

Response to market challenges: MICEX Perspective

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MICEX Group — Best venue to discover Russia

MICEX Group

MICEX Group provides electronic trading, clearing, settlement, depository and informational services in all segments of the Russian financial market: equities, bonds, foreign exchange, derivatives, commodities, money market instruments

MICEX



- Trading: federal bonds, USD–RUB, EUR–RUB, EUR–USD, FX and interest rates futures
- Securities and derivatives clearing
- IT support of MICEX Group

National Mercantile Exchange



- The State commodity interventions in the grain market
- Trading: grain futures

National Clearing Centre



- FX clearing

MICEX–IT



- Soft- and hardware solutions
- Electronic trading floor for state purchases

NDC



- Safe custody and securities settlements

MICEX Stock Exchange



- Trading: cash equities, corporate and regional bonds, mutual funds, stock market derivatives
- Listing of securities

MICEX Settlement House



- Cash Settlements

Regional exchange centers and representative offices



Vladivostok



Yekaterinburg



N. Novgorod



Novosibirsk



Rostov-na-Donu



St.-Petersburg



Krasnodar



Krasnoyarsk



Samara

Key challenges

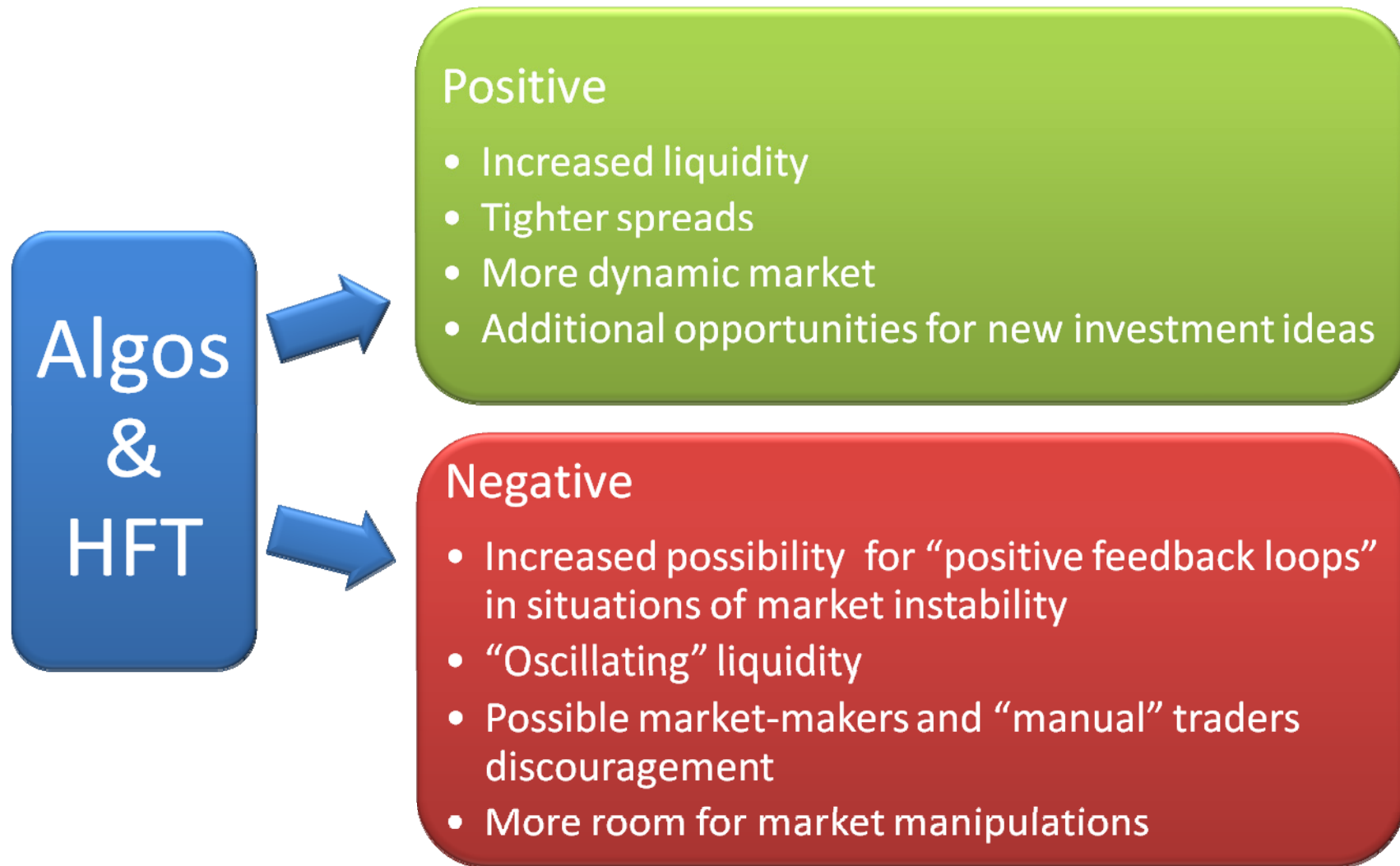
Algos & HFT

- Strict demands to market IT infrastructure
- Potentially destabilizing impact on markets

Clearing & Settlement

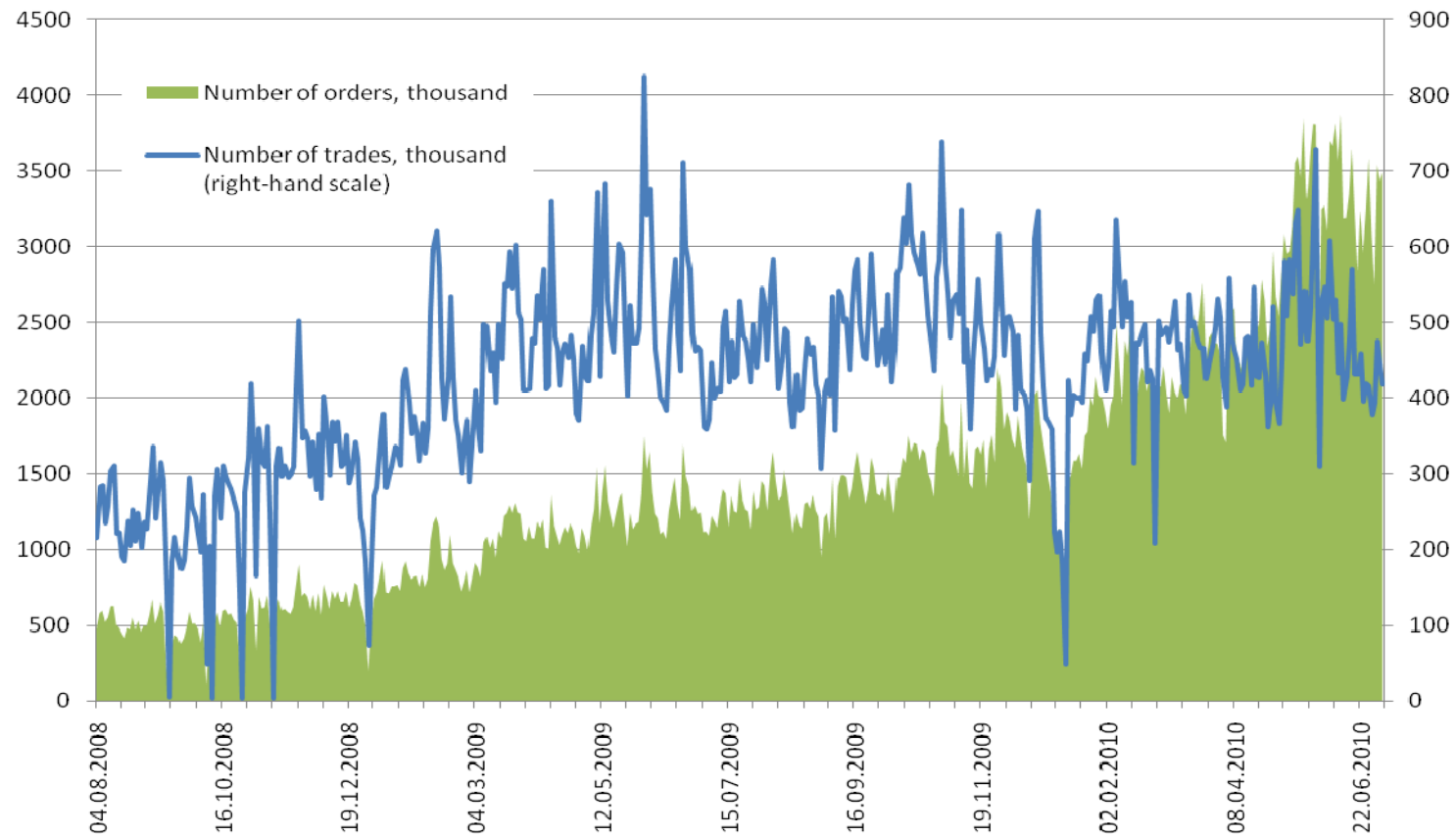
- Drive for cost-effectiveness
- Demand for effective risk management
- Drive for market integration

Algos & HFT impact on markets



MICEX market dynamics (stock market)

Numbers of orders and trades per day



Algos & HFT impact on IT infrastructure

Algos & HFT

Implications

- More orders
- More cancellations
- Higher orders-to-trade ratio
- More trades with less average trade size
- More market data

Impact on IT

- Higher throughput
- Lower latencies
- Faster connectivity
- Faster market data distribution
- Faster post-trade processing

MICEX Response to Algos & HFT

General attitude: encourage positive and curb negative impact

Short- and mid-term measures

- Trading platform migration to 64-bit environment
- Trading platform software optimization
- Collocation
- Enhanced connectivity
- Mandatory certification for Algo & HFT platforms
- Special monitoring of Algo & HFT traders
- Enhanced circuit-breakers
- Provisions for selective throttling and logoff in cases of market abuse

Long-term

- Migration to a new trading platform
- Algo & HFT support within new trading platform

Clearing and Settlement challenges

Current status

- Pre-order validation
- T+0 with full pre-payment most widely used
- T+n option with bilateral settlement
- SPAN for derivatives market
- Some CCP initiatives for FX and stock market implemented
- Separate clearing and settlement for separate markets
- Real-time risk-management integrated into trading platform

Market demands

- Partial pre-payment
- CCP
- Real-time position keeping and portfolio risk-management
- Consolidated clearing and settlement for all markets
- Stream-lining of the whole trading-clearing-settlement-depository services line

MICEX attitude to Clearing and Settlement development

Stick to pre-order validation and real-time risk-management

Retain T+0 and bilateral clearing as options

Gradually introduce CCP, partial pre-payment and portfolio risk-management on individual markets

Consolidate money and securities settlements

Gradually consolidate clearing, risk-management and settlements across markets

Clearing and Settlement development road-map

At present and short-term

- CCP with partial pre-payment initiatives steps
 - FX market. MICEX+ board on Stock market, CCP for REPOs on Stock market already implemented
 - Further CCP initiatives within present trading platform underway
- Real-time SPAN on Derivatives market
- New Settlement system
- New CSD system
- Settlement house and CSD consolidation

Mid- and long-term steps

- New Clearing system
- Clearing separation from trading
- Clearing consolidation

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