



German Economic Team Belarus

Technical Note [TN/02/2017]

Linking international central securities depositories (ICSD) with local central securities depositories (CSD): Additional information

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About the German Economic Team Belarus (GET Belarus)

The main purpose of GET Belarus is to conduct a dialogue on economic policy issues with the government, civil society, and international organizations. Experts of German Economic Team have experience in policy advice in several transition economies, including Ukraine, Russia, and Moldova. In Belarus, the German Economic Team provides information and analytical support to the Council of Ministers, the National Bank, the Ministry of Foreign Affairs, the Ministry of Economy and other institutions involved in the process of formation and implementation of economic policy.

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Prof. Dr. Jörg Franke, a law graduate, was the Managing Director of Berliner Börse (the stock exchange) and subsequently Head of the Deutsche Terminbörse (now Eurex), where he was in charge of its setup. Under his leadership, Eurex quickly developed into one of the leading futures exchange in the world. After the establishment of the Deutsche Börse AG he also joined its management board, a position he kept until 2000. Today he chairs several boards of directors, amongst others Tradegate AG, a stock broker in Berlin, and RTS AG, an independent software vendor in Frankfurt. Furthermore, he is the Chairman of the Stock Exchange Council of the Börse Berlin and Chairman of the Federal Association of Securities Trading Firms. In addition, he is honorary professor at the Karlsruhe Institute of Technology.

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1. Background

In our Policy Briefing PB/04/2017 "[Foreign Investors in the Local Bond Market](#)" we investigate the role that foreign investors can play for the development of the local bond market. In particular, it gives recommendations on how to increase the non-resident share in the local sovereign debt market in Belarus. For this share to increase, an improved market access is of paramount importance.

While there are different measures to smoothen market access, an important element is the creation of a link between an international central securities depository (ICSD) and a local central securities depository (CSD¹). International investors are easier to reach if the bond is held (= registered) at an ICSD, for which there are three different possibilities:

- a. Agreement between local CSD and international CSD (direct link)
- b. Agent to act between local CSD and ICSD (indirect link)
- c. Conversion of bonds into Depositary Receipts (DR)

The following information is based on meetings with the top management of Clearstream Banking Frankfurt, with the participation of staff from Clearstream Luxemburg (i.e. the holding company) and relates mainly to the possibilities a/b mentioned above. While we did not cross-check the information gathered with Euroclear, the main competitor to Clearstream, we have reasons to believe that the situation is very similar.

2. Link ICSD – CSD

a. Agreement between local CSD and international CSD (direct link)

An important regional benchmark is the link between ICSD (Clearstream, Euroclear) with Russia's National Settlement Depository (part of Moscow Exchange Group). In the case of Clearstream, it took **three years of preparatory work** to establish this link. Euroclear and Clearstream gained access to the Russian market only gradually; first (2013), they started settling trades with sovereign local bonds (OFZ), before accessing the corporate bond in 2014. Later that year they were granted the right to deal in Russian shares.

Taking Russia as an example, this involves the following steps:

- ICSD sets up an (omnibus-)account at the national CSD and a further account at an international commercial or investment bank with business interest in Belarus
- Often, the establishment of such an (omnibus-)account is not possible according to local legislation

¹ The Republican Unitary Enterprise "Republican Central Securities Depository", in accordance with the Decree of the President № 277 of April 28, 2006 "On Some Issues of Securities Market Regulation" is the Central Securities Depository in the Republic of Belarus and functions as a Central Depository, which is defined by the Law of the Republic of Belarus "On Depository Activities and the Central Securities Depository in the Republic of Belarus"

- In Russia, the respective law had to be amended. The situation in Belarus needs to be analysed.
- ICSD conducts an intensive due diligence process and checks:
 - I) Compliance (partly on the ground, i.e. in Belarus):
 - How „trustworthy“ is the issuer?
 - Anti-Money laundering (AML): Are there concrete suspicions? Are there rules against money laundering?
 - Is there a compliance-list?
 - How is the governance structured?
 - Analysis of the general terms and conditions
 - II) Asset Protection. Here is in detailed checked:
 - The local legal system (in particular, how safe is the ownership claim on the securities deposited?)
 - The legal construction of the local CSD
- Regarding I and II: The results of the due diligence process will be summarized in an official legal opinion

Once the legal issues are clarified, the technical connection can be established. Since at Clearstream Luxemburg there are only two releases per calendar year, and the prioritisation is up to the company, this establishment can take a very long time, which should be considered.

b. Agent to act between local CSD and ICSD (indirect link)

An alternative to the direct link between ICSD and local CSD is the inclusion of an agent, which is usually a bank. This connection is called an indirect link. In Russia's case, Clearstream used Deutsche Bank Ltd. Moscow as local agent bank since 2006 before establishing the direct link with the local CSD.

This procedure avoids possible legal complications (see above), but has otherwise similar due diligence requirements. The compliance check is now focused mainly on the agent bank, while the asset protection concerns the local CSD.

List of recent Policy Studies

- Policy International linkages and external shocks: A Global VAR perspective for Belarus. Evidence from different model specifications, by Igor Pelipas, Gleb Shymanovich and Robert Kirchner, Policy Study PS/02/2016
- Policy Options to Reform Free Economic Zones in Belarus, by Björn Vogler, Robert Kirchner, Irina Tochitskaya, Policy Study PS/01/2016

List of recent Policy Papers

- Recommendations for reforming the SME Definition in Belarus by Alexander Knuth and Alexander Liessem, Policy Paper PP/02/2017
- Resolving Non-Performing Loans: Selected International Experience by Alexander Lehmann and Robert Kirchner, Policy Paper PP/01/2017
- Towards a more Effective Implementation of State Programs in Belarus: Selected Recommendations by Matthias Morgner and Gleb Shymanovich, Policy Paper PP/06/2016
- A Credit Guarantee Scheme for SMEs in Belarus: Overview and Recommendations, by Robert Kirchner and Ivan Koriakin, Policy Paper PP/05/2016
- State Programs in Belarus - Improving Design and Implementation, by Matthias Morgner, Gleb Shymanovich and Vladimir Kavalkin, Policy Paper PP/04/2016
- Hedging foreign exchange risk in Belarus: Selected issues, by Robert Kirchner, Jörg Franke and Irina Tochitskaya, Policy Paper PP/03/2016

List of recent Policy Briefings

- Resolving Non-Performing Loans: Selected International Experience - Summary of Results – by Alexander Lehmann and Robert Kirchner, Policy Briefing PB/05/2017
- Foreign Investors in the Local Bond Market by Robert Kirchner and Jörg Franke, Policy Briefing PB/04/2017
- SME statistics in the EU by Alexander Knuth, Anne Mdinardze, Policy Briefing PB/03/2017
- Banking Sector Monitoring Belarus by Robert Kirchner, Maria Bobrovskaya, Policy Briefing PB/02/2017
- Foreign Experience in the Application of Currency Derivatives for Hedging Purposes by Jörg Franke, Policy Briefing PB/01/2017
- Proposals for reforming the SME definition in Belarus by Alexander Knuth, Irina Tochitskaya, Policy Briefing PB/09/2016

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