



# **MOSCOW**

**AS AN INTERNATIONAL FINANCIAL CENTER:**

# **NEW INSTITUTIONS, LAWS AND STANDARDS**

**NOVEMBER 2015**

**MIFC Taskforce**

# REGULATION: A NEW FRAMEWORK



**The Bank of Russia-based Financial Markets Megaregulator was established in 2013.** The transfer of non-bank regulation has made system risk management possible in the financial market.

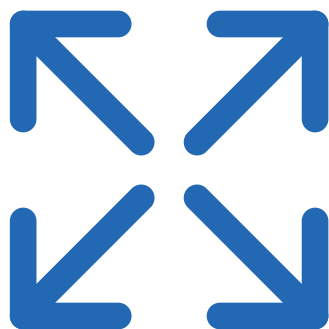
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**The Financial Market SRO Act has been passed** (2015), providing mandatory SRO participation for market participants and an option for the Bank of Russia to partially delegate oversight functions to SROs.

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**The Bank of Russia signed the IOSCO MMoU** (2015). The Memorandum enables the Bank of Russia to effectively liaise with IOSCO, including participation in committees and working groups.

# IMPROVED FINANCIAL MARKET INFRASTRUCTURE



In 2011, MICEX and RTS, **the two key exchanges, were integrated and formed Moscow Exchange**. MOEX Group comprises a central depository (National Clearing Depository) and a clearing centre (Bank National Clearing Centre), servicing the markets as a central counterparty. Moscow Exchange is in the Top 25 trading floors by total listed stock capitalization and in the Top 10 by bonds and derivatives traded (2015).

In September 2013, **Moscow Exchange launched T+2 shares trading**. Major foreign banks (Citigroup, Credit Suisse, Merrill Lynch, Morgan Stanley et al.) opened direct MOEX share trading access to their clients.

**The Central Depository (NSD) complies with 'eligible securities depository' requirements as stated in Rule 17f-7** of the US Investment Company Act of 1940. In 2014, the Bank of Russia awarded NSD critical financial market infrastructure status as a central depository, clearing depository and repository. As of 2015, NSD services securities issued by over 40 nations.

**Euroclear and Clearstream** have been granted access to Russian OFZ (2013) and corporate bonds and shares (2014).

**A transparent system of beneficial ownership disclosure** has been put into place (2013).

# NEW INSTRUMENTS



Regulations allow the issue of OFZs with indexed par value, protecting investors from inflation. This is a perfect instrument for pension funds and other long-term investors, aiming at above-inflation yield for their clients. The first issue was successfully floated in 2015.

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The Russian Ministry of Finance resumed the issue of floating-rate Federal Bonds after a 15-year hiatus (2014).

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Regulations allow the issue of ETFs, several instruments are listed on the Moscow Exchange (2013).

# INVESTOR RIGHTS PROTECTION

## THE NEW CORPORATE GOVERNANCE CODE

The new Corporate Governance Code was approved by the Russian Government and the Bank of Russia Board of Directors in 2014. The Code introduced advanced forms of corporate control by shareholders, with a stronger role for the Board of Directors, wider involvement of independent directors, establishing independent internal audit, control and risk management systems, more information rights for shareholders and board members, enhanced transparency and stricter control over material actions and assets of the entire holding company.

The Government nominated 12 state-owned companies for priority Code implementation (2014).

New Moscow Exchange listing rules are based on the Corporate Governance Code (2014).

## BOND HOLDERS RIGHTS PROTECTION

Bond holders rights protection mechanisms have been put into place, including bond holders consolidation: “bond holders GSM” and “bond holders representative” (2013).

## TRANSITION TO IFRS

IFRS reporting is performed by:

- banks (2012)
- insurers (2012)
- quoted security issuers (2012)
- listed bond issuers (2014)
- listed security issuers with consolidated US GAAP reporting (2015)
- non-state pension funds (2015)
- investment fund, share investment fund and non-state pension fund asset management companies (2015)
- clearing houses (2015)
- Federal State Unitary Enterprises, listed by the Russian Government (2015)
- joint-stock companies, owned by the federal government and listed by the Russian Government (2015)



**Public and Private Joint-Stock Companies regulations were introduced (2014).**

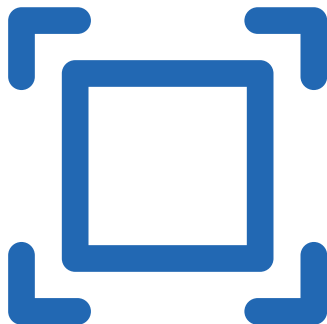
Uniform regulation was introduced for public joint-stock companies, the shares of which are traded on a public stock exchange owned by institutional investors and the general public. Members of the board have better access to information, it has been made compulsory for JSCs to have a registrar, and rules have been set for re-establishing corporate control in cases of stock misappropriation and invalid reorganization.

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**Non-public joint-stock companies have been granted considerable freedom in choosing their model of corporate governance, such as:**

- Several classes of preferred stock (up to 25% of charter capital), including shares with multiple voting rights
- Various share transactions, including issue, without pre-emption right
- Liquidation preference during company reorganization for owners of some classes of preferred stock
- Voting rights ceiling

# LAW: BOOSTING THE APPEAL OF RUSSIA AS A JURISDICTION



## STABILITY OF CIVIL TRANSACTIONS

The ability to void and challenge partially executed transactions was limited (2013).

Irrevocable PoAs were introduced, an in-demand instrument in project investment and leasing, etc (2013).

## SUCCESSIVE CORPORATE ACTIONS

E-communication started to become the channel of interaction between the joint-stock company and its shareholders (2013).

## TERMS AND OBLIGATIONS

The law allows the use of the following terms and obligations (2015):

- option
- indemnity
- warranty and representation
- negotiation agreement
- injunction
- waiver

## SECURITIZATION

Asset securitization is now under statutory regulation (2013).

## PLEDGE

New laws boosted the enforcement of contracts and validity of claims by introducing new pledge regulation (2014).

## NEW ACCOUNT TYPES

Escrow and Nominee Accounts became statutory (2014).

# FINANCIAL MARKET TAXATION



Tax incentives for long-term stock market investors have been introduced:

- income tax relief for the trading of securities owned for a minimum of three years (2014)
- Individual Investment Account, the analogue of US IRA and UK ISA (2015)
- a tax benefit for investors in 5-year-plus life insurance contracts (2015); a similar benefit is in place for non-state pension fund contracts and voluntary pension insurance

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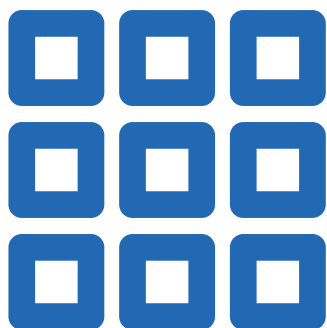
A wide range of financial services has been **exempted from VAT** (2014).

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Tax exemption rules have been established for **Eurobond coupon payments**.



# MISCELLANEOUS REFORMS



## RATING AGENCIES

Rating Agency Act passed (2015). The Bank of Russia will provide rating agency accreditation. Rating agencies incorporated in Russia can now conduct business. The law aims to provide transparency and independence of rating agencies, protect the rights and lawful interests of the rated subjects and the users of credit ratings, such as lenders and investors.

## FOREX TRADING

A law on FOREX brokers passed (2014), introducing FOREX regulation for the first time.

## NON-STATE PENSION FUNDS

Non-state pension fund industry reform has been mostly completed:

- the form of incorporation for NPFs has been changed (conversion into joint-stock companies), paving the way to fair value estimation and sell-off of NPFs, attracting investors and increasing the civil liability of NPF owners (2014)
- guarantee mechanisms have been established for pension savings security (2015)
- a plan for introduction of risk-based supervision is being implemented