Thomas Murray

Trends and Development in the Post-Trade Sector in Eurasia

Luis Carlos Niño

Russia – September 2013

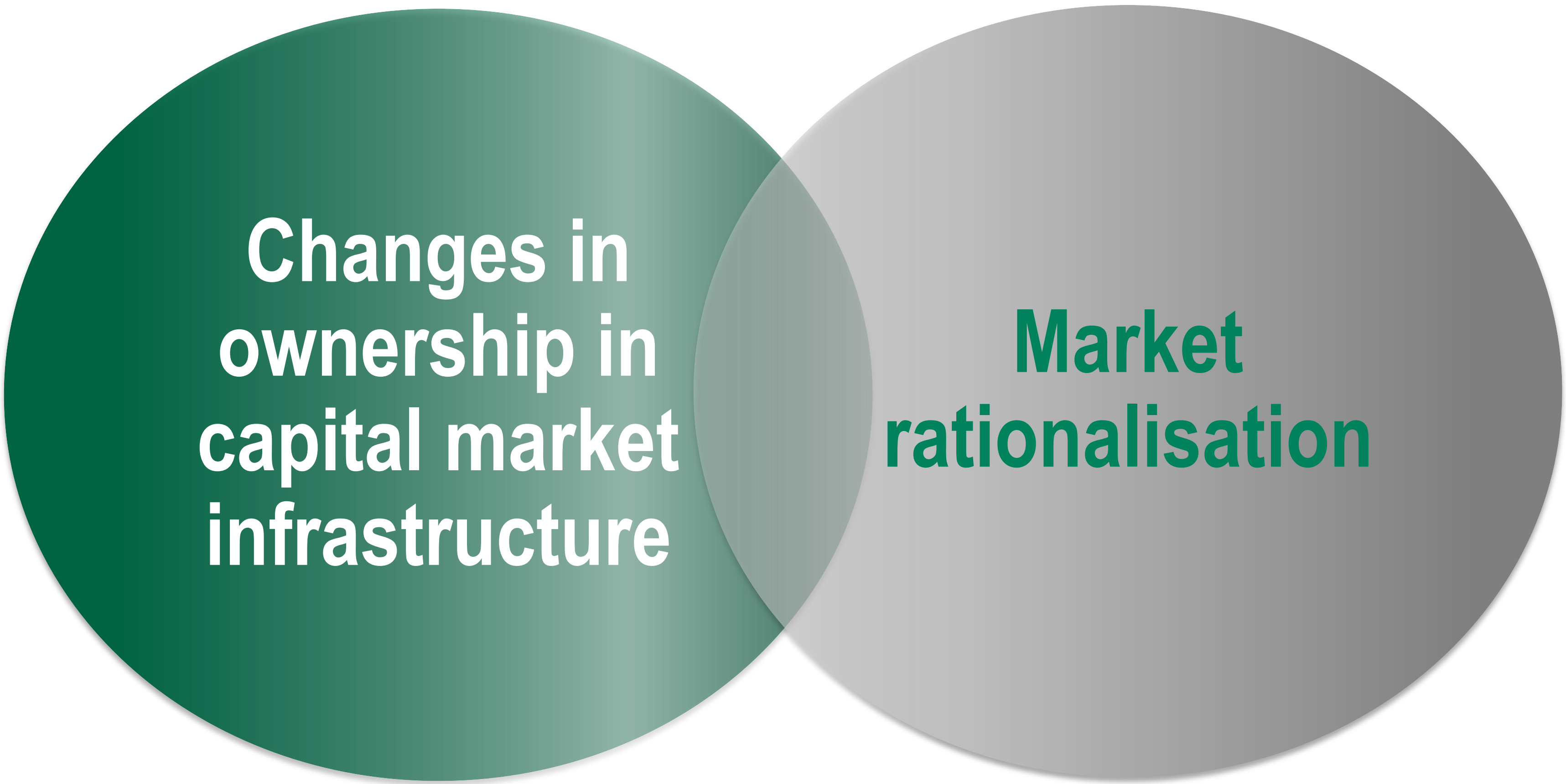
THOMAS MURRAY

Agenda

- Regional Trends - overview
  - Changes in ownership
  - Market rationalisation
- Global regulatory changes
  - General overview
  - CPSS – IOSCO Principles
  - Key differences with Thomas Murray's Risks

I. Regional Trends

Overlapping areas of change



Change in ownership

Russia

- In 2011 the Russian Federation controlled 40% of the voting rights in the Moscow Exchange. According to interim 2013 accounts, the state currently controls more than 50% of the voting rights.
- The Bank of Russia (BoR) increased its stake at the exchange from 21.6% in 2011 to 24.33% in 2012. However in April this year it sold 2% and now it holds 22.4% of the Moscow Exchange.

Ukraine

- Parliament issues new bill creating new CSD on the back of existing NDU. The National Bank of Ukraine (NBU) will hold 50% of the CSD.
- The NBU will hold a stake of 75% of the new CCP – the old AUSD
- NBU's shares of the CSD and CCP to be reduced to 25% each by 2017.

Kazakhstan

- The National Bank of the Republic of Kazakhstan acquired an additional 5.2% of KACD. Ownership as of April 2013 is now 54.9%.

Kazakhstan - registrar

- The NBK created the Integrated Securities Registrar of Kazakhstan (TSIR) in January 2013. The objective is for TSIR to be the only organisation in the country allowed to conduct all registration / re-registration activities for securities ownership.

Russia - registrar

- In 2002 there were more than 80 registrars operating in Russia. Currently, 40 operate in the country. This is a more paced market-driven rationalisation of registrars.

Ukraine - single CSD

- Over a relatively short period of time Ukraine merged two CSDs into one. In July 2012, the Ukrainian parliament adopted the Law on the depository system, which provides the legal basis for NDU.
- The central bank's CSD continues to operate as normal.
- The move was aimed at harmonising the post-trade sector in the country with global standards.
- NDU will be fully operational from October 2013.
- Looking ahead, the idea is to have only one CSD.

Russia - CSD

- NSD is the single CSD in the Russian market. It was granted the CSD status by the FFMS on 6 November 2012 following the adoption of the CSD Law in 2011.
- The CSD became fully functional in April 2013.
- NSD acquired 99% of Depository Clearing Company (DCC).

Other developments

Azerbaijan - ISIN

- In late 2012 National Depository Centre (NDC) completed the numbering process of all the securities issued in Azerbaijan according to the international numbering standard International Securities Identification Number (ISIN).

Kazakhstan – added value services

- KACD launched its payment agent's services on 1 April 2013. The service, which was a response to domestic interest, is available on securities in the nominal holding of KACD.

Kyrgyzstan – launch of new products

- CD announced the issue of Housing Certificates in Kyrgyzstan in April 2013. This is part of the housing market development strategy.

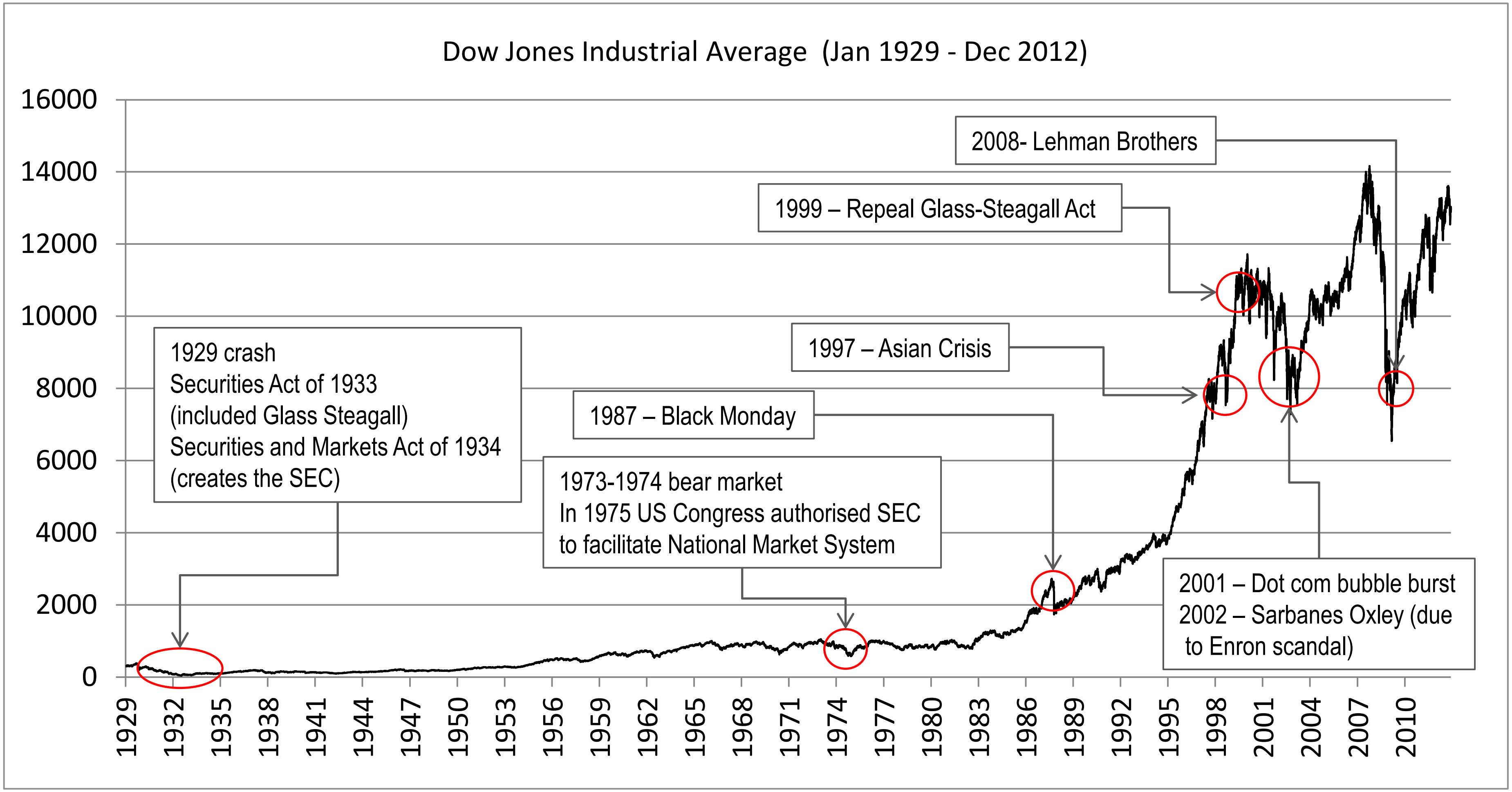
Russia – Collateral management

- In April 2013 NSD launched a new service related to the Bank of Russia's off-exchange tri-party repo transactions with a basket of securities with collateral management, clearing and settlements.
- The transactions are conducted for participants who have concluded with the Bank of Russia general agreements on repo transactions in Russia's OTC market.
- In respect of repo transactions, NSD is responsible for the selection of collateral and collateral management.
- NSD is also operating as a 'trade repository' maintaining the register of OTC contracts concluded following the terms of the general agreement (integrated agreement), repo and currency swap contracts since 6 February 2013.

II. Global Regulatory Changes

Global Regulatory Changes - context

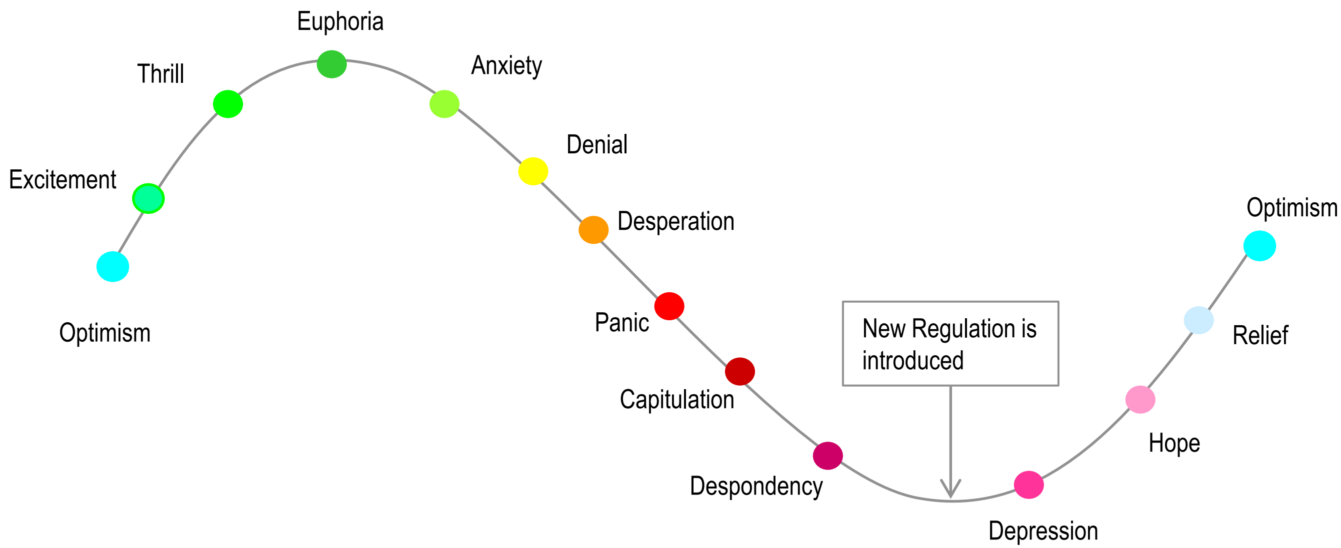
Regulation is an institutional response to shocks



Global Regulatory Changes - context

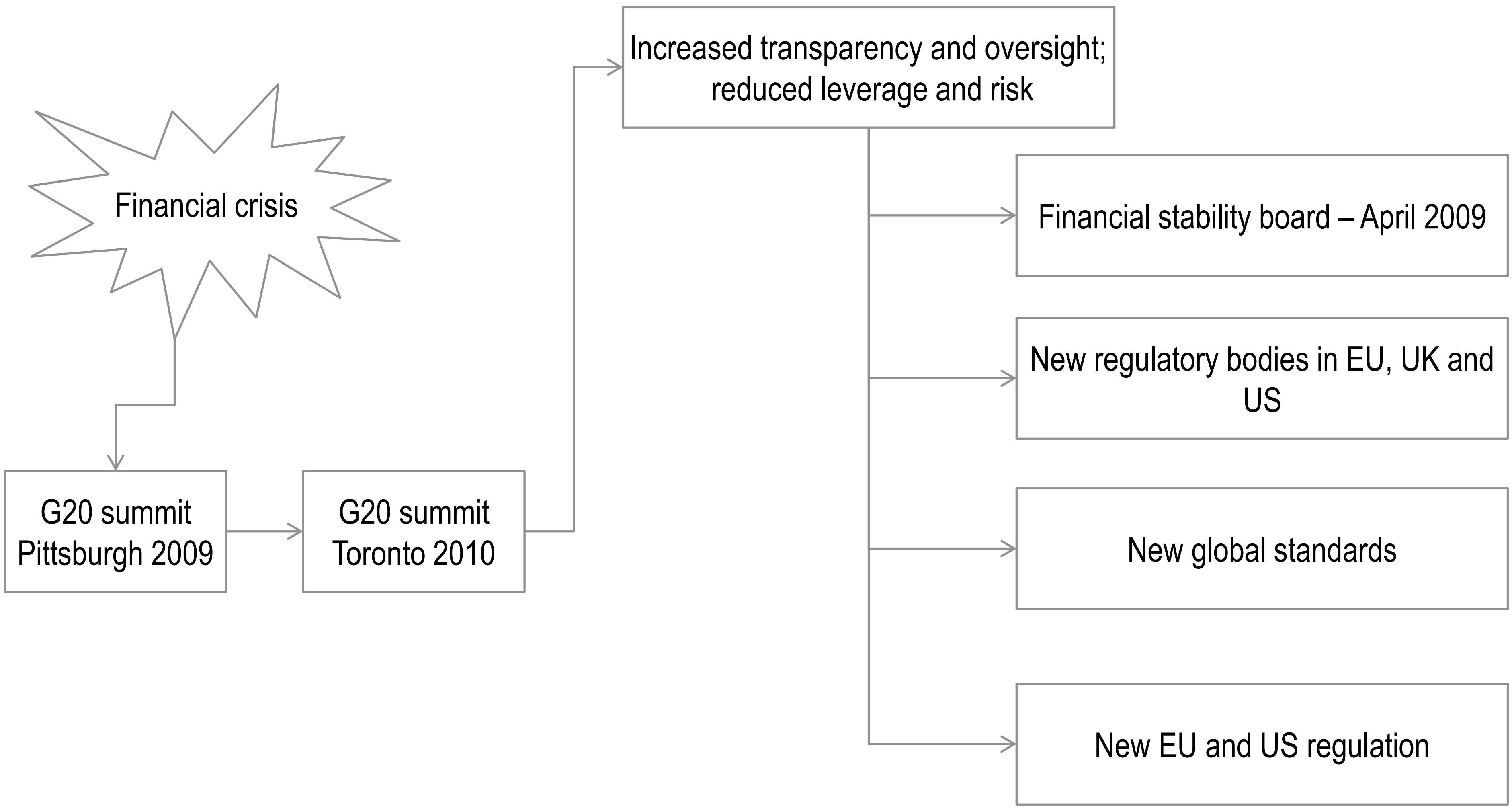
Regulation seems to be the outcome of a highly emotional process…

- Financial shocks trigger emotions (fear and anger);
- The media contributes to strong public sentiment;
- Politicians respond to public outrage;
- Regulation is passed.



Global Regulatory Changes - context

A Global Response…



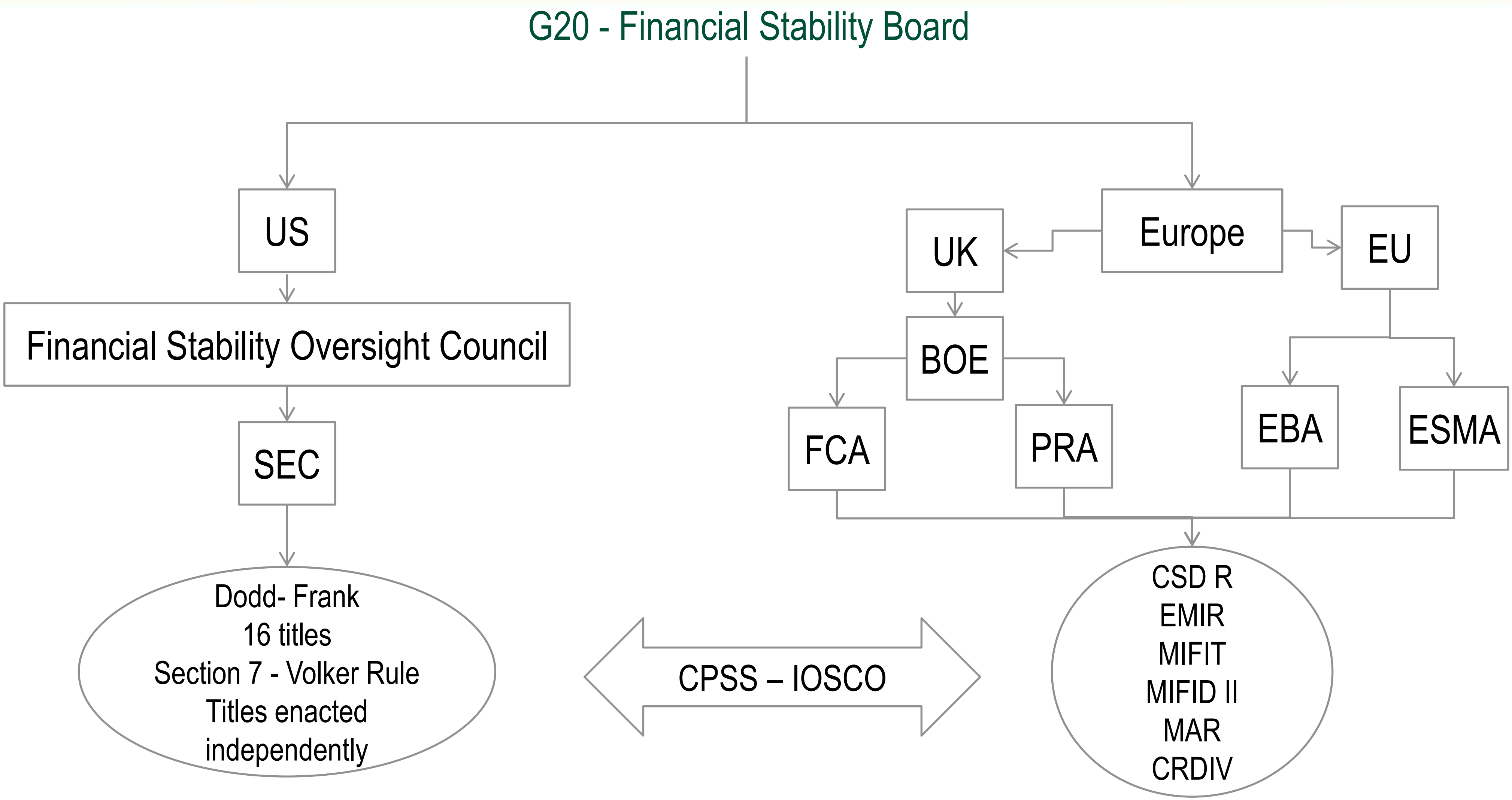
THOMAS MURRAY

Global Regulatory Changes - context

The regulatory maze

- Principles-based approach vs. rules-base approach?
- Conflict of legislation (different type of laws)
- Multiple authors with multiple agendas (Dodd-Frank)
- Different legislative processes and timetables (EU vs. US)
- Misapplication of concepts
- Additional problems that might stem from over regulation
    - OTC clearing – huge amounts of collateral
    - BASEL III – limitation on capital
    - Limited cross-market surveillance due to regulator's lack of knowledge and resources.

Mapping of regulation



THOMAS MURRAY

CPSS-IOSCO vs TM Ratings

Principle	Asset Commitment	Liquidity	Counter party	Asset Servicing	Financial	Operatio nal	Asset Safety	Governance & Transparency	General Details
Principle 1: Legal Basis									✓
Principle 2: Governance								✓	
Principle 3: Framework for the comprehensive management of risks						✓	✓		
Principle 4: Credit Risk			✓						
Principle 5: Collateral			✓						
Principle 6: Margin			✓						
Principle 7: Liquidity Risk		✓							
Principle 8: Settlement Finality	✓								
Principle 9: Money Settlement			✓						
Principle 10: Physical Deliveries						✓			
Principle 11: Central Securities Depositories						✓	✓		
Principle 12: Exchange-of-value Settlement Systems			✓						

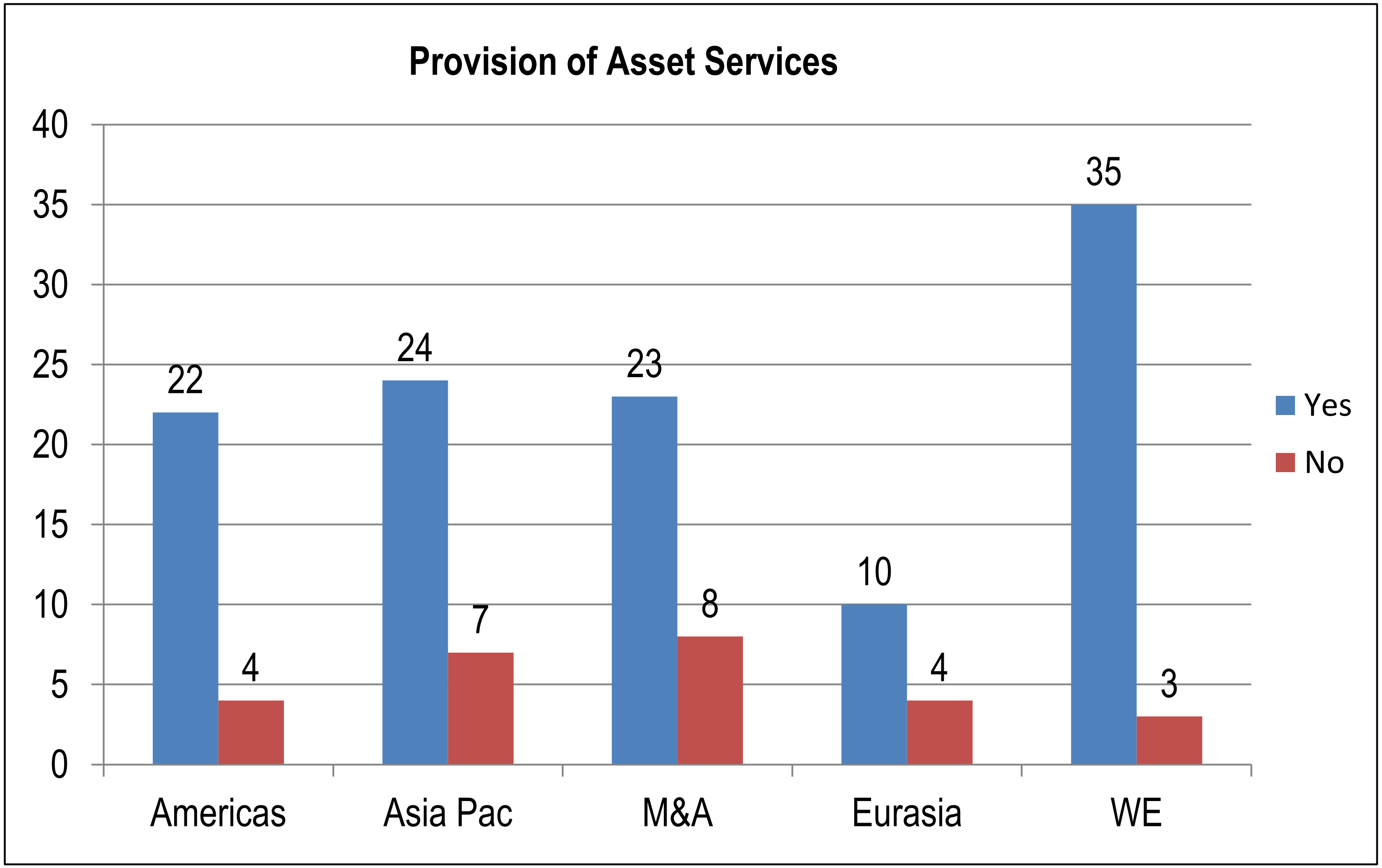
CPSS-IOSCO vs TM Ratings

Principle	Asset Commitment	Liquidity	Counter party	Asset Servicing	Financial	Operati onal	Asset Safety	Governance & Transparency	CSD on CSD
Principle 13: Participant-default rules and procedures			✓						
Principle 14: Segregation and Portability							✓		
Principle 15: General Business Risk					✓				
Principle 16: Custody and Investment Risk					✓				
Principle 17: Operational Risk						✓			
Principle 18: Access and Participation Requirements			✓						
Principle 19: Tiered Participation Arrangements			✓						
Principle 20: FMI Links									✓
Principle 21: Efficiency and Effectiveness						✓			
Principle 22: Communication Procedures and Standards						✓			
Principle 23: Disclosure of rules and Key Procedures								✓	
Principle 24: Disclosure of Market Data									

Why is Asset Servicing Risk important?

- **Trend:** There is an increasing number of CSDs providing asset servicing and corporate actions-related services to participants.
- **Risk**: Asset servicing carries a high degree of risk given that it is a commercial activity. In many cases it can be provided in competition with custodians. It is also the area with the largest potential losses for a CSD.
- **TM weighting:** TM gives a high weighting to the overall risk score to asset servicing risk. In fact, it is the heaviest single weighted risk in our methodology.
- **Involvement of CSDs:** There is a varied degree of involvement in asset servicing ranging from simple interest payment distribution to complex corporate actions processing.

Why is Asset Servicing Risk important?



Disclosure framework and self-assessment methodology

- In December 2012 CPSS-IOSCO published a revised version of the disclosure framework and self-assessment methodology.
- There are 378 open-ended questions that financial market infrastructures are expected to complete.
- In August 2013 the implementation monitoring of PFMIs – Level 1 assessment report was published.
- FMIs that have engaged in this process have found it a laborious and expensive experience.
    - There is no clear guidelines on how FMIs are expected to answer these questions;
    - All key considerations and questions have the same weight (i.e. all items are equally important);
    - One size fits all approach.
- Thomas Murray is launching a cost-effective solution to support FMIs in this process.

Thank you!

Luis Carlos Niño - lnino@thomasmurray.com

AECSD
ASSOCIATION OF EURASIAN CENTRAL SECURITIES DEPOSITORIES