



NATIONAL  
CLEARING  
CENTRE  
MOSCOW EXCHANGE GROUP

Clearing  
Department

# Segregation and portability

# **Segregation on the fx, securities and derivatives markets**

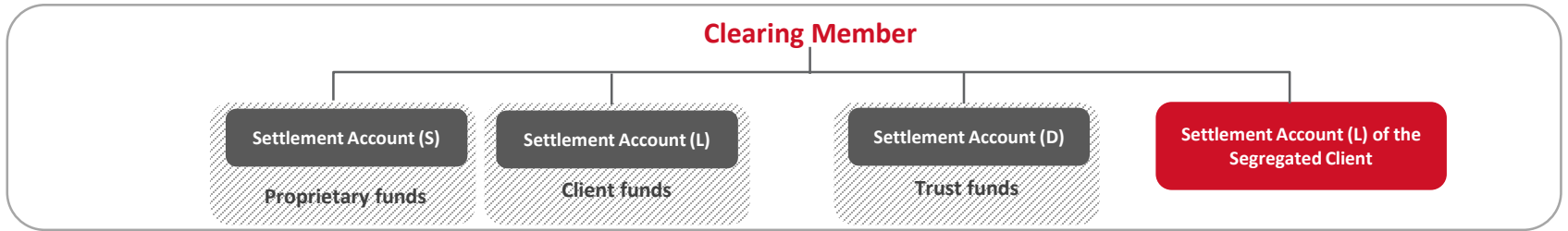


# Segregation background

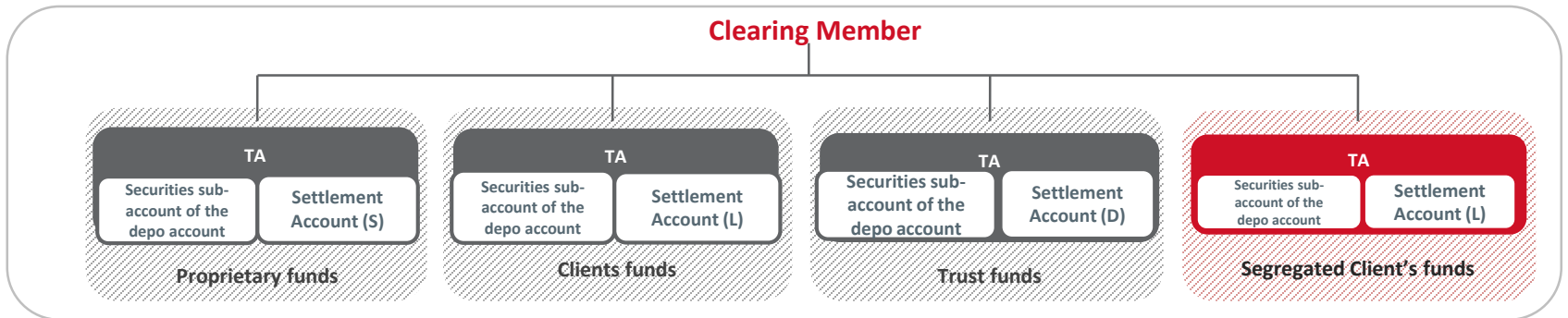
Name	Background
<b>FZ N7-FZ dated 07.02.11 «On clearing, clearing activity and central counterparty»</b>	Requirement to record cash funds of the clearing member and cash funds of his clients separately in the internal recording of the clearing organization
<b>“Civil Code of the Russian Federation (part 2)” dated 26.01.1996 N FZ</b>	Requirement for the trust manager to define the fact that he acts as trust manager when he executes trades with assets transferred to him for trust management
<b>FZ dated 29.11.2001 N 156-FZ “On investment funds”</b>	Requirement to segregate assets, which form share investment fund
<b>Bank of Russia Regulation of 25.07.2014 N 3349-U “On standard requirements to the broker activity rules when conducting transactions with assets of the broker’s client ”</b>	Requirement to separate recording of assets of the broker’s client when broker is not provided the right to use client’s cash funds



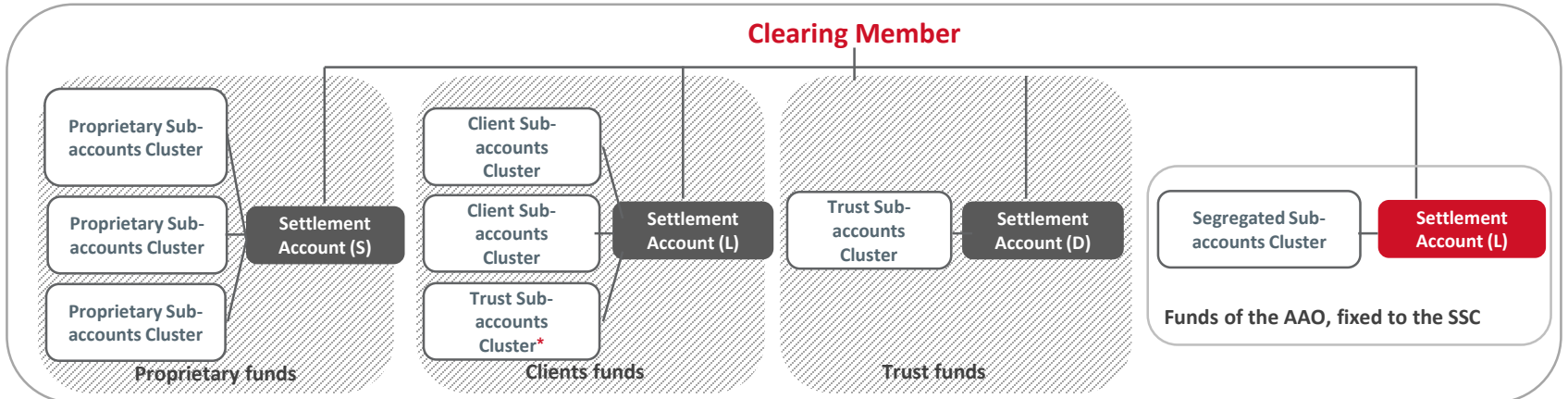
# Segregation of the fx market



# Segregation on the securities market



# Segregation of the derivatives market



\*for trust manager which is client of the Clearing Member

# Registration of the Segregated Client (SC) / Segregated Sub-accounts Cluster (SSC). Part 1

- ✓ **Segregated Client** is the client of the Clearing Member, which is entitled to use Portability procedure
  - Both individual person and legal entity, non-residents inclusively, can become Segregated Client
- ✓ **Segregated Sub-Accounts Cluster** is the type of the Sub-accounts Cluster, in other words it is group of clearing registers sections, to which **Authorized Accounts Owner** (hereinafter referred to as AAO) is fixed. AAO is entitled to use Portability Procedure
  - Only legal entity, non-residents inclusively, can become AAO

**This procedure allows to enforce protection of non-defaulting clearing members from risks connected with the Clearing Member default**

Market	Recording collateral and positions of the SC / SSC
FX Market	Separate Settlement Account
Securities Market	Separate Settlement Account
Derivatives Market	Separate Sub-accounts Cluster



# Registration of the Segregated Client (SC) / Segregated Sub-accounts Cluster (SSC). Part 2

## Actions of the Clearing Member:

FX Market and Precious Metals Market	Securities Market and Deposits Market	Derivatives Market
Forward to NCC <b>Request for the Settlement Account opening*</b>	Forward to NCC <b>1) Request for the Settlement Account opening*</b> <b>2) Request for the TA opening *</b>	<b>Gain status of the Authorized Accounts Owner</b> (hereinafter referred to as AAO, check slide 7)
Forward to NCC <b>Request for the Segregated Client registration</b> (check slide 8)		<b>Application for the Segregated Sub-accounts Cluster opening</b> (is signed by CM and AAO, check slide 8)

**!** If individual is the SC then additionally [Concent to personal data processing](#) shall be provided

\*In case if opening of the new Settlement / Trade account is required

# Authorized Accounts Owner

- AAO regarding cash collateral register can be represented only by the legal entity, which is not the Clearing Member\*
- **In order to gain AAO status** execution of the **AAO status agreement** with NCC is required
- **AAO status annulment** is executed through the **Agreement** dissolution  
AAO is entitled to annul its status regarding Segregated Sub-accounts Cluster through forwarding Application on the Authorized Accounts Owner status annulment
- ❖ New Authorized Accounts Owner is fixed to the Segregated Sub-accounts Cluster without Authorized Accounts Owner on the basis of the **Application on the Authorized Accounts Owner fixing**, signed by the Clearing Member and new Authorized Accounts Owner

\* AAO in respect of the trading depo account and depo collateral register can be represented by:

- Clearing Member, to which Identifier, within which Segregated Sub-accounts Cluster is registered, is assigned
- other legal entity



# Request for the Segregated Client registration / Application for the SSC opening or Application for changing Sub-accounts Cluster type

The following shall be defined in the **Request for the Segregated Client Registration** on the Securities market and Deposits market / FX Market and Precious metals market:

- Settlement Accounts, opened by the Clearing Member for the Segregated Client
- Client's name
- Identification data of the Segregated Client according to the registration of clients of Market Participants of the Exchange (for example, its ITN/code, instead of ITN or passport number)
- Electronic address of the Segregated Client, through which NCC will forward notifications to the Segregated Client (e-mail, EDI, SWIFT)
- Phone number of the Segregated Client for emergency cases
- Client's name and address, and also BIC SWIFT-code (if any) in English, coinciding with the details of the Account for collateral return in the foreign bank
- **Necessity to protect cash funds of the SC (optionally)**

The following shall be defined in the **Application for the SSC opening**:

- SSC code
- AAO name
- ITN (or code, replacing ITN) of the client, which is to be segregated
- ❖ **New Settlement Account is opened**
- ❖ **Application for changing Sub-accounts Cluster type (from Client to the Segregated one)** can be submitted on the Derivatives market





# Segregated Client's funds protection

Clearing Member can indicate the **necessity to protect cash funds** of the Segregated Client in the Request for the Segregated Client registration

	With protection	Without protection
Trades can be executed with the indication of the Settlement Account, fixed to the Segregated Client, <b>only</b> with the indication of the client code, corresponding to the Segregated Client	✓	✓
Return of funds is possible only according to the account details, recipient of payment is Segregated Client itself or the Clearing Member	✓	✗
Return of funds is possible only according to the account details, recipient of payment is Segregated Client itself <b>only</b>	✗	✓
Transfer of cash funds is possible only between settlement accounts, fixed to the Segregated Client	✗	✓

- ! Clearing Member is entitled to annul registration of the SC or cancel protection of the SC's cash funds if **there is no Collateral** under the relevant Settlement Account



# Registration of the Segregated Client (SC) / Segregated Sub-accounts Cluster (SSC). Part 3

Submission by the Principal Clearing Member of the Request for the Segregated Client registration / Application for the Segregated Sub-accounts Cluster registration is:

- ✓ **unconditional consent** of the Clearing Member (Principal) upon transfer obligations and Collateral / transfer positions and Collateral to the other Clearing Member (Receiving)
- ✓ **unconditional consent** upon disclosure to the Receiving Clearing Member of the information on size of obligations and Collateral of the Segregated Client / on the size of open positions under Derivative Contracts and Collateral under SSC sections

NCC notifies Segregated Client through addresses, defined in the request for its registration:

- ✓ on the fact of its registration / annulment
- ✓ registered with the cash funds protection or without it

Clearing Member is responsible for the authenticity of the information, given in the Request for the Segregated Client registration / Application for the SSC registration



# **Transfer of obligations and collateral on the fx, securities and derivatives markets (portability)**



# Portability terms

Portability procedure is possible **only** in case of collateral and obligations / positions segregated of the Segregated Client / SSC

## Portability procedure terms:

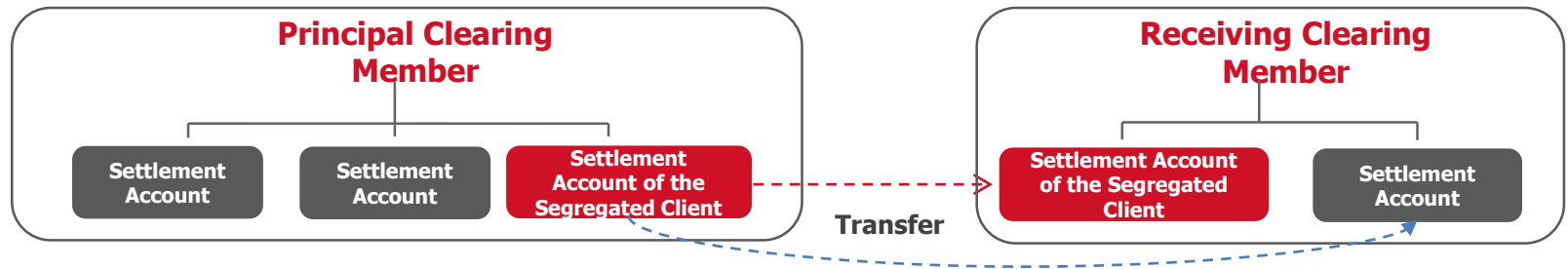
- Application for obligations and Collateral transfer / Application for positions and collateral transfer (hereinafter – Transfer application, check slide 15)
  - There are grounds, stipulated by the Clearing Rules (check slide 14)
  - Consent of the Receiving Clearing Member upon acceptance (check slide 16)
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- ✓ NCC is entitled to inform Segregated Client / AAO on the fact that there are grounds for transfer, which has not provided Transfer application
  - ✓ NCC does not check authenticity of grounds for the Portability Procedure, defined in the Transfer application, and is entitled to refuse to execute such procedure if NCC has information on absence of grounds
  - ✓ Segregated Client is entitled to provide the Clearing House with the Application for obligations and Collateral transfer with the indication of grounds, set by the legislation, in advance
  - ✓ Receiving Clearing Member is charged according to the NCC Tariffs:

Depending on the Portability procedure ground	Fee
Transfer on the basis of the Principal Clearing Member instruction	400 000 rub per each Settlement Account
Transfer on the basis of other grounds	3 000 rub



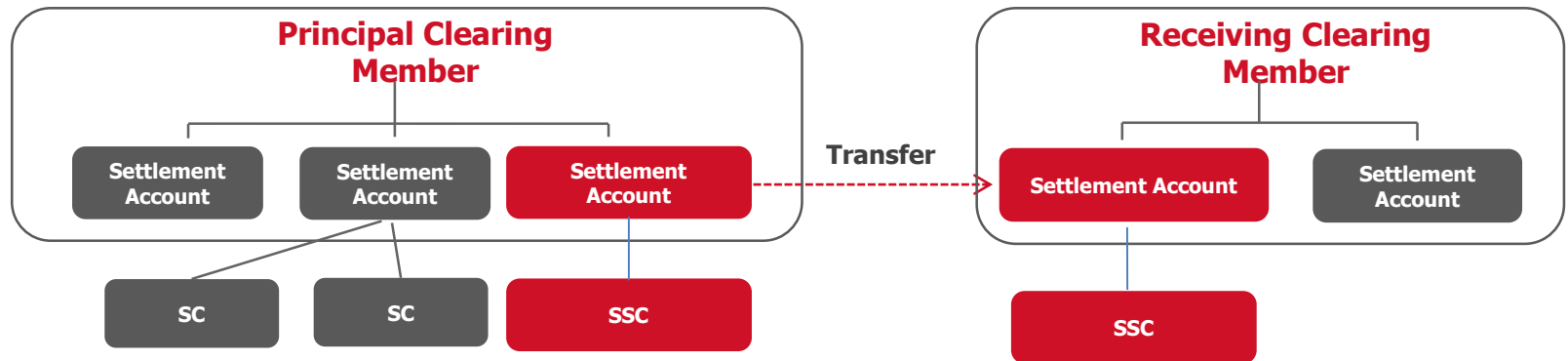
# Portability specifics

On the FX market and Precious metals market and also on the Securities market and Deposits market



Obligations and collateral of the Segregated Client can be transferred both to the separate account with segregation and without segregation as well and also to the omnibus account

## On the Derivatives market



# Portability grounds

1. Grounds for suspension / termination of an admission to the clearing service, stipulated by the Clearing Rules
2. Bankruptcy case in respect of the Principal Clearing Member is pending before the Arbitration Court for more than 2 (two) months since submission of the relevant application;
3. Breach by Principal Clearing Member of rules of Russian or foreign exchange or clearing house
4. Including into agenda of governing bodies of the Principal Clearing Member of the issue regarding liquidation of the Principal Clearing Member or adoption of the decision by governing bodies of the Principal Clearing Member on liquidation of the Principal Clearing Member
5. Adoption of the decision by governing bodies of the Principal Clearing Member on corporate restructuring of the Principal Clearing Member (except for cases of corporate restructuring which do not result in termination of activity of the Principal Clearing Member)
6. Judgement on levying, arresting or any other encumbrance in respect of the Basic Clearing Member
7. Debt of the Principal Clearing Member, not paid within the terms set out in the Specifications
8. Provision by the Principal Clearing Member to the Clearing House of the **Instruction to transfer obligations and Collateral**



# Transfer application

	Application for obligations and Collateral transfer	Application for positions and Collateral transfer
<b>Sender</b>	Segregated Client	AAO
<b>Receiver</b>	CCP NCC	
<b>Content</b>	<ol style="list-style-type: none"> <li>1) SC name</li> <li>2) Full name of the Principal Clearing Member</li> <li>3) Full name of the Receiving Clearing Member</li> <li>4) List of on-exchange markets where Segregated Client is registered</li> <li>5) Not less than one ground in respect of the Principal Clearing Member</li> </ol>	<ol style="list-style-type: none"> <li>1) AAO name</li> <li>2) Full name of the Principal Clearing Member, ITN, identifier</li> <li>3) Full name of the Receiving Clearing Member, ITN, identifier</li> <li>4) Not less than one ground</li> </ol>
<b>Provision procedure</b>	Paper form; NCC EDI sub-system; S.W.I.F.T.	Paper form; NCC EDI sub-system
	If provided in paper form then together with the Application for obligations and Collateral transfer Set of documents, required to approve powers of the person that signed the Application (in paper), shall be provided	



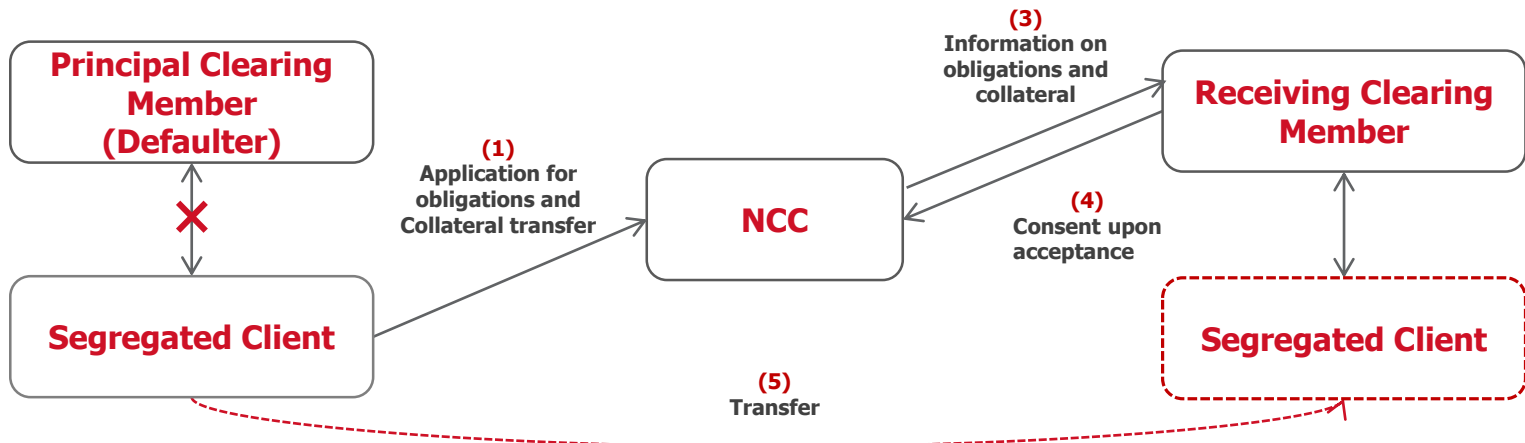
# Consent of the Receiving Clearing Member upon acceptance

	Consent upon acceptance of obligations and Collateral	Consent upon acceptance
	FX Market and Precious Metals Market, Securities Market and Deposits Market	Derivatives market
<b>Sender</b>	Receiving Clearing Member	
<b>Receiver</b>	CCP NCC	
<b>Content</b>	<ul style="list-style-type: none"> <li>➤ Segregated Client of the Clearing Member:               <ul style="list-style-type: none"> <li>✓ Full name,</li> <li>✓ Identification data,</li> </ul> </li> <li>➤ Settlement Accounts (and TA for the SM), opened by the Receiving Clearing Member for the Segregated Client</li> <li>➤ <b>Necessity to segregate client and also to protect cash funds</b></li> </ul>	<ul style="list-style-type: none"> <li>➤ SSC code</li> <li>➤ AAO</li> </ul> <ul style="list-style-type: none"> <li>❖ SSC is always transferred to the other Clearing Member with segregation</li> </ul>
<b>Provision procedure</b>	NCC EDI sub-system	





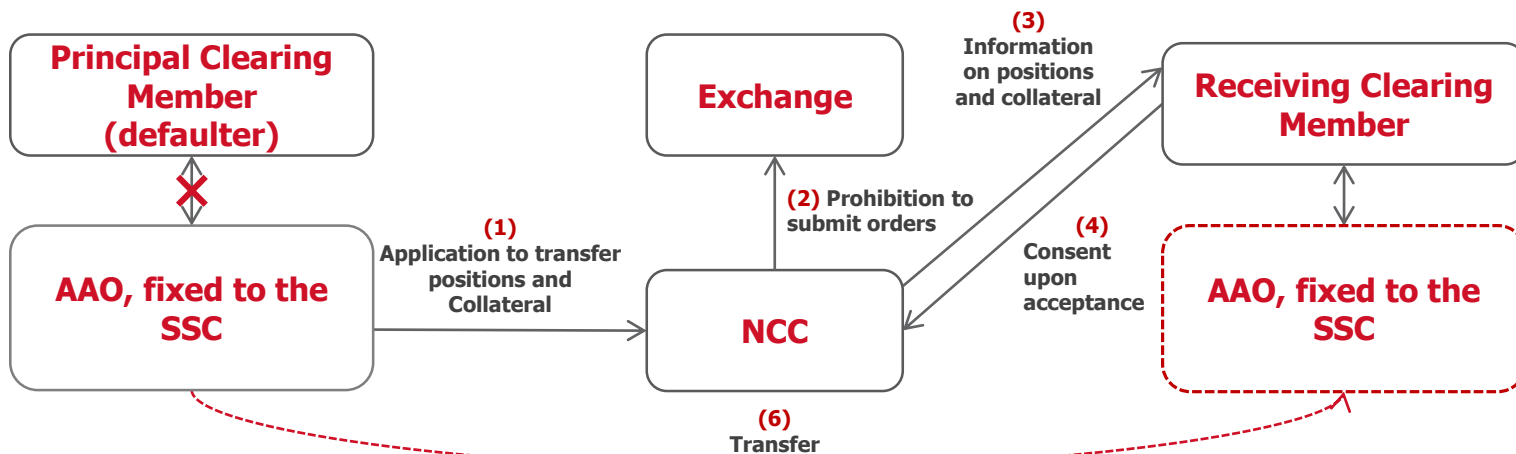
# Actions of NCC, SC and Receiving CM aimed at obligations and Collateral transfer



- (1) SC itself forwards to NCC Application for obligations and Collateral transfer
- (2) NCC accepts Application for obligations and Collateral transfer and imposes Settling Procedure in respect of the Settlement Account of the Principal Clearing Member, opened for the Segregated Client (sets prohibition for the Principal Clearing Member to submit orders and deletes active orders)
- (3) NCC provides Receiving Clearing Member with the information on Settlement Accounts and TAs of the Principal CM and also on the size of obligations and Collateral of the Principal CM in respect of the Segregated Client
- (4) Receiving CM provides to NCC Consent upon acceptance of obligations / claims and collateral of the Principal Clearing Member, and also in advance opens depo sections, trading banking accounts for separate recording of the relevant Collateral
- (5) NCC transfers obligations and Collateral

Portability procedure can not last for more than 2 days

# Actions of NCC, SC and Receiving CM aimed at positions and Collateral transfer



- (1) AAO itself forwards to NCC Application to transfer positions and Collateral
- (2) Moscow Exchange sets prohibition for the Principal Clearing Member to submit orders and deletes active orders, submitted with the indication of SSC codes
- (3) NCC transfers to the Receiving CM information on open positions under derivative contracts and collateral, recorded under clearing registers sections of the SSC
- (4) Receiving CM provides to NCC Consent upon acceptance of positions under Derivative Contracts and collateral of the Principal Clearing Member
- (5) NCC opens SSC, fixes AAO to it and opens same set of clearing registers sections
- (6) NCC transfers obligations and collateral

Portability procedure can not last for more than 2 days

# Portability procedure start date

Start date of the Obligations and Collateral transfer (hereinafter referred to as the Transfer) depends on the ground for Transfer:

1. Date of revocation (annulment) by the Bank of Russia of the banking license of a Clearing Member – Credit Institution

2. Date of appointment of the interim administration / date of submission of the judgement by the Arbitrage Court on introduction of any of bankruptcy proceedings

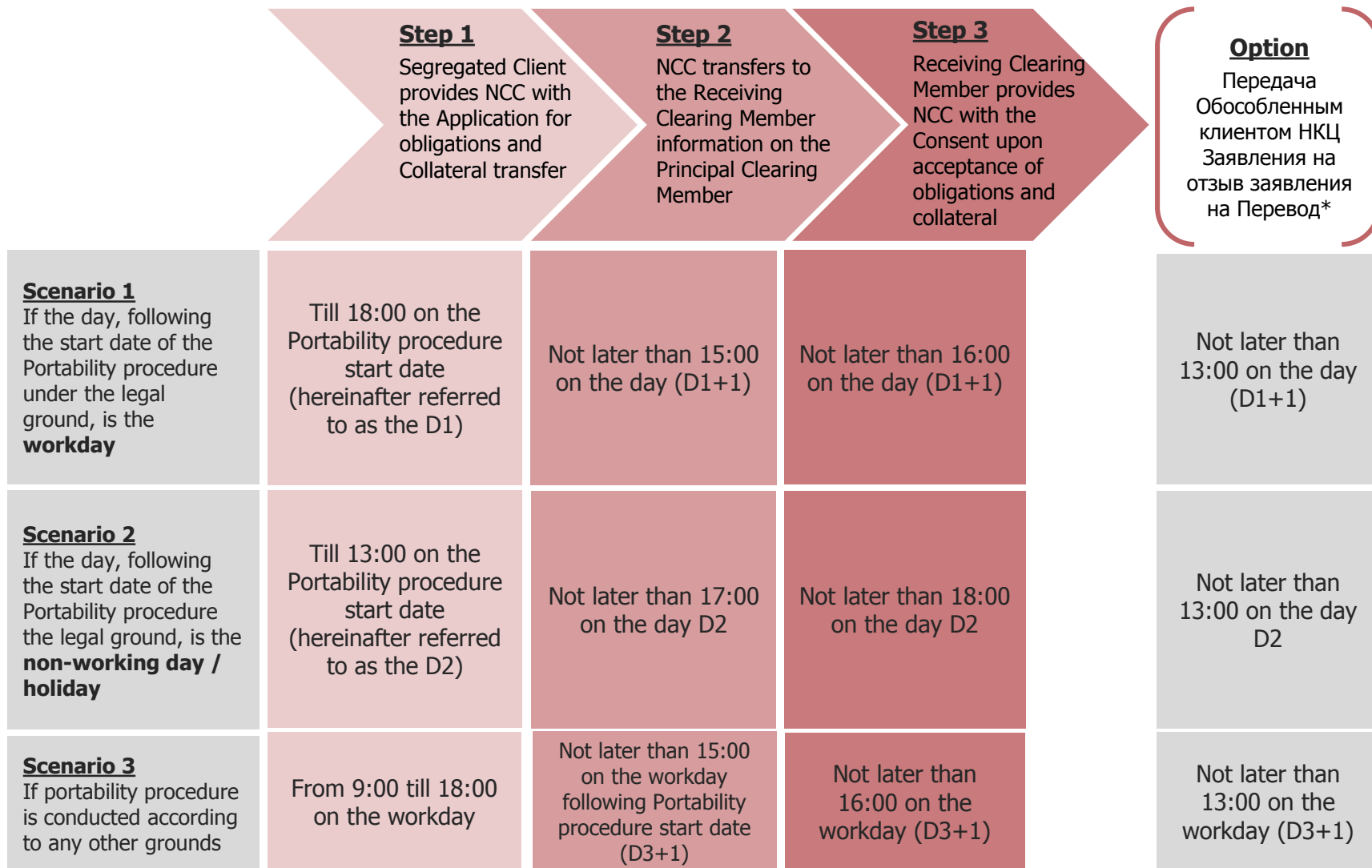
3. Workday, following the day when NCC receives Application for obligations and Collateral transfer from the Segregated Client

If Portability procedure is conducted **according to the legal grounds**

If Portability procedure is conducted **according to the other grounds**



# Time specifications for the Portability procedure\*



\* More details are provided in the NCC Clearing Rules. Part I. Common part. Time Specifications

\*\*And also Applications for obligations and Collateral with the indication of the new Receiving Clearing Member name

THANK YOU  
**FOR YOUR ATTENTION**



**NATIONAL  
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