

Custody Industry and Regulatory Developments Report

The key regulations, market and industry
developments shaping the custody industry





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Foreword



Alex Dockx

Executive Director

Head of Custody Industry Development

Following positive client engagement and feedback, I am pleased to publish the third edition of our Custody Industry and Regulatory Developments Report. As always, our goal is to keep our clients informed of the key industry and regulatory initiatives impacting the custody industry and the broader global securities landscape, and to provide insight into how we engage, advocate, and influence these initiatives to support our clients, and business globally.

In this latest report, we provide updates on previous developments and initiatives we shared with you in our May report, some of which may very well be a mainstay on our radar for years to come, and provide information on the new industry and regulatory developments shaping the landscape we operate within.

The securities post-trade landscape is constantly evolving - arguably more so today than ever. With this comes regulatory and industry developments that can require targeted engagement and advocacy. Our approach focuses on providing pragmatic, expert contributions to these initiatives, whilst aiming to support policymakers' and regulators' objectives in a way which is constructive yet achievable for the industry and investors.

As a leading global custodian, we operate in over 100 markets and our position in the industry puts us in a strong position to engage in targeted engagement and advocacy with policymakers, regulators, financial market infrastructures and industry bodies. Our participation and leadership in industry trade associations, advisory boards, working groups and task forces, in addition to collaboration and partnership with our sub-custody and market infrastructure network, is key to the goal of harmonizing and improving market practices, standards, and regulations to promote well-functioning and efficient markets whilst navigating change.

As always, the information and updates provided in this report focus on key items and themes that our clients may find useful, rather than an exhaustive list of all regulatory and industry initiatives across the industry.

This report is an updated version of our May 2024 report, and follows the same structure with chapters on:

1. **Settlement Acceleration & Efficiency**
2. **Asset Servicing**
3. **Withholding Tax**
4. **Financial Market Infrastructure Developments**
5. **Digital Assets**
6. **Regional Developments & Outlook**

Our global team will continue to engage and monitor the initiatives covered in this report and will be happy to discuss developments with clients accordingly. If you have any questions or would like to have a follow up discussion on the content within this report or wish to gain insights into any regulatory and industry topics we have not covered here, please contact your Relationship Manager or Client Service representative. Clients can also find further information and insights on regulatory developments on the [Securities Services Regulatory Solutions website page](#).

Overview

It is only fitting that I lead with the successful transition of the United States (U.S.), Canada, Mexico, Argentina, Peru and Jamaica to a **T+1 settlement cycle**. Our global team, who has been actively engaging in industry and regulatory discussions on T+1 settlement since 2020, navigated our business and clients through the migration weekend and the double settlement day into a steady state of T+1 settlement. The U.S securities market, led by the Depository Trust & Clearing Cooperation (DTCC), has been quantifying the efficiencies of the move, which includes industry affirmation rates exceeding targets at around approximately 95% and a decrease in the National Securities Clearing Corporation (NSCC) Clearing Fund by \$3bn compared to the pre-T+1 settlement 3 month average¹. It is now important to consider the 'lessons learned' from the transition to help inform other expected moves to T+1 in large, international markets noting that each market must conduct their own analysis in line with their market specificities.

For example, the **United Kingdom (U.K.)** is firmly on the path to T+1 settlement with a commitment to move by the end of 2027 and a published set of recommendations on how to achieve a T+1 settlement cycle. Meanwhile, in the **European Union (E.U.)**, the European Securities & Markets Authority (ESMA) are concluding their analysis, and we expect a report on their findings towards the end of this year or early 2025. However, Europe is not alone in assessing the feasibility to move to T+1 with the Australian Stock Exchange (ASX), having completed a public consultation and now considering their road ahead. Its critical key industry players, including J.P. Morgan and our clients, are engaged in the relevant industry and regulatory discussions to ensure the right level of consideration and analysis is completed to ensure smooth transition to T+1 in these markets in the future. Our team will therefore continue to be at the forefront of accelerated settlement industry working groups, taskforces and market developments globally.

Meanwhile, **asset servicing** and **withholding tax** both continue to be areas which benefit from ongoing industry engagement and advocacy to improve regulatory proposals, market standards and efficiency. Examples of significant initiatives underway include

¹SIFMA T+1 After Action Report - <https://www.sifma.org/wp-content/uploads/2024/09/T1-After-Action-Report-FINAL-SIFMA-ICI-DTCC.pdf>

the review of the **Shareholder Rights Directive**, and the proposal to **harmonize Withholding Tax in the E.U.** Automation is a priority in this important aspect of post-trade with several initiatives including **Federal Reserve's Securities Services Automatic Claims Adjustment Process (ACAP)**, **asset servicing platform transformations** at Euroclear Bank and Euronext CSDs, as well as **hybrid and remote electronic voting** changes in certain Latin American and Middle Eastern markets, and Australia. Our teams are well placed into all these efforts to improve the resiliency and efficiency of asset servicing. Meanwhile, **tax modernisation** initiatives are underway around the globe and our team published a Tax Whitepaper in May 2024 which provides a macro-overview of key themes within the securities tax **arena**.

We also continue to see focus from **Financial Market Infrastructures (FMIs)** on their operating models, hours, and technical capabilities to ensure they are delivering value and efficiencies for the industry (e.g., the expanded use of the Unique Transaction Identifier (UTI), exploring extending operating days at the U.S. Federal Reserve, and modernization programs at Euroclear U.K. & International's CREST and ASX to name a few). Given the downstream effect of such initiatives on brokers, custodians, and our clients, these all benefit from engagement and dialogue from our business. Our priority is for our FMI partners to deliver stability, value and efficiency whilst also adapting their platforms and operating hours to cater for the accelerated future the securities industry is moving to. We expect this to be an ongoing theme for many years to come and our team are again at the forefront of industry discussions and relevant industry groups.

Meanwhile, as the cash payments industry is progressing the **migration to ISO 20022 for cross-border payments**, with J.P. Morgan as one of the major banks leading the charge with adoption, this will increase safety and soundness in the payments system as the richer data aids the sanctions screening process,

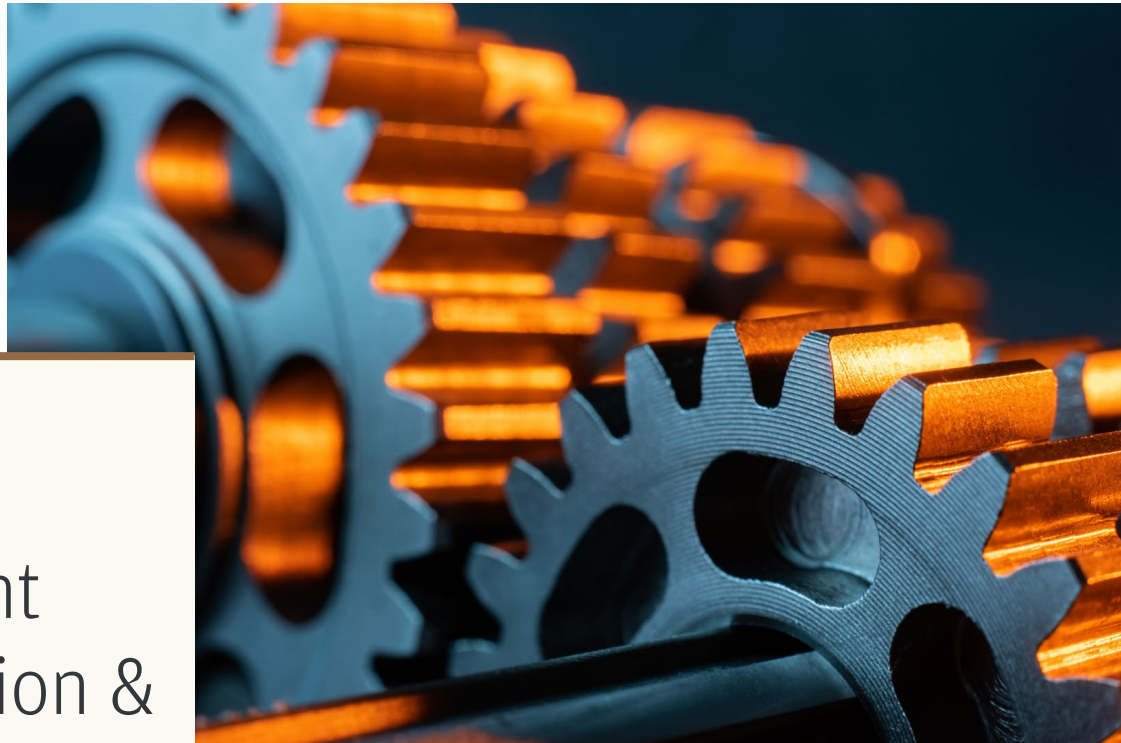
Straight-Through-Processing (STP), reconciliation and payment settlement efficiency. Our team will be happy to discuss this initiative and other developments in-flight in payments including **Payments Services Directives 3 (PSDIII)** and others. Given the increasing focus and innovation in the payments space we intend to introduce a new chapter on cash related developments in our next Spring 2025 report.

Talking of innovation, we continue to see developments in **Digital assets** as policymakers and regulators focus on addressing concerns regarding protection of client investments and funds, and potential contagion risk into the traditional financial sector. Several markets such as the U.K. and Singapore are taking a 'sandbox' approach to test and prove the various concepts and use cases. Meanwhile, in the U.S. we are closely watching developments in this space anticipating that we may see new legislation post the U.S. election should the political environment support it.

One certainty we have is that the **regional and local regulatory and market development agenda** is bustling with initiatives – a trend we expect to continue as domestic sovereignty appears to be a mainstay. For example, the U.K. continues to progress their post Brexit **Edinburgh Reforms**, now under a new Labour government, and with the dawn of a new E.U. Commission (EC) in the new year, the E.U. look set to invigorate their **Capital Markets Union (CMU)** – an initiative we will discuss in our next report. Will the changing political backdrop change the path of these regimes and / or introduce more? Our team will be monitoring developments closely.

Lastly, but significantly, in the last chapter of this report we provide status updates on the **SEC Safeguarding Rule** where we support the SEC's engagement with the industry and are hopeful for a more well-tailored rule to be agreed, whilst it is full steam ahead with the **SEC's rule on U.S. Treasury Clearing**. Again, we might expect certain markets to be watching closely.

I hope you enjoy reading this report.



1.

Settlement Acceleration & Efficiency

Settlement acceleration and efficiency continues to be a global priority which is impacting all actors in the trade to post-trade value chain including Investors, Custodians, Broker Dealers, and Central Securities Depositories (CSDs). With the successful implementation of T+1 in the U.S. in particular, we expect policymakers and financial market infrastructures in T+2 markets to increasingly focus on settlement acceleration and efficiency in the coming years. J.P. Morgan Custody continues to advocate for an orderly and efficient post-trade environment, and whilst regulations and initiatives aimed at accelerating settlement and improving settlement efficiency are a natural progression, they do need to be evaluated on a market-by-market basis due to different nuances, market structure and legal and regulatory obligations. As such, our advocacy has and will continue to take a market-by-market approach.

Americas

Transition to T+1

The shortening of the settlement cycle in the U.S., Canada, and in some Latin American markets, from T+2 to T+1 was a significant multiyear cross-industry initiative which went live in May 2024. From an industry-wide perspective the transition was a success with many potential issues (e.g., fails, funding and FX) being less substantial than some may have anticipated. This is a testament to the preparations and diligence of our clients, as well as organizations such as the Securities Industry and Financial Markets Association (SIFMA), the Investment Company Institute (ICI) and the Depository Trust & Clearing Corporation (DTCC).

From a J.P. Morgan perspective, to successfully implement T+1 settlement, we had a cross line of business execution program in place with a robust program governance model and milestone plan that was in sync with the industry implementation playbook and the relevant regulatory deadlines. Our execution program included workstreams focused on client communication, industry and regulatory engagement, technology development, testing and implementation, operating model change, and program resourcing - ensuring both staff and resources were in place to test and execute our implementation plan.

From an industry and regulatory engagement perspective, our custody team has actively engaged in relevant industry discussions across the region over the past 4 years. For example, we chaired the Association of Global Custodians (AGC) T+1 Working Group which was a key driver of the custody industry's engagement in the initiative; and we were an active member of the T+1 Industry Steering Committee and associated working groups, coordinated by SIFMA, ICI and DTCC. Furthermore, to help our clients and the wider industry prepare sufficiently for the transition, we participated in multiple industry events and webinars, and published several articles, Frequently Asked Questions, and podcast recordings, alongside our bilateral and more targeted discussions with clients.

Given our experience and engagement with the industry and regulators as part of this transition to T+1 settlement, we are ensuring the lessons we, and

the wider industry, have learned are being integrated into industry and regulatory discussions taking place in other markets around the globe considering accelerated settlement e.g., the U.K., E.U., Switzerland, Australia and others.

For more information on the transition to T+1 settlement in May 2024, please see the recently published "[T+1 After Action Report](#)" published by SIFMA, ICI and DTCC in September 2024. Meanwhile, please also listen in to our two part podcast episode on accelerated settlement in the U.S., the lessons learned and accelerated settlement initiatives in Europe and APAC, which we expect to publish this month.

Latin American Markets

Mexico, Argentina, and Peru were amongst those markets which transitioned to a T+1 settlement cycle with the U.S. and Canada; albeit Peru only moved to T+1 settlement for those securities dual listed in another market which is operating on a T+1 basis. However, markets such as Brazil, Colombia, and Chile have not moved to a T+1 settlement cycle. Below summarizes the current position with each of these markets:

- **Brazil:** In March 2023, the Brazilian CSD "B3" (jointly with B3's Post-Trade Advisory Committee, of which J.P. Morgan is a member) initiated a study to reduce the settlement cycle for equity securities to T+1. This study aimed to map the impacts of and opportunities for improving post-trade processes to enable a safe transition in the Brazilian market. However, it is unlikely that a move will occur in 2024 and there is no official date announced by B3 yet
- **Colombia, Chile and Peru:** Due to other market implementation commitments, it is unlikely that T+1 will be implemented Colombia and Chile in 2024. Both markets are focused on the nuam Exchange Market Integration project, which is targeted for 2025, and the current plan is for T+1 settlement to be a feature of this project. (For more information on the nuam Exchange Market Integration project **please see page 19**). The same applies for local securities in Peru.

Europe

U.K. T+1

The Accelerated Settlement Taskforce (AST), introduced by the U.K. Government in December 2022, is now in its second of a two-year mandate to explore the opportunity for remaining U.K. securities (U.K. Gilts already settle on T+1 cycle today) to move from a T+2 settlement cycle, and to consider how a shortened cycle could be implemented. In the first year of the mandate the Chair of the Taskforce, Charlie Geffen, focused on understanding whether the U.K.'s Legal, Regulatory and Operating environment would support a move to T+1. The Chairs' understanding was that it does and published his [first report](#) in March 2024 which provides His Majesty's Treasury with recommendations including:

- The U.K. should move to T+1 by the end of 2027
- The immediate establishment of a Technical Group to focus on the challenges of a move to T+1, find solutions and suggest a date for the transition
- The U.K. should 'learn lessons' from the U.S. move to T+1 in May 2024
- Collaboration between the U.K. and other European jurisdictions to seek whether an aligned move to T+1 can be achieved
- A mandate for various processes such as allocations, confirmations and trade level matching to be performed on trade date
- Fund settlement cycles should be encouraged to move to T+2
- "Safe harbor" exemption for certain securities (e.g. if the U.K moves independently to the E.U.)
- T+0 should not be considered until after the move to T+1

Over the past 6 months, the Technical Group has been exploring T+1 in more detail through five sub-groups:

- Trading & Liquidity (including securities lending, repo and FX)
- Operational Issues (including static data, trade date processes, corporate actions)
- Alignment Issues (including scope, E.U. & U.S. alignment)
- Legal & Regulatory
- Lessons Learned from the U.S.

J.P. Morgan Custody is a member of the Technical Group and co-leads the U.S. Lessons Learned sub-group.

The workstreams, supported by an Oversight Committee, have been working to ensure that the

challenges of T+1 are understood and have identified solutions including the necessary deadlines, processes and standards required for T+1. The group have also worked to establish the scope of securities and transactions, and any changes required to regulation and the supervisory environment.

The Technical Group published an [interim report](#) on September 27, 2024, with a list of proposed recommendations to achieve the move to T+1 focusing on:

- Instrument and transaction scope
- Static data
- Resilience of FMI systems and processes including testing
- Market practice for stock lending recalls, pre-sale order instructions
- Market practice for allocation, confirmation and settlement instruction
- Extension to the CREST system's 'instruction deadline' to 21.00 (from 20.00)

The immediate next steps for the Technical Group are:

- Public consultation launched on September 27, 2024, closing on October 31, 2024 which seeks feedback on the public recommendations
- Final report to be published by the end of 2024 outlining all findings and recommendations including the date the U.K. should move and a review of the Lessons Learned from the U.S move.

Once the Technical Group's final report is published, we envisage HMT will formally mandate a move to T+1 settlement and that implementation activities will commence. Meanwhile, the Technical Group will continue to operate from January 2025 through to the end of 2027.

E.U. T+1

ESMA has been mandated, through the CSDR ReFIT ([see update on page 7](#)), to assess the feasibility of shortening the settlement cycle in the E.U. and to submit a report of findings to the EC by January 17, 2025. The mandate requires ESMA to assess the costs and benefits of a move to T+1 differentiating between different transaction types and financial instruments, include an overview of international developments and any impact they may have on the region's capital markets, and to outline how a move to a shortened settlement cycle could occur. To commence its analysis, in Q4 2023, ESMA launched a public call for evidence consultation on the possibility of shortening the

settlement cycle and published their [initial feedback](#) in March 2024. The feedback notes:

- ESMA will focus only on T+1 at this stage, and not T+0
- The impact of a shorter settlement cycle goes beyond the adaptation of post-trade processes, noting impacts to market making, FX and securities financing
- Views on the costs and benefits of a shorter settlement cycle were mixed with some respondents calling for a detailed impact assessment before any decisions are made
- Proposals for ‘when’ the E.U. could move to T+1 cycle varied from 1 to 7 years (note that ESMA has not suggested a proposed date at this stage)
- A significant proportion of the respondents emphasized that alignment across geographic Europe would be favorable and call for good cooperation between the respective regulators
- The need for the impact to APAC investors to be considered
- To learn lessons from the U.S. move to T+1 in May 2024

Since this publication, ESMA held a ‘Public Hearing’ on July 10, 2024, which provided further confirmation that the E.U. authorities are seriously considering a move to T+1 in the region. In between various panel discussions including the success of the U.S. move and impact of misalignment and discussion with the Chair of the U.K T+1 Technical Group, an on-line poll was cast to seek feedback on when the E.U. should move to T+1 – 70% of respondents voted for Q4 2027 which could align with the U.K to achieve a harmonized move across the E.U. and U.K. which would be favorable.

Meanwhile, to get ahead of future developments, the key E.U. trade associations are jointly assessing the impact of a T+1 settlement cycle in the E.U. and will form an opinion on the potential changes and solutions required. This assessment will be shared with ESMA and other E.U. authorities over 2024. J.P. Morgan Custody is a member of the E.U. T+1 Industry Task Force through its role as co-chair of AFME’s (Association for Financial Markets in Europe) Transaction Clearing and Settlement Committee and co-chairs the ‘Settlements’ workstream as vice-chair of the AGC’s European Focus Committee.

Switzerland

In Europe, beyond the U.K. and E.U. T+1 developments, we understand that the Swiss Securities Post-Trade Council (Swiss SPTC) are considering forming a T+1 Working Group. We welcome this approach as there are considerable benefits for an aligned European move to T+1 which is not dissimilar to the recent migrations

in the Americas whereby close inter-related markets moved with the United States in May 2024.

E.U. Central Securities Depository Regulation (CSDR)

CSDR is a diverse regulation providing a common regulatory framework for CSDs, however the rules around settlement efficiency and discipline have attracted the most attention. A key point of focus for the industry since the introduction of CSDR has been the mandatory buy-in regime (MBI), which was deferred from December 2021 to November 2025, and the scope and operation of the Cash Penalties regime.

In our May 2024 report, we covered the key outcomes of the now-finalized CSDR ReFIT regulation which was published on January 16, 2024. Below we recap the headline provisions for the Settlement Discipline Regime (i.e., the MBI and Cash Penalties regimes), and include the latest developments on ESMA’s mandate under CSDR ReFIT to produce ‘regulatory technical standards’:

Mandatory Buy-In (MBI)

- MBI has been retained in CSDR ReFIT and may be triggered by the EC for certain financial instruments or categories of transactions where the rate of settlement fails is not improving and is presenting a threat to financial stability. This is subject to certain preconditions including consultation with the European Systemic Risk Board (ESRB) and a cost-benefit analysis provided by ESMA. We do not foresee any measure to introduce MBIs at this stage providing settlement efficiency rates continue to improve.
- CSDR ReFIT exempts Securities Financing Transactions (SFT) from the MBI in addition to other exemptions that include “operations not considered trading” and settlement fails “not attributable to participants”. These exemptions still need to be defined by ESMA, and we will continue to advocate for exemptions of, for example, depot realignments, collateral movements and corporate action instructions.

Cash penalties

- Certain exemptions have been agreed and include “operations not considered trading” and settlement fails “not attributable to participants”. These exemptions will also be clarified by ESMA and, we will continue to advocate for certain exemptions such as corporate actions and for instructions not created by participants such as market claims

More recently, on July 9, 2024 ESMA issued [a publication](#) that seeks to clarify the scope of the Settlement Discipline Regime for the underlying cause of settlement fails that are considered “not attributable to the participants in the transaction”,

and the circumstances in which “operations are not considered as trading” in respect of: the Mandatory Buy-in, Cash Penalty and CSD Settlement Fails Reporting Regimes. The consultation closed on September 9, 2024, and ESMA is expected to produce Technical Advice in December 2024. We welcomed this consultation which will finalize the scope of this key regime and contributed to responses from a number of industry associations, including AFME.

ESMA Regulatory Technical Standard mandate

The CSDR ReFIT mandates ESMA to:

- Provide technical advice to the EC on the effectiveness and proportionality of the penalty mechanism and, where appropriate, recommendations to change its structure to increase settlement efficiency including consideration of progressive penalty rates

To assist fulfilling this mandate, ESMA issued a consultation to assess the effectiveness and proportionality of the cash penalty regime which closed at the end of February 2024. The consultation proposed, amongst other items, implementing progressive cash penalty rates which would significantly increase cash penalty rates payable. One of the two options would increase the penalty rates ranging from x6bps on Day 1 up to x25bps Day 6+. Our team actively engaged in industry association responses to the consultation, such as those from [AFME](#) and the [AGC](#). ESMA is now expected to produce a report for the EC in Q4 2024, including findings and recommendations.

- Provide technical advice to the EC on the Settlement Discipline Regime ‘Measures to prevent settlement fails’

ESMA is expected to issue a consultation on ‘Measures to prevent settlement fails’ which is a key aspect of the Settlement Discipline Regime, J.P. Morgan expects this consultation to be published in either Q4 2024 or Q1 2025. We anticipate that this will be a crucial consultation that will need to consider how any changes to the regime will operate in an anticipated T+1 environment and also focus on structural issues which cannot be addressed by settlement penalties. Whilst it is too early for any

certainty, we might expect Regulatory Technical Standards in Q3 2025.

E.U. Settlement Efficiency

With the MBI retained in the CSDR ReFIT, cash penalty rates under review and with T+1 on the horizon it is a priority to identify and understand the headwinds and limitations that challenge settlement efficiency throughout the securities trade to post-trade industry throughout the E.U. There are positive signs, however, with data from ESMA, Target-2-Securities (T2S), and the CSDs, in addition to J.P. Morgan’s own data, indicating a downward trajectory of settlement fails which is a testament to the commitment across the industry to improve settlement efficiency. Our firm is closely engaged in multiple industry working groups with a leading role in advocating for the removal of structural barriers in the region’s securities markets, and for cooperation and partnerships across industry sectors. For example, we are actively engaged in the:

- ECB Securities Group (SEG), which will focus on progressing the harmonization and integration agenda across and beyond the T2S zone with a view to removing the structural barriers that impede post-trade
- AFME Settlement Efficiency Taskforce, which produced a study on the root causes of settlement fails in Autumn 2023 titled ‘[Improving the Settlement Efficiency Landscape in Europe](#)’ which includes a series of recommendations to optimize matching and settlement including:
 - Improvements to allocation and confirmation processes
 - Increased use of partial settlement including partnering with other trade associations in the region
 - Improvements to CSD functionality and daily timetables
 - Improvements to data quality and data use including SSI and instrument data
- AGC European Focus Committee which has settlement efficiency and T+1 high on its list of priorities

Middle East & Africa

Zimbabwe T+2

In May 2024, the Zimbabwe Stock Exchange (ZSE) advised that it intended to migrate the settlement cycle from T+3 to T+2 with a proposed implementation

date of June 17, 2024. The implementation date was subsequently amended to July 1, 2024, following dialogue between the ZSE and the AGC members, including J.P. Morgan. On June 7, 2024, the ZSE placed

the migration on hold with new dates to be advised in due course. The ZSE has since committed to providing a three-month notice period via public notice prior to any future go-live date. J.P. Morgan is closely monitoring this development and will provide further details to clients as they become available.

West African Economic Monetary Union (WAEMU) T+2

The Depositaire Central/Banque de Règlement (DC/BR) of WAEMU, the central depository of the Regional Stock Exchange, La Bourse Regionale des Valeurs Mobiliere (BRVM), initially launched a project in 2022 to shorten the settlement cycle from T+3 to T+2.

Asia Pacific

India T+0

Following the successful implementation of T+1 settlement in India in 2023, the Securities and Exchange Board of India (SEBI) introduced a beta version of optional T+0 settlement in March 2024, with participation limited to domestic investors, for a limited set of 25 securities and with a limited set of brokers. More recently, J.P. Morgan Custody has been in active discussions with market infrastructure institutions with suggestions on feasible operating models for extending T+0 settlement to Foreign Portfolio Investors (FPIs). In its recent board meeting, SEBI confirmed the number of securities available for trading in the T+0 settlement cycle will be increased, in a phased manner, from 25 to top 500 securities based on market capitalization. Further, the effective date for FPI participation in the optional T+0 settlement cycle is expected to be notified in due course.

Australia T+1

ASX released a [Whitepaper](#) on April 23, 2024, soliciting feedback on a potential move to a T+1 settlement cycle in Australia. On August 5, 2024, ASX subsequently released the findings and feedback they received in the form of a second [Whitepaper](#). This paper showed that feedback across the industry was generally aligned with the feedback provided by J.P. Morgan and the Australian Custodial Services Association (ACSA), and importantly highlighted industry alignment around the view that the functionality required to support T+1 in Australia should be implemented in the ASX's CHES Replacement System. Feedback provided on the timeline for implementation indicated that any move to T+1 should

Further discussions have recently re-commenced in the market, with the BRVM and DC/BR putting forward the suggestion of transitioning to T+2 during Q4 2024. There has been no official market notification at present and further discussions are being held between the BRVM and market participants. The DC/BR and local brokers are not yet SWIFT enabled, and therefore a review will be required focused on market infrastructure-related developments. J.P. Morgan is working with our sub-custodian to advocate for additional time to be taken during the planning stage of the project and for a minimum notice period of three months prior to implementation.

take place after the CHES Replacement System was live, now scheduled for 2029 ([see page 21](#)), and that at least 18 months' notice would be given to the market ahead of the move. ASX will make a final decision on whether to move to T+1 by the end of 2024.

Other APAC Market Updates

- Pakistan T+1 Pilot:** In September 2023, the National Clearing Company of Pakistan Limited (NCCPL) proposed reducing the settlement cycle from T+2 to T+1. In January 2024, the NCCPL announced a T+1 pilot beginning in April 2024; however, the pilot date was then delayed. In April 2024, the NCCPL published a circular, advising that in consideration of the significance of the proposed transition in terms of its anticipated impact on the existing operational processes, the NCCPL will continue consultations with stakeholders and conduct a thorough analysis of practices adopted by other markets. We have been advocating for more details, including a roadmap, and clarity on the pilot date through our sub-custodian and await further feedback from the NCCPL.
- Sri Lanka T+2:** In January 2024, the Securities and Exchange Commission of Sri Lanka announced a proposal to reduce the settlement cycle from T+3 to T+2, and subsequently to T+1, with the ultimate goal of moving to T+0. Following this announcement, the Colombo Stock Exchange announced that it was going to move from T+3 to T+2 during May 2024, however, the move to T+2 was delayed and was completed on June 10, 2024, with no material issues noted.



2.

Asset Servicing

Identifying and addressing inefficiencies in income, corporate action and proxy voting processes continues to be a priority topic for J.P. Morgan Custody. Our team continues to actively engage with clients, brokers, industry associations, service providers and key financial market infrastructures globally to help promote improved standardization, automation and efficiency across this space.

Americas

Federal Reserve's Securities Services Automatic Claims Adjustment Process (ACAP)

ACAP is the Federal Reserve's Securities Services (FSS) initiative to support the tracking and payment of income to beneficial owners for repo, fails, and interim accounting for Agency Mortgaged Backed Securities (MBS). Our team has been actively participating in industry discussions with SIFMA and the FSS via its Governance Council and Working Group to ensure the approach is fit for purpose, is suitable for our clients, and to promote awareness and support across the wider industry, including securities lending providers, broker dealers, and clients.

As previously reported, Phase 1 of this initiative was implemented in January 2023 and focused on implementing intraday payment processing (change from end-of-day) via Fedwire Securities Service to Depository Institutions. Phase 2 was due to be implemented in Aug 2023 and focused on the implementation of two new security types (U.S. Treasury and Agency Debt Interest Bearing securities) and one new claim type (Securities Lending for FSS eligible security types). However, as agreed between the FSS and industry, Phase 2 was postponed allowing industry participants time to assess readiness and challenges with the current service offering.

Following further industry discussion, Phase 2 has been replanned for August 11, 2025. FSS has reduced the future service offering to exclude U.S. Treasury repos since this security type will become incorporated into the SEC's U.S. Treasury Central Clearing mandate for 2026 (**please see update on page 28**). The focus of Phase 2 will be strictly on the new transaction type (securities lending) coupon and fails tracking for all security types. Our team is a member of the ACAP Governance Council and a lead contributor to the SIFMA Industry working group focusing on addressing outstanding operating model challenges and finalizing requirements with FSS. The expected finalization of all business requirements is targeted for year-end 2024 with testing to commence in April 2025.

Hybrid and Remote / Electronic Voting - Brazil & Mexico

We have continued to advocate for hybrid and remote/electronic voting capabilities to be implemented in several markets since temporary in-person meeting restrictions were introduced in certain markets during the Covid-19 pandemic. Below are status updates on developments in Mexico and Brazil.

- **Brazil:** On June 4, 2024, the Securities and Exchange Commission of Brazil, (CVM - Comissão de Valores Mobiliários) issued a new normative to which establishes rules regarding the organization and participation in shareholders' meetings. Part of the new normative will require mandatory Remote Voting alternatives for all types of shareholder meetings (general or special meetings, ordinary or extraordinary), and consequently removes the Power of Attorney (POA) requirements (whereby the maintenance of a POA is optional at clients' judgement for contingency purposes). It also extends the deadline for shareholders to send voting instructions from 7 to 4 days before the meeting. This new normative will come into force January 2, 2025, and is a positive step forward as well as the result of advocacy performed by our firm, in partnership with the wider industry, B3 (the Brazilian CSD) and ANBIMA (local market association) since 2023.
- **Mexico:** As previously reported, an amendment was passed in Mexico in October 2023 to change the General Law of Commercial Companies, which defines the way in which shareholder meetings are held. The approved changes allow issuing companies to amend their bylaws to offer a remote meeting option to shareholders (as well as in-person) and provide electronic voting. Previously, companies were only allowed to have their meetings in person and casting of votes in person. Although the law has been amended, there is work ahead for the industry to define the operational framework and understand what the regulatory requirements for the companies to comply with this change are. It is envisaged that full implementation may not be realized until sometime in 2025 (provided companies agree to the concept of remote voting, change their by-laws, etc.). We will continue to advocate for these changes via our sub-custodian and as a member of the AGC.

Europe

Shareholder Rights Directive (SRDII) Review

As previously reported, shareholder engagement remains a key priority for the EC who have commissioned a study of certain aspects of the Shareholder Rights Directives (SRDs) in an effort to determine whether the SRD is fit for purpose. The study led by the Centre for Strategy and Evaluation Services, alongside EY, Oxford Research and Tetra Tech, is also looking to determine the barriers to shareholder engagement in the E.U. in accordance with

the 2020 Capital Markets Union (CMU) Action Plan. In December 2023 a survey was issued to solicit feedback from stakeholders on certain aspects of the SRDs and future policy options. Our firm contributed to AFME's submission. The EC's study follows the publication of an ESMA and European Banking Authority (EBA) report on the 'Implementation of SRDII provisions on proxy advisors and the investment chain' in July 2023. We were encouraged to see the extent that ESMA and the

EBA's recommendations reflect our firm's advocacy position, particularly with respect to the following which will improve the exercise of our client's rights:

- Consider using a Regulation (rather than a Directive) to harmonize shareholder identification, information transmission, and exercise of shareholder rights
- Consider introducing a standardized E.U.-wide definition of 'shareholder' including beneficial owners or provide issuers with the right to identify beneficial owners in addition to nominee shareholders
- Consider publishing a list of eligible securities
- Consider enhancing charging transparency by devising harmonized terminology for the types of charges and services which can be disclosed in a harmonized format
- Address uncertainties caused by varying applications of SRDII requirements across member states
- Harmonize the documentation required for shareholders to exercise their rights for general meetings: for example, recognizing the confirmation of entitlement as the E.U. standard to allow shareholder participation in General Meeting
- Consider conducting an analysis of national rules and practices identifying harmonization opportunities
- Consider extending the timeframe for shareholders to analyze and exercise their rights following the publication of meeting materials

Our firm has long advocated for these changes, including the need to simplify general meetings standards and bring them in-line with corporate actions. We will continue to engage with E.U. regulators, issuer agents and other stakeholders in the run up to the publication of the EC's findings report which we expect to be published by the end of 2024.

European Central Bank (ECB) Single Collateral Management Rulebook for Europe (SCoRE) Standards

The ECB AMI-SeCo (Advisory Group on Market Infrastructures for Securities and Collateral) has developed a set of standards and requirements to remove the barriers for the efficient movement of collateral. Corporate Actions, Billing and Triparty were cited as areas for improved harmonization. The deadline for compliance is November 2024 and the requirements apply to the regions CSDs, Central Banks, Triparty Agents and Custodians who interface with T2S/ European Collateral Management System (ECMS); although the ECB encourages compliance further down the custody chain. Our team has conducted an analysis of the SCORE Standards, identifying those relevant to custodians, and

submitted a survey to our CSD and agent bank network to identify any dependencies we may have on them.

Meanwhile, we have a program underway to analyze adherence to the standards. Whilst there are no obligations imposed on our clients at this time, we recognize that this may impact our clients, and are in dialogue with the Eurosystem authorities on how to encourage adoption of ISO 20022 across the custody chain without negatively impacting investors while addressing concrete issues (many of which are caused by divergent market practices).

Euronext Asset Servicing Platform Modernization

Euronext Securities has commenced the implementation of a new harmonized and standardized corporate events processing solution across its four CSDs (Italy, Portugal, Denmark and Norway) with a phased implementation commencing with the Danish market for bonds.

The new service intends to cater for all corporate events including general meetings and shareholder disclosure in accordance with SRD II, from creation through to payment. It will also cater for market claims, transformations and buyer protection. All financial instruments where Euronext Securities acts as an Issuer and Investor CSD will be in scope and the service will cater for payments in different currencies via central banks and commercial bank money. Importantly, the service also aims to be compliant with the various corporate action standards in the region, including the ECB SCoRE standards, as well as compliance with market practices according to the Securities Markets Practice Group (SMPG). As a direct participant of Euronext Securities Copenhagen, our team is fully engaged with Euronext and associated working groups on this project.

Euroclear Bank Asset Servicing Transformation

Euroclear Bank is embarking on a multi-year program which will deliver a new asset servicing platform in 4 phases:

- Phase 1: 2024/25 - Proxy Voting events
- Phase 2: Q1 2026 - Mandatory events for information or with security proceeds
- Phase 3: 2028 - Mandatory events with cash proceeds
- Phase 4: 2029 - Voluntary events

Key focus areas include data and reporting with Proxy Voting reporting in ISO20022 migrating on a market-by-market basis in 3 waves which commenced in January 2024 and is set to conclude in Q1 2025. We will continue to actively engage with Euroclear Bank on this project as it progresses.

Middle East & Africa

Hybrid and Remote / Electronic Voting - Qatar & Kuwait

The current regulations in Qatar only allow shareholders to participate and vote in general meetings. Proxy voting services are limited as sub-custodians can provide them only in cases where they themselves are also shareholders, or the issuer appoints a proxy to receive a foreign investor's voting instructions and cast them in general meetings. J.P. Morgan has engaged with the Qatar Central Securities Depository (EDAA) both bilaterally and through its sub-custodian to advocate for

the introduction of an E-voting system that allows sub-custodians to vote on behalf of foreign investors. The EDAA has started testing the new E-voting system and is expected to implement it in 2025.

Meanwhile, as previously reported, the Capital Markets Authority in Kuwait issued a circular in 2024 directing all listed companies to implement electronic systems for general assembly participation with an effective date of March 2, 2024. The Kuwait Clearing Company owns the E-voting system and will monitor the use of E.

Asia Pacific

Hybrid and Remote / Electronic Voting - Australia

On June 24, 2024, the Australian Treasury appointed a panel to review virtual meetings and electronic voting reform in the Australian market. J.P. Morgan Custody attended an Australian Securities and Investments Commission (ASIC) roundtable meeting, representing the ACSA, where current shortfalls in the Proxy Voting process in Australia were shared in line with an ACSA Whitepaper on Proxy Voting Reform published in June 2024. Key points raised in the paper are:

- Electronic dissemination of proxy materials and resolutions
- End of day record date
- Vote deadline after record date
- Electronic vote instructions and vote confirmations

The panel will be reporting back to the Australian Treasury with recommendations for future regulatory reform.

3. Withholding Tax



An evolving regulatory agenda coupled with a continuous drive across the industry for efficiency, digitization and standardization means that tax is a dynamic area where we can expect change to continue for years to come. For this reason, we prioritize our engagement in relevant industry and policy initiatives, discussions and forums in the tax space.



Please scan the QR code above to read the J.P. Morgan Securities Tax Whitepaper.

<https://www.jpmorgan.com/content/dam/jpm/cib/complex/content/securities-services/custody/tax-landscape-custodian-perspective.pdf>

Global

J.P. Morgan Securities Tax Whitepaper

Our team published a [Tax Whitepaper](#) in May 2024 which provides a macro-overview of key themes within the securities tax arena. Included in the Whitepaper are views on the tax technology industry position, the criticality of accurate tax data, the nexus with “ESG” concepts, and the required prioritization of tax risk management.

Americas

U.S. Internal Revenue Service (IRS) Certificates of Residence

As highlighted in our last report, existing processes regarding U.S. Internal Revenue Service (IRS) Certificates of Residence are burdensome and the industry would benefit significantly from a modernization of these processes. As part of an ongoing dialogue, the AGC met with the IRS on July 15, 2024, to discuss IRS processing statistics for Form 8802 (Application for U.S. Residency Certification), and for the industry to share its experience and advocate on behalf of its member banks. J.P. Morgan recently served as chair of the AGC Tax Committee and remains an active industry advocate in these ongoing discussions.

During the July meeting, the AGC offered specific recommendations to improve the existing burdensome process and requested an update from the IRS on its plans to modernize the Form 8802 process. Recommendations from the AGC included reinforcing procedures with operational staff due to quality and mailing issues due to the highly manual process, and modifications to 6166 letters (U.S. Certificate of Residency) to further clarify the validity period of the annual certificate of residency for U.S. taxpayers with foreign tax authorities. With respect to the IRS' project to modernize the Form 8802 process, the IRS confirmed this is pending internal funding approval. They also confirmed its modernization effort contains two components; digitization of documentation and operational process efficiency improvements, and an online portal to file, pay for and possibly receive an electronic 6166 letter.

Europe

German Withholding Tax Modernization

Following the introduction of the Withholding Tax Modernization Act in June 2021, paper based reclaim submissions ended on June 30, 2023, and from July 2024, the Federal Central Tax Office has made available mass upload electronic reclaim filing functionality. Also under the Act, it was originally announced that from January 1, 2025, reporting in the form of an electronic record for income payments through the entire custody chain is required, otherwise referred to as "MikaDiv" reporting. However, in August 2024, the Federal

Canada Revenue Agency (CRA) Certificates of Residence

J.P. Morgan is leading industry advocacy on behalf of the AGC Tax Committee to request the Canada Revenue Agency (CRA) clarify the authorization requirements for a third-party representative to submit a request for Certificate of Residency (CoR) application on behalf of a Canadian resident on Form AUT-01 (Authorize a Representative for Offline Access). Custodian banks offer clients safekeeping and asset services, which includes facilitating cross border treaty relief on income payments when and if possible, based on the tax characteristics of its client, subject to local market acceptance and approval. To secure relief under a double taxation treaty (DTT), most global jurisdictions require a CoR from the home residency of an applicant in addition to specific local market documentation. For Canadian resident clients, global custodians file thousands of AUT-01 forms along with a request for CoR on an annual basis.

During 2024, AGC member banks report having received rejection letters from the CRA on CoR applications submitted on behalf of their Canadian resident clients. Based on member bank feedback, the reason for the CoR request rejection relates to insufficient access level as provided on a form AUT-01 for the custodian bank to submit a CoR application on behalf of its Canadian resident client. As the reason for rejection contradicts historic procedure by the CRA, J.P. Morgan led industry to highlight the concern of the request to change the authorization level and clarification on the procedure to file to the tax authority. In mid-September 2024, CRA acknowledged the inconsistency and reaffirmed the authorization level for custodian banks which aligns with industry advocacy efforts and historical policy resolving the issue.

Ministry of Finance announced that the reporting requirement has been delayed to apply to income received after December 31, 2025. The new reporting brings forth the concept of Universally Unique Identifier, which will be allocated to each income event for a given investor in lieu of a physical tax voucher.

Austria Tax Reclaim Entitlement

Following the publication in July 2023 of the Austria Tax Amendment Act 2023, the Austrian Government aligned reclaim entitlements to the investor's end

of dividend record date position and, subject to a de minimis threshold of Euro €20,000, introduced additional requirement that the claimant bears appropriate economic risk and is the uninterrupted beneficial owner of the underlying shares for a minimum holding period of 45 days.

J.P. Morgan continues actively advocating through the AGC for further clarification from the Austrian Ministry of Finance on the actions required from global custodians and investors for the operationalization of the legislative changes introduced in July 2023.

E.U. Withholding Tax - FASTER

As previously reported, the EC, in 2023, published its proposed E.U. Withholding Tax Directive - FASTER (Faster and Safer Relief of Excess Withholding Taxes). FASTER aims to promote cross-border investment through harmonization of procedures as well as

to fight tax abuse and fraud and has a proposed implementation date of January 1, 2030. Since its release, J.P. Morgan has participated in multiple industry discussions and advocacy efforts related to the proposal, including the EC's 2023 consultation, emphasizing the importance of harmonization and clear guidance on roles and responsibilities.

Following the EC's consultation in 2023, the EC summarized the industry's feedback and presented it to the European Parliament (EP) and Council. The EP agreed on their amendments to the draft Directive in February 2024. The European Council finalized their amendments in the May 2024 Economic and Financial Affairs Council (ECOFIN) meetings. The Directive is currently moving through the E.U. policy making process, and given its significance we will continue to monitor developments and report on these developments accordingly.

Asia Pacific

Australia Capital Gains Tax on Indirect Australian Real Property Interests

Global investors are typically exempted from Australian capital gains tax (CGT) on their portfolio investment activity, unless investing in 'Taxable Australian Property', such as substantial interests in investments deriving most of their value from Australian real property related assets. In the Australian federal budget for fiscal year 2024-2025, the Australian government stated its intention to 'strengthen the integrity of the foreign resident CGT regime'; and in July 2024, released a consultation paper detailing proposed changes including, inter alia, a 365-day look back testing period of whether an asset is an 'indirect Australian

real property interest', and a requirement for foreign investors to pre-notify the Australian Taxation Office when disposing of shares or other membership interests exceeding Australian Dollar 20 million in value before the transaction is executed.

J.P. Morgan, through memberships in local Australian industry groups such as the ACSA has contributed feedback on the consultation paper, requesting the government to consider the impact these proposals may have on the securities trade lifecycle. Through these memberships in local industry groups, J.P. Morgan continues to engage with the Australian authorities on the matter.

4. Financial Market Infrastructure Developments



Given the central role that Financial Market Infrastructures play in the post-trade environment, it is important our firm actively engages in initiatives and industry developments driven by these infrastructures. These initiatives and developments require ongoing engagement as they have potential to impact our clients, cost and operating models, and present opportunities.

Global

ISO 20022 Implementation

The implementation of the ISO 20022 standard for cross-border payment related messages aims to enhance STP by providing a common framework for cash messages. For example, it provides more details in a structured format, improves reconciliation and transparency and increases the amount of information that can be screened - meaning reduced fails, lower costs, and higher efficiency. As many clients will be aware, all Financial Institutions (Fis) using the SWIFT network for payments messages must migrate to the ISO 20022 standard by November 2025.

J.P. Morgan would like to inform clients, to the extent they are not already aware, that the implementation of ISO 20022 standard across the SWIFT network will only apply to cross-border payment instruction messages from November 2025, and will not apply to payments related reporting messages (e.g., income statements) as these were descope from the November 2025 implementation earlier this year following feedback from the industry. Our firm will adhere to these SWIFT standards for ISO 20022 to ensure the conformity to market standard practice for our Global Custody clients.

Beyond payments, some Financial Market Infrastructure operators (e.g., ECBs T2S) and industry associations (e.g., ISSA) have been analyzing the potential implementation of the ISO 20022 standard across the securities industry for certain message types. Our firm continues to engage in such analysis and is participating in industry working groups to review which issues can be addressed by a syntax change. As a firm, we view that implementation of ISO 20022 within the securities industry should only be supported if there is a strong business case to implement that standard.

Unique Transaction Identifier (UTI) Initiatives

As highlighted in our previous report, J.P. Morgan Custody is contributing to industry discussions on the use of Unique Transaction Identifiers (UTI) across post-trade. If implemented widely across the industry, UTI can identify and track a transaction across all the intermediaries in the securities lifecycle. This increases end-to-end transparency through the lifecycle of a

security transaction by providing all parties to the trade with a common identifier to track and monitor a trade. It also provides traceability from instruction to settlement which can result in better metrics and root cause analysis to support potential process improvements; and it helps facilitate the early detection of mis-matches through the settlement chain, avoid cross-matching and help to provide real time settlement statuses. Benefits of UTI come through wide industry adoption and interoperability including across multiple markets and by integrating it into vendor solutions and CSDs' securities settlement systems.

Our firm participated in a SWIFT UTI pilot in 2023 and are working with other infrastructure and vendors' developments to ingest and use the UTI as we believe it could help the industry with settlement efficiency, particularly as more markets across the globe move to T+1 settlement over the coming years. We also recently participated in discussions on including UTI in the International Securities Association for Institutional Trade Communication (ISITC) Settlements Market Practice documentation and are closely engaged in industry dialogues on how to leverage this functionality across markets and buy and sell-side actors.

Meanwhile, in Europe, we are participating in an AFME working group looking to establish a common understanding of how UTIs can be used, where there are challenges and what is needed to achieve industry-wide adoption. The group will also consider what the industry requires of vendor platforms supporting the UTI to achieve harmonized use across the industry.

Americas

DTCC Clearing & Settlement Advisory Council

In Q4 2023, the Depository Trust & Clearing Corporation (DTCC) established a new Clearing & Settlement Advisory Council (CSAC) to help define and evaluate new clearance and settlement functionality, and to provide guidance to DTCC's clearance and settlement services strategic direction and modernization effort.

As a key DTCC participant, J.P. Morgan Custody is co-chairing the group, which is particularly focused on DTCC's technology and data strategies and capabilities, as well as simplification and efficiency opportunities including the use of UTI. Our custody team is also engaged in sub-working groups of the CSAC which are considering the potential development and

implementation of partial settlement for DTCC eligible securities, as well as possibilities regarding fractional shares and extended trading hours.

Given the role of DTCC's clearing and settlement service in the U.S., it is important we engage in this forum to ensure our views, and the views of our clients, are represented accordingly.

Federal Reserve Board Proposal to Extend the Operating Days of Fedwire Fund Services and National Settlements Services

In May 2024, the Federal Reserve Board (FRB) requested industry comments on its [proposal](#) to expand the operating days of the FRB's two large-value

payments services, Fedwire® Funds Service and the National Settlement Service (NSS), to include weekends and holidays.

Currently, both Fedwire® Funds Service and the NSS operate Monday through Friday, excluding holidays. Under the proposal, both services would operate every day of the year. The operating hours each day would remain the same, with the Fedwire® Funds Service open 22 hours per day, and NSS open 21.5 hours per day. The use of the expanded operating days by service participants, such as banks and credit unions, would be voluntary, and the FRB has proposed that the expansion would be implemented no sooner than two years after the migration of the Fedwire Funds Service to the ISO 20022 standard, scheduled for March 2025, although the final implementation timeline will be determined based on feedback to the proposal.

The FRB first requested industry comments by July 6, 2024 but then at the industry's request, extended the comment period to Sept 6. Within the proposal the FRB state that their current stance is to not extend the operating days of Fedwire® Securities Services - the FRB's securities settlement infrastructure.

Our custody team has worked with colleagues across the firm on a J.P. Morgan letter and industry letters from trade associations such as SIFMA and the ABA. These letters cover an array of industry perspectives and potential impacts which will need to be considered by the FRB given the proposal's potential significance. These letters also all agree with the FRB's stance on currently not extending the operating days of Fedwire® Securities Services and make the important case for further consultation with the industry if the FRB are to change this stance in the future.

Europe

U.K. CSD 'CREST' Modernization Roadmap

Our team is engaged in ongoing collaboration with the U.K. CSD, Euroclear U.K. & International Limited (EUI), with regards to its 8-year CREST platform Modernization Roadmap which is due to conclude in 2030. We are a key participant in all U.K. senior working groups coordinated by the CSD including EUI U.K. User Committee, Senior Client Advisory Group, and EUI Market Resiliency Group where we continue to shape and influence topics of importance to the U.K. market.

Chile, Colombia, and Peru nuam Exchange - Market Integration Project

In 2020, a project to unify the stock exchanges of Chile, Colombia and Peru was launched. The nuam exchange was created with the objective of integrating the three markets in terms of ownership, operating model, and local infrastructure. This regional exchange is being designed to bridge the gap between traditional financial markets and to implement state of the art technology that will connect the Santiago, Lima and Colombian stock exchanges.

The operating model continues to evolve with the go-live targeted for the first half of 2025. As the project has progressed, it has faced challenges related to regulatory frameworks, taxation, technological integration, the creation of a clearing house in Peru, and overall market acceptance. However, if successful, the nuam exchange and stock market integration project could pave the way for efficiency and regional accessibility to a diverse range of financial instruments.

The latest communication from the nuam exchange is that go-live is targeted for Q2 2025 and they are working to define the overall process (e.g., flows, participants, and regulatory changes). The nuam exchange has selected the vendor for the securities negotiation system and the back-office platform, however, they have not shared the technological requirements to allow participants to start their own developments.

Our team will continue to monitor this initiative and has engaged with the nuam exchange to share our perspectives on the proposed model, potential impacts and to understand progress.

Recent topics of discussion with EUI have centered around platform stability and the associated steps taken to mitigate settlement suspension scenarios, product uplift roadmaps and timelines, as well as the potential move to T+1 settlement in the U.K. In addition, our team is actively engaged in industry wide table-tops such as the U.K. Finance led Operational Resiliency exercise held in June 2024, focusing on the impact, protocols and challenges from a long-term U.K. market settlement suspension driven by a cyber-attack on EUI.

As part of its multi-year platform modernization initiative, our current ongoing dialogue with EUI is on the immediate 2-year roadmap of deliverables which include, amongst others, the following:

- Platform Modernization: Focus on technical improvements to reduce systemic risks around EUI's 'Important Business Services' and to enhance platform stability
- Access Modernization: Including a new 'front end' to the CREST GUI (expected 2025) and ISO 20022/ Network strategy
- Collateral management- predominantly Delivery-by-Value (DBV) redesign to replicate the Euroclear Tri party offering in the CREST platform from 2027

Middle East & Africa

Kingdom of Saudi Arabia - Post-Trade Technology Program (PTTP) 2.0

As mentioned in our last report, post the successful implementation of the CCP, NASDAQ Clearing System, and the NASDAQ CSD System in April 2022, the Saudi Stock Exchange / CSD started the second phase of its post-trade technology program (PTTP), which is primarily designed to incorporate from all market participants on their experience since implementation.

To assist with this effort, J.P. Morgan Custody, as members of the PTTP-2.0 working group, provided comprehensive feedback on the existing processes and systems that require improvement which include:

- The ability for the automation or bulk processing of proxy votes
- Refinement of the cash compensation process and the ability to provide adequate client reporting
- Trade referencing alignment between the communication channels at Tadawul, Muqassa and Edaa which will help overcome some of the technical and operational challenges currently faced across the market
- Extension to the trade management window on T+0, which currently closes at 16:00 hrs, to provide more flexibility for international clients to manage their trades

Euronext Securities Copenhagen

Euronext Securities Copenhagen has initiated a project to migrate all securities settlement activity to the ECB's Target 2 Securities (T2S) platform to enable greater harmonization with European and international standards and to streamline and improve processes within the Danish market. Currently, Denmark operates somewhat of a split operating model with institutional investors activity settled 'centrally' through T2S whereas retail investors activity is settled 'locally' through Euronext Securities Copenhagen. As a direct participant of Euronext Securities Copenhagen, our team is fully engaged in the relevant working groups looking at this important development.

- Improvements to cash dividend distribution in the local market to bring uniformity and alignment with other events - the existing dual process i.e. some managed by the CSD Paying Agency team and some directly managed by the Issuers, creates operational challenges and risk
- Improved functionalities for negotiated deals During PTTP Phase 1, our firm was heavily engaged in the market dialogue to standardize SWIFT message types within the new NASDAQ CSD system among many other nuances

We continue to engage with the Saudi Stock Exchange and CSD as we wait for updates, including some of the above, which are expected to be implemented by the end of 2024.

Bahrain - Implementation of Delivery Versus Payment (DVP)

Bahrain previously operated a dual account structure which required local custodians to manually transfer securities from a client's custody account to the client's trading account prior to the broker being able to instruct the trade on the exchange. The settlement process was conducted directly with the local broker via the CSD, without a Delivery Versus Payment (DVP) model in place.

Our team has been advocating directly with the CSD and via our sub-custodian in Bahrain, alongside the AGC for a DVP model that will minimize settlement exposure. The CSD implemented a new DVP settlement mechanism on September 1, 2024. The main features of the new mechanism are:

- One account structure: Clients will have one custody account opened with the sub-custodian.
- House Rejection accounts will be introduced for brokers at the CSD for the processing of rejected trades.

- Sub-custodians will have the ability to reject trades for settlement where they have not received a settlement confirmation from their client or there is a mismatch in the settlement confirmation.
- Settlement will be processed by the CSD with a difference of 15 minutes between cash and securities settlement.
- Introduction of late confirmation windows, buy-in and buyer cash compensation

Asia Pacific

Australia ASX CHESS Replacement

In December 2023, ASX announced that they had chosen the TCS BaNCS for Market Infrastructure system as the platform which would replace their CHESS sub-registry, clearing and settlement system. This marked a move away from the use of distributed ledger technology with the TCS BaNCS platform supporting traditional system architecture and connectivity options.

ASX are looking to implement the system in two phases with clearing services implemented in 2026 and settlement and sub-registry functionality deployed in 2029. On August 2, 2024, ASX released a [consultation paper](#) seeking feedback on the scope, functionality, testing and implementation of the system. The consultation paper seeks to utilize the existing functionality of the BaNCS product with minor changes to support Australian market nuances. Changes to pre-matching and settlement needed to support a T+1 settlement cycle along with support for Corporate Action instruction processing are key enhancements being consulted on. J.P. Morgan individually, and via ACSA, will be submitting a response to the consultation paper with a view to minimizing market specific changes and aligning to functionality used in existing markets.

Hong Kong RMB Dual Counter Initiative

As highlighted in our last report, the China Securities Regulatory Commission (CSRC) announced in September 2022 an objective to further enhance Hong Kong's

position as an offshore Renminbi (RMB) center. Subsequently, the Hong Kong Stock Exchange (HKEX) introduced a new HKD-RMB dual counter model in the Hong Kong securities market to allow investors to trade, settle and interchange eligible dual counter securities in the RMB counter which went live on June 19, 2023. Leading up to the implementation, our team advocated with HKEX through bilateral meetings, and via the Asia Securities Industry & Financial Markets Association (ASIFMA), to ensure that separate ISINs were assigned for the RMB counter. This advocacy was successful and resulted in all 24 eligible dual counter securities carrying a separate ISIN at the launch.

We also advocated for HKEX to adopt the Singapore model i.e. 2 counters for trading and 1 counter for clearing and settlement as a long-term solution which will eliminate the need to perform interchange transfers in the market. HKEX has since advised that they are looking to implement a long-term solution in H2 2024 which is similar to the Singapore model; therefore, eliminating the need to perform interchange transfers in the market.

In response to the industry's request, HKEX also announced in May 2024 their proposed enhancement of settlement arrangement for Multi-counter Eligible Securities in Central Clearing and Settlement System (CCASS) by adopting a single tranche multiple counter arrangement to eliminate the need for the manual inter-counter transfer of Multi-counter Eligible Securities in CCASS. There will be no change in the existing trading

arrangement; i.e. separate trading counters with different stock codes will still be made available to Multi-counter Eligible Securities for trading. However, there will only be one stock code/ISIN for post-trade activities. The target date is H1 2025 tentatively - subject to regulatory approval and market readiness.

HKEX Implement Severe Weather Trading in Securities and Derivatives Market

HKEX published a consultation paper back in December 2023 seeking public comments on the proposed operational model and related arrangements for Hong Kong's securities and derivatives markets, including Stock Connect, for them to remain operational during severe weather conditions. In June 2024, HKEX announced the finalization of the operational model and arrangements of Severe Weather Trading (SWT) to allow Hong Kong's securities and derivatives markets, including Stock Connect to remain open during severe weather conditions with effect from September 23, 2024. J.P. Morgan will be able to support SWT as per BAU.

Northbound Swap Connect Margin Collateral Arrangement

The People's Bank of China (PBOC), Hong Kong Securities and Futures Commission (SFC), Hong Kong Monetary Authority (HKMA) and HKEX announced that China Government Bonds and Policy Financial Bonds held by international investors through Bond Connect can be used as margin collateral for Northbound Swap Connect. The target date is the end of 2024, and we expect more details will be announced in due course. J.P. Morgan will continue to monitor this development and assess the impact on Custody.

Vietnam Central Counterparty

In September 2023, the Ministry of Finance issued a draft circular proposing the creation of a Central Counterparty (CCP) that will be established as a subsidiary of the Vietnam Securities Depository Corporation. The aim of the CCP is to remove the existing prefunding requirement, which is one of the key challenges for the market being reclassified as an Emerging Market.

Previously the State Securities Commission (SSC) announced a proposal to implement a CCP by no later than January 2024, but whilst the model for the CCP remains undecided, the SSC has issued a draft amendment to the Securities Law that proposes a delay to implementation of the CCP by two years until January 1, 2026.

While the removal of pre-funding was intended to take place alongside the implementation of a CCP, the SSC has confirmed implementation of non-prefunding (NPF) will become effective November 2, 2024.

Thailand - End of Day Balance Limit

Bank of Thailand (BOT), Thailand's central bank, currently imposes an End of Day (EOD) balance limit for Thai bhat (THB) 200 million. Any balances beyond this limit need to be repatriated on the same day and any excess is subject to forced conversion by the BOT. Our team attended a recent meeting with the BOT where the EOD balance limit was discussed. The BOT appreciated the insight into the challenges the EOD balance presents to Global Custody clients and expressed a willingness to find solutions. The BOT is reviewing proposals to relax some of the requirements, with a view to implementing some enhancements by the end of 2024.

5. Digital Assets



Digital assets (e.g., cryptocurrencies, tokenized and native digital securities, stablecoins, Central Bank Digital Currencies (CBDC), Non-Fungible Tokens (NFTs) to name a few.) continue to be a key area of focus for global regulators and policy makers. We remain closely involved in providing industry input on policy and regulatory initiatives, while collaborating internally on J.P. Morgan branded digital projects.

Global

Global Regulatory Standards - Bank of International Settlements (BIS)'s Basel Committee for Banking Supervision (BCBS) & International Organization of Securities Commissions (IOSCO)

As previously reported, in December 2022, the BCBS confirmed its final recommendations with regards to the prudential treatments of crypto asset exposures. The final standard adopted certain recommendations which J.P. Morgan Custody actively supported, including:

- Custody being explicitly carved out from the credit, market and liquidity risk requirements for cryptoassets, whilst remaining subject to operational risk requirements
- Modification of the infrastructure risk surcharge which has been adjusted to a flexible approach that allows regulators and central banks to impose an add-on based on any observed weaknesses in the Distributed Ledger Technology (DLT) infrastructure that underlies specific cryptoassets. Banks who can demonstrate that the infrastructure risk for these assets has been adequately addressed could therefore avoid the infrastructure risk-add on and its associated costs

Subsequently, throughout 2023 and 2024 the BCBS followed up with several related supplemental consultations for banks to comply with these standards, including one on bank's disclosure requirements for exposure to crypto-assets; and another on technical amendments to the prudential treatment of crypto-assets.

Our firm engaged with relevant trade associations, including the Global Financial Markets Association (GFMA), SIFMA, AFME, and ASIFMA, and supported joint association letters filed H1 2024 on both consultations, and we are expecting the BCBS to release its final position by the end of 2024.

Americas

SEC Staff Accounting Bulletin 121 for Crypto Assets (SAB 121)

As previously reported, in March 2022 the SEC issued guidance requiring filing firms to hold a liability and corresponding asset on their balance sheet to reflect the fair value of any "crypto assets" which are being safeguarded for their clients. This contrasts with the traditional treatment of non-cash assets held in custody, which are treated as the client's property (not property of their custodian), and therefore not reflected as a liability for the custodian on its balance sheet. The SEC's broad definition of "crypto assets" arguably captures safekeeping of any type of asset on public and private DLT, therefore potentially capturing several current and future initiatives related to assets on DLT across the industry.

Also, as previously reported, IOSCO finalized several policy recommendations for Crypto and Digital Asset Markets in Q4 2023. Importantly for custodians and custodians' clients, the recommendations include requirements for operational or legal segregation of functions to avoid conflicts of interest and also strict requirement on segregation of client assets.

As different regulators look to implement these international recommendations across their relevant jurisdictions, J.P. Morgan will continue to promote regulatory clarity and consistency across this space, as well as regulations which appropriately reflect risk and promote efficiency for market participants and service providers. In this respect, we aim to ensure a level playing field across bank and non-bank custody service providers when providing digital asset services, and also avoid overly burdensome regulatory requirements imposed on financial institutions.

BCBS also continues to release studies considering the risks of banks using DLT. The most recent one, released in August, focusses on the [novel risks of banks transacting on permissionless blockchains](#). The paper outlines risks such as a hard fork of the blockchain and lack of oversight over validators; explores KYC, AML and CFT challenges; and the lack of settlement finality on many DLTs.

Our firm provided significant input into industry discussions post the release of SAB 121 and influenced formal industry letters to the SEC, U.S. Treasury and U.S. Federal regulators in 2022.

In October 2023, the U.S. Government Accountability Office - which provides Congress, the heads of executive agencies, and the public with timely, fact-based, non-partisan information that can be used to improve government - released a report stating that the SEC did not follow the appropriate rulemaking procedures to implement the guidance. This report was welcomed by trade associations and Congress. Our firm subsequently contributed to an additional joint trade association letter issued to the SEC in February 2024 reiterating the issues with the SEC guidance and a request for targeted modifications to the guidance.

In Feb 2024, members of Congress also introduced a Congressional Review Act (CRA) resolution to rescind the SEC guidance given the release of the GAO report. However, despite passing with bipartisan support in both chambers of Congress, President Biden vetoed the resolution, which means SAB 121 is still intact; albeit, the SEC has recently granted a limited number of exemptions.

U.S. Federal Legislative Developments:

Although no federal U.S. Digital Asset related legislation is expected to become law in 2024, highlighted below are two legislative proposals still under consideration in the U.S. These are:

- The *Lummis-Gillibrand Payment Stablecoin Act* - which attempts to set a framework for stablecoin issuers. This was introduced in April 2024 by U.S. Senators Kirsten Gillibrand (D-NY), member of the Senate Agriculture Committee, and Cynthia Lummis (R-WY), member of the Senate Banking Committee. Congress continues to debate and negotiate the legislation,

particularly whether licensing and supervision should be done by State regulators or the Federal Reserve Board.

- The *Financial Innovation and Technology for the 21st Century (FIT 21) Act* - which includes a comprehensive regulatory framework for digital assets. This was jointly proposed in June 2023 by the House Financial Services Committee and the Agricultural Committee (which has jurisdiction over derivatives and futures exchanges), and subsequently passed in the House of Representatives in May 2024. However, to date FIT 21 has not received consideration in the Senate.

While we do not expect either legislative proposal to progress during the remainder of the year, both proposals continue to serve as blueprints that will likely inform subsequent pieces of legislation which may become law in the future. Our firm will continue to monitor developments related to these proposals and any others related to U.S. Federal Legislation on digital assets.

Europe

E.U. Developments

As stated in our previous report, the Markets in Crypto-assets Regulation (MiCA) was published on June 9, 2023. MiCA aims to provide a European-wide regulatory framework for certain types of crypto-asset issuers and service providers not covered by existing traditional financial services regulations. It distinguishes between four types of crypto-assets, including E-Money tokens, Asset Referenced tokens, Utility tokens and “Other” crypto-assets. As of June 2024, the measures within MiCA which cover the issuance and related services for E-Money tokens and Asset Referenced Tokens (including Stablecoins) entered into force. The remainder of MiCA will enter into force from December 2024.

As also stated in our previous report the E.U. DLT pilot Regulation entered into force on March 23, 2023. It established a regime for DLT based Financial Market Infrastructures (DLT Multilateral Trading Venues (MTFs), DLT CSDs and the combination of both functions, DLT Trading and Settlement Systems (TSS)) allowing for the issuance, trading, settlement and custody of certain

digital securities subject to a size threshold. It also included a market value threshold above which those financial market infrastructures would need to transition to traditional entities. Most recently, ESMA published a letter to the EC, EP and ECOFIN on the status of the applications under the DLT Pilot Regime, highlighting the absence of formal authorizations and the need for a review of the DLT Pilot regime to enhance its attractiveness. This may trigger a review of the current DLT Pilot Regime to increase its attractiveness. Our team will continue to monitor developments related to both pieces of legislation.

U.K. Developments

As previously reported the Financial Conduct Authority (FCA) and Bank of England (BoE) published Discussion Papers on their proposed approach to regulating stablecoins in November 2023, focusing on sterling-based stablecoins used as a widespread means of payment. With regards to custody activity, the discussion paper proposed security tokens and stablecoins would be subject to a new custody regime

which would then be applied to other types of digital assets in later consultation papers.

J.P. Morgan was actively involved in industry responses through trade associations, notably on the need to distinguish security tokens from stablecoins. Since our May update, the U.K. authorities have been conducting a variety of different experiments, the latest one on the monitoring of stablecoins reserves. Meanwhile, on September 11, 2024, the U.K. Government introduced [a new Bill to Parliament](#) seeking to clarify that digital assets, amongst certain other things, can be considered as 'property' by law in England and Wales. This follows recommendations by the U.K. Law Commission and their related consultations which our team has been actively engaged in since 2020.

Asia Pacific

Hong Kong Monetary Authority (HKMA) Consultation Paper on Cryptoasset Exposure

J.P. Morgan provided feedback to the HKMA Cryptoasset Exposure consultation paper via ASIFMA in May 2024. The consultation paper set out the HKMA proposal for implementing new regulations on the prudential treatment of cryptoasset exposures, in response to the Basel Committee on Banking Supervision (BCBS) standard global regulatory framework. Importantly, it has not imposed a fixed requirement for an infrastructure risk surcharge as originally proposed in the BCBS recommendations, though it reserves the right to do so.

HKMA issued a [circular](#) in July 2024 indicating that it will issue another consultation in due course, following the BCBS' release on the final disclosure framework for banks' cryptoasset exposures. J.P. Morgan continues to monitor and track these developments.

Monetary Authority of Singapore - Project Guardian and Asset Tokenization

Over the past two years, the Monetary Authority of Singapore (MAS) has worked with 24 financial institutions, including J.P. Morgan, to pilot promising asset tokenization use cases under an initiative called "Project Guardian". In June 2024, to promote greater traction in these use cases, MAS [announced](#) the

We have also been engaged with the U.K. regulators on their Digital Securities Sandbox (DSS) which enables firms and the regulators to test the use of DLT subject to a modified legislative framework. The FCA and BoE opened the DSS on September 30, 2024.

Furthermore, the BoE published a [discussion paper](#) in July 2024 on its approach to innovation in money and payments which brings together its existing initiatives on payments and proposes further experimentation on wholesale central bank digital currencies. The BoE has requested industry comments by October 31, 2024, and our team is actively engaged in trade association discussions, such as those at U.K. Finance and AFME, to respond to the consultation.

expansion of the initiative by welcoming the Global Financial Markets Association (GFMA), International Capital Market Association (ICMA) and the International Swaps and Derivatives Association (ISDA) as the first global industry associations to join Project Guardian's industry group.

Building on the success of Project Guardian's industry pilots, the initiative is now focusing on the development of common asset tokenization standards in fixed income and foreign exchange (FX), as well as across asset & wealth management and fund tokenization. Our firm will continue to engage with MAS, as well as monitor digital asset related developments in Singapore given it continues to establish itself as one of the more advanced regulatory regimes in this space.



6. Regional Developments and Outlook

Outside of the themes highlighted in other chapters within this report, local and regional regulators continue to develop regulatory frameworks covering areas such as asset safety, account opening, clearing, financial and operational resilience and more. This chapter covers some recent key developments across the globe; however, it is not an exhaustive list of all regulations and proposals globally.

Americas

SEC proposal on Safeguarding Advisory Client Assets

In March 2023, the SEC proposed a new rule under the Investment Adviser Act of 1940 that addresses custody of client assets. The proposal sought to amend the current “Custody Rule” and intended to help ensure that “Qualified Custodians” (QCs) provide certain standard custodial protections when maintaining an advisory client’s assets. Funds registered under the Investment Company Act of 1940 (“Funds”) were not within the scope of the proposal.

The proposal widened the scope of assets covered by the current Custody Rule beyond “funds” (cash) and “securities” to any “other positions held in a client’s account”; and required SEC Registered Investment Advisers (RIAs) to enter into written agreements with QCs, amongst several other requirements. The proposal also required RIAs to obtain certain assurances in writing from their QCs, effectively requiring QCs to exercise due care; indemnify relevant clients against loss resulting from negligence; fulfill obligations regardless of sub-custodial arrangements; clearly identify client’s assets, hold them in a custodial account, and segregate them from the QC’s assets; and not subject client assets to liens unless authorized to do so in writing. The proposal also required RIAs to monitor QCs to ensure compliance with these assurances, and it imposed certain additional requirements on Foreign Financial Institutions (FFIs) offering custody services.

In response to the proposal, our firm sent two comment letters to the SEC in 2023 and participated in drafting several trade association letters including those from SIFMA, the American Bankers Association (ABA), the Bank Policy Institute (BPI), AGC, ICI, AFME and others. We also participated in several bilateral, and trade association, meetings with SEC Staff and Commissioners on the proposed rule.

In response to industry feedback, the SEC, having originally indicated it was targeting to publish a final rule in Q2 2024, announced it is planning to repropose the rule by end of Q3 2024; however to date no re-proposed rule has been published. Our firm will review any such re-proposal and will engage with the SEC, relevant trade associations and clients as appropriate.

SEC Rule for U.S. Treasury Clearing

As previously reported in our May 2024 report, the SEC adopted a final rule in December 2023 to require certain transactions in U.S. Treasury securities to be centrally cleared. This followed the proposed rules set out by the SEC in September 2022 which aimed to enhance risk management practices in the U.S. Treasury market and incentivize and facilitate additional central clearing of U.S. Treasury securities.

The final rule will implement a broad central clearing requirement for U.S. Treasury repos and interdealer cash sales and purchases of U.S. Treasury securities. Specifically, it will cover:

- Repo - all repo and reverse repo agreements to which a direct participant of FICC is a counterparty

(this covers interdealer and dealer-to-customer activity); and

- Cash - all cash transactions (i.e., purchases and sales of Treasury securities) by direct participants who are acting as interdealer brokers (IDBs), and all cash purchases and sales between a direct participant and a registered broker-dealer, or a government securities dealer or broker

The Fixed Income Clearing Corporation (FICC) is currently the only SEC registered covered clearing agency that provides central counterparty services for U.S. Treasury securities. However, we expect other clearing agents to seek regulatory approval to clear U.S. Treasuries. The rule requires FICC to establish policies and procedures to facilitate access to clearance and settlement services of all eligible secondary market transactions in U.S. Treasury securities, including those of indirect participants (e.g., where a U.S. Treasury clearing agent has a sponsored member or agency clearing access program). Indirect participants include pension funds, asset managers, investment advisers and Registered Investment Companies.

From an implementation perspective, the clearing requirement for cash transactions will apply from Dec 2025, whereas the clearing requirement for repo and reverse repo agreements will apply from June 2026. Any entity (with noted exclusions for certain public sector entities) trading a repo or reverse repo with a U.S. Treasury clearing agent direct participant that is collateralized by U.S. Treasury securities is likely to be in scope of the clearing requirement. Clients need to engage their brokers and consider their approach to ensuring these trades are cleared. Clients should also be aware that since the publication of the SEC’s final rule, FICC has published proposals to implement the clearing requirement including proposals on their access models (sponsored and agency clearing) and margin segregation.

Although the direct impact on J.P. Morgan Custody may be limited, we will continue to engage in industry discussion and analysis, via leading trade associations such as SIFMA, FICC or other U.S. Treasury clearing agents who obtain the relevant regulatory approvals, while the SEC provide further information and guidance. For more information on the SEC’s final rule and the FICC’s preparation see [here](#).

SEC Cyber proposals for Registered Investment Advisers and Funds

In February 2022, the SEC proposed new cybersecurity rules for RIAs and Funds focusing on policies and

procedures, incident management and notifications, disclosures, and oversight of key third parties. In March 2023, the SEC re-opened the comment period due to other SEC proposals on cybersecurity risk. Our firm engaged in industry association letters (e.g., from SIFMA and BPI) sent to the SEC with the aim of getting greater clarity on whether custody services are captured in the proposed rules. Our current understanding is the SEC plans to publish a final rule by the end of 2024.

SEC Outsourcing proposal for Registered Investment Advisers

In October 2022, the SEC published a proposed rule on outsourcing for RIAs. The proposed rule is designed to ensure that RIAs meet certain minimum requirements when outsourcing covered functions to service providers. We contributed to industry letters submitted by SIFMA and the ABA which raised issues with the lack of clarity on whether custody is in or out of scope of the proposed outsourcing rules. Our current understanding is the SEC plans to publish a final rule by the end of 2024.

Financial Data Transparency Act Joint Data Standards

In December 2022, the U.S. Financial Data Transparency Act (FDTA) was signed into U.S. law. The FDTA effectively directed nine federal agencies, including the SEC, FRB, the Office of the Comptroller of the Currency (OCC), The Federal Deposit Insurance Corporation

(FDIC), the Commodity Futures Trading Commission (CFTC) and others, to jointly issue a rule that establishes data standards for the collections of information reported to the agencies by financial entities under the jurisdiction of the agencies. In line with the FDTA, the federal agencies published an [interagency proposal](#) to establish such data standards in August 2024. The interagency proposal includes the use of eight common identifiers related to entities, geographic locations, dates and certain products and currencies, as well as a principles-based joint standard with respect to transmitting and structuring data, amongst other things.

The industry has until October 21, 2024, to respond, and our team is engaged in industry discussions with relevant trade associations, including SIFMA, on responding to the proposal.

Brazilian Market Access

On August 30, 2024, the Brazilian Central Bank (BACEN) and the Brazilian Securities Commission (CVM) jointly issued a Public Hearing to obtain industry feedback, focusing on proposed updates to the regulation that dictates foreign investments into the Brazilian Market (current Res. CMN 4373/14). Market participants were able to provide comments by September 30, 2024, and the new/ updated regulation should become effective as of January 1st, 2025. Our team engaged in market discussions with ANBIMA (the local market association) who has provided feedback to the regulators.

Europe

Capital Requirement Directive (CRD) VI

As highlighted in our previous report, in July 2023 the European Council and Parliament reached a political agreement on the E.U. banking package which implements the finalized Basel III E.U. standards. The agreement largely adheres to the international Basel standards with some E.U. specific changes to the framework, most of which will apply only transitionally.

Of note, new provisions under CRDVI include a requirement for third country institutions to establish a branch to provide certain cross-border “core banking services”, namely deposit taking, lending and guarantees & commitments, to clients in the E.U. unless one of the exemptions granted under the directive applies. These exemptions include reverse solicitation (whereby the client approaches the third country

institution itself requesting it to provide the services), inter-bank and intra-group services, grandfathering and certain MiFID services.

The final text has now been published in the E.U. Official Journal, however, as a directive, Member States must adopt national implementing measures in January 2026 with third-country branch requirements coming into effect from January 2027.

Whilst J.P. Morgan has an E.U.-domiciled subsidiary (J.P. Morgan SE), our team advocated for Custody-related activities including the safekeeping and administration of securities (and safe custody services) to be removed from the scope of CRDVI - which was achieved during the political negotiations. The final text has inadvertently created some ambiguity on whether the provision of deposit taking and lending services in the frame of

custody services would be in scope. To this end, we will work with the AGC and AFME in 2024 / 2025 to respond to the various implementing mandates required under the directive, in addition to monitoring Member States' transpositions - continuing to advocate for all services and processes ancillary to the 'safekeeping and administration of assets' including deposit taking and lending to be duly exempt. Meanwhile, J.P. Morgan has a program in place to explore how the requirements under CRDVI can be met should such restrictions be imposed in the national transpositions.

E.U. Alternative Investment Fund Managers Directive AIFMD & Undertakings for the Collective Investment in Transferable Securities (UCITS) Review

As mentioned in our May 2024 report, a final text amending AIFMD was published in the Official Journal of the E.U. marking the end of the first phase of the AIFMD Review. Our team supported the ECs position that AIFMD has generally worked well and that only targeted change and use of guidance is required. We consider highlights of the review to include:

- Introduction of a fully aligned set of liquidity management tools, across AIFMD and UCITS
- CSDs acting as Investor CSDs will be considered delegates of the depositary. Meanwhile delegation rules for AIF and UCITS managers will remain largely unchanged
- AIF and UCITS manager reporting rules will be amended via RTS/ITS
- A new pan-E.U. regime for loan origination will include, amongst others, a requirement for funds to retain notional 5% value of loans (AIFMD only)
- Introduction of a "mini-passport" for AIF depositaries subject to thresholds and Member State discretion (AIFMD only)

In terms of next steps, E.U. Member States have until April 16, 2026, to transpose the directive into national law. From an advocacy perspective, our team will focus on monitoring the national transpositions and the development of delegated regulations and technical standards, including any public consultations.

Payment Services Directive 3

As previously reported, the E.U. continues to work on its Payment Services Directive 3 (PSD III) following its review of PSDII. The EC outlined a proposal for PSD III in June 2023, which aims to provide rules on the efficiency

and security of electronic/digital payments and financial services in the E.U. and improve competition and innovation by creating a more level playing field between banks and non-banks. The proposed directive is currently undergoing political negotiations between E.U. policymakers and could take effect as early as 2026. From a J.P. Morgan Custody perspective, although we expect the impact on our business and services to be minimal, we will continue to monitor ongoing negotiations between E.U. policymakers and engage clients accordingly as the directive is finalized.

U.K. Edinburgh reforms

In the U.K., the 'Financial Services & Markets Act' (FSMA), which seeks to repeal retained E.U. law, and the 'Edinburgh Reforms' have triggered numerous public consultations since January 2023 which have included the Short Selling Regulation and Payment Services Regulation. To date, core 'securities post-trade' regulations and directives such as CSDR, Settlement Finality Directive (SFD), and SRDII, have not yet stepped into the spotlight - but could later in 2024 / into 2025.

Our firm is closely monitoring the evolving U.K. regulatory environment and noted HMT's paper outlining the next phase of the U.K. Smarter Financial Services Regulatory Framework (SRF) on March 21, 2024, with HMT planning to undertake full standalone reviews of:

- AIFMD
- UCITS
- Payment Services and E-Money Directives (already under way)
- EMIR re Titles III, IV and V relating to central counterparties
- MIFIDII re organizational requirements and operating conditions for investment firms and transaction reporting

To date, HMT has stated that the U.K. has removed 44% of assimilated law relating to financial services and our team continues to watch developments closely.

U.K. Digitization Taskforce

As mentioned in our May 2024 report, the U.K. Digitization Taskforce was established in July 2022 by the U.K. Government to drive the digitization of the U.K. shareholding framework by eliminating the use of paper share certificates, and more broadly to improve the U.K.'s intermediated system of share ownership.

In July 2023 the Chair of the Taskforce, Sir Douglas Flint, published an [interim report](#) that recommended:

- Legislation to stop the issuance of new share certificates ‘as soon as practicable’
- Legislation requiring dematerialization of all share certificates ‘as soon as possible’
- Consultation with issuers and investor representatives on the preferred approach to ‘residual’ paper interests
- Obligation for intermediaries to have technology that enables the response to Ultimate Beneficial Owner (UBO) requests within a ‘very short timeframe’

- Transparency requirements for intermediaries to detail the extent to which clients can access their rights as shareholders and for any charges imposed
- Requirement for intermediaries offering services for shareholders to vote to provide efficient two-way messaging between the issuer and UBO
- Legislation should support the discontinuation of cheques and mandate direct payment to the UBO’s bank account

We welcome these developments and await the final report which we now anticipate being published by the end of 2024 and may trigger U.K. legislative changes.

Middle East & Africa

Kingdom of Saudi Arabia – Omnibus Accounts for Global Custodians

As stated in our last report, the Saudi Capital Markets Authority’s permission to allow ICSDs to open Omnibus Foreign Nominee Accounts (OFNAs) for clients investing in the Saudi Fixed Income market from May 6, 2021, was a positive step towards promoting foreign investment in the Saudi Arabian local debt market. Since omnibus accounts provide ease of market access for foreign investors, we believe that further foreign investor access can be achieved by permitting global custodians to offer OFNAs to their clients, particularly to non-resident investors. Such a development would further support the development of the local debt market and increase liquidity.

This will also benefit CMA licensed Capital Markets Institutions (CMIs), such as J.P. Morgan Custody, as it will complement and help develop their local custody service suite. With an OFNA structure, we can demonstrate:

- Scale through single point of entry with an option of omnibus or segregated accounts in line with market and client requirements
- Asset safety and protection
- A full range of supporting products including network, tax, proxy regulatory capabilities, intelligence to deliver industry expertise, liquidity and FX solutions to maximize cash efficiency

In line with the above, in July 2024, the Saudi CMA published a draft Capital Markets Institutions Regulations, which featured elements in the direction of allowing omnibus accounts to local and foreign custodians and asset owners. However, the proposed changes are broad and do not specifically address

certain legal and operational aspects of such structures e.g. treatment of foreign ownership limits, impacts of 5% withholding taxes on underlying clients based on their diverse domicile, etc. We continue to advocate for OFNAs for global custodians in the Kingdom of Saudi Arabia and will keep clients apprised of progress.

Qatar – Qatar Central Securities Depository New Account Opening Platform

As previously reported, the Qatar Central Securities Depository (EDAA) launched a new account opening platform in February 2024. It is being implemented in 2 phases.

- Phase 1 consisted of the EDAA providing sub-custodians the ability to upload soft copies of documents to the depository system. This went live in February 2024, but clients are still required to provide physical documents at this stage.
- For Phase 2, the EDAA intends to reduce the number of documents required for account opening and simplify legal requirements so that soft copies of finalized documentation can be submitted to sub-custodians. The timeframe is unclear at this stage

When fully implemented this is expected to ease clients access to the Qatari market, remove the requirement to provide personal information / documents when opening accounts, and to reduce the cost of opening accounts in this market. Our team remains actively engaged with the EDAA in advocating for the automation and simplification of account opening, both bilaterally and through its sub-custodian, and will inform its clients of progress, including time frames once confirmed.

Asia Pacific

Australia - Prudential Standard CPS 230 Operational Risk Management

Australian Prudential Regulation Authority (APRA) published the final version of cross-industry Prudential Standard CPS 230 (CPS 230) on July 17, 2023. The standard is effective from July 1, 2025, with transitional arrangements for pre-existing contractual arrangements with service providers until July 1, 2026. The key objectives of CPS 230 are aligned to:

- Operational Risk Management
- Business Continuity
- Service Provider Management

The standard introduces substantial changes to the way APRA regulated entities are required to oversee and manage arrangements with services providers, including custodians. On June 13, 2024, to help implement CPS 230, APRA released its finalized prudential practice guide, which is less prescriptive and more principles-based than the draft guide.

From an advocacy perspective, J.P. Morgan Custody is a key member of the Australian Custodial Services Association (ACSA) CPS 230 Working Group (WG), which was established to understand the key concepts of APRA's new regulatory standard on behalf of the custodial services industry. The primary objective has been to define the requirements of our clients and members' needs under CPS 230 as material service providers then design a plan to implement a standardized industry guideline. The ACSA CPS 230 industry working group published a guidance note for critical operations in June 2024 and is planning further publications including a guidance note on tolerance levels in 2024.

Our team also recently published an FAQ which clients can request from their client service representative.

India - SEBI Invites Public Comments on Improving Ease of Doing Business with Respect to Additional Disclosure Framework for Large Foreign Portfolio Investors (FPIs):

Our team continues to help clients navigate a dynamic regulatory environment in India. As regulatory frameworks around KYC (Know Your Customer) and disclosure tightens, our focus has been to highlight the practical challenges faced by foreign investors to meet additional KYC requirements and ongoing compliance, and to work with the regulators to improve the operating environment.

Under SEBI's additional disclosure framework for FPIs specified by their August 24, 2023, Circular, certain FPIs/investor groups with assets under management exceeding INR 250 billion are required to provide granular details of all their investors/stakeholders on a look-through basis, to ascertain whether the FPI is effectively domiciled in a Land Bordering Country (LBC) or not. To improve the ease of doing business, rather than requiring disclosure of all investors/stakeholders, SEBI in July 2024 invited public comments on a new proposal which seeks to obtain disclosures of an appropriate majority at a threshold to identify and categorize an FPI as LBC or non-LBC entity.

Our team continues to engage with the regulators and key trade associations such as ASIFMA and the AGC to improve the operating environment for FPIs.

Taiwan - Foreign Investors appointing custodians

Currently, Foreign Investors (FINIs) in Taiwan are permitted to apply for Multiple Trading Account (MTA) to facilitate asset segregation, such as for different external fund managers or global custodian banks to operate/manage the accounts. However, as one FINI can only appoint one local custodian, all MTAs of a FINI must be set up with the same local custodian currently.

Our firm had proposed to lift this restriction in the market and participated in industry discussions to provide suggestions to Taiwan Stock Exchange Corporation (TWSE) and Taiwan Depository & Clearing Corporation (TDCC). Subsequently, following these industry discussions the Financial Supervisory Commission (FSC) has permitted FINIs to appoint multiple custodians in Taiwan, effective in the first quarter of 2025.



Appendix - Glossary

ABA	American Bankers Association
ACSA	Australian Custodian Services Association
AFME	Association for Financial Markets in Europe
AFSL	Australian Financial Services License
AGC	Association of Global Custodians
AGMs	Annual General Meetings
AIFMD	Alternative Investment Fund Managers Directives
ANBIMA	Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais
APRA	Australian Prudential Regulation Authority
ASIFMA	Asia Securities Industry & Financial Markets Association
ASX	Australian Stock Exchange
ATO	Australia Tax Office
B3	Brazilian Stock Exchange
BACEN	Banco Central do Brasil (Brazilian Central Bank)
BCBS	Basel Committee for Banking Supervision
BIS	Bank of International Settlements
BoE	Bank of England

BOT	Bank of Thailand
BPI	Bank Policy Institute
CCIL	Clearing Corporation of India Limited
CCASS	Central Clearing and Settlement System
CCP	Central Counterparty
CFTC	Commodity Futures Trading Commission
CMA	Saudi Capital Markets Authority's
CMIs	Saudi Capital Markets Institutions
CMU	Capital Markets Union
COR	Certificate of Residence
CRA	Congressional Review Act
CRD VI	Capital Requirements Directive VI
CPS 230	Cross-Industry Prudential Standard
CSD	Central Securities Depository
CSDR	Central Securities Depositories Regulation
CSDR ReFIT	Amended version of CSDR following the EC review of CSDR
CSRC	China Securities Regulatory Commission
CVM	Comissão de Valores Mobiliários (Brazilian Regulator)
DBv	Delivery by Value
DLT	Distributed Ledger Technology
DLT MTF	DLT Multilateral Trading Facility
DLT TSS	DLT Trading and Settlement System
DSS	Digital Securities Sandbox
DTC	Depository Trust Company
DTCC	Depository Trust & Clearing Corporation
DTCC CSAC	DTCC Clearing & Settlement Advisory Council
DVP	Delivery Versus Payment
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ECB AMI-SeCo	ECB Advisory Group on Market Infrastructures for Securities and Collateral
ECB SCoRE	Single Collateral Management Rulebook for Europe
ECMS	European Collateral Management System
ECOFIN	Economic and Financial Affairs Council
EDAA	Qatar Central Securities Depository
EMIR	European Market Infrastructure Regulation
EP	European Parliament
EOD	End-of-Day

ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETF	Exchange Traded Fund
E.U.	European Union
EUI	Euroclear U.K. & International Limited
FASTER	Faster and Safer Relief of Excess Withholding Taxes
FATCA	Foreign Account Tax Compliance Act
FCA	Financial Conduct Authority
FICC	Fixed Income Clearing Corporation
FDTA	Financial Data Transparency Act
FDIC	Federal Deposit Insurance Corporation
FMI	Financial Market Infrastructure
FPI	Foreign Portfolio Investors in India
FRB	Federal Reserve Board
FSS	Federal Reserve Board Securities Services
FSS ACAP	FSS Automatic Claims Adjustment Process
GAO	U.S. Government Accountability Office
GFMA	Global Financial Markets Association
HKEX	Hong Kong Exchanges and Clearing Limited
HKMA	Hong Kong Market Authority
HMT	His Majesty's Treasury (U.K. Government Treasury Department)
ICI	Investment Company Institute
IDB	Interdealer Broker
INR	Indian rupee
IOSCO	International Organization of Securities Commissions
IRS	U.S. Internal Revenue Service
ISITC	International Securities Association for Institutional Trade Communication
ISO 20022	An open global standard for financial information
KYC	Know Your Customer
MBI	Mandatory buy-in regime under CSDR
MBS	Mortgaged Backed Securities
MiCA	Markets in Crypto Assets
MIFID	Markets in Financial Instruments Directive
NCCPL	National Clearing Company of Pakistan Limited
OCC	Office of the Comptroller of the Currency
OFNAs	Omnibus Foreign Nominee Accounts

PBOC	People's Bank of China
POA	Power of Attorney
PSD III	Payment Services Directive III
PTTP	Kingdom of Saudi Arabia Post-Trade Technology Programme
QC	Qualified Custodian
RBI	Reserve Bank of India
RMB	Renminbi (Chinese Currency)
SEBI	Securities and Exchange Board of India
SEC	Securities and Exchange Commission
SEC RIA	SEC Registered Investment Adviser
SFC	Hong Kong Securities and Futures Commission
SFD	Settlement Finality Directive
SFT	Securities Financing Transactions
SIFMA	Securities Industry and Financial Markets Association
SOP	Standard Operating Procedure
SRDs	Shareholder Rights Directives
SSC	Vietnamese State Securities Commission
SWT	Severe Weather Trading
T2S	Target-2 Securities
UBO	Ultimate Beneficial Owner
UCITS	Undertakings for Collective Investment in Transferrable Securities
U.K. FSMA	U.K. Financial Services & Markets Act
UTI	Unique Transaction Identifier

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