GSS Newsletter

November 2014

Issue 163

Life is full of ups and downs.
We're there for both.

Welcome to UniCredit

CONTENTS

EDITORIAL

IRINA SAVASTRE
HEAD OF GSS ROMANIA

Dear Clients, Partners and Friends,

Romanian capital market participants started the year with an ambitious plan to upgrade its status from "frontier market" to "emerging market". Together, they identified the main obstacles stopping investors from putting Romania in their investments map, and prepared a plan for removing these encumbrances. The plan defines eight barriers, which must be eliminated in order for the Romanian market to become an emerging market, as per Morgan Stanley Capital International (MSCI). These barriers were: market access (1), fiscal compliance for the investors (2), corporate rights for the investors (3), procedure for dividend payments aligned with the international standards (4), market participation costs (5), fiscal aspects regarding transactions on the capital market (6), primary market (7) and bond market (8). The Financial Supervisory Authority (FSA), with new leadership and strategy, is actively participating in this partnership with all market entities to shift the capital market identified barriers.

One of the first steps was materialised in June 2014, when the Ministry of Finance approved the Government Ordinance for amending the Fiscal Code, followed by the FSA, which decreased some of the costs for market participants by 25%. Residents in EU Member States, EEA Member States or jurisdictions with which Romania has entered into a treaty covering administrative cooperation in the field of taxation have an option in either appointing a fiscal representative resident in Romania or directly filing the relevant tax documentation with the Fiscal Authorities in Romania. Electronic communication and exchange of administrative documents between taxpayers and tax authorities also become possible with these Fiscal Code amendments. In August 2014, the FSA announced that fees for transactions concluded on the regulated markets or alternative trading systems by the market participants and transactions concluded outside of the regulated markets or alternative trading systems were reduced by 25%.

The determinant moment, when market participants had to prove their commitment and gather all forces for a change, was at the end of July 2014 when the Central Depository and Bucharest Stock Exchange announced their decision to launch two projects; trading and post trading system separation and T+2 implementation, both with the deadline 6 October 2014. In a common effort, the market community – brokers, custodians, the Central Depository and Bucharest Stock Exchange, issuers and investors – designed the plans and proposed changes for the code of rules. However, the process was by far not as easy as it looks now after it was implemented - and we proudly count good results and no failures.

The system separation means that trading and post-trading systems are segregated and brokers do not execute trades directly on the custodian banks' accounts as in the past. Brokers maintain their proprietary accounts (house accounts), accounts for clients' transactions, and special accounts for custodian banks' clients (special mixed accounts). In this new set up, brokers conclude the transactions on the BVB trading system and, afterwards, allocate the custodian clients' transactions to the special mixed account. The allocation is done through settlement instructions in the post-trading system, which matches with the custodian bank's instruction in the RoClear system. For custodian banks this is an achievement as swift instructions may be sent directly in the post-trading system and the settlement confirmations are received in the same form.

The success of the system separation project opens the gate for further changes. The next major project for the market is corporate actions standardisation and swift implementation for communicating between the Central Depository and the market participants for corporate events. T2S is also another big challenge for the Romanian Central Depository which will connect to the European settlement platform in the first wave. At the very beginning, the connectivity with the T2S platform will offer limited functionalities.

On the other hand, the Financial Supervisory Authority started a friendly initiative and intends to make a tradition by gathering custodians, brokers, Central Depository and Bucharest Stock Exchange representatives in separate consultative meetings before major decisions are made. In this way market participants have the opportunity to express opinions and to address clients' requests.

Last but not least, we have to stress the positive role played by the Romanian Banking Association through the Treasury and Capital Markets Commission, where UniCredit holds the Vice-President position, represented by Viviana Traistaru, Senior Relationship Manager in Global Securities Services.

Therefore, for Romania this summer and the beginning of the autumn brought not only the electoral campaign for presidential elections, but also significant changes for the capital market.

With all the above notes and good news about the Romanian market, we invite you all to share your opinions regarding our services in the upcoming industry surveys. We count on all contributions which help us to evaluate our current services and to improve in the future.

After all, I would like to thank all our clients for the trust granted us.

Sincerely yours,

Irina Savastre
Head of Global Securities Services Romania

JOHN'S CORNER

JOHN GUBERT PROVIDES A SIBOS DEBRIEF

After four days of intensive meetings in SIBOS and also a welcome break in an industry leadership panel in Boston, I had several thoughts and action points to discuss with my colleagues on my return.

Both the major investment banks and custodians are focused on liquidity, especially in the T2S environment. The view is gaining that we need to review the structure of CSD settlement and start to think outside of the box in respect of CCP eligibility.

Most CSDs have driven settlement from the perspective of stock availability given that most settlement banks have been liberal in providing intraday cash facilities for the low risk transaction processing chain. This needs to change. We need to consider ways of reducing demands on liquidity and limiting the potential adverse Basel III capital impact. This could be done by avoiding overlapping peak periods with the relevant payment systems. We could optimise settlement algorithms and cycles, including introducing multiple batch procedures. Limiting lot sizes and introducing timing rules for all would also have a positive effect. T2S will be a case in point. The biggest values in settlements arise in the bond market and participants need to ensure they structure their auto-collateralisation processes within T2S or with their NCB appropriately. But auto-collateralisation will only alleviate the liquidity challenge and we need to further optimise the settlement process as we transition markets onto the new platform.

The CCP world needs to be extended to more markets. CCP CEE, from the Vienna market, is moving in the right direction as it seeks to extend its reach into the Czech market. Multiple small CCPs are inefficient and multi market CCPs would be ideal. Not only could they adopt a common rule book and common collateral management processes, but they would create broader pools to enable more efficient netting. And the CCP world needs to consider how to extend its reach into client side settlement. This may require an operational, rather than a legal, netting process and would remove operational risk and cost rather than counterparty risk. But it would be valuable as a path to greater efficiency in markets.

And, although this may appear premature just as we move to T+2, we do need to consider how to reduce further the lapsed time between trade and settlement. Paradoxically, little is being debated about the redundancy of activity in the separation of trade and settlement matching. This is a rich area for innovation with both SWIFT and OMGEO being lead contenders for thought leadership and action in this space.

A second area of focus across clients was in respect of the geo-political situation. Although not exclusive to the CEE, there was much discussion on its impact on our business. There was some debate about the possibility of sanctions affecting flows over the SWIFT network and discussion on contingency arrangements, although some of those proposed may not be viable in an enhanced sanctions regime. There was a clear view that one needed to ensure one dealt with well capitalised and well positioned banks in each country. In that respect, UniCredit, with its direct full service presences in the different countries of the region and the sound liability structure it operates, scored highly. It is advantageous for cross border investors to use a bank with a strong domestic institutional footprint and also one that is a material player in the indigenous financial infrastructure in the different countries of the region.

A third area of interest was future planning. We may be entering a period of calm in respect of voluntary agent change across Europe, including CEE, ahead of the advent of T2S, but that has meant that there is a clear shift of focus to long term strategies. From a UniCredit perspective, we have been working on our plans to ensure we are fit for purpose in 2020 plus. We are nearing completion of our initial work on our updated target operating model.

This has made us recognise a series of realities. First, we need to be ready for T2S, but we also need an environment capable potentially of handing a multi-currency T2S. Quite simply, we believe that, as long as T2S meets its targets, including the mooted 2018 Krone link, it will be adopted by several of our markets. We have also

taken account of new needs emerging in markets. These embrace changed account management structures including CSD links. It includes demand for enhanced collateral management, as well as the potential for CEE institutions to become more active in stock lending. We expect more direct brokerage facilities and a requirement for coverage of derivative markets for both buy and sell side. We have talked about our plan to further enhance our electronic delivery vehicle and to upgrade our technology platforms.

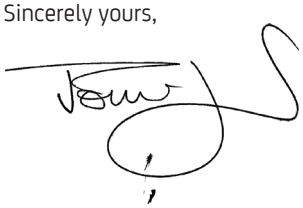
We are aware that changing markets require a much more modular approach than in the past and believe the successful regional custodian will provide own services but also act as a turnkey operator for other products provided through sister divisions within their Group and third party partnerships.

And, as always, we discussed service quality. Many years ago this would have been structured around industry publications and their surveys. They are now of lesser importance. The new regulatory environment means that our clients are monitoring our performance in close to real time and making more regular due diligence approaches. There are clearly three critical results of this process. First, there is a demand for greater transparency around the cost of operation, the cost of infrastructure and the cost of risk. Secondly, as agents we need to share the product of the enhanced analysis we are undertaking of each of our local markets and this is helped by our strategy of ensuring skilled on the ground local staff in each of our direct presence locations. Of course, for our domestic client base, we undertake due diligence on our global network using third party tools and in house dedicated resources.

And finally, the increased dialogue means we have independent trackers of our performance in each of our markets in close to real time across our client base. Gaining feedback from clients is a core value for us as we strive for ever improved service quality.

SIBOS as always was a marathon, running from the early hours through to the networking opportunities in the evening events. We learnt, as always, much from our clients. And hopefully, we can help solve some of their issues and, through new developments and ever improved service, add value to their own client service propositions.

Sincerely yours,



John Gubert
Chairman
Global Securities Services
Executive Committee

John Gubert also appears on blog.globalcustodian.com

AUSTRIA

Market Capitalisation	EUR 81.2 bn
YTD Dev. of Market Capitalisation	-4.8%
Number of SE Transactions p.m.	N/A
YTD Dev. of SE Transactions	N/A
SE Turnover (Vienna SE)	EUR 2.0 bn
Monthly Index Performance (ATX/VSE)	-4.2%
Upcoming Holidays	8 December

Source: UniCredit, National Statistics

2nd amendment to the Federal Tax Law 2014

In addition to our information about tax changes regarding Austrian source interest income derived by foreign investors, some modifications have been made to the new draft law.

On 2 October 2014, the draft of the 2nd amendment to the Federal Tax Law 2014 was officially published. The draft prescribes tax on interest for natural persons but no longer for foreign legal entities. Thus, foreign legal entities are completely exempt from withholding tax on interest. As mentioned in our Newsflash from 7 April 2014, the new tax will NOT apply to accounts held by foreign banks in Austria as there is no look-through to their clients.

Furthermore, the draft includes the following regulation on applications for a withholding tax refund after year end: Refunds for withholding tax shall be filed in one combined application after the end of the year in which tax was withheld. This means that tax reclaims for dividends paid in 2015 can only be filed from 1 January 2016.

Impact on investors

For information purposes only.

Equity trading on Vienna Stock Exchange still brisk

The third quarter on the Vienna Stock Exchange was a mixed bag: lively trading versus subdued market sentiment. Equity trading volumes are still at a high level, amounting to EUR 11.41 billion, 17% higher than in the same period of the previous year (Q3 2013: EUR 9.74 billion). Equity trading volumes were up considerably again in September versus the summer months, reaching EUR 4.23 billion (compared with 07/2014: EUR 4.02 billion; 08/2014: EUR 3.17 billion). Total equity trading volume on the Vienna Stock Exchange in the first three quarters of 2014 was EUR 36.08 billion (Q1-Q3 2013: EUR 28.91 billion), up by around 25% this year.

According to a current survey, the top three investors in the domestic market in the first half-year of 2014 were institutional investors from the US (23.4%) and the UK (14.8%) alongside with institutional investors from Austria (17.4%). This shows that major investors from the UK and US have started investing more in Austrian stocks in the past year. According to Michael Buhl, Management Board Member of the Vienna Stock Exchange, investors from Germany, Norway, the United Arab Emirates, and China have also increased their positions.

The ATX declined in the period from January to September by 13.45%. If dividends are factored in like in the ATX Total Return index, the net result is -11.38%. On average, investors in ATX stocks will receive a dividend yield of around 3% this year and some companies may pay up to 6%in annual dividends. The price development of the five largest stocks in the ATX was negative over the course of 2014, which is reflected in the development of the index. The ATX Global Players Index, which tracks the price trend of 15 companies with international activities also outside of Europe, outperformed the ATX by more than 10% (1.9.2014: -1.18%).

Impact on investors

For information purposes only.

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BOSNIA AND HERZEGOVINA

Market Capitalisation (Sarajevo SE)	BAM 4.3 bn
YTD Dev. of Market Capitalisation	-9.3%
Number of SE Transactions p.m.	655
YTD Dev. of SE Transactions	-12.3%
SE Turnover (SASE)	BAM 106.1 mn
Monthly Index Performance (SASX-10/SASE)	-2.2%
Market Capitalisation (Banja Luka SE)	BAM 4.3 bn
YTD Dev. of Market Capitalisation	4.9%
Number of SE Transactions p.m.	1,557
YTD Dev. of SE Transactions	-42.1%
SE Turnover (BLSE)	BAM 86.7 mn
Monthly Index Performance (BIRS/BLSE)	-0.6%
Upcoming Holidays	21, 25 November

Source: UniCredit, National Statistics

Standard & Poor's affirmed the credit rating of Bosnia and Herzegovina

On 19 September 2014, rating agency Standard & Poor's (S&P) affirmed the sovereign credit rating on Bosnia and Herzegovina at "B with stable outlook".

In its report, S&P explained that the rating factors have remained unchanged. S&P thinks that the floods that happened this year could bring about lower economic growth and the deterioration of the country's foreign debt and fiscal position. However, it is expected that Bosnia and Herzegovina will continue to receive significant international support to finance its deficit.

S&P also mentioned that the banking sector is well capitalised, and that NPLs (non-performing loans) are increasing slightly as a consequence of the floods and their impact on households and the corporate sector.

S&P analysts say that the credit rating could be lowered if increased uncertainty in foreign debt financing or a failure to meet the conditions of the International Monetary Fund were observed. The rating could be decreased by more than one degree if repayments to official creditors were delayed.

An increase of the credit rating could be considered in case of better cooperation between the Entities and improvement of their relations with state institutions, which would gradually enable reform implementation not reliant on international pressure and policy conditionality. This would strengthen the business environment and pave the way for sustainable growth and a better external position.

Impact on investors

For information purposes only.

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BULGARIA

Market Capitalisation	BGN 10.33 bn
YTD Dev. of Market Capitalisation	-4.5%
Number of SE Transactions p.m.	12,612
YTD Dev. of SE Transactions	-62.5%
SE Turnover (Bulgarian Stock Exchange)	BGN 74.61 mn
Monthly Index Performance (SOFIX)	-1.72%
Upcoming Holidays	–

Source: UniCredit, National Statistics

BSE Main Market summary for September

The Bulgarian Stock Exchange AD-Sofia (BSE) has published its September Main Market Summary. The total trading volumes decreased by 6.6% compared to the previous month, despite the increased turnover in equities.

Unlike the previous month, BSE's main index SOFIX declined by -1.72%, falling to 539.96 points at the end of September. At the same time the equally weighted BG TR30 continued to soar, gaining almost 3% on a monthly basis and reaching a 28.67% increase on an annual base. The Main Market's total capitalisation decreased to EUR 4.171 billion which comprised a drop of 0.91% on a month-over-month basis.

BSE's indices performance in September 2014:

Stock Exchange index	m/m performance (%)	y/y performance (%)
SOFIX	-1.72	18.36
BGBX 40	0.11	14.70
BG TR30	2.86	28.67
BG REIT	0.84	12.83

Impact on investors

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CROATIA

Market Capitalisation	HRK 209.33 bn
YTD Dev. of Market Capitalisation	13.9%
Number of SE Transactions p.m.	23,701
YTD Dev. of SE Transactions	15.6%
SE Turnover (Zagreb SE)	HRK 436.78 mn
Monthly Index Performance (Crobex/ZSE)	3.6%
Upcoming Holidays	–

Source: UniCredit, National Statistics

Croatia's exports in first eight months of 2014 up 10.2%

In the first eight months of 2014, Croatia's exports reached HRK 50.5 billion, which was 10.2% more than in the corresponding period of 2013, while imports went up by 3.6% to nearly HRK 86 billion.

The foreign trade deficit at the end of August was HRK 35.5 billion, which was approximately HRK 1.6 billion or 4.5% less than at the same time in 2013. Coverage of imports by exports was 58.8%, compared to 55.2% last year.

Croatia does most of its trade with European Union countries, which account for 64% of Croatian exports and 74% of imports.

Impact on investors

For information purposes only.

IMF officials to visit Croatia in November

After attending the annual meetings of the World Bank and the International Monetary Fund, Croatian Government officials and the IMF have agreed to a visit by IMF officials to Croatia in November to provide technical assistance to relevant government departments in setting up the methodology for the calculation of expenditure.

In addition, Finance Minister Boris Lalovac and Chief Public Prosecutor Dinko Cvitan met senior officials of the Internal Revenue Service of the US Department of Treasury to initiate cooperation and for US authorities to pass on their experience in countering tax fraud.

Talks with credit rating agencies focused on the state of the budget and the economy with their representatives expressing satisfaction with efforts to increase the transparency of public finance in Croatia.

Impact on investors

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CZECH REPUBLIC

Market Capitalisation	CZK 1.1 trn
YTD Dev. of Market Capitalisation	0.5%
Number of SE Transactions p.m.	n.a
YTD Dev. of SE Transactions	n.a
SE Turnover (Prague SE)	CZK 41.1 bn
Monthly Index Performance (PX)	1.16%
Upcoming Holidays	–

Source: UniCredit, National Statistics

Debt portfolio management quarterly review

In the third quarter of 2014, the CZK-denominated value of the gross state debt continued to decrease. The debt has dropped CZK 297 million in comparison to the end of the first half of 2014 and CZK 332 million in comparison to the end of 2013. The decrease in CZK-denominated value of the gross state debt is in accordance with the Ministry of Finance's stabilisation plan of the state debt, which brings positive impacts, especially in the form of savings in interest expenditure of the state budget related to the issuance activity of the state during the year.

Impact on investors

For information purposes only.

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HUNGARY

Market Capitalisation	HUF 19.064 bn
YTD Dev. of Market Capitalisation	7,38%
Number of SE Transactions p.m.	1 131.685 prompt market: 118,519 derivatives: 13,166
YTD Dev. of SE Transactions	18.3%
SE Turnover (Budapest SE)	HUF 410.274 mn prompt market: HUF 172,658 mn derivatives: HUF 237,616 mn)
Monthly Index Performance (BUX)	0.00%
Upcoming Holidays	–

Source: UniCredit, National Statistics

Review of the Equities Prime Market classification

As per the Regulations of the Budapest Stock Exchange Ltd. (BSE) for listing, continued trading and disclosure, the BSE has reviewed the equity series listed on the Equities Prime Market. The basis of the review was the principles set in the Regulations, the trading volume and average capitalisation figures between 1 March and 31 August 2014.

If equity series listed on the Equities Prime Market fail to comply with the set conditions in two consecutive review periods, BSE automatically reclassifies the series to the Equities Standard Market.

As a result of the review there is no change in the classification of issuers, the following equities are listed in the Prime Category: ANY, Appeninn, Business Telecom, CIG Pannonia, FHB Prime, Magyar Telekom, MOL Prime, OTP Bank, PannErgy, RÁBA, Richter Gedeon.

At the issuer's request the shares of BUSINESS TELECOM Nyrt. have been admitted to Equities Prime Market from 10 March 2014, these shares were not subject to the previous review process.

Impact on investors

For information purposes only.

Double Tax Treaty between Hungary and the United Arab Emirates

In our Newsflash dated 29 October 2013, we stated that the DTT agreement with the United Arab Emirates was signed on 30 April 2013 and the related Act CLXI of 2013 was officially published on 21 October 2013.

In its announcement number 10/2014 (IX. 30) the Minister of Foreign Affairs and Trade announced that the DTT entered into force on 4 October 2014.

The withholding tax rates stipulated in the treaty are as follows: Dividends 0%, Interest 0%.

In addition the DTT includes provisions for the exchange of information according to international standards. Concerning taxes withheld at source, the treaty is applicable on income derived on or after 1 January 2015, with respect to other taxes on income and taxes on capital, for taxes chargeable for any tax year beginning on or after 1 January 2015.

Impact on investors

Hungary has progressed further with its plan to revise some of its existing DTT and exchange information agreements.

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POLAND

Market Capitalisation	PLN 635.0 bn
YTD Dev. of Market Capitalisation	7.8%
Number of SE Transactions p.m.	1,338,995
YTD Dev. of SE Transactions	22%
SE Turnover (WSE)	PLN 19.6 bn
Monthly Index Performance (WIG20)	3.5%
Monthly Index Performance (WIG)	5.8%
Upcoming Holidays	11 November

Source: UniCredit, National Statistics

Polish panel at SIBOS – Boston 2014

"Polish financial sector – leading edge of global innovation" was the title of a panel discussion which took place during this year's SIBOS conference. The session presented the achievements of the Polish financial sector during its past 25 transformative years. To demonstrate the progress that has been made during this period, the speakers highlighted that the Polish financial sector achieved a significant position in comparison to other European and global markets, becoming an undisputed leader in certain innovative arrangements, in particular in the area of retail payment systems.

Impact on investors

The Polish financial market is becoming more and more attractive for not only local but also foreign investors due to its strong position in the region built systematically over the last 25 years. A stable financial system and persistently developed market infrastructure prove that the Polish financial sector is one of the leading branches in the Polish economy.

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ROMANIA

Market Capitalisation	RON 130 bn
YTD Dev. of Market Capitalisation	18.7%
Number of SE Transactions p.m.	86,649
YTD Dev. of SE Transactions	60.27%
SE Turnover (Bucharest SE)	RON 1,012 mn
Monthly Index Performance (BET/BSE)	793.16%
Upcoming Holidays	–

Source: UniCredit, National Statistics

NBR Governor met with EU ambassadors

At a meeting with the ambassadors of the EU member states, the Romanian National Bank's Governor Mugur Isarescu gave a presentation about macroeconomics, GDP dynamics, inflation developments, monetary policy, fiscal policy, current account, banking system and the geopolitical tensions in the Region.

Given its macroeconomic fundamentals, Romania has the potential to grow sustainably in the medium run, yet actual outcomes depend on regional, European and global developments, Mr. Isarescu said. Economic growth slowed down in 2014 H1 to 2.4%, as compared with 3.5% in 2013.

With regards to inflation, the annual consumer price index inflation returned to inside the variation band in September 2014 (1.54%), as a result of the dissipation of the statistical effect induced by the cut in the VAT rate on some bakery products from 24% to 9% as of 1 September 2013. The annual inflation rate is now in line with the ECB's quantitative definition of price stability.

In order to support sustainable lending, but also to bring the minimum reserve requirements (MRR) mechanism closer to ECB standards, the NBR cut the minimum reserve requirements: on foreign currency-denominated liabilities from 18% to 16% in July 2014 and on RON-denominated liabilities from 12% to 10% in October 2014.

Impact on investors

For information purposes only.

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RUSSIA

Market Capitalisation	RUB 23.4 trn
YTD Dev. of Market Capitalisation	-2.74%
Number of SE Transactions p.m. (MICEX)	8,401,753
YTD Dev. of SE Transactions	18.0%
SE Turnover (MICEX)	RUB 17.27 trn
Monthly Index Performance (MICEX)	-2.0%
Upcoming Holidays	3, 4 November

Source: UniCredit, National Statistics

Emergency notification system successfully tested by NSD

At the end of September, the National Settlement Depository (NSD), Russia's Central Securities Depository, conducted a special test of the system used to notify the members of the Emergency Situation Management Committee and employees of NSD in an emergency situation.

The test of notification by the cascade method was exercised as a part of NSD's Business Continuity Program and took 1 hour and 32 minutes. In accordance with the criteria established by the Testing Plan (no fewer than 70 per cent of staff members should be informed within 2 hours) and the Testing Protocol's analysis, the testing was recognised as successful.

The NSD's Emergency Situation Management Committee is a collegial body authorised to coordinate the activities of NSD divisions and employees in emergency situations.

Impact on investors
Investors' assets held with CSD are better protected due to an efficient information system for emergency situations.

NSD implements e-proxy voting

The National Settlement Depository has started the technical implementation of the e-proxy voting procedure at the CSD level.

By the end of 2014, NSD will be able to notify their clients about upcoming shareholders' meetings using ISO 20022 and ISO 15022 messages. A full e-proxy-voting procedure is expected to be completed by NSD by May 2015.

E-proxy voting was legally introduced earlier this year. It is the first step of the corporate actions reform aimed to implement new technologies and international standards via an electronic document interchange.

Impact on investors
Investors will benefit through the mitigation of risks and reduction of costs via elimination of paper flow with recordkeeping institutions during general meetings and proxy voting.

NSD launched pre-LEI website

The National Settlement Depository has launched a new website to provide market participants with information on the assignment and confirmation of pre-Legal Entity Identifiers (LEIs). LEIs (Legal Entity Identifiers) are 20-digit, alpha-numeric codes connecting key reference data to identify legal entities participating in global financial markets.

The Regulatory Oversight Committee (ROC) of the Global Legal Entity Identifier System (GLEIS) obliges companies which are financial market participants to register a LEI code to create a unique and unambiguous identification method.

Impact on investors
The implementation of the pre-LEI website should add more transparency to the Russian financial market and bring it closer to the best international standards.

Electronic pre-matching by NSD

Electronic pre-matching will be launched by the National Settlement Depository (NSD) by the end of the year. The main goals of this system are increasing the efficiency and simplifying the settlement of transactions and the rejection of matching by phone.

Starting from 3 November 2014, the system of electronic pre-matching is planned to be tested by NSD together with the major participants of the Russian securities market including ZAO UniCredit Bank. A search of potential counter-instructions is expected to be available starting on 10 November. The full launch of the system will be in December 2014.

Impact on investors
The implementation of electronic pre-matching should allow the creation of a single mechanism of matching instructions and increase the speed of settlements and provision of full STP.

Moscow Exchange launches Russian corporate Eurobonds trading

Starting on 14 October 2014, 13 issues of Russian corporate Eurobonds were admitted to trading on the Moscow Exchange. All Eurobonds are USD denominated, including those on Listing Level 3 (a non-quotation list). The trades are available in USD for qualified and non-qualified investors in main trading mode, negotiated deals mode and REPO in bonds mode. Moscow Exchange plans to expand the list of tradable Russian Eurobonds in the near future.

Impact on investors
Trading in Russian corporate Eurobonds will increase the choice for investors.

Draft law on Controlled Foreign Companies to be updated

Vladimir Putin, President of the Russian Federation, approved an updated version of the draft law on Controlled Foreign Companies (CFC) as prepared by the Ministry of Finance (MinFin).

Russian owners are predicted to declare their offshore profits exceeding RUB 50 million for 2015 and RUB 30 million for 2016 with this threshold being gradually reduced to RUB 10 million.

This tax should be paid only by those companies whose share of passive income (interest and dividends) is more than 50% of the total income. If the residents own more than 50% of CFC, the Russian tax should be paid by each owner, who owns more than 10% of the company. If one resident owns 25% of CFC, he will also pay the Russian tax.

In accordance with the draft law, companies or individuals will be required to pay the Russian tax from retained earnings of CFC at a rate of 20% and 13% respectively. The draft law is still under consideration and will be discussed by the Russian State Duma later.

Impact on investors
CFC law is aimed to reduce the capital outflow from Russia and stop the usage of offshore tax evasion schemes.

CBR publishes procedure of recognition of banks as important institutions

The Central Bank of Russia (CBR) approved a procedure of recognition of banks as important institutions in the payment system. The relevant decree was published on the CBR website.

In accordance with the procedure, a bank should satisfy one of the following criteria:

- The bank's share should be at least 2% of the volume of transactions via payment and credit cards, executed in one of the federal districts of Russia;
- The bank's share should be at least 2% of all payment and credit cards issued in one of the federal districts of Russia;
- The number of ATMs should be at least 2% of the total numbers of ATMs operating in a federal district of Russia;
- The bank's share in the total volume of electronic transfers performed in Russia during the calendar year should be at least 2%.

Banks qualified by CBR as important institutions should be participants of the National System of Payment Cards. The decree will came into force after 10 days of its official publication in The Bank of Russia Bulletin.

Impact on investors
For information purposes only.

NSD and NCC to become systemically important financial institutions

The Central Bank of Russia (CBR) has assigned the National Settlement Depository and the National Clearing Centre (NCC) – Moscow Exchange Group companies – the status of systemically important financial markets infrastructure institutions.

NSD received the status of systemically important central depository, systemically important settlement depository and systemically important repository.

NCC has received the status of a systemically important central counterparty.

The total value of securities in safekeeping at NSD is RUB 22.9 trillion; NCC has assets in excess of RUB 860 billion and its average daily clearing volume is RUB 1.2 trillion.

Impact on investors
Recognition of NSD and NCC as systemically important financial institutions will contribute to the stability of the Russian financial system.

Moody's has downgraded Russia's ratings

The international rating agency, Moody's Investors Service, downgraded the government of Russia's debt rating from Baa1 to Baa2 with a 'negative' outlook.

In addition, the rating agency reconsidered and downgraded Russia's long-term country ceilings for local and foreign-currency debt and for local currency deposits from A2 and to A3 while Russia's short-term country ceilings for foreign-currency debt was reduced from P-1 to P-2. The long-term country ceiling for foreign-currency bank deposits was lowered to Baa2 from Baa1 while the short-term country ceiling for foreign currency bank deposits was unchanged at P-2.

Impact on investors
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SERBIA

Market Capitalisation	RSD 777.2 bn
YTD Dev. of Market Capitalisation	0.0%
Number of SE Transactions p.m.	16,120
YTD Dev. of SE Transactions	-24.1%
SE Turnover (Belgrade SE)	RSD 1,070.46 bn
Monthly Index Performance (Belex 15)	5.0%
Upcoming Holidays	–

Source: UniCredit, National Statistics

Serbian GDP to contract in 2014

The International Monetary Fund (IMF) projects Serbia's GDP to shrink 0.5% in 2014, compared with the 1% growth it had forecasted in the spring, according to their latest World Economic Outlook report. The IMF also projects Serbia's GDP to expand 1% in 2015, down from the 1.5% growth it had forecasted in the previous report.

The lender expects the country's current account deficit to decrease to 6.1% of GDP in 2014 and to 5.1% of GDP in 2015, from 6.5% in 2013. It also projects Serbia's unemployment rate to go up from 21% in 2013 to 21.6% in 2014 and 21.8% in 2015.

Impact on investors

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Year-on-year inflation grew to 2.1% at the end of September

Year-on-year inflation increased to 2.1% at the end of September, as the consumer price index (CPI), the official measure of inflation, rose 0.7% last month, according to statements from the National Bank of Serbia (NBS) and the Statistics Office. In August, the CPI decreased 0.2% month on-month, according to earlier reports. The increase of CPI in September was entirely the result of hikes in food prices, which registered year-on-year growth for the first time in a year, according to the NBS.

In the year through September, the CPI rose 2.3%, the Statistics Office said. According to the NBS' estimates, year-on-year inflation will revert to the target band of 4% plus or minus 1.5 percentage points, by the end of 2014. Although electricity price hikes have been postponed, inflation will return within the target band primarily due to last year's low base for food prices, the NBS noted.

Impact on investors

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SLOVAK REPUBLIC

Market Capitalisation	EUR 39.5 bn
YTD Dev. of Market Capitalisation	1.9%
Number of SE Transactions p.m.	677.0
YTD Dev. of SE Transactions	36.0%
SE Turnover (Bratislava SE)	EUR 0.5 bn
Monthly Index Performance (SAX/BSSE)	1.9%
Upcoming Holidays	–

Source: UniCredit, National Statistics

Bratislava Stock Exchange trading results for September 2014

In September 2014, the members of the Bratislava Stock Exchange (BSSE) used the electronic trading system during 20 business days. A total of 677 transactions were concluded in this period, in which 378,770,136 units of securities were traded and the achieved financial volume exceeded EUR 479.4 million. In comparison with the previous month, this represents a decrease in the amount of traded securities (-41.21%), a decrease in the total financial volume (-37.07%) and an increase in the number of concluded transactions (+36.49%).

The number of transactions fell on a year-on-year basis by 26.81%, whereas the number of traded securities rose by 5.44% and the achieved financial volume grew by 1.4%. Similar to previous periods, negotiated deals in September 2014 again dominated over electronic order book transactions (i.e. price-setting deals), with the former accounting for 97.86% of the total trading volume. A total of 132 negotiated deals (in a volume of EUR 469.15 million) were concluded, as opposed to 545 electronic order book transactions (in a financial volume of EUR 10.25 million).

Investors in September 2014 continued to focus on debt securities, as bond transactions generated 99.87% of the achieved volume. A total of 366 bond transactions were concluded in the period under review, in which 378,736,471 units of securities changed hands and the financial volume surpassed EUR 478.79 million. The number of transactions increased against August 2014 by 6.71%, whereas the amount of traded securities and the achieved financial volume decreased (-41.21% and -37.07%, respectively).

On a year-on-year basis the number of transactions increased by 12.27%, the amount of traded securities rose by 5.48% and the achieved financial volume grew by 1.96%. Continuing the trend of previous periods, negotiated deals in bonds (in a financial volume of EUR 469.13 million) again prevailed over electronic order book transactions (in a volume of EUR 9.66 million).

Transactions concluded by non-residents in September 2014 accounted for 64.92% of the total trading volume. Out of that, the buy side represents 66.58% and the sell side does 63.26%.

The SAX index ended the month of September 2014 at 210.19 points, representing a 1.89% increase on a month-on-previous-month basis and a 6.99% increase year on year.

Impact on investors

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SLOVENIA

Market Capitalisation	EUR 22.122 bn
YTD Dev. of Market Capitalisation	28.93%
Number of SE Transactions p.m.	7.866
YTD Dev. of SE Transactions	103.00%
SE Turnover (Ljubljana SE)	EUR 93.604 mn
Monthly Index Performance (SBI TOP)	2.28%
Upcoming Holidays	–

Source: UniCredit, National Statistics

DVP/RVP settlement for issue of T-bills

The Ministry of Finance replaced FOP settlement with DVP/RVP settlement for issue of T-bills. The DVP/RVP settlement was introduced for settlement of T-bill OZ3 ISIN: SI0002103438 on 16 October 2014 for the first time. It is predicted that DVP/RVP settlement will replace FOP settlement for issue of government bonds in future.

Impact on investors

The implementation of the settlement process for the issuance of government securities, in line with international markets practice, decreases settlement risk.

New Book Entry Securities Act in preparation

A working group at the Ministry of Finance has prepared the first draft for a discussion in the Parliament at the end of September 2014. The new act will implement T2S and CAJWG standards. Few changes are needed due to CSDR.

The main changes proposed by the new act are:

- The present system of executions of CA will be replaced with the implementation of a cascade system. Corporate actions will be executed by the CSD and its members. CSD will, in line with international standards, define in its rules and regulations:
  - dates and ways of issuers' obligation to inform CSD on a corporate action and obligations of CSD's members to inform their clients on CA;
  - executions of options on a voluntary action;
  - days important for execution of CA. (ex-date, record date, last trading date, payment date, market deadline, start of election period, buyer protection deadline, market deadline etc.);
  - execution of obligations from dematerialised securities;
  - market claims' procedure.

The draft act doesn't define the date of implementation of new CA procedure. It could be implemented before T2S implementation or after T2S implementation in Slovenia. The change of Companies Act, Takeover Act and Market in Financial Instruments Act will be necessary for full implementation of T2S and CAJWG standards.

- Clear definition of a moment when the security is issued: The security is issued when all important constituents of security are entered into CSD and the security is registered on the securities account.
- Abolition of registered accounts which were opened by CSD in past due to privatisation process and for issue of securities up to 30 June 2016. Owners of such accounts will be obliged to open new securities accounts at CSD members and transfer assets from the registered accounts to new accounts. After that date the CSD will transfer assets on the registered accounts to the securities account of an authoritative court.
- Reduction of third-party rights which could be registered on dematerialised securities. The following third party rights will be possible in the future: a lien and a disposal prohibition. The following third parties rights will be abolished: a right of benefit, a redemption right and a pre-emptive right.
- The central register could be managed by the CSD, registered in Slovenia or by a branch of the CSD registered in an EU member state.
- In case of exchange of shares or a split of shares, third party rights will be passed to new shares in a way that the proportion between pledged and unpledged remains the same.
- It will be possible to issue securities with obligations that are executed in line with foreign legislation.

It is predicted that new act will go into force on 1 March 2015.

Impact on investors

The implementation of T2S and CAJWG standards will standardise the execution of corporate actions in Slovenia.

New banking act in preparation

A new banking act will implement the EU directives 2013/36/EU, 2014/59/EU and 2014/49/EU. The main changes proposed by the new act are:

- introduction of licenses for members of supervisory boards of banks;
- transfer of the management of system of data exchange on client ratings to the central bank;
- partial transfer of supervisory functions to the ECB;
- establishment and management of a guarantee fund for savings by the central bank in an amount of 0.8% of savings;
- establishment and management of a fund for the recovery and resolution of credit institutions by the central bank.

The new banking act presupposes preparation of a special act which will in detail regulate procedures on: banks' liquidation, recovery and resolution of banks, and a system of guarantee for savings in the banks.

Impact on investors

The new act will increase safety, care and transparency of banking activities in Slovenia.

New act on AIF managers in preparation

A new act will implement the EU AIFM Directive and partly Directive 2013/14/EU. The act will regulate funds, which are not covered by the UCITS Directive and are offered to professional investors. The act will:

- define and regulate the entities which are involved in the management of AIFs (registered and qualified AIF managers and the AIF managers with license for AIF management; AIFs, AIF custodians) and their licensing;
- regulate AIF managers from EU and third countries which execute AIF services in Slovenia and Slovene AIF managers which execute AIF services in EU and third countries;
- define capital requirements, accounting and data secrecy;
- liquidation and bankruptcy of AIF manager;
- marketing of AIFs;
- regulate the supervision of AIF managers, Securities Market Agency will be responsible for supervision of entities involved into AIF services.

Impact on investors

The EU Directive on AIF will be implemented in Slovenia.

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UKRAINE

Market Capitalisation (UX)	UAH 231.1 bn
YTD Dev. of Market Capitalisation (UX)	58.0%
Number of SE Transactions p.m. (UX)	34,113
YTD Dev. of SE Transactions (UX)	29.2%
SE Turnover (UX)	UAH 0.7 bn
Monthly Index Performance (UX)	-9.1%
Upcoming Holidays	–

Source: UniCredit, National Statistics

NSSMC to ban depository activity in Crimea

The market regulator, the National Securities and Stock Market Commission (NSSMC) will initiate the banning of depository activity for depository institutions situated in Crimea.

The relevant initiative is covered in the draft decision, "On the peculiarities of the depository activity maintenance in connection with the temporary occupation of the Crimea and the city of Sevastopol", which was agreed on at the meeting of NSSMC on 7 October.

According to a press release by the NSSMC, the draft decision suggests that the depository institutions, registered in Crimea, the city of Sevastopol, Donetsk or Luhansk region, change the place of registration to a place outside of the mentioned territories. If this action is not performed, the market regulator may terminate the license for the depository activity 60 calendar days after the decision entered into force.

In addition, the draft also proposes to ban settlement which leads to a change in the depository accounting system for all depository institutions on Crimean peninsula. The only exception is the transfer of the client's securities to the client's account opened on the mainland of Ukraine. The other exception will concern corporate operations of the issuers (except for the placement and sale of the securities, which were previously bought back by the issuers) and unconditional operations executed on the basis of the order about the cancellation of the registration of the issue of securities provided by the market regulator.

According to a NSSMC representative, currently there is a big risk of violation of investors' rights, and through this draft decision, NSSMC provides the measures to regulate of this issue.

Impact on investors

Further steps have been taken towards the protection of investor's rights.

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AZERBAIJAN · BELARUS

Azerbaijan

Fitch Ratings affirms Azerbaijan long-term Issuer Default Ratings at 'BBB-'

On 30 September, Fitch Ratings affirmed the long-term foreign and local currencies Issuer Default Ratings (IDR) of Azerbaijan at 'BBB-' with outlook 'Stable'.

Also, Fitch Ratings confirmed the issue ratings on Azerbaijan's senior unsecured foreign and local currency bonds at 'BBB-' whereas the Country Ceiling has been affirmed at 'BBB-' and the short-term foreign currency IDR at 'F3'.

Impact on investors

For information purposes only.

Belarus

Market Capitalisation	BYR 15.69 trn
YTD Dev. of Market Capitalisation	n.a.
Number of SE Transactions p.m. (BCSE)	1,134
YTD Dev. of SE Transactions	145.5%
SE Turnover (BCSE)	BYR 4,444.3 bn
Monthly Index Performance (BCSE State Securities)	-12.72%
Upcoming Holidays	–

Source: UniCredit, National Statistics

Standard & Poor's affirms Belarus 'B-/B' ratings

On 10 October, Standard & Poor's affirmed its 'B-' long-term and 'B' short-term sovereign credit ratings for the Republic of Belarus with outlook 'Stable'.

Impact on investors

For information purposes only.

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KAZAHSTAN

Thomas Murray upgrades CSD rating

Thomas Murray, the specialist custody rating, risk management and research agency, has upgraded the CSD Rating for the Central Securities Depository of the Republic of Kazakhstan (KACD) to 'A+' which translates as 'low Overall Risk' on 26 September.

The 'A+ rating' affirmed by Thomas Murray for KACD includes the following components:

CSD Rating	Overall Rating	Asset Commitment	Liquidity Risk	Counterparty Risk	Asset Safety	Asset Servicing	Financial Risk	Operational Risk	G&T Risk
KACD rating	A+	AA	A	A	AA-	AA-	A+	A	AA-

The overall rating of 'A+' reflects a weighted average of eight risk components and relates to a low risk exposure profile with an 'On Watch' outlook. Assessment upgraded Liquidity Risk from 'A-' to 'A', Financial Risk – from 'A' to 'A+' and Governance and Transparency – from 'A+' to 'AA-'.

The CSD rating increase is connected with the following KACD infrastructure and functioning enhancements:

- switching to T+N settlement model from a T+0 on the Kazakhstan Stock Exchange;
- wide market practice of ISO 20022 standard SWIFT messages usage;
- doubling of insurance policy up to KZT 500 million;
- increase in financial reserves to cover more than two years of operation expenses;
- creation of a single registrar in the market, which leads to significant re-registration costs reduction;
- establishment of a CSD customer group.

Impact on investors

The CSD rating upgrade confirms that the Kazakhstan CSD has significantly improved their risk management system and brings the Kazakhstan securities market infrastructure in line with international best practices.

Kazakhstan Stock Exchange revises securities subscription regulation

In early October, the Kazakhstan Stock Exchange (KASE) Board of Directors has approved rules for carrying out subscription to securities. The rules will define the conditions and procedures for the subscription to securities of shareholding as well as debt securities. The rules replace the subscription of shares regulation.

The rules will be submitted for approval to the National Bank of the Republic of Kazakhstan. Afterwards, approval text of the regulation will be published on the official site of KASE http://www.kase.kz.

Impact on investors

For information purposes only.

World's first Eurobonds placement under ICMA standards

Kazakhstan is the first country to issue bonds under the new regulatory framework developed by the International Capital Market Association (ICMA). Kazakhstan placed combined USD 2.5 billion of 10- and 30-year dollar-denominated Eurobonds. It was the first country to offer USD-denominated bonds for international capital market participants since 2000.

The bond prospectuses provisions were brought in line with the ICMA standards. Among others, ICMA requirements include provisions that revised collective action clauses allowing a majority of bondholders to agree to changes to bonds that are binding to all investors.

The ICMA, a self-regulating organisation that represents a broad range of capital market participants, recommended measures to prevent a repeat of economic damage caused by Argentina's default in 2001.

Impact on investors

The first Eurobonds placement is a new step towards development of Kazakh capital markets and its cross-border integration.

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MONGOLIA

Infrastructural and legislative news

Surveillance rule and membership regulation of the Mongolian Stock Exchange (MSE) came into force after ratification by the Financial Regulatory Committee starting from 9 October 2014. Membership regulation of MSE governs all membership activities including new membership, prolongation and termination of membership. The new MSE rule covers surveillance related to all trading activities of membership companies and stock issuers.

The aim of the MSE regulations revision is to comply with and supplement the Securities Markets Law and the main Mongolian securities market legislation act.

The London Stock Exchange Group and the Government of Mongolia have signed a three year extension to their strategic partnership agreement. In the frame of the extended agreement, LSEG will enhance MSE's new areas including Post Trade infrastructure, FTSE Index development, and opportunities for trading new products and assets including commodity derivatives and FX.

An adjunct policy committee for the securities market has been organised following the Chairman of Financial Regulatory Commission (FRS)'s resolution. The issues that will be discussed at the committee meetings are related to various securities market areas including securities market development and regulation. Among the committee representatives are individuals representing the interests of FRC, Ministry of Finance, Central Bank, MSE, CSD and others, as well as university scientists and researchers.

The Commission on the Control of Financial markets (FRC) has amended the resolution, "Directive to run regulated operations in the securities market" in order to facilitate the revised securities market law with respect to intermediary activities to sell and purchase securities on a foreign securities market. According to the directive provisions, a regulated entity which intends to render intermediary services should meet the conditions and requirements listed in the directive and submit official request to the FRC for approval. The entity may run intermediary operations without FRC permission only in accordance with certain provisions of the securities market law.

Impact on investors

A new securities market regulation and infrastructure has been achieved with the purpose of transformation into a world-class market with international best practices and standards.

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UZBEKISTAN

President has signed law on exchange and exchange activities

The President of Republic of Uzbekistan has signed the law on exchange and exchange activities for the purpose of further improving stock exchange regulation and functioning.

The law's adoption is expected to allow the creation of a single law enforcement in exchange activities, ensuring a balance of interests of the players, shareholders and the state, as well as bring in line with Uzbekistan legislation, which regulates the leading stock exchanges in the world.

The law's provisions will enter into force six months after 13 October 2014, the date of its official publication.

Impact on investors

The law will harmonise Uzbekistan legislation with international rules and create conditions for the integration of the Uzbekistan market into the world securities market.

New procedure for privatisation of state property

On 6 October 2014, the Cabinet of Ministers of the Republic of Uzbekistan adopted a resolution on the approval of the regulations on the procedure of privatisation of state property. The regulations are aimed at the improvement of the decision making procedure of state property privatisation, increasing the effectiveness of their implementation mechanisms and procedures, and ensuring publicity and transparency in transactions with state property.

According to the regulation, the sale of government shares is based on the privatisation programmes approved by government bodies. Government shares may be only sold on exchange if they constitute more than 10% of share capital or their aggregate nominal value exceeds 5,000 minimum wages. If securities do not meet these conditions, they should be offered on an organised OTC market.

Also in accordance with the law on joint-stock companies and protection of shareholders' rights, the state, being the issuer, is empowered to initiate mandatory buy–back, resulting in the removal of state shares from on–exchange and organised OTC trading including public offer.

Participation of a foreign investor in the privatisation process has a number of peculiarities among them are:

- The investor proposal should meet particular investment project requirements and pass through governing bodies' approval.
- In case of simultaneous receipt of two or more proposals from different investors, the best offer is determined based of the following criteria:
  - technology and product efficiency;
  - number of created jobs;
  - investment amount;
  - environmentally friendly production.

Impact on investors

The privatisation of state ownership is expected to lead to intensification of market competition and de-monopolisation of the economy.

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