



The challenges and rewards of an ISO 20022 pioneer

Russia is a pioneer in the implementation of ISO 20022 messaging as the foundation of a payments and securities markets infrastructure that meets the highest international standards. Sergey Putyatinskiy, chief information officer (CIO), and Maria Ivanova, vice president, director for development and client relations, at the National Settlement Depository (NSD) in Moscow, explain how corporate actions and proxy voting are merely the first steps towards creating a market infrastructure that is among the first in the world to be ISO 20022-compliant across every service it provides.

The infrastructure of the Russian securities markets has changed dramatically in the last few years. A single central securities depository (CSD) is in place. Nominee accounts are now legal. A trade repository has opened to improve transparency in the OTC derivative markets. The legal and tax bases of the securities markets are now significantly improved. And the two international central securities depositories (ICSDs), Clearstream and Euroclear, now offer foreign investors a convenient way to settle and hold Russian securities. Many other

innovations and improvements are in prospect. Importantly the foundation which underlies many of these disparate changes is the ISO 20022 messaging standard.

Many securities market infrastructures have now endorsed the new standard as a replacement for the SWIFT FIN and ISO 15022 message types, and the National Settlement Depository (NSD), as the single CSD for the Russian securities market, is no exception. Historically, payments in the Russian market were dominated



by FIN messages and exchanges of securities information - such as corporate actions - by manual and paper-based processes. The adoption of the ISO 20022 standard provides an opportunity to replace existing formats, in both securities and payments, with a single standard which is flexible enough to accommodate the demands of the Russian markets without inhibiting their openness to the rest of the world. Not unimportantly in Russia, ISO 20022 is also the first internationally recognized message standard to support the Cyrillic script.

Why corporate actions first?

Chief among the applications of the new ISO 20022 standard are corporate actions. The processing of corporate actions notifications and instructions is the subject of thorough and continuing reform in Russia today. One of the principal objectives of the reform is the dematerialization of corporate actions processing. By rendering corporate actions information in a standard digital format, the rate of straight-through-processing (STP) of notifications and instructions can be increased significantly. Unlike today - when corporate actions are issued in

paper form and processed by hand, adding to costs and increasing the risk of errors - corporate actions messages will in future be shared between issuers, custodians, registrars and the CSD in a single, machine-readable format compliant with the ISO 20022 standard. Dividends, including tax deductions, will now be paid automatically.

Improving the efficiency of corporate action processing may be a global trend but, in the context of the Russian market, the adoption of ISO 20022-compliant corporate actions messages represents a major advance. Instead of retaining a purely domestic standard, the reform obliges even local market participants to rise to the ISO 20022 standard. It recognizes that international investors were deterred from investing in Russian stocks by the complexity and inefficiency of paper-based corporate actions. By raising the Russian market to international standards, the reform can be expected to increase the level of foreign investment in Russian equities. It can also be expected to increase the level of engagement by foreign investors in Russian companies, because it will be easier to collect dividends and other entitlements, elect for cash or stock, and vote on company resolutions.

Adapting ISO 20022 to local market peculiarities

All of that said, the ISO 20022 standard still has to be adapted intelligently to local market requirements. This was not easy, since the Russian market, like many others, suffers from a number of requirements which are peculiar to it. Fractional securities, for example, persist in Russia. Worse, they are based on common rather than decimal fractions. The fact that ISO 20022 messages permit the inclusion of additional fields or extensions to tags to take account of fractional securities marks an improvement over ISO 15022 messages, which lacked the flexibility in their field functionality to do this. However, the NSD still had to include fractional security messages in its list of messages, and specify how they were to be used.

In fact, the CSD had to establish a complete list of the messages to be used in the Russian market; specify how they were to be used by Russian market participants; translate into a Russian idiom the logic of fields in each message, as defined by the ISO 20022 standard; and specify to Russian market participants how the different fields within each message relate to

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- Sergey Putyatinskiy, NSD

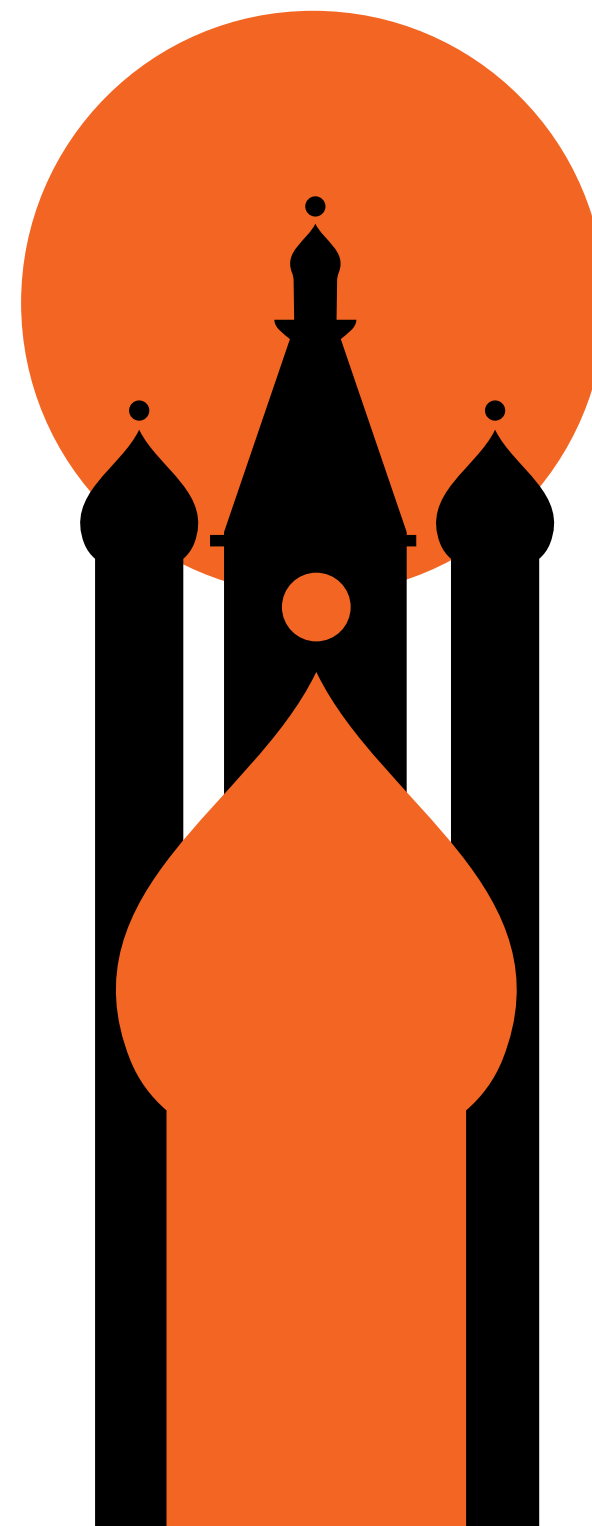
other fields in other messages. The end-result was not just a Russian version of ISO 20022 messages, but a set of messages that are understandable and machine-readable by international as well as domestic banks active in the Russian market. This has created an opportunity to accelerate the pace at which the historic ISO 15022 messages are replaced by the improved ISO 20022 alternatives.

The safe transition to ISO 20022 is a long one

During the transition from ISO 15022 to ISO 20022, the NSD will support both standards. The CSD has also developed a tool for converting ISO 15022 messages into ISO 20022 messages, and vice versa. But conversion cannot be a permanent solution for participants in the Russian market, or any other market. The limited functionality of the ISO 15022 standard by comparison with its more advanced ISO 20022 successor is already creating problems of data loss when information is converted from one standard to the other. Despite the assistance of mapping tables from SWIFT, the conversion of messages also creates additional costs. It is evident that

the future belongs to the ISO 20022 standard, though it is well understood that the transition to the new standard across different markets cannot be accomplished overnight, and must proceed step-by-step. A successful transition depends on a unified plan that is approved by all major market participants. Eventually, the entire post-trade industry will benefit from switching to the ISO 20022 standard.

Corporate actions provide an excellent example of why the transition to ISO 20022 in the Russian market will be prolonged. So far, the NSD has automated only those corporate actions announced at annual (AGMs) or extraordinary general meetings (EGMs), including the right to vote at these meetings. Though there are more than 50 different types of corporate action in the Russian market, this was the appropriate priority. Transparency into proceedings at AGMs and EGMs is essential to retain the confidence of international investors, and to protect their rights as shareholders. The e-proxy voting service for Russian issuers, launched by the NSD last year using proprietary formats, was made available in the ISO 20022 format in April this year. Since 1 April 2015, 79 issuers, including major companies





such as Sberbank and Gazprom, have hosted shareholder votes using the ISO 20022 format.

Using ISO 20022 to join the Russian market to the world

By guaranteeing international investors access to information, and the ability to vote electronically, these ISO 20022-based reforms to AGM and EGM messages are of importance to the integration of the Russian market into the global marketplace. Other countries which have automated voting, such as Turkey, noticed sharp increases in the participation of foreign investors in shareholder meetings. It will take a number of years to automate other types of corporate event, but the necessary work is already in hand. The government has amended stock market laws to regulate the use of electronic technologies for distributing and processing corporate actions, making it easier to extend ISO 20022 into other aspects of the Russian stock market. In fact, Russia is likely to be among the first markets to base its automated infrastructural processes on the ISO 20022 standard. Completing the task will be difficult, but the experience of reform ought to give domestic and

foreign market participants a high level of confidence in the ability of the NSD to finish what it has started.

NSD is already using the ISO 20022 standard in corporate issuer services and is planning to make use of the standard in other business areas. Importantly, the NSD also recognizes that a standard digital language in which to exchange information is the key to interacting with infrastructures in other markets as well as essential to attract international investors. The CSD has not failed to notice that, with ISO 20022 underpinning both the Single Euro Payments Area (SEPA) and TARGET2-Securities (T2S), the new message standard also has the support of the regulators and central banks that are driving important infrastructural initiatives. The enthusiasm of the NSD is proving infectious. A group of Russian banks and corporates have worked together to publish a new set of ISO 20022 messages that address markets operating with currency controls. Through its strategic commitment to ISO 20022, the NSD is driving the adoption of the standard abroad as well as at home.



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access
with
open
standards**

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