Euroclear Bank (ICSD)

Presentation on: ***International ETF Structure***

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Almaty, 10th September 2015

Euroclear group by the numbers

Post-trade made easy

Open access to a global network of counterparties & a mature liquidity ecosystem

€28,000,000,000,000

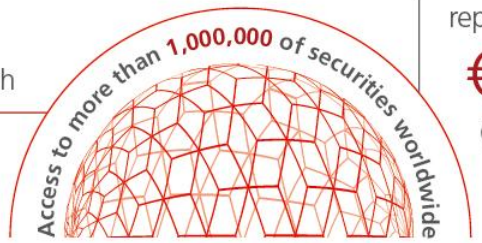
($31.3 trillion) of assets held in custody for our clients, representing

- >60% of **Eurobond** holdings
- >50% of **European** debt and equities
- 40% of offshore **Renminbi** holdings
- 11% year-on-year **growth**

Scale, resilience & operating efficiency enabled by proven expertise & high levels of automation

182,000,000

netted transactions processed in 2014 representing 7% year-on-year growth



representing **€634 trillion** ($770 trillion) in turnover in 2014 and 11% year-on-year growth

Assets under custody as at June 2015

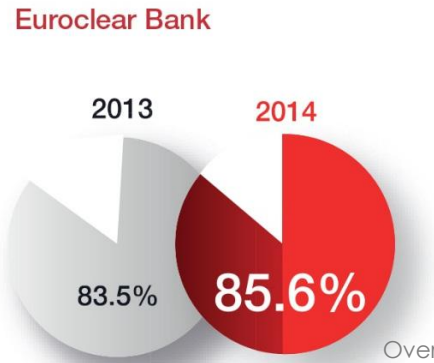
Euroclear Bank's breadth of participation

Post-trade made easy

Global service to an international client franchise



Strong levels of customer satisfaction



Overall satisfaction in Euroclear Client Survey 2014

International participants

1. >100 central banks
2. global and local custodians
3. commercial and investment banks
4. broker/dealers
5. central counterparties
6. issuers
7. institutional investors
8. CSDs



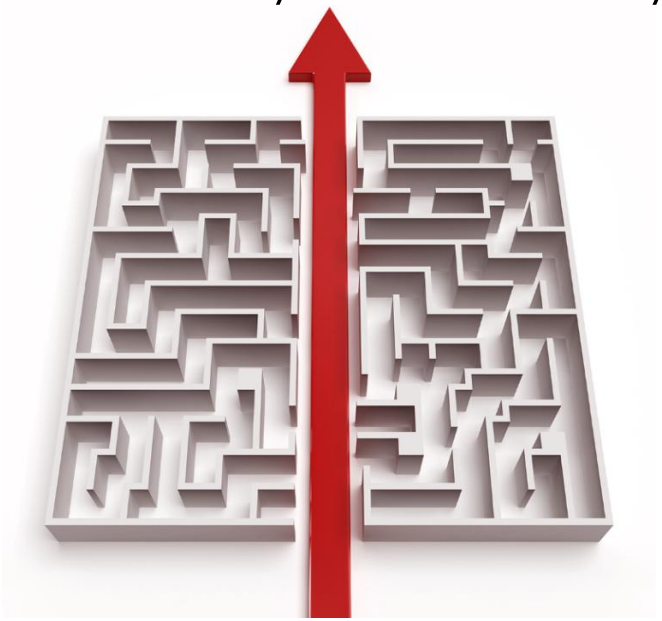
Post-trade made easy

- Growing capital markets through post trade efficiency and security
- Helping clients cut through complexity
  - ▸ Lower costs and mitigate risk
  - ▸ Ensure securities transactions are processed safely and efficiently

Traditional products (Eurobonds; European fixed income & equities)

supplemented by growth products (Collateral management; Funds; ETF; Global domestic securities)

and a strong innovation drive



Agenda

ETF ?

What does it mean for you ?

What is an ETF ?

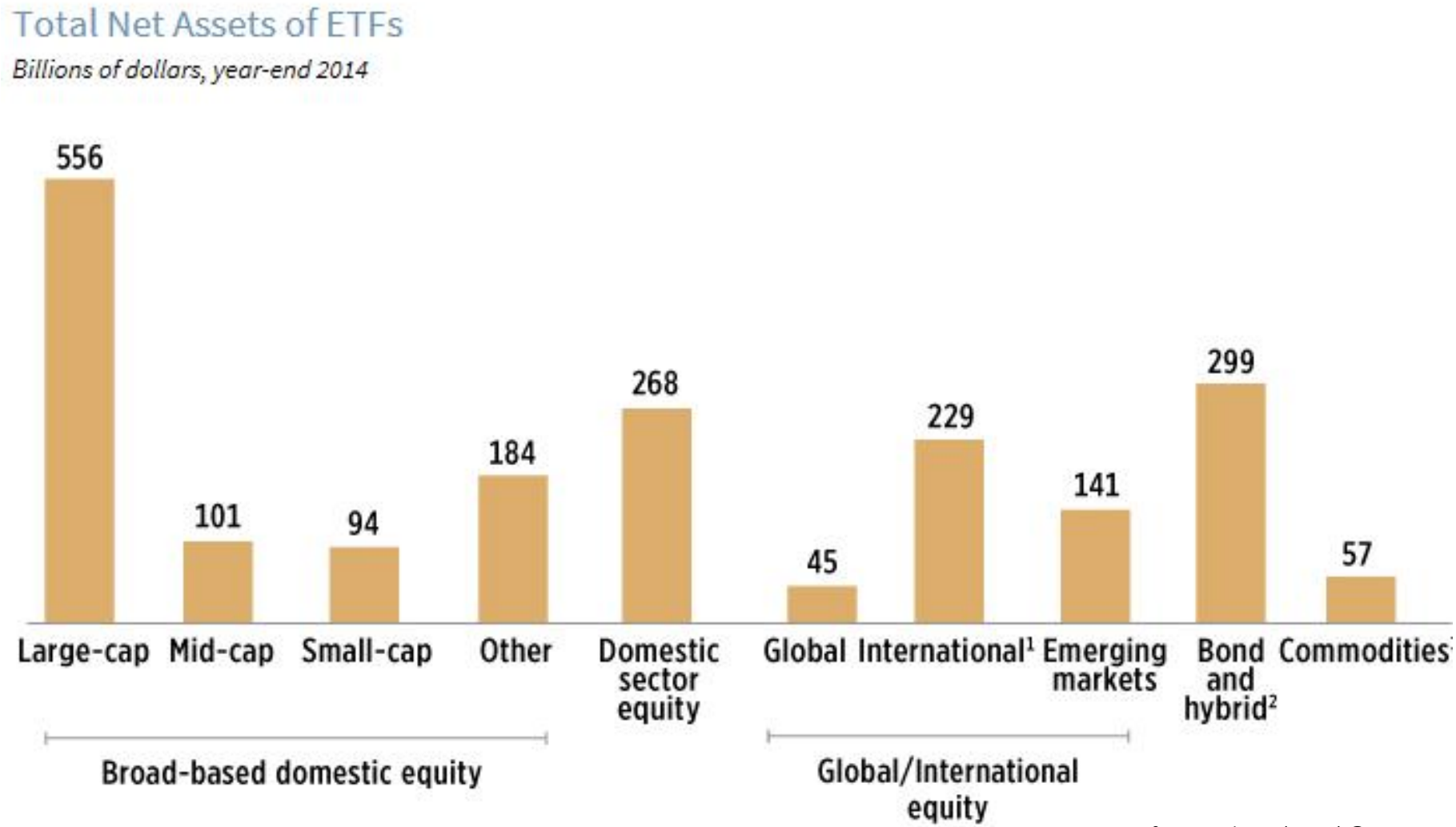
ETFs (Exchange-Traded Funds) are **index funds**, but have the **trading characteristics of a share** as they are traded on exchanges

ETFs trade on local stock exchanges in the same way as shares of any public company. Investors **can easily buy and sell ETFs** through any brokerage account or financial advisors.

ETFs can **be traded at any time during normal trading hours**.

ETFs are not shares of a company, like Gazprom or Lukoil, **they are units of a fund** which holds a portfolio designed to closely **track the performance of a chosen market index**.

Over US$ 1 Trillion market !



Source: Investment Company Institute

ETF processing background

- Each ETF is assigned **one ISIN code** but could trade on different exchanges

- At present, ETFs are issued and traded on one or more national stock exchanges and ultimately settle in the national CSD of the exchange where the trade is executed.

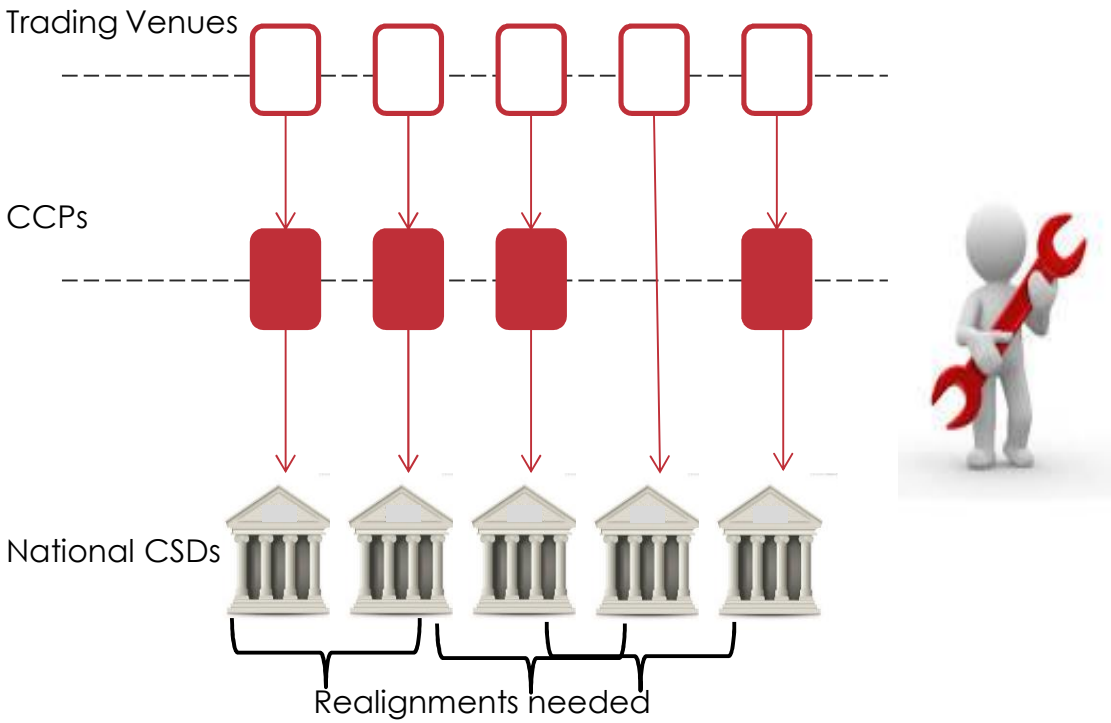
- However, when ETFs are traded across borders (i.e. a investor buys an ETF listed on one national exchange and then sells the same ETF on a different country's exchange), the trading desk is confronted with complex post-trade processes and risks.

ETF processing background

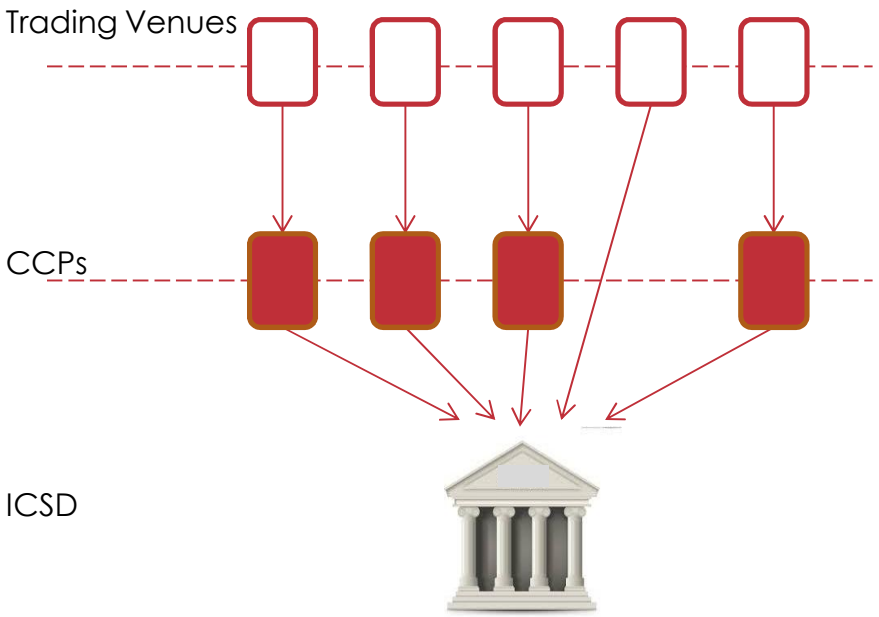
- The investor faces the following problems:
  - **Settlement location:** need to move the ETF from the national CSD where it has been bought to the national CSD where it is being sold.
  - **Access & Market practices:** Moving ETFs from one CSD to often requires the investor/custodian to have accounts with multiple CSDs, to align the investor's ETF positions among different CSDs and to follow different post-trade market practices in different countries.
  - **Costs & Risks:** Realigning ETFs across multiple markets during the trading day is expensive, time-consuming and operationally complex. In addition, it increases the potential for settlement fails, fines, counterparty compensation claims and ETF buy-ins to avoid settlement fails.
  - **Spreads**: all of the above shows that ETFs trade with wider spreads, to compensate the brokers for the risk and costs of moving ETFs across borders.

Current and new ETF models

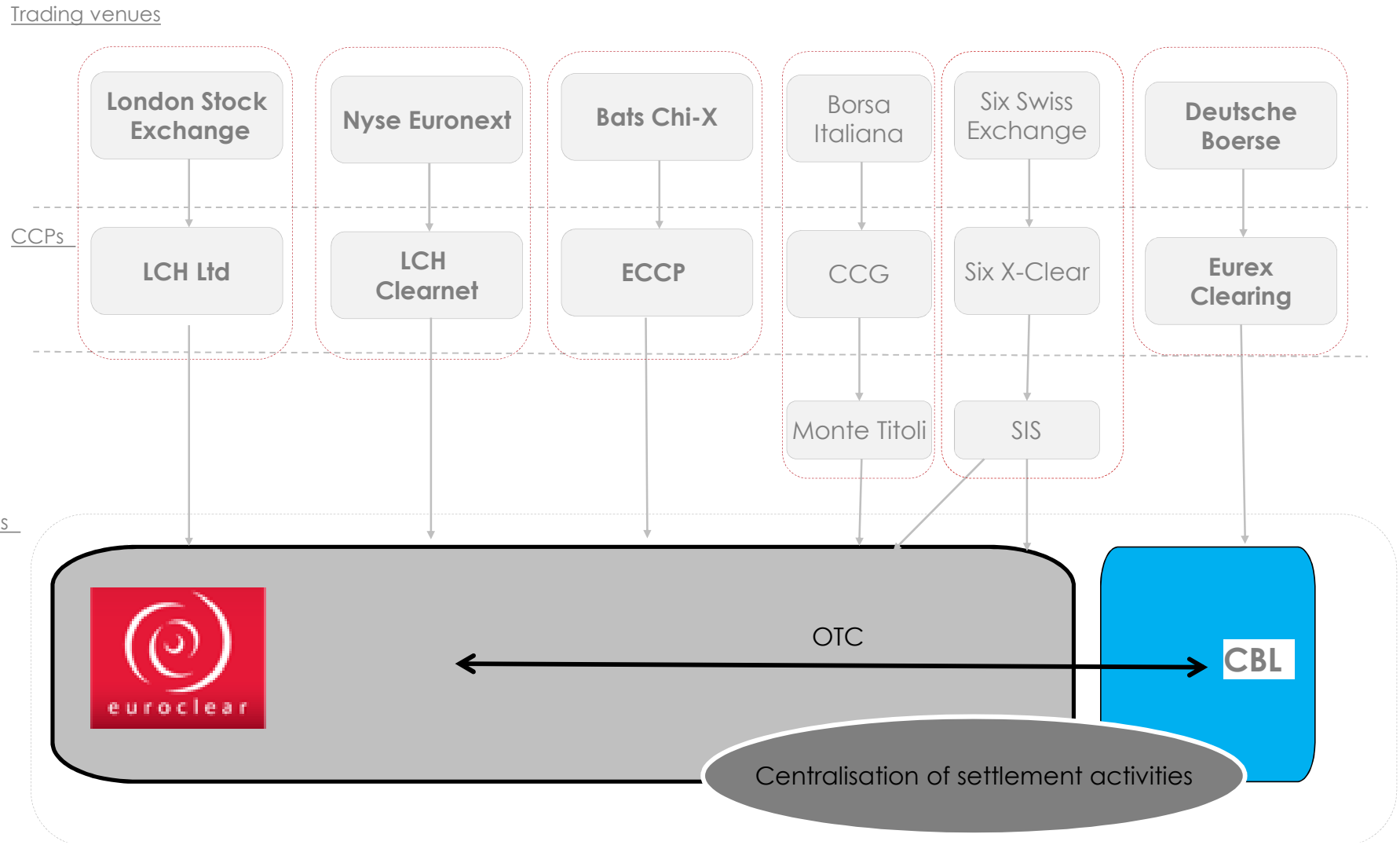
Traditional ETF Model



International ETF Model



The International ETF model



Benefits of the International ETF structure (ICSD model)

- **Efficient Post-Trade Arrangement**
  - ✓ Eliminate if not reduce seriously **realignment** issues between markets & CSDs.
  - ✓ Reduced inventory buffer required with **decreased settlement failure** (a reduced risk of buy-in penalties).
  - ✓ **Securities Lending** & Borrowing available in Euroclear Bank.
  - ✓ **Improved Asset Servicing** (market claims in base currency, harmonisation of record date, electronic voting). Automatic FX on dividend proceeds in line with WM Reuters rate.
  - ✓ Better **liquidity** and **spreads** to Investors

From Proof of Concept ...
..... to "Early Adopters"

Dec 2013
First International ETFs issued

Dec 2014
New International ETFs

Dec 2014
Migration

March 2015
RMB ETF

June 2015
MoU CCB & Euroclear

Sep 2015
Migration

Stock Exchanges are ready. Example of LSE

London Stock Exchange intends to work with ETF issuers to establish secondary market trading arrangements for a broader range of products and to develop a new Trading Service for ETFs offering Euroclear Bank settlement.

This new '***Trading Service for ETFs - Euroclear Bank settlement***' will complement London Stock Exchange's existing ETF Trading Service which offers settlement through the domestic settlement venue, CREST (Euroclear UK & Ireland).

The aim of the new *Trading Service for ETFs – Euroclear Bank settlement* is to offer London Stock Exchange members access to an even wider range of ETFs and to offer greater choice in terms of settlement venue and currency.

This is intended to open up trading to an even wider range of market participants, to deepen the investor base and to provide greater trading opportunities for exchange members.

It also offers the ability for **ETFs to be traded and settled in other currencies** such as Hong Kong dollar and Chinese renminbi, in addition to the standard currencies (GBP, GBX, EUR and USD) currently offered on our market

Agenda

ETF ?

What does it mean for you ?

What does it mean for Eurasian CSDs ?

- Additional offering for your local clients (like the Depository Receipts, Eurobonds and/or equities that some of you already offer today as "investor CSD")
- Easier settlement as no more « realignments » settlement problems and fails.
- more efficient corporate actions management and straight dividend payments.
- No need to develop links with national CSDs, just a unique access to Euroclear Bank is needed.


euroclear


АЦДЕ
АССОЦИАЦИЯ ЦЕНТРАЛЬНЫХ
ДЕПОЗИТАРИЕВ ЕВРАЗИИ