

## THE ASSOCIATION OF GLOBAL CUSTODIANS

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March 29, 2007

Mr. Oleg Vyugin  
Head of the Federal Financial Markets Service  
9, Leninsky Prospect  
119991 Moscow,  
Russia

Re: Draft Russian Legislation to Enhance the Central Role of Securities  
Depositories in Settling Transactions in Russian Equity  
Securities

Dear Mr. Vyugin:

We write to you on behalf of the Association of Global Custodians (the "Association"), an informal group of ten global banks that provide securities custody and related services to cross-border institutional investors.<sup>1</sup> Association members provide such services to a significant portion of the foreign institutions that actively invest in the equity securities of Russian issuers.

The Association wishes to convey members' appreciation and support for the positive legislative steps now being taken in Russia to enhance the role of central securities depositories in providing safe and efficient settlement services and facilities for all transactions in Russian equity securities. Currently, Association members, working with their Russian sub-custodians, facilitate settlements of client transactions in equity securities through the existing decentralized registry facilities; and based on that experience, members have great interest in the efforts of Russian authorities to strengthen the role, legal integrity, and operational reliability of centralized depository settlement for all such transactions.

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The member banks of the Association are listed on the letterhead above.

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We understand that legislation is being drafted for upcoming Parliamentary consideration that will promote final book-entry settlement and transfer through a unified, efficient central depository system for equity securities. We also understand that the legislation will envision an interim period of four years during which there may be more than one securities depository for equities in Russia. We further understand that such depositories will continue to operate separately while moving toward consolidation into one automated and efficient centralized facility.

Although Association members believe that a single central depository for equity securities per jurisdiction provides market participants and investors with the optimal basis for settlement efficiency and safety, we understand the need in Russia today to maintain multiple depositories for an interim period. However, because a multi-entity structure requires multiple points of access for market users and requires users to depend on different entities, it is important even during the multi-entity transition period to ensure that certain basic systemic features exist.

In this regard, we believe it particularly important that the central depositories for equity securities employ common standards that facilitate coordinated and efficient transaction settlement and ownership entitlement transfer. In this connection, we recommend:

- compatibility of depositories, including common settlement timeframes for both depositories;
- common settlement processes and suitable interfaces at each depository for market participants;
- common standards and methods for the distribution of corporate entitlements;
- common protective mechanisms, such as credit lines and debit caps, to manage participant default risk;
- common fee structures insofar as possible;
- effectively linked, automated facilities if the depositories service the same issues of securities; and

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- use of common clearing banks in the settlement process, and preferably settlement in central bank funds.

In addition, we strongly recommend that the legal power to effect changes in ownership by bookkeeping entry at the central depositories for equities be identical and that those powers, and the respective rights of entitlement holders, be legally certain and binding.

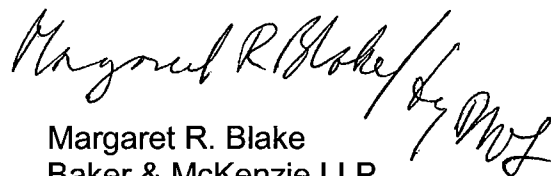
Finally, Association members wish to point out that under United States securities laws, US-registered investment companies investing in securities in non-US jurisdictions and holding their assets with a foreign depository must evaluate and monitor the depository to ensure it qualifies as an "eligible foreign depository" under the applicable US laws. A number of strict operational and legal elements affect those evaluations, and Association members customarily assist their investor-clients in understanding those requirements. Accordingly, consistency at all the depositories in operations and settlement practices will meaningfully assist custodians, acting on behalf of their investor-clients, in fulfilling those responsibilities.

We appreciate the opportunity to offer comments at this important stage in the evolution of Russian market infrastructure. If you would like further information, please contact either of the undersigned.

Sincerely yours,



Dan W. Schneider  
Baker & McKenzie LLP  
Counsel to the Association



Margaret R. Blake  
Baker & McKenzie LLP  
Counsel to the Association