



**NATIONAL
SETTLEMENT DEPOSITORY**

MICEX GROUP

NATIONAL SETTLEMENT DEPOSITORY IS AN ELIGIBLE SECURITIES DEPOSITORY

September 2011

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National Settlement Depository (“NSD”) is an Eligible Securities Depository

Under Rule 17f-7 of the Investment Company Act of 1940, as amended (the “1940 Act”), U.S. registered investment companies may assign custody of foreign assets with an “eligible securities depository” (“ESD”), provided that certain prudential requirements are met.

- This presentation demonstrates that:
 - NSD is an ESD for Russian debt and equity securities within the meaning of Rule 17f-7;
 - Appendix A demonstrates that NSD provides “reasonable safeguards against custody risks associated with placing and maintaining Foreign Assets” with an ESD (within the meaning of Rule 17f-7(a)(1));
 - Appointing NSD as an ESD is prudent and risk limiting (within the meaning of Rule 17f-7(a)(1)(i)(A));
 - NSD has supplied all the information necessary for Primary Custodians to provide an analysis of custody risks and that those risks are addressed by reasonable safeguards (within the meaning of Rule 17f-7(a)(1)(i)(A)).

NSD is an Eligible Securities Depository that meets each of the Requirements of Rule 17f-7 under the 1940 Act.

1. NSD is an ESD because it is incorporated in Russia and it operates a system for the central handling of book-entry of Russian securities, including all Russian debt securities and all Russian equity securities traded on MICEX and MICEX SE, as per Rule 17f-7(b)(1)(i);
2. NSD is an ESD because it is regulated by a foreign financial regulatory authority, the Federal Service for Financial Markets (FSFM of Russia), as per Rule 17f-7(b)(1)(ii);
3. NSD is an ESD because it holds assets for the custodian on behalf of the registered fund under safekeeping conditions that are no less favorable than conditions that apply to other participants, as per Rule 17f-7(b)(1)(iii);
4. NSD is an ESD because it maintains records that identify the assets of each participant and segregate the system's own assets from the assets of participants, as per Rule 17f-7(b)(1)(iv);
5. NSD is an ESD because it provides periodic reports to its participants with respect to its safekeeping of assets, including notices of transfers to or from any participant's account, as per Rule 17f-7(b)(1)(v); and
6. NSD is an ESD because it is subject to periodic examination by regulatory authorities or independent accountants, as per Rule 17f-7(b)(1)(vi).

NSD is an Eligible Securities Depository

There are six conditions for a foreign securities depository to satisfy in order to meet the definition of an Eligible Securities Depository (ESD) under the 1940 Act.

- NSD meets each condition of the definition of an ESD, namely:
 - Central Handling of Securities
 - Regulated By Relevant Authority
 - Appropriate Safekeeping
 - Record Segregation and Maintenance
 - Periodic Reporting
 - Subject to Examination

1. To Operate a System for the Central Handling of Securities

- NSD operates a system for the central handling of securities or equivalent book-entries in Russia.
- More specifically, NSD operates a system for the central handling of securities (as defined in Rule 17f-4 under the 1940 Act, and as interpreted by the Austraclear SEC No-Action Letter (dated April 28, 2004), where all securities of any particular class or series of an issuer deposited within the system:
 - Are treated as fungible. See, Articles 2, 16 and 29 of Federal Law No.39-FZ “*On the Securities Market,*” of April 22, 1996 (the “Securities Market Law”) summarized in Appendix B of this Presentation.
 - May be transferred or pledged in the NSD system by bookkeeping entry without physical delivery of the securities. See, Articles 16 and 29 of the Securities Market Law and Sections 2.3 and 2.4 of *the Regulation on Depository Activity in the Russian Federation* (the “Depository Regulation”), adopted by Resolution No. 36 of the FCSM, of October 16, 1997, summarized in Appendix B of this Presentation.
 - NSD maintains its customers' securities and its records of customer securities using the “open record-keeping” method. Under this method, all customer securities of a particular class on deposit with NSD are fungible. See, e.g., Sections 11.6 and 11.7 of the Depository Regulation summarized in Appendix B of this Presentation.
 - Rights to securities on deposit with NSD may be transferred and pledged by bookkeeping entry alone pursuant to Article 29 of the Securities Market Law, Sections 2.3, 2.4 and 5.3 of the Depository Regulation.

Note on the Central System Requirement

- The SEC does **not** require that NSD be the *one and only* system for central handling of securities in Russia.
- Rule 17f-7 specifically allows U.S. funds to use the services of depositories that do not operate the only system in a particular country. See, *Investment Company Act Release 22658, Final Rule Amending Rule 17f-5, noting SEC’s decision to permit the use of multiple securities depositories in any one country because the previous requirement of operating the **only** system was found to be “unnecessarily restrictive”.*

Note on the Central System Requirement (Cont'd)

There is no single Central Securities Depository in Russia.

- Instead, each stock exchange has its own settlement depository (for securities transfers) and settlement chamber (for cash transfers), or the settlement depository is also a settlement chamber (like NSD).
 - The two main trading and settlement infrastructure groups in Russia are: (i) MICEX-group (which includes MICEX, MICEX SE and NSD; more information on MICEX-group is available at www.micex.com) and (ii) RTS-group (which includes RTS SE, DCC and RTS Settlement Chamber).
- NSD is “a system for the central handling of securities”, under SEC interpretive guidance, for all the classes and series of securities for which it serves as depository.

NSD is "central" for MICEX and MICEX SE and for handling federal securities

- NSD is the **only** settlement depository and settlement organization for all transactions closed on MICEX and MICEX SE:
 - Under MICEX clearing rules, NSD is the **only** settlement depository and settlement organization as per results of trading on MICEX and MICEX SE as per results of clearing conducted by MICEX;
 - Therefore, NSD handles **100%** of transactions entered into on MICEX and MICEX SE as a settlement depository and settlement organization.

NSD is a holder (nominee holder) of 100% of shares (Russian depository receipts) admitted to trading on MICEX SE

- In accordance with MICEX SE Listing and Admission to Placement and Trading Rules:
 - One of the conditions to trading of securities on MICEX SE is the acceptance (depositing) of securities by the settlement depository of the stock exchange, namely, NSD;
 - NSD opens personal accounts of the nominee holder with the shareholders' registers of the issuers, shares and Russian depository receipts of which are traded on MICEX SE;
 - 100% of shares and 100% of Russian depository receipts traded on MICEX SE are recorded on the NSD nominee holder's accounts with the shareholders' registers. NSD clients (including traders) open with NSD corresponding depo accounts.

NSD is a holder of 100% of bonds of mandatory centralized keeping and admitted to trading on MICEX SE

- Corporate, sub-federal and municipal bonds are bearer bonds of mandatory centralized keeping with NSD; and
- Bond issuers transfer the global bond certificates to NSD for centralized keeping;
- NSD dematerializes 100% of bond issue, maintains the issuer's depo account, keeps the global bond certificate, registers the rights to such securities, services them in the course of offering and secondary circulation of the bonds, including all transactions related to the redemption and/or early cancellation of the bonds.

NSD is a head depository and Servicer of 100% of federal governmental securities

- NSD performs functions of the Head Depository and holder of global certificates of 100% of issues of Federal Governmental Securities (including federal loan bonds and government short-term bonds) issued by the Russian Ministry of Finance;
- NSD is a settlement depository and a settlement organization for all transactions on MICEX with the Federal Governmental Securities.

NSD Operates a System for the Central Handling of Securities in Russia (Cont'd)

- Use of NSD is **compulsory** for all MICEX and MICEX SE traded securities including:
 - Russian federal, sub-federal and municipal bonds, Bank of Russia bonds and Russian corporate bonds;
 - Units of Russian investment funds; and
 - Russian equities.

NSD Operates a System for the Central Handling of Securities in Russia

- NSD acts as the settlement depository and provides settlement services to the following marketplaces:
 - Moscow Interbank Currency Exchange (MICEX);
 - MICEX Stock Exchange (MICEX SE); and also
 - Saint Petersburg Currency Exchange (SPCEX).

- NSD as Depository Provides:
 - Safekeeping of global certificates and depository services for over 99% of Russian corporate bonds and bonds of the political subdivisions (*sub'ekty*) of the Russian Federation (sub-federal bonds) and municipal bonds;
 - Safekeeping of global certificates and depository services for 100% of trades with federal bonds and the Bank of Russia bonds;
 - Settles 100% of exchange trades with Russian equity securities and other securities traded at MICEX and MICEX SE.

ESD Condition 1: A Russian Central System

Based on the above, NSD believes that all Primary Custodians to U.S. registered funds must conclude that:

NSD operates a system for the central handling of securities in Russia with respect to all categories of securities for which NSD acts as depository within the meaning of Rule 17f-7(b)(1)(i).

2. NSD is Regulated by a Foreign Financial Regulatory Authority

As per Rule 17f-7(b)(1)(ii), in order to be an ESD, NSD must be regulated by a Foreign Financial Regulatory Authority.

- A foreign financial regulatory authority is defined under Section 2(a)(50) of the 1940 Act and includes “Any foreign securities authority”;
- As per Section 2(a)(49) of the 1940 Act, “Foreign securities authority” means any:
 - foreign governmental body;
 - empowered by a foreign government;
 - to administer or enforce its laws;
 - as they relate to securities matters.

Status of FSFM (Condition 2 Cont'd)

FSFM is a “*foreign securities authority*” within the meaning of Section 2(a)(49) of the 1940 Act.

- NSD is regulated by the Federal Service for Financial Markets (FSFM of Russia, or “FSFM”), as set out in the Securities Market Law.
- The FSFM is established by Decree No. 314 of the Russian Federation President “*On the System and Structure of Federal Executive Power Bodies*”, of March 9, 2004.
- The FSFM is a federal executive body as set out in *Regulation of the Federal Service for Financial Markets* (the “FSFM Regulation”), adopted by Resolution No. 717 of the Russian Federation Government, of August 29, 2011.
- The FSFM is responsible for regulating depositories in Russia, based on the powers of the FSFM set out in the Securities Market Law and the FSFM Regulation.

Status of FSFM (Condition 2 Cont'd)

FSFM is “*empowered by a foreign government*” within the meaning of Section 2(a)(49) of the 1940 Act.

- FSFM’s functions and authority are generally formulated in the Securities Market Law, Resolution No. 206 of the Russian Federation Government “*On Issues of the Federal Service for Financial Markets*”, of April 9, 2004 (the “Resolution on FSFM”), and the FSFM Regulation.
- The Russian Federation Government provides guidance to the FSFM, appoints and dismisses the Head of the FSFM, as set out in the FSFM Regulation. The FSFM reports directly to the Russian Federation Government, as set out in the FSFM Regulation and the Resolution on FSFM.

Status of FSFM (Condition 2 Cont'd)

FSFM has the power “*to administer or enforce its laws*” within the meaning of Section 2(a)(49) of the 1940 Act.

- The Securities Market Law is the primary legislation that regulates the issuance and circulation of securities; it defines activities of professional participants in the securities market, including NSD.
- Under the Securities Market Law, the FSFM is authorized to adopt regulations aimed at controlling and monitoring activities related to securities depositories in Russia. Those powers are widely used by the FSFM.
- The FSFM regulates NSD. Since NSD is a “professional participant in the securities market”, it falls under the jurisdiction of the FSFM.

Status of FSFM (Condition 2 Cont'd)

FSFM has the power to *administer* laws as they relate to securities matters.

- FSFM establishes compulsory requirements for transactions involving securities, for the norms of admission of securities to public placement, circulation, quotation and listing, and for professional activity in the securities market including settlement and depository activity.
 - FSFM establishes compulsory requirements for depository activities.
- FSFM establishes the procedure and issues licenses for various types of professional activities in the securities market.
 - By virtue of the Securities Market Law, the FSFM Regulation and the *Regulation on Licensing Requirements and Terms and Conditions for Conducting Professional Activity in the Securities Market* (the “Licensing Regulation”), adopted by Order No. 10-49/pz-n of the FSFM, of July 20, 2010, the FSFM is authorized to issue licenses to professional participants in the securities market (the “professional participants”) including securities depositories.
 - FSFM establishes compulsory requirements for securities depository activity. The primary regulation governing depository activity is the Depository Regulation.

Status of FSFM (Condition 2 Cont'd)

FSFM has the power to *enforce* laws as they relate to securities matters including, with respect to professional participants, the following:

- FSFM can suspend or annul licenses of professional participants for violations of the Russian Federation securities legislation;
- FSFM can file lawsuits for liquidation of professional participants that violate the Russian Federation securities legislation and for application of legal sanctions to the violators;
- FSFM is empowered to organize scheduled and unscheduled inspections of professional participants, on its own or jointly, with other state regulatory bodies controlling activities of professional participants;
- FSFM is empowered to issue orders mandatory to professional participants.

Status of FSFM (Condition 2 Cont'd)

For violations of the securities legislation, FSFM is empowered to impose the following sanctions:

- i. impose monetary penalties on a professional participant and its officers, by virtue of powers vested by the Securities Market Law, the FSFM Regulation and Russian Federation Code of Administrative Offences;
- ii. suspend (up to 6 months) or annul licenses of a professional participant, by virtue of powers vested by the Securities Market Law, the FSFM Regulation, the Licensing Regulation and the Depository Regulation; and
- iii. file lawsuits for liquidation of a professional participant, by virtue of powers vested by the Securities Market Law and the FSFM Regulation.

Status of FSFM (Condition 2 Cont'd)

Conclusion:

- The scope of administrative and enforcement powers afforded to FSFM are sufficient to meet the requirements of:
 1. “a foreign governmental body (or foreign equivalent of a self-regulatory organization);
 2. empowered by a foreign government;
 3. to administer or enforce its laws;
 4. as they relate to securities matters”;
- as contemplated by the definition of a “foreign securities authority” within the meaning of Section 2(a)(49) of the 1940 Act.

ESD Condition 2: Regulated by a FFRA

NSD is regulated by the FSFM, which is a Foreign Securities Authority and a Foreign Financial Regulatory Authority.

3. Appropriate Safekeeping Conditions

In order to be an ESD, NSD must:

- hold assets for the custodian that participates in the system on behalf of the Fund;
- under safekeeping conditions no less favorable than the conditions that apply to other participants. *(See, Rule 17f-7(b)(1)(iii))*

3. Appropriate Safekeeping (Cont'd)

NSD delivers an entire range of securities settlement and safekeeping services for securities listed on stock exchanges by:

- opening and managing securities accounts;
- handling account operations as well as confirming ownership and other rights;
- informing clients about account balances; and
- informing clients about all operations carried out on their accounts.

3. Appropriate Safekeeping (Cont'd)

- All NSD customers receive the same level of safekeeping protection described in NSD's standard depository agreement:
 - Standard terms and conditions of depository activity of NSD approved by the FSFM; and
 - Procedure for interaction between the depository and customers in implementing terms and conditions of depository activity (the "standard rules") of NSD.
 - Standard terms and conditions and standard rules are integral parts of each depository agreement; all these documents are available at NSD website at www.nsd.ru.
- NSD notifies customers of changes to the conditions of services, including operational procedures by various means of communication (including electronic document interchange (EDI), public announcement at NSD's website at www.nsd.ru, and from time to time by press release).

ESD Condition 3: Appropriate Safekeeping

NSD holds assets for the custodian that participates in the system on behalf of the Fund under safekeeping conditions no less favorable than the conditions that apply to other participants.

4. Record Segregation and Maintenance

- In order to be an ESD, NSD must maintain records that identify the assets of each participant and segregate the system's own assets from the assets of participants. *(See, Rule 17f-7(b)(1)(iv))*
- In order to satisfy this condition, NSD does the following:
 - Opens securities ownership accounts to maintain records of securities owned by the account holder;
 - Opens nominee holders' accounts to maintain records of securities owned by the account holder's clients;
 - Opens trustee accounts to maintain records of securities held in fiduciary management by account holder;
 - Opens sub-accounts for segregated securities safekeeping;
 - Deposits securities;
 - Withdraws securities.

4. Record Segregation and Maintenance (Cont'd)

- In order to satisfy this condition, NSD does the following (Cont'd):
 - Transfers securities within one main account and between different securities accounts;
 - Registers pledge/ release of securities;
 - Provides reports on requests for information;
 - Confirms ownership rights of securities held in securities accounts.

- Also, as per NSD's document retention policy, all records according to legislation must be kept for 5 years plus an additional 3 years in archive, as required by Section 3.22 of *Rules for Registering Depository Operations of Credit Organizations in the Russian Federation*, approved by Order No. 02-259 of the Bank of Russia, of July 25, 1996.

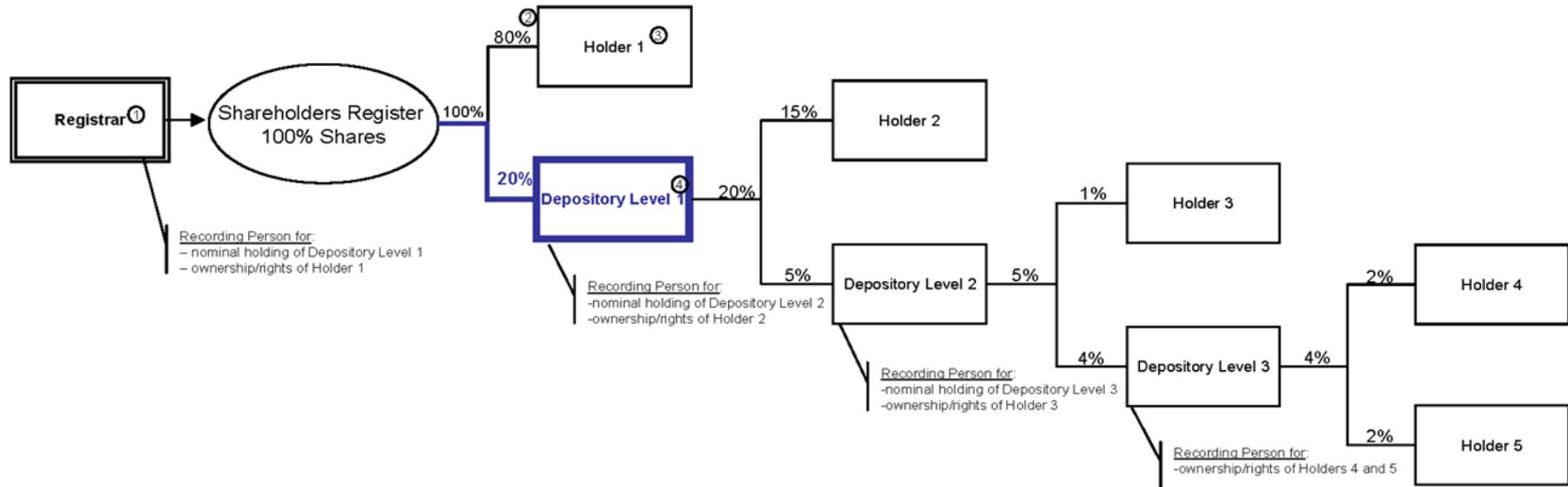
4. Record Segregation and Maintenance (Cont'd)

- NSD maintains records that identify the assets of each participant and segregates the system's own assets from those of participants. See, e.g., Article 7 of the Securities Market Law; Sections 4.4 and 4.5 of the Depository Regulation summarized in Appendix B of this Presentation.
- NSD's participants are *required* to segregate assets held for their own benefit from those they hold for their clients. See, e.g., Article 7 of the Securities Market Law; Sections 4.4 and 4.5 of the Depository Regulation summarized in Appendix B of this Presentation.

4. Record Segregation and Maintenance (Cont'd)

- Russian law protects customers' assets from claims and liabilities of the depository. The depository may not use participant securities as collateral for its own obligations, and participant securities may not be foreclosed upon or otherwise used to satisfy the depository's obligations. See, e.g., Article 7 of the Securities Market Law; Sections 4.3 and 4.13 of the Depository Regulation; and Article 73 of Federal Law No. 229-FZ "On Enforcement Proceedings," of October 2, 2007.
- NSD cannot under applicable law assess a lien on its customers' accounts. See, e.g., Article 7 of the Securities Market Law; Section 4.13 of the Depository Regulation.

Recording Rights to Shares in Russia



Notes:

- ① If the number of shareholders is less than 50, the shareholders register can be kept by the company.
- ② Percentages and number of holders/depositories/levels of depositories are for example only.
- ③ Holder is for example only, it could be a trust manager or pledgee.
- ④ If shares are traded at MICEX SE NSD is always Depository Level 1.

4. Record Segregation and Maintenance (Cont'd)

Recording Rights under Russian Law:

- If the shares are kept in custody, the depository becomes a recording person with respect to these shares. Being the recording person, the depository is entitled and, upon the holder's demand, obliged to issue documents evidencing the rights of the holder with respect to the shares held in custody.
- The registrar **cannot** certify the rights to the shares placed in custody with a depository.
- Technically, a depository opens a nominal holder account in the shareholders register (i.e., becomes a nominal holder in the register) or with another depository for the purpose of keeping the shares in custody for the benefit of their holders.

4. Record Segregation and Maintenance (Cont'd)

Grounds for Altering the Number of Shares Recorded in a Nominal Holder Account by Registrar:

- The registrar (whether an issuer or a licensed registrar) can not alter the number of the shares recorded in a nominal holder account of a depository at its own discretion/initiative.
- The registrar can alter the number of securities registered on a nominal holder account only upon direct instruction of a nominal holder (depository), unless otherwise provided by a federal law.

4. Record Segregation and Maintenance (Cont'd)

Means of Recording the Rights to the Shares under Russian Law:

- Pursuant to Section 2.4 of the Depository Regulation, entries made by the depository concerning rights to securities certify rights to the securities except as otherwise stipulated by court. Rights to registered securities deposited with a depository shall not be certified by entries in a register of registered securities holders. If the shares are kept in custody at any given time there may be only one entry executed by the depository certifying the rights to the shares.

4. Record Segregation and Maintenance (Cont'd)

Grounds for Altering the Number of Shares Recorded over a Nominal Holder Account of a Depository:

- Under Article 8.3 of the Securities Market Law a registrar shall make changes in the register system on the basis of:
 - Instructions for the transfer of the shares given by the holders (their authorized representatives) or the nominal holders; and
 - Other documents evidencing the transfer of title to the shares in accordance with the civil legislation of the Russian Federation.

- Under Section 5 of the Regulation on Procedures for Maintaining the Register of Holders of Registered Securities, approved by Resolution No. 27 of FSFM dated 2 October 1997 (the "**Registrar Regulation**") the registrar must refuse to make entries in the shareholders register in case of failure to submit all documents required to make records in the register in accordance with the Registrar Regulation.

- Under Section 5 of the Registrar Regulation the registrar must perform the operations over accounts (including the accounts of a nominal holder) in the register system in accordance with the order and terms established by the Registrar Regulation.

4. Record Segregation and Maintenance (Cont'd)

Grounds for Altering the Number of Shares Recorded over a Nominal Holder Account of a Depository:

- Section 7 of the Registrar Regulation establishes:
the exhaustive list of operations which a registrar is authorized to conduct over account of the nominal holder in the register system which can result in altering the number shares of such nominal holder and includes:
 - transfer of shares in the result of a transaction – requires presentation of duly executed instructions to the registrar by a nominal holder (depository);
 - altering the number of shares upon a court order; and
 - altering the number of shares in the result of occurrence of corporate events.
- In cases not provided by the law the registrar **cannot** alter the shares recorded over the nominal holder account.

ESD Condition 4: Recordkeeping and Segregation

NSD maintains records that identify the assets of each participant and segregates NSD's own assets from the assets of participants.

5. Periodic Reporting

In order to be an ESD, NSD must provide periodic reports to its participants with respect to its safekeeping of assets, including notices of transfers to or from any participant's account. *(See, Rule 17f-7(b)(1)(v))*

5. Periodic Reporting (Cont'd)

- NSD provides periodic reports to its participants with respect to its safekeeping of assets, including notices of transfers to or from any participant's account, as set out in NSD standard depository agreement including standard terms and conditions of depository activity of NSD (see at <http://www.nsd.ru/ru/documents/depo/>) adopted as required by Article 7 of the Securities Law and Sections 3.3, 4.12, 7.3 and 12.5 of the Depository Regulation.
- NSD provides reports after each transaction and other actions on participant's account, and provides other reports within such periods as may be requested by the customer (including on a daily, weekly, monthly or any other basis); see NSD standard depository agreement including standard terms and conditions of depository activity of NSD at <http://www.nsd.ru/ru/documents/depo/>
- As mentioned previously, as per NSD's document retention policy, all records according to legislation must be kept for 5 years plus an additional 3 years in archive.

ESD Condition 5: Periodic Reports

NSD provides periodic reports to its participants with respect to its safekeeping of assets, including notices of transfers to or from any participant's account.

6. Subject to Examination

- In order to be an ESD, NSD must be subject to periodic examination by regulatory authorities or independent accountants. (*See, Rule 17f-7(b)(1)(vi)*)
- NSD is subject to periodic examination by both “Regulatory authorities” and “Independent accountants”.

6. Subject to Examination (Cont'd)

Regulatory Authorities

- *The FSFM:* NSD as a settlement depository is subject to extensive regulation and supervision by the FSFM. For example:
 - NSD's standard terms and conditions of depository activity must be approved by the FSFM;
 - The FSFM is empowered to issue orders mandatory to NSD;
 - NSD must comply with technical, procedural, and transparency requirements; NSD must also meet certain financial qualification requirements (including capital requirements). The FSFM monitors compliance with these requirements based on information obtained from:
 - mandatory regular reporting of NSD (on a quarterly basis), as well as certain mandatory reporting effected on a non-regular basis;
 - documents and information submitted by NSD as the FSFM requests from time to time (including when a complaint is filed with the FSFM).
 - The FSFM is empowered to carry out on-site (scheduled and unscheduled) as well as documentary inspections.

Note that the FSFM has never imposed any sanction on NSD.

6. Subject to Examination (Cont'd)

Regulatory Authorities (Cont'd)

- The Bank of Russia: NSD, because of its status as a credit organization, is also subject to extensive regulation and supervision by the Bank of Russia.
- NSD must comply with certain prudential requirements (which include capital and reserve requirements), as well as procedural requirements set forth by the Bank of Russia. The Bank of Russia, through its relevant territorial department, monitors compliance based on information obtained from:
 - mandatory regular reporting of NSD (various reports are submitted every day, five-day, ten-day, month, quarter, and year); other mandatory reports are effected on a non regular basis;
 - mandatory reports on compliance with prudential requirements posted on NSD's website at www.nsd.ru. These reports must be updated on a monthly basis;
 - full-scale and thematic periodic inspections carried out by the Bank of Russia:
 - full-scale inspections were carried out in 2007 and 2010 (the 2010 inspection was in relation to NSD's recent reorganization);
 - certain thematic inspections are carried out regularly, on a quarterly basis; other thematic inspections are carried out from time to time.

Note that the Bank of Russia has never imposed any sanction on NSD.

6. Subject to Examination (Cont'd)

Independent Accountants

- Financial Audits
 - Audits of annual financial statements of NSD are carried out by external auditors.
 - Audit of 2010 financial statements was carried out by ZAO “Deloitte & Touche CIS”. Audit of 2011 financial statements will be carried out by Ernst & Young Vneshaudit CJSC.

Note that it is part of NSD’s corporate policy to follow accounting good practice and rotate its audit firms on a regular basis in order to prevent any risk or appearance of lack of independence on the part of the audit firms.

6. Subject to Examination (Cont'd)

Independent Accountants (Cont'd)

- Financial Audits (Cont'd)
 - The audit is reviewed by the Audit Commission of the Supervisory Board of NSD, the Management Board and the Supervisory Board of NSD. The results of the audit are reported to the General Shareholders Meeting of NSD. At the end of each financial year, NSD prepares an annual report to be reviewed by the Audit Commission of the NSD Supervisory Board and the Internal Audit Commission (which certifies the authenticity of the data contained in the report). Following such review, the report is approved by the NSD Supervisory Board, and then submitted for approval at an annual General Shareholders Meeting of NSD.
 - NSD must publicly disclose its annual audited IFRS and RAS financial statements. These statements are available at NSD's website at www.nsd.ru.

6. Subject to Examination (Cont'd)

Independent Accountants (Cont'd)

- Operational Audits
 - ZAO “Deloitte & Touche CIS” are the external operational auditors.
 - ZAO “Deloitte & Touche CIS” conducted NSD’s external operational audits in 2007 and 2008.
 - In 2010, ZAO “Deloitte & Touche CIS” examined the fulfillment of recommendations it had previously issued to NDC, and noted that all recommendations had been taken into account in NSD's programs for operational controls enhancement, and that the majority of its recommendations had been implemented.

ESD Condition 6: Subject to Examination

NSD is subject to periodic examination by regulatory authorities or independent accountants.

Conclusion: NSD is a Rule 17f-7 ESD

NSD satisfies each of the conditions for ESD Status:

1. Central Handling of Securities
2. Regulated By Relevant Authority
3. Appropriate Safekeeping
4. Record Segregation and Maintenance
5. Periodic Reporting
6. Subject to Examination

Conditions Applicable to U.S. Funds

- In order for a fund to avail itself of the services of an ESD, Rule 17f-7 imposes two additional conditions:
- These conditions can be grouped into two categories:
 - *Risk-Limiting Safeguards*: the custody arrangement must provide reasonable safeguards against the custody risks associated with maintaining assets with the ESD; and
 - *Withdrawal of Assets from Eligible Securities Depository*: if a custody arrangement no longer meets the requirements of Rule 17f-7, the fund's assets must be withdrawn from the depository as soon as reasonably practicable.

NSD presently satisfies both of these conditions.

What the Primary Custodian must do to help U.S. Funds satisfy SEC's risk analysis requirement :

In order for a U.S. Registered Fund to place and maintain its Foreign Assets with an ESD, the Primary Custodian must:

- Provide the Fund with an analysis of the custody risks associated with maintaining assets with the ESD.

1. Risk Analysis

Although Rule 17f-7 does not prescribe specific factors or types of risk to be considered in a risk analysis, the SEC has identified 10 factors that the analysis should cover regarding a depository:

1. Its Expertise;
2. Its Market Reputation;
3. The Quality of its Services;
4. Its Financial Strength;
5. Its Insurance and Indemnification Arrangements;
6. The Extent and Quality of Regulation;
7. The Extent and Quality of its Independent Examiners;
8. Its Standing in Published Ratings;
9. Its Internal Controls and Other Procedures for Safeguarding Investments;
10. Any Related Legal Protections.

(See, Investment Company Act, Rule 17f-7 Adopting Release, IC-24424)

Final Conclusion

- NSD is an Eligible Securities Depository within the meaning of Rule 17f-7.
- A Rule 17f-7 Analysis performed by a Primary Custodian for U.S. Funds should find that NSD meets each of the risk criteria recommended by the SEC and provides a safe and legally compliant solution to U.S. Funds seeking a reliable depository service provider in Russia.

Final Conclusion (Cont'd)

Should you have any questions relating to Rule 17f-7, please contact:

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Final Conclusion (Cont'd)

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Appendix A: *Risk-Limiting Safeguards*
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Appendix B: *Excerpts from Relevant Russian Legislation*
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Custodian Risk Analysis and Monitoring

In order for a U.S. Registered Fund to place and maintain its Foreign Assets with an ESD, the Primary Custodian must:

- Provide the Fund with an analysis of the custody risks associated with maintaining assets with the ESD.

1. NSD's Expertise

NSD provides its clients with a full suite of depository and related services including:

Settlement and Depository Services

- Safekeeping and settlement of all types of securities eligible according to Russian legislation
- FOP and DVP settlement of OTC transactions
- On-exchange settlement
- The Bank of Russia operations settlement
- Corporate actions
- Cash account maintenance and cash settlement
- FX services

Information Services

- Securities, corporate actions, issuers and registrars database (including special Depository Information Service Center ("DISC"))
- Periodic magazine
- Messages for clients on corporate website and via EDI "LUCH" (newsletters)
- CIS partnerships

Issuer Services

- Performing the function of a head depository for government and corporate bonds
- Payment agent functions

Additional Services

- NNA for Russia and also Authorized Substitute Numbering Agency for CIS (one out of 4 in the World)
- Instruction transfer to registrars via NSD EDI
- SWIFT access provider
- Tax support

NSD Expertise: History

- MICEX Settlement House (MICEX SH) was formed in 1996.
- MICEX SH was created to ensure prompt and efficient cash settlements on the MICEX markets.
- The National Depository Center (NDC) was formed in 1997.
- NDC was first established to act as a central settlement depository for the servicing of state securities.
- In 1998, NDC began operations with corporate, sub-federal and municipal securities.
- In 2009, NDC was reorganized from a non-commercial partnership to a closed stock company.
- In November 2010, NDC was reorganized by way of accession to MICEX SH. Upon reorganization, MICEX SH became NDC's universal legal successor, and was renamed "National Settlement Depository" ("NSD").

NSD Expertise: NSD's Experience

- NSD is Russia's largest settlement and safekeeping provider in terms of assets held.
- NSD is the only securities settlement system in Russia to handle all kinds of Russian securities.
- NSD is a member of the leading Russian and International associations specializing in the development of securities settlement.

NSD's Expertise – Responsibilities of NSD

- Functions as a central settlement depository in Russia's federal bonds.
- Serves as a center of technical support of dealer's sub-depository in Russia's federal securities.
- Acts as national numbering agency authorized to assign international ISIN and CFI codes for Russian securities.
- Authorized to act as substituting numbering agency for the CIS to assign international ISIN and CFI codes when authorized by national regulators.

2. NSD's Market Reputation

- NSD is the only settlement depository of Russia which services all of the types of securities issued by Russian issuers;
- National Settlement Depository (NSD) is the largest settlement depository in Russia in terms of assets held;
- Number of securities issues accepted for servicing at NSD exceeds 3,400;
- NSD is a member of ECSDA (European Central Securities Depositories Association), AECSD (Association of Eurasian Central Securities Depositories), ANNA (Association of National Numbering Agencies), NSMA (National Securities Market Association), and RosSWIFT;
- AECSD has been selected to host the 12th World Conference of Central Securities Depositories in 2013; and NSD functions as the Secretariat of AECSD and has been appointed as the Administrator of the CSD12.

3. Quality of NSD's Services

Recent Awards and Recognition*

NSD has earned praise from a number of institutions in Russia, including:

- Since 2007, NDC (NSD's predecessor) had been ranked 7 times as the largest Russian depository, by total market value of serviced securities, in Russia's Top 30 Depositories Ranking issued by the Infrastructure Institute Foundation (rankings are attributed on a semi-annual basis); **

* As of mid-2010

** The ranking is prepared by the Professional Association of Registrars, Transfer Agents and Depositories (PARTAD) on the basis of data calculated using the FSFM-approved securities market value determination methods as reported by depositories to the FSFM. NDC had been listed among the largest Russian depositories since 2002. See at www.safedepo.ru/top30_dep.php. Infrastructure Institute Foundation (INFI), which is a PARTAD research and training subdivision, has regularly conducted national rating studies of Russian depositories since 2000 (and specialized depositories since 2003). More information at www.partad.ru/eng/general_inform.html

3. Quality of NSD's Services (Cont'd)

- NDC has received numerous awards in the prestigious Infrastructural Institute contest held annually since 2006 by PARTAD and the Securities Market (*Rynok Tsennykh Bumag*) Magazine. The awards in various categories are based on partners' and customers' views on the participants (registrars and depositories). The winner in each category is selected from three nominees picked among the most highly ranked participants. NDC has been nominated and won in a number of categories including:
 - Infrastructural Institute of the Year (the main category), a nominee for 3 times since 2006;
 - For Development of EDI (electronic data interchange), a nominee for 2006, and the winner three times since 2007;
 - For High Quality Services, a nominee four times since 2006.

For more information, please see at www.partad.ru/awards

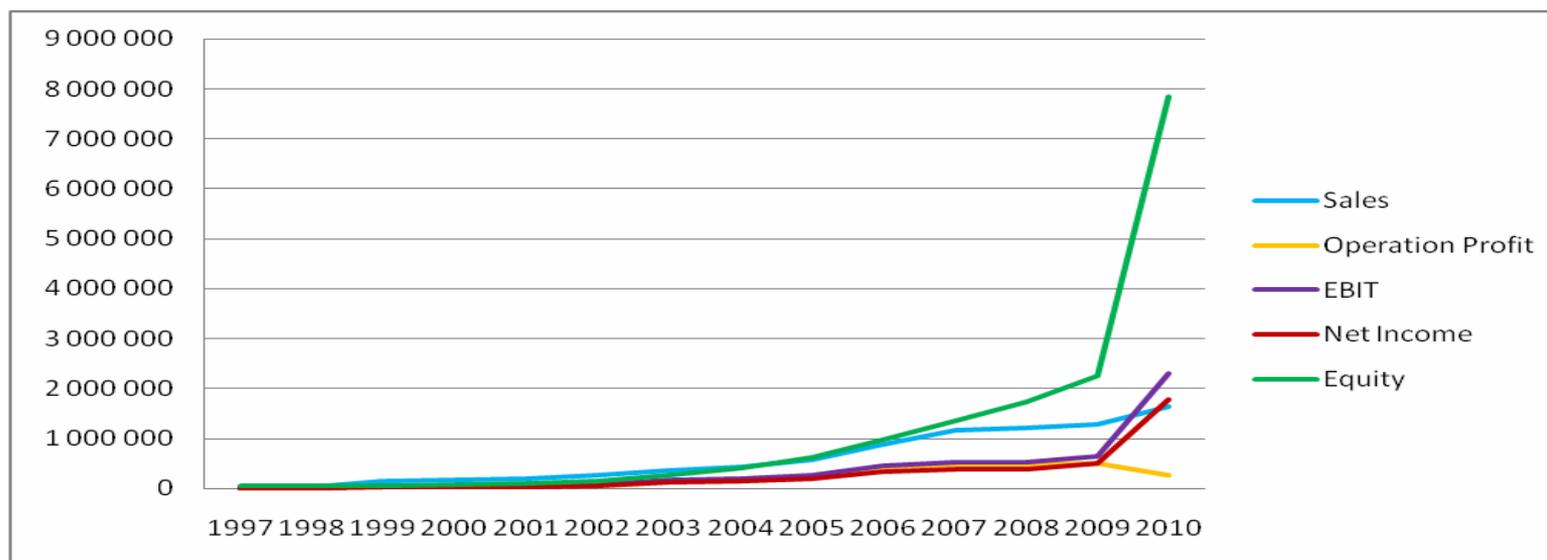
4. NSD's Financial Strength

- NSD has continuously complied with regulatory capital and other financial requirements; and has been well capitalized and consistently profitable over the years.
- NSD is the 36th largest credit institution in Russia by total assets (note that assets include customer assets on deposit) based on data collected as of April 2011 from Russian credit institutions by www.bankir.ru/rating/.*

* The site www.bankir.ru is a leading online resource on banks and Russian financial markets with a history spanning over ten years.

4. NSD's Financial Strength (Cont'd)

Financial Retrospective*



* Figures in thousand rubles

Data from 1997-2009 are derived from the annual financial statements of NDC (NSD's predecessor); and 2010 (post-reorganization) data is derived from the 2010 annual financial statements of NSD.

For annual financial statements please refer to NSD's website at www.nsd.ru and www.nsd.ru/en/about/annrep/.

5. NSD's Insurance and Indemnification Arrangements

- NSD is insured by Ingosstrakh under a combined crime and liability insurance policy. The coverage period of the current policy is from December 1, 2010 through November 30, 2011.
- The present liability limit is US\$50 million with an unconditional franchise deductible of US\$ 250,000. The insurance coverage applies to losses incurred by NSD for third party claims and includes claims first discovered by NSD or claimed by third parties against NSD from September 1, 2002. NSD has been insured by Ingosstrakh since 2002.
- NSD bears unlimited liability to its clients: Under Section 4.14 of the Depository Regulation, the depository must compensate its customers for losses incurred as a result of the depository's failure to perform, or to duly perform, its obligations related to safekeeping of securities and/or recording of rights to securities, including losing records on depo accounts, and the depository's failure to duly perform its obligations under the depository agreement; an exception is afforded if the depository proves that such losses occurred due to a force majeure event or resulted from willful intent or gross negligence of the customer.
- Any agreement between the depository and its customer limiting the depository's liability is null and void. Under Article 15 of the RF Civil Code, losses include both direct damages and lost profit.

6. Extent and Quality of Regulation

- The FSFM is a federal executive body that issues regulation, but also controls and monitors financial markets. The FSFM performs the same functions in the sphere of formation and investing of pension savings and in the activities of market exchanges.
- The FSFM is governed in its activities by the Russian Federation Constitution, federal constitutional laws, federal laws, acts of the Russian Federation President and the Russian Federation Government, international treaties of the Russian Federation, and by the FSFM Regulation (the list of relevant laws and regulations is available at the FSFM's website at www.fcsm.ru).
- The FSFM takes an active role in the Russian securities market.

6. Extent and Quality of Regulation (Cont'd)

- Based on its 2009 annual report (available at www.fcsm.ru), the FSFM (through its Central Office and Territorial Departments):
 - conducted more than 11,000 inspections (including of issuers, professional participants, participants of collective investments market, self-regulatory organizations), of which 709 were participants and professional participants.
 - initiated 7,958 administrative cases for violations in the financial markets sphere;
 - imposed 1,272,441,333 Rubles (ca. US\$ 46.6 million) of administrative fines.

More information is available on FSFM's website at www.fcsm.ru.

7. Extent and Quality of NSD's Independent Examination

- NSD (including its predecessor entities) has always been subject to regular external financial audits, as follows:
 - MICEX SH:
 - Price Waterhouse (1997-1998);
 - ZAO PricewaterhouseCoopers Audit (1999-2005);
 - ZAO “Deloitte & Touche CIS” (2006-2010).
 - NDC:
 - Tsentr Buhgaltera i Auditora (1997-1999);
 - ZAO PricewaterhouseCoopers Audit (2000-2005);
 - ZAO “Deloitte & Touche CIS” (2006-2009; in 2010, NDC financial statements were already audited as part of NSD).

7. Extent and Quality of NSD's Independent Examination (Cont'd)

- All auditors opinions of NSD (including its predecessor entities) have always been unqualified.
- Ernst & Young Vneshaudit CJSC are appointed as external financial auditors for 2011, at the Annual General Shareholders Meeting of NSD, of April 26, 2011. Under Russian law, NSD has to re-appoint external auditors annually. NSD's policy is to retain the same auditor for a limited number of years and then to rotate audit firms.

8. NSD's Standing in Published Ratings

In 2006, Thomas Murray issued a Public Depository Rating to NDC. NDC was awarded a Public CSD rating of A+, **a low overall risk** rating; see at http://www.thomasmurray.com//press/2006//20060621_Thomas_Murray_Issues_Public_Rating_for_NDC_Russia.html

In 2007, Thomas Murray affirmed NDC's rating at **A+**, **a low overall risk**, see at <http://www.nsd.ru/en/press/ndcnews/index.php?id22=18658> and at http://www.thomasmurray.com//press/2007//20070725_Thomas_Murray_Affirms_the_CSD_Rating_for_NDC.html

In 2008, Thomas Murray upgraded NDC's rating to **AA-**, which means **very low risk**, see at <http://www.nsd.ru/en/press/ndcnews/index.php?id22=25913> and at http://www.thomasmurray.com/press/2008/20080710_thomas_murray_upgrades_ndc_rating.html

Preparation of the rating for NSD (as a reorganized entity) is presently under way.

9. NSD's Internal Controls and Other Procedures for Safeguarding Investments

NSD has the following internal control departments and bodies:

- The Internal Audit Service, as required by the banking laws and regulations. The Head of the Service is appointed by the NSD Supervisory Board. The NSD Supervisory Board approves the annual work schedule of the Internal Audit Service. Among other things, this schedule contemplates regular audits (at least once or twice per month). The Service must report to the NSD Supervisory Board at least twice a year.
- The Internal Control Service, as required by the securities market laws and regulations. The Head of the Service is appointed by the CEO of NSD (the Head of the Management Board). The Service reports to the NSD Supervisory Board.

The NSD Supervisory Board approves the annual work schedule of the Internal Control Service. Among other things, this schedule contemplates regular control audits (at least two or three times per month). The Service must report to the NSD Supervisory Board at least once a quarter.

9. NSD's Internal Controls and Other Procedures for Safeguarding Investments (Cont'd)

- The Internal Audit (*Revisionnaya*) Commission, a regulation of which is approved by the General Shareholders Meeting. The Internal Audit Commission monitors the financial and business operations of NSD. Members of the Internal Audit Commission are elected at an annual General Shareholders Meeting of NSD.

The Internal Audit Commission conducts audits on a regular basis (annually), and at any time upon the decision of: (1) the Supervisory Board; (2) a General Shareholders Meeting; or (3) at the request of shareholder(s) holding at least 10% of voting shares in NSD. The Internal Audit Commission may also conduct audits upon its own initiative at any time.

- The Audit Commission of the NSD Supervisory Board, which functions under a regulation approved by the NSD Supervisory Board. The main objective of the Commission is to ensure efficiency of the NSD Supervisory Board in addressing matters relating to the administration of the internal control system, external audit and risk management system. Members of the Commission are approved by the NSD Supervisory Board.

9. NSD's Internal Controls and Other Procedures for Safeguarding Investments (Cont'd)

- The NSD Supervisory Board, responsible among other things for creating and monitoring an internal control system of NSD.
- In addition, certain other NSD officers and bodies have internal control functions (including the chief accountant, anti-money laundering officers, the CEO (the Chairman of the Management Board), and the General Shareholders Meeting).

10. Related Legal Protections Provided by NSD

Using the services of NSD will reduce risk for U.S. registered funds, because:

- Under applicable legislation, NSD may not cancel or revoke the securities deposited with NSD, or have their number altered, other than in instances permitted by law or the depository agreement. See, e.g., Article 7 of the Securities Market Law; Sections 4.13, 5.1, 5.2, 12.1, 12.3 and 12.6 of the Depository Regulation.
- NSD standard documentation does not contain any clauses limiting its liability to clients.
- NSD believes that the legal protection of deposited securities combined with the rules of NSD provide a higher level of protection for U.S. funds as compared with any other depository or registrar in Russia.

Conclusion

Risk Analysis conditions are satisfied as demonstrated above for the information of Fund's Primary Custodian:

1. NSD's Expertise;
2. NSD's Market Reputation;
3. Quality of NSD's Services;
4. NSD's Financial Strength;
5. Insurance & Indemnification Arrangements;
6. Extent & Quality of Regulation;
7. Extent & Quality of NSD's Independent Examination;
8. NSD's Standing in Published Ratings;
9. NSD's Internal Controls & other procedures for safeguarding investments;
10. Any related legal protections.

Excerpts from Relevant Russian Legislation

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Excerpts from Relevant Russian Legislation*

Under Article 1 of the Securities Market Law

This Federal Law regulates relations which arise in connection with the issuance and circulation of issue securities, irrespective of the type of issuer, and in connection with the circulation of other securities in instances envisaged by federal laws, and the specifics of the establishment and activities of professional participants in the securities market.

* Translated into English by translators of Dewey & LeBoeuf; Russian legislation is adopted and officially published in the Russian language only.

Excerpts from Relevant Russian Legislation

Under Article 2 of the Securities Market Law

An “issuance security” means any security, including uncertificated securities, which has all of the following characteristics:

- it confers a number of property and non-property rights which may be certified, assigned and unconditionally exercised, subject to compliance with the form and procedure established by the Securities Market Law;
- it is allocated in issues;
- it confers an equal scope of rights with the same time limits for exercising those rights within an issue, irrespective of the time of acquiring the security.

“registered issuance securities” mean securities with respect to which information on their holders must be available to the issuer in the form of a register of holders of securities and the holder must be identified in order for rights to the securities to be transferred and rights which are conferred by the securities to be exercised.

Under Article 2 of the Securities Market Law (Cont'd)

“bearer issuance securities” mean securities with respect to which the holder need not be identified in order for rights to them to be transferred and for the rights which are conferred by them to be exercised.

“certificated form of issuance securities” means a form of issuance securities whereby the holder is established by means of the presentation of a properly drawn-up securities certificate or, in the event that a certificate has been deposited, on the basis of the entry on a depo account.

“uncertificated form of issuance securities” means a form of issuance securities whereby the holder is established on the basis of an entry in the securities holders register system or, in the event that securities have been deposited, on the basis of the entry on a depo account.

Excerpts from Relevant Russian Legislation (Cont'd)

Under Article 7 of the Securities Market Law

An agreement between a depository and a deponent regulating their relationship in the course of depository operations is called a depository agreement (depo account agreement). The depository agreement shall be made in writing. A depository shall approve terms and conditions of its depository operations which shall be an integral part of the executed depository agreement.

A depository agreement must contain the following material terms and conditions:

- (b) procedure for a deponent to communicate information to the depository on operations with the deponent's securities deposited with the depository;
- (e) form and frequency of the depository reports to be provided to the deponent;

Excerpts from Relevant Russian Legislation (Cont'd)

Under Article 7 of the Securities Market Law (Cont'd)

- entry into a deposit agreement does not result in transfer to the depository of title to the deponent's securities;
- deponents' securities cannot be foreclosed on account of the depository's obligations.

Also under Article 7 of the Securities Market Law

The depository's obligations include keeping a deponent's depo account separate from other accounts and indicating the date and the grounds for each operation on the account.

Excerpts from Relevant Russian Legislation (Cont'd)

Under Article 7 of the Securities Market Law (Cont'd)

Unless otherwise contemplated by a federal law, a depository may not dispose of deponents' securities, manage them or take any actions with regard to them on behalf of a deponent, except as instructed by a deponent in events contemplated by a depository agreement. A depository may not make execution of a depository agreement with a deponent conditional upon any waiver by the latter of any of its rights conferred by the securities.

Also under Article 7 of the Securities Market Law

The depository shall have the right to be registered within the system of maintenance of registers of securities holders or with another depository as a nominee holder under a deposit agreement.

Excerpts from Relevant Russian Legislation (Cont'd)

Under Article 8.1 of the Securities Market Law

The securities holders' register (the "register") is part of the register maintenance system consisting of a list of registered holders with an indication of the number, nominal value and type of registered securities held by them, compiled as of a specific date and allowing such owners, number and type of securities held by them to be identified.

A holder of the register of holders of securities can be the issuer or a professional participant in the securities market carrying out the activities on maintaining the register upon the instruction of the issuer.

Excerpts from Relevant Russian Legislation (Cont'd)

Under Article 8.3 of the Securities Market Law

Registrar shall make changes in the register system on the basis of:

- An instruction to transfer the shares given by the holder, or the person acting in his name, or the securities nominee holder registered within the register maintenance system in accordance with the register maintenance rules stipulated by the laws of the Russian Federation; and
- Other documents evidencing the transfer of title to the securities in accordance with the civil legislation of the Russian Federation.

Also under Article 8.3 of the Securities Market Law

Obligations of a registrar include:

- performance of transactions on personal accounts of holders and nominee holders only on their instructions, unless otherwise provided by the federal law.

Excerpts from Relevant Russian Legislation (Cont'd)

Under Article 16 of the Securities Market Law

Issuance securities may be registered or bearer. Registered issuance securities may be issued only in an uncertificated form, except as otherwise provided for by federal laws. Bearer issuance securities may be issued only in a certificated form.

The decision on the issue of bearer issuance securities, and, in instances provided for by federal laws, the decision on the issue of registered issuance securities may specify that those securities are subject to mandatory custody at a depository specified by the issuer (issuance securities subject to mandatory centralized custody). A certificate for bearer issuance securities subject to mandatory centralized custody may not be physically handed to the holder (holders) of those securities.

Excerpts from Relevant Russian Legislation (Cont'd)

Under Article 28 of the Securities Market Law

(...)

Rights of holders to the uncertificated issuance securities are certified in the register system by entries in the personal accounts at the holder of the register or where the rights to the securities are recorded in a depository – by records in depo accounts with a depository.

(...)

Under Article 29 of the Securities Market Law

The right to a bearer certificated security shall pass to the acquirer:

- where the security certificate is held by the holder - at the time the certificate is transferred to the acquirer;
- where certificates for bearer certificated securities are deposited with and/or the rights to such securities are recorded at a depository - at the time a credit entry is made on the acquirer's depo account.

The right to a registered uncertificated security shall pass to the acquirer:

- where the rights to securities are recorded by a depository - from the time a credit entry is made on the acquirer's depo account;
- where the rights to securities are recorded in a register system - from the time when a credit entry is made on the acquirer's personal account.

Excerpts from Relevant Russian Legislation (Cont'd)

Under Section 2.1 of the Depository Regulation

The securities market record system shall mean an aggregate of record-keeping institutions, i.e. depository organizations and organizations keeping registers of securities' holders. (...)

Excerpts from Relevant Russian Legislation (Cont'd)

Under Section 2.3 of the Depository Regulation

Depository operations include obligatory provision to customers (deponents*) of services of record-keeping and certification of rights to securities, record-keeping and certification of securities' transfers, including any encumbrances on securities.

Placement of securities certificates in custody with a depository accompanied by record-keeping and certification of rights to securities at the depository entails a change in the means of certification of rights to the securities: certification of rights by a certificate is replaced with certification of rights by means of an entry in a depo account opened with the depository.

A transfer of securities from the register maintenance system to a depository acting as a nominee holder of securities entails a change in the method of certifying rights to the securities, i.e. the certification of the rights by means of an entry in a personal account in the register maintenance system (as well as a certificate, if any) shall be replaced with the certification of the rights by an entry in a depo account open with the depository.

* Under Article 7 of the Securities Market law, a person who uses a depository's services of safe-custody of securities and/or record-keeping of rights to securities shall be called a deponent

Excerpts from Relevant Russian Legislation (Cont'd)

Under Section 2.4 of the Depository Regulation

Entries made by the depository concerning rights to securities certify rights to the securities except as otherwise stipulated by court.

Rights to registered securities deposited with a depository shall not be certified by entries in a register of registered securities holders. As securities are kept in custody and/or as the rights to securities are recorded in the depository, at any given time there may be only one entry executed by the depository certifying the rights to the security.

Excerpts from Relevant Russian Legislation (Cont'd)

Under Section 3.1 of the Depository Regulation

Depository activities can be carried out only by legal entities having a license of a professional participant in the securities market for the performance of depository activities.

Under Section 3.3 of the Depository Regulation

A depository shall develop and approve terms and conditions of the depository operations which shall contain information with regard to:

- the procedure for provision of account statements to customers (deponents);
- the procedure and time periods for submitting to the customers (deponents) of reports on completed operations, as well as the procedure and time periods for submitting to the customers (deponents) of the documents certifying their rights to securities

Excerpts from Relevant Russian Legislation (Cont'd)

Under Section 4.3 of the Depository Regulation

Customers' (deponents') securities shall not be collected for the depository's own debts. Should the depository go bankrupt, customers' (deponents') securities shall not be included in the debtor's estate.

Under Section 4.4 of the Depository Regulation

To ensure safekeeping of the customers' securities, the depository shall provide separate custody of the securities and/or record-keeping of the rights to customers' (deponents') securities from the securities owned by the depository itself. To this end, the depository shall act as a nominee holder of the customers' securities in the register of the registered securities holders or at another depository and shall ensure separation of the accounts to be opened in the register of the registered securities' holders or at another depository into an account for its own securities and an account for the deponents (customers') securities.

Excerpts from Relevant Russian Legislation (Cont'd)

Under Section 4.5 of the Depository Regulation

The depository shall also provide separate custody of each customer's (deponent's) securities and/or records of the rights to securities from the securities of the other customers (deponents) of the depository, in particular, by opening a separate depo account for each customer/deponent.

Under Section 4.12 of the Depository Regulation

The depository shall provide to the customer (deponent) the reports on operations performed with the customer's (deponent's) securities which are kept and/or the rights to which are recorded at the depository. Reports and documents shall be provided within the time periods stipulated in the depository agreement.

Excerpts from Relevant Russian Legislation (Cont'd)

Under Section 4.13 of the Depository Regulation

The depository may not:

- acquire pledge or lien rights with respect to the customer's (deponent's) securities being in its custody and/or the rights to which are recorded with the depository, without the customer's (deponent's) consent in writing;
- dispose of the customer's (deponent's) securities without an instruction of the latter;
- The depository may not be liable for its own obligations with the customer's (deponent's) securities and may not use them as collateral for the performance of its own obligations, or obligations of other customers or other third parties;
- The depository may not dispose of the customer's (deponent's) securities without an instruction of the customer (deponent).

Excerpts from Relevant Russian Legislation (Cont'd)

Under Section 5.1 of the Depository Regulation

A depository shall effect operations with securities of its customers (deponents) only on the instructions of such customers (deponents) or persons authorized by them, including account trustees, and within the deadline stipulated by the depository agreement. The depository shall make entries on the customer's (deponent's) depo account only against documents which, in accordance with this Regulation or other regulations and the depository agreement, constitute grounds for such entries to be made.

Under Section 5.2 of the Depository Regulation

The following are the grounds on which an entry on customer's (deponent's) depo account can be made:

- instruction of a customer (deponent) or person authorized by it, including an account trustee, meeting the requirements stipulated by the depository agreement;
- where rights to securities are transferred other than as a result of civil law transactions, documents evidencing the transfer of rights to securities pursuant to applicable laws and other regulations.

Excerpts from Relevant Russian Legislation (Cont'd)

Under Section 5.3 of the Depository Regulation

A depository shall be obliged to register facts of encumbering its customers' (deponents') securities with pledge as well as with other third party rights as set out in the depository agreement.

Under Section 7.3 of the Depository Regulation

The depository agreement shall include the following terms and conditions:

(...)

the procedure and form for the depository's reporting to the customer (deponent)

Excerpts from Relevant Russian Legislation (Cont'd)

Under Section 11.6 of the Depository Regulation

When the open record-keeping method is used, a customer may instruct the depository only with respect to a certain number of securities recorded on the depo account without specifying their individual attributes (such as the number, series and category) or the individual attributes of such securities' certificates.

When the closed method of record-keeping of the rights to securities is used, the depository shall accept and perform the customer instructions with respect to any specific security recorded on its depo account, or to the securities recorded on its depo account and certified by a specific certificate.

When the marked method for record-keeping of the rights to securities is used, the customer, when issuing instructions, shall indicate, apart from the number of securities, an attribute of the group, into which such securities or the certificates thereof are included. The groups, into which the securities of the issue are divided, may be determined by the conditions of the issue or by specifics of the custody/record-keeping of specific groups of securities, and/or the certificates certifying them.

Excerpts from Relevant Russian Legislation (Cont'd)

Also under Section 11.6 of the Depository Regulation

The depository may keep records of customer securities using the following methods:

- Open record-keeping method;
- Closed record-keeping method; or
- Marked record-keeping method.

Under Section 11.7 of the Depository Regulation

The depository may independently determine which methods to apply to record the rights to securities, unless the use of a specific method is a condition sine qua non for organization of the record-keeping of the securities issue serviced by the depository.

Under Section 12.1 of the Depository Regulation

A depository operation is the whole of actions performed by a depository with account registers, securities' certificates kept by the depository and other depository record-keeping materials.

Excerpts from Relevant Russian Legislation (Cont'd)

Under Section 12.3 of the Depository Regulation

The grounds for the performance of a depository operation shall be an instruction, a document signed by the initiator of the operation and delivered to the depository.

Depending upon an operation initiator, the following types of instructions can be singled out:

- customer instructions: the initiator is a customer (deponent), a person authorized by the customer (deponent), or the account trustee;
- service instructions: the initiator is an officer of the depository;*
- official instructions: the initiator is an authorized governmental agency; and
- global instructions: the initiator, as a rule, is an issuer or a registrar acting on the issuer's instructions.

* **Note:** limited instances when service instructions could be issued are specified in the depository agreement and the standard terms and conditions of depository activity of NSD and the standard rules of NSD (see at <http://www.nsd.ru/ru/documents/depo/>). In sum, service instructions are issued in case of (i) court orders, decisions and orders of governmental agencies or other similar events; (ii) corporate actions of the issuer; (iii) other events not dependant on NSD or its customer (e.g., technical mistakes, replacement of the registrar).

Excerpts from Relevant Russian Legislation (Cont'd)

Under Section 12.5 of the Depository Regulation

Completion of a depository operation shall be the delivery of the operation completion report to all persons specified as report recipients in the regulations on the performance of such operation. Delivery of the report to the initiator of the operation shall be mandatory.

Under Section 12.6 of the Depository Regulation

In cases stipulated by federal laws and other regulations, the depository shall perform written instructions of governmental agencies: courts, and bodies of enquiry and investigation. Governmental agencies' instructions shall be accompanied by appropriate documents: a court decision, writ of execution, writ of attachment, etc.

Excerpts from Relevant Russian Legislation (Cont'd)

Under Article 73 of Federal Law No.229-FZ "On Enforcement Proceedings," of October 2, 2007

For debts of a professional participant in the securities market there can be no foreclosure on its customers' securities held on personal accounts in the register system or on depo accounts with depositories opened by the professional participant in the securities market pursuant to the Federal Law on the Securities Market.

Excerpts from Relevant Russian Legislation (Cont'd)

Under Article 44 of the Stock Companies Law

1. A register of the shareholders of a company shall comprise information on each person registered, the quantity and categories (types) of shares recorded in the name of each registered person, and other information stipulated in legal acts of the Russian Federation.
 2. The company shall ensure the keeping and storing of the register of the company's shareholders in accordance with the legal acts of the Russian Federation from the time of the company's state registration.
 3. The register of the company's shareholders may be held by this company or registrar.
- The register of shareholders of a company having more than 50 shareholders shall be held by a registrar.
- (...)

Excerpts from Relevant Russian Legislation (Cont'd)

Under Article 45.1 of the Stock Companies Law

An entry in the register of a company's shareholders shall be made on request of a shareholder, nominee shareholder or, where so contemplated by this Federal Law, on request of other persons within three (3) days from submission of documents required by laws and regulations of the Russian Federation.

Excerpts from Relevant Russian Legislation (Cont'd)

Under Article 84.8 of the Stock Companies Law

(Article 84.8. Purchase of securities of an open stock company on demand of a person who acquired over 95 percent of shares in such open stock company)

1. The person referred to in Article 84.7.1 of this Federal Law [*a person who as a result of a voluntary or mandatory offer to acquire all securities of an open stock company became a holder of over 95 percent of the total number of shares in an open stock company*] may purchase such securities from the shareholders holding shares in the open stock company (...), and from holders of issue securities convertible into such shares in the open stock company.

(...)

8. Within three days upon submittal by the person specified in clause 1 of this Article, of the documents confirming that he has paid for the purchased securities, the securities holders registrar shall debit the purchased securities from personal accounts of their holders, and from personal accounts of nominee holders and credit them to the personal account of the person specified in clause 1 of this Article. Debiting of the purchased securities from personal account of the nominee holder in the procedure stipulated by this Article, shall serve as the ground for making by the nominee holder of an entry of termination of his rights to the corresponding securities for the depo accounts of the client (deponent) without the mandate of the latter.

Excerpts from Relevant Russian Legislation (Cont'd)

Under Section 1 of the Registrar Regulation

The Regulation for Maintenance of Registered Securities Holders Registers (the "Regulation") set out a procedure for the maintenance of, and requirements applicable to the system of maintenance of, registers of registered securities holders which are binding on both registrars and issuers.

(...)

The requirements of these Regulation are binding on issuers who maintain a register independently in accordance with the laws of the Russian Federation.

Excerpts from Relevant Russian Legislation (Cont'd)

Under Section 2 of the Registrar Regulation

A registered person is an individual or a legal entity information on which is recorded in the register.

Types of registered persons:

- Holder – a person who has ownership title or other proprietary rights to the securities;
- Nominal holder – a professional participant in the securities market, who holds the securities in its own name but for the benefit of another person, and does not have ownership title to the securities;
- Trust manager – a legal entity or an individual entrepreneur (professional participant in the securities market), carrying out trust management over the securities, which it received in possession for a definite term and which are owned by another person, in the interest of such person or in the interest of third parties indicated by such person;
- Pledgee – creditor under an obligation secured by pledge, in whose name the pledge of securities is recorded.

Excerpts from Relevant Russian Legislation (Cont'd)

Under Section 5 of the Registrar Regulation

The registrar is required to refuse to make an entry in the register in the following instances:

- there have not been submitted all the documents required to be submitted for making entries in the register in accordance with this Regulation;
- the documents submitted do not contain all the information required in accordance with this Regulation or contain information that does not accord with the information contained in the documents submitted to the Registrar in accordance with paragraph 7.1 of this Regulation;
- the account of the registered person in respect of which there has been issued an order to write off securities has been blocked;
- the register does not contain a questionnaire filled out by the registered person containing a sample of his signature; the documents were not submitted by the registered person himself; the signature on the order is not certified in any of the ways provided for in this Regulation;
- The Registrar has serious and reasonable doubts as to the authenticity of the uncertified signature on the documents in case the documents were not submitted by the registered person himself who transfers securities or by his authorized representative;

Excerpts from Relevant Russian Legislation (Cont'd)

Under Section 5 of the Registrar Regulation (Cont'd)

The registrar is required to refuse to make an entry in the register in the following instances:

- the register does not contain information about the person who transfers securities and/or about the securities in respect of which the order was issued to make entries in the register and the absence of such information is not due to an oversight on the part of the Registrar;
- the quantity of securities specified in the order or in some other document on the basis of which entries are required to be made in the register exceeds the quantity of securities recorded in the personal account of the registered person;
- the parties to the transaction have not paid or have not provided guarantees of the payment for the Registrar's services of an amount determined in accordance with the Registrar's price list.
- (...)

Excerpts from Relevant Russian Legislation (Cont'd)

Under Section 7 of the Registrar Regulation

The Registrar is required to make entries in the register regarding a transfer of the ownership right to securities in the following instances:

- there have been submitted all the documents required to be submitted in accordance with this Regulation;
- the documents submitted contain all information required in accordance with this Regulation;
- the quantity of securities specified in the transfer order or in some other document on the basis of which entries are required to be made in the register does not exceed the quantity of securities recorded in the personal account of the registered person who transfers the securities;
- the authenticity of the signature of the registered person or his authorized representative has been verified in the manner established by this Regulation;
- the person who applies to the Registrar has paid for his services or has provided a guarantee of the payment of an amount determined in accordance with the Registrar's price list;
- the personal account of the registered person who transfers securities has not been blocked.
- a refusal to make an entry in the register is permitted only in the instances specified in this Regulation.
- (...)

Excerpts from Relevant Russian Legislation (Cont'd)

Under Section 7 of the Registrar Regulation (Cont'd)

7. Operations performed by the Registrar

7.3.1 Documents required for making an entry in the register regarding a transfer of the ownership right to securities in connection with a transfer transaction

The Registrar is required to make an entry in the register evidencing a transfer of the ownership right to securities in connection with a transfer transaction upon submission to him of the following documents:

- a transfer order (to be left with the Registrar);
- an identity document (to be presented to the Registrar);
- an original or a notarized copy of a document confirming the powers of the authorized representative (to be left with the Registrar);
- a written consent of the co-holders in case the securities are jointly held by several persons (to be left with the Registrar);
- security certificates that belonged to the former holder in the case of certificated securities (to be left with the Registrar).

Excerpts from Relevant Russian Legislation (Cont'd)

Under Section 7 of the Registrar Regulation (Cont'd)

7. Operations performed by the Registrar (Cont'd)

7.3.3 Documents required for making an entry in the register regarding a transfer of the ownership right to securities made pursuant to a court order

The Registrar is required to make an entry reflecting a transfer of the ownership right to securities made pursuant to a court order upon submission of the following documents: a copy of the court order that has come into legal force, certified by the court, and a writ of execution (to be left with the Registrar); security certificates that belonged to the former holder in the case of certificated securities (to be left with the Registrar).

•(...)

Excerpts from Relevant Russian Legislation (Cont'd)

Under Section 7 of the Registrar Regulation (Cont'd)

7.4. Operations to be performed pursuant to the issuer's instructions

7.4.1. Making an entry in respect of the placement of securities

In the case of the distribution of shares following the establishment of a joint-stock company or in the case of distribution of additionally issued shares or other securities through subscription, the Registrar is required:

- to make an entry in the register containing information about the issuer in accordance with paragraph 3.1 of this Regulation (in the case of the entries made in connection with the establishment of a joint-stock company);
- to make an entry in the register containing information on the issue of securities in accordance with paragraph 3.2 of this Regulation (in all cases);
- to open the issuer's account and/or to record therein such quantity of securities as is specified in the decision on the issue of securities (in all cases);

Excerpts from Relevant Russian Legislation (Cont'd)

7.4.1. Making an entry in respect of the placement of securities (Cont'd)

In the case of the distribution of shares following the establishment of a joint-stock company or in the case of distribution of additionally issued shares or other securities through subscription, the Registrar is required (Cont'd):

- to open personal accounts for registered persons and to write off the securities from the issuer's account and to record them to the personal accounts of the registered persons in such quantities as are indicated in the decision on the issue of securities (in the case of the entries made in connection with the distribution of shares upon establishment of a joint-stock company) or in the documents on the basis of which the entries regarding the acquisition of securities are made in the register (in all other cases);
- to cancel undistributed securities on the basis of the report on the results of the issue of securities;
- to check the quantity of the securities placed against the quantity of securities recorded in the personal accounts of the registered persons.

Excerpts from Relevant Russian Legislation (Cont'd)

Under Section 7 of the Registrar Regulation (Cont'd)

7.4. Operations to be performed pursuant to the issuer's instructions (Cont'd)

7.4.2. Making entries regarding the conversion of securities

In the case of placement of securities through their conversion the Registrar is required:

- to make an entry in the register reflecting the issue of the securities in accordance with paragraph 3.2 of this Regulation;
- to record in the issuer's account the securities to which the securities of a prior issue are converted in such quantity as is indicated in the decision on the issue of the securities;
- to effect the conversion of the securities by transferring the requisite quantity of securities of the new issue from the issuer's account to the personal accounts of registered persons and by transferring the securities of a prior issue from the personal accounts of the registered persons to the issuer's account;
- to cancel the securities of the prior issue;
- to check the quantity of securities placed against the quantity of securities recorded in the personal accounts of the registered persons.
- The Registrar shall make entries reflecting the conversion in respect of the entire issue or in respect of the securities belonging to individual holders (if so provided for by the decision on the issue of securities). Conversion of securities may be effected only after the state registration of the issue of the securities to which the conversion is made.
- (...)

Excerpts from Relevant Russian Legislation (Cont'd)

Under Section 7 of the Registrar Regulation (Cont'd)

7.7. Making entries in the register reflecting addition or writing off of securities to/from the account of a nominee holder.

Securities are recorded in the account of a nominee holder on the basis of a transfer order from the holder of such securities or from another nominee holder. The Registrar does not have the right to request the submission of an agreement between the nominee holder and his client.

If the register does not contain a personal account of the nominee holder, the Registrar is required to open a personal account for such holder and to record in it the securities, the class, the quantity, the category (type) and the issue state registration number of which are indicated in the transfer order.

Securities recorded in the personal account of a nominee holder are not recorded in the personal account of the registered person on whose behalf the nominee holder acts.

Under Section 7 of the Registrar Regulation (Cont'd)

7.7. Making entries in the register reflecting addition or writing off of securities to/from the account of a nominee holder. (Cont'd)

If an entry is required to be made in the register as a result of a transfer transaction with the concurrent transfer of securities to a nominee holder, the information on the nominee holder is required to be entered in the register on the basis of the transfer order from the registered person without making an entry in the register regarding the new holder who acquired the securities. In such a case, entries in the register are made on the basis of the agreement for the transfer of the securities and the services agreement between the nominee holder and his client.

Transfers of securities between holders of securities who are clients of one and the same nominee holder are not recorded by the Registrar in the register.

Upon receipt by a nominee holder of an order from the holder to the effect that the securities be written off the account of the nominee holder and the information on the holder be entered in the register, the nominee holder is required to issue a transfer order to the Registrar instructing him to write off the requested number of securities from his account enclosing with such order the documents required for opening a personal account for the registered person.

Procedures for the interaction between the nominee holder and the Registrar, including the form of the transfer order, are determined by other acts of the Federal Commission^[1].

(...)

[1] Federal Commission for the Securities Market – a predecessor of FSFM, currently FSFM.

Excerpts from Relevant Russian Legislation (Cont'd)

Under Article 2.1 of the Civil Code

Civil legislation regulates relations between persons engaged in entrepreneurial activities or participating in such activities (...)

Under Article 3.2 of the Civil Code

Civil legislation consists of the present Code and other federal laws adopted in accordance with it (hereinafter, laws), regulating the relations specified in clauses 1 and 2 of Article 2 of this Code.

The rules of civil law contained in other laws must be consistent with this Code.

Excerpts from Relevant Russian Legislation (Cont'd)

Under Article 149 of the Civil Code

In the events defined by the law or in accordance with the procedure stipulated by the law, a person holding a special license may keep records of rights attached to a registered or order security including uncertificated securities (with the use of computers, etc). Such record-keeping is subject to rules applicable to securities, unless otherwise proceeds from the record-keeping specifics.

A person keeping records of rights in an uncertificated form shall, on demand of the holder of the right, issue a document certifying the right attached to a security.

Rights certified by way of such record-keeping, the procedure of the official record-keeping of rights and record holders, the procedure of the documentary certification of records and the procedure of effecting transactions with uncertificated securities are established by the law or in accordance with the procedure stipulated by it.