

Global Market Structure

Asia Pacific Newsletter Issue 32

Passion to Perform

Voted Best Understanding of Market Structure
by AsianInvestor Equities Trading and
Execution Survey 2013

AsianInvestor



Issue 32, 2014

Welcome to the APAC Market Structure News Book containing summaries of regulatory and exchange news accompanied by microstructure analytics.

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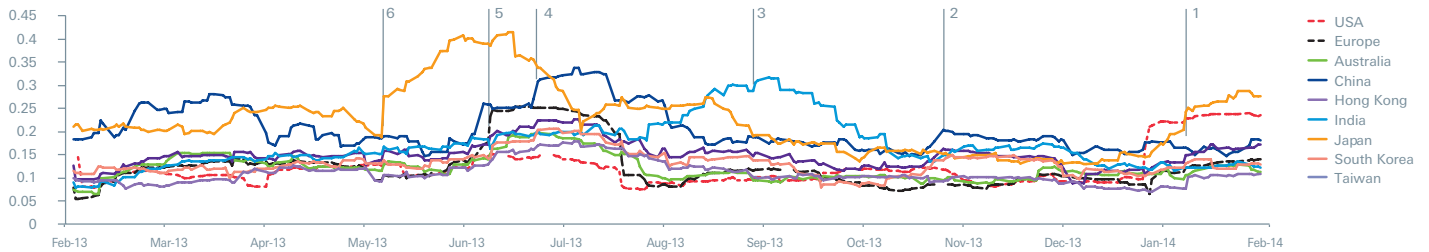


APAC and ASEAN Summary

Bank of Japan announcement of another round of monetary stimulus to support economic growth and China's record credit growth data pulled the Asian indices up with renewed optimism among investors. Japanese Yen strengthened in January amid deepening concerns in emerging markets and increased support for Japanese assets.

Singapore regained its market share in ASEAN whilst Thailand lost during the political unrest in the country since late last year. Indian rupee (INR) as well as Nifty surged into positive territory ahead of upcoming elections in the country. Indonesian and a subset of Japan listed stocks that underwent a tick size reduction saw a direct impact on top-of-book quantities, stock bid-ask spread and the total size available for immediate execution.

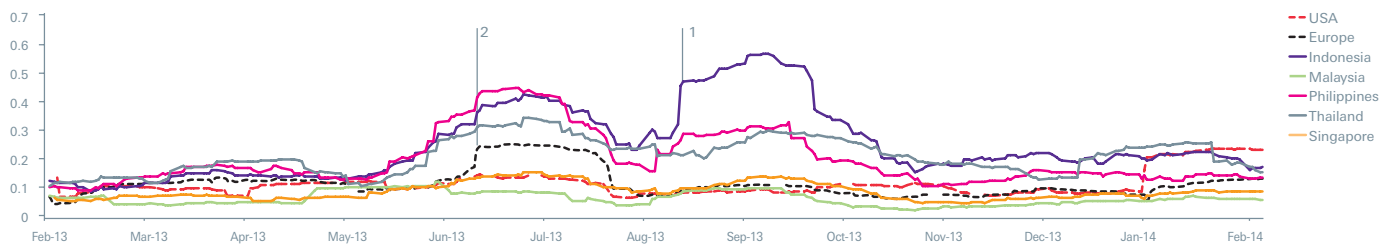
Fig 1: APAC Volatility (30day index return volatility)



Source: Thomson Reuters

1. Japanese yen rallied, as sell off in emerging markets deepened and an increased scrutiny of credit risk in China boosted demand for Japanese assets.
2. China's 3rd Plenum meeting after 35 years from last to plan next phase of China's economic reform.
3. INR currency depreciation 14% slide against USD, India's widened current account deficit.
4. China cash crunch and poor GDP data signalling economic slowdown.
5. FED announced tapering of QE3 upon continued positive US economic data.
6. Bank of Japan announced US\$1.4t quantitative easing to restore growth in the economy.

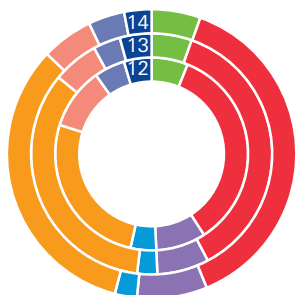
Fig 2: ASEAN Volatility (30day index return volatility)



Source: Thomson Reuters

1. IDR currency depreciation 15% fall against USD, and Indonesia's current account deficit.
2. FED announced tapering of QE3 upon continued positive US economic data.

Fig 3: APAC Market Share Distribution



	2012	2013	2014
Australia	6%	5%	5%
China	35%	37%	38%
Hong Kong	8%	7%	8%
India	4%	3%	2%
Japan	26%	34%	33%
South Korea	10%	6%	6%
Taiwan	5%	4%	4%
ASEAN	5%	4%	4%

Source: Thomson Reuters

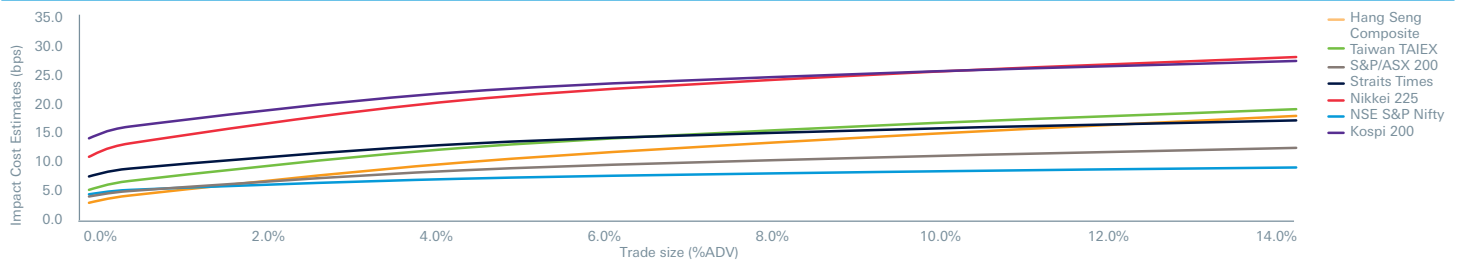
Fig 4: ASEAN Market Share Distribution



	2012	2013	2014
Thailand	28%	35%	29%
Philippines	6%	7%	6%
Malaysia	17%	16%	21%
Singapore	31%	26%	27%
Indonesia	18%	17%	17%

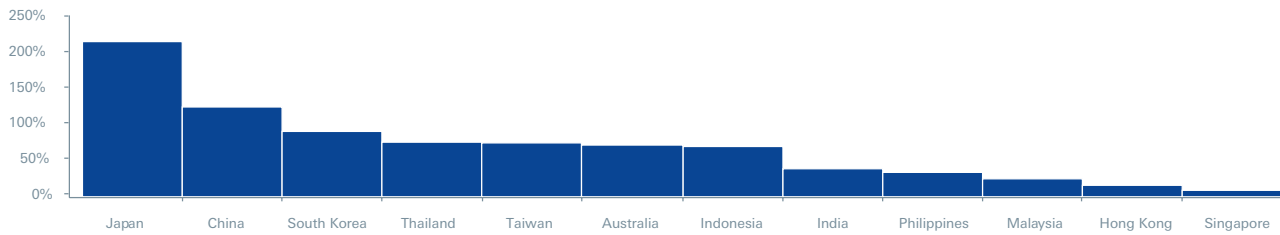
Source: Thomson Reuters

Fig.5 Impact Cost of Estimate



Source: Thomson Reuters

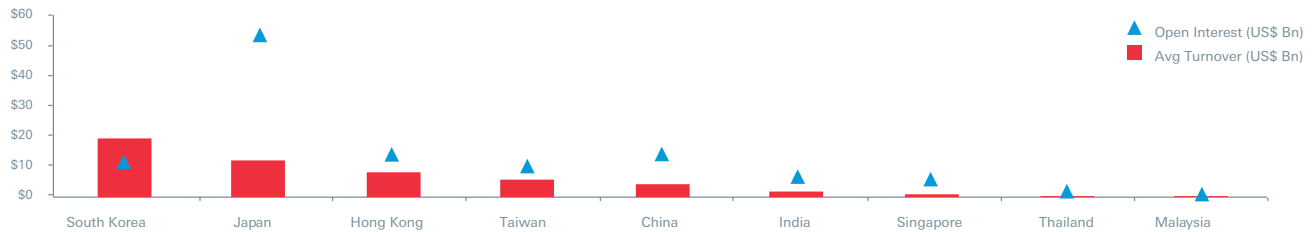
Fig.6 Turnover Velocity



Source: Thomson Reuters

Fig 6. Annualized exchange turnover to market capitalization ratio

Fig.7 Primary Futures Turnover vs Open Interest



Source: Thomson Reuters

Fig.8 APAC Market Microstructure Matrix

Country	% APAC Market Share	Turnover Velocity	Primary/ATS Market Share	Expected Arrival Cost 5% ADV Order Size (BPS)	Avg Spread (BPS)	Avg Trade size	20D Avg. Volatility	MTD Index Return	YTD Index Return	Avg. Daily Equity Volume (Mn USD)	Avg. Daily Futures Volume (Mn USD)	Avg. Daily ETF Volume (Mn USD)
China	38%	121%	100%	-	10	4,273	0.2	-1%	-6%	32,983	57,376	111
Japan	33%	213%	91%	21	34	1,613	0.3	-1%	-7%	23,776	25,587	49
Hong Kong	8%	15%	98%	10	13	5,631	0.2	4%	-2%	6,179	7,285	49
South Korea	6%	83%	100%	23	23	98	0.1	-2%	-2%	6,052	17,270	78
Australia	5%	76%	87%	9	13	1,151	0.1	4%	1%	4,486	3,621	11
Taiwan	4%	74%	100%	13	34	5,918	0.1	2%	0%	4,091	5,562	36
India	2%	33%	100%	7	3	286	0.1	3%	0%	2,683	1,704	3
Thailand	1%	37%	100%	-	42	7,996	0.2	4%	2%	1,035	372	1
Singapore	1%	7%	100%	13	24	4,096	0.1	3%	-2%	1,015	409	1
Malaysia	1%	27%	100%	-	32	6,985	0.1	1%	-1%	559	172	0
Indonesia	1%	62%	100%	-	19	11,924	0.2	5%	9%	473	8	0
Philippines	0%	23%	100%	-	19	11,502	0.1	6%	9%	189	-	-

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Hong Kong

Market Structure

SFC release Alternative Liquidity Provider consultation

The SFC has released a paper titled 'Consultation Paper Concerning the Regulation of Alternative Liquidity Pools' on 27th February, 2014. The paper considers the evolution and growth of electronic trading platforms and the continual pursuit of innovation and efficiency with regard to the types of participants that should be allowed, any potentially adverse impact on price discovery, risk management and information security.

As stated in their introductory comments, as of 31st December 2013, 25 corporations held a license for Type 7 activity, the business of providing an Automated Trading Service ("ATS"). Of those, 16 would be considered as an alternate liquidity pool ("ALP") operator and the total reported volume of trades executed in these ALPs amounts to approximately 2% of total market turnover.

Consideration has been given to a number of global models and a summary grid of the rules in the US, EU, Australia, Canada and Singapore can be found in Appendix C. According to that grid, Hong Kong will be coming into line with global practices by removing the restriction on trading hours (currently limited to the trading hours of the exchange) and on trading foreign and alternate securities (rather than just local cash equities). Restricting access from retail participants is different to the peer group considered although the level of retail participation in these markets may not be comparable.

Unlike the electronic trading requirements that came into force on 1st January 2014, the consultation on ALP does not put any direct liabilities onto the buy side regulated in Hong Kong – that is those holding a Type 9 license with the SFC – although there will be a need to consider the documentation before making a positive affirmation allowing the ALP provider to route flow into their pools. The paper suggests that without express consent prior to orders being received, the ALP provider will need to keep the flow out of the pool. Given ALP providers will now need to publish Guidelines on the operation of their pool, the users will need to consider the content of such guidelines prior to giving consent.

When thinking about the restriction on retail, there is some language relating to the 'originator' of the orders although the term is not defined. It is hoped that this language relates to the counterparty faced by the ALP provider as if a look through is required, the definition of retail could become problematic given the number of long only fund managers that ultimately are managing retail money. Previously, the Hong Kong regulations have used the term 'professional investor' but in this paper, the terminology changes to 'institutional investor'. Thought will need to be given as to whether this will materially affect the participants compared to current practice.

The press reaction to the paper has been mixed.

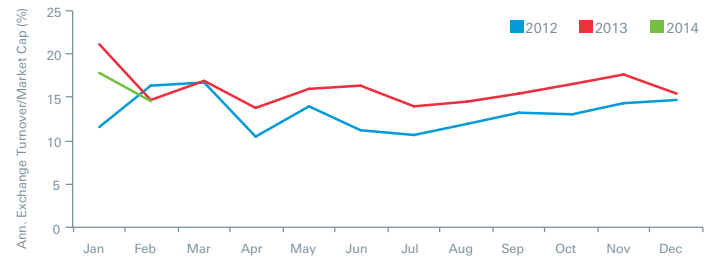
Below is a summary of the key points.

Who

In scope are those who operate an alternative liquidity pool ("ALP") and those who route client orders to an alternate liquidity pool for execution. The paper suggests that:

- There should be at least one Responsible Officer ("RO") for each ALP

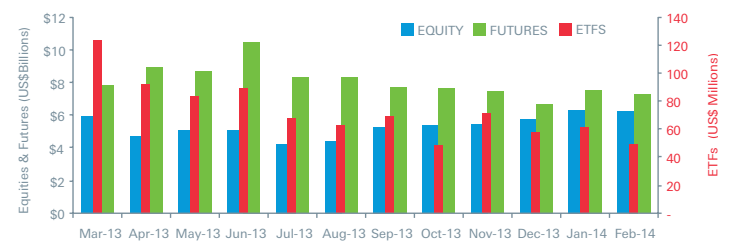
Fig 1: Turnover Velocity



Source: Thomson Reuters

Fig 1. Full year average - 2014: 16%, 2013: 16%, 2012: 13%

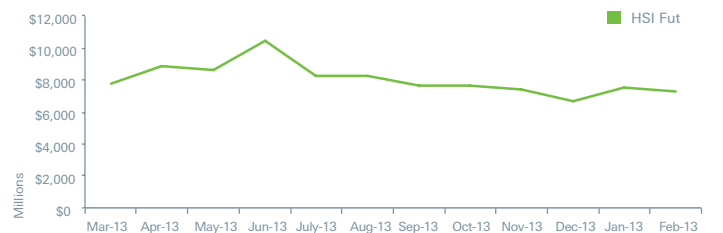
Fig 2: Equities(Cash), Futures and ETFs Monthly ADV



Source: Thomson Reuters

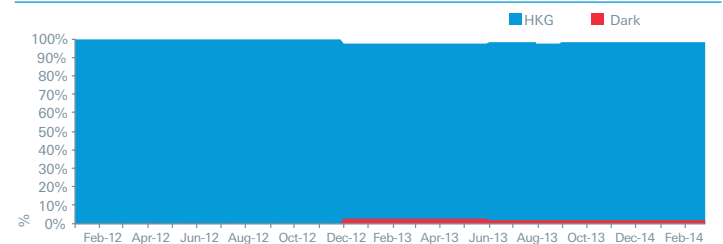
Fig 2. Both equities and futures trading volumes in Hong Kong picked up in Jan, Feb 2014 versus Q4 2013.

Fig 3: YoY futures average daily turnover



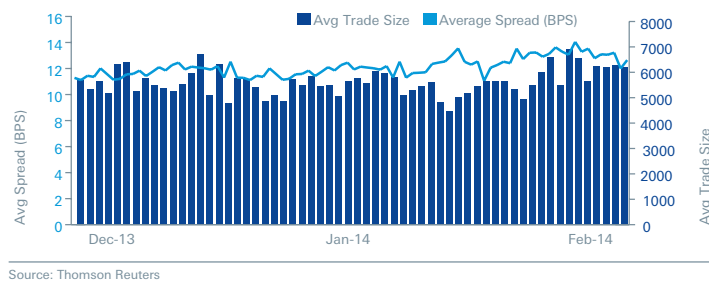
Source: Thomson Reuters

Fig 4: Lit versus Dark Market Share



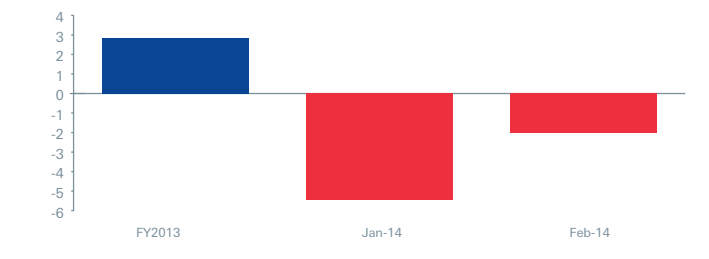
Source: Thomson Reuters

Fig 5: Average Index Spread and Trade Sizes



Source: Thomson Reuters

Fig 6: MoM Index Price Change



Source: Thomson Reuters

Fig 6. Hang Seng Index dropped steeply in late Jan, on China concerns and strengthening yen currency.

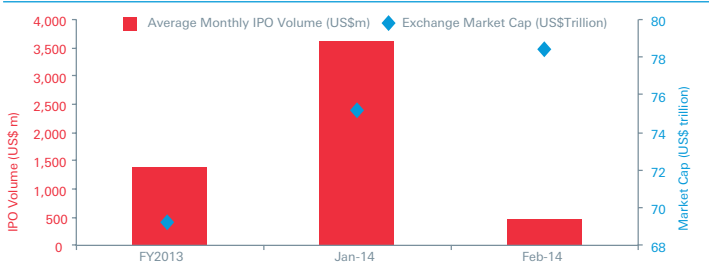
Fig 7: Large and Mid Cap Index movers

Market Movers - Large Cap				Market Movers - Mid Cap			
Stock	Price Return	Volume traded (US\$)	20D/100D ADT	Stock	Price Return	Volume traded (US\$)	20D/100D ADT
0700.HK	23%	15,884,870,000	1.38	0151.HK	5%	783,345,900	1.27
0027.HK	10%	5,584,171,000	1.25	0006.HK	5%	1,231,188,000	1.22
0386.HK	10%	4,409,746,000	1.35	0016.HK	1%	1,913,280,000	1.00
1928.HK	4%	4,851,269,000	1.33	0011.HK	0%	723,242,600	1.28
0013.HK	-1%	3,124,301,000	1.19	0001.HK	-1%	2,053,574,000	1.12
2318.HK	-8%	4,816,903,000	0.93	2388.HK	-5%	1,014,423,000	1.01
0939.HK	-8%	7,503,311,000	0.94	0003.HK	-6%	839,936,500	1.22
1398.HK	-11%	6,435,991,000	1.01	0388.HK	-7%	1,536,227,000	0.86
0883.HK	-12%	4,942,617,000	1.18	0004.HK	-9%	1,408,476,000	1.16
1088.HK	-12%	1,648,524,000	0.91	0762.HK	-11%	1,337,599,000	1.11

Source: Thomson Reuters

Fig 7. Coal and energy sector stock prices declined early 2014, as fuel prices dropped in China

Fig 8: Avg Monthly IPO size and Exchange Market Cap



Source: Dealogic

Fig 8. 12 new listings took place in 2013, with HK Electric as the biggest IPO in Hong Kong so far (US\$ 3.1Bn)

– Only the orders of institutional investors should be permitted to transact in ALPs. Operators should ensure that their clients - and the clients of their group companies - are institutional. For intermediaries that are not a group company the obligation to ensure may not apply.

Similarly, licensed persons may only routing or relay orders from institutional investors.

– Client orders should take priority over proprietary orders. Client facilitation orders are to be considered as proprietary orders, as are principal orders.

– Rules apply where the facility is provided by a third party vendor

What

– Electronic systems through which the crossing or matching of orders is conducted anonymously without any pre trade transparency.

– ALP Guidelines will need to be published and contain comprehensive and accurate information including details on trading and operational matters, user restrictions, user priority, order routing and execution methodology, transaction pricing, order cancellation, conflict management, potential risks, the role of proprietary orders, whether orders can be aggregated and the identity of the members of staff with access to ALP trading information (by name). Operators must bring the guidelines to the attention of the users and the user must consent prior to trading.

– Those routing orders must also obtain client consent prior to trading.

Where

– ALPs could transact in global securities rather than just those listed in Hong Kong. Trading could be permitted both during and outside of standard stock exchange hours (an expansion on the previous requirement to only trade during SEHK hours).

How

– Controls should be put in place to ensure fair and orderly trading including restricting access particularly to those placing proprietary orders, and the ability to immediately stop transactions. SFC must be informed of all staff by name and department that have access to the system with any changes being updated with a reason given for the change.

– Regular testing both before and after deployment are required using different simulated market conditions with findings being carefully documented.

– Meet same standards as set out in the Code of Conduct for electronic trading relating to reliability, security and capacity, and contingency measures.

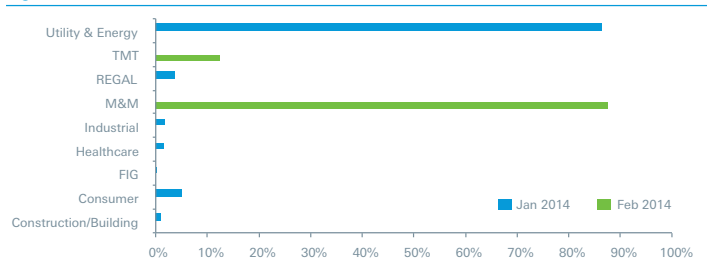
Record keeping

– The design, development and deployment in line with those for electronic trading are proposed with a minimum retention of 2 years.

– Additionally, records of all transactions should be kept for a minimum of 7 years. This includes details of the users of the ALP including their registered names and addresses, authorised traders, dates of admission and cessation and client agreements.

– Time sequenced records of orders and any other actions must be kept for two years including the identity of the order placer, and particulars of the allocation.

Fig 9: IPO Sector Distribution



Source: Dealogic

Fig 10: IPO Performance

	# of IPO	1 day	1 month	Current
Jan-14	12	60.76	33.64	46.85
Feb-14	4	28.245	236.67	59.615

Source: Dealogic

Risk management

- ALPs are expected to be able to prevent the crossing of erroneous orders, or orders that interfere with the operation of a fair and orderly market. Where there is suspicion of market manipulation or abusive trading, the ALP operator should take immediate steps to prevent these activities.
- Regular post trade reviews must be conducted with any breaches (actual or potential) being reported to the SFC.

Reporting

- Following the requirement in 2012 under the SEHK rules for ATS trades to be reported within one minute of trading, ALP operators will similarly be required to report trades either to the SEHK or the relevant overseas authority.
- Transaction analysis should be made available to the ALP users.
- Volumes must also be reported to the SFC.

What was not covered...

- In the discussion on order prioritisation, the treatment of hedging activity is not included.
- For those who have previously collected consents, whether those consents can be grandfathered
- Any restriction on pricing for out of hours trading.

Comments must be received by 25th April, to access the full paper click here:

<http://www.sfc.hk/edistributionWeb/gateway/EN/consultation/openFile?refNo=14CP3>

Listing rules may come under review as Alibaba goes to US

Listing rules have come into sharp focus in Hong Kong as the IPO of Mainland Chinese company Alibaba with a potential market value of HK\$100 billion (US\$15 billion) goes to New York in the biggest launch since Facebook. In a process that has been widely reported, Ashley Alder, CEO of the SFC, felt that allowing a listing where senior members of management holding just 10% of the market capitalisation the power to nominate board members was against the legal principle of 'one shareholder, one vote'. Rather than adjust the proposal, Alibaba was pushing for the rules to be changed and when this did not materialise, decided to take their listing abroad.

While proud that Hong Kong is upholding the rule of law and not bending rules for one company – albeit a highly lucrative company - HKEx CEO Charles Li stated in the South China Morning Post that the listing rules must be reviewed in order for Hong Kong to stay competitive. The

Financial Times reported that Alder would be happy for the HKEx to review the listing rules via consultation.

Documentation rules were tightened by the SFC in October 2013 in an effort to ensure companies listed in Hong Kong could be relied upon as having good levels of corporate integrity and transparency. According to the HKEx's Chief Regulatory Officer, David Graham, around one third of IPO applications have been rejected since then. Previously firms were able to submit applications with around 60% of the documentation in place, now the exchange needs to look for around 90% completion. As of 1st April 2014, companies will have to wait two months before re-submitting their applications.

SFC forms new corporate investigations team

As reported in the Financial Times, a new team of litigators is being set up by the Hong Kong regulator in efforts to ensure Hong Kong continues to be viewed as a reputable global hub for the financial industry.

"We were concerned our investigations were taking too long and one of the bottlenecks was in our own in-house legal department," Mr Alder says. "So actually we put in our budget for eight people to form a new litigation team because we're handling more cases and they get more complex."

The article estimates that around 50% of the trading activity in Hong Kong originates from overseas investors and around 50% of the listings are of mainland Chinese companies. In addition to the debate on listing rules, the SFC have taken a public stance on the behaviours of global investors by seizing the assets of Tiger Global in order to make compensation payments following an insider trading case. In the last two years, the SFC has awarded around \$140 million in remedial damages.

Venue News

HKEx publishes upcoming plans for closing auction and circuit breakers

As announced on 4th March, a summary of developments has been set out in "HKEx on Market Integrity Initiatives". The key points are:

- Closing auction: Market consultation to come later this year. HK is the only market of the 23 MSCI Developed Markets without a closing auction. The proposals must be mindful of the shortcomings in the mechanism deployed in 2009 and address any concerns on price manipulation.
- Circuit breakers: HKEx is still at an early stage of study, no conclusions as to which model / when to implement. The paper states that "any future proposals on circuit breakers would be put forward for public consultation before there were any decisions on possible implementation."
- Trading spreads: HKEx reviewed this and they have NO plans to change any of our trading spreads for cash and derivatives market.
- After Hours trading: Will add RMB currency futures to after hours trading from 7 April 2014. HKEx also plans to add the CES China 120 Index futures to the AHFT Session this year.

The following benchmarking of features has been produced. (see over)

Cash Markets									
	Asia					USA		Europe	
	HKEx	SGX	ASX	TSE	SSE	NYSE	NDAQ	LSE	DB
Closing Auction	x	✓	✓	✓	x	✓	✓	✓	✓
Circuit Breakers	x	✓	✓	✓	Daily Price Band	✓	✓	✓	✓
Pre-Trade Risk Management	✓	x	x	x	x	✓	✓	✓	✓

Derivative Markets									
	Asia					USA		Europe	
	HKEx	SGX	ASX	TSE	SSE	NYSE	NDAQ	LSE	DB
Circuit Breakers	x	✓	x	✓	x	✓	✓	✓	✓
Pre-Trade Risk Management	✓	✓	x	x	✓	✓	✓	✓	✓

To access the full report click here:

<http://www.hkex.com.hk/eng/newsconsul/hkexnews/2014/Documents/1403042news.pdf>

Changes to AHFT RMB session

HKEx has announced a few changes on Renminbi (“RMB”) futures and after-hours futures trading session (“AHFT”) as summarised as per follows:

- RMB currency futures will be added to the AHFT from 7 April 2014;
- Addition of fourth calendar quarter month which will increase RMB currency futures’ coverage to 16 months via 8 contract months (effective from 7 April 2014);
- Addition of four additional calendar spreads for RMB currency futures, raising the total from 6 to 10 (effective from 7 April 2014);
- Revision of the 5% stock index futures price limit in AHFT with the reference price based on the last traded prices of individual contract months rather than of the spot month contract in Day Session (effective immediately).

For full details please refer to the HKEx circular as per weblink below:

<http://www.hkex.com.hk/eng/newsconsul/hkexnews/2014/1403043news.htm>

Changes to list of securities available for short selling

As of 14th February, 26 stocks have been added and 11 stocks removed from the list of securities eligible for short selling.

	Stock Code	English Short Name
1.	160	HON KWOK LAND
2.	182	CHINA WINDPOWER
3.	327	PAX GLOBAL
4.	348	LUNG CHEONG
5.	434	BOYAA
6.	484	FORGAME
7.	530	GOLDIN FIN HOLD
8.	626	PUBLIC FIN HOLD
9.	635	PLAYMATES
10.	721	C FIN INT INV
11.	1008	BRILLIANT CIR
12.	1070	TCL MULTIMEDIA

	Stock Code	English Short Name
13.	1094	C P PROCUREMENT
14.	1149	ANXIN-CHINA
15.	1219	TENWOW INT’L
16.	1277	KINETIC M&E
17.	1359	CHINA CINDA
18.	1363	CTEG
19.	1371	CHINA LOTSYN
20.	1661	WISDOM GROUP
21.	1968	PEAK SPORT
22.	3698	HUIHANG BANK
23.	6818	CEB BANK
24.	8158	CHINA BIO-MED
25.	8198	MELCOLOT
26.	8279	AGTECH HOLDINGS

	Stock Code	English Short Name
1.	56	ALLIED PPT (HK)
2.	124	GD LAND
3.	251	SEA HOLDINGS
4.	256	CHINA HAIDIAN
5.	373	ALLIED GROUP
6.	672	ZHONGAN REALEST
7.	712	COMTEC SOLAR
8.	845	GLORIOUS PPT H
9.	886	SILVER BASE
10.	8 95	DONGJIANG ENV
11.	3668	CHINALCO-CMC

HKEx planning a multi asset clearing house

Following the LME acquisition, the HKEx is looking to launch a clearing house for commodity trading alongside cash-settle products. Speaking at the Futures Industry Association conference in Florida, Charles Li stated that the ultimate aim is to become a full purpose, Asian time zone, multi-asset clearing house for commodities, fixed income, currency and capital.

In a global environment where capital is under numerous demands, having the ability to cross margin multi-asset classes through net calculations would bring an extra level of efficiency while being mindful of effective settlement risk management.

Personnel Changes

Government reappoints HKEx board members

Mr. Chow Chong Kong and Timothy George Freshwater have been re-appointed to the HKEx board for a further term of two years.

Sources:

www.sfc.gov.uk

www.ft.com

www.hkex.com

www.metalbulletin.com

www.scmp.com

www.reuters.com



China

Market Structure

QFII / RQFII licenses approval

The following new QFII licenses received quota in January and February:

January:

1. Investec Asset Management Limited, USD100 million
2. SeaTown Holdings International Pte. Ltd., USD100 million
3. Franklin Templeton SinoAM SIM Inc., USD100 million
4. PIMCO Asia Pte Ltd, USD100 million
5. ST Asset Management Ltd, USD50 million
6. China Life Franklin Asset Management Co., Limited, USD100 million
7. UBS Hana Asset Management Co., Ltd., USD100 million

February:

1. Bank of Lithuania, USD100 million
2. CTBC Bank Co., Ltd., USD50 million

In addition, SAFE the following quota was granted to existing QFIIs.

January:

1. Bank Julius Bear & Co., Ltd, USD50 million
2. Kuwait Investment Authority, USD500 million
3. The Bank of Korea, USD300 million
4. Hillhouse Capital Management Limited, USD300 million

February

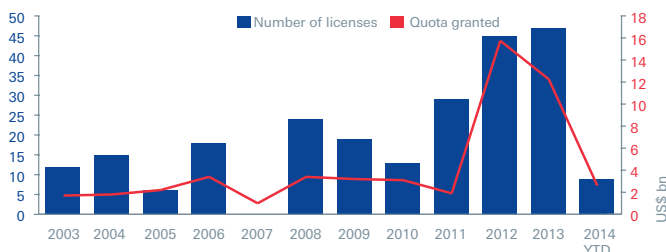
1. Bill & Melinda Gates Foundation, USD100 million
2. Goldman Sachs Asset Management International, USD100 million
3. Pictet Asset Management Limited, USD50 million
4. Samsung Investment Trust Management Co., Ltd., USD100 million
5. Fidelity Investments Management (Hong Kong) Limited, USD100 million
6. Fubon Securities Investment Trust Co. Ltd, USD200 million
7. Russell Investments Ireland Limited, USD100 million

Separately, SAFE granted new RQFIIs the following quota.

January:

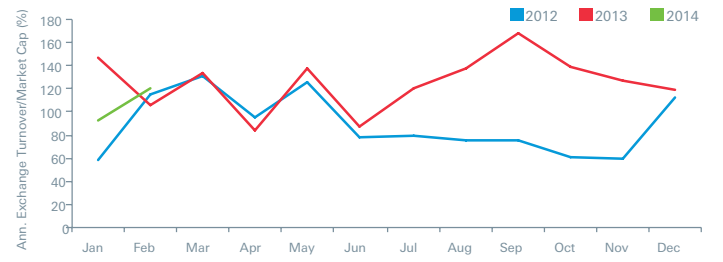
1. Guangdong Securites Limited, CNY1 billion
2. China Everbright Assets Management Limited, CNY700 million
3. Shanghai International Asset Management (HK) Co., Ltd., CNY800 million
4. JF Asset Management Limited, CNY1 billion
5. Chong Hing Bank Limited, CNY1 billion

QFII Licenses and Quota Granted



*Note: The above graph shows QFII licenses with quota (237), while the total QFII licenses been granted by CSRC is 258. Source: Deutsche Bank, CSRC, SAFE

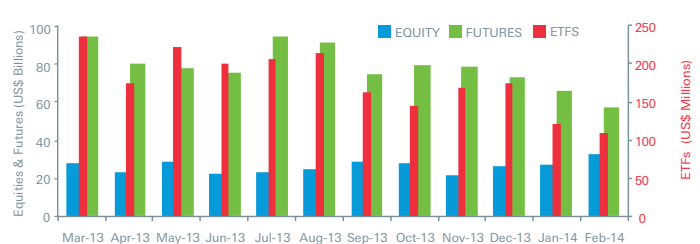
Fig 1: Turnover Velocity



Source: Thomson Reuters

Fig 1. Full year average 2014: 112%, 2013: 124%, 2012: 88%

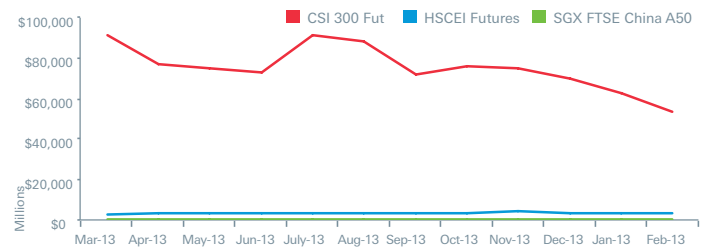
Fig 2: Equities(Cash), Futures and ETFs Monthly ADV



Source: Thomson Reuters

Fig 2. Trading in Chinese ETFs has dropped almost 40% since last year.

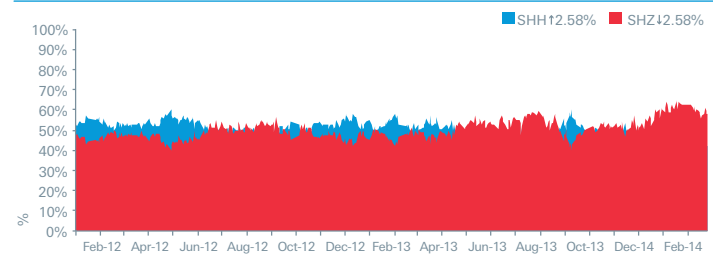
Fig 3: YoY futures average daily turnover



Source: Thomson Reuters

Fig 3. CSI 300 futures turnover down 30% since 2013 as underlying index lost 20% points in the same period.

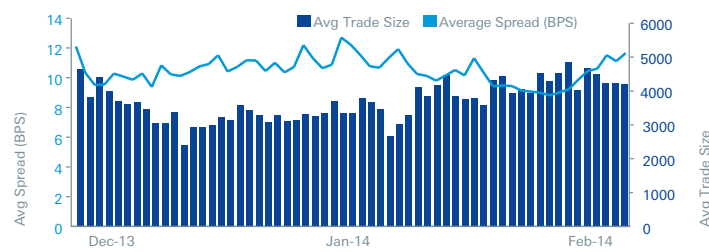
Fig 4: Market Share by Venue



Source: Thomson Reuters

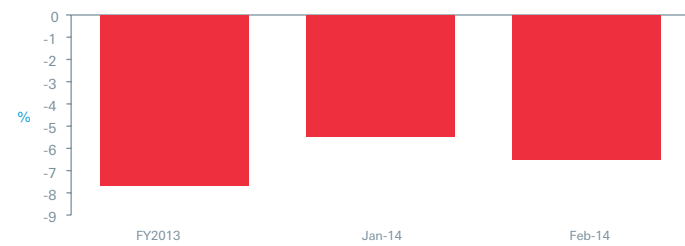
Fig 4. While Shanghai listed stocks gained 2% in their market share MOM, Shenzhen listed trading volumes have gained ~10% since Dec 2013.

Fig 5: Average Index Spread and Trade Sizes



Source: Thomson Reuters

Fig 6: MoM Index Price Change



Source: Thomson Reuters

Fig 6. CSI 300 Index continues its decline since 2013 with a 7% drop in Jan, Feb 2014.

Fig 7: Large and Mid Cap Index movers

Market Movers - Large Cap				Market Movers - Mid Cap			
Stock	Price Return	Volume traded (US\$)	20D/100D ADT	Stock	Price Return	Volume traded (US\$)	20D/100D ADT
002594.SZ	50%	2,554,139,000	1.78	600588.SS	66%	1,771,775,000	1.44
601998.SS	37%	2,211,609,000	2.97	600718.SS	32%	3,263,590,000	1.84
002065.SZ	35%	1,191,797,000	1.63	601098.SS	26%	1,555,182,000	1.79
600406.SS	28%	2,796,682,000	1.60	000400.SZ	25%	1,365,870,000	1.08
002304.SZ	24%	1,675,952,000	1.39	600109.SS	21%	5,283,192,000	1.46
600048.SS	-17%	2,562,751,000	1.21	600188.SS	-24%	213,769,400	1.08
000333.SZ	-20%	1,587,138,000	1.04	601699.SS	-25%	769,917,700	1.44
002241.SZ	-26%	2,771,876,000	1.59	601117.SS	-27%	1,330,600,000	1.04
601633.SS	-28%	1,157,756,000	1.42	600315.SS	-29%	1,642,196,000	1.17
002236.SZ	-29%	2,088,138,000	1.85	002344.SZ	-29%	817,453,000	1.71

Source: Dealogic

QFII and tax developments, CSRC Chairman speaks on plans

Speaking at a press conference held at the National People’s Congress on 11th March, Xiao Gang spoke of reforms that can be expected to achieve the aim of developing the multilayered equities market.

“We will further expand the QFII [and RQFII] schemes. There is great potential to expand QFII investment and we are working on tax policies (to help expansion).” Xiao said.

Market commentators are expecting investment quota under the QFII scheme to jump from the current 1.5% of the mainland’s market capitalization to around 10% within five years.

In relation to the tax policies, the below quote has been taken from the Global Tax News on 14th March.

“China’s tax code does not specifically state that QFII or RQFII investors are subject to taxes in China with respect to capital gains made on the disposal of their investments, nor if they are totally exempt from Chinese taxes. If they were to be subject to a tax, 10% withholding tax would be payable, but in practice no taxes have been collected.”

In January, China AMC obtained a Hong Kong Tax resident Certificate for the CSI 300 ETF which enabled the first to stop withholding for capital gains tax. CSOP, in conjunction with Source, listed the Irish

domiciled China A50 UCITS ETF on the London Stock Exchange with 0% withholding on tax. The MSCI consultation detailed below states:

‘Hong Kong based investors/A-share investment products domiciled in Hong Kong are now exempt from the capital gain tax for holding securities on non-land rich securities.’

A report by Z-Ben looks further into what comprises a land rich security (“LRS”) pointing to the following three factors.

- Asset breakdown: More than 50% of the share value of the company consists directly or indirectly of immovable property.
- Definition of immovable property: Includes operational or non-operational housing properties, land use rights and attached fixtures.
- Accessibility period: Immovable assets must be held for a three year look back period prior to the month of share transfer, in accordance with PRC accounting practices.

MSCI consider China-A share inclusion

A consultation has been released by MSCI proposing the inclusion of China A-shares in a new (International) MSCI China Index and the MSCI China Investable Market Index (“IMI”). The MSCI board will announce their decision on whether to go forward in June 2014 and if agreed, A-shares would be included from 15th May 2015.

Inclusion of A-shares would be rolled out gradually with the first step being a partial inclusion factor of 5% with the proportion being reflected in other related indices such as the MSCI Emerging Markets Index. According to the paper:

- The pro forma MSCI China Index would be constructed using one integrated China equity universe comprising A-shares, B-shares, H-shares, Red chips and P-shares.
- Currently that would mean the index would include 221 A-shares with a one-way index turnover of 26.5%.
- The total number of constituents across the share classes would become 385. A-shares would have a 2.9% weighting for a 5% inclusion in the index with a 6.1% one-way turnover.
- The free float market capitalization of A-shares would be calculated based on Foreign Inclusion Factor (“FIF”) subject to the 30% foreign ownership limit (“FOL”).
- MSCI China IMI constituents would decrease from 1,879 to 1,553 with a one-way index turnover of 21.7%. The weight of China A-shares would be 4% with a one-way turnover of 4.8%.

At a 5% inclusion rate, MSCI believe that a number of asset managers would need more than US\$1 billion of quota and that this shows there is a misalignment between the quota granted and the size of the investor. The US\$1 billion cap has been lifted for sovereign wealth funds and central banks with 7 such organisations having been granted over that sum. The small inclusion factor is looking to minimise such misalignment and so prevent potential market friction arising from limited quota availability.

A separate MSCI Domestic China A Index would also be launched as a standalone benchmark for those that are looking to gain broad exposure to the A-share market. This index would have 463 constituents with no FOL applied – identical to the current MSCI China A share index.

MSCI point to the following three areas of market reform that would need to take place to allow 100% inclusion:

- Abolishment of the quota system;
- Full liberalisation of capital mobility restrictions; and
- Alignment of international accessibility standards.

It should be noted in January, the SEC dropped charges against Deloitte and Touche's Shanghai practice in relation to the Longtop IPO as CSRC provided a "substantial volume" of the audit documents required for the U.S. regulator to investigate accounting practice concerns. A second enforcement action received a positive judicial ruling in January. In this case, the SEC is looking to ban the big four accounting firms – KPMG, PWC, Ernst and Young and Deloitte and Touche – from practicing in the US for a period of 6 months for non compliance with US information provision requirements. The decision is being appealed with the firms feeling they were not able to supply the information without being in breach of Chinese law.

To access the full paper click here:

http://www.msci.com/resources/pdfs/ChinaA_Roadmap_Consultation_Mar2014_updated.pdf

IPO market resumed with strong performance

As a follow up of the IPO story in our 2013 special edition, the Chinese IPO market resumed in January after over 1 year's suspension.

Neway Valve as the first new listed company since Nov 2012 made its debut in Shanghai on 17th Jan, and rose more than 40% on day 1 trading. Companies following also showed strong performance that more than half hit the upper limit of price rise on their first day listing.

However, the road is not always rosy – CSRC has called a suspension to drug maker Aosaikang's IPO given its high P/E valuation compared to its industry peers. A CSRC notice was released on 12th Jan that any company that priced its IPO at a premium to its industrial peers in the secondary market, measured by the P/E ratios, must delay opening subscriptions to retail investors by three weeks while it publishes repeated risk warnings. 5 more companies put their IPOs on hold.

Euronext launched RMB trading service

On 24 January 2014, Euronext announced the launch of a multicurrency trading service for ETFs. The new service will allow international investors to trade any Euronext listed ETFs in 20 different currencies, including Chinese RMB and Hong Kong Dollar for the first time on a U.S. or European exchange. This is viewed as a further step of RMB Internationalisation.

Shanghai Financial Industry Expands

Shanghai's financial sector grew 13.7% last year as a significant positive sign on the building up of China's international financial center. The city's average economy growth is 7.7% same rate as the national average. Trading volume for SSE jumped 40% to RMB 23trillion, Shanghai Futures Exchange grew 35% and the Shanghai Gold Exchange saw its trading volume grow 48%.

The newly formed Free Trade Zone ("FTZ") will boost the growth more. Banks within the zone can now conduct RMB cross-border settlements for transactions involving the current account and direct investment business.

China Overtakes US as biggest goods trading nation

\$4.16 trillion of goods were imported and exported by China last year, marked a 7.6% increase vs 2012. This will get China overpass U.S. as the biggest goods trading nation. America will not release the full year 2013 numbers until February this year, however it is highly unlikely it will stay ahead of China as during the first 11 months of 2013 it traded \$3.57 trillion of goods.

CSRC to change its institutional layout

According to Caixin the Chinese Securities Regulator is preparing to change its institutional layout, in order to unify regulations and promote innovation. The proposed changes include merging eight departments into four and set up four new offices for private fund, bonds, innovation and fighting illegal trading activities.

CSRC to set up Qianhai office

CSRC will set up an office in the Shenzhen's special economic zone Qianhai, according to Chinese officials. Qianhai will be the first among all such free-trade zones to have an office from a central regulator. The Shenzhen zone is aimed to create more close linkage between Mainland and Hong Kong.

China reveals 2014 Financial Reform priorities

China's four major financial authorities have recently announced their priorities for 2014. Among them, the PBC will continue to expand the cross-border use of the RMB, stick to prudent monetary policy and maintain steady credit growth, improve the multi-tiered capital market, and engage further in international financial regulation policy-making. The CSRC will switch IPOs from the current approval system to one based on registration and abolish approval requirements on 21 items over the next three years.

AUM of Funds Soars to RMB 3 Trillion

According to the AMAC, there are 89 fund companies established in China as of 31 December, 2013, including 47 joint venture firms and 42 domestic firms. The asset under management totaled RMB 4,221.3 billion (US\$ 692.0 billion), marking the first time since 2007 when the AUM of funds exceeds RMB 3 trillion, which was largely attributed to the growth in monetary funds.

Venue News

Shenzhen Stock Exchange to clamp down on 'VIP channels'

A meeting was held on 24th March for representatives from the Shenzhen stock Exchange ("SZSE") and the Securities Brokerage Commission to address concerns around the practice of brokers allowing clients with large assets under management or frequent trading to have private technical facilities. These facilities would give such clients a time advantage that would get their orders to the exchange matching engine more quickly than others.

It was agreed that two steps should be taken before an investor's trading orders enter the matching engine:

- Securities companies receive investors' orders via counter systems, then declare to the stock exchange via the Participant Business Unit ("PBU") and the Securities Trading Gateway ("STG");
- The trading host of stock exchanges deals with orders from all trading channels following the principle of time priority and fair trading rules

Attention has been drawn to the practice through recent IPOs as certain participants have been recorded as the first to trade.

Sources:

www.scmp.com

www.bloomberg.com

www.globaltimes.cn

www.wsj.com

www.tax-news.com

www.nytimes.com

www.csopasset.com

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Taiwan

Market Structure

Sell-then-buy day trading proposed

Following the introduction of day trading on 6th January 2014 with investors being able to buy-then-sell without the need to settle on a gross basis, the Financial Supervisory Commission ("FSC") in conjunction with the Taiwan Stock Exchange ("TWSE") is considering further deregulation to allow sell-then-buy day trading. The introduction of day trading has been viewed as a success with trading volumes on 9th January reaching NT\$134.15 billion, the highest since 17th March 2011.

Details of the proposals are as follows.

Expected Benefits

- Numerous benefits are cited by the regulator including increased trading volumes, decreased investor defaults, balancing the buy-then-sell day trading and increased varieties of investors' trading strategies.
- These in turn should attract more market participants into capital market and promote Taiwan market momentum.

Time Frame

- The proposed start date is 30th June 2014.
- Amendments to relevant regulations and technology modifications of FSC peripheral organisations are expected to be completed prior to 30th June go live.
- The actual start date may vary from broker to broker, depending on their system modification progress.

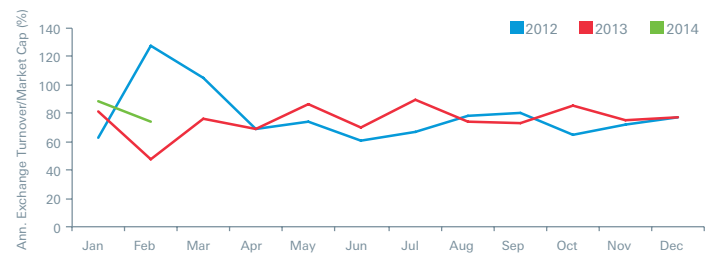
Scope

- The 200 constituent stocks in all of the indexes of Taiwan 50, Taiwan Mid-cap 100 and GreTai 50 will be in scope.
- The broker will be responsible for checking whether the client is eligible to participate in day trading, that is confirm whether the appropriate account registration procedures have been followed at a sub account level.

Risk controls

- The main purpose of the risk control is to ensure sufficient sources of shares to settle the sale trades if clients failed to buy back what they sold earlier.
- Securities brokers should have mechanisms in place to prior confirm, when accepting sale orders, whether there would be sufficient source of shares for settlement, in case investors failed to buy back the shares to unwind the sale trades.
- The broker does not need to block the shares or actually have the borrowed shares transferred into possession (that is have a contingent source of shares to cover the sale) at the time when entering clients' sale orders.
- The sale orders are still entered as long sale/cash trades at trade category code of "0".
- Whether a secured ratio of source of shares should be implemented is at the broker's discretion.

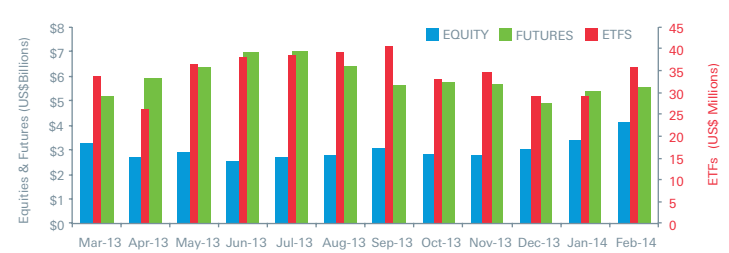
Fig 1: Turnover Velocity



Source: Thomson Reuters

Fig 1. Full year average - 2014: 81%, 2013: 75%, 2012: 78%

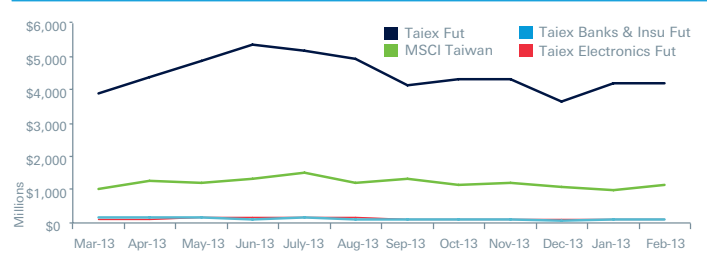
Fig 2: Equities(Cash), Futures and ETFs Monthly ADV



Source: Thomson Reuters

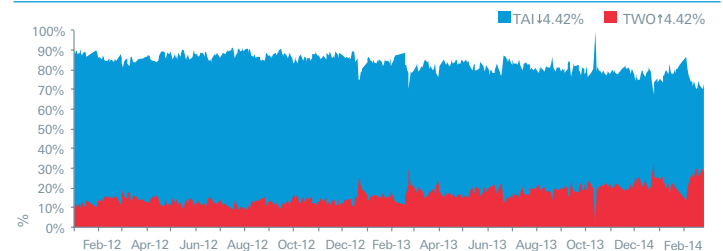
Fig 2. Taiwan equities and futures trading picked up in 2014. Being closely link to global tech cycle Taiwan is most leveraged to growth in US volumes and hence visible pick up in volumes and index prices as well.

Fig 3: YoY futures average daily turnover



Source: Thomson Reuters

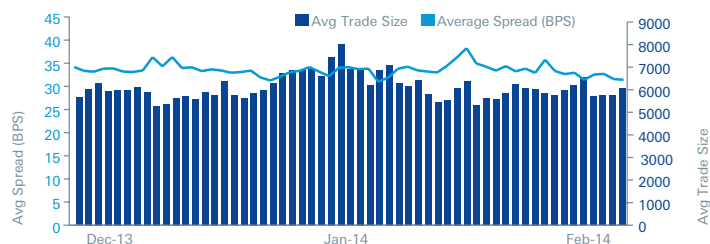
Fig 4: Market Share by Venue



Source: Thomson Reuters

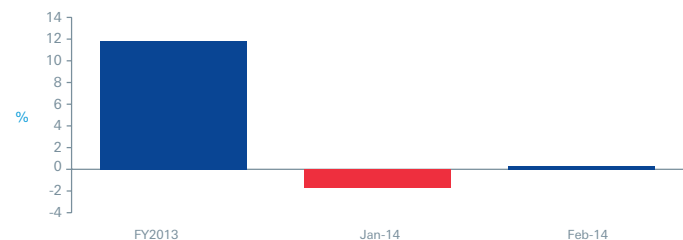
Fig 4. With overall increase in trading volumes, Gretai continues to gain market share in Taiwan.

Fig 5: Average Index Spread and Trade Sizes



Source: Thomson Reuters

Fig 6: MoM Index Price Change



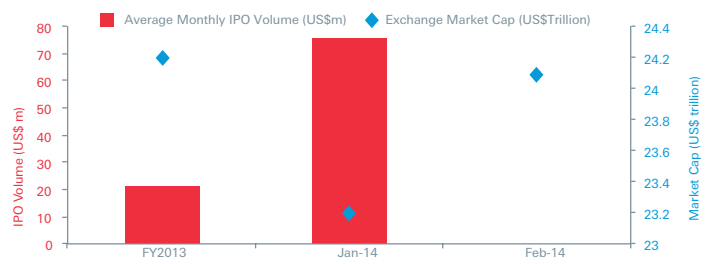
Source: Thomson Reuters

Fig 7: Large and Mid Cap Index movers

Market Movers - Large Cap				Market Movers - Mid Cap			
Stock	Price Return	Volume traded (US\$)	20D/100D ADT	Stock	Price Return	Volume traded (US\$)	20D/100D ADT
3665.TW	54%	632,604,300	1.59	1583.TW	79%	72,356,230	2.00
3059.TW	48%	316,366,900	1.47	3013.TW	58%	92,651,740	2.88
2352.TW	38%	206,762,100	2.41	4737.TW	46%	30,754,820	4.07
3022.TW	35%	599,483,500	1.84	2329.TW	44%	40,472,180	1.95
8215.TW	32%	298,241,200	1.02	2436.TW	44%	342,095,400	1.82
2227.TW	-12%	128,813,600	1.45	3561.TW	-14%	207,280,500	0.59
4137.TW	-12%	136,479,900	0.42	3494.TW	-15%	129,533,700	0.55
1312.TW	-12%	199,793,300	0.89	3514.TW	-15%	348,920,300	0.74
3576.TW	-13%	1,310,570,000	0.68	2910.TW	-16%	676,146	0.54
2362.TW	-14%	126,051,300	0.77	2929.TW	-21%	131,178,700	0.50

Source: Thomson Reuters

Fig 8: Avg Monthly IPO size and Exchange Market Cap



Source: Dealogic

Fig 8. Green Seal Co (1262 TT) and Autoserver Holdings (5266 TT) were two new listings in the month of January.

Broker process if client fails to buy back

- In the event investors fail to buy back during trading hours on the same day, securities brokers should remind the investors to buy back in After-hour Fixed Price Trading.
- Alternately, the category of the trades can be changed from long to short sale (sourced from margin pools or SBL) or borrow from Day Trading SBL Operations on T (in this case, trade code is still "0" and does not need to be changed), and thus the trades can be settled on T+2.
- If the trade category is not changed, or the borrow has not been sourced through Day Trading SBL Operations on T Day, the process to borrow from competitive bid transactions or negotiated transactions through Securities Finance Enterprises ("SFEs") on T+1 should be triggered. Brokers shall initiate forced buy back through the designated account during trading hours and then on T+3 return the shares borrowed from Day Trading SBL Operations on T or from competitive bid or negotiated transactions through SFEs on T+1.

Day Trading SBL Mechanism

- Brokers will act on principal basis to borrow shares from their own or the other brokers' clients and re-lend them to their clients who need to borrow.
- The executed borrowing and lending will be reported to TWSE.
- All brokers are able to participate Day Trading SBL Operations, no additional qualification required.
- Trades settled by the shares borrowed through Day Trading SBL do not need to change trade category and the trade category code is still "0", i.e. long sale/cash trade, but forced buy back on T+1 is mandatory.
- No regulatory collateral requirement for borrowing from Day Trading SBL Operations although broker may decide to require collateral.

Areas still under discussion

- Further details relating to Day Trading SBL Operations are to be finalised including rates and days of Day Trading SBL. Consideration is being given to the availability, whether it should be specifically for settlement on T+2 with a 2-day borrowing fee being charged.
- The Taiwan Securities Association ("TWSA") will release a draft sample SBL agreement to be used between brokers and clients, as well as between brokers and brokers.

FSC to allow Foreign Investors to move balances between different Futures Brokers

With the aim of simplifying the margin transmission process, the FSC plans to allow foreign investors to transfer the remaining balances between different futures broker accounts directly without going through foreign exchange and local custodian bank.

Currently, under the "Directions for Futures Trading by Overseas Chinese and Foreign Nationals", foreign investor is required to convert the excess margin from New Taiwanese Dollars (TWD) into foreign currency, and then transfer the converted amount back to the cash account maintained with its custodian before transferring to another futures brokers for margin deposit.

With this liberalisation, foreign investors are allowed to transfer balances between different futures brokers to facilitate futures trading activities in Taiwan.

Fig 9: IPO Sector Distribution

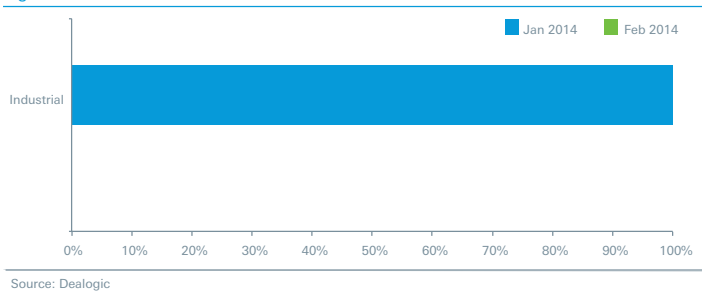


Fig 10: IPO Performance

	# of IPO	1 day	1 month	Current
Jan-14	2	17.065	--	17.7
Feb-14	--	--	--	--

Source: Dealogic

Fig 10. While Green Seal 1262 TT has gone up over 30% since its listing, Autoserver Holdings has dropped almost 10% from its IPO price.

SBL market grew significantly over 2013

According to TWSE’s website, in 2013, the securities lending system of the TWSE registered a total of NT\$ 1.4061 trillion dollars of securities lending transactions. The total dollar volume not only exceeded one trillion dollars but also set a new high, delivering a growth of 44% compared to the previous year. Of the transactions, competitive bid transactions registered NT\$391.2 billion, showing a growth of 37%, while negotiated trades produced NT\$ 1.0149 trillion, marking a growth of 61%.

Venue News

Guidelines released for bilateral business between EUREX and TAIFEX

As recorded in the “Guidelines for the Bilateral Business Relationship between Eurex Member and the TAIFEX Member”, such market operators will be able to conduct business in TAIFEX contracts on the following basis.

- TAIFEX member shall ensure that the EUREX member is aware of the regulations relating to margin requirements and position limits in TAIEX Futures (“TX”), TAIEX Options (“TXO”) and FX reporting requirements. The futures commission merchant will verify that sufficient margin has been posted, that positions are merged with those of customers holding TX and TXO and that the total of the cumulative realised NT\$ profits from both domestic and foreign futures trading does not exceed NT\$300 million with reporting to TAIFEX being submitted by 18:00 CST.
- Customers need to have opened a domestic trading account or be under the omnibus account opened by an offshore futures commission merchant.
- The Eurex member and the TAIFEX member are recommended to have a bilateral agreement in place to cover the eventuality of losses or costs caused by a position rejection.

Low Volatility High Dividend Index launched

The TWSE has announced that the TWSE and S&P Dow Jones Indices have jointly introduced a Taiwan Low Volatility High Yield Dividend Index on 27th January designed to provide an overview and measure the performance of TAIEX.

According to the local bourse, the new index will measure 40 highest yielding companies meeting certain diversification, volatility and tradability requirements. The index methodology aims to achieve a balance between dividend yield and volatility and is weighted by trailing 12- month dividend yield, with constituents re-weighted semi-annually.

S&P Dow Jones Indices LLC marks the third foreign Indices organization cooperating with the TWSE, following FTSE International Limited and Sharp Asset Management Limited (Research Affiliates, LLC).

Sources:

- www.twse.com.tw
- www.fsc.gov.tw
- www.chinapost.com.tw

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Japan

Market Structure

Proposal for electronic trading platform for OTC derivatives

Following the launch of SEFs in the US, the Japanese regulator has released its view on Electronic Trading Platforms ("ETPs"). As reported by risk.net on 24th March, it would seem the language may have become lost in translation as the rules in fact pertain to post trade reporting rather than a domestic execution mandate.

The market execution stream of regulation relating to OTC derivatives is due to commence in September 2015.

Two phase approach recommended for mandatory clearing

The Japanese FSA has proposed a two stage approach to the clearing of yen denominated interest rate swaps based on different thresholds. It is felt this would cater to different sizes of financial institutions – insurance companies and pension funds are not yet in scope.

Phase one will start in December 2014 and will require those with outstanding notional over ¥1 trillion (US\$9.8 billion) to clear. Phase 2 will start a year later in December 2015 when small financial institutions with outstanding notional of ¥300 billion or more will also be in scope.

The proposal was sent via a letter to various brokers with industry comment being sought until 27th March. A public comment period will follow.

FSA releases Guidelines for Supervision of Financial Markets Infrastructure

Citing the important role that infrastructure plays in the clearing, book-entry transfer and recording of trades, the FSA have released guidelines to put a supervisory framework in place to ensure appropriate risk management and therefore ensure confidence in the stability of the Japanese financial system. Specifically, the 'on-site' (Executive Bureau of the Securities and Exchange Surveillance Commission) and 'off-site' (through the Inspection Bureau of the FSA) monitoring will be combined. Supervisory and Inspection departments will need to work in cooperation.

For the full materials see here:

<http://www.fsa.go.jp/en/news/2014/20140327-1/01.pdf>

Venue News

Tick size change goes live, realised impact considered

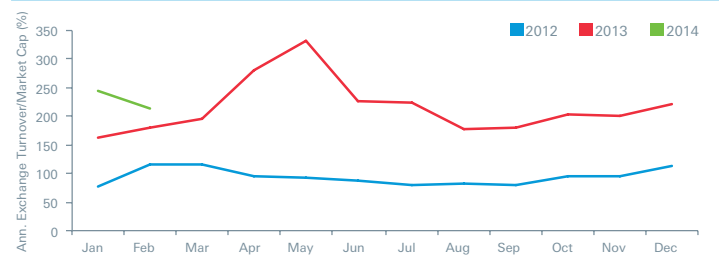
As of 24th January, Tokyo Stock Exchange ("TSE") introduced new tick sizes for TOPIX 100 stocks trading over ¥.

A report release by Deutsche Bank's Head of Analytics APAC, Winnie Khattar, has found that the average trade size in Indonesia has reduced by 25% with the queue size for Level 1 reducing by 54%. Although this does not lead to attributable changes in volatility and volume, it does make for tighter spreads and a lower VWAP cost.

To access the full analytics report click here:

http://cbs.db.com/new/pdf/REALIZED_Impact_of_Tick_Size_Reductions.pdf

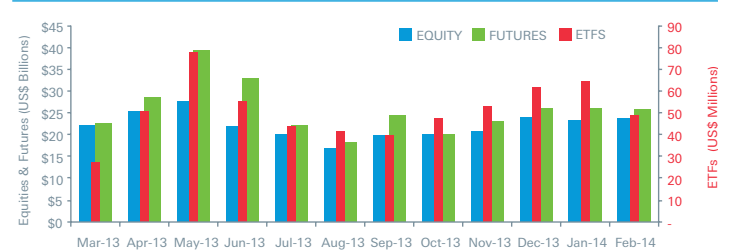
Fig 1: Turnover Velocity



Source: Thomson Reuters

Fig 1. Full year average - 2014: 228%, 2013: 215%, 2012: 98%

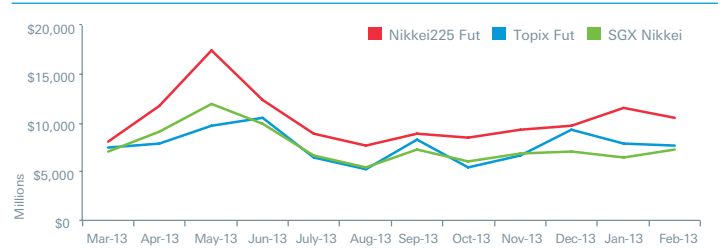
Fig 2: Equities(Cash), Futures and ETFs Monthly ADV



Source: Thomson Reuters

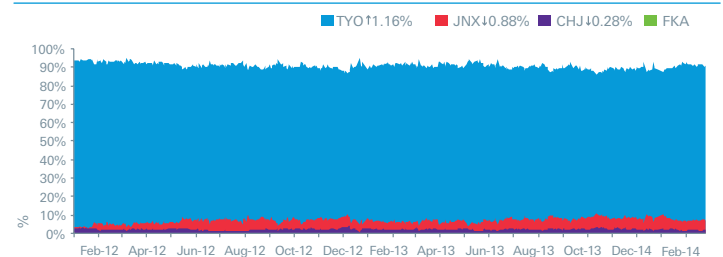
Fig 2. Trading in Japan continued high momentum since last year on the back on stronger yen. 2014 equities trading was up 9% from Q3 last year

Fig 3: YoY futures average daily turnover



Source: Thomson Reuters

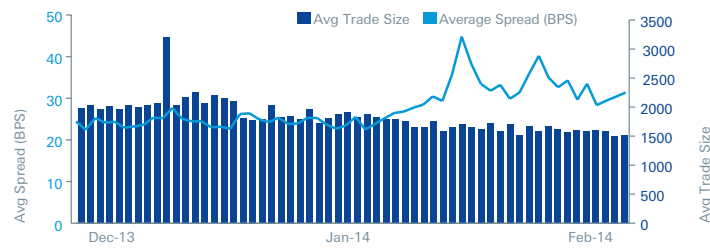
Fig 4: Market Share by Venue



Source: Thomson Reuters

Fig 4. Chi-X and Japannext both lost market share to primary exchange following tick reduction on a subset of Topix100 names in January

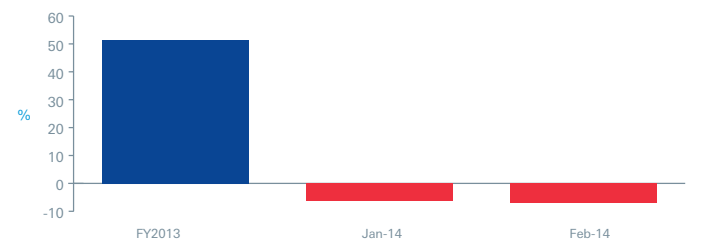
Fig 5: Average Index Spread and Trade Sizes



Source: Thomson Reuters

Fig 5. Both spread and trade sizes in Japan recovered to same levels as early/mid 2013 following the increase in trade sizes and narrowed spreads observed in December last year

Fig 6: MoM Index Price Change



Source: Thomson Reuters

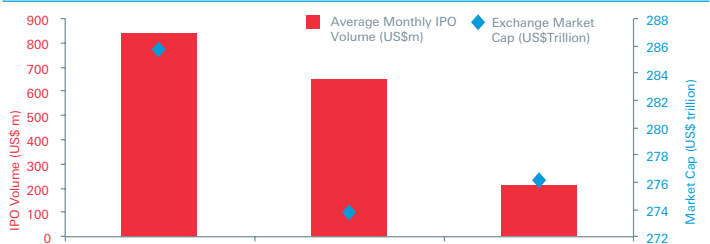
Fig 6. Stronger yen in Japan drove the stock prices down in late Jan, early Feb.

Fig 7: Large and Mid Cap Index movers

Market Movers - Large Cap				Market Movers - Mid Cap			
Stock	Price Return	Volume traded (US\$)	20D/100D ADT	Stock	Price Return	Volume traded (US\$)	20D/100D ADT
6701.T	42%	5,322,653,000	1.90	4963.T	169%	1,742,928,000	3.20
6728.T	40%	504,276,900	1.20	7599.T	32%	264,333,200	1.62
2322.T	30%	121,370,100	3.18	8056.T	28%	318,731,800	1.55
2413.T	27%	1,048,287,000	0.94	4514.T	27%	47,894,020	2.19
9684.T	26%	10,840,680,000	2.36	3302.T	27%	36,990,270	1.36
3003.T	-24%	975,141,200	1.17	3774.T	-35%	366,797,200	2.24
7947.T	-24%	167,525,600	1.71	4321.T	-35%	3,768,461,000	1.61
3291.T	-25%	460,876,800	0.83	2685.T	-35%	342,301,300	1.80
8933.T	-25%	395,932,500	1.06	6054.T	-38%	179,955,100	1.41
8804.T	-27%	2,723,615,000	1.46	3046.T	-38%	588,535,900	1.66

Source: Thomson Reuters

Fig 8: Avg Monthly IPO size and Exchange Market Cap



Source: Dealogic

Fig 8. Hulic Reit(3295 JT), bigger of the two IPO listings that took place in Jan, is up 28% since its listing.

OSE has outage on 4th March

Trading in Nikkei index futures was halted for 20 minutes due to an outage. The exchange is looking into the causes.

Derivatives platform merged on 24th March

The derivatives integration of the TSE and OSE platform took place on 24th March. Trading will now be conducted on the OSE's J-Gate trading systems.

An information sheet was released with the following information.

Product inclusion table

Futures (F) or Options (O)	Product	Contract	Reference price*	DCB Price range*	Suspend time*
F	Equity Index	Nikkei 225 Futures (Large/mini)	Last traded price	± 0.8%	30 sec
F	Equity Index	TOPIX Futures (Large/mini)	Last traded price	± 0.8%	30 sec
F	Equity Index	TOPIX Core30 Futures	Last traded price	± 0.8%	30 sec
F	Equity Index	TSE REIT Index Futures	Last traded price	± 0.8%	30 sec
F	Equity Index	RN Prime Index Futures	Last traded price	± 0.8%	30 sec
F	Equity Index	TOPIX Banks Index Futures	Last traded price	± 0.8%	30 sec
F	Foreign Index	DJIA Futures	Mid-price of BBO	± 1%	30 sec
F	Foreign Index	CNX Nifty Futures	Mid-price of BBO	± 1%	30 sec
F	Other Index	Nikkei 225 VI Futures	Mid-price of BBO	± 0.5pt	30 sec
F	Other Index	Nikkei 225 Dividend Index Futures	Mid-price of BBO	± JPY10	30 sec
F	Other Index	TOPIX Dividend Index Futures	Mid-price of BBO	± 1pt	30 sec
F	Other Index	TOPIX Core30 Dividend Index Futures	Mid-price of BBO	± 1pt	30 sec
F	JGB	JGB Futures (5-year/10-year/20-year*)	Last traded price	± JPY0.10 for 5/10 yr ± JPY0.30 for 20 yr	30 sec
*20-year JGB is scheduled for April 7					
F	JGB	mini10year JGB Futures	Mid-price of BBO	± JPY0.10	30 sec
O	Equity Index	Nikkei 225 Options	Last traded price	± 10tick	15 sec
O	Equity Index	TOPIX Options	Mid-price of BBO	± 10tick	15 sec
O	Equity	Individual Options	Mid-price of BBO	± JPY 0.10	30 sec
O	JGB	Options on 10-year JGB Futures	Mid-price of BBO	Dependent on base price of underlier	30 sec

*These fields related to the immediately executable price range for dynamic circuit breakers.

Trading hours

Current trading hours for index futures and options will be applied to TSE-listed index futures and options products, where a recess between morning and afternoon sessions has been abolished. The Nigh Session trading hours are extended to 16:30 – 3:00 JST the next day.

Matching rules

a. Determining Contract Price by Uncrossing Method

Priority of the Uncrossing Method

- Condition 1 The price where bids and offers match, of which there are limit orders on either buy side or sell side.
- Condition 2 In the case where there are several prices that meet Condition 1, the price that maximizes the traded volume
- Condition 3 In the case there are several prices that meet Condition 2, the price that minimizes the difference between the cumulative volume of sell orders and the cumulative volume of buy orders (hereinafter called "surplus volume")
- Condition 4 In the case there are several prices that meet Condition 3, the either price of the following:
- (1) In the case where the cumulative sell volume is larger than the cumulative buy volume at all such prices, the lowest price;
- (2) In the case where the cumulative buy volume is larger than the cumulative sell volume at all such prices, the highest price; or
- (3) Otherwise, the price in Condition 5
- Condition 5 Either of the following prices:
- (1) In the case where the highest price of the prices that minimizes the surplus volume (limited to the lowest price among the prices where the surplus volume becomes selling on balance and the highest price among the prices where the surplus volume becomes buying on balance, when the prices of selling on balance and buying on balance are included in the prices where the surplus volume is minimum; the same shall apply hereinafter), the highest price;
- (2) In the case there is a Reference Price between the lowest price and the highest price of the prices that minimizes the surplus volume, the Reference Price; or
- (3) In the case where the lowest price of the prices that minimizes the surplus volume is higher than a Reference Price, the lowest price.

Reference price shall be determined as 1) the last traded price on a trading day; 2) in case there is no price described in 1), the standard price of bids and offers on the trading day.

Market Orders may be placed during pre-opening/pre-closing sessions as well as a regular session; however, it does not guarantee all orders to be executed.

- Market Orders that are not executed by the Uncrossing method will become invalid.
- Regardless of whether a transaction by the Uncrossing method is made or not, a trading session moves to Zaraba after the time to conduct the Uncrossing passes (excluding at the session end).
- Orders will be executed immediately by the Uncrossing method even if the price is far deviated from the base price as long as the matching will be conducted within the daily price limits.

b. Uncrossing for Closing Auction

- Closing Auction will not be proceeded if the matching price does not fall within the Closing Price Executable Price Range from the reference price of the Immediately Executable Price Range.
- Closing Price Executable Price Range will have the same price range as to that of Immediately Executable Price Range.

Circuit Breaker

Conditions for CB Method for Reference Price	Both 1. and 2. below apply with respect to the central contract month of future contracts: 1. A buy (sell) order for the central contract month is placed (or executed) at the upper (lower) price limit. 2. There is no trade execution at a price beyond a certain range* closer to the base price from the upper (lower) price limit for the next 1 min. * Index Futures – 10% of the regular DPL / JGB Futures – DCB price range
Contracts (Issues) Subject to Trading Halt	1. All future contract months which have the same underlying index (including mini contracts) 2. All option contracts which have the same underlying index 3. The strategy trades related to 1. and 2. 4. J-NET trading of 1. and 2.
Conditions for Exception of Application	1. 14:50~15:10 for Index Futures 2. 14:40~15:00 for JGB Futures 3. 2:35~2:55 for Index Futures & JGB Futures 4. In case where the same criteria are met after the daily price limit has already been expanded to its maximum level. *CB will not be activated even if the criteria are met during the period referred to in 1 to 3 above, and the latest DPL range will continue to be used for the uncrossing at the closing auction.
Beginning of Trading Halt	The time that OSE determines on each occasion immediately after the criteria for CB trigger are met
Duration for Trading Halt	10 minutes
Method for resumption	After the duration for a trading halt, trading will be resumed by the Uncrossing method with the price limit expanded.
Reference price	Renewed on a trading day basis

Order types and order modifiers

The following order types are available

Order type	Details
Limit	An order that is executed at the price specified or better.
Market	An order that does not specify any price and is executed at the current best prices for the amount exist on the opposite side of the order book.
Market to limit	In case when there is the best price on the opposite side of the order book, this order will be converted to that price. If not, this order will be converted to the price that is 1 tick better than the current best price on the same side of the order book.
Stop	When the market price matches the pre-designated conditions specified at the order submission, this order will be registered on the order book according to the condition.

One of the following modifiers must be assigned to any order

Modifier	Details	
Execution Volume	Fill and Store (FAS)	In the case where there is unfilled volume after the order is partially executed, make the unfilled volume valid.
	Fill and Kill (FAK)	The remained volume that didn't get executed is immediately pulled from the order book.
	Fill or Kill (FOK)	The system checks whether the entire volume of the order can be executed at the order submission. If not, the order is rejected.

The following expiration conditions must be specified for FAS orders

Expiration	Good for Day (GFD)	Valid until the end of the day session of the day (or until the end of the night session if ordered during a night session).
	Good til Date (GTD)	Valid until the end of the day session of the specified date.
	Good til Cancel (GTC)	Valid until the order is canceled.

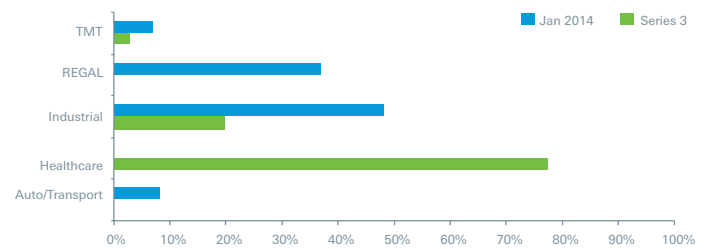
For the full notice click here:

http://www.tse.or.jp/english/news/25/b7gje6000001uajf-att/derivative_pamphlet_en.pdf

To see the information sheet click here:

http://www.tse.or.jp/english/news/25/b7gje6000001uajf-att/derivative_pamphlet_en.pdf

Fig 9: IPO Sector Distribution



Source: Dealogic

Fig 10: IPO Performance

	# of IPO	1 day	1 month	Current
Jan-14	1	20.83	--	20.46
Feb-14	3	77.64		75.835

Source: Dealogic

Sources:

www.fsa.go.jp
www.risk.net
www.reuters.com
www.tse.or.jp

Contact

Email: global.marketstructure@list.db.com
 Tel: +852 2203 5710



India

Market Structure

SEBI notifies of new start date for FPI, RBI release operating procedures

The SEBI has stated that the new FPI regime will now come into effect on 1st June 2014 in order to allow market participants more time to build out the necessary infrastructure.

As previously described in Issue 31, SEBI has consolidated the FII and QFI routes into one FPI regime. Three categories have been created as follows:

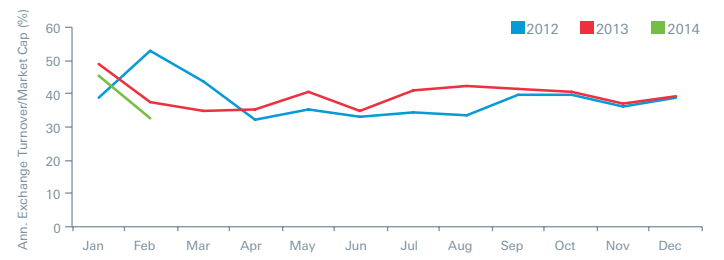
- **Category I (Low Risk)** - to include Government and Government related entities (Foreign Central Banks, Sovereign Wealth Funds, Multilateral Organizations).
- **Category II (Moderate Risk)** - to include regulated entities (Banks, Asset Management Companies, Broad Based Funds including Mutual Funds, Investment Trusts, Insurance and Reinsurance Companies, University Funds, Pension Funds and University related Endowments already registered with SEBI)
- **Category III (High Risk)** – All other FPIs not eligible to be included in the above two Categories. Category III FPIs are not allowed to issue, advise on or subscribe to Offshore Derivative Instruments (“ODI”) or Participatory Notes (“P-notes”).

For the first two categories, a lighter touch KYC approach will be permitted given the lower risk nature of the business, the responsibility for obtaining such documents will be devolved from SEBI to the Designated Depository Participants (“DPPS”).

The guideline released by the RBI contains the following highlights:

- The portfolio investor registered in accordance with SEBI FPI Regulations, shall be called a Registered Foreign Portfolio Investor (RFPI) under RBI norms.
- RFPI may purchase and sell shares and convertible debentures of an Indian company through registered brokers on recognized stock exchanges in India, as well as purchase shares and convertible debentures which are offered to the public in terms of relevant SEBI guidelines / regulations.
- The individual and aggregate investment limits for the RFPIs shall be below 10% or 24% respectively of the total paid-up equity capital of a company. In case of convertible debentures, the individual and aggregate limits will be below 10% or 24% respectively of the paid-up value of each series of convertible debentures issued by an Indian company respectively.
- Where there is composite sectoral cap under Foreign Direct Investment (“FDI”) policy, these limits for RFPI investment shall also be within such overall FDI sectoral caps.
- An RFPI shall be eligible to open a Special Non-Resident Rupee (“SNRR”) account and a foreign currency account with an Authorised Dealer bank and to transfer sums from the foreign currency account to SNRR account at the prevailing market rate for making investments in securities. The Authorised Dealer bank may transfer repatriable proceeds (after payment of applicable taxes) from SNRR account to foreign currency account.

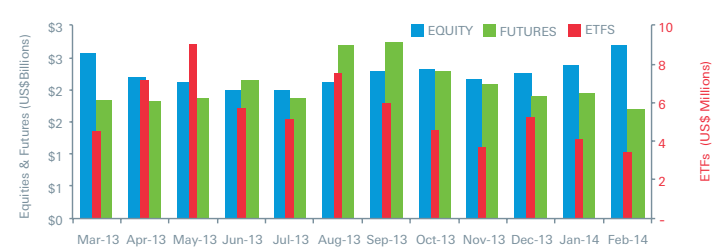
Fig 1: Turnover Velocity



Source: Thomson Reuters

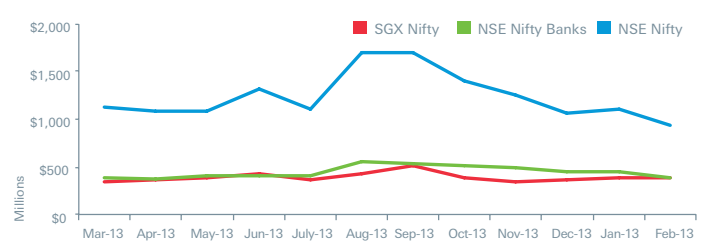
Fig 1. India equity trading volumes climbed in on back of growth in currency ahead of upcoming elections

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



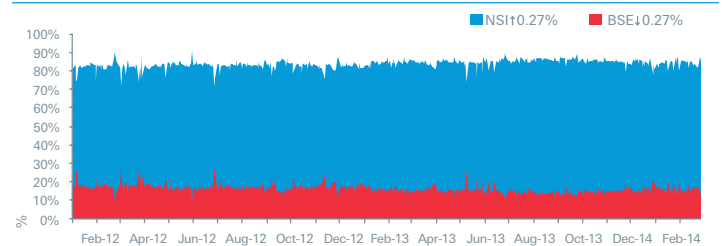
Source: Thomson Reuters

Fig 3: YoY futures average daily turnover



Source: Thomson Reuters

Fig 4: Market Share by Venue



Source: Thomson Reuters

Fig 5: Average Index Spread and Trade Sizes

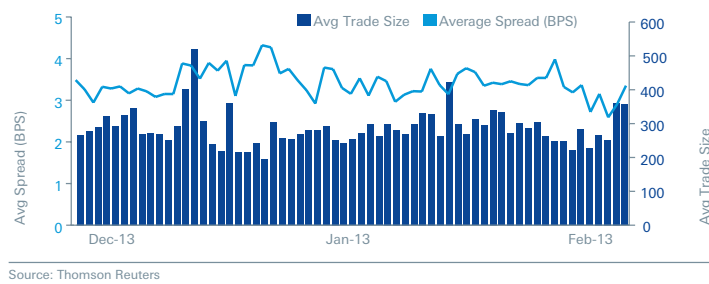


Fig 5. World Federation of Exchanges (“WFE”) ranked NSE the world’s largest exchange in terms of equity trades. While the number of trades on NSE is very high, average trade size is one of the smallest in the region.

Fig 6: MoM Index Price Change

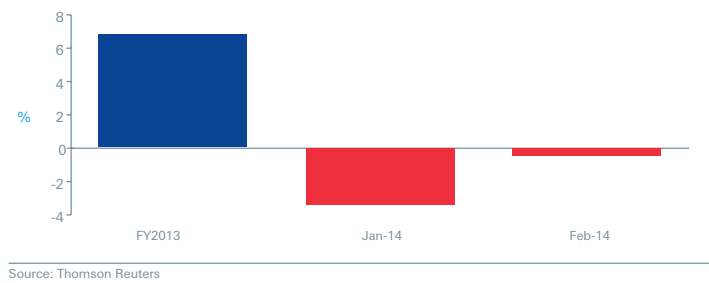


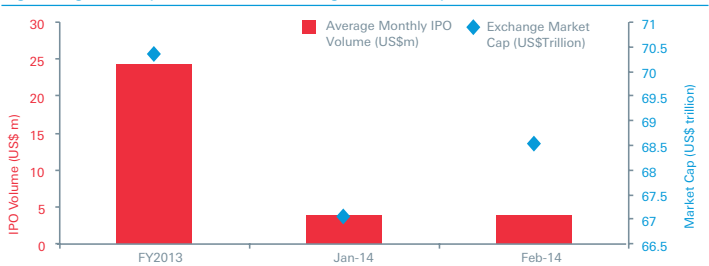
Fig 6. Nifty Index fell ~4% in January ahead of earnings and cautious investors. Part of the index decline was regained in Feb after interim budget announcements and rupee gain

Fig 7: Large and Mid Cap Index movers

Market Movers - Large Cap				Market Movers - Mid Cap			
Stock	Price Return	Volume traded (US\$)	20D/100D ADT	Stock	Price Return	Volume traded (US\$)	20D/100D ADT
HCLT.NS	26%	1,194,582,000	1.02	REDY.NS	14%	544,535,500	1.25
SUN.NS	13%	782,923,500	1.07	GAIL.NS	9%	190,598,400	1.01
TAMO.NS	11%	1,555,430,000	1.13	LUPN.NS	9%	350,435,200	1.08
INFY.NS	10%	2,810,861,000	0.74	ULTC.NS	4%	181,631,800	0.91
WIPR.NS	9%	618,638,000	0.71	MAHM.NS	3%	526,822,600	0.97
COAL.NS	-8%	676,912,700	0.86	KTKM.NS	-5%	320,583,200	1.05
RELI.NS	-10%	1,455,662,000	0.87	ASPN.NS	-5%	314,073,400	0.76
SBI.NS	-13%	1,571,090,000	0.88	NMDC.NS	-7%	259,851,600	1.00
BRTI.NS	-15%	1,133,174,000	1.31	MRTL.NS	-10%	1,127,080,000	0.80
NTPC.NS	-16%	512,869,300	1.46	SESA.NS	-12%	623,488,400	0.74

Source: Thomson Reuters

Fig 8: Avg Monthly IPO size and Exchange Market Cap



Source: Dealogic

- RFPI shall be eligible to invest in government securities and corporate debt subject to limits specified by the RBI and SEBI from time to time.
- The investment by RFPI will be made subject to the SEBI (FPI) Regulations 2014, modified by SEBI from time to time.
- RFPI shall be permitted to trade in all exchange traded derivative contracts on the stock exchanges in India subject to the position limits as specified by SEBI from time to time.
- RFPI may offer cash or foreign sovereign securities with AAA rating or corporate bonds or domestic Government Securities, as collateral to the recognised Stock Exchanges for their transactions in the cash as well as derivative segment of the market.
- The LEC Form reporting requirement as set out for the FII regime will continue in the RFPI regime.

SEBI also issued detailed operational guidelines for DDPs to facilitate registration of FPIs on behalf of SEBI. In order for the KYC piece of the norms to be implemented, the rules needed to be released from the RBI. The notification of such was released on 3rd April and has the following key points.

- Banks opening accounts for FPIs have been permitted to rely on KYC verification done by custodians or any other SEBI registered intermediary thus doing away with the requirement of submitting duplicate documents to banks.
- FPIs will need to provide a written authorisation to the Custodian / SEBI registered intermediary for sharing of documents with the concerned bank.
- Custodian / SEBI registered intermediary will certify that the documents have been duly verified with the original or notarised documents have been obtained.
- FPIs / Global Custodian (GC) acting on behalf of the FPI will have to provide an undertaking stating that any exempted documents will be submitted as and when required by Regulators or Law enforcement agencies.
- These simplified norms apply to accounts opened by FPIs under the portfolio route only.

Documentation requirements for each of the three categories are as follows.

Document Type	Documentation	Category 1	Category 2	Category 3
Entity level	Constitutive docs	Required	Required	Required
	Proof of address	Required	Required	Required
		Power of Attorney, mentioning the address, is acceptable as address proof	Power of Attorney, mentioning the address, is acceptable as address proof	Power of Attorney, mentioning the address, is acceptable as address proof
	PAN Card	Required	Required	Required
	Financial data	Exempt	Exempt	Exempt
Senior Management (Whole Time Directors/ Partners/ Trustees/ etc.)	SEBI Registration Certificate	Required	Required	Required
	Board resolution	Exempt	Required	Required
	List	Required	Required	Required
	Proof of identity	Exempt	Exempt	Entity declares on letterhead full name, nationality and date of birth OR Photo-identity proof
	Proof of address	Exempt	Exempt	Declaration on letter head
Photographs	Exempt	Exempt	Exempt	

Document Type	Documentation	Category 1	Category 2	Category 3	
Authorised Signatories	List and signatures	Required	Required	Required	
		List of Global Custodian (GC) signatories can be given in case of POA to GC	List of Global Custodian (GC) signatories can be given in case of POA to GC		
		Proof of identity	Exempt	Exempt	Required
	Proof of address	Exempt	Exempt	Declaration on letterhead	
	Photographs	Exempt	Exempt	Exempt	
Ultimate beneficial owner ("UBO")	List	Exempt	Required - Can declare no UBO over 25%	Required	
		Proof of identity	Exempt	Exempt	Required
		Proof of address	Exempt	Exempt	Declaration on letterhead
		Photographs	Exempt	Exempt	Exempt

You can access the various materials via these links

SEBI notice on FPI commencement:

<http://www.sebi.gov.in/sebiweb/home/list/1/7/0/0/Circulars>

RBI statement:

<http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=8787&Mode=0>

RBI notification of KYC norms:

<http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=8824&Mode=0>

SEBI gazette announcement:

http://www.sebi.gov.in/cms/sebi_data/attachdocs/1389083605384.pdf

SEBI guidelines for DDPS:

http://www.sebi.gov.in/cms/sebi_data/attachdocs/1389173830887.pdf

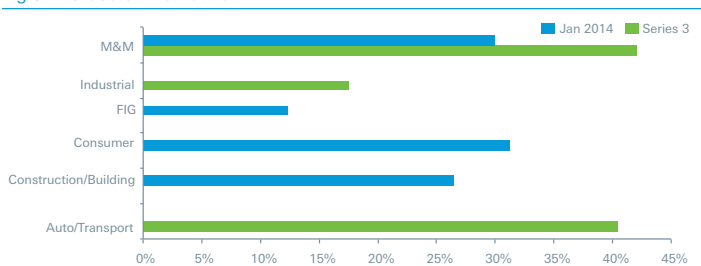
Source:

http://www.business-standard.com/article/markets/sebi-tightens-p-note-norms-114011300032_1.html

<http://www.thehindubusinessline.com/markets/sebi-tightens-norms-for-issue-of-participatory-notes/article5573856.ece>

http://articles.economictimes.indiatimes.com/2014-01-29/news/46782469_1_hedge-funds-fpis-foreign-portfolio-investors

Fig 9: IPO Sector Distribution



Source: Dealogic

Fig 10: IPO Performance

	# of IPO	1 day	1 month	Current
Jan-14	12	60.76	33.64	46.85
Feb-14	4	4.4		4.4

Source: Dealogic

SEBI brings more stocks under the Circuit Filter restrictions

Based on a recommendation by the Secondary Market Advisory Committee, SEBI announced that starting 17th February 2014, all stocks which are a component of an index derivative but are not individually traded in the F&O segment will also have a 20% price band applicable to them. Previously, only stocks not being traded in the F&O segment were subject to circuit filters.

SEBI also notified amendments to the Issue of Capital and Disclosure Requirements Regulations which now make it optional for issuers of equity during an IPO to obtain the IPO grading from a credit rating agency. The move is an attempt to revive the primary markets which have been dormant for almost 3 years.

The SEBI notification is available here

http://www.sebi.gov.in/cms/sebi_data/attachdocs/1391509221289.pdf

Source:

<http://www.thehindubusinessline.com/markets/stock-markets/sebi-makes-ipo-grading-voluntary/article5653339.ece>

http://www.business-standard.com/article/markets/sebi-expands-lists-of-stocks-with-circuit-filters-114020601214_1.html

SEBI to revise policy on proprietary trading by brokers

SEBI is working to frame a new policy to regulate proprietary trading activities undertaken by stock brokers for their own gains. The recent NSEL (National Spot Exchange Limited) crisis brought a lot of instances of possible manipulations by stock brokers to the regulator's notice and SEBI will be trying to address the gaps in the new policy guidelines.

As a part of the new policy, SEBI is looking to completely ring-fence clients' money from any utilisation for proprietary trading by brokerage firms.

Source:

http://www.business-standard.com/article/markets/sebi-to-revisit-policy-on-proprietary-trading-by-brokers-114011900182_1.html

SEBI announces guidelines for implementing IT governance Framework for Depositories

SEBI has made it mandatory for all depositories to formulate an IT strategy committee at the Board level in order to strengthen their internal Information Technology (IT) governance framework based on the recommendations made by the Depository System Review Committee (DSRC). The IT strategy committee will provide insight and advice to the Board in various areas including future plans, business continuity planning and information security measures.

The SEBI notification can be accessed here:

http://www.sebi.gov.in/cms/sebi_data/attachdocs/1390296893333.pdf

Source:

<http://timesofindia.indiatimes.com/business/india-business/Sebi-asks-depositories-to-set-up-IT-strategy-panels/articleshow/29162021.cms>

Government looking to improve inter-regulatory coordination

The Finance Ministry appointed Financial Stability and Development Council ("FSDC") is looking to strengthen the coordination between various regulators in the Indian financial markets in order to proactively manage risks arising out of the derivatives trading segment in the country. The Financial Sector Legislative Reforms Commission ("FSLRC") had earlier recommended the creation of a Unified Financial Agency which would regulate all organised financial trading in the markets including Debt, Equities and Commodities based derivatives.

Source:

<http://www.financialexpress.com/news/regulators-look-to-plug-risks-in-derivatives-mkt/1222896/0>

Currency swap limit between India and Japan enhanced

The RBI and Bank of Japan ("BoJ") signed an agreement to expand their bilateral swap agreement designed to help each other in the event of a forex crisis or a short-term liquidity crisis. The amount available under the agreement has been raised to \$50 billion from its original size of \$15 billion. The agreement will be effective until 3rd December 3, 2015

Source:

<http://www.thehindubusinessline.com/industry-and-economy/banking/india-japan-expand-bilateral-swap-agreement/article5566009.ece>

Venue Updates

NSE gets approval to launch futures on its Volatility Index (VIX)

SEBI has approved National Stock Exchange's ("NSE") application to introduce trading of Futures contracts based on its Volatility Index ("VIX") which is a measure of market volatility through 30 days. These contracts can help investors' hedge portfolios against market volatility.

The futures contract on India VIX will have three weekly contracts and a new contract will be available for trading every week. The minimum trading lot size for the futures contract will be Rs 10lakh and contracts will be settled in cash.

NSE circulars for the launch can be accessed here;

<http://www.nseindia.com/content/circulars/FAOP25802.pdf>

<http://www.nseindia.com/content/circulars/CMPT25804.pdf>

Source:

http://articles.economictimes.indiatimes.com/2014-01-21/news/46411355_1_volatility-index-fear-gauge-futures-contracts

<http://www.theoptionsinsider.com/industry/?p=100029770&qcABC=1>

Exchanges ask listed companies to adhere to the 'Trading Window' norms

All stock exchanges have asked the companies listed on their platforms to strictly adhere to the 'Trading Window' norms which require the companies to specify trading periods (Windows) during which the directors and employees of those respective companies will be allowed to trade in its own stock. This window will be kept closed when information related to company's financial results, dividends, among others, remain 'unpublished' and will be opened 24 hours after such information is made public.

The directive comes after SEBI has tightened the norms for timely disclosure of key information by listed firms.

Source:

http://www.business-standard.com/article/pti-stories/bourses-ask-cos-to-strictly-comply-with-trading-window-rules-114011400799_1.html

BSE, NSE transfer more stocks to restricted categories

Both the BSE and NSE through a series of notifications have notified the lists of stocks that have been transferred to the restricted (Trade-to-Trade) category where speculative trading is not allowed and delivery of the shares is mandatory. The action has been taken after these stocks were identified in surveillance reviews conducted by the bourses as per directions from SEBI. BSE has moved a total of 41 scrips to the 'T' category while NSE has transferred 9.

Source:

<http://www.mydigitalfc.com/stock-market/bse-move-41-stocks-t-group-nse-shift-9-419>

BSE launches Institutional trading platform on SME segment

The Bombay Stock Exchange ("BSE") has launched an Institutional trading platform ("ITP") on its SME segment which will allow start-ups and SMEs to list on the platform without going through any IPO process. This will make it very easy for start-ups and SMEs to raise funds while also providing easier entry and exit route for informed investors like angel investors, VCFs and PEs etc. The platform also offers tax benefits to long term Investors.

Any company whose paid up capital has not exceeded 25 crore rupees in any of the previous financial years and has at least one full year's audited financial statements for the immediately preceding financial year at the time of making listing application or any company has not completed a period of more than 10 years after incorporation and its revenues have not exceeded 100 crore rupees in any of the previous financial years is eligible to get listed at the BSE SME ITP.

Source:

<http://www.bseindia.com/markets/marketinfo/DispMediaRels.aspx?page=db2bb05e-0854-4473-93d4-eddc5beb9d7>

Personnel Updates

UK Sinha gets a two year extension as SEBI Chief

Securities and Exchange Board of India (Sebi) has announced that the government has decided to extend the term of UK Sinha as the chairman of the regulatory body for capital markets by two years till 16th March, 2016. His current term was due to end on 17th Feb 2014.

Sinha is now looking at implementing the non-legislative recommendations made by the Financial Sector Legislative Reforms Commission (FSLRC) which are based on procedures and principles rather than norms and laws. The finance ministry had earlier asked the regulators to implement the non-legislative recommendations and also issued a 'guidance handbook'.

Source:

<http://indianexpress.com/article/business/banking-and-finance/uk-sinha-gets-two-year-extension-as-sebi-chairman/>

http://articles.economictimes.indiatimes.com/2014-01-11/news/46090426_1_fslrc-sector-legislative-reforms-commission-next-government

MCX-SX appoints Saurabh Sarkar as MD and CEO

The MCX Stock Exchange has announced the appointment of Saurabh Sarkar as its new CEO and Managing Director, after obtaining SEBI's approval. Saurabh was previously working as MD and CEO of United Stock Exchange of India Ltd. He has 18 years of work experience and has worked with Credit Agricole, Standard Chartered and Calyon, and ANZ Grindlays Bank in the past.

Source:

http://articles.economictimes.indiatimes.com/2014-02-02/news/46923659_1_united-stock-exchange-national-spot-exchange-mcx-sx

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South Korea

Market Structure

Review of CCPs launched post Hanmag securities fat finger

Recent press has reported that a meeting was held between a number of brokers and the KRX to discuss whether a review should be conducted of the CCP rules. Currently, the Exchange assumes losses after a 200 billion won (US\$190 million) default fund is used. In the recent case of HanMag, losses amounted to around US\$45 million meaning the loss was fully funded by the default fund. Foreign firms are reported to have contributed about US\$10 million or 25% to refill the fund.

HanMag Securities, a local derivatives broker, faces losses of KRW 46.2 billion (US\$4.3 billion) after entering into over 36 thousand erroneous trades in KOSPI options. The broker faces bankruptcy as it has failed to settle most of the trades which in the main faced foreign counterparties.

It was further reported that the counterparties felt the trades should have been promptly cancelled by the KRX, an official from the exchange stated that HanMag had only applied for cancellation of trades executed in connection with one order that led to a KRW 550 million loss. Under the rules in place at the time, the minimum loss required by the KRX to cancel trades is KRW 1 billion and counterparties would have to agree to the cancellations.

<http://www.risk.net/asia-risk/feature/2331225/korea-clearing-structure-in-question-after-hanmag-trading-error>

Financial Services Commission (FSC) chairman promised drastic de-regulation by July 2014

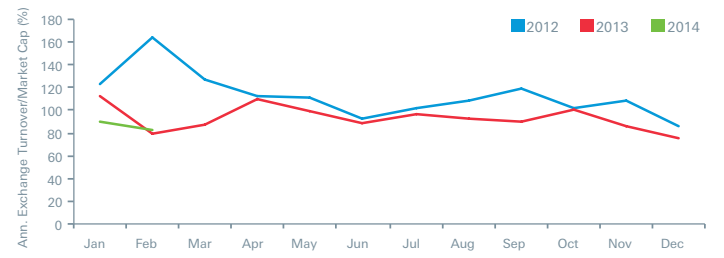
FSC Chairman Shin Je-Yoon said the commission will come up with a package of de-regulation aimed at enhancing profitability, promoting expansion across all financial segments. The measure will lower entry barriers for capital markets, private equity funds, mergers and acquisitions, stock listing, as well as derivatives trading. Whilst focusing on rooting out unfair and irregular business practices.

President Park Geun-hye believes that deregulation will ultimately create more jobs and make the country richer.

Horizon launched first ever ETF to give US investors exposure to KOSPI 200

Horizons ETFs Management (USA) LLC announced the launch of Horizons Korea KOSPI 200 ETF ("HKOR"). It's the first ETF listed in the United States that gives investors exposure to the KOSPI 200 Index. HKOR will be the first country-specific ETF launched by Horizons ETFs in the U.S. Management at Horizon group said that Korea is often listed as an emerging market economy, but it has well-established manufacturing base and steady GDP growth, it has an economic profile that is more in line with well-established developed markets, generally making it a more stable entry point into emerging market investing.

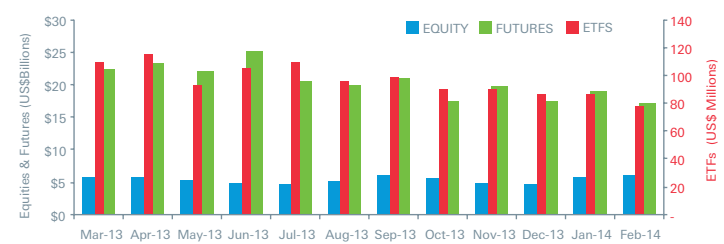
Fig 1: Turnover Velocity



Source: Thomson Reuters

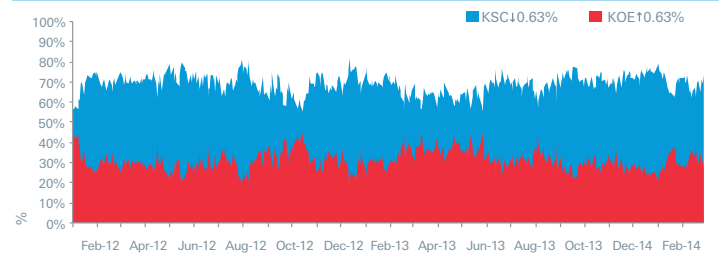
Fig 1. Full year average - 2014: 86%, 2013: 93%, 2012: 113%

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



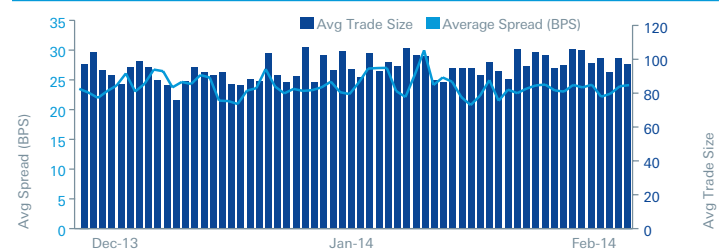
Source: Thomson Reuters

Fig 3: Market Share by Venue



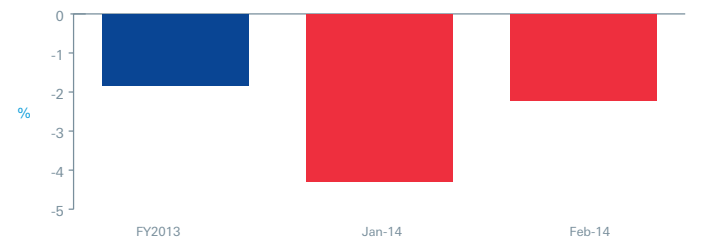
Source: Thomson Reuters

Fig 4: Average Index Spread and Trade Sizes



Source: Thomson Reuters

Fig 6: MoM Index Price Change



Source: Thomson Reuters

Fig 5: Currency fluctuations in Korea, drove index price

Fig 6: Large and Mid Cap Index movers

Market Movers - Large Cap				Market Movers - Mid Cap			
Stock	Price Return	Volume traded (US\$)	20D/100D ADT	Stock	Price Return	Volume traded (US\$)	20D/100D ADT
008770.KS	27%	936,152,000	0.81	128940.KS	29%	215,811,500	0.74
090430.KS	17%	486,062,900	1.31	012630.KS	27%	486,032,300	1.59
047040.KS	15%	451,361,500	1.89	073240.KS	27%	318,285,200	1.16
035420.KS	13%	5,035,783,000	1.16	003300.KS	26%	46,332,710	1.12
002380.KS	13%	309,667,900	0.81	000120.KS	20%	232,377,900	0.89
010140.KS	-16%	1,920,142,000	1.09	030000.KS	-9%	327,214,600	1.25
023530.KS	-17%	698,527,500	1.47	016360.KS	-10%	764,475,400	2.23
004020.KS	-19%	1,379,870,000	1.41	004170.KS	-12%	325,644,600	1.16
001300.KS	-19%	788,214,700	1.08	093050.KS	-14%	158,189,400	0.86
036570.KS	-22%	2,063,076,000	1.10	115390.KS	-23%	436,394,100	1.92

Source: Thomson Reuters

Korean regulator proposed a ban on Korean segregated accounts

Beginning early next year, South Korea's regulator will introduce a ban on segregated accounts for institutional investors in the country. If the rule is confirmed later this year it will apply only to the domestic Korean market. It would not change the current segregated account system whereby foreign fund managers that wish to manage money for Korean institutional investors in global markets outside of the country register their companies with the Korean authorities.

The rule is intended to help reduce the number of small, passive, single-investor domestic funds created for institutional investors and better scrutinize investment in fund structure with more visibility. It might also mean that large local asset managers would need to look for new ways to customise investment services for institutional clients that previously used segregated accounts with other fund companies.

Venue News

Voluntary clearing launched for IRS

As of 3rd March, the KRX CCPs is open for clearing of Korean won denominated Interest Rate Swaps ("IRS") with 35 members currently using the platform. From July, clearing will become mandatory, ahead of the September deadline set by the G20.

http://www.thetradenews.com/news/Regions/Asia/KRX_commmences_voluntary_clearing_of_OTC_derivatives.aspx

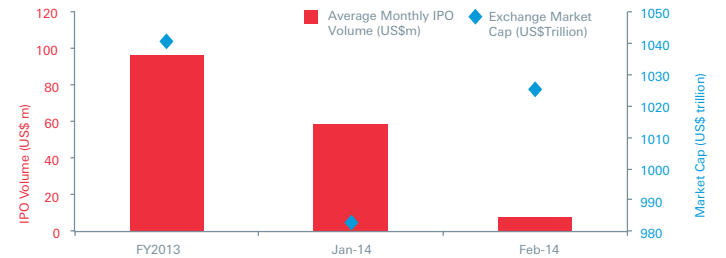
KRX launches EXTURE+, its new faster trading platform

Exture+, KRX's new trading platform is Linux based and has a capacity of 160Mn quotes a day, twice the previous platform whilst a reduced latency of 70 microseconds. This upgrade at KRX comes about as a move to keep pace with fast growing high frequency trading as KRX aims to strengthen its position as a global financial technology provider whilst promoting competitiveness in the industry.

KRX Treasury trading halted mid-day

Due to system failure, trading of three-year treasury bonds was halted for two hours. It was a fourth such system incident in last eight months. While the bourse operators said no major damage to investors was reported, brokerage houses and investors doubt the stability of its trading systems.

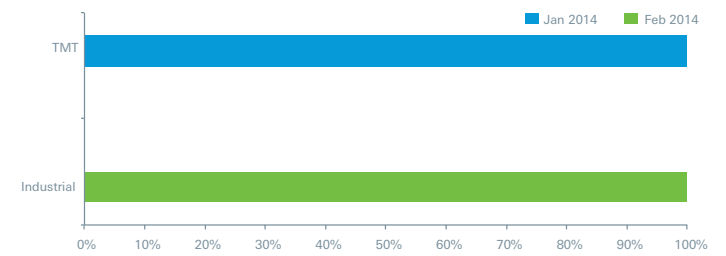
Fig 7: Avg Monthly IPO size and Exchange Market Cap



Source: Dealogic

Fig 7: Total IPO Volume: US\$1.2b, Average IPO size: US\$34m. Hyundai Rotem 064350 KS was the biggest IPO of the year valued at US\$584m, it pulled up the exchange market cap in October.

Fig 8: IPO Sector Distribution



Source: Dealogic

Fig 9: IPO Performance

	# of IPO	1 day	1 month	Current
Jan-14	2	--	--	--
Feb-14	1	--	--	--

Source: Dealogic

Sources:

www.krx.co.kr
www.fsc.go.kr
www.risk.net
www.automatedtrader.net

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Australia

Market Structure

OASIC Guidance on new regulatory data requirements

As detailed in the Market Supervision update Issue 44, March 2014, ASIC has published an FAQ on the regulatory data requirements that come into effect from 28th July. From that date, market participants will be required to provide to a market operator a number of fields including:

- **Execution venue.** These should be linked to the list of 'crossing system IDs' published on the ASIC website. The ID will be required for off order book transactions, the guidance provides examples of when such an ID will be required.
- **Capacity of participant.** Clarification is given on the use of 'principal' and 'agency', or as both principal and agent. Hedging of delta 1 products is considered to be a principal activity.
- **Origin of order or transaction.** Participants should take all reasonable steps to identify the ultimate originator and to ensure consistency in the use of identifiers. In cases where it is not practical or reasonable to determine the ultimate originator, the participant should use an ID as close to that originator as possible.

To access the full list of data requirements and the FAQs, click here:

<http://www.asic.gov.au/asic/asic.nsf/byheadline/ASIC-Market-supervision-update-latest-issue?openDocument>

The "Guidance on ASIC market integrity rules for competition in exchange markets" released in August 2013 can be accessed here:

[http://www.asic.gov.au/asic/pdf/lib.nsf/LookupByFileName/rg223-published-12-August-2013.pdf/\\$file/rg223-published-12-August-2013.pdf](http://www.asic.gov.au/asic/pdf/lib.nsf/LookupByFileName/rg223-published-12-August-2013.pdf/$file/rg223-published-12-August-2013.pdf)

Venue Updates

Consultation on move to T+2 settlement

On 25th February, the ASX released a consultation on the potential to move to T+2 settlement. It is noted that Germany and Hong Kong already operate on a T+2 basis, and Europe will be following suit shortly.

The benefits expected are:

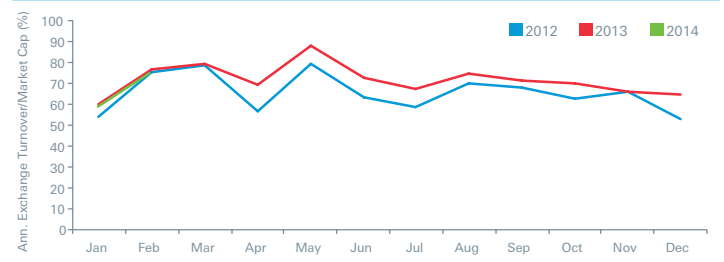
- Reducing counterparty risk
- Reducing regulatory capital requirements
- Standardising regional and global settlement practices
- Greater post-trade operational and process efficiency

ASX estimated that if T+2 clearing had been in place from June 2012 – December 2013, daily cash margins for the total market would have been 20 – 30% lower translating to an estimated reduction of A\$30 – 40 million. They further estimate that clearing participants, particularly those clearing institutional business, could expect their liquid capital requirements as they relate to equities to reduce by 10 – 20%.

Comments should be submitted by 7th April, to access the full paper click here:

http://www.asx.com.au/documents/public-consultations/T2_consultation_paper.PDF

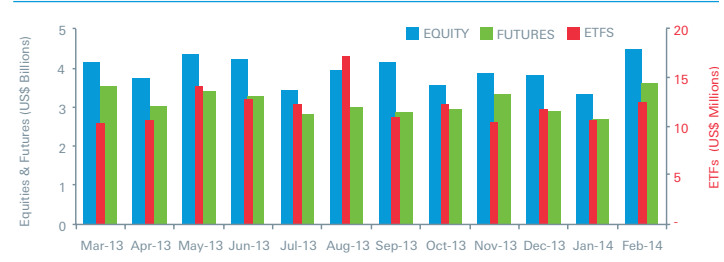
Fig 1: Turnover Velocity



Source: Thomson Reuters

Fig 1. Full year average - 2014: 67%, 2013: 72%, 2012: 65%

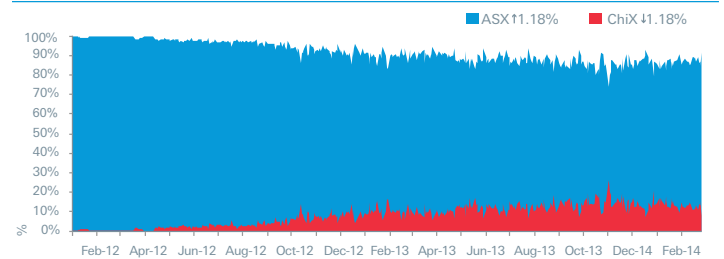
Fig 2: Equities(Cash), Futures and ETFs Monthly ADV



Source: Thomson Reuters

Fig 2. Australian volumes climbed in Feb on positive local earnings and leading index performance

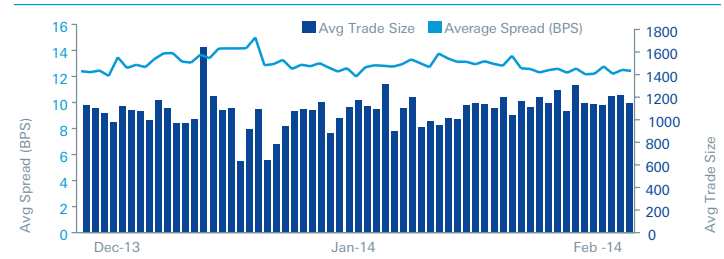
Fig 3: Market Share by Venue



Source: Thomson Reuters

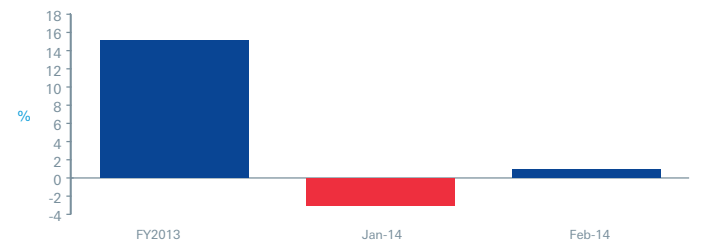
Fig. 3 ASX gained 1.2% market share vs Chi-X as ASX Centrepoint attracts more volume in the region.

Fig 4: Average Index Spread and Trade Sizes



Source: Thomson Reuters

Fig 5: MoM Index Price Change



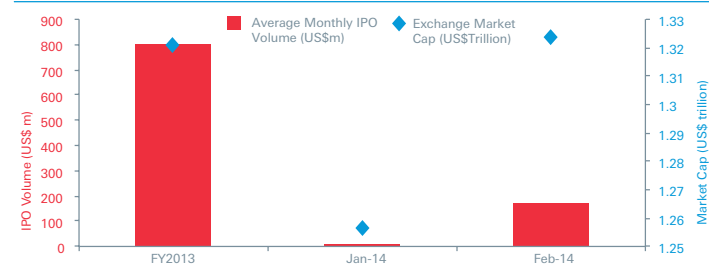
Source: Thomson Reuters

Fig 6: Large and Mid Cap Index movers

Market Movers - Large Cap				Market Movers - Mid Cap			
Stock	Price Return	Volume traded (US\$)	20D/100D ADT	Stock	Price Return	Volume traded (US\$)	20D/100D ADT
NCM.AX	34%	2,540,054,000	1.14	FXJ.AX	52%	385,958,400	1.71
REA.AX	33%	575,002,500	0.85	AUT.AX	40%	685,508,500	2.84
SEK.AX	29%	997,320,400	1.70	DMP.AX	26%	148,180,200	1.29
BLD.AX	18%	869,557,400	1.33	MFG.AX	23%	283,096,200	1.25
IPL.AX	17%	846,277,700	1.06	OZL.AX	18%	327,380,500	0.94
AIO.AX	-6%	730,360,500	1.23	JBH.AX	-12%	910,166,000	1.58
STO.AX	-6%	1,801,599,000	1.06	SGM.AX	-13%	372,309,800	1.26
RMD.AX	-6%	1,498,140,000	1.39	ARI.AX	-14%	577,946,600	1.14
FMG.AX	-7%	4,558,679,000	1.11	ALQ.AX	-15%	465,527,800	1.21
FOX.AX	-8%	3,090,368,000	1.35	TWE.AX	-18%	1,032,012,000	1.42

Source: Thomson Reuters

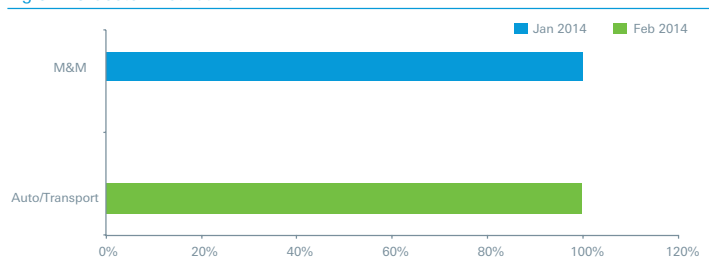
Fig 7: Avg Monthly IPO size and Exchange Market Cap



Source: Dealogic

Fig 7. SG Fleet Group(SGF AU), a transport sector IPO (US\$ 170Mn) in Australia that took place in Feb, is trading at an 8% premium to its listing price.

Fig 8: IPO Sector Distribution



Source: Dealogic

Fig 9: IPO Performance

	# of IPO	1 day	1 month	Current
Jan-14	1	0.00	17.50	20.00
Feb-14	2	19.125		53.125

Source: Dealogic

Fig 9. Utilities sector had 2 biggest IPOs of the year Meridian Energy MEZCA AU and Mighty River Power MYT AU while Real Estate and Leisure sector IPOs outperformed the rest with an average return of 21% by year end

ASX outage following released of Centre Point Sweep

On 11th February the ASX was closed for business due to market data issues, caused by the release of the new Centre Point Sweep Orders on 10th February. This issue lead to market price display issues on ASX Trade. The ASX put the market into ENQUIRE status (i.e. trading halted) due to street-wide market data issues in attempt to repair the issues.

Previous ASX Sweep functionality integrates dark liquidity in ASX Centre Point and lit liquidity in ASX TradeMatch in a single transaction, allowing the member to participate in all ASX liquidity. The enhancements to ASX Sweep allow a single ASX Sweep order to optionally rest in ASX Centre Point in addition to resting in ASX TradeMatch. Resting in both queues increases your fill opportunities and there is no risk of being over-filled.

For more information see here:

[http://www.asx.com.au/documents/trading_services/ASX_Sweep_Available_now\(1\).pdf](http://www.asx.com.au/documents/trading_services/ASX_Sweep_Available_now(1).pdf)

Chi-X new record, update regarding CHIXOE

On 19th March 2014, Chi-X Daily Continuous Trading (CT) Total Value reached A\$1.58 billion, up from the previous record of A\$1.22 billion – the record that was just set on 11th March.

According to a release from Chi-X Australia on 18th March, testing for the new low latency trading interface, CHIXOE, has been going well and a number of participants were expecting production release on 24th March.

For further information on the product click here:

<http://cmsau.chi-x.com/Portals/15/Docs/Market%20Operations%20Notice%200007-14.pdf>

ASX OTC derivative client clearing due mid 2014

Upgrades required to allow ASX to launch their post trade client clearing service are expected to be complete by mid 2014. By July 2014, the ASX is expecting to launch both dealer-to-dealer and client clearing, clearing for futures, improvements to margin simulation and developments in collateral service intended to reduce the collateral costs.

The first phase of collateral management has already launched and allows customers to use fixed income securities held in Austraclear as collateral for financial market transactions. There are 12 founder members working with ASX, as of mid February, 7 had completed testing.

Derivatives Crossing Change

On 17th February, ASX changed the ETO crossing Procedures for 2014. The Derivatives Special Crossing changes involved the introduction of new Special Size thresholds that require one of the following criteria be met:

- The premium value is at least the Special Size for the Underlying Cash Instrument reflecting the minimum block trade size in ASIC's Market Integrity Rules (Competition in Exchange Markets) 2011 (MIRs) (\$1 million, \$500k or \$200k); or
- The Special Crossing is at least for the minimum number of contracts determined by ASX for the relevant Derivatives Underlying Class (in general by reference to the minimum number of contracts a market maker is required to quote and applying a multiplier) and exceeds a minimum premium value of \$50k.

The derivatives crossings procedures for non-Special Size Parcels are scheduled for implementation on 14th April 2014.

The full report can be accessed at:

https://www.asxonline.com/intradoc/cgi/groups/trading_and_market_information/documents/communications/asx_039582.pdf

ASX released a response to consultation paper in relation to Changes in ISIN structure

On 2nd January 2014, ASX released a Response to Consultation Feedback on proposed changes to the method for allocating ISINs issued by ASX over listed equity and other products. The consultation paper was released on 16th September 2013.

Read more here: h

http://www.asx.com.au/documents/public-consultations/ISIN_Consultation_Paper_Response_to_Market_V1_0.pdf

Activ Financial Establishes Ticker Plant in ASX Co-Lo

Activ Financial, the Market data and ticker plant provider has established a point in the ASX's Australian Liquidity Centre (ALC) co-location facility in Sydney. This presence provides local and international firms with enhanced access to low-latency market data from ASX and global venues.

ASX to open office in Singapore

The Australian Securities Exchange has plans to open an office in Singapore this year in an effort to attract hedge funds to opportunities Down Under.

Sources:

www.asic.gov.au

www.asx.com.au

www.chi-x.com.au

www.thetradenews.com

www.finalternatives.com

www.activfinancial.com

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Thailand

Market Structure

Foreign companies to be allowed to list in Thailand

The Securities and Exchange Commission, Thailand announced that it will allow foreign based companies to raise capital in the local markets through IPOs. The SEC will be releasing the rules governing foreign IPOs within Q1 this year. Thailand will be competing with Singapore and Hong Kong as a regional hub for listings.

“Thailand wants to compete with Singapore and Hong Kong to become one of Asia’s funding centers. Several Chinese companies have already expressed interest in selling shares in Thailand.” Vorapol Socratyanurak, the secretary general of Thailand’s SEC, said.

The Thai markets are currently under the weather due to prolonged political unrest which is now affecting the economic forecasts for the country.

Venue News

Market structure changes for TFEX from 6th May

A number of changes are coming for the futures platform in Thailand as follows. All changes will take effect on 6th May.

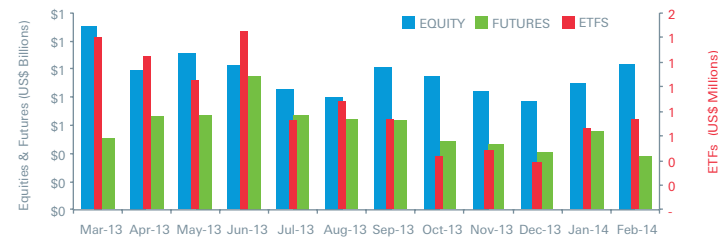
Specification changes for SET50 Index Futures contracts

- Adjustment to multiplier from 1,000 to 200 per index point (i.e. reduce the notional size by 1/5).
- Make equivalent adjustment to exchange fees to reflect the lower notional size. Exchange fees will be lowered from THB 35 to THB 7 per contract. The fee breakdown will be Trading fee of THB 4.9 and Clearing fee of THB 2.1.
- The speculative position limit will accordingly increase from 20,000 to 100,000 contracts.
- Margin/Collateral: IM and MM lowered as detailed in the table below:

Institutional Investor Margin for SET50 Index Futures

Current (THB)		New (THB)	
IM	MM	IM	MM
47,250.00	35,000.00	9,450.00	7,000.00

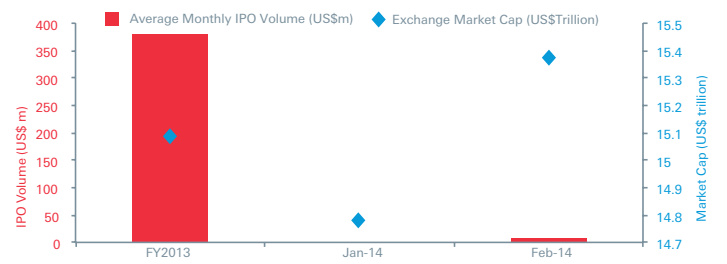
Fig 1: Equities(Cash), Futures and ETFs Monthly ADV



Source: Thomson Reuters

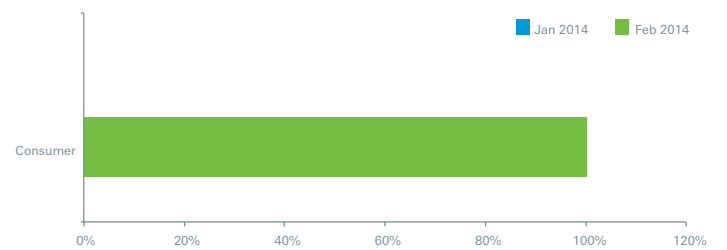
Fig 1. Thailand trading in equities and ETFs reverted back in 2014 after slowdown in late Q3 2014 amidst political unrest and declining currency.

Fig 2: Avg Monthly IPO size and Exchange Market Cap



Source: Dealogic

Fig 2: IPO Sector Distribution



Source: Dealogic

Fig 3: IPO Performance

	# of IPO	1 day	1 month	Current
Jan-14	--	--	--	--
Feb-14	1	38.4	--	12.8

Source: Dealogic

Changes to trading hours

Per the below table, changes will be made to the intermission and afternoon sessions.

	Current	New
Morning pre-open	09:15 - 09:45	
Morning Session	09:45 - 12:30	
Intermission	12:30 - 14:00	12:30 - 13:45
Afternoon pre-open	14:00 - 14:30	13:45 - 14:15
Afternoon Session	14:30 - 16:55	14:15 - 16:55
Night pre-open	19:15 - 19:30	
Night Session	19:30 - 22:30	

SET expands the scope of its trading suspension rules

The Stock Exchange of Thailand ("SET") has expanded its temporary trading suspension rules to include riots, terrorism and natural disasters as part of its outage prevention measures. Earlier, the SET board was allowed to order a temporary trading suspension only in cases of computer glitches affecting its own or its broker member's trading infrastructure.

The Thai securities markets have continued to function even amidst the extended political unrest in the country and SET Index has gained 5% in January.

Sources:

www.set.or.th
www.bangkokpost.com
www.todayonline.com
www.thestar.com

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Singapore

Market Structure

MAS and SGX review securities market structure

The Monetary Authority of Singapore ("MAS") and Singapore Exchange ("SGX") have released a joint consultation paper with proposals to strengthen the securities market in Singapore. The proposals are based on a review of the securities markets conducted earlier which identified three areas of improvement as below.

Promoting orderly trading and responsible investing

- **Minimum trading price.** VWAP from the previous 180 days trading has been proposed as a minimum price. If a stock falls below that price and, after a reasonable time, does not come back above, the stock will be delisted from the Main board and moved to an alternate trading facility to facilitate shareholders exit. Share consolidation is suggested as a way to bring the price back up. A minimum price of S\$0.10 - 0.20 has been suggested, if introduced as proposed, this could affect around 130 - 230 issuers.

- **Collateral requirements for securities trading.** A minimum collateral of 5% of the customers open position, by no later than the end of trade day, in the form of cash, marketable securities or a guarantee from a Singaporean bank should be set out. Although an amount is not stated, the paper expects minimum collateral to be provided prior to a trading limit being set by the intermediary (based on credit assessment). Those settling DVP could be exempt from collateral requirement, that is Institutional Investors ("II") would be exempt.

- **Change settlement cycle to T+2.** Paper highlights around 31% of total trading volumes is 'contra trading' (no collateral posted, buy followed by sell within T+3 settlement cycle to net out) and there is concern that this may increase systemic risk. Proposal is to move to T+2 by 2016. A minimum of 12 months would be given for implementation.

- **Short position reporting requirements.** Under a short position reporting regime, there are two proposed options:

- Aggregate position reporting for investors with net short positions that are the lower of 0.05% or S\$100,000 issued shares will need to be reported on a weekly basis, without revealing the investor ID.

- Public disclosure of short positions will be required by T+2 if the net short position exceeds 0.5%, and for every subsequent change in position of 0.1% or more. Identity of short position holders would be published.

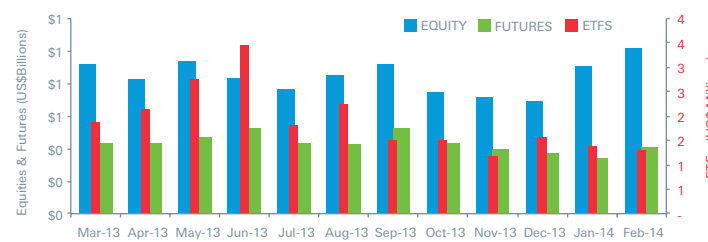
Improving the transparency of market intervention measures

- **Transparency of trading restrictions imposed by securities intermediaries.** Proposal is to require trading restrictions imposed by securities intermediaries for securities listed on SGX to be announced through the SGX website.

Strengthening the process for admitting new listings and enforcing against listing rule breaches

- **Reinforcing the SGX listings framework** – its proposed that an independent Listings Advisory Committee be established to consider listing policy issues and listing applications that meet

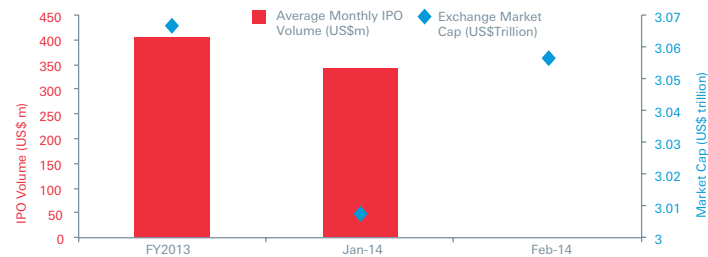
Fig 1: Equities(Cash), Futures and ETFs Monthly ADV



Source: Thomson Reuters

Fig 1. Equities turnover was up 17% this year versus 2013 average. Futures and ETFs trading was slightly lower versus last year.

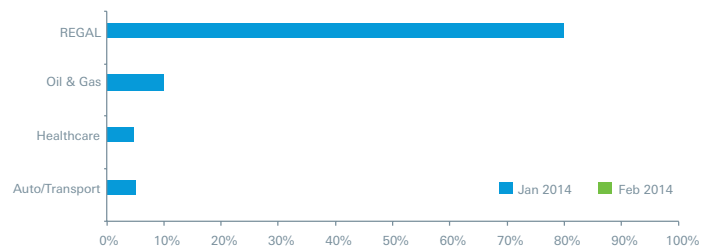
Fig 2: Avg Monthly IPO size and Exchange Market Cap



Source: Dealogic

Fig 2. 2014 started with a big REIT IPO of OUE Commercial (US\$272) in January.

Fig 3: IPO Sector Distribution



Source: Dealogic

Fig 4: IPO Performance

	# of IPO	1 day	1 month	Current
Jan-14	4	85.125	--	78.7525
Feb-14	--	--	--	--

Source: Dealogic

specified referral criteria. This will supplement SGX's existing listing review process and introduce practitioner experience to the decision-making process

- **Strengthening powers to enforce regulatory actions against breaches of listing rules** – its proposed to establish an independent Listings Disciplinary Committee and Listings Appeals Committee with powers to impose fines, restrict the activities that issuers may undertake, as well as to make offers of compositions for minor and technical breaches

The consultation paper also includes certain other proposals as well to enhance transparency in the securities markets. The consultation is open till 2nd May 2014 and can be accessed here:

<http://www.mas.gov.sg/News-and-Publications/Press-Releases/2014/MAS-and-SGX-propose-Measures-to-Strengthen-the-Securities-Market.aspx>

<http://www.mas.gov.sg/~media/MAS/News%20and%20Publications/Consultation%20Papers/Review%20of%20Securities%20Market%20Structure%20and%20Practices.pdf>

MAS and BoJ enter into a cross border collateral arrangement

The MAS and Bank of Japan ("BoJ") have set up a cross-border collateral arrangement to enhance financial stability in Singapore. Under the agreement, eligible financial institutions operating in Singapore may obtain Singapore dollars from MAS by pledging Japanese government securities with MAS. This widens the range of acceptable collateral in MAS' liquidity facility, and permits greater flexibility in the liquidity management of eligible financial institutions, including Japanese banks, operating in Singapore.

Venue News

SGX introduces circuit breakers

SGX introduced circuit breakers on 24th February 2014. The control applies to circuit breakers will initially apply to Straits Times Index and MSCI Singapore Index component stocks and all those securities priced \$0.50 and above. This will also include stapled securities, funds, exchange traded funds, exchange traded notes and extended settlement contracts. Direct business trades that are agreed outside the prevailing price band and are reported to SGX will not trip the circuit breaker as they are privately negotiated.

The trigger for the circuit breakers would be set at a 10% price movement in either direction from the reference price (the last traded price at least 5 minutes ago). Once a trigger is enabled, there will be a 5 minute cool-off period where trading will be allowed only within the 10% price band with regard to the reference price.

When a circuit breaker is triggered, the exchange will notify the market via a "CIRB" indicator in the Remarks column of the counter.

The new mechanism was used for the first time on 12th March when two penny stocks Ziwo Holdings and Giken Sakata trigger the price band when prices rose by 130% and 61.7% respectively.

Market and market-to-limit orders will be available from end of March

Market and market-to-limit orders will be made available throughout continuous trading from 31st March. Currently these order types are only available in the market opening and closing auction phases.

Asian Index Futures contracts and CCP gain CFTC approval

As announced on the 5th March, three further contracts gained approval from the CFTC and therefore can be traded by US investors. The SGX MSCI Thailand Index Futures, the SGX-PSE MSCI Philippines Index Futures and the SGX MSCI India Index Futures since their launch in November 2013, volumes have been low with around US\$22 million having been traded in total.

SGX now has 14 contracts with CFTC approval, the full list is below:

1. SGX Yen-denominated Nikkei 225 Index Futures & Options
2. SGX USD-denominated Nikkei 225 Index Futures
3. SGX Mini Nikkei 225 Index Futures
4. SGX MSCI Taiwan Index Futures & Options
5. SGX MSCI Singapore Index Futures & Options
6. SGX CNX Nifty Index Futures & Options
7. SGX MSCI Hong Kong+ Index Futures
8. SGX Fuel Oil 380CST Futures
9. SGX FTSE China A50 Index Futures
10. SGX MSCI Asia APEX 50 Index futures
11. SGX MSCI Indonesia Index Futures
12. SGX MSCI Thailand Index Futures
13. SGX-PSE MSCI Philippines Index Futures
14. SGX MSCI India Index Futures

According to Hedge Week, the SGX China A50 and Nikkei 225 options are the fastest growing contracts globally between 2008 and 2013. The A50 grew 63,894% to 21.9 million, more than doubling volumes from 2012 to 2013. SGX have announced plans to launch CNH FX futures and options on the A50 in 3Q 2014 (subject to regulatory approvals).

As announced on 30th December 2013, the approval of SGX's clearing house by the CFTC as a Derivatives Clearing Organisation makes them the first Asian clearing house with such status.

<http://www.hedgeweek.com/2014/03/13/198625/sgx-china-a50-futures-and-nikkei-225-options-are-fastest-growing-contracts-global>

SGX revises securities market fees

The Singapore Exchange (SGX) will be revising the fees applicable for clearing and depository services with effect from 2nd May 2014. The clearing fee will be reduced by one-fifth from 0.04% to 0.0325% of contract value. The cap of S\$600 on this fee for contracts of \$1.5 million or more, will be removed.

Transfers and onward settlement fees, which are mainly levied on brokers and depository agents, will be revised to encourage on-exchange trades, thereby increasing transparency and liquidity, and consequently improving price discovery in the market. Transfers and onward settlements pursuant to on-exchange trades will be charged a fee of \$30 and transfers and settlements pursuant to off-exchange trades will be charged a fee of 0.015% of the value of the transaction, subject to a minimum of \$75.

SGX will also be introducing incentive schemes to attract more market makers to participate in the securities markets and help improve the market liquidity.

	Before 2 May 2014	From 2 May 2014
Trading Fee	0.0075% of contract value	No change
Clearing Fee	0.04% of contract value, subject to a maximum of S\$6000*	0.0325% of contract value*
Liquidity Incentive Schemes	Not available for cash equity securities	Market-makers and liquidity providers schemes
Transfers and onward settlement fees*	No differentiation between on and off-exchange transactions	Fees related to on-exchange trades will be lower than off-exchange trades

SGX regulatory tools enhanced to meet international standards

SGX, as an exchange that conducts real-time surveillance of trading activities and issue real-time queries to companies on unusual trading activities, has enhanced its regulatory tools to stay in line with international standards. As of 3rd March, the following changes are in place:

- Enhancement to the public query process - the company's board of directors is now required to approve the company's reply to the SGX query.
- Publication of a "Trade with Caution" announcement when companies are unable to explain the unusual trading activities being queried by SGX
- Requiring companies to notify SGX of discussions or negotiations that are likely to lead to a takeover, reverse takeover or a very substantial acquisition. These companies are also required to keep a list of names of persons privy to the transaction

Sources:

www.reuters.com

www.sgx.com

www.thestar.com.my

www.mas.org

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Philippines

Market Structure

Consultation on short selling in progress

The Philippine Stock Exchange ("PSE") released draft guidelines for short selling on 7th March. The Philippines market has had a bilateral securities lending for some time, primarily for fails cover, but it is expected that codifying short sell rules and the introduction of a Korea-style CCP will encourage market growth. The board of directors approved short selling guidelines that will supplement Article IV, Section 5 of the Revised Trading Rules.

The proposed short selling rules have elements common to other Asian markets, including:

A list of securities eligible for short selling

1. Market cap - Must be greater than PHP 10 billion
2. Liquidity - 95% of volume must have traded on the Regular Board in the previous 6 months
3. ETF status - ETFs and their constituents are eligible
4. Constituent stocks of PSEi are eligible
5. Pref shares are not eligible
6. Short interest ratio - Eligible Securities will cease to be eligible once cumulative short interest reaches 3% of shares outstanding. These stocks won't be eligible for short selling again until the next Review Period (one month) and then only if short interest has fallen below 3%.

Short sells must be flagged/uptick rule applies

Short sales are allowed at or above a price above the last "regular sale" price OR at the last sale price if that price is above the previous sale price.

Short covers must be marked as Buybacks

Brokers are required to differentiate Buys and Buy to Covers

Short interest reporting

1. Trading Participant must report its short interest and "other reportorial requirements" daily by 5 PM
2. On a daily basis, PSE will publish short interest in Securities trade on the Exchange end of day.

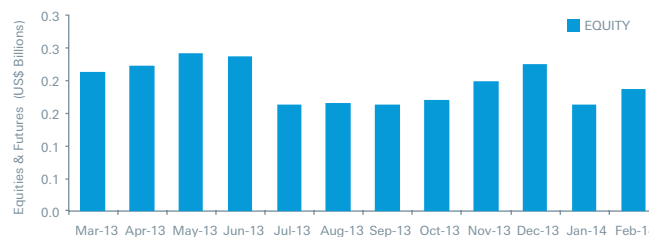
Trade amendments

1. Amendments of sells from short sell to long sell and vice versa can be made up to 12 PM on T+1.
2. Partial amendments not allowed.
3. Amendments are manual and cannot be made through the PSE's Trade Amendment facility.

Comments were due back to the PSE by 14th March, the full circular can be access here:

<http://www.pse.com.ph/stockMarket/circulars.html>

Fig 1: Equities(Cash), Futures and ETFs Monthly ADV



Source: Thomson Reuters

Venue News

PSE to implement broker anonymity by 2015

The Philippine Stock Exchange (PSE) announced that it will be adopting the global best practice of not revealing the broker identity for matched trades on the trading engine (also called broker anonymity) by 2015. The move is intended to improve market liquidity and attract more participants to the trading platform. It is also expected to prevent "herding" behavior which could result in tighter bid-ask spreads in the market.

The implementation will be completed in two phases – In the first phase in Mar 2014, only the brokers and their systems will be able to see the brokers' IDs in matched trades, while in the second phase in Mar 2015, all broker identifiers will be anonymous to all market participants.

"Trading anonymously is just one of the many best practices that the PSE will be adopting to realize its vision of being a stock exchange with world class standards. And with all the interest that the Philippine market is getting, it is high time that we have guidelines in place to attract more foreign investors and make them comfortable in investing in our market." - PSE president and CEO Hans Sicat said.

PSE awarded as Best Stock Exchange in Southeast Asia

The Philippine Stock Exchange's (PSE) was awarded as the Best Stock Exchange in Southeast Asia from financial magazine Alpha Southeast Asia. PSE had a record-breaking year in 2013 despite the volatility of equities markets worldwide. Among the achievements cited were PSEi's breach of the 7000 mark, the remarkable growth of trading activity, the significant capital raising activity during the year. The organizers also recognized the various corporate governance initiatives spearheaded by the Exchange.

"We are truly honored to receive this award which serves as an affirmation for all the hard work done by the men and women of the Exchange. This recognition is also a challenge for the PSE to do better this year and make significant headways to be more competitive with our peers in the region," PSE President and CEO Hans B. Sicat said.

Sources:

www.pse.com.ph

www.philstar.com

www.waterstechnology.com



Indonesia

Market Structure

Corporate Governance Roadmap unveiled by OJK

The Indonesian Financial Services Authority (“OJK”) in association with the International Finance Corporation (“IFC”) has launched the Good Corporate Governance roadmap and manual to help companies improve their business standards and efficiencies. The roadmap emphasizes five areas of focus such as

- Corporate governance framework
- Shareholders’ protection
- Stakeholders’ roles
- Transparency of information
- Roles and responsibilities of the board of commissioners and board of directors

The framework proposes a total of 33 requirements for implementing the improvements of which 11 will be implemented in 2014, 19 in 2015 and the rest in following years.

<http://www.thejakartapost.com/news/2014/02/05/ojk-launches-roadmap-good-corporate-practice.html>

Venue News

Tick size change goes live, realised impact considered

As of 6th January, the Indonesia Stock Exchange (“IDX”) introduced new tick sizes for all exchange stocks.

A report release by Deutsche Bank’s Head of Analytics APAC, Winnie Khattar, has found that the average trade size in Indonesia has reduced by 25% with the queue size for Level 1 reducing by 54%. Although this does not lead to attributable changes in volatility and volume, it does make for tighter spreads and a lower VWAP cost.

To access the full analytics report click here:

http://cbs.db.com/new/pdf/REALIZED_Impact_of_Tick_Size_Reductions.pdf

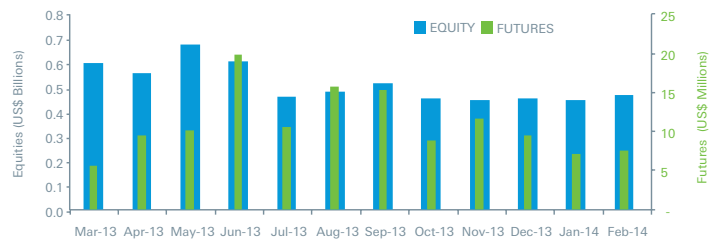
IDX introduces minimum free float regulations

The IDX has announced new regulations requiring all listed companies to have at least 7.5% of their shares as free float (public shareholding). The regulations came into effect on 30th Jan and listed companies will have up to two years to comply with the requirements. The move is aimed to improve liquidity on the local bourse as more shares will now be available for trading to retail participants.

IDX also prescribed minimum percentage of equities that should be sold during an IPO. Any company going for fresh IPO now onwards will be subject to the following minimum requirements:

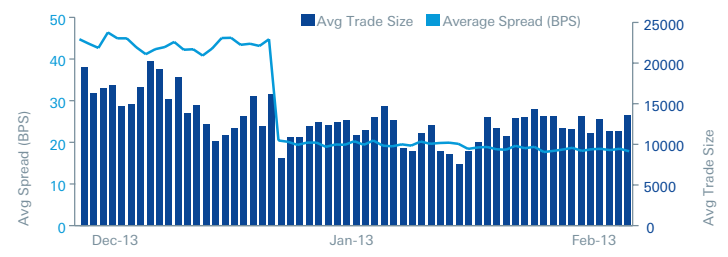
- 20% of total shares if a company’s equity is less than Rp 500bn (\$41mn)
- 15% of total shares if a company’s equity is between Rp 500bn and Rp 2tn
- 10% of total shares if a company’s equity is more than Rp 2tn

Fig 1: Equities(Cash), Futures and ETFs Monthly ADV



Source: Thomson Reuters

Fig 2: Average Index Spread and Trade Sizes



Source: Thomson Reuters

Fig 2. Reduction in price tick that happened on IDX on Jan 06, has most direct impact on a stock bid-ask spread and average trade size of execution.

IDX aims to have 30 listings in 2014

The IDX aims to list 30 new companies during this year (same as last year). 5 companies have already been listed in the first month of the year.

President Director of the IDX Ito Warsito said that “Despite economic uncertainty and public caution over Indonesia’s legislative and presidential elections, Indonesian companies are still positive about going public.”

Sources:

- www.idx.com
- www.bapepam.go.id

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Malaysia

Market Structure

Capital market grew by 10.5% to RM2.7 trillion in 2013

As announced by the Securities Commission Malaysia ("SC"), the capital market in Malaysia saw key market segments reporting steady growth on the back of robust fundamentals.

AUM for the fund management industry grew 16.5% to RM588 billion with unit trust funds contributing most to the growth with a net asset value of RM336 billion or one fifth of the stock market capitalization.

For the full press release click here:

http://www.sc.com.my/post_archive/capital-market-grew-by-10-5-to-rm2-7-trillion-resilient-amid-global-volatility/

Venue News

Increase to list of securities eligible for SBL

As announced on 5th March, Bursa Malaysia has increased the number of eligible securities allowed in borrowing and lending ("SBL") from 171 to 218 stocks.

The full list of stocks can be accessed here:

http://www.bursamalaysia.com/misc/system/assets/1813/SBL_eligible_sec.pdf

Bursa Malaysia announces highest profit since 2008

Bursa Malaysia announced its highest profit after tax and minority interest since 2008 for the year ended 31st Dec 2013 at RM173.1 million (up 15% vs 2012). Cost to income ratio improved from 49% in 2012 to 48% in 2013 while the return on equity recorded an increase from 18% in 2012 to 21% to 2013. The operating revenue was up by 13% to RM439.8 million in FY2013 boosted by double digit growth in trades from the securities and derivatives market.

The securities market's average daily trading value ("ADV") grew by 28% to RM2.14 billion as a result of higher domestic institution and foreign participation as well as increased retail participation. Derivatives market's average daily contracts ("ADC") traded grew by 10% which saw the ADC increase from 39,387 contracts to 43,490 contracts with foreign trades primarily contributing to the growth in ADC.

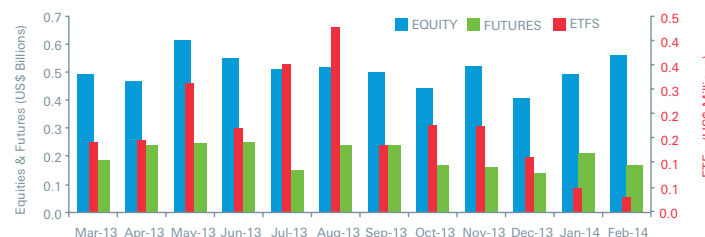
"As part of the efforts to build for the future, the Exchange has taken upon itself to build an eCommunity as a catalyst to inculcate the trading and investing mindset amongst Malaysians. We will continue our efforts in offering more tradable alternatives and improving market structure and framework. All these will support our initiatives in expanding our regional presence and in taking us to a step closer to being ASEAN's multinational marketplace." Datuk Tajuddin Atan, CEO of Bursa Malaysia said.

Bursa Malaysia to have fewer IPOs in 2014

According to Bursa CEO Datuk Tajuddin Atan, Bursa Malaysia will have a lower number of IPOs this year as compared to 2013, but the amount of market capital created will be higher than last year.

"We are seeing a healthy pipeline so far and we can see fewer but bigger companies that would want to launch their IPOs such as Iskandar Waterfront Holdings Sdn Bhd and Malakoff Corp Bhd," he said.

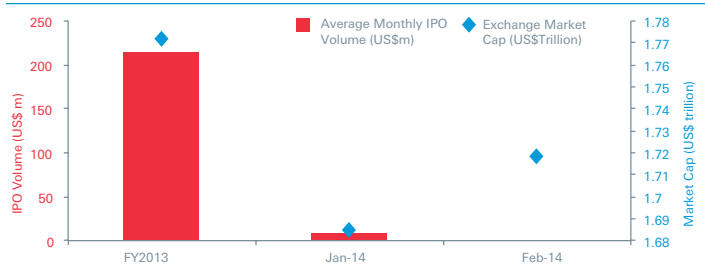
Fig 1: Equities(Cash), Futures and ETFs Monthly ADV



Source: Thomson Reuters

Fig 1. Malaysia equities trading see a recovery in 2014, as the country GDP growth sped up to 1.7% late 2013 as exports grew pulling the economy into a trade surplus zone.

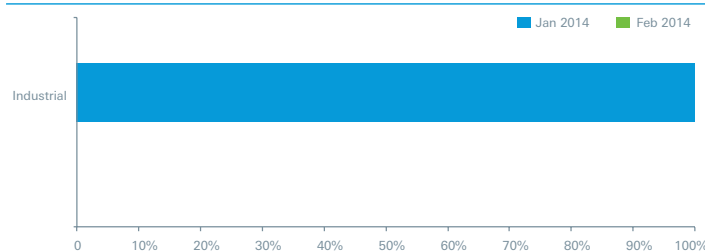
Fig 2: Avg Monthly IPO size and Exchange Market Cap



Source: Dealogic

Fig 2. SCH Group got (US\$ 8.6Mn) listed in Malaysia in January 2014

Fig 3: IPO Sector Distribution



Source: Dealogic

Sources:

www.bursamalaaysia.com
www.sc.com.my

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Chart Definitions

Volatility: Standard deviation of index price returns over last 30 day period

Market Share: Percentage distribution of total value traded (USD) on the exchange/venue year to date

Estimated Cost of Trading: Expected arrival price impact calculated using Deutsche Bank's internal market impact model for all index constituents, weighted average

Turnover Velocity: Ratio of USD volume traded on the exchange versus exchange market cap for the given month, annualized

ETF Volume: Total traded value (USD) of listed equity ETFs for the given month, average

Futures Volume: Total traded value (USD) of equity index futures for the given month, average

Equities Volume: Total traded value (USD) of listed stocks on equity exchanges in respective country for the given month, average

Primary Index* Spread: Primary index bid/ask spread, averaged over the trading day

Average Trade Size: Bid/Ask size of primary index constituent averaged over the day, across constituents

Index Price Change: Monthly percent change in country's primary index level benchmarked to beginning of the year level

Market Movers: Stock constituents of the primary index with biggest change in price levels in the given month

Total IPO Volume: Aggregated US\$ size of all new equity listings in the given month

Exchange Market Cap: Aggregated US\$ market capitalization value of all individual equity instruments listed on the exchange

IPO Performance: Percentage change in price level from day of listing of the equity instrument, until the close of next following day (1day), month (1month) and last trading day of previous month (current)

*List of primary indices by country:

Australia	S&P/ASX 200 Index
China	Shanghai Shenzhen CSI 300 Index
Singapore	FTSE Straits Times Index
Hong Kong	Hang Seng Index
Indonesia	Jakarta SE Composite Index
Malaysia	FTSE Bursa Malaysia KLCI Index
Korea	Korea SE Kospi 200 Index
India	CNX Nifty Index
Philippines	Philippine SE Composite Index
Thailand	SET 50 Index
Japan	TOPIX Stock Price Index
Taiwan	Taiwan SE Weighted Index
United States	S&P 500 Index
Europe	Europe 600 EUR Price Index

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