



## **Systems to the fore at RTS in Russia**

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Growing volumes are pushing system enhancements at the Russian Trading System Stock Exchange.

Securities and derivatives markets in Russia only really began to establish themselves after the country's well documented 1998 financial crisis. Since that time the exchanges, together with the government, have taken steps to put in place sound risk management systems which are now underpinning more secure and increasingly successful markets.

Those initiatives have made Russia a more attractive place for international players and, driven by investor demand to gain exposure to the commodity-driven Russian economy, increasing numbers are looking to connect to the country's capital markets.

The Russian Trading System Stock Exchange (RTS) is clearly aware of the need to meet the requirements of the expected increase in international participation and plans to develop its technology platform further in 2008 to cater for the growing volumes this will undoubtedly stimulate.

Founded in 1995, RTS was the first to introduce electronic trading of securities in a properly regulated environment to Russia. Launched as an electronic OTC trading system, it has developed into one of the largest stock exchanges in the country and has its own trading and settlement facilities.

The RTS cash market operates on an automated screen-based system, embracing both dealer-driven and order-driven markets. Market members access the system through the Plaza Workstation, a complex of software and databases installed on their personal computers. 90 per cent of trades executed in the RTS Trading System are processed electronically through the RTS Electronic Agreements Centre, a trade confirmation system which matches the parameters of trades and digitally signs purchase and sale agreements.

‘We plan to upgrade the system for the cash equities market which can currently handle almost seven and a half million transactions per day so that it can cope with even larger volumes,’ says Dmitry Shatsky, vice president of NP at RTS.

RTS’s derivatives market, FORTS, has been trading since 2001. Today, some 60 contracts are listed. The most active contracts are futures and options on individual Russian shares and on the RTS Index. The exchange also trades bonds, short-term interest rates, currencies, oil, oil products, metals and sugar.

The derivatives section has been a key driver of business for the exchange. Over the past year the value of contracts traded on RTS Index futures and options contracts tripled to reach 144.7 million contracts.

FORTS has a separate trading platform comprising an integrated trading, clearing and settlement system. Given the need to instill confidence in users after the 1998 crisis, in-house development was crucial as it allowed the exchange to implement specific risk management features such as real-time margining and pre-execution controls.

According to RTS the current derivatives trading system configuration allows for a ‘six fold’ increase in transaction volumes.

The same trends which are boosting volumes of both orders and trades in international markets are also key influences on Russian markets. Direct market access and algorithmic trading can now be catered for but as elsewhere the exchange IT department cannot afford to stand still.

‘In 2008 our main task is to improve our systems, especially in terms of capacity and reliability,’ says Shatsky. ‘In particular a reserve data centre will be coming on stream and will provide complete back-up for all critical IT systems at the exchange.’

According to Shatsky one of the most important initiatives for 2008 is the introduction of the FIX protocol which is expected in May. This will use version 4.4 of the international

standard messaging protocol and he expects this to be an important factor in attracting more business from foreign companies.

The gateway is being tested internally but soon will be available for testing by member firms and independent software vendors. Firms preferring to use the exchange's own Windows-based API will be able to do so although there will be operational cost benefits by connecting via FIX. Other major projects for 2008 are the setting up of a central counterparty (CCP) for quote and order driven securities and the launch of a new clearing platform. Both aim to meet international standards.

The first initiative gives the international banks it is eager to attract the opportunity to address their anonymity and credit concerns by trading either with the CCP or the larger Russian brokers while the clearing platform will allow transactions to be cleared via a netting system, allowing far more efficient use of their capital.

Evidence of international participation is mounting. In 2007 brokerage firms including Goldman Sachs and Merrill Lynch connected to the cash equity market at RTS. Société Générale is currently preparing to join FORTS and will join Credit Suisse, Deutsche Bank, Raiffeisen and UBS as a member of the derivatives clearing house. Among prominent independent software vendors, GL Trade already provides access to both equity and cash markets while Fidessa will shortly do the same. Both Orc and CQG offer connectivity only to FORTS.

'There has been a significant upsurge in interest in trading both the cash and derivatives markets in Russia,' confirms Fidessa's director of derivatives products, Steve Grob. 'Fidessa will have connectivity available to RTS beginning with the cash markets at the end of Q1 and the derivatives markets will follow shortly thereafter.'