization (%)	VWAF (bps)
25,672,800,823	528,241,435,407	4.86	138.26

## Short Selling Rules

### Is short selling permitted?

Covered short sales are allowed for “Designated Securities Eligible for Short Selling” ([hkex.com.hk](http://hkex.com.hk))

Market convention requires short sellers to put a borrow or a hold in place before executing a short sale, with physical or electronic evidence as proof. The SFC has created a guidance note ([Guidance-Note-on-short-selling-reporting-and-stock-lending-record-keeping-requirementJun-2023-Eng.pdf](#)) that provides several examples of what is considered sufficient assurance to avoid a transaction being considered naked or uncovered short selling.

Under Section 170 of the SFO, naked or uncovered short selling is prohibited and can be a criminal offense.

Section 170(1) does include some exemptions from covered short selling, which extend to:

- Hong Kong Monetary Authority-appointed market makers, and their agents on their behalf, may sell short exchange fund notes, exchange fund bills and specified instruments
- Securities market makers conducting jobbing business
- Futures market makers conducting jobbing business

Section 170 applies only to short sales conducted at, or through, the Stock Exchange of Hong Kong Limited (SEHK). It does not apply to off-exchange short sales.

### Definition of short sale

Defined by HKEx in Schedule 11 ([https://www.hkex.com.hk/-/media/HKEX-Market/Services/Rules-and-Forms-and-Fees/Rules/SEHK/Securities/Rules/Sch\\_11\\_eng.pdf](https://www.hkex.com.hk/-/media/HKEX-Market/Services/Rules-and-Forms-and-Fees/Rules/SEHK/Securities/Rules/Sch_11_eng.pdf))

### Pricing requirement for short sale

Short sales must abide by the up-tick rule (i.e., short sale must be placed at or above the current best ask price) except for some exempted securities (mostly ETFs).

The short sale order must be properly indicated as “short sale” when inputted into the AMS/3 system. The number of designated securities for short selling is revised on a regular basis.

## Short Position Reporting

### Disclosure of short position

For the purpose of short position reporting, a short position is considered as created on the trade day. Please refer to the Rules and paragraphs 32- 34 of the Consultation on Securities and Futures (Short Position Reporting). In terms of the exact timing for reporting, for example, if the position was determined as at Friday, the reportable short positions must be filled by midnight of the following Tuesday (Hong Kong Time).

Under SDO sections 19(11) stock borrowings and stock returns made under a stock borrowing and lending agreement are stamp exempt

Threshold for reporting is the lower of:

- 0.02% of the closing price multiplied by total number of specified shares issued by the corporation
- a value of HK\$30 million
- Will apply to all Designated Securities except collective investment schemes (CISs) which include Exchange Traded Funds (ETFs) and Real Estate Investment Trusts (REITs). For CISs, a person will have to report to the SFC if, as at the end of the last trading day of a week, he holds a net short position in a CIS which has a blue that equals to or exceeds HK\$30 million.
- [FAQs on SPR EN 29-May-2023.pdf \(sfc.hk\)](#)

### Definition of short position

Per the Securities and Futures (Short Position Reporting) Rules (<https://www.elegislation.gov.hk/hk/cap571AJ!en@2013-04-25T00:00:00>), a short position is the position in the specified shares that a person has as a result of selling the specified shares at or through the stock exchange or by means of any one or more specified Automated Trading System, or any combination of these methods of selling, where:

- at the time of each sale comprised in the position, the person did not have a presently exercisable and unconditional right to vest the specified shares in the purchaser, or
- each sale comprised in the position was the subject of a short selling order

**When does a report need to be made?**

Within two business days (unless a daily reporting requirement is in force) if the person's net short position value (calculated by the number of specified shares in the position multiplied by the closing price of the specified shares on the reporting day) reaches the reporting threshold at the close of trading each Friday.

**Remarks**

Specified shares include constituent stocks of HSI and HSCI and others determined by the HKEx and designated as classified by Hang Seng Indexes Company Ltd.

**Other reporting required:**

Notifiable Interest: Disclosure is required when a shareholding of 5% of issued voting share capital is acquired/ceases to be held. The impact of shares being loaned out or returned needs to be considered when calculating this figure. Exemptions do apply. Lenders can choose to register with the SFC as Approved Lending Agents (ALA), which provides certain exemptions from disclosure of substantial shareholdings within a simplified disclosure regime described in further detail at:

Securities and Futures (Disclosure of Interests—Securities Borrowing and Lending) Rules (<https://www.elegislation.gov.hk/hk/cap571X!en.pdf>)

**Useful links:**

- HKEx's Short Selling Regulations: <https://www.hkex.com.hk/Services/Trading/Securities/Overview/Regulated-Short-Selling>
- SFC's Guidance: [Shortselling in Hong Kong - the Securities \(Amendment\) Ordinance 2000 \(sfc.hk\)](https://www.sfc.gov.hk/Shortselling%20in%20Hong%20Kong%20-%20the%20Securities%20(Amendment)%20Ordinance%202000%20(sfc.hk))
- SFC's Short Position Reporting: <https://www.sfc.hk/en/Regulatory-functions/Market/Short-position-reporting>

**Buy-Ins**

There is a mandatory buy-in on T+3 if a trade is not matched by 15:45 local time on T+2. Further information can be found at:

[https://www.hkex.com.hk/Services/Rules-and-Forms-and-Fees/Rules/HKSCC/Operational-Procedures?sc\\_lang=en](https://www.hkex.com.hk/Services/Rules-and-Forms-and-Fees/Rules/HKSCC/Operational-Procedures?sc_lang=en)

Exchange Participants can apply for a withholding from buy-in option 3 times over a 10 day rolling period.

**Collateral Requirements**

It is possible for parties to SBL transactions to take collateral located offshore.

Depending on the type of collateral, the laws of the jurisdiction where the collateral is located may be relevant in determining the relevant legal requirements for taking such collateral.

It should be noted that the Companies Ordinance (Cap. 622) provides that if a Hong Kong-incorporated company or a registered non-Hong Kong company creates a charge over property situated outside Hong Kong, a certified copy of the instrument creating or purporting to create the charge may be delivered to the registrar for registration (if the charge is registrable) even though further proceedings may be necessary to make that charge valid or effectual according to the law of the place in which the property is situated.

### **Foreign Investor Limits**

In general, there are no laws in Hong Kong which limit foreign ownership of companies except in very limited circumstances. TV broadcasting is one of the limited areas in which foreign ownership is restricted (the Broadcasting Ordinance Cap. 562), but there is no restriction on foreign ownership on banks.

### **Tax**

The documentation of an SBL transaction must be registered with the Collector of Stamp Revenue in Hong Kong in order to obtain relief from stamp duty obligations. The onus for agreement registration usually falls on the borrower rather than the lender, an aspect that is commonly covered within a Hong Kong addendum.

### **Useful link:**

Inland Revenue Stamp Office Interpretation and Practice Notes:  
<https://www.ird.gov.hk/eng/pdf/soipn02.pdf>

The Stamp Office has launched an electronic service allowing online registration of Stock Borrowing and Lending Agreement (SBLA) via e-Tax (e-Registration) as an alternative to paper registration. GovHK: Stock Borrowing Relief ([www.gov.hk](http://www.gov.hk))

### **Operational and Post Trade**

Hong Kong Securities Clearing Company Limited (HKSCC), as a Central Counterparty (CCP), provides clearing services to transactions in securities that are accepted as eligible by HKSCC (Eligible Securities) via the Central Clearing and Settlement System (CCASS).

### **Auction Rules**

Trading is conducted on Monday to Friday (excluding public holidays) at the following times:

Trading is conducted on Monday to Friday (Excluding Public holidays) at the following times.

		Full Day Trading	Half Day Trading
Auction Session	Pre-opening Session	9:00 a.m. - 9:30 a.m.	
Continous Trading Session	Morning Session	9:30 a.m. - 12:00 noon	
	Extended Morning Session	12:00 noon - 1:00 pm	Not applicable
	Afternoon Session	1:00 noon - 4:00 pm	Not applicable
Auction Session	Closing Auction Session	4:00 p.m. to random closing between 4:08 p.m. and 4:10 p.m.	12:00 noon to random closing between 12:08 p.m. and 12:10p.m.

Note: There is no Extended Morning Session and Afternoon Session on the Eve of Christmas, New Year and Lunar New Year. There will be no Extended Morning Session if there is no Morning Session.

## Talking Points & Future Developments Facing the SBL Model

The Hong Kong SBL market is a mature and liquid market, which functions well and efficiently.

PASLA has been working in conjunction with the SFC and HKEx to enhance already well-established practices.

### Talking Points

- Suspended securities – Securities can be suspended for up to 18 months for the Main Board and 12 months for the GEM Board. This is significantly longer than comparable markets and means that, if securities are on loan when suspended, it is difficult to unwind the SBL agreement. The Exchange and SFC recognize the need for a short possible period of suspension whilst protecting investors.
- Short selling list – There are a restricted number of shares available for investors to short relative to other regional markets.
- Parallel trading – Market splits and reverse splits can result in parallel trading, creating operational challenges. Historically Hong Kong is not a purely scripless market, and although HKEx has previously explored abolishing parallel trading, multiple exchange participants objected. Development.
- In 2023 HKEX launched HKD -RMB Dual Counter Model to further support the RMB development in the Hong Kong Securities Market, [HKD-RMB Dual Counter Model \(hkex.com.hk\)](https://www.hkex.com.hk)







Rural Indian woman in traditional costume painting a clay vase for sale at handicraft fair at Kolkata, India. By Roop Dey

# INDIA



**Principal Exchange:** National Stock Exchange of India (NSE) BSE Ltd (formerly Bombay Stock Exchange)

**Main Index:** NSE Nifty index

**Settlement Cycle:** T+1

## Trading Hours

**Open:** ShapeNSE Continuous Trading 9:15 a.m. - 3:30 p.m.

**Time Zone:** GMT + 5:30

**Currency:** INR

## Exchange Highlights

Indices	Listed Companies
S&P BSE Sensex, Nifty 50 Index	BSE: 4,157 as at April 2024, NSE: 2,464 as at April 2024

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## Key Regulators

Securities and Exchange Board of India (SEBI): <https://www.sebi.gov.in/>

## Securities Borrowing and Lending (SBL)

### Access Methods

While SEBI has put in place a Securities Lending and Borrowing Scheme (SLBS) in conjunction with the stock exchanges, the securities lending system is currently limited as to who can use it from an offshore perspective - most participants are domestic.

Under SLBS, borrowers and lenders are required to access the platform for lending/ borrowing set up by Approved Intermediaries (AIs) through the clearing members (CMs), including banks and custodians, who are authorized by the AIs in this regard. The NSE Clearing Ltd. (NCL, formerly known as National Securities Clearing

Corporation Limited) is the AI for SBL transactions on the NSE, and Indian Clearing Corporation Ltd. (ICCL) is the AI for SBL transactions on the BSE.

There is no requirement to use GMSLA (Global Master Securities Lending Agreement) as there are prescribed agreements within either the NCL or ICCL. Generally, there is very little room for negotiations to modify the provisions of the standard draft. Tenure of borrowing can be extended to a maximum of 12 months, whereupon the transaction must be “reversed.”

The NCL and the ICCL both guarantee settlement in the market, thereby acting as CCPs. Lending and borrowing are via an automated screen-based platform, with participants needing to quote lending fees per share. Order matching through this system is on price-time priority.

Institutional investors can only borrow within SLBS to honor the delivery of short-sale trades. Securities and asset categories available for SLBS are limited to derivative stocks, non-derivatives, and ETFs.

All clearing members of NCL, including banks and custodians, referred to as “participants,” are eligible to participate in SLBS. Participants can do so either on their own account or on behalf of their clients. If on behalf of clients, an agreement with each client must be signed, as per the format specified. From an offshore perspective, a participant must be a registered foreign portfolio investor (FPI) or foreign institutional investor (FII).

There are no reporting obligations on the borrowers or lenders pursuant to SLBS. However, CMs are required to submit a daily transaction report, i.e., a list of all the SBL transactions undertaken by them on each trading date, to SEBI.

The primary lenders are insurance companies, mutual funds and FPIs, followed by high net worth individuals (HNIs), and the retail segment. Insurance companies are only permitted to lend securities up to 10% of their portfolio. Although there is no official data provided by the exchange, the institutional percentage engaged in lending is very low.

The RBI has recently announced the introduction of SBL for India Government Bonds. Further information can be found at: [https://www.rbi.org.in/Scripts/bs\\_viewcontent.aspx?Id=4237](https://www.rbi.org.in/Scripts/bs_viewcontent.aspx?Id=4237).

### Useful Links:

- NSE website: <https://www.nseindia.com/market-data/securities-lending-and-borrowing>
- BSE: <https://www.bseindia.com>
- SEBI circulars: [https://www.sebi.gov.in/legal/circulars/nov-2017/circular-on-re-view-of-securities-lending-and-borrowing-mechanism\\_36609.html?QUERY](https://www.sebi.gov.in/legal/circulars/nov-2017/circular-on-re-view-of-securities-lending-and-borrowing-mechanism_36609.html?QUERY)
- RBI: <https://www.rbi.org.in/>

### Volumes

816 million shares traded from January to December 2023

### Fees

- Total market lending revenue for January to December 2023 was approx US\$24m.
- Loan value (value of the lendable stock) was approximately US\$4.8billion for the same period.
- The average yield across the market was approximately 10.7%.

## Short-Selling Rules

For foreign investors, the ability to short or to hedge is challenging and ever-evolving. Following a crackdown on foreign investors using the futures market for short exposure, short access and hedging tools are more challenging than ever.

In July 2017, India's regulator instituted a crackdown on foreign access to the country's derivatives market. So-called "participatory notes" were required to be liquidated or matured by the end of 2020. The Securities and Exchange Board of India stated that these p-notes (also known as offshore derivative instruments, or ODIs) were not to be used to take unhedged positions in Indian derivative markets. The move was made while also easing some of the registration requirements for applying to be an FPI in order to encourage more investors to directly register with SEBI.

### Is short selling permitted?

Naked short selling is not permitted.

Institutional investors can borrow within SLBS to honor the delivery of short sale trades.

Actual short sale of a security can happen on T+1 and not T0 (for FPIs only) given the time taken to physically settle the borrowed shares.

### Definition of short sale

Selling by acquiring a borrow.

### Pricing requirement for short sale

Pricing is quoted on exchange.

## Short Position Reporting

### Disclosure of short position

Institutional investors have to disclose upfront whether a transaction in Indian securities involves short selling, while retail investors will have to do so by the end of the day when a trade is made. Brokers must collect the details on scrip-wise short sell positions.

### When does a report need to be made?

Reporting required monthly.

## Buy-Ins

For all such short deliveries, NCL conducts a buying-in auction on T+1, after completion of the pay-out, through the NSE trading system. If the buy-in auction price is more than the valuation price, the CM is required to make good the difference. All shortages not bought in are deemed closed out.

Close-out will be at the highest price prevailing in the NSE from the day of the trading until the auction day, or 20% above the official closing price on the auction day, whichever is higher. For bonds, the closing-out price will be the highest rate prevailing on the exchange from the first day of the relevant trading period until the day of closing out, or 5% over the official closing price on the auction day, whichever is higher for debentures assigned a credit rating of triple-A and above. For other debentures and bonds without the triple-A credit rating, a close-out mark-up of 20% will be applicable.

In case of non-rectification/replacement of company objection and rectified/replaced company objections reported as bad delivery, the closing price will be 5% over the official closing price on the auction day.

### **Collateral Requirements**

SLBS does not allow for collateral located offshore. SLBS allows participants to deposit collateral in the form of cash, fixed deposit receipts (FDRs), or a bank guarantee. Both FDRs and bank guarantees must be from certain approved banks. FDRs are not applicable to FPIs.

Every participant is required to continuously maintain a minimum of 1,000,000 (10 Lacs) INR cash at the time of registration.

### **Foreign Investor Limits**

The purchase of equity shares of each company by a single FPI or an investor group shall be below 10% of the total issued capital of the company.

Aggregated Equity Investment Limit – the individual ceiling of below 10% by a single FPI or an investor group is subject to an overall investment ceiling for a total FII investment of 24% of the total paid-up equity capital of a company (20% in the case of public sector banks). The overall ceiling of 24% can be raised up to the sectoral limit if the concerned company passes a resolution by its Board of Directors in the General Body Meeting.

Exceptions to these limits apply to individual companies and sectors.

### **Tax**

There are no market-related taxes applicable on SBL trades, but the lending fees earned by the lender are subject to tax under the income tax guidelines. CGT should be applicable on short-sale transactions.

The standard form agreement between the CM and the AI is required to be stamped with INR 300.

The borrower of securities shall be liable to discharge GST at 18%.

### **Auction**

Pre-open 9:00 a.m. - 9:08 a.m.

After hours 15:40 -16:00

### **Talking Points & Future Developments Facing the SBL Model**

The SBL market in India has typically been a borrower-driven market with the presence of very few lenders and limited offshore participation. The borrowing side in India is primarily proprietary traders, whereas in other countries the borrowing side is more diversified with prime brokers active on behalf of underlying hedge fund clients.

Several changes within the current system would broaden market participation, improve liquidity and price discovery including:

- Increasing the participation of FPIs by removing the 10% limit on insurance companies and encouraging global pension funds would increase the participation and liquidity.
- Expanding the purpose for borrowing securities beyond the current rule, which only permits the borrowing of shares to cover short sales, will help improve liquidity. By extending, for example, the purpose to allow for covering technical/operational fails trades in the market (fails coverage), failed trades will be prevented in the cash segment, and liquidity will be increased in the SBL segment.
- One of the deterrents for active participation in the SBL segment is higher margin cost, which needs to be paid in the form of cash by foreign investors and cash/cash equivalent by domestic investors. By extending acceptable collateral types to include, for example, approved securities, the net transaction costs would be reduced.
- Since the securities loan is made on the exchange platform and covered by the clearing house, there is no risk to the lender of not receiving the lending fee. However, the risk of not procuring the security lent, on early recall, persists. An early recall request is fulfilled by the clearing house on a best-effort basis only. A strengthening of the mechanism for the recall and repay of securities would help.
- The introduction of an OTC model would provide additional flexibility to market participants and be in line with regional markets.
- The prescribed agreements are very prescriptive and have limited room for negotiation. The ability to use a GMSLA with an addendum would add comfort to overseas participants.
- The restricted tenure for loans limits the flexibility of responding to changing market conditions. Increased tenor flexibility would attract more participants.







# INDONESIA



**Principal Exchange:** IDX

**Main Index:** JCI

**Settlement Cycle:** T+2 (Regular Market) T+0 (Cash Market) As per agreement or default to T+2 (Negotiated Market)

## Trading Hours

**Open:** Monday - Thursday 09:00-12:00, 13:30-15:50  
Friday 09:00-11:30, 14:00-15:50

**Time Zone:** GMT + 7

**Currency:** IDR

## Exchange Highlights

Indices	Listed Companies	Total Market Cap	CONTENTS
JCI - Jakarta Composite Index	JCI: 924 as at April 2024	US\$743 billion as at April 2024	AUSTRALIA
JII - Jakarta Islamic Index			CHINA
			CHINA / HK STOCK CONNECT
			HONG KONG
			INDIA
			<b>INDONESIA</b>
			JAPAN
			MALAYSIA
			NEW ZEALAND
			PHILIPPINES
			SINGAPORE
			SOUTH KOREA
			TAIWAN
			THAILAND

## Key Regulators

Capital Market and Banking: Otoritas Jasa Keuangan (OJK) - The Indonesia Financial Services Authority

Monetary Function and Payment System : Bank Indonesia (Indonesia Central Bank)

Self-regulatory Organizations:

- Bursa Efek Indonesia (BEI-The Indonesia Stock Exchange),
- Kustodian Sentral Efek Indonesia (KSEI-The Indonesian Central Securities Depository)
- Kliring Penjaminan Efek Indonesia (KPEI-IDClear)

## Securities Borrowing and Lending (SBL)

### Access Methods

IDClear provides two models of SBL:

- Regular SBL (fixed fee and front end/bid-offer fee)
- Bilateral SBL (introduced in December 2022)

## Eligibility

Securities Companies, Custodian Banks and Indonesia Securities Funds (PEI) are eligible to be SBL participants but must have their applications approved by IDClear separately for the two models.

- In Regular SBL, Securities Companies are eligible as SBL participants for both sides (borrower & lender side), Custodian Banks and Indonesia Securities Funds are only eligible on the lender side.
- In Bilateral SBL, Securities Companies, Custodian Banks and Indonesia Securities Funds can participate for both sides (borrower & lender side).

All securities must be Eligible Securities as listed and actively traded by the Indonesia Stock Exchange.

## SBL Models

### Regular SBL

IDClear will act as a CCP and charge an intermediary fee. Transactions are anonymous and facilitated via two mechanisms:

- Fixed Rate SBL

Within the Regular SBL mechanism, the borrower contacts IDClear to borrow securities and, if a counterparty lender is already available, the borrower and the lender will be matched in the e-CLEARs system. Regular SBL has a fixed borrowing fee rate (15% p.a.) and lending revenue rate (12% p.a.).

- Front-End SBL

This is done via the SBL Front End system, where there is a matching process (auction) for the borrowing fee between borrowers and lenders. On the Front-End SBL mechanism, the borrowing fee rates range from 5% to 20% p.a. and the lender revenue ranges from 4% to 17% p.a. If the SBL transaction is matched, the borrowing order will be forwarded to the IDClear system.

Both SBL types can be open or fixed term.

The collateral accepted for Regular SBL includes cash and securities and will be placed under the same account for the equity's collateral transactions.

IDClear published a standard agreement for use by SBL participants that includes best practices according to Indonesia capital market regulations.

The lending period is min. 1 day and up to 90 days, for both Regular SBL mechanisms (Fixed Rate SBL & Front-End SBL).

### Bilateral SBL

Transaction terms are agreed between the lender and borrower bilaterally and input into the IDClear system. The system will provide the collateral valuation/mark-to-market and monitoring from the transaction date to the maturity date, including corporate actions and collateral will be placed in a segregated account. IDClear will facilitate Bilateral SBL transactions but does not guarantee the settlement.

Bilateral SBL provides two different options for collateral placement:

- \* Arranged-Bilateral SBL: collateral will be pledged by IDClear in the borrower's account.
- \* Customized-Bilateral SBL: cash collateral will pass through the lender's account, other forms of collateral will be pledged to IDClear in the borrower's account.

If the borrower fails to deliver the securities, collateral will pass through the lender. Acceptable collateral for Bilateral SBL is cash, securities, government bonds, and corporate bonds, which will be placed in a separate collateral account.

Standard international SBL agreements (e.g., GMSLA) may be used with appropriate modification to render them compliant with the rules and directives of Indonesia Capital Market Regulation.

The lending period can be for any pre-determined period of time, but a maximum of one year.

For Bilateral SBL (Arranged & Customized), the borrowing fee is negotiable between the borrower and lender. IDClear will charge both parties an intermediary fee.

### Useful Links:

- The information regarding the available shares to lend for Regular SBL can be found on IDClear Website: <https://www.idclear.co.id/en/statistics/securities-borrowing-and-lending/Lendable-Stock-Indicative>
- List of eligible securities for SBL (all the active traded securities listed in Indonesia Stock Exchange): <https://www.idclear.co.id/en/kpei-services/securities-borrowing-and-lending-services/registered-sbl-stocks>
- IDClear's rules for SBL:

Regulation No. XII regarding Bilateral Securities Lending and Borrowing Facility

<https://www.idclear.co.id/en/regulations/regulation-of-securities-borrowing-and-lending>

### Short-Selling Rules

#### Is short selling permitted?

Local brokers are normally allowed to short sell if they have successfully applied for the appropriate license. On the last trading day of each month, IDX publishes the list of securities eligible for short selling and margin trading.

Securities exchange members must have an SBL agreement to be eligible to engage in short selling.

#### Definition of short sale

Short selling transaction means a securities sales transaction in which the securities are not owned by the seller at the time the transaction is executed.

#### Pricing requirement for short sale

Transactions must:

1. Have a short tag attached with the selling offer input into the Stock Exchanges trading system;
2. The selling offer submitted must be higher than the last listed price. Note that, at the end of 2024, this will be replaced by the requirement for the selling offer to be the same as or above the last price.

## Short Position Reporting

### Remarks

Securities companies must record margin transactions and short selling transactions in accordance to the existing Securities Company accounting standards.

To be eligible for margin financing or short selling transactions, the client must meet certain requirements, including opening a regular securities account and a Securities Financing Account with a Financing Agreement and deposit initial collateral.

It is required to maintain a Securities Transaction Financing Agreement to outline details around margin calls, the obligation on both parties to fulfil margin call requests and the rights in the event of failing to comply. In addition, all other financing conditions are outlined, including but not limited to financing period, interest calculations and other financing conditions.

Exchange Members who conduct short selling transactions must submit daily reports on margin and/or short selling transaction activities.

## Buy-Ins

ID Clear does not initiate “buy-ins” in the market. When brokers fail to deliver scripless shares to ID Clear by noon on T+2, brokers can settle the transactions by either borrowing the shares with IDClear SBL facilities or buying shares. If these options fail, ID Clear will convert the obligation-to-deliver-shares to obligation-to-pay-cash to ID Clear in a feature called “Alternative Cash Settlement (ACS)”. The shares that failed to be delivered are valued with the highest market price in the market between T+0 to T+2. The market value will be times 125% by ID Clear for the conversion to cash obligation, and funds are taken from the guarantee fund. The cash obligation will be transferred to the buying broker’s cash account on the same day (T+ 2) and must also be paid on the same day before 13:00.

## Collateral Requirements

ID Clear requires clearing members to deposit collateral for a variety of reasons. For securities borrowing and lending, the primary forms of collateral are cash (IDR/USD/SGD) and stocks but only stocks listed in IDX, valued with a haircut parameters range of between 5% and 100%, as determined by IDClear on a per stock basis.

## Useful Link:

- <https://www.idclear.co.id/en/kpei-services/jasa-pengelolaan-agunan/collateral>

## Foreign Investor Limits

There are no general restrictions except for banks and broadcasting companies. Banks are allowed to list for foreign ownership of up to 99% of their total capital. Foreign investors are allowed to invest in broadcasting companies only if they are buying newly issued shares, not to be above 20% of total capital.

## Special Auction rules

- Pre-open: 08:45 - 08:55
- Pre-closing: 15:50 - 16:00

- Post-trading session: 16:05 - 16:15

### Talking Points & Future Developments Facing the SBL Model

- The OJK published regulation No. 6/2024 (POJK 6/2024) in April including the following changes that will come into force by the end of 2024. (a) lowering of initial guarantee requirements from IDR200 mil to IDR 50 mil. (b) replacing the uptick rule with equal market price for short selling transactions.
- The OJK is looking to build upon recent enactments of the “Omnibus Law for Financial Sector” to allow mutual funds to participate in securities lending.
- There are plans to enhance the capital market by expanding the products offered to investors including ETFs, structured warrants, single stock futures and support the market participation of liquidity providers across these products.

### Useful links:

- KSEI: <http://www.ksei.co.id/>
- OJK: <https://www.ojk.go.id/en/Default.aspx>

Wayang kulit or Shadow puppets typical of Java, Indonesia. By Dik Harman





# JAPAN



**Principal Exchange:** TSE, OSE, JPX-R JSCC

**Main Index:** TOPIX, Nikkei 225

**Settlement Cycle:** T+2

## Trading Hours

**Open:** Monday to Friday 09:00 - 11:30,  
12:30 - 15:00

**Time Zone:** GMT + 9

**Currency:** JPY

## Exchange Highlights

Trading Section	Indices	Listed Companies	Total Market Cap
Prime, Standard, Growth	Nikkei225 TOPIX JPX400 JPX-NIKKEI Mid Small, TSE Standard, TSE Growth Market 250, TSE REIT + more	3,941 as of April 2024	JPY 1,007 trillion (US\$6.66 trillion) as of April 2024.

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AUSTRALIA  
CHINA  
CHINA / HK STOCK CONNECT  
HONG KONG  
INDIA  
INDONESIA  
**JAPAN**  
MALAYSIA  
NEW ZEALAND  
PHILIPPINES  
SINGAPORE  
SOUTH KOREA  
TAIWAN  
THAILAND

## Key Regulators

The Japan Financial Services Agency (JFSA) is the government authority in Japan responsible for maintaining monetary and banking stability.

## Recent SBL Market Data

### DATALEND Market Data (Equity Lending Market) 2024

#### Averages

On Loan (USD)	Lendable (USD)	Utilization (%)	VWAF (bps)
121,226,898,924	1,200,106,308,888	10.10%	51.16

## Stock Loan Rules

Under Japanese law, market participants can use English and/or New York law standard SBL agreements to document securities lending transactions. The documentation of an SBL transaction does not need to be registered with any authority or body in Japan.

Limited securities lending activity has been onshore since the mid-1980s for institutional business but has been generally available for all brokers via the various securities finance companies for many years.

In December 1998, rules specifically designed to develop and grow the business were introduced, which has increased the size and scope of the domestic securities lending market. The market size increased fourfold from December 1998 to September 2002.

### Useful links:

JSDA rule: Rules Concerning Handling for Borrowing and Lending Transactions of Share Certificates: <http://www.jsda.or.jp/en/rules-guidelines/E40.pdf>

## Short-Selling Rules

### Is short selling permitted?

Covered short selling is allowed.

### Definition of short sale

Short selling is the sale of financial instruments that are not owned by the seller, or that the seller has borrowed. Sale on margin is a type of short selling, but the concept of short selling is broader, including the sale of borrowed financial instruments other than margin trading.

Marking requirements, price restrictions and short-sale position reporting obligations are imposed to short-selling orders, according to Financial Instruments and Exchange Act and Order for Enforcement of the Financial Instruments and Exchange Act (“FIEA Enforcement Order”).

### Useful Link:

JPX website: <https://www.jpx.co.jp/english/equities/trading/regulations/02.html>

### Pricing requirement for short sale

There is an uptick rule that becomes active once the trade price drops by 10% relative to the base price of each issue. Once enacted, the rule remains in place until the end of the next trading day and states that the price of a short sale must be at a price above the last traded price of the security if that price was lower than the price in the previous trade or at the last trade price if that price was higher than the price in the previous trade (FIEA Enforcement Order, Article 26-4)



## Short Position Reporting

### Disclosure of short position

Investors are required to submit their short sale position to the brokers when their short positions exceed a threshold. The brokers are required to pass the short position reports to the exchange. (FIEA Enforcement Order, Article 26-4) The detail of the rule is prescribed in Cabinet Office Ordinance on Restrictions on Securities Transactions, etc. (hereinafter 'Transaction Restriction Ordinance'). Investors are required to submit their short sale position of each issue when the positions reach 0.2%. TSE aggregates the report and discloses the information such as the short sale position, the names of the investors etc. whose short sale position reaches 0.5%.

Reporting to be sent by 10am (JST) on T+2.

### Buy-Ins

The buy in process for on exchange transactions is not initiated on an automated basis by the exchange as it is in countries like Hong Kong and Singapore. Consequently, buy-ins in Japan are relatively rare. Fail-affected participants may request the Japan Securities Clearing Corp (JSCC) to buy and deliver the fail-affected securities (this action is referred to as "buy-in") in the case where a fail persists beyond the securities settlement cut-off time for delivery on the next day after the day when the fail originally occurred (original settlement day). This buy-in request may be submitted from the next business day (between 1:30 p.m. and 2:30 p.m.) after the original settlement day.

### Collateral Requirements

It is possible for parties to SBL transactions to take collateral located offshore. There are no restrictions under Japanese law on parties to SBL transactions taking collateral located outside Japan.

### Foreign Investor Limits (FOL)

The law requires foreign investors to report to the Japanese government and undergo inspection in case they buy 10% or more of stocks in listed Japanese companies or acquire shares of unlisted firms. If the government finds any shortcomings, it can order foreign investors to change or cancel their investment plans.

In some cases, offshore lenders are providing these names conditional upon an FOL side letter to GMSLA. As holding/reporting conditions are case specific, custodians should be consulted.

Foreign ownership in broadcasting stocks is capped at 20% and airline and telecom industry stocks at 33.3%, with each industry applying unique requirements.

### Special Auction rules

Opening auction: 09:00 / Closing auction: 15:00

Trading hours at TSE are split into two sessions: Morning Session 09:00 - 11:30 and Afternoon Session 12:30-15:00. The hours at which orders from securities companies are accepted by TSE are 08:00 ~ 11:30 and 12:05 ~ 15:00.

Visit the JPX website for an overview and more detail: <https://www.jpx.co.jp/>

[english/equities/trading/  
domestic/index.html](https://www.tse.com/eng/equities/trading/domestic/index.html)

### **Talking Points & Future Developments Facing the SBL Model**

- TSE introduced a new structure in April 2022 with three new market segments: Prime Market, Standard Market, and Growth Market to help boost listed companies' sustainable growth and mid- to long-term corporate value.
- Extension of trading hours - the trading hours will be extended in conjunction with the launch of the next generation trading system (arrowhead 4.0) scheduled for November 5, 2024. Closing time of the afternoon session will be changed from 15:00 to 15:30







# MALAYSIA



**Principal Exchange:** Bursa Malaysia Berhad

**Main Index:** Kuala Lumpur Composite

**Settlement Cycle:** T+2

## Trading Hours

**Open:** Monday to Friday 9:00 - 12:30  
14:30 - 17:00

**Time Zone:** GMT + 8

**Currency:** MYR

## Exchange Highlights

Indices	Listed Companies	Total Market Cap
Bursa Malaysia KLCI	1,003 as at April 2024	US\$397 billion as at April 2024

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AUSTRALIA

CHINA

CHINA / HK STOCK CONNECT

HONG KONG

INDIA

INDONESIA

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NEW ZEALAND

PHILIPPINES

SINGAPORE

SOUTH KOREA

TAIWAN

THAILAND

## Key Regulators

The Securities Commission (SC), which is overseen by the Ministry of Finance.

## Securities Borrowing and Lending (SBL)

### **DATALEND** Market Data (Equity Lending Market) 2024 Averages

On Loan (USD)	Lendable (USD)	Utilization (%)	VWAF (bps)
443,876,084	9,928,077,454	4.47	448.89

## Access Methods

There are two SBL frameworks offered in Malaysia:

1. Negotiated Transaction Model (SBLNT), which offers an option to lend and borrow on an over-the-counter (OTC) basis and to report such transactions to Bursa Malaysia via onshore lending representatives or borrowing representatives.

2. Central Lending Agency (CLA) model, where the Bursa acts as the central lending agent between authorized lenders and authorized borrowers that are subject to the Bursa Clearing's SBL CLA Terms and Conditions.

SBL, under both models, is restricted by:

1. The principal parties must apply to Bursa Clearing and be approved.
2. All securities must be eligible securities as published by Bursa Securities on its website. In 2023 the daily market capitalisation requirement for companies allowed to short sell was lowered from RM500 million to RM 200 million, thereby significantly expanding the number of eligible companies.
3. A borrower under SBL may only use the loaned securities for approved purposes as set out in the Bursa Clearing rules (see Rule 7.6 in Bursa Clearing rules listed below).

### **CLA Model**

In general, foreign investors participate on the SBLNT model, before focusing on that model, it is worth summarizing the CLA model.

Any person who has the requisite number of shares shown in the SBL CLA Lending Pool can lend stocks to the CLA. Only approved participating organizations—i.e., local brokers—qualify to become borrowers. Collateral taken against loans through the CLA are Malaysian equities. More information on the CLA model can be found [here](https://www.bursamalaysia.com/trade/post_trade/securities_borrowing_lending/central_lending_agency/overview)

[https://www.bursamalaysia.com/trade/post\\_trade/securities\\_borrowing\\_lending/central\\_lending\\_agency/overview](https://www.bursamalaysia.com/trade/post_trade/securities_borrowing_lending/central_lending_agency/overview)

### **SBLNT Model Documentation**

Standard international SBL agreements (e.g. GMSLA) may be used with appropriate modification to render them compliant with the rules and directives of Bursa Clearing. SBL agreements under SBLNT should contain, amongst other items:

- representation from each party that it has obtained approval from Bursa Clearing to participate in SBLNT as an approved SBLNT lender and/or an approved SBLNT borrower
- representation from the approved SBLNT borrower that its loans will be for the approved purposes set out in the Bursa Clearing rule
- the name of the local representative for SBLNT

### **Reporting**

Parties to an SBLNT transaction must notify Bursa Clearing of the prescribed details of the SBLNT through their representatives in the manner prescribed by Bursa Clearing in order to have the loaned securities delivered. Each party to the SBLNT must inform Bursa Clearing of the loan through the SBLNT electronic system.

As listed securities are traded scripless, Bursa Clearing requires that all loaned securities be held in and, where relevant, transferred to the designated securities accounts as prescribed by Bursa Clearing. Hence, although there is no express reporting apart from that stated above, the segregated accounts enable the regulators to monitor a party's positions in SBL transactions in Malaysia.

The SBL Agreement need not be lodged with Bursa Clearing. The performance of the SBL is processed electronically through the systems of Bursa Clearing. The local regulators do, however, have the power to require production of the SBL Agreement and any other relevant documentation.

The Bursa Malaysia website has a comprehensive SBL section, which contains a detailed overview of the SBLNT Model and Operational Guidelines ([https://www.bursamalaysia.com/trade/post\\_trade/securities\\_borrowing\\_lending/negotiated\\_transaction/overview](https://www.bursamalaysia.com/trade/post_trade/securities_borrowing_lending/negotiated_transaction/overview)).

A list of lending and borrowing representatives is also on the website.

### **Lending Period**

Lending period can be for any pre-determined period of time.

### **Fees**

Bursa will charge an intermediary fee for services provided. This fee is computed by the SBLNT system. The fee structure is one of two types:

- 0.02% (2 basis points) per annum of the outstanding loan (based on the daily closing price of the securities transacted) with a minimum of RM100 levied on both the borrowing representative and lending representative, or
- 0.04% (4 basis points) per annum of the outstanding loan (based on the daily closing price of the securities transacted) with a minimum of RM200 on the borrowing representative only

### **Other reporting required:**

Substantial shareholders (holding 5% or more of the company's voting shares) are required to report their interest directly to the company and Registrar of Companies Commission of Malaysia (SSM) within three calendar days (five calendar days for unlisted securities) after the investor becomes a substantial shareholder. Any increase or decrease in this position is also required to be reported within three calendar days of the transaction.

### **Useful Links:**

- Bursa Website: <http://www.bursamalaysia.com/>  
Chapter 7 in the Rules of Bursa Malaysia Securities Clearing: Standard international SBL agreements (e.g., GMSLA) may be used with appropriate modification to render them compliant with the rules and directives of Bursa Clearing. An industry standard addendum for the Malaysian market is available in the documentation section of the PASLA website.
- List of eligible securities: [https://www.bursamalaysia.com/trade/post\\_trade/securities\\_borrowing\\_lending/sbl\\_eligible\\_securities](https://www.bursamalaysia.com/trade/post_trade/securities_borrowing_lending/sbl_eligible_securities)

### **Short-Selling Rules**

#### **Is short selling permitted?**

Permitted Short Selling (PSS) is primarily for market makers and derivatives specialists to assist their market making activity.

Regulated Short Selling (RSS) can only be undertaken if it is accompanied by an authorized SBL transaction.

Intraday Short Selling (IDSS) allows eligible investors to engage in short selling of RSS-approved securities, but all short positions must be closed off within the same trading day. Intraday short selling by Proprietary Day Traders (PDT) is also

allowed.

The Bursa releases a list of RSS- and IDSS-approved securities on its website on a regular basis. In 2023, the Bursa reduced the market capital threshold for stock eligibility for short sale from RM500 million to RM200 million, dramatically increasing the number of short sale eligible equities.

### Definition of short sale

Per the Capital Markets and Services Act (CMSA) of 2007, short selling is the action of a person selling shares, which he or she does not own at the time of selling.

Essentially, the law provides that a person shall not sell securities to a purchaser unless, at the time when he or she sells them:

1. he or she has (or, when selling as agent, his or her principal has) or
2. he or she believes on reasonable grounds that he or she has (or when selling as agent, his or her principal has) presently exercisable and unconditional right to vest the securities in the purchaser.

### Pricing requirement for short sale

RSS and IDSS orders can only be keyed-in at a price at or above the best current ask price.

Rule 7.5.2 in the Trading Manual: The daily short-selling trade limit for a particular security is set at 3% based on the total gross short selling (RSS + short selling under PDT + IDSS) volume for the day against the issued number of shares of the said securities.

Rule 7.5.4 in the Trading Manual: The net trade limit for RSS over a period of time is set at 10% based on the net outstanding volume of RSS against the issued number of shares of the said securities. The Bursa sends a weekly report showing the percentage RSS limit at a stock level.

IDSS has a daily price limit of 15% from the reference price.

### Remarks

All RSS trades must be executed via a designated RSS trading account.

## Short Position Reporting

### Disclosure of short position

High-level statistics are required on a weekly basis, but nothing at the stock position level.

### Buy-Ins:

Bursa Securities has automatic buy-in rules when a seller fails to make the securities available in the relevant securities account by the scheduled delivery time (4:30 p.m. on T+1). When Bursa Clearing informs Bursa Securities of the failed contract,



Bursa Securities will effect an automatic buy-in against the defaulting broker without notice, which will occur on T+2.

### **Withholding From Buying-in Facility**

The scheduled delivery time for a redelivery of loaned securities is T+2. Under a sale, the securities have to be delivered by 4:30 p.m. on T+1 (where T is the date of contract), so there will be a mismatch where the approved lender sells and recalls the loaned securities on the same day.

A lender may sell and recall a loan on the same day where he or she complies with the Capital Markets and Services (Securities Borrowing and Lending) Regulations 2012 (the 2012 Regulations). The 2012 Regulations introduced a “Withholding From Buying-in Facility” effective for one business day only. This facility is provided to an approved SBLNT lender to facilitate the withholding of their sell trade from buying-in due to mismatch in settlement time when the loaned securities are sold and recalled on the same day. Bursa Clearing will be able to withhold buying-in under the 2012 Regulations, which would otherwise take place for the recalled securities, provided that certain conditions are met:

- the sale is a bona fide sale transaction
- at the time of sale, the lender is entitled to recall from the borrower, at least the number of loaned securities that are the subject of the sale
- the lender recalls the loaned securities as soon as practicable within the same market day the loaned securities were sold
- the sale of the loaned securities is settled on the settlement date as may be prescribed by the stock exchange or the clearing house

The final point above shall NOT apply to a lender if the borrower fails to deliver the loaned securities to the lender in circumstances where:

- the securities have been suspended
- the borrower is only able to make partial delivery of the recalled loaned securities, or
- the borrower is unable to make delivery of the recalled loaned securities

More details are contained in section 5.2 of the SBLNT Operational Guidelines.

### **Useful links:**

- [https://www.bursamalaysia.com/trade/post\\_trade/securities\\_borrowing\\_lending/negotiated\\_transaction/sblnts\\_operational\\_guidelines](https://www.bursamalaysia.com/trade/post_trade/securities_borrowing_lending/negotiated_transaction/sblnts_operational_guidelines)

### **Collateral Requirements**

Unlike the CLA model, in the SBLNT model, there is no collateral held at the Bursa. The collateral approach is entirely between the approved SBLNT lender and approved SBLNT borrower.

For Malaysian residents, collateral may be located offshore as long as a resident party complies with the applicable foreign exchange administration requirements for providing collateral to, and obtaining collateral from, a non-resident party. Residency for foreign exchange administration purposes is specifically defined in section 213 of the Financial Services Act 2013.

## Talking Points & Future Developments Facing the SBL Model

### Talking Points:

PASLA believes that the following changes would have an immediate impact on the growth and efficiency of the SBL market in Malaysia:

- The T+2 settlement system would be improved by the addition of a third settlement batch.
- An amendment of the uptick rule.
- Holds: There is a lack of clarity concerning whether a hold sufficiently satisfies the requirement that the approved securities to be short sold are available to settle the sale, meaning that pre-borrows are often required.
- The widening of permitted participants in SBLNT via the expansion of the permissible participants list and further clarity on the definition of an “authorized SBL participant” under the SBLNT rules would increase participation.
- The “Withhold from Buy-In” process is onerous, and a buy-in at the end of T+2 or on the morning of T+3 may be a good alternative.

### Developments:

In the longer term, consideration of the following would help improve market efficiency:

- Tri-party/financing trades: PASLA has been involved in several workshops to help clarify the benefits of tri-party financing and how it would reduce costs and risk from an operational and counterparty perspective.
- Improvement in technology/systems.
- Pledge structure.
- Create end-user demand by permitting local funds to borrow.
- Confirmation of a positive Netting Opinion – there is currently a lack of clarity on the option to net SBL related transactions. PASLA is working with the Bursa to move towards a clean legal opinion.

Bursa Malaysia has a 3-year plan announced late in 2023. This includes a review of the tick rule, consolidation of the short sale framework and a review of the Approved Reasons of Transfer (ART). PASLA will continue to engage with the Bursa regarding these items.







# NEW ZEALAND



**Principal Exchange:** New Zealand Exchange (NZX)

**Main Index:** S&P/NZX All Index

**Settlement Cycle:** T+2

## Trading Hours

**Pre Open:** 9:00-10:00 Normal

**Trading:** 10:00-16:45 Closing Auction: 17:00  
±30 sec Adjust: 17:00-17:30

**Time Zone:** GMT+12 (winter), GMT+13 (summer)

**Currency:** NZD

## Exchange Highlights

Indices	Listed Companies	Total Market Cap
S&P/NZX All Index	126 as at April 2024	US\$89 billion as at April 2024

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PHILIPPINES

SINGAPORE

SOUTH KOREA

TAIWAN

THAILAND

## Key Regulators

The Financial Markets Authority (FMA) is the government agency with responsibility for oversight of financial services and securities markets in New Zealand. The FMA regulates securities exchanges, financial advisers and brokers, auditors, trustees and issuers. The FMA holds joint oversight of designated settlement systems with New Zealand's other major financial regulator, the Reserve Bank of New Zealand.

The Reserve Bank of New Zealand regulates banks, insurers and non-bank deposit takers with the goal of maintaining a sound and efficient financial system.

## Securities Borrowing and Lending (SBL)

### Access Methods

Securities lending and borrowing is permitted in New Zealand with an OTC non-centralized model, used by offshore participants, in addition to a centralized model launched by NZX Clearing in 2010 for depository participants. Both models permit the use of the GMSLA,

and parties are free to choose any law to govern that transaction.

### OTC Model

The OTC model allows offshore agent lenders, banks and brokers to trade actively and freely, with fees and other aspects of the trade being negotiated between lender and borrower as they see fit.

Short-selling activity is not robust in New Zealand, and SBL activity remains low relative to market size.

### DATALEND Market Data (Equity Lending Market) 2024 Averages

On Loan (USD)	Lendable (USD)	Utilization (%)	VWAF (bps)
348,703,572	8,904,450,956	3.92	65.32

### CDP Model

NZX Clearing offers a securities lending facility for depository participants. The clearing house acts as the central counterparty for all securities lending transactions initiated through the depository. The securities lending facility provides depository participants with the opportunity to earn additional income on securities held in the depository. Clearing participants, given the provision of adequate collateral, are eligible to borrow securities from the lending pool.

### Short Position Reporting

#### Is short selling permitted?

Yes, short selling is permitted. All short sale orders must be flagged accordingly at time of trade.

#### Definition of short sale

A sale of any financial product where, at the time of the sale, the seller does not have a presently exercisable and unconditional right to vest the financial product in the buyer except where the seller has an unconditional agreement to acquire that right before the date required to settle the sale or, the financial product being sold has been borrowed, and the seller has a presently exercisable and unconditional right to vest the product in the buyer

Source: FCMA 2013 Article 266

#### Pricing requirement for short sale

No uptick rule; short-sale orders can cross the bid-offer spread.

### Other Reporting Required:

#### Disclosure of short position

There is no reporting requirement for short positions on NZX.

Disclosure is required for relevant interest in excess of 5% of quoted voting products in a listed company. Subsequent changes in holdings resulting in a 1% movement in holdings require disclosure.

### **Buy-Ins**

If the clearinghouse (CHO) elects to buy in a security, the affected clearing participant will be notified by 9:30 a.m. on the relevant trading day, and the buy-in procedure will begin at 10:30 a.m. at a price that is not more than 2% above the last transacted price, or current bid price, whichever is highest.

If sufficient securities are not obtained by CHO within 30 minutes, the price will be reset to a price at an additional 2% above the then-current last transacted price, or the current bid price, whichever is highest.

This process may be repeated every 30 minutes during that day and each successive trading day until the required quantity of securities has been acquired.

### **Useful link:**

<https://www.nzx.com/regulation/nzx-rules-guidance/clearing-depository-rules>

### **Collateral Requirements**

No specific restrictions on eligible collateral for bilateral transactions enacted under a standard GMSLA. For SBL transactions entered through the New Zealand Depository facility, collateral must be either US\$, AU\$, NZ\$ or designated eligible securities, which currently includes NZX50 or ASX200 constituent securities, or approved products issued by the New Zealand Government.

### **Foreign Investor Limits**

Approval is required for the acquisition of securities by a foreigner or foreigners in concert if the following thresholds are breached:

- Ownership or controlling interest exceeds 25% of outstanding shares
- The value of a security interest exceeds NZ\$100 million

Source: Overseas Investment Act 2005

### **Tax**

SBL activity is not a taxable event in New Zealand.

The statutory dividend tax rate is currently 30%; however, New Zealand has various double-tax treaty agreements, which may result in different levels of liability depending on domicile.

Additionally, New Zealand companies may pay a supplementary dividend accompanying a fully imputed dividend to compensate non-resident shareholders outside of certain jurisdictions.

This commentary only serves as a guideline and should not be construed as tax advice. Please consult a tax professional for further information.

### **Operational and Post Trade**

New Zealand Clearing (NZC) serves as a CCP for all on-market cash and derivatives trades. NZC also serves as a central counterparty for all securities lending transactions initiated through the securities depository.

## Auction Rules

The Opening Auction occurs at a random time 30 seconds on either side of 10:00 a.m., and the closing auction occurs at a random time 30 seconds on either side of 5:00 p.m. In both cases, the auction methodology is the same. The market-clearing price where the greatest number of bids and offers can match is determined, and this level will execute at a single print price.

In the case where there are no trades in the opening auction, the first sale during the regular session will become the official opening price. Conversely, if there are no trades in the closing auction, the last sale of the regular session becomes the official closing price of the day.







*Carved panels inside of Maori meeting house in Waitangi, New Zealand. By amelie*



Colorful smiling mask of Masskara Festival, Bacolod City, Philippines By leonardovillasis

# PHILIPPINES



**Principal Exchange:** Philippine Stock Exchange (PSE)

**Main Index:** PSEi comprises 30 of the largest and most actively traded stocks listed on the exchange

**Settlement Cycle:** T+2

## Trading Hours

**Open:** Monday to Friday  
9:30 - 12:00, 13:30 - 15:30

**Time Zone:** GMT+8

**Currency:** PHP

## Exchange Highlights

Indices	Listed Companies	Total Market Cap
PSEi	282 as at April 2024	US\$234 billion as at April 2024

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## Key Regulators

Securities and Exchange Commission (SEC)

## Securities Borrowing and Lending (SBL)

## Access Methods

During 2023, the PSE issued additional guidance on the use of the GMSLA and offshore collateral that should allow offshore participants to work with existing onshore rules and lend securities.

## Onshore system

There is no centralized SBL system for borrowers and lenders in the Philippines, but, instead, it is guided by rules issued by multiple sources including the SEC, PSE, Bangko Sentral ng Pilipinas (BSP), PDEX, the Insurance Commission and the Bureau of Internal Revenue (BIR).

Parties can enter into SBL transactions on an agency basis as well as on a principal-to-principal basis. A lending agent must be registered

with the SEC.

Ordinary shares or other securities listed in the PSE can be included in an SBL transaction unless declared by the SEC or the PSE as ineligible for borrowing and lending under the SBL program.

SBL documentation (MSLA or GMSLA) must be approved and registered by the BIR. It is the borrower that applies for prior approval and registration of the documentation, but subsequently the BIR must be notified by the lender that it has entered into the registered agreement so that the SBL transaction will not be assessed as liable for the corresponding taxes. If acting as a lending agent, a Securities Lending Authorization Agreement (SLAA) must be executed.

In addition, the BSP requires the registration of SBL transactions covering PSE-listed shares borrowed by foreign borrowers from local lenders to enable the former to purchase foreign exchange from local banks for remittance abroad using the peso sales proceeds of the borrowed shares.

The SEC requires lending agents and direct lenders to submit a biannual summary report of their SBL transactions within 30 days after the end of the covered period.

There is a maximum lending period of two years from the date of execution of the SBL Confirmation Notice.

The Philippine Peso (PHP) is not fully convertible. Repatriation of funds needs to be supported by a Bangko Sentral Registration Document (BSRD).

### **Additional Reporting**

Beneficial owners are required to disclose ownership to the SEC when ownership exceeds 5% and 10% of the outstanding shares held by a company listed in the PSE. Any material change would have to be reported within three business days from trade date. Such disclosure must likewise be made to the PSE and the Issuer.

### **Useful Links:**

- <https://www.pse.com.ph/sbl-short-selling/>

### **Short Selling Rules**

All PSEi member companies and Exchange Traded Funds are eligible for short selling. A maximum short interest ratio (as a percentage of outstanding shares) of 10% is required. If this is exceeded, then short interest will be restricted until the ratio falls below 10%. Information on current ratio and eligible securities is published each day.

An uptick rule applies to short sales.

Only Trading Participants can enter short sales.

### **Buy-Ins**

No failed settlement is allowed. In the case of a failure, the broker will arrange a stock loan to cover the position. Failure to cover the position results in the broker getting a trader suspension from the exchange plus a penalty. The broker has the right to pass on any related costs to the client.

### **Collateral Requirements**

Collateral needs to be at least the value of the borrowed shares and marked to market. The SEC prescribes eligible collateral as cash, equity, or government securities (Section 12 of the SEC Rules).

The SEC has approved the following forms of collateral where one party to the transaction is a foreign party:

1. Cash in USD, EUR, JPY, GBP and AUD;
2. Government and agency debt of member-countries of the Organization for Economic Co-operation and Development with a minimum BBB rating; and
3. Constituents of benchmark indices of World Federation of Exchanges member exchanges.

### **Foreign Investor Limits**

No general restrictions except in areas where foreign investment is not allowed. Such areas include mass media, nuclear weapons, mining and advertising.

The restrictions are laid out in the Foreign Investment Negative List (List A and List B). List A enumerates the companies reserved only for Philippine nationals as per the Constitution or laws. List B enumerates the companies in which foreign ownership is limited to 40% on economic activities regulated by law.

### **Tax**

Neither SBL transactions or the delivery of collateral will be subject to stock transaction tax (STT) or capital gains tax (CGT) and documentary stamp tax (DST) provided that:

- A valid MSLA or GMSLA is executed by the parties and registered with and approved by the BIR
- The SBL program is in accordance with the SEC rules, and
- The SBL program is under the administration and supervision of the PSE
- All other applicable taxes prescribed by the Philippine Tax Code and special laws shall continue to apply.

### **Talking Points & Future Developments Facing the SBL Model**

Following the new SBL and Short Selling Rules published in 2023, further steps are required to induce international participation in SBL in the Philippines:

1. At time of publication, PASLA was working with the PSE to ensure the approved GMSLA addendum would allow governance under English law to avoid contradiction of different legislatures.
2. Failed sales and failed returns: The Philippines is currently a “no-fail” market, which doesn’t allow for operational issues that may cause a delayed return. The resulting risk-mitigation procedures are restrictive and discourage market participation.



# SINGAPORE



**Main Index:** Straits Times Index (STI) tracks the performance of the 30 largest and most actively traded stocks on the Singapore Exchange.

**Principal Exchange:** SGX

**Settlement Cycle:** T+2

## Trading Hours

**Open:** Monday to Friday 9:00 to 11:59, 13:00 to 17:00

**Time Zone:** GMT+8

**Currency:** SGD

## Exchange Highlights

Indices	Listed Companies	Total Market Cap
STI, FTSE ST Catalyst, FTSE ST All-share, FTSE ST Mid Cap, FTSE ST Small Cap, FTSE ST Fledgling	623 as at April 2024	US\$569 billion as at April 2024

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## Key Regulators

The Monetary Authority of Singapore (MAS) - Singapore's central bank and sole bank regulator oversees all financial institutions in Singapore.

The Ministry of Finance (MOF) - Assigns regulation and monitoring of financial markets to MAS and SGX.

The Securities Industry Council (SIC) - Advisory and consultative body to the MOF.

## DATALEND Market Data (Equity Lending Market) 2024

### Averages

On Loan (USD)	Lendable (USD)	Utilization (%)	VWAF (bps)
2,138,390,839	57,801,758,786	3.70	69.65

## Securities Borrowing and Lending (SBL)

### Access Methods

Securities lending and borrowing is permitted in Singapore, with an OTC non-centralized model, used by offshore participants, in addition to a centralized model launched in 2002 by the Central Depository (CDP) and used by the onshore market. Both models permit the use of the GMSLA, and parties are free to choose any law to govern that transaction.

### CDP Model

The main objective of SGX's SBL program is to improve liquidity in the stocks traded on the SGX. The program was launched in January 2002 by the CDP. The account structure of CDP is the foundation of the SBL program. The stocks from a large number of direct securities accounts provide a steady supply to the lending pool.

The CDP acts as the principal to both borrowers and lenders. The borrowers and lenders remain mutually anonymous. The CDP collects collateral from the borrowers but does not pass it onto the lenders. For cash collateral provided by the borrowers, the CDP will pass back the interest to them at a lower rate.

The direct securities account holders are the major lenders. Currently, about 6,000 direct securities account holders have signed up to lend out their stocks. They can specify to lend out (1) all stocks, (2) specific stocks only, or (3) specific stocks with maximum quantities only. The stocks remain in the accounts of the potential lenders. The CDP uses a separate system to keep track of the lending pool. Stock movements are only required for executed SBL loans and recalls.

The CDP has implemented various risk-management measures on the price risks and concentration risks for the outstanding loans and the collateral. However, it is up to the borrowing brokers to monitor the risks of their clients.

In January 2021, non-SGD denominated securities became eligible for borrowing as part of the CDP SBL program.

### OTC Model

The OTC model allows offshore agent lenders, banks, and brokers to trade actively and freely, with fees and other aspects of the trade negotiated between the lender and the borrower on a bilateral basis.

### Short-Selling Rules

#### Is short selling permitted?

Permitted subject to local restrictions. Investors must mark their sell order as a normal sell or short sell order at the point of arrangement to avoid settlement failure.

#### Pricing requirement for short sale

Uptick rule does not apply.



## Short Position Reporting

### Disclosure of short position

The MAS has required investors to report short positions and short sale orders in securities listed on the Singapore Exchange since October 1, 2018. A person who has a short position in any specified capital markets products (e.g., shares, business trusts and REITs listed on SGX) that hits the short position threshold will be required to report the short position.

The short position threshold is the lower of:

- 0.2% of total issued shares in the relevant class of shares or units, or
- SG\$2,000,000

Short positions are determined on Position Day, which is the last trading day of each week (typically a Friday).

### When does a report need to be made

Short position holders must submit their short position reports within two business days from Position Day.

## Buy-Ins

The SGX enforces a buy-in when the seller fails to deliver the shares for settlement by 1:30 p.m. on T+2. Executions by the exchange are sometimes at punitive prices. The investor will pay the difference between the selling price and the buy-in price, including brokerage and buy-in fees. CDP charges a processing fee of SG\$75 (SG\$80.25 inclusive of GST) for each failed contract. A brokerage rate of 0.75% will be levied on each buy-in contract.

A penalty of 5% of the value of the failed trade or \$1,000 (whichever is higher) is imposed on all trades that are not delivered. This is waived if the buy-in is successful on T+2. Continued non-delivery by the end of T+7 can lead to the clearing member being referred to the disciplinary committee.

If the buy-in is unsuccessful on T+2 and sufficient shares are available on the morning of T+3, a withdrawal request can be submitted to CDP.

## Collateral Requirements

In March 2002 the MAS amended regulations to allow for non-SGD collateral to be received for SBL transactions.

Offshore lenders/borrowers can pledge/hold collateral as agreed bilaterally, with no restrictions being imposed by local authorities, either being held directly or managed via tri-party agents. There are no restrictions on either title transfer or pledge.

## Foreign Investor Limits

In general, there are no foreign ownership level restrictions for local shares, unless specifically stated in the company's Memorandum and Articles of Association (M&A). Regulatory approval may be required for share ownership (local or foreign) beyond a certain threshold in banking or media companies, air aviation and newspapers.

## Tax

In November 2001, the IRAS issued a guide on the tax implications of SBL and repo. SGX plans to enhance key Central Depository (Pte) Limited (CDP) Clearing and Settlement processes to further improve operational efficiency and risk management. Key enhancements provide for earmarking of securities for FOP settlement with SGX Trading Member and management of failed deliveries through buying-in on the afternoon of T+2.

## Auction Rules

Pre-open: 8:30 to 8:58 / 8:59 (random finish)

Pre-close: 17:00 to 17:04 / 17:05 (random finish)

Non-cancel: 17:04 / 17:05 to 17:06

Close: 17:06

## Talking Points & Future Developments Facing the SBL Model

SBL activity continues to be costly in Singapore, with SBL transfer costs of S\$43.60 per side at the time of writing. Elevated settlement risks are also a concern for investors, owing to the limited number of settlement batches (2 batches, first at 10:00am and final at 1:30pm), with a strict buy-in schedule on T+2. A real-time gross settlement solution exists, but comes with an additional cost of S\$5.45 per transfer, per side, which has not seen significant adoption amongst active offshore SBL participants.

## Developments

The SGX has streamlined the procedures for SBL transfers on suspended securities, moving from the previous statutory declaration requirement to a simple attestation letter.





The Sri Krishnan Temple in Singapore is a beautiful Hindu on Waterloo Street. By sean.heatley



# SOUTH KOREA



**Principal Exchange:** Korea Exchange (KRX)

**Main Index:** KOSPI, KOSDAQ

**Settlement Cycle:** T+2

## Trading Hours

**Pre-Market Session:** 8:30 - 9:00

**Normal Trading Hours:** 9:00 - 15:30

**Close Auction:** 15:40 - 16:00

**After-Market Session:** 15:40 - 18:00

**Time Zone:** GMT+9

**Currency:** KRW

At the time of publication, a short selling ban is in effect within South Korea. The below description describes the securities lending and borrowing market practices applicable prior to the ban. The FSC has announced that the ban will extend until 30th March 2025 pending the development of short sale processing and monitoring systems within institutional investors and the implementation of an electronic detection system by the KRX. This may then change the processes described in the current version of this guide. PASLA remains engaged in discussions with relevant parties to support a transparent and liquid market.

## Exchange Highlights

Access to the KRX is restricted to members of the KRX only. Non-members may access the market through KRX member firms.

Previously foreign investors were required to be approved by the Financial Supervisory Service (FSS) in order to trade listed securities of the exchanges in Korea and apply for an investor identification, the Investment Registration Certificate (IRC) in their own name, through the FSS.

In December 2023, the IRC scheme has been abolished so that new foreign investors accessing the market no longer have to go through a registration process at the FSS. Instead, they can open a new account using their 20-digit Legal Entity Identifier (LEI) for corporate type investors and their passport number for individual type investors. Existing IRC holders are required to continue to use their IRC and cannot open accounts with an LEI number.

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Unlike some currencies, KRW may be freely traded in the local market without necessarily having to link the buys or sells to an underlying transaction. Overseas investors must use licensed foreign exchange banks to trade KRW and reference the IRC/LEI number and investor.

Currently only certificated local financial institutions can participate in the interbank forex market. After the change, global banks or securities firms approved as a Registered Foreign Institutions (RFI) can participate in the domestic interbank FX market to trade KRW.

Indices	Listed Companies	Total Market Cap
KOSPI KOSDAQ KONEX	2,573 as at April 2024	US\$1.9 trillion as at April 2024

### **DATALEND** Market Data (Equity Lending Market) 2024 Averages

On Loan (USD)	Lendable (USD)	Utilization (%)	VWAF (bps)
15,894,675,345	169,345,054,747	9.39	208.38

### **Key Regulators**

FSS is South Korea's integrated financial regulator, which examines and supervises financial institutions under the broad oversight of the Financial Services Commission (FSC), the government regulatory authority.

### **FSS Activities Include:**

- Supervision of financial institutions: (Preliminary) review of license applications (for bank, non-bank, financial investment company, insurance company, credit card company, financial holding company or any other kind of financial institution), review of the terms and conditions of financial institutions; supervision of the soundness of business management and business activities.
- Examination of financial institutions: Analysis and evaluation of financial companies' business activities, financial position and risk management capacity; verification of companies' compliance with relevant statutes.
- Supervision of the capital market: Operation of disclosure system to maintain the sound operation of primary and secondary markets for marketable securities; capital market investigation to prevent unfair trade practices.
- Supervision of accounting: Alignment of accounting standards to international accounting standards to achieve enhanced transparency; supervision of accounting to ensure a fair operation of the external audit system.
- Protection of customers of financial services: Consultation and handling of customer complaints regarding financial services; protection of customer rights through dispute mediation; financial education of consumers.

### **Securities Borrowing and Lending (SBL)**

#### **Access Methods**

SBL transactions can only be conducted through authorized intermediaries in

Korea. Authorized intermediaries include the Korea Securities Depository (KSD), Korea Securities Finance Corporation (KSFC), and local securities firms.

KSD is the central securities depository and is majority-owned by the KRX. The KSFC intermediates, arranges, and acts as an agent in SBL transactions. Both KSD and KSFC guarantee the performance of the borrower in return for receiving the collateral from that borrower under most transactions except customized transactions. The KSFC will only guarantee the performance of the lender under so-called cash-backed transactions.

The main types of SBL are settlement coverage, bid-offer, customized, and arranged. The borrower and the lender choose the type and enter the application details into the inter- mediary system.

“Customized” transaction: Most offshore activity is under the “customized” model, as that allows the collateral to be held offshore and net off collateral exposures. All loans must be intermediated.

GMSLA may be used where the collateral under an SBL transaction is Korean securities. There is a need for modification because collateral is provided by way of pledge or title transfer through “lending for collateral purposes” in the case of Korean Treasury Bonds (KTBs) and Monetary Stabilization Bonds (MSBs) under Korean law. In addition, Korean securities companies are required to use the standard lending agreement prepared by the Korea Financial Investment Association for SBL transactions. Industry standardized versions of the addenda are available on the PASLA website.

“Arranged” transaction: If an SBL transaction is to be intermediated by KSD, the parties will need to have an account with KSD. In principle, KSD will open an account only for financial institutions (whether Korean or non-Korean institutions). The main difference from “customized” transactions is that collateral will be posted to KSD, and posted collateral cannot be netted off, which raises the risk of double-posting collateral for each way of transactions (borrow and loan) to the same counterparty.

## Short-Selling Rules

### Is short selling permitted?

Only covered short selling is allowed in South Korea. When placing a short sale at the executing broker, the investor must specify it is a covered short sale and ensure the borrowing of shares is executed before the covered short sale order is placed.

Naked short sales are not permitted. Sanctions against uncovered short sellers can be onerous.

KRX requires to tag long sell and short sell correctly on all sell orders. Regulators can ban short selling in exceptional circumstances, such as after the

Global Financial Crisis in October 2008 and, more recently, the regulators banned short selling effective 6 November 2023 until the end of March 2025.

The notes below reflect the rules prior to the ban. These may be amended post a review of the processes.

**Definition of short sale**

Short sale is defined as a sale of stocks not in possession on trade date.

**SBL transaction eligible securities**

SBL trades are allowed for listed stocks, listed bonds, Exchange-Traded Funds (ETFs), and Korea Depository Receipts (KDRs).

**Pricing requirement for short sale**

There is an uptick rule when placing short-sale orders, which requires short sales to be placed at the last traded price or higher. However, when the price is on the rise (the most recently matched price is higher than its previous price), it is exceptionally allowed that short selling is quoted at the most recently matched price.

The price limit does not apply to selling for arbitrage trading, LP and market-making selling for hedging and negotiated transactions.

**Short Position Reporting & Disclosure****Definition of net position**

The net long position is the net asset (asset minus liability) of the securities, which is equal to the accumulative aggregation of the purchase and sale orders. If there is no net long position equivalent to the quantity of sale, it qualifies as a short sale.

To summarize,

If net long position  $> 0$ , long position. No reporting obligation for short position.

If net long position  $< 0$ , short position, where reporting obligation kicks in if it meets the criteria noted below.

**Disclosure of large-scale holders of outstanding short position**

In case the investor's net short-sale position is equal to or over 0.5% of the outstanding listed shares, information on the seller is required to be disclosed publicly.

The disclosure should be made via the Korea Exchange where the relevant stock is listed. The information that is to be disclosed is as follows:

1. Details of the stock
2. Details of the seller—name, address, nationality, date of birth (foreign investors: IRC/LEI number) and details of the proxy agent in case the disclosure is done by a proxy agent
3. Date when the short-sale position became applicable for disclosure



## KRX Overheated Short Sell

### Announcement & implication

KRX announces Overheated Short Sell stocks around 5:15 p.m. KRT daily.

Once a stock is designated as a KRX overheated short-sell stock, short selling is banned for a period of time that is usually one day but can be extended.

A new condition was added as a criteria of defining an overheated short-sell stock in 2022 so that when short selling proportion is 30 percent or more, that stock will be designated as an overheated short selling stock even if stock price drops only 3 percent or more and the increase in the amount of short selling transactions is just twice or more.

### Short sell position reporting

A reporting obligation is in place when a person's (an LEI/IRC's) net short position reaches or exceeds  $\geq 0.01\%$  of the issued share number of a KRX listed company and over KRW 100 million, or  $\geq 1$ bn KRW, regardless of ownership percentage.

Reporting deadline: By 9 a.m. of T+3 to the FSS

Effective 2 January 2023, a new reporting obligation to the financial authorities (i.e. FSS) has been introduced so that investors submit their SBL transactions report when 90 days have passed after stock lending takes place for the purpose of short selling.

Criteria				
Market	Short selling proportion	Stock Price decline rate	**Increase in short selling transaction amount	Short selling proportion for the preceding 40 days
All (new)	30 percent or more	3 percent or more	Twice or more	-
KOSPI	3 times or more of short selling proportion for KOSPI stocks in the preceding quarter*	5 percent ~10 percent	6 times or more	-
	-	10 percent or more		
KOSDAQ	3 times or more of short selling proportion for KOSDAQ 150 stocks in the preceding quarter*	5 percent ~ 10 percent	5 times or more	-
	-	10 percent or more		-
	-	-		5 percent or more

\* When an individual stock's short selling proportion exceeds 20 percent, it meets the short selling proportion criteria.

\* Short selling transaction amount on that day / average short selling transaction amount for the preceding 40 days

**Other reporting required:****5% Rule**

Under the Financial Investment Services and Capital Markets Act of Korea (FSCMA), any person whose direct or beneficial ownership of equity securities issued by a company listed on the KRX (such company, a “Listed Company”) accounts for 5% or more of the total issued equity securities of such Listed Company, is required to report the details of such holdings to both the FSC and the KRX.

**Buy-Ins**

Korea is generally considered a no-fail market. However, the KRX imposes a delayed settlement charge of 20 bps on trades not settled by 4 p.m. Korea time. An automatic buy-in will occur if the failure of settlement lasts for two days.

The FSS has the ability to suspend or cancel the registration of foreign investors for a number of reasons, including failing to complete and settle a transaction within five days from the settlement date.

**Collateral Requirements**

KSD and KSFC may take foreign currency collateral under their regulations, but in practice will generally only take USD cash and U.S. Treasury bonds. That is being further developed. With respect to customized transactions, there is no restriction on the form and type of collateral located offshore.

**Foreign Ownership Limits (FOLs)**

Foreign ownership restrictions do exist but are largely limited to companies of national importance, each of which has a ceiling on foreign holders. Those include strategically important stocks in specific industries as well as stocks issued by public companies. Once the limit on foreign ownership has been reached, foreign investors are unable to buy more shares on the exchange.

One nuance of these FOL companies is that they must be physically held in the client’s account prior to selling. If those shares are lent out or otherwise onward delivered, a sale will be held up until the securities are returned to the beneficial owners’ IRC/LEI.

SBL trades on FOL names are prohibited between onshore and offshore entities.

**Tax**

There is a Securities Transaction Tax on sales of stock, levied on the seller only and only applicable to stock trading. This amounts to 0.18% on KOSDAQ and KOSPI names with KONEX names 0.10%. The STT will be further lowered to 0.15 percent on KOSDAQ and KOSPI names from 1 January 2025.

The tax rate on dividend and interest income for non-residents is a standard 22% but may vary depending on the tax treaty agreed upon on a country-by-country basis.

Effective from 1 January 2023, the Korean government has offered exemption on interest tax and capital gain tax that is imposed on foreign investor’s gains deriving from their investments in Korea government bonds including Korea Treasury Bonds and Monetary Stabilization Bonds.

Foreign investors can be exempt by submitting the required tax forms to their local withholding tax agent prior to income pay date. Once the tax forms are submitted, they will be valid indefinitely.

For specific tax advice, investors should consult a tax professional - the above is to be used as guidance only.

### **Operational and Post Trade**

In principle, Korea is a segregated account structure market but an omnibus account structure was first introduced in 2017 allowing global asset management companies and global brokerage firms to open an Omnibus account in their name and execute multiple trade orders from a single account with a Korean securities company. However, due to the reporting requirement to submit transaction details of underlying investors to the FSS immediately by T+2 (settlement date), there hasn't been actual usage of this Omnibus account after it was first introduced to the market.

Effective 14 December 2023, the T+2 reporting requirement has been removed and instead, a post-management system has been implemented. Global asset management companies or global brokerage firms (i.e., Omnibus account holder) will be required to identify their underlying investors and the local securities company that opened the omnibus account will be required to manage and keep the detailed transaction records. The financial authorities may request the transaction records of the underlying investors when necessary and sanctions will be imposed on the local securities company if they do not comply or provide inaccurate information.

### **Corporate Actions & SBL Implications**

#### **Repurchase Offers (Tender Event)**

Article 165-5 of the Financial Investment Services and Capital Markets Act allows shareholders to “dissent” to a resolution of the board of directors and requires the corporation to purchase the stocks they own, assuming that they held the shares prior to public notice of the resolution. Under Article 354 (Closure of Register of Shareholders and Record Date) of the Commercial Act, companies may choose to suspend changes in the register of shareholders for entitlement as of a specified date. This specifically allows for a tender event to be triggered with a retrospective date, and therefore any shares out on loan are not entitled to be tendered as the shares are not under that shareholder's name on the register.

As such, some repurchase offers with dissent options would need to be recalled on T+1 from the announcement date, which in a T+2 market can be challenging. It is important for lenders to be aware of this risk in lending and for brokers to be aware of the potential to receive a tender election that they may need to manufacture back to the short.

#### **Rights Issue**

When a company announces a rights issue and an investor has their stock in that company lent out, if the rights will be listed and traded, the lender of those shares will not usually recall the ordinary shares. However, it has become standard market practice to usually recall the resultant rights position once those rights are listed and start trading.

If the rights are unlisted and not traded, there is no way to physically return the rights via the intermediary; therefore, the lenders will usually recall the ordinary shares ahead of the record date. In January 2021, FSC announced an enforcement ordinance for new regulations restricting short sellers' participation during rights offering periods with a few exemption cases. Investors will be restricted from

participating in a rights issue event if they have short sold the subject stock during the period starting from the day after the issuing company's public announcement of the event until the last day of the trading period that is set to determine the issuing price.

However, this restriction will not apply in the following cases:

1. When an investor short sells during the restriction period but buys the same quantity or more of the short-sold stocks in the market before the restriction period ends, the trade contract date of the buy trade should be within the restriction period.
2. When a firm has its own independent trading units that meet the FSC's standards and participates in a right issue event with the non-short selling trading units.
3. Market makers and liquidity providers.

### **Stock Split/Reverse Split**

Not subject to any recalls unless there are special conditions around corporate actions. Intermediaries will process manufactured positions and will be paid out accordingly.

### **Stock Dividend**

No recall triggered by stock dividend event. Manufactured stock dividend will be paid out on pay date.

### **Mandatory Record Keeping of SBL Transactions**

Any SBL trade confirmations for the purpose of short sell need to be stored for 5 years and must be readily available for immediate submission to FSC and KRX upon request.

Investors that borrow stocks for the purpose of a covered short sale must keep records of the loan agreement for five years in a manner that cannot be manipulated. The details must include a timestamp, stock name, quantity, counterparty, fee rate, loan period, etc. The records must be stored by one of the following methods:

1. The loan agreement is to be made and stored in an "electronic transaction processing platform."
2. The loan agreement is to be made via email or messenger and the screenshot of the chat or email communication must be kept in an electronic facility where it cannot be altered.
3. If the investor has built their own "securities holding management system," they should input the loan agreement details in the system promptly before booking the covered short sell.
4. For individuals that do not have the capacity to build a system, he or she must keep the loan agreement at the intermediary, i.e., Korea Securities Depository, Korea Securities Finance Corp., or local brokerage firms.

### **Penalties for Short Sell Regulation Violation**

Any violation may lead to significant penalties, including criminal charges for senior management. Penalties are being reviewed by the regulators as we go to press.

### **Short-Sale Ban**

If there are concerns about the undermining of market stability and fair price formation due to extreme market changes, the exchange may limit covered short selling of some or all listed securities after getting approval from the FSC. Previously, when drastic market changes took place in the wake of the global financial crisis in 2008 (for eight months) the downgrade of the U.S. federal government credit rating in 2011 (for three months), and the COVID-19 pandemic crisis in 2020 and 2021 (for 13.5 months and short selling partially resumed for KOSPI200 and KOSDAQ150 components only), short selling was banned for all listed securities. Short selling was banned again on the 6th of November 2023 until the end of March 2025.

### Talking Points & Future Developments Facing the SBL Model

The Korean financial authorities banned short selling without notice on the 16 November 2023 with the intention of taking time to review the current system. PASLA looks forward to working with the relevant parties to promote a well-regulated, open SBL and short sell market.



Gangnam style statue a bronze sculpture by artist Hwang Man-seok in the street of Seoul South Korea. By Keitma



AED  
心臟去轉  
Automated  
External Defibrillator  
中華電子儀器 立偉電子

福長百命 金出好地 會相來

大  
好

# TAIWAN



**Principal Exchange:** Taiwan Stock Exchange (TWSE), Taipei Exchange (TPEX)

**Main Index:** TWSE (TWSE Index), PTEEx (TWOTC Index), Taiwan 50 Index (0050TT Equity)

**Settlement Cycle:** T+2 DVP

## Trading Hours

**Open:** 9:00 a.m. - 1:30 p.m

**Time Zone:** GMT+8

**Currency:** TWD

## Exchange Highlights

Indices	TWSE	TPEX
Listed Companies	1,016 at April 2024	821 as at April 2024
Total Market Cap	US\$1.99 trillion at April 2024	US\$184 billion as at April 2024

## CONTENTS

AUSTRALIA  
CHINA  
CHINA / HK STOCK CONNECT  
HONG KONG  
INDIA  
INDONESIA  
JAPAN  
MALAYSIA  
NEW ZEALAND  
PHILIPPINES  
SINGAPORE  
SOUTH KOREA  
**TAIWAN**  
THAILAND

## DATALEND Market Data (Equity Lending Market) 2024

### Averages

On Loan (USD)	Lendable (UxSD)	Utilization (%)	VWAF (bps)
18,241,816,338	140,669,938,741	12.97	281.83

## Key Regulators

Financial Supervisory Commission – Securities and Futures Bureau:  
<https://www.sfb.gov.tw/en/index.jsp>

## Securities Borrowing and Lending (SBL)

### Access Methods

Negotiated transactions are more common when one party is a non-Taiwanese company. It is also common for the parties to use standard SBL agreements such as the GMSLA but an addendum would be attached to ensure no conflict with local regulations. An industry standard version is available on the PASLA website.

FINI (ID) market for foreign investors. There are two platforms: TWSE platform and Broker type. The TWSE platform has three types:

- Fixed-rate: Transactions are executed at a fixed-rate publicly announced by the TWSE. The rate as of December 2019 was 3.5% per annum.
- Competitive bid: The SBL fee rate should be determined by the bids and offers quoted by the borrower and the lender subject to a maximum interest rate of 16% per annum.
- Negotiated transaction: All the terms and conditions, including the loaned securities, traded volume, SBL fee rate, collateral ratio, return date, etc., are negotiated and determined by the counterparties. The maximum stock loan fee is 16% per annum.

Broker type is similar to the TWSE negotiated transaction.

The list of lendable securities is available at:

<https://www.twse.com.tw/en/products/sbl/disclosures/twt60u.html>

In order to participate in securities lending in Taiwan, an SBL participant is required to open an equity trading account with a securities company located in Taiwan. The SBL participant (FINI) is required to enter into a “Letter of Entrustment for Securities Borrowing and Lending Transaction” with the securities firm. This enables the FINI’s account to be linked with the TWSE SBL system. All loans must be intermediated for reporting purposes by onshore securities companies. All 3 models require buy / sale transactions to occur in 1,000 share lots. Odd lots, or any size below 1,000 shares, are not allowed in any borrow or returns. However, in the event of the returns of dividends (manufactured dividends), odd lots are frequently seen and can be processed.

### Useful Links:

- SBL Disclosures: <https://www.twse.com.tw/en/products/sbl/disclosures/info.html>
- TWSE’s SBL Systems Overview: <https://www.twse.com.tw/en/products/sbl/overview.html>

### Short-Selling Rules

#### Is short selling permitted?

Naked short selling is banned.

#### Definition of short sale

Sell transactions settled by the delivery of borrowed securities under an SBL arrangement.



**Pricing requirement for short sale**

In principle, the short selling of borrowed stocks is subject to the uptick rule, which requires SBL short sales for borrowed shares to be entered at a price equal to or higher than the previous day's closing price.

However, since September 23, 2013, borrowed stocks eligible for margin trading are exempted from the uptick rule.

The waiver does not apply if the borrowed security's closing price of the previous day reaches the limit down price, or if no close price but best offer at limit down price on the previous trading day, then the uptick rule applies for the following trading day.

**Disclosure of short position**

Not required.

**When does a report need to be made?**

Not required. TWSE collects short sale and borrow data from brokers at the end of each day.

**Short Position Reporting**

Three ceilings are adopted to monitor the volume of short selling borrowed shares over the whole market:

- The limit on the daily short selling quota is set at 30% of the average trading volume of the underlying stock during the previous 30 business days.
- Total outstanding short positions from borrowed stocks across all market participants cannot exceed 10% of outstanding shares per lending stock.
- The total volume of short sold positions and margin short sales cannot exceed 25% of outstanding shares per stock.

If the short sale and borrow are executed through the same broker, the TWSE permits settlement on T+1, but the borrow needs to be reported and pre-matched on the trade date. If, however, the short sale and borrow are executed via different brokers, the borrow needs to be arranged and settled on the trade date.

**Useful links:**

- Daily short sell quota: <https://www.twse.com.tw/en/trading/margin/twt93u.html>
- Securities exempted from SBL short selling price constraints at: <https://www.twse.com.tw/pcversion/en/page/trading/SBL/TWTACU.html>
- Short Sales Volume and Value : <https://www.twse.com.tw/pcversion/en/page/trading/exchange/TWTASU.html>

**Buy-Ins**

Local brokers can purchase securities (which is effectively a broker executed buy-in) for the purposes of preventing fails and/or potential penalties (that may include the threat of suspension) but this very rarely occurs due to market efficiencies. Taiwan

is a no-fail market as there is no settlement for trades past their value date.

### **Cash Collateral Currencies Allowed**

Type: Currency (USD, GBP, AUD, HKD, EUR, JPY permitted, TWD only allowed for onshore participants), TWSE & TPEX listed stock (<https://www.twse.com.tw/en/page/trading/exchange/TWT59U.html>), Taiwan Government Bond and bank guarantees (yet to be used).

Margin level (initial/maintain): TWSE competitive/fixed (140%/120%), TWSE negotiate/ Broker type (variable).

### **Foreign Investor Limits**

Foreign ownership limits (FOL) apply to some stocks. The TSE website publishes the list of names and respective ownership daily at:

[https://www.twse.com.tw/en/page/trading/fund/MI\\_QFIIS.html](https://www.twse.com.tw/en/page/trading/fund/MI_QFIIS.html)

### **Tax**

Manufactured dividends are treated as the lenders' dividend income or capital gains depending on whether borrowers hold borrowed securities as of the record date. If held on the record date, manufactured dividends are treated as the lenders' dividend income and are subject to income tax. If sold, manufactured dividends are deemed to be capital gains, which are currently tax-free in Taiwan. In addition, no business tax is levied on dividend income or capital gains.

With regard to dividend reimbursement for competitive and fixed-rate types, treatment is also dependent on whether borrowers hold the borrowed shares over record date.

### **Hold over record date**

- Cash dividend: borrower needs to reimburse 100% of the dividend amount minus borrower's withholding tax.
- Stock dividend: borrower needs to return gross stock dividends to lenders.

### **Sold before record date**

- Cash dividend: borrower needs to reimburse 100% of the dividend amount minus lender's withholding tax.
- Stock dividend: borrower needs to return gross stock dividends to lenders.

During negotiation, the treatment is agreed by the two parties.

SBL fees are considered Taiwan-sourced income and are subject to income tax as well as business tax. The Tax Authority further clarified that when both parties are FINIs without permanent establishments in Taiwan, the SBL fees are outside of business tax coverage.

Regarding offshore agent fees, when all of the agency services are provided offshore, and all parties including the lender, the borrower and the offshore agent do not have permanent establishments in Taiwan, the agent fees are not subject to income tax or business tax.

The interest on the onshore cash collateral received by the borrower shall be subject to income tax. However, if the borrower is a financial institution or trust investment company, business tax shall also be levied. In addition, interest on offshore collateral is not considered Taiwan-sourced income and is therefore not

subject to tax in Taiwan.

No securities transaction tax or capital gain tax will be levied on the SBL transactions. If, however, a borrower defaults, and equivalent cash instead of the physical securities is returned to a lender, it shall be deemed that the lender has sold the loaned securities and shall be subject to securities transaction tax.

### **Special Auction Rules:**

8:30 a.m. to 9:00 a.m.

Open price determined at 9:00 a.m.

Closing price is determined during 13:25 to 13:30 (normal trading hours)

Odd lots trading period: 1:40 p.m. to 2:30 p.m.

Block trades session: 8:00 a.m. to 8:30 a.m., 9:00 a.m. to 5:00 p.m.

Block trade threshold: size > 500,000 shares, or notional > TWD 15,000,000

### **Talking Points & Future Developments Facing the SBL Model**

- PASLA have been involved in significant market advocacy to allow the use of collateral more broadly within Taiwan using global collateral managers. In 2023, regulatory changes were put in place allowing FINIs to use Taiwanese equities as collateral, however, there are limitations in the operational rules. PASLA are continuing to work with the regulators, exchange and central bank to allow for wider use of collateral for offshore financing purposes, with more to come in 2024.
- Reduce the mandatory recall causes. Currently, all capital reduction names or merger target companies will get mandatory recalls from the exchange. Flexibility in these events would be an improvement.

Jiu Fen in Taiwan. By kittybear





# THAILAND



<b>Principal Exchanges:</b>	The Stock Exchange of Thailand (SET) Thailand Futures Exchange (TFEX) – a derivative exchange Market for Alternative Investment (MAI)
<b>Main Index:</b>	SET Index, SET 50 Index
<b>Settlement Cycle:</b>	T+2
<b>Trading Hours</b>	
<b>Open:</b>	Mon- Fri, 10:00 a.m. to 12:30 p.m., 14:00 to 16:30
<b>Currency:</b>	Thai Baht (THB)
<b>Time Zone:</b>	GMT+7

## Exchange Highlights

Indices	Listed Companies	Total Market Cap	CONTENTS
SET, SET50, SET100, sSET, SETHD, FTSE SET Large Cap, FTSE SET Mid Cap, FTSE Small Cap, FTSE Mid/Small Cap, FTSE SET All-Share, FTSE SET All-Share Industry, FTSE SET Fledgling, FTSE SET Shariah	852 as at April 2024	US\$465 billion as at April 2024	AUSTRALIA CHINA CHINA / HK STOCK CONNECT HONG KONG INDIA INDONESIA JAPAN MALAYSIA NEW ZEALAND PHILIPPINES SINGAPORE SOUTH KOREA TAIWAN <b>THAILAND</b>

## Key Regulators

- Security and Exchange Commission (SEC)
- Central Bank of Thailand (BoT)
- Central Securities Depository (CSD)
- Thailand Securities Depository Company Ltd (TSD)

## DATALEND Market Data (Equity Lending Market) 2024

### Averages

On Loan (USD)	Lendable (USD)	Utilization (%)	VWAF (bps)
1,535,756,676	30,272,468,307	5.07	359.35

## Securities Borrowing and Lending (SBL)

### Access Methods

Securities Borrowing and Lending (SBL) is allowed in Thailand but only in designated securities.

There are two categories of SBL available in the market:

- Mandatory TSD borrowing to cover settlement failure
- Standard SBL

### Mandatory SBL Program

Under this program, securities borrowing is mandatory for all brokers who are short of securities in their clearing account with the TCH. Settlement failures on the broker side can be decreased. If a broker is short of securities on the settlement date, the TCH will process the settlement as normal. The counterparty's account will be credited, and the broker's account will be debited, thus resulting in a negative securities balance. The TCH will then go into the market and try to borrow the necessary securities to cover the account shortfall. It will do so as principal for the account and on behalf of the broker.

There are two attempts to borrow: first attempt in the afternoon at 1:30 p.m. on T+2 (SD) and another attempt at the end of that day (EOD).

If the TCH is unable to borrow enough securities by T+2, the defaulted selling broker will have one day (on T+3) to regularize their position independently. If this fails, the TCH will trigger buy-in on behalf of the defaulted selling broker on T+3 by 11:30 a.m.

Unless there is an error on the broker's side, all expenses related to borrowing and/or a buy-in will be for the seller's account, along with penalty fees charged by the TCH for late settlement. However, if the TCH manages to borrow securities on the first attempt (at 1:30 p.m. on T+2 SD), no late settlement penalty will be charged to the broker.

### Standard SBL

The standard SBL model is open to foreign investors and, if both investors are foreign, then they are not subject to local SBL regulations. Transactions are conducted OTC between lenders and borrowers. GMSLA documentation may be used but an addendum is required for provisions on corporate actions and buy-ins amongst other issues. Industry standard versions are available on the PASLA website that may be revised by market participants. Overall, the offshore SBL market has more liquidity than onshore. However, it is important to note some restrictions pertaining to foreign investor limits as outlined below.

### Foreign Investor Limits

Foreign ownership is capped at 49% of total shares for most companies, and at 25% for banks, finance companies, and telecommunications companies.

Local and foreign shares trade in the stock market under different ISINs. Foreign investors are eligible to buy local shares; however, foreign investors that hold local shares will not be entitled to corporate action proceeds or voting rights.

Apart from local and foreign shares, there is also another type called Non-Voting Depository Receipt (NVDR), which is designed to stimulate trading activity on the Thai stock market and to help eliminate foreign investment barriers, such as foreign investment limits. Foreign investors cannot purchase or hold any combination of

the Thai Non-Voting Depositary Receipts (NVDRs) and shares of a company if, as a result of that holding, the investors would own in aggregate of 25 percent or more of the total number of voting rights of such company.

Investors must maintain a dual cash account structure to separate funds specific to investments. The non-resident Baht account for securities (NRBS) is used for all securities-related transactions, and the non-resident Baht account (NRBA) is used for direct investment. Cash cannot be transferred between the two types of accounts.

The Thai Bhat is not fully convertible. The Bank of Thailand (BoT) imposes a maximum aggregate limit of THB 200 million on daily end-of-day balances for non-resident cash accounts (both NRBS and NRBA) at the global custodian level. Investors are encouraged to avoid holding long balances.

## Short-Selling Rules

### Is short selling permitted?

Yes, only specific securities. See link under “Short Position Reporting.”

### Pricing requirement for short sale

On the 1st of July 2024, the uptick rule, which requires short selling at prices higher than the last executed price, replaced the previous zero-plus tick rule, which allowed short selling at prices equal to or higher than the last executed price.

## Short Position Reporting

### Disclosure of short position

In a short sale, a member shall make an offer by means of recording it into the trading system for automated order matching (AOM) in accordance with the rules. See link under “Short Selling Regulations”

### When does a report need to be made

A member shall prepare a short sale record in accordance with the form prescribed by the exchange, and the record shall at all times be updated.

A member shall, at the end of each day and in accordance with the form prescribed by the exchange, submit a report on short positions not yet covered, classified according to each individual security. See link under “Short Selling Regulations”

## Useful links:

Securities Eligible for Short Selling:

<https://www.set.or.th/en/market/information/securities-list/short-selling-eligible-list>

## Buy-Ins

If a custodian bank fails to settle its securities and payment obligations, the TCH will impose a fine of up to 5% of the market value of the transactions and four times the defaulted payment amount, respectively. Such fines are rare as custodian banks are

allowed to revoke transactions before the actual transfer of securities and payments takes place at the TCH.

For inter-broker settlement, if a transaction fails to settle on T+2, TCH will invoke the mandatory stock-borrowing program. If the borrowing is successful by 12:30 p.m., no penalty will apply, but the selling broker will have to bear the borrowing cost. If borrowing is successful only at the end of the day, a one-day late settlement penalty and the borrowing cost will be charged to the selling broker.

If the TCH is unable to borrow sufficient securities by T+2, it will allow the default member to regularize its position in the morning of T+3 until 10:30 a.m., i.e. the net clearing cut-off time. Otherwise, the TCH will start to buy-in on the next day following the default date, i.e., T+3 for settlement on the same day. If the buy-in is not successful by T+3, the TCH will continue the buy-in attempt until T+7. After that, the default will be negotiated between the TCH and the default member outside the system as per the current procedure.

### **Collateral Requirements**

In the onshore market, the TCH will act as the guarantor of collateral for the lender. The borrower shall place the collateral with the TCH at a rate of 130% of the value of the borrowing securities. The collateral must be placed on SD by 2 p.m.

### **Tax**

The Revenue Department of Thailand published revenue ruling no. Gor. Kor.0706/10946 in April 2006. The ruling, dated December 30, 2005, states that a securities lending transaction is considered to be a service under Section 77/1(1) of the Revenue Code. As such, fees arising from securities lending are classified as income from a tax standpoint and are treated in a similar way to the taxation of interest income.

The ruling outlines that the lending fee would be subject to 7% VAT plus WHT since the fee is regarded as interest income (for example, if the recipient is an off-shore entity, 10% or 15% WHT would be applied depending on the Double Tax Treaty and as to whether or not the recipient is a financial institution).

This tax ruling applies to the lending fee arising from transactions in which one or both counterparts are onshore entities.

The tax ruling does not provide any interpretation for offshore transactions between offshore non-Thai entities. In line with general Thai tax law, where both lender and borrower are offshore non-Thai entities, and neither carry on business in Thailand, the lending fee would not be subject to Thai tax.

### **Operational and Post Trade**

The TSD enhanced its PTI system to allow depository account segregation in the TSD system and enable automatic pre-matching via SWIFT or file upload between counterparties (i.e., custodians and brokers) through the Pre-Settlement Matching System (PSMS). TSD participants now have an option to maintain their depository account at an omnibus level or segregations at their client-account level.

Effective August 24, 2015, pre-matching between counterparties (brokers/custodians) is auto-processed via PSMS by SWIFT (for SWIFT users, i.e., custodian banks), Application Programming Interface (API) message or file upload (for brokers that are non-SWIFT users). Pre-matching via telephone would be required in some exceptional cases or in the case of unmatched transactions.

Pre-matching criteria for PSMS:



- Type of trade (RVP, DVP, RFP, DFP)
- Settlement date
- Nominal amount (share quantity)
- Settlement amount – for against payment trade (DVP/RVP)
- ISIN code
- Client's custodian settlement account at CSD level
- Settlement account of counterparty at CSD level

### Auction rules

Pre-open (a.m.): 9:30 to 9:55/10:00 (random open between 9:55 to 10:00 for the morning trading session)

Pre-open (p.m.): 14:00 -to 14:25/14:30 (random open between 14:25 to 14:30 for the afternoon trading session)

Pre-close: 16:30 to 16:35/16:40 (random close between 16:35 to 16:40 for calculating the closing price)

Off-hours trading: 16:35/16:40 to 17:00

Market close: 17:00

### Talking Points & Future Developments Facing the SBL Model

The Foreign/Local/NVDR structure is unique to Thailand and can result in operational issues for market participants. A revamp of the existing structure or relaxation of rules related to converting shares between the different lines would be beneficial.

Penalties for failing DVP trades on settlement date can be punitive. This results in a reduction of liquidity as lenders (both principal and agent) hold back significant amounts of lendable supply to counter any risk of failing trades.

PASLA is seeking clarification from the SET following recent queries about the "reasonable expectation" for shares to be available for a loan recall.





Illustration of Bali Island with Balinese Hindu Temple, World Travel, Paradise By GHArtwork



## ***ABOUT PASLA***

The Pan Asian Securities Lending Association (PASLA) is a leading industry association representing the interests of the securities finance market in the Asia Pacific region. Incorporated in 1995, it is dedicated to promoting the development of securities finance market structures in Asia in line with the needs of our membership and stakeholders. PASLA represents the majority of institutional participants in the Asia Pacific securities financing markets, providing a consensus view from the industry in dialogue with regulators, exchanges and policy makers across the region.

## ***ABOUT EQUILEND***

EquiLend is a global financial technology firm offering Trading, Post-Trade, Data & Analytics, RegTech and Platform Solutions for the securities finance industry. EquiLend has offices in North America, EMEA and Asia-Pacific and is regulated in jurisdictions around the globe. The company is Great Place to Work Certified™ in the U.S., UK, Ireland and India and was named European and Americas Data Provider of the Year and Regulatory Solution of the Year in the Securities Finance Times Industry Excellence Awards 2024.

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*Tranquil scenery invites serenity; immerse yourself in nature's calming embrace. Perfect for mindfulness and relaxation. Mural wallpaper. AI generated illustration. By mooncux*

# ASIA PACIFIC

## Securities Lending Market User Guide 2024

AUSTRALIA

CHINA

CHINA/HK STOCK  
CONNECT

HONG KONG

INDIA

INDONESIA

JAPAN

MALAYSIA

NEW ZEALAND

PHILIPPINES

SINGAPORE

SOUTH KOREA

TAIWAN

THAILAND