

GENERAL COLLATERAL CERTIFICATE-REPO (GCC-repo)



Content

GCC-repo background.....	3
Concept of GCC.....	4
GCC: definition.....	5
GCC-repo advantages.....	6
Building the asset pool.....	7
Posting assets to the asset pool.....	8
GCC-repo clearing reports.....	9
Service for securities selection.....	10
Pool participants rights and obligations.....	11
GCC repos with the CCP.....	12
Pool asset value adjustment.....	13
Pool participant’s default to answer the margin call for	14
Default on obligations to the CCP under GCC-repos.....	15
Changes in laws and regulations.....	16
Planned regulatory developments.....	17
GCC repos characteristics.....	18
DISCLAIMER.....	19
CONTACTS.....	20

GCC-repo background

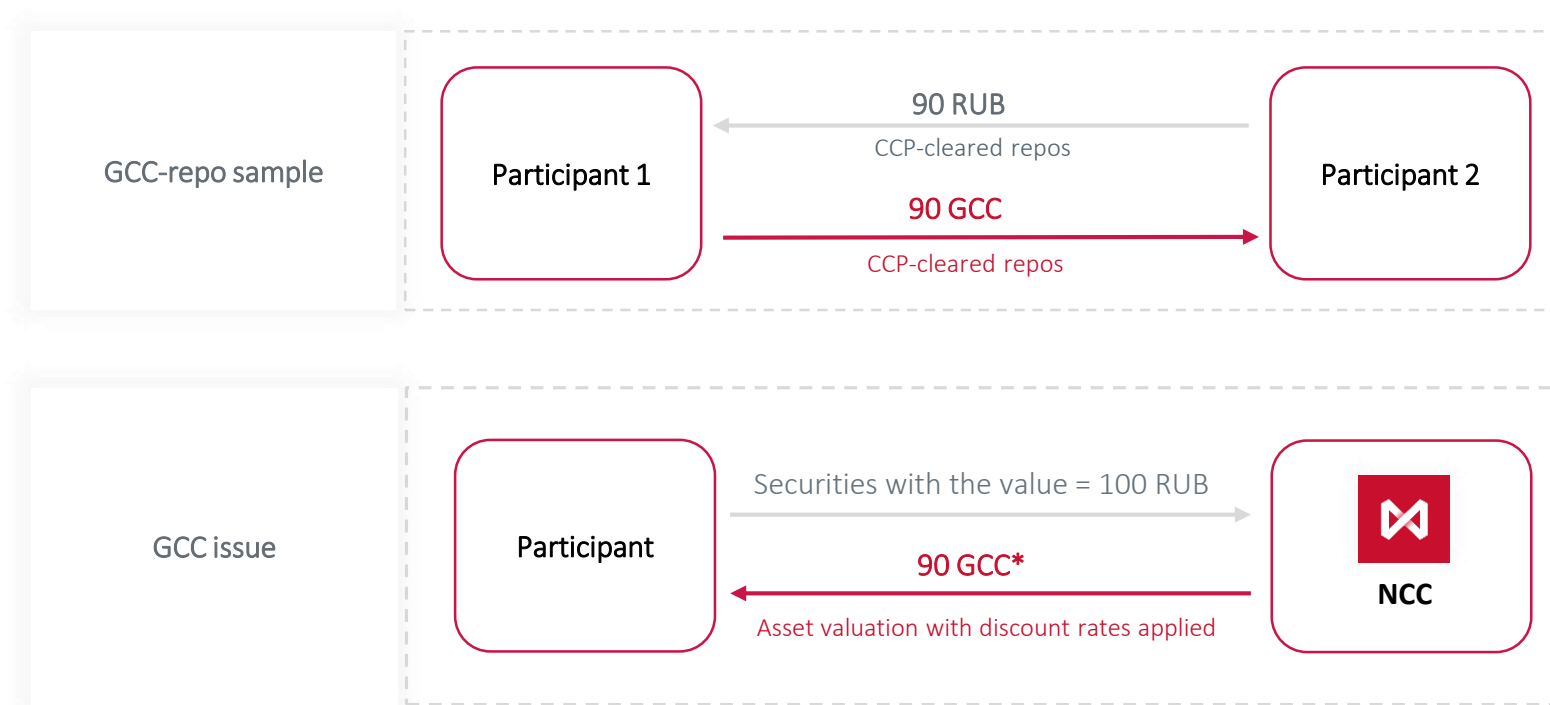
- Repo with CCP have turned to be the main instrument used to redistribute liquidity among participants
- In February 2016 repo with CCP accounted for **72%** in total volume of repos (without trades with the Bank of Russia)
- Repo with CCP allows participants to execute trades without mutual limits against NCC Clearing Bank's guarantee of settlement

- Basket REPO with collateral management system facilitates effective collateral management under transactions
- Now repos with collateral management by NSD is a separate segment segregated from the main Money market transactions with clearing by NCC Clearing Bank

GCC-repo couples advantages of
CCP-repo and Basket REPO with collateral management system

Concept of GCC

- **General collateral certificate (GCC):**
 - ✓ New type of securities
 - ✓ Product of collateral securitization
 - ✓ Instrument that allows into a universal liquidity management by way of executing repo trades
- Clearing participants use GCC to repo trade with CCP
- NCC issues GCCs against assets deposited to the pool, or a participant may receive GCCs through repo trades



GCC: definition

- **GCC** is a certified bearer non-issue security subject to mandatory centralized custody under the dedicated asset pool
- NSD assigns all GCCs issued under the same pool with a single ISIN
- The list of assets that may be accepted for a particular pool is set forth in the law on clearing and NCC resolution on building the asset pool. The Bank of Russia's regulatory instrument may extend the list



- NCC records assets posted to the pool separately on a dedicated clearing register

Amount of issued
GCCs

=

Valuation of assets posted to the
pool with discount rates applied

GCC-repo advantages

- When posting assets to the pool and executing GCC-repos the Participants retain the legal ownership to assets posted to the pool (earnings, votes)
- Effective collateral management:
 - ✓ Pool participants may use securities posted to the pool to settle trades of repo with CCP and trades with T+ settlement while the pool remains backed
 - ✓ Cash funds earned from such transactions are deposited to the pool
 - ✓ Pool participants are allowed to select assets for the pool, as well as to substitute assets posted to the pool

GCC repos with the CCP

Admission:

NCC clearing participants eligible for repos with CCP and T+ will be admitted to trade GCC-repos with CCP

To be admitted to trading the clients should:

1. Register TCA asset pool (if a trading participant intends to execute GCC-repos without a pool participant status, it should be only needed to register TCA asset pool without opening a securities sub-account with NSD. The asset pool TCA will be necessary only in the events that NCC Clearing Bank to manage defaults under GCC-repos)
2. Each client registered on the Exchange using the funds of which will be used for GCC-repos should be flagged with “Qualified investor”

Standard terms:

- Anonymous trades: 1D; 1W; 2W; 1M; 2M; 3M; 6M; 1Y
- Negotiated trades: up to 365 calendar days

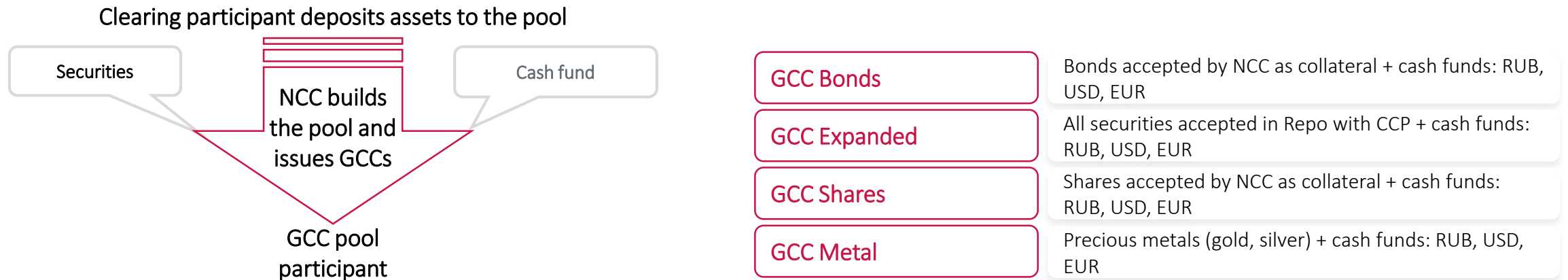
Specifics:

- Participants may place either negotiated, or anonymous trades orders
- GCC-repos are nominated in RUB, USD, EUR
- Discount rates are not applied to GCC-repos

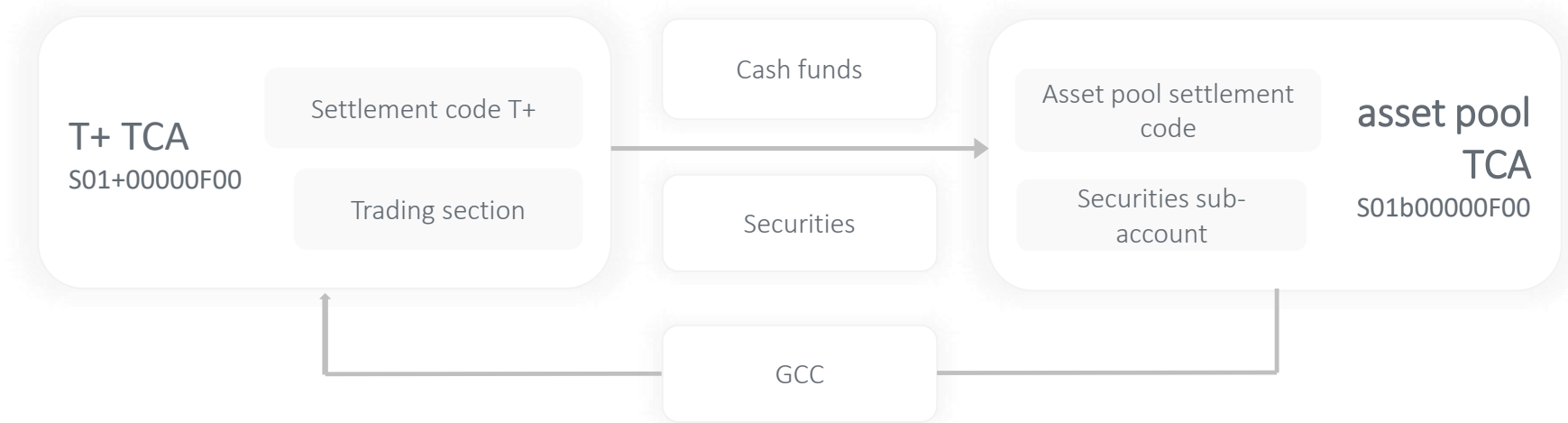
Building the asset pool

In order to become the GCC Pool participant it is required:

- To register and least one trading & clearing account for the pool (meaning the execution of Contract for the assets pool)
- To conclude the Supplementary Agreement to the depositary account with NSD



Posting assets to the asset pool



- Clearing participant participating in the pool posts assets admitted to the pool from the T+ trading and clearing account (T+ TCA) to the corresponding trading and clearing account of the asset pool (asset pool TCA)
- NCC assesses on-line the assets posted to the TCA asset pool against established risk parameters and determines the face value for GCCs to be issued
- NCC transfers on-line GCCs to T+ TCA that conforms with the asset pool TCA
- When the clearing participant withdraws assets from the asset pool, NCC cancels GCCs available on T+TCA that conforms with the asset pool TCA

GCC-repo clearing reports

Code	Report description	Comments
EQM06	Abstract of register of trades accepted for clearing	The report presents the data on GCC-repos
EQM45	Asset pool report	<p>The report presents the data per each asset pool TCA, such as:</p> <ul style="list-style-type: none"> •Quantities of each asset posted to the asset pool TCA and estimated value of property; •Total asset value; •Face value of GCCs issues; •Marginal requirements for the pool
EQM99	Collateral report	<p>The report on 36 TCA T+ subaccounts presents the data on GCS issue/cancellation(OperationCode22) as a result of:</p> <ul style="list-style-type: none"> •posting/withdrawing asset from the asset pool TCA by the clearing participant and NCC, also through collateral selection; •Asset revaluation after changes in risk parameters
EQM46	GCC standard cost report	<p>The report contains the following information per each asset pool:</p> <ul style="list-style-type: none"> •discounted value of assets in the pool for statutory ratios calculation; •total face value of GCCs issued; •GCC standard cost

Service for securities selection

The service enables a clearing participant to select securities:

- on 36/ 31 trading section comprising T+TCA / T0TCA
- on securities sub-account comprising the asset pool TCA
- on securities sub-account comprising the guarantee fund TCA
- on securities sub-account comprising the collateral for stress TCA

Securities are selected using NSD's web-service

In the request for securities selection a clearing participant should state:

- TCA that comprises of Section T+/ Section T0/securities sub-account the securities have to be transferred to
- The amount in Russian roubles that selected securities have to value, and/or the code and quantities of securities that need to be selected

Pool participant rights and obligations

Pool participants may move assets to/from the clearing accounts for pools assets:

- When the assets are moved out, the respective amount of GCCs shall be redeemed
- Assets posted to the pool may be replaced with other assets that are acceptable as collateral for this pool
- Settlement of trades of repo with CCP and T+ Market trades with the use of assets in the pool shall be in parallel with replacement with the counter assets*

Pool participants are obliged to meet margin requirements

Margin calls can arise in the following cases:

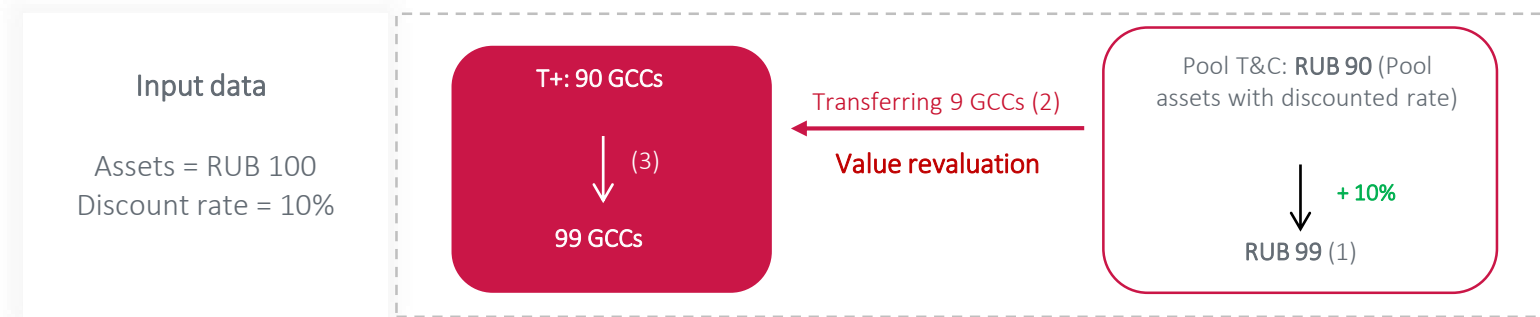
- Asset in the pool loses in its market value
- Asset is no longer accepted to the pool

**If the counter asset is not accepted to the pool, pool assets should be replaced with RUB available on T+ clearing and settlement account*

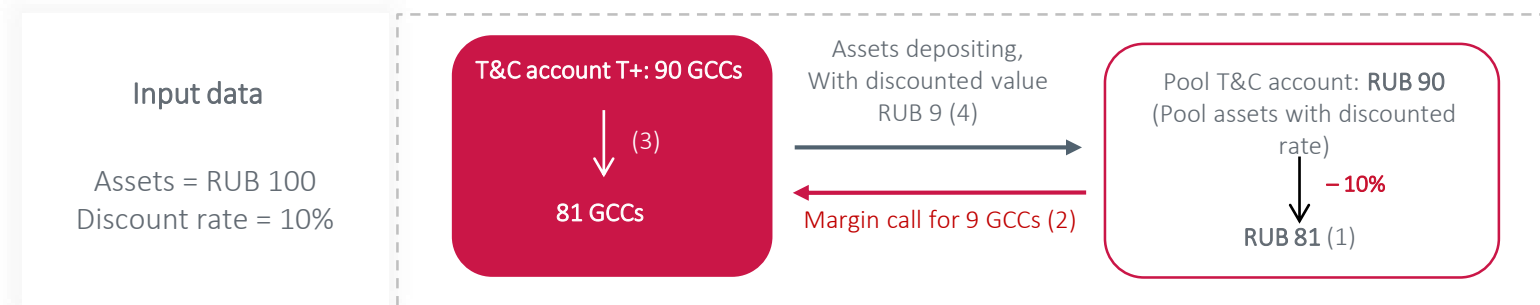
Pool asset value adjustment

Revaluation and margin call issue for the pool takes place before 9.00 am in the morning on a daily basis taken account of actual risk parameters and settlement prices per each clearing account the assets in the pool

- Assets value gains



- Assets value falls



Pool margin call may be answered to full extent by way of automatic cancellation of GCC (3)

The pool participant answers the unanswered portion of the margin call by way of:

- ✓ Depositing assets to the pool(4)
- ✓ Executing trades to sell assets posted by the Clearing participant to the pool and depositing funds earned from the trade to the pool
- ✓ Executing trades of GCC-repos with CCP to attract GCCs

Pool participant's default to answer the margin call for the pool

- In case of pool Participant's default to answer the margin call for the pool until 5:30 PM on the current trading day:
 1. In the event of the margin call the Clearing Centre shall redeem GCCs to the extent not exceeding the margin call size
 2. Clearing Centre shall submit a request to the Settlement Depository to select securities specifying the margin call amount and assets pool securities subaccount
 3. Clearing Centre shall submit a collection order for direct debiting RUB funds from the Pool participant's correspondent account that is a credit institution opened with the Bank of Russia*
 4. Clearing Centre shall execute closing transactions towards selling the assets (securities or foreign currency) out of assets pool
 5. In case the margin call is not answered following the above procedures in items 1-4, the margins call shall be answered using the funds on participant's account on the securities market
 6. In case funds available on the given account are not sufficient to answer the margin call, non-answered portion of the margin call shall be accounted as the Pool participant's debt to NCC
 7. Securities market individual clearing collateral funds remaining shall be used to settle the participant's debt
 8. Further the NCC's standard "waterfall" procedure should be applied

Default on obligations to the CCP under GCC-repos

- **Default on cash-fund obligations to the CCP**

1. NCC Clearing Bank submits a direct debit collection of RUB from the correspondent account of a Clearing participant-credit institution in the Bank of Russia
 2. NCC Clearing Bank executes swap trades
 3. NCC Clearing Bank executes repo trades
- After two consecutive settlement days expire, NCC Clearing Bank executes transactions on purchase and sale of currency or securities

- **Default on CPCs obligations to the CCP**

1. NCC Clearing Bank submits an order to NSD for selection of securities available on the asset pool TCA with the value of outstanding GCC obligations (for issuing GCCs on T+ TCA where outstanding GCC obligations are accounted)
2. The order for direct debit collection of RUB from the correspondent account of a Clearing participant-credit institution in the Bank of Russia on the asset pool TCA (for issuing GCCs on T+ TCA where outstanding GCC obligations are accounted) is submitted
3. Funds are transferred from the respective T+ TCA. Should the funds available on T+ TCA be not sufficient, the deficient amount will be recorded as the Debt position. Procedures described in the **Default on cash-fund obligations to the CCP** paragraph will be applied in respect of Debt position.

Changes in laws and regulations

Laws/ Regulations	Description
Federal Law “On Securities Market”	Amendments have been introduced to allow repos in general collateral certificates
Federal Law “On Investment Funds”	It is a general rule that asset management companies may not use assets that constitute a mutual investment fund to secure their own obligations not related to mutual fund asset management, neither they can use it to secure third party obligations. However, some limits were set in relation to this requirement in the event of transfer of property constituting the mutual fund to the asset pool
Federal Law “On Clearing and Clearing Activity”	A new chapter was added, i.e. Chapter 4.1 “Asset Pool”. New clauses have set procedures to issue GCC, rights of certificate holders, procedures to trade certificates. Furthermore, the law includes provisions that sets guaranties under trades in GCC in the event of certificate holder bankruptcy or loss of banking license
Federal Law “On Currency Regulation and Currency Control”	Residents are allowed to executed FX transactions in connection with posting/withdrawal funds to/from assets pool
Federal Law “On Enforcement Procedures”	GCC seizure and foreclosure procedure specifics have been described. The Law has set that foreclosure on GCCs may be enforced in respect of funds remaining after the performance or termination of clearing participant obligations with the exercise date coming (having come) not later than the day when the clearing organization has received documents that constitute grounds for foreclosure
Tax code of the Russian Federation: Federal Law 326-FZ "On amendments to Part II Tax Code of the Russian Federation "signed by the President RF and published.	Amendments were introduced to Article214.3, Article251, Article264, Article 270, Article 280, Article 282, Article299.1 and 299.2. Articles were amended to incorporate procedure for tax base calculation under improper fulfilment or non-fulfilment of obligations in the second leg of a GCC-repo transaction; new classes of expenses that are not to be included in the tax base calculation; substantiation of non-recognizing the event of securities sale or other disposal of securities and etc

GCC repos characteristics

- Effective collateral management:
 - ✓ Pool assets selection
 - ✓ Use of pool assets for settlement of trades on the securities market
 - ✓ Portfolio approach to setting margin calls for the pool

- Participants posted assets to the pool retain their rights to securities
- Most of standard corporate actions do not require collateral replacement

- Development of MM with the CCP:
 - ✓ Liquidity concentration
 - ✓ Terms for repos with CCP are extended till 1 year

- Guarantees for holders of GCCs:
 - ✓ Pool assets may not be seized
 - ✓ Qualified CCP, effective risk management

- 100% netting when executing opposite direction trades

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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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