

OLIVER WYMAN

Financial Services

May 2011

Moscow as a financial center

Survey results

Moscow



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Section 1

Executive summary

Executive summary

- Survey respondents see a natural potential role for Moscow as a potential bridge between East and West, especially for the CIS in financial markets
- To achieve this ambition, improvements are necessary in a number of areas, which by priority groups are
 - Further increasing market liquidity
 - Creating a robust market infrastructure
 - Improving information disclosure and Increasing transparency
 - Enabling freedom of trading across markets
 - Ensuring strong market oversight including improving corporate governance
 - Increasing the investor base
 - Further developing the corporate bond market
 - Improving IPO processes vs. other exchanges
 - Introducing favorable tax treatment
- With regards to priority areas for regulation, “rule of law” is cited by survey respondents as a main area in need of improvement, with an emphasis on combating corruption, improving transparency, and promoting fairness of the court and law enforcement systems
- A range of suggested actions were seen as critical to improve for Moscow to achieve this vision beyond pure financial market issues, in areas such as overall corporate environment, tax practice and conditions for living and working in Russia (e.g., traffic/visa issues)
- The long list of priority areas and the perceived need to improve at first can be seen as daunting
- The good news is that solutions are possible in these areas, and in many cases well understood already, and that in many cases, benchmark practices can be applied.

Section 2

Survey background

Survey background

- Russian President Dmitry Medvedev last year commissioned a working group to oversee the efforts to further develop Moscow as a Financial Center (MFC)
- A survey was developed by that working group to gather input. It was sent to leading companies, organizations, public entities and business associations active in Russian financial markets
- The survey was prepared in partnership with Oliver Wyman Financial Services, a leading global management consultancy, who helped draft and execute the survey as well as assisted the working group with the analysis of the responses
- The survey was completed by 260 participants from leading Russian and foreign entities active in the Russian financial market and was carried out in February-April 2011

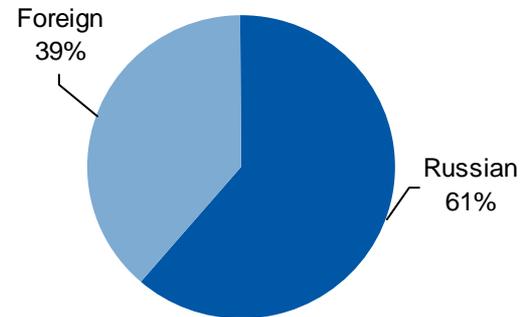
A representative group of senior managers active in Russian financial markets were surveyed

Profile of respondents (260 total)

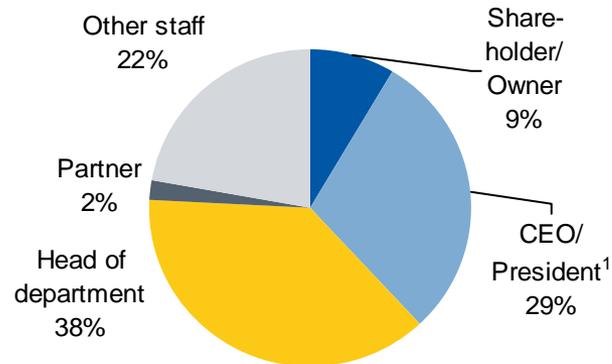
Profession of respondents, percent



National origin of represented organization



Job position of respondents



Participants included 60% of the universal and investment banks by market share, as well as, leading infrastructure players

1. And other board members

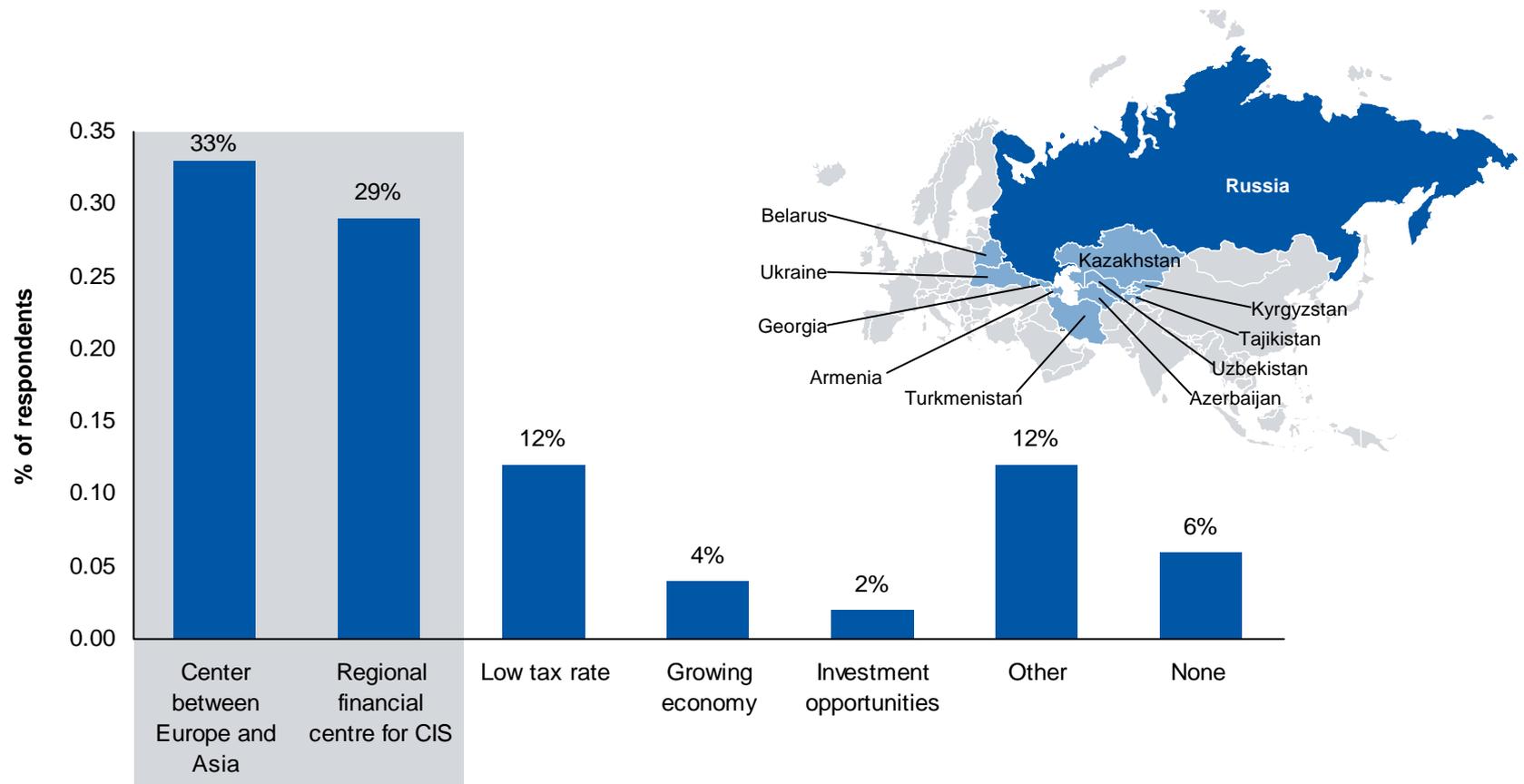
Source: Survey results, March/April 2011, Oliver Wyman analysis

Section 3

Summary of survey results

Moscow seen as a potential bridge between East and West, especially for the CIS

Respondents view on possible sources of competitive advantage for Moscow as a Financial Center



Unique geographical location, influence in the former Soviet region, and attractive tax rates provide the basis for Moscow's emergence as a regional financial center

Source: survey results, March, April 2011, Oliver Wyman analysis

Typical quotes on competitive advantages of Moscow as a financial center

Location

“Midpoint between the Far East and London thus it could become a major trading centre ”

“Ruble strength. Could be the channel for all trade/exchange flows between CIS countries and Europe”

“Has interlinkages with different parts of the world. Moscow is where East meets West. It is a blend of different cultures and nationalities. It will be easy for everyone to come do business”

Big market and growing economy

“High demand for financial services, major growth of banking assets and capital markets still ahead , privatization program, favorable macroeconomic and financial situation ” “At the moment mainly tax regime”

“Stronger growth than Western Europe. Less dependent on USA than China”

“As more of the western economies start to falter given recent credit crunch. Russia with it's commodities and stronger economy vs. levels of debt, should have a very strong competitive advantage”

“High consumer demand, high net worth population, business friendly government, low taxes, high density, good roads, well managed city, excellent research capabilities, high quality scientists”

Source: Survey results, March, April 2011

Typical quotes on competitive advantages of Moscow as a financial center (con't)

Natural resources

“Unrivalled pre-eminence in some specific corporate sectors (e.g. Natural resources) could make Moscow a regional or global center point for financial activity specific to these sectors”

Talent

“Strong mathematical/technical educational system has the potential to produce strong "financiers”

“Large group of well educated Russian-speakers working in financial industry in London and NY ”

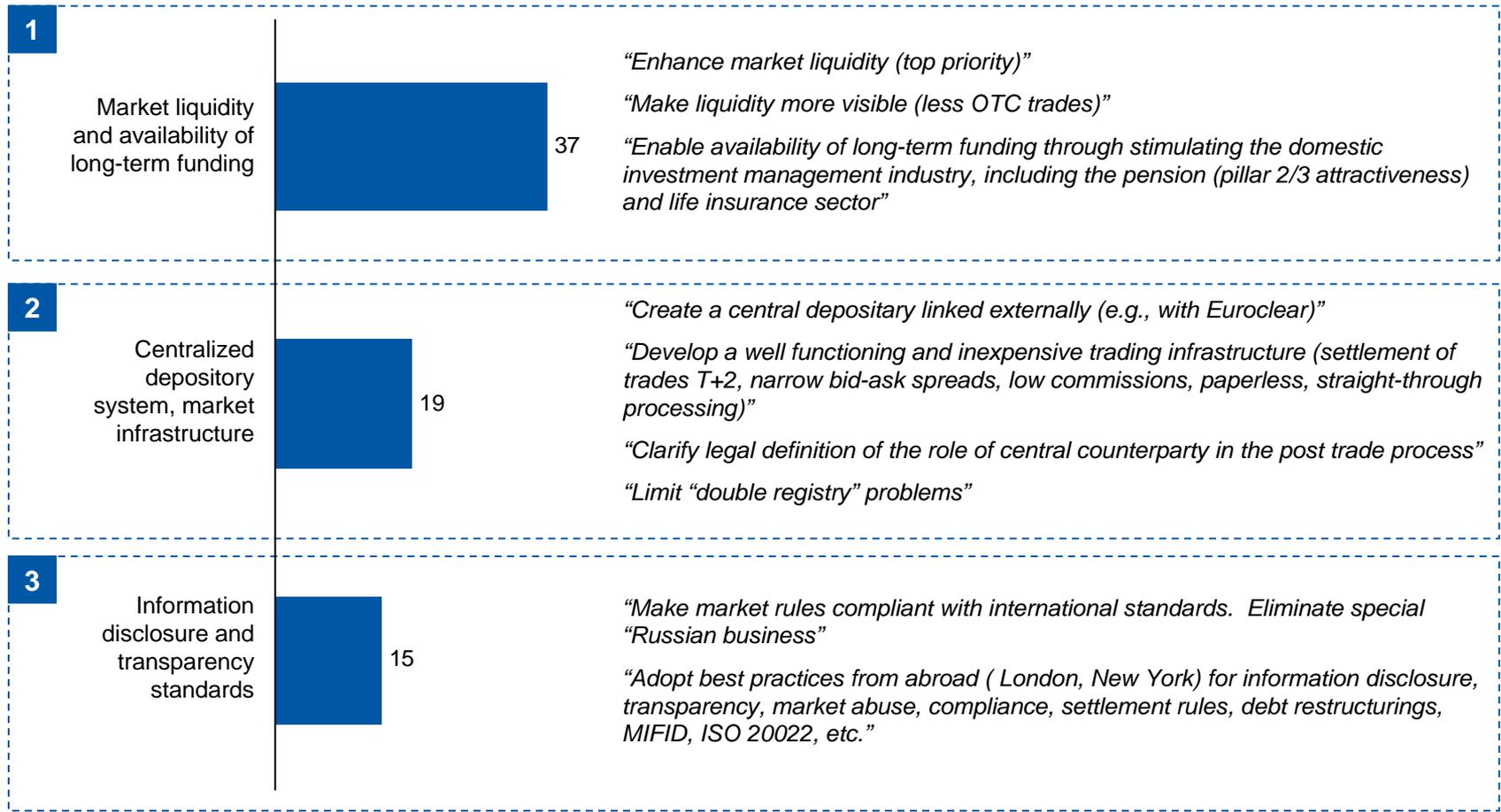
“Moscow is a great city, with a lot of high performers (both Russian and international)”

Source: Survey results, March, April 2011

Building liquidity, improving infrastructure and increasing transparency seen as three most important areas for focus

Percent of respondents citing as most important, Top 3 areas

Typical quotes

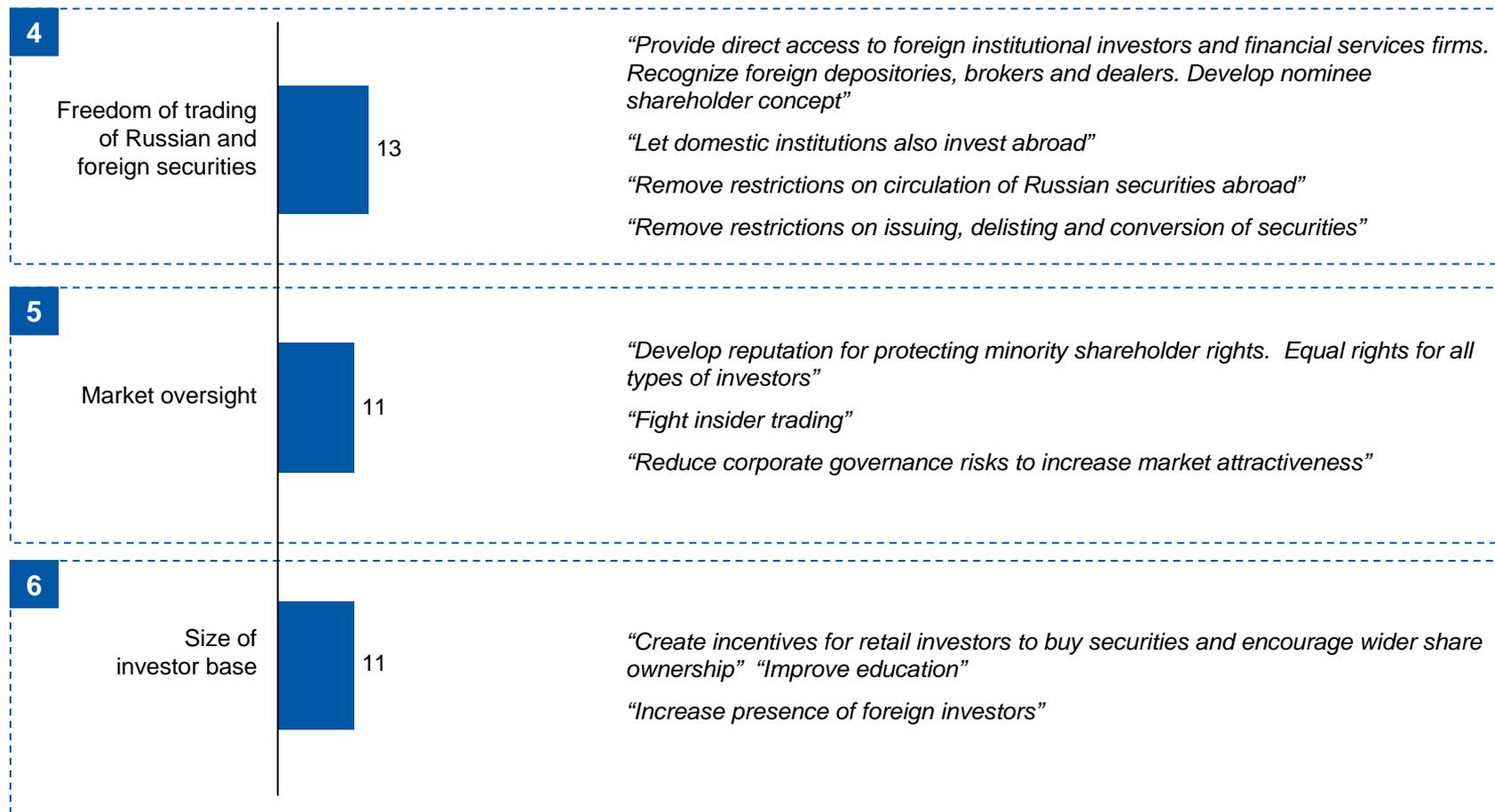


Source: Survey results, March, April 2011, Oliver Wyman analysis

Freedom of trading, market oversight and increasing the investor base seen as the next set of priorities

Percent of respondents citing as most important, areas 4-6

Typical quotes



Source: Survey results, March, April 2011, Oliver Wyman analysis

A better developed corporate bond market, improved IPO processes and improvements in tax treatment were the next set of priorities seen

Percent of respondents citing as most important, areas 7-9

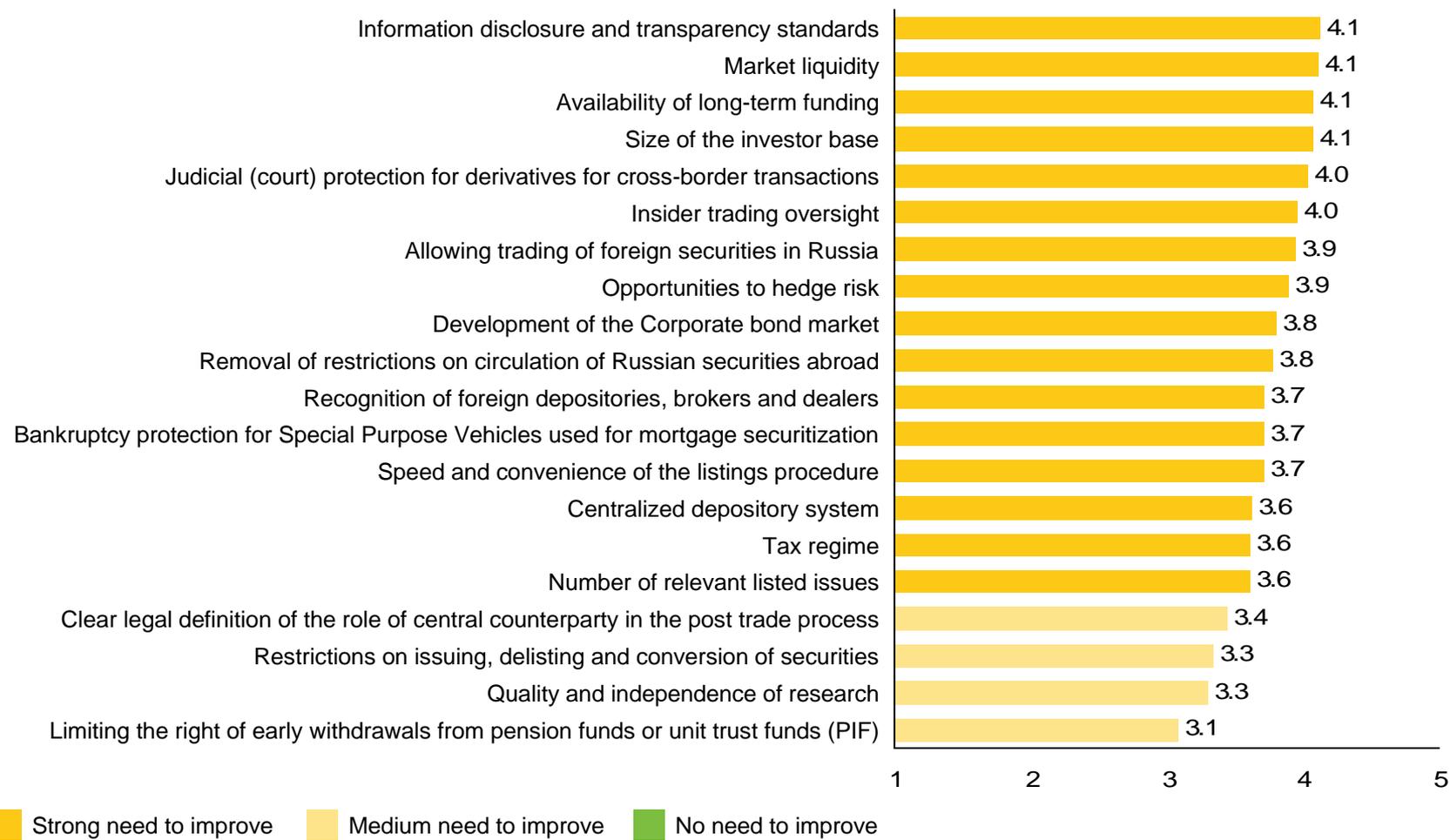
Typical quotes



Source: Survey results, March, April 2011, Oliver Wyman analysis

Transparency and liquidity/investment pool require most improvement

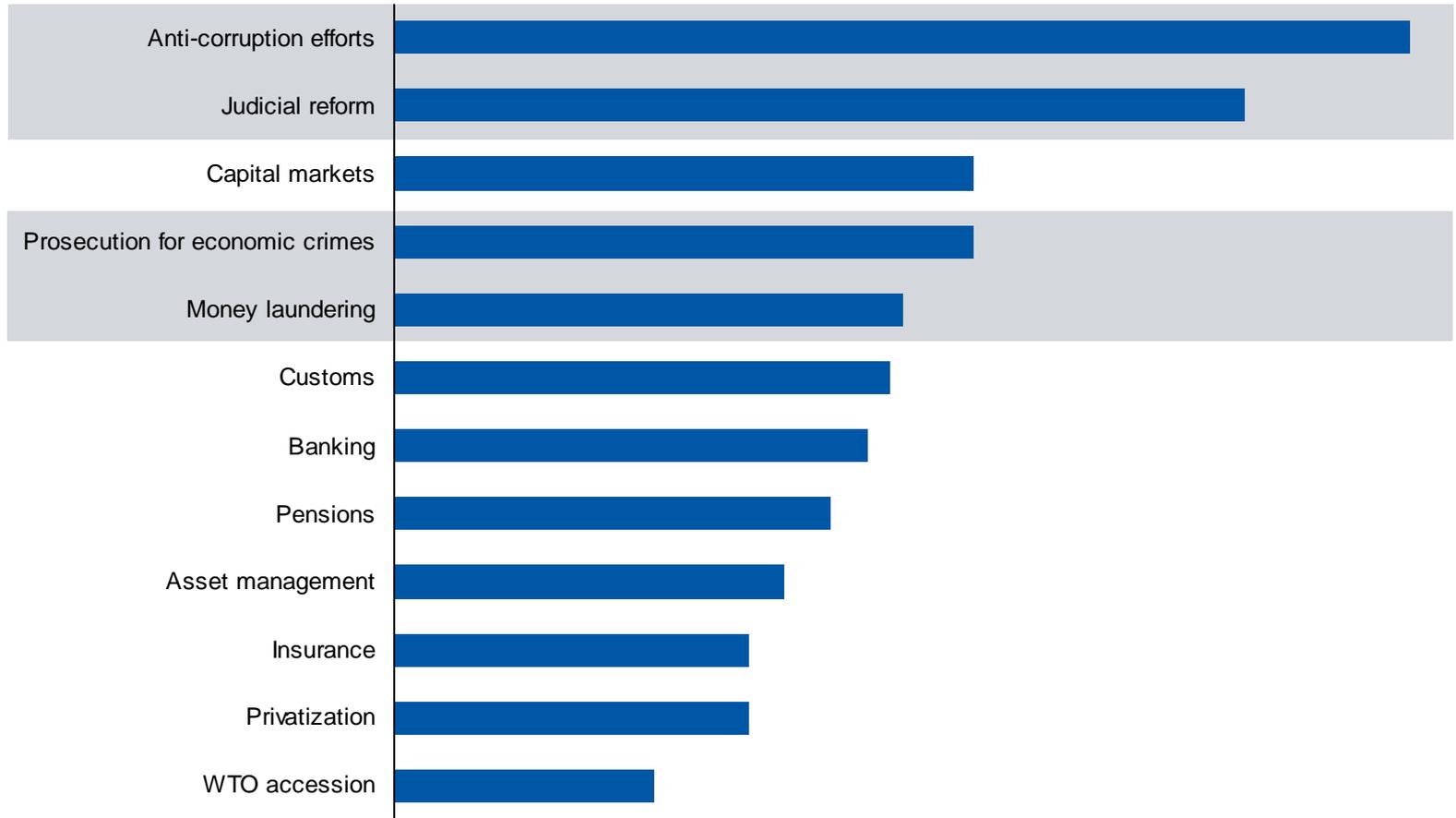
Areas related to capital market needing improvement, average score



Source: survey results, March 2011, Oliver Wyman analysis

“Rule of law” cited as the most important area for regulatory improvement

Areas in which regulatory reform most needed, percent of respondents



Answers related to “Rule of law”

Source: survey results, March, April 2011, Oliver Wyman analysis

A range of suggested actions were seen as critical to improve for Moscow to achieve this vision beyond pure financial market issues

Main issues identified	Suggested action
Legislation and judicial system	<ul style="list-style-type: none">▪ Improve protection of property rights▪ Limit law enforcement and government interference in the private sector▪ Simplify the visa regime▪ Ensure transparency of the court system▪ Improve rule of law, information disclosure and transparency standards
Corruption and bureaucracy	<ul style="list-style-type: none">▪ Actively fight corruption and money laundering▪ Improve ease of conducting business both by Russians and non-Russians▪ Reduce red tape
Tax issues	<ul style="list-style-type: none">▪ Reduce the complexity of the tax system (e.g. improve transparency of tax laws and their implementation)▪ Promote constructive approach of tax authorities and improve accessibility▪ Ensure fair interpretation of tax rules by tax authorities
Transportation and city infrastructure	<ul style="list-style-type: none">▪ Improve ease of car use (e.g., reduce traffic/parking issues)▪ Improve quality of service and accessibility of airports▪ Increase signage and availability of transit information (signs, maps)

Source: survey results, March, April 2011, Oliver Wyman analysis

“Rule of Law” most common improvement area named in corporate environment

Corporate environment, sorted in order of urgency to improve

Area (sorted by order)	
Strongly need to improve	<ol style="list-style-type: none"> 1. Law enforcement practice and transparency of the court system 2. Corruption level 3. Fair competition in the market (especially against state-linked players) 4. Legislative system 5. Protection of ownership and minority shareholder rights 6. Business culture of Russian partners 7. Ease to operate for foreign companies 8. Tax system complexity 9. Availability of information for investors in English 10. Implementation of accounting standards (e.g., IFRS vs. RAS)
Neutral	<ol style="list-style-type: none"> 11. Quality and availability of information for business purposes (tax, bank law) 12. Regulatory performance and independence of the FFMS for capital markets 13. Macroeconomic situation 14. Restrictions to hire foreign staff 15. Regulatory performance and independence of the Central Bank for banking 16. Quality of labor force 17. Regulatory performance and independence of the Insurance Supervision Service 18. Ease of currency transactions/transfers 19. Tax level
No need to improve	

Main issues to improve

- About 60% of respondents said that law enforcement practice, transparency of the court system and corruption level were major negatives in the business environment and that action needs to be taken
- A significant number of locals claimed that Russia currently lacks fair competition in the market (especially against State-linked players)
- Fairness of the legislative system and protection of ownership and minority shareholder rights is seen as another acute problem in the corporate environment

Strong need to improve
 Medium need to improve
 No need to improve

Source: survey results, March, April 2011, Oliver Wyman analysis

The work of the tax authorities the key issues in capital market tax issues

Tax issues, sorted in order of urgency to improve

Area (sorted by order)	
Strongly need to improve	<ol style="list-style-type: none"> 1. Interpretation of tax rules by tax authorities 2. Work with tax authorities (e.g., accessibility) 3. Income tax deductions for amounts paid into pension funds or for long-term investments (e.g., >1 year) 4. Tax incentives for corporations and individuals 5. Ease of tax filing 6. Methodology of taxation of income and gains/losses from operations with ADRs/Repo/Derivatives 7. Treatment of capital losses for individuals (e.g., loss carry forward, etc.) 8. Tax rules on investment income, capital gains 9. VAT on financial services 10. Rules on avoidance of double taxation 11. Transfer pricing regulations related to financial services
Neutral	<ol style="list-style-type: none"> 12. Tax rules for conversion of ADRs/GDRs to shares and back 13. Definition of coupon income and its taxation (for sales transactions as well as for redemption) 14. Definition of the tax advisor role and obligations 15. Tax rates
No need to improve	

Main issues to improve

- About 30% of respondents claimed that interpretation of the tax rules by the tax authorities and their accessibility is the main issue in this area
- 23% of respondents believe that the tax incentives system needs to be improved
- About 10% of respondents find the tax filing procedure difficult
- Other significant issues that were identified are netting and treatment of losses, VAT on financial services, tax rules and legislation (consistency, transparency etc)

Strong need to improve
 Medium need to improve
 No need to improve

Source: survey results, March, April 2011, Oliver Wyman analysis

Traffic and visa issues lead areas needing improvement for living and working in Moscow

Living and working in Moscow, sorted in order of urgency to improve

Area (sorted by order)	
Strongly need to improve	<ol style="list-style-type: none"> 1. Ease of car use (traffic, parking, road signs) 2. Ease to get a visa or work permit 3. Ecology (water, air, cleanness of public places) 4. Residential real estate quality, availability and cost 5. Hotel quality, availability and cost 6. Information resources in English 7. Kindergartens + schools 8. Public transport 9. Orientation in the city, signs, tables, maps 10. Medical care 11. Quality of service and accessibility of airports
Neutral	<ol style="list-style-type: none"> 12. Commercial real estate facilities (offices, location, infrastructure) 13. Universities 14. Attitude of local people 15. Leisure, cultural and sport facilities (incl. museums, theaters, attractions outside Moscow, etc.) 16. Food, restaurants
No need to improve	<ol style="list-style-type: none"> 17. Shopping offer (clothes, shoes etc)

Main issues to improve

- 90% of the respondents said that the traffic situation in the city strongly needs to improve
- More than 60% of all respondents find the visa regime as an obstacle to business
- Respondents based abroad and frequently travelling to Moscow rated the quality of services and accessibility of airports and attitude of local people worse than locally-based respondents
- A majority of locally-based respondents noted transportation infrastructure, residential real estate, education, leisure, cultural and sport facilities as having a higher need to improve than respondents-based abroad
- Foreign-based respondents identified safety as another prominent issue

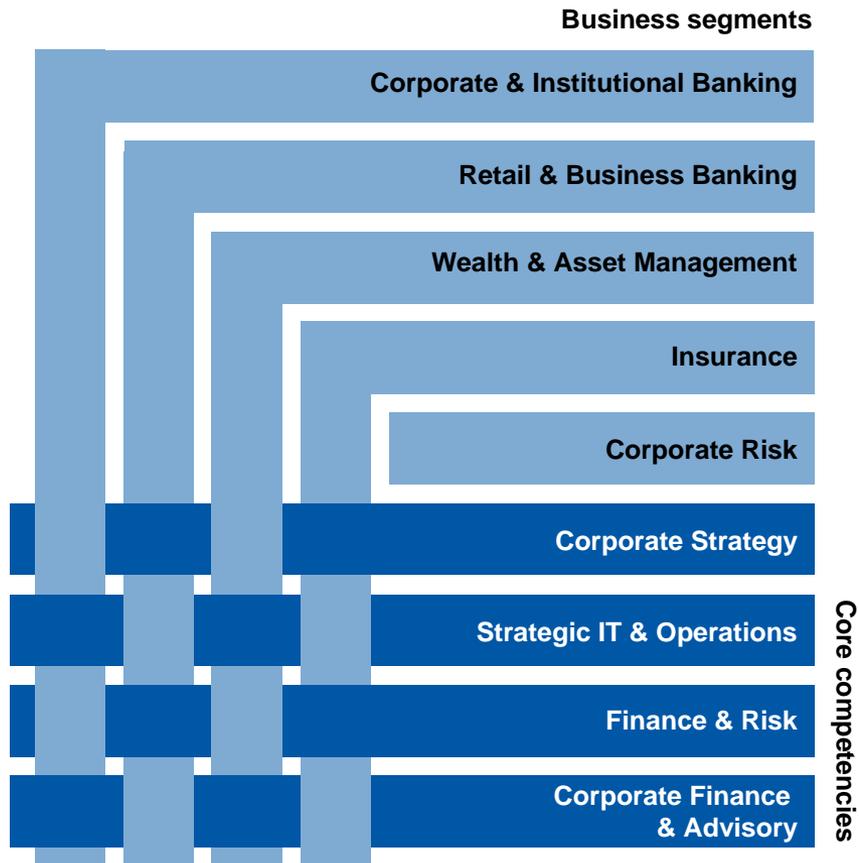
Strong need to improve
 Medium need to improve
 No need to improve

Source: survey results, March, April 2011, Oliver Wyman analysis

Appendix

Oliver Wyman background

Oliver Wyman Financial Services is a leading consulting firm in the sector



- Oliver Wyman Financial Services is an international management consulting firm with over 1,100 professionals dedicated to the financial services industry in 27 offices across 18 countries
- We help client on strategy, organization, operations transformation, post-merger integration and risk management
- Approximately 90% of our business is from repeat clients, who include over 75 of the global top 100 financial institutions
- We have a CEE financial services specialist team, with a hub office in Moscow
- We have recently worked with 7 of Russia's 12 largest banks, as well as leading investment banks, insurers, private equity firms, public authorities and International Financial Institutions

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