

*Russia:***National Settlement Depository Expands Services and Facilitates Investment by International Investors in Russia's Securities Markets**

Recent major steps by National Settlement Depository ("NSD") —part of MICEX Group— and expected legislative changes are making it easier and more attractive for international investors to invest in Russia's securities markets and hold Russian securities. Legal concerns are being addressed, services are being expanded, and technical systems are being upgraded, to bring NSD into the top tier of international securities depositories.

NSD is Russia's largest securities depository. It provides a full range of depository, settlement and related services and acts as a securities depository for many Russian securities issues, including Russian federal bonds, corporate bonds, and many equity issues.

For years, U.S. mutual funds – and other U.S. and foreign institutional investors following their lead – have hesitated to use NSD as a custodian for their Russian securities out of concerns that NSD did not qualify as an "eligible securities depository" under Rule 17f-7 of the U.S. Investment Company Act. An analysis conducted by NSD in conjunction with a major American law firm, however, recently concluded that NSD meets the definition of "eligible securities depository" under Rule 17f-7. NSD plans to present the relevant analysis to customers and investors at the SIBOS conference to be held in Toronto, Canada in mid-September.

Anticipated legislation will further clarify NSD's status and facilitate investment by foreign investors in Russian securities. In July 2011, President Medvedev instructed the Russian government to prepare a bill on central securities depositories. The Russian government is expected to propose this bill in September 2011. The bill is expected to provide further clarity as to the legal regime for a central securities depository such as NSD and the securities settlement system under Russian law. Its main goal is to support the development of an international financial center in Russia.

NSD is expanding its menu of services and improving its technology infrastructure to meet global standards. In the next year NSD plans to implement collateral management technologies, securities lending procedures, and technical systems for the clearing and settlement of customer transactions through BESP (Bank of Russia's real time gross settlement system). NSD encourages its customers to use new ISO standards and SWIFT. NSD also contemplates addressing compatibility issues between international investors' and the NSD's technological solutions, especially as they relate to corporate actions and settlements in different currencies.

NSD's services are not limited to Russian securities. Securities from foreign issuers are nearing 14% of the total number of issuances in custody at the NSD (as of June 30, 2011). The increase has been spurred by the introduction of new services such as cross-border Delivery vs. Payment (DvP) accounts.

NSD also has reduced the cost of using its services. In 2010 NSD's tariffs for safekeeping of securities were reduced three times. In addition, the corporate governance model was changed significantly to allow MICEX group's consolidation and participation of customer committees in the company's decision-making process.

Russia's securities depository and settlement system is expected to become further centralized as a result of the pending merger of MICEX and the RTS exchange groups. Following that merger, it is expected that the two exchanges' respective securities depositories – NSD and DCC – will integrate and DCC will be folded into NSD. While linkages already exist between the two settlement depositories, their combination will enable the full integration of their systems, further centralizing and unifying settlement and custody processes for Russian securities.



Eddie Astanin
Chairman of the Executive Board
National Settlement Depository

The main goal of the structural changes is to help support the development of an international financial center in Russia.

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