

Custody Industry and Regulatory Developments Report

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





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Foreword



Hannah Elson

Global Head of J.P. Morgan Custody

In October 2023 we published our first Custody Industry and Regulatory Developments Report. Our goal was twofold. Firstly, to provide clients with an overview of some of the key industry and regulatory initiatives and developments impacting the post-trade securities landscape; and secondly, to provide our clients with insight on how we engage, advocate, and influence these initiatives to support the custody business, our clients and our product strategy globally.

Following positive client engagement and feedback, we are pleased to publish the second edition of this report to ensure we continue to provide our clients with updated information on the key items discussed in our last report, as well as 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 require targeted engagement and advocacy with policymakers, regulators, financial market infrastructures and industry bodies. Our approach focuses on providing pragmatic, expert contributions to these initiatives, whilst aiming to support policymakers' and regulators' objectives in a way which is feasible for the industry and investors.

As a leading global custodian we operate in over 100 markets. Our participation and leadership in industry trade associations, advisory boards, specific working groups and task forces, in addition to collaboration and partnership with our sub-custody and market infrastructure network, is key to harmonizing and improving market practices, standards, and regulations to promote well-functioning and efficient markets.

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 which require engagement and advocacy.

The report provides global and regional perspectives and is structured as follows:

1. **Settlement Acceleration & Efficiency**
2. **Asset Servicing**
3. **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. Therefore, if you have any questions or would like to have a follow up discussion on the content within this report, 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

Over the last 12-18 months we have seen a growing focus across the industry on [settlement acceleration and efficiency](#), particularly as the industry prepares for T+1 implementation in the [U.S.](#), [Canada](#) and across parts of [Latin America](#). This coupled with the move to T+1 in India in 2023 has triggered settlement acceleration initiatives and analysis elsewhere around the globe, particularly in the [U.K. and EU](#); all of whom will be watching the transition to T+1 across the Americas closely with the aim of learning lessons for their own future transitions. We expect settlement acceleration and efficiency to continue to attract attention of policymakers, regulators, our clients, custodians, brokers, financial market infrastructures and vendors globally for a number of years to come, and our team will continue to position ourselves in key industry and regulatory discussions and forums accordingly.

Meanwhile, [asset servicing](#) and [tax](#) both continue to be areas which require ongoing industry engagement and advocacy to improve regulatory proposals, market standards and efficiency. Examples of significant initiatives underway include the review of the [Shareholder Rights Directive](#), and the proposal to [harmonize Withholding Tax in the EU](#). Furthermore, we are beginning to see progress in certain markets, including Mexico, Brazil, Qatar, Kuwait and Australia in respect to [hybrid and electronic voting](#) capabilities and frameworks, which has been a longstanding advocacy priority for our team.

We also continue to see focus from [Financial Market Infrastructures](#) on their operating models and technical capabilities to ensure they are delivering value and efficiencies for the industry (e.g., exploring partial settlement at the Depository Trust & Clearing Cooperation (DTCC); Hong Kong's RMB Dual Counter initiative) and innovating (e.g., the use of Unique Transaction Identifier, the nuam exchange market integration project), improving resilience through modernization programs, and reducing their costs. These all require engagement and dialogue from our business and have downstream effects for brokers, custodians, and our clients.

[Digital assets](#) is another area where we continue to see developments as policymakers and regulators focus on addressing concerns regarding protection of client investments and funds, and potential contagion risk into the traditional financial sector.

Meanwhile, the [regional and local regulatory and market development agenda](#) outside these themes has gained pace since our last report. For example, the pending publication of the [U.S. SEC's Safeguarding Advisory Client Assets](#) rule, and the publication of the [SEC's final rule on U.S. Treasury Clearing](#) are just two major regulatory initiatives amongst many which we and our clients will need to monitor, assess, and continue to engage on going forward.

Please note this document was drafted in early May 2024 and developments may have evolved since its publication.



1.

Settlement Acceleration & Efficiency

Settlement acceleration and settlement efficiency continues to be a growing global priority which impacts all actors in the trade to post-trade value chain including Investors, Custodians, Broker Dealers, and Central Securities Depositories (CSDs). With the compliance date of T+1 in the U.S. and Canada upon us we expect policymakers and financial market infrastructures globally to continue to focus on settlement acceleration and settlement efficiency for years to come.

J.P. Morgan Custody continues to advocate for an orderly and efficient post-trade environment, and whilst accelerated settlement, and regulations and initiatives aimed at 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/regulatory obligations. As such, our advocacy has and will continue to take a market by market approach.

Americas

U.S. T+1

On May 28, 2024 the U.S. will implement a T+1 settlement cycle for Depository Trust Company (DTC) eligible trades. The instruments subject to T+1 include equity securities, corporate bonds, municipal bonds, unit investment trusts as well as exchange traded funds (ETFs), American Depositary Receipts (ADRs), rights, and warrants settling at DTC. This has been a significant industry initiative in international securities markets and will shorten the T+2 status quo which has been the default for many markets since the U.S. moved to T+2 in 2017.

Our firm has actively engaged in the U.S. T+1 industry discussions since inception of the initiative in 2021. For example, we have chaired the Association of Global Custodians (AGC) T+1 Working Group which drives the custody industry's engagement in U.S. T+1 and have also been an active member of the T+1 Industry Steering Committee and associated working groups, coordinated by Securities Industry and Financial Markets Association (SIFMA), the Investment Company Institute (ICI), and DTC, which have supported the industry's implementation of T+1.

In recent months, in the lead up to go-live date, we have actively participated in industry discussions on key topics including SIFMA's voluntary recommendations for dual listed/ foreign securities, the approach to foreign exchange and funding for T+1, and DTCC's testing and implementation plans.

We have also continued to raise awareness for clients and the wider industry through engagement and participation in industry panels and webinars, such as the SIFMA & AGC joint webinar on T+1 settlement in January 2024, as well as through J.P. Morgan publications such as our client article on [U.S. Trade Affirmations](#) in April 2024. Meanwhile, key industry papers and information can be found at [UST1.org](#)

Canada T+1

Due to the number of securities that can be listed in both Canada and the U.S., it was recognized that investors would benefit if both markets adopted the T+1 cycle at the same time. Given the Securities and Exchange Commission (SEC) in the U.S. committed to May 28, 2024 as the compliance date for U.S. T+1, which is a public holiday in the U.S. but not in Canada, the Canadian move to T+1 will take place one day earlier than the U.S. on May 27, 2024.

Our firm has been engaging with our Canadian sub-custodians and the Canadian Capital Markets

Association (CCMA) on the transition. Following our and the wider industry's request for clarity on certain regulations related to the transition, in December 2023, the Canadian Securities Administrators (CSA) adopted amendments to the National Instrument 24-101 Institutional Trade Matching and Settlement Regulation and its Companion Policy. The amendments include changes referencing the settlement cycle move from T+2 to T+1 and changing the trade-matching deadline to 3:59 a.m. Eastern Time (ET) on T+1. Additionally, the CSA permanently repealed the exception reporting requirements in Part 4 of NI 24-101, including the requirements for custodians and brokers to file Form 24-101F1. The full announcement from the CSA is available for review at the following link: [CSA Staff Notice](#).

Mexico T+1

In April 2024, The National Banking and Securities Commission (CNBV), and Mexico's Central Bank (BANXICO) approved the move to a T+1 settlement cycle effective May 27, 2024. The approval concludes the regulatory modification process to reduce the ordinary settlement cycle of the equity securities to T+1 as requested by the Mexican Association of Brokerage Firms (AMIB) on behalf of members. At the time of drafting, Mexico's Equities Central Counterparty was planning to publish the modifications to their bylaws and manual to formalize the change.

Other Latin American Market Updates

Below is the latest status of accelerated settlement discussions in some other Latin American Markets

- **Costa Rica:** In January 2024, the Costa Rican Stock Exchange, Bolsa Nacional de Valores (BNV) transitioned from a T+2 settlement cycle to T+1 for equity instruments
- **Argentina:** On May 9, 2024, the local capital markets regulator (Comisión Nacional de Valores (CNV)), approved Resolution 1000 that amended the CNV rules to allow the market to move from T+2 to T+1 as of May 27, 2024 for equity instruments. Fixed Income instruments will continue to settle on a T+2 basis
- **Peru:** The local brokers association has informally requested the Peruvian Central Securities and Settlement Depository, CAVALI, to move the settlement cycle for dual-listed securities (also traded in U.S. and Canada) from T+2 to T+1 in May 2024, around the same time as the U.S. and Canada. This is subject to regulatory approval. The settlement cycle for local Peruvian securities will most likely

move to T+1 as part of the implementation of the nuam Exchange Market Integration project across Peru, Chile, and Colombia which is targeted for 2025 (please see update on this Market Integration project on [page 20](#))

- **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 and opportunities

of 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 and Chile:** Due to other market implementation commitments, it is currently unlikely that T+1 will be implemented in 2024. Both markets are focused on the nuam Exchange Market Integration project which is targeted for 2025

Europe

U.K. T+1

The Accelerated Settlement Taskforce, introduced by the U.K. Government in December 2022 through His Majesty’s Treasury (HMT’s) Edinburgh Reforms, is now in its second of a two year mandate to explore the opportunity for remaining U.K. securities (U.K. Gilts settle T+1 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 two year 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 is that it does and has since published his [first report in March 2024](#) which provides HMT with recommendations such as:

- The U.K. should move to T+1 by the end of 2027
- An 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
- T+0 should not be considered until after the move to T+1

J.P. Morgan Custody is a member of the Technical Group, which has already been established, and will now carry out work to:

- Ensure the challenges of T+1 are understood and solutions are identified
- Plan the implementation and establish the necessary standards, deadlines and processes to achieve the shortened cycle
- Define the instrument and transaction scope
- Publish a report by the end of 2024 outlining findings and recommendations including the date the U.K. should move
- The report will also include a review of the Lessons Learned by the U.S. move

Once the Technical Group’s report is published later this year we envisage HMT will formerly mandate a move to T+1 settlement.

EU T+1

The European Securities & Markets Authority (ESMA) has been mandated, through the CSDR ReFIT (see update on [page 9](#)), to assess the feasibility of shortening the settlement cycle in the European Union (EU) and to submit a report of findings to the European Commission (EC) by Jan 2025. However, J.P. Morgan anticipates that the publication of the ESMA report could be as early as Q3 or Q4 2024.

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 begin its analysis ESMA launched a public call for evidence consultation in Q4 2023 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 EU 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

To get ahead of future developments, the key EU trade associations are jointly assessing the impact of a T+1 settlement cycle in the EU and will form an opinion on the potential changes and solutions required. This assessment will be shared with ESMA and other public authorities over the course of 2024. J.P. Morgan Custody is a member of the EU 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.

EU 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 in December 2021 until November 2nd, 2025, and the scope and operation of the Cash Penalties regime.

- **CSDR ReFIT:**

As covered in our last report, in June 2023 the European Council (ECOU) and European Parliament (EP) came to a political agreement on the review of CSDR – known as “CSDR ReFIT”. As expected, the Settlement Discipline Regime continued to be a key focus area of discussion. The final text of the CSDR ReFIT was subsequently published on January 16, 2024. Headline provisions for the Settlement Discipline Regime include:

- **Mandatory Buy-In (MBI)**

- MBI has been retained 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 a number of preconditions including consultation with the European Systemic Risk Board (ESRB) and a cost-benefit analysis provided by ESMA
- Before adopting the MBI, the EC is required to assess the effectiveness and proportionality of the penalty mechanism and, where appropriate, change its structure to increase settlement efficiency. It should also assess the cost implications of subjecting specific financial instruments and categories of transactions to MBIs
- Securities Financing Transactions (SFT) will be exempt 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 and will be specified by ESMA and we will continue to advocate for exemptions of, for example, depot realignments, collateral movements and corporate action instructions

- **Cash penalties**

- As with the MBI, 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, as with the MBI scope, we will continue to advocate for certain exemptions such as corporate actions and for instructions not created by participants such as market claims

- **ESMA mandate**

Further to what has been referenced above, 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
- Provide technical advice to the EC on measures to prevent settlement fails

To assist fulfilling these mandates, 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 expected to produce a report which will include findings and recommendations for the EC in Q4 2024.

ESMA will issue a further consultation on the monitoring and reporting of settlement fails, and measures to prevent settlement fails, which we expect to see in Q4 2024/Q1 2025.

EU 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 EU.

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 advocating for the removal of structural barriers in the region's securities markets, and for cooperation and partnerships across industry sectors. Leadership roles in this area include:

- Co-Chair ECB Securities Group (SEG), which will focus on progressing the harmonization and integration agenda across and beyond the T2S zone
- Co-Chair 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
 - Improvements to CSD functionality and daily timetables
 - Improvements to data quality and data use including SSI and instrument data
- Co-Chair of AGC European Focus Committee which has settlement efficiency and T+1 high on its list of priorities.

Middle East & Africa

Qatar T+2

The Qatar Central Securities Depository (EDAA) and Qatar Stock Exchange shortened the settlement cycle in Qatar from T+3 to T+2 effective March 25, 2024. There is no change to the existing settlement process except for settlement and funding deadlines. Our firm successfully advocated with the Central Bank, via our sub-custodian, for credit/settlement limits to be introduced for foreign institutions, which eliminated pre-funding requirements. The change allowed clients to benefit from improved J.P. Morgan electronic securities settlement instruction deadlines for trades executed from Sunday through Wednesday.

Zimbabwe T+2

In May 2024, the Zimbabwe Stock Exchange (ZSE) announced that it intends to migrate the securities settlement cycle from trade date (T)+3 to T+2 with a proposed implementation date of July 1, 2024. The ZSE has provided a proposed migration timeline which covers operational adjustments to the Electronic Delivery System, revision of policies and procedures, industry-wide testing, and engagements with the regulators. J.P. Morgan is closely monitoring this development and will provide further details to clients as its available.

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) issued a consultation paper in December 2023 proposing the introduction of an Optional instant settlement cycle over 2 phases: Phase 1 - T0 end of the day (EOD) settlement and Phase 2 - Instant settlement. On March 15, 2024, SEBI approved the proposal to introduce a beta version of optional T+0 settlement, for a limited set of 25 securities and with a limited set of brokers. In addition to providing detailed feedback to SEBI on its consultation paper J.P. Morgan Custody has been in active discussions with market infrastructure institutions with suggestions on feasible operational models for extending T+0 settlement to Foreign Portfolio Investors (FPIs) as well.

Australia T+1

The Australian stock exchange, ASX, released a White Paper on 23 April 2024 soliciting feedback on a potential move to a T+1 settlement cycle in Australia. The paper seeks feedback on any prerequisite changes that are required to support a move as well as whether the implementation should co-inside with the CHES Replacement system (see [page 22](#) for more information), scheduled for April 2028, or be scheduled before or after it. Considerations noted in the paper include timing of the equity settlement batch, impact on the domestic cash market including end of day cut-offs, impact on Exchange Traded Funds (ETFs) and securities lending.

Our team will be providing feedback to the paper directly to the ASX as well as through the Australian Custodial Services Association (ACSA)

Other APAC Market Updates

- **Pakistan T+1 Pilot:** In September 2023, National Clearing Company of Pakistan Limited (NCCPL) proposed to reduce the settlement cycle from T+2 to T+1. In January 2024, the NCCPL announced a pilot run for T+1 to begin in April, 2024. This date has now been delayed to at least May 2024. We have been advocating for more details and clarity on the pilot run date through our sub-custodian, and the NCCPL have now confirmed they will clarify the roadmap by April 25, 2024
- **Sri Lanka T+2:** Sri Lanka currently operates on a T+3 settlement cycle. In January 2024, the Securities and Exchange Commission of Sri Lanka proposed to reduce the settlement cycle from T+3 to T+2 and later to T+1, with the ultimate goal of moving to T+0. Following this announcement, the Colombo Stock Exchange announced that it will move from T+3 to T+2 during May 2024. The exact implementation date has yet to be announced. Our team is engaging with our sub-custodian to seek confirmation of the implementation date

At this stage, there are no other APAC markets publicly assessing accelerating their settlement cycle.

2.

Asset Servicing



The global trend to identify and address inefficiencies in the income, corporate action and proxy voting processes continues to be a priority topic for J.P. Morgan Custody who are active in the industry globally and hold a number of leadership positions.

Americas

U.S. Asset Servicing

With the significant focus in the U.S. on T+1 implementation and readiness for May 28, 2024, the focus for the Asset Servicing community continues to be raising awareness of potential downstream impacts of potential inefficiencies in the settlement cycle. J.P. Morgan Custody remains engaged with DTCC and industry associations, including SIFMA, AGC and ISITC, to promote greater efficiency across asset servicing. This includes advocating for golden copy announcements from primary sources, and industry adoption of common claims management platforms. Our team will continue to work with DTCC, our clients, brokers and industry associations to identify and realize opportunities for improved efficiency in this space.

Hybrid and Remote / Electronic Voting

As mentioned in our last report, we have been advocating for hybrid and remote / electronic voting capabilities to be implemented in multiple markets since temporary in-person meeting restrictions were introduced in certain markets during the Covid-19 pandemic. Below are the updates following our teams advocacy in Mexico and Brazil. Please also refer to the updates from the Middle East & Africa region and Australia on [page 15](#).

- **Mexico:** In October, 2023 an amendment was passed in Mexico to change the General Law of Commercial Companies, which defines the way in which shareholder meetings are held. The approved changes allows issuing companies to amend their by-laws 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 as such voting had to be 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 envisioned 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

- **Brazil:** The Securities and Exchange Commission of Brazil, (CVM - Comissão de Valores Mobiliários) is currently reviewing regulations related to remote proxy voting, which were first introduced in 2017. This review follows advocacy performed by our firm, in partnership with B3 (the Brazilian CSD) and ANBIMA (local market association), which has focused on a number of areas, but mainly on making it mandatory for local companies / issuers to offer the alternative of remote voting to all types of meetings and consequently removing associated Power Of Attorney (PoA) requirements. A public hearing was initiated by CVM in September, 2023. Our team worked with market participants and ANBIMA to assess CVM's proposal and provide comments which were submitted to CVM on November 24, 2023

Europe

Shareholder Rights Directive (SRDII) Review

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 SRDs are 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 EU 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 and Effectiveness of SRDII' with regards to the Proxy Advisors and Investment Chain provisions in July 2023. We were encouraged to see the extent that ESMA and the EBA's recommendations reflect our advocacy position, in particular with respect to the following which will improve the exercise of our client's rights:

- Consider using a Regulation to harmonize shareholder identification, information transmission, and exercise of shareholder rights
- Consider introducing a standardized EU-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 EU standard to allow shareholder participation in General Meetings

- 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 into line with corporate actions, and will continue to engage with EU 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 in H2 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 ensure adherence to the standards (note the deadline for custodian ISO 20022 capability is November 2025). Whilst there are no obligations imposed on our clients at this time we recognize that this will be of interest and we will publish further information later this year regarding a potential expansion of ISO 20022 messaging.

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). 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 ensures compliance 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

Kuwait E-voting

E-voting was introduced in Kuwait as an interim solution during the Covid-19 pandemic as physical voting at Annual General Meetings (AGMs) was limited by the Covid-19 restrictions and was eventually made mandatory for issuers listed on the premier market. Our firm has since been advocating, via our sub-custodian and directly with the local CSD, for e-voting to be mandated for all issuers listed on the Stock Exchange. 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-voting by issuers.

Qatar E-Voting

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 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 is looking at introducing an E-voting system and is in discussion with other Central Securities Depositories in the region to gather information on the existing platforms.

Asia Pacific

Australia Proxy Voting Modernization

The ACSA created a working group, chaired by J.P. Morgan, which has written a white paper that documents the current shortfalls in the Proxy Voting process in Australia and proposes solutions based on international best practice. 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 feedback and support on the white paper is being solicited from a wide range of industry groups including share registries, issuers, clients, and other industry bodies such as Australian Investor Relations Association (AIRA), Australian Council of Superannuation Investors (ACSI), and the Governance Institute of Australia. As the proposed changes require changes to the Corporations Act 2001, the Australian Treasury has been engaged with preliminary meetings to be held before looking for wider support from ASIC.

China Class Actions

In the China market, information on class actions is not provided by the China Securities Depository and Clearing Co. Ltd. (CSDC) and sub-custodians must source the information from third parties who are appointed by issuers to deal with class actions. For China Connect, the Hong Kong Exchanges and Clearing Limited (HKEX) does provide details on class actions. J.P Morgan Custody has and will continue to directly advocate with the CSDC and, indirectly via sub-custodians, to provide a consistent service for the Chinese market.



3. 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.

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 March 15, 2024 to discuss IRS processing statistics for Form 8802 (Application for U.S. Residency Certification), and for industry to share its experience and advocate on behalf of its member banks. J.P. Morgan, in its capacity as

the chair of the AGC Tax Committee, hosted the call with the IRS and other AGC committee members.

During the 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. The AGC is currently working with the ICI Tax Committee to draft a comment letter as requested by the IRS to address treaty access issues.

Additionally, the IRS confirmed its project to modernize the Form 8802 process is pending internal funding approval. IRS 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

EU Withholding Tax Harmonization - “FASTER”

As highlighted in our last report, in June 2023, the EC, released its proposal for a Council directive for FASTER (Faster and Safer Relief of Excess Withholding Taxes), which aims to promote cross-border investment through harmonization of procedures as well as to fight tax abuse and fraud. Since its release, J.P. Morgan has participated in multiple industry discussions and advocacy efforts related to the proposal and 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 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. Once the final Directive is adopted, the national implementations are expected to be effective from January 1, 2030.

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 (subject to limited exceptions). Withholding tax reclaims can currently only be e-filed in the Federal Central Tax Office’s online portal (BOP) which only permits single tax reclaim submissions and limits access to a reclaim (and related updates to that claim) to the submitter. Due to these limitations and concerns with the related liability for the submitter of claims through BOP, efforts by market participants have largely focused on a bulk upload

facility which the German Tax Authority (GTA) expects to launch in June 2024.

The GTA is disseminating information on requirements and the schema for bulk filing through the Association of Foreign Banks in Germany (VAB). The June 2024 launch date, however, adds additional risk due to the additional data elements required for bulk filing and possible implementation timelines for market participants.

Also under the Act, from January 1, 2025, reporting in the form of an electronic record for income payments through the entire custody chain will be required to provide the GTA with visibility in lieu of a physical tax voucher. Should any participant in the chain fail to provide the requisite reporting, investors will be unable to reclaim. The new reporting also 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.

Our team continues to provide feedback to the GTA on the bulk filing functionality and other elements of the Act Bill through the VAB, the U.K. Finance International Custody Tax Working Group (ICTWG) and the AGC.

Austria Tax Reclaim Entitlement

Further guidance is still pending from the Austrian Government following the publication in July 2023 of the Austria Tax Amendment Act 2023 which aligns reclaim entitlements to the investor’s end of dividend record date position and provides additional requirements for investor eligibility for withholding tax reclaims on Austrian sourced income. The additional requirements provide that the claimant must bears appropriate economic risk and is the uninterrupted beneficial owner of the underlying shares during a minimum

holding period of 45 days, within 45 days before and 45 days after the dividend record date. The provision is to be applied if the income (i.e., gross dividends) from the respective company for which the crediting or reimbursement of capital gains tax is to take place is more than EUR 20,000 per taxpayer in the assessment period.

Our team actively contributed to the ICTWG's feedback prepared in response to the Austrian authorities consultation on the implementation of the new

holding period requirements for withholding tax reclaim purposes. Amongst others, the response focused on the challenges presented by the documentation requirements, the holding period calculation methodology (LIFO vs. FIFO) and the revocation of Annual General Meeting - 1 as the date for determination of income entitlement for dividends with a record date prior to July 1, 2023. Our team will continue to monitor for expected further developments and/or guidance.

Asia Pacific

Japan relief for U.S. 81-100 Group Trust

Onerous tax documentation requirements pose a significant obstacle for foreign pension funds to benefit from their double taxation treaty with Japan.

Following discussions with J.P. Morgan's sub-custodian, a short-term solution has been proposed, and agreed with the sub-custodian's local tax office, which entails accepting a simplified document for subsequent applications only after the original declaration is provided for the first time. Although this solution constitutes an improvement, certain foreign pension funds, especially those organized as collective investment type entities (e.g., U.S. 81-100 group trusts), may face challenges in providing the original document and thus may not benefit from this solution.

Our sub-custodian is actively engaged in discussions with the Financial Services Agency (FSA) to raise concerns and propose a solution that can be universally applied, benefiting all parties involved. We remain committed to finding a solution that ensures compliance with Japanese tax authority requirements while accommodating the unique circumstances of various pension fund entities.

Australia Tax Office Certificates of Residence

Changes to Certificate of Residence (COR) and tax document processing procedures by the Australia Tax Office (ATO), including movement to a single-user online portal, created challenges for market participants such as custodians to request documentation on behalf of Australian investors. Our team led efforts through the ACSA to engage with the ATO to further enhance the operating model to support institutional investors. As a result of these efforts, in December 2023, the ATO introduced an interim alternative secure file sharing solution to enable custodians to electronically request CORs and other tax documentation. ACSA continues to engage with ATO on a strategic operating model.

4. Financial Market Infrastructure Developments



Alongside the trend to accelerate settlement, Financial Market Infrastructure providers continue to develop new products and build upon their strong market position within the post-trade industry. These developments require our ongoing engagement as they can impact our clients, cost and operating models, but also present opportunities.

Americas

DTCC Clearing & Settlement Advisory Council (CSAC)

In Q4 2023, the Depository Trust & Clearing Corporation (DTCC) established a new Clearing & Settlement Advisory Council 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 participant of DTCC, J.P. Morgan Custody has been asked to Co-Chair the group, and is actively assisting with establishing the group's priorities going forward. We are also actively engaged in a sub-working group considering the potential development of partial settlement capabilities

at DTCC, as well as sub-working groups considering possibilities regarding fractional shares and extending DTCC trading hours.

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

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

As covered in our last report, 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 is 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, the industry agreed with FSS that Phase 2 should be postponed to allow industry participants time to assess readiness and challenges with the current service offering.

Following further industry discussion, Phase 2 has been replanned for Q2 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 29](#)). 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 contributing to the SIFMA Industry working group focused on addressing outstanding operating model challenges and finalizing requirements with FSS.

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 as a result with the objective to integrate the three markets in terms of ownership, operating model, and local infrastructures. This regional exchange is being designed to bridge the gap between traditional financial markets and implement state of the art technology that will connect the Santiago, Lima and Colombian stock exchanges.

The operational model continues to evolve with the go-live slated for the first half of 2025. As the project progresses it faces 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.

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 understand progress.

Europe

Unique Transaction Identifier (UTI) Initiatives

As highlighted in our last report, J.P. Morgan Custody is actively contributing to SWIFT's Securities View Unique Transaction Identifier (UTI) based Initiative which aims to leverage a common reference for securities settlement transactions (i.e. the UTI) which can be utilized across the post-trade lifecycle by all parties. The rationale is to increase transparency and to create a common view of the matching and settlement status between the buyer and seller and any intermediaries they may use. This will promote the early detection of mis-matches through the settlement chain, avoid cross-matching and help to provide real time settlement statuses.

Our firm participated in SWIFT's initial UTI pilot and are monitoring other vendors' developments to ingest and use the UTI as we believe it could help the industry with settlement efficiency, particularly as a number of markets move to T+1 over the coming years. Benefits come through wide industry adoption and interoperability including across multiple markets and by integrating it into vendor solutions, CSDs' securities settlement systems and T2S for post-trade processing and reporting. We remain close to the global developments and support further exploration of the messaging field's merits. We therefore continue to foster dialogue across the industry, including in AFME

who reference the merits of the UTI in its October 2023 whitepaper 'Improving the Settlement Efficiency Landscape in Europe' which we referred to earlier on [page 10](#).

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.

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.

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:

- Dividends in CREST (CRESTPAY): Continued advocacy with EUI for full adoption by all participants, specifically by issuers
- 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

These deliverables will follow on from the CREST GUI release in September 2023 which enabled bulk upload functionality for securities transactions, and is a useful feature in the event of a technology outage as a viable contingency arrangement.

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

- 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

Several updates, including some of the above are expected to be implemented in Q3 2024.

Bahrain - Implementation of Delivery Versus Payment (DVP)

Bahrain operates a dual account structure which requires local custodians to 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. Meanwhile, the current local settlement process is conducted directly with the broker via the CSD, without a Delivery Versus Payment (DVP) model in place.

Our team has been directly advocating with the CSD and via our sub-custodian in Bahrain, alongside the AGC for a DVP model that will minimize settlement exposure.

In March 2024, the CSD issued details of their final DVP process which will introduce pre-settlement controls through a sub-custodian trade confirmation/rejection practice. With this enhancement sub-custodians will have the ability to reject trades for settlement where they have not received a settlement confirmation

from its client or there is a mismatch in the settlement confirmation. The new DVP process was put in production in March 2024 and the CSD has given sub-custodians a 3-month grace period to implement the new DVP process. Our team will continue to monitor when this process is implemented with sub-custodians.

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 marks a move away from the use of distributed ledger technology with the TCS BaNCS platform supporting traditional system architecture and connectivity options. TCS BaNCS for Market Infrastructure system is currently used in South Africa, Finland, New Zealand and is due to be used in Canada later in 2024.

ASX are looking to implement the system in two phases with the first deploying the core system to the ASX technology infrastructure focusing on Clearing services. A timeline of early 2026 has been proposed for this implementation. A second and final phase in early 2028 will deploy sub-registry, settlement and corporate action functions.

Wherever possible ASX will be looking to utilize the existing functionality of the BaNCS product, however the system will be developed to support any Australian market nuances if required. A series of workshops are scheduled throughout 2024 to capture these requirements which will then be consulted on in Q3 2024. Our team is engaged in these ASX workshops and will respond to future consultations accordingly.

Hong Kong RMB Dual Counter Initiative

As highlighted in our last report, the 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 19th, 2023. Leading up to the implementation, our team was actively advocating 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. The 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.

China Stock Connect Block Trading

The Securities and Futures Commission (SFC) and the CSRC jointly announced that they have reached consensus on the introduction of block trading under Stock Connect. HKEX will develop an implementation proposal, and subject to regulatory approval, announce the relevant details including clearing and settlement arrangements, technical details and implementation timeline in due course.

Our team has been actively advocating through bilateral meetings with HKEX and via the ASIFMA for real time block trading for Stock Connect investors instead of the 30 minutes extended trading hours; i.e. 3:00 pm to 3:30 pm local time. If this is not successful, settlement instructions for block trading can only be sent by clients later in the day which could potentially lead to settlement failure due to CNH funding requirement and tight cut off times for RVP trades.

We are also advocating for the extension of the settlement window (i.e. additional settlement batch) if the trading hours are extended; otherwise trade settlement would be compressed which could also potentially lead to settlement failure. We will continue to advocate for these changes and will continue to follow up with HKEX and participate in industry working groups to improve market efficiency and scalability.

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 implement the CCP by two years to January 1, 2026.

The main challenge for the CCP model is to remove prefunding for securities and cash. Our team has been consistently advocating that the market should implement changes that minimizes the impact to foreign investors and provides sufficient time for the market to adopt the changes. Specifically, avoiding an adoption of margin requirement that adds complexity to the settlement and funding process.

Philippines Depository and Trust Corporation Resilience

Philippine market infrastructures, in particular the Philippine Depository and Trust Corporation (PDTC), have faced multiple outages last year. Currently, there is no formal contingency framework or protocol that the market should follow in the event of a systems outage.

Our team has partnered with our sub-custodian and the national market practice group in the Philippines to advocate for the PDTC to introduce a playbook that outlines the protocols that market participants should adopt in the event of an outage impacting market settlement. This will be beneficial for the entire market and will provide a quicker turnaround of market information and defined settlement protocols for all to follow in the event of an outage. We have raised our concerns about the system outages to our Sub-custodian who will engage with PDTC requesting enhancements of their system connectivity and will propose several system enhancements be incorporated into the planned upgrade of the PDTC depository system in 2025-2026.

5. Digital Assets



Digital assets (i.e., cryptocurrencies, tokenized and native digital securities, stablecoins, Central Bank Digital Currencies (CBDC), Non-Fungible Tokens (NFTs) etc.) 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 on J.P. Morgan branded digital projects.

Global

Bank of International Settlements (BIS)'s Basel Committee for Banking Supervision (BCBS) recommendations and proposals on crypto assets

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 crypto-assets, 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 crypto-assets. 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

Subsequent to the December 2022 final recommendation, the BCBS released supplemental consultations for banks to comply with these standards, including one consultation on bank's disclosure requirements for exposure to crypto-assets in Oct 2023; and another on technical amendments to the prudential treatment of crypto-assets in December 2023.

Our firm has been engaged with relevant trade associations, including the Global Financial Markets Association (GFMA), SIFMA, AFME, and ASIFMA, and supported joint association letters filed in Jan, 2024 (on the bank disclosure requirements consultation), and end of March, 2024 (on technical amendments to the prudential treatment of crypto-assets consultation). The main focus is to promote standards for Group 1 assets which can be implemented in practice.

J.P. Morgan continues to promote regulatory clarity in this space, as well as regulations which appropriately reflect risk and promote efficiency for market participants and service providers.

Americas

SEC Staff Accounting Bulletin 121 for Crypto Assets

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 is in contrast to the traditional treatment of non-cash assets held in custody, which are treated as the property of the client (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

International Organization of Securities Commissions (IOSCO) consultation on Policy Recommendations for Crypto and Digital Asset Markets

In June 2023, IOSCO published a consultation on policy recommendations for Crypto and Digital Asset Markets. The consultation provides 18 recommendations consistent with the FSB's efforts from October of 2022. The consultation aims to promote global uniformity, regulatory coordination and encourage optimal consistency in the way cryptoasset markets and securities markets are regulated. The recommendations can be broken down into six categories: (1) Conflicts of interest arising from vertical integration of activities and functions, (2) Market manipulation, insider trading and fraud, (3) Cross-border risks and regulatory cooperation, (4) Custody and client asset protection, (5) Operational and technological risk, and (6) Retail access, suitability, and distribution.

In November 2023, IOSCO published a consultation on Policy Recommendation for Decentralized Finance. The recommendations cover six key areas: (1) Understanding DeFi Arrangements and Structures, (2) Achieving Common Standards of Regulatory Outcomes, (3) Identification and Management of Key Risks (4) Clear, Accurate and Comprehensive Disclosures (5) Enforcement of Applicable Laws, and (6) Cross-Border Cooperation.

Both recommendations were finalized in Q4 2023. Importantly for custodians and their 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.

public and private DLT, therefore potentially capturing several current and future initiatives related to assets on DLT across the industry. In response to the SEC Staff Accounting Bulletin 121, our firm provided significant input into industry discussions and influenced formal industry letters to the SEC, U.S. Treasury and U.S. Federal regulators in 2022.

More recently, 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.

Europe

EU Developments

In June 2022, political agreement was reached both on the Transfer of Funds recast (AML rules for crypto-assets transactions - Travel Rule) and the Markets in Crypto-assets Regulation (MiCA). MiCA provides a regulatory framework for previously unregulated cryptoassets, primarily stablecoins, and crypto assets service providers (CASPs). MiCA was published on June 9 2023 and will go live in June and December 2024. Work on the 33 Technical Standards and 13 Guidelines to be prepared by ESMA and EBA is underway, as well as the thinking on how to regulate non-fungible tokens (NFTs) and Decentralized Finance (DeFi), which are excluded from MiCA for now but will require a horizontal regulation regime in 12 months.

The EU is also negotiating the prudential treatment of crypto assets, including in the interim period where MiCA will not yet be applicable.

Additionally, in June 2022, the EU DLT pilot Regulation was published in the official journal and entered into force on March 23, 2023. It establishes 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. There is also a market value threshold above which those financial market infrastructures would need to transition to traditional entities. Most recently, ESMA published a report 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.

Meanwhile, in Feb 2024, members of Congress introduced a Congressional Review Act (CRA) resolution to rescind the SEC guidance given the release of the GAO report. At this point, it is unclear whether SAB 121 will be repealed in its entirety or amended.

U.K. Developments

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. In 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. We expect further consultation later this year from U.K. regulators on crypto assets, which we expect to cover custody services.

Meanwhile, the U.K. Law Commission published recommendations for reform and development of the law relating to digital assets in June, 2023 concluding that the common law system in England and Wales is well-placed to provide a coherent and globally relevant regime for existing and new types of digital assets. Subsequently, the Commission is now consulting on draft clauses that aim to implement the recommendations regarding personal property set out the June 2023 report.

Furthermore, after several consultations by HMT, BoE and FCA, the Financial Services and Markets Act 2023 (Digital Securities Sandbox) Regulations 2023 entered into force on 8 January 2024. This allows the creation of the Digital Securities Sandbox (DSS) within which certain Financial Market Infrastructures will be able to test the use of DLT subject to a modified legislative framework. In April 2024, the BoE and FCA published a joint consultation on their proposed approach to implementing and operating the Digital Securities Sandbox. J.P. Morgan is actively engaged on the DSS framework via trade associations and bilateral discussions

Asia Pacific

Hong Kong Market Authority (HKMA) Circular on Custodial Services for Digital Assets

The HKMA finalized guidance on the standards for provision of custodial services for digital assets held on behalf of clients by Authorized Institutions (AIs) on 20 February 2024 after two rounds of by-invitation only consultations. This guidance applies to AIs or subsidiaries of locally incorporated AIs.

J.P. Morgan individually, and via ASIFMA, submitted responses to both consultations, including providing feedback to seek clarity of HKMA's rationale for the private key localization requirement in Hong Kong.

Australian proposal on Regulating Digital Asset Platforms

In October 2023, the Australian Federal Treasury released a consultation paper "Regulating Digital Assets Platforms - Proposal Paper". Submissions were due by 1st December 2023.

Our team provided input into the ACSA consultation response via their Digital Asset Working Group. The group supported the adaptation of the Australian Financial Services License (AFSL) Regime to encompass digital asset facilities, along with advocating for global consistency in standards for holding digital assets and tokens, and consistency with IOSCO's recommendations.



6. Regional Developments and Outlook

Outside of the themes that we have highlighted in this paper, local and regional regulators continue to develop regulatory frameworks covering areas such as asset safety, account opening, clearing, resiliency, capital requirements and more. The following are some recent highlights, however not an exhaustive list of all regulations and proposals globally.

Global

BCBS & IOSCO consultation on Variation Margin and Initial Margin for non-cleared markets

In January 2024, the BCBS and the IOSCO Working Group on Margin Requirements (WGMR) published a consultative report on Streamlining variation margin (VM) processes and initial margin (IM) responsiveness in non-centrally cleared markets. The report is part of a broader workstream on margining practices in cleared and non-cleared markets.

The report summarizes findings from the regulators' analysis and outreach on VM processes and IM responsiveness in non-centrally cleared markets during periods of market volatility including during the Covid-19 pandemic, the U.K. liability-driven investment (LDI) crisis, and other market events. The

report makes eight recommendations to encourage the implementation of good market practices but did not propose any major policy changes to the BCBS-IOSCO WMGR margin framework. Responses to the consultation were due by April 17, 2024 and J.P. Morgan has worked with ISDA to respond.

Americas

SEC proposal on Safeguarding Advisory Client Assets

As covered in our last report, in March 2023, the SEC proposed a new rule under the Investment Adviser Act of 1940 that addresses custody of client assets. The proposal amends the current "Custody Rule" and intends 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") are not within the scope of this proposal.

The proposal widens the scope of assets covered by the current Custody Rule beyond "funds" (money) and "securities" to any "other positions held in a client's account"; and requires SEC Registered Investment Advisers (RIAs) to enter into written agreements with QCs, amongst a number of other requirements.

The proposal also requires RIAs to obtain certain assurances in writing from their QCs. These assurances would require QCs to exercise due care; indemnify the client against loss resulting from negligence; fulfil 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 RIA would also need to monitor QCs to ensure compliance with these assurances, and the proposal would impose certain additional requirements on Foreign Financial Institutions (FFIs) offering custody services.

In response to the SEC proposal, our firm sent a comment letter in May 2023 to the SEC, and participated in drafting a number of 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 a number of bilateral, and trade association, meetings with SEC Staff and Commissioners on the proposed rule.

In response to the comments received, the SEC reopened the comment period between August and October 2023. Our firm provided further comments to the SEC through a second J.P. Morgan comment letter, additional trade association letters and a number of additional meetings with SEC staff and Commissioners.

According to the latest Unified Agenda of Regulatory and Deregulatory Actions, the SEC is targeting publication of the final rule during Q2 2024.

SEC Rules for U.S. Treasury Clearing

In December 2023 the [SEC adopted a final rule](#) 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.

Our firm participated in industry discussions and drafting of comment letters provided to the SEC in Q4 2022, highlighting the risks and issues related to industry costs and liquidity, and the need for further clarity on transactions in scope for the final rule.

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, and the rule requires FICC to establish policies and procedures to facilitate access to clearance and settlement services of all eligible secondary market transactions in Treasury U.S. securities, including those of indirect participants (such as the FICC sponsored member program). Indirect participants include pension funds, asset managers, investment advisers and Registered Investment Companies.

The implementation of this rule will be phased in between March 2025 and June 2026. Any entity (with noted exclusions for certain public sector entities) trading a repo or reverse repo with an FICC direct participant that is collateralized by U.S. Treasury securities is likely to be in scope of the clearing requirement. Clients will likely need to engage their brokers and consider their approach to ensuring these trades are cleared through FICC.

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, as FICC and 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 in light of other SEC proposals on cybersecurity risk. Our firm fed into industry association letters (e.g., from SIFMA and BPI) sent to SEC with the aim to get greater clarity on whether custody services are captured in the proposed

rules. Our current understanding is the SEC plans to publish a final rule in Q2 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 Commissioners aims to publish a final rule in Q2 2024.

Brazilian Market Access

Market participants expect the Brazilian Central Bank to issue a public hearing in 2024 which will update the main regulation which dictates foreign investments into the Brazilian Market (current Res. CMN 4373/14). Our team participated in an ANBIMA working group in 2023 which considered potential enhancements to the current regulation. ANBIMA sent a formal letter to the Brazilian Central Bank in June 2023 containing suggestions to be considered in the public hearing. We will continue to monitor for confirmation of the expected public hearing.

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 EU banking package (CRR3/CRD6) which implements the finalized Basel III EU standards. The agreement largely adheres to the international Basel standards with some EU specific changes to the framework, most of which will apply only transitionally. Of note, new provisions include a requirement for third country institutions to establish a branch to provide certain cross-border "core banking services" into the EU unless one of the exemptions applies. These exemptions include, amongst others, reverse solicitation (whereby the client approaches the third country institution itself requesting it to provide the services), inter-bank and intra-bank services, and MiFID (and related) services.

Despite having an EU domiciled subsidiary, J.P. Morgan SE, J.P. Morgan Custody were advocating for the safekeeping and administration of securities (and safe custody services) to be removed from the scope of CRDVI.

Final publication of the Directive is expected in May 2024. As a directive Member States must adopt and publish their own implementing regimes with 18 months from the date of the entry into force of the Directive and Member States will be required to apply these implementing provisions within a period of 12 months thereafter. J.P. Morgan is working with the AGC and AFME over the course of 2024 to respond to various mandates required under the directive including for the EBA in addition to Member States transpositions.

EU Digital Operational Resilience Act (DORA)

DORA is due to enter into force on 17th January 2025 and will provide a harmonized regime across the EU for ICT and cybersecurity risk and will introduce regulatory oversight for critical third parties e.g. cloud providers. DORA will be supported by 'Level 2' technical standards and 'Level 3' guidelines, which are under development and include: ICT risk management frameworks, the criteria for the classification of ICT related incidents, materiality thresholds for major incidents and

significant cyber threats, digital operational resilience testing, ICT third-party arrangements management and the oversight framework.

Our Custody team was engaged in the policymaking process regarding DORA, and will continue to engage with our Cybersecurity and Resilience teams, and clients, on impacts and implementation of the rules.

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

Political agreement has been reached between the ECOU and EP and the final text amending AIFMD has been published in the Official Journal of the EU marking the end of the first phase of the AIFMD Review. Our team has 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 depository. 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-EU 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:

- EU Member States have until April, 16th 2024 to transpose the directive into national law
- Monitoring the national transpositions will be crucial alongside monitoring the development of delegated regulations / technical standards including any public consultations

Payment Services Regulation (PSR), Payment Services Directive III (PSD III) & Open Finance

The EU continues to work on its Payment Services Regulation and PSDIII, following its Review of PSDII, and Open Finance.

- PSDIII: will be transposed into national law across each Member State and will require payment and e-money institutions to reapply for a license within 24 months of PSDIII going live (date TBC)
- Open Finance seeks to expand the current scope under PSR to other types of accounts and financial products beyond payments. The final scope and legislative requirements continue to be negotiated via between EU policymakers in 2024

Our firm will continue to monitor developments in these files and consider implications and further advocacy opportunities accordingly.

U.K. Edinburgh reforms

In the U.K., the ‘Financial Services & Markets Act’ (FSMA), which seeks to repeal retained EU law, and the ‘Edinburgh Reforms’ have already 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 FSMA and the evolving U.K. regulatory environment and notes HMT’s paper outlining the next phase of the U.K. Smarter Financial Services Regulatory Framework (SRF) on 21st March 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

U.K. Digitization Taskforce

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 anticipate to be in H1 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 6th, 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, in particular to non-resident investors. Such a development would further support the development of the local debt market and increase liquidity.

In addition, this will benefit CMA licensed Capital Markets Institutions (CMIs), such as J.P. Morgan Custody, to complement and develop their local custody service suite. With an OFNA structure, we can demonstrate its:

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

We continue to advocate for OFNAs for Global Custodians in the Kingdom of Saudi Arabia and will

keep clients apprised of progress. Meanwhile, we have recently implemented an omnibus funding model in the Kingdom of Saudi Arabia which benefits clients investing in the market.

Qatar – Qatar Central Securities Depository New Account Opening Platform

In February 2024, the Qatar Central Securities Depository (EDAA) launched a new account opening platform, which was introduced in 2 phases.

- Phase 1: went live in February 2024. The EDAA has provided sub-custodians the ability to upload soft copies of documents to the depository system. Clients are still required to provide physical documents at this stage
- 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. However, APRA will already start assessing preparedness for the new standard throughout 2024. 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. J.P. Morgan Custody is a key member of the 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 is 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.

India - KYC related disclosures

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.

- Additional disclosure of Beneficial Owner information requirements - Effective November 1, 2023, SEBI mandated enhanced disclosures for Foreign Portfolio Investors (FPIs) that individually hold more than 50% of their Indian equity AUM in a single corporate group or FPIs that individually or along with their investor group have holding of over Indian rupee (INR) 250 billion of equity AUM in Indian markets

Our firm was one of the key contributors in drafting the Standard Operating Procedure (SOP) detailing the operational procedure for compliance and identification of common fund structures across multiple jurisdictions that can avail exemptions. Post publication of the first version of the SOP, we continued to actively engage

with SEBI to extend the scope of exempted entities in the subsequent versions of SOP. This allowed multiple FPIs serviced by our team to avail the exemption from providing additional disclosures

India - Enhancing the market entry processes for foreign investors

In March 2023, SEBI mandated FPIs to notify custodians of material changes within their organization within 7 working days. Our team as part of industry groups, and independently, made representations to SEBI to relax the timeline for FPIs due to the unrealistic timelines for our clients. SEBI has now relaxed these timelines. Material changes will be categorized in 2 categories. Type -1 will still need to be reported within 7 days. However, the supporting documents, if any, can be provided within 30 days of such change. Type II material changes will be required to be reported along with the supporting documents, if any, within 30 days of such change.

Meanwhile, SEBI has recently mandated that FATCA and CRS certifications should be uploaded on KYC Registration Agencies (KRA) portals. Our team is in the process of advocating SEBI to exempt uploading of FATCA/ CRS certifications of FPIs/ Global Custodian clients on the KRA portal.

India - Index Inclusion

Indian Government Bonds (IGBs) are scheduled for inclusion in the J.P. Morgan's Emerging Markets Bond Indices starting June 2024 and, in the Bloomberg Emerging Market Local Currency Index starting January 2025. Our team, as part of Industry groups, as well as independently has been advocating with the Reserve Bank of India (RBI) to permit early pay in (EPI) for settlement of government debt trades. As per discussion with the Clearing Corporation of India Limited (CCIL) EPI for settlement of government debt trades is expected to be rolled out shortly.

RBI Guidance on Inoperative Accounts

RBI's revised guidance on inoperative accounts advises that cash accounts belonging to clients are required to be tagged as inoperative, if there has been no KYC refresh or client induced transaction in 2 years. Furthermore, any transaction in an inoperative cash account will be permitted only after a KYC renewal is completed. Our team has taken lead in the industry making joint representation to the RBI for exempting FPI cash accounts from this guidelines since renewal of FPI license is done every 3 years.

South Korean - Market Access Using Legal Entity Identifiers

Effective December 14, 2023, the Investment Registration Card regime has been abolished and foreign investors opening an account in the market for the first time can do so using a legal entity identifier (LEI). Currently, J.P. Morgan's experience is that the LEI status requirement set out by the South Korean regulator cannot be met by certain legal entity type clients, namely U.S. based collective investment trust (CIT) as CITs are not required to be registered with any authorities. Our team has raised this issue with the local custodian banks, and it has now been brought to the Financial Supervisory Services' attention for comments. The issue has also been raised via industry associations such as the ASIFMA and the AGC.

Taiwan - Foreign Investors appointing custodians

Foreign Investors (FINIs) 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 has proposed to lift this restriction in the market and has been participating in industry discussions to provide suggestions to Taiwan Stock Exchange Corporation (TWSE) and Taiwan Depository & Clearing Corporation (TDCC). Subsequently, TWSE has now been requested by Securities and Futures Bureau (SFB) to conduct a study on the possibility for FINIs to appoint multiple local custodians for the MTAs, and has sought comments / suggestions from major local custodians.

Appendix - Glossary



ABA	American Bankers Association
ACSA	Australian Custodian Services Association
ACSI	Australian Council of Superannuation Investors
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
AIRA	Australian Investor Relations Association
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
BCBS	Basel Committee for Banking Supervision
BIS	Bank of International Settlements
BNV	Bolsa Nacional de Valores (Costa Rican Stock Exchange)
BoE	Bank of England
BOP	Germany Federal Central Tax Office's online portal
BPI	Bank Policy Institute
BYMA	Bolsas y Mercados Argentinos (Argentina Stock Exchange)
CAVALI	Peruvian Central Securities and Settlement Depository
CCIL	Clearing Corporation of India Limited
CCMA	Canadian Capital Markets Association
CCP	Central Counterparty
CIT	collective investment trust
CLS	Continuous Linked Settlement
CMA	Saudi Capital Markets Authority's
CMIs	Saudi Capital Markets Institutions
CMU	Capital Markets Union
CNV	Comisión Nacional de Valores (Argentinian Regulator)
COR	Certificate of Residence
CRA	Congressional Review Act
CRD VI	Capital Requirements Directive VI
CRS	Common Reporting Standard
CSD	Central Securities Depository
CSDC	China Securities Depository and Clearing Co. Ltd.
CSDR	Central Securities Depositories Regulation
CSDR ReFIT	Amended version of CSDR following the EC review of CSDR
CVM	Comissão de Valores Mobiliários (Brazilian Regulator)
DeFi	Decentralized Finance
DBv	Delivery by Value
DLT	Distributed Ledger Technology

DLT MTF	DLT Multilateral Trading Facility
DLT TSS	DLT Trading and Settlement System
DORA	EU Digital Operational Resilience Act
DSS	U.K. 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
ECOU	European Council
EDAA	Qatar Central Securities Depository
EMIR	European Market Infrastructure Regulation
EP	European Parliament
EPI	Early Pay In for India
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETF	Exchange Traded Fund
EU	European Union
EUI	Euroclear U.K. & International Limited
FASTER	EU Faster and Safer Relief of Excess Withholding Taxes
FATCA	Foreign Account Tax Compliance Act
FCA	U.K. Financial Conduct Authority
FICC	Fixed Income Clearing Corporation
FINI	Foreign Investors (in Taiwan)
FMI	Financial Market Infrastructure

FPI	Foreign Portfolio Investors (in India)
FSA	Japanese Financial Services Agency
FSB	Financial Stability Board
FSS	Federal Reserve Bank Securities Services
FSS ACAP	FSS Automatic Claims Adjustment Process
GAO	U.S. Government Accountability Office
GFMA	Global Financial Markets Association
GTA	German Tax Authority
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
ICTWG	U.K. Finance International Custody Tax Working Group
IDB	Interdealer Broker
IM	Initial Margin
INR	Indian Rupee
IOSCO	International Organization of Securities Commissions
IRS	U.S. Internal Revenue Service
ISITC	International Securities Association for Institutional Trade Communication
KRAs	KYC Registration Agency
KYC	Know Your Customer
LEI	Legal Entity Identifier
MBI	Mandatory buy-in regime under CSDR
MBS	Mortgaged Backed Securities
MiCA	Markets in Crypto Assets
MIFID	Markets in Financial Instruments Directive
MILA	Latin American Integrated Market
MTA	Multiple Trade Accounts
NCCPL	National Clearing Company of Pakistan Limited
NFTs	Non-fungible tokens
OFNAs	Omnibus Foreign Nominee Accounts

PDTC	Philippine Depository and Trust Corporation
PSD III	Payment Services Directive III
PSR	Payment Services Regulation
PTTP	Kingdom of Saudi Arabia Post Trade Technology Programme
QC	Qualified Custodian
RBI	Reserve Bank of India
RMB	Renminbi (Chinese Currency)
SEBI	The Securities and Exchange Board of India
SEC	U.S. Securities and Exchange Commission
SEC RIA	SEC Registered Investment Adviser
SFB	Taiwanese Securities and Futures Bureau
SFC	Hong Kong Securities and Futures Commission
SFD	Settlement Finality Directive
SFT	Securities Financing Transactions
SIFMA	Securities Industry and Financial Markets Association
SMPG	Securities Markets Practice Group
SOP	Standard Operating Procedure
SRDs	Shareholder Rights Directives
SSC	Vietnamese State Securities Commission
T2S	Taregt-2 Securities
TDCC	Taiwan Depository & Clearing Corporation
TWSE	Taiwan Stock Exchange Corporation
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
VAB	Association of Foreign Banks in Germany
VM	Variation Margin
WGMR	IOSCO Working Group on Margin Requirements (VM) processes

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