Non-Resident Accounts, Tax, Investor Identification and Transparency

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Korean Market Account Structure: Optimal Balance between Transparency and Convenience?

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Optimal Balance Between Transparency and Convenience

Transparency
1. Investor identification
2. BO level asset segregation / legal ownership identification
3. Taxation
4. Market surveillance, etc.

Convenience
1. Operational complexity
2. Trading/operational cost etc.

Short-Term Suggestions:
(a) Allowing Nominee Account Trading Scheme to securities brokers as well;
(b) Relaxation on the daily holding/reporting requirements under omnibus account structure
Segregated Account Structure: Trading, Settlement, & Custody Flows

- Fund A, B, and C should be registered with FSS and maintain segregated accounts.

IM (Investment Manager)
- Fund A
- Fund B
- Fund C

T: Trade Order

T/T+1: Settlement Instructions

Global Custodian

Broker
- Fund A AC
- Fund B AC
- Fund C AC

T: Trade Execution

Exchange

KSD
- Broker AC
- Local Custodian AC

T+2: Settlement

Local Custodian

FSS
- Fund A
- Fund B
- Fund C

T: Updated into the database for FI's holding positions
Nominee Account Trading Scheme (Existing; Optional): Trading, Settlement, & Custody Flows

- **Fund A, B, and C** should be registered with FSS and maintain segregated accounts; Fund A, B, and C should be pre-linked to Nominee Trading Account.

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**IM (Investment Manager)**
- Fund A
- Fund B
- Fund C

**T: Trade Order**
- By T+1: Trade allocation

**Global Custodian**

**T/T+1: Settlement Instructions**

**Broker**
**Nominee Account**
- Fund A
- Fund B
- Fund C

**T: Trade Execution**
- By T+1: Trade allocation; Re-booked to each fund

**Exchange**

**KSD**
- Broker Client AC
- Local Custodian Client AC

**T+2: Settlement**

**Local Custodian**
- Fund A AC
- Fund B AC
- Fund C AC

**FSS**
- Fund A
- Fund B
- Fund C

- Fund A, B, C and IM itself should be registered with FSS; Fund A, B, and C should be pre-linked to IM’s omnibus trading ID.

**Diagram:**
- IM (Investment Manager)
  - Fund A
  - Fund B
  - Fund C
- Broker
  - IM AC
- Exchange
  - T: Updated into the database for FI’s holding positions
- KSD
  - Broker AC
  - Local Custodian AC
- Local Custodian
  - T+2: Settlement
  - T: Updated into the database for FI’s holding positions
- Global Custodian
  - T/T+1: Settlement Instructions

**Notes:**
- T: Trade Order
- T: Trade Execution
- T+2: Fund Holding/Trading Reporting
### Summarized Features of Account Structures

<table>
<thead>
<tr>
<th>Account Structure Options</th>
<th>Eligible Intermediaries / Investors</th>
<th>Eligible Instruments</th>
<th>Account Structure</th>
<th>Investor Identification / Transparency</th>
<th>Trading</th>
<th>Settlement / Custody</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segregated Accounts</td>
<td>All investors</td>
<td>Stocks; Bonds</td>
<td>Segregated</td>
<td>Yes</td>
<td>Individual</td>
<td>Segregated</td>
</tr>
<tr>
<td>Nominee Account Trading Scheme (Optional)</td>
<td>Investment Managers (IMs)</td>
<td>Stocks; Bonds (to be allowed, tentatively from July 2017)</td>
<td>Segregated</td>
<td>Yes; Trade allocation</td>
<td>Aggregated</td>
<td>Segregated</td>
</tr>
<tr>
<td>Omnibus Accounts (Optional)</td>
<td>Investment Managers; Securities Brokers</td>
<td>Stocks</td>
<td>Omnibus</td>
<td>Yes; Daily holding/trading reporting</td>
<td>Aggregated</td>
<td>Omnibus</td>
</tr>
</tbody>
</table>

Korea made a positive step by allowing omnibus account; However, no one uses it yet. *Why?*
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