

Electronic document management formation

Main legal preconditions for implication of electronic document management (further – EDM) in the financial market infrastructure appeared with the adoption in January 2002 of the Federal law No. 1-FL “About electronic digital signature”¹, in which the following regulation was fixed: “than electronic digital signature is equivalent to the own signature on a hard copy”. An objective necessity in infrastructure allocation across the whole country territory and following from this the territorial remoteness of senders and recipients of documents which are the base or result of operations in the accounting system of registrar’s or depositories’ securities. Because of this, registrar’s subsidiaries and transfer-agents should also be involved in electronic document management.

Next important step on the way of implementation and development of EDM was the adoption of FFMS decree from December 8 of 2005 No. 05-77/pz-n “About the adoption of regulation on requirements to the activity of financial markets participants using the EDM”² prepared on initiative and with the participation of PARTAD. On the basis of this the complete usage by SRO members of approved by Board of Directors of PARTAD (minutes No. 07/2005 from 23.09.2005) “Guidance on electronic data management with usage of PARTAD electronic interaction formats”³ became possible. During the analyzed period the above-mentioned Guidance began to be used by SRO-members – organizers of electronic document management system in development of the EDM Rules for corporate information systems, which determine the order of electronic documents exchange.

¹ Federal law from January 10, 2002 No. 1-FL “About electronic digital signature” // Legislation collection of RF. 2002. No. 2. January 14.

² FFMS RF Decree from 08.12.2005 No. 05-77/pz-n “About the adoption of regulation on requirements to the activity of financial markets participants using the EDM”// Statutory acts bulletin of federal executive authorities. 2006. No. February 6.

³ “Guidance on electronic data management with usage of PARTAD electronic interaction formats” approved by the Board of Directors of PARTAD (minutes №07/2005 from 23.09.2005). Published on site www.partad.ru/tchetn/cert/edo_partad.html

During the analyzed period continued the work on transition of professional market participants – PARTAD members on system of reports delivery to FFMS in electronic form, thus allowing to work through the EDM application. According to state on 01.11.2007 the Certification Center of PARTAD authenticity center issued more than 120 certificates of electronic digital signature, (further – EDS), oriented on delivery of reports in electronic form and continues the work on its issuing. By using this certificates, more than 60 organizations – professional market participants of securities market infrastructure entered in the system of acquisition and delivery of reports in electronic form using the EDS to the FFMS. On August 2, 2007 amendments in the FFMS of Russia Decree from 10.11.2004 No. 04-910/pz “About authenticity centers”⁴, according to which PARTAD was included into the list of authenticity centers authorized by regulating authority, came into effect.

In the network of continuing PARTAD work on application and development of electronic document management technologies in the accounting system, a special portal in the Internet was improved for providing reports with the usage of EDS, issued by PARTAD authenticity center. Currently, reports are sent threwh the secure connection with the usage of Secure Socket Layer (SSL), which determine cryptoalgorithms and keys on both sides and provide encrypted tunnel, for sending files with reports.

As a pilot project on issued by PARTAD authenticity center EDS key certificates implementation in the electronic document management of participants of accounting system of securities market, EDS key certificates were issued to employees of closed joint-stock company “Service-Register”. Currently, the interaction of the main office of closed joint-stock company “Service-Register” and its subsidiaries by electronic

⁴ FFMS RF Decree from 10.11.2004 No. 04-910/pz “About authenticity centers”// FFMS of Russia bulletin. 2004. No. 7. December 31.

correspondence is made with the usage of EDS and encryption technologies, on the basis of certificates issued by PARTAD authenticity center. Closed joint-stock company “Register A-plus” began the usage of key certificates issued by PARTAD for electronic interaction with issuers, registers of which are maintained by this registrar. Closed joint-stock company “Irkol” also prepares for application of certificates of PARTAD authenticity center.

During the analyzed period those issuers which should organize the redemption of stocks under the article 76 of the Federal Law “About joint-stock companies” (edition of law No. 146-FL from 27.07.2006)⁵ became the potential users of EDM systems. Requirement to block securities right after the joint-stock company received a redemption claim from shareholder, in many cases is technically executable only with the usage of EDM between registrar and issuer⁶.

But it is significant that historically the first major stock market segment using EDM, were settlement depositories and their clients – brokers/dealers, trading on the organized market. Because of the interdepository bridge between DCC and NDC, operating since the end of the past century, and with the extension of the list of issuers which passed the listing procedure on the exchange, the demand for electronic interaction of settlement depositories with registrars, maintaining registers of mentioned issuers was gradually formed. In compliance with this demand the working group of the PARTAD Committee of standardization and technological development designed and the Board Directors of SRO in June 2004 approved Formats of Electronic interaction of registrars and depositories (further – Formats).⁷ Formats are regularly updated by

⁵ Federal law from 26.12.1995 No. 208 – FL “About joint-stock companies” (edition from July 27, 2006) // Russian gazette. 1995. No.248. December, 29.

⁶ Petrova O. “FDM organizational experience. Change of risks character of FDM implementation”// Depositarium. 2007. No. 4 (50). April. P. 25.

⁷ Formats of electronic interaction of registrars and depositories, approved by the Board of Directors of PARTAD (minutes No. 05/2004 from 03.06.2004). Published on site www.partad.ru/otchetn/cert/edo_format.html.

PARTAD on the basis of infrastructure practices and became widespread during the analyzed period. In particular, about 80% of the volume of interaction of NDC with registrars is made in the EDM system with the usage of Formats, which are widely used also by organizations – not members of PARTAD. Formats are integrated with the system of electronic interaction of DCC with registrars MCR, ROST, CMD and others.

Responding on market requirements PARTAD began the development of self-regulated system of EDM for interaction between registrars and depositories, if for lack of technical opportunity or economical reasonability for creation or application by them of their own EDM systems for electronic document communication between each other.

According to the fact of usage by market participants, Formats gradually and naturally become the standard of its infrastructure.

In the other segment associated with the securities market – collective investment market, during the analyzed period the demand for unification of its participants interaction formats showed up most acute.

Analysis of current situation of the EDM development in the collective investment market in a whole, allows to state that normative-legal base (before accepting by the State Duma of RF of new editions of laws “About investment funds” “About non-governmental pensionary funds”), allowed but not stimulated market participants to exercise an electronic interaction. It was oriented mainly on usage of paper-based documents thus making impossible to exercise EDM in a simple and seamlessness way, without the application of many additional contractual frameworks.

Besides, EDM systems, operating in the collective investment market, though characterized by private (corporate) way of their application, are quite efficient, functionally advanced and legitimate frameworks. Interaction of these two equal right systems is complicated

because of the lack of single principles and approaches to their building methodology⁸.

Informational interaction of collective investment market participants is characterized by a large number of documents, and thus by significant expenses on their preparation and handling. There is a multiplicity and diversity of single-typed document formats, in which along with the usage of *ISO* standards, also used private corporate formats and even non-standardized interaction like sending graphical document images. Practically there is almost no single classifiers and manuals. In turn, the lack of them significantly restrains the implementation of EDM and automated information handling within corporate informational structures, and also makes it impossible to implement technologies of the end-to-end information handling.

As of today almost each specialized depository, operating in the market either already has its corporate EDM system, or is at the stage of its implementation, or started its development. And this is not accidental. Rapid development of the collective investment sector in Russia sets before specialized depositories new problems in the field of servicing technologies and service quality, i.e.: provision of stable efficient handling of multiply increasing flows of operations with securities, cash assets, which form assets of investment funds and investment shares of UIF, efficient interaction with management companies and their agents, working in different regions, high-quality servicing of multiply increasing amount of UIF shares owners and many other. All mentioned above require from specialized depositories in concert with management companies, non-governmental pensionary funds and other participants of collective investment market to develop and implement EDM technologies⁹.

⁸ Murashov M. "Electronic interaction development strategy between professional participants"// Depositarium. 2007. No. 4 (50). April. P. 15.

⁹ Esaulkova T. "EDM implementation – key infrastructure development goal for the collective investment market"// Depositarium. 2007. No. 4 (50). April. P. 22.

From the other side each significant EDM system in the collective investment market created, as a rule, by major specialized depository (UDC, Garant, Irkol and others), for the present uses its own electronic messages formats, and management companies have to support the application of several versions of them.

Practice shows that documents received by a specialized depository from management companies, including broker/dealer reports, statements of settlement accounts and payment orders and so on – are not formed by the management company itself. It receives them thereby from its broker/dealer and bank. And if these documents come from their counterparties not in the form of electronic document in accordance with requirements of existing legislation, than even if there is a technical opportunity of EDM between management company (further – MC) and specialized depository (further – SD) it would be necessary for the management company to provide copies of this primary documents on a hard-copy.

An exit from this situation is the implementation of a completely end-to-end process of electronic documents handling between all participants of investment process (broker/dealer/bank/agent - MC – SD – specialized registrar). Specialized depositories playing a central role in the collective investment market infrastructure objectively should be the main “conductors” of EDM technologies. This approach at the suggestion of PARTAD has found its reflection in the new edition of the law “About investment funds”, prepared by the FFMS and adopted by the State Duma of RF in November 2007.

Besides it is significant that there is a large number of authenticity centers in the financial market, suggesting different means of cryptographic defense of information for provision of EDM. Though it does not mean that it is necessary to build from above some single financial market EDM system, determined as a single hardware-software, communication and

technological complex. PARTAD experts believe that *a systematic, comprehensive approach* to solution of actual problems of EDM development is rather necessary, including:

- systematization and classification of documents circulating in the financial market;
- unification of electronic document formats (standardization);
- maintaining of integrated classifiers;
- unification of requirements for corporate EDM systems of professional market participants;
- development of integrated approaches to the usage of means of cryptographic defense of information;
- standardization of processes of preparation, handling, keeping and transfer of electronic documents;
- end-to-end document handling by financial market participants;
- provision of EDM legitimacy and safety;

To solve this problems it is necessary to use market motivation mechanisms, which will make market participants interested in usage of single EDM formats (including usage of licensing requirements, SRO standards, rating calculation criterions and so on)¹⁰. The requirement of mandatory usage by collective investment market participants only of electronic documents with EDS for interaction with each other (determined by new editions of mentioned laws) would be insufficient.

Carrying out the task of EDM system development in the collective investment market, members and experts of PARTAD during the analyzed period took active participation in meetings of *working group on development of a standard of single electronic document format for EDM in the collective investment market*, created in August 2005 with the participation of representatives of NDC, NLM, PARTAD, ROSSWIFT, and a

¹⁰ Murashov M. "Electronic interaction development strategy between professional participants"// Depositarius. 2007. No. 4 (50). April. P. 16.

number of MC and SD. Unfortunately some organizational imperfections in targeting and in determination of time constraints of eventual result achievement. So, for example, the development of unified formats of messages in the collective investment market was determined as one of the main goals of the working group, though from provided materials it follows that the working group for the present just tries to *adapt* SWIFT formats, which are based on standard *ISO20022*, for the collective investment market.

Assignment of mentioned (adaptable per se) goal before the working group and the simultaneous proclamation of the necessity of creation of a “single standard of electronic document formats” both for Russian and foreign participants of the collective investment market, made this goal dualistic and inherently contradictory.

PARTAD on its side admits the importance of existence of electronic document formats for interaction with foreign depositories, investment funds and other institutional investors and suggests to the mentioned working group to concentrate consciously on this segment of application of formats developed by it.

At the same time, to satisfy the acute need of domestic participants of Russian collective investment market in single formats of electronic interaction, and also for realization of the decision of the Board of Directors of PARTAD (minutes No. 04/2007 from 14.06.2007), Administration Board of PARTAD decided to create the working group of PARTAD *on development of electronic documents formats for EDM in the collective investment market*, including formats of daily reports of management companies of unit investment funds. The working group was composed of representatives of FFSM, PARTAD, limited liability company SDC “Garant”, closed joint-stock company “DCC”, limited liability company “Depository Irkol”, open joint-stock company “Registrar “NIKoil”, non-commercial partnership “NDC”, closed joint-stock company “NRC”, closed joint-stock

company “ОДК”, open joint-stock company “SPECDEP”. It is assumed that developed formats will either correspond to the requirements of Russian legislation on the collective investment market and as far as possible to be built on principles realized in appropriate *ISO* standards.

PARTAD experts suggest to proceed from that the function of “technological unit” to transform messages created exceptionally on the basis of *ISO* standards into messages of Russian national format and inversely (during the cooperation of international and Russian markets), could be performed by organizations which present Russian infrastructure worthy in the eyes of foreign partners, like VTB, VEB, DCC, NDC and others.

For the first stage of its activity from September till November 2007 it had already developed 16 formats of electronic documents which cover the basic range of interaction of MC, SD, placement agents and registrars of UIF shares, and also brokers acting by order of MC.