

ACRA AFFIRMS AAA(RU) TO CCP NCC, OUTLOOK STABLE

MIKHAIL POLUKHIN

Director, Financial Institutions Ratings Group

+7 (495) 139 03 47

mikhail.polukhin@acra-ratings.ru

SVETLANA GROMOVA

Expert, Financial Institutions Ratings Group

+7 (495) 139 04 80, ext. 221

svetlana.gromova@acra-ratings.ru

The credit rating of **CCP NCC** (hereinafter, NCC) reflects its strong and stable business profile, exceptional liquidity position and high capital adequacy, which compensate for the risk profile. ACRA also takes into account the high likelihood of support to NCC from the state. According to the methodology of the Bank of Russia, NCC is a systemically important central counterparty, and it serves as a clearing organization for the Russian financial market.

NCC is a member of Moscow Exchange Group and wholly-owned by Moscow Exchange, about 30% of shares in which is controlled by the Bank of Russia and large financial institutions associated with the state.

KEY ASSESSMENT FACTORS

The high likelihood of extraordinary support to NCC from the state is based on ACRA's opinion about NCC's importance and exclusive role in the financial services market of the Russian Federation. A potential NCC's default poses risks of large monetary losses for many Russian financial and non-financial companies, reputational damage to the state, and significant financial shocks for the economy, including those related to disruption of the market infrastructure. ACRA believes that in case of a need, financial support to NCC in the form of capital or additional liquidity can be promptly provided by the state (the Supporting Entity), directly or through Moscow Exchange, whose activities are significantly influenced by the state.

NCC's standalone creditworthiness is assessed as high, which is largely determined by the effectiveness of NCC and the mechanisms it has implemented to minimize the specific risks it takes, including the sufficiency of funds to cover probable losses.

The strong business profile is associated with NCC's exclusive role as a clearing organization and central counterparty, which ensures the majority of transactions in the key segments of the Russian financial market and guarantees the fulfillment of obligations under them. ACRA positively assesses the high corporate governance and risk management standards at NCC, which enable it to accept the minimum risk relative to the scope of transactions.

High common capital adequacy. The Agency notes that the capital adequacy ratio of central counterparty (N1cc) has declined, but it is still comfortable (134% as of September 1, 2021 versus 160.4% as of September 1, 2020). This allows central counterparty risks to be covered, as well as the risks of potential impairment of NCC's own balance sheet assets. The factor assessment is supported by the profitability indicator (24% as of the end of 2020) calculated by ACRA, coupled with a low operating expenses to operating income ratio (7.1% over the last three years).

The counterparty risk is mitigated by NCC through its rigid eligibility criteria for market participants and a strict margining policy (with prompt marked-to-market reevaluations). The

structure of central counterparty protection levels combined with a set of measures to be taken in case of default of clearing participants have a positive impact on ACRA's assessment of NCC's risk profile. In order to reduce the possibility of losses amid crisis phenomena in the economy in 2020, NCC has strengthened its risk procedures. The Agency also takes a positive view of the fact that NCC is taking pro-active measures to enhance its risk management system in line with the strategy.

The assessment of NCC's risk profile is constrained by a significant amount of assets exposed to market risk (over 300% of common capital), as well as by materialization of operational risks in 2018 and 2019.

The liquidity position is assessed as strong given the specifics of NCC's operations. The liquidity ratio of central counterparty (N4cc) is significantly below the maximum threshold.

KEY ASSUMPTIONS

- NCC retaining its role of a systemically important clearing organization and central counterparty in Russia;
- The current NCC's shareholding structure remaining unchanged;
- No material financial obligations (debt);
- Maintaining the excess liquidity position.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

A negative rating action may be prompted by:

- Significant deterioration of NCC's capital adequacy;
- Significant deterioration of the liquidity position resulting from a reduction in the liquidity cushion or decline in the credit quality of highly liquid assets on the balance sheet of NCC;
- Major losses caused by the materialization of operational risks.

RATING COMPONENTS

SCA: **aaa**.

Adjustments: none.

Support: ACRA is of the opinion that in case of a need, the Supporting Entity will provide NCC with extraordinary support in the form of capital or liquidity. Since the SCA is 'aaa', the potential impact of the support on NCC's credit rating has not been determined.

ISSUE RATINGS

No outstanding issues have been rated.

REGULATORY DISCLOSURE

The credit rating has been assigned under the national scale for the Russian Federation based on the [Methodology for Credit Ratings Assignment to Banks and Bank Groups under the National](#)

Scale for the Russian Federation, the Methodology for Analyzing Rated Entities Associated with a State or a Group, and the Key Concepts Used by Analytical Credit Rating Agency within the Scope of Its Rating Activities.

The credit rating of CCP NCC was published by ACRA for the first time on November 1, 2016. The credit rating and its outlook are expected to be revised within one year following the publication date of this press release.

The credit rating was assigned based on the data provided by CCP NCC, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using the IFRS statements of CCP NCC and the financial statements of CCP NCC drawn up in compliance with Bank of Russia Ordinance No. 4927-U dated October 8, 2018. The credit rating is solicited, and CCP NCC participated in its assignment.

In assigning the credit rating, ACRA used only information, the quality and reliability of which was, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

ACRA provided no additional services CCP NCC. No conflicts of interest were identified in the course of credit rating assignment.

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Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)
75, Sadovnicheskaya embankment, Moscow, Russia
www.acra-ratings.ru

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