

CSDs: KSD (Korea (South))

Date: 11 Nov 2011

SMI Markets: Korea (South)

CMIRR Markets: Korea (South)

## KSD Modifies Settlement Framework

The Korea Securities Depository (KSD) has postponed the implementation date of the proposed changes to the settlement framework, from 21 November to 26 December 2011. The details of the changes are summarised in the table below:

	Current practice	Proposed changes
<b>Inter-broker equities settlement</b>	<ul style="list-style-type: none"> <li>Cash Settlement via commercial banks.</li> <li>Settlement starts from 3.00pm SD.</li> <li>Members are required to settle all positions for the day. In case of settlement failure, the selling member has to deliver a Security Delivery Bill (SDB) subject to the approval of the counterparty. The SDB has to be delivered on T+4, with a one day extension allowable upon the counterparty consent.</li> </ul>	<ul style="list-style-type: none"> <li>Cash settlement via Bank of Korea.</li> <li>Settlement starts from 9.00am SD.</li> <li>KRX members should make securities available by 4.00pm on SD. Exceptionally, the cut-off time may be extended to 7.00pm.</li> <li>Continuous Net Settlement (CNS) will be introduced whereby unsettled positions will be carried over to the next day.</li> <li>In the event that a trade is unsettled by 2.30pm on SD+2, a buy-in will be imposed on BIS Model 3. This will be during the buy-in trading session from 3.10pm to 3.20pm. The buy-in trade will be settled between 3.20pm and 3.50pm on SD+2.</li> <li>In case SD falls on a record date of a corporate event, KRX will initiate a buy-in on SD if the selling broker fails to settle the sale trade by 5.10pm on SD. The SD buy-in trading session will be from 5.50 to 6.00pm. The buy-in trade will be settled between 6.00pm and 6.30pm on SD.</li> </ul>
<b>Broker-custodian equities settlement</b>	<ul style="list-style-type: none"> <li>Securities and cash are settled on a bilateral net basis (BIS model 3), under the Institutional Affirmation and Settlement System (INAS).</li> <li>Settlement of both stock and cash could start at 11.00am. However, settlement usually takes place in the market from around 3.00pm.</li> <li>Trades which could not be affirmed on time can be settled outside INAS, under consent from the counterparty.</li> </ul>	<ul style="list-style-type: none"> <li>Securities to be settled on a gross basis (trade-for-trade) and cash to be settled on a bilateral net basis (BIS model 2).</li> <li>Settlement of stock will start at 9.00am; once a trade is affirmed on SD. Stocks will be settled by 4.50pm.</li> <li>Cash settlement will be at the end of processing cycle, after 4.50pm.</li> <li>Trades which could not be timely affirmed may be settled outside INAS, under consent from the counterparty.</li> <li>KSD will introduce a Settlement Guarantee Fund to secure settlement of cash at the end of the processing cycle, and KSD will act as Central Counterparty (CCP).</li> </ul>

Moreover, the implementation date of the changes to the government bonds settlement model has been deferred to 9 January 2012.

## CSD Risk Impact

### KSD (Korea (South))

CSD Rating: A+

CSD Flash Impact: Positive

Impacted Risk Type: Asset Commitment Risk

Current Rating = AA+

Flash Impact = On Watch

Impacted Risk Type: Liquidity Risk  
Current Rating = AA-  
Flash Impact = On Watch

Impacted Risk Type: Counterparty Risk  
Current Rating = AA-  
Flash Impact = Positive

Advancing the inter-broker settlement start time may have a positive impact on Asset commitment Risk as settlement could potentially be completed earlier. However, the asset commitment period could also be extended up to 7.00pm when countervalues are paid-in later in the processing cycle. The asset commitment period for broker-custodian settlement would be longer as well.

Introducing CNS and buy-in mechanisms will improve resolving unsettled trades more efficiently; hence 'Liquidity Risk' shall be improved. However this impact has been set as 'On Watch' since the broker-custodian settlement model will be moved from BIS model 3 to model 2, which will reduce securities liquidity efficiency. Additionally, KSD acting as a central counter party (CCP), and the creation of the guarantee fund will have a positive impact on 'Counterparty Risk' since the CSD will provide a settlement assurance obligation in case of a participant default reducing the prospect of losses to other members.

## Market Information Impact

### Korea (South)

This information affects the data contained in the Settlement sections of the Securities Market Information Service.

## Infrastructure Risk Ratings Impact

### Korea (South)

Market Rating: A+  
Market Flash Impact: Positive

Impacted Risk Type: Asset Commitment Risk  
Current Rating = AA+  
Flash Impact = On Watch

Impacted Risk Type: Liquidity Risk  
Current Rating = A+  
Flash Impact = On Watch

Impacted Risk Type: Counterparty Risk  
Current Rating = A+  
Flash Impact = Positive

Advancing the inter-broker settlement start time may have a positive impact on Asset commitment Risk as settlement could potentially be completed earlier. However, the asset commitment period could also be extended up to 7.00pm when countervalues are paid-in later in the processing cycle. The asset commitment period for broker-custodian settlement would be longer as well.

Introducing CNS and buy-in mechanisms will improve resolving unsettled trades more efficiently; hence 'Liquidity Risk' shall be improved. However this impact has been set as 'On Watch' since the broker-custodian settlement model will be moved from BIS model 3 to model 2, which will reduce securities liquidity efficiency. Additionally, KSD acting as a central counter party (CCP), and the creation of the guarantee fund will have a positive impact on 'Counterparty Risk' since the CSD will provide a settlement assurance obligation in case of a participant default reducing the prospect of losses to other members.

Related Flash: [KSD Modifies Equities Settlement, 08/08/2011 \(click to view\)](#)

## For further information contact:

Ana Giraldo - Americas and Eurasia  
Barry Morales - Asia Pacific  
Guillaume Viteau - Western Europe (incl. EU)  
Sinang Chrea - Africa, Middle East

Tel. +44 (0) 20 8600 2300 | Fax. +44 (0) 20 8741 7468  
Email: [cmiqueries@thomasmurray.com](mailto:cmiqueries@thomasmurray.com)

*Whilst reasonable care has been taken in the compilation of this information, neither Thomas Murray, its affiliates or information contributors shall have any liability for any errors, omissions, delays or inadequacies in the information or for any loss or damage however occasioned (whether arising directly or indirectly), to any person or company relying on this information, or any decision made, action or inaction taken by any party in reliance upon this information (except to the extent permitted by law). Copyright © 2011 Thomas Murray Ratings. All rights reserved. No reproduction without prior authorisation.*

