

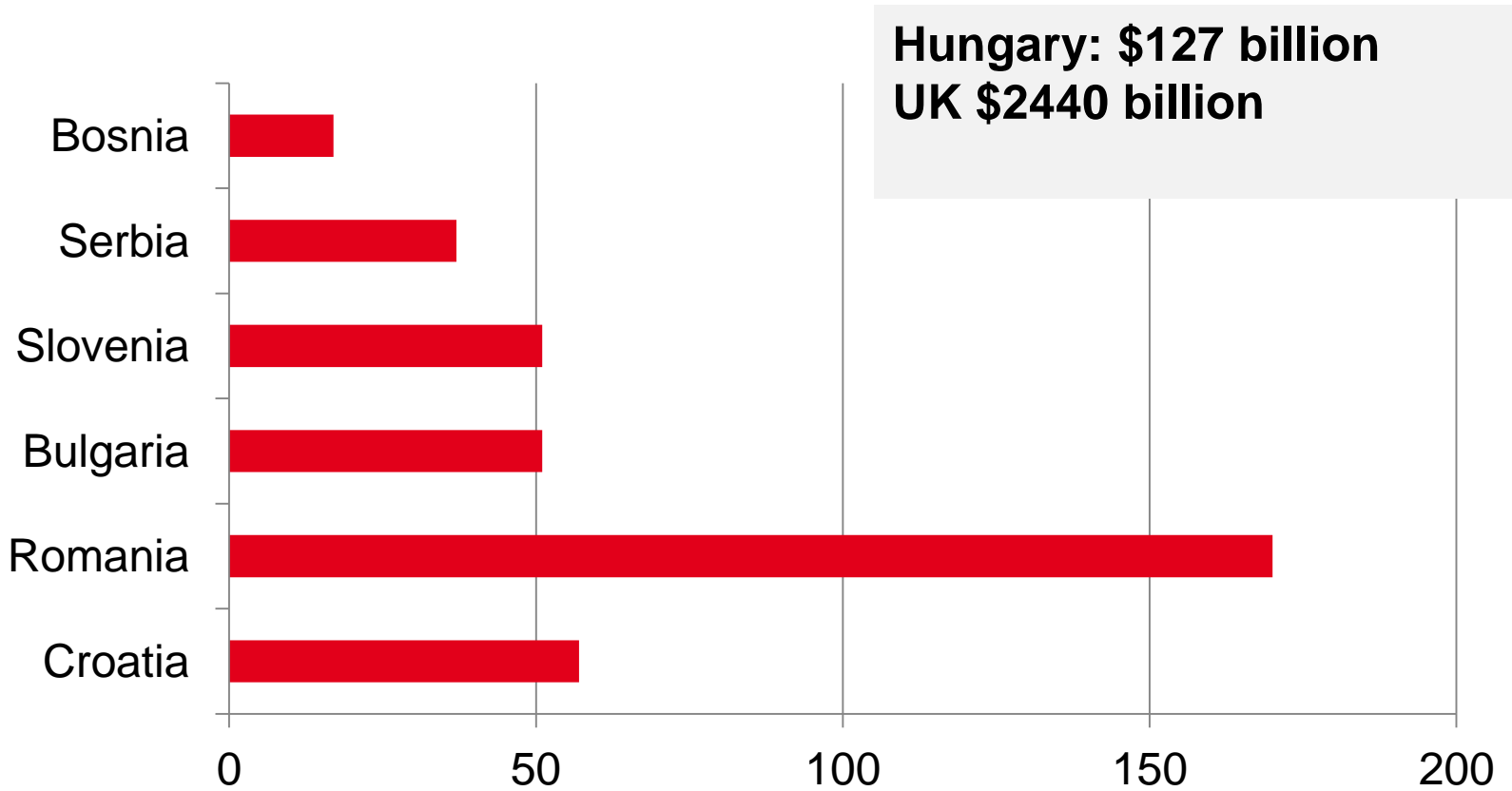
SEE Markets Road Show The CEE Regulatory Environment

London, September 10th & 11th , 2013

John Gubert – Chairman of GSS Executive Committee

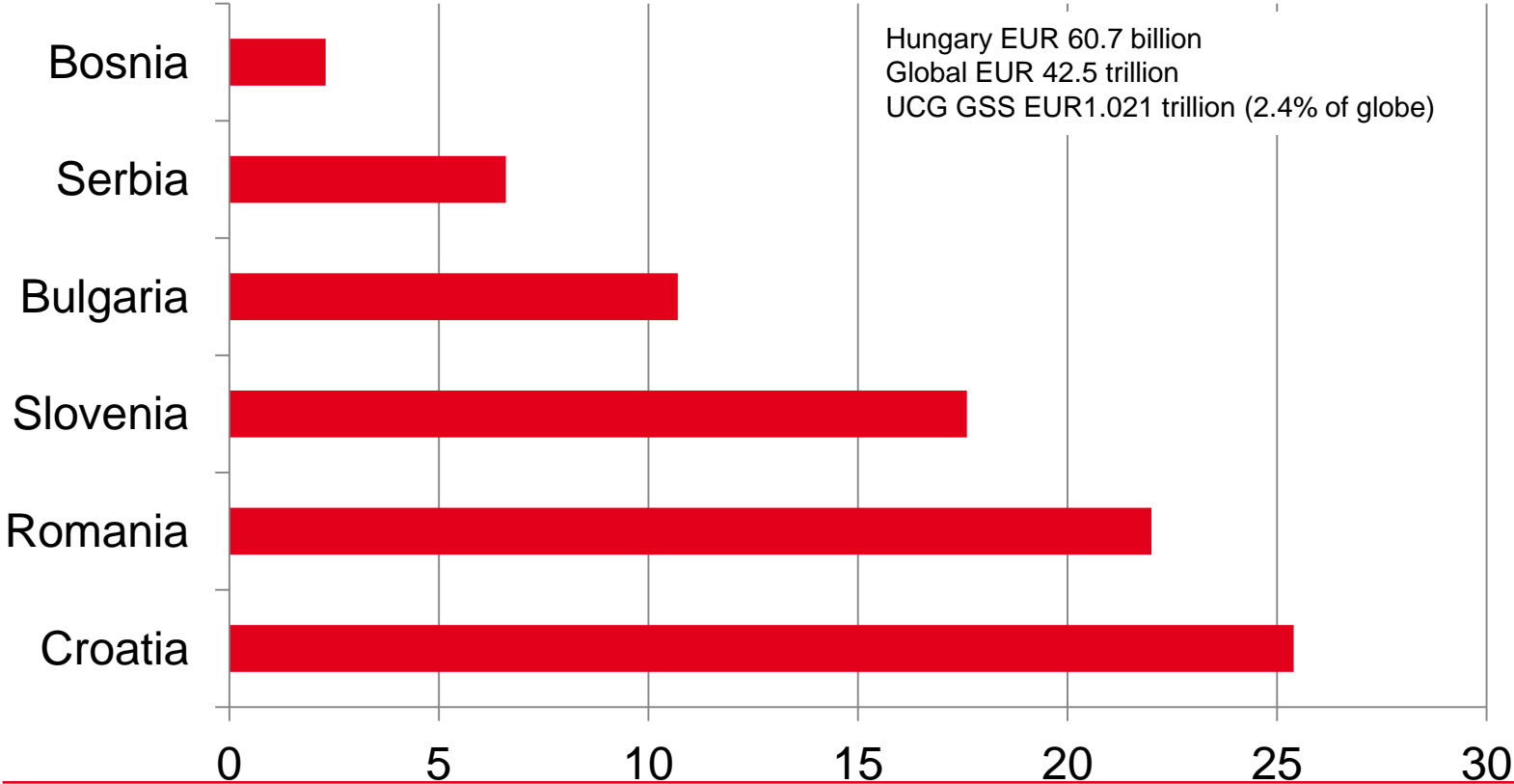
Markets in Perspective

IMF GDP (US\$ billions)



Markets in Perspective

Domestic Market Capitalisation (EUR billions)



The Regulatory Drivers Across CEE

- The region is diverse but very EU focused in terms of regulatory direction:
 - Eight EU markets
 - Two aspirant EU markets
 - Two markets from former Soviet Union

- Regulation is driven by:
 - Global regulation
 - EU regulation and developments
 - Local developments

- The CEE is, at times, a slow adopter of much regulation:
 - Partly due to the early stage of development of much of the funds market in many countries
 - Partly due to tensions between “localism” and global or regional regulatory trends
 - Partly due to the lack of applicability of some regulation to specific countries

The dynamics of the local markets

- Many voucher schemes or retail allocations from privatisation issues still around
- Many money market and bond funds rather than funds chasing alpha in equities
- Private sector pension funds promoted but challenging environment (Hungary and possibly Poland)
- Insurance sector growing but still quite concentrated with life linked products at early stage of developments
- Substantial holdings in hands of foreign companies as former state assets often acquired by overseas entities (e.g. banking sector)
- FII have major market influence with up to 50% market shares in some markets

AND

- Growth in the region will be faster than in the EU, slower than in Asia
 - The capital market structure is young but there is now a mature, educated and experienced elite at regulators and market infrastructures across the former “Eastern bloc”
 - Risk management is part of the local market DNA’s just as it is across the OECD but risk attribution may differ due to the institutional structure of markets
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What is our major focus in the regulatory world of CEE?

- AIFMD where we act as depository for local funds and where we act as agent for cross border custodians. Safety of assets, high standard of care, account structures and reporting are key discussion issues
- AML legislation is generally being strengthened across the region with potential added impact on funds based in Luxembourg, Delaware and other “tax efficient” centres
- CSD Regulations will create change especially in respect of settlement discipline, single settlement periods (T+2) and the “overhang” of the segregation of the notary and banking functions
- EMIR has an impact especially in respect of the capital needs of CCPs, less so on the issue of OTC versus traded/cleared derivatives
- FATCA – we are all affected and need to ensure compliance
- FTT is a big issue – especially where there is overlap between local FTT and the proposed tax (e.g. in Hungary)
- T2S impacts Austria, Slovenia and Slovakia; affects Hungary and Romania
- UCITS V will have wider impact and its application will be greater than AIFMD

And we keep a watching brief on many other changes

- Basel 3 – will it affect the small SBL market?
- Dodd Frank – impacts our appetite for derivative trading with US banks
- LEI's would require major standard changes across the region
- ISO 20022- will it become the global standard?
- MiFID II, SLD and MAD all add to the regulatory burden and viability of small and medium scale markets
- The prospectus directive could have material impact on future privatisation issues – will it deter public issues?
- Short selling regulations will impact liquidity generation in key instruments
- Solvency 2 may affect the development of the regional insurers – will global firms prevail?

Whilst locally:

- Hungary is replacing much of its CSD IT architecture
 - Ukraine is launching a new CSD
 - Russia has undertaken a major restructuring of its market
 - Croatia has just joined the EU
 - CEESEG still is in talks with WSE
 - CCP CEE is now live in Austria and under review in Czech Republic

In Conclusion

- The regulatory tsunami is hitting the CEE
 - The scale of markets means they are hit by the “one size fits all” approach of regulation
 - There is substantial local development alongside a global/regional agenda

- The markets will change substantially in the next years:
 - From a structural perspective, T2S is one of the change drivers in a crowded local agenda
 - From a regulatory perspective, the agenda is “overweight” and not always strictly relevant to the local financial market eco system
 - Small markets are challenged in this change environment; consolidation is likely

- But one thing will be constant: UniCredit GSS!