



# Settlement Infrastructure of the Russian Financial Market

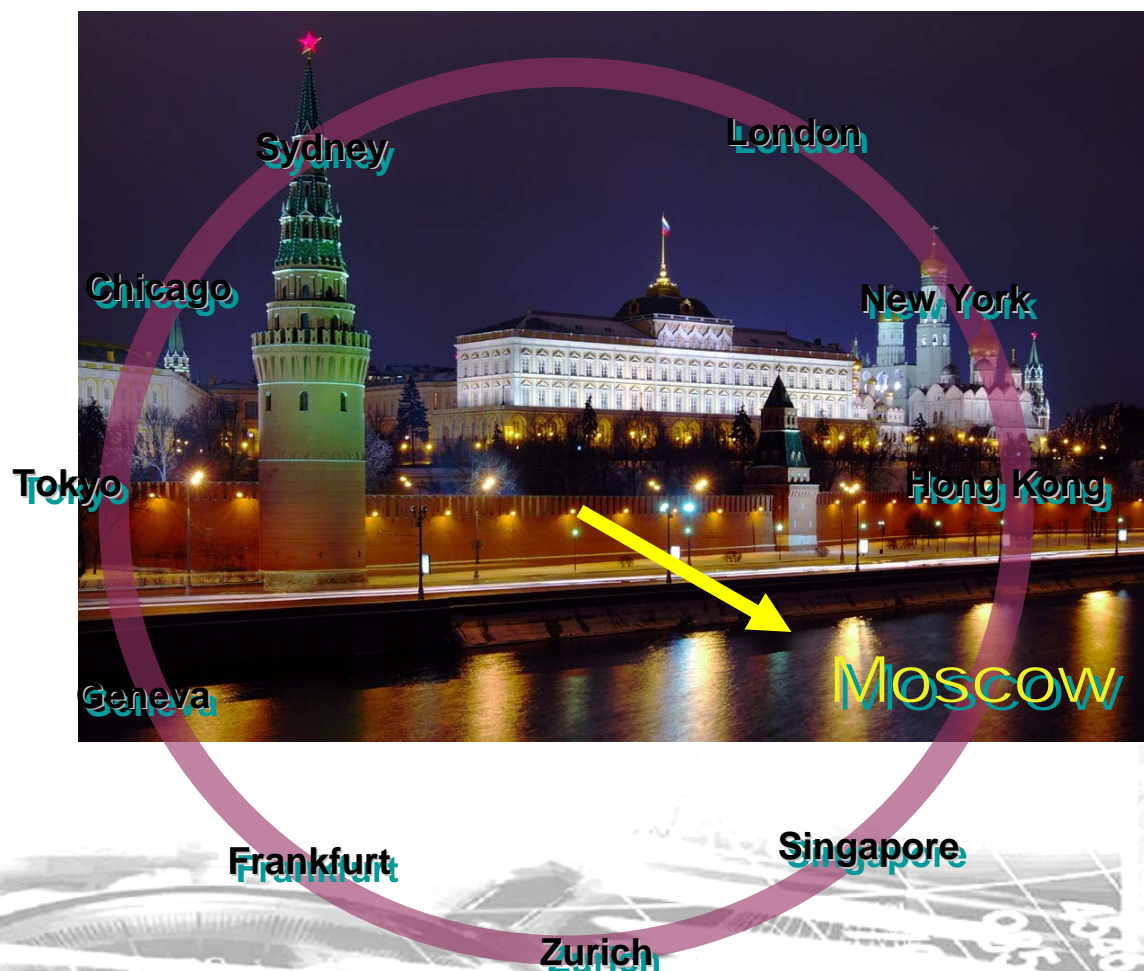
Presentation for SIBOS 2009,  
Hong Kong

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**MICEX Senior VP and Member of the  
Executive Board**

**NDC Director General**

# Moscow is recognized as an incipient global financial center



## Market access criteria

1/ The MICEX stock exchange is among the world's 20 largest stock exchanges

2/ Incipient global cities: Amsterdam, Boston, Chicago, Madrid, Milan, Moscow, Toronto.\*

3/ Moscow is a MAJOR GLOBAL BANKING SERVICE CENTRE \*\*

Moscow to be in top 10 of worldwide financial centers by 2020\*\*\*

(\*) [Global Accountancy Service Centres. GaWC Research](#)

(\*\*) Globalization and World Cities Study Group and Network, 1999,

(\*\*\*) Source: NAUFOR, FFMS of Russia, Strategy for the stock market developments, 2008

# General competitiveness

## Almost 100% securities exist in a dematerialized form

- 5 stock exchanges
- 5 settlement depositories
- 57 registrars
- 13 clearing organizations
- 648,000 investors
- 1450 brokers
- 1460 dealers
- 493 custodians

- Regulator – Federal Financial Markets Service (FFMS of Russia)
- Applicable legislation
  - Federal Law No. 39-Fz Of April 22, 1996 On The Securities Market
  - FCSM Regulation on Depository Activities in the Russian Federation No. 36 of October 16, 1997

Information: June 2009

# Market access: strategy of developments

- Ensuring effectiveness of market participants relationships
- Cutting time of settlements with securities to (T+0) – (T+3) on account of electronic document interchange
- Lowering risks by introducing CSD
- Increasing effectiveness of information disclosure concerning shareholders and corporate actions
- Broadening links with international infrastructure
- Implementing new DVP models, securities lending and borrowing

# Introduction to the MICEX Group

- The MICEX Group offers trade and settlement services on the following markets:
  - currency market (since 1992)
  - federal bonds market (since 1993)
  - market of derivative financial instruments (since 1996)
  - equities market (since 1997)
  - market of corporate and regional bonds (since 1999)
- Operates under the licenses of:
  - Central Bank of Russian Federation (currency market)
  - Federal Service for the Financial Markets (securities market)
  - Ministry of the Antimonopoly Policy (derivative market)



# MICEX: leader among exchanges of the CIS and CEE

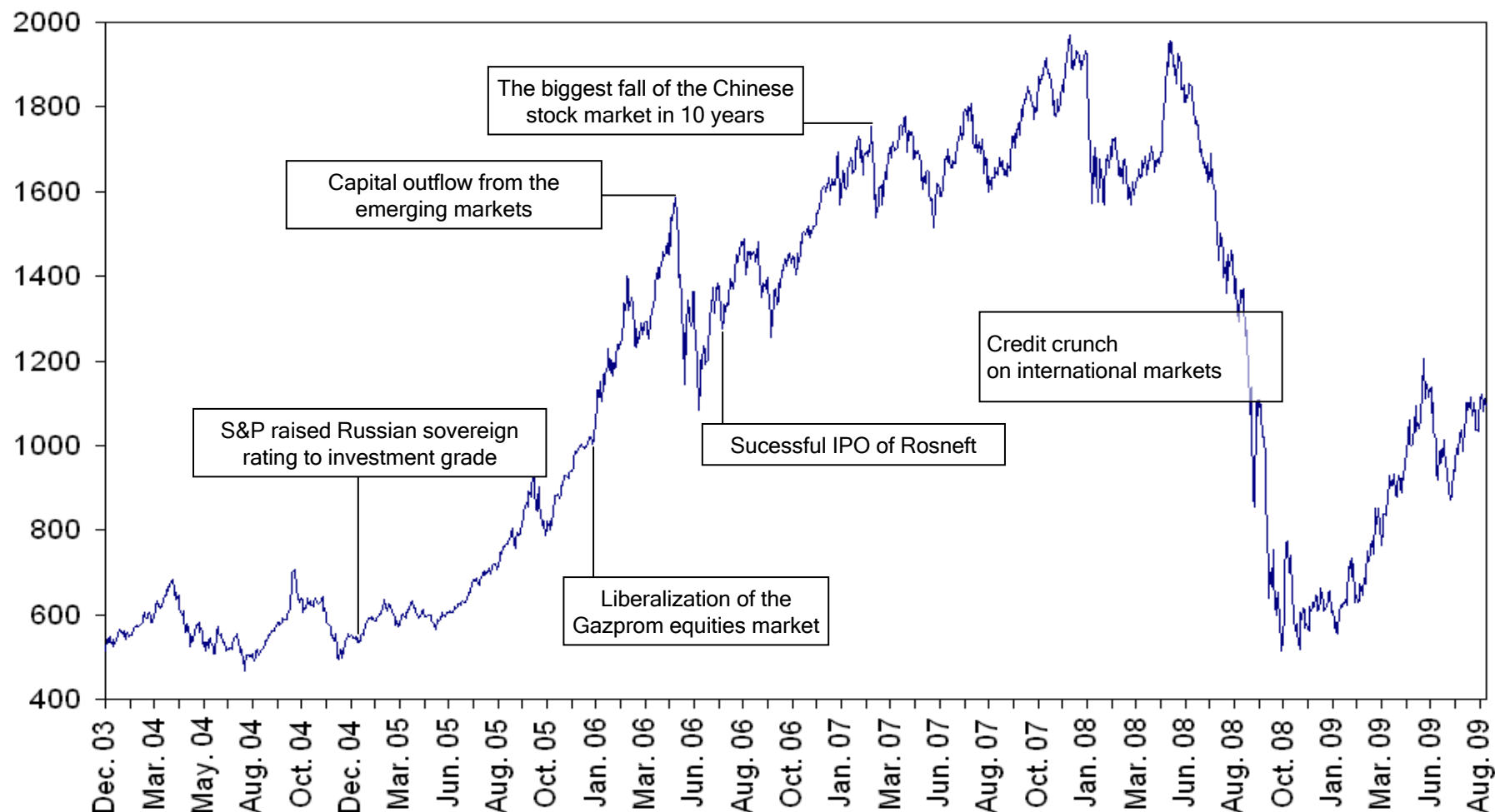
- The capitalization of the Russian stock market is 43.1 % of Russia's GDP in 2008 or 569.3 bln USD (as of September 1, 2009)
- The volume of trading in the Russian stock market is over 60% of the stock market of the countries of the CIS, Central and Eastern Europe combined
- The MICEX SE is among the world's 20 largest stock exchanges

The daily average volume of trading on the equities market in Jan-July 2009 and the number of issuers

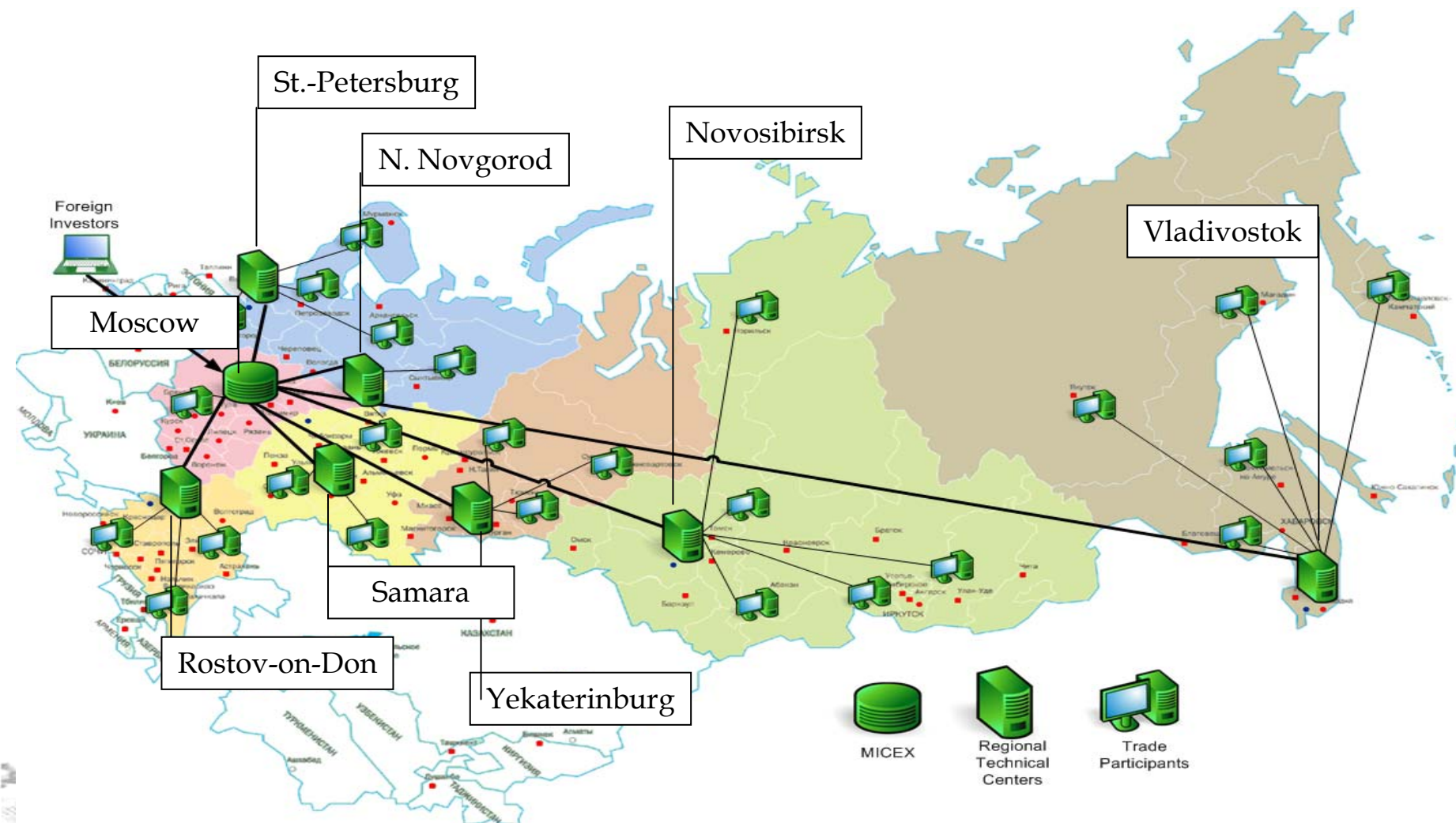
|                        | Turnover,<br>USD bln | Number of<br>issuers |
|------------------------|----------------------|----------------------|
| NASDAQ                 | 121.2                | 2,602                |
| NYSE Euronext (US)     | 77.1                 | 2,658                |
| Shanghai SE            | 20.1                 | 866                  |
| Tokyo SE               | 16.5                 | 2,338                |
| London SE              | 14.8                 | 2,266                |
| Deutsche Börse         | 10.1                 | 724                  |
| NYSE Euronext (Europe) | 6.4                  | 997*                 |
| Hong Kong Ex&Cl        | 5.9                  | 1,268                |
| MICEX SE               | 1.6                  | 232                  |
| Singapore Ex           | 0.9                  | 456                  |
| Warsaw SE              | 0.2                  | 453                  |
| Wiener Börse           | 0.2                  | 98                   |

\*Jan-June

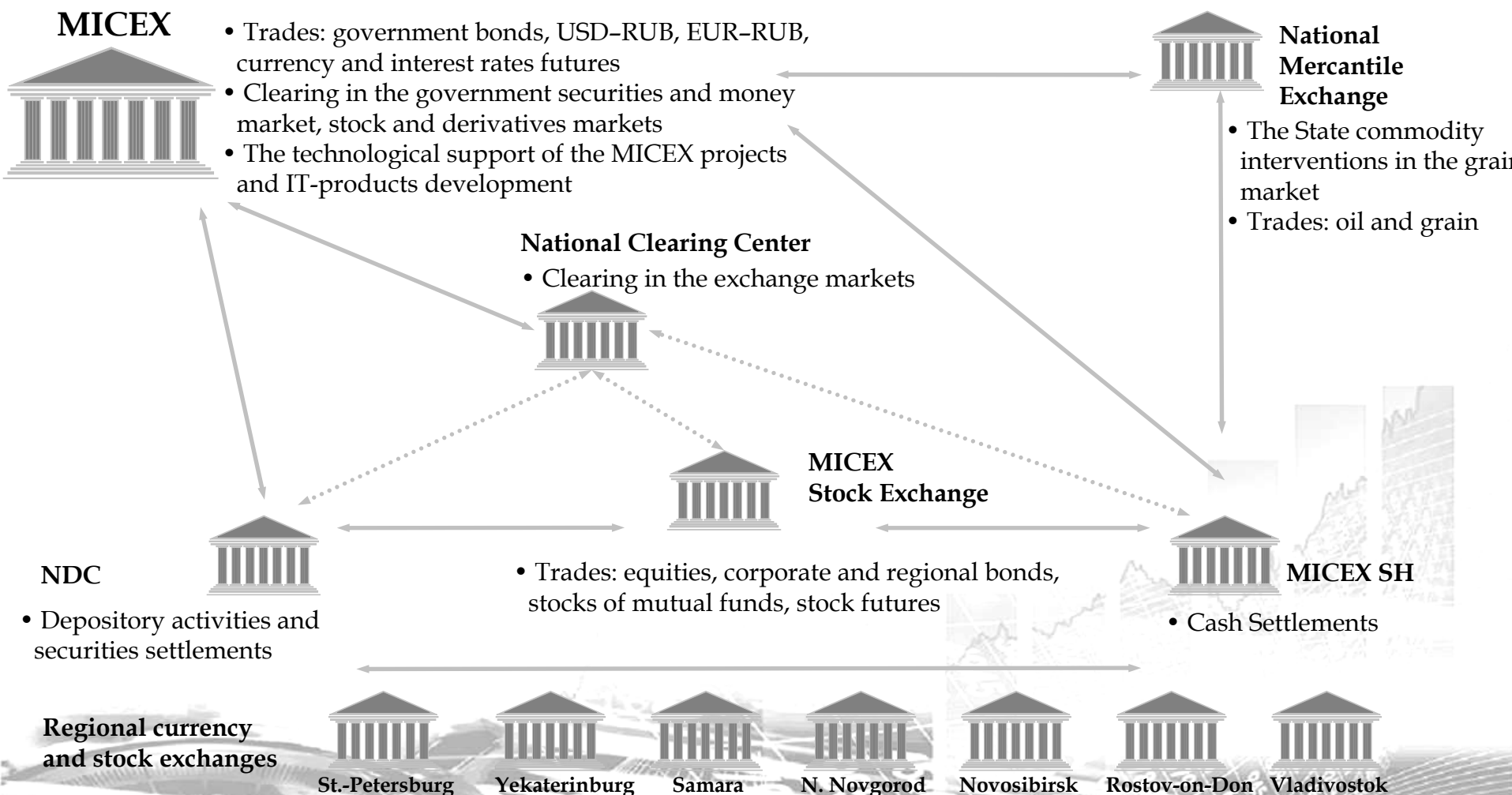
# MICEX SE: the MICEX Index dynamics



# MICEX Group: the national financial infrastructure



# MICEX Group: structure



### **Government bonds**

NDC – de-facto CSD;  
Trading only on MICEX;  
Settlement:

Main Trading Mode – T+0

Negotiated Deal Mode (NDM) – T+0-T+2

REPO first leg T+0-T+2, second leg T+0-T+180

Payment agent – Bank of Russia  
all trades are settled on DVP basis

### **Corporate & Regional Bonds**

NDC – de-facto CSD;

Currency – Russian rubles;

Issued in dematerialised form  
with global certificates;

Placement: auctions on exchanges;

Settlement – Main Trading Mode T+0, DVP

NDM T+0-T+30 DVP basis

REPO first leg T+0-T+2, second leg T+0-T+180

NDC as a paying agent in

29% of all transactions

### **Equities**

No CSD;

Book-entry form;

Exchange trades (on MICEX, RTS) – same as bonds;

OTC: re-registration vs. settlement

depository/custodian

Trade settled through registrar –

T+3 – T+7 cycle

Trade settled via settlement depository/custodian

T+0 (if both counterparts have accounts

within one settlement depository/custodian

– no re-registration

at registrar required)

depends on depository

## Settlements within the MICEX Group

- Securities are held with and settled through the NDC
- Cash is deposited with and settled through the MICEX SH
- DVP settlement using accounts with NDC and MICEX SH for almost 100% of on-exchange trades
- No credit risks on NDC and MICEX SH
- Need to fulfill certain legal requirements on currency regulation
- On-exchange trades
  - 100% pre-depositing of cash and securities assets
  - T+0 (same day) exchange trade settlements
  - Settlement currency is Russian ruble for most of trades
  - Need to carry out everyday procedure of transferring assets from current to trading accounts - if they are not allocated yet
- For OTC trades FOP settlement in ruble and foreign currency and DVP OTC REPOs collateralized by corporate Eurobonds.

## “The National Depository Center” (Closed Joint Stock Company)

- Member of the MICEX Group
- The biggest Russian settlement depository servicing all types of debt and equity securities (government securities, shares, corporate bonds, federal bonds and munies, ETF and eurobonds)
- NDC provides DVP settlement services for both primary and secondary markets and FOP/DVP settlement for OTC trades
- Settlement depository of three Russian stock exchanges
- National Numbering Agency for Russia, Substitute Numbering Agency for CIS

# NDC: international and domestic co-operation



National Association of Securities Market Participants  
[www.naufor.org](http://www.naufor.org)



National Securities Market Association  
[www.nfa.ru](http://www.nfa.ru)



The Association of Eurasian Central Securities Depositories  
[www.aecsd.com](http://www.aecsd.com)



European Central Securities Depositories Association,  
[www.ecsda.com](http://www.ecsda.com)



Russian National Organization S.W.I.F.T.  
[www.swift.ru](http://www.swift.ru)



Association of National Numbering Agencies  
[www.anna-web.com](http://www.anna-web.com)

# NDC's corporate governance

## General Meeting of the NDC

### Broadening NDC shareholding

- Central Bank of the Russian Federation (Bank of Russia)
- Moscow Interbank Currency Exchange (MICEX)
- JP Morgan Bank International LLC
- ING Bank (Eurasia) ZAO
- Deutsche Bank
- Bank of Moscow
- Vneshekonombank
- Sberbank
- ZAO UniCredit Bank
- JSC VTB Bank (Vneshtorgbank)
- JSC Rossiyskiy Kredit Bank
- Evrofinance Mosnarbank
- ROSBANK (OJSC JSCB)
- GPB OJSC (Gazprombank)

## Board of Directors

12 places: 3 for MICEX,  
7 for market participants  
2 independent directors

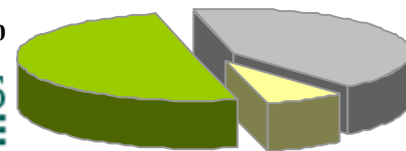
- Depository Committee
- Technical Committee
- Budget Committee
- Risk Management Committee
- Committee on Innovations and Products

## Voting rights' breakdown

50.16%



42.3%



Other Partners

7.54%

# NDC recognition

Overall, the Thomas Murray CSD Public Rating for NDC is:

AA- = very low risk

This Rating is for NDC settlement, safekeeping and asset servicing operations

| Public CSD<br>Rating | Public CSD Rating |                       |                |                   |                |                  |                      |
|----------------------|-------------------|-----------------------|----------------|-------------------|----------------|------------------|----------------------|
|                      | Overall Rating    | Asset Commitment Risk | Liquidity Risk | Counterparty Risk | Financial Risk | Operational Risk | Asset Servicing Risk |
| NDC Rating:          | AA-               | A+                    | A+             | A+                | AA             | AA-              | AA-                  |

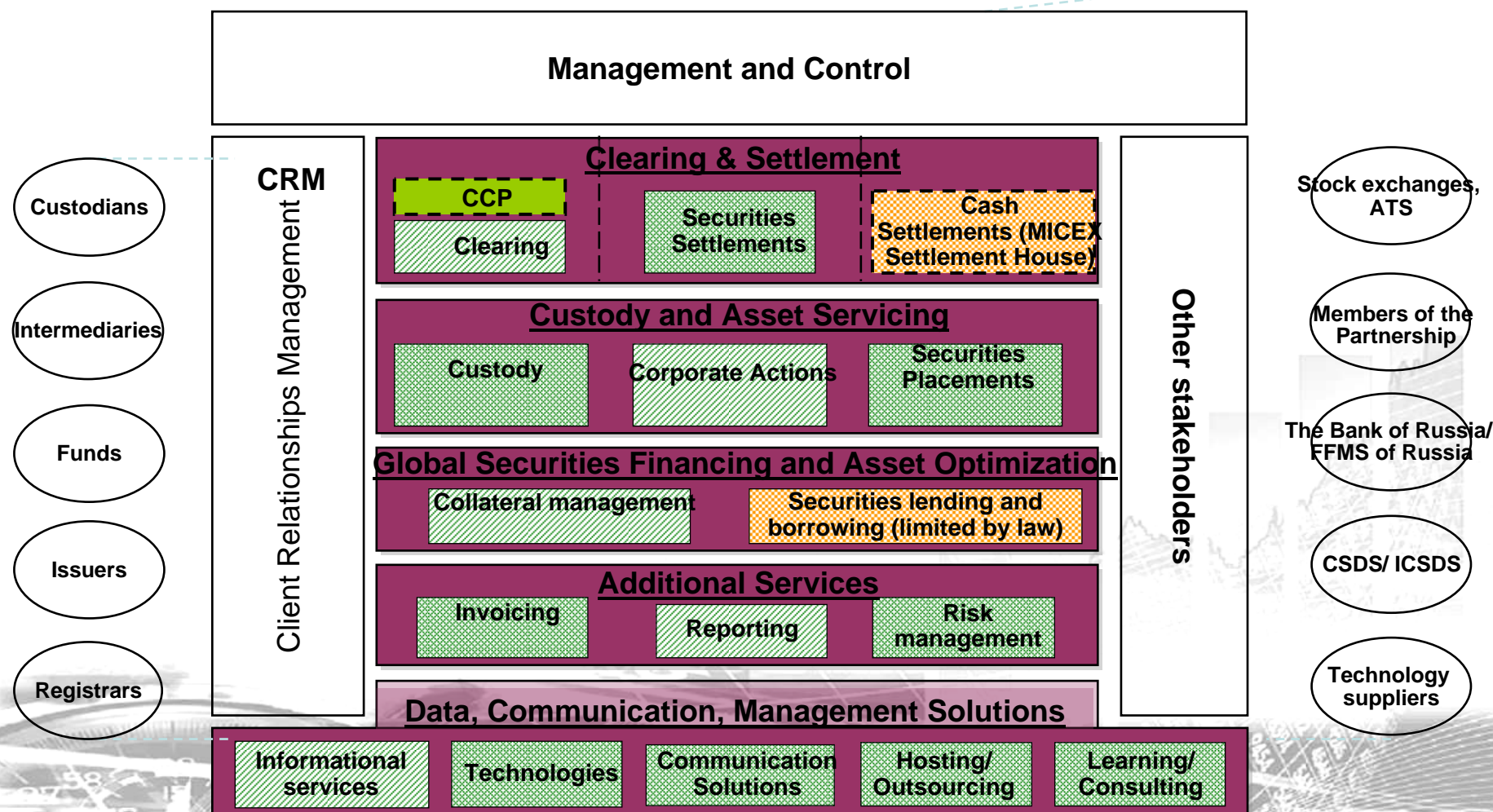
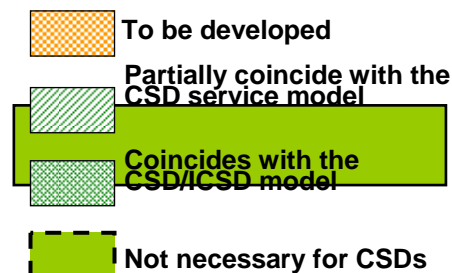
The outlook for the rating is: **Stable**

## NDC performance highlights for 2008 (vs 2007)

*According to the database PARTAD as for I Q 2009 NDC is the largest Russian depository handling 82% of all securities on deposit among 3 settlement depositories in Russia.*

- **Value of securities held in NDC:** RUB 4.13 trillion (-4.1%)
- **Number of issues held:** 2759 (+14.8%)
- **Number of inventory operations:** 2,538 mln (+2%)
- **Turnover:** RUB 61 trillion (+1%)
- **Capital and retained earnings for 2008 (RAS):** RUB 1.74 bln. (+29%).
- **Net Income for 2008 (RAS):** RUB 392 mln. (+ 2.1%)

# The NDC service model



# NDC Meets Rule 17f-7 Criteria

- A system for the central handling of securities
- Regulated by a financial regulatory authority
- Equal terms for all participants
- Identifies and segregates participant assets, from the NDC' own assets
- Issues periodic reports to participants
- Periodic examination by a regulator or independent accountant

# NDC: international settlement facility

## Links

| Correspondent accounts   | Cooperation (MoU)  |
|--|--|
| <ul style="list-style-type: none"> <li>• Clearstream Banking S.A.</li> <li>• Euroclear Bank S.A./N.V.</li> <li>• CSD of the Republic of Kazakhstan</li> <li>• NDC of the Republic of Azerbaijan</li> <li>• CSD of the Republic of Belarus</li> </ul> | <ul style="list-style-type: none"> <li>• State Central Securities Depository of Republic Uzbekistan</li> <li>• Euroclear</li> <li>• NDC of the Republic of Azerbaijan</li> <li>• CSD of the Republic of Belarus</li> <li>• NSDL (Republic of India)</li> <li>• CDSL (Republic of India)</li> </ul> |

- NDC acts as the Russian NNA, SNA for the CIS countries
- NDC as NNA and an ANNA participant helps intermediaries to interact with foreign NNAs in the course of qualification of foreign issuers' financial instruments as securities

# Strategy: development perspectives

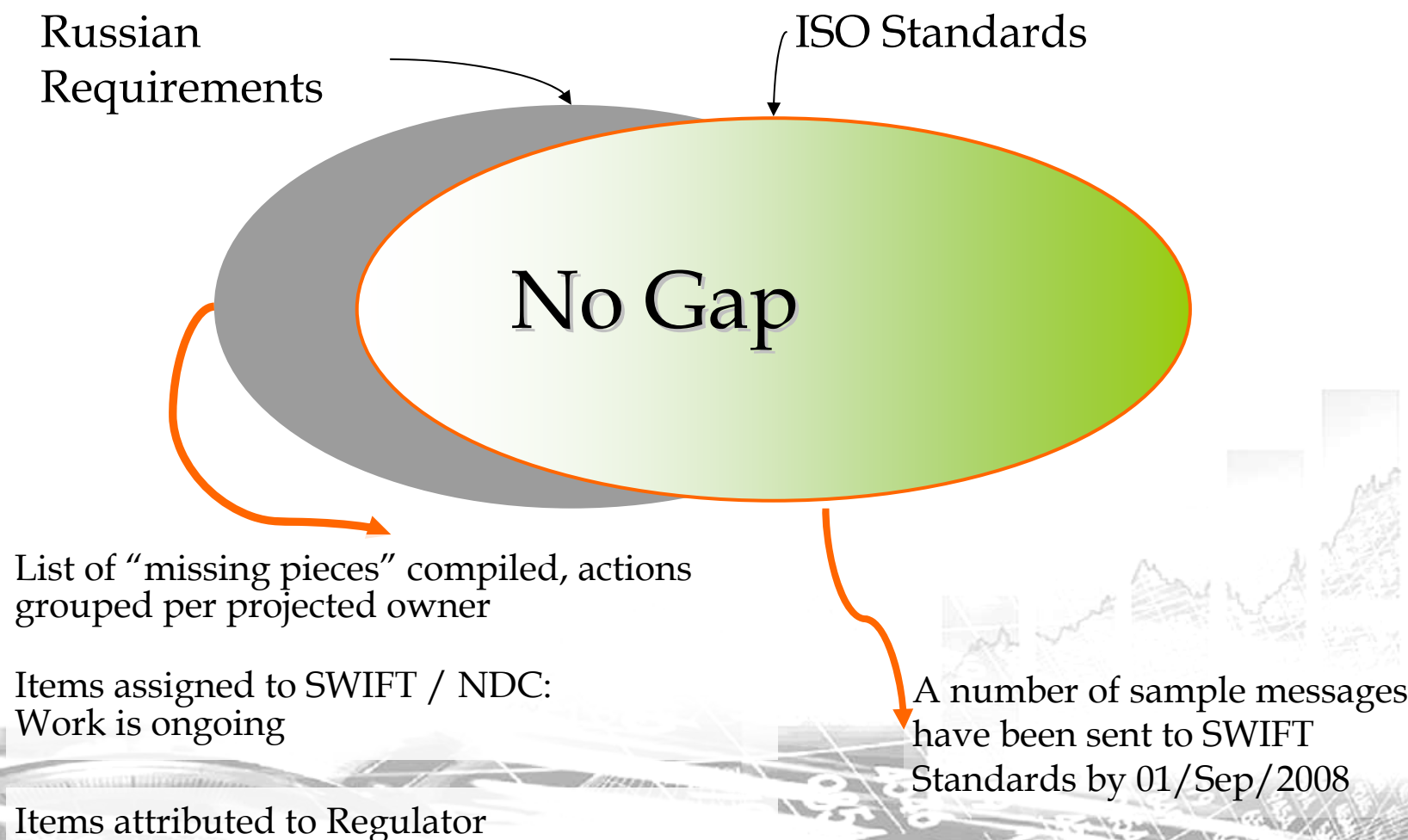
- **NDC's Reorganization into a Joint Stock Company**
- **Development of Services**
  - ◆ Starting 15 June 2009 NDC and MICEX Settlement House (MICEX SH) began offering a new service to settle transactions on a Delivery Versus Payment (DVP) basis using NDC and MICEX SH accounts with Euroclear Bank.
  - ◆ Implementation by NDC of the securities lending and borrowing program in order to enhance the settlement efficiency of the market participants;
  - ◆ Expanded use of ISO formats in particular with regard to the conduct of corporate actions.
- **Modernization of Technological Platform**
  - ◆ In 2009 the company will finalize the implementation of the new software technology created under NDC's technological platform modernization program based on leading HP and Oracle software.

# Speedy Settlement Scheme – do it faster, safer, cheaper

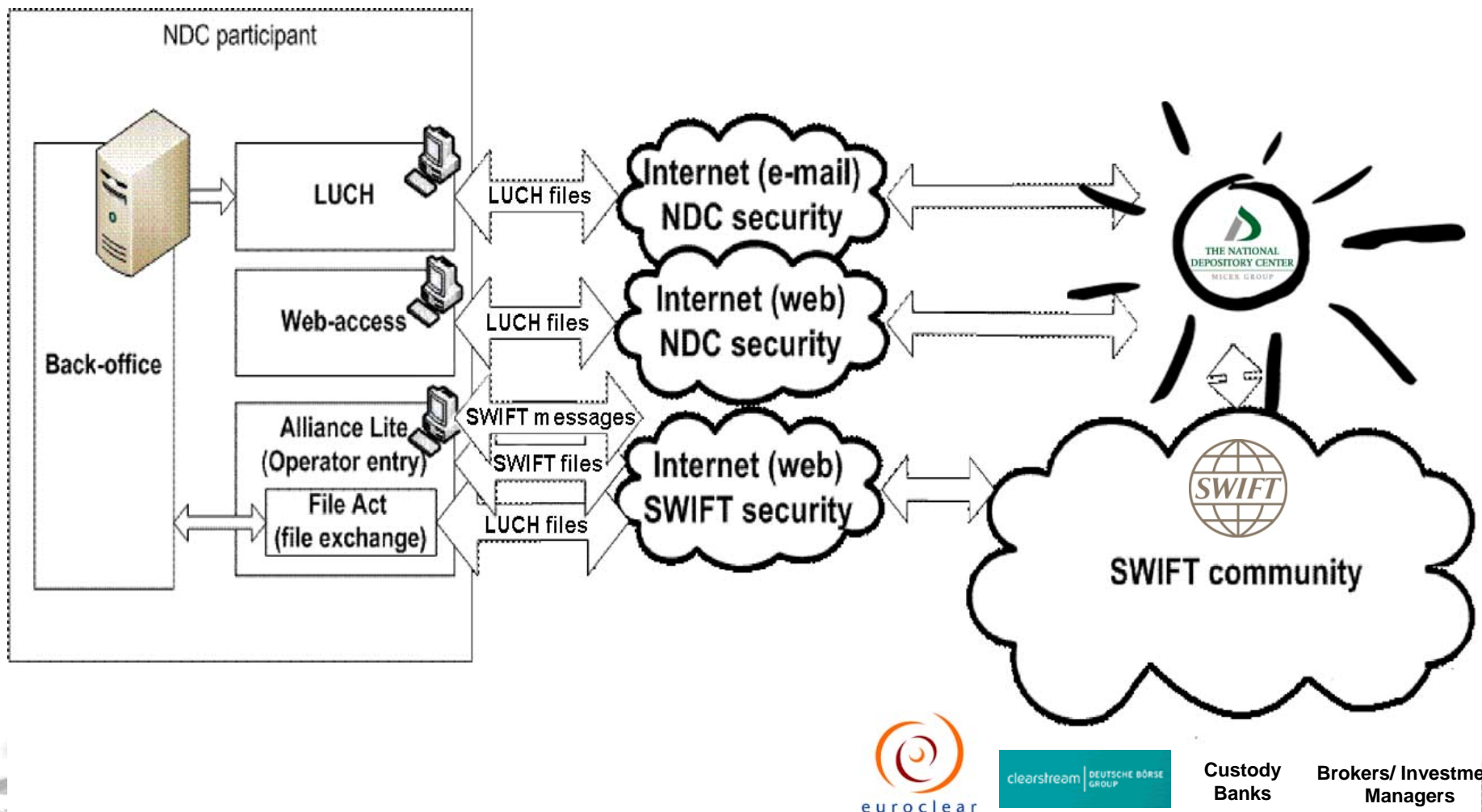
- NDC and ING Wholesale Banking project
- SSS - the temporary scheme, like NDC-DCC Bridge, will be replaced by more sophisticated CSD settlement services
- STP
- Fixed fee
- Blue chips
- Non-exclusive scheme

SSS was created with the same purpose as NDC-DCC Bridge to allow faster settlements and faster links with various markets

# SWIFT recommendation for NDC to map ISO 15022 and 20022 messages



# NDC plans the use of SWIFT Alliance Lite as an additional channel of access to NDC



# MICEX SH and NDC - on our way to merge

- Benefits for clients
  - Providing a full range of settlement services correspondent to the international standards for central settlement depository, including simplifying implementation of
    - DVP models
    - Collateral management
    - Settlements with participation of CCP
  - Raising capitalization of the Russian provider of securities settlement services
  - Improving perception of the Russian financial infrastructure globally
- Terms

# NDC contacts

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  - Fax: +7 495 745 8122
- <http://www.ndc.ru>, <http://isin.ru>