

**Joint communication of the Association of Global Custodians, Asia Focus Committee and ASIFMA**

18 October 2018

Ms. Pataravasee Suvarnsorn,  
Managing Director,  
Thailand Clearing House,  
62 Ratchadaphisek Road.  
The Stock Exchange of Thailand Building,  
Khlong Toei, 10110  
Thailand.

**VIA HAND AND E-MAIL**

Dear Ms. Suvarnsorn,

**Thailand Clearing House – Pending Settlement:**

Thank you for your letter dated 30th August 2018 in response to the joint letter of the Association of Global Custodians (AGC)<sup>2</sup> and the Asia Securities Industry & Financial Markets Association (ASIFMA)<sup>3</sup> dated 11 July 2018.

The AGC and ASIFMA are most appreciative of the Thailand Clearing House's (TCH) willingness to continue discussions on the challenges that members of the AGC and ASIFMA continue to face regarding Thailand pending settlements.

<sup>1</sup>Ms. Karin Quek, Chairman, The Association of Global Custodians, Asia Focus Committee, c/o BNY Mellon Bank, One Temasek Avenue, #04-01 Millenia Tower Singapore 039192

<sup>2</sup> The Association of Global Custodians is an informal group of 12 financial institutions that provide securities safekeeping services and asset-servicing functions to primarily institutional cross-border investors worldwide. As a non-partisan advocacy organization, the Association represents members' common interests on regulatory and market structure matters through comment letters, white papers and interaction with legislative and regulatory authorities and financial industry organizations around the globe. The members of the Association of Global Custodians are: BNP Paribas; BNY Mellon; Brown Brothers Harriman & Co; Citibank, N.A.; Deutsche Bank; HSBC Securities Services; JP Morgan; Northern Trust; RBC Investor & Treasury Services; Skandinaviska Enskilda Banken; Standard Chartered Bank; and State Street Bank and Trust Company. For more information visit [www.theagc.com](http://www.theagc.com)

<sup>3</sup>ASIFMA is an independent, regional trade association with over 100 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, professional and consulting firms, and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative, competitive and efficient Asian capital markets that are necessary to support the region's economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the GFMA alliance with SIFMA in the United States and AFME in Europe, ASIFMA also provides insights on global best practices and standards to benefit the region.

**Settlement:**

The solution proposed by the TCH to accommodate partial settlement is to return the cash. However, given that all trades are netted in the system, the TCH are unable to calculate the exact pro-rata portion for the client. As a solution the TCH are proposing to mark-to-market the closing price on T+1 i.e., the closing price multiplied by the number of shares. This will result in a majority of cases that the returned cash amount will not match exactly the pro-rata settlement amount of the trade. This greatly concerns investors, their international brokers, their Global Custodians and their sub-custodians, as there will be a cash reconciliation issue. International practice requires the investor, broker, Global Custodian and the sub-custodian to record exactly the same cash amount for a trade when struck and when a subsequent settlement instruction is issued and settled. It is challenging to explain to investors and not readily understood, how a difference has arisen.

The AGC and ASIFMA members and their clients have concerns on the financial risk on the possible variance between the mark-to-market and the actual price. They are also particularly concerned regarding reconciliation and accounting challenges. We believe the TCH will understand these concerns.

**Corporate Actions:**

In regard to Corporate Actions, we and our members really appreciate the assistance the TCH is giving in facilitating the negotiation of entitlements for eight of the 12 Corporate Actions in PENR situations. However, as is the case with settlements, it is a matter of accurate record keeping. All parties in the custody chain automatically calculate and record entitlements on the actual holdings in their ledgers. Accounting for entitlements due on pending settlements is outside participants' main systems and need to be monitored and actioned on a manual basis.

**Free of Payment transactions:**

We are encouraged by the TCH's willingness to look at ways to streamline free of payment transactions outside the net clearing. Currently PTI functions in the depository system (transfer functions outside net clearing) are not as automated as the clearing functions (net clearing).

If the TCH wishes for ETFs and other OTC, Free of Payment (FOP) trades to be settled outside the net clearing, there is a need to further enhance the TCH's SETCLEAR system so it can be more STP friendly. We understand, however, that the TCH sees the solution in systems enhancements to the Thailand Securities Depository (TSD) system. However, this change which will not be implemented until the third quarter of 2019.

Presently when sub-custodians use the transfer function in the depository system, they need to approve transactions individually, which is too manual. In addition the depository system does not produce and send a SWIFT confirmation back to custodian banks in Thailand. We would be most grateful if the TCH could reconsider, if it does not involve a major enhancement and can be implemented in the near future, amendment to the TCH system.

We understand that the "Custody Club" has been working with TCH to ensure FOP transactions related to portfolio transfers cannot become a PENR. We are most grateful that the TCH have agreed to enhance the depository system to capture portfolio transfers via a new feature on the PTI system. Each custodian will be able to upload the FOP trades and mark them as portfolio transfer in the PTI. By this method sub-custodians will not have to rely on clients indicating NCBO in their Swift instructions.

**Turnaround trades:**

The AGC and ASIFMA are very appreciative of TCH's recent efforts in enhancing Pre-Settlement Matching System (PSMS) where same day onward transactions instructed with TURN/POOL link codes can be auto pre-matched. The AGC and ASIFMA will encourage their members to use link codes, especially as the market has now moved to T+2, for smoother tracking of trades and reduction in manual pre-matching efforts.

**Instructing partial settlement:**

Investors understand if they wish to choose partial settlement of cash, but at the same time wish to settle the PENR, they will have to re-issue the settlement instruction, as the original trade with full amount is no longer valid. They will need to contact the broker to agree on a new trade date and settlement date for the PENR.

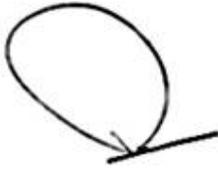
**Solutions:**

We understand that the TCH have lobbied ASCO (the brokers association) to agree acceptance of any unwind position back to clients who choose partial settlement. We look forward to receiving details on how this will be achieved/implemented in due course.

We further understand that the TCH is considering whether to offer two choices for market participants: local asset managers and brokers can continue with the current process, whilst foreign investors can either stick with the current process or opt for partial cash settlement. We believe that would definitely be viewed positively by foreign investors.

Should the TCH wish to discuss this letter, the AGC and ASIFMA would gladly join a call with local market participants in Thailand. The AGC would willingly host the call.

Yours sincerely,

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Robert Edwards, (as attorney in fact)  
For and on behalf of Karin Quek,  
Chairman Asia Focus Committee,  
The Association of Global Custodians

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Lyndon Chao, Managing Director,  
Head of Equities and Post Trade,  
Asia Securities Industry and  
Financial Markets Association

CC: Mr. Pakorn Peetathawatchai  
President, Stock Exchange of  
Thailand.

CC: Mr. Rapee Sucharitakul,  
Secretary General, Securities and  
Exchange Commission of Thailand