THE NETWORK FORUM | ASIA MEETING
14 - 15 NOVEMBER 2022 - SINGAPORE

Singapore Review

Three years ago, TNF (The Network Forum) delegates descended on Hong Kong for the Asia Meeting, only for the event to be abruptly halted as the pro-democracy protests which were sweeping through the City took a violent turn.

A brief interlude during the protests gave TNF delegates an opportunity to swiftly exit the HKEX conference facilities, where TNF was taking place, and make their way to the city's buzzing Soho District for a much-needed drink and respite.

Few could have predicted that thanks to Covid-19, it would be another three years before TNF once again graced Asia with its presence - this time in Singapore.

So what were the main talking points at this year's TNF meeting in Asia?

China Is Still Top of Mind

Coinciding with the G20 Summit in Bali, a policy expert shared his insights into some of the geopolitical dynamics shaping the region.

Predictably, China was the dominant theme. The consolidation of power by President Xi, he said, was not unexpected, while the threat of Chinese military intervention against Taiwan remains broadly unchanged. The expert said there was a 10% chance of a conflict happening in Taiwan over the next two years, rising to 20% by 2029.

Nonetheless, the expert stressed that the risks of attacking Taiwan would certainly outweigh the benefits for China, especially following what has happened to Russia in the aftermath of its invasion of Ukraine.

On a further China focused panel, it was pointed out that while there is no shortage of issues threatening China's economic growth, not least systemic risks in its highly leveraged property market, the impact of US sanctions and the government's relentless drive to achieve zero covid, experts at TNF are still excited about its potential.

Home to a massive untapped investor base, global fund managers are increasingly trying to target Chinese allocators - something which could provide ample opportunities for international banks with Chinese custody licenses.

Additionally, market reforms continue to be implemented thick and fast in China, with the country establishing new rules around futures and derivatives. However, whether this is enough to win over sceptical foreign investors remains to be seen.

The Risky Side of Digital

Digitalisation in post-trade has been a frequent topic of conversation at TNFs with a succession of experts highlighting the benefits of asset tokenisation, distributed ledger technology (DLT) and data analytics.

Although these issues were covered at length, TNF Asia took place in the immediate aftermath of the failure of FTX, a Bahamas-based crypto-exchange whose CEO Sam Bankman-Fried previously talked openly of one day buying out Goldman Sachs and CME Group.

FTX - which was backed by several major institutions including Softbank and BlackRock - collapsed when it became public that Alameda – a (legally separate) highly leveraged quantitative crypto-currency trading arm also run by Bankman-Fried - was sitting on $5.8 billion of crypto-currency issued by FTX, known as FTT. A run on FTX followed, which ultimately led to its bankruptcy.

Even now, allegations are surfacing about customer funds being unaccounted for at FTX. At the time of writing, Coin Telegraph reports that Bankman-Fried is currently "under supervision" in the Bahamas, although rumours of him fleeing on private jet to Argentina have been scoffed.

An exciting Netflix drama is bound to follow, with Jonah Hill being the bookie's favourite to star.

While most custodians do not touch crypto-currencies, the failure of FTX does reinforce how important it is for institutional investors trading digital assets more generally to work with quality providers, who are subject to prudential regulation in well-supervised jurisdictions.

Asia and T+1

The looming adoption of T+1 has been a recurrent theme at TNF, and Asia was no exception.

According to a TNF survey, 50% of attendees believe that Singapore is best positioned to adopt T+1 by 2025, followed by 30% who said Hong Kong, and 22% Australia.

However, there are concerns about the impact of implementing T+1 in the region. A reduction in settlement times in Asia could result in a surge in trade settlement fails or late settlement instructions, leading to cash penalties. Additionally, others warn many markets in the region simply do not have sufficient FX liquidity to cope with the T+1 model.

Some experts note that if the US and Canada plough ahead with T+1, and Europe stays wedded to T+2, then Asian market participants could face a number of complications when managing two separate and distinct settlement cycles.

If the region is to navigate the eventual move to T+1, however, then FMIs will need to automate their processes to make the transition as seamless as possible.

Nonetheless, the region is sceptical about the virtues of a T+0 settlement cycle, with barely a third of respondents to a TNF poll saying the industry should be targeting implementation of T+0 anytime soon.

India's Growth Continues Apace

India has become the fifth largest securities markets in the world surpassing the UK since March 2022, and the market cap as of end-October was around US$3.3 trillion. The number of investors has surged past 100 million, from only around 41 million before the Covid-19 pandemic. Growth in participation comes from both retail and institutional investors with retail being the majority. Foreign portfolio investors (FPI) accounts for around 10% and has been growing too.

The India focus panel at TNF Asia believed that the growth could be relatively resilient because retail participation is largely through some kind of dollar cost averaging investment schemes, rather than individual stock picking. Political stability and consistency in economic policies have also propelled India past the UK as the fifth largest economy in the world. These key drivers, alongside with the geopolitical situation in Asia, have created a vibrant IPO scene and hundreds of startups companies in India, of which over one hundred have achieve unicorn status.

Market infrastructures have gone through significant digital upgrades to improve efficiency, such as a centralised KYC system, the real-time UPI payment system, and the current T+1 settlement conversion. The process and documentation requirements for FPI applications have been greatly shortened, cutting the application time to around one week from one month.

A mega project called the GIFT City (Gujarat International Finance Technology-City) was started several years ago and is now beginning to operate as a special global financial and IT hub with newly-created smart infrastructures, advantageous tax rules and relaxed currency restrictions. Foreign investors can participate in the securities, gold and commodities markets under one unified regulator.

The Network Forum will return next year to Johannesburg on March 14-15, before its Annual Meeting on June 20-22, with details to be released shortly.