



**NATIONAL  
SETTLEMENT  
DEPOSITORY**  
MOSCOW EXCHANGE GROUP

London July 3, 2013

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Chairman of the Executive Board  
National Settlement Depository

# **ACCESS TO THE RUSSIAN MARKET**

# CSD LAW: HIGHLIGHTS

## Established:

**Came into force on  
1 January 2012**

CSD legal status and  
operational requirements

Procedure for granting  
the CSD status

Government control and  
oversight of CSD activity

### OBTAINING THE CSD STATUS:

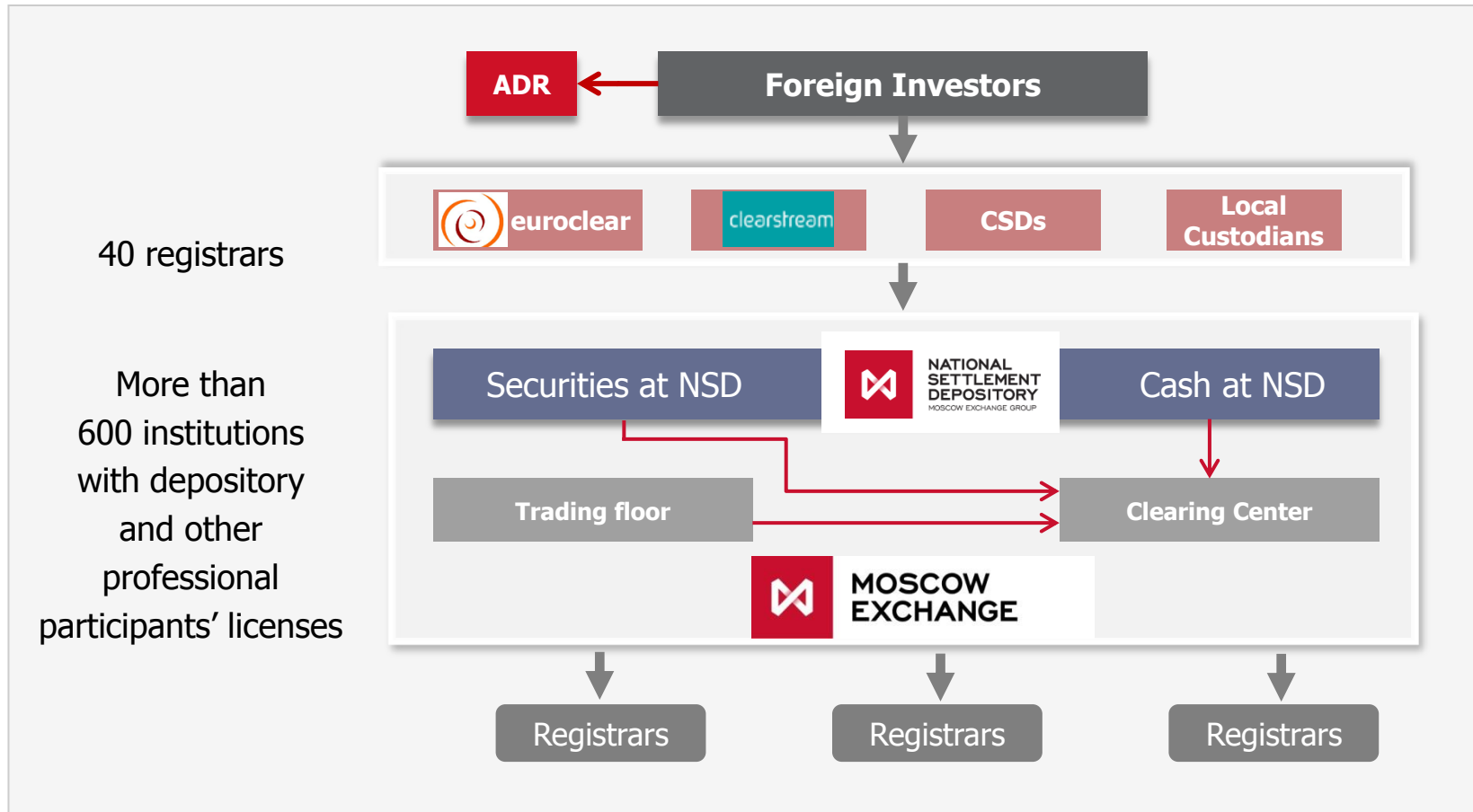
<b>1</b>	NSD submitted the application set to FFMS in order to obtain the CSD status	Completed
<b>2</b>	FFMS reviewed NSD documentation and activity to ensure its compliance with the CSD status requirements	Completed
<b>3</b>	NSD obtained the CSD status	Completed (6 November 2012)
<b>4</b>	Opening CSD/ICSD foreign nominee accounts	Completed
<b>5</b>	<b>Opening CSD nominee accounts in registrars of securities shareholders</b>	<b>Starting from 1 April 2013</b>

### BENEFITS:

- **Lower costs:** Fixed settlement fees (no more high bps registrar fees)
- **Shorter settlement cycles:** defragmented post-trade environment
- **Simplified settlement:** 'spaghetti' system with multiple options eliminated
- **17f-7 eligibility** => green light for US funds
- **Lower risks:** One place of settlement - NSD
- CSD has exclusive **rights to open nominee accounts** at registrars
- **Finality of settlement:** issue solved
- **Foreign Nominee:** investors participate directly in corporate actions
- **EDI mandatory for registrars:** no more paper flows



# ACCESS TO THE RUSSIAN MARKET FOR THE FOREIGN INVESTORS AFTER CSD LAW INTRODUCTION



# NSD KEY FIGURES AND FACTS

## The Russian CSD

More than 15 years on depository services market

Member of the **Moscow Exchange Group**

**The largest settlement depository** in Russia, CIS and Eastern Europe

Provides both bank and custody services to the clients

Settlement depository for the **Moscow Exchange**

Operator of systemically important payment system

**Diversified assets** on deposit

European tariff model

Servicing the Moscow Exchange currency exchange market

Local Operating Unit for assigning Legal Entity Identification codes

Participant of the major working groups organized by the Russian regulators

06.2013

Assets under custody,  
EUR, bln 407.2

Number of custody  
accounts 3 639

Capital, EUR mln 193

Num. of securities  
transactions,  
mln (2012) 2.47

Vol. of securities  
transactions,  
EUR trln (2012) 3.57

Num. of cash  
transactions,  
mln (2012) 1.39

Vol. of cash  
transactions,  
EUR trln (2012) 6.73

# CSD LAW: FINALITY OF SETTLEMENT

## The following transactions are final and irrevocable

- Transactions on the books of the registrar (including transactions in the nominee account of CSD with registrars)
- Transaction on the books of CSD
- Transactions on the book of custodians

## Settlement finality is ensured by daily reconciliation between CSD/custodian with registrars

- CSD must reconcile with registrars after each receipt/delivery to/from its nominee account with a registrar or once per day if no transactions were held
- Custodians must reconcile with registrars on a daily basis (new requirement)

## Additional measures to ensure finality of transactions in the nominee account of CSD with registrars

- Discrepancies discovered during CSD-Registrar reconciliation can not be rectified without CSD's consent
- In case no CSD-Registrar reconciliation was held, or discrepancies were not rectified upon unsuccessful reconciliation, all receipts/deliveries to/from a nominee account of CSD with registrars are deemed invalid
- Transaction settlement between CSD and a counterparty on the books of registrar is subject to receipt by registrar of matching instructions from both sides (new requirement)

*According to articles 24,29,30 of the CSD Law*



# NSD IS A RULE 17F-7 ESD

NSD satisfies each of the conditions for ESD\* Status:



Central Handling of Securities



Regulated By Relevant Authority



Appropriate Safekeeping



Record Segregation and Maintenance

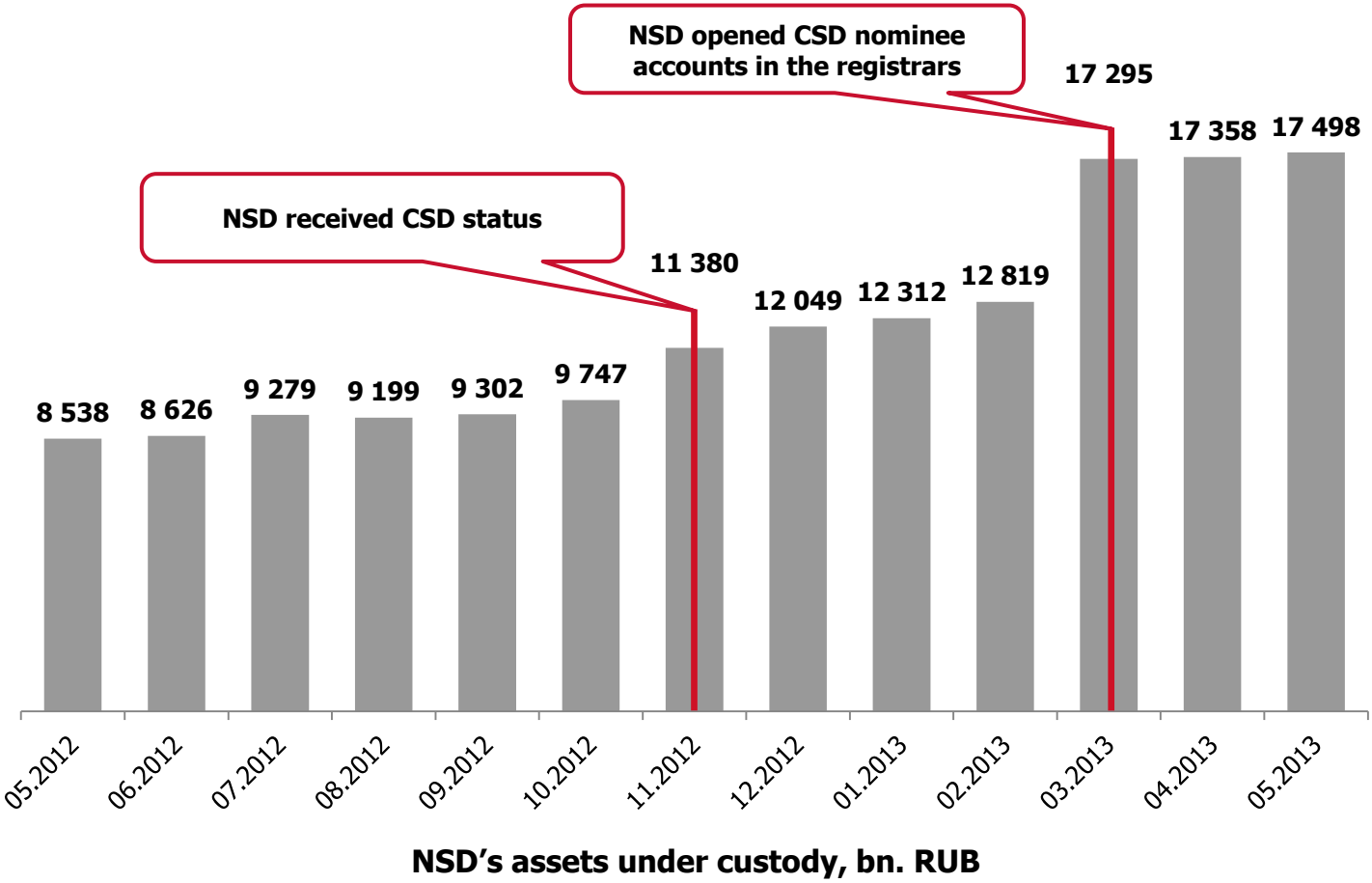


Periodic Reporting

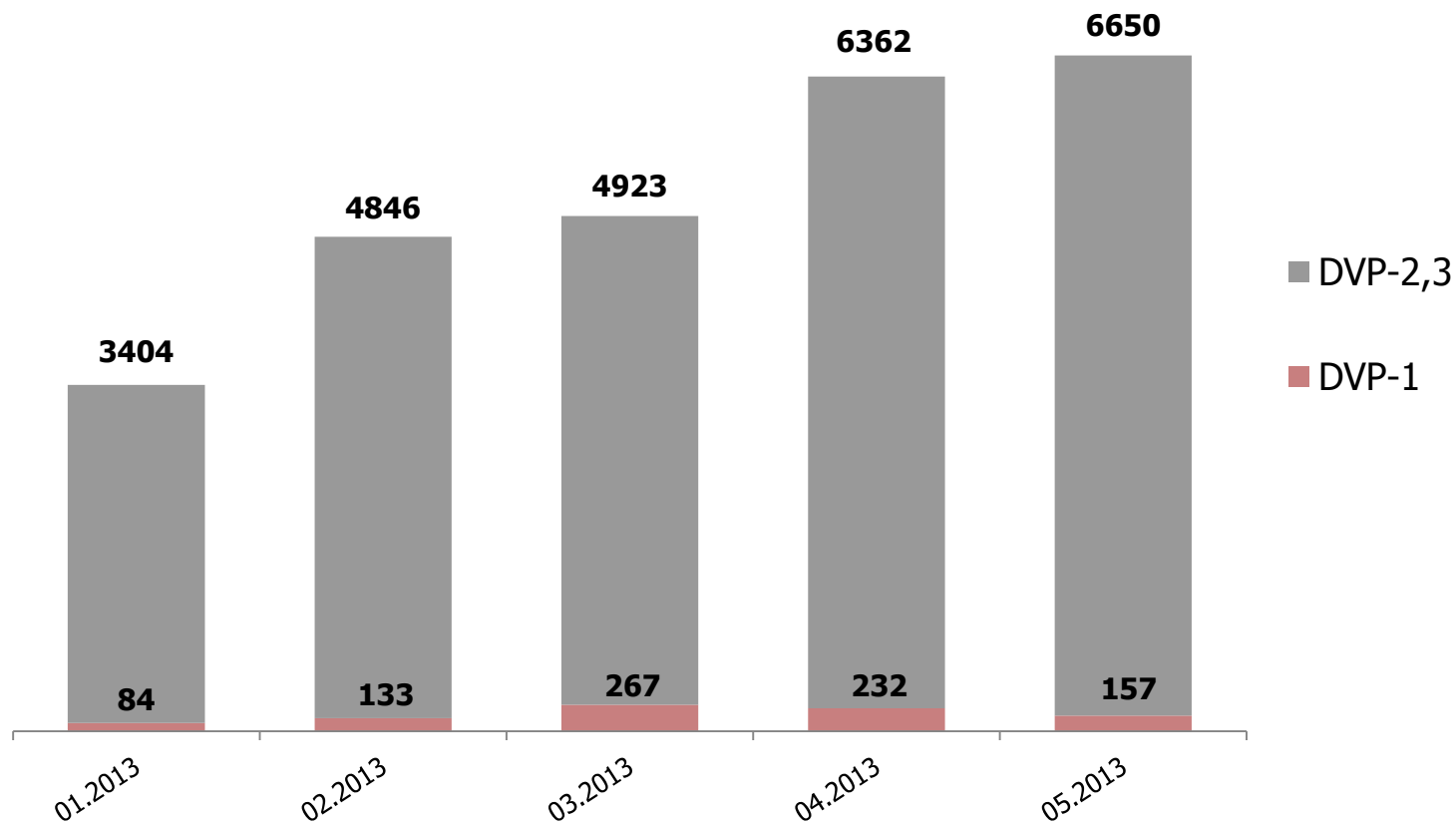


Subject to Examination

# ASSETS UNDER CUSTODY DYNAMICS



# DVP-1,2,3 Number of Operations





# EUROCLEAR AND CLEARSTREAM FOREIGN NOMINEE SECURITIES ACCOUNTS WITH NSD

## **Euroclear Bank S.A./N.V., (Belgium)**

Opened on 27.12.12

- FOP and DVP OTC settlement
- On-exchange settlement launched on March, 26, 2013

## **Clearstream Banking S.A., (Luxembourg)**

Opened on 13.02.13.

- FOP and DVP OTC settlement

- As of today, Euroclear Bank S.A./N.V. and Clearstream Banking S.A. provide services on OFZ market only
- Corporate bonds will be available for operations as soon as the issue with disclosure and taxation for foreign nominee is resolved
- The form of reporting for tax agent is to be defined by the Russian Tax Authorities



# RUSSIAN CASE STUDY

## IMPACT OF ICSDs NOMENEE ACCOUNTS

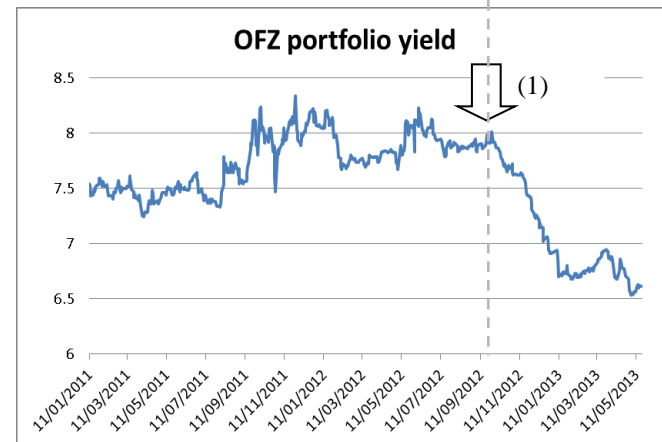
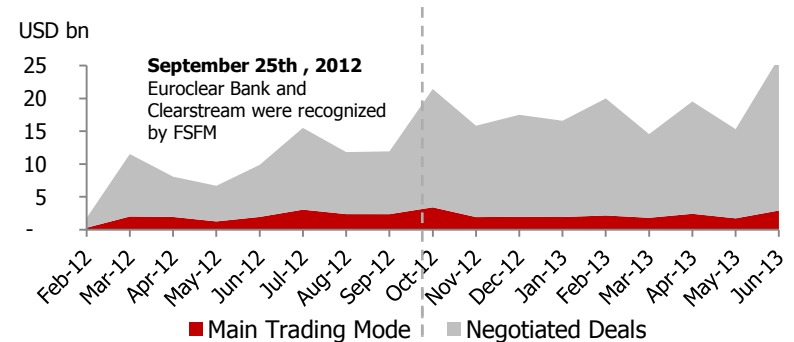
### STOCK EXCHANGE IMPACT:

- April 2012 drop in liquidity on fear that Euroclear will not be able to enter Russian market
- Moscow Exchange OFZ trading volumes have increased since announcement of Euroclear link

### MINISTRY OF FINANCE – changes in cost of borrowing:

- 150 bps drop in yields over 5 months following ICSDs entry

OFZ secondary trading volumes on Moscow Exchange have increased since ICSDs launched their services



Source of yield info: Ministry of Finance, Russia  
(1) ICSDs entered the market



# CUSTODIANS SURVEY

## SUMMARY OF RESPONSES RECEIVED

Question	Summary of Response
<p>Has there been an increase in foreign customers and their customers' customers (funds, direct investors)?</p>	<p>All foreign custodians are seeing an increasing number of foreign customers. However, the increase is not as significant as it might have been expected. <u>Foreign customers are positive</u> about the legislative changes underway in Russia. According to the custodians, their customers are very conservative and <u>it will take half a year to one year for them to reflect the current market changes</u> in their internal policies and procedures and increase their limits for Russian securities.</p>
<p>Has there been an increase in the number of foreign nominee accounts? Have there been any transformations of owner accounts into foreign nominee accounts?</p>	<p>At present, there are few foreign nominee accounts, and <u>we do not see a large-scale transformation of owner accounts to foreign nominee accounts</u>. Such cases are very rare and are an exception, rather than a rule. This is <u>due to the complex disclosure requirements</u> for foreign nominees, very <u>tight deadlines</u> and the <u>need to file a complete package of documents</u> on investors if they participate in corporate actions.</p>
<p>How much have the foreign investors' portfolios changed (in particular, in relation to Russian equities)?</p>	<p>There is a <u>steady growth in the quantities of equities and bonds</u>. Yet, there has been no surge in their Russian portfolios after the positive developments on the Russian stock market. Their <u>fluctuations are similar to those of the key Russian stock indexes</u>.</p>
<p>What are the percentages of assets held by foreign and Russian investors?</p>	<p>The average percentage shares of foreign and Russian investors are 81% and 19%, respectively.</p>

# CUSTODIANS SURVEY

## CONCLUSIONS



Foreign investors have been positive about the changes underway in the legislation and procedures on the Russian securities market

The assets transfer to NSD started after it became the CSD and the process accelerated as NSD opened accounts with registrars



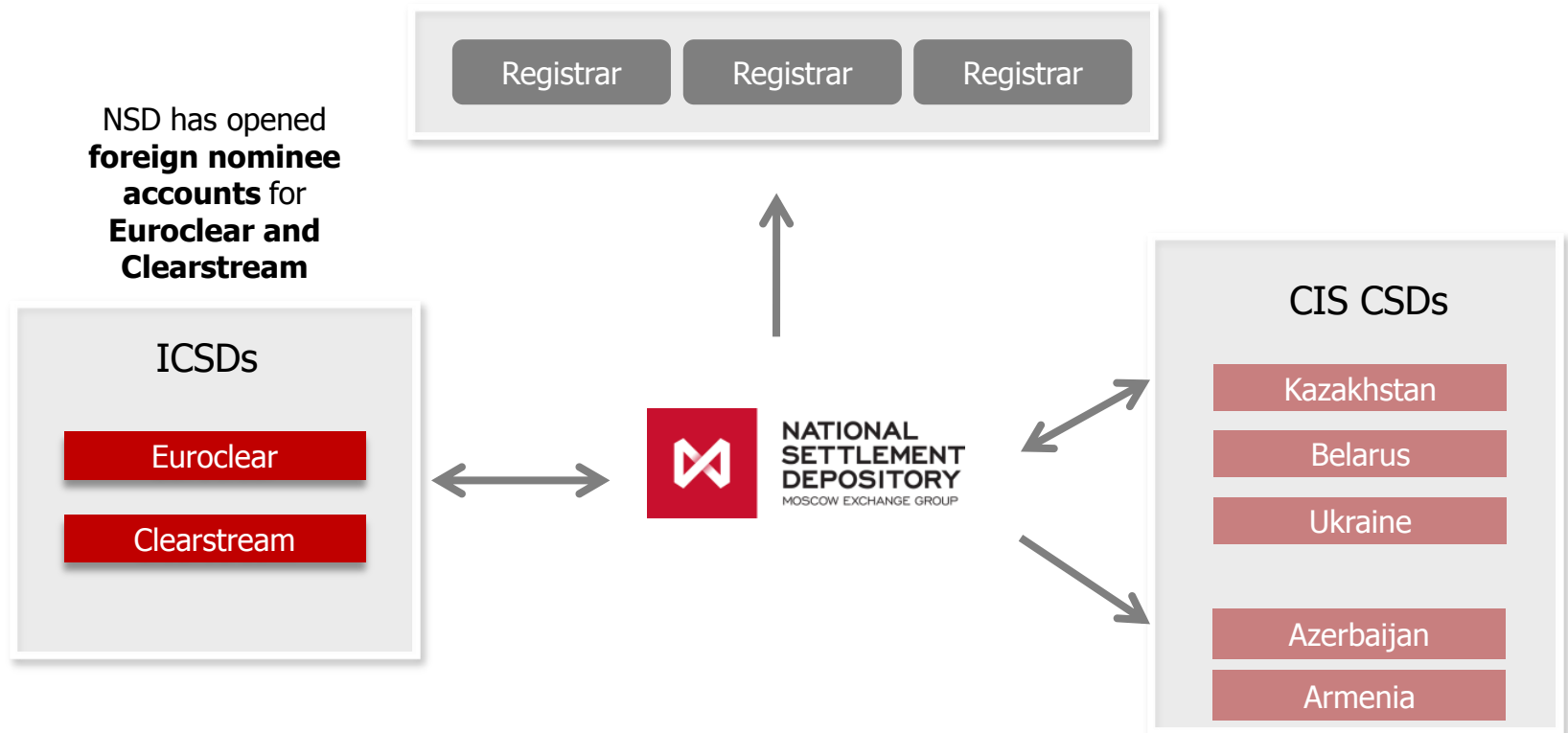
The dynamics of change in foreign investors' assets on deposit at NSD in March to June 2013 suggests that their interest in the Russian market has stabilised and is primarily due to the macroeconomic indicators of the Russian economy



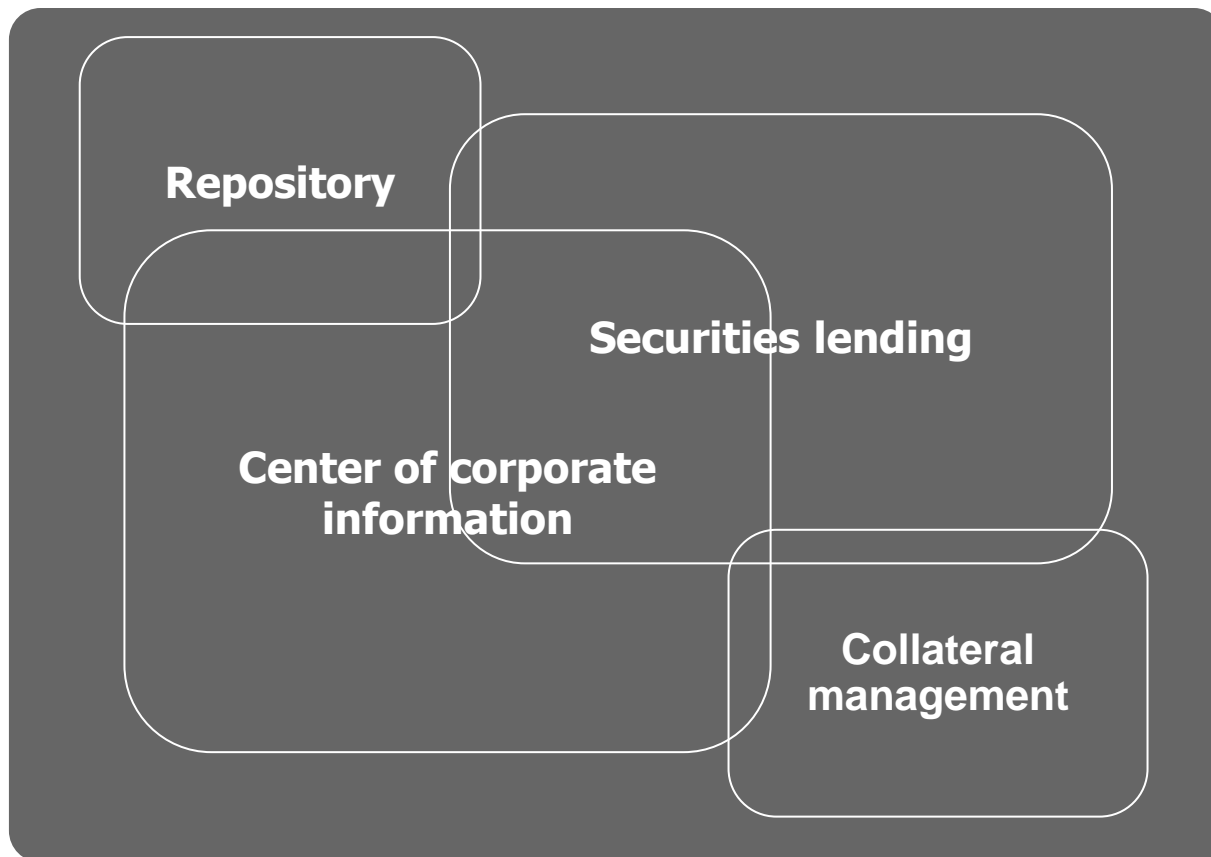
The total value of foreign investors' assets held in global custodians' securities accounts fluctuates between RUB 4.8 trillion and RUB 5 trillion

# NSD – REGIONAL LIQUIDITY HUB

- NSD – starting point for reaching Russia and CIS for foreign investors
- Regional settlement hub based on the joint efforts of CSDs – AECSD\* members
- Profound local expertise of laws, regulations, corporate governance
- Simplification of access to CIS markets and securities



# STRATEGIC DEVELOPMENT PROJECTS FOR 2013



# THANK YOU!



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  - Perception of market services offered by the Company and its subsidiaries
  - Volatility (a) of the Russian economy and the securities market and (b) sectors with a high level of competition that the Company and its subsidiaries operate
  - Changes in (a) domestic and international legislation and tax regulation and (b) state policies related to financial markets and securities markets
  - Competition increase from new players on the Russian market
  - The ability to keep pace with rapid changes in science and technology environment, including the ability to use advanced features that are popular with the Company's and its subsidiaries' customers
  - The ability to maintain continuity of the process of introduction of new competitive products and services, while keeping the competitiveness
  - The ability to attract new customers on the domestic market and in foreign jurisdictions
  - The ability to increase the offer of products in foreign jurisdictions
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