

Post-trade Services

Clearing

In 2016, the Moscow Exchange continued to work on the development of clearing services and processes, as well as on the improvement of risk management framework, primarily in terms of creating a reliable multi-level protection system for the central counterparty (CCP), and enhancing the quality of its management processes in compliance with international standards.

Technologies

By the end of 2016, the project to enable inter-market cross-default proceedings was finalised. Clearing participants can now enjoy the benefits of transferring funds they have deposited as clearing margin directly between the Derivatives Market and other markets. Thus, all markets (except for the Standardised Derivatives Market) can now utilise a simplified transfer of funds deposited by clearing participants, increasing its effective use.

A new service calculating indicative market exposure to the Equity and Bond Market was introduced. With its help, brokers trading on Moscow Exchange can calculate their risk exposure in client operations. Customers using this service will be able to reduce the operating costs of their broker activities. NCC Clearing Bank sees this service as an extra level of risk protection.

The Bank also migrated to the CCP unified accounting system, which has helped enhance the reliability of its IT infrastructure, reduce operational risks and streamline business processes across all markets.

KEY EVENTS IN 2016

- Fitch Ratings affirmed the NCC Clearing Bank's rating at the level one notch above the Russian sovereign rating
- Collateral for stress was introduced as an additional layer of the central counterparty (CCP) safeguard structure
- Moscow Exchange increased the dedicated capital of NCC Clearing Bank, its central counterparty (CCP), to RUB 9.5 billion (from RUB 6.5 billion)

Collateral for Stress

As part of development of the risk management framework and clearing mechanisms, and with a view to bringing the central counterparty (CCP) into compliance with international guidelines, the FX, Equity and Bond, and Derivatives Markets of Moscow Exchange introduced an additional level of CCP protection: collateral for stress. This is part of the individual clearing margin and serves as an additional level of security for risk exposure under participants' concentrated positions should any market stress scenarios materialise. The amount of collateral is determined based on the exposure under the positions held by clearing participants and secured neither by their individual margins nor by collective funds or the CCP allocated capital.

A new service calculating indicative market exposure to the Equity and Bond Market was introduced. With its help, brokers trading on Moscow Exchange can calculate their risk exposure in client operations.

Central Counterparty Safeguard Structure

To enhance the reliability of the risk management framework on its markets, Moscow Exchange has increased the CCP allocated capital by RUB 3 bn to a total of RUB 9.5 bn.

The allocated capital is part of NCC Clearing Bank's capital that can be used to cover losses in case of default of a market participant.

The increase in the CCP allocated capital is effected as part of the new CCP safeguard structure agreed upon with market participants at the end of 2015, which is compliant with international standards that regulate CCP operations.

In addition to the allocated capital, the system guaranteeing execution of any stock market transaction also includes a margin deposited by all participants, as well as the guarantee fund, into which Moscow Exchange contributes up to RUB 5 bn.

Ratings

In February 2016 and February 2017, Fitch Ratings affirmed the ratings of NCC Clearing Bank, two of which – the local-currency long-term issuer default rating (BBB) and the viability rating (bbb) – are one notch higher than Russia's sovereign rating (BBB-). The foreign-currency long-term issuer default rating has been affirmed at BBB- level, which is on par with Russia's sovereign rating. In October 2016, Fitch Ratings reviewed the outlook for NCC Clearing Bank, changing it to "stable" following a similar change in Russia's sovereign rating outlook. In February 2017, this outlook was confirmed.

In November, the Analytical Credit Rating Agency (ACRA) awarded NCC Clearing Bank with an AAA(RU) credit rating according to the national scale with a "stable" outlook. According to ACRA, NCC Clearing Bank's credit rating is explained by its strong and stable business profile, its exceptional liquidity and its capital adequacy position, which compensates for the Bank's risk profile, as well as by the fact that the Bank's rating is also supported by the systemic-importance status that the Bank enjoys in the Russian financial market.

Corporate Procedures

In accordance with the applicable laws, all central counterparties will acquire status as a non-banking credit institution by the end of 2017. In this regard, NCC Clearing Bank is set to carry out a number of corporate procedures, including obtaining a banking licence for the CCP, which is a non-banking credit institution, amending its charter, changing its name, increasing the number of independent directors on the Supervisory Board and automating the CCP's accounts in accordance with its new status.

In November, the Analytical Credit Rating Agency (ACRA) awarded NCC Clearing Bank with an AAA(RU) credit rating according to the national scale with a “stable” outlook.

CCP safeguard structure



¹ Capital at the minimum level required to maintain capital sufficiency (H1) is 8% since 1 January 2016.

² As of 1 December 2016.