



NEWSLETTER

FOR MEMBERS OF CDCP

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JULY
2017

We have been
writing an unusual
story together for
25 years

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T2S is a challenge that the depository



Since 6 February 2017, Centrálny depozitár cenných papierov SR, a.s. (CDCP) has been functioning within the shared technological platform of European depositories, Target2-Securities (T2S), and thanks to this CDCP has become, jointly with the Slovak capital market, an integral part of the common capital market of the European Union. We have discussed the importance of T2S and the changes that it has brought to members with Ing. Karol Gers, the Project Manager in charge of the T2S project in CDCP.

1. How do you assess the years before CDCP's migration to that platform?

The years preceding the migration to T2S were characterized by reduced investments into the technological platform used in CDCP before migration to T2S on one hand and on the other hand, by the T2S project that required both financial and personnel resources of CDCP. During those years CDCP acquired a great amount of new experience within the international environment of the T2S project and this experience yielded bene-

fits during the process of preparation of new business processes and a modified information system that was put to operation upon CDCP's migration to T2S.

2. What did CDCP and its employees and clients have to handle in connection with the migration to T2S?

For CDCP employees, T2S has brought changes in a majority of corporate processes necessary to provide our clients with services. This was not only due to the modified information system but also due to harmonization standards since compliance with the standards represented one of preconditions for CDCP's entering T2S. As an example, I can mention the all brand-new operating day schedule that has introduced cycles of night-time settlement of the next day's foreign currency. Another fundamental change involved a fully reworked package of services inspired by and based on the ISO 20022 standard.

The impacts on CDCP participants are similar - adaptation to the new information system of CDCP, new working day schedule, new matching algorithm, settlement against DCA cash accounts in T2S, and brand-new services that had not been provided before such as bilateral cancellation of instruction or putting instruction on hold. Hand in hand with the above, the new Rules of Operation and Scale of Fees have been implemented.

All users of the modified information system of CDCP attended training; for our employees the relevant training was organized between March and May 2016. In addition to that, CDCP announced obligatory certification testing for its participants, focusing on two parallel objectives. First of all, it was the manner in which we can be reasonably assured that a CDCP participant would be ready to make use of new services of CDCP after the migration and along with this, we wanted to increase the level of testing of the CDCP information system. I am pleased to say that we have met both objectives and it is my pleasure to thank all our participants for their active participation within the certification testing.

3. How many people and for how long worked to safeguard the migration is successful?

The beginning of CDCP's T2S project dates back to the year 2008 when a team consisting of 8 people started to deal with T2S issues. At that time, it involved primarily studying of available T2S documentation and information exchange. In 2013, a business analysis of the impact of T2S on the processes and information systems of CDCP and a legal analysis identifying necessary legislative amendments for migration of CDCP to T2S were prepared.

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The work on adjustments of CDCP information systems commenced in spring 2014. As the time passed by, the number of CDCP employees participating in the T2S project was increasing continuously along with the extent of their participation. In total, 30 CDCP employees have participated in the T2S project.

4. How did the functioning of CDCP change after the migration to T2S?

In purely technical terms, the migration of CDCP to T2S has brought even more extensive application of the virtual IT structure within CDCP when compared to the situation before the migration to T2S. But this is something that is invisible for users and our clients and that is why I believe that the business aspect of this issue is much more interesting. The migration to T2S harmonized the schedule of the CDCP settlement system with the schedule of other depositories participating in T2S. It has simplified especially the cross-border settlement of trades because also the foreign participants using the domestic settlement system know in detail and understand what is going on during individual phases of the processing day and they may factor it into their processes. Another advantage involves safe settlement in the central bank's money against T2S DCA accounts. These accounts are kept by the central bank and they share the same platform with the securities accounts as well which means speeding up and simplification of DVP transfers even among various depositories. CDCP



started to provide participants also with some new services, e.g. auto-collateralization where the National Bank of Slovakia is able to provide an intraday credit secured by a collateral to settle a trade with securities. Furthermore, it means the order maintenance services involving the hold/release mechanism, recycling of unsettled instructions or announcement on counterparty's instruction. The introduction of the night time settlement cycle is an absolute novelty on the Slovak market.

5. What will you focus on during the period following the migration of CDCP to T2S? What else is to be done?

Each "jump" change, and this is also the case of our T2S project that has brought great changes for both CDCP and its community, is usually followed by a stabilization period the aim of which is, inter alia, to ensure that certain partial issues that remained open were resolved. In addition to that, today, we already know that T2S is working on several changes that are to be introduced in near future and those changes will have an impact on CDCP and its information system too. For us, it will mean commencement of following mini T2S projects but those will not be comparable as to their scope to the current T2S project successfully implemented within CDCP.

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Investment literacy plays the main role at the breakfast with journalists

The depository has introduced a new tradition of meetings with journalists in an informal atmosphere. The first breakfast took place at the stylish Štúr Café in Štúrová street, Bratislava. The main objective of the meeting was to present investment literacy issues and meet with journalists personally so that they can see that the depository is a living company that is concerned with all-society issues and has something to say in respect of them. The invitation of CDCP to the first breakfast was accepted also by Róbert Kopál, the director of the Security Traders Association.



How would you evaluate the financial health of Slovak households?

R. Kopál: According to the report of the NBS, the increasing indebtedness of households ranks among the greatest risks to the financial stability of our country. The Slovaks' indebtedness level is two times higher than before beginning of the financial crisis and households are getting into debts at the fastest pace when compared to other EU countries. On the other hand, inhabitants' savings are at a minimum level and do not correspond to that level of indebtedness. Due to this situation, we have been witnessing an increasing number of disbursement cases and personal bankruptcies. Even young people do not think much about their future, almost two thirds of them ignore the opportunity to secure themselves for the old age through private pensions. All these issues have one common denominator and this is financial illiteracy.

M. Wiedermann: Financial health of citizens reflects their financial literacy. But it is only a superstructure above the general literacy. I think, the problem is that people often do not understand information and technical terms. We are confronted with it also at our depository – people send us unjustified complaints that often manifest the lack of understanding of basic terms, functions or competencies of individual organizations.

How is it possible to improve the level of financial literacy? What is to be done to achieve it?

R. Kopál: Financial literacy enhancement is a long-distance run and it is necessary to start with small children. Parents should teach their children how to economize, initially with small things – reward them for fulfilled tasks or little help and teach them how to spend the money reasonably or invest it.

M. Wiedermann: The family plays a very important role. From the very early age, parents may teach children the principles of exchange – something for something, i.e. rewards for good things that they have done and which have been agreed, to let them help in the household and reward them for that, to teach them how to save money via games or teach them basic principles through fairy tales. Children should be given a good example and should not be omitted when you are making your investment decisions so that they may gain the experience as to what affects the economic functioning of the family. Financial education should become a part of school curriculums. Elementary and secondary school curriculums should definitely include the information about financial institutions, the tasks they fulfil, and which financial products there are – what they mean and what risks are associated with them. Teachers' task is not only to provide the information but also to help children understand more deeply what they teach them. Financial skills are also a matter of experience and practice.

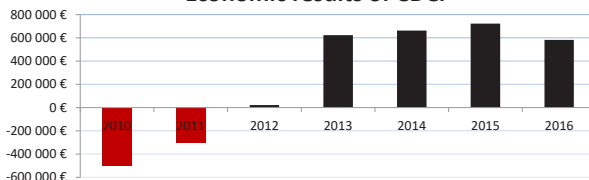
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CDCP maintained positive economic trend also in the year 2016

Centrálny depozitár cenných papierov SR, a. s. (hereinafter only the “CDCP” or “central depository”) continues to strengthen its position in the market and maintains a positive economic trend from the last couple of years. It ended up the economic year 2016 with profit in amount of EUR 581.565.

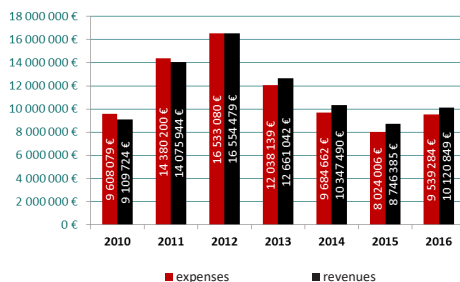
In the year 2016 total revenues of CDCP reached amount of EUR 10 120 849, what is almost 16% increase compared to the year 2015. „The revenues of CDCP were affected mainly by the change in accounting procedures applied toward the related party and sales from own services, which increased by 6%, whereas highest increase showed revenues from administration of securities owner's account. Registration services for issuers of book-entry securities increased by 4% and other services increased by 171 %.” stated Pavol Vaník, Financial Manager of CDCP.

Economic results of CDCP



Despite overall positive development in economy, year-to-year comparison reveals decrease in profit by 19% compared to the year 2015. The year-on-year development of the economic result was caused by expenses in the amount of EUR 9,539,284 which grew faster than revenues in the total amount of EUR 10,120,849. Compared to the year 2015 the total expenses increased by 19 %.

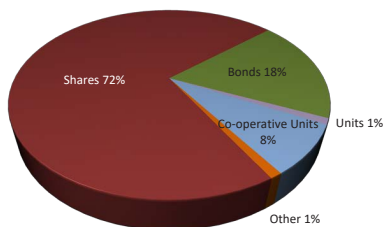
Expenses and Revenues of CDCP



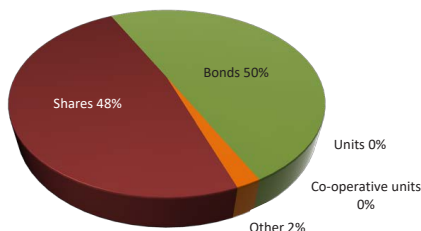
„The increase in expenses was caused by the change in accounting procedures applied towards related party included in the services which increased by 47 %. The economic activities costs increased by 16 % mainly due to depreciation of receivables related to maintenance of securities owner's accounts and creation and use of reserves.” added Pavol Vaník, Financial Manager of CDCP. It is necessary to state that also migration of CDCP to T2S, which took place in beginning of February 2016 after a long time of preparation, was demanding with respect to finances, time and personnel.

2016 Services in numbers

Structure of issues as per groups of securities

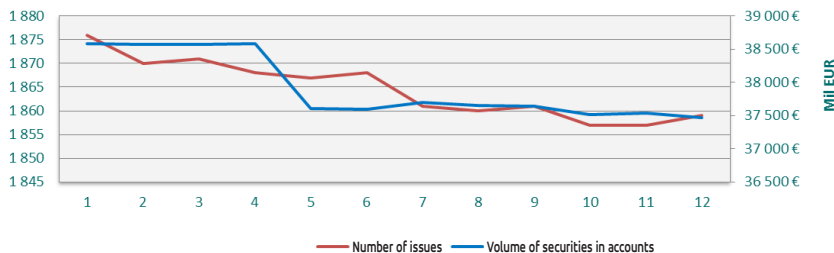


Issues of shares represented the highest share amounting to 72% of the total number of issues of book-entry securities registered by CDCP by the end of 2016. Those were followed by issues of bonds that represented 18% of all issues of book-entry securities. Issues of co-operative units represented the third highest number of securities within the registered issues.



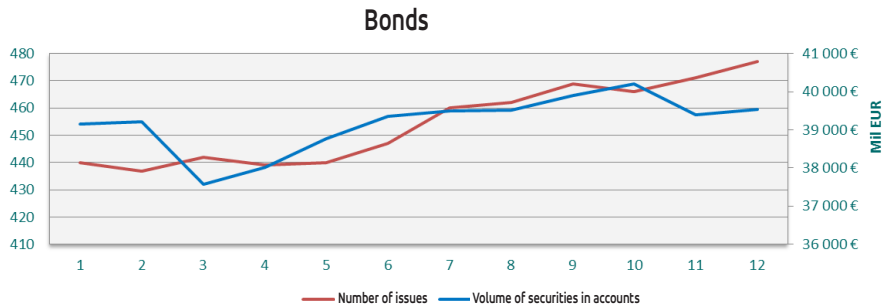
Despite a significantly lower number of issues of bonds when compared to the issues of shares registered by CDCP by the end of 2016, the volume of registered issues of bonds as to the nominal value (50%) exceeded the percentage of the volume of issues of shares (48%). The third largest group of securities represented Other Issues that include state treasury bills amounting to 2% of the total volume of the securities registered by CDCP by the end of the year 2016.

Shares

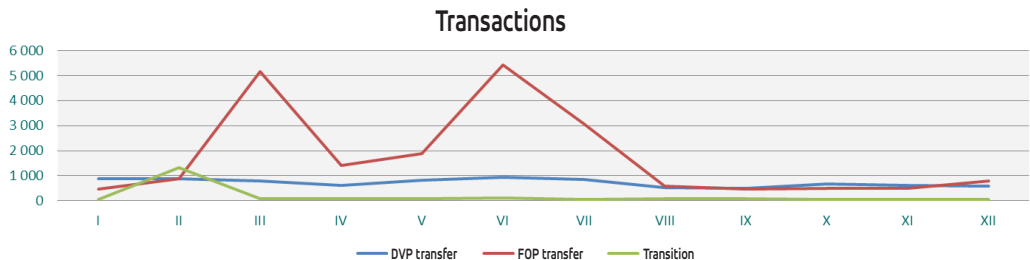


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If we look at the development trend concerning the total number and volumes of issues of shares during 2016, we can register a more significant drop in the number of shares issues and related volumes of shares within the issues credited to securities accounts from the second quarter of 2016.

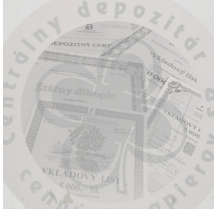


On the contrary, the development trend concerning the total number and volumes of bond issues during 2016 was positive and the slight drop in the first quarter of 2016 was followed by a stable increase in the bond issues and the volume of securities credited from the bond issues to securities accounts until the end of the year 2016.



The development as to the number of transactions settled in CDCP in 2016 recorded two peaks upon transfers of securities with no financial settlement in March and June, which was followed by a significant drop in the number of FOP transfers that remained at the same level until the end of the year 2016. The trend in the segment of securities transfers with financial settlement was stable although it was on a low level typical for the activity on the domestic market.

FISN code



All of you have already seen the FISN code. It comprises several interesting data. We will show you what the FISN serves for and how to read it. The standard says that the FISN code identifies the short name of a financial instrument. In other words, the FISN is assigned to unify the approach to standardization of the issuer's short name and security description. The uniform and standardized maximum lengths and structure of fields serve to achieve that purpose.

This code is assigned in order to ensure unambiguous identification of and information about a security (together with ISIN and CFI) for capital market participants on both domestic and cross-border levels when carrying out financial transactions. Thanks to the fact that it describes a security in a precisely

defined and uniform manner, the FISN significantly contributes to easier identification of securities within such transactions also as concerns potential investors and market regulators and supports an increase in efficient market liquidity management. Its assignment is stipulated by the ISO 18774 international standard– Securities and related financial instruments – Financial Instrument Short Name.

THE FOLLOWING TERMS AND DEFINITIONS ARE USED FOR THE PURPOSES OF THE STANDARD:

- Issuer's short name – the abbreviation of the official business name of the issuer, 15 alpha-numerical characters a maximum;
- abbreviated particulars of the security – a short version of particulars (substantial information) used within security trading especially in banking messages, valuation, instructions, event notifications, etc.;
- security description – a set of characteristics and attributes identifying the security.

The FISN has 35 alpha-numerical characters a maximum and those are specified in ISO 8859-1. In order to enable generation of the FISN with 35 characters, some terms are to be used in an abbreviated form (security short name and issuer's short name). The FISN is generated as follows:

- issuer's short name – 15 characters a maximum (alpha-numerical characters);
- sign „/” – the separator between the issuer's short name and security description; abbreviations forming FISN shall be separated by blank spaces where required/necessary;
- security description – 19 characters a maximum (alphanumeric characters) – provided that all positions reserved for the issuer's short name and the separator („/”) are used. Where not all positions are used (issuer's short name), such unused positions may be filled with a security description.

Where only preliminary information is at disposal, abbreviations may be added and updated as soon as more information is available.

FISN assignment

FISN assignment is similar to assignment of the CFI code. The depository assigns the code as one of prerequisites to all book-entry securities and paper-form securities to which the ISIN code is assigned. The FISN field is a compulsory field for all the services where the information about the issue is required. The assignment is executed physically upon assignment of the ISIN code within the same operation. To assign it, the depository requires no special application or documentation from its clients; the obligation to assign the FISN code results for the depository from its position in ANNA.

Modification and cancellation of the FISN code

If you decide to change your business name or restrict the transferability of securities or where any other important changes occur, a new FISN code may be generated. The old code assigned to a specific issue of securities ceases to exist together with the issues and cancellation of the ISIN code.

3rd ANNUAL POST TRADE FORUM 2017

(23. – 24. 2. 2017, Viedeň)



The assessment of the regulation impacts on post-trade services and prediction of further development were the main topics of the two-day conference entitled **Post Trade Forum held in Vienna**. The conference was attended by the Slovak Securities Depository and many representatives of the services sector ranging from banks and regulatory bodies to the representatives of the European Commission. Ben van der Velpen, a representative of ING Bank, delivered an interesting presentation dealing with “European market standards for corporate action processing”.

Will centralization help?

According to the lecturer’s opinion, clearing and servicing of assets do not represent centralized services today. In order to safeguard asset servicing, banks must be connected with various depositories and with various CCPs for clearing purposes. If no centralization of clearing / servicing of assets is to take place, consolidation of these areas is necessary a minimum. The objective of harmonization and standardization should include removal of cross-border obstacles in order to create one efficient market. He sees the benefits of harmonization and standardization in harmonized activities and rules for processing of Corporate Actions (CA) in Europe; the processing will be more efficient which will reduce the complexity of processing of CAs. Furthermore, operating risks and costs will be reduced which will enhance the stability of financial markets. The liquidity of European capital markets will increase along with the attractiveness of domestic markets for foreign investors.

Processing standards

The standards for processing of corporate actions are based on so called “Christmas tree” model where the issuer or their agent, who initiates a corporate action via the central depository, is on the top of the tree. The issuer provides the depository, through which they have issued securities, with the information about the expected corporate action, provides it with funds or issues securities where the result of corporate action processing is distribution of securities. Then the depository executes the corporate action through its participants, brokers, and owners. Within statutory corporate actions, the top-down approach is applied, i.e. they are initiated by the issuer and where possible, the corporate action is provided based on the investor’s instruction. As concerns voluntary corporate events, the bottom-up approach is applied in respect of individual investors but the information about the corporate action is compulsorily sent to all holders of securities. Definitions of key dates and corporate actions have been agreed at the EU level and relevant European trade associations have adopted market standards for corporate actions.

The responsibility for their actual implementation at the national level lies with so called implementing groups (MIGs) in individual countries. At the European level, it is secured by the European Market Implementing Group (E-MIG). The last monitoring of the situation as to implementation of market CA standards was executed by E-MIG at its meeting held in November 2016. E-MIG stated that 8 major markets have achieved a generally good level of compliance with all standards. Almost full compliance with priority standards within a majority of markets is expected to be achieved in the years 2017/2018. Implementation results vary as to other markets. The lecturer drew attention of participants to the fact that despite the fact that countries report compliance with market standards in respect of corporate actions, the actual compliance will be checked only in practice, which may result in actual non-compliance with the standards within some markets.

What is the situation like in Central and East Europe?

In the countries of Central and East Europe (CEE) where the implementation of these standards within the market is at a rather low level and large banks should support CEE markets in achieving compliance with the standards. Moreover, Ben van der Velpen stated that custodians in CEE expressed the interest in playing a more extensive role within CEE harmonization as concerns the market standards for corporate actions. The lecturer expressed the opinion that all depositories that want to migrate to T2S should achieve compliance with corporate action standards first, which has not been complied with yet. Compliance with T2S standards for corporate actions is monitored within T2S by the Corporate Actions Sub-Group (CASG). Benefits of T2S within cross-border transfers will appear only after each participating depository implements all corporate action standards, interconnection among depositories are established, and they create a comparable environment; that will be the time when depositories will start to compete as to prices, quality, and added value as concerns asset servicing.

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We have celebrated the 25th anniversary at a theatrical party



This year we celebrate the 25th anniversary of establishment of CDCP. On this festive occasion, representatives of CDCP met with selected guests comprising both members and clients, in the intimate atmosphere of Tower Theatre in June this year. Those who attended the private party had an opportunity to enjoy the dramatic art mastery of Maroš Kramár and Jozef Hrčka in the play entitled "Secret Variations". The performance was followed by a banquet that offered both great refreshments and space for informal friendly discussions. The invited guests enjoyed the nice evening full of artistic impressions and good feelings:

„The performance was exceptional, acting simply perfect, and the atmosphere was exceptionally nice. A truly amazing evening and I am happy that I had the opportunity to share this experience with you.“ V. H.

„I would like to thank for the “unusual story” presented by unusual actors and for the opportunity to experience it with unusual people.“ Q. M.

„Thank you very much for the pleasant evening.“ K. M.



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