



Bank of Russia

The Central Bank of the Russian Federation



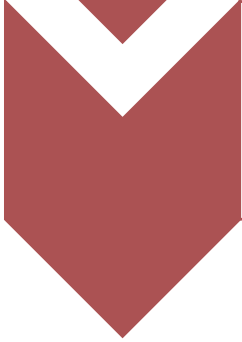
Development of Russian OTC derivatives market – 2017

**Elena Chaykovskaya,
Director of the Financial Market Development Department**



- 
- Hedging the risk of unfavorable price changing

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- Stabilization of the current market situation

- 
- Instrument, which can be customized to the need of participants, and gives flexibility with understanding of the risks



- Internal market



- External market



- Infrastructure



- Analysis of legal enforcement



- G20

G20 decisions : The Pittsburgh Summit 2009, The Cannes Summit 2011



Standardised OTC derivatives should be subject to central clearing

Non-centrally cleared OTC derivatives should be properly collateralized

OTC derivatives should be reported to trade repositories

Non-centrally cleared OTC derivatives should be subject to higher capital requirements

Trading of standardised OTC derivatives on electronic platforms (where appropriate)



	Central clearing	Margin	Trade reporting	Capital requirements	Platform trading
Europe	+	+/-	+	+	+
United States	+	+	+	+/-	+
Hong Kong	+/-	+/-	+/-	+	+/-
Singapore	+/-	+/-	+	+	+/-

As of the end of June 2016, according to OTC Derivatives Market Reforms – Eleventh Progress Report on Implementation

Central clearing



	Overnight Index Swap	Basis Swap	Fixed-to-float Swap	Forward Rate Agreement	CDS
Europe	begins from June 21st, 2016 EUR, GBP, JPY, USD	begins from June 21st, 2016 EUR, GBP, JPY, USD	begins from June 21st, 2016 EUR, GBP, JPY, USD	begins from June 21st, 2016 EUR, GBP, JPY, USD	discuss from February 9st, 2017
United States	begins from March 11st, 2013 EUR, GBP, JPY, USD	begins from March 11st, 2013 EUR, GBP, JPY, USD	begins from March 11st, 2013 EUR, GBP, JPY, USD	begins from March 11st, 2013 EUR, GBP, JPY, USD	begins from March 11st, 2013
Hong Kong	begins from July 1st, 2017 EUR, GBP, USD	begins from July 1st, 2017 EUR, GBP, JPY, USD, HKD	begins from July 1st, 2017 EUR, GBP, JPY, USD, HKD	—	—
Singapore	discuss	discuss	discuss USD, SGD min. + EUR, GBP, JPY max.	discuss	—

Central clearing in Russia (Interim results)

The Bank of Russia Consultation Paper was published on July 1st , 2016

As of September 15th, 2016 , comments from the following market participants were received

«The Association of Russian Banks»

«National Finance Association»

«Moscow Exchange»

«VTB Bank»

«Nordea Bank»

«Sberbank SIB»

«International Swaps and Derivatives Association (ISDA)»

«Global Financial Markets Association (GFMA)»

«European Bank for Reconstruction and Development (EBRD)»

«UniCredit Bank»

«Goldman Sachs Bank»

«Bank of Tokyo-Mitsubishi UFJ (Eurasia)»

September
2016

- **Considered by the Derivatives Board**

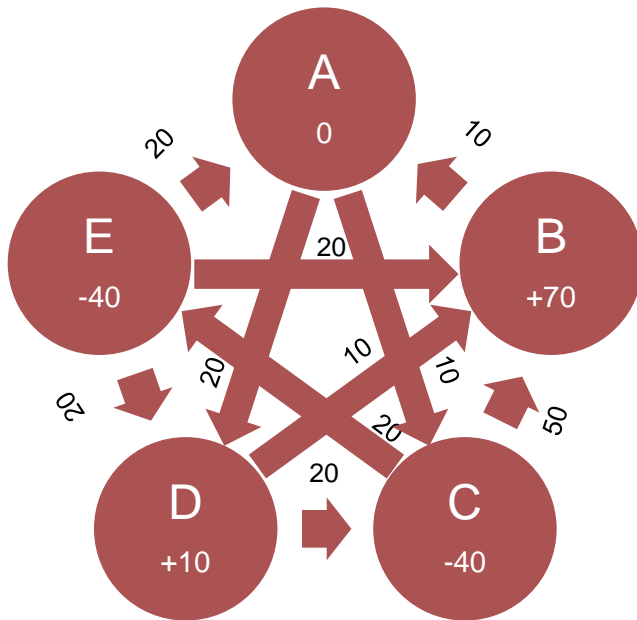
till the end
of 2016

- **The Bank of Russia will release :**
 - **final version of the Consultation Paper**
 - **the summary of the received comments**

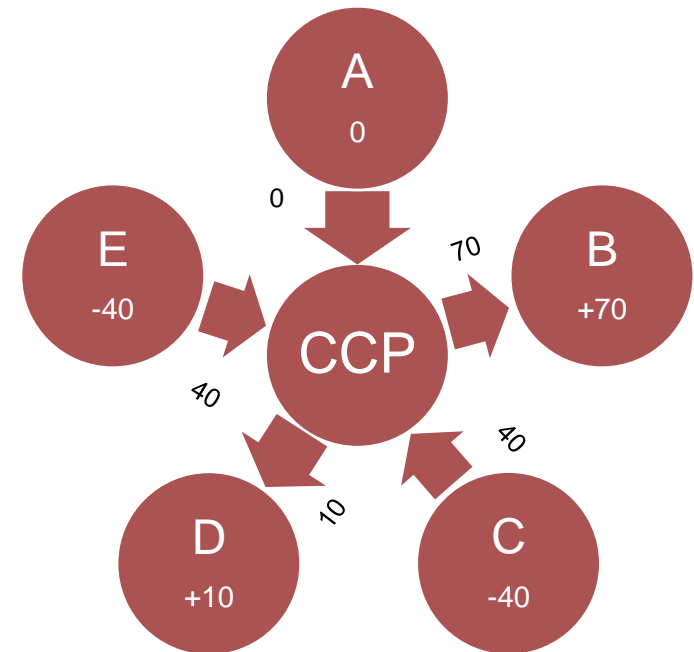
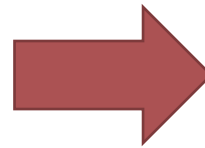
1st quarter
of 2017

- **The Bank of Russia regulation on mandatory central clearing of standardized OTC derivatives**

Purposes of central clearing implementation



Counterparty risk = 400



Counterparty risk = 160

- Transfer of counter party risk to CCP
- Operational effectiveness
- Netting effects

Comments from market participants:

- CCP's risks
- Extra costs

Standardized OTC Derivatives Subject to Mandatory Central Clearing

Basis Swap, Fixed-to-float Swap

Foreign currency	Floating interest rate	Term	Constant notional amount
RUB	MOSPRIME	1 week to 5 years	Yes

Overnight index Swap

Foreign currency	Floating interest rate	Term	Constant notional amount
RUB	RUONIA	1 week to 1 year	Yes

Category of OTC derivatives – **IRS** (OIS, Basis Swap, Fixed-to-float Swap)
 Foreign currency – **RUB, single currency only**

Comments from market participants:

- FX derivatives и cross-currency OTC derivatives
- «Long-term» OTC derivatives

Categories of the OTC Derivatives Market Participants

Category I

credit institutions, dealers, brokers,
securities trust management
organizations, management companies
(from 01.01.2018)



Category II

other participants of the OTC
derivatives market that have reached
the threshold amount of 10 billion
rubles
(from 01.01.2019)

Comments from market participants:

- Derivatives with a foreign residents: regulatory arbitrage with EU, the recognition of a Russian CCP by a foreign state
- The Threshold Value
- The Legal Framework for Submission of Transactions to Central Clearing in the Event of Indirect Clearing

Exceptions from the General Requirement for Mandatory Central Clearing of OTC Derivatives

- Derivatives with Bank of Russia
- Intra-Group Derivatives

Comments from market participants:

- A common (centralised) risk management system for exception based on the 'Intra-Group Derivatives' criterion
- The derivatives made for the purpose of hedging

- «Novation» - the procedure that involves the termination of an obligation between parties to the initial transaction and the creation between each party to the initial transaction and the CCP of a new obligation with the same subject matter and manner of performance as the original obligation
- «Open-offer system» - the procedure where the CCP automatically becomes the counterparty of each party to the transaction as soon as the parties agree on the terms and conditions of the transaction in question. In this event, there is no initial transaction .



Comments from market participants:

- Both variants

Term to transfer a transaction to central clearing (T0)



Obligation to submit a transaction for central clearing not later than the initial transaction date (T0) when using the mechanism of «novation», which implies the conclusion of an initial transaction between the parties.

Comments from market participants:

- Check the necessary powers of contractor not later than the initial transaction date

- The Bank of Russia injunctions
- Responsibility for failure to comply with the Bank of Russia injunctions



Comments from market participants:

- Consequences for failure to comply with a requirement for mandatory central clearing



- The information about executed contract should be provided to the trade repository by a CCP.
- CCP's responsibility

Comments from market participants:

- Reporting on terminated derivative to a Trade Repository (in case of novation) and on transactions between a clearing participant and its client



G20

▶ Non-centrally cleared OTC derivatives should be properly collateralized

▶ Step by step, not earlier than 2nd part of 2018

▶ Requirements on variation margin exchange at 1st stage
▶ Requirements on initial margin exchange at 2nd stage

▶ Categories of the OTC Derivatives Market Participants – by analogy with the requirements of CCP
+ threshold value

▶ Instruments
(TO BE DISCUSSED)
▶ The Legal Frameworks
(TO BE DISCUSSED)

Current Trading Platforms in Russia

- G20 Leaders' Decision: Pittsburgh 2009, Cannes 2011 – Improving OTC derivatives market: All standardized OTC derivative contracts should be traded on electronic trading platforms, where appropriate.
- In accordance with Federal Law № 325-FZ «On Organized Trading» and Regulation by the Bank of Russia № 437-P «On Organized Trading Activities» the common requirements were established towards Trading Organizers, licensed as an exchange or a trading system. Currently, on the Russian market there are only 9 exchanges and no trading systems .
- There are also over-the-counter electronic venues, which operate to find the best price and data of their customers. At the same time they are not regulated and assume legal risks (for example, they may be accused of acting as Trading Organizers).

Main Benefits of Trading Platforms

- Possibility to trade non-standard instruments.
- Lack of obligations to work with certain post-trading services providers.