

**RECOMMENDATIONS
ON ORGANIZATIONAL STRUCTURE
AND FUNCTIONAL RESPONSIBILITIES
OF THE MOLDOVA CENTRAL
SECURITIES DEPOSITORY**

Securities

***Price Waterhouse LLP
Moldova Central
Depository Project***

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I. INTRODUCTION

In November, 1997, Price Waterhouse LLP (PW) published the “Moldova Central Securities Depository Business Specifications”. This report provided an overview of the business operations required of a securities depository and the related computer system functions. A second paper titled “Organizational Structure Plan for Moldova Central Depository” was also subsequently produced by PW. This was also in an overview format, but with a focus on specific operational departments that typically need to be established to support depository’s activities and considering the operational environment of the Moldova Central Securities Depository (CSD). Both the business specifications and organizational structure plan have been presented to and accepted in concept by the Moldovan Stock Exchange (MSE) and the State Commission on Securities Market (SCSM).

This paper builds on the above initial documents by providing detailed information on the responsibilities of the functional areas of the CSD, staffing requirements, workflows and procedures that need to be developed. The recommendations in these areas are based on certain assumptions as described below and developed with the appropriate management at the MSE and the proposed CSD staff.

Initially, it is expected that activity within the depository will be low. For this reason, recommendations within this paper are made based on functional responsibilities rather than a multiple departmental structure. It is expected that the CSD will essentially be the equivalent of one “department” with staff assigned to the various functions. The depository management team will need to continually monitor activity growth and adjust staffing and organizational structure as necessary. Over time, many of the functional responsibilities described within this paper can evolve into designated business and technical operations departments of the depository.

An action plan has been developed and included with this paper for all of the tasks that need to be completed by implementation date. This action plan may be found in Appendix A.

II. ASSUMPTIONS

In developing the recommendations for the CSD organizational structure, certain business operations assumptions were made (as is done in the creation of any organization). These assumptions were defined based on information provided by the CSD management, and are detailed in the following informational list.

- Implementation date - It is anticipated that the depository system will be implemented by March 2, 1998, with the first trade settlement on March 12, 1998.
- Services to be provided - Based on the business specifications, the depository will

provide the following services to its participants:

- Facilitation of trade confirmations
- Deposits of securities under presentation of registrar extracts both to facilitate deliveries against trades and for safekeeping.
- Withdrawals of securities
- Book-entry deliveries against trades
- Corporate actions
- Inter/Intra account movements
- Record keeping of all activity at the depository.
- Reporting of depository account activity to respective participants.
- Cash settlement

Services determine the types of “departments” to be established within a depository. Considering the initial low volumes that are anticipated for the CSD, it is recognized that specific departments will not be established at this time. Rather, the following recommendations on organizational structure are based on functional areas of responsibility.

- Number of participants - There are 56 registered brokerage firms in Moldova. Many of these firms are very small and may not meet requirements for depository eligibility and/or will elect to access the depository through some type of correspondent relationship with larger firms that are depository participants. Some custodian banks may also become participants of the depository.
- Number of registrars - There are currently 46 registrars in Moldova with which the depository could potentially interact.
- Deposit volume - On average, there are approximately 10-12 trades per day in total. The initial deposit volume should equate to one deposit per trade. Additional deposits may be realized through securities to be held in safekeeping. However, this is not expected to be a significant number during the first year.
- Withdrawal volume - It is anticipated that withdrawals will be negligible.
- Corporate actions, including dividends, reorg's, mergers, etc. - These are also expected to be minimal.
- Inter account delivery requests - These requests also should relate to the number of trades which on average is 10-12 per day in total.
- Sharing of resources with Exchange - Since the Moldova Stock Exchange is supporting the initial development of the depository, it is anticipated that certain resources of the Exchange will be used in the beginning. Such resources might include:
 - Information technology staff.

- Payroll processing
- Settlement bank account reconciliation
- Administrative services such as space, supplies, equipment
- Physical security
- Surveillance

III. ORGANIZATIONAL STRUCTURE/FUNCTIONAL AREAS OF RESPONSIBILITY

In developing the organizational structure of a securities depository, consideration must be given to:

- * Services to be provided to participants
- * Estimated activity volumes
- * Division of duties

Services and estimated volumes have been established by the above assumptions. These assumptions along with the division of duties have been considered in grouping related tasks to create functional areas of responsibility for the CSD.

***Note:** “Division of duties” provides for the necessary check points and safeguards against collusion between employees and participants of the depository. Such division of duties is typically a routine requirement of auditing groups and regulators. Therefore, departmental and staff responsibilities must address this issue and comply with international auditing and regulatory requirements. In addition, it is just good business sense to develop these check points and safeguards.*

Based on the above considerations, the following areas of functional responsibilities are recommended for the CSD general staff.

A. DEPOSITORY OPERATIONS

The broad category of “depository operations” deals with the day-to-day business processes of the depository services. These processes include:

- **Participant Account Database Maintenance** - As participant accounts are added, deleted or related information changes, the system database of related information must be updated. The business specifications provide for forms or other written instructions to be submitted by participants to the depository to support these

updates. The depository operations staff will be responsible for updating the system through use of the “Account Maintenance Screen”, and taking any other appropriate action to maintain the database of participant and individual investor profiles.

Account types that will be maintained under this process are:

- Depository accounts, including individual investor, omnibus and broker house accounts.
- Clearing accounts
- Buy-in accounts/Sell-out accounts

- **Security Masterfile Maintenance** - This includes the administrative functions related to insuring that issues meet the depository’s eligibility standards as established by the business rules, adding the security profiles to the system database via terminal input, and updating such profiles based on corporate actions and other pertinent information.

Initially, only equities (corporate stocks) will be eligible in the depository. However, it is anticipated that the types of securities will be expanded in the future. Each time a new security type is added to the system, the CSD management will need to establish standards for admission for that security type. The CSD staff will then follow these standards in adding securities to the database.

1. Administrative Functions

The security masterfile staff will receive requests to add specific issues to the CSD security masterfile database. These requests may come directly from participants, or other internal areas that support the system users. Such requests should include as much information about the security as is available to the requestor. The security masterfile staff then contacts the issuer and/or its agent to confirm the status of the security, further insuring that the security meets the standards (eligibility criteria) of the depository. .

All research on securities is maintained in the security masterfile area for future reference.

2. Data Input Functions

Once securities have been determined to be eligible for depository services, the information must be entered to the system database on securities. This is accomplished through terminal access to the security masterfile sub-system via an input screen. The security masterfile staff confirms that the security profile was accepted by the system database.

3. *Updates to the Security Masterfile Database*

The security masterfile staff also receives notifications of changes in status of securities. These changes may be due to corporate actions (reorganizations, offers, etc.), or other changes that cause a security to no longer meet the depository eligibility standards.

Information on changes in the status of securities is validated by the security masterfile staff. Appropriate entries to the security masterfile database are then made. Any changes that would cause the security to be deleted are discussed with the CSD and MSE management before action is taken.

Note: Securities cannot be immediately deleted if participants have positions in such securities. Action must be taken to clear those positions first. Security Masterfile refers the need for such action to the participant services staff. That area then works with the participants to clear positions. (See also section on “Participant Services.)

All records pertaining to changes/deletions to the security masterfile database are maintained in the Security Masterfile area’s files for future reference.

4. *Other functions*

Besides the above responsibilities, the security masterfile area may be called upon to do eligibility comparisons for potential participants to determine depository service capabilities. This may be an automated comparison or manual process, depending on the volume of securities involved. The function of the security masterfile staff would be to coordinate file comparisons, prepare the manual comparisons, and ensure that results were provided as needed.

Access to the depository eligibility status of securities is available to participants through terminal access to the depository system at the MSE location. The security masterfile staff will publish listings of eligible securities for distribution to all users.

The Security Masterfile area publishes periodical statistical reports related to the maintenance of the eligible securities database for management review. Such reports provide valuable information on the growth of the depository.

- **Participant Services** - The depository must support all participants in the day-to-day processes. This includes resolution of securities positions discrepancies found through reconciliation processes, inquiries about trades and their status, liaison between participants and the depository's information technology group, researching problems/questions related to corporate actions, and the training of participants.

In depositories where volume are high, each participant is assigned a Participant Services Representative to accomplish these responsibilities. In the case of the CSD, supporting the depository participants will initially be a functional responsibility of the Depository Operations area. The following information details further work that can be expected in the area of participant services.

1. Reconciliation Process

It is noted under the business specifications that the participant must compare the information received from the depository to internal records for both house and individual investor accounts. Any discrepancies found are researched at the participant level first. If the participant's internal records are in error, the participant takes steps to correct the differences. If it is found/perceived that an error was made in processing at the depository, the participant is required to report such errors to the depository within a certain number of days.

Note: The required number of days should be specified in the depository rules.

It is the depository operations staff that will be notified by participants of such reconciliation problems. The depository must then make the necessary adjustments within an established time frame. It is recommended that this time frame be 48 hours. The Depository Operations staff then must check the participant account on the next morning to ensure that the discrepancy was corrected. Any adjustments that cannot be made within the 48-hour time frame, must be reported to the depository management .

In addition to reconciliation differences as reported by participants, the Depository Operations staff will receive exception reports from the system. Each item on the exception report must be researched, resolved, and adjustments made to the system to clear the exception.

A report should be given to management on a weekly basis, detailing calls from participants, items reported through the exception reports, the types of problems identified, and the resolutions as they relate to day-to-day processing.

2. Corporate Actions

The depository will be responsible for facilitating corporate actions by providing beneficial owner information to the registrar who will pay cash distributions directly to that beneficial owner. CSD will also distribute security entitlements through the depository system to the participants holding positions in the related security.

Participants may have questions concerning the corporate action that they will address to CSD. Through reconciliation processes, the participant may report that the distribution received is not correct. All of these issues must be researched and resolved by the Depository Operations staff. (See also separate section on

“Corporate Actions”.)

3. *General Use of System*

Participants will need assistance from the Depository Operations staff in general use of the system. This will be especially true in the beginning, but the need will continue to some extent as long as the depository exists.

- **Deposits** - Brokers will present forms for securities to be held at the depository. These forms along with transmittal forms, signed transfer forms, and share extracts will be delivered to CSD by courier daily. The CSD Operations staff will check the documents, verify that the securities are eligible for deposit, and enter the deposit into the system.

The appropriate documents are then sent by courier to the registrar by the depository along with any related transfer fees. Once the registrar confirms the change or ownership to the CSD by issuing a new extract, the Operations staff removes the “pending” status that was created at the time of the deposit, establishing a final position in the related depository account.

Deposits may be rejected by the depository due to incomplete or incorrect accompanying forms or ineligibility of the respective security. Registrars may also reject transfers of ownership back to the depository. Such rejected items will be returned to the respective brokers by the depository, explaining the reason for the return.

- **Withdrawals** - Requests may be made to the depository to withdraw securities on deposit. To do so, a broker sends a withdrawal form to the depository by courier or fax transmission. The CSD Operations staff will enter the withdrawal request. If the system rejects the request, a report is produced and forwarded to the broker who will take the necessary further action. If the system accepts the request, registration instructions to the registrar will be produced.

It is the responsibility of the Operations staff to deliver the registration instructions to the registrar, resolve any problems that the registrar may have with the instructions, and follow-up on aged withdrawals as reported by the system.

- **Registrar Interface** - The initial interface with the registrars by the Depository Operations staff will occur at the time of the deposit of securities. CSD staff will need to coordinate the processing of the deposits with the registrar and follow up on any aged items not returned by the registrar. The same is true for withdrawals if

there are any.

The staff assigned to the functional responsibility of interfacing with the registrars will receive reports from the depository system to facilitate a reconciliation process. The reconciliation compares the total positions held in the depository to the records of the registrar. Any differences are researched and resolved immediately by the registrar interface staff.

This staff will also coordinate as necessary the receipt of information pertaining to corporate actions that must be processed in the depository for benefit of depository participants. (See also “Corporate Actions”.)

Note: CSD should consider negotiating agreements with the registrars to ensure compliance with the needs of the depository, especially if there are no laws or regulations currently in place to support the interactions and time frames needed.

- **Inter/Intra-Account delivery requests** - The CSD will receive inter/intra-account delivery request forms from the participants. Information on the forms will be validated by the CSD staff and entered to the depository system.
- **Corporate Actions** - While volume is expected to be very low, the business specifications require that CSD accommodate corporate actions on securities held in the depository. CSD will receive notifications of corporate actions from the registrars on a regular basis and take the appropriate actions to pass on the results to participants holding the respective securities.

Note: The nominee name of CSD will be the shareholder of record, and, therefore, it is expected that this notification will be received from the registrar under routine procedures to inform shareholders. However, CSD should be proactive in developing relationships with the registrars that ensure timely receipt of such a notice.

Where the action is a cash distribution, the CSD will provide beneficial owner information to the registrar. The cash payment will then be paid directly to the beneficial owner by the registrar. Where the action results in bonus shares payable to the beneficial owner, or other change in the share position, the depository will update positions accordingly. This will be accomplished through the release of a pending transaction in the CSD system by the operations staff.

The depository operations group will need to research and resolve any problems that arise under this service as reported by the participant. Such problems include, but are not limited to:

- Non-receipt of cash distribution by beneficial holder.
- Incorrect amount of a cash distribution credited to participant's account.
- Receipt of cash distribution by incorrect beneficial holder.
- Non-receipt of bonus shares in participant's depository account.
- Receipt of bonus shares by incorrect participant.
- Incorrect number of bonus shares credited to participant's account.

Adjustments to the CSD system information and/or participant positions as determined through research is done by the depository operations group. Documentation of all problems and subsequent actions are also maintained by this group.

CSD will receive notifications of corporate actions from the registrars on a regular basis. Such information should be received no later than 15 business days prior to the company's book-closing date for input into the depository system. If notification of a corporate action is received from a registrar after the book-closure date, information on participants holding positions at the depository must be recovered manually from system records for the related date, formatted into a report, balanced, and sent to the registrar for further action.

The depository's corporate actions staff also researches and resolves any problems arising from this process. Generally, such problems revolve around balancing the depository's position on the books of the registrar to the participant details as within the depository. Differences may be reported by either the registrar or the participant.

- **Cash Settlement** - The depository system will produce daily Settlement Statement for each participant. This statement reflects the cash amount of be paid to/received from each participant. A copy of the statement will be given to each respective participant. A comprehensive listing will be received by the depository settlement staff and delivered to the settlement bank with the appropriate instructions.

The settlement staff will receive notification from the settlement bank of any unpaid debits to participants by the designated cut-off time. The settlement staff will attempt to resolve these items with participants. Any unusual issues and/or debits that remain unpaid will be referred to the surveillance staff for further work.

As funds are paid and collected, the operations staff will record the movement of cash through the money entry screen of the depository system.

The settlement staff will also balance daily activity within the bank. This will entail completing worksheets, recording cash balances that reflect the day's activity for settlement, buy-in accounts, sell-out accounts, registrar fees collected, participant fund monies, etc. as reported to the system. This must be compared to what the

manual records of the operations department reflect. Differences must be identified, controlled through one “out-of-balance” list, researched and resolved by the operations staff.

In addition to processing daily settlement activity, the operations staff will project bank balances for investment or funding purposes. Instructions will then be given to the appropriate party to place an order for the investment with the bank or deposit funds into the settlement bank account to cover any shortfall.

Note: This shortfall may be covered by the participant fund, a bank credit line, CSD operating cash, or any other source.

The Depository Operations staff responsible for cash settlement will also be responsible for making the necessary cash adjustments to the CSD system to reflect the release of monies related to buy-in/sell-outs. As part of this function the operations staff must reconcile the cash in the buy-in/sell-out accounts is equal to the value of the related securities.

Billing funds charged through the settlement figure will also need to be segregated by the settlement staff prior to presenting the settlement figures to the settlement bank.

Reconciliation of settlement records to bank records/statements must be performed by staff other than those performing the daily cash settlement functions to comply to the need for division of duties.

- **Distribution/Mail** - This area would be responsible for the critical function of distributing hard copy reports to participants as necessary on a timely basis. This would mean having the reports sorted and available for local participant pick-up at the depository “window” as well as shipment to out-of-town locations.

The distribution/mail staff would also be responsible for the processing of routine incoming and outgoing mail for the depository.

B. COMPLIANCE/SURVEILLANCE/RISK MANAGEMENT/LEGAL

As a regulated and potentially self-regulated entity, the CSD has risk reduction and oversight responsibilities. Monitoring ongoing participant and security activity in the system as well as ensuring that the depository itself complies with its own rules as well as industry regulations ensures that risk is minimized and the integrity of depository processing is maintained. Related functions in this area may be grouped together. To comply with the division of duties requirement, these functions must be assigned to individuals outside of the other business areas.

- **Compliance** - This area relates to ensuring that the activities of the depository comply with internal business rules as well as external industry and government regulations. This is accomplished through such activities as receiving and reviewing internal audit results, surveillance reports, operational procedures, etc.
- **Surveillance** - The purpose of Surveillance is to monitor ongoing participant and security activity in the CSD system, ensuring that risk is minimized and the integrity of depository processing is maintained.

1. Participant Application Review

All applications for participation in the depository must be reviewed by the Surveillance staff. Files for all potential participants as developed by marketing and/or any type of membership area are forwarded to Surveillance. These files include all informational forms and agreements that have been completed by the potential participant. Final approval from Surveillance is required prior to the participant account being activated.

The review by Surveillance begins with review of the materials in the file. The Surveillance Specialist checks to ensure that all informational documents have been fully completed, and that all required signatures on agreements and other forms have been obtained.

The Surveillance Specialist then begins an in-depth review of the potential participant to ensure that participant eligibility requirements of both the depository and regulators are met. This includes, but is not necessarily limited to:

- * Historical financial data on the potential participant.
- * Current capital and that it meets depository requirements.
- * Operational/management structure within the firm (infrastructure).
- * Any historical or current litigation in which the firm is involved and the real or expected judgment etc.

The Surveillance Specialist provides all of the findings of the in-depth research, any recommendations there may be on allowing the firm to become a participant and/or initial Participant Fund deposit requirements (see separate section below), as well as the documents from the marketing/membership area(s) the Surveillance management for final approval.

Once approved by Surveillance, the original membership file is returned to the

appropriate party for further processing. All documents related to the investigation performed by the Surveillance Specialist are maintained in the Surveillance files due to confidentiality of information. The Surveillance files are then available to that area for future reference.

Should an application not be approved, Surveillance will provide a reason for the denial. The marketing/membership staff may choose to pursue clarification of conditions with the potential participant. Senior management and often the Legal Department are consulted where the various depository departments cannot come to an agreement on the disposition of the application.

Records on application approvals/rejections are maintained by the Surveillance Department for future reference.

2. *Ongoing Monitoring*

Surveillance is also charged with ongoing monitoring of participants and activity within the depository system. The financial conditions and operational practices of participants are monitored on a regular basis. This is accomplished through the review of financial reports as periodically submitted by participants in compliance with depository rules, and annual examinations of participant in-house records by the Surveillance staff at the offices of the participant.

The Surveillance Specialist monitors activity in the depository system to ensure compliance with established procedures and regulations. Where information is received about problems within the company of an eligible security, the Surveillance Specialist researches positions held by participants to ensure that the financial conditions of participants are not negatively affected through the amount of shares held as proprietary. (A severe decline in the value of a security held for the proprietary account may cause the participant to not be in compliance with capital adequacy requirements.)

The Surveillance Department works with industry regulators to accomplish the above monitoring and to investigate financial or operational problems of a participant to which the regulators have been alerted and given notice to the depository. This includes any serious grievances that have been filed with the regulators that have not been addressed by the depository participant.

Note: It is extremely important that all grievances submitted by individual investors be addressed first by the depository participant. If calls are received directly by the depository from the individual investors, they must be referred to their brokers and/or custodian banks for actions. The depository should rarely deal directly with the individual investor.

The Surveillance Specialist takes appropriate actions within his/her realm of responsibility where there are negative findings through the above monitoring. Recommendations are made to the Surveillance management and/or senior

management where actions are needed outside the scope of the Surveillance Specialist's authority. The Surveillance Specialist then proceeds as directed by management in taking actions against the participant.

Note: Such actions include fines, suspensions, and ceasing to act for a participant as set by the Board of Directors and provided for in the depository rules.

Subsequent disputes by the participant related to such actions may require that Surveillance work further with senior management and the Legal Department. If the actions include suspending or ceasing to act for a participant, Surveillance instructs the appropriate party on what entries need to be made to the account masterfile database.

Periodic reports on the financial status of individual participants are produced by Surveillance and distributed to the appropriate senior management of the depository.

Records are maintained by Surveillance on all recommendations and actions taken against participants for future reference.

3. *Participant Fund*

The CSD depository maintains a Participant Fund (or "clearing fund") to minimize financial risk to the depository and its participants. The basic required amount to be deposited by each participant is set by the depository's Board of Directors. The depository's rules also need to provide for supplemental deposits to be required from a participant if it is believed that the participant is causing unusual risk to the system.

Note: Neither of these funds are for the purpose of a guarantee of trade settlement. Rather they are to provide funding in the event that a participant defaults on cash settlement.

The need for a supplemental Participant Fund deposit is determined through the monitoring done by Surveillance. The Surveillance Specialist alerts the management of Surveillance of any unusual risk, and the participant(s) involved. Based upon the magnitude of the unusual risk, the manager of Surveillance will establish the amount of the supplemental participant fund deposit. Senior management of the depository is notified of the need to require a supplemental fund deposit. Where the unusual risk is deemed to be extremely high, senior management and the Legal Department are consulted on the formula used to calculate a supplemental deposit.

Note: The formula to calculate supplemental deposit requirements is not set as a specific formula. This provides flexibility to the CSD management to set the supplemental amount at whatever level provides comfort that the

unusual risk to the depository and its participants is eliminated. As the risk is diminished or removed, Surveillance approves the return of the excess funds to the depositing participant(s).

If a participant fails to meet participant fund requirements, basic or supplemental, the participant is considered to be in default and subject to further action by the depository. This may include temporary suspension of access to the depository until the requirement is met or a decision that the depository will cease to act on behalf of the participant. Surveillance takes or recommends to management such actions as appropriate. Where a decision is made to suspend participant activity, cease to act for a participant, or de-list an eligible security for cause, Surveillance ensures that the necessary entries are made to the participant account and security masterfile system database profiles.

While the administration of the actual funds may lie with an accounting area, Surveillance reviews reports on Participant Fund deposits for accuracy.

- **Risk Management** - Risk management limits the exposure of the depository corporation to participant failure and other liabilities under routine business operations.

1. Controlling Risk

Where the Surveillance Department is charged with minimizing risk in the use of the depository system, the Risk Management staff is responsible for limiting risk to the depository corporation and, ultimately, the users of the depository. This is accomplished through one or more of the following methods:

- * Acquisition of corporate insurance against negligence, theft, fraud, etc. by employees of the depository.
- * Development and maintenance of a business continuity/disaster recovery plan for the business areas of the depository (vs. a plan for the technical processing as administered by Information Technology). This includes acquiring an offsite facility in the event that the current offices are not available under a disaster.
- * Participation in the settlement of individual investor grievances that have not been settled by the depository participant and are related to depository activity.

Note: *If calls are received directly by the depository from the individual investors, they must be referred to their brokers and/or custodian banks for actions. The depository should rarely deal directly with the individual investor, but must be prepared to do so*

through Risk Management, the Legal Department, and any other area of the depository.

- * An annual review on the adequacy of risk controls in place at the depository. A comprehensive report on this review is provided to senior management. The Risk Management Specialists investigate new methods to contain risk to the depository, its participants, and ultimately to beneficial owners, and make recommendations to management on same. Controls and methods in place are documented and available to Internal Audit, external auditors, and regulators.

- **Legal** - The legal staff ensures that the depository is in compliance with its own business rules as well as industry regulations as well as to provide legal support to all depository activities, necessary legal opinions on day-to-day activities, writing of depository rules, and the application of rules and regulations.

1. Day-to-Day Business

The Legal staff works with all areas of the depository in conducting normal business. Examples of such work include:

- * Vendor-related agreements.
- * Participant and settlement bank agreements with the depository.
- * Negotiating credit lines for the depository.
- * Representation of the depository in litigation proceedings.

2. Depository Rules

Each time that the depository adds or changes a service, the depository rules must be updated to reflect the change. The business department considering such an action contacts the Legal staff to discuss the intentions. The Legal staff decides whether the action is truly an addition or change to services, or simply a change in procedures as referenced in the depository's rules.

If only a change in procedure is warranted, then CSD simply needs to inform the participants. A formal notice is provided by CSD and maintained on file for future reference.

Where a rule must be added or changed, the Legal staff drafts the language. The draft is reviewed by and discussed with the respective business department(s) to which the rule applies. Once the final language is decided upon, it is filed with CSD Board of Directors and the regulator for approval.

The new service or service change is implemented upon approval from the regulator.

3. *Application of Rules and Regulations*

Whenever there is a question about the application of the depository rules, industry regulations, or general business law, the Legal staff must be consulted. The Legal staff will make the decision as to whether issues simply need business decisions or have legal implications. Only where an action has legal implications will the Legal staff provide an opinion. The CSD senior management will then make decisions based on the legal opinion provided.

Examples of when the Legal Department is consulted include but are not limited to the following:

- * Interpretation and application of rules as they apply to services.
- * Interpretation and application of rules and regulations as they apply to actions against participants that may be taken by the CSD Surveillance area.
- * Interpretation and application of rules and regulations as they apply to grievances filed by participants and/or beneficial owners.
- * Additions and changes to services.
- * Preparation of agreements between CSD and participants, settlement banks, and even registrars if needed.
- * Work with regulators as needed and as related to the depository environment and processes.

***Note:** It is extremely important that the Legal staff be consulted on and kept well informed about the activities of the depository. It is the Legal staff that is actively involved in arbitration and litigation proceedings. Therefore, the Legal staff must have the background and the foundation on which to represent the depository. This only comes from close work with the business areas of the depository.*

C. INTERNAL AUDIT

The Internal Audit staff ensures internal compliance with depository procedures and policies (including risk controls), and industry standards for operation. This is accomplished through periodic reviews of all depository areas, with reports on findings made to all levels of management and the Board of Directors.

1. Internal Reviews

The auditors of Internal Audit schedule periodic reviews of each of the depository's business areas. These areas include those responsible for the actual functions of the depository system, such as the operations, Information Technology, marketing, and Compliance. The various areas of Support Services are also audited as appropriate, including the accounting areas, administrative services, corporate security, etc..

Reviews are performed in each area at least once a year. Documented procedures, policies and risk management controls are compared to actual internal practices. Where there are a large number of activities within a department, or where functions overlap between departments, reviews may be broken down into several reviews throughout the year, each with a smaller focus. Management may also request special audits of areas where it is perceived that there may be a serious operational problem or break in the following of depository procedures and policies.

Reports are issued to management after each review. Included in such reports are the findings of the auditor(s) as well as any recommendations they may have on procedure changes and/or additions. The management of the respective area(s) respond to the audit comments. Where there is disagreement with the findings, the departmental provides support for that disagreement. Where there is agreement on needed changes, the departmental management commits to a target date for implementation of the changes.

2. Assistance to External Auditors/Regulators

Periodic reviews are also performed by external auditors and regulators. Internal Audit also assists these organizations in their work by acting as coordinator with internal departments in obtaining specific information needed by the outside auditors. This reduces time and costs to the depository that are associated with the work of the external auditors and regulators, and ensures that requests by external auditors are reasonable. Internal Audit also assists CSD's management in responding to the reports of external auditors and regulators.

D. MARKETING

The marketing area is responsible for identifying and contacting prospective participants of the depository. Through such contacts, the marketing staff explains the depository services and the benefits of being a participant.

Besides soliciting new business, this staff also remains in contact with active customers through periodic meetings and telephone calls to ensure that the depository is fulfilling all expectations, and that any problems the participant is encountering in using the depository are addressed quickly. The need for new services from the depository by the customer base is also initially identified through such contacts.

Established depositories normally create a separate Marketing Department. However, it is anticipated that the marketing functions of CSD will be conducted by the management team.

E. INFORMATION TECHNOLOGY

The CSD computer system is integrated with that of the Moldova Stock Exchange. However, it is expected that the CSD will have a dedicated staff for depository work in this area. This will include system design, programming, testing, installation, and operation of all depository systems.

F. SUPPORT FUNCTIONS

Support functions would include such areas as:

1. **Payroll** - This encompasses calculating and producing paychecks, processing salary increases, etc.
2. **Accounting Department** - Financial records of the depository corporation would be maintained by the Accounting Department. The processing of payables and receivables would also be the responsibility of this area. This would include the processing of depository billing to participants and the collection of same.
3. **Administrative Services** - This area would be responsible for the purchasing of supplies and office equipment. It would also oversee space planning for the depository staff, furniture, fixtures, and computers.
4. **Security Department** - This area should be responsible for the screening of depository staff members for security clearance and access to depository facilities and systems. Messengers from local participants should also be checked by Security before being granted routine access to the depository. Identification badges allowing access to the depository would be issued by Security.

V. STAFFING

Based on the above section on functional responsibilities, the organizational structure groupings for the CSD are as follows:

- * Depository Operations
- * Compliance/Surveillance/Risk Management/Legal

- * Internal Audit
- * Marketing
- * Information Technology
- * Support Functions

As a completely independent organization, a depository would normally staff each of the above areas. However, because of the relationship of the CSD to the Moldova Stock Exchange (MSE), it is anticipated that certain functions will initially be transferred to the MSE. Responsibilities expected to be absorbed by the MSE are those related to:

- * Compliance/Surveillance/Risk Management/Legal
- * Internal Audit
- * Support Functions
 - Payroll
 - Accounting - Functions such as participant billing, bank reconciliation, payables, investments, etc.
 - Administrative services - Functions related to space, supplies, equipment, etc.
 - Security

Marketing responsibilities will be assigned to the depository and MSE management as appropriate.

While the computer systems of the CSD and MSE are integrated, the MSE has elected to dedicate three technical staff members to the depository. Considering this and the estimated volumes related to depository operations, the recommended staffing levels for start-up through the first year are:

* Management	1
* Depository Operations	3
* Information Technology (as assigned by MSE)	3
TOTAL	7

Although volumes may be low, questions and problems will be high initially until staff and participants are fully trained. As familiarity with the system and operational procedures improves, volumes will increase. Therefore, it is reasonable to expect a need for 2-3 people to cover all of the depository operations described in the above related section on functional responsibilities.

Depending on the timing of activities, it is very likely that the depository staff will need to be at least three (perhaps more) individuals to ensure that all processes meet CSD and banking deadlines. To accommodate this temporary need throughout the day, CSD may

elect to share staff with MSE, moving people between functions of the two organizations as needed. At the very least, MSE staff members should be trained in depository functions to fill in the even of absenteeism and unusual temporary volumes.

Another option to the CSD may to have a staff of part-time and/or temporary help that can be called in to work as necessary.

Management must continually monitor staffing needs within CSD. Changes that impact volumes within a developing depository can occur rapidly, and processes can easily become uncontrollable. It is extremely important that CSD retain the integrity of a high service level by ensuring timely and accurate processing. Since the CSD system will initially be a highly manual environment for many procedures, appropriate staffing is critical to the success of the depository.

VI. OPEN ISSUES/POLICY DECISIONS

In considering the business specifications and workflows for the CSD, there are a number of policy and procedural decisions that still need to be made that relate to functional processes, and may also need to be included in the business rules. These are:

POLICY

- * Selection of settlement bank.
- * Determination of participant settlement bank requirements (i.e. only one designated bank or multiple).
- * Eligibility requirements for both participants and securities.
- * Number of days within which participants must advise CSD of activity and position differences in reconciling internal records to depository accounts. (Otherwise, the depository is not liable for any financial loss to the participant as a result of depository errors.)
- * Formula for basic participant fund.
- * Fines, penalties, suspension causes to be provided for in the rules.
- * Fees to be charged to participants.
- * Investment policies.
- * Additional funding through operating cash, reserves, bank credit line.

PROCEDURAL

- * Forms to be designed -
 - Participant applications
 - Account additions, deletions, changes to be completed by the participant and submitted to CSD for processing.
 - Security masterfile additions, deletions, changes.
 - Cash settlement worksheets
- * Development and timing of management reports.
- * Ongoing monitoring of participants and securities in surveillance area and related reporting mechanisms.
- * Complete documentation of initial business operating procedures.
- * Settlement bank agreement.
- * Participant agreement.
- * Agreement between MSD and MSE where one entity is to provide services to the other.
- * Establishment of relationships with registrars.

The above list is not intended to be exhaustive. It only addresses immediately identified issues. The CSD management must continually update this list as development of the depository progresses.

VII. SUMMARY AND NEXT STEPS

Initially, it is expected that the CSD will experience a low volume of activity. The development of separate departments within the depository facility will, therefore, not be necessary. Rather, it is recommended that tasks be grouped into related functional responsibilities as follows:

- * Depository Operations, dealing with the day-to-day operations of the CSD such as
 - Participant and security database maintenance
 - Participant services
 - Deposits
 - Withdrawals
 - Registrar Interface
 - Inter-account delivery requests
 - Corporate actions
 - Cash settlement
 - Distribution of reports/incoming and outgoing mail

- * Compliance/Surveillance/Risk Management/Legal
- * Internal Audit
- * Marketing
- * Information Technology (computer systems)

Staff should be assigned to cover each group, with consideration given to time deadlines and volumes. The initial depository staff should be assigned to the daily operations of the depository and service to the participants. The CSD management should include marketing of the depository in their responsibilities. The MSE has elected to transfer three technical staff members to CSD.

The remaining areas of the depository (Compliance, Surveillance, Risk Management, Legal and Internal Audit) may be outsourced by the CSD to MSE. Other staffing options include cross-training MSE staff in depository functions, having a pool of part time and/or temporary help that can be called in during unusual volumes or employee absenteeism. This type of staffing “back-up” will ensure the continuity of depository processing during periods of under-staffing and unusual work volumes.

Considering all of the above, the initial staff for the CSD, including one management person and the three technical people assigned by the MSE, should be 7 employees. This staffing level needs to be closely monitored by the CSD management and adjusted quickly as the depository grows. If this is not done, process at the depository can quickly become uncontrollable.

In addition to organizational structure and staffing, certain policy issues and procedural steps must be addressed. Decisions in these areas need to be made to support operational procedures and business rules in the process of being developed. Price Waterhouse will assist the CSD and MSE management in these areas through implementation of the depository. An action plan may be found in Appendix A to guide this process.