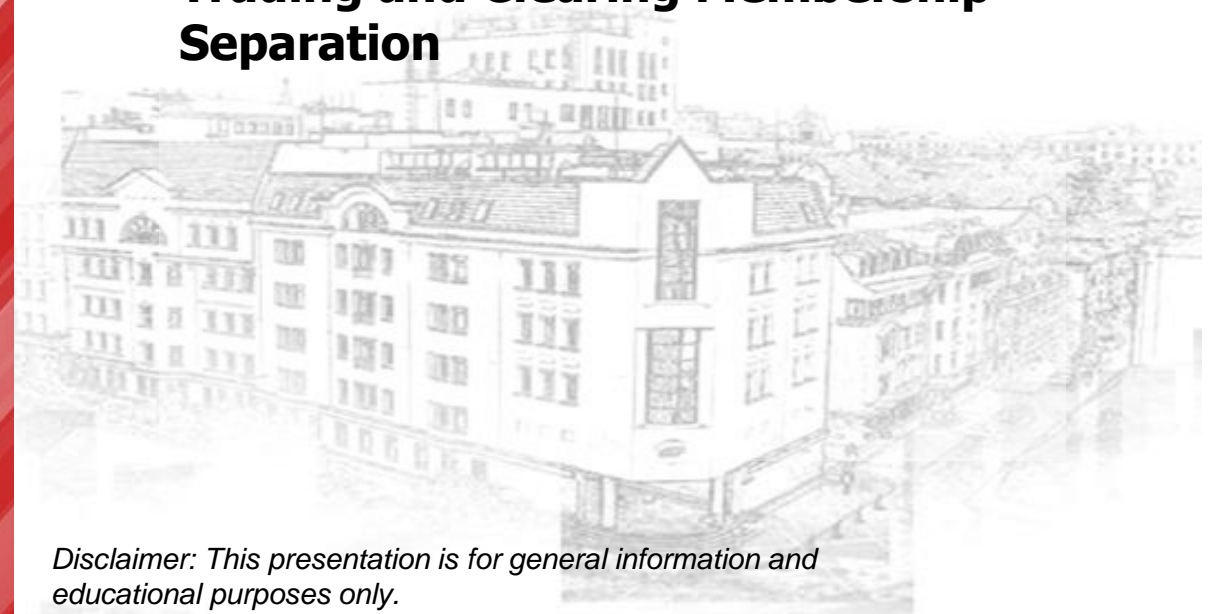**NATIONAL CLEARING CENTRE**
MOSCOW EXCHANGE GROUP

Clearing
Department

Trading and Clearing Membership Separation

TRADING AND CLEARING MEMBERSHIP SEPARATION IN THE TRADING-CLEARING SYSTEM

Market Participant: **participates in trading**

(submits orders and performs other actions, aimed at trades execution)
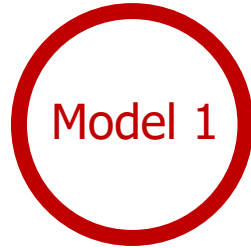
Clearing Member: **is a party to trades, executed on the basis of orders submitted by Trading Member**

NCC:

- **is a party to trades, executed with the central counterparty**

- **clears only in respect of the Clearing Member**

(including collateral recording, collateral sufficiency checks and termination of obligations under trades)

# TWO LEGAL MODELS OF TRADING AND CLEARING MEMBERSHIP SEPARATION

Model 1

Agency contract

Market Participant can execute trades <u>on behalf and in the interest</u> of the Clearing Member

🚫 *Restrictions: trades execution at the expense of other clients of Market Participant or Clearing Member is impossible*

When Market Participant submits an order, the value of the field 'Details' of the client **shall coincide** with the Clearing Member's TIN

Model 2
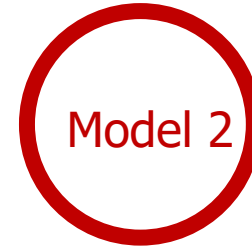
Clearing broker

Clearing Member becomes a party to the trade, executed by Market Participant <u>not in the interest</u> of the Clearing Member

🚫 *Restrictions: trades execution at the expense of the Clearing Member is impossible*

When Trading Member submits an order, the value of the field 'Details' of the client **shall coincide** with the Market Participant's TIN or Client's TIN

One Clearing Member may use different legal models in respect of different Settlement Accounts

CLEARING MEMBERS CATEGORIES*

«O»   **GENERAL CLEARING MEMBER**:
- has an access to the clearing of partially secured trades
- can be a party to trades, executed by more than two Market Participants**

«B»   **INDIVIDUAL CLEARING MEMBER**:
- has an access to the clearing of partially secured trades
- can be a party to trades, executed by not more than two Market Participants**

«C»   **INDIVIDUAL CLEARING MEMBER**:
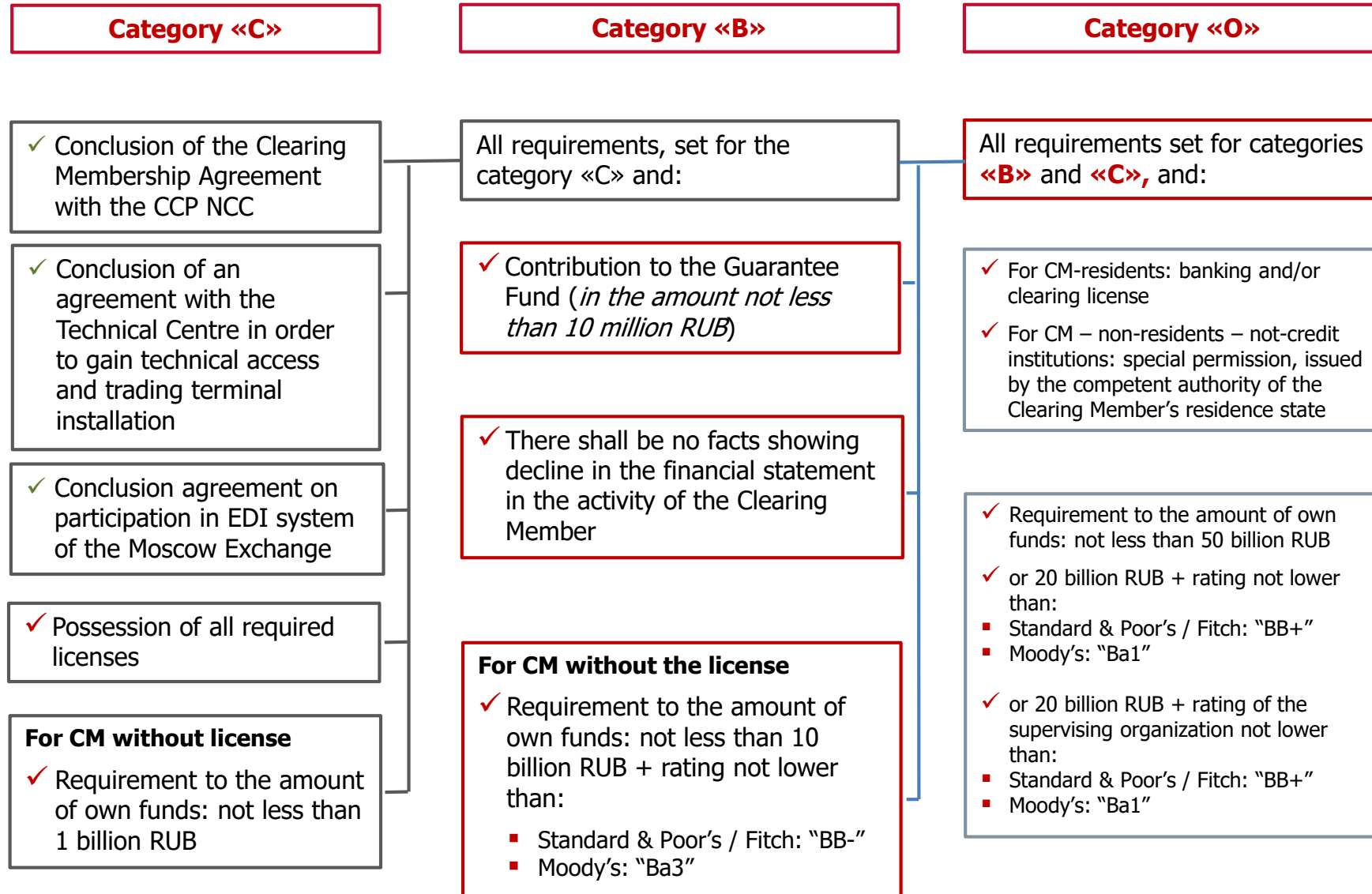- does NOT have an access to the clearing of partially secured trades
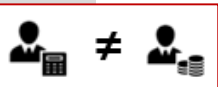- can be a party to trades, executed by not more than two Market Participants

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* - there are also the following categories: «A» – Central Bank of Russia, «K» - Federal Treasury of Russia

** - and/or party to OTC trades, executed by itself as the Clearing Member on its own behalf
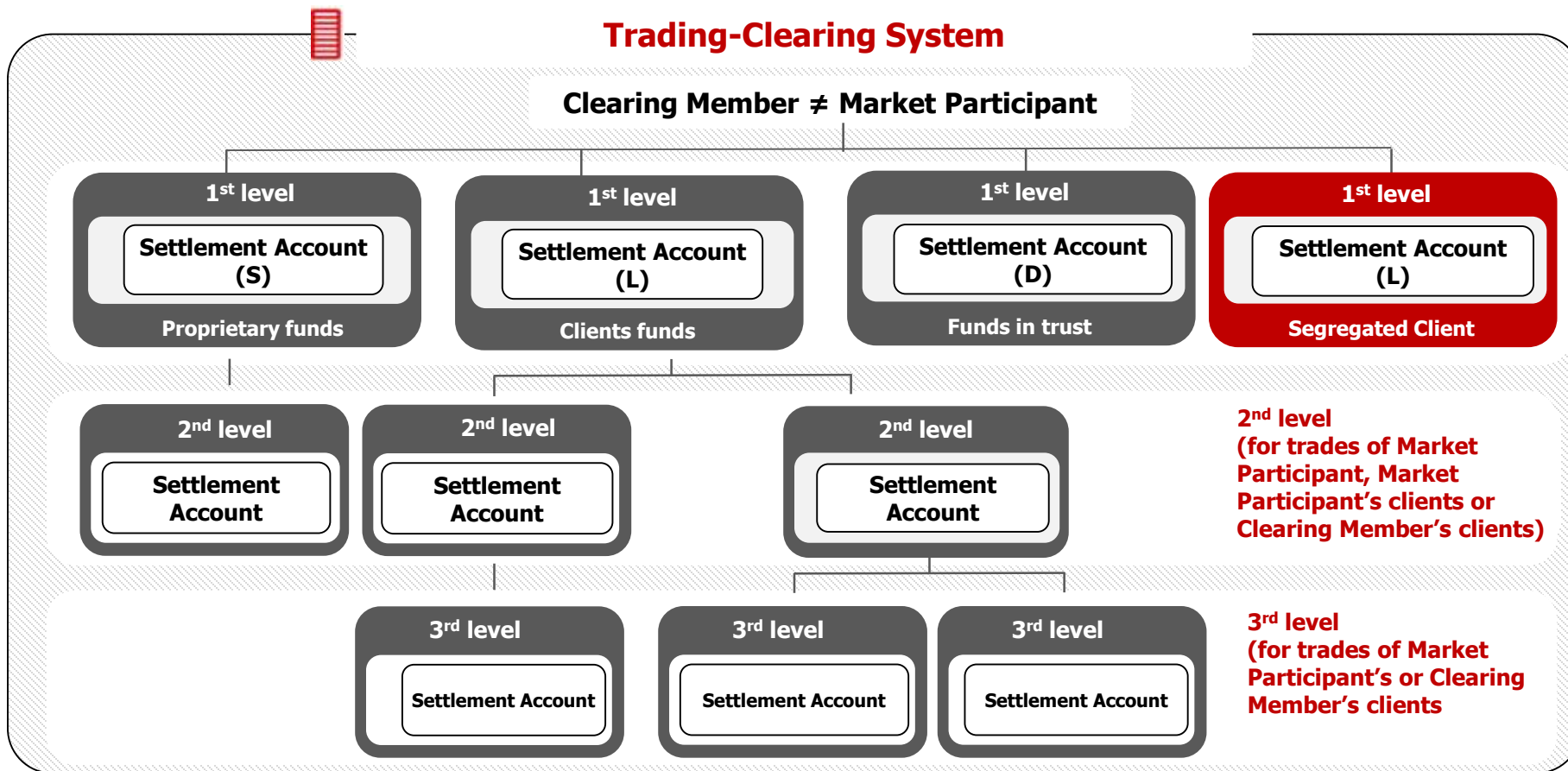
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REQUIREMENTS TO CLEARING MEMBERS' CATEGORIES

Category «C»

- ✓ Conclusion of the Clearing Membership Agreement with the CCP NCC

- ✓ Conclusion of an agreement with the Technical Centre in order to gain technical access and trading terminal installation

- ✓ Conclusion agreement on participation in EDI system of the Moscow Exchange

- ✓ Possession of all required licenses

For CM without license
- ✓ Requirement to the amount of own funds: not less than 1 billion RUB

Category «B»

All requirements, set for the category «C» and:

- ✓ Contribution to the Guarantee Fund (*in the amount not less than 10 million RUB*)

- ✓ There shall be no facts showing decline in the financial statement in the activity of the Clearing Member

For CM without the license
- ✓ Requirement to the amount of own funds: not less than 10 billion RUB + rating not lower than:
  - ▪ Standard & Poor's / Fitch: "BB-"
  - ▪ Moody's: "Ba3"

Category «O»

All requirements set for categories **«B»** and **«C»,** and:

- ✓ For CM-residents: banking and/or clearing license
- ✓ For CM – non-residents – not-credit institutions: special permission, issued by the competent authority of the Clearing Member's residence state

- ✓ Requirement to the amount of own funds: not less than 50 billion RUB
- ✓ or 20 billion RUB + rating not lower than:
  - ▪ Standard & Poor's / Fitch: "BB+"
  - ▪ Moody's: "Ba1"

- ✓ or 20 billion RUB + rating of the supervising organization not lower than:
  - ▪ Standard & Poor's / Fitch: "BB+"
  - ▪ Moody's: "Ba1"

Trading-Clearing System

Clearing Member ≠ Market Participant

1st level	1st level	1st level	1st level
Settlement Account (S)	**Settlement Account (L)**	**Settlement Account (D)**	**Settlement Account (L)**
Proprietary funds	Clients funds	Funds in trust	Segregated Client

2nd level
Settlement Account

2nd level
Settlement Account

2nd level
Settlement Account

2nd level (for trades of Market Participant, Market Participant's clients or Clearing Member's clients)

3rd level
Settlement Account

3rd level
Settlement Account

3rd level
Settlement Account

3rd level (for trades of Market Participant's or Clearing Member's clients

Specifics

- Feature, which indicates the legal model used in respect of particular Settlement Account, is recorded under **the 1st level Settlement Account**

- For trades execution Clearing Member **must** open **2nd level Settlement Account**

- Several **2nd level Settlement Accounts** can be opened for one **1st level Settlement Account**

- Market Participant:
  - can open **3rd level Settlement Account** (*In such case Market Participant shall sign Agreement on keeping clearing registers with the NCC*)
  - can indicate **2nd** or **3rd level Settlement Account**

- Identification data of clients can be linked to the **Settlement Accounts of the 3rd levels**

- For the Segregated Client separate **Settlement Account of the 1st level** shall be opened

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OPENING SETTLEMENT ACCOUNTS OF THE 2ND LEVEL

Clearing Member:

- **provides NCC with _Request for opening Settlement Account of the 2nd level_ (via the Web-clearing or Clearing Terminal)**

  - Indicate Market Participant ID

    In this case, when submitting orders in the Trading System with the indication of **2nd level Settlement Account**, the check of correspondence of the **Market Participant ID**, defined in the Request, to the **Market Participant ID**, fixed to the Market Participant ID, defined in the order, is performed.

    In case of non-correspondence orders are not accepted

OPENING SETTLEMENT ACCOUNTS OF THE 3RD LEVEL

Market Participant which has concluded with the NCC an Agreement on keeping clearing registers**, <u>can</u> open** Settlement Account of the 3rd level. In this case services on keeping clearing registers of the 3rd level are provided to the Market Participant

Market Participant:

- **Provides NCC with *Request for opening Trade Account of the 3rd level* (via Web-clearing or Clearing Terminal)**

  - Identification data of the Clearing Member's Client or Market Participant's Client

  In this case, when submitting orders in the Trading System of the Securities Market with the indication of such Trade Account (**3rd level Settlement Account**), the check of correspondence of the **Identification data** of the Clearing Member's Client, defined in the Request, to the **Identification data** of the Clearing Member's Client, fixed to the Client Code, defined in the order, is performed.

  In case of non-correspondence orders are not accepted

SPECIFICS OF SERVICES ON KEEPING CLEARING REGISTERS OF THE 3RD LEVEL

Clearing registers of the 3rd level are always opened:

upon request of the Market Participant, for this purpose:

Market Participant shall conclude with NCC an ***Agreement on keeping clearing registersc***

By default, **information on clients of the Market Participant in trades is NOT available to the Clearing Member**

However, information on clients in trades **IS AVAILABLE** to Clearing Member **IN THE FOLLOWING CASES**:

1. if Market Participant **gives** an access to such information

   (through forwarding to NCC *Request for provision to Clearing Member access to the information on clients of Market Participant via Web-clearing or Clearing Terminal*)

2. if Market Participant **delegates** to the Clearing Member powers to keep clearing registers of the 3rd level

   (through forwarding to NCC the relevant *Request**, meanwhile **Clearing Member is entitled to refuse from services of keeping clearing registers of the 3rd level through forwarding the relevant** *Request**)

   Services on keeping clearing registers of the 3rd level includes the following:

   Disclosure of the information on collateral under clearing registers of the 3rd level

   Limitation operations under clearing registers of the 3rd level

   Disclosure of termination of obligations under trades, executed with the indication of clearing registers of the 3rd level

   Provision of reports under clearing registers of the 2nd and 3rd level

LIST OF PROHIBITED CLIENTS[1]

Clearing Member is entitled to provide the Clearing House with the 📄 *List of prohibited clients* [2]

(prohibition on orders submission and trades execution by Market Participant, party to which is a Clearing Member, at the expense of clients from this List):

o   List is kept in relation to the Clearing Member

o   Prohibition is in effect in case:

  a) if services on keeping clearing registers of the 3rd level are provided to the Clearing Member

  b) if the feature "disclose information on clients to Clearing Member" is set in respect of the SA of the 2nd level

o   Client can be removed from the List of prohibited clients on the basis of the request of the Clearing member

> **Comment**
>
> *This option is necessary for protection of Clearing Member – Non-resident, which is banned from working with clients from the stop-list according to the local legislation.*
>
> *If the Clearing Member discovers that Market Participant is breaching terms of agreement and provides services to the client from the stop-list then, the Clearing Member can:*
>
> * *convince the Market Participant not to execute trades at the expense of such client by itself, or*
> * *impose prohibition via NCC on trades execution by Market Participant at the expense of such client*

[1] – information on clients (identification data), at the expense of which Market Participants are not entitled to execute trades, party to which shall become the Clearing Member

[2] – via Web-clearing or Clearing Terminal

PROCEDURE FOR RECORDING AND DISCLOSING INFORMATION UNDER 1ST LEVEL SETTLEMENT ACCOUNTS

Under 1st level Settlement Accounts:

- ✓ **Collateral** of the Clearing Member **is recorded**

- ✓ **obligations arising from trades are recorded**
  (trades executed with the indication of the **2nd** and **3rd level SA**, corresponding to the **1st level SA**)

- ✓ **collateral sufficiency and regimes of full secure checks are performed** in respect of orders, submitted with the indication of the **2nd** and **3rd level SA**, corresponding to the **1st level SA**

- ✓ **Margin Call is put**

- ✓ **termination of obligations** under trades between NCC and the Clearing Member **is performed**

- ✓ **settling non-fulfilled obligations** under trades between NCC and the Clearing Member **is performed**

- ✓ **fees** in favor of NCC and the Moscow Exchange **are charged**

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PROCEDURE FOR RECORDING AND DISCLOSING INFORMATION UNDER 2ND/3RD LEVEL SETTLEMENT ACCOUNTS

Under 2nd level / 3rd level Settlement Accounts:

✓ **information on Collateral**, posted with the indication of the **2nd level / 3rd level SA, is recorded**

Taking into account information on Collateral:

- in cash funds, recorded under such **2nd / 3rd level SA**

Single Limit is calculated under **2nd / 3rd level SA**

Single Limit under **2nd / 3rd level SA** is checked by default when submitting the order. Clearing Member can impose / remove the feature "to perform check of the Single Limit for the relevant level" via the Trading-Clearing System of the Securities Market

✓ **information on obligations** under trades, executed with the indication of the **2nd level SA** and **3rd level SA,** corresponding to the **2nd level SA, is recorded**

✓ **collateral sufficiency check is performed** in respect of orders, submitted with the indication of the **2nd level SA** and **3rd level SA**, corresponding to the **2nd level SA** (in case if the relevant feature is set)

✓ **information on termination of obligations** under trades, executed with the indication of the **2nd level SA** and **3rd level SA**, corresponding to the **2nd level,** and of obligations to pay variable parts of fees in favor of NCC and Moscow Exchange **is recorded**

✓ **Margin Call is NOT put** in case of collateral insufficiency

PROCEDURE FOR COLLATERAL DEBIT/CREDIT

Under 1st level SA: collateral of the Clearing Member is debited / credited **<u>in a standard way</u>**

Under 2nd / 3rd level SA:

a) through indicating in the purpose of payment number of the **SA of the 2nd / 3rd level** when crediting cash funds

b) through direct change of the information on Collateral, recorded under **2nd / 3rd level SA**, via the Trading-Clearing System (using TRAN transactions)

✓ Information on Collateral, recorded under **2nd / 3rd level SA,** is changed regardless the fact whether there are any funds, recorded under such **SA**, or not

✓ Check for negative value of the Single Limit:

- **is not executed** when information on Collateral, recorded under **2nd / 3rd level SA,** is changed through external debit / credit

- **is executed*** when information on Collateral, recorded under **2nd / 3rd level SA,** is changed through Trading-Clearing System

* - if there is the feature for the Single Limit sufficiency check in respect of SA of the 2nd /3rd level. Additionally in the TRAN transaction, corresponding to such change, Clearing Member can define special feature, which means that such change shall be made without the Single Limit sufficiency check (unconditionally)

POWERS OF THE CLEARING MEMBER (SERVICES ON KEEPING CLEARING REGISTERS OF THE 3RD LEVEL ARE PROVIDED TO MARKET PARTICIPANT)

Clearing Member	under 1st level SA	under 2nd level SA	under 3rd level SA
Setting: • internal limitation on position • regime of full secure under asset, admitted to partially secured trading • individual risk parameters • feature «Asset is not accepted as collateral»	✓*	✓	✗
Setting individual risk parameters	✓*	✓	✗
Changing information on Collateral	✓*	✓	✗
Setting internal limitation in respect of the Single Limit and Trade Limit	✓*	✓	✗

Clearing Member have an opportunity to submit Execution Instructions in respect of trades, executed by Market Participant, and also perform other actions, connected with the fulfillment obligations under trades without the CCP

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* - opportunity for Clearing Members to set limitations in respect of SA of the 1st level will be abolished in 2-3 months after launch of 'Trading and Clearing Membership separation on the Securities Market' project

POWERS OF THE TRADING MEMBER (SERVICES ON KEEPING CLEARING REGISTERS OF THE 3RD LEVEL ARE PROVIDED TO MARKET PARTICIPANT)

Market Participant			
	under 1st level SA	under 2nd level SA	under 3rd level SA
Setting: • internal limitation on position • regime of full secure under asset, admitted to partially secured trading • individual risk parameters • feature «Asset is not accepted as collateral»	✖	✖	✔
Setting individual risk parameters	✖	✖	✔
Changing information on Collateral	✖	✖	✔
Setting internal limitation in respect of the Single Limit and Trade Limit	✖	✖	✔

POWERS OF THE CLEARING MEMBER (SERVICES ON KEEPING CLEARING REGISTERS OF THE 3RD LEVEL ARE PROVIDED TO CLEARING MEMBER)

Clearing Member	under 1st level SA	under 2nd level SA	under 3rd level SA
Setting: • internal limitation on position • regime of full secure under asset, admitted to partially secured trading • individual risk parameters • feature «Asset is not accepted as collateral»	✓*	✓	✓
Setting individual risk parameters	✓*	✓	✓
Changing information on Collateral	✓*	✓	✓
Setting internal limitation in respect of the Single Limit and Trade Limit	✓*	✓	✓

* - opportunity for Clearing Members to set limitations in respect of SA of the 1st level will be abolished in 2-3 months after launch of 'Trading and Clearing Membership separation

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POWERS OF THE TRADING MEMBER (SERVICES ON KEEPING CLEARING REGISTERS OF THE 3RD LEVEL ARE PROVIDED TO CLEARING MEMBER)

Market Participant			
	under 1st level SA	under 2nd level SA	under 3rd level SA
Setting: • internal limitation on position • regime of full secure under asset, admitted to partially secured trading • individual risk parameters • feature «Asset is not accepted as collateral»	✖	✖	✖
Setting individual risk parameters	✖	✖	✖
Changing information on Collateral	✖	✖	✖
Setting internal limitation in respect of the Single Limit and Trade Limit	✖	✖	✖

PROCEDURE FOR TERMINATION OF OBLIGATIONS AND SETTLING NON-FULFILLED OBLIGATIONS UNDER TRADES

1st level Settlement Account: Procedure for termination of obligations is performed **in a standard way**

2nd / 3rd level Settlement Account: Procedure for termination of obligations is performed **for informational purposes**

Procedure for termination of obligations is always performed unconditionally:
- obligations, recorded under such SA, are always terminated in full regardless of information on Collateral in assets, required for the fulfillment of such obligations, recorded under the relevant SA.

NCC performs settling of non-fulfilled obligations arising from trades only under **Settlement Accounts of the 1st level** and does not perform the same under Settlement Accounts of the 2nd and 3rd level

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Clearing Member (using «Clearing broker» model) may submit to the NCC

📄 **_Request for trade execution at the expense of the Market Participant/ Market Participant's client_**

with the aim to settle non-fulfilled obligations of the Market Participant towards the Clearing Member under trades, executed "within" one 1st level Trade Account

Clearing Member (using «Clearing broker» model) with the aim to eliminate insecurity of positions has an opportunity to trigger removal of orders, submitted by the Market Participant:

- for this purpose the new transaction is launched 📄 **_«Request for the collateral sufficiency check»_**, which can be submitted by:

  o under 2nd level SA – Clearing Member, opened such 2nd level SA;
  o under 3rd level SA – Clearing Member, to which services on keeping clearing registers are provided

  When processing this request in case of:

  - **negative Single Limit** under 2nd / 3rd level SA – all orders, including such SA of the 2nd / 3rd level, are removed.
  - **non-negative Single Limit** under 2nd / 3rd level SA – any other actions are not performed

  Meanwhile setting zero or negative values of Collateral, recorded under 2nd / 3rd level SA, is executed by the Clearing Member on its own, through the separate transaction

SEGREGATED CLIENT REGISTRATION

Segregated Client registration is executed on the basis of:

📄 **Request for the Segregated Client registration,** submitted by the Clearing Member

Among others things the Clearing Member indicates in the Request the following:

☑ **Settlement Account, opened for the Segregated Client**

☑ **Identification data of the Segregated Client**

When submitting orders in the Trading System with the indication of the Settlement Account, opened for the Segregated Client, check of correspondence of the **Identification data** of the Segregated Client, defined in the Request, to the **Identification data** of the Segregated Client, fixed to the Client Code, defined in the order. **In case of non-correspondence the orders are not accepted**

☐ **Necessity of Segregated Client's cash funds protection** *(feature is set upon demand of the Clearing Member)*

Cash funds protection includes the following:

* return of cash funds is executed **only** to Account details, registered in the NCC, the owner of which is the Segregated Client

* transfer of cash funds can be executed **only** between Settlement Accounts, fixed to such Segregated Client, on one or several markets

FEES

Clearing Member pays the following fee types:

- **For technical access services in favor of the Technical Centre**
- **For the clearing services in favor of the Clearing House**
- **For opening clearing registers of the 3rd level ^{NEW} (in case if the Clearing Member = Market Participant)** – 120 RUB, is charged not later than the workday, following the day of opening of the 3rd level SA, and is recorded under the main SA for fees charging
- **For keeping clearing registers of the 3rd level ^{NEW} (if services are provided to the Clearing Member)** – 120 RUB, is charged on the 1st workday of the reporting month for each opened 3rd level SA and is recorded under main SA for fees charging

Amounts of variable and fixed parts of the clearing fee is defined by the tariff plan, chosen by the Clearing Member

Market Participant pays the following fee types:

- **For technical access services in favor of the Technical Centre**
- **For organization of trading in favor of the Moscow Exchange**
- **For opening clearing registers of the 3rd level ^{NEW}** – 120 RUB, is charged not later than the workday, following the day of opening of the 3rd level SA, and is recorded under the main SA for fees charging
- **For keeping clearing registers of the 3rd level ^{NEW} (if services are provided to the Market Participant)** – 120 RUB, is charged on the 1st workday of the reporting month for each opened 3rd level SA and is recorded under main SA for fees charging

Amounts of variable and fixed parts of the trading fee is defined by the tariff plan, chosen by the Market Participant

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