**MIFC Liaison Group Meeting Minutes**

**2 July 2012**

**Vnesheconombank, Moscow**

**A. Opening remarks**

**Nikolay Kosov (Deputy Co-Chair)**:

Welcoming remarks, highlighting the progress made over the past year.

**Alexander Voloshin (Co-Chair)**:

* Financial, economic and business relations are developing well between Russia and the UK.
* London has gone a long way as a global centre, attracting capital and top quality financial specialists, which is of great interest to Russian parties.
* Strong continued support for the MIFC from the Russian government and the Russian business community.
* Thanked the UK counterparts for their support and commitment to provide fresh ideas.
* Mechanism for communication between the two sides has now been improved and new areas of cooperation will be examined.
* Hope to continue active dialogue of the Russian-British MIFC Liaison Group.

**The Lord Mayor, Alderman David Wootton (Co-Chair):**

* Special welcome to the Deputy Co-Chair from the City side – Alderman Roger Gifford.
* Convinced that the group can achieve a great deal – and that we can help build prosperity for the economy and the people of Russia.
* Thank you to the contributions of the Russian counterparts, particularly Vnesheconombank, MICEX-RTS Group and NSD as well as many others.
* Invitation of our Russian colleagues to the 4th meeting of the Liaison Group at the Mansion House on the 11th of December 2012.

**Sergey Shvetsov:**

* Moscow is facing strong competition from the London Stock Exchange.
* The UK has taken a lead in following standards set by the G20 and the Financial Stability Board (FSB)
* Highlighted Russia’s participation at the Financial Stability Board.
* In 2012, the central depository is to start activity on the Russian market.
* The next step is to define specific behaviour of the central counterparty.
* Counterparty risk management is particularly important for financial stability.
* Russia needs not only advice on regulatory infrastructure but also UK comment as it develops in Russia.
* Bilateral meetings have been very productive in implementing regulation in Russia and learning the views from participants of the Liaison Group.
* One of the priorities is to increase financial literacy through education initiatives.

**B. Stream updates, recommendations and action points**

***Branding, Marketing and PR***

**Mikhail Margelov:**

* Fruitful exchange of opinions with David Burnside, the UK counterpart.
* International press tends to highlight negative Russian policy issues, even when discussing the MIFC initiative.
* Need to move forward beyond politics i.e. plan joint roadmap (including press engagement, events and conferences etc.) to deliver message in the UK and other financial centres around the world.

**Action points:**

* To start working out timelines after the Olympics are over.
* Move from description to practical implementation and start demonstrating strong MIFC concept to the West.

**David Burnside**

* Comparison of Moscow to London – perception problems, albeit of a different nature.
* Moscow shows extraordinary progress according to the FTSE criteria, as presented by the MIFC Securities stream.
* Key messages:

1. Liberalisation of pensions market crucial for partnership with investors.
2. Privatisation programme presents massive opportunity for outside investors.
3. Quality of Moscow’s financial markets strong and improving rapidly.

**Action points:**

David Burnside agreed to submit draft campaign proposals to Senator Margelov in July with a view to a meeting in London with Mikhail Margelov and Nikolay Kosov of Vnesheconombank, on Tuesday 4th September to discuss and agree communications campaign proposals plan for MIFC.

**The Lord Mayor, Alderman David Wootton**:

Offered support with events to promote the MIFC and suggested Mansion House as a venue to host these in London.

***Derivatives***

**Eddie Astanin:**

* Close work with UK Securities and Derivatives colleagues with the primary aim to prepare financial infrastructure to fit the standards of foreign investors.
* Euroclear and Clearstream link with NSD has been established.
* Another key project is to establish an effectively functioning trade repository for the Russian markets, particularly with the view of meeting the risk management requirements of foreign investors and traders.
* Challenge to attract required finance from the international community.

**Axel van Nederveen:**

* Recognised the establishment of the trade repository as a positive development.
* Haste is necessary, especially in the light of the planned implementation of Basel III in 2013. The UK side is therefore pleased with the aggressive timetable, as presented by Ms Olga Dadasheva from NSD, at the last Derivatives Committee meeting in London.
* Opportunity for MICEX-RTS colleagues to further develop exchange traded derivatives market.
* Effectiveness of collateral in bankruptcy highlighted as a key concern.
* Financial literacy starts with the judiciary. It is crucial to have a sense of certainty – the outcome should be predictable when going into arbitration.

***Securities***

**Ekaterina Novokreshchenykh**

Top three priorities for MICEX-RTS Group:

1. Implementation of financial infrastructure
2. Increase international investor base
3. Increase domestic investor base

Key drivers to support these objectives:

* Pension funds are expected to be the primary driver. Currently the mobilisation to market is less than 1%, which is considerably out of line with international standards where levels of 40%-60% are the norm. Changes are anticipated in the regulatory environment and in the behaviour of market participants.
* Funds from Russian individuals – currently the Russian population has a very limited appetite for stock market investments, displaying preference for real estate investments.
* Sovereign fund – created in 2007 to replicate the Norwegian sovereign fund. However, the Russian fund invests 100% in (primarily foreign) fixed income securities, which is most conservative by international standards. Call to bring these funds back into the Russian economy.
* In the longer term, insurance funds are expected to join this market.

**Robert Barnes**

Last year, the securities stream expressed plans to:

* Merge MICEX and RTS
* Move from T+0 to T+3
* Introduce a closing auction

The achievements have been positive to the extent that:

* The merger was successfully completed.
* CSD law was passed.
* It was noted that Russia, Turkey and Hong Kong didn’t have a closing auction last year. MICEX-RTS colleagues led the way with the successful introduction of the closing auction ahead of schedule and were followed by Turkey. Hong Kong recently announced plans to do the same.
* MICEX-RTS President Ruben Aganbegyan and his team have held a series of successful events, including the MICEX-RTS seminar in London in April. These were effective at promoting Russia’s attractive investment climate and rapidly improving financial regulations.
* The FTSE benchmark ranked Russia as a “Secondary Emerging” country. Russia is progressing steadily along the path of FTSE country classification towards potential promotion from a “Secondary Emerging” country to “Advanced Emerging” and ultimately, “Developed” status. The UK securities stream suggests closer cooperation between FTSE, Russian authorities and Russian market players to move Russia up the ranking.
* Russia earned more criteria upgrades than any other country since we jointly raised FTSE Country Classification at our June 2011 inaugural MIFC Joint Liaison Group. To build on the positive momentum, we encourage focus on the outstanding areas for improvement on the quality of markets matrix.

**Action points:**

* Pre-requisite infrastructure is crucial, including Central Counterparty Clearing, CSD and the phased extension of settlement from T+0 to T+3.
* Continue roadmap initiative.
* Build sound and long-term domestic investor base – the “No 1 signal of market confidence”

**Alexey Artamonov**

Close-out netting:

* To be reported to repository
* Master agreement to be endorsed by organisation
* Trade repository to be established by the end of 2012
* Large event held by EBRD in March for over 150 guests

**Action points:**

* Build world class trade repository
* Centralised clearing for OTC derivatives

**Sergey Shvetsov**

Transfer of MICEX to T+3 difficulties:

1. Risk management investment and the readiness of local participants to support this project.
2. Link of foreign participants to clearing systems.
3. Question over settlement currency: USD or RUB?

* Plan to continue following the roadmap and to seek input from foreign counterparts.
* In Russia, there is no repository law, only a securities law.
* Challenge to work with local servers as well as foreign repositories to create dual reporting.
* No collateral agreements for OTC trades.
* Prior strategy to restrict OTC trades not practical.

***Alternative Dispute Resolution***

**Khawar Qureshi QC**

* Finalised report now presented in English and Russian.
* This is a refinement of the interim report and contains the inputs from participants of the MIFC ADR conference in London (hosted by White & Case), including Sir Anthony Evans, who holds the office of Chief Justice of the Dubai International Financial Centre Courts, representatives from leading international as well as Russian law firms.
* Key message: a strong and robust legal framework is the hallmark of a place in which to do business.
* Suggestion to further publicise and distribute the report (now available in English and Russian) amongst Russian colleagues.

**Key recommendations:**

* A new financial court should be created in MIFC to resolve disputes arising out of financial transactions concluded within the framework of MIFC. The financial court should also supervise all arbitrations conducted under the rules of the ADR institution of MIFC or ICAC.
* Special panels of judges at the Arbitrazh Court of the city of Moscow, the Federal Arbitrazh Court of the Moscow Region and the Supreme Arbitrazh Court should be designated to supervise all international arbitrations seated in Russia, irrespective of the actual city where the arbitration takes place. The same panels should be made responsible for recognition and enforcement of all international arbitral awards which are subject to enforcement in Russia.
* A new ADR institution should be created for resolving financial disputes arising out of transactions concluded within the framework of MIFC, or, alternatively, significant changes should be introduced to the ICAC Rules and organizational structure so that it can be used as the vehicle for developing Moscow as a preferred seat of international arbitration.
* Certain issues of concern relating to international arbitration in Russia, namely arbitrability, interim measures and public policy, should be further addressed in legislation and the guidance of the Supreme Arbitrazh Court.
* In time, training programmes for members of the Russian judiciary involved in international arbitration cases should be established with the involvement of leading international organisations and members of the legal profession and judiciary from other countries.

**Nikolay Kosov**

* Remarkable progress has been made on the ADR stream as shown by the strong interest in the recommendations by the Russian counterparts.

**Sergey Vasiliev**

* Creating a separate court would be difficult and challenging within the current Russian legal institutional framework, particularly considering the lack of experience amongst the judges as well as the relationship between the decisions of Tertiary Courts and those of Arbitration Courts.
* Next step would be to discuss the ADR recommendations with the analytical centre.

***Regulatory and Administrative Environment***

**John Cooke**

* Glad to present the RAE work-stream Report in both Russian and English
* There is a need for a strong and robust legal framework to underpin the MIFC.
* The RAE Group paper examines the overall RAE framework the context of the MIFC and identifies key determining factors for the effective development of financial markets in Moscow.
* Key objective is to define the next steps for the work stream. For instance, would Russian colleagues want it to focus on the overall concept or on specific administrative fields? Given the broad potential range of its work, the RAE Group fully relies on – and now needs – further guidance from Moscow-based participants in the MIFC initiative on defining the contribution that they would like the London-based RAE counterparts to make.

**Action points:**

To follow up with Sergey Vasiliev, the nominated Russian counterpart, and define the next steps for the work stream.

**Sergey Vasiliev**

* Welcomed issues raised in RAE Report, which Russian side will consider.
* Many new institutional decisions already under way (civil courts, pensions law, implementation of IOSCO standards, insurance regulation).
* Important to take the market-friendly approach recommended in MIFC joint work generally and by the RAE Report in particular.

**Action points:**

To review the recommendations of the RAE paper with the analytical centre and to communicate with John Cooke to confirm the next steps for the work-stream.

***Education, Training and Qualifications***

**Mikhail Eskindarov**

* Like many other universities, the Financial University under the Government of the Russian Federation has established an International Financial Faculty, offering both undergraduate and master’s programmes.
* Practitioner participation is strong, covering a wide number of fields.
* Active work with UK universities such as the London School of Economics and Political Science and Newcastle University.
* Would welcome support from UK counterparts in strengthening relations with UK lecturers.

**Simon Culhane**

* Welcomes the appointment of a formal Russian counterpart for the ETQ stream.
* Whereas strong university education is important in the long-run, a wide audience needs to be reached to support rapid development of the MIFC, which can best be done through the use of professional qualifications.

**Action points:**

* Suggestion to combine local and international qualifications.
* Closer work with CBR, regulators and exchanges required. The Regulator buy-in would be crucial for the success of the ETQ stream, as demonstrated in other developing financial centres such as UAE.
* Next step is to present a roadmap and timetable for the work of the ETQ stream – the time has come for deeds as well as words.

***Public Private Partnerships***

**Alexander Bazhenov**

Vnesheconombank has produced two papers for the MIFC PPP stream:

* PPP projects are often initiated by regional government who, with municipal government, have strict rules to follow as regards debt service expenses and the size of budgeted deficits.
* In many cases, there are problems with the ability of regional and municipal government as regards the capability of officials to manage these complex contracts despite the capacity building efforts that Vnesheconombank is putting into the process.
* Changes in primary legislation may be required to enable a PPP programme to succeed.
* This legislation means that the sort of model of PPP seen in the UK will be difficult to replicate in Russia.

**Chris Cummings**

TheCityUK is committed to support our Russian colleagues on the MIFC PPP stream.

Action Points:

* Vnesheconombank and TheCityUK will consider creating a joint entity which would work on the methodology of selecting the right model (PPP, procurement, private financing, etc) for the projects in the context of MIFC and other areas.

**Sergey Cheremin (Minister, Government of Moscow)**

* Welcome opportunity to lend support
* Determined to improve image of Moscow city
* Already commissioned various research programmes:
* With KPMG, on perception of Moscow as an IFC
* With PWC, SWOT analysis of Moscow as an IFC
* Experience-sharing with Frankfurt, Warsaw and Dubai
* Objective: to use work on image, plus research programmes, to kindle stakeholder interest.

**C. Closing Remarks**

**Alderman Roger Gifford (Deputy Co-Chair)**

* Welcome opportunity to become involved in exciting project.
* Keen to continue the work, to which new work-streams will add.
* Importance of moving from words to deeds.

**The Lord Mayor, Alderman David Wootton**

* Final thanks for an interesting and most useful discussion.

**Alexander Voloshin**

* Warm thanks to all participants.
* Next MIFC Liaison Group meeting confirmed in Mansion House on 11 December.

Russian work-stream counterparts:

* Deputy Co-Chairman: Nikolay Kosov
* Securities: Ruben Aganbegyan supported by Ekaterina Novokreshchenykh
* Derivatives: Alexey Timofeev, Eddie Astanin, Dmitry Piskulov
* Alternative Dispute Resolution: Dmitry Stepanov
* Public Private Partnerships: Alexander Bazhenov
* Branding, Marketing and PR: Mikhail Margelov
* Regulatory and Administrative Environment: Sergey Vasiliev
* Education, Training and Qualifications: Mikhail Eskindarov
* Long-Term Finance Solutions: Sergey Lykov
* Secretary of MIFC Liaison Group: Denis Ivanov