

Change of CSD in the Czech Republic




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1 Czech Depositories Snapshot

Depositories Registrars	Instruments	Status
 <p>Středisko cenných papírů (SCP)</p>	<p>All Czech book-entry securities other than T-bills (equities, bonds, funds units)</p>	<p>CSD</p>
 <p>UNIVYC CLEARING & SETTLEMENT</p> <p>CDCP (former UNIVYC)</p>	<p>Foreign and documentary securities listed on PSE</p>	<p>Not a CSD. A clearing organization owned by Prague Stock Exchange (PSE). Used for settlement of transactions, both on-exchange and OTC.</p>
 <p>ČNB ČESKÁ NÁRODNÍ BANKA</p> <p>Czech National Bank (CNB)</p>	<p>T-bills</p>	<p>CSD</p>

2 Czech Depositories from July 7, 2010

Depositories Registrars	Instruments	Status
 Středisko cenných papírů (SCP)  UNIVYC CLEARING & SETTLEMENT CDCP (former UNIVYC)  ČESKÁ NÁRODNÍ BANKA Czech National Bank (CNB)	<p>All Czech book-entry securities other than T-bills (equities, bonds, funds units)</p> <p>Foreign and documentary securities listed on PSE</p> <p>T-bills</p>	<p>CSD</p> <p>Not a CSD. A clearing organization owned by Prague Stock Exchange (PSE). Used for settlement of transactions, both on-exchange and OTC.</p> <p>CSD</p>

3 CSD Project Milestones

- August 2009 UNIVYC gets a CSD license from the regulator
- September 2009 UNIVYC renames itself to Centralni depozitar cennych papiru (CDCP)
- September 2009 CDCP sends a letter to all issuers
- December 2009 CDCP and Ministry of Finance sign an agreement on taking over the SCP records by CDCP (against paying a purchase price of CZK 226MM)
- December 2009 AKAT (Association for Capital Market) starts intensive discussions with CDCP on business, legal and operational aspects of the project. These discussions last until May 2010.
- April 2010 CDCP publishes a draft Agreement with Issuer
- May/June 2010 CDCP publishes its Operating Manual, Tariff of Fees, Participation Agreement, System interfaces, Best practices, Transition Schedule
- June 25 Last day SCP will be operational
- June 28-July 2 No settlement of Czech securities. SCP hands over records to CDCP. Settlement of securities that are not kept in SCP works as usual.
- July 5, 6 Czech public holidays. No trading, no settlement.
- July 7 First day CDCP is operational as a CSD. From this date on, PSET STCUCZP1 shall no longer be used and shall be replaced by PSET UNIYCZPP.
- August 7, 2010 By this date each issuer shall have signed an agreement with CDCP on keeping a registry of an issue

4 Differences between SCP and CDCP

	SCP	CDCP
Ownership	<ul style="list-style-type: none"> Government 	<ul style="list-style-type: none"> Private: owned by Prague Stock Exchange (PSE)
Role	<ul style="list-style-type: none"> Only CSD 	<ul style="list-style-type: none"> Clearing and settlement of PSE and OTC transactions Clearing of exchange-traded derivatives (Power Exchange Central Europe) From July 7: CSD
Relationship between CSD and account holders	<ul style="list-style-type: none"> Direct. Each account holder can approach SCP directly and ask for SCP services. Local agents act on basis of a power of attorney. 	<ul style="list-style-type: none"> Indirect. CDCP provides services only to its participants. Account holders are only serviced by participants.
Based on participation concept	<ul style="list-style-type: none"> No. All account holders have the same status. Local agents have no special legal status. 	<ul style="list-style-type: none"> Yes
Beneficiary accounts in CSD	<ul style="list-style-type: none"> Yes. This is the only possible account type. SCP account holder is regarded to be owner if not proven to the contrary. 	<ul style="list-style-type: none"> Yes. CDCP beneficiary account holder is regarded to be beneficial owner if not proven to the contrary.
Omnibus accounts in CSD	<ul style="list-style-type: none"> Not explicitly recognized by law. 	<ul style="list-style-type: none"> A participant can open omnibus accounts in his name in CDCP. In such case this participant has to <ul style="list-style-type: none"> Open linked beneficiary accounts in its books; Comply with Czech regulation on securities bookkeeping; Comply with reporting duties regarding securities kept on the omnibus account.
Registration of a securities pledge	<ul style="list-style-type: none"> Pledge agreement is submitted to SCP. SCP registers the pledge. 	<ul style="list-style-type: none"> Pledge agreement is submitted to a CDCP participant. The participant registers the pledge.
Inheritance proceedings	<ul style="list-style-type: none"> Inheritance documentation is submitted to SCP. SCP effects transfer of securities to inheritors. 	<ul style="list-style-type: none"> Inheritance documentation is submitted to a CDCP participant. The participant effects transfer of securities to inheritors.

5 SCP – CDCP Accounts Transition

- Will take place in the period June 28 – July 6
- Some positions will be transferred by CDCP automatically (such positions where there is a blockation of securities („PPN“) in favor of a CDCP participant).
- Most local agents use „special accounts“ in SCP. Transfer of these accounts have to be initiated (claimed) by participants.
- Citi will transfer all SCP accounts under our control to CDCP one-to-one. No action from our clients is needed.
- Account identifiers remain the same (NID code and SCP account number).
- SCP accounts which no CDCP participant have claimed will remain in a special set of „unclaimed accounts“ maintained by CDCP
- Any investor who has an „unclaimed account“ (not applicable to Citi clients) will continue to be able to participate in general meetings and get income from securities but will not be able to effect any securities transfer.
- A transfer of securities accounts between different CDCP participants is not possible.
- Action required from clients: replace PSET STCUCZP1 by UNIYCZPP. Citi will repair PSET by at least end of July.

6 Trading and Settlement in the Transition Period

	Trading	Settlement
Up to June 25 inclusive	<ul style="list-style-type: none">• Yes	<ul style="list-style-type: none">• Yes (PSET STCUCZP1 for Czech securities)
June 28 – July 2	<ul style="list-style-type: none">• Yes	<ul style="list-style-type: none">• Foreign securities: As usual (PSET UNIYCZPP)• Czech securities: No settlement will take place. However, trades with SD in the period June 28-July 2 will be matched as usual, but settlement will be postponed until July 7 (PSET UNIYCZPP).
July 5, 6 (public holiadys)	<ul style="list-style-type: none">• No	<ul style="list-style-type: none">• No
July 7 and on	<ul style="list-style-type: none">• Yes	<ul style="list-style-type: none">• Yes (PSET UNIYCZPP)

7 What to Keep in Mind during the Transition Period

- Trades with Czech securities with settlement date in the period June 28 – July 2 will be matched with this settlement date. Instead of settlement confirmation, an MT548 will be returned by Citi on contractual settlement date with status code CYCL (awaiting next settlement cycle) and with narrative: *first possible SD on 07072010*. Please bear this in mind when managing your cash position.
- During the period June 28 – July 2 no accounts in CSD will be opened or closed.
- Change PSET effective from settlement date July 7th.

8 CDCP Fee Schedule

- Effective from July 7, 2010
- Applicable to CDCP participants
- CDCP safekeeping fee
 - Non-linear formula (as in SCP)
 - Different formula for bonds, listed equities and non-listed equities
 - For non-listed equities, fee depends on nominal value
 - Fee increase (compared to existing fee of SCP), especially for bonds and small portfolios
- CDCP settlement fee
 - Decrease from average CZK 326 to CZK 285 per DVP OTC transaction
 - Settlement fee for an on-exchange transaction is considerably cheaper

9 Challenges and Benefits of the Project

- AKAT (Association for Capital Market) had difficult discussions with CDCP on project deliverables and timing, services to be provided by CDCP, project documentation, fee schedule and other issues.
- Current status:
 - Key documentation complete
 - CDCP signs agreements with issuers, participants
 - Participants are testing
 - Tool needed to be able to comply with reporting duty for omnibus accounts in an automated way not provided by CDCP as of now;
- CDCP remains to be used by market participants for settlement. CDCP will settle securities internally. This shall bring more flexibility in developing services. For the time being, market and Citi cut-offs remain the same.

10 Expected Development (2011)

- PSE will abandon SPAD trading system and replace it by XETRA
- CDCP as a clearing organisation will employ a CCP
- CDCP as the Czech CSD intends to start providing asset services.
- Within the Vienna Stock Exchange Group, clearing functions of the Vienna, Budapest, Prague and Ljubljana Stock Exchanges is expected to be consolidated into one clearing organisation. CSD functions will remain on the local level.

Questions?