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The Association of Eurasian Central Securities Depositories



Correspondent accounts of non-resident participants in the securities depositories of the Association of Eurasian Central Securities Depositories (AECSD)



CORRESPONDENT ACCOUNTS OF NON-RESIDENT PARTICIPANTS IN THE SECURITIES DEPOSITORIES OF THE ASSOCIATION OF EURASIAN CENTRAL SECURITIES DEPOSITORIES (AECSD)

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INTRODUCTION

The AECSD members cannot stay away from the globalization process. The initial stage of securities market infrastructure development in each FSU country was carried out independently, without coordinating efforts with the other countries. Today, active cooperation among our countries' securities depositories has become of paramount importance. The goal is to establish cross-border links and harmonize our activities (relying on the best national and international practices, as well as taking into account the political, geographical and economical situation in the AECSD countries). On the one hand, it will make the national securities more attractive, on the other hand, it will help resist to the growing competition from the global players.

This report is one of the first steps towards such cooperation. The next step towards the future market integration would be the establishment of links between the AECSD member depositories.

POSSIBILITY TO OPEN A NOMINEE ACCOUNT FOR A FOREIGN DEPOSITORY AND THE CURRENT MARKET PRACTICES

In order to be able to trade securities on the local market, a foreign investor (or its broker/custodian) should have an understanding of the structure of the depository system in the country where the securities' issuer is registered and how trades are settled and what intermediaries are involved in the process; whether there is direct access to the CSD in the particular country or one needs to use the services of an intermediary to gain such access, and which is the preferred way in each case.

There are five ways for a foreign broker/custodian to carry out cross-boarder settlement:

1. to have direct access to a national CSD

It is not widely used due to the significant costs involved in signing a services agreement, the need to comply with the foreign depository's rules, the need to be able to support technology used for the interaction with the national CSD and the local payment system. As a rule, it also includes the cost of establishing a subsidiary or a branch of a foreign broker/custodian.

2. to use local agent (subcustodian) which has an account with the CSD in the issuer's country.

This is the most common global practice. The local subcustodian provides a wide range of custody and banking services as well as tax support. Local subcustodians' services are widely used by ICSDs and national CSDs.

3. to use a global custodian which accesses the local CSD through its subsidiary (branch) or local agent.

This method is also quite common, as it helps avoid the cost of establishing interaction with multiple local subcustodians and receive a broad range of services while minimizing expenses due to economies of scale.

4. to use ICSDs.

This approach was introduced together with the Eurobonds market. It is now also used for holding local securities through ICSD accounts with the national CSDs or local custodians.

5. to use a bilateral link between national CSDs.

The Giovannini report (2001)¹ highlighted this approach as the most affordable but the least used by foreign investors. On the one hand, bilateral links help reduce the number of intermediaries involved in the settlement process, hence lower related costs. This also helps lower the cost and complexity of the process related to collateral arrangements (if necessary). On the other hand, most links are free of payment links and the related payments are carried out via a separate payment system. This is inconvenient and leads to additional risks. Another disadvantage of this approach is that local CSDs usually do not offer a full range of services needed by non-resident participants (including custody and banking services, cash flow management) or, where they do offer such services, their fees are higher compared to the services of the local custodians or ICSDs.

It is interesting to note that the CSDs in Eastern Europe prefer cross-border settlement arrangements involving an ICSD rather than establish bilateral links with other national CSDs.

Out of the 10 AECSD member countries only Uzbekistan and Russia do not have any legal provisions enabling a foreign depository to open a nominee account with the local depository. This means that it is currently impossible to establish bilateral links with the State Cen-

tral Securities Depository of the Republic of Uzbekistan or any Russian securities depository. Non-resident participant as a beneficial owner can access the stock markets in these countries through opening account with brokers, custodians or settlement depositories. The account opened for a non-resident participant, regardless whether it is an ultimate beneficiary or an intermediary, can be only a beneficial owner account, not nominee account. It is necessary to say that for an intermediary it is important not only to have an opportunity to open a direct account with the CSD, but the status of such account. It must be a nominee account, not a beneficial owner account. In that case such account can provide the necessary legal protection for investors serviced by the intermediary.

Table 1 contains information about the possibility to open nominee accounts in the countries of the AECSD member depositories, as well as data on accounts opened to foreign nominees.

What types of securities may be held in a foreign depository's account with an AECSD member depository? Analysis shows that most AECSD member depositories do not hold government securities, except for NDC (Russia), the Central Securities Depository of the Republic of Kazakhstan and the Republican Central Securities Depository of the Republic of Belarus. Government securities and securities of the National Banks can be held on the correspondent account of the foreign depository in the Central Securities Depository of the Republic of Kazakhstan only if it is a Primary dealer or a Primary agent, and in the Central Depository of the Republic of Belarus if it is an authorized depository (the order of obtaining an authorized depository status by a foreign depository is not regulated in Belarus).

In other AECSD member countries the recordkeeping of government securities is mostly performed by national Central Banks (Armenia, Georgia, Kyrgyzstan, Moldova, and Ukraine) or depositories of stock exchanges (Azerbaijan and Uzbekistan).

¹ The Giovannini Group. Cross-Border Clearing and Settlement Arrangements in the European Union, Brussels, November 2001.

TABLE 1

Country/depository	Is there a possibility to open a nominee account?	Comments
Azerbaijan/The National Depository Center	Yes	Accounts opened for: Rosbank (Russia), The National Depository Center (Russia), JSC VTB Bank
Armenia/ Central Depository of Armenia	Yes	Not regulated. No market practice.
Belarus/Republican Central Depository of Belarus	Yes	Account opened for: The National Depository Center (Russia)
Georgia/Central Securities Depository	Yes	No market practice.
Kazakhstan/Central Securities Depository	Yes	Foreign nominee can open aggregated subaccount and segregated subaccounts. Accounts opened for: the Central Depository (Kyrgyzstan), The National Depository Center (Russia), Depository Clearing Company (Russia), JSC VTB Bank (Russia), Sberbank (Russia), and Rosbank (Russia)
Kyrgyzstan/Central Depository	Yes	Account opened for: the Central Securities Depository of the Kazakhstan Republic
Moldova/National Securities Depository	Yes	It is not legally prohibited. In order to open a nominee account (omnibus account), a foreign depository must become a participant of the National Securities Depository of Moldova. No market practice.
Russia/The National Depository Center; Depository Clearing Company	No	It is impossible at the moment, because a foreign depository is not a licensed “professional securities market participant” according to the regulation, so is not recognized as a depository and cannot open nominee account with a Russian securities depository. A foreign depository can open only a beneficial owner account. Russian securities depositories open accounts for foreign depositories only as beneficial owners, not nominees.
Uzbekistan/Central Depository	No	It is not expressly prohibited to open correspondent accounts for foreign depositories. At the same time the CSD may establish correspondent relationships only with securities depositories holding a relevant license granted by Uzbekistan’s securities market regulator. An account opened for Rosbank (permission to sign an agreement on correspondent relations was granted by the Republic’s securities regulator; however, up to now there have not been any operations carried out in this account)
Ukraine/National Depository of Ukraine; Interregional Stock Union	Yes	From a legal viewpoint, it is possible to have correspondent accounts only with the CSD of Ukraine. NDU has opened correspondent accounts for: Rosbank (Russia), “INFINITUM” (Russian), “Central Moscow depository” (Russia). Foreign depositories open nominee accounts in NDU.

DOCUMENTS EVIDENCING SECURITIES OWNERSHIP

Generally, AECSD member countries do not have any special regulations governing confirmation of securities ownership of participants' securities handled by foreign depositories. The same rules as for resident entities are applied. In most countries the document evidencing securities ownership is a Statement of Holdings issued by the securities depository. In Kyrgyzstan, in order to generate such a Statement to confirm ownership rights, the foreign depository discloses the ultimate beneficial owners of securities; this information is used by the CSD to generate a statement of the account maintained for the nonresident depository.

In Ukraine, a securities depository (including the CSD) does not have the right to confirm securities ownership. From a statutory point of view, this can be done only by local custodians maintaining accounts for ultimate beneficial investors (organizations comprising the second-tier of the country's securities ownership registration system). Depositories only confirm the fact of holding securities in the account of custodian, issuer or depository-correspondent.

In Uzbekistan the account statement could not evidence the securities ownership (only an extract from the securities register could do this). The situation changed on 23 July, 2008 when the law "On the Securities Market" came into force and replaced former four laws regulating the securities market (the law "On the Securities and the Stock Exchange", "On the Securities Market Func-

tioning", "On Depository Activities on the Securities Market" and "On Protection of Investors' Rights"). According to the new law the Statement of Holdings issued by the securities depository is the document evidencing the ownership of participants' securities.

Probably, it would be wise while improving the securities market legislation in the countries which have the above problem to introduce provision under which securities ownership is transferred to the buyer upon book-entry on the buyer's account with the registrar or a *securities depository* (where securities ownership records are maintained on the books of a securities depository).

POSSIBILITY OF STOCK-EXCHANGE TRADING FOR SECURITIES HELD ON A FOREIGN DEPOSITORY ACCOUNT WITH AN AECSD MEMBER CSD

A summary of the possibility and a mechanism of stock-exchange trading of securities held on a foreign depository account with the national CSD is given in Table 2. It must be highlighted that, due to the absence of market practice, the information is based on potential capability and mechanisms of stock-exchange trading for foreign depositories.

TABLE 2

Country	Comments
Azerbaijan	NDC and the depository of the Baku Stock Exchange (BSE) exchange information online. Each participant's account with the NDC has a trading subaccount to which securities are transferred for the purpose of exchange trading. The trading subaccount also contains information on the broker authorized to execute trades under an agreement with the securities owner (i.e. participant). The securities balance on the trading subaccount is reflected in the BSE system. Thus, before the start of trading, BSE possesses information confirming availability of securities on the broker's account. Depository services for government securities are provided exclusively by the BSE's depository.
Armenia	Only brokers and dealers that are members of the Armenian Stock Exchange are allowed to trade on the exchange. Registered holders and nominees are allowed to trade only through such brokers and dealers.
Belarus	The legislation of the Republic of Belarus allows to prevent securities held on the correspondent account from trading. However, this blocking mechanism and the implied foreign depository obligations should be specified in the agreement of correspondent relationships between the RCSD and the foreign depository.

Georgia	<p>It is not possible to trade securities held in the account of a foreign depository with the Georgian CSD. Only brokers registered in accordance with Georgian legislation are allowed to trade on the Georgian Stock Exchange. In order to trade, it is necessary to become a broker's client and to transfer securities to the broker's account with the Georgian CSD. Money designated for trading must be transferred to the account of the Georgian CSD with one of the four settlement banks: Bank of Georgia, TBC Bank, Kartu Bank and JSC VTB Bank (Georgia). The Georgian CSD maintains records of both securities and cash designated for trading on the GSE. The system requires 100% prefunding of assets.</p> <p>The securities bought by a broker for a non-resident entity must be transferred from the broker's account to the foreign depository's account with the Georgian CSD.</p>
Kazakhstan	<p>KASE membership is given only to professional participants holding broker /dealer license on Kazakhstan securities market, and other legal entities which are not professional securities market participants but, under Kazakhstan law, have the right to make deals in financial instruments other than securities, and foreign legal entities meeting relevant requirements.</p> <p>At present, the trading organizers' rules do not allow, but also do not prohibit, non-residents to become exchange members. One of the ways that might enable a foreign depository to trade on the organized market could be an arrangement where one of the local brokers becomes a fiduciary manager of a subaccount opened in the main account of the non-resident participant.</p>
Kyrgyzstan	<p>The laws of Kyrgyzstan do not prohibit a Kyrgyzstan broker that is a trading participant of the Kyrgyz Stock Exchange to execute deals for the benefit of their non-resident clients.</p>
Moldova	<p>A foreign depository is allowed to open an account with the NSD, but trades may only be carried out by an authorized broker. For securities purchase and sale deals, the broker indicates the account of the client (foreign depository) to which securities are debited. On T+1, the settlement agent (foreign depository) confirms the sale and agreement to perform its payment obligation. If it acts as the seller and confirms its payment obligation, the settlement agent transfers the money to the NSD settlement account on T+2. On T+3, the final settlement takes place (securities are delivered to the buyer, and cash is paid to the seller). If the settlement agent does not confirm its obligation under the transaction, the broker will be liable.</p>
Russia	<p>A foreign depository can open only a beneficial owner account with the settlement depositories (NDC or DCC). Non-resident entities are not allowed to trade directly on the stock market (this may only be done through stock-exchange members or custodians which hold securities). For trading, securities owned by a non-resident must be held on trading accounts (subaccounts) opened for a certain stock-exchange in the depository which provides settlement services for the stock exchange:</p> <ul style="list-style-type: none"> - the settlement depository, NDC or DCC; - the broker's depository or custodian which has an interdepository account with the settlement depository. <p>Cash for trading must be deposited in the account of a foreign depository or its broker/custodian with the settlement banks of the stock exchanges.</p> <p>Exchange trades are cleared by the exchanges' clearing houses. Depositories effect securities transfers on instruction of the clearing houses.</p>
Uzbekistan	<p>Organized (exchange and OTC) trading in securities held in the accounts of second-tier depositories is carried out as follows. The CSD ensures the availability and authenticity of the securities owned by exchange and organized OTC trading participants by transferring their securities from the correspondent account of the second-tier depositories to the seller's trading account with the Uzbekistan Central Depository. Prior to the start of trading, the Uzbekistan CSD makes sure that the securities are available in the seller's trading account. In case of exchange trading, the broker authorized to trade under an agreement with the securities holder (participant) is shown on the trading account. After the trading, the purchased book-entry securities are transferred on instruction of the settlement and clearing chamber from the buyer's trading account with the CSD to the correspondent account of the second-tier depository providing services to the buyer, and the certificated securities are withdrawn from the CSD vaults.</p>
Ukraine	<p>Non-resident entities, as well as other participants, are not allowed to trade securities directly, all trading must be effected through local licensed securities traders. To make payments, the non-resident entity is to open an "investment" account with Ukrainian bank. Trading in securities held in the accounts of foreign depositories is effected the same way as trading in securities held in the custodians' accounts. If there is a correspondent securities account opened with the depository or custodian (only a beneficial owner account) under an agreement between the licensed trader and non-resident investor, securities can be delivered to the above accounts.</p>

SECURITIES INCOME PAYMENTS

The process of receiving income payments on securities held with the national depository by participants, its convenience and cost are of big importance when entering a foreign securities market.

Only the Central Securities Depository of Kazakhstan and Central Depository of Kyrgyzstan can credit income payments to a foreign depository's account maintained by the CSD.

In Belarus, Georgia, Kazakhstan, Kyrgyzstan, Russia and Ukraine, it is possible to receive securities income into accounts of foreign depositories opened with a local bank.

Our analysis shows the best way at the moment is to transfer securities income abroad to the depository's account opened in its national banking system, i.e. without opening a cash account for the foreign depository in the AECSD member country. In some countries (Azerbaijan, Belarus, Georgia, Kazakhstan), securities income can be transferred directly to participants of a foreign depository upon the latter's request.

The CSDs of Azerbaijan, Georgia and Kyrgyzstan can convert the income paid in the local currency into a foreign currency. In Uzbekistan such conversion services are provided not by the CSD, but by the issuer acting on the securities owner's instruction.

Securities income is paid out in the AECSD member countries net of the tax which is withheld at the source of payment (the issuer or tax agent), unless the international double taxation conventions provide that the income is exempt from the withholding tax. It should be noted that such conventions have been signed by all AECSD member countries.

The Report also contains information on the tax rates in 10 AECSD member countries applicable to securities income (generally 10-15%).

POSSIBILITY TO OPEN A CASH ACCOUNT FOR A FOREIGN DEPOSITORY WITH A LOCAL BANK

In most countries of the AECSD members, there are no regulations governing the opening of cash account for foreign stock market participants (including foreign de-

positories) in the national banking system. As a rule, a nonresident must have a cash account only if it establishes a subsidiary or a permanent establishment in the relevant country. Moreover, each country has its own peculiarities.

For example, in Azerbaijan, a nonresident entity which does not have a branch or a permanent establishment, cannot have an account in the local currency which is used for payment for all services in the country. The only possible way to pay for securities is by transferring funds from abroad.

In other countries non-residents can have an account with the settlement bank which provides payment services to the organized trading venue (except for Kazakhstan where cash accounts are maintained by the CSD).

NECESSITY FOR A FOREIGN DEPOSITORY TO REGISTER WITH THE TAX AUTHORITIES

In each country, whenever a cash account is opened with the country's national bank or a permanent establishment is set up, registration with the tax authorities is required, except for Armenia, Georgia, and Kazakhstan, where tax registration is mandatory in any case.

USE OF ISO 15022

Interaction with the global exchange market is impossible without using the generally accepted communication language, which comprises the standards developed by the International Organization for Standardization. Support of ISO 15022 makes it possible to eliminate paper, automate transaction processing, introduce STP, reduce operational risks and costs, and interact with the global market community.

Most AECSD members do not use ISO standards. ISO standards are used to some extent in Belarus, Kazakhstan, Kyrgyzstan and Russia. Azerbaijan has signed a Memorandum of Cooperation with SWIFT and plans to start using ISO 15022 in the very near future.

USE OF ISINS

Five AECSD member depositories— Armenia's CS, Azerbaijan's NDC, Belarus's RCSD, Russia's NDC, and Ukraine's NDU— act as the National Numbering Agencies and allocate ISINs to securities. The NDC, Russia also started to perform the functions of a Substitute Numbering Agency for the CIS countries (in 2008 for Uzbekistan).

AZERBAIJAN

There are 36 professional securities market participants in Azerbaijan, including 14 brokers, 13 dealers, 2 asset management companies, 1 exchange (Baku Stock Exchange), 1 clearing house, 3 securities depositories, and 2 registrars.

Statistics shows that the securities market is developing rapidly in Azerbaijan. The trading turnover on the Baku Stock Exchange (BSE) and the OTC market over the first 5 months of 2008 reached USD 4.2 billion, up from USD 1.4 billion in 2007.

Most transactions comprise the notes of the National Bank of Azerbaijan primary placement (23%) and their secondary market (70.6%). Transactions with government short-term notes (GKO) in the total market volume include (4.4%): issuance of GKO (4%), transactions with GKO (0.4%). Transactions with corporate bonds made 0.5%, with shares – 1.3% of the total market volume.

In 2007 the issuance volume of notes of the National Bank of Azerbaijan was USD 3.3 billion, and for the first 5 months of 2008 – USD 1.5 billion.

The issuance volume of shares in 2007 was USD 993 million, and for the first 5 months of 2008 – USD 1.3 billion. The volume of the secondary market of shares in 2007 was USD 184 million, and for the first 5 months of 2008 – USD 18.6 million.

GKO emission volume in 2007 was USD 345 million, and for the first 5 months of 2008 – USD 191 million. Secondary market volume of GKO in 2007 was USD 56.5 million, and for the first 5 months of 2008 – USD 29.8 million.

Corporate securities issuance volume in 2007 was USD 90 million, and for the first 5 months of 2008 – USD 6.2 million. Secondary market volume of corporate securi-

ties was USD 17.8 million, and for the first 5 months of 2008 – USD 9.1 million.

Effective development of the Azerbaijan stock market is restrained by low corporate governance level, absence of investment funds and commercial pension funds on the securities market, low activity of insurance companies and other factors.

Regulatory body on the Azerbaijan securities market is the State Securities Committee under auspices of the President of the Azerbaijan Republic.

There is a two level **depository system**, consisting of the Central Depository and second level depositories. Second level depositories can interact only through the Central Depository. The **CSD** – The National Depository Center (the NDC), established in 1997, is a closed joint-stock company owned by the State Securities Committee. Besides depository services NDC maintains register of stock companies and provides ancillary services for issuers. The register is also maintained by another registrar (International Transaction Systems).

NDC is a settlement depository for corporate securities for Baku Stock Exchange. Major part of local issuers (around 80%) is serviced by NDC, the rest – in the second level depositories. If the stock-exchange transaction was with securities held at NDC, the stock-exchange submits a report to the NDC for securities transfer from the buyer's account to the seller's. If securities are held at the depository of the stock-exchange, the transfer is done internally and after that NDC is notified about it as a register holder.

On 18 September, 2006 NDC became a National Numbering Agency for Azerbaijan.

NDC keeps security holders records only for corporate securities, government securities are held in the BSE depository. The issue of allowing circulation of foreign securities on the local market hasn't been examined. Issue of Azerbaijan depository receipts hasn't been regulated.

At the moment the issue of opening and maintenance of correspondent accounts of depositories-nonresidents is not reflected in any regulations. Absence of regulation is taken by participants of Azerbaijan stock market as a permission to open and maintain such ac-

counts. The correspondent accounts being opened are aggregated, i.e. clients' assets of the depository-nonresident are not held separately.

At the moment NDC opened accounts for Russian's banks "Rosbank" and JSC VTB Bank, and Not-for-Profit Partnership "The National Depository Center" (Russia). There are no restrictions on the securities that can be held on the foreign depository's account in the CSD, except for government securities that are held at the BSE depository. There are no regulatory restrictions on such accounts. The CSD and foreign depository communicate via fax.

The issue of possibility and need to open a cash account in the national currency by depository-nonresidents in order to receive securities income is not legally settled.

It is not necessary for a foreign depository to segregate clients' assets. The clients are able to trade on BSE through correspondent account opened by NDC for a foreign depository. The CSD does not provide DVP settlement to its clients. NDC has a right to open correspondent accounts in depositories-nonresidents. There are no requirements to the type of securities held on those accounts. But at the moment there is no market practice of opening and maintenance of correspondent accounts in foreign depositories by Azerbaijan depositories.

The terms of information disclosure about participants of depository-nonresident at the moment are not legally established. It is not necessary for a foreign depository to register for tax purposes. The possibility to transfer securities income directly to participants of a foreign depository is not regulated legally. NDC can transfer money to the depository-nonresident or directly to its participants.

Azerbaijan is a member of **Double Taxation Treaty**. In order to apply relieve at source it is necessary to submit a petition to the Tax Ministry.

ARMENIA

The securities market in Armenia is regulated by the Central Bank.

The main securities in circulation on the Armenian stock market are corporate bonds, shares and government bonds. As of the end of 2007 the volume of corporate bonds issued was AMD 1,760,000,000² (USD 5,778,632).

Trading volume with share on the stock exchange in 2007 reached AMD 1,517,098,109 (USD 4,981.1 million), number of trades – 220, and for corporate bonds turnover was AMD 702,859,094 (USD 2,307.7 million), number of trades — 99. Volume of OTC transaction in the same year was AMD 76,646,724,000, number of transfers – 3,395.

At present mostly ordinary registered shares are circulated on the securities market, and most of them were issued as a result of privatization of state owned enterprises.

THE DEPOSITORY SYSTEM

The depository system in Armenia consists of two levels: the Central Depository of Armenia and second level custodians. Custodians are sub-custodians of the Central Depository and act as nominee holders in the Depository. The right to maintain register of the securities shareholders belongs to the Central Depository and custodians with the relevant license.

THE CENTRAL DEPOSITORY

The Central Depository of Armenia was established in 1999 as a self-regulated organization, but in November 2007 it was reorganized and became an open joint-stock company. On 7 January 2008 100% of shares of the Central Depository of Armenia were sold to an on-exchange operator OMX AB, that had finished the merger with NASDAQ. So now the world's major on-exchange operator NASDAQ OMX Group Inc. is the sole owner of the Central Depository of Armenia and the Armenian Stock Exchange.

² The official exchange rate of the Central Bank of Armenia as of 28.12.2007 was 304.57 USD/AMD.

The Central Depository of Armenia provides register maintenance, securities safekeeping and recordkeeping, as well as clearing. The regulations for the Central Depository of Armenia are set by the Central Bank of Armenia.

According to the Armenian legislation, all joint-stock companies of Armenia should maintain their share register in the Central Depository of Armenia or another institution with the relevant license. The Armenian Stock Exchange listing is available only for the companies with the register maintained by the Central Depository of Armenia.

At present the securities registration is a centralized process fulfilled by the Central Bank of Armenia. The Central Depository recordkeeping is available for the securities with the register maintained by the Central Depository of Armenia. The Central Depository cannot hold foreign securities and ADRs. It does not hold national depository receipts either.

CORRESPONDENT ACCOUNTS OF DEPOSITORIES-NONRESIDENTS IN ARMENIA

The Central Depository can open nominee account for a foreign depository. As the Central Depository holds only registered securities, only registered securities can be held on the foreign depository's account. The Central Depository of Armenia hasn't had interaction with a foreign depository.

STOCK EXCHANGE TRADING

At present activities of the Armenian Stock Exchange include stock trading, corporate and state bonds trading, and foreign currency trading (USD, EUR, AMD). Corporate securities, traded on the regulated stock market, should be listed on the Armenian Stock Exchange. State bonds are circulated on the stock market without listing. As of 30 June, 2008 the volume of stock trading was AMD 88.3 million (USD 290.8 thousand)³, the volume of corporate bonds trading – AMD 219.3 million (USD 721.9 thousand). It's necessary to mention that the reduction of trading volume is caused mostly by the cancellation of

³ The official exchange rate of the Central Bank of Armenia as of 30.06.2008 was 303.75 USD/AMD.

the legal requirement for the issuers to be listed on the stock exchange in 2007. As a result, more than 150 companies left the regulated market. Requirements for broker and dealer companies were strengthened, concerning, in particular, the minimum capital requirements, and consequently the number of members of the Armenian Stock Exchange and the Central Depository of Armenia has declined. However the indicated legislation amendments improved the structure of circulated securities, and some positive developments on the stock market are expected next year, including the initial public offering.

BELARUS

The stock market infrastructure includes the JSC “Belarusian Currency and Stock Exchange” and depository system consisting of the Republican Unitary Entity “Republican Central Securities Depository” (RCSD) established in 1995 and 36 second level depositories, 17 of which are banks, the rest are legal entities with the Ministry of Finance license (nonbanking depositories).

The depository activity in the Republic of Belarus is regulated by the Law of the Republic of Belarus No. 280-3 dated 9 July, 1999 “On depository activities and the central securities depository in the Republic of Belarus”. This Law covers corporate and state securities.

The stock exchange trades government short-term bonds, government long-term coupon bonds, local debt, shares and bonds of economic agents. At the moment the stock exchange liquidity is mostly divided between short-term and long-term government bonds. OTC corporate securities market is poorly capitalized and has a complicated procedure for execution of securities trades.

Volumes of the auctions for primary and additional placement through a stock exchange of state securities in the first half of 2008 was USD 188,2 million, total volume of trading with those securities was USD 1.8 billion.

Volume of trading with short-term bonds of the National Bank of the Republic of Belarus in the first half of 2008 reached USD 17.4 million.

Volume of exchange trades with shares in the first half of 2008 was USD 335.2 thousand (16 trades in total). Most of the trades with corporate securities are done OTC. Number of such transactions, for example, in March 2008 reached 739, volume – USD 5.1 million.

The securities market regulator is the Ministry of Finance of the Republic of Belarus. There is a two level depository system in Belarus. First level is the CSD – “Republican Central Securities Depository” (RCSD) established as a republican unitary entity (it is a non-commercial organization), the second level – depositories with established interdepository links with the CSD. From 1 January 2008 CSD became settlement depository for all types of securities. The second level depositories service participants (holders of shares and bonds) as well as issuers (generate security holders lists). Correspondent relations between second level depositories are forbidden.

Recording of securities ownership rights is done by the second level depositories with established correspondent relations with RCSD. RUE “RCSD” has correspondent relations with 36 depositories of the Republic of Belarus, 17 of which are bank divisions, the rest are nonbanking securities market participants.

The market for depository services is divided between banking and nonbanking depositories approximately equally.

The issue of documents certifying ownership rights of the depository-nonresident’s participant in Belarus is not regulated.

CSD FUNCTIONS:

- servicing issues, registered by the authorities in accordance with the legal requirement of the Republic of Belarus, and allocating identification numbers to every issue;
- controlling total number of securities of each issuer safekept at the CSD and recorded in the depository system, including securities in state ownership;
- correspondent accounts management;
- maintenance of depository system reference books and catalogs;
- regulations of depository system functioning;
- settlement of trades between parties that hold accounts in different depositories through securities transfer via interdepository links;
- ensuring depositories cooperation;

- ensuring safe and reliable functioning of depository system;
- controlling depositories’ activities;
- developing methodological basis for depository activities in the Republic of Belarus in agreement with the authorized bodies;
- providing consultations and methodological services to depository organizations.

On January 1st 2008 the RUE RCSD held:

- 4,939 shares issues, 2,938 of which are issued by 1,776 open joint-stock companies and 2,001 issues of 1,646 closed joint-stock companies; total number is 282,357.2 million;
- 38 issues of corporate bonds of 9 issuers; total number is 631,772;
- 106 issues of state securities (issuer — Ministry of Finance); total number is 31,849.2;
- 12 issues of securities of the National Bank of the Republic of Belarus; total number is 13.2 million.

The total number of securities issues held by the RUE RCSD is 5,095 worth a total of USD 10,7 billion.

The Republican Unitary Entity “Republican Central Securities Depository” (RCSD) became a partner of the Association of National Numbering Agencies. The decision was taken on 6 June, 2008 in Luxembourg at the ANNA General Meeting.

What types of securities are allowed to CSD. As of 1 January 2008 functions all types of issued securities are held with RCSD.

Depository receipts on Belarusian securities have not been issued yet. There are no legislative acts of the Republic of Belarus regulating types of accounts for collateral deposit and other related issues.

Foreign securities are not held on the Belarusian market. Belarusian depository receipts on foreign securities are also absent.

The terms of establishing correspondent relationships between RCSD and depositories – non-residents have been introduced recently.

The depository, established in accordance with the legal basis of a foreign state (foreign depository hereafter) on the basis of agreement with the CSD can open corre-

spendent loro securities account in the name of a foreign depository and (or) correspondent nostro securities account with the CSD. Terms of depository operations on those accounts are set by the relevant agreements between CSD and the foreign depository.

The second level depositories cannot establish correspondent relations with foreign depositories.

The legislation of the Republic of Belarus allows to record on the account “of the foreign depository in the CSD” shares, bonds and government bonds. However, the foreign depository should get the status of an authorized depository to have the right to record on its accounts state securities and the securities of the National Bank. This status is given to RCSD depositories by agreement with the Ministry of Finance of the Republic of Belarus and the National Bank of the Republic of Belarus. The order and possibility of giving the status of authorized depository is not defined by the legislation of the Republic of Belarus.

Servicing of other securities by Belarusian depositories must be regulated either by the legislation of the Republic of Belarus or international agreements of the Republic of Belarus.

The communication between CSD and foreign depository is done by fax. The National Bank of the Republic of Belarus is providing services for processing and delivery of electronic documents.

The legislation does not specially regulate the issue of **opening cash account** for foreign stock market participants. The legislation of the Republic of Belarus allows the non-resident to open current accounts in the local banks only in the foreign currency. According to the “Currency operations rules”, approved by the National Bank, the account in the Belarus rubles can be opened for a foreign depository only in the name of its representative or subsidiary. So there is unresolved issue of receiving income in Belarus rubles for Belarus securities by foreign depositories for their clients.

The type of correspondent account (omnibus or segregated) will be defined by the agreement between CSD and a foreign depository.

Stock exchange trading. Correspondent accounts of the second level depositories in RCSD are used for their clients trading on the stock-exchange. The possibility for

the clients of the foreign depository to enter stock exchange trading using the correspondent account in RCSD should be settled in the agreement on correspondent relationships between RCSD and the foreign depository. Though it is necessary to consider that only electronic workflow is possible between the JSC “Belarusian Currency and Stock Exchange”, RCSD and depositories. The foreign depository should be included in the system of electronic workflow to use its correspondent account in the stock exchange trading with securities held on this correspondent account.

DVP settlement. RCSD does not guarantee cash settlement for on-exchange and OTC trades.

At the moment the Belarusian depositories do not have experience of working with **correspondent accounts opened abroad**.

The issues of **information disclosure** are not regulated in the legislation and most likely should be regulated by the agreement between the CSD and a foreign depository. The foreign depository will have to regularly disclose information necessary for drawing a list of securities holders.

The foreign depository must be registered for the **tax purposes** only if it carries out its activities at the Belarus Republic through the permanent representative office or opens a bank account.

It is possible for clients of a foreign depository to receive **securities income** directly from the issuer.

Belarus is a member of **Double Taxation Treaty** with some countries. In order to receive full or partial relief at source the foreign organization provides statement to the tax authorities of the Republic of Belarus. The statement should have a mark of the relevant authority of the foreign organization’s country of residence. If there is no statement the tax is withheld and transferred to the budget in the usual order. If the foreign organization has the right to receive full or partial tax relief, the return or offset of the tax amounts are done in accordance with the established order on the basis of the payback statement.

The basis for partial or full tax relief for income tax charged on the foreign company or for tax return or offset of the tax amounts withheld and transferred to the budget can be also a reference of optional form certified by the financial (tax) authority of the country of resi-

dence, which confirms the fact of permanent residence of the foreign organization in the country which has a Double Taxation Treaty with the Republic of Belarus.

The documents (statement and reference), certifying permanent residence of the foreign organization are submitted to the tax authority every year and are valid for the financial year or for the period specified in the document for which the financial (tax) authority of the foreign country certifies the permanent residency of the foreign organization. The document issued for a year must be certified by the financial (tax) or another authorized authority of the country of permanent residence not earlier than the 4th quarter of the year preceding the financial year for which the document was issued. The legislation of the Republic of Belarus makes provision for a statement or reference valid for a two year period. The original statement or the reference must be submitted with the copy, signed by the authorized person and with the stamp of the tax agent.

GEORGIA

The distinct feature of the Georgian securities market is its division into two practically independent markets: government securities market and corporate securities market.

Georgian securities market infrastructure includes Georgian Stock Exchange (GSE), Georgian Central Securities Depository (GCSD), around 10 registrars and 30 brokerage companies. Georgian securities market is developing rapidly: in 2004 volume of securities on-exchange trades was about USD 27 million, in 2005 it increased to USD 38 million and in 2006 reached about USD 102 million. There are no corporate and municipal debt securities on the Georgian securities market at the moment.

The securities recordkeeping system is represented by three types of institutions: registrars, brokerage companies and the CSD. All of them have equal functions for registration and confirmation of securities ownership rights, as well as additional functions particular only to their type of professional activities on the securities market.

Primary recordkeeping institutes for nongovernment securities are independent registrars. Before 1999 all types of transfer of securities ownership rights, includ-

ing purchase and sale, were arranged through the registrars. After GSE establishment in accordance with the law "On the securities market" buying and selling of shares of accountable companies can be arranged only through brokerage companies, and change in the ownership rights can be reflected also on the books of the nominee holder.

The first level nominee holders are recordkeeping institutions that have been empowered directly by the securities beneficial owners. The second level nominee holders are professional securities market participants that have been authorized correspondingly by the first level nominee holders for which it is enough to have a record on the books of the nominee holder. The Georgian legislation sets that trading can be done only by licensed brokerage companies acting as nominee holders. In order to trade shares on the GSE, the brokerage company must transfer securities to the GCSD as a nominee holder (it can be formally arranged by the registrar as well as by the brokerage company itself). There are some specifics concerning sale of the large block of shares.

Even though according to the Georgian legislation foreign shareholders have the same amount of rights as residents, the percentage of foreign investors is decreasing (except for strategic investors).

Some measures are needed in order to increase attractiveness of the Georgian market. At the moment there is only one company included in the listing 2 of GSE and there isn't a single liquid security on the market, including GKO.

The securities market is regulated by the Georgian National Securities Commission (GNSC). The Georgian depository system consists only of the CSD, there are no second level depositories.

According to the current legislation the Georgian CSD is a noncommercial, self-regulated organization with a license issued by the Georgian National Securities Market Commission. The legal form is a stock company.

The founder of the CSD is a Georgian Stock Exchange which in its turn is founded by brokerage companies. Members of the CSD can be stock exchanges, brokerage companies, insurance and pension funds, registrars, commercial banks, large securities issuers. Today around 30 brokerage companies are members of the CSD.

The legislation does not specify the documents certifying ownership rights of the foreign depository's participants. In the CSD's opinion such document could be a statement of holdings issued by the correspondent depository, provided the GCSD has examples of the relevant signatures and company stamp.

The main function of the CSD is securities clearing and settlement, safekeeping as well as other functions set by the GNSC. For example, CSD undertakes (if it has a relevant license) functions of the registrar, specialized depository for pension and investment funds. The CSD safekeeps only shares due to absence of the corporate and municipal bonds market. Government securities market – GTB (government treasury bonds) is separated from the shares market. The role of the CSD on the government securities market is fulfilled by the National Bank, which keeps the record of GTB owners.

Depository receipts on the Georgian securities haven't been issued up to date. There are no national depository receipts or foreign securities on the local Georgian market.

Possibility to open account by the foreign depository in the country's CSD. Type of the account. The situation is different for corporate and government securities. The GTB register is held by the National Bank. At the moment its system used for registration of securities holders does not support foreign nominees.

The CSD can open for any nonresident a beneficial owner account and a member's account if it becomes a CSD member, which would allow to open sub-accounts on the member's discretion (including anonymous accounts). The CSD can open correspondent accounts for foreign depositories.

The registrars and brokers also keep the records of the security holders. The registrars cannot open nominee accounts for foreign depositories. The legislation does not set rules for the maintenance of correspondent accounts opened for foreign depositories.. This is interpreted as inability of brokers to open correspondent accounts for foreign depositories as only residents can be nominee holders on the brokers books.

There are no correspondent accounts opened for a foreign depository in Georgia.

The foreign depository can safekeep all types of securi-

ties, accepted for servicing by the CSD on its account in the GCSD.

Communication between the CSD and a foreign depository is by fax and e-data interchange on the bases of OFX standard.

The foreign depository must open a cash account in the national currency in any of the four settlement banks, and in order to trade on GSE in all of them. If clients of the foreign depository trade on GSE, money used for trading must be transferred to the GCSD account opened in the relevant bank. The GCSD keeps record of trading participants' funds in order to guarantee settlement.

According to the current legislation there is no requirement to segregate client's assets on the account of the foreign depository.

On-exchange trading of foreign depository's clients. The clearing and settlement system for trades on GSE along with the CSD includes 10 independent registrars and 4 commercial settlement banks. GSE together with the CSD has chosen 4 major Georgian commercial banks for cash settlement: Bank of Georgia, TBC Bank, United Georgian Bank and Kartu Bank.

According to the rules each brokerage company having the right to trade on GSE and being a CSD member must open an account in all of the 4 settlement banks. Moreover, one account is opened for their own funds and the other — for the funds of their clients. At the CSD broker also opens one account for own securities and one account for each of its clients. So the broker's account at the CSD is not an 'omnibus' account, and the broker keeps client's securities on segregated sub-accounts. The GSE trading system is based on 100% prefunding of assets which allows CSD to guarantee settlement of trades.

There is no restriction in the current legislation and rules of depository operations on opening an account for a foreign depository, including as the CSD member. The latter means that foreign depository as a member can develop a whole sub-account structure for its clients. If clients of the foreign depository trade on the GSE, the funds allocated for trading should be transferred to the account at the GCSD opened in the relevant bank. The GCSD holds securities allocated for trading on GSE and money deposited for trading in one of the four settlement banks. Only brokerage companies registered according to the

Georgian legislation can trade on GSE. In order to trade it is necessary to become the broker's client and move securities on the broker's account with the GSCD. It means that the foreign investor holding securities on the correspondent account of the foreign depository in the GSCD should transfer its securities to the broker's account in order to trade on GSE. The securities bought by broker for the non-resident must be transferred to the account of the foreign depository in the GSCD. Although securities held directly on the foreign depository's account at the GSCD cannot be traded on the exchange, the trading is possible once the securities are moved between the depository's account and brokers' accounts.

The CSD supports DVP settlement. The GSCD can distribute securities income directly to the foreign depository's clients.

The Georgian legislation does not prohibit the GSCD, banks and brokers to open **correspondent accounts abroad**.

The foreign depository should be registered for tax purposes. Georgia is a member of Double Taxation Treaty. In order to apply the Treaty it is necessary to submit relevant documents to the tax inspectorate.

KAZAKHSTAN

The Kazakhstan securities market is a well-composed mechanism which brings together interests of investors wishing to profitably invest their funds and issues needing financing.

The fundamental document regulating depository activities in Kazakhstan is the Law of the Republic of Kazakhstan No. 461-II "On the securities market" dated 2 July, 2003. The Kazakhstan securities market is regulated by the Agency of the Republic of Kazakhstan for regulation and control of the financial market and financial organizations.

The debt market in the Republic of Kazakhstan is divided into two major segments: nongovernment (corporate) bonds (local corporate bonds and international corporate bonds), and government debt securities (treasury bonds of the Ministry of Finance, the National Bank notes, local executive authorities bonds).

The participants of the financial instruments market include individual and institutional investors, issuers, pro-

fessional securities market participants, trade organizers and self-regulated organizations. The securities market participant include broker-dealers, investment portfolio managers, pension assets managers, second level banks holding broker/dealer license, custodians, the CSD, registrars and transfer-agents.

The recordkeeping functions in Kazakhstan are carried out by 4 types of market participants: registrars, the CSD of the Republic of Kazakhstan (KCSD), first rank broker-dealers and custodian (banks for the certain types of clients and the National Bank). Emergence of custodians is related to the implementation of the pension reform, during which banks acted as custodians (special depositories) for relevant institutions of the accumulative pension system. Brokers and custodians can open correspondent accounts at the KCSD but cannot open such accounts for each other. The KCSD is the only nominee holder at the registrars. **Correspondent accounts** at the KCSD for residents are segregated and for non-residents can be either segregated or aggregated.

In Kazakhstan there is a **two level depository system**. The first level consists of the KCSD, the second consists of broker-dealers, having broker-dealer license authorized to maintain clients' accounts (second level banks and brokerage companies have such license) and custodians with the custodian license.

Custodians' services must be used by pension funds in order to safekeep assets bought using pension installments; by insurance companies for safekeeping assets bought using insurance contributions; brokers which at the same time act as managing companies for safekeeping assets on management; unit and joint-stock investment funds.

The second level depositories cannot establish interdepository relations between each other except in the cases when nominee holders transfer securities issued in accordance with the legislation of other countries to custodians.

The Central Securities Depository of the Republic of Kazakhstan was established in the form of the closed joint-stock company in 1997 and is a settlement depository of the Kazakhstan Stock Exchange (KASE). The KCSD services both government and corporate securities. At the moment the KCSD mostly has on deposit

corporate securities listed on the exchange. Besides standard depository functions since 2005 KCSD being a credit organization opens and maintains participants' cash accounts in the national currency and keeps the register of registered securities.

As of 1 July 2008 the KCSD had closed agreements with 100 clients, and 100 accounts for securities recordkeeping were opened. 749 issues of securities worth 8.15 billion tenge (about USD 67.90 million) are registered on personal accounts. For the first 6 months of 2008 8,707 transactions were registered totaling 2.23 trillion tenge (about USD 18 million).

As of 1 July 2008 in the KCSD 136 bank accounts were opened for 68 clients totaling 15.06 billion tenge (USD 125 million). For the first 6 months of 2008 the Depository made 62,032 payments worth 21.87 trillion tenge (USD 182 million).

The correspondent accounts of foreign depositories in Kazakhstan. the KCSD opens nominee accounts for foreign nominee holders. The KCSD opened accounts for the Central depository of Kyrgyzstan, NDC (Russia), DCC (Russia), Rosbank (Russia), Sberbank (Russia), VTB (Russia).

Securities of the Ministry of Finance and securities of the National Bank can be safekept on the correspondent accounts of the foreign depository only if it is a primary dealer or primary agent. Primary dealers are KASE members, adhering to some of its regulations. Primary agents are professional market participants, which signed an agreement with the National Bank.

Circulation of other securities issued by insurance companies and pension funds occurs with certain restrictions. In practice each trade subject to control must be authorized by the relevant body.

There is a mandatory requirement to open a **cash account** at the CSD in the national currency for participants that are not members of the interbank money transfer system as well as a mandatory requirement for all participants to open cash account in the foreign currency, which is the currency of securities traded on the exchange. The cash account in the CSD can be in the national currency, US dollars, Euro, Canada dollar, British pounds, etc., but CSD transfers money to participants in the same currency as it receives them from the issuer. Opening of additional cash accounts is not regulated by the Depository

but accounts opened in another bank can be used only to receive securities income and redemptions.

It is mandatory to register for **tax purposes**. In order to apply the Double Taxation Treaty the tax agent, which is responsible for calculating, withholding and transferring tax at source, should provide Russian notarized translation of the document, certifying residency of the taxpayer – not resident of the Republic of Kazakhstan, if the non-resident is a final recipient of the securities income and is subject of the Double Taxation Treaty. The document must be legalized or apostille in accordance with the current legislation of the Republic of Kazakhstan and international agreements, except for document drawn up in Russian and approved with official stamp and Minsk (dated 22 January, 1993) or Kishenev (dated 7 October, 2002) convention on legal support and legal relations on civil, family and criminal cases.

Exchange trading. Currently the exchange established in 1993 is a universal trading floor serving repo markets, foreign exchange markets, state and equity securities market (including those issued in accordance with other countries' legislations), and derivatives market.

The most active KASE market is repo market, followed by foreign exchange segment. KASE is also an operator of trading floor of the regional financial center of Almaty.

KASE members can be professional participants with broker-dealer license, other legal entities which are not professional market participants with the right which is granted by the legislation to trade other financial instruments, and foreign legal entities that fulfill established requirements. Currently the rules of the trading organizer do not prohibit non-residents to become exchange members.

On-exchange trades settle DVP in real time. OTC trades can be settled both on DVP and free of payment basis.

The foreign depository can enter the organized market by using the following scheme: one of the local brokers is entrusted to manage sub-account opened within the personal account of the non-resident's client.

The CSD accepts for nominee holding depository receipts issued on shares of Kazakhstan issuers. The procedure is the same as for securities issued in accordance with the legislation of other countries.

There are no established legal requirements on holding underlying securities on the personal accounts in the Depository. The ADR/GDRs are recorded on the general sub-accounts opened within personal participant's accounts. The ADR/GDR underlying is recorded in the same way as any other financial instrument at the CSD. The CSD receives information that the security serves as the underlying for ADR/GDR only when it collects the ownership data for the compilation of the security holders' list.

According to the requirements of the Law "On the securities market", the underlying of the Kazakhstan depository receipts (KDR) must be held on the Depository's account in the country of issuance and depository receipts itself should be transferred for depository servicing to the CSD.

The issuer transfers all KDRs issue for servicing to the CSD on the basis of the relevant agreement.

On the instruction of the KDR issuer the Depository deposits underlying asset on the KDR issuer's sub-account, opened for it as a holder of financial instruments in the section "Underlying asset". The Kazakhstan depository receipts are deposited on the sub-account of the KDR issuer, opened specially for those securities in the section designated for book-keeping of unpledged financial instruments. The KDR public offering is done from the issuer's designated sub-account.

KYRGYZSTAN

The main document regulating depository activities in Kyrgyzstan is the law dated 21 July, 1998 No.95 "On the Securities Market". The securities market includes corporate and government securities market.

The corporate securities market is regulated by the Service for Financial Control and Regulation under auspices of the Government of the Kyrgyz Republic.

The National Bank which acts simultaneously as a placement agent, the CSD, organizer of trading and clearing and settlement organization is de-facto a regulator of the government securities market.

The legislation does not divide depository system into different levels but in fact there is a two level depository system. The first level consists of depositories servicing trade organizers, the second level – nominee hold-

ers, trading participants, maintaining accounts of their clients.

Government securities. The government securities market was established in 1993. The National Bank acts as a settlement and clearing organization on the government securities market. Commercial banks are trading participants and second level depositories (a special license is not required). The status of a primary dealer for government securities allows commercial banks to act as nominee holders for those securities.

Corporate securities. Depositories, servicing trade organizers, including the Central Depository (CD) are on the first level. Currently besides CD, 3 organizations have depository license: ZAO "Exchange trading system" (ZAO "ETS"), ZAO "The Central-Asian Stock Exchange" that combine activities of the trading organizer and depository activities, and Investment joint-stock commercial bank "Issyk-Kul". The depository license allows commercial banks to act as custodians but it forbids brokerage activities for corporate securities.

ZAO "ETS" mainly services retail investors. The trades registered on ZAO "ETS" cover all regions. The exchange trades corporate shares and bonds.

The Central-Asian Stock Exchange was established in 2004 by four Kyrgyz brokers.

On the second level are professional participants (brokers), acting as nominee holders for clients' securities (a special depository license is not required). Brokerage license allows maintaining clients' accounts as a nominee holder. There is a possibility for the broker's clients to have direct account at the first level depository (which service trading organizers), which is operated by broker (non-authorized depository participants), i.e. the brokers license in fact gives a possibility to act as a second level depository.

For corporate securities the second level depositories – brokers can interact between each other only via depository, servicing trading organizer, or via an independent registrar, maintaining securities registry of a certain issuer. There is no direct interaction. This is due to the absence of OTC securities market. All trades with corporate securities of open joint-stock companies must be registered at the licensed trading organizers. Thus transfer of securities from one broker (second level depository) to another can be done only after execution of a trade or

by returning the securities to the beneficial holder in the registry and then depositing them with another broker. The same situation is with the government securities. A commercial bank can transfer government securities of its client to another bank only via the National Bank depository. Thus the second level depositories cannot establish correspondent relations between each other.

The trading volume on ZAO “Kyrgyz Stock Exchange” (KSE) in 2007 on average exceeded USD10 million a month. There were share issues of more than 150 issuers traded on the exchange. Out of three trading floors active, namely ZAO “ETS”, the Central-Asian Stock Exchange and KSE, the latter dominates. The KSE share on the securities market reached 94.66%.

The Central Depository. The owners of the closed joint-stock company “Central Depository” (CD) founded in 1997 are 22 legal entities, out of which 15 are licensed professional Kyrgyz securities market participants, 6 are commercial banks of the Kyrgyz Republic and 1 foreign shareholder, representing financial institutes.

The CD keeps records of corporate securities, treasury bonds and treasury bills. It is a settlement depository for KSE.

Correspondent accounts of foreign depositories in the CSD. A foreign depository can open a nominee account in the CD on general terms. In 2000 CD opened an account for the Central Securities Depository of the Republic of Kazakhstan.

The legislation doesn't have any prohibition or restrictions on keeping records of different securities on the correspondent account of foreign depositories opened at the CD. Any security serviced by the CD can be recorded on the account of depository-nonresident. The government securities can be held only on the books of the National Bank, which does not allow participation of depositories-nonresidents. However lately it became possible for the foreign depository to hold government securities through a Central Depository, which safekeeps certain government securities.

The document confirming ownership rights of the client of a foreign depository-correspondent in the country is a Statement of Holdings stating a beneficial owner.

Depository Receipts. There are no depository receipts on the local market. The legislation does not regulate

their issue and circulation procedures, although there are no restrictions.

There are no depository receipts on Kyrgyz securities. The circulation of Kyrgyz securities abroad and depository receipts issued on securities of Kyrgyz issuer is regulated by the “Decree on Circulation of Issued Securities of Kyrgyz Issuers Outside of the Kyrgyz Republic”. It states that securities of Kyrgyz issuers are allowed for issuance and circulation outside of the Kyrgyz Republic in the form of securities of foreign issuers, depository receipts according to the legislation of the country of issuance.

Cash accounts. The CD is a nominee holder. It receives dividends and other income on its account and distributes them to the account of the correspondent depository or to the accounts of clients of the correspondent depository. Thus, it is not mandatory for the correspondent depository to open cash account in KGS (Kyrgyzstan Soms); it can give to the CD details of current accounts of its clients for money transfer, converted into any currency of their choice.

The opening of a cash account is mandatory only for the authorized participant, which executes trades in the trading systems connected to the Central Bank (i.e. trading participant).

Exchange trading. The Legislation of the Republic of Kyrgyzstan does not prohibit the Kyrgyz broker, which trades on KSE, to execute trades in favor of nonresidents, whose securities are recorded on a correspondent account of a foreign depository. For the trading participant there is no difference between resident and nonresident, and lately it became a common practice to execute a trade in favor of clients – nonresidents, which open accounts omitting the foreign depository.

Foreign depository's clients can trade on a stock exchange, only if they are professional securities market participants with a broker and/or dealer license issued by an authorized state entity of the Kyrgyz Republic.

MOLDOVA

The change from the state to the private ownership of the industrial and agricultural assets was carried out gradually across the major part of the Republic of Moldova. It was carried out through the mass privatization using privatization securities. It is estimated that around 90% of population became shareholders. The infrastructure supporting the privatization process was represented by investment funds and trust companies. Since 2005, investment funds are going through reorganization/liquidation due to assets redistribution/sale off.

Starting from 1990 the active privatization was supported by growing trading activity with shares, which are the main instrument on the securities market. Shares were issued in book-entry form. The legal base for the securities market development was established by the law “On Securities Circulation and Stock Exchanges”, dated 8 May, 1993. In July, 1996 was adopted another fundamental legislation – the law “On the Joint-stock Companies”, which sets the shareholders rights, the order of establishing a company, securities issuance, etc. According to this law the number of shareholders of the closed joint-stock company cannot exceed 50 with the exception of agricultural companies. The number of open joint-stock companies in Moldova has stabilized and the number of closed joint-stock companies is still growing. So the share of open joint-stock companies in the total number of registered joint-stock companies is decreasing.

The Moldova Stock Exchange was founded on 7 December, 1994 by 34 founders that became its members. According to the current legislation MSE is a closed joint-stock company and holding of each member does not exceed 5%. The opening of the exchange and first trading took place on 26 June, 1995. The modern trading system was implemented on MSE with the support of USAID. In 1998 a new trading system was launched, developed specifically for MSE and integrated with the electronic system of the National Securities Depository of Moldova (NSDM). The new system, which allows settlement on T+3, excludes the risk of loss of ownership rights and minimizes the risk of not meeting the settlement obligations.

At the beginning of trading only 5 issuers were included in the list of securities allowed for trading. Since then

the number has grown substantially due to the legal restrictions on OTC trading of shares. For example, according to the law “On the Securities Market” professional market participants are prohibited from “trading OTC securities which have more than 50 shareholders”. The positive development of the stock exchange trading is reduction in the number of SWAP transaction and increase in the purchase and sale trades, as well as participation of MSE in the sale of shares owned by the state although its role in privatization processes wasn't as significant as in Ukraine or Baltic states.

The number of transactions has been growing starting 1995. In 1995 the trading turnover was USD 494.7 thousand; in 2006 it reached USD 30 million and in 2007 increased to USD 109 million – 220-fold growth in 13 years.

At the beginning of 2000 the National Securities Commission of Moldova, which is regulatory body on the stock exchange introduced index CNVM-32 (officially published from summer 2000). The index is calculated weekly on Friday after the close of the trading session. The CNVM-32 structure in fact reflects the GDP structure: 57.55% — food and drinks industry; 19.42% — consumer industry; 15.85% — heavy industry; 7.18% — services.

According to the law “On the Securities Market” adopted in 1999, which replaced the outdated law “On Securities Circulation and Stock Exchanges” professional market participants can undertake the following types of activities: brokerage, dealers, underwriting, investment management, maintenance of the security holders register, depository activities, clearing, etc.

The members of the market infrastructure are the Moldova Stock Exchange and the National Securities Depository of Moldova. NSDM was established in 1998 by MSE. The goal was to increase efficiency of the stock exchange transactions by lowering costs and turnaround time. NSDM also guarantees settlement of on-exchange transactions.

In order to execute trades using NSDM the buyers and sellers should follow certain conditions and processes. The securities buyers and sellers must sign a brokerage agreement and instruction agreements with their brokers. The securities buyers and sellers open accounts with NSDM or use collective account of their brokers.

The trading on MSE can be carried out only through the authorized brokers.

The activities on the securities market is regulated and controlled by the National Securities Commission of Moldova. In Moldova there is a two level depository system. NSDM keeps the records and safekeeps securities transferred to it as a nominee holder, in comparison a depository of an investment fund keeps the records of securities on the basis of agreement for provision of depository services to the fund. NSDM belongs to the first level of the depository system.

Although NSDM is established in the form of a closed joint-stock company, its activities are mostly of non-commercial nature, as it doesn't have the ultimate goal is not to make making a profit and distributing it between founders.

The document confirming securities ownership rights in Moldova is a statement from NSDM or from the shareholder registry of Moldova, if the foreign CSD is a buyer. If the foreign depository is a seller, its securities must be registered on MSE so its issue should be registered by the National Securities Commission (NSC).

NSDM is a settlement depository for MSE. All securities allowed for trading on the Exchange are held in the NSDM except for securities of investment funds. Corporate securities market is mostly represented by shares traded only on MSE. Government securities are safekept in the National Bank.

Depository receipts and foreign securities. According to the Moldavian legislation (NSC instruction on the order of admission of foreign securities to the securities market of Moldova), it is possible to issue national depository receipts on foreign securities. However there haven't been any issues of depository receipts due to the lack of interest to such financial instrument. As a result the legal mechanism for issuance and circulation of depository receipts is absent.

Possibility for a foreign depository to open an account in the CSD. In order to open a nominee account the foreign depository must become a NSDM member NSDM membership allows to keep records not only of beneficial owner securities, but also securities in nominee holdings. NSDM membership does not allow to directly trade on the Stock Exchange, and it is necessary to sign agreements with brokerage companies. There are no accounts opened for a foreign depository.

The foreign depository on its account opened in the CSD can hold corporate securities of open joint-stock companies, included in the list of securities allowed for servicing in the NSDM.

Cash accounts. It is not possible to open a cash account with NSDM. NSDM is not a bank and settlement is done on a contractual basis by a licensed bank in which NSDM members must open current accounts.

According to the legislation securities recordkeeping on the interdepository account of a foreign depository can be in the form of pooled or designated nominee holdings.

The clients of the foreign depository can trade on the Exchange if they sign agreements with NSDM participant which is also a MSE member. All trades executed on MSE are settled on the DVP basis.

The legislation does not regulate whether NSDM can open an account in a foreign depository. In theory it is possible but hasn't been implemented in practice.

There are no special requirements for information disclosure by a foreign depository. It is assumed that it will be necessary to disclose information about shareholders or nominee holders on the record date.

NSDM has a right to define that a foreign depository does not need to register as a tax payer in Moldova. However in order to trade on MSE the foreign depository must become a MSE member and according to one of the MSE requirements it is necessary to show the certificate on registration of a legal entity or a notarized copy and to have a brokers and/or dealer license, issued by NSC.

In order to open a cash account for a foreign depository in a settlement bank it is necessary to obtain an official document from the tax authorities of the Republic of Moldova that it does not have any tax obligations and/or it does not have taxable entity in Moldova.

Clients of a foreign depository can receive income in two ways: by transfer from the depository or directly from the issuer on the basis of information submitted by the depository. Depository can pay only income on corporate securities. For government securities income are paid out by the National Bank. Depository transfers income in the same currency as it receives it from the issuer.

Moldova is a member of Double Taxation Convention (has double taxation treaties with the Russian Federation and the CIS countries) and while withholding tax it is possible to obtain documents that would allow tax relief.

RUSSIA

The information about the Russian stock market is taken from the NAUFOR report “The Russian Market 2007. Events and Facts”.

EQUITIES

In 2006-2007, the capitalization of the Russian companies grew in general 3.8-fold, the main increase occurring in 2006 (on average 175%). In 2007, the capitalization increased by about 40%. The capitalization to GDP ratio increased in 2006 2.8-fold to 95%, in 2007, reaching almost 100%. The growth of the Russian stock market slowed down in 2007 compared to the previous years despite high commodity prices and accelerating GDP growth. According to the expert opinion this was caused by the mortgage crisis in the USA which led to global liquidity crisis.

In 2007, MICEX Index grew by 20% against 41% increase in the previous year. RTS Index grew by about 20% while in 2006 the growth was almost 70%.

The Stock Exchange Development Center (SEDC) estimated the total Russian equity market capitalization at the end of 2007 at USD 1,341.5 billion (RUB32.9 trillion). The Federal Financial Markets Service in its draft report estimated the equity market capitalization at RUB32.3 trillion. In general according to the expert opinion the market capitalization of shares of Russian issuers traded domestically at the end of 2007, can be estimated at USD1.3 trillion and at USD1.5 trillion if it includes shares of Russian companies traded abroad.

The number of equity instruments traded is rather limited. In 2007, the list of issuers with most liquid shares traded on the MICEX Stock Exchange included the following companies: Gazprom, RAO UES of Russia, Sberbank of Russia, Norilsk Nickel, LUKoil, Rostelecom, Surgutneftgaz, OC Rosneft, JSC VTB Bank, Tatneft.

According to SEDC the share of 30 most liquid shares in the total exchange trading turnover is 98.9%. So the largest part of on-exchange trades with shares is carried

out with only 7% of available instruments. In the last years the list of the most liquid shares hasn't changed significantly, in 2006, OC Rosneft was added to the list after IPO and in 2007, JSC VTB Bank.

In 2005-2006, domestic exchanges accounted for 70 percent of all global trading of Russian equities. In 2007, the distribution stayed at the same level with an insignificant trend to increase the share of Russian exchanges.

CORPORATE BONDS

Unlike many other national bonds markets Russian domestic corporate bonds market from the start was developing as an on-exchange market.

According to the informational resource CBONDS (www.cbonds.ru) as at the end of 2007, the domestic Russian corporate bonds market was represented by 607 corporate bonds issues of 465 issuer, 24.4 and 25.7 percent higher accordingly compared to the end of 2006. In comparison to the previous years the growth rate has decreased (in 2005, the growth rates were 52.7 and 36.3 percent accordingly, in 2006 – 61.6 and 60.9 percent). In 2007, the increase in the number of bond issues and issuers was primarily in the first half of the year, while in the second half there were almost no new issues.

The total nominal value of corporate bonds reached RUB 1,255.71 billion, 39.2 percent increase year-on-year. Compared to the previous years the growth rate has fallen significantly (in 2005 the value increased by 88.3 percent, in 2006 – by 87.4 percent). As in the previous case the increase in the value of corporate bonds took place in the first half of the year.

The total value of corporate bonds outstanding as a proportion of GDP hasn't changed significantly, being 2.23 percent in 2005, and in 2007, increasing to 3.81 percent.

In September 2007, the value of corporate bond exceeded value of government bonds (including the Bank of Russia bonds). The proportion of bonds issued by the financial sector has been gradually increasing: at the end of 2005, it was 20.7 percent, at the end of 2006 – 26.3 percent and by the end of 2007, reached 32.4 percent. The conclusion can be drawn that financial companies, primarily banks use the debt market to a greater extend as additional source of funding.

The value of newly issued corporate debt in 2007 was around RUB 470 billion, which RUB 10 billion less than in 2006, while the value of registered but not placed bonds in 2007 is estimated at around RUB 470 billion. The new placements weren't spread out evenly throughout the year. In August-September there were almost no new placements.

The volume of the secondary corporate bonds market (both on-exchange and OTC) is continuously increasing. The proportion of so called "non-market issues" (issues that are not in circulation) hasn't changed in the last two years, staying at 0.25-0.4 percent.

The trading volume has been growing continuously: in 2006 it increased by 61 percent compared to 2005 results, and in 2007 the trading volume increased by 51 percent. The share of the on-exchange trading in the total trading volume is also increasing and in 2007 it reached 74 percent. Currently around 95 percent of all issued bonds can be traded on the organized market. However the growth of the on-exchange trading volumes has been decreasing. In 2006 the trading volume on the on-exchange corporate bonds market increased 2-fold compared to 2005, in 2007, the growth rate was 50 percent.

The new trend of the last years is the sharp growth of repo trades with corporate bonds in proportion to the total secondary market trading volume. In 2007, the growth was 2.5-fold year-on-year and the proportion of repo trades in the total secondary market trading volume reached 70 percent. It can be concluded that the corporate bonds market is more commonly used to obtain credit with securities as collateral. The decrease in the growth rate of the Russian corporate bonds market in 2007, the increase of the repo trades with bonds is largely due to global problems of the world financial system and the liquidity crisis.

The common feature of the corporate bonds market which favorably differentiates it from the equity market is the small trading concentration. There is less concentration on single issues compared to the equity market, and it is decreasing. In the first quarter 2007, the proportion of the ten most actively traded corporate bonds in the total trading volume was 26.1 percent.

In the first half of 2007, emerged new type of debt financial instruments – the so called exchange-traded bonds. It was assumed that the new instrument will be used for

liquidity management and to cover cash shortage. In the second half of 2007, the MICEX Stock Exchange admitted nine issues of exchange-traded bonds of two issuers for the total value of RUB 13 billion, but none of them were placed by the end of the year. In the middle of liquidity crisis the issuers weren't interested in the new debt instrument, giving priority to other means of liquidity management, first of all to repo transactions.

The new debt market segment such as mortgage-backed securities has not been of high demand as well. In 2006-2007, only three mortgage-backed bonds were issued for the total value of RUB 7.9 billion. The trading is concentrated on the MICEX Stock Exchange. In 2007, the trading volume with mortgage-backed bonds was RUB 36.9 billion, which includes repo trades, if repo trades are excluded it amounted to RUB 8.85 billion.

In 2007, the yield from investment into corporate debt market on average was 8.17 percent annually.

GOVERNMENT, SUBFEDERAL AND MUNICIPAL BONDS, BANK OF RUSSIA BONDS

The first government bonds of the Russian Federation were issued in 1991. The domestic on-exchange government bonds market (GKO-OFZ) was rapidly developing in 1993-1998, but it was broken off short on 17 August, 1998 by the default, and never recovered neither in terms of volume nor in terms of its importance in the financial system. The Bank of Russia bonds, which were first issued in 2005, are formally not government securities although they are rated at the same level in terms of credit risk. They are short term securities used to manage commercial banks liquidity, and other investors cannot purchase them.

The value of the government bonds market has been growing in the last years, although in 2005-2007, it was mere 3.5-3.6 percent of GDP.

According to the informational resource CBONDS at the end of 2007, the nominal volume of government bonds traded domestically was RUB 1,047.4 billion, 19.6 percent growth year-on-year (the year-on-year growth in 2006 was slightly more reaching 21.35 percent). The volume of the secondary market and liquidity of government bonds in comparison to the corporate bonds market is small.

The total nominal value of the Bank of Russia bonds in circulation at the beginning of 2007 was RUB 104.2 billion, and at the end of the year decreased to 102.9 billion, while in October-November falling to RUB 20 billion which was related to the refinancing crisis.

The market of subfederal and municipal bonds is much smaller compared to the government and corporate bonds market, and it does not have particular growing trend. According to the informational resource CBONDS as at the end of 2007, the total nominal value of subfederal and municipal bonds in circulation domestically was RUB 220.4 billion, 16.2 percent increase year-on-year (in 2006 the growth was slightly more reaching 17.8 percent. The ration of subfederal and municipal bonds in circulation domestically to GDP in the last years has been stable at 0.7 percent.

EUROBONDS

The Russian Federation, subjects of the RF, municipals and Russian companies also obtain financing for their development on the international market through Eurobonds issuance.

According to the informational resource CBONDS at the of 2007, the total value of the Eurobond market of Russian issuers was USD 130.18 billion, including USD 34.74 billion of Eurobonds of the Russian Federation, and USD 94.29 billion of corporate Eurobonds. The value of municipal Eurobonds is negligible at USD 1 billion.

The sovereign and corporate Eurobonds markets in recent years have been moving in different directions. The value of sovereign Eurobonds has been decreasing by 10 percent on average, and the value of corporate Eurobonds has been continuously increasing: in 2005 by 73 percent in 2006 by 55 percent, and in 2007 by 49 percent.

INVESTMENT UNITS

The main instruments on the collective investment market in Russia are unit investment funds (UIF). UIF is not a legal entity but is an asset under fiducial management of the management company.

The clients' investment in the trust takes the form of

buying special securities – investment units. The investment return is not defined in advance and depends on the growth of the unit price, which is linked to the movement in the value of assets comprising the investment fund. The investment funds were developed to attract money of small retail investors but in Russia they were of demand to large investors both retail and wholesale.

The secondary market of investment units is still developing. On-exchange trading of units takes place on the MICEX Stock Exchange and RTS.

Almost 25 percent of all active UIF are represented on the stock exchanges, but not all of them are liquid. The share of one UIF (“AG Capital” managed by “AG Capital” management company) in the total trading volume on all trading floors is 37.7 percent, and ten most actively traded UIFs account for 81.4 percent of the volume.

SECURITIES AND INDEX FUTURES AND OPTIONS

In 2007, the derivatives market not only grew in terms of volume but also shifted to a new level first of all due to the significant rise in the value of open contracts. In 2005-2006 the value was 1.8-2.1 percent of the total futures turnover and 8.2-9.6 percent of the total options turnover. In 2007, the average value of open futures contracts in the first three quarters was 4.6-5.6 percent of the total turnover, in the fourth quarter dropping to 2.8 percent which is probably due to closing futures contracts at the end of the year. The average value of open option contracts in the first three quarters of 2007 was 35-55 percent, decreasing to 16 percent in the fourth quarter.

The volume of equity and index derivatives in comparison to the equity spot market (without repo transactions) has been increasing. In 2005, the proportion of futures volume to equity spot market volume was 15.4 percent, in 2006, it increased to 21.2 percent and in 2007 reached 46.3 percent.

THE MARKET INFRASTRUCTURE

The law “On the Securities Market” identifies the following types of professional activities on the securities market: brokerage, dealing, securities management, clearing, depository, maintenance of security holder's

registry, organization of trading. All market participants are strictly regulated by the federal law “On the Securities Market” as well as related regulatory acts. In the middle of 2008, the professional participants of the Russian market were 1,690 brokers, 1,690 dealers, 1,690 asset managers, 12 clearing organization, 799 depositories, 60 registrars, 4 trading organizers and 6 stock exchanges. The number of professional securities market participants hasn’t been changing significantly it is possible to draw a conclusion that the stock market infrastructure has been developed and there are enough institutes to provide for normal functioning of the market under current conditions.

The two major infrastructure groups servicing different stock market segments are MICEX Group and RTS Group. The MICEX Group includes MICEX, MICEX Stock Exchange, the National Mercantile Exchange, the MICEX Settlement House, the National Depository Center, the National Clearing Centre, regional (provincial) exchange centres and settlement centres as well as some other organizations. The RTS Group includes NP “Russian Trading System Stock Exchange”, “Open Joint Stock Company “Russian Trading System Stock Exchange”, “RTS Clearing Center”, “RTS Settlement Chamber” and “St. Petersburg Stock Exchange”, “SKRIN” information disclosure agency.

THE MICEX GROUP

Trading of shares and corporate bonds on the MICEX Stock Exchange can take place in three different trading modes: main trading mode, negotiated deals and REPO.

The main trading mode

For the main trading mode MICEX requires pre-delivery of the securities to be sold into the trading securities subaccount of the authorized broker (custodian) and prepayment of funds to cover purchases into the authorized broker’s trading cash account. Transfer of additional funds to the cash account with the MICEX Settlement House, and additional securities to the securities subaccount of the depository can be made during the trading sessions. The settlement cycle for the main trading mode is T+0.

If there are not enough cash or securities on the trading account (subaccount) the trade cannot be executed.

The negotiated trading mode

The negotiated mode includes all trades that are effected on an OTC basis (e.g. agreed on the phone by the counterparties) but recorded in the MICEX SE system. Trades in the negotiated mode do not need to be pre-funded and can have a longer settlement cycle (from T+0 to T+30).

On the settlement day (SD) trades due for settlement that day in the negotiated mode are included in the netting process that occurs at the end of the day (after 18.00). and are netted together with all trades executed in the main trading mode if there are sufficient securities and cash in the participants accounts. If there are insufficient securities and cash on SD, the trade is postponed until SD+1, but it is cancelled if the fail persists.

Repo

Repo trades are also registered in the MICEX SE trading system and have a settlement cycle between T+0 and T+180, although usually, the first leg of the repo settles T+0 while the second leg may have a longer cycle. Trading of shares and corporate bonds repos takes place daily between 10.00 and 18.00 in “Repo with shares” and “Repo with bonds” trading modes.

Repo trades are settled at the same time as equities and corporate bonds (i.e. from 18.20). Settlement is on a multilateral net basis. Gross settlement is an option for repo trades.

State federal bonds and money market instruments

Trading of government bonds and money markets instruments takes place on MICEX between 10.30 and 20.10. The trading takes place daily during the main and additional trading session. During the main trading session trades are executed in the main trading mode and negotiated trading mode. The additional trading session is carried out according to the order specified by the Bank of Russia. Currently it is used for direct repo transactions with the Bank of Russia and negotiated trades with the Bank of Russia.

Derivatives market

In the middle of 2007, MICEX Stock Exchange started trading first stock futures contract – MICEX Index future. By the end of 2007 the volume of the contract reached RUB 1.76 billion.

THE RTS GROUP

Today's RTS product line includes the RTS Classic Market and RTS T+0 Market. RTS Classic Market is the trading platform for blue chips – 8 shares (anonymous trading with partial prefunding and DVP settlement on T+4 in USD), other shares, bonds and investment units (non-anonymous trading without need to pre-fund prior to trading and settlement either on a FOP or DVP basis with a settlement cycle from T+0 to T+30 and payments in USD or RUB) denominated in USD. The RTS T+0 Market is a pre-funded market for shares, bonds and investment funds. It is anonymous market and the trading takes place in RUB. Settlement is on a DVP basis on T+0 with payments in RUB.

Currently the market of securities and stock indices derivatives is concentrated on the RTS FORTS derivatives market. FORTS is the trading platform not only for futures and options based on shares and stock indices as underlying assets but also offers contracts on gold, foreign currency, oil, etc, but their volume is insignificant and does not exceed 1-5 percent.

In 2006, FORTS was trading 18 types of derivative contracts (12 futures and 6 options) with securities and stock indices as underlings. By the end of 2007, the number of contracts increased to 53 (36 futures and 17 options). The most traded contract in 2007 was RTS Index future, with the 48.8 percent of the total volume of all securities and stock indices contracts traded; in 2006, it was also the most liquid instrument with 27.8 percent of the total volume.

THE RUSSIAN DEPOSITORY SYSTEM

Activities of all depositories in Russia are regulated by the federal executive body – the Federal Financial Markets Service, which is a supervisory body for the financial market.

Russia has a **multi-tier depository system** and any two depositories can establish interdepository links. If there is a demand from depository's clients Russian depository can open a nominee account with a foreign depository.

De-jure there is no single CSD in Russia. The legislation, regulating legal basis, functions and activities of the country's CSD is also absent.

Currently two major depositories (Not-for-Profit Partnership "The National Depository Center", NDC hereafter, and Closed Joint-Stock Company "Depository Clearing Company", DCC hereafter) act as settlement depositories for the largest trading floors: NDC for government securities and Bank of Russia bonds services MICEX, for corporate securities – MICEX Stock Exchange; DCC services RTS Stock Exchange. Moreover DCC (for shares) and NDC (for bonds) service Saint-Petersburg Stock Exchange. Both depositories have clearing licenses.

In 2007, the draft CSD law was passed in the first reading in the State Duma but it is debated between government entities and market participants.

THE FUNCTIONS OF THE CENTRAL SECURITIES DEPOSITORY

De-jure and de-facto NDC is a CSD for government securities in the Russian Federation. It is the depository officially authorized to safekeep government securities, settling 100% of trades on government bonds market, about 100% of trades on the corporate bonds and munies market, and 99% of transactions with equities traded on the stock exchange market. NDC is also de-factor a CSD for corporate and regional bonds, safekeeping global certificates and keeping records of 99% of corporate bonds and 95% of regional bonds issues.

The main NDC functions include the following: securities safekeeping and recordkeeping, securities settlement, settlement of exchange transactions, being a nominee holder in the securities holders' register for securities with the registered prospectus, safekeeping certificates of equity securities subject to obligatory centralized safekeeping, except for bonds of foreign bonded loan of the Russian Federation and constituent entities of the Russian Federation, opening of a nominee account to a foreign depository, recordkeeping of securities rights owned by the Russian Federation, a constituent entity of the Russian Federation or the Central Bank of the Russian Federation, safekeeping certificates of securities owned by the Russian Federation, a constituent entity of the Russian Federation or the Central Bank of the Russian Federation. Additional activities of the NDC includes allocating ISINs to Russian securities, acting as a paying agent and clearing.

WHAT TYPES OF SECURITIES ARE ALLOWED FOR RECORDKEEPING AT THE CSD?

Russian depositories in accordance with the current legislation have the right to keep the records of any issue grade securities. Servicing of all government securities, securities of the subjects of the Russian Federation and majority municipal issues, as well as 49% of corporate shares and 95% of stock exchange settlement of corporate shares market are concentrated at NDC. There are no legal restrictions on servicing of any type of issued securities. The legislation of the Russian Federation allows Russian depositories to safekeep foreign securities provided they comply with requirements of the Russian legislation.

Depository receipts issue and recordkeeping. Russian legislation envisages possibility to issue depository receipts on securities of Russian issuers. However circulation of issued securities of the Russian issuer abroad including in the form of foreign securities is allowed only with the permission of FFMS. There is also a restriction on the share of securities offered abroad in the form of ADRs and securities of the same issuer being offered in the Russian Federation.

The number of securities of the Russian issuer to be issued or circulated abroad, including the issuance of the foreign securities, should not exceed 30% of the total number of issued securities of the Russian issuer of the same category or the number of equities of the Russian issuer of the same category if the corresponding (additional) equity issue was registered or if such state registration is done together with granting of permission by the FFMS of Russia.

The notion of Russian depository receipts (herein after RDRs), peculiarities of their issuance and circulation are described in the article 27.5.3 “Peculiarities of issuance and circulation of Russian depository receipts” of the FL “On the Securities Market” introduced by the Federal Law dated 30/12/2006.

By now there were no RDRs issued or circulated.

Possibility to open account by the foreign depository in the country’s CSD. Type of the account. According to the current legislation a depository is a licensed professional securities market participant and only those professional participants – depositories can establish

interdepository relations, i.e. a foreign depository currently cannot obtain a license and become a professional market participant so it is not considered in the Russian Federation as a depository and cannot establish interdepository relations with a Russian depository. In perspective the draft CSD law will allow to open nominee account and/or beneficial owner account for a foreign depository in the Russian CSD.

Securities eligible for safekeeping on the account of a foreign depository in the Russian CSD. There is no specific information about securities that can be safekept on the account of a foreign depository. The draft CSD law does not specify the list of such securities.

Cash accounts. Depositories maintain only securities account, and cash settlement is be done through the Russian banking system.

EXCHANGE TRADING

Exchange trading is possible only through exchange members with a broker’s license or through a custodian holder registered in stock exchange. The CSD does not specify rules and procedures for provision of access to the exchange trading for the clients of a foreign depository but possibly the foreign depository would be provided with a possibility to obtain access to the exchange trading directly for the benefit of its clients and not via a broker.

DVP SETTLEMENT

It is possible to settle trades on the DVP basis.

CSD’s ACCOUNTS WITH FOREIGN SECURITIES DEPOSITORIES

The current laws do not impose any restrictions on Russian securities depositories opening accounts with foreign depositories.

INFORMATION DISCLOSURE

The draft law does not specify the scope of or procedure for information disclosure by a foreign depository. Therefore, in the absence of special rules, a foreign de-

pository, if admitted to the Russian market, would be required to disclose information in accordance with the applicable Russian laws (the Law “On the Securities Market” dated 22/04/96)

REGISTRATION WITH THE TAX AUTHORITIES

It is not necessary for a foreign depository doing business in the Russian Federation without a permanent establishment to register with the tax authorities.

DIRECT INCOME PAYMENTS TO A FOREIGN DEPOSITORY’S CLIENTS

We do not have any information on whether it is possible to pay securities income directly to clients of a foreign depository, as a foreign depository can open only a securities account of the owner. This means that the Russian depository will pay securities income directly to the foreign depository (the account holder) for all securities held on this account. The question of what currency securities income may be paid in is covered in the Russian Tax Code: “The tax base for income of a foreign organization which is taxable in accordance with this Article and the amount of tax to be withheld on such income shall be calculated in the currency in which the foreign organization receives such income. In this respect, expenses incurred in another currency shall be calculated in the same currency as that in which the income was received using the official exchange rate (cross exchange rate) of the Central Bank of the Russian Federation prevailing as at the date on which those expenses were incurred. (Article 309.5 of the Tax Code of the Russian Federation)”.

The following rates shall apply to the tax base which is determined for income received in the form of dividends:

15 percent for income received in the form of dividends from Russian organizations by foreign organizations. In this case, the tax shall be calculated taking into account the special considerations set forth in Article 275 of the Tax Code.”

“The following tax rates shall apply to the tax base determined for transactions in particular types of debt obligations:

1) 15 percent for income in the form of interest on State and municipal securities (other than the securities referred to in subsections 2 and 3 of this clause and interest income received by Russian organizations on State and municipal securities which are distributed outside the Russian Federation, with the exception of interest income received by the initial holders of State securities of the Russian Federation which they received in exchange for State short-term zero-coupon bonds in accordance with the procedure established by the Government of the Russian Federation), where the conditions of the issue and circulation thereof provide for the receipt of income in the form of interest, and for income in the form of interest on mortgage-backed bonds issued after 1 January 2007 and income of institutors of the fiduciary management of a mortgage pool which is received by means of the acquisition of mortgage participation certificates issued by the manager of the mortgage pool after 1 January 2007;

2) 9 percent — for income in the form of interest on municipal securities issued for a period of not less than three years before January 1, 2007, and for income in the form of interest on mortgage-backed securities issued before 1 January 2007 and income of institutors of the fiduciary management of a mortgage pool which is received by means of the acquisition of mortgage participation certificates issued by the manager of the mortgage pool after 1 January 2007;

3) 0 percent for income in the form of interest on State and municipal bonds issued up to 20 January 1997 inclusively, and for income in the form of interest on bonds of the 1999 State currency funded loan which were issued upon the novation of series III bonds of the State domestic currency loan which were issued for the purpose of achieving the conditions required for the settlement of the domestic currency debt of the former USSR and the domestic and foreign currency debt of the Russian Federation.”

AVOIDANCE OF DOUBLE TAXATION

Russia is party to Double Taxation Treaties with more than 70 countries. In order to avoid double taxation and benefit from a tax exemption or reduction, a foreign securities depository is to present all the relevant documents to the tax agent (being the source of payment) as

required by Double Taxation Treaty or Convention between the Russian Federation and the country of the foreign depository's domicile, and the Russian Tax Code. If the taxes are withheld in full at the source of income payment, the foreign participant will be supplied with documents which will enable the participant to credit the tax paid in the country of source of income when paying the relevant taxes at its country of incorporation.

UZBEKISTAN

Uzbekistan's stock market is developing rapidly and has demonstrated stable growth over the past four years. Trading in corporate securities has been growing by about 60 percent annually, reaching UZS 342.1 billion (USD 267.8 million) in 2006, and exceeded UZS 400 billion (USD 316.2 million) in 2007. The capitalization of Uzbekistan's national companies traded on the country's organized securities market and its ratio to the GDP remain low, albeit growing rapidly. The capitalization of the joint-stock companies is growing due to inflow from new investors as well as retained earnings. The secondary securities market has also seen a steady and strong increase in terms of volume, up 66.4 percent of the total trading volume (UZS 227.2 billion, or USD 177.8 million) in 2006. In 2007, the secondary securities market is dominating in the on-exchange turnover. The secondary market turnover in 2007 was UZS 77.4 billion or USD 60 million (UZS 62.4 billion (USD 48 million) in the national and UZS 15.1 billion (USD 12 million) in the foreign currency). Uzbekistani analysts believe this to be a sign of growing liquidity of securities traded on the market.

In 2007, the analysis of the market trends shows first of all that the shares of companies in the services sector became the leaders in terms of trading volumes. The most liquid were the shares of financial companies (the trading volume grew to 46 percent compared to 2006) and telecommunication companies. Secondly, non-primary companies prevail in the industrial sector, which indicates high influence on the stock market development of the sectors with higher value added. The leading position of the banking sector is determined mainly by the issuance of additional shares. The decree of the President of the Republic of Uzbekistan dated 12 July, 2007 No PP-670 *On the Measures to Increase the Capitalization*

of Banks and to Intensify their Involvement in the Investment Process to Modernize the Economy sets commercial banks must place at least 25 percent of newly issued shares on the stock exchange. It should be noted that the majority of trades with the shares of banks are trades with shares of listed banks (UZS 65.21 billion or USD 50 million).

In 2006, seventeen companies undertook their IPOs selling a total of 20.2 million shares worth a total of UZS 2.8 billion (USD 2.2 million) on the stock exchange market. This amount is insignificant (less than 0.1 percent) compared to the total volume of capital investments made in 2006. In 2007, the volume of shares trading on the primary organized market reached UZS 37.3 billion (USD 29 million). The steps being taken to create an effective mechanism for attracting investments using stock market instruments, including through IPOs, are designed to boost its attractiveness for both issuers and investors.

Currently, the core of the stock market is formed by legal entities established as joint stock companies. Starting from 2006, there have been major changes among securities issuers, both in terms of the size of joint stock companies and improvements in the legal and regulatory requirements imposed on issuers of corporate debt. As of the end of 2007, there were 1,870 joint stock companies on the Uzbekistani stock market with the total of 3,359.5 million shares and aggregate authorized capital at par exceeding UZS 4,210 trillion, or USD 3,238.5 billion. Banks are most active among the major issuers, which suggests that the banking sector is seeking to increase its capitalization. Benefits offered to the banks' shareholders, both individuals and legal entities, boost the demand for banks' shares.

Over the past years, the number of securities industry participants has remained unchanged. This is a sign of maturity of the institutional infrastructure of the securities market and its ability to meet the market needs at the current stage. Analysts point to a decrease in the number of investment intermediaries (brokers). This is due to the changes in the licensing requirements (this activity can be conducted only by legal entities) and the gradual development of the clearing, settlement, safekeeping and registration facilities, which reflects the increase in the stock market turnover and the desire of major players to minimize their market-related risks and costs. Lawmakers have drafted amendments to the existing securities market laws

and prepared proposals to introduce a comprehensive law designed to ensure rapid development of the market.

On the 23 July, 2008 the Law “On the Securities Market” was adopted, which replaced former four laws regulating the securities market: the law “On the Securities and the Stock Exchange”, “On the Securities Market Functioning”, “On Depository Activities on the Securities Market” and “On Protection of Investors’ Rights”.

Under the new law, Uzbekistan’s securities accounting system comprises securities depositories and the Central Securities Depository. In addition to its core functions, CSD will act as the central registrar. It will prepare lists of securities holders as of the date specified by the issuer based on the data of securities accounts maintained for the participants of the CSD and other securities depositories holding securities in their nominee name. Records of the CSD will simultaneously serve as a securities registration system, which will eliminate the need to maintain duplicate securities ownership records. According to the new law shares are issued only in book-entry form.

Proposals have been made designed to dematerialize certificated securities, ban the issuance of corporate securities in certificated form, lift restrictions on combining certain types of securities market activities, and improve prudential oversight of securities services providers.

Structure of Uzbekistan’s Stock Market Uzbekistan’s stock market includes the Tashkent Republican Stock Exchange, organized OTC market comprising the Interbank Trade System (ITS) and Elsis-Savdo Electronic OTC Trading System. Informal securities market is represented by all types of transactions made outside the trading floors of the above systems.

In 2008 the share of securities traded on the organized stock market was 32.6% (41% of the total market turnover in 2006). The Tashkent Republican Stock Exchange accounts for more than 28 percent of trading on the stock market and more than 88 percent of trading on the organized securities market (98 percent in 2006). The most liquid financial instruments traded on the stock exchange are shares of joint-stock companies. In 2007, equities market turnover on the stock exchange was UZ\$114.7 billion (USD 88.2 million).

The leader by trading volumes on the stock exchange is the city of Tashkent. From the beginning of 2007, the

volume of trades with shares of joint-stock companies, located in Tashkent, increased to US\$ 88.3 billion (USD 67.9 million) or 77 percent of the total turnover (41.6 percent in 2006). One of the reasons for the increase was significant number of IPOs of the large joint-stock companies, including commercial banks, located in the capital.

Analysts are generally of the opinion that Uzbekistan’s stock market has a significant potential. It primarily depends on changes in the attitude of shareholders of Uzbekistan’s national companies to finance their companies using securities market instruments, as well as on the government regulation and support of the securities market.

Uzbekistan’s **securities market regulator** is the Center for Coordination and Control of the Securities Market under the State Property Committee of the Republic of Uzbekistan. It controls, *inter alia*, the activities of the Uzbekistan CSD.

Uzbekistan has a **two-level depository system**. Second-level depositories are prohibited from establishing direct depository links. CSD forms the first level of the depository system, which ensures a unified system of securities recordkeeping, ownership registration and stock transfers in Uzbekistan’s securities depositories. CSD performs the functions of the republic’s central recordkeeping system and represents Uzbekistan’s interests in relations with the global securities industry.

The Uzbekistan CSD operates as a not-for-profit Federal State Unitary Enterprise. Its activities are not directly aimed at making profit and distributing it among the founders.

The securities ownership in the Republic of Uzbekistan is **evidenced** both for residents and non-residents, according to the Law “On the Securities Market” adopted on 23 July, 2008, by an account statement. The rights represented by a security are transferred to their buyer upon transfer of title to that security. Securities account statements is issued by the relevant securities depository where the securities are held—CSD or the securities depository holding securities in nominee name.

Besides depository operations, the Uzbekistan CSD can maintain registers of securityholders of investment funds, safekeep documents certifying issuance and circulation of certificated and book-entry securities; main-

tain records of securities issued by non-residents in the Republic of Uzbekistan and those issued by Uzbekistan residents on foreign stock markets.

The Uzbekistan CSD is able to maintain records of companies' sharers and bonds. Corporate securities are held both by the CSD and the second-tier securities depositories, while government securities are handled by the securities depository sector of the Republican Currency Exchange.

The laws of Uzbekistan allow CSD to hold foreign securities, taking into account the restrictions and peculiar requirements imposed by the country's government: the Cabinet of Ministers of the Republic of Uzbekistan set general rules, annual quotas, and the procedure for admission of securities issued by foreign issuers for circulation in the territory of Uzbekistan.

As provided by the Regulation "On the Procedure for Circulation of Securities Denominated in a Foreign Currency, Purchase of Securities Denominated in a Foreign Currency by Residents, and Purchase of Securities Issued by Non-Residents", (registered by the Ministry of Justice of the Republic of Uzbekistan under No. 1692 on 22 June 2007), **securities denominated in a foreign currency** are admitted to circulation in the Republic of Uzbekistan in accordance with Article 9 of the Law of Uzbekistan "On Securities and Stock Exchange". The procedure for state registration of securities denominated in a foreign currency is established by a competent government authority regulating the securities market.

CSD safekeeps securities denominated in a foreign currency, maintains ownership records and certifies ownership of such securities, as well as maintain a register of encumbrances and releases of securities denominated in a foreign currency. Securities denominated in a foreign currency are issued and circulated in the territory of Uzbekistan, including their registration with the CSD, only after the state registration of the issue by the securities market regulator.

The laws of Uzbekistan do not provide for such a financial instrument as **Uzbekistan Depositary Receipts**. Currently, there are no ADRs or other types of DRs issued for shares of Uzbekistani issuers.

Possibility of opening a securities account by a foreign depository with the Uzbekistan CSD. Type of

account. After the adoption of the Regulation "On the Procedure for Circulation of Securities Denominated in a Foreign Currency, Purchase of Securities Denominated in a Foreign Currency by Residents, and Purchase of Securities Issued by Non-Residents", (registered by the Ministry of Justice of the Republic of Uzbekistan under No. 1692 on 22 June 2007), it is pointless to enter into a depository link agreement with a foreign depository which is a nominee holder of securities, because nominee accounts may only be opened by an entity licensed under the Uzbekistan laws.

Practice of keeping accounts for foreign depositories.

There is a securities account opened for Russia's ROSBANK, but no transactions have been effected in that account. **Document interchange** with ROSBANK is by mail, with prior notification via e-mail. Communication with the Uzbekistan securities industry members is carried out via EDI by encrypted e-mail using certified electronic keys.

Securities that may be held in a foreign depository's account with the Uzbekistan CDS: a foreign depository may hold in such account securities issued by Uzbekistani issuers who have obtained their official registration from the authorities, have registered with the CSD and hold a quota (permission) from Uzbekistan's Cabinet of Ministers for taking securities out of Uzbekistan. The procedure for holding ownership records of foreign issuers' securities is not provided in the country's laws.

Under laws of Uzbekistan, only banks are permitted to open and maintain **cash accounts**.

Records of clients' securities in a foreign depository's correspondent account with the Uzbekistan CSD are not segregated.

Possibility for a foreign depository's participants to trade on a stock exchange. Uzbekistani laws do not contain any provisions regulating the procedure for participating in stock exchange trading.

Trades may be settled on the **DVP basis**.

Possibility for the country's CSD to open accounts with foreign CSDs is envisaged by laws of Uzbekistan. Under the Law of Uzbekistan "On the Activities of Securities Depositories on the Stock Market", one of the functions performed exclusively by the Uzbekistan CSD is "maintenance of ownership records in the Republic

of Uzbekistan of securities issued by non-resident entities, and maintenance of ownership records of securities issued by Uzbekistani resident entities on the foreign stock exchanges". Therefore, potentially, it is possible to open and maintain such accounts, but there is no practice of maintaining such accounts.

The procedure and list of persons or authorities empowered to make information enquiries is specified in the Law of the Republic of Uzbekistan "On the Activities of Securities Depositories on the Stock Market". Laws of Uzbekistan do not contain any specific provisions regarding the **procedure for information disclosure** by a foreign depository. Therefore, in the absence of special rules, a foreign depository wishing to arrange for Uzbekistan issuers' securities to be traded outside the country is likely to be required to disclose information in accordance with the applicable Uzbekistani laws – the Law of Uzbekistan "On the Activities of Securities Depositories on the Stock Market", the Regulation "On Information Disclosure by Securities Market Participants" (registered by the Ministry of Justice of the Republic of Uzbekistan under No. 1127, dated 18 April 2002).

Under Uzbekistan laws, it is not necessary for a foreign depository doing business in Uzbekistan without a permanent establishment **to register with the tax authorities.**

The withholding tax for dividends and interest paid to individuals and legal entities (except dividends and interest exempt from taxation under the Tax Code of the Republic of Uzbekistan) is charged at a rate of 10 percent. Under Article 30 of the Uzbekistan Tax Code, a non-resident's income (profit) received from a source of payment in the Republic of Uzbekistan which is not associated with a permanent establishment is taxable at the source of payment. Its dividend and interest income is taxable at a rate of 10 percent.

A non-resident legal entity which has received dividend and interest income previously taxed at the source of payment in the Republic of Uzbekistan is entitled to deduct such taxes from the total amount of income, provided it presents documents evidencing the withholding of tax at the source.

Securities income is paid in the national currency which may be subsequently converted into another currency.

Uzbekistan is a party to the Convention for the **Avoidance of Double Taxation**, when taxes are withheld at

the source of payment by the issuer, it is possible to obtain documents which will enable a participant to credit the tax paid in the country of source of income when paying the relevant taxes at the individual's or legal entity's place of tax registration.

UKRAINE

Today, the Ukrainian stock market comprises the following groups of participants: securities traders, registrars, institutional investors, custodians, stock exchanges (First Stock Trading System, Kiev International Stock Exchange, Ukrainian Interbank Currency Exchange, Ukrainian Stock Exchange, Pridneprovsk Stock Exchange, Ukrainian International Stock Exchange (Donetsk Stock Exchange), trading and information systems (First Stock Trading System, Perspektiva Stock Exchange), two securities depositories (National Depository of Ukraine and Interregional Stock Union), as well as self-regulatory organizations.

In Ukraine, there are 351 registrars which provide services to 18,286 issuers and maintain over 13 million owner accounts and 7,000 nominee accounts. 357 securities issuers independently maintain their share registers, and 221 custodians provide services to investors in 14 regions of Ukraine.

As of 1 January, 2008 the Interregional Stock Union was servicing 2,518 securities issuers (ISU clients), 225 securities custodians (ISU clients) was interacting with 10 securities trading organizers, and with 478 registrar and issuers, which maintain their own security holders' registry for securities issued in certificated form.

The securities traded on the stock market include government and municipal bonds, equities and corporate bonds, as well as government Eurobonds.

The corporate debt market was the leader in terms of volume in H1 2007, with the demand for corporate Eurobonds growing by approximately 6 percent per month. Equity market ranks second, and the third position is occupied by municipal and government securities.

Overall, although the stock market has seen a strong growth (analysts predicted a 10-25 percent growth of the First Stock Trading System index in H1 2007, provided that the nation's economy is able to maintain high growth and politicians are able to come to a consensus),

it depends greatly on the unstable political situation in the country which affects both the activity of securities market participant and the growth of equity prices in certain industries.

Securities market regulator. The activities of the National Depository of Ukraine and all participants of the country's securities market infrastructure are controlled by the regulator, State Commission for Securities and Stock Market.

Ukraine has a two-tier depository system. The top tier is comprised of National Depository of Ukraine and securities depositories which maintain securities accounts for custodians, issuers and foreign correspondent depositories and clear and settle securities trades (primarily Interregional Stock Union ("ISU")). On the lower tier, there are custodians which maintain securities owner accounts and registrars which maintain securities ownership records.

Besides, under Article 2 of the Law of Ukraine "On the National Depository System and Peculiarities of Electronic Circulation of Securities in Ukraine", government securities services (including depository services) are provided by the National Bank of Ukraine.

Custodians are not permitted to establish direct depository links among themselves.

The functions of the Central Securities Depository are as follows: maintaining accounts of corporate securities issuers; maintaining custodian's accounts; securities operations: transfers between clients' accounts, deposit to the owners account maintained by custodian, deposit of bought back securities to the issuers' account, immobilization; dematerialization; FOP settlement, DVP settlement, securities delivery through the registry from the trading organizer with pre-funding, without pre-funding; block securities on the custodians' accounts allowing refinancing of commercial bank by the National Bank of Ukraine; corporate actions services: provision of security holders registries to the issuers of book-entry securities, registrar and issuers of certificated securities, which maintain security holders' registry; distribution of coupon and redemption proceeds to custodians for further distribution to the beneficial owners; notification about corporate actions; securities clearing and settlement services; maintaining registers of securities owners; bringing depository record keeping in line with the

international standards; standardizing document interchange for securities transactions and assigning identification numbers to securities issued in Ukraine in accordance with the international standards; establishing relationships and interacting on an on-going basis with other countries' securities depositories; entering into bilateral and multilateral agreements on direct membership or correspondent relations to support cross-border transactions in the securities held by participants of the National Depository system; controlling the depository link activities between Ukraine's securities depositories and securities depositories in other countries (under the law, the NDU is the only securities depository allowed to establish correspondent relations (depository links)).

CSD maintains records of all types of securities—equities, corporate bonds, municipal bonds, mortgage certificates, mortgage-backed bonds, certificates of real estate funds, investment-grade bonds, etc., except for the government bonds of Ukraine.

In Ukraine, restrictions are imposed on the recordkeeping of government securities (records of government bonds are to be kept in the country's depository system taking into account the requirements of the Securities and Stock Market State Commission of Ukraine and the National Bank of Ukraine).

Ukrainian laws permit safekeeping of foreign securities, subject to the restrictions and specific requirements imposed by Securities and Stock Market State Commission of Ukraine (the law "On the State Regulation of the Ukrainian Securities Market"). Foreign securities are admitted to trading in Ukraine after their registration with the State Commission for Securities and Stock Market in accordance with *the Regulation on the Procedure for Registration of Shares and Bond of Foreign Issuers in Ukraine*.

Recordkeeping of National Depository Receipts and foreign securities. In order to support the sale of holdings of shares owned by the state in the form of depository receipts on the international stock markets, Resolution of the State Commission for Securities and Stock Market No. 237 of 10 November 1999 provides that a foreign depository issuing depository receipts and the Ukrainian depository in which such shares are deposited are required to enter into a correspondent relations agreement with the National Depository of Ukraine.

In practice, securities of Ukrainian issues are deposited for the purpose of DR issuance in the owner's securities account with a Ukrainian custodian which acts as the local custodian for the DR issue.

It is expected that the underlying shares will be recorded in a securities account with a custodian elected by the State Property Fund of Ukraine, while ADRs will be maintained in the special deposit account for holding shares represented by the DRs, in the National Depository of Ukraine.

No National Depository Receipts are traded on the domestic market in Ukraine.

The possibility for a foreign depository to open an account with the country's CSD: under Ukrainian laws, a foreign depository is allowed to open an interdepository account, although the laws mention correspondent relations and, accordingly, correspondent accounts.

NDU has opened correspondent accounts for ROS-BANK (Russia), "INFINITUM" (Russian), "Central Moscow depository" (Russia).

In a foreign depository's account with NDU, it is possible to keep all types of securities in respect of which NDU is allowed by law to provide depository services (i.e. corporate and municipal securities). Such securities must be issued in the form of a global certificate lodged in NDU, or immobilized and registered in NDU's nominee name, or be issued in the form of certificates in bearer form immobilized in NDU and held in its vaults. We have found no information regarding the procedure for and restrictions imposed on non-residents or on the procedure securities deposit in an account with a foreign depository which has opened an account with NDU.

Under Ukrainian laws, "foreign securities are admitted to trading in the territory of Ukraine after their registration with the State Commission for Securities and Stock Market". Such securities must be lodged in the securities depository of their country of origin. The State Commission for Securities and Stock Market determines the maximum number of foreign securities issues which may be admitted to trading in the territory of Ukraine.

NDU uses SWIFT.

ISU is a SWIFT user and is technically ready to use ISO 15022 standard.

The laws do not impose a requirement to open a **cash account** simultaneously with a securities account. As provided by Resolution of the National Bank of Ukraine's Board No. 492 of 12 November 2003, non-resident legal entities and individuals are allowed to open cash accounts with Ukrainian banks. As concerns securities market, where purchase and sale of securities is treated by law as investment activity, Resolution of the National Bank of Ukraine's Board No. 280 of 10 August 2005, non-resident individuals and legal entities are allowed to open investment, current and deposit accounts.

Records of clients' securities in a foreign depository's interdepository account with Ukraine's Central Securities Depository are aggregated, although this may be determined based on indirect indicators, as the law does not contain any direct provisions to that effect (by analogy with the custodian's account with a securities depository, where the custodian's own securities are segregated from those of all of its participants).

Trading on the organized securities markets is only permitted for resident securities traders (i.e. legal entities which hold the relevant licenses). Non-residents are not allowed to trade directly on the market. In order to make payments for securities, a non-resident person or entity may open the so-called investment account with the National Bank of Ukraine (the opening and using of such account is governed by a special procedure). If there is an account opened for the correspondent depository in the Ukrainian depository, if securities are registered by the Securities and Stock Market State Commission of Ukraine for circulation in Ukraine, if there are relevant agreements between the Ukrainian depository and the exchange, the licensed securities trader (a Ukrainian resident entity) and the investor (a non-resident person) may agree to deliver securities through such correspondent account, as there are no restrictions imposed on such transactions.

DVP settlement. Under Ukrainian laws, "settlement and clearing of securities trades may only be effected by securities depositories which ensure delivery of securities to custodians' accounts with the depository simultaneously with cash payment to the custodians' accounts." NDU can settle trades DVP using its cash account maintained with the National Bank to which cash may be received from the custodian providing services to its client purchasing securities. ISU provides DVP settlement using its cash

account maintained with the National Bank of Ukraine to which cash may be received from the custodian providing services to its client purchasing securities.

The possibility for the country's CSD to open accounts with foreign CSD. The law "On National Depository System and Electronic Securities Circulation in Ukraine" provides a possibility for depository to establish correspondent relation and open correspondent account with foreign CSDs. There are no statutory restrictions imposed on the use of such accounts. There has been some account-opening activity, but no transactions have been effected in these accounts.

The Ukrainian laws contain certain provisions regarding **the provision of information** by a foreign depository. The Ministry of Justice of Ukraine has the right to request legal assistance from the central authority in another country designated in the relevant international treaty or convention on legal assistance. CSD has the right to request information from a foreign depository which is required to be provided by Ukrainian laws.

If a foreign depository operates through its permanent establishment in Ukraine, it is required **to register with the tax authority** at the place where such permanent establishment is located.

Income payments may be paid directly to a foreign depository's clients. Ukrainian laws and regulations do not provide for the payment of securities income using a special cash account of the CSD directly to participants.

Securities income is paid net of taxes if the double taxation treaties signed by Ukraine do not provide for exemption or reduction from taxes where the source of income payment is in Ukraine. If the tax is withheld, the following tax rates are applied:

- for private individuals — dividends, interest income (including discount on corporate and municipal bonds); royalty are taxable at 15%; income on real estate transaction funds, certificates of deposit, etc. at 5%; other income received by non-resident private individuals without the use of a permanent establishment of the non-resident at 30%;
- for legal entities, the income repatriated is taxed at a flat rate of 15%;
- income received from discount bonds and treasury obligations is taxed at a rate of 25%; the tax laws provide

that, for the purpose of tax control, such transactions are to be effected only through the non-resident's permanent establishment; the discount and interest income received from government securities or foreign debt bonds are not subject to tax;

Ukraine is a party to **double taxation treaties** with 75 countries, which means that when taxes are withheld at the source of payment, it is possible to receive documents which will make it possible to claim a credit for the taxes paid in the country of source of income. Non-residents are required to provide the following documents for the avoidance of double taxation: a certificate of residency in another country with which Ukraine has signed a double taxation treaty; other documents provided in the treaty; application claiming refund of the tax amount having its source of origin in Ukraine which are to be submitted to the territorial division of the tax authority at the location of the entity which has paid income to the non-resident investor.



The Association of Eurasian Central Securities Depositories (AECSD) unites the Central Securities Depositories of the CIS countries. The Association's mission is to develop and enhance depository operations, create a common depository "environment", and integrate the CSDs of the CIS countries into the global securities settlement system.

The AECSD was established on 22 December 2004 in Moscow, Russia. The Association carries out activities and is managed in accordance with the AECSD Resolution.

The start of the AECSD activities was in 2001, when its members gathered in Tashkent for the first international seminar, "Integration of Depository Systems as the Basis for Efficient Interaction on International Securities Markets". At the event, the securities industry members were able for the first time to discuss freely the matters relating to the interaction among the CSDs of the Commonwealth of Independent States (CIS). Later on, such seminars were held on an annual basis.



Association's Objectives

- harmonization of the regulatory framework;
- development of an optimal model for the recordkeeping system to be used in the securities market of the member countries;
- establishment of depository links among the members to support cross-border securities transactions;
- standardization of the technologies for the depository operation, procedures for depository transaction processing, and rules and regulations governing the depositories' activities;
- adoption of international messaging standards for depository transactions and their use in the national practice;
- development of Electronic Document Interchange;
- development of harmonized standards for depository recordkeeping and reporting;
- supporting a coordinated process to enable the Association members to integrate into the global depository system.

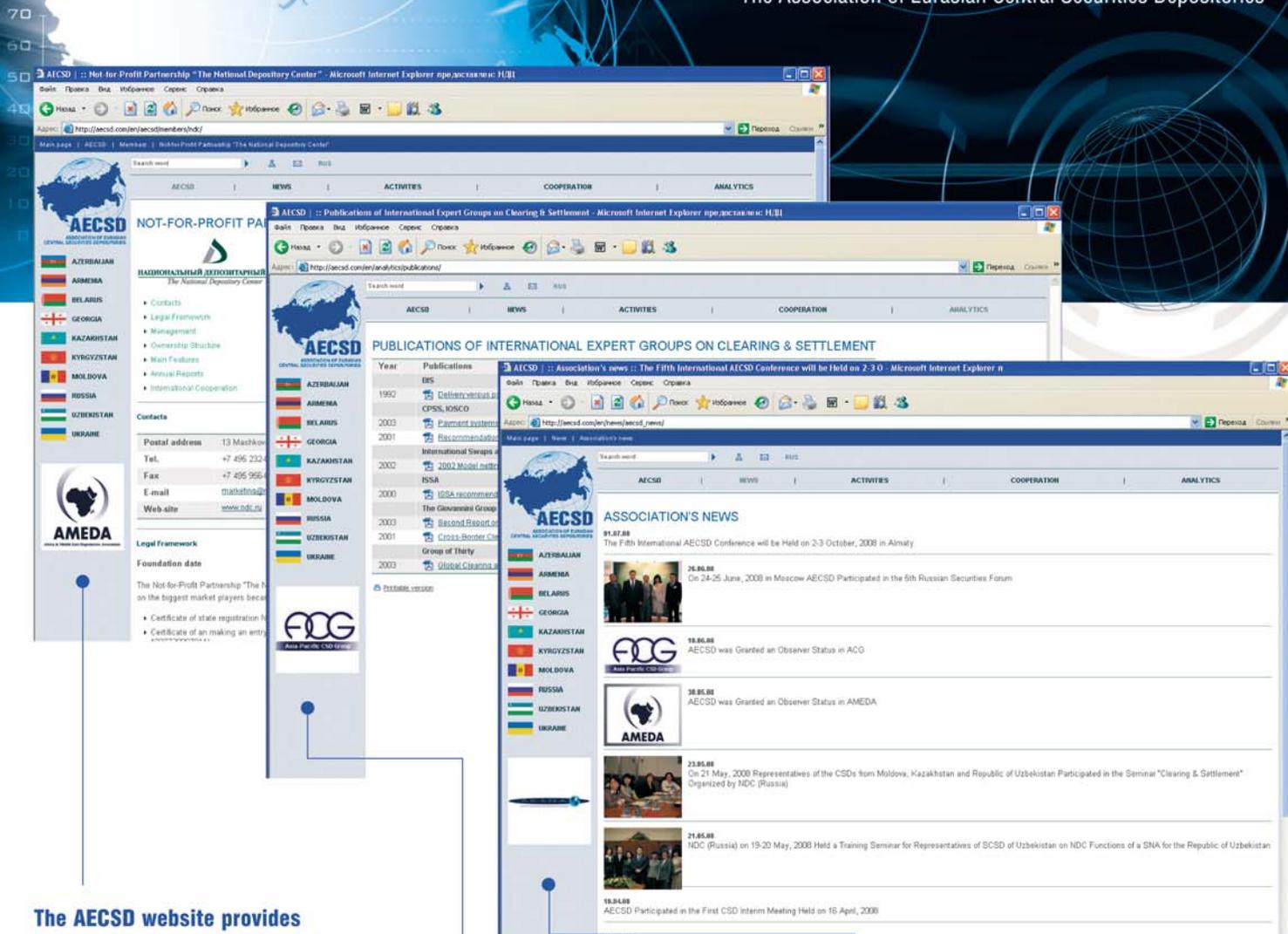
AECSD Members

- ZAO «The National Depository Center» (the Azerbaijan Republic)
- Central Depository of Armenia
- Republican unitary entity «Republican Central Securities Depository» (Republic of Belarus)
- Georgian Central Securities Depository
- Joint-stock company «Central Securities Depository» (Republic of Kazakhstan)
- Closed joint-stock company «Central Depository» (Kyrgyz Republic)
- National Securities Depository of Republic of Moldova
- Closed Joint-stock Company «Depository Clearing Company» (Russian Federation)
- Not-for-Profit Partnership «The National Depository Center» (Russian Federation)
- The State Central Securities Depository of the Republic of Uzbekistan
- OJSC «The National Depository of Ukraine»
- Open joint-stock company «Interregional Stock Union»

AECSD

www.aecsd.com

The Association of Eurasian Central Securities Depositories



The AECSD website provides information about depositories — AECSD members:

- Main functions;
- Legal framework;
- Management;
- Operational highlights;
- Ownership structure, etc.

Has a special page «Analytics» with:

- Legislation of AECSD members;
- Publications of International Expert Groups on Clearing & Settlement

The Association's news and news of the Association's members are published on the website.

It also has information about AECSD Working Groups, including the membership and reports. The Working Group on Depository Links has prepared report «Correspondent accounts of non-residents in depositories of the Association of Eurasian Central Securities Depositories» which is also published on the website.

www.aecsd.com



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