Depository Environment: Russia, CIS and beyond

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RUSSIA
Securities Accounting System in Russia in the past

About 800 depositories
About 100 registrars
NSD – leading depository on the Russian Securities Market

NSD implemented electronic links with the main registrars. Over 93% of operations with registrar were settled via EDI in 2010.

Regulators

The Federal Financial Markets Service of the Russian Federation (the FFMS of Russia)

The Bank of Russia

More than 700 institutions with depository and other professional participants’ licenses
**NSD – Current Position**

**NSD is the largest settlement depository in Russia, the CIS and Eastern Europe**

<table>
<thead>
<tr>
<th>NSD</th>
<th>01.01.11</th>
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<tbody>
<tr>
<td>Assets under custody, USD bln</td>
<td>284</td>
</tr>
<tr>
<td>Total Equity, USD mln</td>
<td>282</td>
</tr>
<tr>
<td>Number of transactions per year, mln (2010)</td>
<td>2.7</td>
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<tr>
<td>Volume of transactions, USD trillions (2010)</td>
<td>2.3</td>
</tr>
<tr>
<td>Income, USD mln (2010)</td>
<td>118</td>
</tr>
<tr>
<td>Net profit, USD mln (2010)</td>
<td>36</td>
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- Provision of key depository services
- Up-to-date model of corporate governance
- Total Equity to make up USD 280 mln in 2010. A banking license is an extra competitive advantage
- Diversified assets on deposit: shares, government and corporate debt, UIF, Eurobonds, DRs
- De-jure CSD for federal debt and de-facto CSD for sub-federal, municipal and corporate debt
- 70% of the Russian shares market turnover (estim.)
- Opportunities for servicing the MICEX forex market
- Balanced and sustainable income structure. Tariff model similar to a European ICSD
- More than 12 years on depository services market
NSD is an Eligible Securities Depository that meets each of the Requirements of Rule 17f-7 under the 1940 Act

1. NSD is an ESD because it is incorporated in Russia and it operates a system for the central handling of book-entry of Russian securities, including all Russian debt securities and all Russian equity securities traded on MICEX and MICEX SE, as per Rule 17f-7(b)(1)(i);

2. NSD is an ESD because it is regulated by a foreign financial regulatory authority, the Federal Service for Financial Markets (FSFM of Russia), as per Rule 17f-7(b)(1)(ii);

3. NSD is an ESD because it holds assets for the custodian on behalf of the registered fund under safekeeping conditions that are no less favorable than conditions that apply to other participants, as per Rule 17f-7(b)(1)(iii);

4. NSD is an ESD because it maintains records that identify the assets of each participant and segregate the system's own assets from the assets of participants, as per Rule 17f-7(b)(1)(iv);

5. NSD is an ESD because it provides periodic reports to its participants with respect to its safekeeping of assets, including notices of transfers to or from any participant's account, as per Rule 17f-7(b)(1)(v); and

6. NSD is an ESD because it is subject to periodic examination by regulatory authorities or independent accountants, as per Rule 17f-7(b)(1)(vi).
Tomorrow (in 3 years)
NSD is to develop into the regional ICSD for the CIS countries

Regional ICSD

- Comfortable business environment for foreign CSD, ICSD and central banks on the Russian and CIS markets
- Multi-currency settlements with securities transactions on DVP and PVP basis
- Custody for most of liquid equities of the CIS issuers
- Single center for corporate information in Russia & the CIS
- Export of technological solutions to the CIS countries
- RUB 30 trillion assets held in custody
- Up-to-date range of services according to the best ICSD practice
- English interface and help desk
- Integration with depository and exchange systems of the CIS countries as well as with the major European and Global settlement systems
- The hub for safekeeping and settlement of transactions with foreign securities owned by domestic investors

2011 - 2012
- An official status of the CSD in Russia
- Corporate governance adequate to the CSD role
- Guaranteed continuous settlements
- Provision of services in accordance with the best practices of European CSDs
- Competitive rates
- Eligible depository according to 17f-7 (SEC 1940 Act)

2013 - 2014
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Road Map
Detailed road map is based on the milestones set

**NSD – completion of integration**
- IT strategy
- New IT systems: “Alameda” and “ASER”
- Development of DVP 1
- DVP 3 on the OTC market
- Securities lending agent
- Settlements through BESP
- EDI system with registrars
- Collateral management

**CSD of the Russian Federation**
- FundSettle system
- Preliminary matching
- PVP
- DR transactions: accounting and settlements
- Single corporate information center
- Settlements of trades with precious metals
- Business continuity system. Backup center, backup office.
- Eligible depository according to 17f-7 (SEC 1940 Act)

**Range of services according to the best CSD practice**
- Correspondent network in all the CIS countries
- IPO for CIS issuers
- Derivatives: accounting and settlements
- Mortgage transactions: safekeeping, accounting and settlements
- Provision of services on 24x7 basis
- Loans secured by portfolio of financial instruments

**Leading settlement depository in the CIS**
- Total assets on deposit: - 30 RUB tn
- Foreign securities – 6 RUB tn
- Integration into basic European and global settlement systems
- Correspondent relations with the leading CSD and ICSD
Russian Market: Consolidation is a Global Trend

MICEX Group + RTS Group = One of the world’s top ten exchanges

National Clearing Centre + RTS Clearing Center = The CCP meeting international standards

Depository Clearing Company + RTS Settlement Chamber = The CSD for Russia
In line with the global trend
CIS
The Association of Eurasian Central Securities Depositories (AECSD)
AESCD – Association Members

Central Depository of Armenia
The National Depository Centre (Azerbaijan)
Republican Central Securities Depository (Republic of Belarus)
Georgian Central Securities Depository
National Securities Depository of Moldova
Central Securities Depository (Kazakhstan)
Central Depository (Kyrgyzstan)
State CSD of the Republic of Uzbekistan
Depository Clearing Company (Russian Federation)
The National Settlement Depository (Russian Federation)
The National Depository of Ukraine
Ukrainian Securities Depository

Was established in 2004
The Association Members 12 Depositories from 10 CIS Countries
The Chairman is re-elected annually by AECSD Charter.
Annual Meetings of Association Members

The main governing body – the Annual General Meeting of Association Members

The VIII International Conference of AECSD and the Annual General Meeting of the Association members has taken place in Yerevan (Republic of Armenia) on 6-8 October 2011

The IX International Conference of AECSD and the Annual General Meeting of the Association members will take place in Kiev (Ukraine) in 2012
And beyond...
Ancient history

- People used to live in caves and did not have securities at all
- Then appeared the bills
- And then came the shares, bonds and all the rest
- But first everything was in a paper form
- Later on securities became registered, there appeared registrars and first depositories started to emerge

Changes in the settlement infrastructure were caused by the market demand for effective settlement and safekeeping

These two functions cannot be separated as this produces complicated and inefficient settlement systems
The 90s – Golden age for Central Securities Depositories

- End of 80s – Report of the Group of Thirty
- Central Securities Depository concept becomes acknowledged
- Many CSDs were established during these years
- National settlement systems are established around CSDs though there isn’t any standard construction
- It’s nice to be a monopolist, even a small one
- ICSDs are giants in a country with people of different statures, but mostly not very tall
Signs of the end of the golden age

- Competition with custodians: what are special things that we cannot do as well as they do?!
- Pandora box is open – roles started to intermix
- Cross-border interaction. Inefficiency of CSDs. Interdepository relations and correspondent accounts
- Each ICSD has its own destiny. Complaints about high prices and inefficiency
- An ICSD is not a competitor to a CSD? Consolidation is hard work
- Global custodians are serious transnational institutions. However, they prosper thanks to inefficiency and diversity of settlement systems
Life in the time of changes

△ Financial integration of Europe. Euro, ECB, cash settlement systems (Target, Target2), Giovannini Barriers, MiFID, Code of Conduct – craving for centralization.

△ Euroclear + Clearstream were unable to become a European CSD. There is a strong demand for effective cross-border settlement, and the nature abhors the vacuum.

△ ECB: what’s special about CSDs that is impossible for us to do?!

△ The uprise of the project of an international settlement network T2S – great and terrible. But T2S is not a European CSD as well. Furthermore, the project requires sufficient capital investment and has not been launched yet. The launch dates are postponed.
Life in the time of changes (2)

- CSDs are worried about their future. Do they have a chance to survive and preserve independence? The golden age is over but there is probably a chance...

- Link<sup>Up</sup>Market – an alternative to T2S or just an addition?

- CSDs are stuck in a competitive environment: “above” are international settlement systems, and “below” are custodians that are not happy of CSDs’ monopoly
How can CSDs survive

- Monopoly is over. No more need to be afraid of competition
- Efficiency, client focus, services, fees
- Banking service, clearing (without a CCP), reporting, related services
- CSD – an element of state sovereignty
- It is necessary to form not only political groups but also operational and technological ones. This is the only way to survive
- To find a reasonable level of integration allowing to remain independent. To achieve efficiency by combined efforts
- LinkUPMarket – a soft integration scheme: there is much to think about
- Regional centers integrated into international settlement networks
- CSDs should take a key position in the future world of settlement and depository services
TOGETHER WE CAN MOVE THE MOUNTAINS!
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