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RUSSIA

Public CSD Rating Report

Depository Clearing Company

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Thomas Murray CSD Public Rating for: Depository Clearing Company is A+

CSD Rating	Overall Rating	Asset Commitment Risk	Liquidity Risk	Counterparty Risk	Financial Risk	Operational Risk	Asset Servicing Risk
DCC Rating:	A+	AA-	A+	A+	AA-	AA-	AA-

The outlook for the rating is: N/A

Overall Risk Summary

Thomas Murray has maintained the Depository Clearing Company's (DCC) overall rating as A+, which means low risk. The outlook has been set as 'N/A'. The rating is a weighted average of six distinct risk components comprised of Asset Commitment Risk, Liquidity Risk, Counterparty Risk, Asset Servicing Risk, Financial Risk and Operational Risk. No changes have been made to any of the six risk components.

DCC has continued to provide a high level of service and effective operations during a period of uncertainty as its parent, RTS Group, has undergone a merger with its rival Russian exchange group, MICEX. The merger of the groups was announced in February 2011, received approval from the Federal Anti-monopoly Service of the Russian Federation in September 2011, and was concluded to form a single company named Open Joint Stock Company (OJSC) MICEX-RTS in December 2011.

The merger process has, however, inhibited the development of major new services and initiatives within DCC during this time, which have been deferred, abandoned or not been fully adopted by participants.
A list of developments that have been completed this year and the consequent effect on risk ratings is detailed below:

• Introduction of tolerance limits for DVP settlement with maximum USD 25 limit. Consideration accounted for in assessment of matching, but minor impact on market practice has not resulted in any change to the Liquidity Risk rating.
• Introduction of Transaction Reference field as a free field, which can be used for providing extra information in instructions. Consideration accounted for in assessment of processing and reporting, but minor impact on market practice has not resulted in any change to the Operational Risk rating.
• Business Continuity arrangements have been reviewed and enhanced by the move to a more secure building and the increase of alternative office capacity. This has resulted in an upgrade in the rating of DCC's business continuity capabilities, but this has been insufficient to upgrade the Operational Risk rating.
• The external operational audit conducted by KPMG in 2010 was not renewed in 2011, hence, full reliance cannot be placed on its accuracy. Consequently, the assessment of DCC's operational audit has been downgraded, but this has been insufficient to downgrade the Operational Risk rating.
• RTS Clearing Centre has extended the range of eligible cash collateral accepted to include USD. Combined with enhanced information provided concerning the margining model and Clearing Fund stress-testing scenarios, the assessment of the on-exchange/CCP settlement assurance arrangements has been upgraded, although this has been insufficient to upgrade the Counterparty Risk rating.
• In July 2011, the Settlement Chamber linked to the BESP (Banking Electronic Speedy Payments (BESP)) system at the CBR provides an option (by client choice) for immediate cash settlement rather than cash settlement in one of the payment system batches. This has been noted in the Asset Commitment Risk section but is insufficiently used to have any material impact on the

Asset Commitment Risk rating.
• Eight additional reports have been added to the EDI service, having a minor impact on the assessment of DCC's reporting capabilities. This was, however, insufficient to upgrade the Operational Risk rating.

Outlook Summary

The 'N/A' outlook has been assigned due the imminent withdrawal of the DCC public rating, since the merger with NSD will see DCC discontinue in its present form after 1 July 2012.

Role of the Depository

The Depository Clearing Company (DCC) was established in 1993 under the Federal Commission on Securities Market project, sponsored by USAID. DCC has the legal status of a closed joint stock company governed by shareholders and is regulated by the Federal Financial Markets Service (FFMS). Following the merger of the RTS and MICEX exchange groups in December 2011, DCC ownership moved from being a majority-owned subsidiary of RTS Group, to being a majority-owned subsidiary of OJSC MICEX-RTS.

DCC provides settlement and safekeeping services for stocks traded on RTS markets (RTS Classica), previous RTS markets that transferred to MICEX in December 2011 (T+0 and [RTS] Standard) and those traded over-the-counter (OTC). RTS Clearing Centre acts as central counterparty (CCP) for the RTS Classica and [RTS] Standard markets, while the National Clearing Centre (NCC – a subsidiary of MICEX) took over clearing responsibilities for the T+0 market in December 2011 (following it's transfer from RTS to MICEX). Settlement in DCC can be undertaken in RUB or USD currency, under DVP or FOP model, in batches or real-time, and on a gross or net basis, depending on the investors' choice. DCC also offers re-registration and corporate action information services.

Moreover, DCC services securities traded abroad through inter-depository links. DCC operates a nominee account with the National Settlement Depository (NSD) for MICEX trades, Gazprombank for Gazprom shares, and Sberbank for Rosneft shares. International links have been established with Clearstream Banking Luxembourg, Euroclear Bank, and three depositories in Kazakhstan, Belarus and Ukraine. DCC operates the Enhanced Speedy Settlement Scheme (ESSS) to settle transactions between in its own books and those of custodians. DCC has implemented ESSS links with Citibank, Deutsche Bank, ING, Sberbank and VTB to allow direct settlement of trades between DCC's client and the custodian' clients; thus short-circuiting the re-registration process at the registrars.

Risk Summary	Risk
Overall Risk	**A+**
Asset Commitment Risk The asset commitment period for DCC DVP and RTS Clearing Centre settlements is less than 20 minutes and 30 minutes, respectively; which corresponds to the duration of the settlement batches. For RTS T+0 RUB Market (pre-funded market) the asset commitment period is up to 10.5 hours for both buyers and sellers, but may be significantly shorter since long positions can be withdrawn intraday. In case of FOP settlement, where cash moves independently of securities, sellers may suffer relatively high asset commitment risk since the asset commitment period varies from near immediate to 5 days. Where ESSS FOP settlement is used, the period may be reduced to intraday. The gross value of transactions settled through RTS Clearing Centre accounts for more than 50% (excluding MICEX transactions) of overall transactions, therefore, a high weighting is given to this settlement route.	AA-
Liquidity Risk The majority of trades (excluding MICEX trades) are settled on a net basis (through RTS Clearing Centre) with a high netting efficiency, which implies low liquidity demand. There are no restrictions on foreign investors obtaining overdrafts, and settlement banks can source liquidity via active interbank and central bank repo markets. Stock lending facilities are not provided but securities can be obtained in the form of reverse repo transactions, which are widely used in Russia. For sellers of securities not registered in DCC's nominee name or through ESSS, liquidity risk is higher due to a potentially lengthy and expensive re-registration process which depends on the security, the registrar, and/or the sub-account arrangements that DCC has with the custodian. There is no fails management for DCC DVP settlement; failed trades are rolled over to the next day until they are cancelled. DCC does not impose penalties for failed settlements, but operates a tolerance level for DVP settlements. RTS Clearing Centre manages failed trades via rolling fails, a donor-repo scheme and cash compensation arrangements.	A+
Counterparty Risk Counterparty risk exposure varies by market and type of settlement. RTS Clearing Centre guaranteed cash markets are RTS Classica and [RTS] Standard, but while there is a Contingency fund for the [RTS] Standard market, RTS Clearing Centre relies on its own capital (through the Reserve Fund) to guarantee the Classica market. Counterparty risk is negligible for RTS pre-funded trades, but for DCC DVP settlements there is no guarantee mechanism. No material penalties or rules are in place to encourage settlement for other trades. For FOP settlements counterparty risk exposure is high but lessened where ESSS is used.	A+
Asset Servicing Risk DCC provides complete and accurate information of events, and processes instructions speedily and accurately despite the fragmented nature of registrar arrangements and the lack of any official central source of information. Information is provided directly to participants and indirectly to others via the DCC website. DCC does not process instructions directly from beneficial owners on voluntary events. Hence, DCC is not exposed to any risk in the accurate calculation of entitlements, but simply executes entitlement settlement based on schedules sent by the registrars. As a part of its services, DCC provides a high degree of protection to its participants in the event that it is negligent, as required by law.	AA-
Financial Risk DCC was previously 97.75% owned by the Russian Trading System (RTS). However, upon completion of the merger between RTS and MICEX on 19 December 2011 the stake was transferred to the integrated exchange, MICEX-RTS. DCC's total shareholder equity was RUB 1,187 million (USD 38.87 million) as at the end of 2010, up 1% from 2009. DCC's high levels of liquidity, amounting to almost 50% of its capital as of September 2011, supplemented by a reasonable level of insurance coverage appear adequate to meet unforeseen claims and events. Although DCC suffered operating losses in 2009 and 2010, over the last 5 years it has maintained an overall net profit (however with a persistent negative trend) which in December 2009 and 2010 stood at RUB 50 million and RUB 11.70 million, respectively.	AA-
Operational Risk All operational procedures are well documented and include process diagrams. Operational risk exposures within business processes have been mapped and analysed. The internal auditor checks compliance with regulatory requirements and internal documents. However, an audit of the effectiveness of internal controls and procedures has not been conducted. The SAS70 type I audit was not reviewed in 2011. The processing in DCC is highly automated through the use of EDI and SWIFT. DCC has implemented information security management systems compliant with international standards. In addition, a Business Continuity Plan (BCP) was developed in compliance with British Standard 25999. The Disaster Recovery /Business Continuity site is tested yearly, however without significant involvement of participants.	AA-

CSD on CSD Credit Risk	
DCC has established domestic depository links with the National Settlement Depository (NSD) for the settlement of MICEX trades, Gazprombank depository for the settlement of Gazprom shares and Sberbank for the settlement of Rosneft shares. DCC has implemented ESSS with Citibank, ING, Deutsche Bank, Sberbank and VTB for settlement of trades between DCC's participants and the custodians' clients. DCC has international depository links with the Central Securities Depository of the Republic of Kazakhstan, the Republican Central Securities Depository of the Republic of Belarus, the National Depository of Ukraine, Clearstream Banking Luxembourg via VTB, and Euroclear Bank. This report should be read in conjunction with the assessments undertaken on those depositories.	**Links Exist**

Asset Commitment Risk

Summary

The settlement processes vary according to the market where securities are traded and the settlement cycles available for use. The available settlement cycles use BIS settlement models 1, 2 and 3 with options that include pre-funding settlement on T+0, DVP settlement ranging between T+0 to T+30, and FOP.

RTS Clearing Centre USD on-exchange order driven (anonymous) trades settle for the 8 most liquid stocks at the end of the day on T+4. RTS CCP RUB on-exchange order driven (anonymous) trades settle on the 32 most liquid stocks at midday and the end of the day on T+4. No pre-funding is required for either of these two markets. The asset commitment period for securities and cash is less than 30 minutes. RTS Clearing Centre requires collateral against security price movements and margin calls are made twice a day.

RTS Classica on-exchange quote driven (non-anonymous trades) and OTC trades completed either on the RTS board or off-exchange, all settle in either RUB or USD, and may be settled by either DCC DVP settlement or FOP.

DCC DVP has an asset commitment period of around 20 minutes, the duration for each of the five daily settlement cycles – settlement is typically on T+4, but can occur on a T+0 - T+30 basis as agreed between the counterparties.

For RUB FOP settlements, sellers may suffer relatively high asset commitment risk as cash moves independently of securities settlement. FOP transactions between non-residents settle in USD offshore, potentially adding to the asset commitment period. Overall asset commitment risk for FOP transactions may vary from near immediate to 5 days depending on the registration process and where the securities are held. The asset commitment period may be reduced to intraday for ESSS FOP settlement.

RTS T+0 retail trades are settled on a pre-funded DVP basis on a T+0 cycle. The asset commitment period may be up to 10.5 hours for both buyers and sellers, but since long positions may be withdrawn intraday, is more probably averaging around 3hrs.

Processing Cycles

DCC settles trades executed on [RTS] Standard Market, RTS Classica Market, RTS+0 Market, and OTC transactions.

(i) CCP DVP - RTS order driven anonymous on-exchange market (RTS Classica (USD) and [RTS] Standard (RUB))

RTS Settlement Chamber provides cash settlement with RTS Clearing Centre as the central counterparty (CCP) and DCC as the central depository, for anonymous on-exchange order driven trades. RTS Clearing Centre becomes a party to the trade at the moment the matched trade details are received from RTS (these constitute a clearing instruction to RTS Clearing).

The trading session operates between 10.00am and 6.45pm (RTS Classica) and between 10.00am and 11.50pm (RTS Standard). CCP clearing covers 8 stocks on RTS Classica and 32 stocks on RTS Standard settling on T+4. Both securities and cash are settled in the single batch run at 5.00pm for RTS Standard, and in the end of day batch run at 7.00pm for RTS Classica. There is no pre-funding. The CCP requires collateral against the calculated market risk which is recalculated twice daily and margin calls may be made if required. RTS Clearing Centre controls the DVP process which takes around 30 minutes.

(ii) DCC DVP - RTS on-exchange quote driven transactions and OTC transactions

These transactions are non-anonymous in both USD and RUB. Parties to these trades have the right to negotiate price and have the flexibility to agree the settlement arrangements by DCC DVP or FOP. The standard settlement cycle for DCC DVP is T+4, Transactions do not need to be pre-funded, nor securities blocked prior to trading. Settlement takes place through 5 intraday batches at 10.00am, 12.30pm, 3.00pm, 5.00pm and 7.00pm. The early session allows securities settled through the CCP to be re-used on the same day.

Prior to each batch run, each participant’s security settlement account is blocked and cash in their respective cash accounts is frozen. Each batch run takes around twenty minutes to complete and DCC sends reports to participants upon batch completion. The system will settle those transactions where both the security is available in the sellers settlement account and sufficient funds are available in the buyers’ respective RUB and USD settlement accounts. Cash settlement is on a multilateral net basis in each currency.

Cash Settlement

For DVP USD-denominated trade settlement, participants maintain a USD account with any bank abroad or an authorised Russian bank and hold a USD settlement account in a settlement bank for USD with JP Morgan Chase Bank, Citibank, or RTS Settlement Chamber, in their name over which DCC holds a power of attorney (third party authorisation) to transfer funds for the purpose of completing settlement. There must be sufficient funds for settlement in their USD settlement account for settlement to occur. DCC interacts with these settlement banks via SWIFT. Participants are free to transfer funds from their USD account during the day subject to prior approval from DCC based upon their current clearing position at the time.

For DVP RUB-denominated trades, cash settlement takes place via the RTS Settlement Chamber (a non-banking credit organisation). The RTS Settlement Chamber has a link with the Central Bank of Russia for RUB Settlements though this is used outside the clearing session in cases where participants transfer funds to their correspondent accounts with the CBR. In July 2011, the Settlement Chamber linked to the BESP (Banking Electronic Speedy Payments (BESP)) system at the CBR providing an option (by client choice) for immediate cash settlement rather than cash settlement in one of the payment system batches. Although the CBR operates an RTGS payment system, it is not widely utilised and has not been linked to the securities settlement systems.

The RTS Settlement Chamber participant numbers have dropped from 540 (as of July 2010) to 420 on November 2011 due to RTS Settlement Chamber closing accounts that have been dormant for at least two years. RTS Settlement Chamber usually maintains one account for credit organisations (comprising of proprietary and clients' assets) and two separate accounts for brokerage houses (one for proprietary cash and another for clients' cash assets), although participants are able to open as many accounts as they request.

DVP Online

Both counterparties' settlement instructions contain an 'Online' indication. Settlement is performed real-time upon matching of instructions and confirmation that securities and cash are sufficient in the accounts. The cut-off time for acceptance of settlement instructions is 7.00pm SD. A direct payment is made from the buyer's account to the seller's account, without the use of the DCC clearing account with RTS Settlement Chamber.

(iii) CCP DVP - T+0 Market

The T+0 market is a pre-funded market where securities and funds have to be in place before trading takes place at MICEX. Trading on the T+0 market is principally for retail trading and takes place in RUB. Settlement is on a DVP Model 3 basis with clearing via NCC. Trading takes place between 10.00am and 6.45pm.

Securities and cash are transferred to the trading sub-accounts managed by NCC. NCC checks availability of securities and cash prior to execution of trade orders. Participants can add securities and cash in real-time in the trading sub-accounts and can withdraw securities throughout the day, although, prior approval from NCC is necessary. There is only one settlement batch at 7.00pm. Participants can view their security positions through DCC after the batch is completed.

Cash settlement

At the beginning of the batch, NCC sends instructions to DCC regarding the securities to be transferred from the seller's to the buyer's account and at the same time, it sends a cash transfer instruction to the RTS Settlement Chamber to transfer funds from the buyer's to the seller's account. Finality takes place simultaneously when the last of the two transfers is completed. The batch may take up to 30 minutes,

(iv) FOP Settlement

RTS Classica market trades and OTC transactions are available for settlement on an FOP basis. The settlement cycle of FOP trades can be between T+0 and T+30.

FOP settlement takes place in real-time upon matching of instructions from 5.00am to 7.30pm, provided there are sufficient securities in the securities accounts. Cash settlement is not managed by DCC.

The gross value of transactions (from 1 January to 30 October 2011) going through the different settlement processes is:
- NCC CCP & RTS CCP: 51%
- DCC DVP: 11%
- DCC FOP: 30%
- ESSS: 8%

Cash

Cash processing for each settlement cycle is described in detail above. For RUB-denominated trades, cash settlement takes place via the RTS Settlement Chamber. The RTS Settlement Chamber has a link with the Central Bank of Russia for RUB Settlements (via a correspondent account at CBR). Although the CBR operates an RTGS payment system, it is not widely utilised and has not been linked to the securities settlement systems. As mentioned above, settlement banks now have the option of settling funds via RTS Settlement Chamber in real-time via the BESP (Banking Electronic Speedy Payments (BESP)) system at the CBR.
For DVP USD-denominated transactions settled with DCC, cash settlement is via three settlement banks: JP Morgan, Citibank and the RTS Settlement Chamber. Settlement is executed during five intra-day batches or in the on-line mode.

DCC is only directly involved in cash movements for DVP USD settlement. For DVP USD cash settlement, DCC has a power of attorney to operate a USD settlement account held in the participant's name, with either JP Morgan or Citibank, in order to transfer funds for the purpose of completing settlement. DCC interacts with the settlement banks via SWIFT. For RUB settlement, cash is transferred to and from the participants' settlement accounts held at the RTS Settlement Chamber.

Asset Commitment Periods

The asset commitment period varies depending on the method of settlement, as follows:

(i) For RTS Clearing Centre (Standard and Classica – anonymous trades) the asset commitment period for buyers and sellers is about 30 minutes. Securities are not blocked until the batch run.

(ii) For DCC DVP settlement, the asset commitment exposure for buyers and sellers runs from when the securities and cash are blocked just prior to the intra-day batch run until the settlement is confirmed by DCC, a period of around 20 minutes. Cash is transferable between the participants' USD/RUB settlement accounts prior to each batch settlement.

(iii) For pre-funded DVP settlements (RTS T+0 market), which settle on a T+0 cycle, the maximum asset commitment period is 10.5 hours. Since securities and cash have to be pre-funded prior to trading, the transaction will settle after the 7.00pm batch is completed. However, participants may at DCC's discretion, transfer long securities positions in and out of their settlement accounts depending on their clearing position at the time.

(iv) For FOP settlements (OTC and RTS Classic market trades, and ESSS) the asset commitment period for funds is indeterminate since payment is arranged between the participants, independently of DCC. DCC run five batches daily to transfer securities. Depending on where the sold security is held, and the point of delivery of the transferred security, the asset commitment risk can vary from near immediate to five days.

Irrevocability

Participants' securities are irrevocably committed to the settlement system at the start of the settlement batch and until the receipt of the cash countervalue. The commitment of securities for settlement may occur earlier than the start of the settlement batch in case of pre-delivery of securities whereby securities must be delivered prior to trading or sometime before the start of the settlement batch.

Finality

The finality of settlement of securities (i.e. irrevocable and unconditional settlement) is upon the transfer of securities in the books of the settlement organisation. Russian law does not currently specify a definitive place of settlement finality, meaning that settlement finality can occur either on DCC's books, the custodian's books or the registrar's books. In case of insolvency of a participant, the 'zero-hour' rule cannot be applied in Russia.

Asset Commitment Risk - Key Indicators			
Irrevocable commitment to the processing cycle			
	Transaction Type	***Start***	***Finish***
Securities	RTS Clearing Centre	5.00pm (RUB), 7.00pm (USD) on SD	5.30pm (RUB), 7.30pm (USD) on SD
	DCC DVP	Beginning of batch run (10.00am, 12.30pm, 3.00pm, 5.00pm, and 7.00pm) on SD	Completion of batch run (10.20am, 12.50pm, 3.20pm, 5.20pm, and 7.20pm) on SD
	RTS T+0	Time of trade	around 7.00pm on SD
	FOP	Real-time	Real-time
Cash	RTS Clearing Centre	5.00pm (RUB), 7.00pm (USD) on SD	5.30pm (RUB), 7.30pm (USD) on SD
	DCC DVP	Beginning of batch run (10.00am, 12.30pm, 3.00pm, 5.00pm, and 7.00pm) on SD	Completion of batch run (10.20am, 12.50pm, 3.20pm, 5.20pm, and 7.20pm) on SD
	RTS T+0	Time of trade	around 7.00pm on SD
	FOP	Variable	Variable

Comments (i.e., on pre-funding and irrevocability)

For CCP DVP and DCC DVP settlements, no pre-delivery of securities nor pre-funding are required. Once the securities are transferred in DCC's books, the settlement cannot be reversed.

Securities processing cycle outlined

Settlement of trades under CCP DVP and DCC DVP models is in batches. Securities are blocked for settlement processing at the start of the batch run. The FOP and DVP 'Online' settlement is real-time whereby securities are transferred upon the matching of instructions and provided that there are sufficient securities in the accounts.

Cash processing cycle outlined

DCC is only involved in cash movements for DCC DVP settlement. For USD cash settlement DCC has a power of attorney to operate a USD settlement account held in the participant's name, with either JP Morgan Chase, Citibank or the RTS Settlement Chamber in order to transfer funds for the purpose of completing settlement. For RUB settlement, cash is transferred from the participants' settlement accounts held at the RTS Settlement Chamber.

Liquidity Risk

Summary

For RTS Clearing Centre trades, the CCP assures settlement by way of a guarantee fund and reverse repo of securities if necessary. For non-anonymous on-exchange and OTC trades that settle DVP, credit and stock lending facilities are not provided but securities can be obtained in the form of reverse repo transactions, which are widely used in Russia. There are no restrictions on foreign investors obtaining overdrafts, and settlement banks can source liquidity via active interbank and central bank repo markets. Liquidity risk is somewhat mitigated by the frequent intraday batch runs and cash netting. For RTS T+0 trades (pre-funded) there are no fails, as if assets are not pre-funded prior to trade, the transaction is not executed. The majority of trades (excluding MICEX trades) are settled on a net basis (CCP trades) with high netting efficiency, which implies low liquidity demand.

For sellers of securities that are not registered in DCC's nominee name, the liquidity risk is higher due to the re-registration process that has to occur prior to settlement and which can be lengthy (up to 5 days) and expensive depending on the circumstances and process used. The use of ESSS significantly reduces this time delay for security transfer to between 1 to 4 hours in most circumstances.

Processing Model

Liquidity Risk depends upon the type of settlement which varies by market type, i.e. on-exchange/off- exchange, anonymous or non-anonymous.

RTS Clearing Centre trades settle on a BIS Model 3 basis, i.e. net securities and net cash. The netting efficiency for securities and cash exceeds 99% and 97%, respectively. This is assisted by there being only two batches per day and the securities being limited to the 8 and 32 most liquid stocks respectively for USD and RUB trades.

On-exchange non-anonymous trades and OTC trades can be settled DCC DVP in both USD and RUB on a BIS Model 2 basis, i.e. gross securities and net cash. Although some form of cash netting is provided by the RTS Clearing Centre with very low efficiency level (18- 20% efficiency for RUB and USD), securities settle gross which implies higher liquidity demands. Cash settlement is provided by the settlement banks in USD or RUB, both in same-day funds. Liquidity risk is partially mitigated by having five intraday batch runs. Participants have the option to settle trades on a DVP real-time mode. However, to date usage of DVP real-time ('DVP Online') is low.

FOP settlements involve trade-for-trade settlement of securities in DCC and gross settlement of cash outside of DCC which generates higher liquidity risk. The major factor influencing liquidity risk is the registration status of the securities. Those securities registered in DCC's nominee name, whether directly on register, or indirectly in a sub-account held with a global custodian, can be immediately placed in the settlement cycle for T+0 settlement. For securities held elsewhere, the responsibility for re-registration rests with the seller and creates significant liquidity risk since the re-registration period can vary between 1 and 5 days depending on the underlying arrangements between DCC and the registry (refer to Registration Model below).
Partial settlements are not permitted in Russia, nor can the DCC settlement system (DEPO/X) support the splitting of settlements. This does not allow failing settlements to be split and portions of the position settled.

[Pre-] Matching

DCC provides electronic matching between participants for OTC DVP USD & RUB trades. Matching is across 11 (including the new 'Transaction Reference (TR)' field) criteria and participants can extract reports on trade match status and match fail details during the day. Once matched, trades are automatically accepted by the system for processing on SD unless cancelled by both parties beforehand. The DCC matching system does not have a hold and release mechanism, and therefore is not used in the market for pre-matching by participants who need to manage client security account balances, and need to control the order of client transfers. Accordingly participants who pre-match still rely on phone, fax and physical document comparison.
DCC operates a tolerance level for DVP settlements. The tolerance level can be determined by the counterparties of the transaction, and can be specified in either USD or RUB. The maximum tolerance amount has been set at USD 25 or RUB 700. This option does not, however, seem to have been widely adopted in the market.

Fails Management

For transactions on the non-prefunded RTS Standard and T+4 USD markets, RTS Clearing Centre provides fails management controls to assure settlement. RTS Clearing Centre may use its own securities or borrow securities under the donor-repo scheme on an overnight basis to settle trades. To obtain the securities and deliver them back to the lender under the donor-repo scheme, RTS Clearing Centre executes a buy-in of securities on the next day. RTS Clearing may also conclude a reverse repo with the buyer who fulfilled their obligations thereby RTS Clearing Centre temporarily offsets the delivery of the securities to the buyer. Then, RTS Clearing executes a buy-in of securities on the next day to fulfil the second leg of the reverse repo (delivery of the securities to the buyer).

If securities are still uncovered (unsuccessful repo) or the position is not netted out on the next day, the position will be rolled again, and this can continue up to SD+4. RTS Clearing Centre will fine the defaulting party every day (an effective 26% annual rate) the trade remains unsettled. If the trade remains unsettled after SD+4, the trade is cancelled and cash compensation to the buyer equal to 0.25% of the trade value plus any difference between the price on TD and the price on SD+5 is carried out.

In the last year, there have been only 0.12% of transactions by value where settlement concluded on SD+1 rather than SD.

Due to the absence of contractual settlement date in Russia, DCC does not levy any charges in case of late settlement.

According to RTS trading rules, the defaulting party has to perform its obligations within 5 business days after settlement date and pay a penalty for each day the obligation remains overdue beginning from the day after settlement date. If settlement is not performed within 5 business days, the defaulting party has to pay an additional penalty.

The fines levied for late settlement for the OTC trades concluded in the RTS Standard market are outlined in the RTS Trading Rules. The amount of the fine to be paid as defined above should not exceed 10% of the transaction value.

For OTC transactions between two non-residents with USD or other currency, the parties usually outline the liabilities and fines imposed on the violating party in case of late settlement or other improper fulfilment of the obligations in the Purchase and Sale Agreement; LIBOR overnight rate for USD or EONIA for EUR may be used for fines calculation. The affected party may issue the interest claim to the violating party after the transaction if finally settled or cancelled.

DCC DVP trades that do not settle during a batch processing cycle are transferred and included in the following settlement cycles until they are settled or until counterparties waive the trade. DCC at present does not cover failing trades but a standard report on unsettled transactions is available for participants after each batch processing cycle. Last year, the percentage of DCC DVP settlements not settled on SD was around 6% (down slightly from 7% in 2010), and these trades were rolled for settlement to the next day.

RTS T+0 trades do not need any fails mechanisms since securities and cash have to be pre-funded prior to trading (and if securities/cash are not prefunded the trade is not executed).

Credit Facilities

Repo transactions are used by participants to obtain funds for settlement. Credit can be obtained via interbank repos in normal circumstances which are commonly used and are market practice. There is also an active market of repo auctions with the Bank of Russia which can be taken on an overnight (3 days on Fridays) or 7 day maturity. There are no standard agreements for repos or a centralised facility. Normal commercial banking and credit facility arrangements are available in Russia to both foreign and local participants. DCC does not provide credit facilities, which is consistent with normal practice for CSDs.

Securities Lending

Securities borrowing and lending (SBL) is not supported in the current legislation and thus there is no centralised facility in the market. As a substitute for stock lending facilities, participants execute reverse repo transactions in order to obtain securities to meet settlement obligations. Reverse repos have become more widely used in recent years. However, there is no master agreement or technical link between the two transactions meaning they are treated completely separately. Stock lending is preferable to repos as beneficial entitlements remain with the lender (apart from voting rights).

DCC does not offer any facilities to support SBL functionality.

Registration Model

Legal title for securities is held at individual registrars or depositories (for bonds with centralised safekeeping of global certificates), reflected by an entry on the register or depository accounts.

Investors' holdings are either kept within a bulk nominee account of DCC held with each respective registrar or in the beneficial owners' own accounts with registrars, or with other nominee accounts (primarily of custodian banks and other depositories) with registrars.

The type of registration arrangement has significant implications on the settlement arrangements. If securities are registered in the beneficial owner’s name or a non-DCC nominee at the registrar, re-registration into DCC’s nominee name must take place before settlement can occur at DCC. For securities held within DCC’s nominee name transfers take place by book entry on a near immediate basis for transfers between DCC participants. For ‘on register’ transfers, the maximum for re-registration time should be 3 days according to Russian regulations, but can take up to 5 days within Moscow or up to 10 days outside of Moscow, during which time securities can be traded (short) but not settled. The longer registration time is for those registrars outside Moscow without the Electronic Data Interchange (EDI) system.

The re-registration period can be reduced to within 1 business day (in many cases only upon payment of a hefty surcharge) if the registrar has an electronic link with DCC through DCC’s EDI system. At least 50% of registries offer the same-day transfer service. DCC currently has links with about 39 of the 42 registrars and covers around 70% of their re-registration activity. The re-registration time with registrars located outside Moscow is significantly reduced where DCC holds electronic links with these registrars.

DCC maintains security sub-accounts with Citibank, ING, Deutsche Bank, Sberbank, and VTB. The use of these sub-accounts supports the direct transfer of securities between each bank's clients and DCC for FOP transactions. Although difficult to measure precisely, ESSS has: (i) significantly reduced the time it takes to effect the transfer of a security - the transfer time can be reduced to become closer to real-time but typically varies between one and six hours; and (ii) significantly reduced the cost of transfer (a low fixed cost against a percentage fee with a hefty surcharge in some cases for a same day service). DCC has established the ESSS DVP settlement process with ING, but it has not been widely used.

For other non-EDI transfers, physical representation from the seller is required at the registrar to present transfer documents necessary for re-registration. DCC employs 20 agents (individuals) whose role is to provide a physical presence at registrars. DCC also maintains links (via EDI or fax) with most regional and the largest Moscow-based registrars to facilitate and speed-up the re-registration process. In the case of a sale of securities that are registered in the name of the beneficial owner, or a non-DCC nominee, on application the registrar gives the seller, or their agents, an extract from the register which confirms the seller's holding. These extracts are presented to the buyers as evidence of a holding and are then used to accompany the subsequent re-registration request.

There were 42 licensed registrars throughout Russia as of November 2011. The trend in Russia has been to consolidate the smaller regional registrars into the larger Moscow-based registrars. This trend in consolidation is likely to continue to create synergies and meet the regulatory requirements given: (i) the new CSD Law will permit only the licensed CSD to operate nominee accounts at the registrar and all listed securities transactions will have to be settled in this account at the registrar. This will limit registrar 'settlement' to non-listed securities only, decreasing registrars revenue from settlement and encouraging further consolidation (ii) DCC successfully promoting the use of ESSS and opening sub-accounts with global custodians which has contributed to reducing on-registry transfers in favour of more efficient forms of security transfer through ESSS; and (iii) the FFMS has imposed rules for registrars, which include strict requirements for data back-up and recovery. These rules should further encourage electronic automation and improve the general registration process. According to the order of FFMS, enacted on 10 June 2011, registrars will be required to introduce a risk management system, instead of the current requirement of having at least 50 contracts with issuers of registered securities, and over 500 holders per issuer.

Deposited securities

All securities deposited in DCC are held in registered dematerialised form, as stipulated under Federal Law. DCC safe-keeps equities traded at the RTS Stock Exchange as well as a few municipal and corporate bonds. Equities safekeeping is split between NSD and DCC, although DCC holds the large majority of equities. However, for all securities eligible for deposit in DCC, it is calculated that DCC holds only around 5% by market value. DCC's security holdings are split between those held in their own account (87%), and deposited in sub accounts with – NSD (6%), ESSS banks (4%), Gazprombank (2%).

Deposit and Withdrawal of securities

In order to deposit securities into DCC, a re-registration order should be provided by an account holder to the respective registrar or depository (either beneficial owner or a trustee or a non-DCC nominee). The DCC participant should send in a matching deposit order to the DCC system which will be executed (securities credited to the respective account with DCC) once securities have been transferred to the DCC nominee account with the respective registrar or depository.

Liquidity risk is impacted by the blocking of shares during the lodging of a buy-back by an issuer, custodians and registrars. The rules state that if the issuer fails to buy-back the shares from the shareholder, the custodian and registrar are permitted to unblock the shares upon expiration of 75 calendar days from the respective AGM/EGM date.

In the case of a withdrawal, a participant should send in a respective order to the DCC system which confirms sufficient securities are available in the account, and blocks these securities for withdrawal while re-registration is arranged - either via electronic link with a registrar or the agent.

The withdrawal and re-registration process can vary from around one hour to take up to one week depending on the physical location of the registrar, the nature of any EDI agreement with the registrar, or sub-account arrangements DCC has with the custodians. Securities cannot be settled while in the process of withdrawal.

Liquidity Risk - Key Indicators

Settlement Models

BIS Model 3 - net settlements of both cash and securities: RTS CCP (USD and RUB), RTS T+0 pre-funded trades (RUB), MICEX.

BIS Model 2 - gross settlement of securities and net settlement of cash: DCC DVP (USD and RUB) which includes both RTS non-anonymous and OTC trades.

BIS Model 1 - gross settlement of securities and cash: FOP Online, DCC DVP Online, ESSS and Bridge Settlements.

Processing Periods

Overnight (by batch)
No

End of day
Yes

Batch daylight processing
Yes

Real-time and on-line
Yes

Comments
Real-time and on-line: FOP and DVP "Online"

Credit Facilities

Central bank money used to settle cash elements of trades
No

Credit facilities provided by the CSD
No

Credit facilities provided by commercial banks
Yes

Comments
RTS - CCP manages market risk exposures.

Stock Lending

Is stock lending permitted in the market
No

Are stock lending facilities provided by the CSD?
No

Are stock lending facilities provided by commercial banks/brokers?
No

Comments
There is no legal basis for SBL and there are no regulations pertaining to SBL. Securities can be obtained via reverse repo transactions.

Transfer of Securities

Are securities deliveries achieved by book-entry?
Yes

Registration of Securities

Period of time required to register a holding?
Within the DCC nominee account, immediate upon settlement.

Between participants and DCC where sub-accounts are held with the same global custodian, less than 6 hours and usually less than 2 hours.

Registration periods at company registrars vary between 1 and 5 days. The regulation specifies that registration should be undertaken within 3 days.

Counterparty Risk

Summary

Counterparty risk exposure varies by market and type of settlement. RTS Clearing Centre guaranteed cash markets are RTS Classica and RTS Standard, but while there is a Contingency fund for the RTS Standard market, RTS Clearing Centre relies on its own capital (through the Reserve Fund) to guarantee the Classica market. Counterparty risk is negligible for RTS pre-funded trades, but for DCC DVP settlements there is no guarantee mechanism. No material penalties or rules are in place to encourage settlement for other types of trades. For FOP (non-DVP) settlements, counterparty risk exposure is high.

Participant Counterparty Risk

Inter-participant counterparty risk exposure is high for transactions settling through the FOP (non-DVP) model both in terms of principal risk and replacement cost risk. This constitutes around 38% of all transactions settled by DCC by value.

In a DVP settlement model, the principal risk is eliminated; however market risk exposure still exists since the settlement is not guaranteed on SD. As DCC does not employ any fails management processes itself, DCC-DVP settlement may be delayed for a certain period until the trade is cancelled. During that period, securities prices are subject to fluctuation, therefore the buyer may suffer replacement cost risk if they have to execute another trade to obtain the securities, as well as potential consequential losses which are difficult to determine.

Counterparty risk exposure is minimal for the T+0 market as securities are pre-delivered and cash pre-funded prior to trade execution.

For RTS Standard, RTS Classica order-driven (USD trades) and RTS T+0 transactions, participants are exposed to the CCP (RTS Clearing Centre or NCC). To safeguard against the default of a participant and the replacement cost risk, the CCP requires posting of margins and contributions to a guarantee fund from clearing members.

Participants are also exposed to the USD settlement banks (Citibank and JP Morgan) for cash deposits. However, for balances held at RTS Settlement Chamber, Federal Law No. 39-FZ ‘On the Securities Market’ dated April 22, 1996, a.7 stipulates segregation of client cash held at a bank in special depository accounts, which are protected from the bank’s obligations. Cash accounts at the RTS Settlement Chamber are segregated between proprietary and client cash.

Risk Containment Model

RTS Clearing Centre (CCP) manages market risk expose by requiring margins in RUB cash from clearing members. Before trade execution there is margin check between RTS and RTS Clearing Centre, and only if sufficient margin is available does the trade execute. For RTS Standard trades, the margin amount is calculated twice a day (2.00pm and 6.45pm), , according to an adapted version of the SPAN methodology established in RTS Clearing Centre. The calculation methodology ascribes a 99% confidence level to posted collateral. Clearing members transfer cash collateral to RTS Clearing account at RTS Settlement Chamber. RTS Clearing maintains records of cash funds with breakdown by clearing members. These cash funds are used as collateral for all executed trades and for remittance of guarantee transfers. Upon effecting settlement on the securities delivery date a clearing participant should transfer the cash funds commensurate to his obligations to the corresponding Trading Account (internal bank account) at the RTS Settlement Chamber. RTS Clearing holds rights to submit orders to debit the account. Counterparty risk is further mitigated through the use of the Contingency Fund (a mutualised fund) and the Reserve Fund (part of RTS Clearing Centre net capital).

For RTS Classica order-driven (USD) trades, each member is allowed to trade within limits set by RTS Clearing Centre. Each stock is characterised by a market risk ratio taken into account for the calculation of the collateral requirement. Each participant can trade within an overall trading limit consisting of an unsecured limit and secured limit. The unsecured limit is determined by the settlement reliability level of the member and the secured limit by deposit of collateral.
Eligible collateral includes RUB and USD cash and the 22 most liquid equities. Government debt is not eligible for collateral at RTS Clearing Centre since these instruments must by law remain in the custody of NSD. There is a 30% haircut on equities collateral, and of the total collateral posted (as of November 2011), 5% was in equities and 95% cash.

RTS Classica quote driven trades and OTC trades may settle through DCC DVP. DCC controls the DVP process for transactions in both USD and RUB settlements on a near-simultaneous DVP basis. The DVP arrangements protect participants against the risk of loss of principal in a trade, but there is no fails management process or resources to protect against market risk and other possible consequential losses.

For pre-funded T+0 non-anonymous DVP trades, settlement is assured by the requirement to have securities and cash in place prior to trading. Although NCC acts as central counterparty to this market, its role guaranteeing settlement for this market is therefore limited.

FOP (non-DVP) settlements expose participants to full counterparty risk. Foreign market participants’ decision to settle FOP rather than DVP, which stems from their interpretation of the 17f-7 requirements, unnecessarily increases settlement risk. In many cases, the cash payment is not initiated until the security transfer is confirmed – a delay between security transfer and payment of up to two days may occur.

It should be noted that only professional participants can open custody accounts (nominee holder and trustee) with DCC. Professional participants are legal entities that are granted a licence to perform a special activity (depository, brokerage and/or trust management) and who meet some financial and technical requirements.

Delivery Versus Payment

DVP settlement guarantees against principal risk; however it does not guarantee against market risk. DCC operates a near-simultaneous DVP settlement in both RUB and USD currencies in case of batch settlement where DCC controls the movement of securities and cash. DCC also offers real-time DVP settlement via DVP 'Online'; however, to date this has been little used. Similarly, ESSS-DVP has been developed with ING, but has not been utilised by ING clients due to

For RTS Standard, RTS Classica order-driven (USD trades) and RTS T+0 trades, the DVP settlement is in batches, one batch for each market, on a near-simultaneous basis.

Role of Central Counterparty (CCP)

All order-driven trades are concluded with RTS Clearing. When a trading participant submits an order to the trading system, the exchange transmits the order to RTS Clearing where the order undergoes verification against collateral. In case of a positive result of the verification, the order becomes 'announced' (visible to other market participants). Upon the availability of a matching order (offsetting instructions are identified by matching), RTS Clearing simultaneously accepts two matching orders and becomes the buyer to the member-seller and the seller to the member-buyer. RTS Clearing operates a settlement account at DCC. The account is used for settling netting transactions on obligations and claims of RTS Clearing and clearing participants.
The minimum capital requirement for a clearing organisation is RUB 100 million (USD 3.33 million). The capital of RTS Clearing Centre is RUB 2.84bn (~USD 88m) as at November 2011 (up from RUB 1.82bn (~USD 58m) in 2010).

RTS launched REPO trades with CCP coverage in anonymous trading mode on RTS Standard in September 2010. These trades are made in a continuous double auction of orders, i.e. in the order book. The first leg of the repo trade is settled on the trade date (T+0), and the second leg is settled on the next day (T+1). CCP functionality for direct repo trades was implemented in April 2010. The settlement cycle for direct repo trades varies from T+0 to T+4.

On 1 January 2012, the law on clearing and clearing activities came into effect which introduced the definition of clearing and clearing obligations, the concept of CCP and its responsibilities, and described the rules for clearing including the disclosure of information for clearing organisations. The law also includes a description of the clearing process, risk management and legal regulation of clearing activities.

Participant Criteria

Eligible participants are all professional domestic participants of the securities market i.e., stock exchanges; banks and brokers. Foreign banks can only participate through a local subsidiary as foreign nominees are not permitted to directly participate in the Russian market.

DCC employs a stringent admission policy involving credit analysis of potential participants. All participants are subject to the same rules and procedures and are covered by a standard participation agreement. There is an extensive Know Your Customer (KYC) questionnaire that provides information on the participant that is reviewed by various departments within DCC. Participant membership applications are reviewed according to specific criteria by the Access Board.

No minimum capital requirements are set for participation by DCC. Banks must be licensed by the Central Bank of Russia, and brokers and custodians must be licensed by the FFMS. Banks registered after 1 January 2007 must have a minimum capital of the rouble equivalent of EUR 5 million. The State Duma has recently passed a bill to increase the minimum capital requirements for banks. According to the bill, the minimum capital requirement for newly established banks has been increased from RUB 180 million (approximately USD 6 million) to RUB 300 million (approximately USD 10 million) from 1 January 2012, while existing banks are required to increase their capital to RUB 180 million and RUB 300 million by 1 January 2012 and 1 January 2015, respectively.

DCC has certain requirements that a Russian custodian should meet to participate in ESSS. The custodian should be considered a secure place of safekeeping and the volume of operations with the custodian shall be significant enough to make the scheme viable. Also the Russian custodian should have: (i) minimum equity capital of RUB 5 billion (ii) An agreement on Insurance of Loss Caused to Third Parties in the Course of Depository Activities for the amount of at least RUB 400 million;(iii) no pending losses caused to third parties in the course of depository activities of the custodian over the last three years; (iv) Assets under custody of at least RUB 500 billion; and (v) at least 1,000 transfers between DCC and the custodian through registrars over the last calendar year.

The RTS Settlement Chamber also adopts specific participant criteria including the requirement to use EDI, have suitable creditworthiness, and satisfactorily complete a questionnaire that is filed with the FFMS.

The RTS Clearing Centre has no specific participation criteria for clearing members. Members are not eligible to clear the transactions of other trading members (i.e. there are no General Clearing Members).

Participant Concentration

DCC had 315 participants as at 31 September 2011. The top 10% of participants settled 80.4% of transactions by value (up from 77% in 2010) and 92% by volume (67.7% in 2010, which is a high concentration amongst the top participants. The largest participant (TroikaDialog) settled 10.2% by value (16% in 2010) and 19.5% by volume (23.6% in 2010) for the same period, which is a decreasing concentration, and not significant enough to trigger concerns of systemic risk should Troika default.

Financial Compliance/Surveillance

While DCC does not monitor and manage the risk of a participant failing; it does actively monitor participant actions to ensure that they are in accordance with its rules and procedures. There is daily automated monitoring of participants' settlement performance, volumes and history of late payments. DCC imposes fines on participants for late book-entry settlement instruction or failure to observe contractual obligations with DCC. Although DCC does not monitor participants' exposures, they have an understanding of each client's position through their account managers.

RTS Clearing Centre marks to market members' positions twice a day and adjusts the margin requirements by making intraday margin calls when necessary. The CCP also has access to participants' financial statements and National Rating Agency ratings to assess default risk.

Guarantee Funds

The Guarantee Fund for RTS Classica order-driven market (USD trades) has been legally dissolved (i.e. no mutualised guarantee fund). RTS Clearing Centre will fulfil its obligations as CCP in the amount equal to its equity capital.

A Contingency Fund of RUB 1.24 billion (made up of contributions by clearing members) for both RTS Standard and FORTS markets is in place. RTS Clearing Centre also maintains a Reserve Fund of RUB 1.5 billion (approximately USD 51.9 million), which is made up of the RTS Clearing Centre's contributions from its own capital.

For RTS Standard and FORTS markets, the funds and capital of RTS Clearing Centre will be used in the following order in case of default of a participant:
• Defaulter's contribution to the Contingency Fund
• Reserve Fund in full
• Contributions of other clearing participants to the Contingency Fund
• Equity capital of RTS Clearing Centre

The size of the Reserve Fund is RUB 1.5 billion (approximately USD 51.9 million) and the joint amount of the Guarantee and Reserve Funds exceeds RUB 2.7 billion (approximately USD 93.4 million).

Counterparty Risk - Key indicators
Capacity of CSD Agent
Surveillance of participants by CSD Yes
Settlement assurance For RTS CCP anonymous trades only.
Participation criteria Banks must be licensed by the Central Bank of Russia, and brokers and custodians must be licensed by the Federal Financial Markets Service (FFMS).
Minimum Capital (local currency) - Banks: RUB 300 million - Broker/Dealer: RUB 35 million - ESSS custodians: USD 5 million - Settlement depositories: RUB 250 million - Specialised depositories: RUB 80 million - Registrars: RUB 100 million - Stock exchanges: RUB 150 million
Size of Guarantee Fund - (Name, local currency, Euro and USD - (millions)) The RTS Classica Guarantee Fund (USD trades) has been legally dissolved. The Contingency Fund for both RTS Standard and FORTS amounts to RUB 1.24 billion. RTS Clearing Centre also maintains a Reserve Fund of RUB 1.5 billion.
Does the CSD act as a central counterparty No

Comments

RTS Clearing Centre acts as central counterparty for the anonymous transactions in USD and RUB on RTS Classica and RTS Standard markets.

Participant Concentration (Local Currency Millions)

Value of transactions in the market by top 10% of participants

80.4%

Volume of transactions by top 10% of participants

92%

Volume of largest individual participant

19.5%

Asset Servicing Risk

Summary

DCC, as a settlement depository, provides an extensive corporate action service to its participants. It attempts to provide complete and accurate information of events and process instructions speedily and accurately despite the fragmented nature of registrars and the lack of any official source of information. DCC does not process instructions directly from beneficial owners on voluntary events. Hence, DCC is not exposed to any risk in the accurate calculation of entitlements, but simply executes entitlement settlement based on schedules sent by the registrars. DCC supports the use of electronic communications such as EDI. As part of its services it provides a level of protection to its participants in the event that it is negligent, whereby it accepts liability for its errors or omissions where it has been at fault.

Information processing

DCC, as a custodian, provides its participants with details of both mandatory and voluntary corporate actions. For equities, issuers are legally required to notify registrars and registrars are legally obliged to notify their clients, including nominee holders (e.g. DCC) of all corporate action information. For all other securities, issuers are contractually required to notify DCC.

DCC receives approximately 80% of corporate action information in electronic form. DCC maintains EDI links with 36 out of 42 registrars in the market through which the information is received electronically. This covers about 1,800 issuers out of approximately 2,770 issuers in the country. Physical documents are scanned and the scanned images are sent to participants via email.

Five newswire agencies authorised by the FFMS independently service the Russian market with this information in electronic form. DCC subscribes to one agent as a primary source. DCC is able to electronically extract information from the newswire agency and transfer it into their system without any manual intervention.

DCC minimises its risk of not distributing correct information and/or missing a mandatory corporate action by: (i) cross checking notifications from the issuer/registrar with notices provided directly to DCC as a nominee account holder on the register; (ii) monitoring the web sites of the issuers, registrars, state authorities and mass media to get information on the pending corporate actions; and (iii) reconciliation of balances between the DCC nominee account and DCC records.

The Russian market does not currently have standard SWIFT formats for corporate events. However, DCC is able to receive corporate action information from correspondent depositories via SWIFT. Use of SWIFT has significantly increased due to the establishment of direct account with Euroclear Bank.

DCC distributes corporate action information to participants electronically via EDI, email or SWIFTnet (although rarely used by participants), on the day of receipt (generally within 30 minutes of receipt of information) or the day after at the latest, if received late in the day. However, six participants still receive corporation action information from DCC via fax and they represent USD 2 billion in assets under custody or around 2.6% of total assets under DCC's custody.

Corporate action information is sent free to participants who have concluded a depository agreement on:
- access to DCC Info System;
- complete information on registrars and securities re-registration;
- information on issuers' securities and corporate actions;
- information on issuers and registrars.

Participants without a depository agreement may pay a fee for access to the information on DCC's website. Participants pay a fee for either a one-off enquiry through the website or subscription to a newswire service (643 users).

DCC also provides reports including the Issuer Information Report, the Securities Information Report and the Bond Information Report for coupon payments on all issuers whose securities are held in their securities account to participants, if requested.

DCC accepts liability for the timely provision of corporate actions information to participants if it receives accurate and timely information from the issuer or registrar.

Instruction processing

DCC provides the list of shareholders upon request to the registrars and entities which are entitled to receive such list in accordance with the Russian Federal legislation. The list of shareholders is provided directly to the issuers only in the case that they maintain the register themselves.

Optional Corporate Actions

For optional corporate actions, participants give instructions directly to the issuers. Issuers process the instructions through their registrars who calculate beneficial owner entitlements and send a schedule of debits and credits to DCC for settlement. The most common optional corporate events include buy-backs and conversion of shares. On rare occasions, participants may be required to have DCC stamp their instruction but this does not expose DCC to any risk.

DCC currently receives 80% of security allocation instructions (optional corporate actions) from the registrars via EDI. Securities are credited to participants' securities accounts according to the general procedures: (i) on the basis of a transaction statement from the registrar and (ii) on the basis of a participant's instruction to deposit securities.

Dividend and Interest Payment

For dividend payments, DCC acts as a nominee holder and has to compile and provide the list of beneficial owners to the issuer upon a request from the registrar. According to local regulations, this process has to be completed within 7 days prior to the payment date. For interest payments, it is not necessary to provide the list of beneficial owners to the issuer.

There is no central paying agent in the market for corporate actions. The issuer distributes interest and dividends directly or via a paying agent. Payments are made net of tax in compliance with the Russian Federation Tax Code. Around 90% of issuers select DCC as their paying agent.

There is no fixed Payment Date in Russia but rather a payment period, which could not exceed 60 days from the date when the decision to pay dividends was approved by the General Meeting. Some issuers split the payment in different tranches. If the issuer pays by stages, DCC has to contact the issuer to verify to which participants the funds have to be distributed to. Once payment is received from the issuer, DCC then distributes it to those participants who have appointed DCC as their paying agent.

Payments to participants are in electronic form via a bank transfer. DCC uses RTS Settlement Chamber for the distribution of interest payments and ING Bank for dividend payments. Interest is distributed to participants on the day of receipt, while dividends are distributed between 1 and 3 days later (legislation specifies payment to be made within 5 days) since DCC has to reconcile accounts with issuers and wait for confirmation from ING that payment has been made into its account. In 2011, over 93% of dividends were paid on day 1 and the remaining dividends paid within three days.

Income disbursed by DCC totalled RUB 48.06 billion (dividend and interest) in 2010, up 69.6% on 2009 (RUB 28.34 billion).

The introduction of ESSS has added complexity to the management of corporate actions on securities held indirectly through DCC's sub-accounts, although this appears to be well managed.

Participants are required to advise DCC of any material change in their contact details and bank arrangements in written form. Other less material information can be provided electronically through the DCC remote access system.

For all corporate action processing, DCC accepts financial liability for direct and indirect losses that are the result of its errors and inactivity. DCC does not accept liability for losses which are the result of an action by a third party.

Proxy Voting

Registries are concentrated in Moscow though some remain located across the whole of Russia. DCC provides an optional proxy voting service through which they will represent a client's interest at shareholder meetings held in Moscow or other parts of Russia. DCC requires a Power of Attorney and instructions on how to cast votes. Once this is received, DCC's representative will attend the meeting, as a physical presence is required, and will vote in accordance with the participant's instructions. After the meeting, DCC will inform participants on the results of the meeting. Typically only a small number of mainly non-resident clients use this service for 'out of Moscow' registries.

Split voting below the beneficial owner level is not supported by local legislation since only beneficial owners or their representatives are allowed to vote.

Russian legislation provides for only limited circumstances where partial voting instructions can be executed:
1) a shareholder is a holder of ADRs, or
2) in case the transfer of shares takes place after the record date and before the date of the General Meeting (in which case the owner of the shares disclosed at the registrar as of the record date is obliged to issue a POA in the name of a new owner upon his request in order to vote or be requested by the new owner to vote with this part of shares on his account).
Therefore, split or partial voting instructions may be deemed null and void by the issuer or registrar. S
plit/partial voting instructions can be accepted and executed on a best effort basis only subject to the client providing a relevant disclaimer.

Currently, electronic voting is not permitted. For general meetings, nominee holders, including DCC, are required to compile the list of beneficial owners for the issuer.

Other services

DCC assists sub-federal and corporate bond issuers with the distribution of IPOs and handles the redemption and interest payments for these issuers.

DCC provides a service to facilitate tax relief for investors from countries with a double taxation agreement with the Russian

Federation. For this service, when DCC gathers the list of shareholders for the issuer prior to a dividend payment, they also include a certificate of tax residence for their clients. DCC also checks that the dividend payment was paid in accordance with the appropriate tax rate for that country. If there is a discrepancy between the payment and DCC's records, then DCC provides a legal service to resolve the situation. This service has been offered at the request of market participants.

Asset Servicing Risk - Key indicators
Information processing
Securities covered Eligible securities
Information sources used Issuers, registrars, RTS, data vendors
Information provided in English Yes
Number of Events during last full year
Dividends Value – RUB 48.1 billion (year-end 2010) Number of payments – 12,260 (year-end 2010)
Interest & Redemptions Value - RUB 10 billion (year-end 2010) Number of payments – 1,717 (year-end 2010)
Corporate actions 651 (year-end 2010)
Notification via Proprietary (EDI), email, website, etc
SWIFT message types No, but information can be received via SWIFTnet
Notification within Same day subject to timely receipt of information.
Information processing comments Corporate actions information is transmitted to participants on the day of receipt (generally within 30 minutes of receipt) or day of receipt + 1 if received later in the afternoon.
Instruction processing
Use of depository Market Practice for equities
Settlement on due date No
Optional corporate actions supported Yes
Cash account credited No
Central paying agent No
Entitlements based on Settled positions as of record date.
Instruction processing comments Instructions received via EDI and fax.

For Settlement on due date:
Equities – No (Issuers may spread payments over five days)
Fixed Interest -Yes

Proxy voting services

On-line
No

Outsourced
No

Announcement of meetings
Yes

Elections (Voting)
Yes

Results reporting
Yes

Proxy voting services comments
Physical presence is required for proxy voting purposes.

Financial Risk

Summary

DCC was previously owned in 97.75% by the Russian Trading System (RTS). However on 19 December 2011 MICEX completed its merger with RTS and therefore, as of that date, MICEX-RTS is the main shareholder of DCC. DCC's total shareholder equity was RUB 1,187 million (USD 38.87 million) as at the end of 2010, up 1% from 2009. DCC posted a net profit of RUB 11.7 million (USD 0.402 million) for the year 2010 compared to a net profit of RUB 49.92 million (USD 1.55 million) for the whole year of 2009, although a loss of RUB 37.13 million (USD 1.2 million) and RUB 20.58 million (USD 0.681 million) from operating activities was recorded respectively in both the years in the income statement.

Despite the increase in revenue in 2010, operating losses increased compared to 2009. This is mainly due to an increase in expenses in 2010. Also, as opposed to 2009, there have not been any gains on currency exchange recorded in 2010. The operating loss was offset, however, by an increase in investment income in both years, which totalled RUB 54.52 million (USD 1.78 million) and RUB 88.46 million (USD 2.92 million) respectively. DCC has renewed the insurance coverage of RUB 50 million (USD 1.65 million) for 2010/2011. No financial claims have been made against DCC for the past five years. No significant infrastructural investments, which could draw on DCC capital, are planned.

Due to the consolidation of the exchanges, the RTS T+0 market was closed on 19 December 2011, while the two remaining markets, RTS Standard and RTS Classic, were transferred to MICEX. Moreover, DCC is planned to be merged with NSD in the first week of July 2012. DCC will continue to be the sole settlement depository for trades executed on RTS Standard and Classic until March 2012, while from March until June 2012 settlements of such trades will be possible at both DCC and NSD. DCC does not expect to lose a significant proportion of its revenues due to the closure of RTS T+0 market, as revenues resulting from such settlements represent less than 1.2% of the total operating revenues.

Financial and other Resources

Capital Structure

Prior to the merger of RTS and MICEX, RTS was the major shareholder of DCC holding 97.75% of its shares. However, following the completion of the merger between the exchanges on 19 December 2011, the 97.75% stake was transferred to the integrated exchange, MICEX-RTS. The remaining 2.3% is split amongst three shareholders.

DCC and NSD are expected to complete their merger in the first week of July 2012. The new capital structure will be determined after the merger of the two groups.

Net equity stood at RUB 1.18 billion (USD 38.87 million) at the end of 2010, up 1% from RUB 1.17 billion (USD 38.65 million) at the end of 2009. In 2008, net equity had increased to RUB 1.12 billion from the total equity of RUB 282.28 million at the end of 2007, due to an increase in the share capital from RUB 3.35 million to RUB 796.16 million in 2008. The total equity as of 31 December 2010 consisted of share capital of RUB 796.16 million, share premium of RUB 49.58 million and retained earnings of RUB 341.15 million. The annual net profit is transferred into retained earnings which have shown a continuous increasing trend in the last few years amounting to: RUB 229 million, RUB 279 million, RUB 329 million and RUB 341 million in 2007, 2008, 2009 and 2010 respectively.

The total assets of DCC amounted to RUB 1.43 billion (USD 46.78 million) at the end of 2010 compared to RUB 1.33 billion (USD 43.94 million) at the end of 2009. The ratio "total equity/assets" was 83% and 88.21% at the end of 2010 and 2009, respectively. Cash, cash equivalents and investments represented 19.45% (RUB 277.87 million) of total assets in 2010 as opposed to 30.35% (RUB 404.46 million) in 2009. However, throughout 2011, DCC gathered more cash and cash equivalents which amounted to RUB 623.95 million as of 31 September 2011 (increase of 124.5% from December 2010). DCC cash reserves (after subtracting the dividends and coupon payments of RUB 28 million from the overall liquidity figure) would allow it to operate for approximately 29 months without incoming revenues (the average monthly cash outflow from operating activity is RUB 20 million). As a comparison, the minimum equity requirement for DCC set by the FFMS is RUB 25 million.

The DCC Charter has been amended to require approval of 75% quorum of the Board for deals equal to or over 10% of the balance sheet assets but not less than RUB 100 million.

Earnings Performance

DCC has maintained ongoing profitability for the past five years although it has declined every passing year. Net profits have been RUB 62.92 million in 2006, RUB 55.99 million in 2007, RUB 50.16 million in 2008, RUB 49.92 million (USD 1.65 million) in 2009 and RUB 11.7 million (USD 383,124) in 2010. DCC does not distribute dividends to shareholders.

The total income is split between operating income and finance income. The operating income is a balance of fee income and operating expenses, which amounted to RUB 270.32 million and RUB 301.20 million, respectively, in 2010. The fee income is dependent to a great extent on the trading volume and therefore the overall situation of the Russian securities market. The break-down of the fee income for 2010 is: Depository fee Income (includes settlement, safekeeping and external operations) 92.4%, re-registration (6%) and corporate actions and information (2%). External operations refer to withdrawal/deposit of securities and NSD-DCC bridge settlement.

Although total fee income has increased by 16.5% in 2010, operating loss still went up compared to 2009. The ratio “operating expenses/operating income” was 108.73% and 111.42% in 2009 and 2010, respectively. Increased operating loss in 2010 reflects an unplanned one-off cost as part of a staff retention plan, and one-off costs to shift to new premises. In 2010, the operating loss of RUB 37.13 million was offset by the net finance income of RUB 54.18 million resulting in a gross profit of RUB 17.05 million. In 2009, the fee income amounted to RUB 237.31 million while the operating expenses totalled RUB 258.04 million and the net finance income was high at RUB 87.81 million, resulting in a gross profit of RUB 67.23 million.

DCC started de-coupling its total income from operational activities in 2008, with an intention to generate more revenues from investments (finance income). The capital increase of RUB 792.81 million (USD 26.89 million) through issuance of new shares in 2008 was mainly put on hold in cash/cash equivalents and investments assets. Investments amounted to RUB 11.05 million, RUB 221.51 million, RUB 791.67 million and RUB 1 billion at the end of 2007, 2008, 2009 and 2010, respectively. This increase is to the detriment of cash/cash equivalents which have decreased for the past three years.

The investment amount was RUB 1 billion (USD 32.77 million) as at 31 December 2010 (i.e. 70% of the total assets) and split into long-term deposits with banks (RUB 636.31 million), long-term loans (RUB 205.83 million), short term loans of (RUB 150.01 million) and Moscow municipal bonds (RUB 8.80 million). Long-term deposits are held in two large Russian banks (S&P credit rating BB+ and BBB) and a foreign subsidiary of a large Russian bank (Fitch credit rating BBB-). Long-term and short-term loans carried at amortised cost represent loans issued to related parties at interest rates of 3.5% p.a. maturing from January 2011 to March 2011 (31 December 2009: none). Included in long-term and short-term loans are loans to employees of RUB 2.28 million at interest rates of 9.0% p.a. (31 December 2009: none).

Finance income stood at RUB 30.40 million in 2008, then rose to RUB 88.23 million in 2009 and dropped to RUB 54.52 million in 2010. The reason for the 38% drop in this income was the sensitivity to changes in interest rates. The rates offered by the Central Bank of Russia have decreased and therefore the rates DCC invested its funds at were 10-14% in 2009, 6-7% in 2010 and 3.5-4.5% in 2011.

DCC has the flexibility if necessary to raise or lower fees to keep in line with market conditions; however changes must be agreed with input from the Group and from the major users whose objective is to keep fees low.

DCC has projected an operating profit for 2011 by taking into account the worst case scenario in terms of transaction volume projections, however the forecasting method did not account for bonuses paid out at the end of 2011.

The depository does not expect to lose a significant proportion of its revenues due to the closure of RTS T+0 market, as revenues resulting from such settlements represent less than 1.2% of the operating revenues.

Guarantee Funds (Central Counterparty Funds Only)

DCC does not operate as a settlement guarantee fund. This role is fulfilled by RTS Clearing which has its own Reserve Fund (see Counterparty Risk) and margin arrangements.

Access to Credit

DCC does not have any committed, arranged lines of credit though they do have uncommitted lines in the form of a letter from Gazprombank expressing non-committed support for a credit line. DCC has an internal policy to ensure that sufficient liquidity is maintained to cover expected monthly commitments, unexpected events, and that the balance sheet liquidity indices determined by the board are met. According to this policy, the required liquidity level stands at RUB 25 million, which would be sufficient to keep DCC operating for at least one month without incoming revenues (the average monthly outflow from operating activities is RUB 20 million). Liquid assets in cash/cash equivalents amounted to RUB 997.33 million in 2008, RUB 404.46 million in 2009, and RUB 277.88 million (USD 9.12 million) in 2010. Throughout 2011 however, DCC accumulated more liquidity which amounted to RUB 623 million, as of September 2011. After subtracting from this figure the amount of dividends and coupons payable to clients (RUB 28 million), the level of liquid assets stands at almost 50% of DCC’s capital. This amount (RUB 595 million) is 23 times higher than the requirement and would be sufficient to cover almost 30 months.

Insurance

DCC has an insurance policy from Ingosstrakh Insurance Company with a coverage of USD 50 million per event and a deductible of USD 250,000. The policy is further reinsured by Lloyd’s Syndicate. The contract has been renewed for 2012 on the same basis.

The following risks are covered:

A Banker’s Blanket Bond (BBB) covers loss or damage caused by staff fraud, wilful misconduct or gross negligence, physical loss/destruction or damage to DCC’s assets and property located in its offices (solely as a result of theft), attempted theft or wilful damage, loss or damage caused to assets owned by DCC during their transportation or associated with receipt of documents containing forged signatures or intended unlawful changes to written (hard copy) depo instructions, forged certificated securities, and acceptance of counterfeit money. Apart from BBB coverage, the policy also covers losses and damages associated with the following:

- Unauthorised access to computer networks;
- Malicious code or fraudulent alteration of computer software;
- Loss of electronic data;
- Computer viruses;
- Fraudulent incoming electronic instructions;
- Fraudulent outgoing electronic instructions;
- Fraudulent outgoing electronic instructions associated with purchase, sale, transfer or pledge of securities on electronic data-carriers;
- Fraudulent voice orders.

Moreover, legal costs incurred by DCC for defence against claims, suits, complaints and legal proceedings are also guaranteed by the policy. Finally, DCC is insured against third party claims on financial losses caused by negligent acts, negligent error or negligent omission on the part of an officer or employee of DCC in the course of business operations, as well as legal and financial costs of proceedings brought by third parties.

The insurance covers the property interests of DCC, involving its liability to reimburse, in accordance with Russian laws, any property damage caused to third parties in performance of its activities.
In case of a claim amount below the deductible, a guarantee fund of RUB 1 million will be utilised.

Potential Claims on Financial Resources

Credit Loss

DCC does not appear to have any credit risk exposure as it does not provide any credit (in any form) to their participants.

Central Counterparty Exposure

DCC does not have any direct central counterparty exposure.

Liability for Operational Losses

Russian Civil Law requires the reimbursement of all damage caused to third parties that result from errors, negligence or omissions of employees (excluding force majeure) while undertaking their business activity. Damage includes direct losses and "lucrum cessans" or lost profits.

DCC is liable for correct and timely processing of instructions from participants and registrars but does not guarantee trade settlement. It does not accept liability for accuracy of information received from the issuers and is only liable for its timely distribution to participants.
Other liabilities for losses that DCC accepts are the ones arising from gross negligence, omissions, wilful misconduct, its errors, fraud, theft of securities, system breakdowns and consequential losses. It does not accept liability for losses resulting from force majeure and political event.

To manage its liability, DCC has cash reserves (RUB 277.88 million as at 31 December 2010 – USD 9.12 million) in addition to a USD 50 million insurance policy. DCC maintains a small guarantee fund, to compensate for errors made in the clearing processes, of around RUB 1 million as of 30 September 2011.

There have been no claims made against DCC in 2011 or over the last five years.

Investment in Infrastructure

DCC has no major projects valued over USD 1.0 million underway or planned projects that could impact DCC's capital. All significant projects are routinely budgeted and monitored by the Finance Department.

Financial Risk - Key indicators

Ownership of the CSD

	Number - Domestic	Number - Foreign	Total Percentage
Central Bank	0	0	0
Stock Exchange	1	0	97.7567%
Participant banks	1	0	2.2413%
Broker/dealers	2	0	0.0020%
Mutual funds	0	0	0
Private clients	0	0	0

Others	0	0	0

Comments

Break-down of ownership in DCC:
- Open Joint-Stock Company MICEX-RTS: 97.7567%
- Closed Joint-Stock Company AKB Zerich Investment Bank: 2.2413%
- Closed Joint-Stock Company Capital Regent Securities: 0.0010%
- Closed Joint-Stock Company Navigator Capital: 0.0010%

All ordinary shares (39,659,221) have a nominal value of RUB 20 per share, rank equally and carry one vote.

Statistics

	Capital structure Local Currency
Issued capital	796,166,000
Reserves	49,581,000
Retained earnings	341,146,000
Total	1,186,893,000

Comments

Figures in RUB as of 31 December 2010.

Lines of stock

	2007	2008	2009	2010	2011
Lines of stock	4,079	4,343	4,130	4,074	-
% Stock Exchange transactions cleared & settled through CSD	100*	100*	100*	100*	-
Total value of securities under custody	124.1	29.4	74.1	124.8	-

Comments

* For those Stock Exchanges where DCC acts as the authorised depository.

Value of assets under custody in USD billions (appraised value).

Equities

	2007	2008	2009	2010	2011
Market Value	121.6	16.307	57.852	106.209	-
% of issued securities in the CSD	N/A	N/A	N/A	N/A	-
% of market capitalisation in the CSD	N/A	99.89	97.67	98.97	-

Comments

Figures in USD billions.

Fixed Income

	2007	2008	2009	2010	2011
Market Value	2.5	0.178	1.335	1.058	-
% of issued securities in the CSD	N/A	N/A	N/A	N/A	-

% of market capitalisation in the CSD	N/A	0.11	2.25	0.99	-

Comments

Figures in USD billions.

Money Markets

	2007	2008	2009	2010	2011
Market Value	N/A	0.709	44.425	32.246	-
% of issued securities in the CSD	N/A	N/A	N/A	N/A	-
% of market capitalisation in the CSD	N/A	0.004	0.15	0.03	-

Expenses

	2007	2008	2009	2010	2011
Expenses as % total operating revenue	79%	86%	108%	111.4%	-

Comments

The ratio for 2010 is as at 31 October 2010.

Operational Risk

Summary

Sound operational controls appear to be in place and they are performed in accordance with established procedures and regulations. DCC has completed and signed representations on the internal controls and procedures it maintains.

The majority of corporate actions information from registrars comes through (EDI) and fax, whereas settlement instructions from issuers/registries are more automated predominantly being sent via EDI while SWIFT is widely used by large participants for payment/receipt instructions between the RTS Settlement Chamber, clearing banks and also for effecting all ESSS related instructions.

There is an independent internal control function performing checks on the design and implementation of controls on all key operational processes. When new services are launched, operational risks are identified and monitored by the risk management department. Internal audits are completed on a periodic basis according to an Internal Audit plan, but there is no complete annual internal audit conducted on all operational procedures and controls.

An external audit was executed in the form of a SAS-70 report by KPMG in 2007. The significant recommendations in the 2007 report were implemented. The SAS-70 Type 1 audit performed in 2010 attested that the design and implementation of all key risk controls were satisfactory. However, a full audit of the effectiveness of the controls was not undertaken. The SAS-70 Type 1 audit was not renewed in 2011.

DCC has formal disaster recovery and business continuity plans which are tested annually, although participants have not been actively involved in the testing. The last test was performed on 15 October 2011. An anti-crisis committee has been established to identify infrastructural threats and critical processes that need to be maintained in the event of a number of crisis scenarios, and a BCP was developed based on the British standard 25999.

Depository controls

Vault

DCC does not hold any physical securities and has no vaults. Vault agents are used for any long-term storage of physical property.

Account Structure

Segregation by participants of proprietary and client held assets is compulsory by regulatory requirement. Participants must open accounts for (i) own securities, (ii) securities held for others (omnibus or segregated, nominee), and (iii) securities in trust. Participants can operate their accounts either directly or by appointing an agent who is a DCC participant, thus a participant can operate a multiplicity of accounts.

Trustee accounts can be opened by participants with Russian licences for trust activity only. Sub-accounts are used for specific types of operations (e.g., Stock Exchange trading, pledge of securities, etc.). DCC does not have legal relations with participants' clients and therefore cannot identify assets held in an omnibus/nominee account for a particular beneficial owner.

Physical Security

DCC is located within the RTS building. Securities guards are posted at the entrance of the building. Visitors have to provide passport identification and be accompanied by a DCC employee whilst in the building. The operational floor has electronic locks with selective access. External parties are not able to access the operational floor. Employees have to give the keys to the security staff before leaving the building.
Changes have been made to the access control systems in the building where IT staff are located. The same gate-pass entry system as that employed at the main office is now used and both systems are now centrally controlled - before the systems were independent of each other.

Access to back up centre

Physical access to the backup office is restricted. Security features include an alarm and video monitoring system controlled by the Security Department of RTS, and the use of security keys. Over the last twelve months there have been no security breaches uncovered.

The server room is isolated from other rooms, and can only be accessed via a separate entrance with permanent guards. There is a second room where the RTS IT support staff are located. This room is separated from the server room by a window wall. At night there is always an electrical engineer on duty in this room.

Operational audits

KPMG executed a full SAS-70 report in 2007 and again in 2010. The 2007 report provided an independent assessment that the established controls were applied effectively. The SAS-70 report stated that the internal control provisions and procedures have been properly developed and comply with the internal control objectives stated in the description, providing these provisions and procedures were adequately met. In addition to the SAS-70 report, KPMG provided some recommendations to DCC's management, in order to improve their internal processes and controls. Work on the recommendations was completed. A subsequent outcome was a structured catalogue of control measures and respective operating business processes.

The SAS-70 Type 1 audit performed by KPMG in 2010 confirmed that the design and implementation of controls and procedures was satisfactory. However, no test of the effectiveness of the controls was undertaken yet (SAS 70 Type 2). The SAS-70 Type 1 audit was not renewed in 2011.

Internal control

DCC has established a diversified internal control and risk management system. Risk management is conducted through the Internal Control Department (headed by the Internal Controller), the Statutory Support Department (headed by the Legislation Controller), the Information Controller and the Risk Management Director. The functions of the units that comprise the Internal Control and Risk Management System are regulated by internal policies, which detail the targets, functions, rights, obligations and responsibilities of all structural units that make up the system.

The Internal Control Department has one staff. The Internal Controller checks compliance with the requirements of the law and internal documents. The audit plan is adapted to the requirements of the law. The Internal Controller paid additional attention to performing audit of the Clearing Department in 2011 in view of the new Federal Law on Clearing and clearing Activities that took effect on 1 January 2012. Also the Internal Controller is currently acting as designated officer for compliance with the Anti-Money Laundering and Counter-Terrorism Financing Act (AML/CTFA). As part of the re-engineering of business processes in 2011, the procedures for the conclusion of depository agreements have been revised in order to tighten controls around AML monitoring. An IT audit on key systems is not undertaken by the Internal Controller.

The Internal Controller maintains an electronic log of all audits (Proprietary Access Database) and decides on the necessity and frequency of the audit (monthly, quarterly, semi-annually or annually) depending on the provisions of the Federal Law and internal regulations of DCC. The Internal Controller reports directly to the Board of Directors on a quarterly basis. The reports include information on all discovered violations in the reporting period and are reviewed at the next Board's meeting.

Reconciliations

Regular reconciliations are conducted to ensure that the amount of securities recorded in DCC's books matches the participants' records. In particular, these include:

- reconciliation of each transaction in DCC's records as a nominee holder for a given reconciliation period;
- reconciliation of total balances in DCC's records as of the reconciliation date.

Reconciliation of each transaction in DCC's accounts for a given reconciliation period are conducted by means of a comparison of transactions recorded in the movement in the account of DCC at the registrar, as submitted by the registrar, with the corresponding records on customer accounts for individual securities. Reconciliation of total balances in the DCC's accounts in the registrar is conducted by means of a comparison of data included in the Statement of Accounts of DCC as submitted by the registrar as of the reconciliation date, with total balances in participants' accounts for individual securities.

For the most actively traded equities, DCC performs daily reconciliations for each transaction and a reconciliation of the total balances. In relation to the shares of second-tier issuers, DCC performs a reconciliation for each transaction and a reconciliation of balances on a regular basis (at least twice per month), depending on the volume of transactions with these securities.

The reliability of DCC's securities custody services is also enhanced by means of the maintenance and regular updating of the database on all securities held in custody. The availability of up-to-date information on state registration codes, share issue prospectuses and reports on the results of share issue placements enables DCC to avoid potential conflicts related to the nullification of share issues.

In respect of ESSS, DCC reconciles their balances in sub-accounts held with custodians on a daily basis using SWIFT.

The efficiency of reconciliations performed by DCC and the timely co-ordination with registrars in carrying out transactions in DCC's nominee accounts have been ensured by the use of EDI in communication with most registrars.

Recruitment and Staff training

DCC has formal documented processes and procedures for staff recruitment and training that include: Procedures for Personnel Selection, Regulations on Staff Appraisal, and Regulation on Personnel Training amongst others.

Employees are selected on a competitive basis taking account of applicants' qualifications for key positions. Selection is carried out using both internal resources and specialised recruitment agencies depending on the circumstances. Candidates are interviewed and before selection the Internal Security Department conducts mandatory stringent background checks on the candidates.

HR manages the induction process for all new staff including the completion of all hiring documents with newly-hired employees signing a binding confidentiality agreement. Each employee is provided with a job description that defines the extent of the given job's requirements, obligations, rights, subordination system and responsibilities.

All newly-hired employees undergo a three-month probation period and are provided a 'Handbook for New Employees' to provide guidance on DCC's administration, work processes and other requirements. If a new employee receives no critical remarks during the probation period with respect to the performance of his/her job responsibilities then their position is confirmed.

DCC is committed to the ongoing enhancement of employee skills and the costs of external training are incorporated into the budget planning process. Line managers have the responsibility to arrange training for their staff, which in many cases is conducted in-house. Following the Information security audit, IT staff training in related areas of information technology and security has been enhanced.

All employees working in the operations department are required to get the FFMS certificate which attests of their knowledge on general securities market operations, laws of the Russian market and depository activities. The courses are provided by external parties certified by the regulator.

DCC implemented an enhanced settlement system (DEPO/X) in 2009. Training on DEPO/X was provided by the system developers (CMA), including special courses for IT staff who are required to support the system. Furthermore, risk awareness training has been provided online to all staff covering risk management, risk types, risk standards, and scenario analysis.

Clearing controls

Currently DCC clears USD DVP transactions for which it possesses a clearing licence. For USD clearing activities, DCC maintains links with the settlement banks (i.e.JP Morgan and Citibank) and with RTS Settlement Chamber via SWIFT. Participants maintain an autonomous USD account with one of the clearing banks, and maintain a parallel account over which DCC has a power of attorney to control (debit/credit the account), in order to meet the respective participant's USD settlement obligations. Participants can freely transfer available funds between their autonomous and parallel accounts for DCC USD DVP settlements.

DCC clears RUB transactions through the RTS Settlement Chamber via RTS EDI.

DCC also has a link with the RTS Stock Exchange via the EDI system through which instructions between the RTS Settlement Chamber and DCC can be exchanged.

Data processing controls

Receipt of instructions

DCC receives instructions mostly via EDI using a remote terminal, SWIFT, and on rare occasions paper form. There is still a legal requirement to accept paper based instructions. The EDI system has been certified by the Federal Security Service (FSB) for use in protecting data through encryption and electronic/digital signatures. Input and input control functions are the responsibility of participants.

Around 20% of participants send transaction instructions directly via SWIFT. SWIFT is used for exchanging data with the settlement banks when executing DVP settlements and for all communications around ESSS transactions and payment instructions. Physical and electronic access to SWIFT transactions, as well as access to data files, is limited to authorised DCC staff only. Tight controls on processing these instructions are in place.

Settlement process

The settlement process is fully automated at DCC and does not require any manual intervention. The only exception is the manual double input of participants' paper instructions which constitute less than one per cent per month. No message conversion is required when instructions are received via EDI and SWIFT.

Communication and Network security

A ‘fibre optic’ connection has been established between the DRP and main offices. This bandwidth is used for online replication of all operational databases and files on a physical level in real-time mode using the HP EVA4000 hardware + software solution. Data is replicated and restored on the server in the DRP office in real-time. Different ISPs are used to provide Internet connection for both sites and in the event that one ISP is unavailable, the connection is rerouted automatically via the second ISP.

DCC implemented the system for management of information security including network security in accordance with the international information security standard ISO/IEC 27001. The system was implemented in cooperation with ZAO Dialogue Science, a certified partner of the British Standards Institution (BSI). DCC plans to achieve ISO/IEC accreditation in due course.

Access control level (ACL)

The Single Windows 2000 domain is used. The domain is divided into two sites which correspond to the main and DRP operational sites. Two Windows 2000 Domain Controllers exist in each site. Replication of ACL and Domain policy is performed via TDI connection between the main and DRP sites.

Participants have a different set of access permissions according to ACL stored in the Active Directory of Windows 2000 domain and NTFS file system permissions. Every user has an individual login/password. Domain policy includes password policy (passwords strength and validity period).

Email and Internet security

CISCO IronPort appliance was installed in the main office and the Back-up Centre of DCC to ensure advance information security and increase the efficiency and protection of the e-mail system. DCC has also introduced the Websense Web Security solution intended to bring in a range of measures to prevent leakage of confidential information, through web filtering, to protect against spyware, Trojans, malicious websites, and other such external threats.

The Company uses an antivirus defence-in-depth solution: workstations and servers in different systems are protected by antivirus software produced by different vendors.
User workstations are protected by Symantec antivirus software with firewall components and centralised management.

Employees do not have direct Internet access (web or any email except corporate Exchange server) except for Client services and PR departments. The email and internet security was last successfully tested by a penetration test audit conducted in 2008.

Disaster Recovery/Business Continuity Procedures

Disaster recovery and business continuity plans are in place and are reviewed and updated regularly. sDCC has a duplicate computer system in the building to handle any in-house system failure. An uninterruptible power supply/tandem generator handles power supply failures. Off-site back-up and operational facilities would be used in case of any major disaster that could make the DCC building unusable. In the event of a disaster interrupting processing capability, immediate system recovery is planned.

Data is replicated and restored on the server in the DRP office in real-time. This makes the DRP office operational at all times and it is regarded as a ‘hot’ site facility (i.e. in a disruptive event the processing can be seamlessly continued without loss of data at the DR site). A daily back-up of data is also done on HP tape.

To increase efficiency, reliability and resilience of the main office DCC replaced the active network hardware and LAN topology in Q1 2009.

Different employees go twice a year to the DRP site for familiarisation. A full simulated test is executed annually, with the servers restored using the last working day’s data. The last DRP test was executed on 15 October 2011 with 8 participants. DRP tests to date have not been widely executed with market participants nor has testing of access to DCC DRP from participants’ and RTS’s own DRP sites been conducted. The DRP has not had to be activated within the past five years.

SWIFT ISO 15022 communication is used as a backup to the proprietary system communication network. DCC would announce by email and telephone any system interruptions to participants.

The BCP was developed based on the British Standard 25999 and a Crisis Committee was established in 2009. The BCP consists of approved internal procedures containing directions and a list of operations (manuals) that should be conducted by staff in case of local, global interruption or emergencies. An audit of the BCP was conducted in 2011 due to changes in the organisational structure of DCC. As a result, a new BCP is being re-engineered.

The BCP site was relocated to a new building that belongs to RTS. There are four rooms with work places for employees of DCC, one room is for the IT equipment of DCC and one server room with all the backup server architecture. The latter room is shared with the RTS server equipment. DCC estimates that they could continue running operations from the DRP centre for over a month if necessary.

The DR and business continuity site is located around 20km from DCC's main production site, where the main IT infrastructure for RTS is located. It is only accessible to selected DCC employees. It has 23 work stations with designated equipment for each area (3 for the Clearing Department, 4 for the Depository Department and the remaining for all other departments). The site is equipped with fire and security alarm and CCTV. One security guard is also present on the site 24hrs a day in rotated shifts.

DCC has two independent phone line providers. Both the main and backup offices are independently connected to the two telephone providers and the E1 direct optical link between the main DCC Office and the Backup Office adds resilience to the communication network. In a DR event, not all DCC phone numbers that terminate at the main DCC office would be available to participants. At the moment, DCC is working on additional changes - backup communication channels for Internet access and radio-telephone.

Depository Liability

DCC is required to accept liability for direct and indirect losses caused to participants due to its errors and omissions (excluding force majeure) according to Article 7 of the Federal Law On the Securities Market, and para. 4.1.4. of FCSM Regulation No. 36 of October 16, 1997.

Systems Performance

The settlement system (DEPO/X) developed by CMA Small Systems AB was launched into production in December 2009. The system is able to execute up to 100,000 operations per day, a ten-fold increase in capacity with regard to possible peak load from the previous system. The system allows a further increase in performance by allowing for processing unit expansion. The DEPO/X developer provides complete support of the software on-site.

The average uptime of DEPO/X was 99% for 2011. Nonetheless, DCC encountered several problems due to network connection issue with RTS equipment and actions of personnel. A problem with the internal mail server caused by the failure of the RAID controller occurred with an outage time of three hours. Also there was a problem with a DCC external website due to a breakdown in the http server software and the outage time was four hours. Overall the cumulative outage time for 2011 was less than 10 hours.

To monitor the performance of server equipment, DCC uses standard Windows tools and performance monitoring tools provide by the hardware producer (HP-Compact Insight Manager). There is, however, no use of server/system response monitoring applications as standard.

Operational Risk - Key indicators
Control objectives identified by the CSD match standard objectives Yes
Key controls and procedures are identified by the CSD Yes
Independent evidence exists that key controls and procedures have operated effectively through the last year Yes
Material errors have been identified No

CSD on CSD (Credit) Risk

Summary

DCC has established domestic depository links with the National Settlement Depository (NSD) for the settlement of MICEX trades, Gazprombank depository for the settlement of Gazprom shares and Sberbank for the settlement of Rosneft shares. DCC has implemented the Enhanced Speedy Settlement Scheme (ESSS) with Citibank, ING, Deutsche Bank, Sberbank and VTB for settlement of trades between DCC's participants and the custodians' clients. DCC has international depository links with the Central Securities Depository of the Republic of Kazakhstan, the Republican Central Securities Depository of the Republic of Belarus, the National Depository of Ukraine, Clearstream Banking Luxembourg via VTB, and Euroclear Bank. This report should be read in conjunction with the assessments undertaken on those depositories.

CSD - CSD Links

Domestic Links:

DCC maintains a securities account at NSD for the settlement of securities traded at MICEX (vice versa). Transfer of securities through the bridge takes place from 10.00am to 18.35pm. Settlement confirmations are delivered every 30 minutes.

DCC and NSD undertake the reconciliation and netting of securities balances on their correspondent accounts on a daily basis, at the end of each business day. When the net position in one of the depositories is in excess of the established credit cap, on the next business day the depository concerned gives the instruction to the other to transfer the excess amount of securities into its nominee name at the registrar of shareholders. In any event at the end of each month the two depositories transfer the net balances in their respective nominee names into the other's nominee name at the registrar of the company.

DCC maintains accounts with Gazprombank for the settlement of Gazprom shares and Sberbank for the settlement of Rosneft shares. DCC has opened accounts with Citibank, ING Bank, Deutsche Bank, Sberbank, and VTB Bank to facilitate the Enhanced Speedy Settlement Scheme (ESSS).

Inter-depository settlements are conducted on an FOP basis, except the settlements through ESSS with ING Bank, through modification of net securities obligations in each other's settlement accounts. The settlements through ESSS with ING Bank could be conducted on FOP and DVP basis, but to-date the DVP option has been rarely used.

International links:

DCC has opened accounts with Clearstream Banking Luxembourg through Vneshtorgbank (VTB). DCC also has links with the Central Securities Depository of Kazakhstan, the Republican Central Depository of Securities of the Republic of Belarus, the National Depository of Ukraine, and Euroclear Bank.

Processing Cycles

MICEX trades

For the settlement of securities traded at MICEX, DCC maintains a securities account with NSD, the MICEX settlement depository. Trading takes place at the exchange and the transactions are reflected in DCC's records based on a net-settlement report from NSD in respect of the corresponding trading sub-accounts of DCC. Cash settlement is managed by MICEX. Trades on MICEX can be undertaken on a pre-funded or RTGS DVP 1 basis.

For pre-funded trades, at 9.45am cash and securities are blocked prior to the commencement of the MICEX trading session at 10.00am. Settlement is completed at 7.30pm since the MICEX settlement batch starts at 7.00pm and takes 30 minutes to complete. Securities/cash not used during a trading session can be withdrawn.

The asset commitment risk for DCC participants buying or selling securities using MICEX RTGS DVP 1, is limited to the time it takes to transfer the security across the NDC-DCC bridge inter-depository account (the maximum time being up to two hours). For cash payments, which must be credited to the MICEX Settlement Chamber ahead of settlement, the asset commitment risk is negligible.

There were 100 issuers eligible for DCC-NSD bridge in July 2011. The limit of the securities that can be simultaneously in NSD safekeeping is USD 50 million. DCC is proposing measures to significantly extend the list of securities eligible for settlement via the bridge, increase the number of batches, accept SWIFT message formats and reduce fees.

Participants of NSD and DCC can submit instructions for inter-depository transfers until 6.15pm and transfers are executed between 10.00am and 6.35pm.

Gazprom shares

For the settlement of Gazprom shares traded at the St Petersburg Stock Exchange, DCC has an account at Gazprombank, which works via SDC (Settlement Depository Company controlled by Gazprombank), the settlement depository of the St Petersburg Stock Exchange. Trading takes place at the exchange and the transaction is reflected in DCC's records.

CSD on CSD (Credit Risk) - Key indicators

International Links: List of international links established and/or planned by the CSD

International Links: List of international links established and/or planned by the CSD
Foreign:
- Euroclear Bank
- Clearstream Banking Luxembourg (via VTB)

CIS countries:
- The Central Securities Depository of the Republic of Kazakhstan
- The Republican Central Depository of Securities of the Republic of Belarus
- The National Depository of Ukraine

Domestic:
- National Settlement Depository (NSD)
- Gazprombank depository for Gazprom shares
- Sberbank for Rosneft shares
- Citibank for domestic securities
- ING for domestic securities
- Deutsche Bank for domestic securities
- VTB for domestic securities

Governance and Regulation

Management and governance of the depository

As of 19 December 2011, the RTS's 97.75% stake in ZAO DCC was transferred to the integrated exchange MICEX-RTS. Prior to the merger of the exchanges, RTS had four representatives on the Board of Directors and there were 7 further independent members of the Board of Directors that represented major participants of ZAO DCC. The President of ZAO DCC is also a member of the Board of Directors of ZAO DCC. The compositions of DCC's BoD will remain unchanged until 1 July 2012.

The Board of Directors: (i) oversee and approve all aspects of the depository's day-to-day and strategic decisions; (ii) is responsible for resolving general issues relating to depository and clearing services provided by DCC, including decisions on new services, deadlines and implementation procedures, as well as the technical development; and (iii) is responsible for approving basic documents, which regulate the procedures for executing transactions, establishing competence levels, and regulating the activities of the different departments, as well as internal documents flow procedures and internal regulatory documents concerning accounting and reporting procedures. In line with the Law on Clearing and Clearing Activities, in force from 1 January 2012, the responsibilities of BoD have been extended to cover: election of the members and the size of the Directorate, approval of the clearing rules, ensuring implementation of audit and measures to mitigate risks of a clearing organisation and appointment of the internal controller.

The Board of Directors receives reports on the results of reviews of DCC's activities, which are prepared by the internal control department.

According to DCC's Charter, the President, who is elected by the General Shareholders' Meeting, is the highest single executive official engaged in the day-to-day management of the Company's current activities. Both the President and Internal Controller report directly to the Board.

DCC also has a Committee of Major Participants (CMP) which is responsible for discussing and approving the main issues such as the fee structure, service changes, new products, Clearing Rules etc. The CMP meets at least quarterly and any decisions reached by this committee must then be approved by the Board of Directors. The Committee of Major Participants consists of 11 members elected for a one-year term by the Board of Directors: 10 representatives of 20 major clients of DCC and 1 representative of DCC (President).

Other Committees

The only other Board committee that exists is the Strategic Development Committee whose task is elaboration of recommendations to the Board of Directors on DCC's mid-term development strategy. DCC does not have an Audit Committee.

Risk Management Committee

DCC adopted the provisions for and formed a Risk Committee in 2011. The development was in compliance with the Federal Law No.7-FZ "On Clearing and Clearing Activities", effective as of 1 January 2012.

Disclosure of Information

DCC operates a website in English where it provides a wide variety of corporate and statistical information including its charter licence, registration certificates, annual report, financial statements, terms and conditions, depository activity of DCC, Clearing Rules of DCC, DCC Information Agreements on EDI and SWIFT, fees, ratings, data on issuers securities and registries, and good information on other DCC related issues. DCC does not publish their IOSCO assessment information. However KPMG's summary of its SAS-70 Audit is published on the DCC website and participants can be provided with the full report on controls that were in place as of 16 July 2010. Moreover, the AGC questionnaire is available on the website.
There does not appear to be any centralised management for updates of the website, with each head of department responsible for providing information in their field.

Regulatory and independent examination of the depository

The Federal Financial Markets Service (FFMS) regulates DCC. It has the power to approve new services for DCC and conducts operational audits as specified above. The FFMS has the right to impose fines on DCC, and restrict, suspend or terminate its activities/licence. No enforcement actions have been taken by a regulator on DCC in the past three years.

DCC reports to FFMS and is a member of the self-regulatory organisation PARTAD (Professional Association for Registrars, Transfer-Agents and Depositories). DCC follows the rules of PARTAD. DCC is required to submit monthly reporting documents and copies of quarterly financial statements to the FFMS.

Annual financial audits have been performed since 1996 by an internationally recognised company, currently KPMG, according to both Russian and international accounting standards. Internal auditors provide reports on a quarterly basis which are then presented to the FFMS.

External operational audits (SAS 70) have been executed by KPMG. The FFMS also executes periodic reviews on DCC's operational controls.

Internal controls and procedures for safeguarding investments

Although the design and implementation of procedures and controls are tested, a full internal audit verifying that operational staff are following controls and procedures is not conducted. Errors are reported to department heads, but only 'significant errors' are reported to the Internal Controller. It is up to the department head to decide what qualifies as a significant error. The Internal Controller reports significant errors to the President as they happen, and to the Board quarterly.

Areas of risk within business processes have been identified in a thorough review of operational risks carried out by the Head of Risk Management. Internal controls to counter risks have been built into the operational procedures. Bi-weekly meetings are held where business processes are discussed and risks and compensating controls required identified. Extraordinary meetings where changes in processes are discussed must be attended by a business analyst. The SAS-70 (Type 1) audit by KPMG in 2010 confirmed that the design and implementation of all key risk controls was satisfactory. The audit however was not renewed in 2011.

Other legal protection mechanisms

DCC is required, pursuant to Russian legislation and its agreements with clients, to return all deposited securities to respective depositing clients, upon their request according to the RF Civil Code (N 51-FZ of 30.11.1994 and to the FCSM Regulation N 36 of 16.10.1997.

The nominee concept is recognised in Federal Law. According to "Securities Market Law" (N 39-FZ of 22.04.1996) nominee accounts can be opened by participants with Russian depository (custodian) licences only.

Participants' assets are protected from bankruptcy of the DCC under Federal Law. (Securities Market Law" (N 39-FZ of 22.04.1996) and FCSM Regulation N 36 of 16.10.1997).

About the Depository

Name and Address

Depository Clearing Company (DCC)

Office address:
Building 1,
4/7 Vozdvizhenka Street,
Moscow, 125009.
Russia

St. Petersburg branch:
Floor 6, 15 26th Line, Vasilyevsky Ostrov,
St. Petersburg, 199026,
Russia

Website

www.dcc.ru/eng

Date of establishment

1993

Date commenced operations

1993

Type of legal entity

Closed Joint Stock Company.

Regulated by

Federal Financial Markets Service (FFMS).

Is use of the CSD required?

	Settlement	Safekeeping

Segregation of Assets at the Depository

Depository assets from participants

Yes

Participant assets from clients

Yes

Eligible Securities Depository under SEC Rule 17f-7

System of central handling of securities

Yes

Regulated by a financial regulatory authority

Yes

Holds assets of all participants on equivalent terms

Yes

Identifies and segregates participant assets

Yes

Periodic reports to participants

Yes

Periodic examination by a regulator or independent accountant

Yes

By Law	No	No
By Market Practice	Yes	No

How securities are held
Dematerialised

Domestic eligible participants
315 participants as at 31 September 2011.

Foreign eligible participants
No foreign nominees.

Ownership
MICEX-RTS Stock Exchange (97.7567%), CJSC AKB Zerich Investment Bank (2.2413%), CJSC Capital Regent Securities (0.0010%), AOZT Navigator Capital (0.0010%).

Internal Safety Measures

Participant Eligibility Criteria

Minimum Capital Standards
Yes

Comments
Minimum capital requirements for banks stipulated by CBR and for brokers by the FFMS.

Financial Aspects

Ability to raise capital/borrow
Yes

Committed lines of credit in place
No

Publish audit financials
Yes

Take lien on stock held
No

Central Bank Guarantee
No

Other third party guarantee
No

Third party insurance
Yes

Comments
Lien on stock:
Not possible to have a lien on nominee accounts but could be done on a participant's own assets.

Safeguard Facilities

Offsite Backup
Yes

Services Provided

Matching

Pre-matching services
Yes

Matching services
Yes

Comments
Securities are committed when matched.

Clearing

Clearing services
Yes

Comments
For USD DVP

Securities Settlement

Book-entry settlement
Yes

Fails management
No

Cash Settlement

Internal cash settlement
No

Stock Lending

Securities lending for fails coverage
No

Comments
Reverse repos are used regularly for non-CCP settlements

Asset Servicing

Disaster Recovery

Disaster Recovery Plan
Yes

Back-up power generator
Yes

UPS (Uninterruptible power supply)
Yes

Notifications
Yes

Securities processing
Yes

Paying agent
Yes

Central registrar
No

Proxy voting services
Yes

Communications

Electronic communications
Yes

Reporting Services

Electronic reporting
Yes

Reporting of every movement
Yes

Regular statement of securities deposited
Yes

Definition

-

Publication Date

The publication date represented here is January 2011. This is the date that the assessment report has been reviewed by third parties including the CSD. The report is updated on an on-going basis throughout the year as new information is received and should be read in conjunction with the relevant newsflashes issued since the publication date.

RISK EXPOSURE DEFINITIONS

Asset Commitment Risk - The period of time from when control of securities or cash is given up until receipt of countervalue. This risk concerns the time period during which a participant's assets, either cash or stock, are frozen within the CSD and payment system pending final settlement of the underlying transaction(s). Following settlement, the risk period is extended until the transfer of funds and stock becomes irrevocable. It excludes any periods when assets, cash or stock, are committed to a market participant including brokers, banks and custodians, not caused by CSD processing.

Liquidity Risk - The risk that insufficient securities and or funds are available to meet commitments; the obligation will be covered some time later. This is where for certain technical reasons (e.g., stock out on loan, stock in course of registration, turn round of recently deposited stock is not possible) one or both parties to the trade has a shortfall in the amount of funds (credit line) or unencumbered stock available to meet settlement obligations when due. These shortfalls may lead to settlement 'fails' but do not normally lead to a default.

Counterparty Risk - The risk that a counterparty (i.e., a participant) will not

RATING SCALE

AAA	Extremely low risk
AA+	Very low risk
AA	
AA-	
A+	Low risk
A	
A-	
BBB	Acceptable risk
BB	Less than acceptable risk
B	Quite high risk
CCC	High risk
N/R	No rating has been given due to insufficient information

Contact:

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settle its obligations for full value at any time. This is simply the total default of a direct participant of the CSD. This is the event when a participant is unable to meet its financial liability to other participants. This risk only goes as far as direct participants of the CSD and excludes clients of direct participants that default on liabilities to such participants, even if such a default should systemically cause the direct participant to subsequently default.

Asset Servicing Risk - The risk that a participant may incur a loss arising from missed or inaccurate information provided by the depository, or from incorrectly executed instructions, in respect of corporate actions and proxy voting. This risk arises when a participant places reliance on the information a depository provides or when the participant instructs the depository to carry out an economic transaction on its behalf. If the depository fails either to provide the information or to carry out the instruction correctly then the participant may suffer a loss for which the depository may not accept liability. The depository may provide these services on a commercial basis, without statutory immunity, or it may provide the service as part of its statutory role, possibly with some level of protection from liability. This risk is likely to become much higher when international securities are included in the service.

Financial Risk - The ability of the CSD to operate as a financially viable company. This risk concerns the financial strength of the depository and if its financial resources are sufficient to meet the on-going operation of the organisation. This risk also includes where the CSD may act as central counterparty, or otherwise acts in a Principal capacity.

Operational Risk - The risk that deficiencies in information systems or internal controls, human errors or management failures will result in losses. The risk of loss due to breakdowns or weaknesses in internal controls and procedures. Internal factors to be considered in the assessment include ensuring the CSD has formalised procedures established for its main services. The CSD should have identified control objectives and related key controls to ensure operation and proper control of established procedures. Systems and procedures should be tested periodically. There should be external audit processes in place to provide third-party audit evidence of the adequacy of the controls.

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Names of analysts available on request.

Report Date

Russia

16 February 2012