

**FUTURES
AND OPTIONS
ON RTS**





ORGANIZATIONAL PROFILE

The Russian Trading System (RTS) was established in 1995 to consolidate separate regional securities trading floors into the first unified regulated Russian securities market.

At the beginning the RTS was offering only organized OTC stock trading with foreign currency settlement. Today the “Russian Trading System” Stock Exchange (RTS) product line includes a wide variety of products and services such as:

- FORTS — futures and options trading with ruble settlement;
- RTS Standard — T+4 equity market with CCP technology;
- RTS Classica — order-driven and quote-driven trading in various securities, with ruble and dollar-denominated settlement;
- REPO trading services;
- RTS Money — service for transactions of conversion;
- RTS Board — indicative quotation of securities not listed on the RTS;

FORTS CURRENTLY LISTS 38 FUTURES AND 15 OPTIONS

The RTS Index, the official Exchange indicator first calculated on September 1, 1995, has since become the benchmark in the Russian securities' industry. In January 2006 RTS signed an agreement with Standard & Poor's. Under this agreement Standard & Poor's added the RTS Index to its global index portfolio and RTS granted to Standard & Poor's exclusive rights for distributing, providing, licensing, marketing and publicizing RTS Indices. Trading information is distributed worldwide through the largest financial information services companies, such as Reuters and Bloomberg

FORTS: 7+10 YEARS OF SUCCESSFUL DEVELOPMENT

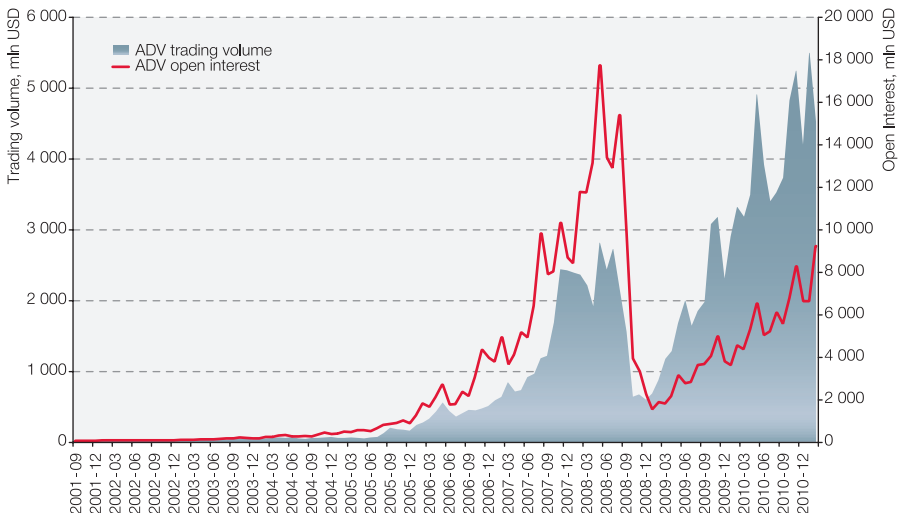
In September 2001, having reached an agreement with St.Petersburg Stock Exchange which had successfully run its derivatives market for 7 years, the RTS launched derivatives trading.

The RTS capitalized on the existing software, trading, clearing and settlement technologies of this market, as well as its staff and initial pool of market participants. The new market was named “FORTS” — the acronym for “Futures and Options on RTS”. The proven safety and reliability of its predecessor made for the successful development of FORTS which quickly became the leading nationwide derivatives market.

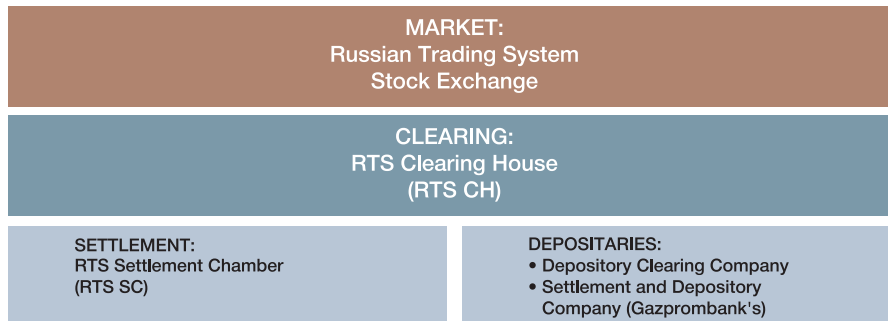
St.Petersburg Stock Exchange was one of the first derivatives exchanges in Russia and the only one that survived the economic crisis of 1998 without suspending trading or defaulting on its obligations to members.

FORTS is the first organized derivatives market in Russia to succeed in launching an options market.

DERIVATIVES TRADING VOLUME AND OPEN INTEREST, SEPT 2001–JAN 2011



THE STRUCTURE OF FORTS



THE RTS RUNS THE MARKETPLACE FOR DERIVATIVES TRADING.

The clearing is carried out by a separate legal entity — RTS Clearing House (RTS CH). The function of RTS CH is to act as a central counterparty for futures and options transactions.

All clearing payments and collections occur in and out of the RTS CH's clearing accounts with the RTS Settlement Chamber (RTS SC) and the Savings Bank of Russia (Sberbank). RTS SC is licensed by the Central Bank of Russia as the Non-Banking Credit Organization that is not allowed to invest FORTS members' funds thus guaranteeing riskless settlement.

FORTS clearing depositories are the Depository Clearing Company and the Settlement and Depository Company (Gazprombank's Depository N 883). Clearing depositories manage securities posted as collateral and carry out deliveries in single stock and bond futures.

MARKET REGULATION

FORTS operates strictly within the regulatory framework of the Russian financial market. Trading and clearing rules are registered with the relevant regulatory bodies. All significant changes and amendments to the rules are also subject to regulatory approval.

The 9 March 2004 government reform consolidated functions performed by several former regulators by setting up a new unified supervising authority — the Federal Financial Markets Service (FFMS). That helped to clearly delineate regulatory functions and simplify exchanges and market participants' compliance procedures. The following legal documents govern FORTS trading:

- Civil Code of the Russian Federation;
- Law on the Securities Market;
- Regulatory Acts of the FFMS governing Procedures for Performing Clearing Activities, Broker/Dealer Activities, etc.;
- Internal regulations and by-laws of RTS, RTS CH, and RTS SC.



Arbitration proceedings at FORTS are administered through the NAUFOR (National Association of Securities Market Participants) arbitration court.

The RTS Futures & Options Market Committee is responsible for decisions concerning FORTS development, tariff policy, rules and regulations, and control of market participants' financial stability.

MEMBERSHIP STRUCTURE

FORTS now has a total of 137 member-companies (clearing members).

CLEARING MEMBERS OF FORTS ARE ENTITLED TO THE FOLLOWING SERVICES:

- Trading FORTS's products on its own behalf and for its own account, as well as on its own behalf and for its clients' account;
- Settling trades on its own behalf directly with the RTS CH;
- Clearing its clients' trades and settling their obligations with the RTS CH.
- General members have access to all divisions of the Derivatives market.

Special clearing members have access to specific divisions such as the equity, money and commodity divisions of the Derivatives market.

FORTS CLEARING MEMBERS SHOULD BE:

- A Russian legal entity;
- Licensed by the FFMS as a broker-dealer;
- Licensed by the FFMS to participate in exchange trading in futures and options.

Recommended by two current FORTS members. One of these members should be among the top 25 members by volume traded during the past three months.

A Brokerage firm is a client of a FORTS clearing member. It could have its own clients, settle its own and clients' trades with the respective member, control clients' trades online by technical means provided by the FORTS integrated trading and clearing system (setting up trading limits) and charge fees for its services.

End clients are to be registered with a clearing or brokerage firm.

FORTS PARTICIPANTS CAN TRADE AS:

- General/Special clearing members;
- Brokerage firms;
- End clients.

PARTICIPATION FEES

Currently the majority of active Russian stock market participants are FORTS members, including Troika Dialog, OTKRITIE Financial Corporation, Gazprombank, URALSIB Financial Corporation, Sberbank of Russia, Aton, Renaissance and others.

Global companies are also presented at our market: CSFB, Deutsche Bank, Merrill Lynch Securities, UniCredit, Raiffeisenbank etc.

FORTS ENTRANCE FEES ARE AS FOLLOWS:

General Clearing member	5,000,000 RUB	170,000 USD
Special Clearing Member's status:		
Equity	3,000,000 RUB	100,000 USD
Money	100,000 RUB	3,300 USD
Commodity	1,000,000 RUB	33,000 USD

Total transaction fees are about 0.002–0.01% of contract notional value.

FORTS. FUTURES AND OPTIONS ON RTS

FORTS derivatives are traded electronically via remote workstations. The integrated trading, clearing and settlement system was developed in-house. This allowed RTS experts to build specific features into the system which suit the current state of the market. These include real-time margining and pre-execution controls. Settlement with members is also performed through a computer linkup.

The whole system has a track record of maintaining reliable functionality and has demonstrated its ability to handle extreme market volumes. Tests show that the current trading system configuration allows for a six fold increase in transaction volumes. The system design is 'scalable' allowing capacity to be increased when necessary.



Internet trading is also available through members that have installed one of the certified brokerage internet trading systems. About 90% of all FORTS members provide their clients with the internet trading service (DMA).

PRODUCTS

DELIVERABLE FUTURES:

- Severstal ordinary shares
- Norilsk Nickel ordinary shares
- Gazprom ordinary shares
- RusHydro ordinary shares
- LUKoil ordinary shares
- MTS ordinary shares
- NOVATEK ordinary shares
- Rosneft ordinary shares
- Surgutneftegas ordinary shares
- Sberbank ordinary shares
- Sberbank preferred shares
- Sugar
- Transneft preferred shares
- Uralsvyazinform ordinary shares
- VTB BANK ordinary shares
- 2-year federal loan bonds
- 4-year federal loan bonds

CASH-SETTLED FUTURES:

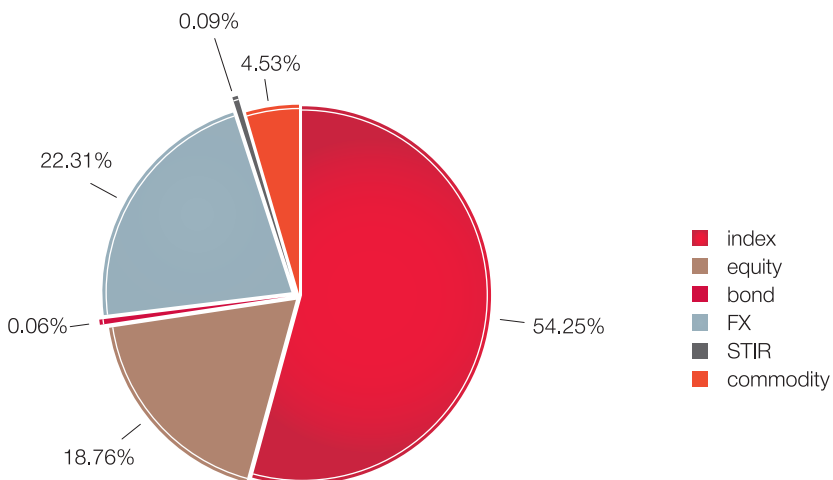
- Brent Oil
- CENTER base load power contract
- CENTER peak load power contract
- Diesel fuel (summer grades)
- EUR/USD
- EUR/RUB
- Gold
- Three-month MosPrime rate
- Overnight Credit MosPrime
- Palladium
- Platinum
- RTS Index
- RTS Standard Index
- RTS Consumer and Retail Index
- RTS Telecom Index
- RTS oil and Gas Index
- Silver
- USD/RUB
- URAL base load power contract
- URAL peak load power contract
- Urals oil
- Wheat

FORTS. FUTURES AND OPTIONS ON RTS

OPTIONS ON FUTURES

- EUR/USD
- Gold
- Norilsk Nickel ordinary shares
- Gazprom ordinary shares
- LUKoil ordinary shares
- Polyus Gold ordinary shares
- RTS Index
- Rosneft ordinary shares
- Surgutneftegas ordinary shares
- Sberbank ordinary shares
- Silver
- USD/RUB
- Transneft
- VTB BANK ordinary shares

MARKET SHARE BY CONTRACT TYPE



FORTS. FUTURES AND OPTIONS ON RTS

DELIVERY

For deliverable futures delivery is effected out depending on the underlying asset in the following way:

Futures on single stocks:

The delivery is effected out by concluding a trade with underlying shares on RTS Standard market (T+4 settlement). It means that a Buyer of a contract shall buy and a Seller of a contract shall sell shares in the amount and at the price specified in the on-exchange trading mode with T+4 settlement.

Futures on sugar:

The delivery is effected out within 15-30 days by railroad in delivering lots. The amount of the fixed delivery lot (or delivery lot) shall be 13 (thirteen) Contracts, constituting 65 (sixty-five) tons of the underlying asset. The delivery point shall be any of the railroad stations located in the Krasnodar Territory or the Republic of Adygeya.

Futures on federal loan bonds:

Delivery of 2-year's or 4-year's Federal loan bonds by the conclusion of the direct trade on MICEX Government-Backed Securities Section.

TRADING AND CLEARING SCHEDULE

FORTS trading session hours are 10:00–23:50.

There are two clearing sessions.

Intraday clearing starts at 14:00 (Duration is 3 min) Moscow time.

All of the day's (10:00–14:00) trades and all open positions are marked-to-market to the day's settlement price.

Evening clearing starts at 18:45 (Duration is 15 min) Moscow time. It is performed by batch processing immediately after the end of the trading session; the results are available shortly after. All of the day's trades and all open positions are marked-to-market to the day's settlement price. Daily and monthly clearing and settlement reports are sent to participants via the closed communication channels of Electronic Data Interchange with electronic signature.

MARKET MAKERS

Market makers provide liquidity for all FORTS contracts. Their commitment consists of maintaining two-sided quotes with specified bid-ask spreads and volumes during a specified percentage of the trading session.

FINANCIAL SAFEGUARD SYSTEM

FORTS trades are cleared and settled in compliance with the rules and procedures that reflect general international practice and include risk management innovations required by the current state of the Russian financial system.

FINANCIAL GUARANTEES ARE BASED ON THREE COMPONENTS:

- Funds deposited by members to cover initial margin requirements (= members trading positions, as a whole referred to as “guarantee fund”);
- Contingency Fund made of contributions of members;
- Reserve Fund formed from RTS CH own balance sheet.

All funds are held in the clearing accounts of RTS CH with the RTS SC and Sberbank. Reports on the guarantee fund and the Contingency and Reserve Funds are published on the RTS website. To further strengthen the guarantee system in parallel with the steady growth of open interests the Derivatives Market Committee periodically increases the size of each member’s contribution to the Contingency Fund. The Reserve Fund can also be increased by the RTS Board of Directors.

Value as of 21.03.2011	RUB, mln
Initial Margin	29,387
Contingency fund	1,280
Reserve Fund	1,500

The FORTS guarantee system relies on these funds being available to RTS CH. The previous experience of some Russian derivatives exchanges during the 1998 financial crisis proved this approach to be the only reliable one. At that time many financial institutions defaulted, thus shifting the settlement responsibilities to the exchange. And though the economic and financial situation has significantly improved since 1998, price fluctuations and other destabilizing circumstances resulting in the massive default of members cannot be completely excluded.

The core requirement to risk-management on FORTS is the absolute sustainability of obligation fulfillment. Therefore, a strict methodology of financial responsibilities is implemented.

Real-time credit checking or pre-execution control is used to ensure that the initial margin is paid upfront.

This control is activated any time when a member or a client on behalf of the member is trying to submit a new bid or offer into the trading system. At this point the on-line risk management system evaluates the member's existing portfolio and all active orders, including the new one, and calculates the worst "possible" execution scenario, which would require a maximum deposit for variation margin, options premium payments and initial margin.

Starting with settlement prices on the last trading session (T), the range of possible settlement prices for the following trading session (T+1) is defined. For a futures and options portfolio with a specific delivery month this set includes a range of futures prices and set of implied volatility curves. This set of prices is chosen to cover historic price movements with some probability. It is important that the settlement prices on T+1 do not exceed these boundaries even if the real market does. The margin amount on trading session T is based on the worst-case scenario of possible settlement prices for T+1. For the whole portfolio of a member partial netting is used: for example, if a member has two clients, the first with 10 long futures and the second with 30 short ones, then the requirement for the member is for 30 futures. There is no difference between proprietary and end client positions.

If after intraday clearing on trading day T (14.00) or after evening clearing of trading day T (19.00) a member's deposit is not enough to meet the initial margin requirement, then during the next trading session the member is allowed to route only such orders which would result in diminishing his initial margin deficit. For trades executed up until 18:00 on T (in case of shortage of the initial margin after the intraday clearing of trading day T) or until 13.15 on T+1 (in case of shortage of the initial margin after the evening clearing of trading day T) the initial margin requirement should be met either by such a transaction or by transfer of additional funds to FORTS.

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Failure to do so constitutes a default by the member whereby the member is barred from trading and orders reducing his positions are generated by the administrator of trading system. Under normal market conditions members' positions can be closed through the market without the need to draw on the Contingency and Reserve Funds.

FORTS rules stipulate that in case of market movements beyond daily price limits these limits are enlarged automatically during the trading session, but twice at most.

The first increase is for 25% of initial limits. The second is calculated in such a way that it allows the largest possible price movement that still allows RTS CH to ensure settlement taking into account all available financial resources (guarantee, Reserve and Contingency Funds).

In case of a FORTS member default, the guarantee funds are used in the following order:

- Deposit of the defaulting member for initial margin ("trading position") and its contribution to the Contingency Fund;
- The Reserve Fund;
- Other members' contributions to the Contingency Fund.

For the past 10 years FORTS members' initial margin deficits have occurred from time to time but have in all cases been resolved by the member himself without the compulsory closing of his positions. Similarly, the assigning of a defaulter's positions has never been required.

HOW TO TRADE ON FORTS

EDUCATIONAL TRADING AND OPTIONS TOOLS

RTS provides companies and retail investors with educational trading software that replicates actual order flow and allows users to imitate trading with all real attributes, except for money flow. New potential members can adjust their back offices and other operational procedures correspondingly. In order to promote options trading and improve trading skills an options calculator with graphical support has also been developed. Both services are provided by FORTS free of charge.



Due to current regulations foreign investors can operate on Russian exchanges in two ways:

- becoming a «registered» client of a local broker;
- creating a subsidiary company in Russia and then becoming a trading or a clearing member.

RTS STANDARD

RTS creates a brand new market to open attractive opportunities for investors working both with equities and derivatives. It encompasses the most convenient trading solutions for spot and derivatives markets that allow investors to minimize market risks and simplify the trading process. RTS Standard sets a totally new standard for trading equities in Russia.

MAIN FEATURES:

- No 100% advance depositing of assets;
- Standard T+4 settlement;
- Quotes and settlement in roubles;
- Central Counterparty;
- Single cash position on the spot and derivatives markets;
- Portfolio-style approach to margining spot and derivatives markets positions.

INSTRUMENTS

The set of instruments traded on the new market includes the liquid stocks of Russian companies, currently these are 33 blue chips available for trading with CCP. The Exchange plans to significantly extend the range of instruments admitted to trading on the RTS Standard.

FORTS. FUTURES AND OPTIONS ON RTS

DELIVERY:

- Delivery is performed at 10:00 am MSK on the settlement day (standard T+4 settlement). Accounts opened for Clearing Members for the purpose of delivery on the Derivatives market are used in this process.
- Delivery takes place on T+4 based on the net claims and obligations.

TRADING AND CLEARING SCHEDULE

- 19:00–23:50 Evening trading session (previous business day)
- 10:00–14:00 Main trading session. First settlement period
- 14:00–14:03 Intraday clearing session
- 14:03–18:45 Main trading session. Second settlement period
- 18:45–19:00 Evening clearing session

MEMBERSHIP:

The following RTS brokerage firms are eligible for membership in the RTS Standard:

- FORTS members (General Clearing Members or Special Clearing Members in the FORTS equity derivatives section);
- Other RTS brokerage firms upon payment of membership and contingency fund fees in the required amount and installment of the Trading System used on the derivatives market.



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