December 19, 1997

Dear Mr. Moryakov:

This letter is in response to your letter of October 24, 1997, asking the U.S. Securities and Exchange Commission ("Commission") to consider the Depository Clearing Company ("DCC") to be an eligible foreign custodian for assets of U.S.-registered management investment companies ("funds").

In your letter, you explain that DCC seeks to provide market participants, such as U.S.-registered funds, with clearing and settlement services based on delivery-versus-payment principles. To do so, DCC must temporarily hold market participants' securities in DCC's nominee name, and accordingly, DCC must be an eligible foreign custodian to provide such services to U.S.-registered funds.

Section 17(f) of the Investment Company Act of 1940 ("1940 Act") sets forth the custodial requirements for U.S.-registered funds. Rule 17f-5 thereunder permits funds to maintain their assets with certain categories of eligible foreign custodians. Amended Rule 17f-5(a)(2)(iii) defines the term "eligible foreign custodian" to include a "securities depository or clearing agency that acts as a system for the central handling of securities or equivalent book-entries in the country that is regulated by a foreign financial regulatory authority." 1/

1/ Amended Rule 17f-5 no longer requires that the centralized securities depository or clearing agency be the only such system in a country.

Section 3(a)(23)(A) of the Securities Exchange Act of 1934 defines "clearing agency" generally as an intermediary that makes payments and/or deliveries in connection with transactions in securities. The term includes any entity, such as a securities depository, that (1) acts as a custodian of securities in connection with a system for
Rule 17f-5 is self-operative and does not require any foreign institution that satisfies the definition of "eligible foreign custodian" to obtain the prior approval of the Commission before serving as an eligible foreign custodian for U.S.-registered funds. Thus, based on your representations that DCC is a clearing agency that acts as a system for the central handling of securities (or book entries) in Russia, and that DCC is regulated by the Federal Commission on Securities Markets, it appears that DCC would meet the definition of an "eligible foreign custodian," and would not need the approval of the Commission to provide custodial services to U.S. funds.

If you have any further questions, please contact me at (202) 942-0660 or [FAX] (202) 942-9659.

Sincerely,

[Signature]
Veena K. Jain
Staff Attorney
Office of Chief Counsel

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the central handling of securities whereby all securities of a particular class or series of an issuer deposited within the system are treated as fungible and may be transferred, loaned, or pledged by bookkeeping without physical delivery of securities certificates, or (2) otherwise permits or facilitates the settlement of securities without physical delivery of securities certificates.

Rule 17f-4 defines a "securities depository" as a "system for the central handling of securities where all securities of any particular class or series of any issuer deposited within the system are treated as fungible and may be transferred or pledged by bookkeeping entry without physical delivery of the securities."

Rule 17f-5(a)(2)(iii) refers to both securities depositories and clearing agencies because a foreign securities depository may be known as a "clearing agency" in certain countries. See Investment Company Act Rel. No. 13724 at n. 31 (Jan. 17, 1984) (reproposing Rule 17f-5).
October 24, 1997

Ms. Kerri McMillan
Division of Investment Management
United States Securities and Exchange Commission
450 5th St., N.W.
Washington, DC 20549

Dear Ms. McMillan,

During this year we have been in correspondence with John O’Hanlon and Ester Saverson concerning an issue on whether Depository Clearing Company (DCC) needs to apply for a “No Action Letter” or not in regard of our clearing and settlement services so that US institutional investors can invest in our eligible companies. Following our recent telephone conversation with Ester Saverson we are sending you the following description of our operations that will give you, we hope, a better understanding as to what DCC does, where we are going, and why we would like to be considered by the US SEC as a foreign eligible custodian in Russia.

The current situation in the Russian equities market attests to an urgent need for creation of unified clearing, settlement and safekeeping mechanism which will reduce risks, costs and time for trade settlement. We believe that the only effective way to solve this problem is to provide market participants with clearing and settlement services based on safe and internationally accepted Delivery-Versus-Payment (DVP) principles. In order to do this, a central clearing and settlement organization is needed and we believe that DCC has the biggest potential to become such an organization. DCC’s shareholders include major Russian and foreign custodians and broker/dealer companies who already use DCC as the central re-registration agent in the Russian market.

At the current time, the majority of the traded securities in Russia belong to foreign institutional investors and we expect that more foreign institutions will enter the market. Many of these institutions are regulated by the US SEC and, as a result, must use custodians who meet SEC requirements.

In order for DCC to fulfil its main aim of providing clearing and settlement services based on DVP, DCC must temporary hold market participants’ securities in DCC nominee name. Therefore, in order to successfully introduce clearing and settlement services based on DVP throughout the Russian market, foreign institutional investors must be prepared to use DCC as a custodian. This appeared to be almost impossible under the former version of regulation 17 f-5 of the United States Investment Companies Act which required that in order to meet this regulation DCC must have capital of at least US$200 million. At the current time DCC has paid-in capital of US$1.8 million, which will probably increased by US$0.5-1.0 million in the near future. We also understand, however, that after amendments made to the Rule 17 f-5 it is fund boards’ responsibility to select and monitor foreign custodians without obtaining a no-action letter from the US SEC.
But we are still receiving requests from our foreign clients to clarify what our current status is with regard to the new Rule 17 f-5, and what we need to do to give confidence to American institutions that they can invest in our eligible companies.

This is why we are writing to you to seek your advice on the possibility of DCC to be considered by the US SEC as a foreign eligible custodian which is a clearing agency that acts as a system for the central handling of securities (or book-entries) in Russia and is regulated by the Federal Commission on Securities Market. DCC expresses its willingness to cooperate with the US SEC on this issue and provide you with all of the information about the measures which we are taking to ensure safety of providing depository services to foreign investors.

We have contacted people from several organizations (NYSE, IFC, NSCC, Chase Manhattan, Credit Suisse, Barents Group KPMG and others) who participate in an international Expert Council of DCC (the list of members is attached in the description) and they have expressed their willingness to assist us in proceeding with our work with the SEC. I hope that you will not mind to receive calls or take references from these people who really care about the development of the securities market in Russia. They may give you some additional details and insights which may be important for the SEC in considering our issues.

Thank you very much for your time and consideration. If you will have any questions we would be happy to assist you in any issue. Hope to hearing from you soon, we will try to contact you later next week.

Sincerely,

Depository Clearing Company

Mikhail Lelyavsky
President

Igor Moryakov
1st Vice President

Cc: Mr. Ester Saverson, Jr.
Office of International Affairs, US SEC
Background - Current Problems of Russian Equities Market

Infrastructure Development

The main factor in the development of the Russian securities market in the year 1997 is the need of the largest Russian issuers in financing in the capital markets, both international and domestic. The possibilities and scale of financing in the capital markets are to a great extent determined by the state and efficiency of the Russian securities market infrastructure. Only the creation of a unified infrastructure for the trading, clearing, settlement, and safekeeping of securities may solve the problem of effective securities market development. In this regard, the development of an efficient system for clearing and settlement of transactions is of greatest importance.

A dramatic increase in the trading volume on the market has demonstrated this. The absence of a clearing and settlement system is the main impediment to further growth in trading volume and liquidity and efficiency of the market as a whole.

It has become evident that many market participants are increasingly dissatisfied with the progress made to date in the area of clearing and settlement. This dissatisfaction has manifested itself in increasingly frequent discussions of various clearing and settlement schemes. But it is important that the various alternatives for clearing and settlement systems be evaluated not solely on technical merits but against a full set of requirements as set forth by participants. At this point market participants have come to agreement on a list of basic conditions for a system to effect clearing and settlement which shall be functional and reliable. In general, these criteria can be broken into three main groups: the functional-operational capabilities of the system; security; and ability of the system to grow. Below is the detailed list of stated requirements by groups.

1. Functional and operational capabilities. The system should provide:
   - delivery versus payment, resulting in decreased credit risk
   - a reduction of settlement costs
   - faster settlement
   - an open client policy, but at the same time the system should take into account issues of risk management which can be resolved by introducing certain financial requirements to the members of the system
   - maximum number of eligible issues
   - access from any location, thus implying an open regional policy
   - sufficiently fast and simple method of reconciliation with the registrar, meaning the possibility to find the beneficial securities owner while executing a batch of consecutive transactions
   - ability to work with non-resident accounts
   - compliance with international standards of settlement procedures

2. Security of the organization implementing the selected system shall be based on:
   - high degree of financial and legal responsibility
- maintenance of complete confidentiality - a requirement to be applied to all employees of the organization

- high control over operations, including:
  - immediate and operative control by the users over the organization activities which directly affect their interests
  - strong and credible internal and external audit procedures
  - protection of the users against domination and possible full control over the organization by one firm or a group of member-firms
  - capable top management who shall be experienced in the sphere of clearing and settlement services, have a clear understanding of the problems and development directions of this sphere, have authority with the market participants, display initiative, build relations with customers on the principle of confidence and respect for their interests

- efficient management systems and competence of the personnel

3. Ability of the system to develop and grow implies its ability, in the future, to:

- handle high trade volumes with fast settlements
- serve all categories of market participants regardless of investment size and location
- execute multilateral securities and funds netting between participants

An effective clearing and settlement organization must comply not only with formal requirements of the Russian regulatory authorities (Federal Commission of the Securities Market for non-bank depositories and the Central Bank of Russia for banks), but also take into account the requirements of foreign regulators (SEC and similar organizations) and clients (both Russian and foreign).

The requirements of clients and foreign regulators may include:

- Diverse ownership structure (consisting of large financial institutions serious in developing a clearing and settlement organization and market infrastructure)
- Sound credit history (without serious incidents of not executing fiduciary responsibility including loss of securities) and audit report from an international auditor
- Possibility to provide clearing and settlement services on the basis of DVP jointly with a settlement bank chosen by market participants
- Financial support for the development stage from independent sources (multinational institutions such as IFC, EBRD, World Bank, USAID etc.)
- Necessary approval from foreign regulators (such as “No Action” letter from SEC)
- Insurance coverage from an internationally respected institution to insure risks (preferably from Lloyds market) based on a risk management survey made by a risk audit company, approved by insurers (such as WBK International)
- Expert assessment, from large foreign and international clearing and settlement organizations, of the procedures for keeping securities and settlement (such as DTC, NSCC, Euroclear, Cedel etc.)
• Constant dialogue and collaboration with infrastructure organizations representing the interests of market professionals (such as NAUFOR and PARTAD (Association for Registrars, Transfer Agents and Depositories)) and their members

The majority of market participants have come to a conclusion that a centralized clearing and settlement system will be the most effective means to meet the basic conditions and requirements set out above. The Depository Clearing Company (DCC) could be used as a starting point for such a system.

Introduction to DCC

The Depository Clearing Company (DCC) was founded in October, 1993 to provide settlement and depository services for professional market participants.

The DCC has had a somewhat difficult history. One year ago, the chances for DCC to survive, let alone to flourish, were very slim. However, several developments over the past year point to DCC’s future success. The new team of managers of DCC, appointed last year, has restructured the management system, developed a strategic development plan of DCC and undertaken measures for cleaning up legal and financial problems of the company. Specialists of DCC developed rules, procedures, automated systems and conducted training programs to develop qualified personnel and to ensure the highest quality of services. The current organizational structure of DCC is represented in Appendix 6.

Today DCC is a growing closed joint stock company that is continually expanding its members/shareholders. DCC shareholders are comprised of major Russian and Western investment companies and banks, including such financial institutions as: Sberbank, Vneshtorgbank, Uneximbank, Troika-Dialog, Kreditanstalt-Grant, Rinaco-Plus, Renaissance Capital, Credit Suisse, Chase Manhattan, Deutsche Morgan Grenfell, ABN Amro and other organizations influencing the development of the securities market in Russia. Two of the most influential infrastructure organizations of market participants - the National Association of the Stock Market Participants (NAUFOR) and the Inter-Bank Credit Union (MKS), recently become shareholders. Representatives of the Federal Commission on Securities Market (Mr. Kolesnikov - First Deputy Chairman) and the Central Bank of Russia (Mr. Kozlov - Deputy Chairman) also participate in the DCC Board of Directors meetings. Mr. Ryskin, First Deputy Chairman of the Uneximbank Board, is currently the Chairman of the DCC Board of Directors.

The main goal of DCC is to create a centralized clearing and settlement system that is capable of servicing stock market participants with maximum efficiency and reliability, while ensuring the minimum amount of risks and expenses.

Services Provided by DCC

• Clearing and settlement of trades executed by securities market participants. The services include ensuring DVP in the event of deposited securities

• Depository custody of clients’ securities and maintenance of depo-accounts

• Transfer-agent services, including re-registration and confirmation of ownership rights in the shareholder registers

• Authorized representation of shareholders in the registers

• Distribution of dividends
• Corporate actions

Clearing and Settlement

One of the main services rendered by DCC is the performance of clearing and settlement operations for securities.

The market participant transfers to DCC information on concluded trades, either electronically or through the courier service. DCC then processes the information to make sure that all the trade parameters match. In case of partial matching of trade parameters, DCC informs the involved parties about the discrepancy. Once the trades are processed and matched, DCC effects the settlements of the securities.

MKS has been selected as a settlement bank, and has worked with DCC to develop a DVP settlement procedure. According to this principle simultaneous movement of securities in depo-accounts and money settlements between members are effected (see Appendix 2). The development of DCC as a central clearing and settlement organization in association with MKS will make it possible to create a settlement system for the Russian securities market based on DVP.

Settlement-and-Depository System

In order to perform clearing and settlement operations, DCC has uses the automated Settlement-and-Depository System (SDS) developed by «DIASOFT», one of the leading Russian manufacturers of software for banks, depositories and register holders. SDS was developed to comply with the government’s program for the development of the Russian stock market infrastructure and in accordance with the Federal Commission on Securities and the Stock Market (FCSM). DCC employees and consultants of «Deloitte and Touche» were also active participants in its development.

The SDS system makes it possible to receive and process electronic messages in SWIFT format from DCC participants. To verify the authenticity of the electronic messages, an electronic signature system certified by the Federal Agency for Government Communications (FAPSI) is used, thus ensuring the necessary level of secrecy and information security. The system also maintains an accounting log to control funds movement on the participants’ depo-accounts. The participants, while using either the electronic message system or paper forms, may promptly obtain any information on the changes to their depo-accounts.

The majority of securities market participants are NAUFOR members and users of the Russian Trading System (RTS). To help facilitate settlements of trades concluded on RTS, DCC, together with the consultants of Barents Group KPMG, are developing and implementing an interface that enables participants to receive trades from RTS for the further settlement in the Diasoft system.

Depository Services

DCC has received from the FCSM one of the first licenses for providing depository and custodial services as a clearing and settlement organization. Participants that use DCC as the nominee holder of their securities are provided with a full scope of depository services. At the moment DCC has opened nominee accounts with more than 220 registrars of the most liquid stocks and holds shares in the amount of almost 1 bln. US dollars for more than 190 companies - participants of DCC system and depo-accounts holders. DCC provides for the safe custody of extracts from the register and certificates of transactions. The DCC system fulfills both the requirements of the Central Bank
and international standards of safe keeping. This is necessary for the ability to exercise shareholder rights. In addition, the DCC provides the following services:

- Distribution of dividends
- Monitoring and, if necessary, participation in any corporate actions related to securities
- Exercise of shareholder rights on behalf of the Client, including participation in the general shareholder meeting

Re-registration Services

The DCC provides services for the re-registration of securities. This service helps reduce the re-registration expenses that arise when there is a transfer of shares of companies with registrars in remote regions. Because DCC provides this service to many market participants, the cost is lower than if the market participants performed the re-registration individually. DCC has become the major provider of these services to market participants, having re-registered about 7,000 buy-sell agreements with total volume of 1.5 bln. US dollars during the last month which can be estimated as 55-60% of the whole trading volume on Russian market. The number of clients is constantly growing and now is more than 300, including major international and Russian financial institutions.

Over the past year, DCC has managed to establish business contacts with registrars of more than 1000 issuers in the Russian stock market. Regular contacts with the issuers and registrars promote strengthening of relations, thus bearing fruit in the ability of DCC to act as a nominee.

Confirmation Services

Confirmation services consist of visits to the registrar by a DCC representative, on behalf of the Client, to perform a review of the share register in order to confirm the quantity of securities registered in the name of the Client. Confirmation services are popular particularly with foreign participants, as they enable the foreign participant to maintain continuous contacts with registrars and issuers.

Corporate Information Services

DCC has developed, and sends to its subscribers, a monthly bulletin of data concerning registrars and documents required by the them for re-registration of ownership. The bulletin contains regularly updated information on more than 300 issuers whose shares are most actively traded. In addition, information on dividends paid by the issuers and on shareholder meetings is provided monthly to DCC clients.

DCC also provides the following information on issuers:

- Plans for enterprise privatization
- Issuer prospectuses
- Data on the financial status of the issuer (balance sheets, profit-and-loss statements, other financial information)
- Audit reports

ISIN Assignment

One of the main conditions for the acceptance of Russian securities on the international stock market is the assignment of unique identification ISIN numbers to the securities. ISIN numbers are
used for easy identification of securities while concluding international trades. ISIN assignment is performed by the Westpapier-Mitteilungser international organization located in Frankfurt. DCC is creating a special division that will be responsible for the assignment of ISIN numbers to major issues of Russian securities.

On the initiative of DCC, ISIN numbers were assigned to shares of KAMAZ, Komineft, RAO «UES Russia», Tomskneft, Noyabrskneftegaz and others.

The Ownership Structure of the Depository Clearing Company

The issue of DCC ownership is one of the most serious and important in the process of its development. The ownership structure is to a great extent determined by the existing institutional market structure, interests of various groups, need for financing, as well as the State policy presupposing representation of social interests (equal access to services, fair competition, healthy market, investor protection, etc.).

There are 4 main models of ownership of clearing and settlement organizations. They may be owned by the state, by members of a certain market sector, by members of various market sectors, or by a trading system. Each of the models implies search for a compromise between a) the possibility to balance competing group interests and b) the ability to obtain and maintain long-term financing of the organization’s activities.

As the result of nature of the Russian market and consistent with the desires of various market sectors and infrastructure organizations, the most acceptable and logical model of ownership for DCC seems to be the one where the clearing and settlement organization is owned by the members of various market sectors which are interested in the efficient functioning of the organization and the services it provides. DCC ownership represents a good example of the realization of such an approach in practice. Broker/dealer companies hold 44% of DCC shares, Russian banks - 20%, foreign banks/global custodians - 11%, and infrastructure organizations - 25%. According to the DCC charter every member has the same amount of shares (400) except infrastructure organizations which have 4 standard lots of shares (1600). A full list of the DCC shareholders is attached in Appendix 3. Also DCC charter stipulates a special order of formation of the Board of Directors which should include equal representation from the broker/dealer and banking sectors (4 from each), 2 representatives from foreign custodial banks, 1 from infrastructure organizations, 2 from government authorities (1 from FCSM and 1 from the Central Bank), and 2 from the management of the company. This well-weighted composition enables the Board to make compromise decisions suitable for all market sectors. The full list of the DCC Board of Directors is provided in Appendix 4.

DCC Participants and Access to DCC Services

For the purposes of managing risks, clearing and settlement organizations tend to restrict access to their services. Those market participants who, according to the established standards and financial requirements, are not able to use the organization’s services directly, or decide not to use the services offered, must have access to the services via members who will act as agents in providing clearing and settlement services. Such relationships presuppose a tiered structure for clearing and settlement systems. The proposed structure of the clearing and settlement system for Russia is outlined in Appendix 1.
Three main groups of potential DCC direct users may be singled out:

1. The major broker/dealer firms and commercial banks trading securities both on their own account and on the instructions of their clients and mainly responsible for the share turnover in the market.

2. The largest Russian custodial banks which are now just beginning to develop the custodian business, and foreign custodial banks keeping the securities of large foreign investors.

3. Regional clearing and settlement organizations providing their services to smaller regional broker/dealer firms.

Trade settlement services will be mostly required for broker/dealer companies because agent trades (trades on the instructions and for the account of clients) account for a fairly large proportion of turnover. Many foreign clients do not currently consider brokers as potential nominee holders of their shares. However, the growth in the number of speculative trades made by brokers for their own account will stimulate the process of depositing their shares in DCC, as it will eliminate re-registration costs and increase the efficiency of own-account trading.

In aggregate, the top 50 broker/dealers - members of NAUFOR - provide for more than 90% of all RTS trading volume and, in the first approximation, it would be worth considering them as first priority users of DCC services. However, it is also necessary to take into account the presence of fairly large market operators, including foreign companies, which are not NAUFOR members but which may be interested in settlement through DCC.

Russian custodian banks make up another group of DCC users. In spite of the fact that the custodian business is just beginning to develop, many of the largest Russian banks see a great future in its development and intend to take an active part in the creation of an infrastructure which will make it possible to efficiently administer securities and corporate actions for their future clients. Amongst these banks are Uneximbank, Vneshtorgbank, Sberbank, Stolichny Bank, Menatep, Rossiysky Kredit, Inkombank etc. and they are recommended to be included in the list of first priority users of DCC services with regard to securities safekeeping for domestic (primarily) and foreign investors.

Foreign custodian banks representing the interests of foreign institutional investors in Russia may become the largest DCC clients. There are already DCC members among such banks (Chase Manhattan, Credit Suisse, Deutsche Morgan Grenfell, ABN Amro). However, the participation of other large international custodians such as Bank of New York, ING, State Street Bank, Citibank, etc. seems to be important.

Risk management in DCC

One of the most important issues of the functioning of a clearing and settlement system is risk management. There are two areas where risks must be managed: securities custody and trade settlement.

The main risk in securities transfer to DCC nominee name is the risk of unauthorized securities withdrawal from DCC account in the shareholders register. Strict operations rules and procedures including strong internal audit function, which will eliminate securities manipulation in DCC nominee holding without-beneficial holders permission, may considerably reduce this risk. Another
way to protect DCC users from this risk is purchase of insurance from an internationally respected institution like Lloyd’s.

At the moment DCC has gone through risk audit by WBK International (an official risk auditor of Lloyd’s insurance market), whose report was presented to Underwriters to define terms and conditions of DCC insurance. DCC has become the second Russian financial institution (after the National Registry Company) insured by Lloyd’s in compliance with international standards. A Leading Underwriter provides DCC with so-called “Depository Comprehensive Crime Insurance” which represents standard “bankers blanket bond” and “computer crime” type of policy and covers all major operational risks of DCC.

Another group of DCC risks relates to clearing and settlement operations. At the moment DCC provides users with a very reliable “trade-by-trade” settlement of trades concluded by them in Russian Trading System and on the OTC market. A settlement scheme is represented in Appendix 2. There is no netting and that is why DCC does not carry any credit risks of its users. Insurers provide DCC with coverage against operational risks of this type of settlement related to computer malfunction and personnel crime.

It should be noted that Interbank Credit Union (MKS) which performs function of a settlement bank for DCC has all necessary capabilities to provide fund transfers as a part of DVP settlements as is described in Appendix 2. MKS was founded by 17 major Russian banks (from top 20) for clearing and settlement purposes and has a special license from the Central Bank for providing this type of services. This license allows MKS to use money from its users only for settlement of trades concluded on organized securities markets (like RTS and MICEX). Central Bank guarantees that money on the users’ accounts will not be used for any other purposes and that they can be transferred from the user’s main account with MKS only to the user’s account in another bank. This provides a high level of security for all funds transfers in DCC/MKS settlement based on DVP. An insurance policy covers MKS risks as well.
Measures DCC is Undertaking to Develop Depository Services and Increase Investor Confidence in the Corporate Securities Market of Russia

1. DCC shareholders currently include large Russian and international financial institutions, both broker-dealers and banks. DCC will consider several new applicants from both the broker-dealer and banking communities.

2. IFC has expressed an interest to provide an unsecured loan to DCC and become a shareholder of DCC. IFC has conducted a due diligence investigation of DCC, the results of which have been favorable. The decision of the IFC Investment Committee to provide DCC with a $500,000 loan and $50,000 equity investment has been made at the end of September, 1997. At the moment a term sheet for the investment is being finalized by IFC and the decision of IFC Board of Directors is expected by the end of November, 1997.

3. A risk audit of DCC has been completed by WBK International, a company approved by Lloyds, and a report has been forwarded to Lloyds. DCC has signed an agreement with WBK to assist DCC in the implementation of an internal audit function.

4. After negotiations with Lloyds market insurance brokers and several underwriters agreement has been reached with Johnson & Higgins and AIG on issuing Depository Comprehensive Crime Insurance policy. The amount of the insurance is $10 million and covers each and every loss in excess of $100 thousand.

5. Discussions have taken place and contacts have been established with representatives from DTC, NSCC, NYSE, DKV and Euroclear. Agreement has been reached to include representatives from these organizations in DCC’s international expert advisory council (full list of members is provided in Appendix 5). A memorandum of cooperation has been signed with NSCC to provide DCC with consulting on the development of clearing and settlement services.

6. DCC/NAUFOR working group has been assembled and is currently developing steps to organize a system to settle trades concluded in the RTS. The group drafted “Standards for Depository Activities of NAUFOR Members” adopted by NAUFOR’s Board in January 1997 and included in “DCC Depository Standards” which have been approved by Federal Commission on Securities Market.

7. As of February 1, DCC began to provide DVP settlement of trades in the RTS for several most liquid stocks. Large broker-dealers have started to deposit their shares on DCC nominee name. At the moment DCC has 185 participants who opened depo-accounts and deposited over 700 mln. USD in stocks on DCC nominee name. DCC has opened nominee accounts in more than 220 registrars of the most liquid stocks.

8. DCC specialists have developed software for remote access to DCC clearing and settlement system from broker-dealers’ and custodians’ back-offices. The software will allow sending of settlement instructions from broker-dealers and custodians to DCC in electronic format using a software licensed by the Russian Agency of Government Communications and Information (FAPSI) for encryption and electronic signature. Installation of the software started on April 1. An agreement is signed with the RTS that the RTS will be a subcontractor for installation, maintenance and servicing of the DCC remote terminals.

9. An agreement has been signed between DCC and National Depository Center (the organization formed by MICEX and Central Bank of Russia to provide depository services for government securities) on cooperation and development of a unified centralized system for depository and clearing services. Later Russian Trading System (RTS), Moscow Interbank Currency Exchange (MICEX) and S.-Petersburg Currency Exchange (SPCEX) joined to the Cooperative Agreement.

10. An agreement has been signed between DCC and Uneximbank on providing clearing services by DCC to Uneximbank for trades with shares deposited in Uneximbank.

11. An agreement has been signed between DCC and S.-Petersburg Currency Exchange on providing depository services by DCC to SPCEX for trades concluded on the exchange. SPCEX
has started trading equities at the end of September, 1997. DCC keeps securities of more than 110 members of SPCEX who trade every day with more than 60 stocks.

12. DCC is a Board member of PARTAD and actively participates in the development of specific strategies to develop the depository business in Russia.

13. Deloitte & Touche has completed an audit of DCC for the year 1996 and has disclosed the positive audit report to public.

Conclusion

The effective unified mechanism for trading, clearing, settlement and safekeeping of Russian securities cannot be created without developing an effective centralized clearing and settlement system.

The current strategic vision is for DCC to become the core of the central clearing and settlement system for the Russian Federation. In the short term, DCC’s mission is to become the clearing and settlement organization for NAUFOR and the RTS.

A unified clearing, settlement and depository system supported by the stock market participants will:

- Decrease risks for the trade participants and investors
- Reduce the time to transfer securities
- Greatly reduce the costs of transfer
- Increase the liquidity of Russian securities
- Increase volumes on organized trading systems
- Eventually give regional participants a greater chance of competing with the larger Moscow members
National Depository & Settlement System Structure

1 level
National Depository & Settlement System Guarantee Fund

2 level
DCC
(clearing & settlement organization)

3 level
Major Custodian Banks
- depo-account
- depo-account

CSO of Ekaterinburg
- depo-account
- depo-account

CSO of Vladivostok
- depo-account
- depo-account

CSO of S-Petersburg
- depo-account
- depo-account

other CSO
- depo-account
- depo-account

Major broker companies (clearing brokers)
- depo-account
- depo-account

4 level
Brokers

Investors

Appendix 1
4 level
Investors

Investors

Investors

Investors

Investors

Registars

Organized Trading Systems (RTS)
Appendix 2

Settlement scheme for dealer trades executed on RTS between participants of DCC (Delivery versus payment)

Shares are deposited on DCC nominee name, money settlement is done through MKS.
Trade settlement cycle of corporate securities on “Delivery Versus Payment” (DVP) basis
Documents in electronic form

<table>
<thead>
<tr>
<th>Day</th>
<th>Time</th>
<th>Buyer</th>
<th>Seller</th>
<th>DCC</th>
<th>MKS</th>
</tr>
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<tbody>
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<td>T</td>
<td>until 18.00</td>
<td>Conclusion of trades in RTS</td>
<td></td>
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<tr>
<td></td>
<td>18.00 - 18.30</td>
<td>Receive information from RTS on trades concluded until 18.00</td>
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<td></td>
<td>18.30 - 19.00</td>
<td>Form “Settlement Instructions” on trades concluded until 18.00</td>
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</tr>
<tr>
<td></td>
<td>from 19.00</td>
<td>Begin confirming “Settlement Instructions” and sending them to DCC</td>
<td></td>
<td>Begin receiving “Settlement Instructions” confirmed by the Participants</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>T+1</th>
<th>until 13.00</th>
<th>Confirm “Settlement Instructions” and send them to DCC</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10.00 - 13.00</td>
<td>1. Match “Settlement Instructions” received from the Participants (every 30 minutes)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Form “Matched” and “Unmatched Settlement Instructions” reports and send them to the Participants</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>See note¹</td>
<td>Transfer funds for matched trades to MKS</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

¹ - payment order transfer time shall be specified individually for each Participant in compliance with its bank (banks) rules of procedure.
<table>
<thead>
<tr>
<th>Day</th>
<th>Time</th>
<th>Buyer</th>
<th>Seller</th>
<th>DCC</th>
<th>MKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>T+3</td>
<td>9.00 - 11.00</td>
<td></td>
<td></td>
<td>Send instructions to MKS to transfer funds necessary for today's settlements from the main (411) to transit (412) account</td>
<td>1. Receive and process a statement of funds received on 163 correspondent account of MKS with the Central Bank division in Moscow 2. Distribute funds to the main (411) Participants' accounts and make up account statements</td>
</tr>
<tr>
<td></td>
<td>11.00 - 14.00</td>
<td></td>
<td></td>
<td></td>
<td>Block Participants' transit (412) accounts and send “Blocked Funds Report” to DCC</td>
</tr>
<tr>
<td></td>
<td>14.00 - 14.30</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>15.00 - 16.00</td>
<td></td>
<td></td>
<td>1. Verify funds and securities sufficiency for trades with the current settlement date and postponed trades from previous dates 2. Block securities for trades with sufficient amount of shares at Sellers depo-accounts 3. Form “Funds Transfer Instruction” for MKS</td>
<td></td>
</tr>
<tr>
<td></td>
<td>16.00 - 16.30</td>
<td></td>
<td></td>
<td>Send “Funds Transfer Instruction” to MKS</td>
<td></td>
</tr>
<tr>
<td></td>
<td>16.30 - 18.00</td>
<td></td>
<td></td>
<td>1. Transfer funds according to the DCC “Funds Transfer Instruction” 2. Form “Funds Settlement Confirmation” for DCC</td>
<td></td>
</tr>
<tr>
<td></td>
<td>18.00 - 18.30</td>
<td></td>
<td></td>
<td>Send “Funds Settlement Confirmation” to DCC</td>
<td></td>
</tr>
<tr>
<td></td>
<td>18.30 - 19.00</td>
<td></td>
<td></td>
<td>1. Transfer blocked securities from the Sellers’ depo-accounts to the Buyers’ depo-accounts 2. Submit reports on the results of the current day settlements to the Participants</td>
<td></td>
</tr>
</tbody>
</table>
## DCC Shareholders

<table>
<thead>
<tr>
<th>Company</th>
<th>Business profile</th>
<th>Number of shares</th>
<th>Paid in capital (US dollars)</th>
<th>% in capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 NAUFOR</td>
<td>Infrastructure</td>
<td>1600</td>
<td>200,000</td>
<td>11</td>
</tr>
<tr>
<td>2 MKS</td>
<td>Infrastructure</td>
<td>1600</td>
<td>200,000</td>
<td>11</td>
</tr>
<tr>
<td>3 Cash Union</td>
<td>Infrastructure</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>4 Aktiv</td>
<td>Broker/dealer</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>5 Analyze</td>
<td>Broker/dealer</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>6 Aton</td>
<td>Broker/dealer</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>7 Brunswick</td>
<td>Broker/dealer</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>8 Capital Regent Securities</td>
<td>Broker/dealer</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>9 Center Invest Securities</td>
<td>Broker/dealer</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>10 Creditanstalt-Grant</td>
<td>Broker/dealer</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>11 CS First Boston</td>
<td>Broker/dealer</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>12 Megatrustoil</td>
<td>Broker/dealer</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>13 MFK-Moscow Partners</td>
<td>Broker/dealer</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>14 Olma</td>
<td>Broker/dealer</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>15 Rai, Man and Gor Securities</td>
<td>Broker/dealer</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>16 Renaissance Capital</td>
<td>Broker/dealer</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>17 Rinaco Plus</td>
<td>Broker/dealer</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>18 Russian Brokerage House C.A.</td>
<td>Broker/dealer</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>19 Troika Dialog</td>
<td>Broker/dealer</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>20 United Financial Group</td>
<td>Broker/dealer</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>21 International Moscow Bank</td>
<td>Bank</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>22 Olympiysky</td>
<td>Bank</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>23 Sberbank</td>
<td>Bank</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>24 Tveruniversalbank</td>
<td>Bank</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>25 Uneximbank</td>
<td>Bank</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>26 Vneshtorgbank</td>
<td>Bank</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>27 Zerich</td>
<td>Bank</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>28 ABN Amro</td>
<td>Global custodian</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>29 Chase Manhattan Bank</td>
<td>Global custodian</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>30 Credit Suisse</td>
<td>Global custodian</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
<tr>
<td>31 Deutsche Morgan Grenfell</td>
<td>Global custodian</td>
<td>400</td>
<td>50,000</td>
<td>3</td>
</tr>
</tbody>
</table>

Total: 14,800 1,850,000 100
Appendix 4

DCC Board of Directors

1. Uneximbank
2. Vneshtorgbank
3. Sberbank
4. Renaissance Capital
5. Chase Manhattan Bank
6. Credit Suisse First Boston
7. Troika-Dialog
8. Creditanstalt-Grant
9. Rinaco Plus
10. Brunswick-Waburg
11. Federal Commission on Securities Market (FCSM)
12. Central Bank of Russia
13. Russian Trading System (RTS)
14. President of DCC
15. 1st Vice President of DCC
DCC Expert Council

1. Richard Bernard - Executive Vice President & General Counsel, NYSE
2. Dennis Earle - Managing Director, NSCC/DTC
3. Rudiger von Rosen - Director, Deutsches Aktieninstitut
4. Claudia Morgenstern - Principal Investment Officer, IFC
5. Ester Saverson - Assistant Director, Office of International Affairs, US SEC
6. Keith Seibert - Vice President, Morgan Stanley (New York)
7. Andrew Bond - Vice President, Global Investor Services, Chase Manhattan Bank (London)
8. Bruce Lawrence - Managing Director, H.B.L. Consultancy Services (London)
9. Sophie Pompea - Director of Project Development, EMTA (Emerging Markets Traders Association)
10. Wim Claeys - Vice President, Euroclear (Brussels)
11. Jonathan Bulkley - Managing Director, Barents Group KPMG
12. Bertram Lewis - Project Director, Arthur Andersen Consulting
13. Andrei Kozlov - Deputy Chairman, Central Bank of Russia
14. Ivan Tyryshkin - Head of Department, Federal Commission on Securities Market
15. Peter Rylko - Chairman, NAUFOR Financial Operational Committee
16. Mikhail Alekseev - Deputy Chairman of the Board, Uneximbank
17. Dmitry Mozgin - Head of Custody, Vneshtorgbank
DCC ORGANIZATIONAL CHART

President

1st Vice President

Accounting Office

Security

Human Resources

Compliance

Internal Audit

Legal Department

Financial Director

Vice President/Development

Marketing and PR Department

Clients Relations Department

New Projects Department

Software Development Department

IT Department

Technical Director

Vice President/Operations with Registrars

Operations Department

Agents Department

Transfer-Agent Department

Vice President/Custody

Custody

Clearing & Settlement

Vice President/Operations

Archive

Office Management

Secretariat

Registrar Relations

Research and Analytic Department

Sales Department

Corporate Information Division