

Attracting Foreign Portfolio Investment

Best Practices for Frontier & Emerging Markets

Insights from ISSA Working Group

ACSDA Webinar 5 August 2025

Who is ISSA and What does it do?

Who ISSA is



ISSA is a leading Global Trade Association



We are dedicated to supporting the Securities Services Industry



Our members include Custodians, CSDs, technology and other related firms



Our vision is to shape the Future of Securities Services

What ISSA Does

Connect

Facilitate global interaction across different markets, regions and industry segments

Bring together key industry stakeholders in Working Groups and the Symposium

Connect with members and other industry bodies through webinars and conferences

Collaborate

Offer the opportunity for members and industry experts to come together to at our biennial Symposium

Manage Working Groups to tackle key issues effecting the industry

Listen to our members – we are a member led organisation

Change

Create a unique opportunity for debate of the key factors effecting the industry today in order to shape the future

Provide best practice guidance through the publishing of papers, articles, surveys, videos and podcasts

Offer education for all market participants

Attracting Foreign Portfolio Investors:



Why this matters now

- Global capital is shifting, and markets are under increased scrutiny
- Funding is available, but competition is fierce
- This paper provides a playbook with tested lessons

About the Report

- Developed by ISSA's Domestic CSD Working Group
- Designed to support national-level planning for FPI
- Rich with real-world market examples and tested insights

How to use the Report

- Use as reference for planning, reform, advocacy
- For: policymakers, CSDs, exchanges, custodians, investors
- Download at: www.issanet.org

The Case for a National Plan

Need for Political Will

Market change requires strong political will and leadership from government and sovereign actors.

Stakeholder Collaboration

Success depends on cooperation among exchanges, credit institutions, CSD participants, and trade intermediaries.

Investor Base Diversification

Attracting both foreign and domestic investors will improve market liquidity and functionality.

Example: Botswana – reversed grey-listing through coordinated response



Legal and Regulatory Framework

Establishing laws protecting shareholder rights and legal certainty is essential to attract investment.

Essential Legal Reforms

New laws like KYC, anti-money laundering, and anti-terrorist financing are vital to secure and regulate investments.

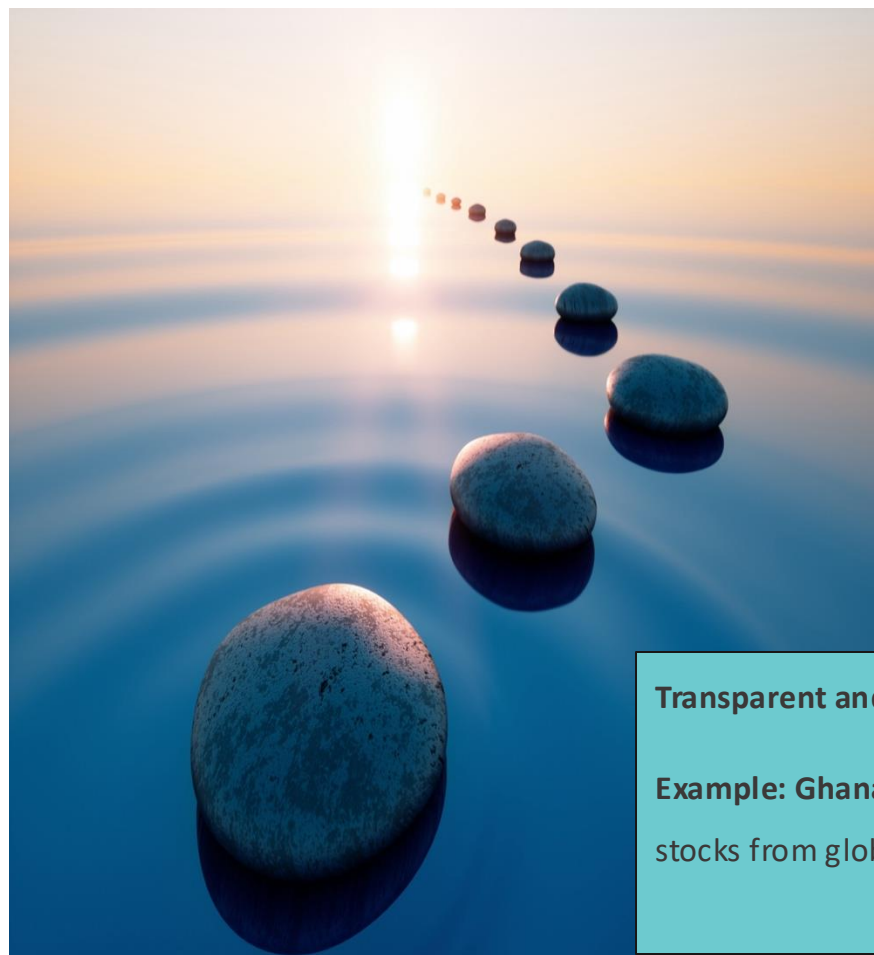
Minority Shareholders Protection

Legal reforms ensure minority shareholders have voting rights and fair treatment against majority stakeholders.

International Cooperation

Bilateral accords between countries help recognize regulations and promote foreign portfolio investments.

Legal & Regulatory Certainty



Regulatory Framework Transparency

Investors value transparent and stable regulatory frameworks with minimal foreign ownership restrictions.

Market Governance and Competition

Robust governance and competitive brokers ensure high-quality, fair brokerage services and market integrity.

Legal Stability and Investor Confidence

Stable legal frameworks with consistent law enforcement increase market attractiveness for foreign investors.

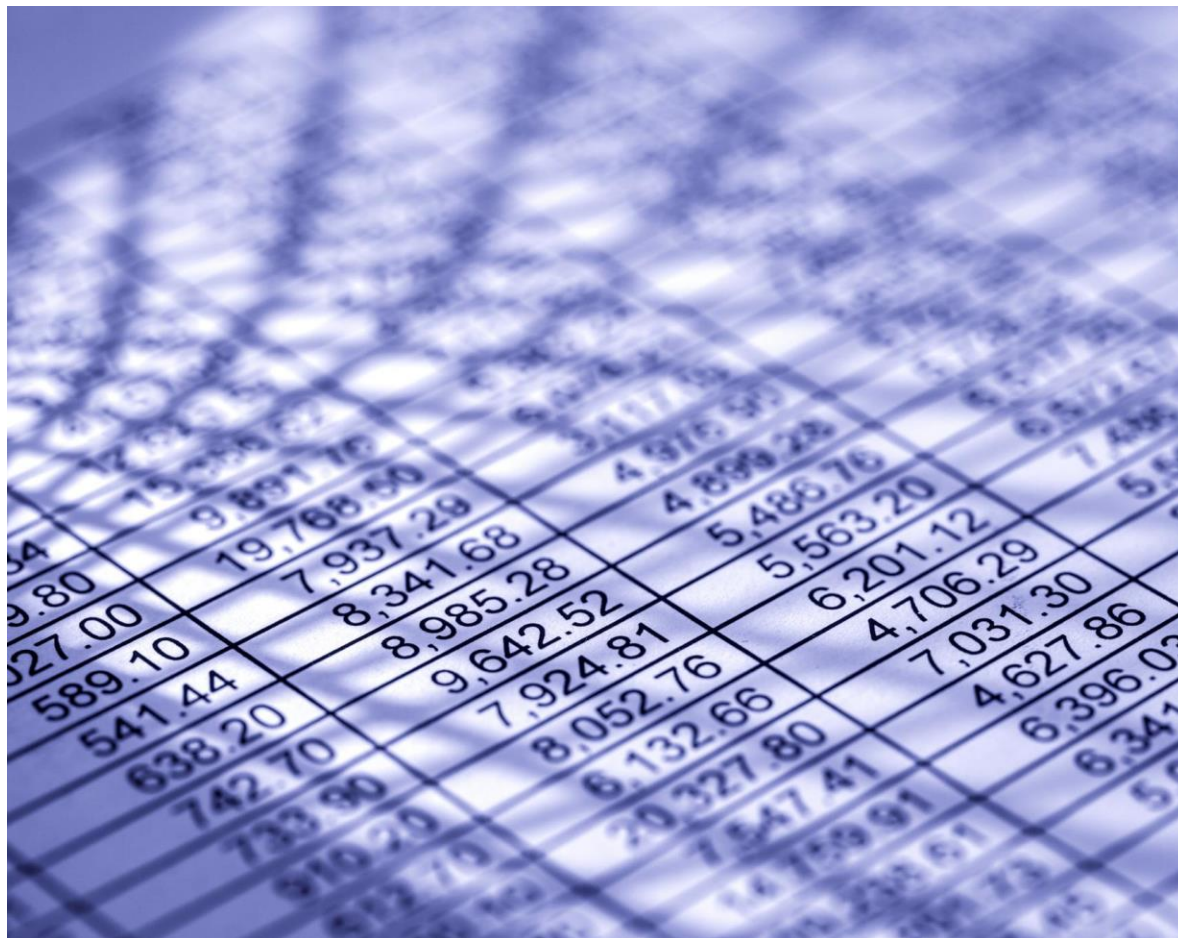
Clear Rule Ownership

Clarity on rule ownership and open consultation with investors promotes understanding and market trust.

Transparent and enforceable rules

Example: Ghana – outdated price rules excluded stocks from global indices

Tax Simplicity & Repatriation



Tax Transparency and Fairness

Fiscal rules should be fair, transparent, and equitable for domestic and foreign investors to build trust.

Administrative Efficiency and Access

Efficient tax processing and low administrative hurdles enable easier market entry and profit repatriation.

Double Tax Treaties Benefits

Double tax treaties reduce withholding taxes and prevent double taxation in cross-border investments.

Mutual Acceptance and Quick Refunds

Mutual acceptance of tax residence certificates and quick refund systems streamline tax reclaim processes.

Investors need accessible double tax treaties and certainty

- Example: Kenya – cumbersome TIN process vs EU's Quick Refund model

KYC/AML & Beneficial Ownership

Avoid duplication and overreach

AML Legal Framework

Strong AML and anti-corruption laws are essential to combat money laundering and maintain market integrity.

KYC Regulations and Platforms

Aligned KYC standards and unified platforms improve efficiency and reduce risks for investors and authorities.

Ultimate Beneficial Owner Disclosure

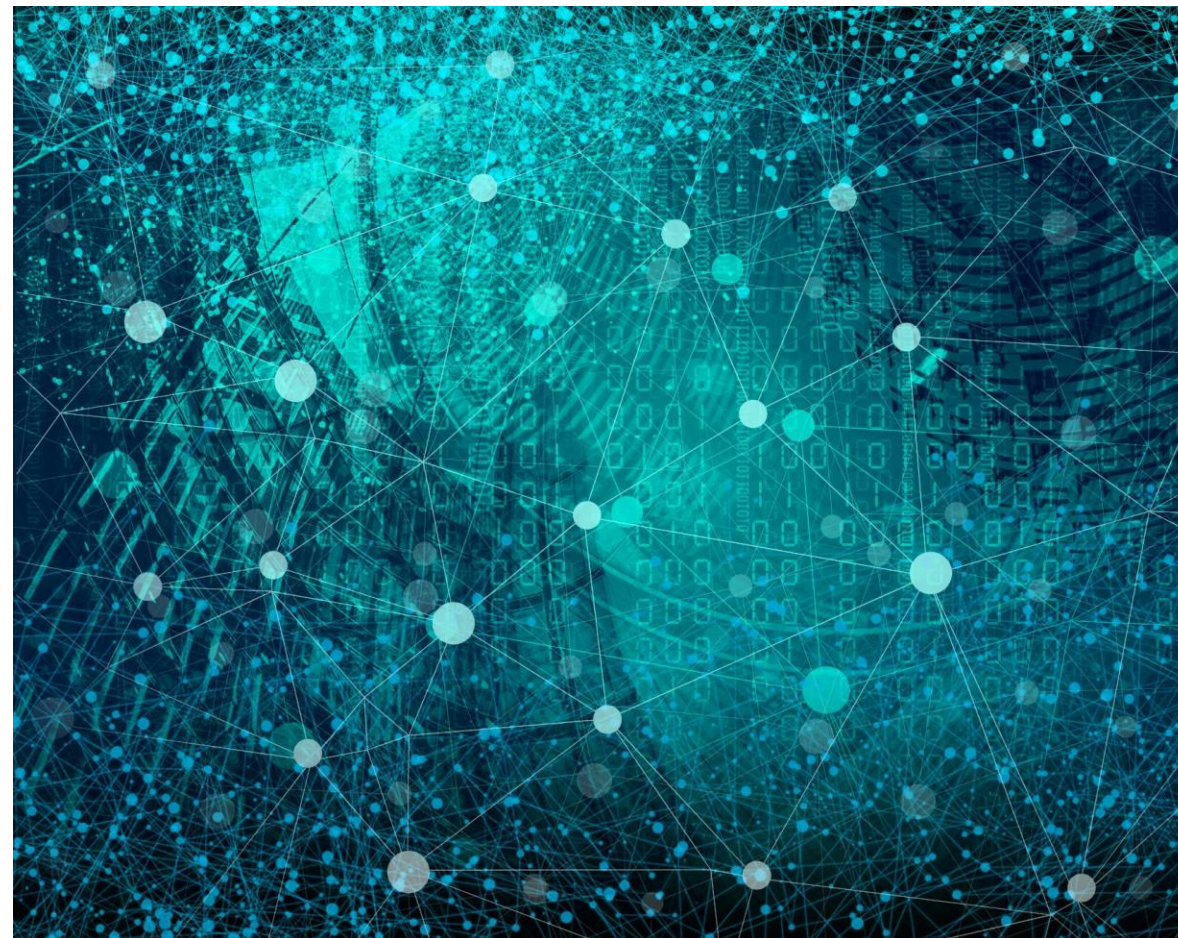
Disclosure of UABO helps track ownership and reduce financial crime risks across the securities value chain.

Sanctions Compliance and Challenges

Clear sanctions procedures ensure compliance but pose challenges when entities access markets indirectly.

Example: Botswana – revised UABO framework after lobbying

Example: Zimbabwe – trades fail post-execution due to AML mismatches



FX & Banking Access



Convertibility and liquidity access are essential

Impact of Convertibility Constraints

Convertibility constraints limit currency exchange and increase costs through FX spreads and liquidity challenges.

Need for Transparency and Stability

FX restrictions should be stable, clear, and transparent to avoid investor confusion and ensure consistent enforcement.

Government Regulation Recommendations

Governments are advised to create well-regulated FX markets with minimal restrictions to encourage foreign investment.

Example: Nigeria FX Markets are well regulated. – Ease of registration and fund importation, established infrastructure for foreign portfolio investment and regulatory framework with reasonably consistent application.

Exchange Rules & Broker Resilience



Challenges of Local Brokers

Local brokers often resist change due to market dominance and financial viability concerns, impacting market evolution

Pricing Methodologies Impact

Pricing rules like volume thresholds can delay price updates, limiting investment opportunities for foreign investors.

Transparency in Fees and Reporting

Exchanges must provide transparent fee structures and next-day or real-time trade reporting to build investor confidence and market efficiency.

Regulated Short Selling Benefits

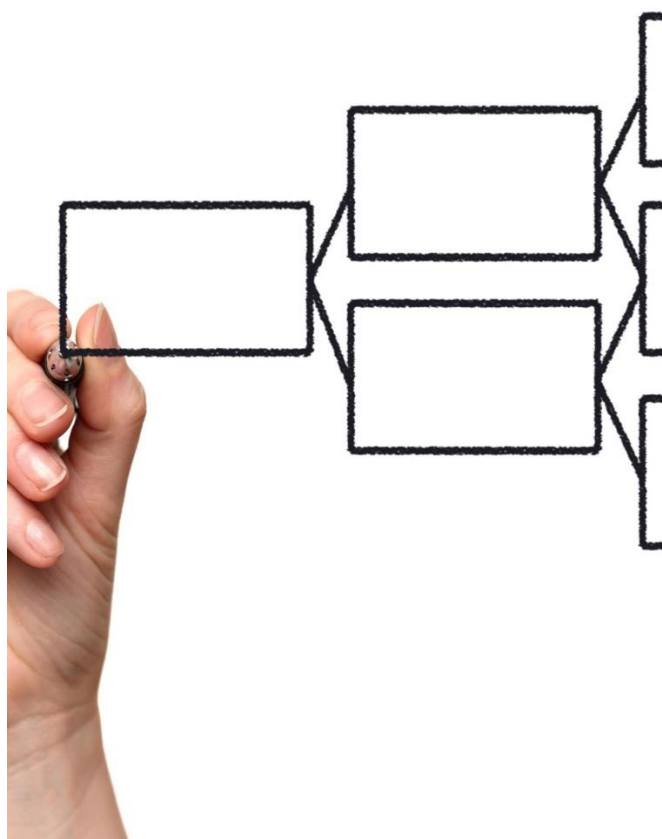
Allowing well-regulated short selling enhances price discovery and market efficiency, removing barriers for investor participation

Need for Digital Communication

Effective real-time, machine-readable digital communication is essential between brokers, custodians, exchanges, and investors for efficient market operations.

- **Example: Romania – broker consolidation post reform**

CSDs as the Anchor: CSD Governance



Participant relationships

▪ Contractual Terms and Transparency

CSDs set clear, transparent terms for settlement systems through negotiation with participants to ensure fairness.

▪ Access Rules and Investment Policy

Access rules and investment policies define client conditions, liquidity management, and low-risk asset holdings.

▪ Governance and Participant Relationships

User committees provide governance input; CSDs publish participant lists and clarify roles for transparency.

Example: Botswana – off-market trade conflicts due to exchange control

Fee structure, transparency, and benchmarking

Transparent Fee Publication

Publishing clear fee schedules including applicable taxes ensures transparency for all investors.

Simple Pricing Structures

Simple, understandable pricing models help investors easily interpret and model fees.

Fee Benchmarking Benefits

Benchmarking fees against others can improve visibility and potentially lower costs.

Balancing Profitability and Viability

Fee structures must balance profitability, viability, and fairness for sustainable operations.

Regulatory Approval Process

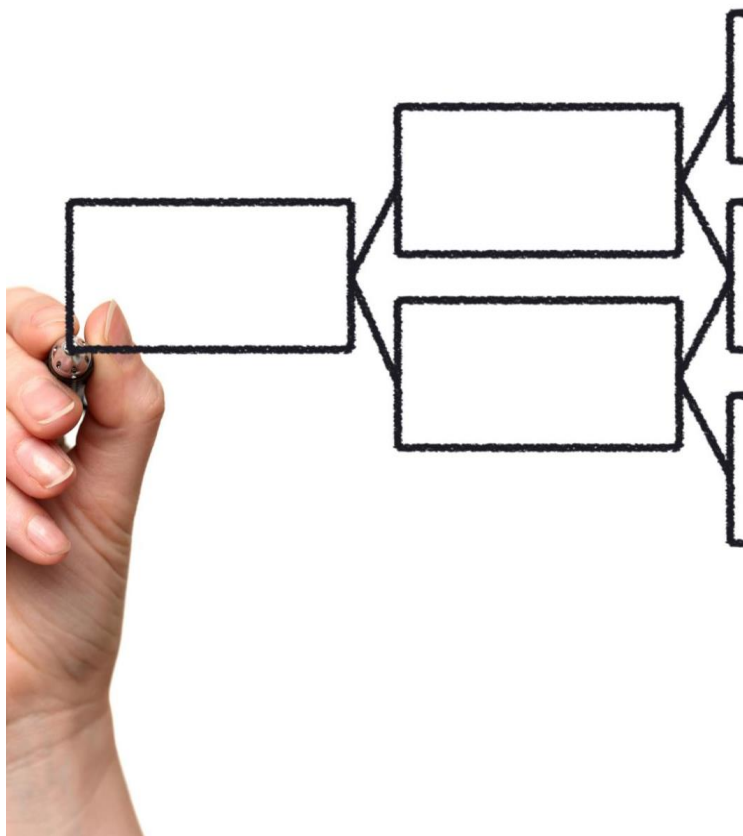
Fee changes require local regulatory approval ensuring fairness and investor protection.

Impact of Fees on Investment

Reasonable and competitive transaction costs encourage investment, while high fees hinder growth.

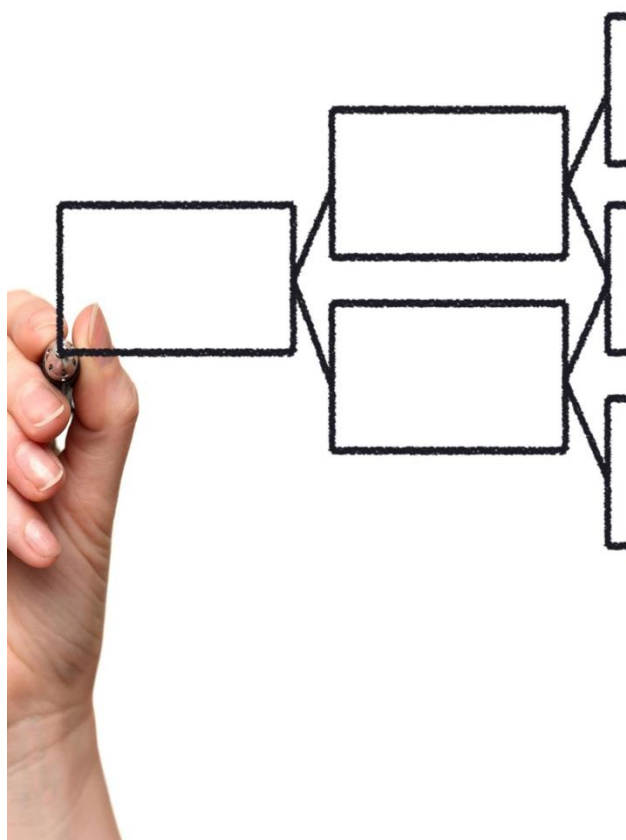
CSDs as the Anchor: Depository Accounts

- Guiding Principles: Flexibility + Transparency + Safety
- Enable Multiple Account Structures: Allow all legally possible structures, avoid mandating full segregation unless necessary.
- Avoid Overly Complex Requirements: Streamline account onboarding and renewal processes.
- Support harmonisation of investor IDs where they apply . Unique identifiers improve transparency and simplify compliance
- Clarify Legal Ownership and Asset Segregation: Define asset safety protections in law or regulation. Align with CPMI-IOSCO Principles.
- Permit Direct Access Where Feasible: More investors are moving toward direct holding models post-2022 geopolitical risks—but need CSDs to offer this access



- Digitize the Entire Account Lifecycle: Reduce manual intervention to lower cost and error
- Document Rules and Conditions Publicly: Clarify responsibilities between CSD, custodian, and investor for settlement, reporting, and risk management.
- Consult Stakeholders Regularly: Governance structures should allow participants to shape rules that affect them.

CSDs as the Anchor: Settlement and Payment models and mechanics



Simplified Settlement Design

Settlement systems should avoid manual processes and adopt ISO 20022 standards for risk reduction and efficiency.

Settlement Cycles

Settlement cycles like T+1 improve efficiency, reducing delays typical in emerging markets using paper-based methods.

Delivery versus Payment Models

There are three main DVP models; Model 1 offers trade-by-trade gross settlement preferred by investors for reduced default risk.

Payment models, settlement finality, and reconciliation

- **Payment Models Overview**

Payments use either Central Bank Money or Commercial Bank Money, with CeBM reducing credit risk exposure more effectively.

- **Settlement Finality Defined**

Final settlement is the irrevocable transfer of assets, depending on timing and process clarity in systems.

- **Settlement Mechanisms**

Multiple mechanisms include Delivery versus Delivery, Payment versus Payment, and Free of Payment exchanges.

- **Reconciliation and Settlement Discipline**

Reconciliation ensures record integrity between CSDs and participants, supported by enforcement mechanisms for settlement discipline.

CSDs as the Anchor: Central Bank Depositories

Central Bank depository alignment and operational standards

Operational Transparency

Central Banks should publish clear operational and business rules for their depository activities to ensure transparency.

Adherence to Standards

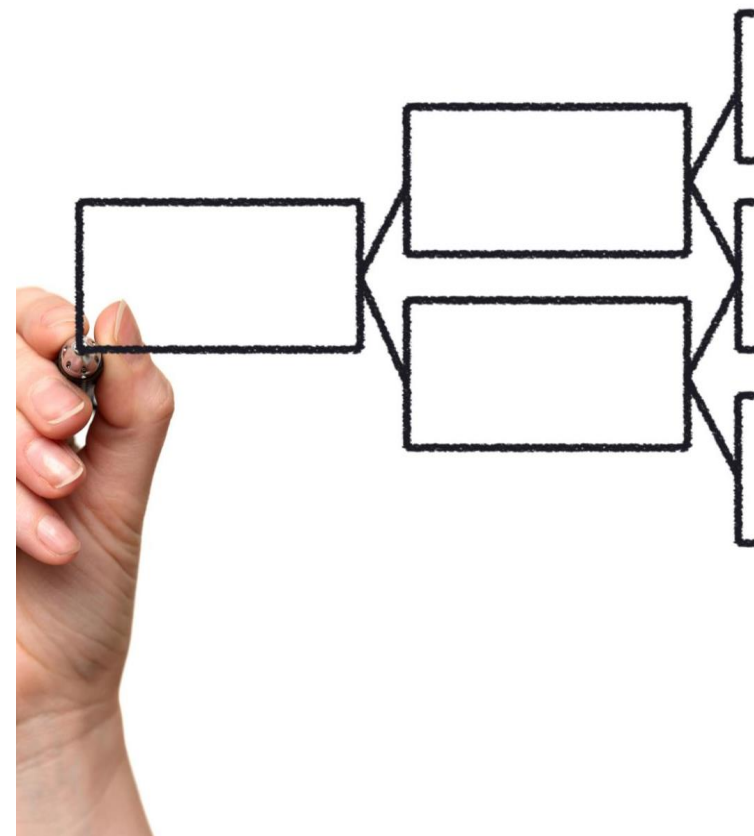
Aligning with CPMI–IOSCO Principles for Market Infrastructures ensures robust and secure central bank depository operations.

Industry Consultation

Robust consultation procedures are essential for amending operational rules, promoting market standardization and stakeholder engagement.

Change Management

CSD systems should not be changed without consultation, ensuring careful management of impacts on business rules and operations.



Cross-Cutting Insights

Complexity deters capital inflows:

Avoid over-notarization and apostilles

Reforms help domestic and international investors

Example: Hong Kong – \$1.5B daily netting loss due to fragmented CSDs

Market Openness

Encouraging open markets attracts diverse investors and supports portfolio investment growth in frontier markets.

Strong Governance

Robust governance frameworks build investor trust and ensure sustainable economic growth.

Modern Infrastructure

Developing infrastructure supports efficient market operations and attracts foreign investments.

Transparency

Maintaining transparency fosters investor confidence and facilitates sustainable portfolio inflows.

Discussion & Q&A



- What's one thing your market could change tomorrow?
- How can fragmented infrastructures build investor trust?
- Other questions from the audience

Thank You & Follow-Up:

Catherine Tinavapi: Co- Chairperson ISSA Working Group

Julia McKenny, CEO ISSA

Visit www.issanet.org to download the report