



THOMAS MURRAY

Global Custody Ratings & Research

Thomas Murray Issues New Central Securities Depository Rating for the Central Securities Clearing System (CSCS) at 'A-' with Stable Outlook

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PRESS ANNOUNCEMENT

LONDON - Thomas Murray, the specialist custody rating, risk management and research firm has issued a new CSD rating for the Central Securities Clearing System (CSCS) of Nigeria at 'A-', which translates as 'low Overall Risk'. The rating is made up of the following components:

CSD Rating	Overall Rating	Asset Commitment Risk	Liquidity Risk	Counterparty Risk	Financial Risk	Operational Risk	Asset Servicing Risk
CSCS Rating:	A-	AA	A-	BBB	A+	BBB	N/R

The overall rating of 'A-' reflects the weighted average of five of the six risks assessed in the Thomas Murray CSD Rating methodology. Asset Servicing Risk is excluded from the assessment due to CSCS's limited role in Nigerian corporate events, the risk mainly lying with the transfer agent.

CSCS's rating of 'A-' relates to a low risk exposure profile and a 'Stable' outlook has been assigned by Thomas Murray. The outlook indicates there is unlikely to be any change in the Overall Risk in the near future, although several initiatives are underway. A new proprietary communication system is being developed to automate information exchange with market participants to some degree and decrease the reliance on physical documentation, which is subject to fraud, theft and loss. There is an ongoing review of the Investment and Securities Act (ISA) wherein the CSCS and its operations are to be given more legal consideration. CSCS is working on becoming a direct participant of NIBSS to enhance the DVP process. The process to open a link with SWIFT to communicate with market participants has started although this is still in early stages.

CSCS is responsible for the settlement and clearing of all securities transactions of the Nigeria Stock Exchange (NSE) and for bond transactions conducted on the OTC market. The depository has a settlement model that focuses on containing and minimising counterparty risk exposure. However, the measures adopted by CSCS, which include pre-funding of securities traded on-exchange, result in some side-effects in other risks. There are also structural shortcomings in the Nigerian financial industry, which have a direct impact on Counterparty and Operational risks in CSCS. These deficiencies are related to the maturity and sophistication of the local market, and the absence of legislation providing grounds for validity of electronic documentation. In turn, this is linked to a heavy dependency on manual processing and physical documentation in conducting business in the Nigerian financial sector.

CSCS's AA rating for Asset Commitment Risk is directly linked to the level of on-exchange (3%) and OTC (97%) market activity by value. Since, bonds traded OTC are not required to be pre-funded prior to trade, but only positioned for settlement just prior to the processing cycle, availability of assets is not compromised.

There is no securities lending in the market although 'technical shorts' may exist which can consequently stop trades being executed. Fails management policies for both on-exchange and OTC transactions are inadequately developed, with the Trade Guarantee Fund (TGF) insufficient

to guarantee a large default on the exchange, and OTC transactions having no fails management procedures or resources.

Transactions that settle within CSCS are on a non-DVP settlement basis. Securities generally settle with finality before cash transfers commence and there is no systemic link between securities and cash settlement platforms to assure transfers are interdependent.

CSCS's strong financial rating derives from its consistent profitability (even through the global economic downturn) and significant capital resources in comparison to its peer group including healthy levels of reserves held in cash or short term investments.

The low rating for CSCS's Operational Risk is a combination of several factors. There is heavy dependency on manual intervention in both processing and communication, which increases the risk of fraud, error or loss as well as reducing Straight-Through-Processing (STP). In addition, there is a lack of identified key controls and an organised risk management policy. Although CSCS has adequate disaster recovery facilities there is an absence of fully documented disaster recovery and business continuity plans, and testing of facilities has been limited to internal testing without the involvement of market participants.

Simon Thomas, CEO and Chief Ratings Officer of Thomas Murray said: "Thomas Murray is delighted to have been commissioned by CSCS to provide a first time public CSD rating and we encourage CSCS to use the information to help identify areas of improvement".

Peter Egunbiyi, General Manager of Operations, said "CSCS appreciates the work Thomas Murray has conducted in providing an objective assessment of our operations and risk controls. The rating process has allowed us to benchmark ourselves against global best practices and has been extremely helpful in identifying areas to focus our attentions".

The CSD rating assesses the risk exposures for investors associated with the processes the CSD has in place to facilitate the safekeeping and the clearing and settlement of securities, where applicable. It assesses six key risks. The methodology considers the capabilities of the depository and the quality and effectiveness of its operational infrastructure. It also assesses the depository's willingness and ability to protect its participants or clients from losses. As part of the rating, the scope and quality of the depository's services is assessed. The ratings are on a consistent global scale, using the familiar AAA to C ratings scale. Once the rating is assigned there is an ongoing surveillance process to monitor the depository.

Separately, Thomas Murray maintains proprietary assessments of over 130 CSDs globally as part of the Thomas Murray Depository Risk Assessment services. These reports are available via Thomas Murray at www.thomasmurray.com.

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About Thomas Murray

Thomas Murray is a specialist custody rating, risk management and research firm specialising in the global securities services industry. Thomas Murray was established in 1994. The Company tracks and analyses over 250 custodians globally and monitors the risk of over 100 capital market infrastructures. The Company has a strong position as a provider of public and private ratings and risk assessments on global custodians, domestic custodian banks and capital market infrastructures.

www.thomasmurray.com

About the Central Securities Clearing System (CSCS)

Central Securities Clearing System Limited (CSCS) is a private limited company incorporated on 29 July 1992 under the Companies and Allied Matters Act 1990. CSCS is operated as a profit-making entity. CSCS commenced operations on 14 April 1997 and operates a depository, clearing, settlement and delivery system for transactions in shares listed on the NSE.

www.cscsnigeria.com

