



NEW IT SYSTEM OF CENTRAL DEPOSITORY AD

KEY PRINCIPLES

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15 March 2016 - Belgrade

New Clearing and Settlement System

- Central Depository has launched new IT system for communication with members
 - Post-trading services
 - Additional information and services
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Main principles

□ Detachment of the Register from the Settlement System

- The Register – maintenance of beneficial owner accounts and global custodians accounts;
- Settlement System integrated with the Register – links between investors' accounts in the Register and accounts maintained in the Clearing and Settlement System (CSS);
- New functionalities and services in regard to corporate actions.

□ Introduction of an option for maintenance of omnibus accounts

- Beneficial owner accounts for Bulgarian physical persons;
 - Omnibus type of account for foreign entities providing services as investment intermediaries;
 - Omnibus accounts in the CSS could be used as well by the Bulgarian investors.
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The Register

□ Information flows

Upon receipt of information from the companies as regards upcoming corporate actions, Central Depository submits ISO messages to its members containing data related to the corporate actions in order to notify the end investors.

The Register

□ Account Register:

Main principle: maintenance of beneficial owner accounts. Exclusions: persons under Art. 41, Para 1 of the Markets in Financial Instruments Act.

Identification of accounts by owner, ISIN and CDAD`s member. CDAD`s members are entitled to maintain more than one account of a person from one and the same issue.

Accounts not maintained by a CDAD`s member are recorded provisionally in CDAD in a Register of free holders of financial instruments.

Only CDAD`s members may submit transfer instructions.

Accounts are coded under IBAN standard.

The Register

- ❑ Registration of account transfers as a result of trading:
 - Registration is performed on the basis of standard messages under ISO 15022.
 - Submission of such messages may be performed by the CDAD` s members, participating in the CSS.

 - ❑ Each member may choose whether to operate directly or to entrust other member to act on his behalf.

 - ❑ Settlements of trades shall be carried out on the basis of the defined by the members end investors.
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Settlement system

- Different levels of membership

 - Proprietary system of different types of accounts:
 - Investment intermediaries` own accounts
 - Clients` accounts maintained by the participants
 - Omnibus accounts of participant for their clients
 - Omnibus accounts of participant for administration of FI of other clients and other Investment intermediaries
 - Global accounts
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Settlement

- ❑ Investment intermediaries' own accounts
Same as existing accounts of participants for maintenance of their own assets.
 - ❑ Clients' accounts maintained by the participants
Same principles for clients' accounts as in the existing system.
 - ❑ Omnibus accounts of the participants for their clients
For trading purposes the participants may hold cumulative FI from a single issue in an aggregated account. Account balances reflect the balances of the clients' accounts recorded in the Register. FI, resulting from the trades may be registered in and out of the aggregated accounts. The Registrar Agent (RA) shall define the end investors to the trades as to record the change in the Register.
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Settlement

- ❑ Omnibus accounts of participants for administration of FI of other clients and other members
Same principles are applied as for the omnibus accounts of participants for their clients.
 - ❑ Global accounts – omnibus accounts for maintenance of different kinds of assets
 - ❑ All FI transfers shall be instructed by the SCC participants. They shall provide information to the Register for the change of ownership and portfolios transfers of same holders between different registers. All messages are based on ISO 15022 and are SWIFT compatible.
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Settlement

□ Different levels of membership

- Clearing members
 - Non-clearing members
 - Direct members
 - Registrar Agents (RA)
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Clearing

- ❑ Technological principles
 - ❑ Maintained instruments
 - ❑ Settlement accounts
 - ❑ Collateral management
 - ❑ Membership
 - ❑ Closing of positions
 - ❑ Communication with the banks
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Clearing

□ Technological principles

→ Multi-level account system

→ Standard interfaces

→ Continuously update of the information coming from the banks for the account balances

Clearing

□ Maintained instruments:

- All FI, traded on the SPOT market
- Futures contracts based on:
 - Shares
 - Stock indexes
 - Other assets

□ Settlement accounts:

- Account structure for settlement of trades in banks is retained
 - Additional analytical accounts in the clearing system are introduced
 - Synchronization of information on funds availability
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Clearing

❑ Collateral management

- Entering the collateral amount in case of changed circumstances
- Blocking of the collateral in the respective amount upon execution of a trade
- Calculation of collateral amount for each position at the end of each business day
- Generation of margin calls in case of insufficient collateral

❑ Membership

Same membership hierarchy as the Settlement system

❑ Closing of positions

No physical delivery for derivatives trades. Trades execution occurs via:

- offset trades or
 - automatically closing of positions by the system
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Guarantee Fund

Along with the launch of the new Clearing system, a new Guarantee Fund has been introduced aimed at ensuring the fulfillment of the trading obligations

All clearing and direct members make contributions to the Fund. The contribution rate is based on the trading volume for the previous period.

Failure to meet the obligations shall result in activation of a procedure for risk coverage, as the respective member shall reimburse the amount thereupon.

Lending of FI through a centralized pool

- ❑ Rules of the centralized pool
 - ❑ Participants
 - ❑ Participation roadmap
 - ❑ Benefits stemming from the establishment of an information pool
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Market Standards for CA and GM

- Necessity of introduction of Market Standards for CA and GM
 - CDAD initiatives to support the application of the Standards
 - Main Corporate Actions
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Necessity of introduction of Market Standards for CA and GM

□ Factors

- Diversity of rules and requirements for provision of information concerning the implementation of CA (GM).
 - Manual intervention / lack of STP process
 - Excessive complexity of the processes
 - Many and diverse sources for generation of information
 - Interaction with many parties, fragmented processing chain, lack of integration.
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Necessity of introduction of Market Standards for CA and GM

□ **Implications**

- Increased operational risk.
- Reduced operational efficiency.
- Increased costs.
- Operating losses.

□ **Solutions**

- Standardization of operational rules for processing.
 - Harmonization of market practices (based on existing or new better practices).
 - Coordination between relevant parties and consistent actions
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Necessity of introduction of Market Standards for CA and GM

□ **Benefits**

- Risk mitigation due to reduced market fragmentation; increased safety.
 - Processing efficiency, electronic communication, cost reduction.
 - Legal certainty, attraction of (foreign) investors.
 - Improving the liquidity of the capital markets.
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Essence of the Standards

- ❑ **Standards mainly concern:**
 - The information flow
 - Means of transmission of information
 - Key dates and their sequence.

 - ❑ Rights to participate in CA are determined on the basis of the entries in the register of the Central Depository of the issuer (after finalization of settlement) on the Record Date.

 - ❑ Provision of harmonized operational information processing for CA and GM.
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CD AD initiatives to support the application of the Standards

- Purposes of the CDAD`s electronic forms:
 - Embolden companies to provide information to the Central Depository as regards CA / GM.
 - The purpose is the final owner-shareholders to obtain information on time, in its required completeness.
 - Facilitate the process of communication and preparation of subsequent customized messages from CDAD to its members.
 - Consolidation of the communication “Issuer – CDAD – Issuer”
 - Without effect on the due fees
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CDAD initiatives to support the application of the Standards

- Usage of the electronic forms will support the process of fully automated processing of incoming data (in CDAD) and will abolish the need of provision of documents in paper form
 - Submission of information (without undue delay) to CDAD`s members – which will enable members to obtain the necessary CA information and take relevant action for communication with clients
 - Timely provision of complete information to end client/investor
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Delayed Settlement Transactions

Management of transactions with delayed settlement in Corporate Actions processing. Amendments in the CDAD Rules of Procedures.

- → Market claims
 - → Buyer protection
 - → Transformation/ transaction management
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