

CSDs: AUSD (Ukraine), SSD (Ukraine)

Date: 10 Jul 2012

SMI Markets: Ukraine

CMIRR Markets: Ukraine

Adoption of Law on CSD and Clearing Center

The Ukrainian parliament adopted the Law on the depository system under which a single Central Securities Depository (CSD) and a single Clearing Centre (CCP) are to be established in Ukraine. The Law also stipulates the principles and order of the depository system participants' co-operation.

The Law's main points are as follows:

- Only one CSD should exist in Ukraine and shall be created on the basis of the National Depository of Ukraine (NDU), with a statutory capital of at least UAH 100 million. The State's and National Bank of Ukraine (NBU) share at the moment of the registration of its rules must be at least 50%, and should be reduced to no less than 25% plus 1 share after 5 years;
- NBU's depository will keep performing depository services for T-bills and municipal bonds; however it will open an account with the CSD and the decision to transfer these securities to the CSD could be made only by NBU, but it should not be earlier than 2 years after the decision takes effect (or 3 years after its publication);
- The All-Ukrainian Securities Depository (AUSD) must transfer all the global certificates of all the securities safekept by them to the CSD within 1 year after the CSD registration;
- The CCP will be created with the exclusive competence of carrying out payments of deals on securities and other financial instruments settled on and off stock exchanges if payments are performed under the delivery versus payment (DVP) principle. It can also carry out clearing operations;
- The CCP will be created in the form of a public joint-stock company with a statutory capital of no less than UAH 100 million, and its shareholders could only be the NBU, stock market professional participants and international depository and clearing institutions. NBU's stake on registration date should be at least 75%, and in five years' time it may be reduced to 25% plus 1 share;
- The NBU can support the CCP's liquidity. In addition, the CCP will have license to perform specific banking operations and a general currency license in order to accomplish functions of currency control agent. NBU will grant an Electronic Payments System (SEP) participant status to CCP;
- Electronic document's flow and digital signature are introduced for the communication among the depository system participants.

AUSD has NBU SEP participant status already and is considered as the main applicant for the CCP role.

The Law is still under review and some legal specifications and adjustments according to other laws on certain provisions are to be done.

The new regulation will enter into force after being signed by the President and its official publication.

CSD Risk Impact

AUSD (Ukraine)

CSD Rating: BBB

CSD Flash Impact: Negative

Impacted Risk Type: Financial Risk

Current Rating = BBB

Flash Impact = Negative

This new legal framework gives Ukraine the opportunity to become a more competitive market due to the rationalisation of the post-trade infrastructure and the reduction of the Counterparty risk thanks to the introduction of the new CCP. However, the new law stipulates that

NDU will be the single CSD which is expected to impact on AUSD's financial resources. It could become the CCP though if it meets all the requirements, but that has not been defined at this stage. As a result, the impact on Financial Risk has been assessed as Negative.

SSD (Ukraine)

CSD Rating: A

CSD Flash Impact: On Watch

Impacted Risk Type: Counterparty Risk

Current Rating = A+

Flash Impact = Positive

Impacted Risk Type: Financial Risk

Current Rating = A

Flash Impact = Stable

This new legal framework gives Ukraine the opportunity to become a more competitive market due to the rationalisation of the post-trade infrastructure and the reduction of the Counterparty risk thanks to the introduction of the new CCP. SSD, the NBU's depository, will continue to perform its depository services for T-bills and municipal bonds with a possibility to transfer these instruments at a later stage. However, NBU as a whole will have a significant participation in the CSD and CCP and could have some influence in their developments.

Market Information Impact

Ukraine

This information affects the data contained in the Local Market Administrative Organisations and Settlement sections of the Securities Market Information Service.

Infrastructure Risk Ratings Impact

Ukraine

Market Rating: BBB

Market Flash Impact: Positive

Impacted Risk Type: Counterparty Risk

Current Rating = BBB

Flash Impact = Positive

Impacted Risk Type: Financial Risk

Current Rating = BB

Flash Impact = Positive

Impacted Risk Type: Operational Risk

Current Rating = BB

Flash Impact = On Watch

This new legal framework gives Ukraine the opportunity to become a more competitive market due to the rationalisation of the post-trade infrastructure and the reduction of the Counterparty risk thanks to the introduction of the new CCP. However, probable operational issues could come out during the transition process resulting in the assessment of its Operational Risk as On Watch.

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