

12th International Rouble Settlement Forum
9th October 2012
Golden Ring Hotel Moscow

This was the 12th Forum held to discuss the ongoing issues and solutions relating to settlement of the Russian Ruble. The event was co hosted by EBS and the National Foreign Exchange Association (NFEA) and was attended by our biggest ever audience of 123 people from 41 Banks and 17 other institutions including Central Bank of Russia, MICEX, SWIFT, ACI Russia and CLS.

The group was welcomed to the forum by Mr Dmitry Piskulov from the National Foreign Exchange Association who explained that this event continues a series of professional events set up by ICAP since the Ruble became convertible in 2006 to promote change in the way that Ruble payments especially those related to foreign exchange transactions are settled.

Dmitry gave an overview of the role of NFEA in the Russian financial markets. NFEA brings together the key participants of the currency and deposit markets in Russia and from day one of its inception has been at the forefront in addressing problems and the development of the financial markets in Russia both for market participants and the regulators. They are currently involved in a number of projects such as working with the different indices used in the money markets, Ruble settlements in the financial markets especially FOREX, promotion of the Ruble as an international reserve currency, working closely with the government to create an international finance centre in Moscow and the inclusion of the Ruble as a CLS currency. NFEA has been involved in discussions with CLS for a long time now and is pleased to see the project to include Ruble as a settled currency is now “gaining steam”. NFEA has been commissioned by the Central Bank of Russia to enter into talks with the Russian Banks to see which ones would be willing to become liquidity providers and or members. There are currently 7 lending institutions interested including Russian Banks and subsidiaries of foreign Banks namely Sberbank, VTB, Vnesheconombank, Gazprombank, Deutsche, ING and Commerzbank.

An opening address was given by the IRSF Chairman Darryl Hooker of EBS in which he thanked all attendees especially those from abroad which showed the high importance the worldwide financial community holds for the country and currency on the international stage. Darryl started with the statement that the IRSF started its journey five and a half years ago yet despite everything that has gone on internationally in that time there is still no closure in adopting an RTGS in Russia. This cannot all be blamed on the Central Bank though, as at the conference in London back in April Dan Hogan of Citibank suggested a number of correspondent Banks get together on the issues surrounding RTGS and settlement of the Ruble but only two Banks and CLS had any dialogue with Dan, maybe there is a lot of apathy out there and Banks think that change can't and won't happen!

Despite the lack of an RTGS the rouble markets on exchange are now back to pre crisis levels and the E OTC markets are at record trading levels which is of course excellent but where could we have been if RTGS had been mandated for usage by the Central Bank? Russia has huge ambitions i.e. Ruble to become a reserve currency and Moscow to become an International finance centre but before they can deliver any of these then the right people need to be in place with the authority, vision and enthusiasm to complete step one i.e. full adoption and utilization of BESEP. A fully functioning RTGS system is a pre requisite for Ruble to be included as a CLS currency which is still stated to be some time in 2015. Darryl advised we had speakers from two key players in moving the Ruble towards the ultimate goal of its adoption as a CLS currency namely the Central Bank and CLS and therefore looked forward to hearing the progress that had already been made and what still needs to be done to achieve this.

Darryl explained that format of the second half of the forum had been changed to an interactive panel discussion giving attendees the opportunity to debate with the panellists on any question relevant to the subject matter.

Darryl then introduced our first speaker Mr. Kirill Vergunov who gave a keynote speech to the audience.

Mr. Kirill Vergunov
Head of the Domestic Market Group – Central Bank of Russia.

Mr. Vergunov began his speech by advising the group that the IRSF was one of the key platforms to discuss the improvement of the payment infrastructure in Russia and he expected the use of the BESP system would be much discussed at the morning event. Kirill advised that it was desirable to have payment netting within the RTGS system and for messages to be now processed in the English language.

With the Ruble being suggested as a CLS currency the Central Bank began discussions with the CLS last year and there have been quite dynamic discussions which are now at the level of bilateral negotiations with Banks as to them becoming potential members of the system. The benefits of CLS for the Russian market would be the introduction of a multi currency PVP regime, particularly of interest would be the centralization of the clearing at MICEX, something that has been debated for some time now. For CLS participants there would be a reduction of transaction costs by using single trading accounts of the members, mitigation of risks, and creation of a single pool of liquidity on the cash clearing of cross border transactions and cross product clearing across the different markets forex, repo and derivatives.

Other items Kirill spoke about were

- Euro clear had received clearance from the Federal Financial Market Service to work with the Central Russian Depository for post trade services relating to Municipal or Corporate Bonds so Moscow would finally have the Central Depository. This financial market would then be better integrated into the international financial system.
- National Depository implementing a project to provide repository services for OTC transactions thus allowing participants to get close out netting on their positions.

Kirill closed by wishing everybody a successful forum.

Mr. Dmitry Piskulov
Chairman of the Management Board NFEA
Russian Ruble Markets in 2012: New Regulatory changes.

Mr. Piskulov gave an updated presentation showing statistics on the OTC market turnover, to discuss the recent trends, market behavior, size of the market and volumes. He also gave an update on a number of new regulatory challenges as we go into 2013.

What's new?

- New financial regulations are being adopted re the standardization of the trading of OTC instruments on exchanges or electronic platforms. Discussions are still going on as to whether FX SWAPS should be exempt from regulations or not.
- Russia is currently striving for the mandatory central clearing of OTC derivatives.
- Dodd Frank regulations are being constantly adjusted.
- From next year Basel III will be coming out and it will be coming to Russia, included in which will be a higher capital charge for counterparty risk which changes the methodology of "Credit Value Adjustment" which will make the financing of transactions between counterparties more expensive.
- There are discussions taking place between the Central Bank and the BIS about new collateral requirements for non centrally cleared derivatives these are the only derivatives processed in Russia.
- Tougher requirements are being brought in by trading systems i.e. minimum quote time of 500 ms.

Trends

2012 has seen market conditions worsen due to ongoing crisis in the Euro zone and elsewhere:

- Lower Risk appetite by market agents and Banks.
- There has been a certain level of credit shrinking and higher interest rates which causes lower risk appetite and therefore a decline in OTC trading volume i.e.
 - FX Spot Trading in London and Russian market
 - Reduction of Interdealer repo in Russia
 - Disappearance of interest rate derivatives in both London and Russia.

- Off Shore Ruble
 - Still a rise in Ruble globalization.
 - Steady increase in cross border Ruble interbank deposits and Repo.
 - Significant rise of Ruble trading in London especially in 2011 where at the start of the year the volumes were relatively low but they increased steadily over the year, trading is lower this year but in comparison to 2011 it is still relatively high.
- Onshore Ruble
 - Average daily turnover back in March 2012 peaked at \$74 billion, there has been a small decline but ADT has now stabilized at \$68-69 billion.
- Ruble Cash MM
 - There was a rise in 2011 and it peaked 1st Quarter 2012, there has been a small decline but in the last 6 months this has now stabilized.
- Repo
 - Is an actively developing instrument but statistics from the Central Bank show a decline in Russia from \$5.5 billion ADT in 2011 down to \$2.2 billion in Q2-3 2012.
- Interest Rate derivatives
 - Radical decline of turnover in both London and Moscow.

Key Developments seen in the market.

- There was new financial market legislation put in place, one that covers the Central Securities Depository (CSD) and also the organized trading act became law regarding exchanges and trade systems.
- There was a merger between MICEX and RTS which became the Moscow Exchange.
- Russia continues with its efforts to introduce central clearing for OTC instruments which is still expected this year.
- The trade repository (NSD) will be launched this year.
- Work continues with the CLS Bank to include Ruble as a CLS currency.

Statistics

Dmitry gave the group some statistics from the Ruble markets which were derived from a number of sources i.e.

- Central Bank of Russia (from monthly survey of FX and Derivative market activity)
- UK Bank of England FX Joint Standing Committee (semi - annual FX turnover surveys)
- Bank for International Settlements
- NFEA Annual Survey of Bank Derivatives

Points to note were:

- In 2007 Russian Ruble ranked 17th in the global share of the FX market but in 2010 it ranked 16th. A new BIS survey is due in 2012 and it is expected that the Ruble will be ranked much higher.
- In July 2008 the FX Spot on shore interbank market peaked at \$104.2 billion which was halved during the crisis down to \$54.2 billion in October 2009, since April-August 2012 the market is steady at \$68.5 billion.
- The bulk of the Ruble markets outside of Russia are taken up by FX instruments (\$18-19) out of a total turnover of all instruments of \$20 – 22 billion.
- Latest information (April 2012) on the turnover of Rub FX in London shows \$17.4 billion compared to October 09 when the turnover was just \$9 billion, this represents just under 1% of the total volume in London and ranks Ruble as the 11th most active currency in London.
 - The \$17.4 billion is broken down as follows
 - \$7.6 billion FX SPOT
 - \$2.4 billion NDF
 - \$1.7 billion Outrights
 - \$4.4 billion FX Swaps
 - \$0.2 billion CCY Swaps
 - \$1.1 billion FX Options

Finally Dmitry reminded the participants that NFEA had actively developed the following interest rate indices

- MOS Prime Rate -Like LIBOR
- NFEA FX SWAP Rate – Premium rate 1 week to 5 years maturity.

- RUONIA - In conjunction with the central bank and shows rate for overnight loans in the Russian market.
- ROISFX- Ruble fixing on overnight index swaps.

Vladimir Kulipanov

**Head of Monitoring and Control Centre for BESP system – Bank of Russia
BESP Payment System.**

Mr. Kulipanov began his presentation with an update on the developments that have taken place with the BESP system in the last 6 months:

- Volumes show a steady growth in the demand for the BESP service and in quarter two of this year there were over 250,000 transactions being processed through the system. When the service first became live there were only a few transactions every day where as now there are many thousands of transactions.
- Turnover or value of transactions being processed in the system has doubled since 2011.
- In the past there has been some criticism that most of the volumes processed in BESP are transactions from the Central Bank of Russia itself. That may well be the case but the number and value of payments within BESP by the Bank of Russia is quite steady and statistics show that the BESP portion of ALL the payments within the Bank of Russia payments systems is steadily increasing hence payments from lending institutions must be increasing. Current statistics show that over approximately 38% of all payments in value terms effected in the Russian payment systems are via BESP.

Regulatory developments on BESP.

- In the middle of 2012 rules were implemented allowing the use of direct debit instruments to cover the market positions of the participating Banks within BESP, this was meant for a wider use but is currently only available for infrastructure organizations to cover market positions of partner Banks.
 - Could also be used for implementing DvP1 arrangements.
 - The Bank of Russia along with other market players is performing an analysis to see where the use of direct debit instruments would have the highest demand.
- There have been some changes to the approach related to liquidity management
 - Banks are now offered the opportunity to see their liquidity in BESP early in the morning; this is available now on request from the Bank of Russia.
 - Management of BESP liquidity is now easier as it can be managed both ways from their BESP terminal and also the terminal that services the multi batch payment system.

Legislative Changes

- The National Payment System act has now been adopted which regulates many items between participants i.e.
 - Principles of legal relationships.
 - Terms and Definitions
 - Payment Facilities
 - Participating entities
 - Payment System Requirements
 - Oversight and supervision.
 - As a result of the NPS the Bank of Russia now gets additional functions.
 - Undertakes control and supervision of the payment system including its own one.
 - Authority to regulate legal relationships within the NPS.
 - Authorized to perform oversight and supervision activity at a national level.
 - Bank of Russia can now determine the NPS strategy going forward.
 - The regulation of the NPS by the Bank of Russia implies some certain common rules to be established
 - General rules for making ruble payment transfers within the Russian Federation.
 - Specific rules for how the payment is formatted and what information is included.
 - Payment queue management e.g. where they have to wait whilst waiting for liquidity.
 - Right to maintain the register of the system operators.
 - Bank of Russia now responsible for Business Continuity and the security of information.
 - What are the responsibilities of the Bank of Russia?

- Bank of Russia's obligations have been defined as the operator of the payment system.
- Bank of Russia establishes the requirements for the members of the payment system and their potential eligibility.
- It differentiates between urgent and non urgent payments so that urgent or large payments are paid through BESP and all bulk or non urgent payments sent through the other payment systems. This is quite a strategic development as the plan will be that ALL urgent high value payments will be sent via BESP. So to a certain extent the Bank of Russia can determine that certain payments "maybe minimum" value payments must be settled through BESP but ultimately it will still be the Banks that decides what is urgent.
- It will define the rules for clearing and settlements.

Finally Vladimir updated the group on the developments of the CLS project within the Bank of Russia.

- The Bank of Russia has completed some important steps or phases
 - Several workshops have been held on education.
 - About to complete drafting of all the requirements after which they can find out where the gaps are as to Ruble joining the system. Based on these requirements then there will be a better understanding of what is required both legally and technically.
 - Technical implementation will take all of 2013 maybe longer into 2014.
 - Testing would take place in 2014 both legal and technical.
 - As part of CLS requirements the current BESP working hours of 9.00am Moscow time to 9.00pm Moscow time will have to be extended.
 - 2015 likely LIVE DATE.

Juan Gutierrez Head of the Currency Program CLS and the Russian Ruble CLS

Juan advised that his presentation would cover the basics of CLS to emphasize the benefits that are offered to the market and would finish with specific information related to the Ruble and its potential inclusion as a CLS currency.

Where does CLS sit in the trade life cycle?

It is important to explain first what CLS isn't, it is not a trading system, it is not a verification/confirmation system, it is not a CCP, they do not ask for collateral and they do not novate transactions i.e. do not replace original counterparties. How CLS helps in the last stage of the trade cycle is it matches transactions, calculates a net amount for the funding on a multilateral basis and then settles the transactions. In more detail

- Payment instructions for a single FX trade are matched and then stored until value date, they can store transactions that have further value dates.
- On value date a pay in amount is determined by multilaterally netting each counterpart's obligations against all of its counterparties within the system.
- CLS settlement is on a simultaneous and gross basis.
- It was emphasized that the legal and operational framework is consistent on a global basis which is one of the challenges in bringing the Ruble into the CLS system i.e. to meet the standards that are already in place globally by all the 17 currencies in CLS.

Trade Life Cycle

Juan explained that two CLS participants (CLS member or a third party) trade with each other, agree the transaction, they each send a CLS payment instruction to the CLS system where it is matched/confirmed and the payment instruction stored until value date when it is settled and pay ins and pay outs are calculated. The netting within CLS though is where there is the greatest benefit.

Benefits of Multilateral Netting.

Juan explained the three different methodologies in respect to settlement and netting.

Gross Settlement: All trades are settled in full and therefore will be likely to require a payment for each trade, there is full settlement exposure on each trade sold, also has the highest liquidity need in order to settle all the “sells” and the highest use of trading credit.

Bilateral Netting possibly under an ISDA: Buys and sells are netted together to get to a net amount, but there would still be significant settlement risk especially if counterparty only trades once with counterparty. CLS analysis expects efficiencies of around 50% to 60% so there is reduced liquidity requirements, reduced use of credit and the number of payments would fall to the number of counterparties.

Multilateral Netting: Within CLS there is multilateral netting of the funding and the settlements are on a gross basis, so it's what one institution bought and sold against all the other institutions in the system. Hence there is no principle risk, lower liquidity requirements, lower use of credit and the number of payments would be equal to the number of currencies. It is estimated that liquidity requirements would be decreased by 95% but with the use of “in out swaps” this can be further reduced to 99% so only 1% of liquidity is required on the original amount. As an example on an average day in the CLS system with volume of transactions received of \$4.5 trillion the value needed to settle goes down to \$50 billion.

To add further reasoning around the management of risk for Foreign exchange transactions Juan read out a number of quotes from a consultation document that had been distributed in August by the Basel Committee on Banking Supervision in which they advised

- With no netting at all a Bank should consider decreasing its exposure to a counter party. This is the worse exposure situation that can exist between two counterparties.
- When there is Bilateral netting or even Multilateral netting under an agreement then a Bank should put in place a master netting agreement such as an ISDA with all counterparties. The master netting agreement must contain legally enforceable provisions for close out netting and obligation netting and is a step in the right direction, but the challenge is making the agreements enforceable in all jurisdictions.
- The committee suggested that ideally Banks should eliminate principle risk by using financial market infrastructures that provide payment versus payment settlement, which is a clear endorsement for using CLS.

CLS Operation.

Juan explained the risk controls within the system and that each instruction when it arrives into CLS has to satisfy three risk controls.

- Individual Currency position
 - When an instruction arrives it is verified that if that instruction is added to the settlement members position in that currency that transaction must not exceed the settlement members “short position limit”.
 - CLS are currently talking to a number of potential liquidity providers who can commit to providing liquidity in the Ruble, the amount of liquidity these LPs can provide will define the short position limit in the Ruble. So this is a key component of the size and potential market for the Ruble in CLS.
- Sum of short positions
 - If an instruction meets the short position limit it is then verified against an aggregate short position limit where the short positions are converted through an exchange rate applied haircut. CLS ensures that the transaction does not exceed the institutions aggregate short position limit. This limit is defined for each institution by CLS.
- Multi – Currency adjusted balance
 - Finally CLS take the negative and positive balances for all currencies in an institution and apply the same exchange rate haircuts, it is verified that when all balances are in one account there is a positive balance. This ensures that CLS has enough resources to use the liquidity provider set up.

CLS relies on the central banks in each of its currencies being available to settle transactions in a 5 hour window so it will be important that the BESS system is able to meet this window hence the intention to increase the operating hours for BESS and be available earlier in the morning.

- All currency settlements are between 07.00 to 09.00 CET
- Asian currency pay ins and pay outs are from 07.00 to 10.00 CET
- All other currency pay ins and pay outs are between 07.00 to 12.00 CET.

- *Who is involved in CLS?*
- There is an oversight committee of 22 central banks which includes several from the Euro zone.
- The core system partner is IBM.
- The network and messaging standards partner is SWIFT.
- There are connectivity vendors that allow connectivity between settlement members and CLS.
- There are 17 RTGS systems one for each currency
- Most important components of the CLS ecosystem are the settlement members of which there are 61.
 - Many of these are also nostro's who provide other settlement members access to a currency, there is an opportunity for Banks in Moscow to become nostro agents for some of the settlement members in Ruble.
 - There are also 57 settlement members that are also liquidity providers.
 - 27 settlement members offer third party services and there are now 17,000 active third parties (mostly funds)

Juan advised the group that there were a number of ways that a Bank in Moscow could be involved in CLS and this was forming a major part in the current discussions that CLS were having with a selection of Banks in Moscow i.e.

- They could choose to be a settlement member and therefore receive the risk mitigation benefit.
- They could become a Liquidity Provider and thus support the risk mitigation framework.
- If they already have a relationship with a settlement member they could become a third party member and thus still receive the risk mitigation benefits.
- Or they could become a nostro.

CLS Currency Program.

As well as the Ruble there are another 18 target currencies for CLS globally and all existing and target currencies MUST meet the same standards which are

- Sovereign credit rating of at least BB- / Ba3
- Legal requirements of which finality of payments and settlement is normally the most challenging.
- There must be strong domestic support and from the start of the process the Bank of Russia has been fully supportive.
- The currency must have sufficient convertibility and acceptable exchange controls.
- Operationally the RTGS system must be able to make timely pay ins, be SWIFT compliant and must have a CLS account at the central bank.

Where is Ruble in the on boarding process?

This year there has been a lot of work that has been going on between CLS and the Central Bank:

- January
 - Non Disclosure Agreement (NDAs) executed with Bank of Russia and a steering committee and working group agreed.
- February
 - Two day workshops held with Bank of Russia and initial meetings held with prospective settlement members and liquidity providers.
- March
 - Working group set up with Bank of Russian on the IT and operational standards.
- May
 - First meeting of the steering committee held.
- July
 - Letter of intent signed by the Bank of Russia which was a key milestone.
- August
 - NDAs proposed to prospective settlement members and liquidity providers.
- October
 - Second meeting of the steering committee and further meetings with prospective settlement members and liquidity providers, CLS looking for specifically 3 liquidity providers. Discussions taking place with 4 local banks and 3 international banks.

Juan gave a graphical view of the 4 phases that a currency has to go through before it can go live on CLS, that's the education phase, engagement phase, diligence phase, the development / implementation phase and then live.

As far as the Central Bank and CLS are concerned the currency is through the education and engagement phase and has now entered the diligence phase which will include the support required for changes in law and regulations and the identification of 3 liquidity providers. The commercial banks are probably one step behind in that CLS are discussing NDAs with these Banks but it is hoped they will soon catch up to the same level as the Bank of Russia/CLS.

Juan made a point in mentioning that CLS do not put a date on when they expect Ruble to become a CLS currency as there is still uncertainty over how long all the steps will take.

The second half of the forum took the form of a panel discussion moderated by Darryl Hooker with the following people involved:

Andrew Rosoman Global Head of FXBP Product Credit Suisse
Juan Gutierrez Head of Currency Program CLS
Oleg Perestenko Central Bank of Russia
Sergey Romanchuk President ACI Russia
Julia Sergeeva VP Payments and Cash Management ING Moscow

A number of questions were delivered to the panelists as follows

JG What impact do you think the recent guidance from the Basle Committee on banking supervision will have regarding mitigation of foreign exchange settlement risk and what part do you see CLS playing in it?

- *There will definitely be a renewed focus on foreign exchange settlement risk mitigation. The latest report out in August 2012 confirmed that progress had been made since the last report in 2002 but the FX market continues to grow and if not already done so and where practicable Banks should use financial market infrastructures that provide PvP settlement of which CLS is the worldwide standard.*

AR How do you see the changing legislation with G20 moving towards centralized clearing affecting the FX landscape and how can prime Brokerage help their clients to adapt to these changes?

- *Prime brokerage is a credit intermediation product and they see it very acutely that where clients are not on CLS then credit appetite is less so Ruble becoming a CLS currency would be great for the prime business.*
- *G20 are looking at FX as an asset class and other products have already moved to a CCP environment so the impact on FX globally will be similar across all regions and the G20 are looking for electronic execution of FX.*
- *NDFs will be the first product mandated in the US to be moved to a central counterparty environment. This might add liquidity as some of the risk is being taken away but liquidity might be reduced as some of the transactions pre CCP that Banks could trade in the past will have to be fully documented and will have to be fully disclosed if they want to trade them post CCP.*
- *The role of the FX prime broker will be to provide access to the CCP (there is a cost involved)*

JS Should the Central Bank issue correspondent licenses or some form of official approval acknowledging their full BESP approval?

- *Situation since August 2011 when all Banks became at least associated members of BESP has not changed in that most Banks still only use BESP for their own payments.*
- *Licenses will not make any difference. In order to improve use of BESP there must be demand from the market place and in ING's experience in the last year their customers have requested 3 or 4 times as many payments to go through BESP. If Banks ask for a payment to be paid through BESP then it will be paid in BESP so Banks need to ask!*

SR Should BESP be more creative/attractive in their pricing structure to encourage wider usage i.e. gratis periods, sliding fee structures based on volume or rankings for usage.

- *Clients requesting for their payments to be settled in BESP has increased several fold in the last year.*
- *Incoming payments through BESP though does not appear to be growing.*
- *SR's view is that setting restrictions such as making it mandatory that all payments over a certain amount would go through BESP is not a good idea. A better policy would be to incentivize Banks to use the BESP system by changing the pricing of using the system i.e. volume discounts.*
- *The changes in liquidity management within BESP have been a positive benefit to use of the system.*

OP What do you see as the next key tasks to be undertaken by the Bank of Russia payment system?

- *Need to promote use of BESP for urgent payments so that payments currently being paid through other Central Bank systems are redirected through BESP.*
- *Expansion of working hours is key to the BESP system and costs should not be an issue but CBR are still prone to normal financial restraints such as headcount reductions.*
- *Control of liquidity management will still be key going forward.*
- *Preliminary discussions are taking place to decide on an amount that over which a payment should be sent via the BESP system. Many Banks are saying that they are ready to make more payments via BESP but they cannot do so until there are more receipts via BESP. So at the moment there is competition between the BESP and batch systems for liquidity.*
- *BESP is not a mass payment system but it has capacity to increase volume tenfold i.e. 5000 transactions now to 50000 transactions later without any additional effort on the part of the central bank.*

JG Which three currencies do you see becoming CLS eligible next and in which order?

- *The Ruble and the Brazilian Cruzeiro are the two currencies that CLS have had the most interest in and will provide the highest potential for risk mitigation; these currencies are therefore the ones that CLS are working the hardest on this year. The Thai Baht and the Chilean Peso are in the currency program and are probably a little further ahead and likely to become CLS currencies in the shortest timeframe.*

JS Is the onus now on the Ruble correspondent banks to enforce change and fully adopt BESP?

- *It is really important to have demand on the customer side, partners and counterparties.*
- *Also important to understand the measures that the Central Bank intends to take to support liquidity in both payment systems.*
- *Resolving the issue of formats and being able to distinguish between Interbank and Customer payment is key.*

Panel Does the panel think that the CBR will ever make usage of BESP obligatory?

- *AR This needs to happen in order for the Ruble to become CLS eligible.*
- *JS It will happen all by itself without the need for CBR intervention.*
- *SR Yes but Banks need an incentive – costs*
- *OP Yes but would like to do this together not unilaterally*

Panel What date do each of our panelists think Ruble will become CLS eligible and why?

- *JG Cannot give a date but as long as work continues very closely with the Central Bank and CLS can come to agreements with at least three liquidity providers then the project will move very quickly.*
- *OP Not all in the hands of the Central Bank but believes they will be ready in the next year.*
- *SR Realistic date 2015.*
- *JS Clients keep asking about the date and just want it to happen as soon as it possible.*
- *AR Not before 2015.*

To complete the morning events an update was given to the group on the Ruble survey that has been running for the last 2 years during which we ask a number of questions about what attendees have heard and their view of the progress that is being made on the main issues surrounding Russia and the Ruble.

Tony Strong EBS Ruble Forum Follow Up

- What is the predicted timetable for RTGS?
 - *A high percentage (40%) believe that 2013 is the most likely date for full adoption of BESP though an increasing number (33%) are now of the opinion that 2015 is more likely.*
- Are attendees reassured by progress BESP is making towards full adoption as an RTGS system?
 - *Confidence is growing with approximately 86% are somewhat or very confident of the progress being made.*
- Will all Ruble trades be ultimately settled by BESP?
 - *There is still uncertainty with 42% saying yes, 33% being unsure and 25% saying no. If Ruble becomes a CLS currency then most if not all large trades will be settled via BESP.*
- When do you anticipate that the Ruble will become CLS settled?
 - *A high majority 44% believes that 2015 is the most likely date; it will be interesting to see if this has improved after the days presentations from BESP and CLS.*
- Will Ruble become a reserve currency?
 - *41% say yes*
- Will Ruble become a recognized G8 currency?
 - *An increasing number believe yes (47%)*
- Will Moscow become a recognized international financial centre?
 - *There is very high confidence that this will happen (81%)*
- Will BESP become the main settlement system for the Ruble?
 - *An increasing number (68%) agree that it will.*

All attendees were encouraged to complete the 30 second survey on the back of the agenda so that we can monitor progress on the issues.

Darryl Hooker IRSF Chairman Closing Remarks

As is customary Darryl gave an overview from the mornings session and points to note were:

- Central Bank spoke about the advancement in post trade services and cost efficiencies of central clearing on MICEX
- NFEA spoke about lower risk appetite in 2012 leading to a decline in OTC volumes. Darryl had spoken to a European Central Banker recently who advised that this level of volumes will become “normal” for the considerable future.
 - There was a rise in Ruble being traded globally and it is now 16th most traded currency and on EBS USD/RUB is 6th most traded currency on the platform.
 - Ruble volumes are steady onshore but ready to grow.
- BESP are seeing a steady demand for their service and current statistics show 38% of Ruble payments are now being handled by the system.
 - The changes that have been made in the liquidity management within the system between BESP and the batch system are a positive change.
 - Interesting to hear about the National Payment System act where there could be some powers within the act that might make usage of BESP increase further.
 - CLS eligibility targeted for 2015 after testing in whole of 2014.
- CLS advised that a recent Basle report had recommended that some form of netting was essential to reduce settlement risk but that ideally Banks should eliminate settlement risk by using financial market infrastructures that provide payment versus payment e.g. CLS.
 - CLS looking for Ruble liquidity providers with meetings arranged for that week with at least 7 Banks both domestic and international to discuss further.
 - Still a lot of work to do so no commitment on a likely live date.

To close Darryl thanked all for their participation, thanked co hosts NFEA and hoped to see as many as possible at the 13th IRSF in London April 2013.