



Thomas Murray Affirms the Central Securities Depository Rating for the Central Securities Clearing System PLC (CSCS PLC) at A- with Stable Outlook

Tuesday 18th September, 2012

PRESS ANNOUNCEMENT

LONDON - Thomas Murray, the specialist custody rating, risk management and research firm has affirmed the CSD rating for the Central Securities Clearing System PLC (CSCS PLC) of Nigeria at A-, which translates as 'low' Overall Risk. The rating is made up of the following components:

CSD Rating	Overall Rating	Asset Commitment Risk	Liquidity Risk	Counterparty Risk	Financial Risk	Operational Risk	Asset Servicing Risk
CSCS Rating:	A-	AA	A-	BBB	A+	BBB	N/R

The overall rating of 'A-' reflects the weighted average of five of the six risks assessed in the Thomas Murray CSD Rating methodology. Asset Servicing Risk is excluded from the assessment due to CSCS PLC's limited role in Nigerian corporate events, the risk mainly lying with the transfer agent.

CSCS PLC's rating of 'A-' relates to a low risk exposure profile and a 'Stable' outlook has been assigned by Thomas Murray. The outlook indicates there is unlikely to be any change in the Overall Risk in the near future, although several initiatives are underway. A new proprietary system, which has already been implemented for communication with primary dealers and registrars, has automated information exchange with market participants and decreased the reliance on physical documentation. The system is also being rolled out to other participants in the market. Additionally, CSCS PLC is in discussions to implement SWIFT with custodians although some important IT developments would be required to be able to connect to the current system. Improvements are also expected in terms of controls and procedures at the CSD with the establishment of a risk management and compliance department. The Central Bank of Nigeria is implementing a new RTGS payment system (no implementation date announced) to which CSCS PLC will link at some point in the future.

Developments made by CSCS PLC since the previous public rating report include:

- Development of bond settlement system to significantly diminish the manual intervention in the settlement process
- The Data Exchange system has replaced physical delivery of documentation for communication between CSCS PLC, registrars and PDMs
- Reporting capabilities have been enhanced via the web portal
- The company is budgeting significant investment in IT to reduce manual intervention both internally and interfacing with participants
- The Evidence Act has been amended to allow for admissibility of electronically generated evidence therefore giving immense credence to records generated by CSCS PLC.

CSCS PLC is responsible for the settlement and clearing of all securities transactions of the Nigeria Stock Exchange (NSE) and for bond transactions conducted on the OTC market. The depository has a settlement model that focuses on containing and minimising counterparty risk exposure. However, the measures adopted by CSCS PLC, which include pre-funding of securities traded on-exchange, result in some side-effects in other risks. There are also structural shortcomings in the Nigerian financial industry, which have a direct impact on Counterparty and Operational risks in CSCS PLC. These deficiencies are related to the maturity and sophistication of the local market. Although there has been some progress, there is still a heavy dependency on manual processing and physical documentation in conducting business in the Nigerian financial sector.

CSCS PLC's AA rating for Asset Commitment Risk is directly linked to the level of on-exchange (3.5%) and OTC (96.5%) market activity by value. Since, bonds traded OTC are not required to be pre-funded prior to trade, but only positioned for settlement just prior to the processing cycle, availability of assets is not compromised.

There is no securities lending in the market although 'technical shorts' may exist which can consequently stop trades being executed. Fails management policies for both on-exchange and OTC transactions are inadequately developed, with the Trade Guarantee Fund (TGF) insufficient to guarantee a large default on the exchange, and OTC transactions having no fails management procedures or resources.

Transactions that settle within CSCS PLC are on a non-DVP settlement basis. Securities generally settle with finality before cash transfers commence and there is no systemic link between securities and cash settlement platforms to assure transfers are interdependent.

CSCS PLC's strong financial rating derives from its consistent profitability (even through the global economic downturn) and significant capital resources in comparison to its peer group including healthy levels of reserves held in cash or short term investments.

The low rating for CSCS PLC's Operational Risk is a combination of several factors. Despite the new proprietary communication system which has enhanced the processing and reporting capabilities, there is still a dependency on manual intervention, which increases the risk of fraud, error or loss as well as reducing Straight-Through-Processing (STP). In addition, there is a lack of identified key controls and an organised risk management policy. Although CSCS PLC has a back-up site, the latter is rather a data centre than a DR site and there are concerns as to how the operations would continue in case the main site would not be available. There is also an absence of fully documented disaster recovery and business continuity plans, and testing of facilities has been limited to internal testing without the involvement of market participants.

Mr Simon Thomas, CEO and Chief Ratings Officer of Thomas Murray said: "Thomas Murray has affirmed the rating of CSCS PLC as a low risk depository in the crucial role it plays in the Nigerian capital market. We are gratified to see that our objective assessment of CSCS operations is helping inform the depository on where CSCS PLC need to focus further risk reduction efforts".

Mr Kyari Bukar, CEO/Managing Director of CSCS PLC, said "CSCS PLC continues to value the work with Thomas Murray in obtaining an independent view of our existing service capabilities and risk controls. The rating process involved a thorough review of CSCS PLC's processes and the robustness of the model we employ to provide a low risk settlement and safekeeping solution for the market".

The CSD rating assesses the risk exposures for investors associated with the processes the CSD has in place to facilitate the safekeeping and the clearing and settlement of securities, where applicable. It assesses six key risks. The methodology considers the capabilities of the depository and the quality and effectiveness of its operational infrastructure. It also assesses the depository's willingness and ability to protect its participants or clients from losses. As part of the rating, the scope and quality of the depository's services is assessed. The ratings are on a consistent global scale, using the familiar AAA to C ratings scale. Once the rating is assigned there is an ongoing surveillance process to monitor the depository.

Separately, Thomas Murray maintains proprietary assessments of over 130 CSDs globally as part of the Thomas Murray Depository Risk Assessment services. These reports are available via Thomas Murray at www.thomasmurray.com.

For further information contact:

John Woodhouse
Thomas Murray Ltd.
Tel: +44 (0)20 8600 2300
Email: jwoodhouse@thomasmurray.com

Kyari Bukar
Central Securities Clearing System PLC
Tel: +234 (0)1 9033554
Email: bukar.kyari@cscsnigerialtd.com

About Thomas Murray

Thomas Murray is a specialist custody rating, risk management and research firm specialising in the global securities services industry. Thomas Murray was established in 1994. The company tracks and analyses over 250 custodians globally and monitors the risk of over 100 capital market infrastructures. The company has a strong position as a provider of public and private ratings and risk assessments on global custodians, domestic custodian banks and capital market infrastructures.

www.thomasmurray.com

About the Central Securities Clearing System PLC (CSCS PLC)

Central Securities Clearing System PLC (CSCS PLC) is a private limited company incorporated on 29 July 1992 under the Companies and Allied Matters Act 1990. CSCS PLC is operated as a profit-making entity. CSCS PLC commenced operations on 14 April 1997 and operates a depository, clearing, settlement and delivery system for transactions in shares listed on the NSE.

www.cscsnigeria.com

Registered Office: Horatio House, 77-85 Fulham Palace Road, Hammersmith, London W6 8JA
Registration Number: 2964231 Place of Registration: England & Wales.

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