RUSSIAN REPOSITORY ESSENCE AND DEVELOPMENT PERSPECTIVES

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ABSTRACT
The development of the OTC market for derivative financial instruments requires increased control and supervision, since derivatives are classified as high-risk financial instruments. After the global financial crisis of 2008, representatives of the countries with the greatest influence on the world economy gathered at the G-20 Summit. Within the framework of the summit, a list of measures was developed to prevent new cases of crises involving derivatives. The establishment of the trade repository institute is one of the main measures for the OTC market of derivative financial instruments' control and supervision. The scientific work is devoted to the study of the Russian trade repository. The article describes the essence of the trade repository, prerequisites for establishing and prospecting direction for the Russian trade repository system development.

KEY WORDS
Trade repository, clearing, derivatives, netting, finance.

At present, hedging instruments have been actively introduced into the Russian financial system. A lot of domestic manufacturers, leading an active foreign trade activity, began to form the company's budget, taking into account the fixation of prices for currency and goods through over-the-counter (OTC) derivative financial instruments. First of all, this is due to the increased volatility of oil prices and the ruble exchange rate in relation to major world currencies, the euro and the dollar. In the Russian financial market, the popularity of derivative financial instruments such as options, forwards, swaps, credit and default swaps, sale and repurchase agreement (REPO) transactions are growing. In this regard, there was a need for creating repositories - organizations that keep records of companies which concluded transactions with derivative financial instruments on the OTC market.

Trading repositories appeared in Russia at the end of 2012. A lot of domestic researchers were involved in the study of Russian repositories. For example, Ozyumenko M.V. was engaged in the study of socio-economic reforms that took place in the EU after the world financial crisis of 2008 [13]. Professor Semenkova E.V. studied the reforms of the Bank of Russia, aimed at maintaining the stability of the Russian financial system and defined promising directions for developing the infrastructure of OTC transactions [16]. However, in their works, domestic researchers covered Russian repositories only indirectly, and viewed them as a part of the financial system, and not as a full-fledged subject of research. Among foreign researchers it is worth noting S. Classens and L. Codres. In their report to International Monetary Fund (IMF) "Financial Regulation: Some Unassimilated Lessons of the Global Crisis", the need to collect and provide information on OTC derivational transactions to national regulators was highlighted, thereby determining a high degree of importance of repositories in maintaining the financial stability of the state [4, 7].

The purpose of this study is to determine the essence of the Russian trade repository, to study the prerequisites for its creation and to identify promising areas for further development. The Bank of Russia reports, statistical materials of the Moscow stock exchange "National Settlement Depository", the federal law "On the securities market", scientific works of authors on a similar topic and materials of international conferences on the Russian derivatives market were used as the main material of the study.

In accordance with the Federal Law of 30.12.2015 No. 430-FZ "On Amendments to the Federal Law "On the Securities Market", the repository is a legal entity that carries out (under the license of the Bank of Russia), the provision of services for the collection,
recording, processing and storing information on concluded (not on organized sales) repurchase agreements, contracts that are derivative financial instruments and contracts of a different kind, provided for by regulatory acts of the Bank of Russia, and also, on maintaining a register of above-mentioned contracts. [11] Repository activities are authorized to implement the exchange market, the clearing organization, the central depository, the settlement depository, which does not have the status of a central depository, except for the central counterparty [18].

According to the instruction of the Central Bank of Russia No. 3253-U of April 30, 2014, companies, which conclude agreement R.ISDA with customers, must register transactions in the repository. Most Russian banks, which provide hedging services for risks, sign a general agreement R.ISDA with customers, on the basis of which OTC transactions are concluded and referred to in case of disputes between the parties of the transaction [14]. R.ISDA is an international documentation published by the International Swaps and Derivatives Association in which the parties pre-cover the main terms of future transactions in order to prevent conflicts of interest in case of an adverse outcome and a possible loss incurred by either party of agreement [5].

Having studied the typical general agreement of R.ISDA, which is signed with its clients by PJSC (Public Joint Stock Company) Sberbank, it is possible to distinguish 6 basic positions:

1) Application of provisions of model contract terms and standard conditions. In accordance with this section, the general agreement, signed by the parties, is based on standards developed by the participants of National Association of Stock Market and the Association of Russian Banks;

2) Conclusion and confirmation of transactions (one of the main provisions of the general agreement, which defines the process of structuring, accepting and concluding a transaction). The basic exchange of information takes place through electronic means of communication and both parties to the agreement are liable for the proper level of security of the information being stored, transmitted and accepted;

3) Regulations on termination. The regulations prescribe the actions of the parties in case of delay in payments and deliveries, debts on long-term obligations and grounds for avoidance of transactions;

4) Submission of documents. In this section, the procedure for the provision of documents by parties of the transaction is specified, the list of necessary documents and the deadline for their submission are indicated;

5) Miscellaneous. In the section, the details of the parties of transaction are specified: the payment netting processes, transfer of information to the repository;

6) Other provisions.

The most interesting for the study is the Regulation "Miscellaneous", within which the question of the repository is raised. In accordance with it, if the bank enters into an OTC transaction, it provides information to the repository for both parties of the transaction [2]. The choice of the repository takes place with the mutual consent of the parties. By signing R.ISDA, each party expresses its irrevocable and unconditional consent for the transfer of information to the repository in the amount, established by regulatory legal acts of the federal executive body for the securities market. If the informing party improperly fulfills its obligations, each party has the right to provide the information about the transaction to the repository separately.

The international financial crisis that occurred in 2008 and was connected with uncontrolled transactions with OTC derivatives, made the international community think about the ways of protecting the financial system [15]. This served as the basis for the G-20 summit in September 2009, in which the leaders of the participating countries proposed a list of measures designed to prevent a recurrence of the crisis:

1. Clearing of transactions through a central counterparty. In the Russian jurisdiction, the central counterparty is a legal entity that has a license for clearing activities and acting as an intermediary between the parties of the transaction. The main task of the central counterparty is the risk - management of the transactions, being concluded, and also the
increasing of the OTC market efficiency of financial instruments' derivatives [9]. The central counterparty conducts an evaluation of the participants in the derivatives transactions and sets the standards for the minimum coverage for the transaction and all transactions, concluded with the central counterparty as an intermediary, are legally and informationally transparent.

2. Standardization of contracts. A special feature of off-exchange transactions with derivative financial instruments is the variability and individuality of the compilation [9, 19]. Participants of the transaction have the right to choose the parameters and covenants of the contract. But the EU countries at the G-20 summit lobbied the adoption of common standards for OTC derivatives, especially credit-default swaps.

3. Transfer of information to trading repositories. The participants of the summit identified the need of the international financial system for accounting of off-exchange transactions, as well as in conducting liquidation netting.

It was the Pittsburgh G-20 summit in September 2009 that served as the starting point for the appearance of trade repositories in all participating countries [6]. The Russian financial system gradually formed the prerequisites for creating its own repository.

Annually, the National Financial Association conducts international conferences, which highlight the current problems and challenges, facing the Russian OTC market. Since 2011, within these conferences, the normative and technical component of the issue of creating repositories was discussed [3]. Much of the business community positively reacted to the creation of the institute of repositories, but in addition to the main task in the form of liquidation netting, it was charged with the task of a mega-regulator providing transparency of transactions with OTC derivatives [12]. By the time the repositories appeared, the Russian financial system was experiencing the need for transparency in OTC transactions, which formed the prerequisites for the creation of the repository institute in Russia [8].

In the end, the first Russian repository became the National Settlement Depository (NSD), which in autumn 2012 prepared the main provisions and schemes for cooperation in providing information to participants in off-exchange transactions. In the same year, the pilot version of the repository was launched [17, 1]. In February 2013, the Federal Service for Financial Markets published a statement that the NSD began to function fully as a repository and by the end of the year the provision of information became mandatory.

Analyzing the prospects for the development of the Russian repository, it is necessary to assess the number and volumes of transactions registered in the NSD. According to the data, presented by NSD on XI International Conference of the National Securities Market Association (NSMA), during the eight months of 2016, the NSD received 360,000 transaction reports, which is 1.5 times higher than the same period of the previous year. During the period from 2013 to August 2016, 875,000 reports on transactions with derivatives with a total volume of 961 trillion rubles were received [20].

Evaluating the importance of registering transactions on the OTC market, it is advisable to compare the volume and number of transactions in terms of a specific instrument, trading on the stock and OTC market. So, the number of repurchase transactions, made through the exchange for 8 months of 2016, exceeds by13 times the number of transactions, concluded of-the-counter for the same period [20]. But when comparing the total volume of transactions on the off-exchange and exchange markets, it turns out that on the OTC market transactions were concluded for a larger amount, and this forms high risks for the economy. That is why there is a need for constant control and monitoring of off-exchange transactions, which is the main direction of development of the Russian repository, along with optimization of the infrastructure and simplification of the process of preparing reports.

Based on the information, which we collected, SWOT analysis was conducted, the results of which determined the further development of the Russian repository system. The repository factors structured by SWOT analysis are presented in Table 1. All data are ranked according to the degree of their importance, the factors that have the greatest impact are listed in the first place, and the factors that are less important are listed in the last place.
Table 1 – Structured by SWOT-Analysis Factors of the Repository

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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<td>1. Provides collection and storage of information of OTC transactions.</td>
<td>1. The rewards of the repository lead to a rise in the cost of transactions.</td>
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<td>2. Raises the level of financial market transparency.</td>
<td>2. Increases the time of the transaction.</td>
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<td>3. Carries out liquidation netting.</td>
<td>3. Increases the workflow on concluded transaction.</td>
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<td>4. Allows assessing the level of stability of the financial system.</td>
<td>4. It is based on the Russian standards developed by NAUFOR and NVAA.</td>
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Opportunities

1. There is no monopoly on the repository market and conditions for market competition are created.
2. The prerequisites for the creation of a single international repository.
3. The popularity of hedging instruments is increasing in Russia.

Threats

1. Foreign agents have difficulties in signing service applications.
2. Billing for non-residents is subject to currency revaluation.
3. Economic sanctions limit international cooperation.

Based on the structured data, a SWOT-analysis matrix was constructed (Table 2).

Table 2 – Matrix of SWOT Analysis of the Russian Repository

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<tr>
<th>n/n</th>
<th>Opportunities</th>
<th>Threats</th>
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<tr>
<td>Strengths</td>
<td>The increased number of transactions requires a sufficient level of supervision and thereby increasing the need for the development of a repository system.</td>
<td>Providing a report on a concluded transaction simultaneously for both participants with only one party facilitates interaction with non-residents.</td>
</tr>
<tr>
<td>Weaknesses</td>
<td>Competition in the market of repository services will allow to form a fair amount of commission fee.</td>
<td>Russian standards of repository activity must be recognized by the international economic community.</td>
</tr>
</tbody>
</table>

Based on the SWOT-analysis, it is possible to determine the perspective directions of the development of the Russian repository system:

The Russian transaction accounting system must comply with international standards, therefore one of the priorities of the NSD is the recognition of the European Securities and Markets Authority, and a European financial regulator, engaged in improving financial markets and protecting investors. This will increase the number of OTC transactions with foreign investors and build partnerships with European financial institutions.

Providing information on OTC transactions to an unlimited number of persons will help to secure the economy from risks of speculation based on information asymmetry. Therefore, Russian repositories should develop information services for customer support, providing an operative list of information. Improving the infrastructure of Russian repositories should be based on the introduction of a post-trading interface that provides end-to-end data transfer from trading platforms. This will speed up and simplify the process of transferring of transaction reports and reducing transaction costs.

Pricing in the market of repository services should be fair. The commission for the recording and storage of information on OTC transactions should not lead to serious costs for parties entering into transactions. Therefore, it is necessary to control the tariffs of repositories from the side of the Bank of Russia, as well as creating conditions for fair competition in the market of repository services.

REFERENCES