



Thomas Murray Upgrades the Central Securities Depository Rating for Russia's National Settlement Depository (NSD) to AA- with Stable Outlook

Thursday 20th December, 2012

PRESS ANNOUNCEMENT

LONDON - Thomas Murray, the specialist custody rating, risk management and research firm, has upgraded the CSD rating for Russia's National Settlement Depository (NSD) to AA-, which translates as 'very low Overall Risk'. Its previous rating was A+. The rating is made up of the following components:

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

The overall rating of 'AA-' reflects a weighted average of the six risk components and relates to a very low risk exposure profile with 'Stable' outlook. Of the six risk components, only Operational Risk was upgraded from A+ to AA-. The outlook indicates there are no significant developments in the marketplace that may alter the Overall Risk in the near future.

NSD is the result of a merger on 3 November 2010 between National Depository Center (NDC), a securities settlement depository, and MICEX Settlement House (MICEX SH), which was a banking institution with a restricted licence that provided cash settlement. In 2012, the services, previously provided by DCC and Settlement Chamber RTS, were transferred onto the NSD platform. Subsequently, having been granted CSD status from FFMS of Russia on 6 November, 2012, NSD became the sole CSD in the Russian market.

Some key features of NSD's operations are as follows:

NSD operates a pre-funded model for most on-exchange transactions which assumes blocking of securities for both buyers and sellers during trading hours. Off-exchange settlement takes place on a DVP1, DVP2, DVP3 or FOP basis.

Liquidity and Counterparty Risks for Moscow Exchange-traded securities are mitigated by the use of the pre-funding model. However, off-exchange trades have a higher degree of risk exposure due to the use of non-DVP settlement for the majority of trades and there being no settlement guarantee measures in place.

Asset servicing risk exposure is low. This reflects the high level of liability that NSD must accept in accordance with Russian Civil Law, (which protects participants in the event of losses caused by an incorrectly processed event). Nevertheless much of the processing involves manual operations and there is considerable scope in this area for the processes to be automated to enable

STP of corporate actions with the resultant beneficial impact on asset servicing risk.

Financial Risk exposure has been assessed as AA. NSD's capital at around USD 180 million appears to be adequate for a depository that has a restricted banking license to provide cash settlement services. NSD has additional resources in the form of liquid reserves and an insurance coverage of USD 65 million. It also has the ability to borrow from the Bank of Russia on a secured basis either intra-day or overnight. The company has been profitable over the past few years, although a significant proportion of its revenue is derived from interest income.

Operational Risk has been upgraded to AA- due to improvements in a number of risk factors. Audit arrangements have noticeably improved. The internal control department which acts as internal auditors and undertake periodic audits on different areas and processes including the IT operations has increased its staff complement. NSD had an external operational audit (ISAE 3402 Type 1) undertaken on its controls and procedures in February 2012. Also a pre-audit gap analysis was undertaken in October 2011. Other external audits were undertaken during the year such as an information security audit, an audit arranged by FFMS of Russia, another by Bank of Russia and an audit on the risk management system. A dedicated Risk Management Department [RMD] is responsible for the risk identification and profiling of NSD's depository and other businesses risks. An external review resulted in recommendations from which RMD has developed a relevant roadmap for the further strengthening and improvement of the risk-management system adopted within NSD.

NSD has continued to improve its Disaster Recovery (DR) and Business Continuity (BC) arrangements. The primary data site houses a back-up system and also serves as the business continuity site for NSD staff members. A second back-up system is located 15 kilometres from both the production and the primary data sites. Testing of the DRP and BCP arrangements has improved over previous practices but there remains scope to enhance arrangements further.

Governance and transparency arrangements have improved with enhanced user representation on Board and management committees. Some improvements could be made to NSD's data mining capabilities to provide the market with more statistical information on the settlement and custody operations.

Asset safety has been enhanced partly as a result of improved legal conventions stemming from recent law changes. The foreign nominee concept is now recognised and NSD, as the CSD, can legally grant ownership of securities in Russia while the beneficial ownership of participants is legally recognised. NSD is now recognised as the central place for safekeeping for traded securities and securities held at registrars following the adoption of the CSD law.

Simon Thomas, CEO and Chief Ratings Officer of Thomas Murray, said *"Thomas Murray has carried out an independent CSD public rating on NSD's operations following a momentous year. NSD was impacted by the merger with DCC following the merger of the exchanges, MICEX (its majority owner) and RTS, changes to a number of securities market laws and being granted a license to operate as a CSD by the market regulators. The rating has upgraded the CSD on the back of improved arrangements to manage operational risk. Going forward NSD will need to continue to make improvements, especially in the area of asset servicing, if it wishes to maintain or improve on its AA- rating"*.

Eddie Astanin, Chief Executive Officer of NSD, said *"Risk management continues to be a major focus of attention for NSD's Supervisory Board and Executive Board. We recognised its importance given the extent of change that we have had to manage in the past year. Our efforts have been suitably recognised by the upgrade to our rating and we intend to push ahead in making improvements in areas where weaknesses have been identified. The Thomas Murray rating assessment will help us to identify those areas of our operations that can be further improved and provide Russia with a world class clearing and settlement infrastructure"*.

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

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



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NSD - The National Settlement Depository, Russia (Updated Mar 2013)

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About Thomas Murray

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

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About National Settlement Depository (NSD)

National Settlement Depository (NSD) is the central securities depository of the Russian Federation, a part of the Moscow Exchange Group. NSD is Russia's national numbering agency and the substitute numbering agency for the CIS, authorized to assign the international ISIN and CFI codes.

The status of central securities depository was assigned to NSD by the Russian Federal Financial Markets Service's order on 6 November 2012.

NSD holds professional securities market participant license #177-12042-000100 for depository operations issued by the Russian Federal Financial Markets Service on 19 February 2009, and license #3294 for bank operations issued by the Central Bank of the Russian Federation on 26 July 2012.

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