

Depository Review and Risk Evaluation Service



THOMAS MURRAY

Public Rating
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Russia

NDC

Instruments Supported

Equities	Corporate Debt	Money Markets	Government Debt
Yes	Yes	Yes	Yes

Role of the Depository

The National Depository Centre (NDC) is a not-for-profit partnership established in January 1997 by the Central Bank of Russia (CBR) and the Moscow Interbank Currency Exchange (MICEX). NDC began operations in March 1998. In July 1998, the NDC partnership was joined by several major domestic commercial banks.

NDC performs the functions of a central securities depository and clearing house for government bonds denominated in roubles (GKO and OFZs), corporate bonds, some issues of municipal and regional bonds and acts as the depository for equities which are traded on MICEX. (Equities traded on the RTS system settle in DCC). NDC acts as registrar for Central Bank of Russia (CBR) bonds and most municipal and corporate bonds.

NDC was legally established under the Foundation Agreement and the Charter of NDC. NDC's operations as a securities depository is governed by the Federal Law on the Securities Market, Federal Law on the Joint Stock Companies, Federal Law on Non-Commercial Organisations, government decisions and various other regulations. NDC is regulated by the Federal Service for Financial Markets (FSFM) of the Russian Federation. NDC also acts as a National Numbering Agency for allocation of ISIN codes for the Russian Federation. Bonds are safekept at NDC in either dematerialised or immobilised form (via global certificates). Equities are held at the registrars in dematerialised form.

MICEX acts as the clearing house via, controlling the DVP process for Rouble settlements of on-exchange trades. The Settlement Chamber of MICEX (a company with a limited banking licence) handles cash settlement and NDC processes securities transactions and acts as a settlement depository for MICEX. NDC acts as clearing house for off-exchange trades, controlling the DVP process. Use of NDC is compulsory for government, corporate, municipal and regional bonds and equities traded on MICEX.

NDC has a depository license, but there is no entity in Russia that has been given a license as a CSD, although this remains an objective of the regulator. Instead, each stock exchange has its own settlement depository (for securities transfers) and settlement chamber (for cash transfers). The main two trading and settlement infrastructure groupings in Russia are MICEX and NDC and RTS which settles trades via DCC.

The Thomas Murray CSD Public Rating for NDC is A+

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

The outlook for the rating is: On Watch

Risk Summary	Risk
Overall Risk	A+
Asset Commitment Risk For on-exchange settlements participants suffer high asset commitment risk caused by the requirement to pre-fund both their securities and funds sub-accounts prior to trading. The asset commitment period for off-exchange settlements for the seller is short (maximum 10 minutes), while the exposure for the buyer is negligible.	A+
Liquidity Risk Liquidity risk for on-exchange settlements in the classic market is low since both securities and cash are pre-funded and immediately available for settlement on a net basis. Liquidity risk for off-exchange trades is higher due to the gross settlement and the absence of other liquidity improving mechanisms such as securities lending and borrowing and buy-in procedures.	A+
Counterparty Risk Counterparty risk between participants is reduced by the pre-funding requirements before trading for on-exchange transactions in the classic market and the effective DVP arrangements. However, due to the pre-funding requirement brokers also suffer counterparty risk against the MICEX Settlement Chamber and NDC, which manage the cash and securities accounts, respectively. For off-exchange settlements, the DVP mechanism mitigates the risk of principal loss, but some consequential losses may occur since there are no fails management mechanisms. Also there are no minimum capital requirements for participants imposed by NDC and little or no monitoring of participants.	A
Asset Servicing Risk For asset servicing, the liability is not limited to just gross negligence under local regulations and NDC has some insurance to cover this liability. NDC is an active recipient of information from issuers and registrars and takes full responsibility for its accurate and timely dissemination to participants once it has received it. It is mandatory for participants to pass instructions via NDC when it acts as paying agent (mainly bonds) and in turn NDC is liable for direct losses that arise from its role as an intermediary. NDC does not provide any tax reclaim services. It does offer a proxy voting service, but it is not currently used by participants.	AA-
Financial Risk NDC's net capital at RUB 578 million (USD 20 million) in 2005 seems adequate for the market and is expected to be increased to the average of the European CSDs (USD 55 million) by 2010. Future revenues are largely assured since the majority of income is from safekeeping fees of fixed income securities, which have fixed term contracts with the issuers. Their potential investment in infrastructure is significant as they are in the planning stages of a major project to re-engineer their systems. They have also been active in acquiring stakes in other local depositories.	A+
Operational Risk NDC has reported that it has internal control procedures in place to mitigate operational risk. Financial reviews and audits are carried out at regular intervals by internal and external auditors. Operational audits are undertaken by the Internal Controller but there are no external audits that report on operational controls. Some audits are arranged every two years by Ingosstrakh Insurance as part of their insurance process with the last being done in 2004. NDC shares a DRP facility with MICEX.	A
CSD on CSD Credit Risk NDC has a one-way link with Clearstream Banking S.A. and the Central Securities Depository of Kazakhstan. It also has a settlement link with DCC, its fellow Russian depository.	No Links

Asset Commitment Risk

Summary

For on-exchange settlements participants suffer high asset commitment risk caused by the requirement to pre-fund both their securities and funds sub-accounts prior to trading. The asset commitment period for off-exchange settlements for the seller is short (maximum 10 minutes), while the exposure for the buyer is negligible.

Processing Cycles

NDC operates two settlement mechanisms for Rouble (RUB)-denominated transactions:

(1) For on-exchange trades, settlements are on a Model 3 basis, multilateral net settlement of securities and net settlement of cash across participants' accounts at the MICEX Settlement Chamber. The DVP is controlled by MICEX by checking that there are sufficient securities and cash in the participants' sub-trading account before trading takes place.

(2) Off-exchange trades are all treated as OTC settlements. Settlement is on a Model 1 basis with near-simultaneous gross settlement of securities and cash. The DVP process is controlled by NDC, which checks that there are sufficient securities and cash in the participants' accounts before settlement takes place. No pre-funding is required for OTC settlements.

(1) On-exchange trades:

Trading of shares and corporate bonds take place via the MICEX Stock Exchange in three different markets: classic market, negotiated market and repo market. Trading takes place between 10.30am and 6.45pm for the classic market, 10.00am and 7.05pm for the negotiated market and between 10.15am and 7.05pm for the repo market. Secondary trading of GKO/OFZ bonds (government securities) must be conducted at MICEX. Sessions are held daily from 11.00am to 4.30pm and trading and settlement usually occurs on the same day (i.e., SD = TD).

Trades are locked-in and the information is sent electronically to NDC and the MICEX Settlement Chamber. Matching takes place at MICEX and there is no need for participants to confirm trades to NDC. This settlement model involves interaction between three institutions: MICEX as a trading system and clearing house, NDC as a securities depository and the MICEX Settlement Chamber as the cash settlement system for Roubles.

NDC also settles transactions from the St Petersburg Currency Exchange (SPCEX) - Bonds only- and Siberian Interbank Currency Exchange (SICEX) - currently not active.

Settlement varies according to the market used for trading, as follows:

- Classic market:

For the classic market, MICEX requires pre-delivery of the securities to be sold, into the sub-trading securities account of the authorised broker at NDC and the pre-payment of funds to cover purchases into the authorised broker's sub-trading cash account held with the MICEX Settlement Chamber before 9.40am on TD. The settlement cycle in the classic market is T+0.

Prior to the trading sessions, the cash balances in the trading accounts of MICEX members are reported by MICEX Settlement Chamber to MICEX with the blocking of the brokers' trading sub-accounts by NDC starting before trading at 9.45am on TD. If there are insufficient securities or cash in the sub-account, trading cannot take place.

After blocking starts, all securities in the trading sub-account are impacted, regardless of whether they are required for settlement. Participants may request transfer of some of the securities from the trading sub-account to their main account at any time during the day, but MICEX checks the net position of the brokers before allowing the transfer to occur. Participants can also add securities into the trading sub-account throughout the day if they expect to increase their settlement obligations.

At around 7.00pm, MICEX will calculate the net settlement obligations for participants and will send this information electronically to NDC for the securities positions and the MICEX settlement chamber for the cash positions. Transfer of securities and cash occurs near-simultaneously between 7.30pm – 7.40pm and both NDC and the MICEX Settlement chamber confirm settlement to MICEX once the process is completed. Unblocking of trading sub-accounts occur at about 7.50pm.

Under this settlement model it is MICEX that effectively controls the DVP process, not NDC.

- Negotiated market:

The negotiated market includes all trades that are effected on an OTC basis (e.g. agreed on the phone by the counterparties) but registered in the MICEX system. Trades in the negotiated market do not need to be pre-funded and can have a longer settlement cycle (from T+0 to T+30).

On SD, trades due for settlement that day in the negotiated market are included in the netting process that occurs at the end of the day (around 7.00pm) and are netted together with all trades executed in the classic market if there are sufficient securities and cash in the participant's account. However, since pre-funding is not required, trades can fail. If there are insufficient securities and cash on SD, the trade is postponed until SD+1 until it is cancelled if the fail persists. DVP of trades executed in the negotiated market is controlled by MICEX.

- Repo market:

Repo trades are also registered on the MICEX's system and can have a settlement cycle between T+0 and T+180 days, although usually, the first leg of the repo settles T+0 while the second leg may have a longer cycle. Trading of repos takes place daily between 10.15am and 7.05pm.

Repo trades settled at the same time as for other trading modes i.e. two intra-day sessions for repos with government bonds (at 1.45 pm and 5.30 pm) and one at the end of the day for repos with bonds and equities. Settlement is on a multilateral net basis and the DVP is controlled by MICEX.

- Government bonds and money market instruments:

Trading of government bonds and money market instruments takes place via MICEX between 11.00am and 4.30pm. They can have a settlement cycle of T+0 which requires pre-funding or alternatively a longer settlement cycle can be selected (T+n), in which case no pre-funding is required. Settlement is on a multilateral basis via two intra-day batches at 1.45pm and 5.30pm. MICEX calculates the net settlement positions and instructs NDC to transfer the securities positions as well as the MICEX Settlement Chamber to transfer the funds from the buyer's to the seller's account.

The DVP is controlled by MICEX.

(2) Off-exchange settlements:

Off-exchange trades in Roubles do not require pre-funding and can have a settlement cycle between T+0 and T+30. Settlement occurs on a model 1 basis (i.e. gross settlement of securities and cash) with cash settlement taking place via the MICEX Settlement Chamber.

NDC requires that both buyer and seller send settlement instructions to NDC, while only the buyer has to send a settlement instruction to the MICEX Settlement Chamber. NDC will then match both instructions on the same day the trade is input. The deadline for sending settlement instructions to the MICEX Settlement Chamber is 7.15pm.

On SD, once NDC receives confirmation from the settlement chamber that there are sufficient funds in place in the buyer's account, NDC will block the relevant securities in the seller's account and will send a cash transfer instruction to the MICEX Settlement Chamber. Following confirmation from the settlement chamber of successful transfer of funds, NDC will then unblock the securities and transfer them from the seller's to the buyer's account. This process takes between 5 to 10 minutes when securities are held in the trading sub account and less than 5 minutes when securities are held in the main account.

For off-exchange trades, it is NDC, which effectively controls the DVP process. Gross settlement of OTC trades takes place between 9.00am and 8.30pm every day.

In case of insufficient securities and cash on SD, the trade is cancelled at the end of SD (8.30pm).

Off-exchange trades can also settle on an FOP basis with funds moving offshore.

NDC has also established a DVP settlement arrangement in USD and Euros via accounts with JP Morgan Chase Bank, Bank of New York and Deutschebank in New York. However, this service is not currently used due to some aspect of the law whereby NDC is restricted in its account opening with commercial banks for the settlement of securities related transactions, and can only open an account with institutions that hold a banking licence but do not provide commercial services (i.e. MICEX settlement chamber). There is a draft law under consideration, which is to amend this restriction.

Cash

Cash settlement for RUB-denominated trades takes place via the MICEX Settlement chamber, a subsidiary of MICEX that holds a restricted banking licence for the settlement of cash accounts of securities related trades. The MICEX Settlement Chamber does not currently provide any type of commercial services.

The MICEX Settlement Chamber currently holds 4,500 accounts for 600 participants.

For on-exchange trades, the MICEX Settlement Chamber will start the blocking of cash trading sub-accounts at around 9.40am in the morning of TD. After trading is completed, MICEX will calculate the net settlement obligations of participants and will send the net positions report to the settlement chamber at around 7.30pm, at which time, MICEX Settlement Chamber will transfer the funds across accounts.

For off-exchange trades, MICEX Settlement Chamber will receive the settlement instructions from NDC, which controls the DVP process. The MICEX Settlement Chamber will advise NDC upon receipt of sufficient funds in the buyer's account. NDC will then block the securities and instruct the MICEX Settlement Chamber to transfer the relevant amount of funds.

The MICEX Settlement Chamber has a correspondent account at the Central Bank of Russia (CBR), which operates the two payment systems in the market (batch gross settlement systems). However, due to the time difference between the most western region in Russia and the most eastern region (9 hours), these payment systems do not always provide same-day funds. They only provide same-day funds for the regions in the European side of Russia, which account for the large majority of trades.

For FX and government bonds transactions, the MICEX Settlement Chamber uses a special procedure that permits a speedy transfer of funds from one region to another. This procedure does not include the use of any of the systems operated by the CBR, although it was jointly developed with the CBR. This procedure provides same day settlement.

For equities and corporate bonds, the MICEX Settlement Chamber uses the CBR's payment system and therefore, next-day funds are provided for trades in the Asian side of Russia.

Asset Commitment Periods

For on-exchange trades, the requirement that securities and funds must be available in specified accounts before trading can take place causes participants to suffer an intra-day asset commitment risk. Sellers and buyers suffer similar asset commitment periods since securities and cash are blocked in the morning of TD at around 9.45am and the countervalue is only received in the evening of SD (usually TD) following the completion of settlement at around 8.00pm. This is an asset commitment period of around 10 hours. This period can be shortened for securities settling in the negotiated market, as pre-funding is not required and it is possible to deliver securities and cash just prior to the clearing process at 7pm.

Off-exchange settlements suffer a shorter asset commitment period since securities are blocked upon confirmation of sufficient cash in the buyer's account by the MICEX Settlement Chamber until the receipt of the countervalue a few minutes later (maximum 10 minutes). Buyers do not suffer any asset commitment period since cash accounts are not blocked under this model.

Irrevocability

Once securities and funds have been debited and credited to their respective accounts these entries are final. There are no circumstances when a securities or cash transfer previously confirmed to a participant as being final can be unwound.

Finality

Securities and cash transfer become final upon settlement.

Asset Commitment Risk - Key Indicators

Irrevocable commitment to the processing cycle

	<i>Transaction Type</i>	<i>Start</i>	<i>Finish</i>
<i>Securities</i>	On-exchange	9.45am SD	8.00pm SD
	Off-exchange	SD	8.30pm SD
<i>Cash</i>	On-exchange	9.40am SD	8.00pm SD
	Off-exchange	-	8.30pm SD

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

MICEX trading brokers' accounts are blocked at 9.45am on TD.

Securities processing cycle outlined

For on-exchange trades, debits to securities accounts are made on a net basis during a single batch processing session at the end of the day. Government securities settlement occurs in two intra-day cycles. Off-exchange settlements occur on a gross basis throughout the day on SD.

Cash processing cycle outlined

For on-exchange trades, debits to cash accounts are made on a net basis during a single batch processing session. Off-exchange cash settlements occur on a gross basis throughout the day on SD, up until 8.30pm.

Liquidity Risk

Summary

Liquidity risk for on-exchange classic market settlements is low since both securities and cash are pre-funded and immediately available for settlement on a net basis. Liquidity risk for settlement in off-exchange settlements is on a gross basis and is higher since other liquidity improving mechanisms are generally absent.

Processing Model

For on-exchange settlements the movement of cash and securities occurs on a net basis through separate systems, but effected almost simultaneously thereby achieving a model 3 DVP environment. Pre-funding of both securities and cash for the classic market, as a condition of trading, makes it effectively a fail-free environment for these trades. The DVP is controlled by MICEX.

For OTC settlements the movements of cash and securities occurs on a gross basis through separate systems, but effected almost simultaneously thereby achieving a model 1 DVP environment. There is no pre-funding as a condition of trading. The DVP is controlled by NDC. Partial settlements are not possible.

Fails Management

For on-exchange trades (classic market), all trades have to be pre-funded. Because of this, MICEX effectively guarantees settlement of each market trade concluded on MICEX. This is achieved by establishing cash and securities positions for every participant before trading begins. Cash positions are based on the amount of funds reserved by participants in their relevant accounts at the MICEX Settlement Chamber. Securities positions are determined according to the amount of securities deposited by the participant at the NDC. Transactions with sufficient coverage proceed to settlement.

For on-exchange negotiated trades, which do not need to be pre-funded, there are no buy-ins or other fails mechanisms in place to ensure settlement. However, MICEX may impose a fine of a maximum 0.05% of the trade value to the defaulting participant in case of default. They will also inform the FSFM and the market via their website. Last year (2005) there were only two cases of default in this market and it was for the second leg of repo trades where a corporate action had occurred. If the trade does not settle on the due SD it will be postponed to SD+1. If it again fails to settle then it will be withdrawn and treated as a failed trade. Participants also have the option to settle the trade OTC, but both counterparties need to inform MICEX. There were only two trades that had to be postponed due to insufficiency of securities or cash during the last year under this modality.

For off-exchange trades, there are no pre-funding requirements or any fails management procedures in place to ensure settlement. If there are insufficient securities or cash in the participant's accounts, the trade will remain pending until the end of the day when it is cancelled. The fail rate for off-exchange trades during 2005 was 7.27%, with 7.04% due to a lack of securities and 0.23% due to a lack of funds.

Credit Facilities

Credit facilities are not provided by NDC but are available to participants from commercial banks and in some cases from the CBR. For credit facilities provided by the CBR, the MICEX Settlement Chamber acts as an intermediary.

Repos from the CBR (in the government securities market) are normally cleared intra-day via two multilateral net batches at 1.45pm and 5.30pm. Banks can therefore obtain funds for settlement during the trading day and are able to withdraw funds at the end of the net cycles.

For credit facilities, the lender (including the CBR) may call for margins or haircuts. In this case, the MICEX Settlement Chamber will be responsible for calculating and managing the margins and haircuts in accordance with the lender's instruction.

Brokers must be pre-funded by their clients before they can trade. The pre-funding requirement limits trading liquidity rather than settlement liquidity.

Stock Lending

Stock lending is not permitted in Russia.

Registration Model

NDC is the official depository for GKO and OFZ bonds and 99% of corporate bonds can be transferred or pledged at NDC by book entry along with over 90% of sub-federal and municipal bonds. These are re-registered at NDC immediately upon settlement. Equities are registered in a nominee name of NDC with the respective registrars. At the end of 2005, NDC had

nominee accounts with 66 registrars and had developed electronic links (EDI) with two of them. Non-resident holders must maintain accounts in the beneficial owner's name and not via a nominee, therefore foreign custodians do not use the NDC nominee account.

The FSBF is planning to amend the current rules for registrars, which includes strict requirements for data back-up and recovery. This should improve the general registration process as well as automate it. It should also help reduce the number of registrars, as they might need to consolidate in order to create synergies and meet the new requirements.

Deposited securities

All securities in NDC are held in dematerialised form. All GKO and OFZ bonds are held within NDC as it is the official depository for these instruments. Participants must segregate their client's assets from their own and are able to operate multiple accounts.

The share market of natural gas monopoly Gazprom was liberalised by decree of the government at the end of 2005. The National Depository Centre (NDC) opened an account with Gazprom registrar SR Draga in order to support the trade of Gazprom shares. While the liberalisation of Gazprom is to be welcomed, the newly created competition amongst exchanges and depositories will split liquidity.

Deposit and Withdrawal of securities

Fixed income securities cannot be withdrawn from the NDC as the issuer document states where the securities will be held until maturity.

Equities are safekept at the registrars in dematerialised form. NDC holds nominee accounts with most registrars to facilitate the re-registration of equities.

Liquidity Risk - Key Indicators

Settlement Models

Model 3 - Near simultaneous transfer of net securities and funds (on-exchange settlements)

Model 1 - Near simultaneous transfer of gross securities and funds (off-exchange settlements)

Processing Periods

Overnight (by batch)	No
End of day	Yes
Batch daylight processing	Yes
Real-time and on-line	Yes
Other	No

Comments

The settlement of government securities is near-real time and takes about 30 minutes to complete.

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

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Stock Lending

Is stock lending permitted in the market	No
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Are stock lending facilities provided by the CSD?

No

Are stock lending facilities provided by commercial banks/brokers?

No

Comments

-

Transfer of Securities

Are securities deliveries achieved by book-entry?

Yes

Comments

-

Registration of Securities

Period of time required to register a holding?

GKO and OFZ Immediately

Various periods for other issues. According to legislation, re-registration should be within 3 days, rejections within 5 days. Market experience shows it takes up to 10 days dependent on location of the registrar.

Comments

Re-registration is immediate when NDC holds a nominee account at the registrar.

Counterparty Risk

Summary

Counterparty risk between participants is lessened by the pre-funding requirements before trading for on-exchange transactions in the classic market and the effective DVP arrangements. However, due to the pre-funding requirement brokers also suffer counterparty risk against the MICEX Settlement Chamber and NDC, which manage the cash and securities accounts, respectively.

For off-exchange settlements, the DVP mechanism mitigates risk of principal loss, but some consequential losses may occur since there are no fails management mechanisms available. Also NDC does not impose minimum capital requirements for participants and does not monitor its participants.

Participant Counterparty Risk

NDC does not act as central counterparty and does not itself guarantee settlement of trades. However, participants are exposed to NDC and the MICEX Settlement Chamber since they manage the securities and cash accounts.

Participants in the off-exchange regime are exposed to consequential losses due to the cancelling of the trade in the event of insufficient securities and cash since there are no fails management procedures in place such as buy-ins or stock lending. They are also exposed to NDC and the MICEX Settlement Chamber when holding securities and cash accounts.

Risk Containment Model

For on-exchange trades, counterparty risk is mitigated by the pre-funding requirement before trading takes place and the use of an effective DVP mechanism, although it is controlled by MICEX instead of NDC.

Counterparty risk exposure for off-exchange is minimised by the use of a DVP mechanism operated by NDC. However, there are no pre-funding requirements or any fails mechanisms to ensure that settlement takes place, which may imply some consequential losses for participants.

Delivery Versus Payment

For on-exchange trades, MICEX controls the DVP process by checking that there are sufficient securities and cash in the participants' accounts prior to trading and instructing both NDC and the MICEX Settlement Chamber to debit and credit the relevant accounts. The DVP process takes place on a near-simultaneous basis between 7.30pm and 8.00pm on SD.

NDC controls the DVP process for off-exchange settlements by instructing the cash transfer upon confirmation of sufficiency of cash. It also blocks the participants' securities accounts until confirmation of cash settlement by the MICEX Settlement Chamber. The DVP process is on a near-simultaneous basis.

There do not appear to be any DVP process for broker to custodian trades in the OTC mode.

Role of Central Counterparty (CCP)

There is no central counterparty in Russia. However, the MICEX Exchange Council has decided to set up an individual clearing organisation - the National Clearing Centre (NCC). The decision to establish the new clearing organisation was made in August 2005. Following the recommendations of the Bank of Russia, the Clearing House will be set up as a closed joint-stock company with the capital of RUB 235 million. It will be owned by MICEX (98%) and NDC (2%). Essentially MICEX has created separate vehicles for the Settlement House and the Clearing House within the MICEX Group. The Central Bank of Russia (CBR) has granted the banking licence for the National Clearing Centre (NCC). However, the risk management model has not been defined and an implementation date also needs to be decided, but it is not expected to enter into force before 2007.

The main areas of development of the MICEX Group's clearing business include:

- creating the system of managing risks of default on transactions in securities and preparing the transition to centralised clearing;
- developing the institute of clearing brokers;
- developing clearing operations and technologies in the context of integration of clearing in the currency, derivatives and stock markets as well as in the government securities market.

When the NCC is operational it will perform clearing in exchange and over-the-counter markets, including determining and clearing participants' obligations, offsetting these obligations and organising the execution of obligations for transactions in compliance with the RF law.

Participant Criteria

Eligible participants of NDC include the stock exchanges, the Central Bank of Russia (CBR), commercial banks and brokers/dealers, custodians, insurance companies and other institutions professionally engaged in securities markets. Foreign participants are not eligible to open nominee accounts but can open beneficial owner accounts for their proprietary securities, although the large majority open accounts with licensed Russian participants. At the end 2005 there were 1,432 depository accounts open in NDC, for 688 clients - 172 of which were based outside of Moscow.

Neither NDC nor the MICEX Settlement Chamber impose any participation criteria except for the requirement for participants to be licensed by the FSFM, or if banks, by the CBR. The FSFM's minimum capital requirement for Brokers appears to be RUB 5,000,000 (USD 1.3 million), while the minimum capital requirement to be licensed as a bank by the CBR is EUR 5 million (USD 6.3 million) from 1 January 2007. These are quite low and do not seem to be monitored on an ongoing basis.

In May 2006, the Russian Government signed into law a bill setting the minimum capital requirement for newly registered banks at the rouble equivalent of EUR 5 million, starting 1 January 2007. According to the bill, the licenses of existing banks whose own capital amounts to less than EUR 5 million would not be revoked but they would not be allowed to reduce their own capital after 1 January 2007. The bill also applies to Russian-registered subsidiaries of foreign banks. The bill seeks to set the minimum capital requirement for newly-registered non-banking organisations at the rouble equivalent of EUR 500,000.

Participants in the government debt market must hold the status of dealer from the CBR. If such status is taken away from the participant and the dealer agreement with the CBR is cancelled, NDC is obliged to cancel its depository agreement with that participant and block the participant's account.

According to NDC's depository agreement, NDC has the right to suspend or block operations on the account if a participant fails to meet its financial obligations, or on the decision of the regulatory bodies.

The relationship between NDC and its participants is governed by relevant law and regulations, a standard participation agreement, established terms and conditions of participation and the depository's rules. All participants are subject to the same rules and procedures.

Participant Concentration

Details of the value and volume of transactions processed through NDC and the average value of securities on deposit for the top 10% of direct participants (approximately 70 participants) were provided. Based on this information the concentration of business appears reasonable given the large number of depository participants. In 2005, the top 10% of participants accounted for about 47% of trades by value and 51% by volume. The largest participant, however accounted for only 1.12% of the total.

Financial Compliance/Surveillance

While NDC 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. No enforcement action has been taken by NDC against a participant in the past three years.

The FSFM does not appear to execute surveillance regarding the participants' exposure in the market. They also outsource the audit process to PARTAD (a self-regulatory organization), which executes audits on behalf of FSFM for its members including registrars and depositories. The results of the audit are confidential and are sent to the regulator. However, if they are not satisfactory or some concerns are raised, they would publish this on their website. They can only carry out about three audits a year. There do not appear to be any other monitoring or surveillance on NDC's participants.

Guarantee Funds

Neither MICEX nor NDC operate a guarantee fund.

Counterparty Risk - Key indicators

Capacity of CSD Agent
Surveillance of participants by CSD No
Settlement assurance No
Participation criteria N/A
Minimum Capital (local currency)

Banks: EUR 5 million Brokers: EUR 1 million Other: N/A
Size of Guarantee Fund - (Name, local currency, Euro and USD - (millions)) N/A
Does the CSD act as a central counterparty No
Comments There are plans to introduce a CCP named NCC

Participant Concentration (Local Currency Millions)

Value of transactions in the market by top 10% of participants RUB 3,865.9 billion (47% of total)
Volume of transactions by top 10% of participants 1,145,472 (51% of total)
Volume of largest individual participant 24,745 (1.1% of total)
(Figures are for the 2005 year.)

Asset Servicing Risk

Summary

For asset servicing, the liability is not limited to just gross negligence under local regulations and NDC's insurance covers this liability. NDC is the active recipient of information from issuers and registrars and takes full responsibility for its accurate and timely dissemination to participants once received from the source. It is mandatory for participants to pass instructions via NDC when it acts as paying agent (mainly bonds) and in turn NDC is liable for direct losses that arise from its role as an intermediary.

NDC does not provide tax reclaim services. However it does offer a proxy voting service, but it is not currently used.

Information processing

For equities, issuers are legally required to notify registrars and registrars are legally obliged to notify their clients, including nominee holders (e.g. NDC) of all corporate action information. For all other securities, issuers are contractually required to notify NDC. NDC collects and provides all corporate action information on an active basis and all data on fixed corporate actions, is contained in offering circulars. There is no centralised official source of information in the market for equities. However there are a number of sources that NDC deems to be official. For some types of securities NDC is the main source of information in the market, although some participants prefer to double check the information sent by NDC with the issuer before passing it onto their own clients. In this way they use NDC as a secondary source of information. For shares and bonds, participants are required to inform two data vendors regarding important information, Interfax and AK&M, which then make it publicly available for free. This information is also published in the appendix of the FSFM magazine.

NDC notifies participants about corporate actions relevant to them on the day of receipt (DOR) or on DOR+1 at the latest. NDC will inform a participant if they acquire the securities after the announcement date but it will not issue confirmations of final entitlements for each corporate event. NDC maintains a calendar of upcoming events in their system and will send a reminder to participants even if no information is sent by the issuer (e.g for bonds they enter the coupons and redemptions date in the system and a reminder is sent).

The majority of corporate actions information is received via EDI, which do not require any manual input. However, registrars are required to send the information by physical form. The document is first received by the administrative department and then sent to the corporate actions department which inputs the information in their proprietary system. The operations department then re-enters the information and double checks that all details match and are correct before sending it out to participants. NDC will post all corporate actions information on their website and it is automatically sent out via EDI.

NDC accepts full responsibility for losses resulting from missed, inaccurate or incomplete corporate actions information delivered to participants provided it has been received from the issuer or the registrar. NDC's insurance covers this liability.

Instruction processing

NDC acts as central paying agent for CBR bonds, most municipal bonds except Moscow bonds and most corporate bonds. The central paying agent for government bonds is CBR. For equities, NDC does not act as central paying agent, but as a nominee account holder, will distribute income to the relevant participants' accounts. As of April 2006, they had agreements with 370 issuers, including 70 paying agent agreements.

It is mandatory for all corporate instructions to be routed through NDC; and NDC accepts full responsibility for any losses that arise as a result of any corporate action deadlines that are missed, where the participant has notified NDC within the agreed deadline. NDC monitors positions for pending instructions, it will alert participants via phone if their instructions are missing, incorrect or incomplete, and check that instructions are in respect of eligible positions. Participants cannot amend their instructions, but they can cancel the original instruction and input a new instruction if the processing of the event has not started.

The large majority of instructions are received via EDI, which do not require manual input. SWIFT can also be used for corporate actions instructions, but it is not common. Instructions can also be received by physical means, although uncommon, in which there is double entry of information in the corporate actions and operations departments to make sure no incorrect information is processed. Entitlements are calculated on Record Date (RD) based on settled positions. RD is usually Pay Date (PD) minus 6 or 7 days according to the issuer's prospectus. After RD, participants have 2 days to amend their bank details. Paying agents will receive the income for corporate actions, usually one or two days prior to PD. Corporate actions income is credited to NDC's account at the MICEX Settlement Chamber. This is a special account held for corporate actions purposes only. Once the income is received, NDC will then credit the participants' accounts on PD via bank transfer to the participants' account at the MICEX Settlement Chamber.

NDC supports varied instructions for a single position but it does not process claims automatically based on standing

instructions. NDC confirms to the participant that its instructions have been executed on the same day. NDC provides full accounting support for the outcome of all corporate actions and it provides value on due date, cash contributions are made in same day funds.

In case of any problems with the income distribution, NDC will take responsibility for any losses arising to participants although there is a maximum amount of liability. They will pay an interest to the outstanding amount and if the fault is by an external party (e.g MICEX Settlement Chamber) NDC is liable to their clients but will pass this to the third party.

During 2005 NDC handled dividend, coupon and principal payments to the value of USD 520 million, of which USD 439 million was via NDC as paying agent.

Proxy Voting

NDC offers a proxy voting service, although it is not currently used by any participant. Most investors appear to appoint their custodian to represent them at general meetings, if required.

For proxy voting services, NDC supports all announcements of meetings (which it will attend on the request of participants), furthermore it provides full agendas for company meetings and prospectuses on request. NDC is also able to process contingent voting instructions and will confirm that votes have been cast in accordance with participants' instructions. NDC does not have any follow up procedures for voting instructions that are not received. Positions do not have to be re-registered to qualify for voting and positions are not frozen around voting dates.

Other services

NDC does not provide any tax services. The issuer is responsible for calculating the relevant tax for investors and the paying agent received the net amount. NDC collects the required documentation to determine if they are individual or institutional investors, foreign or domestic, etc to calculate the net amount.

It is the participants' responsibility to provide the documentation for tax calculation purposes. NDC will pass this information to the issuer, but does not take any liability in this respect.

Asset Servicing Risk - Key indicators

Information processing

Securities covered	All domestic and foreign eligible securities
Information sources used	Issuer , Registrar, MOF, Central Bank, MICEX, Data Vendors
Information provided in English	N/A

Number of Events during last full year

Dividends	171
Interest & Redemptions	136
Corporate actions	258
Notification via	SWIFT message, proprietary electronic, internet/e-mail, fax and mail.
SWIFT message types	Yes
Notification within	Same day
Information processing comments	-

Instruction processing

Use of depository	
--------------------------	--

Mandatory for some fixed income securities
Settlement on due date Yes
Optional corporate actions supported Yes
Cash account credited Yes
Central paying agent Yes
Entitlements based on Settled Positions as of Record Date
Instruction processing comments Central paying agent for certain municipal and corporate bonds

Proxy voting services

On-line Planned
Outsourced No
Announcement of meetings Yes
Elections (Voting) Yes
Results reporting Yes
Proxy voting services comments Proxy voting services are offered but not currently used.

Financial Risk

Summary

NDC's net capital at RUB 578 million (USD 20 million) in 2005 seems adequate for the market and is expected to be increased to the average of the European CSDs (RUB 1,500 million or USD 55 million) by 2010. Future revenues are largely assured since the majority of income is from safekeeping fees of fixed income securities, which have fixed term contracts with the issuers. Their potential investment in infrastructure is significant as they are in the planning stages of a major project to re-engineer their systems. They have also been active in acquiring stakes in other local depositories.

Financial and other Resources

Capital Structure

NDC is a partnership between the Central Bank of Russia (CBR) and the Moscow Interbank Currency Exchange (MICEX) - both themselves government controlled. Several major commercial banks also have a minority stake in the partnership (7.3%). Given the partnership structure, it is not known to what extent NDC would be able to draw additional funds if required, especially since the CBR does not provide any explicit guarantee to NDC.

NDC has started to publish financial statements both in Russian (as required by law) as well as international standards.

Under International standards, NDC reported a net capital of RUB 578 million (USD 20 million) in 2005, a 66% increase compared to the capital reported in 2004 (RUB 348 million). Since NDC is a not-for-profit partnership, its capital comes from retained earnings only. Under Russian standards NDC reported a net capital of RUB 625.1 million (USD 21.7 million), which resulted from charter capital and direct financing.

NDC increased its stake in other depositories such as Depository and Clearing Company (DCC) and the Settlement Depository Company (SDC) due the contribution of new partners (commercial banks) via transferring their holding in the depositories. However, this was not included as an increase in capital but rather as a current liability since they are required to pay back the contribution to their partners if they withdraw from the partnership.

NDC's capital seems adequate for the market and it considerably surpasses the minimum capital requirements established for clearing and settlement organisations established by the FSFM (RUB 45 million). Furthermore, the Board of Directors approved in 2005 a capital increase to RUB 1.5 billion (USD 55 million) by 2010 in order to bring it in line with the average capitalisation of CSDs in Europe.

Earnings Performance

NDC is a not-for-profit partnership and as such does not distribute profits to its members. Excess funds are used to increase the capital while fee reductions moderate the growth in revenue.

Despite being a not-for-profit organisation, NDC has reported significant profits over the last five years. Profit after tax increased in 2005 (by around 35% compared to 2004) to RUB 199.3 million (USD 7 million). NDC generates revenue both as a de facto depository, primarily for government debt, but also as a domestic and international custodian. Volumes have been increasing, more than offsetting fee reductions.

NDC's fees structure is as follows:

- Corporate bonds: 50%
- Government Bonds: 24.5%
- Equities: 24.5%
- Eurobonds: 1%

90% of income in Corporate and government securities is derived from safekeeping services and only 10% from settlement activities. Revenues in the equity market come equally from safekeeping and settlement services. Overall 68% of NDC's income in 2005 was derived from safekeeping and only 15% related to transfer activity and 12% from servicing issuers.

Since NDC's revenues are mainly derived from safekeeping services of fixed income securities, the potential for revenue instability is not a concern. The issuer is required to include the name of the depository where the securities will be held in their prospectus and the securities cannot be withdrawn. In addition, NDC is the only depository for government securities.

The Board of Directors of NDC approved official negotiations with the RTS Stock Exchange about providing depository settlement services to RTS by NDC, which could lead to price competition.

Guarantee Funds (Central Counterparty Funds Only)

-

Access to Credit

NDC is able to borrow funds. However, currently it does not have any borrowings in place.

Due to a policy not to fund their investment needs from loans and the penalties charged by banks if the credits are not used, NDC has not arranged any standard credit lines from any of the commercial banks. The absence of credit lines means that NDC does not have immediate access to credit in the event of some emergency requirement.

Insurance

In 2005, NDC purchased a new comprehensive crime and professional liability insurance policy from Ingosstrakh Insurance Co. The limit of indemnity was set at USD 10 million per single claim as well as for all claims made during the term of the Policy.

Deductible - USD 150,000.

Term – from 01.09.2005 to 31.08.2006

Retroactive date - 01.09.2002.

According to NDC's policy, the following risks are insured:

- intentional unlawful actions of staff;
- losses from loss/ destruction or damage of property of insured company, located on its premises, only in cases of theft/attempt of theft, intentional damage;
- losses from operations based on fake settlement (payment) instructions:
 1. Intentional unlawful actions of staff
 2. Valuables on premises
 3. Fake documents
 4. Fake securities
 5. Blackmail and extortion by personal threats (except for kidnapping aimed at receiving ransom)
 6. Premises and property located there
 7. Computer systems
 8. Activities of servicing (processing) company
 9. Computer commands
 10. Electronic data and database
 11. Computer viruses
 12. Incoming electronic messages
 13. Outgoing electronic messages
 14. Securities on electronic means
 15. Fake facsimile messages
 16. Expenses from elimination of after-effects of losses;
- Losses from operations with fake securities;
- Losses of Insurant suffered in connection with unauthorised entry into computer systems;
- Losses suffered from unauthorised entry of commands into the computer system of Insurant's client including those cases when Insured entity acts as the processing company;
- Losses suffered from entry of fraudulent electronic commands into Insurant's computer system;
- Insurant's losses from damage/deletion of electronic data and its carrier;
- Losses suffered in connection with receipt of fake/fraud electronic instructions;
- Losses from loss of securities held in electronic format as a result of execution of fake electronic instructions;
- Losses arising from execution of electronic transactions based on fake instructions;
- Losses suffered from money transfer based on fraud facsimile messages;
- Losses suffered from money transfer based on fraud telephone instructions;

Property interest of insured entity in connection with its obligation to cover losses suffered as a result of its activities by third parties from errors, carelessness or negligence of Insurant's managers and/or staff while conducting insured activities.

The re-insurance is with Lloyd's.

Potential Claims on Financial Resources

Credit Loss

NDC has not suffered any material loss in the past three years and has not been subject to any litigation involving a participant.

Central Counterparty Exposure

Liability for Operational Losses

NDC takes full responsibility for any errors or omissions made by NDC or its staff in accordance with local regulations. This liability is not limited to direct losses.

Investment in Infrastructure

NDC has invested in stakes in other settlement depositories (DCC and SDC), which have come from both, contributions from new partners as well as their own resources. They have stated some interest in continuing to acquire stakes in settlement depositories, which might absorb surplus funds of NDC.

NDC is also to implement a new technology platform to support its operation as a central securities depository and is working with Tata Consultancy Services for this purpose. The agreement has not been signed yet, but the project is expected to utilise significant resources (financial as well as labour resources), although NDC have stated that the costs have been included in the budget for the whole project cycle. NDC has estimated the losses they can incur if the project is cancelled, delayed or changed. However, the project could start without regulation in place for the new CSD and therefore some consequential changes may occur that impact the development of the project.

Financial Risk - Key indicators

Ownership of the CSD

	Number - Domestic	Number - Foreign	Total Percentage
Central Bank	1	0	39.5%
Stock Exchange	1	0	46.8%
Participant banks	11	0	13.7%
Broker/dealers	0	0	0
Mutual funds	0	0	0
Private clients	0	0	0
Others	0	0	0
	-	-	-
	-	-	-
	-	-	-

Comments

Voting Rights:

- MICEX: 50.3%
- CBR: 42.4%
- Participating banks: 7.3%

Partner banks include:

- J.P.Morgan Bank International
- Vneshtorgbank
- Bank Evrofinance Mosnarbank
- Bank of Moscow
- International Moscow Bank
- Sberbank of Russia
- Rossiyskiy Kredit Bank
- Commercial Bank ROSBANK
- ING Bank (Eurasia)
- Deutsche Bank
- Gazprombank

Statistics

	Capital structure Local Currency
Issued capital	-
Surplus	-

Reserves	-
Retained earnings	578,195
Total	578,195

Comments

Statistics (in RUB thousands) as of 31 December 2005 - calculated on international standards

Lines of stock

	2001	2002	2003	2004	2005
Lines of stock	1,149	1,339	1,110	1,047	1,418
% Stock Exchange transactions cleared and settled through CSD	100	100	100	100	100
Total value of securities under custody	665 (RUB billion)	902 (RUB billion)	982 (RUB billion)	1,319 (RUB billion)	1,770 (RUB billion)

Comments

MICEX trades only

Value of Securities Under Custody at NDC as at 1 April 2006:

Shares USD 15.97 bn (RUB 447 bn)

Federal Bonds USD 31.72 bn (RUB 889 bn)

Other Bonds USD 25.1 bn (RUB 704 bn)

Total USD 72.79 bn (RUB 2,040 bn)

Equities

	2001	2002	2003	2004	2005
Market Value (local currency (millions))	71.8	134.2	119	153	256
% of issued securities in the CSD	N/A	N/A	N/A	N/A	N/A
% of market capitalisation in the CSD	N/A	N/A	N/A	N/A	N/A

Comments

RUB billion

Fixed Income

	2001	2002	2003	2004	2005
Market Value (local currency (millions))	73.8	76.3	247.4	418	722.2
% of issued securities in the CSD	100%	99%	99%	99%	99%
% of market capitalisation in the CSD	100%	99%	99%	99%	99%

Comments

Corporate bonds, RUB billion (value at par)

Money Markets

	2001	2002	2003	2004	2005
Market Value (local currency (millions))	519.4	N/A	N/A	766.8	884.6
% of issued securities in the CSD	100%	100%	100%	100%	100%
% of market capitalisation in the CSD	100%	100%	100%	100%	100%

Comments

Government debt, RUB billion

Expenses

	2001	2002	2003	2004	2005
Expenses as % total operating revenue	N/A	68.8%	56%	55%	56%

Comments

-

Operational Risk

Summary

NDC has reported that it has internal control procedures in place to mitigate operational risk. Financial reviews and audits are carried out at regular intervals by internal and external auditors. Operational audits are undertaken by the Internal Controller but there are no external audits that report on operational controls. Some audits are arranged every two years by Ingosstrakh Insurance as part of their insurance process with the last being done in 2004. NDC shares a DRP facility with MICEX.

Depository controls

Access to the NDC facility is controlled by the use of armed guards, electronic keys/personal identification cards, passwords and a security system. All staff are required to carry company ID cards and visitors to the premises are issued with visitor's passes. There are some access restrictions to certain areas for personnel and external visitors.

Global certificates are stored in a safe and are subject to the safekeeping procedures stipulated in internal NDC document Orders NN 311 and 216. The safe is located in the accountancy department office. Access to the safe is restricted to selected personnel. The safe is secured by an alarm system which is not connected to the police, but is continuously guarded by MICEX staff. All lodgements or removals from the safe are logged, but there is no record of how often the safe is accessed. A full audit of vault inventory is carried out by internal controller, Head of Accounting and Head of Corporate Actions each month. There are two keys for the safe: one is kept by the Head of Accounting and the second one by the accounting staff. Each department has their own safe for valuables.

Each participant receives information and status of their account, including safekeeping reports, by either electronic link or by physical account statements. Electronic links are controlled by passwords, which must be changed regularly. Each user has a unique identifier and a lock-out facility is triggered after three unsuccessful user ID attempts. Unauthorised access attempts are logged and investigated.

For equities and corporate bonds, participants usually hold securities in a client omnibus account (as well as a proprietary account for their own securities). Government securities are required to be held in segregated beneficial owner's accounts under local regulations.

NDC does not provide on-line access to the system. On-exchange participants are able to see their positions on-line via the MICEX system, but off-exchange participants are not able to see their securities positions unless they send a request to NDC, which will process it and send the information, but it might take hours depending on the length of the report. However, they are able to see their trade status (i.e. matched, pending, etc) through the NDC EDI system. Also, participants receive a confirmation report immediately after settlement and it includes the account balances.

Adequate records are maintained by NDC in order to facilitate the segregation of the depository's assets/liabilities from those that are held on behalf of participants. Participants are required or permitted to segregate assets held for their own benefit from those that they hold on behalf of their clients. This is accomplished by the use of multiple accounts and sub-accounts. Daily reconciliations are performed of all assets held.

There is no external evidence of the effectiveness of NDC's operational controls although a full audit was executed by PARTAD four years ago and an audit was arranged by Ingosstrakh Insurance in 2004 as part of their insurance process. The audit process made a number of recommendations pertaining to operational controls, which were accepted by NDC. Price Waterhouse Coopers undertake annual financial audits. There are no on-going operational audits executed by the regulator or an independent firm.

Clearing controls

The introduction of e-document interchange has allowed remote participants, outside of Moscow, to gain direct access to NDC thereby reducing operational risk.

NDC became a SWIFT member during 2001 and is ISO 15022 compliant, although SWIFT is not used to any significant extent.

NDC was appointed by the Association of National Numbering Agencies (ANNA) as the national numbering agency for Russia. ANNA decided that NDC's structure and activities, its personnel, information resources and technical means and facilities meet all the requirements established for National Numbering Agencies, such that NDC can allocate International Securities Identification Numbers (ISINs) to securities, registered for circulation in the Russian Federation.

Data processing controls

NDC's software - the Central Depository System (CDS) runs on MICEX hardware and communications which also link to the CBR, which is thereby able to offer a back up facility.

CBR and participants have access to the NDC proprietary system. Access control policies have been established and any changes to system software must be authorised and tested.

The depository operations run on the Central Depository System (CDS), a software and hardware configuration designed by CMA Small Systems AB. CDS is the data processing core for performing the depository function on the securities market and for automation of the services that are provided to NDC participants. This operational environment meets high performance requirements and has sufficient scaling capacity utilising Hewlett-Packard HP-UX software and a relational database management system developed by Informix. The telecommunication system hardware is built on the network equipment manufactured by such leading companies as Cisco, Lightstream, and Hewlett-Packard.

Communication with participants is predominately via EDI (Electronic Document Interchange), with SWIFT ISO 15022 as an alternative channel. By the beginning of 2004 almost 99% of instructions and outgoing reports were via EDI. The few instructions that are still received in paper form are doubled-input and matched to ensure accuracy.

Data and electronic documents that utilise the EDI system are encrypted. NDC has the necessary licenses to work with electronic documents with cryptographic protection.

Disaster Recovery/Business Continuity Procedures

Disaster recovery procedures have been developed in accordance with NDC depository procedures. A stand-by computer centre has been set up to ensure the smooth functioning of the depository system should the main system fail. This system, like the main system, is operated by MICEX.

The hardware and software complexes are capable of performing the multiple redundancy and back-up function for the main computer systems and telecommunication facilities and are equipped with uninterrupted power supply, fire-fighting and air conditioning devices. This architecture enables significantly increased fault-tolerance of both complexes, thus ensuring the smooth functioning of the entire system.

In order to increase reliability of computer systems, there is duplication of all components. For computer system functioning, three identical servers are used - HP 9000 rp8420 - two at the main site plus an identical one at the back-up centre, which is located around 4 kms away. NDC have also stated their intentions to operate an additional computer centre, away from central Moscow. ServiceGuard package is used. For data storage two RAIDs are used - XP256 for the main system and XP128 for reserve system. RAIDs are connected by optical channel. Data is mirrored. Back-up of all telecommunication equipment is made at least twice.

Back-up copies of the database and archives are made using magnetic-optical libraries in real-time. Securities information is backed up and stored with the Technical Centre of MICEX.

The DRP plan is tested at least semi-annually and is available for review by participants although generally participants have not taken part in the testing. The last test occurred in October 2005 and the next test is planned for May 2006. In the event of a failure, it would take NDC around 15 minutes to activate operations of the back-up system and between 1 and 4 hrs to resume operations of the primary system. System failures would not be publicly announced. The disaster recovery plan has not been activated in the past three years.

Depository Liability

By law, NDC is required to take full liability for any operational losses caused by their errors or omissions.

Systems Performance

The computer system is accessible permanently except when there are scheduled breaks for technical support and software upgrades etc.

Computer system uptime – 99.9%

Operational Risk - Key indicators

Control objectives identified by the CSD match standard objectives N/A
Key controls and procedures are identified by the CSD N/A

Independent evidence exists that key controls and procedures have operated effectively through the last year

No

Material errors have been identified

N/A

Comments

-

CSD on CSD (Credit) Risk

Summary

NDC has an account with Clearstream and has been authorised to open an account with Euroclear bank, although not yet operational.

A bridge set up between NDC and the Depository Clearing Company (DCC) in 1999 allows settlement through both depositories (similar to the Euroclear Bank and Clearstream Banking bridge). DCC is the depository and settlement system for transactions in equities traded on the Russian Trading System (RTS).

Since NDC settles securities transactions for DCC against a net credit limit, it takes counterparty credit risk against DCC until final funds settlement at NDC.

NDC opened a nominee account with the Central Securities Depository of Kazakhstan, which allows NDC to provide its clients with depository services for safekeeping of Kazakhstan issuer's securities.

CSD - CSD Links

DCC and NDC link through settlement accounts opened in each other's systems (i.e., they are a direct participant of each other).

Inter-depository settlements are conducted on an against payment basis, through modification of net securities obligations in each other's settlement accounts. Each depository has a net credit cap against the other (currently USD 10 million), so credit risk is taken by NDC against DCC related transfers.

Direct settlement between participants of the two depositories occurs with no need to re-register securities at the issuers registrar.

Processing Cycles

An additional morning settlement session allows for efficient processing across the bridge. In 2005 there were over 14,000 transactions across the bridge of value RUB309 billion. There are 50 securities eligible for bridge transactions.

CSD on CSD (Credit Risk) - Key indicators

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

NDC has a one-way link with Clearstream Banking S.A. and the Central Securities Depository of Kazakhstan.

Domestic links - Depository Clearing Company (DCC).

European Central Bank logo



ECB Monetary Operations

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Governance and Regulation

Management and governance of the depository

NDC is a not-for-profit partnership governed by a Board of Directors. The Board comprises representatives from the Central Bank of Russia, MICEX and participant banks. During the last AGM, ten members were elected To the Board of Directors, representing the Bank of Russia, MICEX, Sberbank of Russia, Vneshtorgbank, JP Morgan Bank International, IMB, Deutsche Bank and Gazprombank. Andrey Kozlov, the First Deputy Chairman of the Bank of Russia was elected the Chairman of the Board of Directors of NDC.

There is also a General Meeting which governs the Board of Directors. It is composed of participants and the Chairman is currently the representative from the Central Bank.

NDC also has five different committees, which are comprised of some NDC staff as well as market participants to determine and plan future developments, as follows:

- Depository Committee: To analyse future changes of NDC including fees, new services, new types of securities, functionality changes, etc.
- Risk management: Defines and approves risk management policies and procedures
- Budget committee: Review budget performance and defines future budget.
- Revision commission: Reviews financial situation of NDC and work closely with the internal auditors
- Technical committe: Reviews the IT arrangements.

Regulatory and independent examination of the depository

NDC is regulated by the Federal Service for Financial Markets (FSFM) of the Russian Federation. No enforcement actions have been taken by a regulator on NDC in the past three years.

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

Financial audits are carried out by the internal audit department when necessary. Financial audits are carried out by PricewaterhouseCoopers and the Centre for Accountancy and Audit. There are no independent operational auditors. FSFM and PARTAD audits may be undertaken upon the request of a third party. PARTAD executed a full operational audit on NDC four years ago, in 2002. An audit of NDC was arranged for insurance purposes in 2004.

The internal control department conducts operational audits on a regular basis.

Internal controls and procedures for safeguarding investments

Key internal controls and procedures are contained in the NDC Internal Control System. The system ensures that assets held for others are safeguarded against unauthorised use, loss or disposition and that securities transactions are processed in accordance with participant's instructions and payment of net settlement obligations are made on a timely basis. Each department has their own internal procedures and they are made available to their staff once they join NDC. The staff are required to comply with these procedures. Other objectives of the system include:

To ensure that the rules and procedures of NDC's operations and documentation meet the requirements of the effective legislation and regulations.

To increase efficiency and reliability of NDC operations and functions.

To place control over staff activities as to compliance with legislation requirements, regulations, internal procedures and professional ethics.

Other legal protection mechanisms

-

<i>About the Depository</i>	<i>Segregation of Assets at the Depository</i>
Name and Address National Depository Centre (NDC) Sredni Kislovski puriulok, 1/13 Moscow 103009	Depository assets from participants Yes
	Participant assets from clients Yes

Russia		
Website www.ndc.ru		
Date of establishment January 1997		
Date commenced operations March 1998		
Legal status Legally established under the Foundation Agreement and the Charter of NDC and governed by the Federal Law on the Securities Market, Federal Law on Non-Commercial Organisations, government decisions and various regulations.		
Type of legal entity Not-for-profit partnership.		
Regulated by Federal Service for Financial Markets of the Russian Federation (FSFM)		
Is use of the CSD required?		
	Settlement	Safekeeping
By Law	No	Yes
By Market Practice	Yes	Yes
How securities are held Dematerialised		
Domestic eligible participants Stock Exchange, Central Bank, banks and brokers. As at 1 April 2006 there were 688 participants being 686 banks and brokers and 2 foreign investors.		
Foreign eligible participants 2		
Ownership Stock Exchange, Central Bank, banks.		

<i>Eligible Securities Depository under SEC Rule 17f-7</i>
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
Comments Use of NDC is required for MICEX transactions.

Internal Safety Measures	Services Provided
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<i>Participant Eligibility Criteria</i>
Minimum Capital Standards No
Comments Established for banks by the CBR and for brokers by the FSFM
<i>Financial Aspects</i>
Ability to raise capital/borrow Yes
Committed lines of credit in place No
Publish audit financials Yes
Take lien on stock held

<i>Matching</i>
Pre-matching services No
Matching services Yes
Comments For OTC trades only
<i>Clearing</i>
Clearing services Yes
Comments -
<i>Securities Settlement</i>

No
Central Bank Guarantee No
Other third party guarantee No
Third party insurance Yes
Comments -
<i>Safeguard Facilities</i>
Offsite Backup Yes
Comments At DRP facility
<i>Disaster Recovery</i>
Disaster Recovery Plan Yes
Back-up power generator Yes
UPS (Uninterruptible power supply) Yes
Comments DRP shared with MICEX

Book-entry settlement Yes
Fails management No
Comments None for OTC
<i>Cash Settlement</i>
Internal cash settlement No
Comments -
<i>Stock Lending</i>
Securities lending for fails coverage No
Comments Prohibited by law
<i>Asset Servicing</i>
Notifications Yes
Securities processing Yes
Paying agent Yes
Central registrar Yes
Proxy voting services Yes
Comments Paying agent and registrar for certain bonds only
<i>Communications</i>
Electronic communications Yes
Comments -
<i>Reporting Services</i>
Electronic reporting Yes
Reporting of every movement Yes
Regular statement of securities deposited Yes
Comments -

Definitions

Public Rating. This assessment has been compiled from information provided by third parties and the CSD and has been verified by Thomas Murray analysts during an on-site visit to the CSD. The report has been reviewed by the CSD. The ratings that have been assigned to the risks that are reviewed in the report have been determined by Thomas Murray analysts and approved by the Thomas Murray Rating Board. The ratings have been assigned in accordance with the process outlined in the published methodology as developed by Thomas Murray and on the basis of information confirmed by Thomas Murray analysts during a site visit to the CSD.

Publication Date

The publication date represented here is June 2006. 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 newflashes 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., an entity) will not settle its obligations for full value at any time. This is simply the total default of a direct participant of the CSD or market utility including the CSD. This is the event when a participant is unable to meet its financial liability to the CSD and possibly other creditors. When the counterparty is the CSD or an associated clearing house this would require the liquidation of the organisation concerned and the settlement of all outstanding trades will be called into question. 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 capital is sufficient to meet the on-going operation of the organisation. It is not looking at when the CSD is a counterparty to a transaction; see Counterparty Risk (The capital adequacy of the CSD).

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.

CSD on CSD Credit Risk - The risk that a CSD is taking when linking to another CSD. The credit risk that a CSD is taking when linking to a peer group CSD i.e. the risks a domestic CSD is taking in either providing a service for a foreign CSD or using a foreign CSD as a local service provider (host CSD). The risks arising from using these links to make cross-border settlements or to hold securities in a non-domestic CSD have not been assessed as part of this risk.

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

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Report Date
Russia

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