**Slide 1.**

Good morning, ladies and gentlemen. I shall talk about the anticipated changes to the payment system of the Russian Central Bank.

The most important part of our payment system is the Russian RTGS known as BESP. This abbreviation can be literally translated as Banking Electronic Speedy Payments. This system has been in place since 2007.

**Slide 2.**

The BESP rules have been amended recently, so that by June 30 we shall extend the settlement window for TWO hours earlier in the morning.

**Slide 3.**

The primary reason for the extension is CLS’s requirement that our RTGS system settlement window overlaps with that of CLS. We have overcome that requirement by claiming the sufficient level of redundancy in such overlapping.

By extending BESP for two hours we allow one hour BESP operation ahead of CLS, at least. The worst case scenario would be achieved in summer period provided that the Russian government decides to move the clocks one hour back (so, we feel protected against this unlikely, but possible scenario). Otherwise we shall enjoy two or even three hours opening ahead of CLS. This redundancy will ensure we shall be able to overcome the RTGS opening problems, if those arise in the morning of a business day.

**Slide 4.**

The next widely anticipated change to take place on June 30 is the requirement that the ultimate beneficiary receives the funds in real time, should the originator of the payment use BESP system for the money transfer.

Central Bank had a long run of discussions with commercial banks to reach the final agreement on the issue. Those of you who have attended the previous International rouble settlement forums, may remember the complaints that it was quite common for the Russian commercial banks to credit their client several hours later if not the next day despite the payment came via BESP.

The Russian commercial banks advocated their position by appealing to the Russian civil code which requires them to credit the funds to their beneficiary no later than the next day unless the shorter period is stipulated in the contract between the beneficiary and the bank. The practice however is that for the vast majority of cases the contracts between the beneficiary and the bank do not contain the respective clause.

**Slide 5.**

Therefore, Central Bank of the Russian Federation after the long period of monitoring of the banking practice, after the chain of requests from international customers including IRSF experience, has decided to require the commercial banks to credit their client in real time for the BESP inbound payments. However we were not brave enough to require that service for the entire length of the business day. CBR has declared that during the window from 9 a.m. till 5 p.m. Moscow time the banks are obliged to perform real time credit. For the early hours before 9 a.m. and late hours after 5p.m. this requirement is void. For the reasons of costs of this functionality to the commercial banks.

**Slide 6.**

The next news is that on June 30 the new format of interbank payment instruction will be supported in BESP. However only CLS Bank International, its Settlement members and self-clearers as well as CLS nostros will enjoy this functionality first.

This message type has the reference ED107 in our proprietary Directory of Unified Formats for electronic Messaging and is fully compliant with MT202.

**Slide 7.**

Here you can see the mapping of the most important fields between MT202 and ED107. This slide is for your reference only. This presentation will be available from the host of the IRSF and everyone will obtain it on request to organizers.

**Slide 8.**

The next news is that the CBR Payment system rules were amended in the way that starting from June 30 the Central Bank may hire infrastructure service providers. The term «infrastructure service provider» was first used in the National Payment system Act (the Russian National Law) and describes the service providers who facilitate the payment message exchange between the participants of the National payment system.

The immediate consequence of this amendment to CBR Payment System rules is that SWIFT may become part of Russian National Payment system, if contracted by CBR.

**Slide 9.**

Now let’s turn to CLS project. Here you can see the outline of the project phases. CBR is in the final stage since January 2014, when CLS Board approved the project to move into Implementation phase. It is recommended that you address the presentation of Mr. Adam Levine from CLS for the more detailed overview of the workflow over the phases.

It is estimated that the project goes live in November 2014 somewhere a month ahead of Christmas.

**Slide 10.**

We have enough of work to do over the next half year in order the project meets the specified timeline.

The most difficult challenge for us is to ensure that the several Russian National Laws get amended. In earlier phases of the project CLS had identified the risky points in the Russian legislation that could potentially result in the lack of protection for CLS settlement process.

After a series of consultations the amendments to National Payment system Act and Bankruptcy Act were drafted, discussed and agreed between Central Bank and CLS. The final readings were prepared by the Russian Ministry of Finances and were submitted to State Duma (which is the lower house of the Russian Parliament).

In the middle of April this year CBR Governor and Finance Minister met with Prime Minister Dmitry Medvedev, where CLS project was of the items on the agenda. As a result, the Ministry of Finances was directly instructed by Prime Minister to undertake all required actions to ensure that the package of amendments to National Laws passes through the readings in State Duma on time.

The ideas of the amendments are as follows:

Foreign banks and foreign Central Payment Clearing Counterparties (not to be confused with Central Counterparties) should be recognized as the participants of Russian National Payment System. Thus they will enjoy the same level of protection for their settlement as the Russian commercial banks do.

The correspondent account of international CPCC must be protected against arrest, seizure, attachments, whereas the operations over the account should be protected against hold up.

Any given transaction cannot be declared void or be annulled, if the settlement is performed via the accounts of CPCC.

This is the primary risk of the project of not meeting the specified timeline.

Finally, the recent political tensions between Russian Federation on one side and EU and US on the other side represent the risk which was not on the table half a year ago. The decrease of the Russian sovereign rating to BBB- (negative) leaves the Russian Federation just half a point above the minimum requirement of CLS.

**Slide 11.**

Thank you for your kind attention. Your questions are more than welcome.