

Clearstream links up with TDCC

Making Taiwan the gateway to foreign investments in the region

With its soon-to-be launched direct settlement link with the Taiwan Depository & Clearing Corporation (TDCC), Clearstream aims to use this platform to bring in new international investors to Taiwan and the region and show its commitment to the renminbi's more prominent usage in the international bond market

The launch of the direct settlement link between Clearstream and the Taiwan Depository & Clearing Corporation (TDCC) on April 15 paves the way for global investors and issuers to access the Taiwanese international bond market.

With this, Clearstream becomes the first international central securities depository (ICSD) to participate in a local clearing and settlement depository in the Taiwanese domestic market.

To be operated by Deutsche Bank Taipei branch, the link will offer direct custody services for foreign currency denominated bonds including Formosa bonds, the renminbi-denominated bonds from Taiwanese issuers.

"This development follows new measures from regulators which enable foreign investors to more readily invest in the Taiwanese market," says Gavin Chan, executive director, relationship management, North Asia at Clearstream.

For Clearstream, the settlement link with the TDCC is crucial because it reflects the commitment of the ICSD to support the Asian renminbi model. Under this, the renminbi is one of the foreign currencies that Taiwanese authorities allow for issuers to use in offering bonds as well as investors to tap when they buy bonds. Participation by foreign investors in these bonds, however, is currently limited.

The direct link between Clearstream and TDCC is also designed to help facilitate foreign investments using Taiwan as the gateway, making it at par with developed markets in competing for investments from regional and global investors.

Taiwan has one of the largest renminbi deposits in the region with 247 billion renminbi (US\$39.62 billion) held by domestic investors as of February 2014. "Clearstream's new settlement link with TDCC will help to further boost the renminbi market by offering a new direct channel for foreign investors to access the Formosa bond market," Chan says.

More foreign investments

Under the direct linkage, Clearstream will open a settlement account directly with the TDCC and the ICSD will assign an operator to handle the account.



Chan: Foreign investors can readily invest in the Taiwanese market

"With this link, we are able to settle and provide custody for these foreign currencies' securities in Taiwan especially on the Formosa bonds. This will be very important for both the issuers and investors. Since last year when we saw local and some foreign issuers in Taiwan, having started to issue Formosa bonds. In December, four Chinese banks also issued Formosa bonds in Taiwan," Chan adds.

For the issuers, being able to issue renminbi-denominated Formosa bonds means they can benefit from the lower costs of funding. This gives Clearstream more opportunities to offer to their international clients who issue or invest in Formosa bonds to settle their accounts through its direct link with the TDCC.

"After we signed the link agreement in April, there were quite a number of clients enquiring about

it. Some of our clients in Taiwan are asking when the link will be launched. They're interested from the perspective of both the issuer and the investor. Some of them want to issue Formosa bonds, and they're asking if international investors are allowed to buy such issues. The answer is yes," Chan explains.

Clearstream and TDCC have not officially announced the schedule for the launch of the direct settlement link although it is expected to take place soon. It plans to offer both FOP (free of payment) settlement initially and DVP (delivery versus payment) settlement as soon as the market environment allows this option.

The TDCC settlement link is the 10th domestic link offered by Clearstream in markets throughout Asia-Pacific. It also provides access to the following markets in Asia: China (B Shares), Hong Kong, Indonesia, Japan, Malaysia, the Philippines, Singapore, South Korea and Thailand.

The new link is also expected to boost Clearstream's custody, collateral management and tri-party businesses.

"For the custody service, there will be positive impact because we can show our clients in Europe, for example, that they can come to us to safe keep a wider range of securities. So we're a one stop shop for them and they can consolidate all their portfolio with Clearstream. In the local Taiwanese market, we have a very good share of the custody business and this will enhance our reputation in the market," Chan points out.

Clearstream also plans to have a programme that will help TDCC promote the Taiwanese link overseas to attract more international investors as well as to increase awareness about the platform. 📞

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