

CSDs: Estonian CSD (Estonia)

Date: 27 Jul 2010

SMI Markets: Estonia

CMIRR Markets: Estonia

Change of Depository System at the Estonian CSD

The Estonian CSD plans to implement a new depository system effective from 1 January 2011. The replacement of the current D2000 system will be Depend, which is a system developed by Percival Software.

With the implementation of the new system the subsequent changes will take place:

- The use of Depend will be mandatory for all participants, whether through Depend GUI or MessageHub, using ISO 20022 messages;
- ISO 15022 messages will be supported only for certain cross-border links or specific requests from CSD clients;
- Cash settlement will take place in TARGET2-Estonia;
- Transactions will be settled in Euro only (Euro will be adopted in Estonia from 1 January 2011);
- Settlement will be through Real Time Gross Settlement (RTGS) with optimisation batches instead of batch processing;
- The criteria for matching will be amended. The Trade Date will be introduced as a mandatory field and instead of settlement price, a settlement amount field will be introduced;
- The new system will enable the application of cash tolerance limits.

Connectivity between MessageHub and Depend is being established and internal testing is ongoing. Certification tests with participants are scheduled to take place from 10 November until 31 December 2010.

CSD Risk Impact

Estonian CSD (Estonia)

CSD Rating: A

CSD Flash Impact: Positive

Impacted Risk Type: Asset Commitment Risk

Current Rating = A+

Flash Impact = Positive

Impacted Risk Type: Liquidity Risk

Current Rating = AA-

Flash Impact = Positive

Impacted Risk Type: Operational Risk

Current Rating = A

Flash Impact = On Watch

The introduction of the new system with RTGS settlement for all trades will reduce the asset commitment periods for buyers and sellers to only a few minutes, having a positive impact on asset commitment risk.

However, it is not known whether the use of RTGS with optimisation batches for settlement as opposed to the current three models (Model 3 for on-exchange trades and Model 1 or 2 for off-exchange trades) will be more efficient from a liquidity perspective. Nevertheless, the introduction of a cash tolerance limits will reduce the likelihood of failure due to unmatched instructions resulting from price discrepancies. As a result, the impact is positive on liquidity risk.

From an operational point of view, the impact has been placed 'On Watch' pending a successful transition to the new system, and particularly the adoption of ISO 20022 messages.

Market Information Impact

Estonia

This information affects the data contained in the Settlement sections of the Securities Market Information Service.

Infrastructure Risk Ratings Impact

Estonia

Market Rating: A

Market Flash Impact: Positive

Impacted Risk Type: Asset Commitment Risk

Current Rating = A+

Flash Impact = Positive

Impacted Risk Type: Liquidity Risk

Current Rating = A+

Flash Impact = Positive

Impacted Risk Type: Operational Risk

Current Rating = A

Flash Impact = Positive

The introduction of the new system with RTGS settlement for all trades will reduce the asset commitment periods for buyers and sellers to only a few minutes, having a positive impact on asset commitment risk.

However, it is not known whether the use of RTGS with optimisation batches for settlement as opposed to the current three models (Model 3 for on-exchange trades and Model 1 or 2 for off-exchange trades) will be more efficient from a liquidity perspective. Nevertheless, the introduction of a cash tolerance limit will reduce the likelihood of failure due to unmatched instructions resulting from price discrepancies. As a result, the impact is positive on liquidity risk.

From an operational point of view, the impact has been placed 'On Watch' pending a successful transition to the new system, and particularly the adoption of ISO 20022 messages.

For further information contact:

Ana Giraldo - Americas and Eurasia
Barry Morales - Asia Pacific
Guillaume Viteau - Western Europe (incl. EU)
Luis Nino - Africa, Middle East

Tel. +44 (0) 20 8600 2300 | Fax. +44 (0) 20 8741 7468
Email: cmiqueries@thomasmurray.com

Whilst reasonable care has been taken in the compilation of this information, neither Thomas Murray, its affiliates or information contributors shall have any liability for any errors, omissions, delays or inadequacies in the information or for any loss or damage however occasioned (whether arising directly or indirectly), to any person or company relying on this information, or any decision made, action or inaction taken by any party in reliance upon this information (except to the extent permitted by law).

