

Repo Transactions in Russia in a Nutshell

ICMA Russian Region Initiative

30 November 2012

Freshfields Bruckhaus Deringer LLP



REPO Transactions in Russia

Current Regulation

REPO transactions are expressly recognised in the Securities Market Law:

- REPO transactions may be governed by master agreements, including GMRA
- Federal Service on Securities Market (FSFM) officially recognised ICMA as an eligible international industry body to develop terms of the master agreements governed by foreign law;
- Express recognition of close-out netting (albeit ISDA-style) in Russian bankruptcy laws;
- Mandatory registration of REPO transactions under GMRA with Repository:
 - FSFM adopted and published procedure for the registration of the REPO transactions, however, not yet operational;
 - Repository has not yet been officially announced;
 - Most likely, the National Settlement Depository (NSD) will be nominated as Repository (www.nsd.ru);
 - October – November 2012: NSD is running registration tests



REPO Transactions in Russia

GMRA Netting Provisions

GMRA Netting Provisions require tweaking to be enforceable against a Russian counterparty:

- set-off provisions replaced with ISDA-style close-out netting
 - all REPO transaction are terminated and replaced with a new obligation to pay an Early Termination Amount;
 - Early Termination Amount does not include penalties and lost profit;
 - Automatic Early Termination occurs one day before:
 - revocation of banking license (for banks);
 - declaration of a Russian entity bankrupt by an arbitrazh court
- Russian Annex to the GMRA
 - reflects all necessary Russian law specifics and brings the GMRA under the safe harbor provisions of Russian bankruptcy laws;
- Russian law opinion on enforceability of the GMRA Netting Provisions (as amended by the Russian Annex).

Contacts



Mikhail Loktionov

T +7 495 785 3020
E mikhail.loktionov@freshfields.com



Anna Nersesian

T +7 495 785 3064
E anna.nersesian@freshfields.com



Tatiana Gorkaya

T +7 495 785 3016
E tatiana.gorkaya@freshfields.com



Freshfields World Map



Disclaimer

MOS682782

This material is for general information only and is not intended to provide legal advice.

© Freshfields Bruckhaus Deringer LLP 2012



ICMA

International Capital Market Association

European Repo Council Operations Group

Practical margin considerations & Affirmation best practices

Nicholas Hamilton (ERC ops Deputy Chair)

30th November 2012



Margin Market Practitioner considerations

- System development – actual vs. contractual
- Treatment of partial settlements
- Bilateral agreements & go live commitments
- Mutual MTM pricing agreement
- Cross border timings – settlement windows
- Cross currency dealings
- Internal communications – FO / MO / BO

Best Practice statement affirmation & matching

Importance of affirmation & trade matching

Market drivers

1. Reduce risk of OTC Trade bookings
2. Improve efficiency in low automation & lifecycle changes events
3. Manage operation sensitivities of settlement window compression toward T+2 (2014)
4. Recognise regulatory demands for T+0 timeliness, completeness and accuracy

Development of practices

- ICMA ops members affirmation survey
- Identification of manual processing
- Collective Cross product approach in Industry
- Request for information to matching vendors

Executive Summary of vendor matching community

PIRUM

- Matured market presence since 2000
- 45- Fixed Income users in EMEA
- Contract compare satisfies all best practice events
- Intra day matching
- Additional lifecycle events covered , Monthly billing and statement generation
- Flexible tool supporting multiple format data feeds
- Platform is available 24/7 with global support window
- Flexible feeds can receive from clients, ability to map data to conform platform & allow clients to utilize contract comparison service with modest IT builds.

BONDLEND

- Matured market presence since 2000
- 73 clients for Equity and FI clients
- Contract compare satisfies all key matching attributes including haircuts
- Compare functionality is usually T+1 , although this can be T but waiting on demand from client base into TD
- Additional lifecycle events covered , Monthly billing and statement generation
- Settlement compare functionality
- Platform is available 24/7 with global support window
- Flexible feeds from clients, ability to map data to conform platform & allow clients to utilize C/C service with modest IT builds

XTRAKTER

- Matured market presence since 1989
- Over 150 Clients (23 clients for repo)
- Match all best practice events bar haircuts , to include haircuts in future development
- Picks up 95% of trades on T with real-time trade matching and Reg reporting
- Looking to improve core functionality and enhance connectivity and flexibility
- Light versioning available for low automation clients
- Platform is available 24/7 with global support window

SWIFT

- Been in the market for over 20years for confirmation matching
- Matching engines more recent in Accord FX & Equities B2B
- European client base 200+ institutions
- MT515 is fully compliant repo affirmation message and ISO standardized
- Propose to develop ACCORD and also develop Intermediation
- Joint venture is possible or a extension of Contract compare/matching to central utility and Instruction engine (ACCORD) – messaging for the process to communicate with the vendor

OMGEO

- Matured market presence since 2001
- Opportunity to engage repo element of 6500 cash/TBA clients globally with 700 Asset Manager
- No coverage on best practice events , looking for expertise from the ERC ops committee to define the best solution for the Industry and build out.
- Looking for early takers of 5 broker dealers and 5 Asset Managers to define and build requirements
- Omgeo are now shifting their development resource to Repo and are working with Key trade capture platforms (Martini, Sungard-Ion Anvil) for successful integration for post trade automation

Market observations identified by working group

- Platforms offer extension of life-cycle either
 - matching and settlement instruction reporting bringing affirmation and settlement processing togetheror
 - Full service portfolio compare, settlement matching, re-pricing, billing
- Funding & investments sensitivities from market participants
 - reinforcing core & low automation on-boarding needs
- Market and vendors are targeting community growth – building on core functionality, through existing client relationships and focus on low automated clients

Next steps for ERC Operations group 2012-13

- Firms Leverage existing platforms clients and relationships to prompt new matching opportunities and extend matching take up using client list and vendor contacts
- Targeted bilateral communications to low automation clients with supporting best practice and vendor alternatives
- ICMA ERC ops refresh of broker dealer affirmation completeness 2012 view proposed for January to demonstrate progress YOY mandated by European Repo Council
- Establish formal repo positioning for update & engagement in post trade affirmation groups to further community participation
 - OMGEO buy side post trade forum
 - AFME post trade lifecycle group
 - Trax User group
 - ISLA fixed income committee
 - SWIFT Securities Advisory group
- Sub committee meetings 4-6 weeks for lifecycle automation updates from forums, market changes to ensure ERC operational positioning in key decision making