

Russian Stock Market: 2012

Events and Facts

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Introduction

Please find below the regular review of the Russian securities market.

The reviews, which we have published semiannually since 2007, aim at providing a generalized representation of the Russian stock market and its key elements – instruments, participants, infrastructure, regulatory and supervisory system, as well as the main events that have occurred on the market within this period.

This Review has been prepared by the National Stock Market Participants Association with the support of Moscow Exchange Group and NP RTS.

Below are some material remarks:

- first, the authors of the review try to avoid extensive comments and value judgments, except for those required to understand the data provided herein, their dynamics and the peculiarities of the Russian securities market;
- second, in most cases we provide the data as of the end of 2012; however, in certain cases where the said data were unavailable at the moment of review preparation, we provide the data available at the date closest to the above;
- third, we do not aim to represent a long period of the development of the Russian market and provide historical data starting from 2005;
- fourth, the numbers in the review are shown both in the national and foreign currencies. This is due to the peculiarities of trading and representation of trading results;
- fifth, in some cases we provide data from various sources so as to demonstrate the current differences in the evaluations or estimates.

In case information is provided in the table or graphic form, the data are provided as of the period end.

We are grateful to Moscow Exchange Group, NP RTS Group, REGION Group, Standard & Poor's, Ernst & Young, CJSC Interfax Business Service, CJSC Interfax (SPARK DB), CJSC Finmarket (RusBonds project), and CBONDS for the materials and assistance provided.

Outline of the Economic Situation in Russia¹

The global economic development trends and the global financial market environment in 2012 were mainly defined by the developments in three key directions: the budget and debt crisis in the euro zone, the expectations of economic growth and fiscal policy decisions in the USA, and the deceleration of economic activity in the main developing countries which drive the global economic growth.

The risk of global economic deceleration has been realized: according to the World Bank estimates, the annual global GDP growth made up only 2.3%, while the estimated global economic growth for 2013 is at 2.4%.

Geopolitical risks have not demonstrated a significant decrease: concerns about the possible open war conflict in Syria have been growing gradually, the economic sanctions against Iran have remained in effect, and there were disturbances in other Middle Eastern countries.

The risks associated with lack of regulation of the budget and debt relations in the EU have become permanent in nature.

In many countries, including Russia, the USA, France, Greece, Ireland and China, elections were held and new governments formed in 2012. The uncertainty associated with the electoral processes has put pressure on the financial markets.

The dynamics of macroeconomic indicators in Russia in 2012 demonstrated multidirectional trends. Over the first two quarters, we observed a rather high economic growth rate along with the growing consumer activity due to an increase the real disposable income, reduced inflation, as well as minimal unemployment rates. Starting in the second half, we could observe the stagnating growth rates of industrial production and the decelerating growth of investment demand. As a result, the annual economic growth turned out to be the lowest within the past 13 years (without taking into account the crisis of 2009) and made up 3.4%. We have recorded a material capital outflow from the private sector, although its level was lower than the capital export in 2011.

Generally, at a time when the overall global economic growth rate is decelerating, the bottom-line economic development indicator in Russia seems quite consistent. Credit ratings of Russia's sovereign obligations have been confirmed by international rating agencies.

¹ According to the World Bank, International Monetary Fund, Federal State Statistics Service and the Bank of Russia.

A material growth has been recorded in the personal income in the country; however, the share of income used to purchase goods and services continues to grow in the structure of personal cash income (74.2 as against 73.5% in 2011). The trend to saving has reduced, and the greater part of savings includes deposits, which have reached 14.3 trillion rubles. A slight growth of public investments in securities has been observed. The share of cash remains very high in the accumulation structure.

The structure of bank deposits opened by individuals remains stable in terms of maturity, with the prevailing maturity segment of one to three years. Long-term deposits (over three years) are less attractive for individuals due to a great extent of uncertainty in the future. The debts on loans provided to individuals have increased by 39% per annum, reaching 7.7 trillion rubles. The share of overdue debt in the overall debts on loans provided to individuals makes up 313 billion rubles.

Global Macroeconomic and Geopolitical Background and Factors

The negative macroeconomic statistics and the unfavorable dynamics of business activity indices in the key developed and developing countries of the world in 2012 resulted in **deceleration of the global economic growth rates**, with the actual increase of 2.3% and the estimate for next year being 2.4%. Over the year, the estimates provided by experts concerning the global GDP and economic growth in various countries underwent changes, October seeing the most negative estimates announcing a material reduction in the economic growth rates as compared to the earlier forecasts. Slowing-down of the Chinese economic growth, persisting uncertainty concerning the rates of economic activity restoration and reduction of unemployment in the USA, and a continuing recession in the euro zone have materially affected the sales volumes on the global markets and shaped the behavior of international investors. In mid-2012, economic decline threatened also the main participants of the euro zone – Germany and France.

The main factors shaping the moods and the environments on the global financial markets during the year remained the news associated with regulation of the budget and debt crisis in the euro zone and the agreements on budget issues in the USA.

In 2012, the **Middle East and North African countries remained politically**

unstable. Sanctions against the Islamic Republic of Iran concerning the export of crude oil remained in effect with a view to stopping the development of nuclear weapons in the country. This resulted in a decreased demand for Iranian oil by its main consumers. The tension in the region was increased by the war acts in Syria and the danger of an open war conflict, as well as the lengthy restoration and civil war in Libya and disturbances in Yemen.

As for the development of the **economic situation in the euro zone**, a high degree of uncertainty has remained over the greater part of the year concerning the situation with the debt problems and, more importantly, the prospects for solving the above. After a period of good news caused by the program for long-term lending to European banks, the start of the second quarter saw renewed discussions concerning the withdrawal of Greece from the euro zone, a growing likelihood of the country's default on sovereign bonds and the possible restructuring of the state debt, which resulted in a dramatic change of attitude in the investment community. The signs of growing destabilization of the sovereign debt situation appeared in Portugal, Spain and Italy. The maximum tension was reached in mid-May, when the parliamentary elections in Greece did not produce a new Cabinet of Ministers, which indicated an extremely high

extent of disagreement in the Greek government and the growing risks for the country.

Another reason for increased concerns during the above period was the news about the major financial problems arising in the Spanish banking sector; this caused Fitch rating agency to reduce the country's long-term sovereign credit rating by as much as three positions, i.e., the rating of BBB.

In July, the statements confirming the readiness of the European Central Bank for active steps to maintain the stability of the single European currency and the integrity of the euro zone encouraged the formation of favorable expectations regarding the resolution of the sovereign debt crisis in certain European countries. The positive trends were supported by enhanced measures for economic growth stimulation and relief of the debt crisis by the key central banks, as well as by a range of measures taken to strengthen the financial system in the euro zone. Thus, in early September, ECB adopted a new program for redemption of sovereign bonds in the troubled countries of the euro zone, which, in the long range, should have encouraged increased expectations of their yield stabilization. The ECB's participation in the redemption of state bonds of individual issuers was conditional upon a country's direct appeal to the EFSF/ESM (European Stability Mechanism) for

financial aid, subject to approval of the program for budget deficit reduction. In addition, the German Constitutional Court approved the country's participation in the ESM structure, which, in effect, made it possible for Germany to provide another 500 billion euro if the need should arise. In its turn, in September the European Commission proposed a plan to form a single banking supervision mechanism. The plan constitutes a stage of the strategy towards formation of the European Banking Union aimed at stricter control over the liquidity and capital in the banking sector. The actions of the European government met with a positive reception. The investors' attitudes were also supported by the resolution of the American Federal Reserve System to launch the third round of quantitative easing, adopted in mid-September. The characteristic feature of this round was the absence of specific effective periods and maximum amounts of the funds to be provided, with the main attention paid to the unemployment dynamics and monitoring of the situation on the labor market.

The Bank of Japan increased the amounts of assets purchased on the market by 10 trillion yen to 80 trillion, with the program duration extended until December 2013. For the first time since 2008, the People's Bank of China adopted a resolution to reduce its interest rates.

At the end of the year, the European governments agreed upon resolutions on a range of important issues, including the agreement reached on measures aimed at reducing the cost of the Greek sovereign debt by reducing the interest rate. Greece, complying with the requirements of the IMF, repurchased its bonds. As a result, the next tranche of financial aid to Greece was approved (49.1 billion euro by the end of the first quarter of 2013). The above actions, as well as the first steps aimed at creating a banking union in Europe, have ameliorated the situation on the global financial markets.

Another factor that contributed to the formation of the environment on the international capital markets at the end of the year was the newly **aggravated fiscal problems in the USA**: a rapid technical rise to the state debt ceiling,

limitations of the budget deficit level and the fiscal cliff. The market attention was mainly reoriented to the process associated with prevention of the fiscal cliff in the USA in the January 2013, which, in effect, would mean an end to the tax cuts introduced by President Bush Junior and a material reduction of the state spending and could have resulted in a new economic recession. The lack of clarity with regard to the above problems caused increased volatility on the financial markets and careful behavior of investors.

Overall, the expected positive effect from the measures taken by the monetary authorities to support the economic growth, a temporary clarification of the American budget policy issues, and resolutions to provide financial aid to some countries of the euro zone have decreased the uncertainty on the global markets. By the end of the year, the global economic situation became more stable than at the year start.

These events have largely determined the trends on the global capital markets over the year, and affected the dynamics of raw material and gold prices.

Dynamics of the Global Commodity Market

In the first quarter of 2012, we observed a positive dynamics on the energy markets; as a result, by mid-March the price of long-term futures on Brent grade oil reached the maximum annual value of 126.2 USD/barrel, demonstrating a 12.6% increase as compared to the year start. The probable reasons for the above increase were the expected irregularities in oil supply and the actual short-deliveries from Africa (Syria, Yemen, South Sudan) and the Middle East due to reduced oil production and exports from Iran associated with the embargo, as well as the positive news context. The above increase was followed by a stable downward trend: the price of oil futures

fell by 29.2% in three months, and dropped below 90 USD/barrel in late June, for the first time since December 2010. The downward pressure was largely due to a material decrease in oil demand from China and the developed countries, such as the US and the euro zone, as well as the growth in oil production in the OPEC countries, mainly in the Saudi Arabia and Libya, in the first quarter.

By mid-August, the oil price compensated a greater part of the drop due to continual uncertainty regarding the developments in Iran and consequences of the acts of war in Syria and Libya. In addition, a large role in the above was played by the

positive news in the third quarter regarding the prospects for financial regulation in the euro zone and the stimulatory monetary policy measures implemented by ECB and FRS. Later, as the reaction to the above measures subsided, the oil price fluctuated within the moderate range of 105.4-115.9 USD/barrel.

On average, the price of Brent oil in 2012 grew by 0.9% as compared to the average price in 2011, making up 112 USD/barrel (for comparison: a similar increment for 2011 was 39.3%).

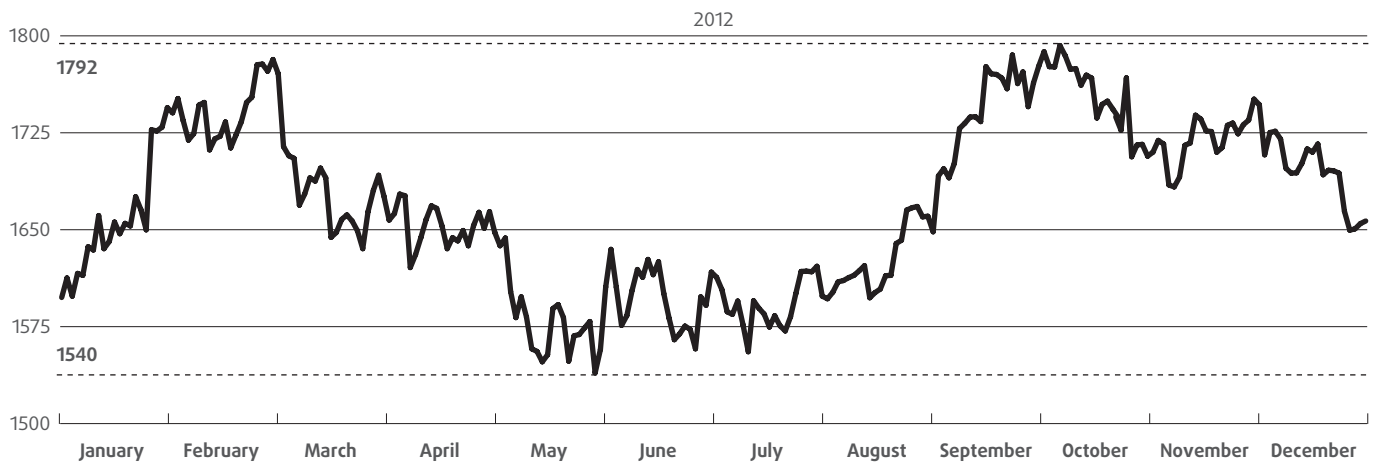
The price dynamics on the gold market in 2012 was characterized by high fluctuations in the range of USD 1,540 to 1,792 per troy ounce, which,

Dynamics of 6-months futures for BRENT crude oil on the International Petroleum Exchange (IPE), USD/barrel



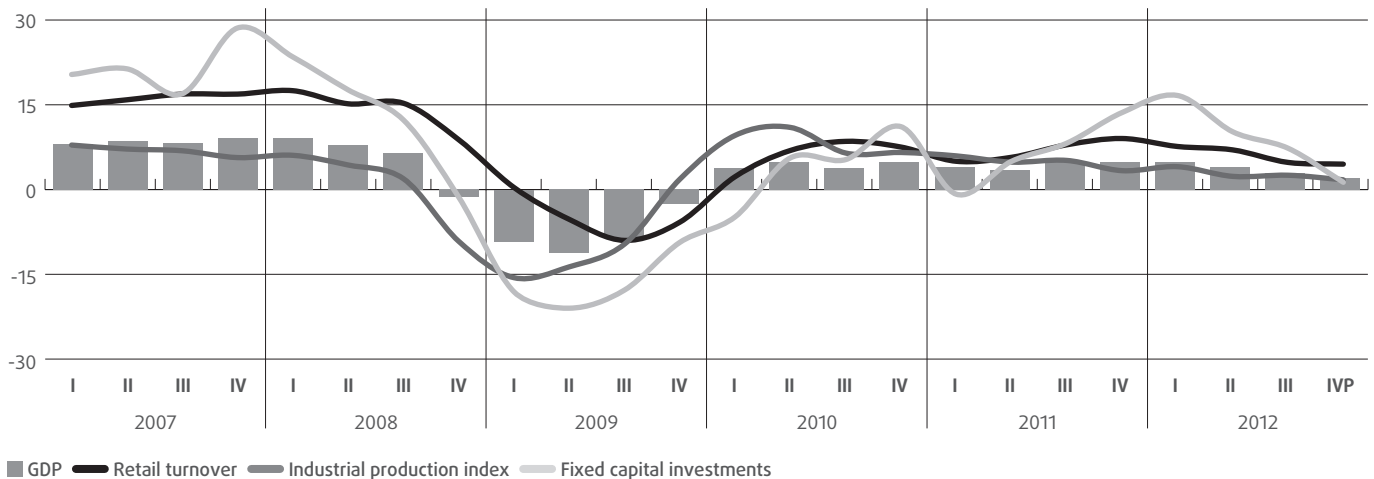
Source: theice.com

Dynamics of gold prices (London Gold Market Fixing), USD/ounce



Source: finance.yahoo.com

Main macroeconomic indices, % year-on-year



Source: Federal State Statistics Service

nevertheless, is a much narrower price range than in 2011. The situation on the market of gold, a risk-free asset, was formed based on changes in the external news context concerning the regulation of the budget issue in the USA, financial problems in the euro zone, declining demand in Asian and European countries, and expectations of currency stimulation by FRS.

Over the first two months, we saw an upward trend: by the end of February, the price per ounce of gold reached 1,781 USD. However, starting from March, the growth was replaced by the downward trend, which is mainly explained by seasonal fluctuations. A traditional increase in demand in Asian countries (India, China) and a downward dynamics of USD rate and the growing

inflation expectations in September resulted in a sharp increase in the price, reaching the annual maximum of 1,792 USD/ounce. Nevertheless, despite taking into account the high fluctuations during the year, a positive incremental price of gold was recorded at the end of 2012 as compared to the year start – 3.7% as against 10.3 in the year before.

Internal Macroeconomic Background and Factors

According to preliminary estimates by the Federal State Statistics Service, the real **Gross Domestic Product of the RF** at the end of 2012 grew by 3.4% (as compared to 4.3% a year before) and made up 62,356.9 billion rubles in current prices. The economic growth in 2012 turned out to be more pessimistic than the government's estimates (3.5%), which makes it the smallest growth since 1999 (except for the recessionary 2009). It should be mentioned that the Bank of Russia assessed the above result as close to the potential one². According to the quarterly figures of real GDP growth, the economic growth began to gradually decelerate in the second half of the year, which resulted from the deceleration of the main economic growth driver, i.e., the domestic demand, as well as net exports and investments, accompanied by a drop in oil prices. **GDP deflator index** in 2012 made up 108.0% as compared to the previous year. The highest growth in physical volumes per year in constant prices was demonstrated by such economic activities as 'financial activity' (15%), 'wholesale and retail trade, repair of vehicles, motorbikes, household appliances and personal items' (6.5%) and 'real estate transactions, lease and services' (4.7%). The above industries also contributed to the maximum extent to the **formation of added value in the**

economy: 0.6 p.p. from financial activity and 1.2 p.p. from trade industry. Real estate transactions and manufacturing industry added another 1 p.p. to the annual GDP growth, although the contributions from the above industries decreased materially as compared to the previous year.

According to the information on **the structure of GDP use**, the main factor of real GDP deceleration was the reduction of investments accompanied by virtually stable final consumption expenditures: the share of fixed capital investments dropped to 1.3 p.p. (as against 2.1 p.p. the year before) and, mainly, the volumes of stocks accumulated by companies dropped as well, their contribution to the annual economic growth decreasing by 1.5 p.p. and accounting only for 0.2% of GDP growth.

Intensive deceleration of investment activities became evident in the second half of the year. According to preliminary data, the growth of **fixed capital investments** decreased to 6.7% (as compared to 8.3% the year before).

Industrial growth rates also demonstrated a negative dynamics: **industrial production index** gradually decreased during the year (except for February) as against the respective index of the previous year. Thus, in December, the growth rate dropped to 1.4% (as against 2.5% the year

before). As a result, gain in the industrial production for the year as a whole was only 2.6% (as against 4.7% the year before), which was mainly caused by slowdown in the processing sector. Among the main industries, active growth was demonstrated only by the food industry, pulp and paper industry, publishing and printing industries, as well as metallurgical and ready-made metal industries.

Growth in the production of mineral resources also dropped slightly (1.1% as against 1.9% in 2011), with the positive dynamics demonstrated only by the power, gas and water production and distribution sector (a growth of 1.2% as against 0.1% in 2011) due to a sharp increase in the demand for power and gas in December 2012 caused by heavy frost.

Consumer demand, accompanied by the growth of real wages, actual disposable income, extended consumer lending and reduced inflation over the greater part of the year, formed the conditions for economic growth. Nevertheless, **retail turnover**, because of deceleration in the second half of the year, increased by only 5.9% (as against previous year's growth of 7.0%). Non-food trade turnover slowed to a greater extent – from 10.8 to 8.4%, while the food turnover remained virtually unchanged.

² According to Report on Monetary Policy for the 4th quarter of 2012.

The federal budget, according to the operational report on execution of the federal budget for January-December 2012 prepared by the Accounts Chamber, was executed with a token deficit of 27 billion rubles, or 0.04% GDP (a year before, it was 442 billion rubles, or 0.8% of GDP³).

At the end of 2012, the annual **inflation** reached the level of 6.6% per annum (as against 6.1% a year before), extending beyond the target level set by the Bank of Russia (5–6%). Core inflation at the year end (inflation net of the goods affected by the administrative factors of seasonal nature) made up 5.7% (as compared to 6.6% a year before). Until May, the annual growth rate of consumer prices was decreasing, even despite the material increase of food prices, until August it remained within the 6% limit, i.e., the upper boundary of the target set by the Bank of Russia. However, the increase in agricultural product prices on the global market early in the summer, as well as the growth of tariffs and prices subject to administrative regulation in July, affected the growing inflation rate as early as at the end of the summer. The largest growth in prices was observed in such segments as ‘alcohol and tobacco’ and ‘education’.

The level of **unemployment** in Russia at year end made up 5.3%, which constituted yet another historic

minimum. The trend in the statistic evaluation of employment may indicate that the economy is functioning at the level close to the potential.

According to preliminary data, at the end of November the **overdue accounts payable** of Russian enterprises made up 1,259.7 billion rubles, or 5.4% of the overall accounts payable (5.8% at the end of November of the previous year). The financial results of the companies’ activities (without consideration for small business entities, banks, insurance organizations and budget institutions) demonstrated a positive trend: the share of profitable organizations during the period from January to November made up 73.7% (as against 70.9% for the same period last year).

The **money growth rate (M2 aggregate)** on the national level kept decreasing, with the annual rate being equal to 11.9% (as against 22.3% a year before), which was the lowest money supply growth figure in the Russian economy since September 2010.

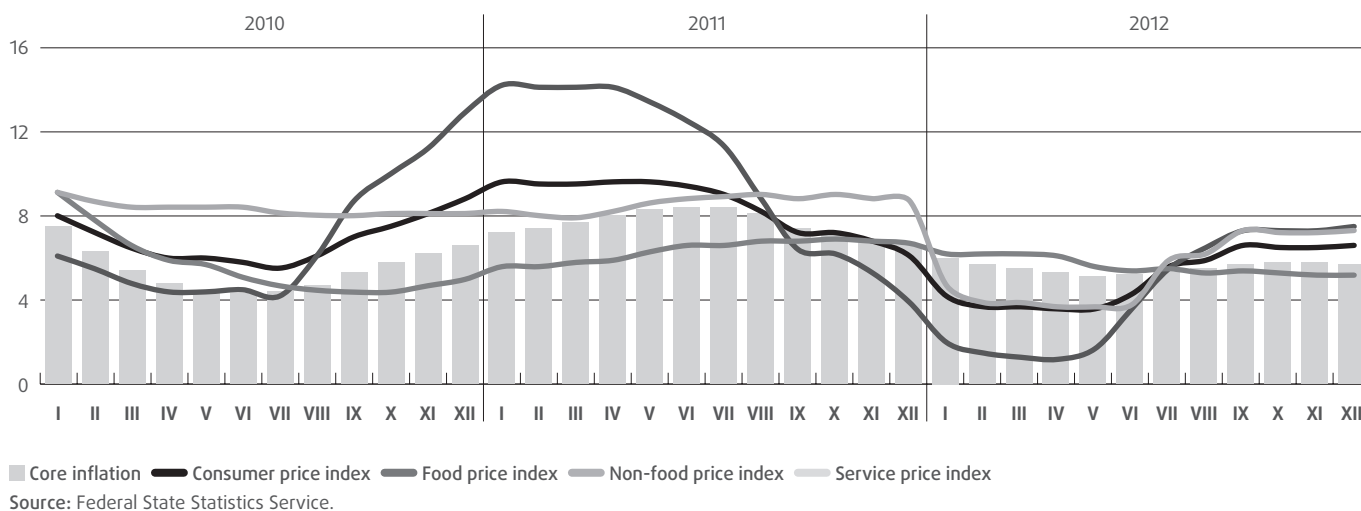
Over the year, the Bank of Russia adopted resolutions associated with **implementation of the monetary policy** based on inflation risk estimates, the dynamics of inflation expectations, the uncertainty in the development of the foreign economic situation and the prospects for economic growth. The initial internal and external

macroeconomic trends resulted in a single resolution by the Bank of Russia, which demonstrated a toughening of the monetary policy due to increasing risks of inflation pressure: in September, the Bank of Russia increased key interest rates for transactions associated with absorption and provision of liquidity to credit institutions by 25 bps.

Given the aggravating situation with the liquidity in the banking sector, the need to expand the capabilities for attracting ruble liquidity, and with a view to making it easier for the banks to access the refinancing instruments of the Bank of Russia, the terms and frequency of liquidity provision transactions were increased, and the list of securities included in the Lombard list was extended. A growing exchange rate flexibility associated with the transition to the inflation targeting mode in the Bank of Russia also contributed to enhanced efficiency of the interest channel of the monetary policy.

The situation on the Russian money market in 2012 continued to be shaped mainly by the trends associated with the aggravating liquidity situation in the banking sector arising in the second half of the past year. Free reserves of the banking sector (balances on correspondent accounts of banks in the Bank of Russia and banks’ balances on deposit accounts in the Bank of Russia)

Inflation indices, % year-on-year



³ According to the Federal Treasury.

decreased considerably: the mean free liquidity of banks at the year end dropped to 873.8 billion rubles as against 1,104.8 billion rubles in 2011. The mean debt on deposits which the banks held in accounts at the Bank of Russia in 2012 decreased by 3.4 times as compared to the similar index for the previous year. Banking sector liquidity remained in the structural deficit state which was affected by the dynamics of autonomous liquidity-forming factors. Given a reduced presence of the Bank of Russia on the currency market, a change in the mandatory reserves in the Bank of Russia, a vast cash emission and, primarily, the outflow of funds along the budget channel, have withdrawn a net amount of 1.28 trillion rubles from the banking system in 2012 (in 2011 – 1.74 trillion rubles).

As a result of the above factors, the demand by credit institutions for refinancing by the Bank of Russia increased materially, which resulted in the increase of the banks' aggregate debt to the monetary regulator up to 2.64 trillion rubles at the end of 2012, which is 1.71 trillion rubles more than at the start of the year. Only direct repo debt actually reached the level of 2 trillion rubles, demonstrating an increase in 3.7 times over the year. In addition, the increased needs of credit institutions for

ruble liquidity resulted in resumption of currency swap transactions with the Bank of Russia in May 2012.

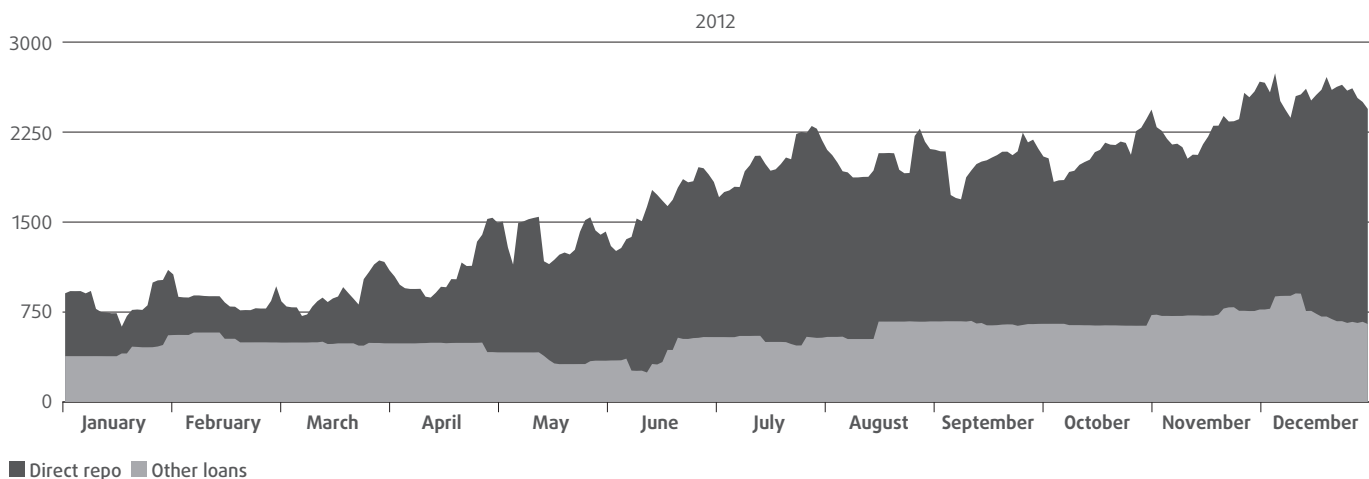
Preservation of the structural liquidity deficit in the banking sector was also manifested by the increased interest rates for interbank credits: the actual fluctuations of interest rate on overnight interbank ruble credits **MIACR o/n** during the year were in the range of 4.23 – 6.50%. Starting from the second half of September, a material reduction in bank liquidity and increased interest rates on transactions of the Bank of Russia shifted the MIACR o/n interest rate to the upper boundary of the operating interest collar, restricted by the interest rates on fixed repo transactions and deposit transactions of the Bank of Russia on fixed terms. The weighted average MIACR o/n in December grew by 1.3 times as compared to January and reached 6.17%. Overall, the averaged annual rate on the money market made up 5.53% (as against 3.95% in 2011).

International reserves of the RF at the end of 2012 grew by 7.8% and reached the level of 537.6 billion USD, as compared to 498.7 billion USD a year before. The dynamics of international reserves over the year was characterized by material fluctuations, with a clear upward trend, as a result of which the

maximum level of reserves was recorded at the end of the last working week in the year. It should be mentioned that the positive dynamics of international reserves was formed at the end of the year despite the interventions by the Bank of Russia involving sale of currency in the second half of the year, which, apparently, were compensated by currency revaluation.

The dynamics of the **nominal exchange rate of ruble to USD** set by the Bank of Russia over the year had multidirectional trends that were caused by changes on the global markets of the Russian base export goods and fluctuations in the external news coverage concerning the global economic growth prospects and development of a debt crisis in European countries. After nominal strengthening by 9.2% over the period from January to March (to 28.95 rub./USD), given the aggravating situation in the euro zone (namely, in Greece and Spain), by June 5 the national currency rate was devalued against USD by 17.4%, leaping in two months to 34.04 rub./USD, the highest figure since April 2009, following which the slow appreciation of ruble began. Volatility on the currency market at the end of the year was associated with the expectations concerning the fiscal

Debt on refinancing transactions of the Bank of Russia, billion rubles⁴



Source: Bank of Russia.

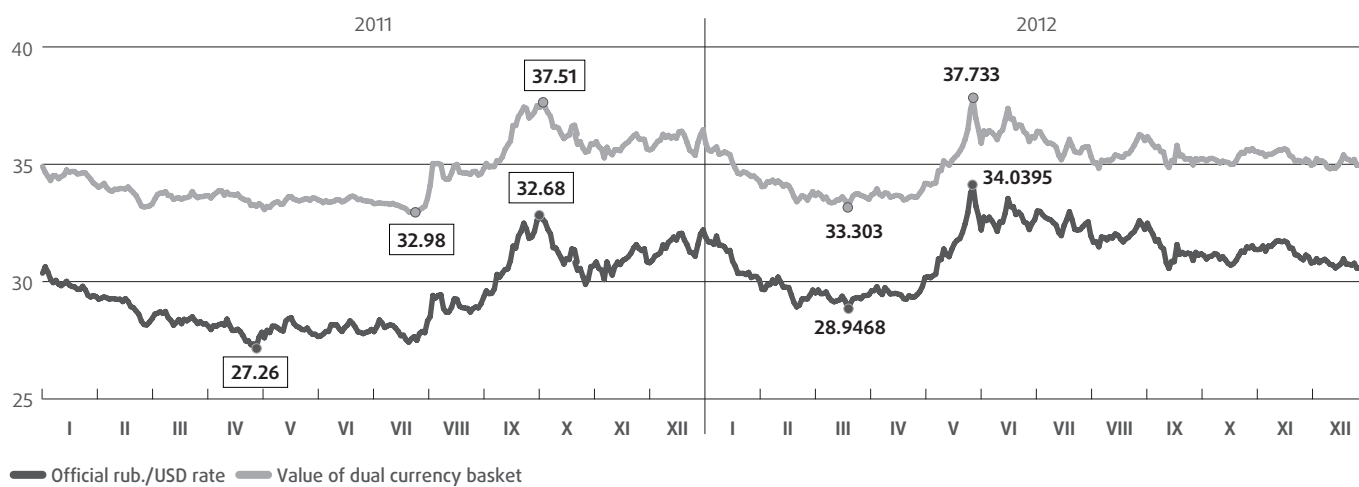
⁴ Without taking into account the debt on currency swap transactions, subordinated loans issued to JSC "Sberbank Rossii", and deposits placed by the Bank of Russia in VEB.

International reserves of the RF, billion USD



Source: Bank of Russia.

Dynamics of ruble against USD exchange rate and the value of dual currency basket, rubles



— Official rub./USD rate — Value of dual currency basket
Source: Bank of Russia.

cliff issue resolution in the American economy.

Despite the increased volatility of the national currency rate during the year, it was strengthened by an average of 5.9% as compared to the previous year and by 5.7% as compared to indices at the end of period. The value of dual currency basket at the end of 2012 reached 34.81 rubles, which is 4.5% stronger than at the year start. Given the fluctuations of oil prices on the global market and changes in the overall global economic situation, the fluctuation range for the dual currency basket in 2012 made up 33.3 – 37.73 rubles. The policy of transition to free exchange rate floating by the Bank of Russia remained unchanged, with

the floating operational collar of the exchange policy extended by one ruble during the year, creating a range from 31.65 to 38.65 rubles.

According to the preliminary data of the Balance of Payments provided by the Bank of Russia, **the net foreign capital outflow** from the private sector made up 56.8 billion USD as against 80.5 billion USD the year before. This figure is 10 billion USD lower than the estimate of the Bank of Russia adjusted in November (67 billion USD). In the structure of capital export by private sector, the prevailing item included changes in the assets and liabilities of the non-financial sector: due to large-scale build-up of foreign assets (at least

20 billion USD per quarter) and a rather stable dynamics of foreign liabilities, the non-financial sector exported about 70 billion USD from the RF (a similar trend remained since 2010). According to the 2012 results, the banking sector formed a net capital inflow of 23.7 billion USD (as against the outflow of 24 billion USD the year before).

The majority of **credit ratings** for sovereign obligations of the RF in 2012 were affirmed by the international rating agencies. In June, according to resolution of S&P rating agency, the short-term sovereign rating of the RF on its foreign currency obligations was increased by one level, reaching A-2 level with a stable outlook.

Private finances

According to the available statistics, a material improvement of people's welfare was recorded in 2012. It is worth mentioning that, over the past few years, the dynamics of indices characterizing the social standards of living has demonstrated a certain inconsistency: positive increment of wages for a certain period does not always result in a growth of real disposable income of the population, and vice versa. This may indicate that the dynamics of real disposable income does not always correspond to an actual change in the financial situation of the population.

According to the preliminary data, the gain in **real disposable cash income** in 2012 made up 4.2% as against the previous year, which is much higher than the 0.4% gain at the end of 2011. According to the estimates, the **average monthly gross wage** at the end of 2012 also demonstrated a higher gain than in 2011 – 13.3% as against 11.5%. Remarkably, according to the preliminary estimates, the share of people with income lower than 19 thousand rubles has moderately dropped in the structure of population distribution based on the monthly cash income per capita, and the share of people earning over 45

thousand rubles grew sharply: by 2.1 p.p., reaching 10.4%.

According to the preliminary data, the total **cash income of population** grew by 10% during the year, making up 39.2 trillion rubles. The share of income used for purchasing goods and services continued to grow in the **structure of cash income use** (74.2 as against 73.5% in 2011). At the year end, the people's trend towards savings, even taking into account the gain in the real disposable cash income and the real wages, decreased slightly and was estimated at the level of 10.1%, while in absolute terms the savings volume increased by 4 trillion rubles. A much greater share of the above (6.2% as against 5.3% in 2011) constituted deposits and investments in securities. The share of income used to purchase foreign currency also increased, reaching 4.9% at the year end. However, starting from mid-summer, the people's preferences have shifted from purchase of foreign currency towards organized savings.

The volume of private cash savings has been growing over the period of 2010-2012, although the rates are decelerating. According to the available estimates, in 2012 the above volume increased by 16.6% (compare: 2010

– 35.1%, 2011 – 19.9%), reaching the level of 17.3 trillion rubles. However, there exist some assumptions regarding subsequent deceleration of the growth rate of private savings.

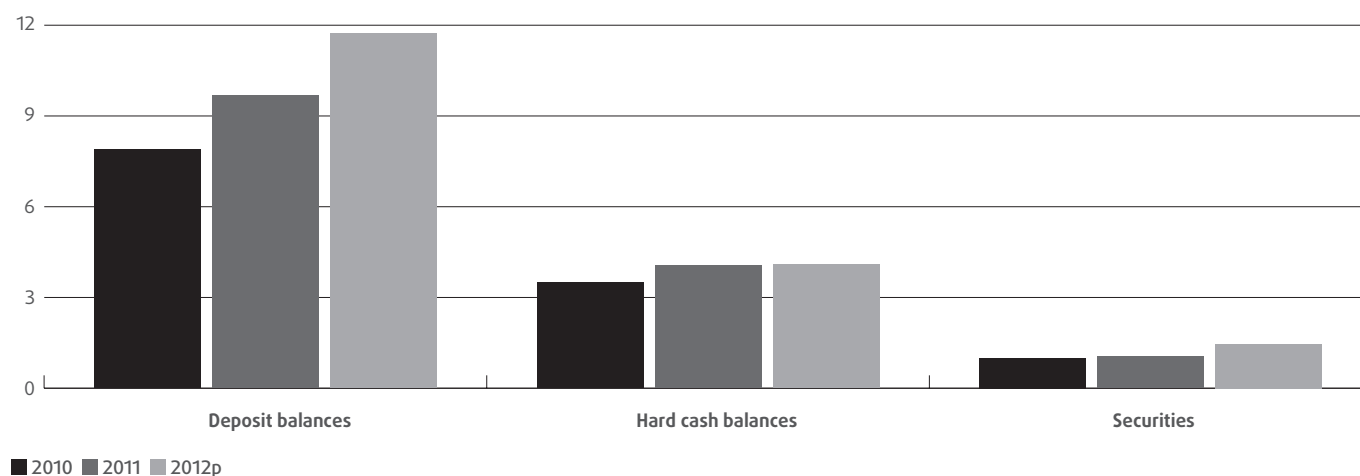
In 2012, the structure of cash savings underwent several changes. People continue to save mainly in the form of bank deposits, their balances at the end of the year increasing by almost 2 trillion rubles (relative growth – 21% as against 22.5% the year before). The share of bank deposits in the structure of cash savings gradually grew from 64% in 2010 to 68% in 2012. The share of hard cash, despite decreasing from 28 to 24% in the structure of savings, still remained very high – about 4 trillion rubles.

In 2012, we saw a remarkable, rather sharp growth of savings in the form of securities.

According to the available estimates, private investments in securities increased by 39%, or 415 billion rubles, making up 1.45 trillion rubles at the end of 2012. This fact, as well as the reduction in the hard cash balances as private savings means in 2012 indicate that individual citizens have become more active as investment players.

The growth rate for **deposits of individuals** in national and foreign

Private cash savings, trillion rubles⁵



⁵ Without taking into account private deposits on currency accounts and hard foreign currency held by individuals.

currencies at the end of 2012 made up 20% (up to 14.3 trillion rubles), which continues the downward trend shaped in November 2010. It should be pointed out that the annual growth dynamics of individual deposits in rubles and in foreign currencies became close.

The structure of bank deposits opened by individuals in terms of maturity remained quite stable. The maturity segment of one to three years prevailed, accounting for 50-57% of the total deposits in 2011–2012. Given the growing interest rates set by credit institutions for ruble deposits maturing in less than a year, the share of deposits for the above period grew to 22%. Other things being equal, long-term deposits (maturing in

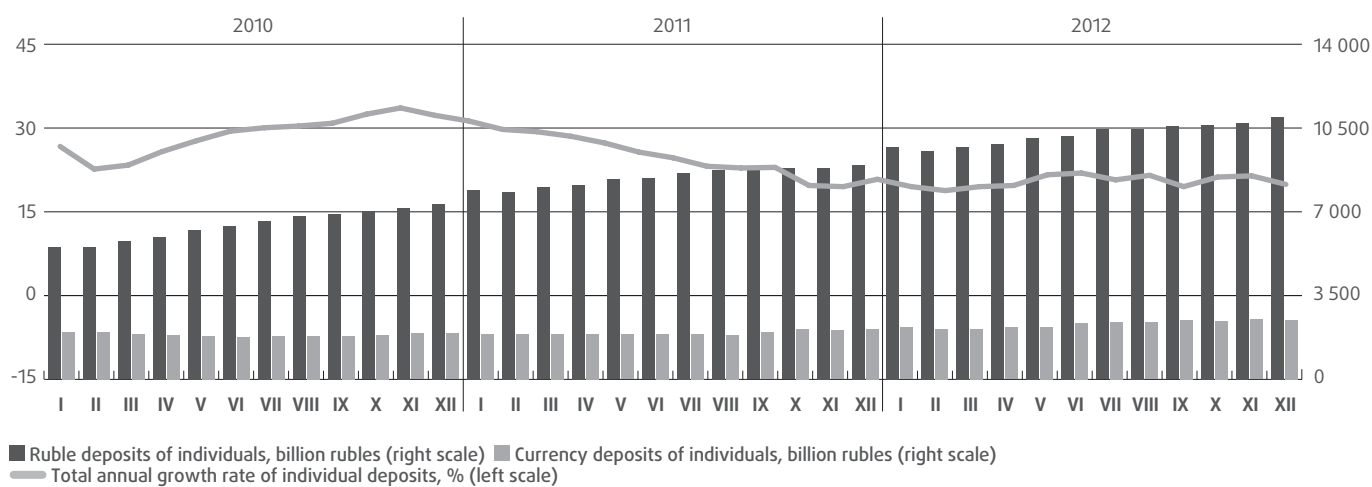
more than 3 years) are less attractive for individuals due to a high extent of uncertainty about the future, thus constantly holding no more than 10% of deposits. The volume of long-term deposits in foreign currency in relative terms exceeds the respective index for ruble deposits, which is likely due to less significant concerns regarding instability of foreign currencies in the long term.

According to Sberbank Rossii, which holds virtually half of the deposits made by individuals, the average size of ruble and foreign currency deposits in the accounts in its institutions made up 15.76 thousand rubles at the start of December 2012. The annual growth rate of the average individual deposits in Sberbank

dropped materially in 2012 and made up 5.53% as against 10.2% in 2011.

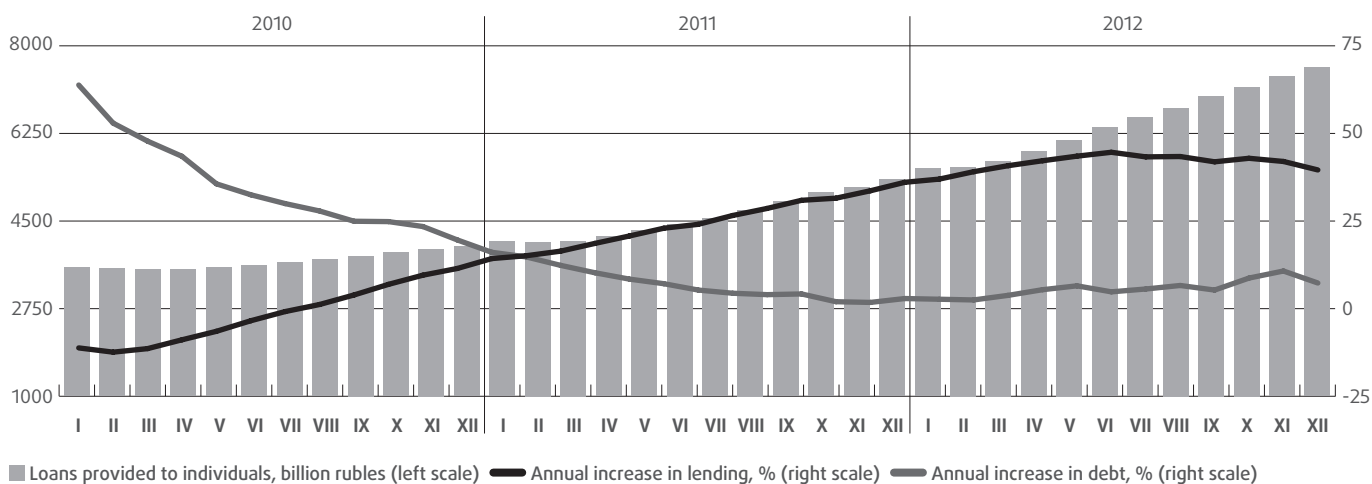
Following a long gradual decrease of **interest rates on ruble deposits of individuals**, the first increase of deposit rates took place in October 2011 due to the impaired situation with the banking sector liquidity and with a view to attracting additional funding resources. Subsequently, the interest rates on deposits of individuals became somewhat more volatile, reflecting the balance between the banks' active deposit mobilization policy and the efficiency of their service. Thus, in November 2012, the average interest rate for ruble deposits up to one year (without taking into account the call deposits)

Dynamics of deposits of individuals



Source: Bank of Russia

Dynamics of lending to individuals



Source: Bank of Russia

made up 7.0%, or 8.2% per annum without consideration for the deposits offered by JSC "Sberbank Rossii".

The debt on personal loans, at the end of 2012, increased by 39.4% per year, making up 7,737 billion rubles (35.9% at the end of 2011). **The share of overdue debt** in the total debt on personal loans fell by 1.19 p.p. as compared to the start of 2012 and made up 4.05% (313 billion

rubles), which is the lowest value since the start of 2009. Although foreign currency loans constitute only 3.2 of the overall debt on personal loans, the overdue debt in this lending segment at the end of 2012 reached 14.7% (36 billion rubles).

The average weighted interest rate on personal loans for up to one year grew steadily by 3.4 p.p. since mid-2011

to January 2012 (to 25.4%) and then stabilized at about 24.5%. However, by November we saw a downward trend in this segment of retail lending, and the rate made up 24.3%. However, the average weighted interest rate on loans for more than a year followed the upward trend formed in the fall of 2011, reaching the level of 19.9% by November 2012, as against 17.0% in September 2011.

Main Indices and Trends on the Russian Stock Market in 2012

In 2012, the negative phenomena of the previous year persisted. Despite the strengthening of monetary authorities in Europe and the USA, the attempts to stop the lingering depression proved to be unsuccessful. Armed conflicts in the Maghreb countries became chronic, with new international trouble spots arising.

Continual expectations of the next crisis wave and the negative news coverage have had an oppressive impact on the Russian financial market. The market lacks fresh investment ideas and positive signals, the outflow of capital, investors and issuers continues, and hopes for the market to return to the 2006-2007 dynamics have been lost. Stock indices demonstrated confident growth only at the start of the year; the positive yield demonstrated at the year end does not compensate for the losses of the previous year.

New domestic political risks and protest dispositions arising at the end of last year amidst the State Duma elections did not subside upon completion of the presidential election campaign and became an integral element of the country's sociopolitical system. Various acts of protest have had an extremely slight impact on the domestic financial market. The year was also characterized by the breakout of corruption scandals involving the top federal officials. Such events meet with a negative reception by investors, primarily the international ones.

For professional participants of the securities market, year 2012 marked the start of operation of a unified stock exchange group, the formation of the central depository, and the development of exchange technologies; however, the above innovations failed to produce the expected breakthrough. In 2012, the idea of cardinal revision of the existing financial market regulation system and creation of a mega-regulator based on the Bank of Russia took final shape. For professional participants of the securities market that are non-credit institutions this means that in the next two or three years they will have to materially restructure the established principles of business operation, staying tuned to the banking regulation.

Stock market. The year was marked by a sharp decrease in the instrumental base of the Russian stock market: the number of issuers on the domestic organized market dropped by 45, leaving only 275 companies.

Capitalization of the domestic stock market changed slightly and made up the currency equivalent of 817 billion USD (2.3% higher than the year before), while in comparison to GDP, capitalization dropped to 40%.

Structural disproportions of the capitalization remained. A reduction in the share of the ten most capitalized issuers ceased at the level of 62%. At the end of the year, oil and gas industry accounted for 50% of capitalization. The shares of metallurgical and power industries in the capitalization decreased, while capitalization growth was observed in the chemical industry, communications and trade companies.

The volume of transactions in shares on the domestic stock exchange market (without taking into account repo transactions) fell gradually during the year and reached the total of 11.5 trillion rubles (41% lower than the year before), with the most significant drop in Classica sector of the Moscow Exchange Group. Accordingly, the average daily turnover dropped sharply to 45.4 billion rubles.

For shares of certain issuers, the concentration of domestic stock exchange turnover remained high: ten most liquid share issuers account for 85% of the total turnover, with only two issuers, i.e., JSC Gazprom and JSC Sberbank Rossii, accounting for half of the turnover. However, the share of transactions in the stock of JSC Sberbank Rossii in the total annual turnover decreased by as much as 5 p. p.

The earnings per share (P/E) ratio decreased during the year and made up 5.3 at the end of the year.

Corporate bond market. The number of issuers for bonds in secondary circulation decreased by 5.2% during the year and reached 292. The number of bond issues increased to 767 (10.8% higher than the year before). The placement volume at the year end reached 1.2 trillion rubles, which is the maximum value for the period under study.

At the end of the year, the volume of the domestic corporate bond market reached 4.2 trillion rubles at par value, which is 21% higher than the year before. However, in terms of GDP, this value is a little under 7%.

The total annual volume of exchange and off-exchange transactions (at par value, without repo transactions) involving corporate bonds made up 6.7 trillion rubles, which is 15% higher than the total for the previous year. Exchange transactions account for over 80% of the secondary turnover. Their volume (actual price, without repo transactions) increased by 3% compared to the previous year and reached 5.3 trillion rubles. The first ten issuers of corporate bonds account for 53% of the turnover in the total volume of exchange transactions in bonds, the above value following an upward trend.

At the end of the year, the share of transactions in exchange bonds grew to 30%.

The issue of corporate bond defaults in 2012 lost its relevance, with the number of breaches of corporate bond obligations by issuers returning to the pre-crisis levels.

Government bond market. The rate of government bond issue (GKO-OFZ) increased; at the end of the year, the volume of this market at par value reached 3.3 trillion rubles (17% higher than the year before); in terms of GDP this means a little over 5%. The secondary market volume (in main trading mode and negotiated trades mode) grew by 2.5 times during the year and reached 4.4 trillion rubles.

Sub-federal and municipal bond market. Over the past few years, this market failed to demonstrate any positive trends. Its volume is small in comparison with the other sectors of the debt securities market and made up 440 billion rubles at par value at the end of the year. The secondary market is characterized by great volatility, with a clear trend towards a continual decline of turnovers; at the year end, the total trading volume (exchange and off-exchange transactions at par value, without taking into account repo transactions) decreased to

533 billion rubles (8.5% less than the year before).

Repo market. The volume of exchange repo transactions involving government bonds on the Moscow Exchange at the end of 2012 made up 68.4 trillion rubles, which is 54% higher than the year before. In contrast to the previous year, the volume of direct repo with the Bank of Russia increased sharply, reaching 69% of the total repo transactions in government bonds, as compared to 32% the year before. The repo market with non-government securities also grew in volumes: in 2012, the volume of exchange repo transactions in all types of non-government securities grew by another 38% and reached 96.3 trillion rubles. In the above volume, shares took up 40% with a downward trend, and corporate bonds accounted for 48% with an upward trend.

The volume of repo transactions in government and non-government securities on the Moscow Exchange grew by 45% during the year and reached 164.6 trillion rubles. The average share of government securities in this volume varied at about 42%, while for non-government securities the average share is higher at 58%. The average annual indicator of overnight repo transactions is estimated at 5.61% for transactions in shares, and 5.84% for transactions in bonds.

Derivatives market, underlying assets – securities and stock indices. The instrument base of exchange futures contracts did not alter materially and comprised 43 contract types, of which stock index futures were the primary contracts accounting for over 90% of the turnover. An innovation in this sphere was the launch of futures trade based on BRICS countries indices.

Contrary to the previous periods, the derivatives market of the Moscow Exchange Group demonstrated a serious decline, with the annual transaction volume equal to 35.6 trillion rubles, which is 23% lower than the year before. However, the derivatives market for instruments based on such underlying assets as shares and stock indices exceeded the turnover of the spot

market for shares by 281% as against 238% the year before. The volume of open positions at the end of the year made up 150 billion rubles, or 13% higher than the year before. The growth affected only the option contracts, while open positions for futures contracts remained unchanged.

Stock indices. Consolidated stock indices for 2012 were not able to regain the losses incurred during the previous year. Positive index dynamics was recorded only during the first three months, which was followed by a drop and then by a sideways trend.

RTS and MICEX indices reached the maximum annual value virtually at the same time: RTS Index of March 15, 2012 made up 1754, an increase of 22.4% since the year start, while MICEX Index as of March 14, 2012 reached the level of 1631, an increase of 12.9% since the year start. The minimum indices were recorded in May and June: RTS Index of June 1, 2012 was 1227, a 27.2% drop from the maximum value, and MICEX Index of May 23, 2012 dropped to 1256, a 22.9% decrease from the maximum value.

The consolidated annual stock indices for shares showed a slight positive yield, with the largest growth demonstrated by RTS Index (1526.98 points – plus 10.5% per annum).

The consolidated stock indices for shares did not demonstrate a capability for exceeding the historic maximums reached in the first half of 2008, and the attempts to catch a long-term upward trend that was observed in 2010-2012 have been unsuccessful so far.

Among the industry indices, the greatest decline was shown by the power industry index for the second year in a row. The consumer goods index became the most profitable. Capitalization indices at the year end were in the neutral zone. The annual volatility of the main consolidated stock indices for shares was quite low.

The average total yield for investors in corporate bonds (index MICEX CBI TR) grew until the mid-May, then it began to decline. Later, the growth resumed closer to the end of the year, and the index increased by 8.6% at the year end. The average weighted yield to maturity for corporate bonds based

on MICEX CBI TR index was subject to multidirectional changes, averaging at 8.7%. Characteristically, during the year the average weighted yield to maturity constantly exceeded the refinancing rate of the Bank of Russia, with the average spread of 0.65 p.p.

The average total yield for investors in government bonds (index MICEX RGBI TR) continued the trend that was formed at the end of the previous year, and grew at an accelerated rate until early May, then declined steeply, with the fast growth resumed in July and August. Overall, the annual index MICEX RGBI TR increased by 14.7%. The effective yield to maturity for government bonds RGBEY in the first half of the year was stable, although effective yield to maturity began growing starting from May. In May and June the effective yield to maturity for government bonds exceeding the refinancing rate of the Bank of Russia, with single refinancing rate differences of up to 0.34 p.p. Later, the effective yield to maturity for government bonds decreased until the end of the year, with the average annual yield of 7.4%.

The annual volatility of stock indices for corporate and government bonds was quite low.

The Russian volatility index RTSVX is virtually identical to the international VIX index on the qualitative level. Yet, the values of RTSVX exceed materially the international analogue. The behavior of the volatility index is of marked non-stationary nature. During the period from January to April the index demonstrated stable behavior relative to the average value of 33%. However, it began to grow in early May, and during certain periods the index exceeded 50%. In the second half, the volatility index decreased, and fell to 20% by the end of the year, coming closest to its international analogue.

Issuers of securities. Public

offerings. There were very few initial public offerings of Russian issuers in 2012. According to the available data, only three of the companies holding assets and conducting entrepreneurial activities in Russia organized their IPO during the period under study. Two of them organized offerings through

holding structures created in foreign jurisdictions and conducted the IPO on the foreign market only, and one company conducted a parallel offering, its major part being on the domestic market. The total volume of funds attracted in 2012 by Russian companies is estimated at 2.2 billion USD, of which only 145 million USD were attracted on the domestic market.

Six companies organized initial offerings in 2012 within the scope of the alternative RII market of the Moscow Exchange for the total amount of 812 million rubles.

Speaking of noteworthy offerings in 2012, one should mention the secondary public offering of shares by JSC Sberbank Rossii organized in September in the course of privatization of 7.5% of the share block of CB RF. Within the scope of this SPO, the issuer attracted 5.2 billion USD on the domestic and foreign markets, with 2.9% of the offered block sold through the Moscow Exchange.

Private investors. The growth rates of individual resident customers of the MICEX Stock Exchange decreased sharply: in 2012, the number of such customers grew only by 1% and made up 805 thousand people. The active customers constitute on average 10% of the above. The number of active investors is subject to seasonal fluctuations, with a clearly visible downward trend. In December, there were 70.3 thousand of them, 25% less than the year before.

Individual investors are mainly interested in shares, which account for about 98% of their total transactions on the stock market of the Moscow Exchange Group, with corporate bonds accounting for 1.2% of the transaction volume. The share of individual residents in the total volume of transactions in shares decreased gradually during the year and fell to 6% in December.

Collective investors. The collective investment branch entered the state of stagnation. The total number of mutual funds for half a year made up 1,547 funds (4% more than a year before), of which 67% were closed mutual funds, and 28% open funds. The net asset value of open and interval mutual funds at the end of

the year remained virtually unchanged – 102 billion rubles. Despite the versatile dynamics of entry and exit of assets from open funds during the whole year, the final result turned out to be negative – the net attracted volume in open mutual funds made up minus 0.9 billion rubles.

Non-state pension funds. Within nine months of 2012, investment resources of non-state pension funds reached 1,351 billion rubles. Pension reserves account for 55% of this amount, although the growth rates of pension savings are much higher. In comparison to GDP, investment resources of non-state pension funds remain insignificant with a little over 2%.

Non-residents. Foreign investment funds. According to the available estimates, 2,278 of the foreign funds that must disclose information on their activity invest in Russian assets (both local shares and depositary receipts), which is 5% fewer funds than at the start of the year. The volume of investments by the above funds in securities of the Russian companies during the year remained virtually unchanged at 75 billion USD.

At the start of the year, the outflow of non-resident customers of the exchange

market of the Moscow Exchange Group ceased, and their number grew during the year to 3,803 legal entities and 2,073 individuals. The number of active customers out of the above was much lower – 13% of legal entities and 8% of individuals.

Professional participants of the securities market. A reduction in the total number of professional participants of the securities market turned into a trend. As of the year end, 1,259 organizations holding various licenses of professional securities market participants operated in Russia, which was 15% fewer than the year before, with about 40% of the above organizations being credit institutions, and 1,163 companies being brokers, dealers or trustees, with 66% of the above located in Moscow.

Moscow Exchange Group underwent material redistribution of functions related to exchange operations on the securities and derivatives market. Transactions in government securities were transferred to CJSC MICEX Stock Exchange, settlement transactions are concentrated at CJSC NCO NSD, and CJSC JSCB NCC deals with clearing transactions.

The total annual volume of transactions in all of the non-government securities in the domestic organized spot market made up 114.7 trillion rubles, which is 20% more than the year before, but less than in 2010-2011, when the volume reached 50%. A long-term trend involving reduction of shares and increase of corporate bonds in the total turnover was recorded.

The total annual volume of transactions in government securities in all trading modes grew by 58% and reached 72.8 trillion rubles. The annual volume of transactions in derivative financial instruments for all types of underlying assets on the derivatives market of Moscow Exchange Group made up 49.9 trillion rubles, which is 10% less than the year before.

The concentration of turnover for traders on the stock market of Moscow Exchange Group remained high – ten most active operators for transactions in non-government securities accounted for 58% of the total turnover, with the Bank of Russia becoming the leading trader in 2012 (16% of the total turnover). The concentration of turnover for traders on the derivatives market is even higher: the first ten settlement firms account for 78% of the turnover.

1. Financial Instruments

1.1. Shares

Russia has a large number of open joint-stock companies, although very few of them are represented on stock exchanges: during the past few years, this index has been lower than 0.5%.

Table 1 shows data on share issuers and issues obtained from SPARK database (without taking into account the issuers' current status (active/inactive)). Table 2 provides consolidated data on the shares offered on the stock market of Moscow Exchange Group, along with the estimate by Standard & Poor's⁶ concerning the number of Russian issuers whose shares are admitted to trading on MICEX Stock

Exchange, NYSE, and NASDAQ and are included in the LSE-listed S&P EMD Russia index. The information on the total number of operating legal entities is shown in Table 36.

In 2012, the number of share issuers whose shares are traded on the organized market dropped sharply. The number of share issuers on the domestic exchange market decreased by 45 companies (14%) and made up 275 issuers, although the number of share issues in the quotation lists remained virtually unchanged. According to foreign sources, 323

Russian issuers are represented on the domestic and foreign markets, which means 23 companies less than the year before (a reduction by 6.6%). Such a material drop in the number of share issuers had not been recorded before. Accelerated outflow of the Russian share issuers market to foreign jurisdictions should also be mentioned. While in 2011, according to the estimates, only 26 more companies were represented on both the domestic and foreign markets than on the domestic market only, in 2012 this difference made up 48 companies.

Table 1

Share issuers in 2005–2012

Period	Number of JSC	including open JSC	Number of share issues
2005	460,352	62,960	463,206
2006	471,010	64,431	473,881
2007	481,372	65,706	483,244
2008	487,765	66,466	490,645
2009	522,968	72,601	525,905
2010	529,132	73,437	532,125
2011	533,935	73,593	536,949
2012	537,059	74,091	540,118

Note: the number of share issues is specified without taking into account additional issues.

Source: Interfax Group (SPARK DB).

⁶ *Emerging Stock Markets Review, Global Stock Markets Factbook, S&P, series of issues for 2006–2012.*

The information on the capitalization of the share market is provided in Table 3.

Capitalization of the domestic share market for 2012 changed insignificantly and made up 25,209 billion rubles (1.9% lower than the year before), which is the currency equivalent of 817 billion USD (2.3% higher). Capitalization in comparison to GDP made up 40%. The historic maximum of share market capitalization was achieved in 2007, reaching up to 98% of GDP. Comparing current capitalization with the capitalization for the above period, we can observe a 23% decrease in ruble equivalent and a 39% decrease in the currency equivalent. Foreign markets account for about 24.3% of the total capitalization.

The Russian share market is characterized by high concentration of

capitalization both in terms of issuers and industries.

Table 4 shows a list of ten most capitalized companies, and Table 5 shows the dynamics of changes in the share of the ten most capitalized companies in 2005–2012.

The list of the most highly capitalized issuers in 2012 remained unchanged. Gazprom JSC traditionally tops the capitalization list with a wide margin.

The annual share of ten most capitalized issuers in 2012 decreased slightly and made up 61.6%. A decrease in the share of Gazprom JSC in the total capitalization is largely due to a reduction of the ordinary share price for this issuer at the year end.

The industry structure of the share market capitalization remained unchanged (see Table 6).

However, we could point out a decrease in the capitalization of the power industry companies (decreased by 2 p.p.) and metallurgy (decreased by 1 p.p.), as well as capitalization growth in the chemical industry, communication and trade companies (increased by 1 p.p.).

Table 7 shows the data characterizing the volumes of share sales by Russian companies on the domestic and foreign organized markets.

The volume of exchange transactions in shares on the domestic exchange market (without repo transactions) during the year decreased gradually by about 18% per quarter, with the resulting annual volume reduction to 11,568 billion rubles, which is 41% less than the year before. Such a significant shrinkage of the share trade volume

Table 2

Organized share market in 2008–2012

Period	MICEX Stock Exchange		RTS		S&P
	Number of share issuers	Number of share issues (ordinary, preferred) in quotation lists	Number of share issuers	Number of share issues (ordinary, preferred) in quotation lists	
2008	231	101	275	110	314
2009	234	103	279	92	333
2010	249	113	278	91	345
Moscow Exchange Group					
2011	320	119		346	
2012	275	118			323

Sources: Moscow Exchange Group, S&P.

Table 3

Capitalization of Russian share issuers market in 2005–2012

Period	Moscow Exchange Group		S&P estimate, billion USD	GDP, billion rubles	Capitalization/GDP, %
	Main Market sector, billion rubles	Classica sector, billion USD			
2005	9,304.0	329.0	549.0	21,609.8	43.1
2006	25,482.0	966.0	1,057.0	26,917.2	94.7
2007	32,740.0	1,329.0	1,503.0	33,247.5	98.5
2008	11,017.3	374.0	397.2	41,276.8	26.7
2009	23,090.9	763.5	861.4	38,807.2	59.5
2010	29,253.2	990.5	1,379.2	46,321.8	63.2
2011	25,708.0	798.5	1,096.2	55,798.7	46.1
2012	25,208.8	816.9	1,079.4	62,356.9	40.4

Sources: Moscow Exchange Group, FSSS, S&P.

Table 4

List of the most capitalized Russian issuers (at the end of 2012)

No.	Issuer	Capitalization, billion rubles	Share in the total capitalization, %
1	Gazprom JSC	3,416.6	13.6
2	NC Rosneft JSC	2,856.2	11.3
3	Sberbank Rossii JSC	2,071.9	8.2
4	LUKOIL JSC	1,706.1	6.8
5	Surgutneftegaz JSC	1,112.3	4.4
6	OJSC MMC Norilsk Nickel	1,070.8	4.2
7	NOVATEK JSC	1,049.4	4.2
8	TNK-BP Holding JSC	886.5	3.5
9	Uralkali JSC	690.9	2.7
10	Gazprom Neft JSC	674.2	2.7
TOTAL		15,534.8	61.6
Total capitalization MICEX		25,208.8	100.0

Source: Moscow Exchange Group.

Table 5

Share of ten most capitalized issuers in the total capitalization of the share market 2005–2012

Period	2005	2006	2007	2008	2009	2010	2011	2012
Total (%)	77.7	78.5	68.5	69.3	65.3	60.4	62.2	61.6
including Gazprom JSC	–	30.7	27.3	25.7	19.4	15.8	16.4	13.6

Calculation is based on the data of the Moscow Exchange Group.

Table 6

Industry structure of the Russian share market capitalization in 2006–2012, %

Item No.	Industry	2006	2007	2008	2009	2010	2011	2012
1	Oil and gas	62.6	50.4	57.0	50.1	44.6	51.2	50.4
2	Financial services	9.2	11.8	10.1	14.5	13.1	12.2	13.4
3	Metallurgy	8.1	11.1	10.0	12.3	15.3	10.6	9.6
4	Power industry	11.7	12.5	8.9	9.4	10.6	8.7	6.8
5	Chemical industry	0.2	1.5	1.5	1.6	2.4	4.7	5.6
6	Communication	4.1	4.4	5.2	3.8	3.7	3.7	4.6
7	Trade	0.6	0.7	0.7	1.1	1.7	1.4	2.3
8	Transport	0.8	1.2	1.8	1.2	1.2	1.3	1.3
9	Metal fabricating industries	0.8	1.1	0.7	1.0	1.5	1.2	1.2
10	Mining industry	0.2	0.2	1.3	0.9	0.8	1.1	1.2
11	Food industry	1.1	1.2	1.2	1.0	1.6	1.0	0.9
12	Coal industry	0.1	0.3	0.2	1.0	1.1	0.8	0.7
13	Other industries	0.2	2.3	0.9	1.8	2.5	1.6	1.7

Source: Moscow Exchange Group.

on the domestic market was recorded for the first time during the period under study. The largest decrease of turnover occurred in the Classica (64.5%) and Standard (59.8%) sectors of the exchange market of the Moscow

Exchange Group. The reduction in the trading volume resulted in a sharp drop of the liquidity index for the domestic share market – the turnover ratio at year end made up 46.3%, which was the minimum value for the period under

study (the maximum value of 89.2% was recorded in 2009).

In terms of average daily turnovers (see Fig. 1), the year 2012 was also characterized by a sharp drop in indices. The quarterly report recorded a decrease

Table 7

Volume of shares of Russian issuers sold on organized markets in 2005–2012

Period			2005	2006	2007	2008	2009	2010	2011	2012
Name of trading floor before the merger of MICEX and RTS	Name of stock market sector of Moscow Exchange Group	Unit of measurement								
MICEX Stock Exchange ¹	Main market ¹	billion RUB	3,279.7	11,062.8	15,307.1	12,523.6	14,306.2	13,331.4	16,229.0	10,214.3
RTS Classical market ²	Classica sector ²	billion USD	7.7	16.1	14.6	9.8	2.5	2.2	1.7	0.6
RTS Standard market ²	Standard sector ²	billion RUB	0.0	0.0	0.0	0.0	1,556.5	3,356.4	3,324.7	1,335.1
Saint-Petersburg Stock Exchange ²		billion RUB	772.8	903.5	22.6	6.3	1.2	0.6	0.4	0.1
Average USD rate for the period (for reference)		RUB	28.28	27.18	25.57	24.81	31.68	30.36	29.35	31.07
TOTAL (estimated) without repo transactions										
		billion RUB	4,354.1	12,415.6	15,716.7	12,783.8	15,953.8	16,761.7	19,609.3	11,567.7
		billion USD	151.3	471.5	615.4	524.4	507.4	552.1	666.9	373.6
S&P estimate ³		billion USD	159.3	514.4	754.5	712.8	682.5	797.8	1,149.5	724.2
Turnover ratio (annual) ⁴		%	60.8	72.8	53.6	61.6	89.2	62.9	74.6	46.3
Ratio of exchange trade in shares and GDP		%	20.1	46.1	47.3	31.0	41.1	36.2	35.1	18.6

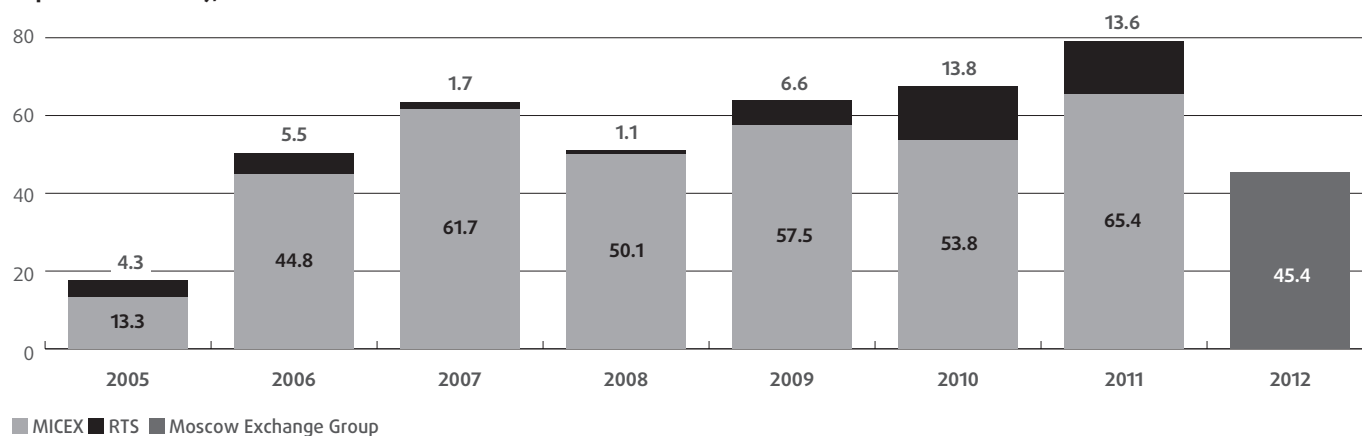
Notes:

1. Taking into account the main trading mode and the negotiated trades mode, without taking into account the initial offering and repo transactions.
2. For RTS trading /Classica and Standard sectors and Saint-Petersburg Stock Exchange JSC/, the market two-sided transactions in the main and additional sessions are taken into account, while initial offering and repo transactions are not taken into account.
3. Taking into account transactions in shares admitted to trading at MICEX Stock Exchange, NYSE, NASDAQ and included in the LSE-listed S&P EMD Russia index. The turnover ratio is calculated as a ratio between the transactions volume (without taking into account repo transactions) for the period and the simple mean capitalization at the end of the current and the prior periods.

Sources: Bank of Russia, Moscow Exchange Group, FSSS, S&P.

Figure 1

Average daily turnover of shares of Russian issuers sold on the domestic exchange market (without taking into account repo transactions), billion rubles



Source: Moscow Exchange Group.

in the average daily turnover (without taking into account repo transactions) from 61.6 billion rubles in the first quarter to 32.1 billion rubles in the fourth quarter.

The average daily turnover on the domestic exchange share market for the year is estimated at 45.4 billion rubles, which is closest to the indices for 2006, and 42.6% lower than in 2011.

The range of instruments on which share trade is focused remained quite limited. Table 8 lists the issuers whose shares were most actively traded in transactions (including repo) on the stock market of Moscow Exchange Group in 2012, while Table 9 shows the dynamics of changes in the percentage of the ten most actively traded share issuers over the past years.

At the end of 2012, the share of ten most liquid issuers in the total volume of

transactions on the domestic organized share market decreased by 1 p.p. and remained very high at 84.5%. The list of the most liquid issuers remained virtually unchanged: since 2009, Sberbank Rossii JSC (taking into account its turnover on ordinary and preferred shares) and Gazprom JSC have topped the list alternatively, their combined volume reaching about a half of the domestic exchange volume of share transactions. Characteristically, the volume of transactions in shares of Sberbank Rossii JSC in the total domestic exchange turnover decreased by as much as 4.2 p.p. in 2012, which is probably connected to the privatization of some shares on the foreign market.

Dividend policy of Russian issuers

Figure 2 shows the aggregated data on the volumes of dividends paid by the

Russian issuers admitted to trading on MICEX Stock Exchange on ordinary and preferred shares (before tax) in 2005-2011.

The absolute amount of dividends paid on shares of Russian issuers has been growing. According to the estimates, payments at the end of 2011 made up 912 billion rubles, which was 38.5% higher than the year before. The ratio between the total dividend payments for the past years and the GDP has demonstrated multidirectional trends: it dropped in 2006-2008, with subsequent growth in 2009-2011. The above value reached its minimum of 0.8% in 2008, then grew to 1.7% in 2011.

High concentration among dividend payments has also been recorded; Table 10 provides a list of ten largest dividend payers at the end of 2011.

Therefore, the first ten largest dividend payers account for over 80% of

Table 8

List of issuers whose shares were most actively traded in transactions on the stock market of the Moscow Exchange Group (at the end of 2012)

Item No.	Issuer	Share in the total trade volume, %
1	Gazprom JSC	24.1
2	Sberbank Rossii JSC	20.8
3	Uralkali JSC	11.4
4	LUKOIL JSC	5.8
5	NC Rosneft JSC	4.9
6	VTB Bank JSC	4.5
7	OJSC MMC Norilsk Nickel	4.2
8	Rostelecom JSC	3.7
9	Surgutneftegaz JSC	3.1
10	Transneft JSC	2.1
TOTAL		84.5

Source: Moscow Exchange Group.

Table 9

The percentage of ten issuers whose shares were most actively traded in 2005-2012

	2005	2006	2007	2008	2009	2010	2011	2012
TOTAL (%)	95.9	94.8	92.0	92.0	91.7	86.59	85.55	84.52
including Gazprom JSC	-	32.0	28.4	31.9	24.7	26.53	24.03	24.06
including Sberbank Rossii JSC	5.4	6.1	11.1	13.6	26.1	26.48	25.00	20.81

Calculated according to the data provided by the Moscow Exchange Group.

the total volume of paid dividends, with about 53% of all dividends paid by the first three companies on the list. Such a high concentration of issuers based on dividend payments is typical for the Russian market (the year before, this index made up 87.5%). The list of the largest dividend payers remained without material changes, with many items corresponding to those on the lists of the most capitalized and the most liquid

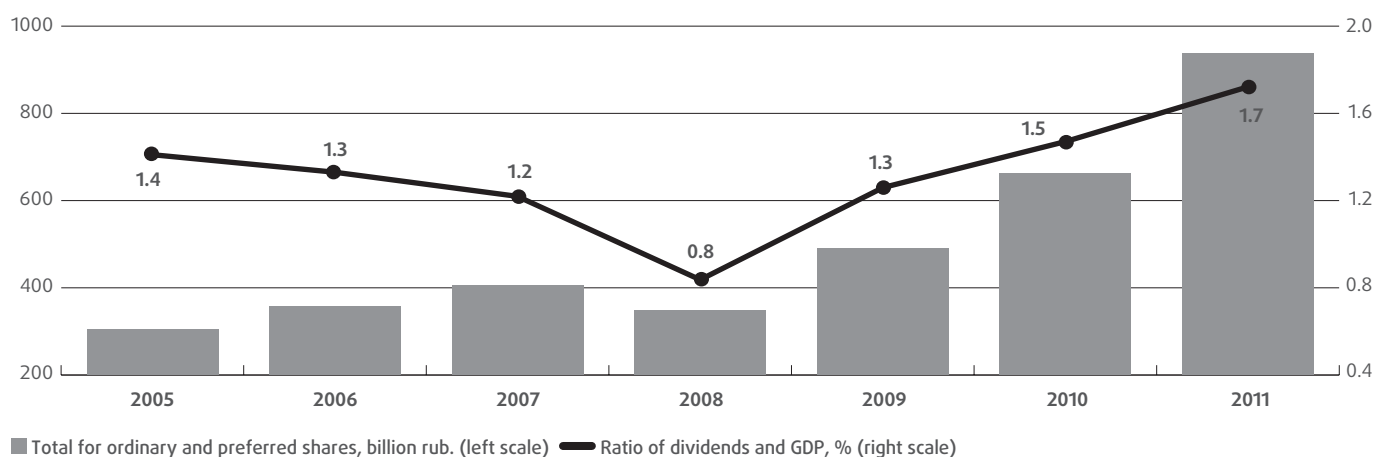
issuers. About two thirds of all dividends were paid by companies from the oil and gas industry, with quite large payments by metallurgical, telecommunication, chemical and petrochemical companies, as well as banks.

Figure 3 represents a selection of issuers whose shares are traded on MICEX Stock Exchange and shows the data on the percentage of issuers on whose shares the dividends were paid.

Despite the growth of total dividends in absolute terms, the percentage of companies paying dividends on ordinary shares remained virtually unchanged in 2010 – 2011: 43% as against 54–75% in 2005 – 2007. The share of payers among the highly capitalized companies⁷ is quite high at 90%, while the share of payers among the basic (low) capitalization companies does not exceed 30%.

Figure 2

Dividend payments by Russian issuers



Source: NRU HSE.

Table 10

List of issuers admitted to trading on the share market of MICEX Stock Exchange which paid the largest dividends (at the end of 2011)

Item No.	Issuer	Share in the total volume of dividends, %
1	Gazprom JSC	23.3
2	TNK-BP Holding JSC	22.6
3	LUKOIL JSC	7.0
4	Sberbank Rossii JSC	5.2
5	Surgutneftegaz JSC	4.2
6	OJSC MMC Norilsk Nickel	4.1
7	NC Rosneft JSC	4.0
8	Gazprom Neft JSC	3.8
9	MTS JSC	3.3
10	Uralkali JSC	2.7
	TOTAL	80.2

Source: calculations by NRU HSE.

⁷ Broken down by capitalization indices of the Moscow Exchange Group (see more details in Section 1.9.1).

In 2011, the issuers paying dividends on ordinary shares allocated for this purpose the average of 40% of their net profit according to the Russian Accounting Standards; while for IFRS calculations of profit this index made up on average 20%.

Figure 4 shows the graphs of the overall price-earnings ratio (P/E) and dividend yield (DY) for shares of Russian issuers.

The behavior of the P/E index in 2012 repeated the previous year's downward trend. In 2012, the above index decreased

from 7.2 to 5.2 (the average value of 5.43). However, the behavior of the yield index increased: a fast growth typical for the greater part of the previous year was replaced by a sideways trend around the average value of 2.86%.

The earnings per share and the dividend yield indices for certain Russian issuers and industries differ significantly. High dividend yields are characteristic of the chemical and petrochemical industries (9.4%). For instance, peak dividend yield was demonstrated by ordinary shares of JSC

Severskiy Tube Works (13.3%). For the companies of consumer sector, such as X5 Retail Group, Magnit JSC, O'KEY JSC and DIXY Group JSC, according to the available estimates⁸, the P/E index in 2012 reached the values of 24.2–31.8, with high P/E indexes for the companies specializing in gold and silver mining (15–25). Many companies represented in the Innovation and Investment Market (IIM) sector of the Moscow Exchange Group have very high P/E values: UTINET.RU Platform JSC – 108, Profnastil JSC – 97, HSCI JSC – 53⁹.

Figure 3

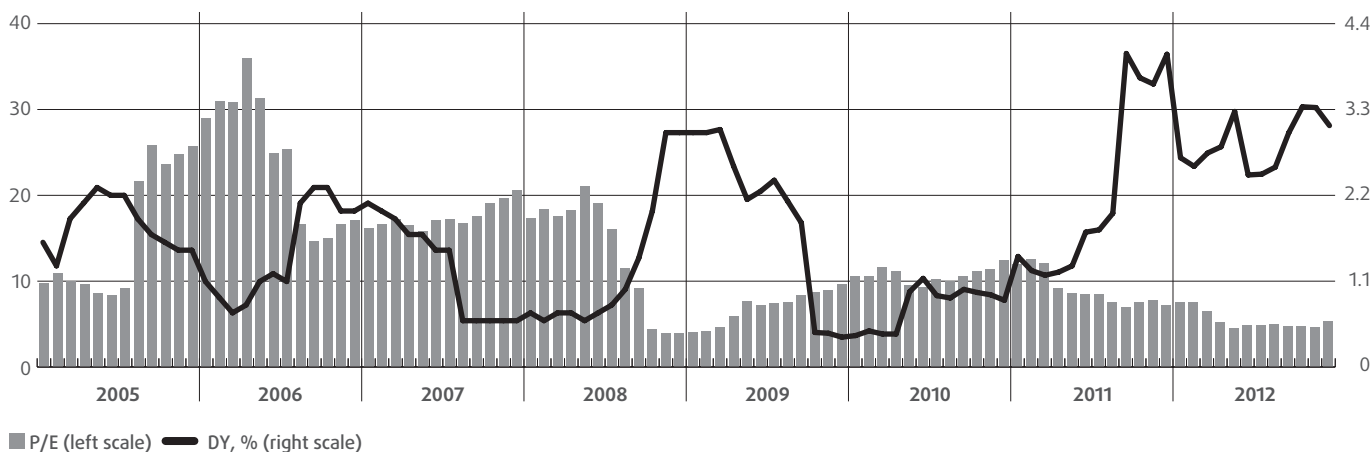
Percentage of companies that pay dividends on ordinary shares, %



Source: calculations by NRU HSE.

Figure 4

Dividend yield and price-earnings ratio for Russian issuers



⁸ Estimate by Alfa Bank.

⁹ Data of Moscow Exchange Group.

1.2. Corporate Bonds

In 2012, we saw the continuing trend where a reducing number of issuers kept making more and more frequent borrowings on the bonds market, with the volumes of placements going up.

The number of 'market' bond issuers has decreased over the past five years: from 2007 (the maximum number of issuers for the period under study) to 2012, their number dropped by 173 companies (37.2% in relative calculation). At the end of 2012, the above number decreased by 5.2%, and

the number of 'market' corporate bond issuers was equal to 292 companies¹⁰ (Table 11).

The number of 'market' bond issues has been on the rise, with 767 issues in 2012 – 20.8% more than the year before.

Figure 5 shows a graph of the volume of corporate bonds market (placed issues, at par value), and Table 12 shows the consolidated data for 2005 – 2012 (both 'market' and 'non-market' issues).

The volume of corporate bonds market has been growing dynamically.

At the end of 2012, the corporate bonds market volume at par value reached 4,165 billion rubles, while in comparison to GDP, the corporate bonds market is of low significance at less than 7%.

Table 13 shows information on the placements of new 'market' and 'non-market' issues of corporate bonds in 2005–2012.

In 2012, high placement activity was recorded: the number of corporate bond issuers that placed new issues made up 206 companies, as compared

Table 11

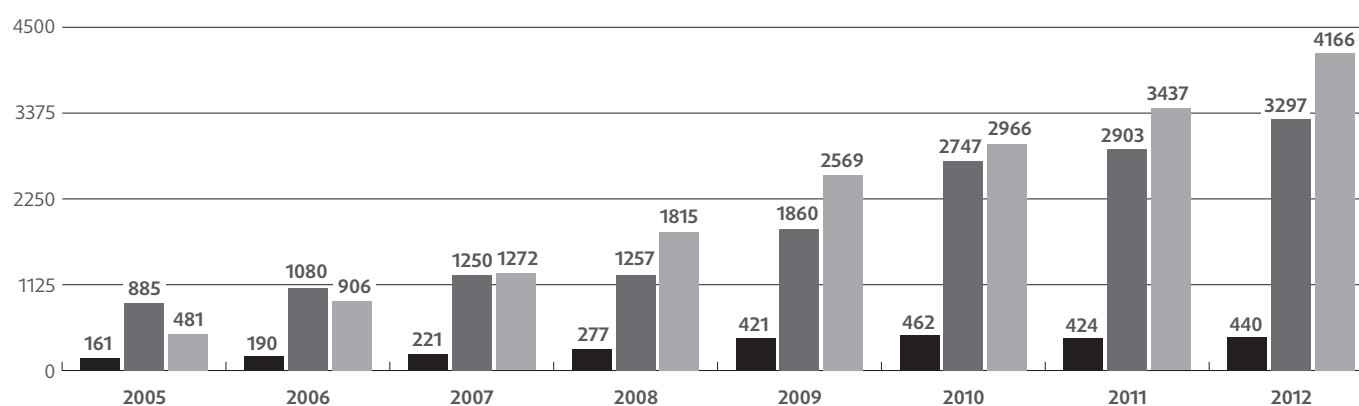
Number of corporate bond issuers and issues in 2005–2012

Period	Number of bond issuers	Number of bond issues
2005	230	302
2006	370	488
2007	465	607
2008	463	650
2009	405	630
2010	368	666
2011	308	692
2012	292	767

Источник: CBONDS..

Figure 5

Volume of domestic bond market (at par value), billion rubles



■ Sub-federal and municipal bonds ■ Government bonds (including bonds by the Bank of Russia) ■ Corporate bonds

Source: CBONDS.

¹⁰ 'Market' issuers and issues mean issues of bonds participating in the secondary circulation.

Table 12

Volume of corporate bonds market in 2005 – 2012

Period	Volume of corporate bonds market, billion rubles	Volume of corporate bonds market/GDP, %
2005	481	2.2
2006	906	3.4
2007	1,272	3.8
2008	1,815	4.4
2009	2,569	6.6
2010	2,966	6.6
2011	3,437	6.3
2012	4,166	6.7

Sources: CBONDS, FSSS.

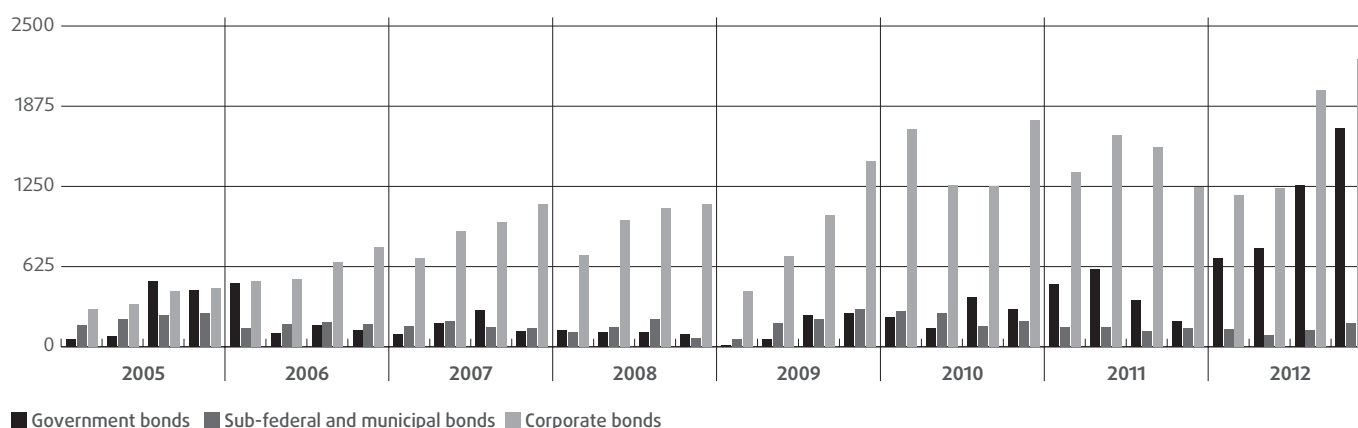
Table 13

Placements of new corporate bond issues in 2005–2012

Period	Number of bond issuers, entities			Number of new issues			Placement volume, billion rubles		
	Market	Non-market	Total	Market	Non-market	Total	Market	Non-market	Total
2005	160	6	166	164	5	169	281.2	0.6	281.8
2006	256	4	260	264	4	268	485.2	1.2	486.4
2007	192	9	201	197	10	207	464.6	16.2	480.8
2008	143	11	154	156	14	170	489.8	183.2	673.0
2009	136	11	147	175	11	186	999.1	83.5	1,082.5
2010	152	6	158	194	13	207	850.2	18.1	868.2
2011	133	37	170	171	37	208	788.8	153.5	942.2
2012	179	27	206	229	33	262	1105.0	115.0	1,219.9

Source: CBONDS.

Figure 6

Volume of trade on domestic bond market (exchange and off-exchange transactions without taking into account repo transactions), billion rubles

Source: CBONDS.

to 170 companies the year before, with the number of new issues reaching 262 as against 208. The volume of new placements at the year end made up 1,220 billion rubles, which is 29.5% higher than in 2011.

Figure 6 shows a quarterly graph of trade volumes (exchange and off-exchange) for corporate bonds on the domestic debt market in 2005–2012 at par value, and Table 14 provides consolidated data for each year¹¹.

The volume of transactions in corporate bonds has demonstrated significant volatility from year to year. A positive dynamics was typical for 2012: the volume of trade (exchange and off-exchange transactions at par value, without taking into account repo transactions) increased by 14.6% and made up 6,600 billion rubles.

The share of exchange transactions remained at the maximum value at over 80%.

Due to a growth in the trade volume, the liquidity of the corporate bond market increased in 2012. Figure 7 shows graphs with quarterly turnover ratios¹² for the domestic debt market.

The quarterly turnover ratio increased in 2012 from 11.4% in the first half to 18.3% in the second half. However, these indices are far from historical maximums (compare: the maximum turnover ratio was recorded in 2007 – about 30%).

Table 14

Volume of trade in corporate bonds in 2005–2012

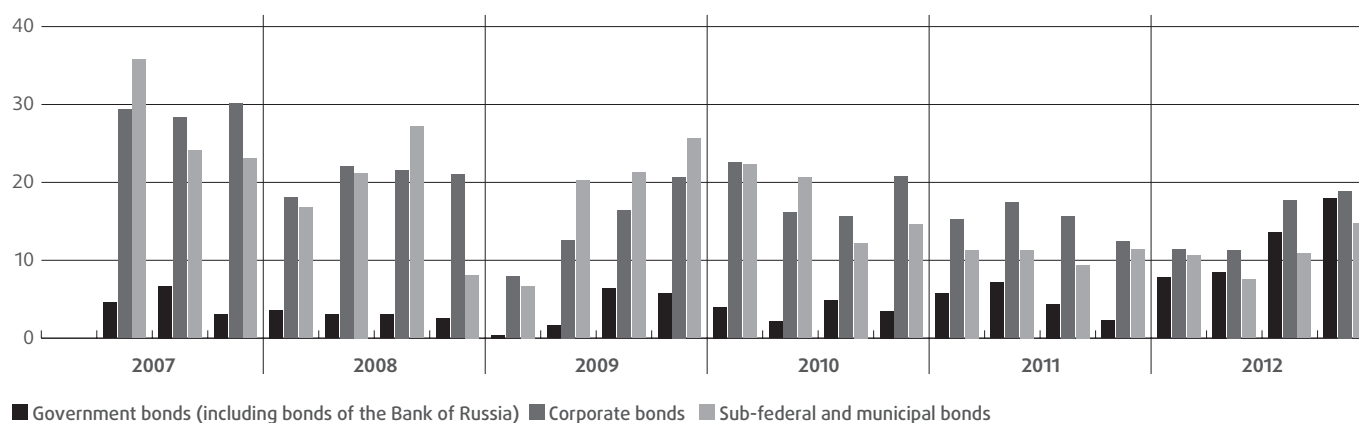
Period	Total trade volume, billion rubles	Share of exchange transactions in the total trade volume (estimate), %
2005	1,514	60
2006	2,473	73
2007	3,670	74
2008	3,890	68
2009	3,605	68
2010	5,969	75
2011	5,813	88
2012	6,660	84

Note: without taking into account repo transactions, at par value.

Source: CBONDS.

Figure 7

Turnover ratio of the domestic bond market (exchange and off-exchange transactions without taking into account repo transactions), %



Calculated based on the data by CBONDS.

¹¹ Hereinafter, repo transactions are not taken into account in the evaluation of secondary market volume for all types of bonds, unless expressly specified otherwise. The data provided by the National Settlement Depository are used to evaluate the volume of off-exchange transactions.

¹² Turnover ratio is calculated as a ratio between the volume of exchange and off-exchange transactions (without taking into account repo transactions) at par value for the period and the simple mean of the bonds issues at par value for the current and the past periods.

Table 15 shows consolidated data on corporate bonds (including exchange bonds) listed on the stock market of the Moscow Exchange Group¹³, and Table 16 provides the data on the volumes of exchange trade in 2005–2012 at actual value.

The exchange market of 2012 saw a growth in the number of issuers, number of bond issues and an expansion of the quotation lists.

The dynamics of exchange transactions in corporate bonds is largely

similar to the overall turnover dynamics for bonds. Yet, the volume of exchange trade (at actual value, without taking into account repo transactions) grew slightly by 2.6% as reached 5,318 billion rubles.

Tables 17 and 18 provide the data on the ten most actively traded bond issues and issuers¹⁴.

The concentration for individual instruments on the bond market is much lower than on the stock market. The ten most liquid bond issues at the end of

2012 made up 13.5% as compared to 16% at the start of the year. Accordingly, HH Index is much lower than on the stock market – 55% as compared to 70% the year before.

Nevertheless, the share of the ten largest bond issuers has been growing, with 53.2% of the total turnover at the year end, which is 10 p.p. more than at the start of the year.

Exchange bonds are gaining a greater popularity. In 2012, 294 issues of exchange bonds by 110 issuers circulated

Table 15

Organized corporate bond market in 2005–2012

Period	MICEX Stock Exchange			RTS		
	Number of bond issuers	Number of bonds issued	including those listed (issuers/issues)	Number of bond issuers	Number of bonds issued	including those listed (issuers/issues)
2005	202	250	46/62	4	4	1/1
2006	316	414	69/98	77	118	0/0
2007	445	577	149/207	79	120	0/0
2008	455	622	198/280	74	108	2/2
2009	418	702	167/317	57	78	3/3
2010	357	648	168/332	43	52	0/0
Moscow Exchange Group						
2011	318	673	177/410			
2012	364	793	212/495			

Source: Moscow Exchange Group.

Table 16

Volume of corporate bonds trade on MICEX Stock Exchange¹⁵ in 2005–2012.

Period	Corporate bonds, billion rubles
2005	900
2006	1,801
2007	2,716
2008	2,604
2009	2,463
2010	4,470
2011	5,181
2012	5,318

Note: without taking into account repo transactions, at actual value.

Source: Moscow Exchange Group.

¹³ The table shows both 'market' and 'non-market' issues of corporate bonds.

¹⁴ Taking into account repo transactions and transactions in exchange bonds, at actual value.

¹⁵ Taking into account the main trading mode and the negotiated trades mode, as well as transactions in exchange bonds, all at actual value. Initial offering and repo transactions are not taken into account.

Table 17

List of corporate bond issues most actively traded on the stock market of Moscow Exchange Group (at the end of 2012)

Item No.	Security	Issuer	Volume of transactions, billion rubles	Share in the total trade volume, %
1	Transnf 03	Transneft JSC	2,435	4.231
2	VTB BO-07	VTB Bank JSC	796	1.384
3	Transnf 01	Transneft JSC	680	1.183
4	FGC UES-19	FGC UES JSC	589	1.024
5	RZhd-15 bond	Russian Railways JSC	582	1.012
6	Transnf 02	Transneft JSC	556	0.966
7	VEB 08	Vnesheconombank	544	0.947
8	RZhd-10 bond	Russian Railways JSC	543	0.945
9	GazpromB 5	Gazprombank JSC	538	0.935
10	RZhd-17 bond	Russian Railways JSC	502	0.872
TOTAL			7,765	13.5
HH Index				54.9

Note: taking into account repo transactions, at actual value.

Calculated based on the data of Moscow Exchange Group.

Table 18

List of issuers with the most actively traded corporate bonds on MICEX Stock Exchange (at the end of 2012)

Item No.	Issuer	Transaction volume, billion rubles	Share in the total trade volume, %
1	Russian Railways JSC	3,736	9.3
2	Transneft JSC	3,672	9.1
3	FGC UES JSC	2,696	6.7
4	Rosselhozbank JSC	2,420	6.0
5	Vnesheconombank	2,068	5.1
6	AHML JSC	1,746	4.3
7	MTS JSC	1,431	3.5
8	EvrzHolding Finance LLC	1,350	3.3
9	VimpelCom-Invest LLC	1,226	3.0
10	Gazprom Neft JSC	1,118	2.8
TOTAL		21,464	53.2
HH Index			234.2

Note: taking into account repo transactions, at actual value.

Calculated based on the data of Moscow Exchange Group.

Table 19

Volume of trade in exchange bonds on the Stock Market of the Moscow Exchange Group in 2005-2012

Period	Trade volume, billion rubles	Share in the total trade volume for corporate bonds, %
2008	107	0.9
2009	761	8.1
2010	4,797	19.9
2011	8,875	24.6
2012	17,248	30.0

Note: taking into account repo transactions, at actual value.

Source: Moscow Exchange Group.

on the stock market of the Moscow Exchange Group.

Secondary turnover of exchange bonds (see Table 19) grew from 0.9% of the total trade volume for corporate bonds in 2008 to 30% in 2012.

Tables 20 and 21 provide the data on the number of bond issues, issuers and the amounts of outstanding obligations for the past years (the data are provided as of the end of each respective period).

It follows from the above data that the problem of defaults on corporate bonds lost its relevancy in 2012, with the indices indicative of breaches in the issuers' obligations under corporate bonds going back to the pre-crisis levels.

Table 20

Breaches of issuers' obligations under corporate bonds (the number of bond issues and issuers)

Default	Non-fulfillment of offer	Delay of offer fulfillment	Technical default	Total	Number of issuers
2002-2007					9
6	3	1	3	13	
2008					50
26	25	4	22	77	
2009					110
230	62	7	23	322	
2010					65
159	25	1	18	203	
2011					22
59	7	1	4	71	
2012					6
15	0	0	0	15	

Source: CBONDS.

Table 21

Breaches of issuers' obligations under corporate bonds (volume of unfulfilled obligations), billion rubles

Default	Non-fulfillment of offer	Delay of offer fulfillment	Technical default	Total
2002-2007				
1 014	0	0	1 570	2 584
2008				
3 148	24 779	5 003	4 735	37 665
2009				
62 842	54 301	4 397	2 620	124 160
2010				
35 036	10 897	649	568	47 149
2011				
5 968	201	229	34	6 433
2012				
2 196	0	0	0	2 196

Source: CBONDS.

1.3. State, Sub-federal and Municipal Bonds, Bonds of the Bank of Russia

Figure 8 shows monthly graphs of the volumes of the domestic government debt market represented by government bonds (GKO-OFZ) and bonds of the Bank of Russia (OBR) at par value, and Table 22 provides the consolidated data for 2005–2012.

The growth in the volume of government bond borrowings, which began in the second half of 2010, continued in 2012. The average growth rate for the volume of the government

bond market in 2011–2012 made up 28.3%. In 2007–2009, the growth rate was much lower at 17.4%. At the end of the first half of 2012, the volume of the government bond market exceeded 3 billion rubles for the first time, reaching 3,297 billion rubles by the year end, with an annual increase of 393 billion rubles. However, in comparison to GDP, the market of government bonds remained of low significance, taking up a little over 5%.

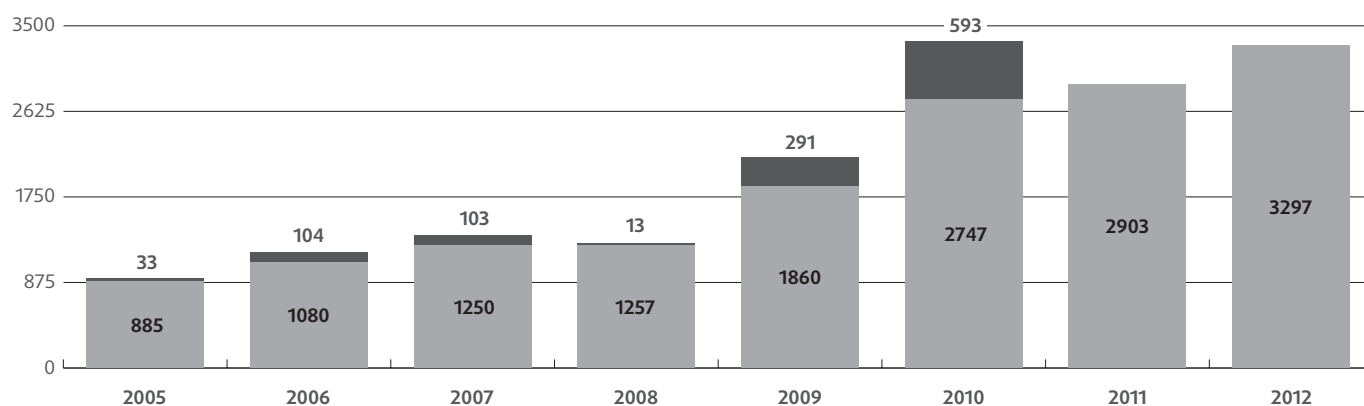
No bonds of the Bank of Russia have been issued over the past two years.

Despite the commensurability of the market volumes at par value, the turnover of government securities as compared to corporate securities was lower by an order of magnitude in 2006–2009 (Table 23).

In 2011–2012, the volume of transactions involving government bonds increased sharply. The growth of turnovers in 2012 was especially noticeable, with

Figure 8

Volume of domestic government debt market (at par value), billion rubles



■ Government bonds ■ Bonds of the Bank of Russia

Source: CBONDS.

Table 22

Volume of government bond market in 2005–2012

Period	Volume of government bond market, billion rubles	Volume of government bond market/GDP, %
2005	851	3.3
2006	976	3.3
2007	1,147	3.2
2008	1,244	2.8
2009	1,570	3.8
2010	2,154	4.5
2011	2,803	5.2
2012	3,297	5.3

Source: CBONDS.

an increase by more than 2.5 times. Consequently, the market's liquidity grew materially (Figures 6 and 7), and by the end of the year the turnover ratio exceeded 17%, which was the maximum value for the period under study. Based on the above index, the government bond market caught up with the corporate bond market in 2012, while in the past years it demonstrated a significant lag.

The market of sub-federal and municipal bonds has not demonstrated

any positive trends over the past few years. The market has a small volume in comparison with the other sectors of the debt securities market, making up 440 billion rubles at the year end.

The total (exchange and off-exchange) volume of trade in sub-federal and municipal bonds at par value is shown in Table 24.

During the period of 2011–2012, the turnover of transactions in sub-federal and municipal bonds decreased, at

the end of 2012 it fell by 8.5%, while the total trade volume (exchange and off-exchange transactions at par value, without taking into account repo transactions) decreased to 533 billion rubles. The share of exchange transactions traditionally prevailed in the above, making up 83%. The number of issuers of sub-federal and municipal bonds represented on the exchange market at the end of 2012 made up 44 issuers.

Table 23

Volume of trade in government bonds in 2005–2012

Period	Total trade volume, billion rubles
2005	1,086
2006	900
2007	692
2008	451
2009	582
2010	1,087
2011	1,653
2012	4,419

Note: without taking into account repo transactions, at actual value, in the main trading mode and negotiated trades mode.

Sources: CBONDS, Moscow Exchange Group.

Table 24

Volume of trade in sub-federal and municipal bonds in 2005–2012

Period	Total trade volume, billion rubles	Share of exchange transactions in the total trade volume (estimate),%
2005	890	70
2006	683	80
2007	664	83
2008	539	82
2009	741	84
2010	892	80
2011	582	81
2012	533	83

Note: without taking into account repo transactions, at par value.

Source: CBONDS.

1.4. Eurobonds

The state and the Russian corporations make bond borrowings on foreign markets. The overall data for the Eurobond market volume are shown in Figure 9.

According to the data of CBONDS, at the end of 2012 the total volume of Eurobonds issued made up 192.7 billion USD, including 42.6 billion USD of

sovereign Eurobonds, 149.5 billion USD of corporate Eurobonds. The volume of Eurobonds of the RF entities decreased to 0.5 billion USD during the year. At the year end, a material growth in the volume of borrowings was recorded (sovereign Eurobonds – 20%, corporate bonds – 30%), which was not the observed during the previous years.

Figure 10 compares the volumes of corporate borrowings using debt market instruments on the domestic and foreign markets.

It follows from Figure 10 that the share of the domestic corporate bonds market has demonstrated a long-term growth trend: in 2009-2012 it grew to 47%, while in 2005 it made up 30%.

Figure 9

Volume of Eurobond market, billion rubles

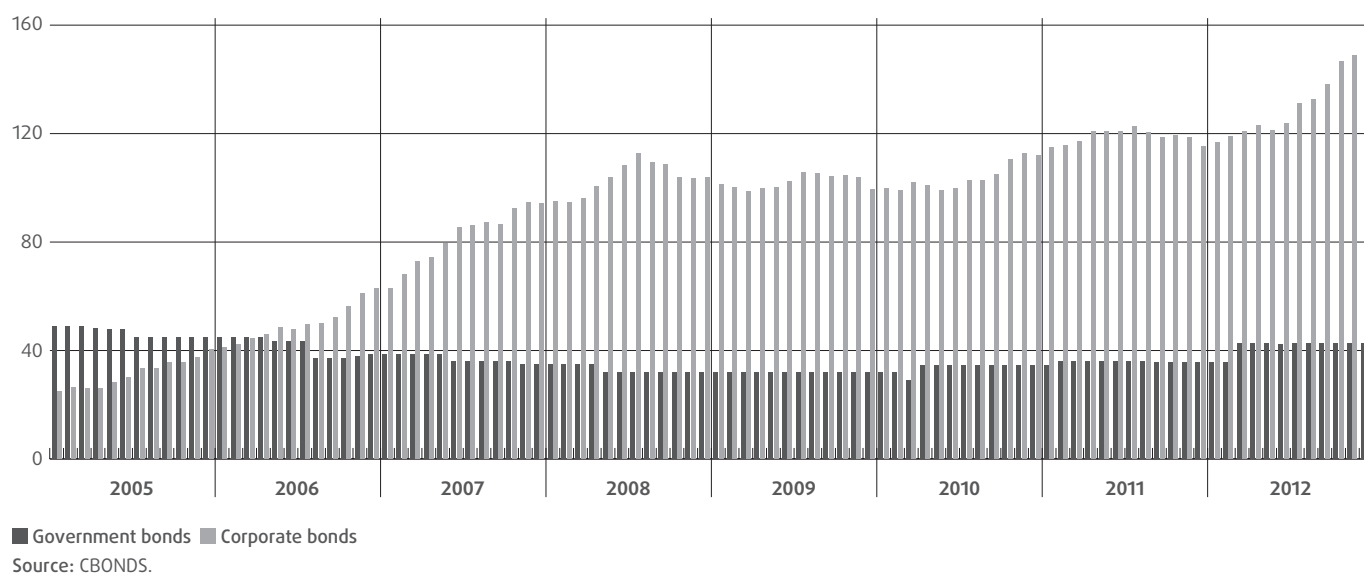
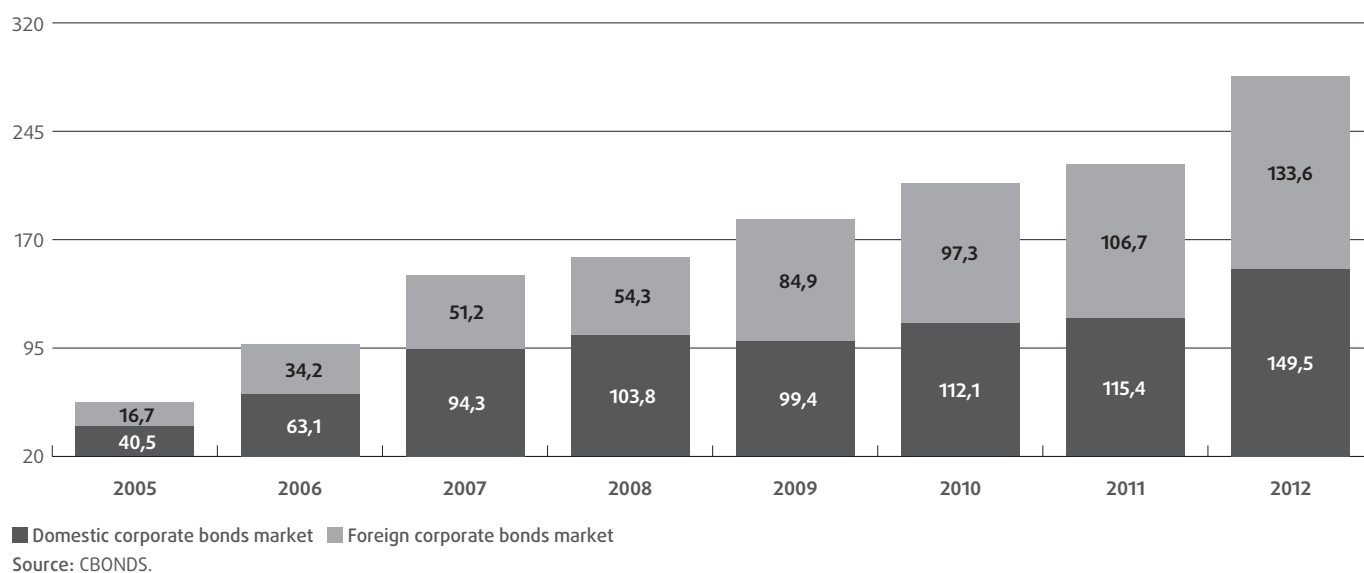


Figure 10

Domestic and foreign corporate bonds market, billion USD



1.5. Bills

Bills as a financing instrument are being gradually replaced by bonds; however, the scale of the bill market still makes it a prominent element of the domestic debt market. According to the estimates by Region Group of Companies, at the end of 2012, the share of the bill market made up about 6% of the debt market as compared to 25% in 2005. Table 25 shows estimated data on the volumes of issued bills in

circulation. In 2012, the bill market was revived, its volume growing by more than 30% as compared to the previous year.

The term structure of the bill market (in terms of bank bills) is shown in Figure 11.

The typical bill maturity in 2007–2011 was from one to three years, while in 2012 bills with maturity from 181 days to a year turned out to be more popular.

Sight bills and bills maturing in less than 90 days or more than three years were the least popular.

The volume of transactions involving bills is estimated. According to the estimates by Region GC, in 2012 this volume grew by almost 30% and made up over 7 trillion rubles due to the growth of the circulating bills market volume and a reduction in the maturity periods of bills.

Table 25

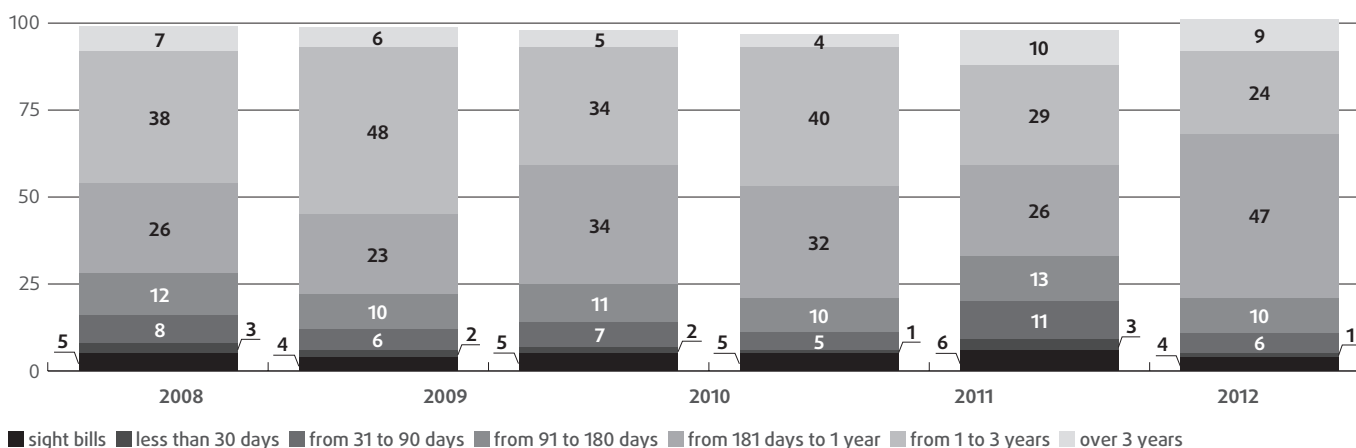
Volume of bill market in 2005-2010, billion rubles

Period	2005	2006	2007	2008	2009	2010	2011	2012
	350-370	500	580	510	450	570	400	525

Source: Region Group of Companies.

Figure 11

Term structure of the bill market, %



Source: REGION GC.

1.6. Repo transactions

Transactions involving purchase and sale of securities with an obligation of resale/repurchase on a certain date and at a predefined price (repo transactions) are extremely significant on the Russian stock

market. Such transactions are often made with the purpose of lending money or securities to market participants. In effect, repo market constitutes a refinancing market for the banking system against

securities, with the reference refinancing rates provided in section 1.9.3.

Exchange repo transactions are carried out on the trading floors of Moscow Exchange Group (see Section

Figure 12

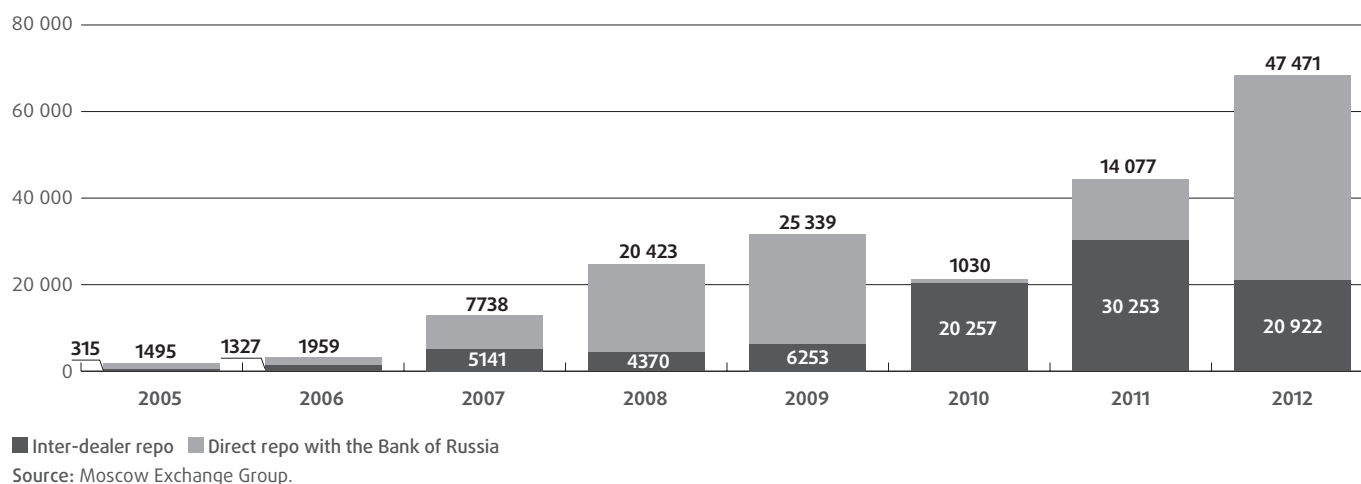
Repo transactions in government securities in Moscow Exchange Group, billion rubles

Figure 13

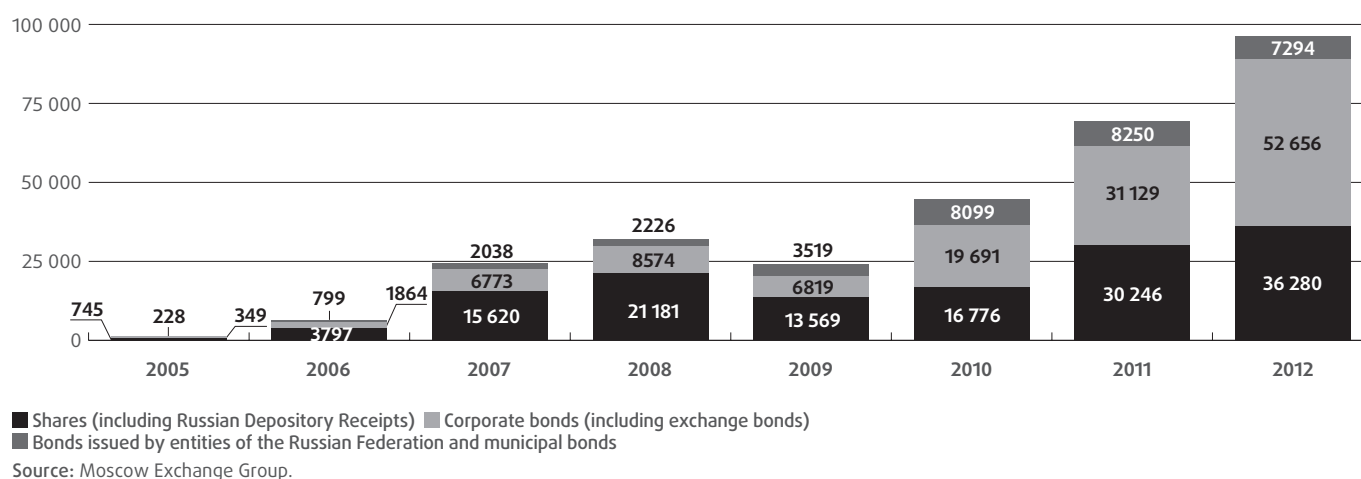
Repo transactions in non-government securities in Moscow Exchange Group (Main Market sector), billion rubles

Table 26

Volume of repo transactions in Moscow Exchange Group in 2005–2012, billion rubles

Period	Government bonds	Non-government securities	TOTAL
2005	1,810	1,322	3,132
2006	3,285	6,460	9,745
2007	12,879	24,431	37,310
2008	24,812	31,981	56,793
2009	31,592	23,906	55,498
2010	21,287	44,566	65,853
2011	44,330	69,625	113,956
2012	68,393	96,229	164,622

Source: Moscow Exchange Group.

2.3.3). Figures 12 and 13 show the information on the volume of repo transactions in government and non-government securities in Moscow Exchange Group.

The volumes of repo transactions in government bonds are characterized by very high volatility, with known examples of volumes dropping or increased within plus or minus 80-90% from quarter to quarter. The total volume of repo transactions in government securities at the end of 2012 made up 68,393 billion rubles, which is 54% higher than the year before. The volume of direct repo with the Bank of Russia grew sharply during the year, reaching 69.4% of the total repo transactions in government securities as compared to 31.8% in 2011. Such a high percentage

of direct repo with the Bank of Russia was observed only during the crisis in 2008–2009.

The main assets in repo transactions in non-government securities include shares, as well as corporate, sub-federal and municipal bonds.

The market of repo transactions in non-government securities has been growing. In 2012, the volume of exchange repo transactions in all types of non-government securities increased by another 38.2% and reached 96,229 billion rubles. This is more than five times higher than the volume of transactions in such securities in other trade modes, i.e., three times higher for shares and ten times higher for corporate bonds. In 2010-2012 the percentage of shares in the total repo turnover made up 39.6%

with a trend towards reduction, while corporate bonds accounted for 47.9% with an upward trend, and other non-government securities occupied the remaining niche.

Table 26 shows consolidated data on the volumes of repo transactions in Moscow Exchange Group. For non-government securities, the information is provided for all sectors of the stock market.

In 2012, the volume of repo transactions involving non-government securities grew by 44.5% and reached 164,622 billion rubles. The share of government securities in the above volume varies from year to year around the average value of 42.4%, while the average value for non-government securities is higher at 57.6%.

1.7. Investment units

Table 27 shows consolidated information on investment units traded on the Russian stock exchanges, and Table 28 provides data on the volumes of exchange trade in investment units.

In 2012, we observed a moderate growth in the number of management companies that brought their investment units for trading on stock exchanges and

the number of funds with investment units traded on the stock exchange. At the year end, the number of managers grew to 140 companies, and the number of unit investment funds – to 442 funds.

In 2011 – 2012, we observed a confident growth in volumes with an annual average of 67%. As a result, at the end of 2012, the volume of exchange

transactions in investment units reached 142 billion rubles.

According to our estimates, the top ten most liquid funds account for 46% of the turnover. It is worth mentioning that during the previous years the concentration of exchange turnovers for investment units was much higher and reached 70 – 80%.

Table 27

Organized exchange market of investment units in 2005–2012

Period	MICEX Stock Exchange			RTS		
	Number of management companies	Number of unit investment funds	including those in quotation lists (MC/UIF)	Number of management companies	Number of unit investment funds	including those in quotation lists (MC/UIF)
2005	33	69	3/4	6	18	1/1
2006	48	114	4/4	10	22	3/3
2007	88	219	20/30	15	38	6/7
2008	99	306	25/43	23	49	8/11
2009	104	312	17/30	21	47	4/5
2010	125	365	41/20	17	43	3/3
Moscow Exchange Group						
2011	132	419	35/51			
2012	140	442	40/59			

Source: Moscow Exchange Group.

Table 28

Volume of exchange trade in investment units in 2005 –2012

Period	Investment units		
	MICEX Stock Exchange	RTS	TOTAL
2005	1.5	0.0	1.6
2006	5.0	0.8	5.8
2007	20.2	0.7	20.9
2008	23.1	0.1	23.2
2009	16.2	0.0	16.2
2010	31.3	19.7	51.0
2011	34.5	53.9	88.4
Moscow Exchange Group			
2012	142.2		

Source: Moscow Exchange Group.

1.8. Securities futures and options and stock indices

Before the merger of MICEX and RTS groups, exchange-traded derivatives with underlying assets in the form of securities and stock indices were traded mainly on the derivatives market FORTS of RTS and the derivatives market of MICEX. After the merger, Moscow Exchange Group formed a single derivatives market for security assets.

Table 29 shows consolidated information for the derivatives market of Moscow Exchange Group in terms of volumes of derivatives transactions associated with security assets.

The growth in the volume of trade in derivative contracts with the underlying assets in the form of security assets began to demonstrate the deceleration signs at the end of 2011 and at the start of 2012. In the second half of 2012, the trade volume dropped. During all the previous years, the market had been growing fast. At the end of 2012, the volume of transactions in derivative contracts with the underlying assets in the form of securities and stock indices on the derivatives market of Moscow

Exchange Group made up 35,597 billion rubles, which is 22.8% less than the year before. Accompanied by an overall drop, the volume of transactions in bond derivative contracts increased (191% per year), which, however, did not influence the ultimate result, as the above transactions took up less than 1% of the overall trade volume.

Traditionally, the share of transactions in futures was much larger. At the end of 2012, the volume of transactions in futures in monetary terms made up 91% of transactions in derivative contracts.

The instrument base of the above market is shown in Table 30.

The innovation of year 2012 was the launch of futures for RDR UC Rusal plc and the trade in index futures for BRICS countries. The number of futures contract types grew by six types, the number of option contract types remained unchanged. At the end of 2012, 43 types of derivative contracts were represented on the domestic exchange derivatives market, which is 16.2% more than the year before.

The underlying assets for futures comprise stock indices, shares and bonds, while the underlying assets for options comprise index and share futures. The structure of turnovers broken down by underlying assets is shown in Figures 14 and 15 (turnover denominated in rubles).

Stock indices have constituted a dominant asset for futures since 2008. Their share in the total turnover in 2011–2012 reached 90%. The percentage of shares as underlying assets reduced from 10.7 to 8.7% during the year in favor of bonds. Similar correlations have been observed for underlying assets of options: the percentage of stock indices in 2011–2012 increased and reached 97%.

Figure 16 shows a graph describing the ratio between the volume of transactions in derivative contracts with underlying assets in the form of shares and stock indices in monetary terms and the volumes of transactions in shares (without taking into account repo transactions) on the derivatives

Table 29

Results of trade in derivatives for securities and stock indices on the derivatives market of Moscow Exchange Group in 2005 – 2012

Period	2005	2006	2007	2008	2009	2010	2011	2012
	Total	Total	Total	Total	Total	Total	Total	Total
Futures contracts								
Trade volume (futures), billion rubles	607.8	2,397.1	6,052.4	8,813.6	11,794.3	23,256.8	42,376.5	32,467.9
including index	119.8	752.0	3,587.1	7,280.1	9,664.0	20,682.3	37,784.9	29,432.4
including shares	471.0	1,569.6	2,389.2	1,528.6	2,130.3	2,574.5	4,516.8	2,817.7
including bonds	9.0	13.7	29.3	4.8			74.8	217.8
Trade volume (futures), million contracts	46.0	78.9	114.6	173.3	398.7	453.7	742.5	585.9
including index	2.3	9.0	34.7	87.9	150.1	227.2	379.8	323.0
including shares	42.6	66.3	75.5	85.0	248.7	226.5	355.4	241.6
including bonds	0.8	1.3	2.8	0.5			7.3	21.2
Number of transactions (futures), million transactions	1.8	4.9	11.3	27.4	70.6	107.5	193.2	161.8
including index	0.1	0.7	4.3	17.1	43.6	77.1	138.9	125.6
including shares	1.7	4.1	7.0	10.3	27.0	30.4	54.3	36.2
including bonds	0.001	0.001	0.001	0.000	0.000	0.000	0.010	0.010
Options contracts								
Trade volume (options), billion rubles	79.3	311.4	1,300.2	1,739.9	436.1	1,315.8	3,729.9	3,128.9
including index	2.6	84.3	758.7	1,067.1	328.6	1,196.6	3,597.3	3,051.2
including shares	76.6	226.9	541.4	672.7	107.5	119.1	132.7	77.7
Trade volume (options), million contracts	7.3	10.7	25.0	45.2	18.0	22.3	43.8	39.8
including index	0.0	1.0	7.1	11.4	5.1	13.2	35.4	34.0
including shares	7.2	9.7	17.8	33.8	13.0	9.2	8.4	5.9
Number of transactions (options), million transactions	0.1	0.2	0.3	0.7	0.8	2.0	4.2	3.2
including index	0.0	0.0	0.1	0.5	0.6	1.7	3.9	3.1
including shares	0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.2
Total								
Trade volume, billion rubles	687	2,709	7,353	10,553	12,230	24,573	46,106	35,597
Trade volume, million contracts	53	90	140	219	417	476	786	626
Number of transactions, million transactions	2	5	12	28	71	110	197	165

Source: Moscow Exchange Group.

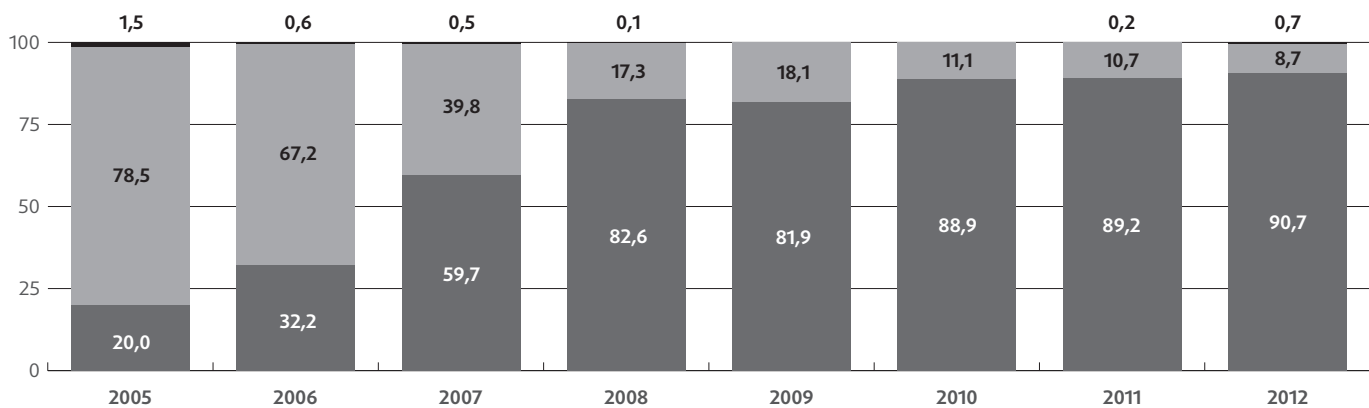
Table 30

Organized market of derivatives for securities assets in 2005–2011

Period	MICEX Stock Exchange			RTS		
	Futures	Options	TOTAL	Futures	Options	TOTAL
2005	0	0	0	9	6	15
2006	0	0	0	15	7	22
2007	1	0	1	19	16	35
2008	1	0	1	21	14	35
2009	5	0	5	21	14	35
2010	5	0	5	18	9	27
Moscow Exchange Group						
2011		27	10	37		
2012				33	10	43

Source: Moscow Exchange Group.

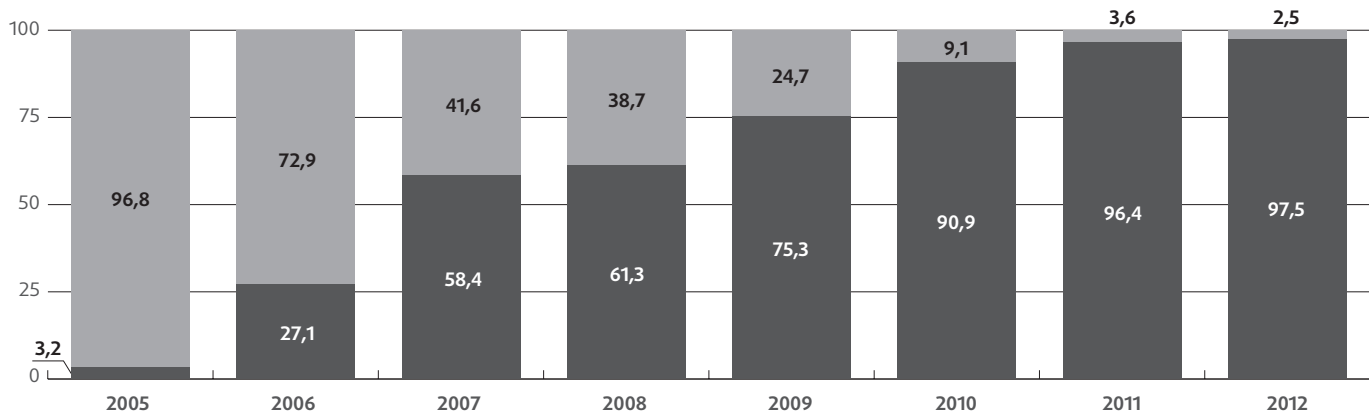
Figure 14

Structure of futures trade on the derivatives market of Moscow Exchange Group, %

■ Index futures ■ Share futures ■ Bond futures

Source: Moscow Exchange Group

Figure 15

Structure of options trade on the derivatives market of Moscow Exchange Group, %

■ Index options ■ Share options

Source: Moscow Exchange Group

and stock markets of Moscow Exchange Group.

Despite the reduction of the trade volumes for contracts with underlying assets in the form of shares and stock indices in 2012, the volumes ratio to the spot market increased to 281%.

The volume of open positions and their distribution among various instruments have varied greatly depending on the market situation (see Table 31)¹⁶.

The dynamics of changes in open positions repeats the dynamics of

the trade volumes. Except for 2008, the volume of open positions on futures and options contracts has been growing, with the deceleration of growth starting from 2010. In 2012, open positions grew slightly to 150 billion rubles, an increase of 12.6%. The increase was due to options contracts (the volume of open positions increased by 40%), while the volume of open positions for futures contracts remained virtually unchanged.

The structure of open positions in terms of underlying assets has been

undergoing continual changes (see Figures 17 and 18 for open positions in monetary terms).

The volume of open positions under index futures contracts at the end of 2012 decreased to 69% as against 78% the year before. The change was due to an increase in the percentage of share contracts (from 18.5 to 21.5%) and bond contracts (from 3.6 to 9.4%). For options, we observed a slight decrease in the concentration of open positions in the stock indices (from 96.3 to 92.4%).

Table 31

Open positions on the derivatives market of Moscow Exchange Group for derivatives on securities and stock indices in 2005 – 2012

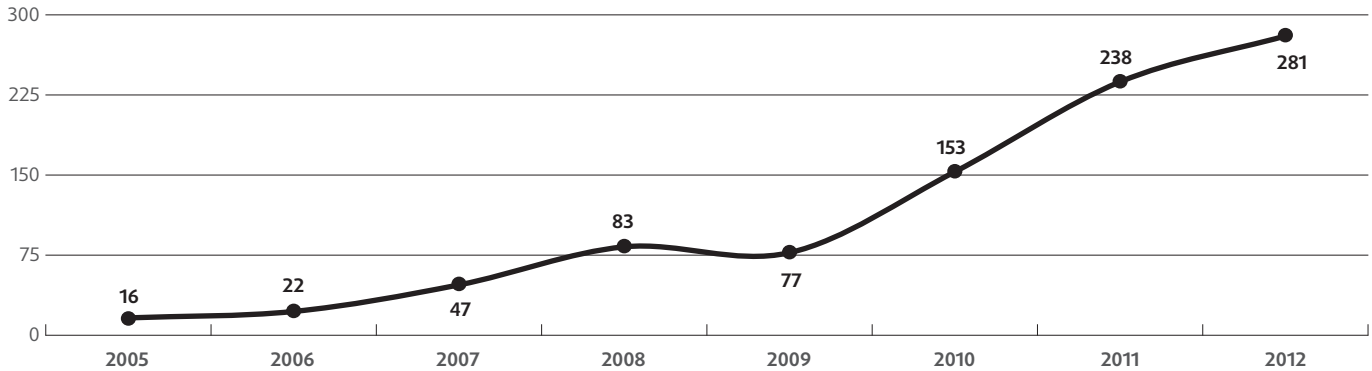
Period	2005	2006	2007	2008	2009	2010	2011	2012
Futures contracts								
Open positions at the end of year, billion rubles	13.1	31.5	49.8	9.0	36.0	51.6	91.0	90.9
including index	1.4	8.8	22.7	4.6	23.3	31.7	71.0	62.7
including shares	10.7	22.0	26.2	4.4	12.7	20.0	16.8	19.6
including bonds	1.0	0.7	1.0	0.0	0.0	0.0	3.2	8.6
Open positions at the end of year, million contracts	0.8	0.9	1.4	0.8	1.3	1.8	2.6	3.0
including index	0.0	0.1	0.2	0.1	0.3	0.3	0.8	0.7
including shares	0.7	0.7	1.0	0.7	1.1	1.5	1.5	1.5
including bonds	0.1	0.1	0.1	0.0	0.0	0.0	0.3	0.8
Options contracts								
Open positions at the end of year, billion rubles	7.4	47.0	62.3	9.6	15.4	36.7	42.3	59.3
including index	0.9	7.4	39.3	7.4	7.9	28.0	40.8	54.8
including shares	6.5	39.6	22.9	2.2	7.5	8.7	1.6	4.5
Open positions at the end of year, million contracts	0.4	1.4	1.2	0.5	0.8	0.8	0.6	0.9
including index	0.0	0.1	0.3	0.2	0.1	0.3	0.4	0.6
including shares	0.4	1.4	0.9	0.2	0.7	0.5	0.1	0.3
Total								
Open positions at the end of year, billion rubles	20.4	78.5	112.1	18.6	51.4	88.4	133.4	150.2
Open positions at the end of year, million contracts	1.2	2.3	2.6	1.3	2.2	2.5	3.1	3.9

Source: Moscow Exchange Group.

¹⁶ Open positions are shown at the end of the period.

Figure 16

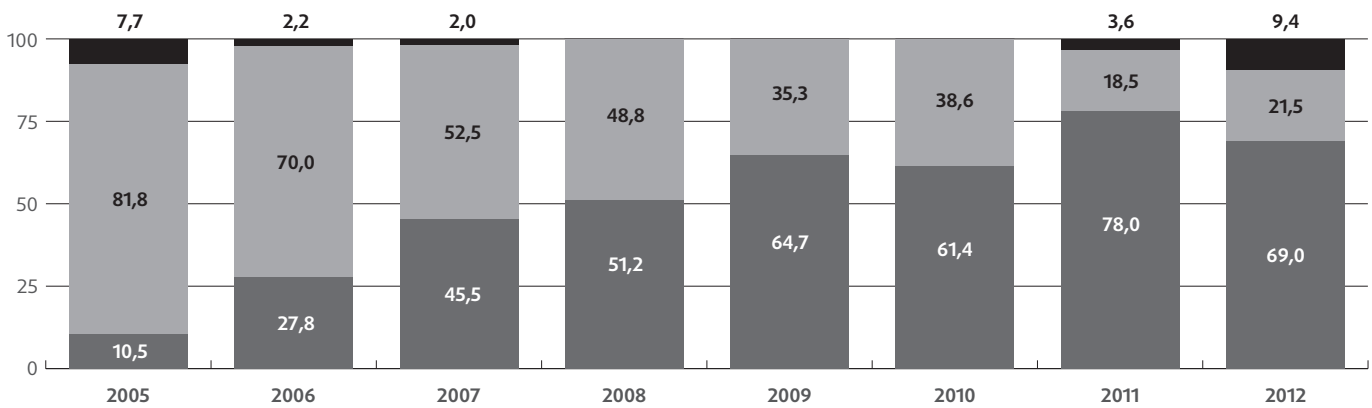
Ratio between the volume of trade in derivative contracts with underlying assets in the form of shares and stock indices and the volumes of trade in shares in Moscow Exchange Group, %*



* Without taking into account repo transactions
Source: Moscow Exchange Group.

Figure 17

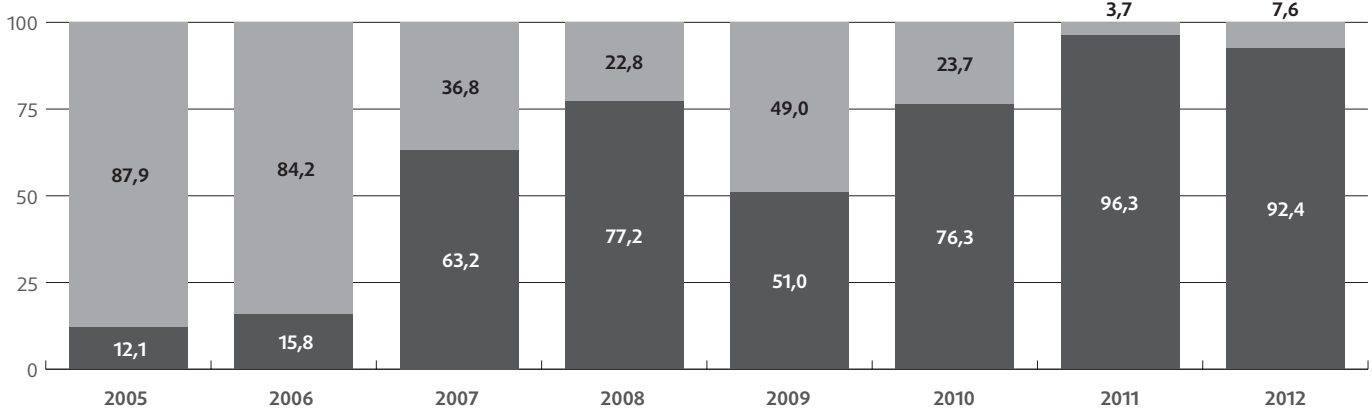
Volume of open futures positions on the derivatives market of Moscow Exchange Group, %



■ Index futures ■ Share futures ■ Bond futures
Source: Moscow Exchange Group.

Figure 18

Volume of open options positions on the derivatives market of Moscow Exchange Group, %



■ Index options ■ Share options
Source: Moscow Exchange Group.

1.9. Stock indices and indicators

The Russian stock market has many indices calculated by stock exchanges, information and rating agencies, investment banks, brokerage companies, etc. The indices calculated by Moscow Exchange Group are the most common within the country. Due to the merger between MICEX and RTS groups at the end of 2011, the family of the Moscow Exchange Group indices changed. At the end of 2012, the stock indices of the above Group were as follows:

➤ **Composite (consolidated) share indices.** This category includes the

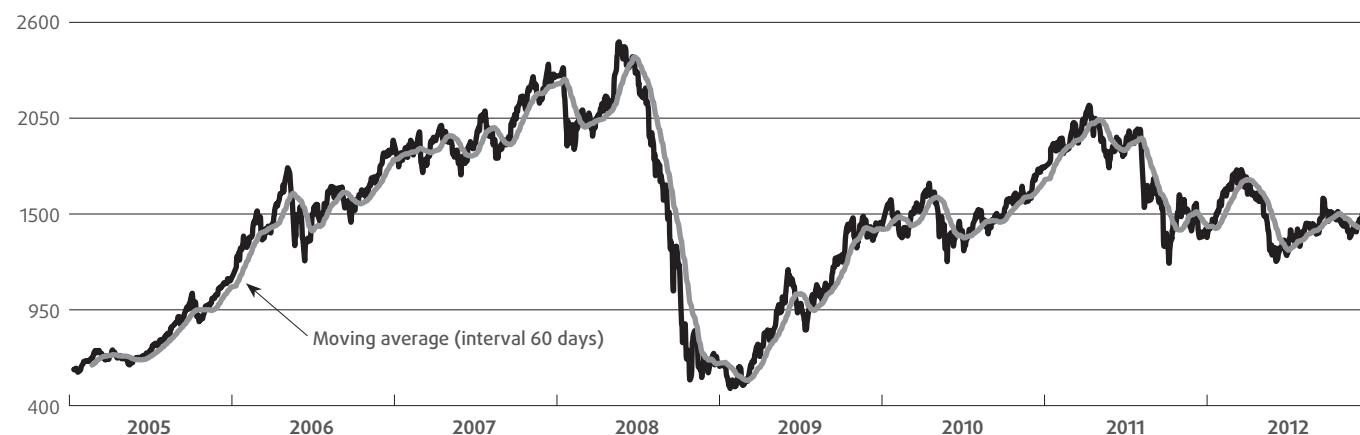
MICEX Index and the RTS Index. Despite the merger of MICEX and RTS exchange groups and the change in the name of the newly-formed group, the names of indices were preserved, and the approaches to the index calculation base and methodology were unified. Starting from December 2012, the indices have been calculated based on a single basket of securities consisting of 50 shares with the highest capitalization, based on a unified methodology. Share prices in rubles are used to calculate the MICEX Index, and USD prices are used for the RTS Index.

➤ **Sector share indices.** This index family was formed following conversion of MICEX and RTS sector indices into a single product line with a unified calculation base and methodology. The rules on sector index calculation provide for the calculation of index values denominated in rubles and the calculation of currency values for sector indices denominated in USD.

➤ **Thematic share indices.** This index category includes the Blue Chip Index MICEX10, Blue Chip Index RTS Standard, Second-Tier Index RTS-2, MICEX-Innovations Index, as well as the

Figure 19

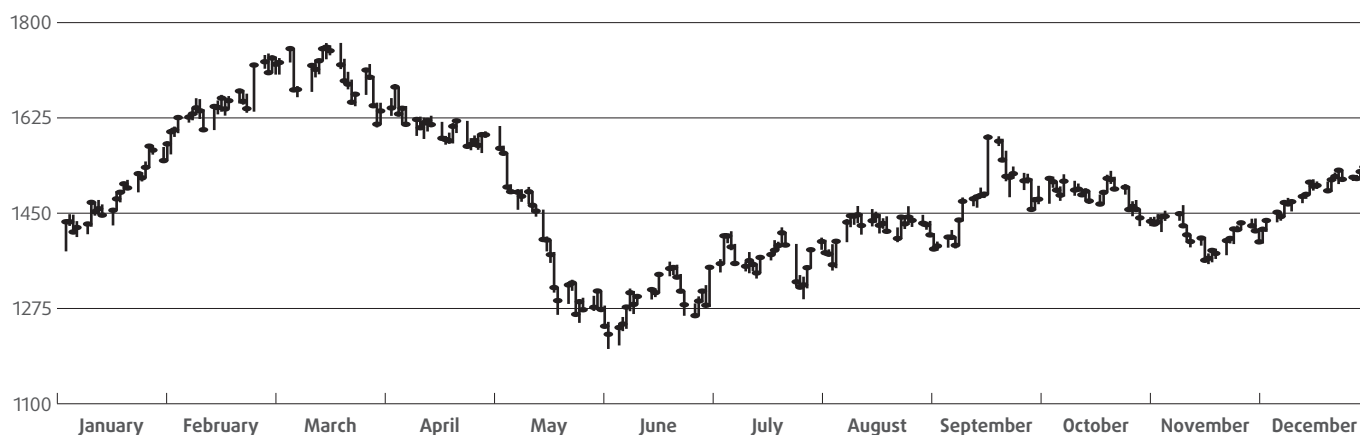
RTS Index in 2005–2012



Source: Moscow Exchange Group.

Figure 20

RTS Index in 2012



Source: Moscow Exchange Group.

regional index RTS Siberia. The main approaches to the formation of these indices remained unchanged, except for RTS-2 and RTS Siberia indices, which were subject to modification in mid-June similar to the modification applied to the RTS Index calculation.

➤ **Capitalization indices.** This index category includes Large Cap Index (MICEX LC), Mid Cap Index (MICEX MC) and Start Cap Index (MICEX SC). These indices used to be calculated by MICEX, and the main approaches to their formation remained without material changes.

➤ No changes affected the **bond indices** and **repo rate indicators**, which used to be calculated by MICEX only, and

the **Volatility Index**, which used to be calculated by RTS.

At the end of 2012, Moscow Exchange Group announced its plans of switching to a new structure of equity indices and their rebranding.

1.9.1 Share indices

Figures 19-22 show the graphs of RTS and MICEX indices for the historical interval of 2005 – 2012 and for 2012.

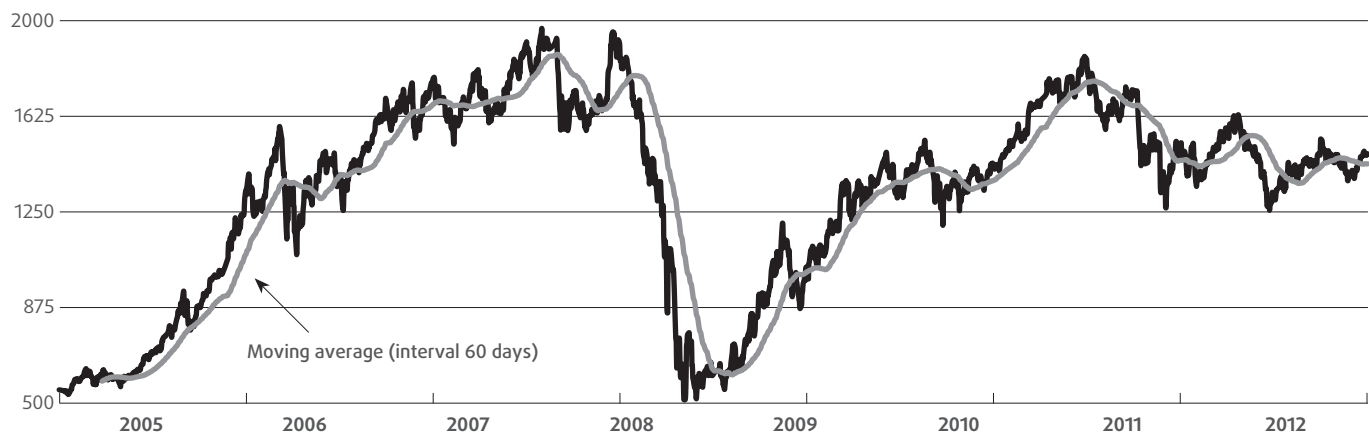
The start of 2012 was marked by a growth of the consolidated equity indices, which lasted until mid-March. The RTS and MICEX indices reached maximum values virtually at the same time: RTS Index of March 15, 2012 made up 1754, with a 22.4% increase since

the start of the year, while MICEX Index of March 14, 2012 reached 1631, with a 12.9% increase since the start of the year. These values were the maximum for the year, with a subsequent drop. During the last decade of May, the indices dropped to the annual minimum: RTS Index of June 1, 2012 made up 1227 points, with a 27.2% drop from the annual maximum, while MICEX Index of May 23, 2012 fell to 1256 points, with a 22.9% reduction. During the same period, the deepest daily falls of indices were recorded due to the exacerbation of the economic situation in Europe, primarily in Greece.

During the second half of the year, the behavior of consolidated equity indices

Figure 21

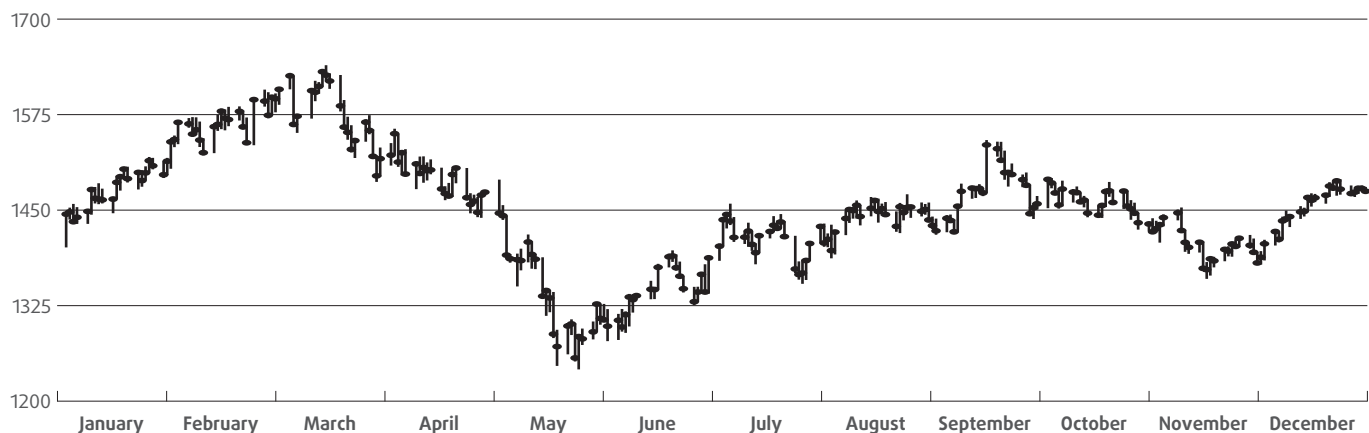
MICEX Index in 2005–2012



Source: Moscow Exchange Group.

Figure 22

MICEX Index in 2012



Source: Moscow Exchange Group.

Table 32

Yield of equity indices in 2005–2012, % per annum

	Currency	2005	2006	2007	2008	2009	2010	2011	2012
Consolidated indices									
RTS Index	USD	83.5	70.9	19.2	-71.6	128.6	22.6	-21.9	10.5
MICEX Index	rub.	83.1	67.7	11.6	-66.5	121.1	23.3	-16.9	5.2
RTS-2 Index	USD	69.3	42.3	43.2	-78.3	160.4	57.0	-31.8	3.2
Sector indices									
<i>Oil and gas sector</i>									
RTSog	USD	86.8	50.8	1.0	-65.8	93.4	5.9	-8.5	17.2
MICEX O&G	rub.	92.0	48.0	-3.6	-58.4	126.3	17.7	0.1	10.9
<i>Chemistry and petrochemistry</i>									
MICEX CHM	rub.		44.0	10.5	13.1				
<i>Telecommunications</i>									
RTStl	USD	40.8	81.5	28.1	-72.7	121.8	39.1		
MICEX TLC	rub.	39.1	66.0	14.6	-75.5	187.0	36.3	-14.8	3.9
<i>Metallurgy and mining</i>									
RTSmm	USD	53.2	52.4	54.0	-74.5	157.6	55.5	-43.5	-0.4
MICEX M&M	rub.	74.6	51.7	45.6	-69.2	212.2	63.2	-47.6	-5.7
<i>Power industry</i>									
RTSeu	USD		32.0	-80.3	133.0	34.0	-40.8	-11.8	
MICEX PWR	rub.	38.7	134.5	7.9	-73.7	167.3	44.2	-40.2	-16.9
<i>Industry</i>									
RTSin	USD	40.5	73.8	66.8	-84.3	124.5	56.6	-41.7	21.2
MICEX MNF	rub.	28.9	69.6	61.4	-82.8	189.0	74.2	-40.5	16.9
<i>Consumer goods</i>									
RTScr	USD	92.5	51.3	29.3	-79.4	230.8	82.8	-38.7	35.8
MICEX CGS	rub.		85.4	-36.2	27.3				
<i>Finance</i>									
RTSfn	USD		14.3	-78.4	124.6	22.6	-41.7	0.7	
MICEX FNL	rub.		-67.3	131.8	32.0	-29.7	-4.4		
Capitalization indices									
MICEX LC	rub.		9.9	-66.5	118.7	20.4	-16.1	4.3	
MICEX MC	rub.		15.6	-71.7	148.2	57.9	-28.7	3.5	
MICEX SC	rub.		29.2	-76.1	198.9	64.0	-41.8	-1.5	

Calculated according to the data of Moscow Exchange Group.

followed multidirectional trends: in July we saw a brief sharp decline based on the negative news from Spain, followed by a growth until mid-September, which was again followed by a decline until mid-November. The end of the year was characterized by growing indices. As a result, their values slightly exceeded the values at the start of the year.

When viewed along a longer interval, the behavior of consolidated share indices was as follows: after a sweeping post-crisis growth in 2009, the indices have been following a sideways trend in 201–2012 with average RTS Index of 1580, and MICEX Index of 1496. The indices have failed to demonstrate the capability for exceeding the historical maximums of the first half of 2008, and the multiple attempts to reach a long-term upward trend during the above period have all proved unsuccessful.

Table 32¹⁷ provides information on the yield of RTS and MICEX indices in 2005–2012

The yield for RTS Index in 2012 in terms of per cent per annum made up 10.5%, the MICEX Index – 5.2%, and RTS-2 Index – 3.2%, which did not compensate for the losses of the previous year.

The power industry index demonstrated the largest drop among

the sector indices for the second year in a row. The consumer goods index was the most profitable in 2012. Capitalization indices for the year were in the neutral zone.

Russian stock indices are characterized by high volatility¹⁸. Table 33 provides systematized data on volatility and yields of the main consolidated equity indices.

At the end of 2012, the volatility of the main consolidated equity indices remained on a quite low level. Thus, MICEX Index volatility proved to be minimal since 2005. However, in 2012 RTS-2 Index demonstrated increased volatility for the first time; in the past years, this Index was characterized by minimal volatility among all the others.

1.9.2 Bond indices

Corporate bonds index MICEX CBI.

The calculation base includes bonds of corporate issuers traded on the stock market of the Moscow Exchange Group with a long-term credit rating for foreign currency liabilities assigned by at least one international rating agencies or a credit rating assigned by at least one national rating agency. To be included in the calculation base, the bond issue should meet a set of conditions, including those concerning the issue volume, maturity and

scope of transactions. Security prices denominated in Russian rubles are used for calculation of the index.

The list of bonds for calculation of MICEX CBI is reviewed every three months. The current index calculation base includes 64 bonds by 20 issuers. The index is calculated based on the three methodologies:

- Total Return – includes the market value of bonds, the accrued coupon yield (ACY) and the paid coupon yield;
- Clean Price – includes the market value of bonds without the ACY and the paid coupon yield;
- Gross Price – includes the market value of bonds and the ACY.

During the calculation of MICEX CBI, the average weighted duration of the index portfolio and its average yield to maturity are determined additionally.

Figure 23 shows the MICEX CBI graphs based on the total return on corporate bonds, and Figure 24 shows the average weighted duration and yield of bonds included in the above index.

The MICEX CBI TR shows that, until mid-May 2012, the total return for investors in corporate bonds grew. The index reached its maximum on May 14, with a 3.4% increase since the year start, which was followed by a certain decrease. Later, the index started

Table 33

Volatility and yield of equity indices in 2005–2012, %

Period	MICEX volatility	MICEX yield	RTS volatility	RTS yield	RTS-2 volatility	RTS-2 yield
2005	1.5	83.1	1.3	83.5	0.8	69.3
2006	2.4	67.7	2.0	70.9	1.0	42.3
2007	1.5	11.6	1.4	19.2	0.7	43.2
2008	4.5	-66.5	4.2	-71.6	1.5	-78.3
2009	3.0	121.1	2.9	128.6	1.3	160.4
2010	1.5	23.3	1.7	22.6	1.0	57.0
2011	1.7	-16.9	2.0	-21.9	1.3	-31.8
2012	1.2	5.2	1.6	10.5	1.3	3.2

Calculated according to the data of Moscow Exchange Group.

¹⁷ The yield was calculated within the interval from the last trading day of the previous year to the last trading day of the evaluated period on 365-day basis.

¹⁸ Volatility is calculated as a standard deviation of daily relative changes in the stock index on the annual interval.

growing again, with an 8.57% overall increase of MICEX CBI TR in 2012.

The average weighted yield to maturity for corporate bonds based on MICEX CBI TR in 2012 was subject to multidirectional changes within the range of 8.44–9.25 %, with an average value of 8.73%. Characteristically, during the whole year the average weighted yield to maturity exceeded the refinancing rate of the Bank of Russia. The average spread for the above was 0.65 p.p., with the greatest spread (1.25 p.p.) on June 19 and 20.

The average weighted duration of corporate bonds under MICEX CBI grew in 201 –2011 and reached 960 days by the end of the above period. However, in

2012 the trend changed and we observed a certain shrink of the duration: within the year it did not fall below 838 days, with the maximum value of 940 days. The average duration for the period was 885 days.

The volatility of corporate bonds index has changed significantly from year to year (see Table 33). In 2012, volatility of MICEX CBI made up 0.06%, which was the minimum value for the whole period under study.

Government bonds index MICEX RGBI. Moscow Exchange Group calculates indices and yield indicators for government bonds (GKO-OFZ).

The indices represent changes in the market value and include:

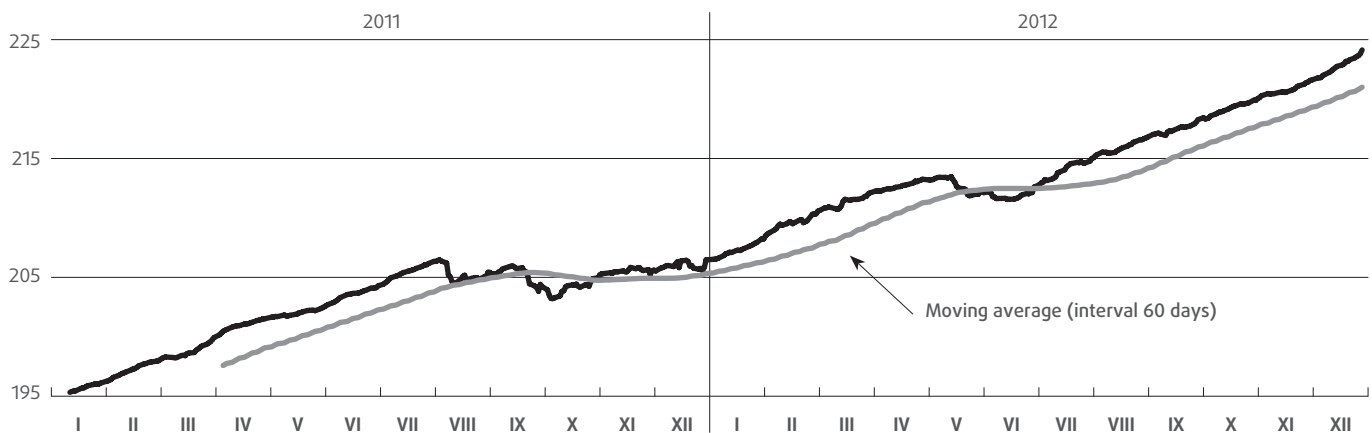
- Government bonds index MICEX RGBI, which is calculated based on the Clean Price methodology;
- Government bonds index MICEX RGBI G, which is calculated based on the Gross Price methodology;
- Government bonds index MICEX RGBI TR, which is calculated based on the Total Return methodology.

Yield indicators represent yields to maturity weighted according to the market value and include:

- Russian Government Bonds Effective Yield to Maturity – RGBEY Indicator;
- Russian Government Bonds Gross Yield to Maturity – RGBY indicator (taking into account duration).

Figure 23

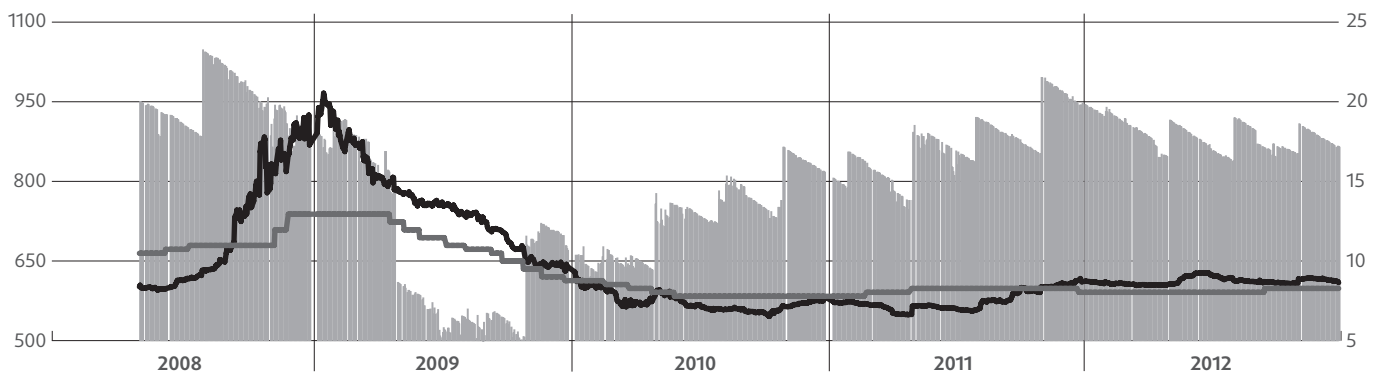
MICEX Corporate Bonds Index (MICEX CBI TR) in 2011–2012



Source: Moscow Exchange Group

Figure 24

Yield and duration of MICEX CBI in 2008–2012



■ MICEX CBI index portfolio duration, days (left scale) — Average weighted yield of MICEX CBI, % (right scale)
 — Refinancing rate of Central Bank, % (right scale)

Sources: Bank of Russia, Moscow Exchange Group.

Figure 25 shows a graph of MICEX RGBI-TR index, and Figure 26 shows a graph of effective yield to maturity RGBEY.

The average total return for investors in government bonds, according to MICEX RGBI TR Index, grew at a fast rate in the first half of 2012 until the start of May, when we saw a sharp decline, followed by a speedy growth in July and August: the average rate for this period was 0.08% per day (almost two times higher than the growth rate for the similar index for corporate bonds). As a result, the annual MICEX RGBI TR Index grew by 14.65% (for comparison: an increase in the similar index for corporate bonds made up 8.57%).

The effective yield to maturity for government bonds RGBEY was characterized by stable behavior in the first half of 2012, while starting from May the effective yield began to grow. From May 28 to June 28, the effective yield of government bonds exceeded the refinancing rate of the Central Bank, with one-time differences of up to 0.34 p.p. Later, the trend changed and by the end of the year the effective yield to maturity for government bonds decreased. The overall effective yield REBEY in 2012 remained within the range of 6.50 to 8.34%, with the average value of 7.41%.

The volatility of the government bonds index has also changed materially from year to year (see Table 34).

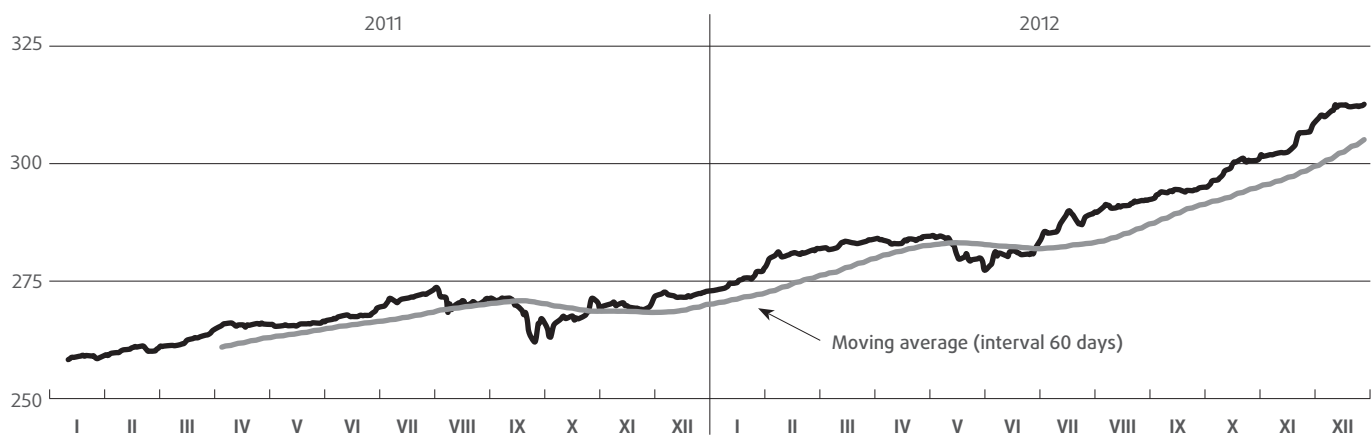
In 2012, the volatility of MICEX CBI Index, unlike in the past years, decreased and made up 0.17%. Characteristically, during the whole period under observation, with rare exceptions, the volatility of the government bonds index has materially exceeded the volatility of the corporate bonds index.

1.9.3 Repo rate indicators

Repo rate indicators are the calculated values reflecting the situation on the repo exchange market on the Moscow Exchange. Indicators are calculated separately for repo transactions in shares and bonds, the calculations including transactions in the shares included in the MICEX Index

Figure 25

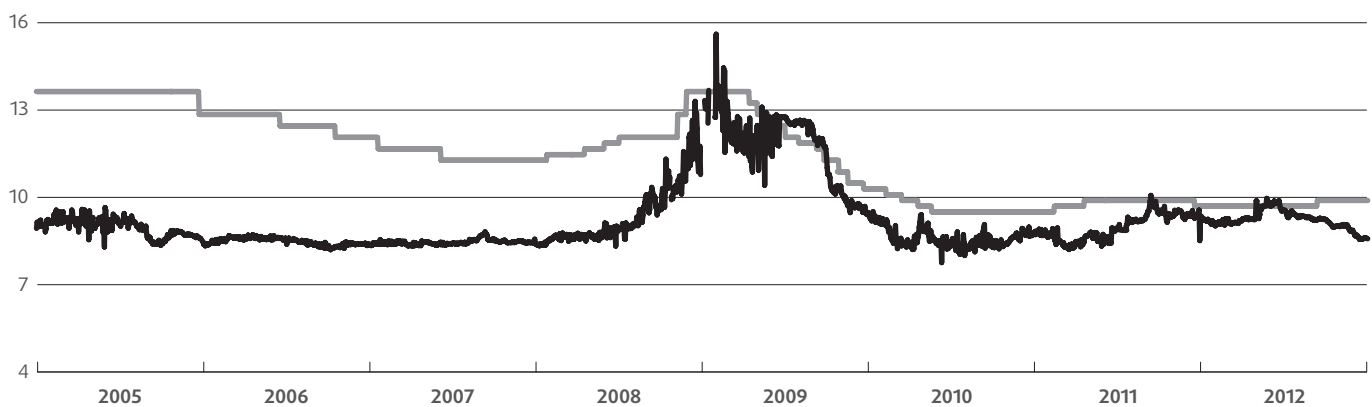
MICEX Government Bonds Index (MICEX RGBI TR) in 2011–2012



Source: Moscow Exchange Group.

Figure 26

Effective yield to maturity for government bonds in 2005–2012, %



— Average weighted effective yield — Refinancing rate of the Central Bank

Sources: Bank of Russia, Moscow Exchange Group.

Table 34

Volatility and average yield to maturity for bond indices in 2005–2012, %

Period	Corporate bonds		Government bonds		Refinancing rate (average)
	MICEX CBI TR volatility	MICEX CBI TR average yield	MICEX RGBI-TR volatility	MICEX RGBI-TR average yield	
2005	0.10	–	0.15	7.09	12.98
2006	0.20	–	0.11	6.46	11.63
2007	0.11	–	0.15	6.42	10.25
2008	0.42	–	1.03	7.56	10.91
2009	0.26	13.68	1.22	10.18	11.31
2010	0.10	7.41	0.35	6.64	8.01
2011	0.09	7.48	0.22	7.06	8.12
2012	0.06	8.73	0.17	7.41	8.07

Calculated according to the data of Moscow Exchange Group.

calculation base and the bonds included in the Lombard list of the Bank of Russia. Depending on the terms of repo transactions, indicators are calculated for the periods of one day (overnight), 7 days and 14 days.

Figures 27 and 28 show the graphs of repo indicators for shares and bonds in 2010-2012. Indicators for 7 and 14 days demonstrate a greater volatility on a day-to-day basis; that is why the graphs show the moving averages for the above terms on the intervals of 7 and 14 days, respectively.

In 2012, indicators of overnight repo with shares, despite the great volatility and large spikes, were characterized by a harmonious trend with local minimums in February (4.34%) and early September (4.85%), and with the local maximum at the end of April (6.48%). The average

annual indicator of overnight repo with shares is estimated at 5.61%. The behavior of the overnight repo indicator for shares in 2012 was materially different from the dynamics of the previous year, when an upward trend was observed all year through.

The behavior of the overnight repo indicator for bonds in 2012 was similar to that of the similar indicator for shares. During the year, the indicator fluctuated within the range from 4.62 to 6.71%, with the average value of 5.84%.

1.9.4 Volatility index

Volatility index RTSVX is calculated based on options and futures prices for RTS Index for the closes options series. The calculation methodology is similar to that used for the international index CBOE Volatility Index (VIX). Figure 29

shows the graphs of VIX and RTSVX indices in 2010 – 2012.

On the quality level, the Russian index RTSVX is in effect totally identical to the international index VIX. A spike in volatility typical for the second half of 2011 subsided at the start of 2012 and all year long, except for a period from late May to early June, the RTSVX index was affected by a downward trend.

Notably, the values of RTSVX exceed the international analogue, with a significant difference at certain time intervals. Thus, in 2011, the average spread made up 11.17 p.p., with the maximum spread recorded in early August – 36.6 p.p. In 2012, the average spread grew slightly and reached 13.97 p.p., while in December VIX and RTSVX volatility indices tended to converge.

Figure 27

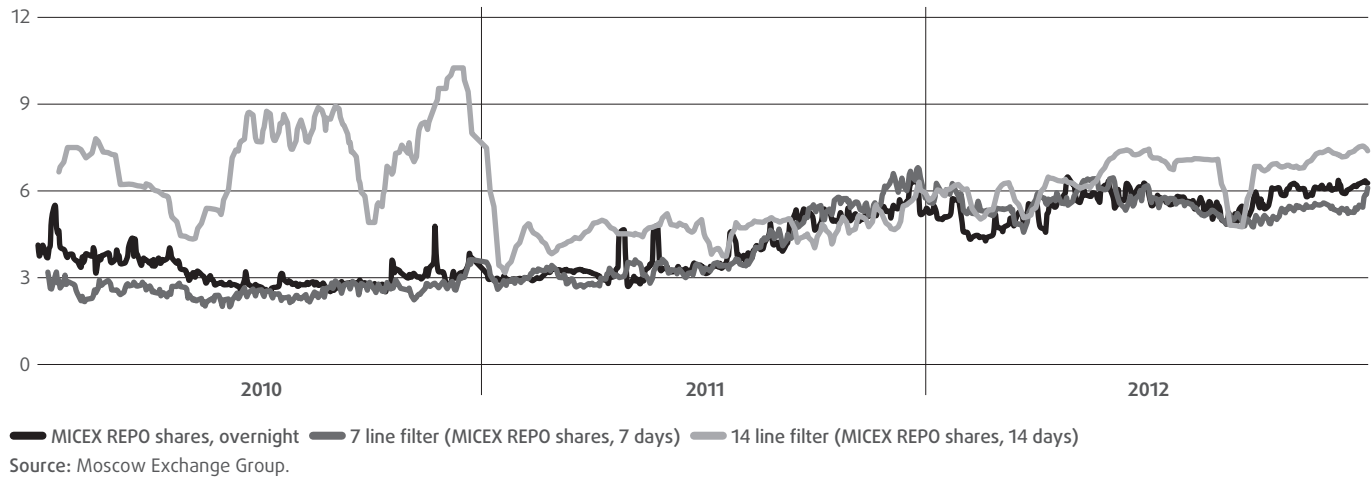
Repo rate indicators for shares in 2010–2012, %

Figure 28

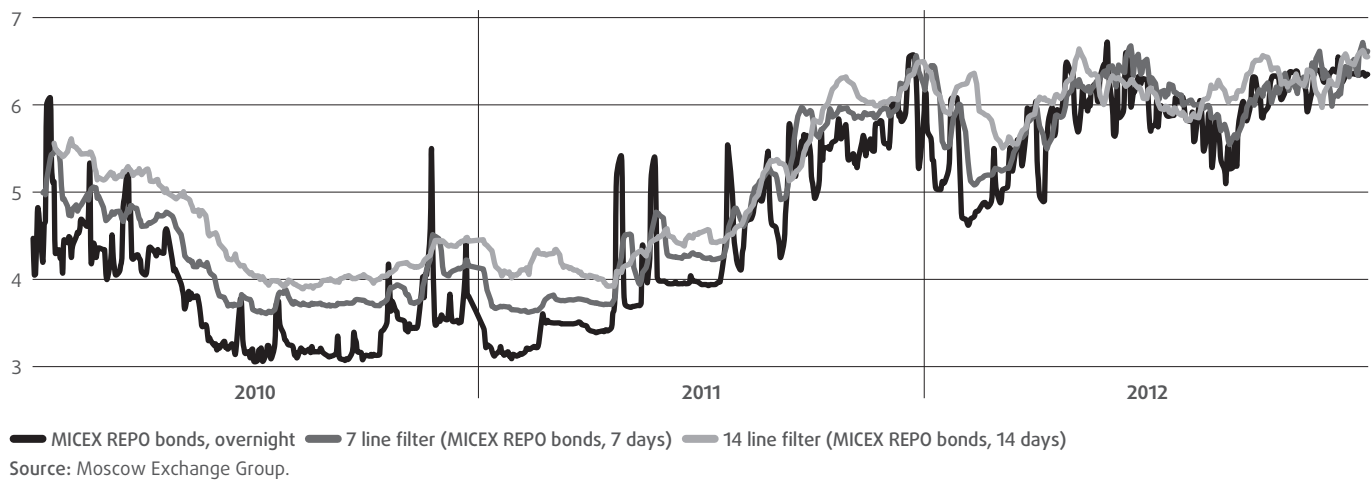
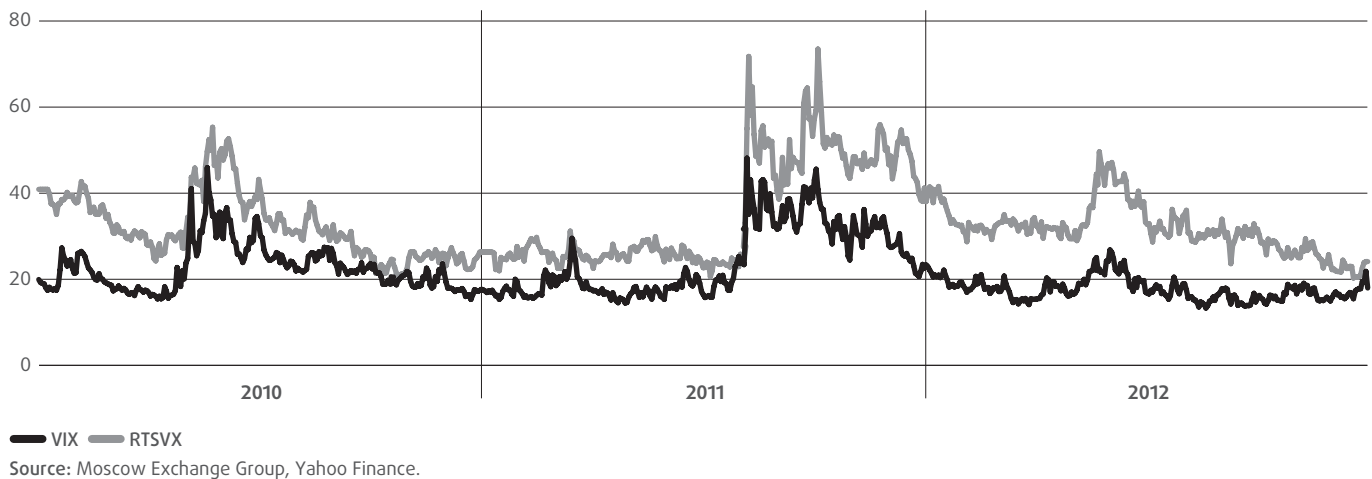
Repo rate indicators for bonds in 2010–2012, %

Figure 29

Market volatility index (VIX) and Russian volatility index RTSVX in 2010–2012, %

2. Institutional structure

2.1. Securities issuers. Initial Public Offerings

Any joint-stock company is an issuer, as it places shares and has to register them during incorporation. Bonds can also be issued by a limited liability company and, subject to certain conditions, a non-profit organization. The

information from SPARK and RusBonds databases concerning securities issuers is provided in Table 35, showing consolidated data on the number of issuers and the number of registered issues at the end of each period on an

accrual bases from registration start and without taking into account the current status of the issuer (operating/non-operating). The information on the number of operating legal entities is shown in Table 36, and the consolidated

Table 35

Securities issuers in 2005-2012.

Period	Number of share and bond issuers*	including OJSC	Number of share and bond issues
2005	460,431	62,960	463,670
2006	471,158	64,431	474,484
2007	481,591	65,706	483,962
2008	487,996	66,466	491,415
2009	523,172	72,601	526,641
2010	529,304	73,437	532,876
2011	534,071	73,593	537,711
2012	537,176	74,091	540,988

Source: Interfax Group (SPARK DB, RusBonds).

Table 36

Number of operating legal entities in 2010-2012

Period	Number of operating legal entities	including		
		OJSC	CJSC	LLC
2010	2,779,026	40,290	222,030	2,516,706
2011	4,019,603	37,755	155,434	3,826,414
2012	3,822,886	32,982	137,538	3,652,366

Source: Interfax Group.

data on the number of issuers on the domestic organized market are provided in Table 37.

In the first half of 2012, the trend towards a reduction in the number of open joint-stock companies continued. At the end of June 2012, there were about 33.5 thousand legal entities in the organizational legal form of an 'open joint-stock company' in the country, which is 13.4% less than the year before. A very small percentage of the overall number of issuers is represented on the organized markets.

The number of issuers whose securities are traded on stock exchanges has been falling continually. During 2012, the number of public issuers of shares and corporate bonds decreased by yet another 40 companies (7.2% in relative terms). The number of issuers whose shares are in the quotation lists was stable at about 240 companies.

There were very few new public offerings by Russian issuers in 2012. According to the available data¹⁹, only three of the companies holding assets

and doing business in Russia carried out their IPO during this period. Two of them (RusPetro and MD Medical Group) organized offerings through holding structures created in foreign jurisdictions, thus making offerings on the foreign market only. Initial Public Offering by JSC Megafon was parallel (on the Moscow Exchange and the London Stock Exchange), although the company placed less than one tenth of its offering on the Russian market. The total volume of funds attracted by Russian companies in 2012 through IPO is estimated at 2.2 billion USD, of which only 145 million USD was attracted on the domestic market.

Another notable event of 2012 was the Secondary Public Offering (SPO) of shares by JSC Sberbank Rossii organized within the scope of privatization of the share package held by the CB RF (7.6%). 2.9% of the offered state package was sold through the Moscow Exchange, and 68% – through depositary receipts. The volume of funds attracted on the domestic and foreign markets made up 5.2 billion USD.

In addition, initial offerings were made on the domestic market in the IIM sector (see more in section 2.3.3) of the Moscow Exchange Group by six issuers – joint-stock companies that attracted 812 million rubles, according to the stock exchange data.

No new placements of Russian Depositary Receipts or foreign securities were made in 2012, despite such plans having been announced. This segment of the Russian stock market still remains exotic, with the primary and secondary market volumes being insignificant: at the end of 2010, bonds of the Republic of Belarus were placed (one issue of 7 billion rubles), in 2011 the volume of exchange transactions made up 9 billion rubles, and in 2012 5 million rubles. In addition, since the end of 2010, Russian Depositary Receipts of JSC Sberbank Rossii warranting the rights to ordinary registered shares of UC Rusal plc have been traded on the Exchange. In 2011, the secondary market volume for the above receipts made up 54.1 billion rubles, and in 2012 – 39.9 billion rubles.

Table 37

Issuers on the organized market in 2005–2012

Period	MICEX Stock Exchange		RTS	
	Number of issuers (of shares and bonds)	including those in the quotation lists	Number of issuers (of shares and bonds)	including those in the quotation lists
2005	385	93	262	46
2006	539	127	332	64
2007	670	229	354	88
2008	632	255	329	92
2009	602	230	353	87
2010	570	241	307	76
Moscow Exchange Group				
2011	557	241		
2012	517	240		

Source: Moscow Exchange Group.

¹⁹ Project offering.ru/IPO in Russia, Ernst&Young, The PBN Company.

2.2. Investors

Investors shall mean any persons or institutions investing funds in securities with the aim of obtaining profit. There are no official systematized data on the composition and quantitative characteristics of the investor base for the Russian securities market. The investor base accounting and research are carried out by professional participants of the securities market, self-regulatory organizations and research groups.

2.2.1 Private investors

Private investors shall mean the so-called 'market investors' – individuals who have made informed decisions to invest on the securities market and who regularly use the services of brokers or trustees or have purchased investment units in unit investment funds.

Moscow Exchange Group regularly discloses information on the number and structure of customers participating in the trade, including individuals conducting transactions in the Main Market sector (hereinafter also referred to as "MICEX customers"). Figure 30 shows the information on the number of MICEX customers who are resident individuals (unique customers).

Since 2010, the growth rates for MICEX resident individual customers have

decreased sharply, with a growth of only 1% in 2012, making up 805 thousand people.

An important characteristic of the private investor base is the number of the so-called active investors, i.e., those who conduct at least one transaction per month on the stock exchange. Figure 31 provides the data on active individual customers of MICEX Stock Exchange. Taking into account the sharply pronounced seasonal factors in the behavior of active investors (activity drop in summer and increase in early autumn), the information on the graph is broken down by months.

Active customers account for a small number of the total customer base. The maximum number of customers was reached in October 2009 – 119.8 thousand people, with the simultaneous maximum number of active customers at 18.4 %. In 2012, active customers made up on average 10% of the total, while from September to December 2012 the number of active customers was minimal as compared to the similar periods of all past years. In December, there were 70,302 people, or 24.6% fewer than the year before.

Individual investors engaged in securities transactions on MICEX Stock Exchange are mainly interested in shares.

Transactions in shares account for 98% of the total volume of transactions conducted by individuals on the stock exchange, with corporate bonds accounting only for 1.2% of the total transaction volume. Other types of securities, including sub-federal and municipal bonds and investment units, account for fractions of percent in the private investor interest.

Figure 32 shows a graph characterizing the percentage of resident individuals in the total value of transactions in shares and corporate bonds in various stock exchange sectors of the Moscow Exchange Group.

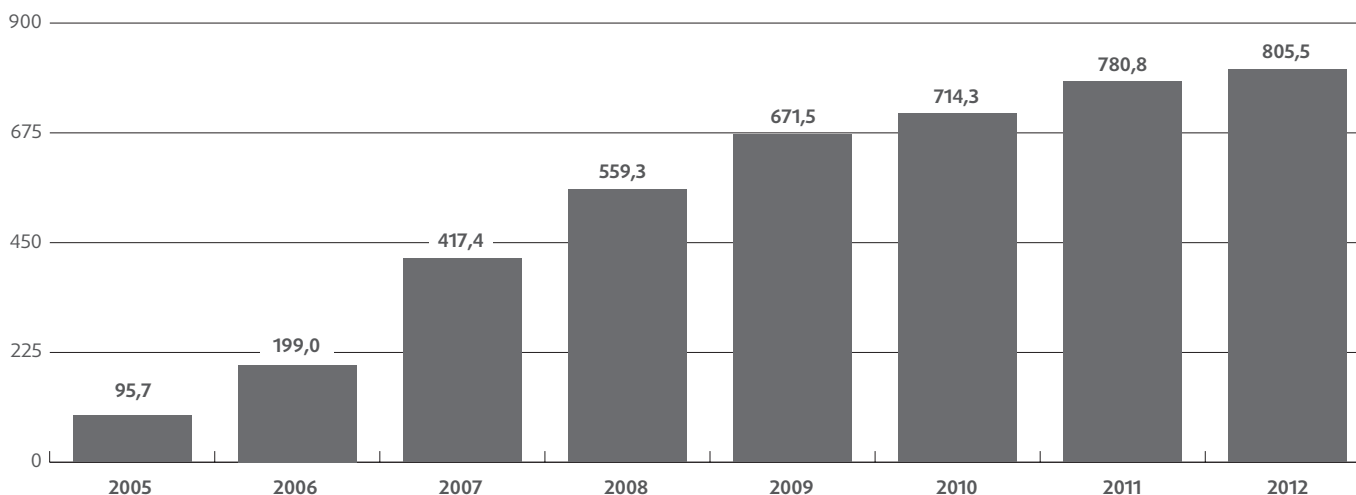
Starting from the third quarter of 2009, a trend formed towards reduction of the percentage of resident individual investors in transactions in shares, the said percentage reducing to 6.6% by the end of 2012. However, in 2012 we observed increased activity of individuals in the Classica and Standard sectors.

2.2.2 Unit investment funds

From the legal viewpoint, unit investment funds constitute asset complexes that are not legal entities. Depending on the redemption capabilities associated with investment units, funds can be open, interval and

Figure 30

Resident individuals – customers of MICEX Stock Exchange (Main Market sector), thousand people



Source: Moscow Exchange Group.

Figure 31

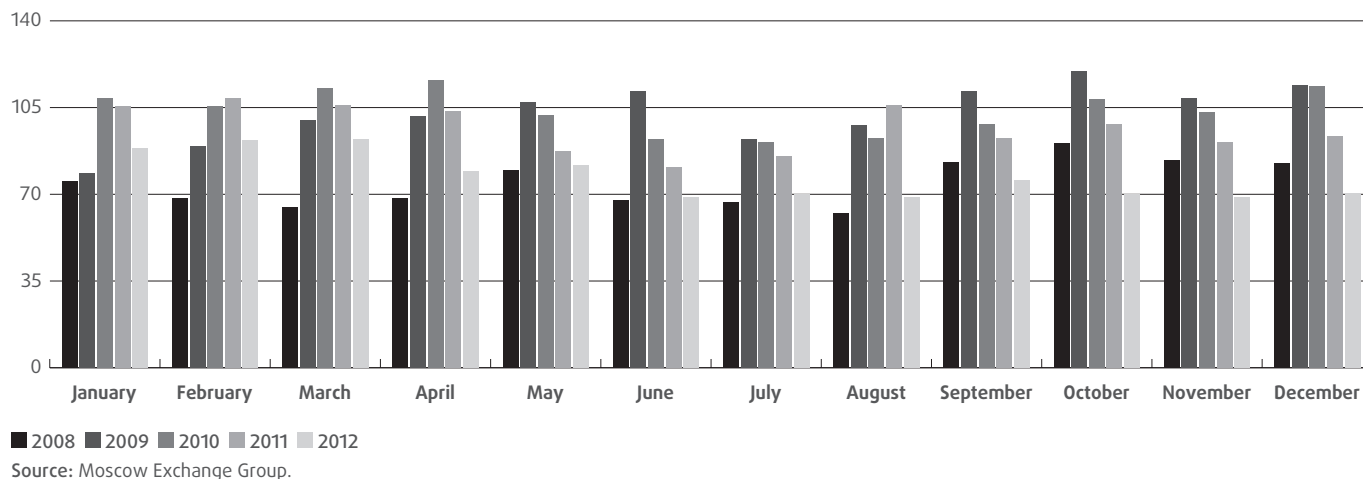
Resident individuals – active customers of MICEX Stock Exchange (Main Market sector), thousand people

Figure 32

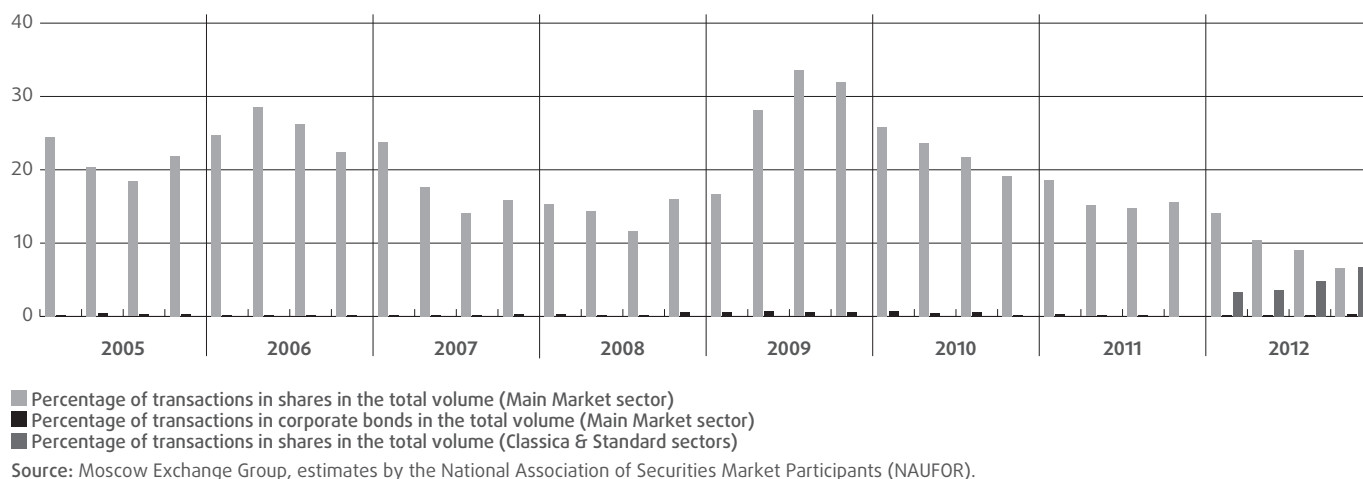
Share of individuals in the volume of transactions in securities on the stock market of Moscow Exchange Group, %

Table 38

Number of unit investment funds in 2005–2012

Period	UIF type			TOTAL
	Open	Interval	Closed	
2005	219	55	154	428
2006	320	77	272	669
2007	487	94	466	1,047
2008	498	94	572	1,164
2009	443	86	797	1,326
2010	424	71	937	1,432
2011	446	69	974	1,489
2012	436	62	1049	1,547

Source: Investfunds.ru.

closed. Table 38 shows consolidated data on the dynamics of changes in the number of Unit Investment Funds (UIF)²⁰.

Starting from 2009, the growth rates for UIF numbers slowed down, their number reaching 1,547 at the end of 2012, which is 3.9% more than the year before. It should be pointed out that the number of open funds that traditionally focus on retail investors decreased. However, the number of closed UIF increased by 7.7%. This type of funds is the most common for the Russian market of collective investments (67.8% of the total number of UIF).

According to the legislation applicable in 2012²¹, information concerning a unit investment fund for qualified investors with limited circulation of units can be provided only to investment unit holders and other qualified investors. In view of the above, the currently available public aggregated data on the net asset value of UIF concern solely the funds for unqualified investors and, therefore, are of limited representativeness. Table 39 shows the data on the net asset value of open and interval funds.

At the end of 2012, the net asset value of open and interval funds remained

virtually unchanged, with a slight growth in the volume of open funds leveled out by reduced volumes of interval funds.

Apart from the net asset value, the most important characteristic of the UIF industry is the volume of net capital raised by the funds. These data are the most indicative for open UIF, where requests for issue and redemption of units are accepted on every working day. Figure 33 provides the data on the net capital raised by open UIF (taking into account funds under formation) in 2005-2012.

Despite the multidirectional dynamics of capital entry and exit from open funds

Table 39

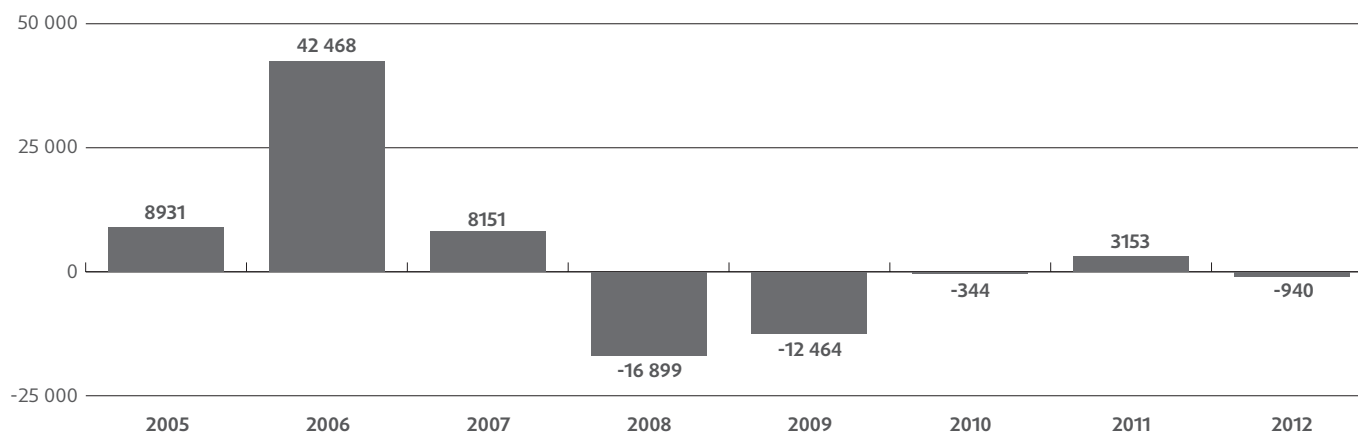
Net asset value of open and interval unit investment funds in 2005–2012, billion rubles

Period	Open	Interval	TOTAL
2005	48.1	21.6	69.7
2006	116.6	34.2	150.9
2007	137.4	41.4	178.8
2008	48.1	12.7	60.7
2009	76.5	20.4	97.0
2010	97.1	24.0	121.1
2011	84.0	18.1	102.1
2012	89.6	12.6	102.2

Source: Investfunds.ru.

Figure 33

Net capital raised by open UIF, million rubles



Source: investfunds.ru.

²⁰ Taking into account only completely formed funds.

²¹ Law No. 156-Ø3 dated November 26, 2001 "On Investment Funds", Article 52, cl. 3.

during 2012, the final result turned out to be negative – the net capital raised by open UIF made up minus 0.9 billion rubles. In 2011, despite the negative dynamics of stock indices, the net balance of raised capital was positive at 3.2 billion rubles.

The main element in the structure of UIF is the management company, which offers the units of UIF and, according to the Russian law, is liable to their holders. Figure 34 shows consolidated data on the number of management companies that manage UIF.

The number of management companies has increased over the past years. In 2012, their number reduced by another 12 organizations (11.8% in relative terms). Comparing to 2008, when the number of management companies

reached the maximum for the period under observation, the management companies market has decreased by 147 organizations (26.6%). At the same time, the number of management companies that managed UIF in 2009–2010 was relatively stable, despite a slight downward trend.

2.2.3 Non-state pension funds

The quantitative composition of NPF industry has been reducing slowly year by year. According to the data of the Federal Financial Markets Service of Russia, at the end of 2012 NPF licenses were held by 130 organizations. Voluntary funds sent to NPF form pension reserves. The people entitled to the funded component of a retirement pension can transfer their

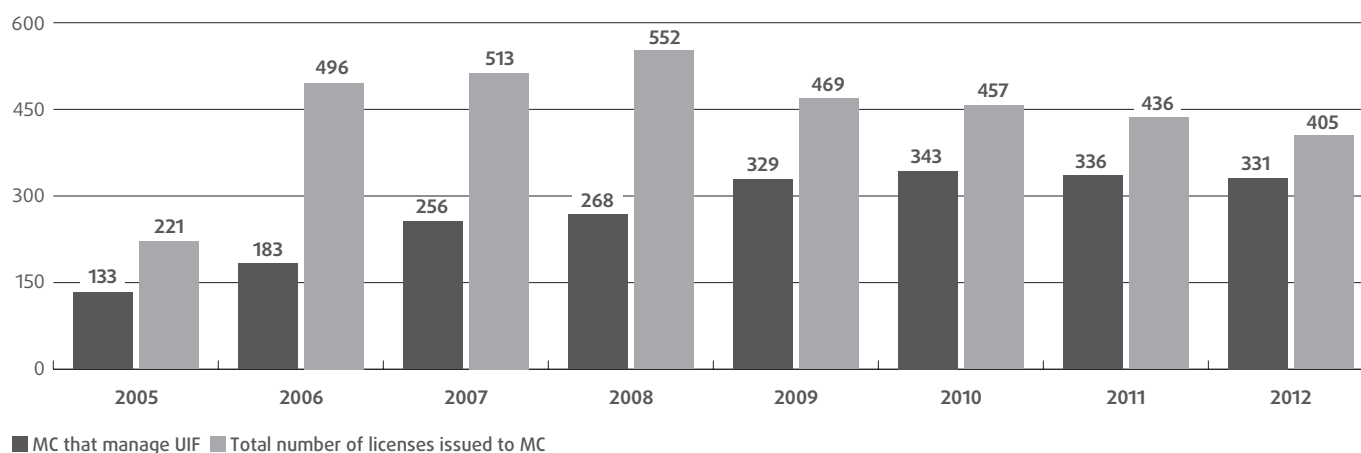
savings to NPF licensed to carry out the mandatory pension insurance activity. There were 109 of such NPF at the end of 2012.

The information on the investment resources of NPF associated with non-state pension schemes (pension reserves) and mandatory pension insurance (pension savings) is shown in Table 40.

During the nine months of 2012, the investment resources of NPF grew by 257 billion rubles and reached 1,351 billion rubles. The pension reserves constitute 55% of the above amount; however, the growth rates for pension savings are much higher: in the third quarter, the accrued funds increased by 211 billion rubles, as compared to 46 billion rubles for reserves. Yet, relative to GDP, the

Figure 34

The number of management companies that managed UIF in 2005–2011



Source: FFMS of Russia, National League of Management Companies

Table 40

Investment resources of NPF in 2005–2012

Period	2005	2006	2007	2008	2009	2010	2011	2012(Q3)
Number of NPF	296	293	253	241	164	150	147	130
Number of NPF licensed to carry out mandatory pension insurance	n/a	102	126	136	133	117	116	109
Pension reserves (billion rubles)	277	405	473	463	564	643	700	746
Pension savings (billion rubles)	2	10	27	36	77	155	394	605
Total	279	415	500	498	642	799	1,094	1,351
Percentage of GDP	1.29	1.54	1.50	1.21	1.65	1.72	1.96	2.17

Sources: FFMS of Russia, PF of Russia.

investment resources of Russian NPF have remained insignificant at a little over 2%.

2.2.4 Investment of pension savings

Individuals entitled to the funded component of a retirement pension may transfer their savings to NPF or transfer for management to a management company, either private or state.

According to the data of the PFR, 49 private management companies and state management company JSC State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank) are licensed to manage the pension savings.

As a state management company, Vnesheconombank is entitled to invest pension funds of citizens in two investment portfolios – an expanded investment portfolio and a portfolio of state securities.

The expanded portfolio is formed from government bonds of the RF, sub-federal bonds, corporate bonds, mortgage securities, bonds of international financial organizations, as well as deposits in rubles and foreign currencies in the Russian credit organizations. The funds from the state securities portfolio can be invested solely in government securities of the RF, corporate bonds and cash

funds in rubles and foreign currencies on accounts in the Russian credit organizations. Private management companies have wider investment opportunities, including at the expense of equity securities.

The information on the amount of pension savings transferred to NPF is shown in Table 39. Table 41 provides the data on the net assets value of the pension savings at the disposal of Vnesheconombank and private management companies in 2005-2012.

Over 97% of the pension savings of the insured individuals transferred for trust management to management companies are at the disposal of Vnesheconombank, the above index demonstrating a slight upward trend. The value of net assets managed by the state management company in 2012 reached 1,643 billion rubles, a 23.2% increase as compared to the year before. The expanded portfolio constitutes the main investment portfolio of the state management company, with the state securities portfolio vanishingly small when compared to the above.

The value of net assets managed by private management companies at the end of 2012 increased by almost 18.1% compared to the similar period of the past year, reaching 34 billion rubles.

2.2.5 Commercial banks

Many Russian banks hold licenses of professional securities market participants or act as investors.

Consolidated data on the volumes of various securities types held as assets by credit organizations are shown in Table 42²².

In absolute terms, securities in assets of credit organizations at the end of 2012 were valued at almost 7,035 billion rubles, with the annual growth of 13.3%. Currently, the banking system is the largest institutional investor, with the securities in bank assets exceeding 11% of GDP.

Over the past years, debt securities have accounted for 74-75% of the total securities portfolio of credit organizations, while shares (without taking into account shares of subsidiaries and affiliates) have accounted for 11-14% of the above.

2.2.6 Non-residents

According to the estimates of Interfax Business Service (Thomson One for IR database), the number of foreign funds (among those that disclose information on their activities) investing in local shares and depositary receipts dropped by 5.5% in 2012 and made up 2,278 funds (Figure 35).

The volume of investments in securities of Russian companies (both

Table 41

The net value of assets in which pension savings were invested in 2005–2012, billion rubles

Period	Vnesheconombank			Private management companies	TOTAL	Investment resources of MC/GDP (%)
	Expanded portfolio	Portfolio of government securities	TOTAL			
2005			176	5.6	182	0.84
2006			267	9.4	276	1.03
2007			363	12.2	375	1.13
2008			343	7.1	350	0.83
2009	480	0,8	481	14.9	495	1.23
2010	738	2,4	740	19.5	759	1.69
2011	1,329	5,2	1,334	28.8	1,363	2.51
2012	1,635	7,9	1,643	34.0	1,677	2.69

Sources: VEB, PFR, investfunds.ru, National League of Management Companies.

²² Securities acquired both on the domestic and foreign markets are taken into account.

Table 42

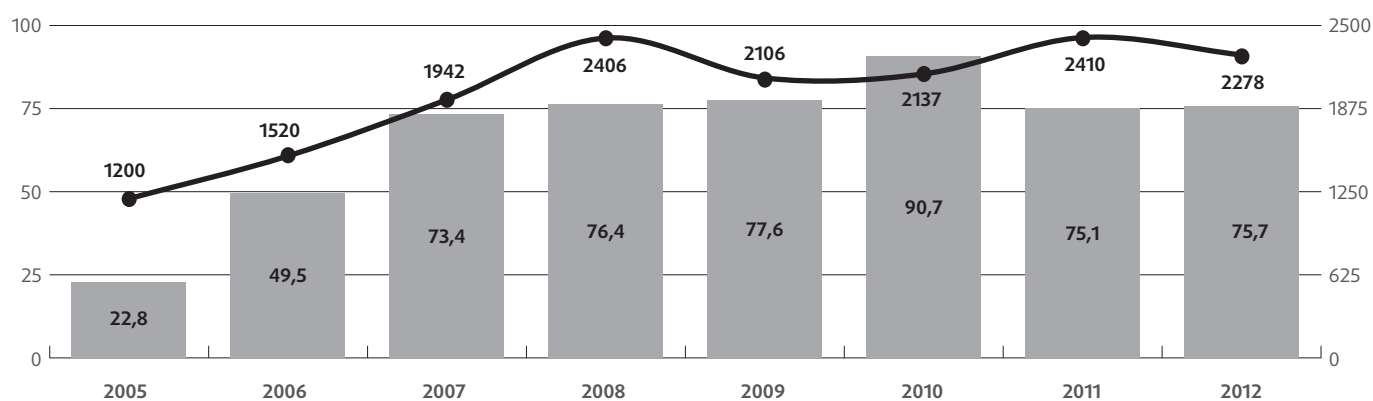
Securities in the assets of credit organizations in 2005–2012, billion rubles

Period	Securities* (TOTAL)	% GDP	в том числе			
			Debt instruments*	Equity securities*	Controlling portfolio in subsidiary and affiliate JSC	Discounted bills
2005	1,400.1	6.5	998.0	127.1	64.9	210.1
2006	1,745.4	6.5	1,251.4	185.0	79.8	229.2
2007	2,250.6	6.8	1,541.4	316.3	141.9	251.1
2008	2,365.2	5.7	1,760.3	193.4	212.0	199.5
2009	4,309.4	11.1	3,379.1	411.8	284.5	234.0
2010	5,829.0	12.9	4,419.9	710.9	368.2	330.0
2011	6,211.7	11.4	4,676.2	914.4	387.3	233.9
2012	7,034.9	11.3	5,256.1	791.6	579.4	398.8

* Until February 1, 2008, without taking into account securities under repurchase agreements.

Source: Bank of Russia.

Figure 35

Foreign investment funds

■ Volume of investments in securities of Russian companies, billion USD (left scale) — Number of foreign investment funds, funds (right scale)

Source: Interfax Business Service

local securities and those in the form of depositary receipts) remained virtually unchanged at 75.7 billion USD. The share of Russian assets in foreign funds has been traditionally low, averaging at 1.5% of the total portfolio of funds. About 60% of the Russian assets are concentrated in foreign funds located in Great Britain and the USA.

There are few funds specializing in Russia (where Russian assets constitute more than 75% of the fund's assets) (Figure 36). Looking at a longer time interval, we can see that the number of such funds has been gradually increasing: in 2005, there were 24 of them, while at

the end of 2012 their number grew by more than twice to 56 funds.

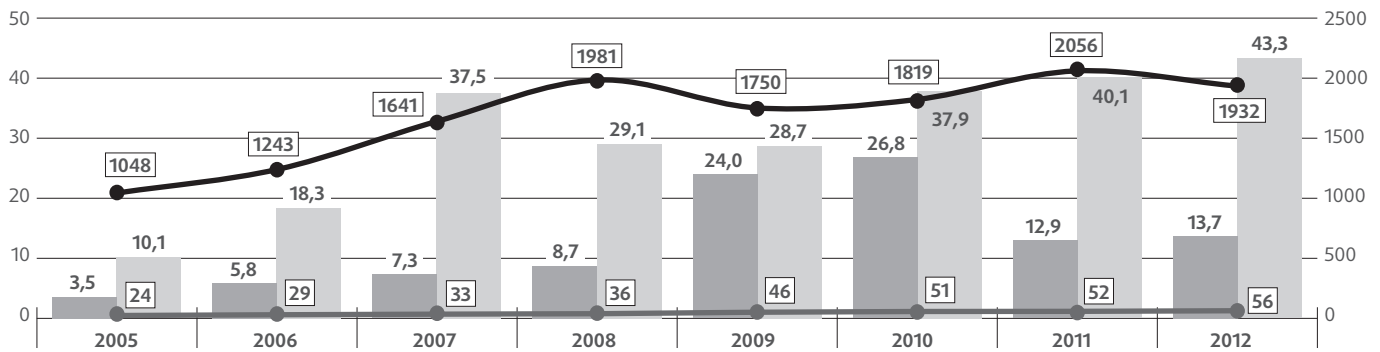
The number of the so-called global funds, where the Russian assets do not exceed 10%, is much higher. Global funds constitute on average 85% of all the funds investing in securities of Russian issuers. During the 12 months of 2012, the number of such global funds decreased by 6% to 1,932 funds. Yet, only a year earlier, we observed a growth in the number of global funds investing in securities of Russian issuers and holding Russian assets, their number reaching 2,056 funds – a maximum value since 2005.

In the funds specializing in Russia, the volume of assets at the end of 2012 changed slightly as compared to the year start, with an increase of only 740 million USD. This increase is far from compensating the twofold drop in the investment volume in 2011. Global funds demonstrate a trend to the contrary: in 2010–2012, we observed a growth of investments in Russian assets with an average rate of 15% per annum.

Foreign hedge funds also invest in Russian assets, although their low transparency prevents us from estimating their investments.

Figure 36

Specialization of foreign investment funds

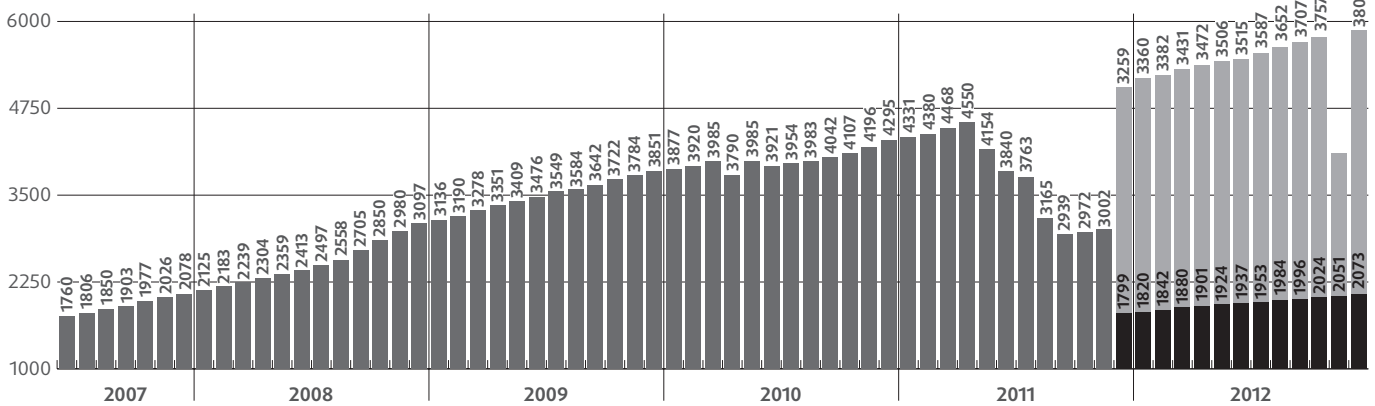


■ Volume of investments in securities of Russian companies by foreign investment funds specializing in Russia, billion USD (left scale) ■ Volume of investments in securities of Russian companies by global foreign investment funds, billion USD (left scale) ● Number of foreign investment funds specializing in Russia, funds (right scale) ● Number of global foreign investment funds investing in Russian companies, funds (right scale)

Source: Interfax Business Service.

Figure 37

Non-resident customers on the Stock Market of Moscow Exchange Group (Main Market sector)

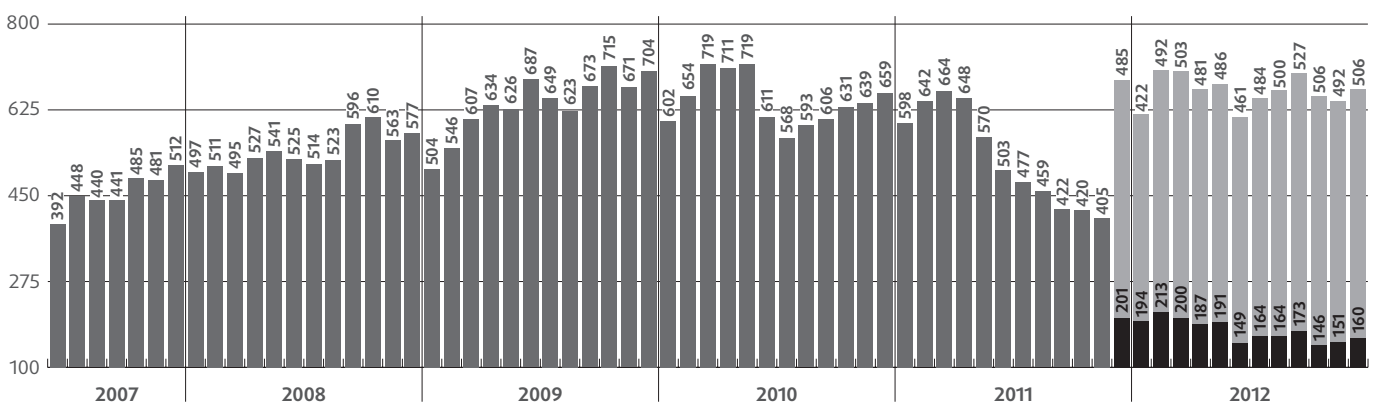


■ Non-residents ■ Non-resident individuals ■ Non-resident legal entities

Source: Moscow Exchange Group.

Figure 38

Active non-resident customers on the Stock Market of Moscow Exchange Group (Main Market sector)



■ Non-residents ■ Non-resident individuals ■ Non-resident legal entities

Source: Moscow Exchange Group.

Figure 37 shows the information on the number of unique non-resident customers of MICEX Stock Exchange. It should be pointed out that the Moscow Exchange, starting from December 2011, altered the format of data submitted on the customer base associated with non-residents. Before the above date, only the data for non-resident legal entities seem to have been disclosed, while after that date the information on for both non-resident individuals and legal entities began to be disclosed. In view of the above, the graph in Figure 37 is of composite nature.

Along with a material reduction in the number of MICEX non-resident customers – legal entities in the second

half of 2011, in 2012 we saw a steady growth in this investor category (in our opinion, a drop in November was an anomaly). By the end of 2012, the number of unique customers of MICEX that are non-resident legal entities grew by 16.7% and reached 3,803 companies. Also, the number of non-resident individuals grew steadily during the year, reaching 2,073 people at the end of 2012, or 15.2% more than at the year start.

The number of active non-resident customers (see Figure 38) was much smaller than the total number of non-resident customers of MICEX Stock Exchange. Since the start of separate information disclosures for non-resident individuals and legal entities, we have

observed a reduction in the share of active customers. The share of individuals decreased from 11.2 to 7.7%, and the share of legal entities – from 14.9 to 13.3%.

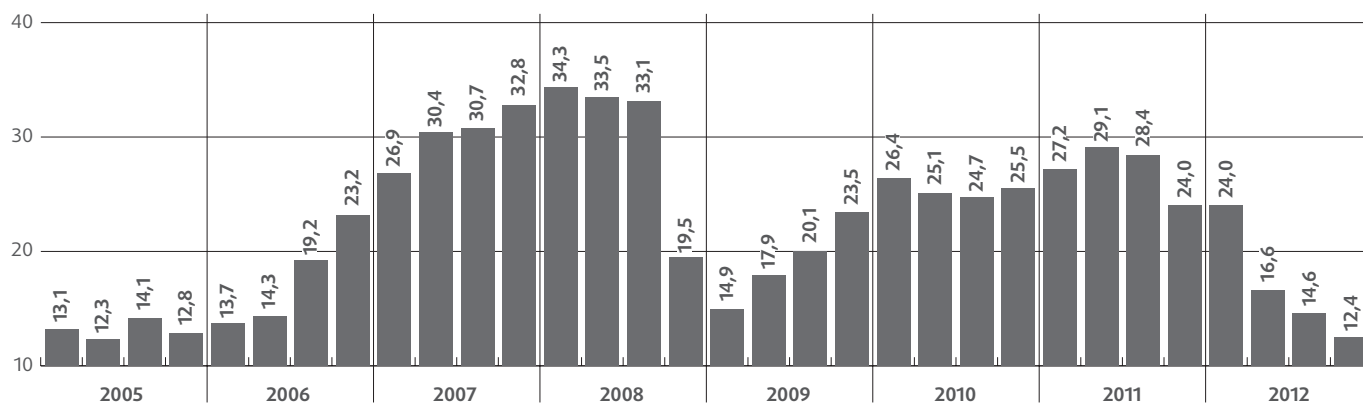
Therefore, at the end of 2012, active customers of MICEX Stock Exchange included 160 individuals and 506 legal entities.

Participation of non-residents in transactions in non-government securities have changed depending on the situation on the local and the global markets (Figure 39).

Starting from mid-2011 and until the end of 2012, participation of non-residents in transactions in the Main Market sector of the Moscow Exchange

Figure 39

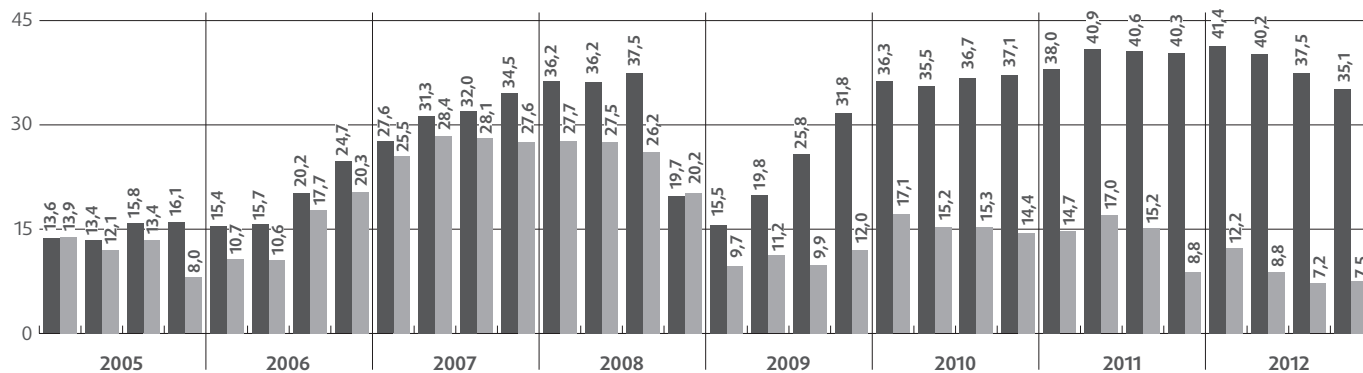
Share of non-residents in the cost of transactions in non-government securities in Moscow Exchange Group (Main Market sector), %



Sources: Moscow Exchange Group, calculations by NAUFOR.

Figure 40

Share of non-residents in the cost volume of transactions in shares and corporate bonds on MICEX Stock Exchange (Main Market sector), %



■ share in the volume of transactions in shares ■ share in the volume of transactions in corporate bonds

Sources: Moscow Exchange Group, calculations by NAUFOR.

decreased from 29.1% in the second quarter of 2011 to 12.4% in the fourth quarter of 2012. Such a low participation of non-residents in transactions in Russian securities was observed only in 2005. A similar trend was observed in the Standard and Classica sectors, where participation of non-residents decreased to 16.1% by the end of 2012.

At the same time, the share of transactions by non-residents with

various securities is subject to various trends (Figure 40).

The activity of non-residents in transactions in shares on the Moscow Exchange has been traditionally high, except for the drop at the end of 2008 and start of 2009. In 2012, participation of non-residents in transactions in shares dropped from 41.4 at the year start to 35.1% at the year end. As for transactions in

corporate bonds, we can observe a long-term downward trend that began as early as the first half of 2008. By the end of 2012, the share of non-residents in transactions in corporate bonds dropped to 7.5%.

The activity of non-residents in transactions in shares in the Standard and Classica sectors has also dropped: in 2012, the share of non-residents decreased from 39 to 17%.

2.3. Professional participants of securities market

2.3.1 General information on the professional participants of securities market

The total number of professional participants of the securities market has been decreasing continually since 2009. In 2012, the decrease was especially noticeable at 15%. At the end of the year, the number of legal entities holding licenses of professional securities market participants in various combinations made up 1,259 companies (see Table 43)²³.

2.3.2 Brokers, dealers, trustees

Along with infrastructure organizations, the main participants of the Russian stock market include brokers, dealers and trustees of securities. In Russia there exist some differences from the understanding of the above activities on the developed market, i.e.:

- Broker activity does not provide for recording of customers' rights to securities, thus, the brokers wishing

to keep such records, must obtain a separate license for depository activity;

- Dealer activity means only those transactions of securities sale and purchase that are accompanied by public announcement of the purchase and/or sale price. That is why companies that conclude regular transactions in securities and even make public purchase or sale offers but do not announce their prices are not subject to regulation;
- Trust management of securities differs from trust management of unit investment funds or non-state pension funds, which results in two various license types for the above activities.

The total number of organizations holding licenses to brokerage, dealer and securities management activities (for any combinations of licenses) at the end of 2012 made up 1,163 companies (at the year start, there were 1,274 of such

companies). 43% of the above are credit organizations. Most (over 66%) of the head offices of professional intermediary participants are located in Moscow.

The most common legal organizational forms of professional intermediary participants include limited liability company (48% of the total number of intermediaries), while closed and open joint-stock companies are equally represented (26–27% each) (see Table 44).

The share of credit organizations, the share of capital companies and the legal organizational structure of professional intermediary participants have remained without material changes over the past years.

The information on the number of active licenses issued to professional intermediaries is shown in Table 45, while Table 46 describes the current combinations of various license types.

In addition to the above, the Bank of Russia and Vnesheconombank are

Table 43

Number of organizations – professional participants of the securities market in 2005-2012

Period	2005	2006	2007	2008	2009	2010	2011	2012
Professional participants of the securities market*	1,634	1,711	1,813	1,863	1,674	1,512	1,378	1,259

Sources: FFMS of Russia, calculations by NAUFOR.

²³ The table takes into account companies holding licenses to broker, dealer, depository or clearing activities, securities management activity, activity of registrars of security holders, activity of trade organization on the securities market, and stock exchange activity.

authorized to carry out transactions in securities, including those on the organized market, without special licenses due to their special status defined in dedicated federal laws²⁴.

The number of valid licenses has been decreasing along with the number of professional intermediary organizations. The greatest reduction in 2011–2012 was observed for licenses for trust management of securities, with the average reduction rate of 12% per annum.

The majority of companies (about 62%) hold all the three licenses for broker, dealer and trust management activities. Among the companies holding a broker, dealer or trust management licenses, about 50% also hold a depository license.

The number of licenses issued and cancelled varies within a wide range depending on the situation on the securities market and the activity of the Federal Financial Markets Service of Russia for increasing the capital

adequacy standards (see Figures 41 and 42).

From July until the end of 2011, issue of new licenses to professional intermediary participants virtually ceased: only two licenses were issued. Such a sharp reduction in the number of licenses issued to professional participants was associated with the enactment of new licensing requirements in May 2011, which entitled the licensing authority to a more detailed investigation of the activities of the companies

Table 44

Legal organizational forms of professional securities market participants holding licenses for broker, dealer and trust management activities in 2012

Legal organizational form	Number of companies	Share of the total number, %
Closed joint-stock company	310	27
Open joint-stock company	301	26
Limited liability company	552	48

Calculated according to the data of the FFMS of Russia.

Table 45

Licenses held by professional intermediaries in 2005–2012

Period	2005	2006	2007	2008	2009	2010	2011	2012
Broker activity	1,379	1,433	1,445	1,475	1,347	1,213	1,090	983
Dealer activity	1,398	1,394	1,422	1,470	1,347	1,198	1,088	984
Securities management	1,022	1,100	1,169	1,286	1,202	1,103	987	880

Source: FFMS of Russia.

Table 46

Combination of valid licenses held by professional participants of the securities market in 2012

Broker	Dealer	Trust management	NUMBER OF COMPANIES	Share of the total number, %
x	X	x	726	62.4
x	X		217	18.7
		x	139	12.0
x			31	2.7
	x		35	3.0
x		x	9	0.8
	x	x	6	0.5
TOTAL			1,163	100.0

Sources: FFMS of Russia, calculations by NAUFOR.

²⁴ Federal Law No. 86-Φ3 dated July 10, 2002 "On Central Bank of the Russian Federation (Bank of Russia)". Federal Law No. 82-Φ3 dated May 17, 2007 "On the Bank for Development".

applying for licenses: the consideration period was increased to 60 days, and pre-licensing control procedure was introduced for companies.

In 2012, the issue of licenses resumed, but in very limited quantities, not comparable to those in 2008–2009. Simultaneously, the number of cancelled licenses of Moscow companies grew sharply. In 2012, 42 licenses were issued to Moscow companies, and 316 licenses were cancelled.

The number of professional intermediary participants of the securities

market decreased by 111 companies in 2012.

The decisions to cease operations on the stock market under the given market conditions was also influenced by the regulatory load, including high capital adequacy requirements set by the Federal Financial Markets Service of Russia. Of all 387 licenses cancelled in 2012, 47% were cancelled based on the companies' applications.

The most common reason for license cancellations based on the regulator's decision was a breach of the equity

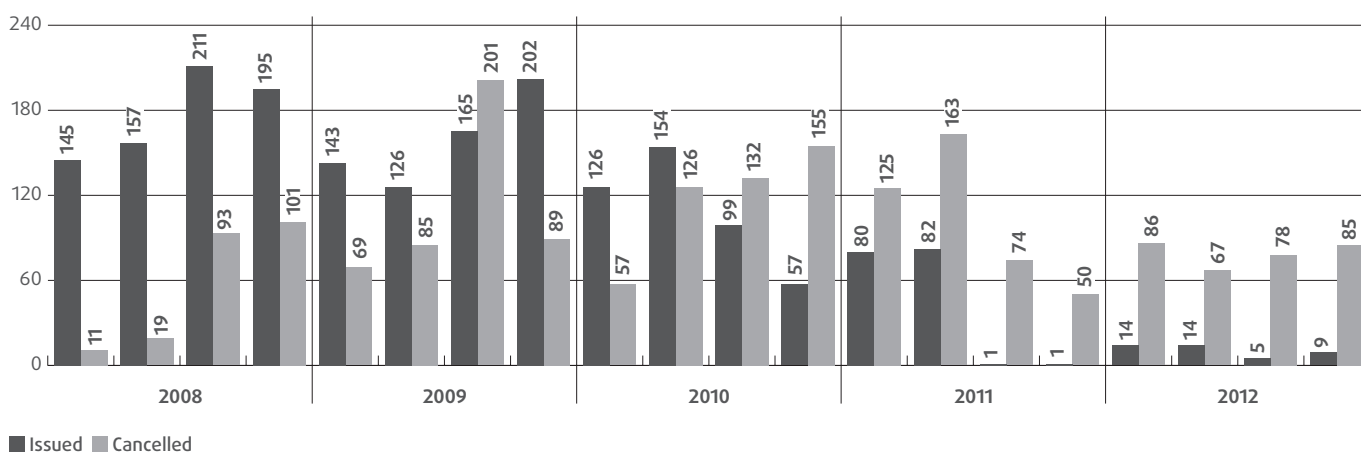
requirements (73% of licenses cancelled by decision of the regulator).

Table 47²⁵ provides a list of the traders that concluded the largest volumes of transactions in non-government securities on the main market of the Moscow Exchange Group in 2012²⁶. The total of 599 organizations traded in all sectors of the stock market (see more about the markets, sectors and operating modes in Section 2.3.3).

The stock exchange data indicate a high and growing concentration of turnovers among the traders – the top

Figure 41

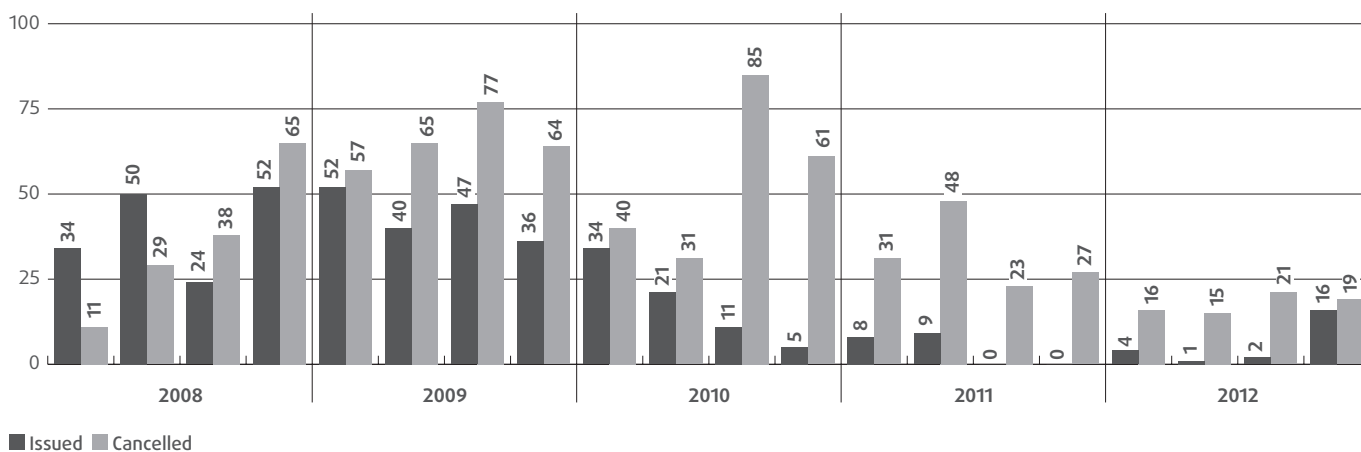
Issue and cancellation of licenses to professional participants in Moscow, licenses



Sources: FFMS of Russia, calculations by NAUFOR.

Figure 42

Issue and cancellation of licenses to professional participants in the regions, licenses



Sources: FFMS of Russia, calculations by NAUFOR.

²⁵ Hereinafter, traders are combined into reputed groups of companies.

²⁶ Hereinafter in this section, all trading modes and repo transactions in shares, corporate bonds and investment units are taken into account.

ten most active operators account for 58% of the total turnover, and the top twenty companies account for 73%. A year before, those indices were 43 and 65%, respectively. The share of the most active participant grew sharply: in 2012, the Bank of Russia conducted the largest volume of transactions in non-government securities (16% of the total turnover), while a year before VTB Group topped the list with 8% of the total turnover. The leading role of the Bank of Russia is explained by its role on repo market. As a result, the value of Herfindahl-Hirschman Index (HH Index) grew sharply during the year: from 265 to 582. The list of the most active traders has been stable from year to

year: comparing to the previous year, the list provided in Table 47 differs by four items only.

Tables 48 and 49 provide the lists of traders separately for transactions in shares and corporate bonds.

In transactions in shares, the concentration of traders is traditionally higher than for the main market in general. The top ten companies ensured 63% of the transaction volume, the top twenty companies accounted for 86%, which is a little lower than the year before (59 and 83%, accordingly). At the same time, HH Index grew sharply from 478 to 861. The list of the most active traders in shares has also been stable from year to year: when compared to the

previous year, the list shown in Table 47 differs in one item only.

In the corporate bonds sector, the concentration of turnovers among traders is centered on the top ten participants, their share increasing sharply over the year from 33 to 52%, with the most active trader, Bank of Russia, accounting for 24% of transactions in corporate bonds. A year before, this trader also topped the list, although its share in the total turnover was much smaller at 7.5%. Accordingly, the HH Index has increased sharply from 214 to 762.

Table 50 provides a list of traders with the largest volumes of transactions in non-government securities in the

Table 47

The list of traders that concluded the largest volumes of transactions in non-government securities on the main market of the Moscow Exchange Group (at the end of 2012)

Item No.	Name of organization	Transaction volume (purchase+sale), billion rubles	Share in the total volume, %
1	Bank of Russia	36,434	16.0
2	Sberbank Rossii Group	28,571	12.6
3	VTB Group	17,444	7.7
4	Renaissance Group	12,049	5.3
5	Otkrytiye Group	8,633	3.8
6	Gazprombank Group	6,978	3.1
7	Promsvyazbank JSC	6,701	2.9
8	ALFA-BANK JSC	5,837	2.6
9	BCS Group	4,888	2.2
10	FINAM Group	4,708	2.1
11	ING BANK (EURASIA) CJSC	4,660	2.1
12	UniCredit Group	4,249	1.9
13	ATON LLC	3,310	1.5
14	Nomos-Bank Group	3,257	1.4
15	Ursa Capital LLC	3,200	1.4
16	Bank Saint Petersburg JSC	3,116	1.4
17	Raiffeisenbank CJSC	2,877	1.3
18	BC REGION LLC	2,856	1.3
19	Vnesheconombank Group	2,738	1.2
20	ALOR Group	2,385	1.0
	TOTAL	164,891	72.6
	HH Index		582

Calculated according to the data of Moscow Exchange Group.

Table 48

List of traders that concluded the largest volume of transactions in shares on the main market of the Moscow Exchange Group (at the end of 2012)

Item No.	Name of organization	Transaction volume (purchase+sale), billion rubles	Share in the total volume, %
1	Sberbank Rossii Group	16,256	17.5
2	Renaissance Group	10,775	11.6
3	VTB Group	8,918	9.6
4	Promsvyazbank JSC	5,381	5.8
5	Otkrytiye Group	5,185	5.6
6	FINAM Group	4,543	4.9
7	BCS Group	4,064	4.4
8	Bank of Russia	3,834	4.1
9	Gazprombank Group	3,778	4.1
10	ATON LLC	2,878	3.1
11	ALFA-BANK JSC	2,861	3.1
12	ING BANK (EURASIA) CJSC	2,774	3.0
13	ALOR Group	1,992	2.1
14	Credit Suisse Group	1,230	1.3
15	Bank Saint Petersburg JSC	1,220	1.3
16	AK BARS Group	1,021	1.1
17	Vnesheconombank Group	978	1.1
18	IC VELES Capital LLC	848	0.9
19	JSC IC Zerich Capital Management	846	0.9
20	Goldman Sachs Group	810	0.9
	TOTAL	80,193	86.2
	HH Index		861

Calculated according to the data of Moscow Exchange Group.

Table 49

List of traders that concluded the largest volume of transactions in corporate bonds on the main market of the Moscow Exchange Group (at the end of 2012)

Item No.	Name of organization	Transaction volume (purchase+sale), billion rubles	Share in the total volume, %
1	Bank of Russia	28,289	23.9
2	Sberbank Rossii Group	10,232	8.6
3	VTB Group	7,702	6.5
4	UniCredit Group	4,150	3.5
5	Otkrytiye Group	3,219	2.7
6	Gazprom Group	3,025	2.6
7	Ursa Capital LLC	2,751	2.3
8	ALFA-BANK JSC	2,351	2.0
9	Raiffeisenbank CJSC	2,320	2.0
10	Nomos-Bank Group	2,285	1.9
11	UBRiR JSC	2,217	1.9
12	BC REGION LLC	2,016	1.7
13	ING BANK (EURASIA) CJSC	1,828	1.5
14	Vnesheconombank Group	1,745	1.5
15	RONIN LLC	1,702	1.4
16	Bank Saint Petersburg JSC	1,553	1.3
17	Rosselhozbank JSC	1,250	1.1
18	Promsvyazbank JSC	1,235	1.0
19	ICB Sovcombank LLC	232	1.0
20	JSCB Svyaz-Bank JSC	1,189	1.0
	TOTAL	82,291	69.5
	HH Index		762

Calculated according to the data of Moscow Exchange Group.

Standard and Classica sectors of the Moscow Exchange Group in 2012. The total of 100 organizations traded in the above sectors of the stock market during the year.

The Standard and Classica sectors used to function as part of RTS Group. The concentration of traders' transactions on the stock exchange

market of RTS grew sharply during the years preceding the merger, with ten traders accounting for 95% of turnover in 2011, and with HH Index of 1796. In 2012, concentration values decreased slightly, while remaining at a very high level. The list of the main operators remained without material changes.

Derivatives market of the Moscow Exchange also has a high concentration of transactions between clearing firms (Table 51).

In 2012, the top ten of the 149 clearing firms (86 general and 62 specialized ones) trading on the FORTS derivatives market accounted for 77.7 % of the trade volume on the derivatives market for all types of

Table 50

List of traders with the largest volumes of transactions in non-government securities in the Standard and Classica sectors of the Moscow Exchange Group (at the end of 2012)

Item No.	Name of organization	Transaction volume (purchase+sale), billion rubles	Share in the total volume, %
1	OTKRYTIYE Brokerage House JSC	627	23.7
2	Sberbank CIB CJSC	486	18.4
3	Investment Company IT Invest JSC	307	11.6
4	ALOR+ LLC	282	10.7
5	Investment Firm OLMA JSC	216	8.1
6	KIT Finance LLC	200	7.5
7	Solid Investment and Financial Company CJSC	140	5.3
8	IC Almaz Brokerage House CJSC	61	2.3
9	Infina Investment Company CJSC	57	2.2
10	FINAM Investment Company CJSC	55	2.1
	TOTAL	2,431	91.8
	HH Index		1,320

Calculated according to the data of Moscow Exchange Group.

Table 51

List of traders with the largest volume of transactions in derivatives contracts on the FORTS derivatives market of Moscow Exchange Group (at the end of 2012.)

Item No.	Name of organization	Transaction volume (purchase+sale), billion rubles	Share in the total volume, %
1	OTKRYTIYE Brokerage House JSC	24,394	24.4
2	BCS Company LLC	11,340	11.4
3	Investment Company IT Invest JSC	11,111	11.1
4	JSC IC Zerich Capital Management	8,222	8.2
5	FINAM Investment Company CJSC	5,610	5.6
6	Alor Group	4,353	4.4
7	Sberbank Rossii Group	4,138	4.1
8	ALFA-BANK JSC	3,029	3.0
9	VTB Group	2,996	3.0
10	KIT Finance LLC	2,466	2.5
	TOTAL	77,659	77.7
	HH Index		1,030

Calculated according to the data of Moscow Exchange Group.

derivatives contracts and all underlying assets, with the HH Index at 1,030. The share of the most active trader made up about a quarter of the total turnover. In comparison to 2011, the concentration indices decreased slightly. The list of leaders changed insignificantly during the year.

2.3.3 Trading and settlement infrastructure

The trading and settlement infrastructure of the Russian securities market comprises:

- organizers of trade on the securities market (including stock exchanges);
- clearing organizations;
- settlement depositories;
- credit organizations acting as settlement organizations.

In addition, the infrastructure includes credit organizations acting as settlement organizations.

The number of organizations holding licenses of trade organizers, stock exchange or clearing organization licenses has changed insignificantly over the past years: according to the FFMS of Russia, currently seven organizations hold the license of a trade organizer or stock exchange, and six organizations hold the license of a clearing organization. However, in practice, the integration processes at the end of 2011 resulted in the formation of one large infrastructure center on the Russian financial market – MICEX-RTS Group, which in June 2012 acquired a new commercial name of Moscow Exchange Group.

Moscow Exchange Group

Moscow Exchange Group constitutes a vertically-integrated trading and settlement infrastructure with the parent organization MICEX-RTS Moscow Exchange JSC (abbreviated as Moscow Exchange JSC). According to the quarterly report, 87 persons were recorded as holders of ordinary shares in the above company at the end of 2012, the major shareholders including the following:

- Bank of Russia – 24.326% of votes;
- Sberbank Rossii JSC – 10.361% of votes;
- Vnesheconombank – 8.706% of votes.

- UniCredit Bank CJSC – 6.182% of votes;
- VTB Bank JSC – 6.046% of votes.

During 2012, the composition and shares of the largest shareholders changed insignificantly: the share of UniCredit Bank CJSC decreased, and the shares of the European Bank for Reconstruction and Development and Gazprombank JSC became smaller than 5% of the authorized capital.

In May 2012, the group strategy was approved which, among other things, provides for an initial public offering of shares of Moscow Exchange JSC, a transition to trading with T+n settlements and partial pre-depositing, formation of a securities lending system, launch of new instruments on the stock and derivatives markets, increased reliability of trading and settlement systems, reorganization of the listing structure, and extension of technological services.

Moscow Exchange JSC, in addition to its consolidating role in the group, is a trade organizer on the derivatives market. In 2012, all of the trade organizer's functions associated with placement and market circulation of government securities were transferred to MICEX Stock Exchange CJSC.

During 2012, we saw a material redistribution of functions among the organizations comprising the Moscow Exchange Group. In the new configuration fully effective starting from January 2013, the functions of the group's organizations associated with exchange transactions on the securities and the derivatives markets are distributed as follows:

➤ **MICEX Stock Exchange CJSC;**

MICEX Stock Exchange CJSC is a trade organizer in all sectors of the stock market and on the market of government securities.

➤ **Non-bank Credit Organization National Settlement Depository CJSC;**

NCO NSD CJSC is a settlement depository and carries out monetary settlements on the stock market for all sectors: Main Market, Classica and Standard. In the Classica sector (in the 'delivery versus payment' mode), NSD, in addition to its settlement functions, is also responsible for clearing. NSD

accounts include records of the guarantee and insurance funds for the derivatives market. In addition, NSD provides settlement services for all types of equity securities on the OTC market. In 2012, NSD acquired the status of central depository.

➤ **National Clearing Centre Joint-Stock Commercial Bank CJSC;**

NCC JSCB CJSC acts as a clearing organization and the central counterparty on the Stock Market for Main Market and Standard sectors, as well as on the derivatives market.

At the end of 2012, **Depository Clearing Company CJSC, Clearing Center RTS CJSC, and Non-bank Credit Organization Settlement Chamber RTS CJSC** ceased to carry out the tasks of trade support for Moscow Exchange markets.

The equity capitals of separate organizations comprising Moscow Exchange Group and engaged in the organization of trade in securities and derivative contracts are shown in Table 52.

The total equity capital grew by 35% in 2012 and exceeded 50 billion rubles. The largest increase in capitalization by 3.5 times was recorded for DCC CJSC. The most capitalized company in the group is the parent organization, Moscow Exchange JSC, its equity capital making up 47% of the total capital, and the lowest capitalization was recorded for MICEX SE CJSC.

Moscow Exchange Group maintains several markets and trading modes.

Stock market of Moscow Exchange Group consists of three sectors:

- Main Market sector;
- Standard sector;
- Classica sector.

MICEX SE CJSC is the trade organizer for all sectors.

Main Market Sector is the exchange market of shares, corporate, government, sub-federal and municipal bonds and investment units where trading is conducted both with and without the participation of the central counterparty. The functions of a clearing organization and the central counterparty are performed by JSCB NCC CJSC subject to full preliminary collateral and same-date settlement (T+0). Cash and security settlements are carried out by NCO NSD

Table 52

Equity capital of organizations included in Moscow Exchange Group (million rubles)

Period	Moscow Exchange JSC	MICEX SE CJSC	NSD CJSC	NCC CJSC	CC RTS CJSC	SC RTS CJSC	DCC CJSC	Total
	Functions during organization of trade in securities and derivative contracts in Moscow Exchange Group							
	Trade organizer on derivatives market	Trade organizer on stock market	Settlement depository, settlement organization for stock and derivatives markets	Clearing of stock and derivatives markets	Clearing of stock and derivatives markets*	Settlement organization for stock and derivatives markets*	Settlement depository for stock and derivatives markets*	
Q4 2011	17,065	946	5,410	10,123	2,349	1,117	336	37,346
Q1 2012	18,048	1,044	6,325	10,987	2,726	1,152	340	40,621
Q2 2012	20,100	1,203	5,020	11,103	3,023	1,090	343	41,882
Q3 2012	20,850	743	5,642	12,908	3,373	1,237	351	45,105
Q4 2012	23,737	1,012	6,003	13,168	3,890	1,391	1,172	50,374

Note: * - by the end of 2012, functions were terminated.

Source: Moscow Exchange Group.

CJSC, with all settlements performed in rubles.

Trading in the Main Market sector takes place from 9:30 am to 7:00 pm in various trading modes, including:

- main trading mode;
- negotiated trades mode;
- repo transactions mode.

The main trading mode consists of three periods: the pre-trading period, the trading period and the post-trading period (closing auction). During the pre-trading period, only limit orders are submitted to the trading system. At the end of the pre-trading period, the price is determined for each security based on orders entered during that period. The price is determined to ensure the execution of trades with the greatest number of the securities involved in the trades. The trading session mechanism is based on the order-driven market principle where trades are made automatically in the trading system by matching opposite anonymous orders; limit and market orders are allowed; and limit orders remaining in the quotations and in the trading system after the end of the pre-trading period participate in the trading. At the closing auction, orders of the traders are collected to set the single closing auction price. In case of the post-trading period, the price of the closing auction trades is calculated by dividing the total volume of trades

with securities concluded within the last 30 minutes of the trading session by the total number of securities in the above trades.

Within the scope of the negotiated trade mode, traders may submit only address orders the information on which is not disclosed to other traders. In this mode, traders may negotiate the trade settlement date within the range from the current trading day to 30 days after executing the trade.

Trade modes for repo transactions stipulate for the capability of repo transactions with the settlement date for the first part being $T+x$, where T is the execution date and x is the number of settlement days (can be from 0 to 2). The settlement date of the second part of repo transaction is the date $T+x+k$, where k is the term of repo transaction in calendar days (from 0 to 365). Also, the capability for executing repo transaction with the Bank of Russia is provided for.

Standard Sector also uses the order-driven market principle, with possible partial preliminary deposition of assets, with the settlement mode 'delivery versus payment' on the fourth day after the transaction, and with quotations and settlements denominated in rubles. JSCB NCC CJSC acts as the clearing center, and NCO NRD CJSC acts as the settlement organization. Standard sector provides for the main and additional trading

sessions. The main session starts at 10 am, with intermediate clearing at 2 pm. The main session is completed at 6:45 pm, following which clearing is carried out. The additional trading session continues from 7 pm to 11:50 pm, with the transactions concluded during the additional trading sessions regarded as those concluded on the next trading day.

Classica Sector provides for transactions based on non-anonymous orders (quote-driven market), a lack of preliminary deposition of assets, quotations in USD, and the possibilities for negotiating the settlement date (from $T+0$ to $T+30$), settlement mode ('delivery versus payment' or 'free delivery') and settlement currency (both rubles and foreign currencies). NCO NRD CJSC acts as the clearing center and settlement organization in the 'delivery versus payment' mode. J.P Morgan Chase Bank and Citibank (NY) are also engaged in the settlements in the 'delivery versus payment' mode, while any bank can be engaged in the free delivery mode. Trading in this sector takes place from 10 am to 6:45 pm.

Derivatives market of Moscow Exchange Group was formed based on the **FORTS** derivatives market that used to function in RTS Group and the **MICEX** derivatives market that used to function in MICEX Group. In 2012, the above merged.

The derivatives market of the Moscow Exchange is based on the anonymous order auction (order-driven market). Quotations and settlements are made in rubles. JSC Moscow Exchange is the trade organizer on the derivatives market. JSCB NCC CJSC acts as the clearing center and the central counterparty, as well as the settlement organization. In terms of organization, derivatives market is divided into the following four sections:

- stock section;
- commodity section;
- money section;
- options section.

The trading session on the derivatives market lasts from 10 am to 6:45 pm (day session) and from 7 to 11:50 pm (night session), with two clearing sessions provided for.

The duration and structure of trading sessions on the derivatives market are synchronized with the Standard sector. In addition, a single system of delivery and settlements has been created for the above markets. The stock and the derivatives markets

of the Moscow Exchange can use a single cash position.

With a view to ensuring the performance of obligations under transactions, security deposits are accumulated in the clearing center, and the insurance and reserve funds have been created. The information on the above funds is provided in Table 53.

A special trading platform called Innovations and Investments Market also operates in the Moscow Exchange Group.

Innovations and Investments Market (IIM) has existed since 2007, and was originally named the sector of innovative and developing companies. The sector obtained its current name in the middle of 2009 following the signing of an agreement between MICEX and ROSNANO. The market is oriented on high-tech companies and designed for their financing using exchange mechanisms, including by means of private placements among funds and qualified investors.

By the end of 2012, 22 share issuers were placed on the market, including eight of them during the year. Six of

the above companies organized initial public offerings and raised 812 million rubles according to the exchange data. This market also includes eight venture funds, including one that was licensed for trading in 2012. The total capitalization of the market, according to the Moscow Exchange data, made up 36.9 billion rubles at the end of 2012, including capitalization of share issuers and net asset value of funds. Net asset value of funds accounts for about 67% of the capitalization, with one fund ensuring a quarter of the total capitalization. Trading in securities included in the IIM is organized within the standard trading modes on the stock market of the Moscow Exchange.

IIM trade volumes are insignificant, the 2012 turnover reaching 13.9 billion rubles (compare: in 2009, the turnover was 4.07 billion rubles, in 2010 – 6.18 billion rubles, and in 2011 – 9.29 billion rubles).

Admission of traders to the stock and derivatives markets of the Moscow Exchange, transaction tariffs²⁷

Admission to trading on the stock exchange can be granted to professional

Table 53

Security deposits, insurance and reserve funds (million rubles)

Item No.	Source	Amount	
		2011	2012
1	Security deposits made by market participants and their customers	41,827.4	30,457.4
	including cash funds in rubles	40,215.7	27,497.4
	including in foreign currency and securities	1,611.7	2,960.0
2	Assets in funds:		
	Insurance fund	1,289.6	1,259.4
	Reserve fund (assets of NCC CJSC)	1,500.0	1,500.0
	Guarantee fund	1.5	n/a
3	Total monetary funds of market participants on accounts of RTS CC CJSC	41,505.3	-
	including in Sberbank JSC	25,702.1	-
	including in SC RTS CJSC	15,803.2	-
4	Blocked as security deposits:		
4.1	Securities	1,178.5	1,955.1
4.2	Currency:		
	- USD	433.3	1,004.9

Source: Moscow Exchange Group.

²⁷ Shown in short and generalized form. See the group's website for a complete description of the procedure for admission to trading and tariffs.

participants of the securities market holding a broker and/or dealer and/or securities management license, as well as the Bank of Russia and Vnesheconombank. A trader is entitled to be admitted to trading in one or several sectors of the stock market. Admission to trading in each of the sectors is subject to certain requirements with regard to the respective sectors and individual trading modes established by the trade organizer and/or the clearing organization.

To participate in the trading on the stock exchange, a professional securities market participant shall pay a membership fee 3,000 rubles. With a view to raising the status of a 'trader', preventing the appearance of companies that do not plan a long-term presence on the stock market, and with a view to preparing for the start of trading on the stock market of the Moscow Exchange Group with the central counterparty and subject to partial deposition of assets, a subscription fee was introduced in 2012. A quarterly subscription fee makes up 60 thousand rubles. In case the total commission paid for transactions during a quarter is lower than the subscription fee, a trader shall pay the difference to meet the subscription fee amount.

At the end of 2012, Moscow Exchange reviewed the tariff policy for the stock

market (the new tariffs taking effect at the start of 2013).

For transactions in shares, depository receipts and investment units in the Main Market sector, five tariff plans have been introduced, each of them providing for two settlement options (with and without the return premium). Each tariff plan includes a fixed and a variable component. The fixed component is charged on the first trading day of the month irrespective of the submitted orders and the execution and/or settlement of transactions. The variable component is charged from the transaction amount on the transaction execution date. Both the fixed and the variable components include the exchange commission, the clearing commission and the fee for technology service. Depending on the tariff plan, the fixed component can vary from zero to 5,030 thousand rubles, and the variable component – from 0.01 to 0.0065%. The return premium is provided for transactions executed based on two offsetting orders submitted by a single trader and makes up 50% of the exchange and clearing commissions.

For transactions in bonds in the Main Market sector in the main trading mode, the total commission makes up 0.0001%, multiplied by the period

to settlement (no more than 0.01%), while in the negotiated trades mode there is an additional restriction – the total commission must not exceed 1,800 rubles (2,000 rubles in the old tariff plan).

With regard to repo transactions, the tariff plan structure has been preserved (see Table 54). The fixed component of tariffs has also remained unchanged, while for the variable component of Economy and Leader tariffs the commission has been reduced by 0.00003%. It is estimated that the tariff policy for repo transactions will be revised materially in the first half of 2013.

An additional fee has been introduced with a view to improving the algorithmic trading systems. The additional fee is charged for the integrated technology service in case a trader exceeds the threshold of the number of orders submitted.

Admission to trading on the derivatives market can be granted to professional participants of the securities market holding a broker and/or dealer and/or securities management license (for participation in trading in the stock and/or money sections) or to persons holding an exchange intermediary license (for participation in trading in the commodity section). A trader is entitled to obtain the status

Table 54

Tariffs for repo transactions in the Main Market sector

№ п.п.	Суммарное комиссионное вознаграждение	
1	Tariff plan 1 'Basic'	
	Fixed component	None
	Variable component	0.00024% × for the term of repo transaction, at least 15 rubles
2	Tariff plan 2 'Economy'	
	Fixed component	150,000 rubles
	Variable component	0.00017% × for the term of repo transaction, at least 15 rubles
3	Tariff plan 3 'Leader'	
	Fixed component	500,000 rubles
	Variable component	0.00013% × for the term of repo transaction, at least 15 rubles

Notes:

1. The total fee includes the exchange commission, the clearing commission and the fee for integrated technology service.
2. The fixed component is charged for each calendar month irrespective of the actual orders submitted and transactions executed and/or settled.
3. For intra-day transactions, the repotransaction term is equal to one day.

Source: Moscow Exchange Group.

of a general or specialized settlement firm. Admission to trading on the Derivatives Market is subject to certain requirements established by the trade organizer and/or the clearing organization.

Participation in trading on the derivatives market, depending on the status, is subject to a registration fee making up from 1,000 to 5,000 thousand rubles. Settlement firms on the derivatives market also pay a quarterly subscription fee equal to 60 thousand rubles, net of the commission fee paid. The minimum contribution to the insurance fund of the derivatives market and the Standard sector for a general settlement firm or a specialized settlement firm for derivative contracts on securities assets makes up 10,000 thousand rubles. Tariffs on the derivatives market change significantly depending on the contract and transaction type (see Table 55).

In addition to the exchange and clearing fees, single and monthly fees for information and technical service are charged on the derivatives market.

Admission of securities to trading on the stock market of Moscow Exchange Group and tariffs for securities issuers

Securities can be admitted to trading on the stock exchange by being included in the list of securities admitted to

trading on MICEX SE CJSC. Securities may be included in the above list both with the listing procedure (inclusion in the quotation lists) and without the said procedure (for the so-called 'unlisted' securities). Securities admission to trading may be initiated by a securities issuer or a management company (for investment units) for the securities included in the quotation lists, or a trader or the stock exchange itself (for unlisted securities).

The general requirements to securities for admission to trading include, without limitations:

- registration of the securities prospectus;
- registration of the report on the securities issue;
- the issuer's compliance with the requirements set by the law on securities, including with regard to information disclosure.

In case securities are admitted for trading without the listing procedure, the period from the submission of the necessary documents by the applicant to the trading commencement date is about 15 days. In case of the listing procedure, securities may be included in quotation lists A (levels one and two), B, as well as V and I²⁸. Securities to be included in the quotation lists are subject to some additional requirements (Tables 56, 57, 58).

The procedure of securities inclusion in the quotation lists lasts for 27 days.

MICEX SE CJSC may charge a fee for admission of securities to trading and their maintenance in the lists of securities admitted for trading. The stock exchange charges no fee for the procedure of admission to trading for unlisted securities. The service tariffs for expert review of securities, their inclusion in the quotation lists and maintenance on the lists are shown in Table 59.

No material changes in the requirements to inclusion of securities in quotation lists were introduced in 2012. However, the group has announced its plans for cardinal revision of the quotation list structure and the procedure for admission of securities to trading on organized markets in 2013.

Table 60 shows the information on the composition and structure of the securities admitted to trading on the stock market of the Moscow Exchange at the end of 2012 (the difference from the past year is specified in brackets).

During 2012, despite a narrowed instrumental base of shares, the total number of instruments admitted to trading on stock market of Moscow Exchange Group grew slightly due to bonds and investment units. In addition, the number of issuers whose shares were admitted to trading and the

Table 55

Tariffs for transactions on the derivatives market (rubles)

Item No.	Exchange fee			Clearing fee (for contract execution)
	Open transactions	Scalper transactions	Two-sided transactions	
1	Deliverable futures contract for security asset			
	0.25 – 2.0	0.125 – 1.0	0.25 – 2.0	1.0 – 4.0
2	Non-deliverable futures contract for security asset			
	0.5 – 4.0	0.25 – 2.0	0.5 – 4.0	0.5 – 4.0
3	Options contract for security asset			
	0.5 – 2.0	0.25 – 1.0	0.5 – 2.0	0.1 – 2.0

Notes:

If the number of transactions during a trading day exceeds 2,000, the transaction fee is collected in addition to the exchange fee.

Scalper transactions for futures contracts are open transactions that result in position opening and closing within a single trading day. For options these are open transactions that may result in the opening of divergent positions for the underlying asset in case options are executed within a single trading day.

Source: Moscow Exchange Group.

²⁸ The last two lists are not analyzed in detail due to a small number of issuers.

Table 56

Requirements to share listing

Item No.	Requirements	Quotation list		
		A1	A2	B
1.	Maximum percentage of shares held by one person or its affiliates (%)	75	75	90
2.	Minimum monthly volume of transactions calculated for the past three months (million rubles) ²⁹	25	2.5	1.5
3.	No losses for two of the past three years	YES	YES	NO
4.	Capitalization (billion rubles):			
	– ordinary shares	10	3	1.5
	– preferred shares	3	1	0.5
5.	Availability of annual financial reports based on IFRS and an auditor's opinion in Russian	YES	YES	NO
6.	Minimum period of issuer's operation (years)	3	3	1
7.	Issuer's compliance with corporate conduct standards	Full compliance	Full compliance or an obligation to comply one year after the date of inclusion in the quotation list	

Source: Moscow Exchange Group.

Table 57

Requirements to listing of corporate, sub-federal and municipal bonds

Item No.	Requirements	Quotation list		
		A1	A2	B
1.	Minimum issue volume (billion rubles)	1	0.5	0.3
2.	Minimum monthly volume of transactions calculated for the past three months (million rubles) ³⁰	10	1.0	0.5
3.	No losses for two of the past three years	YES	YES	NO
4.	Availability of annual financial reports based on IFRS and an auditor's opinion in Russian (for corporate bonds)	YES	YES	NO
5.	Minimum period of issuer's operation (years) (for corporate bonds)	3	3	1
6.	Issuer's compliance with corporate conduct standards (for corporate bonds)	Full compliance	Full compliance or an obligation to comply one year after the date of inclusion in the quotation list список	
7.	Availability of credit rating for the issuer and/or bonds issue	YES	NO	NO

Source: Moscow Exchange Group.

Table 58

Requirements to listing of investment units

Item No.	Requirements	Quotation list		
		A1	A2	B
1.	Minimum net assets value of the UIF			
	– open and interval UIF (million rubles):	10	10	5
	– closed UIF (million rubles):	50	50	10
2.	Minimum period of UIF operation (years)	2	1	NO

Source: Moscow Exchange Group.

²⁹ The requirement shall apply only in case shares are included in a quotation list.³⁰ The requirement shall apply only in case bonds are included in a quotation list.

Table 59

Tariffs for expert review of securities, their inclusion in the quotation lists and maintenance on the lists (thousand rubles)

Quotation list	Shares, corporate bonds, investment units			Sub-federal and municipal bonds	
	Expert review	Inclusion in the quotation list	Maintenance on the quotation list (annual)	Inclusion in the quotation list	Maintenance on the quotation list (annual)
A1	90	60	15	48	12
A2	90	45	12	36	10
B	90	15	6	12	5

Source: Moscow Exchange Group.

Table 60

Securities admitted to trading on the stock market of Moscow Exchange Group

Securities admitted to trading	Instruments				Issuers	
	Shares	Bonds	Units of UIF	Total instruments	Securities issuers	Management companies
TOTAL	368 (-36)	932 (+26)	442 (+23)	1742 (+13)	694 (+87)	140 (+8)
including in the quotation lists						
A1	35 (0)	318 (+3)	9 (0)	362 (+3)	115 (+10)	9 (+1)
A2	11 (0)	16 (+3)	2 (-1)	29 (+2)	23 (+4)	2 (-1)
B	70 (+3)	239 (+7)	48 (+9)	357 (+19)	183 (+34)	29 (+2)
Unlisted	250 (-37)	338 (+11)	383 (+15)	971 (-11)	504 (+85)	125 (+10)

Notes:

'Shares' column includes RDR.

'Bonds' column includes corporate, sub-federal and municipal bonds.

Source: Moscow Exchange Group.

Table 61

Results of trade in non-government securities and derivative contracts in Moscow Exchange Group in 2005–2012 (billion rubles)

Period	Stock market					Derivatives market
	Shares (including RDR)	Corporate bonds	Sub-federal and municipal bonds	Investment units of UIF	TOTAL	
MICEX and RTS Groups						
2005	5,270	1,510	865	2	7,647	687
2006	18,008	4,131	1,386	6	23,531	2,709
2007	31,405	9,946	2,604	1	43,955	7,531
2008	34,023	11,896	2,735	23	48,677	11,158
2009	27,919	10,163	4,194	16	42,292	14,169
2010	33,710	24,982	8,867	51	67,610	29,350
2011	50,180	36,311	8,726	89	95,251	55,345
Moscow Exchange Group						
2012	48,171	58,607	7,838	142	114,720	49,944

Source: Moscow Exchange.

number of management companies increased as well.

No material changes were introduced in the composition and structure of securities admitted to trading. As for its composition, the instrument base comprises 53.5% of bonds (a year earlier, this value was somewhat lower at 52.5%), while shares and investment units are represented almost equally: the percentage of shares decreased to 21.1% as against 23.4% the year before, and the percentage of investment units, on the contrary, grew from 24.2 to 25.4%.

In the total volume of traded instruments, 55.7% constitute unlisted securities (a year before the number was a little higher at 56.8%).

Bonds are generally admitted to trading by inclusion in the quotation lists. Thus, over the past two years, only 36% of bonds admitted to trading were not in the quotation lists. On the contrary, 87% of investment units are unlisted. As for shares, the percentage of shares traded without inclusion in the quotation lists in 2012 made up 67%. A year before, this percentage was a little higher at 71%.

Evident disproportions have been observed in the structure of quotation lists over the past two years: of the total number of securities included in A1, A2

or B Lists, 49% are in List A1, 47% in List B, and a little over 3% are included in A2 List.

The consolidated results of trading in non-government securities and derivative contracts³¹ in MICEX Group in 2005–2011 for all trading modes are shown in Table 61.

The total volume of transactions in all types of non-government securities in all sectors of the stock market of the Moscow Exchange and all trading modes in 2012 made up 114,720 billion rubles, which is 20.4% higher than the year before. In comparison to 2010–2011, when the average annual growth made up 50%, the dynamics of the turnover growth on the domestic organized spot market decreased sharply. Corporate bonds (61.4%) and investment units (59.1%) accounted for the maximum increase in the transaction volume in 2012. The volumes of transactions in shares dropped by 4%, and with sub-federal and municipal bonds – by 10%.

The volume of transactions in derivative financial instruments for all types of underlying assets on the derivatives market of the Moscow Exchange in 2012 made up 49,944 billion rubles, or 9.8% lower than the year before. The turnover decrease on the domestic organized derivatives market

was observed for the first time, as the turnover used to grow fast in the past years.

Shares, corporate, sub-federal and municipal bonds account for a greater part of non-government securities turnover on the stock market of the Moscow Exchange. The percentage of other security types is unrepresentative (Figure 43³²).

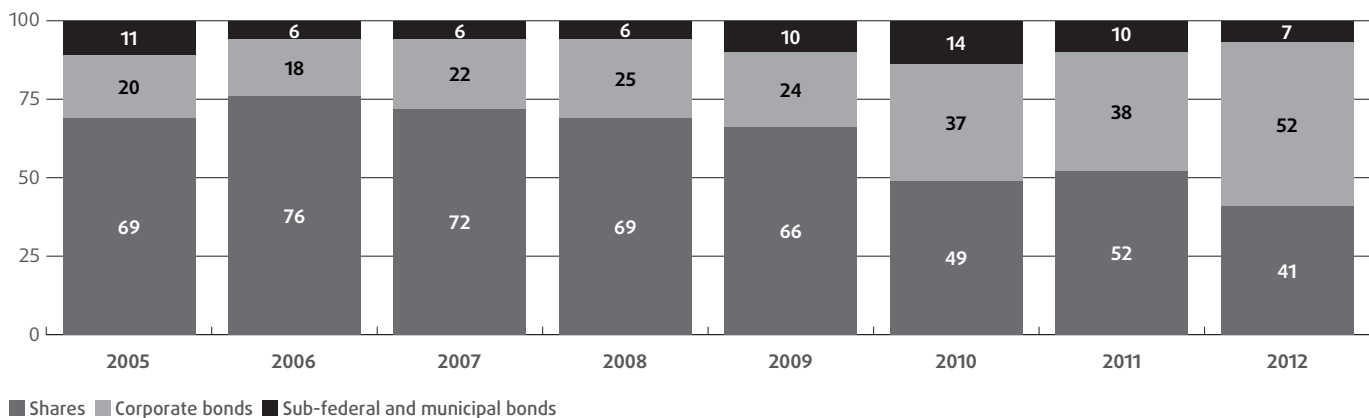
The structure of the exchange securities turnover has evolved, with a marked long-term trend towards reduction in the percentage of shares in the total turnover and increase in the percentage of corporate bonds. Thus, in 2005 shares accounted for 69% of the total turnover, while in 2012 they accounted for only 41%. The percentage of corporate bonds, on the contrary, increased during the above period from 20 to 52%.

The structure of trading modes for various security types is varied and has also evolved quite a lot. Figures 44 and 45 show the graphs characterizing the percentage of main trading mode, negotiated trades mode and repo transactions mode for shares and corporate bonds on the stock market of Moscow Exchange Group.

Transactions in shares on the domestic organized market demonstrated a long-term trend

Figure 43

Structure of non-government securities turnover on the Stock Market of Moscow Exchange Group, %



³¹ Taking into account auction mode, negotiated trades mode, repo transactions and IPO. For derivatives market, all types of underlying assets were taken into account.

³² Taking into account auctions mode, negotiated trades mode, repo transactions and IPO.

towards a reduction in the main trading mode volume and an increase in the percentage of repo transactions. Thus, from 2005 to 2012, the share of the auction mode in the total transaction volume decreased from 69 to 20%, while the share of repo transactions mode grew from 19 to 78%. Starting from 2007, the negotiated trades mode has occupied a residual niche of 2-3%. Similar trends, but with other proportions, have been observed for transactions in corporate bonds. Thus, while in 2005 repo transactions accounted for 28%, in 2012 the mode became a dominant one at 91%. During the above period, the share of the main

trading mode decreased from 11 to 2%, and the negotiated trades mode lost its significance dropping from 61 to 7%.

The size of transactions in securities on the stock market of Moscow Exchange Group depends on the trading mode and the sector. Table 62 provides data on the average size of transactions in shares and corporate bonds in the main trading mode, negotiated trades mode and repo mode in the Main Market sector.

In the main trading mode, the average size of transactions in shares demonstrates a long-term downward trend. While in 2006–2007 this value was about 300 thousand rubles, at the end of 2012 we saw a threefold drop. In the

negotiated trades mode the average size of transactions in shares is much larger: in 2007–2011, the average size was at about 5,400 thousand rubles, while in 2012 we saw a twofold increase. The average size of repo transactions in shares is even larger, with a typically high spread of the average transaction size from period to period. In 2011–2012, the average size was at 33,000 thousand rubles.

A much larger average size is typical for transactions in corporate bonds in all trading modes. In 2010–2012 the average size in the main trading mode was estimated at 4,900 thousand rubles, in the negotiated trades mode – 71,700

Figure 44

Share trading modes in Moscow Exchange Group (Main Market sector), %

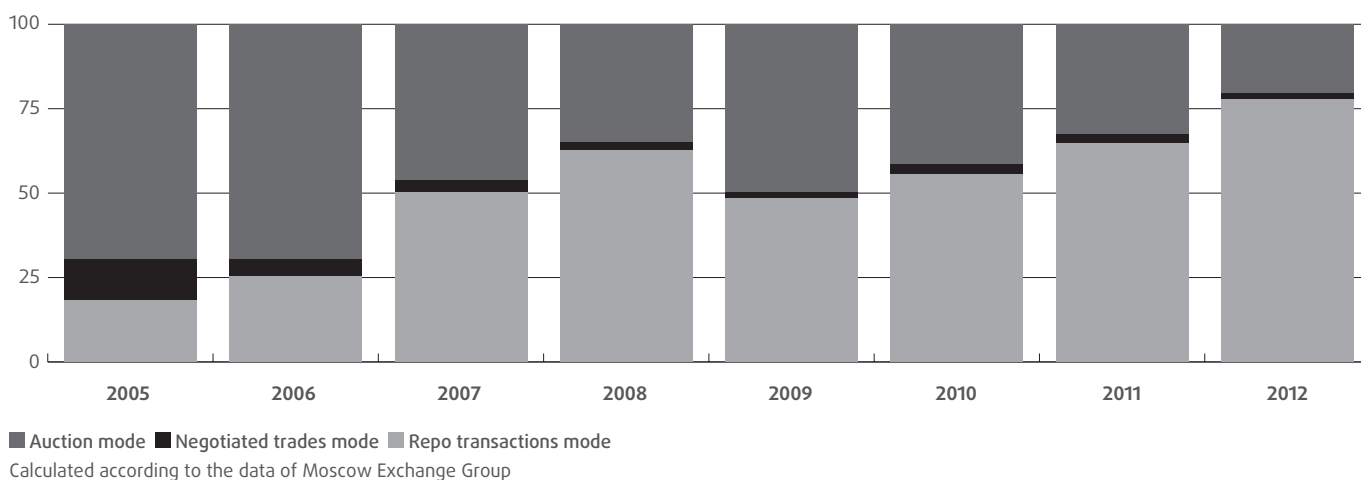
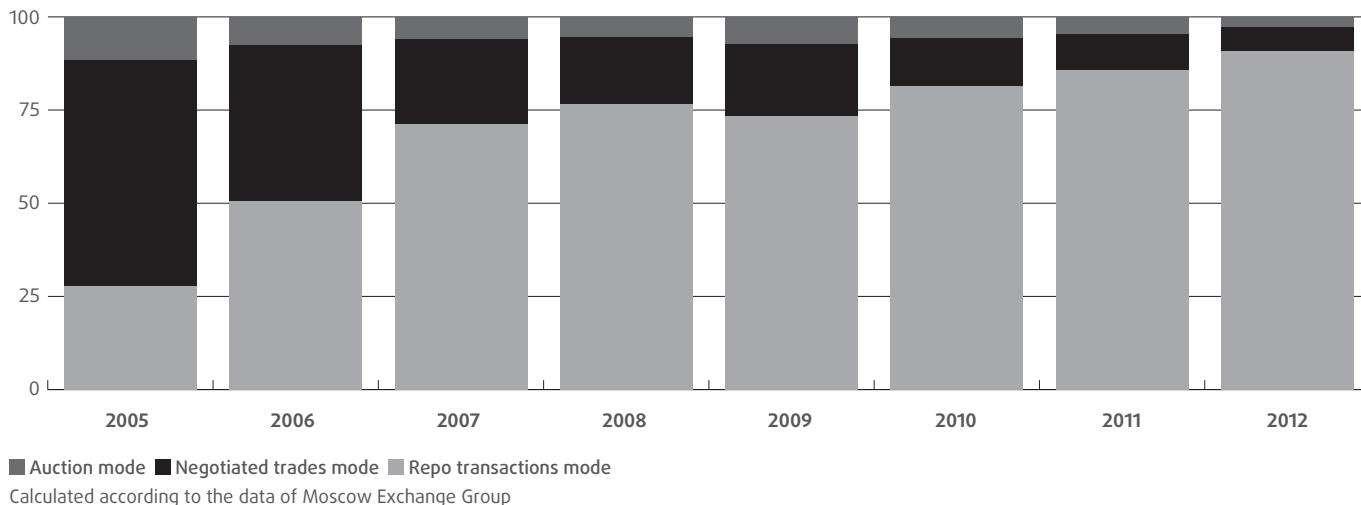


Figure 45

Corporate bonds trading modes in Moscow Exchange Group (Main Market sector), %



thousand rubles with an upward trend, and in the repo mode – 84,300 thousand rubles, also with an upward trend.

In 2012, the average size of a market transaction in the Standard sector was 182 thousand rubles for market transactions and 727 thousand rubles for two-sided transactions, with a trend towards a reduction in the average transaction size in this stock market sector of Moscow Exchange Group.

Table 63 shows the data on the average transaction size on the derivatives market of Moscow Exchange Group, represented both in monetary terms and in the number of contracts.

The average transaction size on the FORTS market in 201–2012 stabilized at 260 thousand rubles, while in the past years this parameter was subject to significant multidirectional changes. The

average transaction size calculated as the number of contracts during this period stabilized at five contracts.

In 2012, 38 defaulted transactions in repo and negotiated trades mode were recorded on MICEX SE (14 traders), with the amount of defaulted obligations making up 8.7 billion rubles. A year before, the amount of defaulted obligations was much higher at 26.5 billion rubles.

NP RTS Group

The parent organization for this group is Non-commercial Partnership RTS, which, at the end of 2012, comprised 124 organizations – professional participants of the securities market. According to the group, one of the most important projects for NP RTS is the development of the OTC market of financial instruments

based on the RTS Board indicative quotations system.

RTS Board is an information system designed for indicative quotations of securities by Russian issuers that are not admitted to trading on the organized market as well as securities of foreign companies.

The securities included in the List of Instruments of the RTS Board are not publicly traded on the stock exchange. Quotations for such securities are not deemed valid, and no calculations of market price and market capitalization are carried out. However, the quotations on securities included in the List of Instruments of the RTS Board are used to determine the settlement price of securities not traded on the organized securities market for the purposes of Article 25 of the Tax Code of the RF.

Table 62

Average size of transactions in securities on the stock market of Moscow Exchange Group in 2005–2012, thousand rubles (Main Market)

Period	Shares (including RDR)			Corporate bonds (including exchange)		
	Main trading mode	Negotiated trades mode	Repo	Main trading mode	Negotiated trades mode	Repo
2005	196	1,399	9,900	1,053	20,439	17,815
2006	301	3,503	13,244	1,453	29,515	31,579
2007	314	6,992	26,873	1,989	39,617	42,010
2008	193	5,304	30,312	1,907	41,531	42,314
2009	121	2,343	24,254	1,930	42,183	81,021
2010	114	6,492	18,895	4,575	65,108	76,351
2011	123	5,948	32,551	5,430	69,461	75,927
2012	99	11,670	34,063	4,909	80,682	100,749

Sources: Moscow Exchange Group, calculations by NAUFOR.

Table 63

Average transaction size on the derivatives market of Moscow Exchange Group in 2006–2012

Period	Average transaction value, thousand rubles	Average transaction size (number of contracts), contracts
2006	541.6	17.9
2007	612.6	12.4
2008	436.7	8.3
2009	184.6	6.4
2010	250.5	5.3
2011	267.5	5.0
2012	266.5	5.6

Sources: Moscow Exchange Group, calculations by NAUFOR.

Table 64

Trading results in RTS Board system

Period	RTS Board, million USD
2005	309
2006	545
2007	752
2008	436
2009	109
2010	145
2011	135
2012	54

Source: NP RTS.

The following securities can be included in the list of securities for which indicative quotations may be announced:

- shares issued according to the Russian law, with the completed issue registration and the issue report registration;
- bonds issued according to the Russian law, including those issued by Russian issuers, the issue of which has been registered;
- investment units of Russian unit investment funds;
- Russian depository receipts issued according to the Russian law;
- foreign financial instruments qualified as securities according to the Russian law.

In the above cases, not only the securities issuer (except for foreign issuers) or a UIF management company, buy any professional participant – user of RTS Board can act as an applicant for inclusion of the respective instrument in the RTS Board system. Securities are included in the list within five working days. The applicant's application containing the minimum necessary information about the instrument serves as the grounds for inclusion in the above. In this case, the applicant is charged a non-recurrent fee of 5,000 thousand rubles for each kind (type) of securities.

At the end of 2012, 1,584 securities by Russian issuers (including investment units) and 46 foreign securities were represented in the RTS Board system.

Access to the RTS Board system in the quotation mode is provided by RTS

Board terminal installed on the user's PC. The information on the total volume of transactions in the above system is shown in Table 64.

The trade volume in RTS Board system is traditionally characterized by a large spread. Yet, in 2012, we observed a material turnover reduction: the transaction volume in the system made up 54 million USD, which is more than two times less than the year before.

2.3.4 Accounting system

The Russian stock market has two alternative ways of recording the rights to securities, both of equal legal force: based on client accounts in the registry system and on securities accounts with a depository. Registrars, depositories, and issuers that independently keep their share registers jointly form the accounting system of the stock market. The registrar and depository activities are licensed.

A registrar is a professional participant of the securities market that carries out the activity of keeping the share register (collection, recording, processing, storage and provision of data comprising the share registry system). A registrar operates based on an agreement with the securities issuer; the persons opening accounts in the register do not sign agreements with the registrar. The issuer may keep the register of securities independently; however, if the number of its shareholders exceeds 50 or if the issuer must publicly disclose the

information on its activity, it has to transfer the register-keeping duties to a registrar, even though it continues to be responsible for keeping the register.

A depository provides services associated with the accounting and certification of rights to securities, accounting and certification of security transfers, and storage of securities (for certificated securities). A depository acts based on an agreement with the securities holder or another person holding other rights to securities (depository agreement).

Russia has followed the global practice of separation of settlement depositories. Settlement depositories are those that conduct settlements on securities based on the clearing results and carry out all operations on securities accounts of the securities market participants during the settlement of transactions executed via trade organizers.

The information on the number of effective licenses held by registrars and depositories is shown in Table 65.

The process of gradual reduction in the number of the professional securities market participants that carry out registrar activity was completed in 2012, and during the next two years the number of registrars has remained unchanged at 40 companies.

A reduction in the number of depository licenses has continued, and at the end of 2012 only 662 of them remained, i.e., 24 licenses fewer than the year before, although in the relative terms the reduction proved insignificant at 1.5%.

Table 65

Licenses of registrars and depositories in 2005-2012

Type of activity	Period							
	2005	2006	2007	2008	2009	2010	2011	2012
Registrar	82	73	66	59	50	45	40	40
Depository	743	831	787	789	761	720	686	662

Source: FFMS of Russia.

It should be mentioned that about 60% of companies holding depository licenses are credit organizations. Only 8% of the organizations involved in the accounting of rights to securities and storage of securities certificates hold only a single license for this type of activity. The remaining 92% of organizations combine the depository activity with

other types of professional activity on the securities market.

At the end of 2011, legislative changes were introduced aimed at altering in 2012-2013 the current Russian system of securities accounting, providing for a new participant of the accounting system – the central depository, as well as enabling foreign

organizations involved in securities accounting or holding securities on behalf of other persons to open foreign nominee securities accounts and foreign custodian securities accounts with the Russian depositories. NCO NSD CJSC was assigned the status of the central depository in November 2012.

3. Legislative framework

The regulatory legal framework in the sphere of the securities market in the Russian Federation is formed by several laws (“On securities market”, “On protection of rights and legal interests of investors in the securities market”, “On mortgage securities”) which define the general rules applicable to the securities market, as well as by-laws

(mainly decrees of the RF Government and orders of the FFMS of Russia) which establish the special norms. The operation of individual institutions is regulated by special laws, including “On investment funds”, “On non-state pension funds”, “On investments for financing of the funded component of retirement pension”, “On the savings

and mortgage system of housing provision for servicemen”, which are also supported by significant volumes of by-laws.

Below is an overview of the most significant changes introduced in 2012 in the regulatory legal framework associated with the regulation of the securities market.

3.1. Accounting of rights to securities

1. On January 1, 2012, Federal Law “On central depository”³³ took effect, providing for a new center of the accounting system – the central depository.

According to the law, the status of a central depository may be assigned only to one legal entity that holds a license of a non-banking credit organization, provided the entity (or its legal predecessor) has been functioning as a settlement depository for at least three years before the submission of the application for the central depository status. The central depository’s equity capital shall be at least four billion rubles. In November 2012, the FFMS of Russia assigned the status of the central depository to NCO National Settlement

Depository CJSC, a member of the Moscow Exchange Group.

The main function of the central depository is the centralized storage and accounting of rights to securities admitted to organized trading. The law provides the following with a view to performing the above function:

a) the central depository shall acquire the exclusive right to open nominee accounts in the registers of securities the issue of which was registered along with the prospectus, and in the registers of investment unit holders and mortgage participation certificates if the rules on trust management of the unit investment fund or mortgage pool provide for trading of the above on organized markets. The above accounts

acquired a special name in the law – ‘central depository nominee accounts’. Other depositories shall not be able to open nominee accounts in the registers and shall have to act as depositors of the central depository to record the rights to the respective securities;

b) to ensure the finality of records in the register concerning a central depository nominee account for all transactions on the above account, or, if no such transactions have been concluded, at least once daily, the law provides for a reconciliation of records on the number of securities between the central depository and the registrar. The law stipulates that any entries in the register on the customer’s central depository nominee account made for

³³ Federal Law No. 414-03 dated December 7, 2011 “On central depository”.

transactions without reconciliation of entries and (or) in case any discrepancies are detected, shall not be legally valid and shall not entail any legal consequences, the above applicable to any subsequent entries in the register. If any discrepancies are not remedied, the data of the previous entry reconciliation shall be deemed accurate;

c) to account the rights to foreign securities, the central depository shall be entitled to open custodian accounts in foreign organizations;

d) bearer bonds subject to mandatory centralized storage shall be admitted to trading on organized markets only provided the central depository is responsible for centralized storage of the above bonds.

2. With a view to developing the provisions of Federal Law "On the central depository", the FFMS of Russia has passed several regulations³⁴ concerning the procedure for the central depository's activity. In addition, the FFMS of Russia has approved the list³⁵ of foreign organizations for which the foreign nominee accounts according to cl. 1, Article 8.4 of Federal Law "On securities market" can be opened only by the central depository. The above list includes 74 foreign central depositories, including international centralized accounting systems Euroclear and Clearstream. The regulations stipulate certain restrictions on the transactions

on accounts of international centralized accounting systems. Until July 1, 2014, only government and municipal securities, corporate bonds of Russian issuers and securities of foreign issuers can be credited to securities accounts of the above organizations. After the above date, other securities the rights to which are recorded by the Russian central depository can be credited to the accounts of international centralized accounting systems.

3. On November 4, 2012, Order³⁶ of the FFMS of Russia took effect, approving the procedure for opening and maintenance of securities accounts by depositories. The Procedure determines the types of securities the rights to which can be recorded on securities accounts (they now exclude bills); approves the list of accounts not designated for recording the rights to securities; and establishes the periods for execution of depository transactions. For instance, securities shall be withdrawn from the securities account no later than one working day following the day of receipt by the depository of the document confirming the withdrawal of securities from the nominee's securities account. In addition, the Order stipulates the procedure for reconciliation to be conducted by depositories and registrars according to cl. 9, Article 8.5 of Federal Law "On securities market".

4. Order of the FFMS of Russia of June 28, 2012 approved the procedure³⁷ for

recording in the register the pledges of registered equity securities and making changes in the register associated with the transfer of rights to the pledged registered equity securities. The right of pledge shall be recorded based on the pledge instruction by making an entry concerning the encumbrance of securities in the pledger's client account. For the information on pledge to be recorded, the registrar shall open an account for the pledgeholder account in the register.

The requirements to the content of the entry concerning the encumbrance and the pledge instruction have been set. The established procedure for recording securities pledges shall apply to both registrars and the issuers keeping the share register independently.

5. Order of the FFMS of Russia dated December 25, 2012 determines the maximum fee³⁸ charged by registrars for recording of transactions. Before, the registrar service fees were determined by Regulation on licensing of the activity of keeping the registered securities register, approved by Decree No. 24 of the Federal Commission for Securities Market dated June 19, 1998. According to the new order, the maximum amount of the registrar service fee was increased materially; for instance, a fee for provision of an account statement was increased from 10 rubles to 200 rubles.

³⁴ Order No. 12-75/n3-H of the FFMS of Russia dated August 23, 2012 "On approval of the Rules on information disclosure by the central depository, requirements to the internal document of the central depository establishing the rules on information disclosure by the central depository, and the Procedure for submission of notices by the central depository to the federal executive authority on financial markets".

Order No. 12-53/n3-H of the FFMS of Russia dated July 3, 2012 "On approval of the requirements to some internal documents of the central depository" (along with "Requirements to the conditions of depository activity carried out by the central depository", "Requirements to the rules on electronic interaction of the central depository", "Requirements to the procedure for transactions and document flow during the depository activity of the central depository", "Requirements to the rules on information protection by the central depository").

³⁵ Order No. 12-65/n3-H of the FFMS of Russia dated July 27, 2012 "On approval of the List of foreign entities for which the central depository shall open foreign nominee securities accounts" (effective from October 14, 2012).

³⁶ Order No. 12-78/n3-H of the FFMS of Russia dated August 30, 2012 "On approval of the Procedure for opening and maintenance of securities and other accounts by depositories".

³⁷ Order No. 12-52/n3-H of the FFMS of Russia dated June 28, 2012 "On approval of the Procedure for recording pledge of equity securities in the securities register and making changes in the register associated with the transfer of rights to the pledged equity securities".

³⁸ Order No. 12-111/n3-H of the FFMS of Russia dated December 25, 2012 "On maximum fee charged by registrars from registered persons for recording transactions in the register, and the procedure for determining the above fee" (effective from 2013).

3.2. Issue of securities

Federal Law No. 282-Ф3 dated December 29, 2012 “On amendment of certain legislative acts of the Russian Federation and invalidation of certain provisions of legislative acts of the Russian Federation” made the securities issue procedure much simpler.

The law altered materially the norms regulating state registration of the securities issue. Thus, starting from July 2, 2013, preliminary review of the documents required for state registration of securities issue will be possible, provided the registration of the said issue is accompanied by registration of the securities prospectus. The law reduced materially the number of cases where registration of the securities prospectus is mandatory, and introduced the capability for the securities prospectus registration in parts.

Another important aspect is the procedure for securities placement and circulation. It is established that, in case equity securities are offered by subscription, the subscription period, which used to be no larger than one year from the state registration of the equity securities issue (additional issue), can be extended by the issuer by making the relevant changes in the resolution on issue (additional issue) of equity securities. The law also reduced the number of cases requiring registration of the issue report. Before, only issuers being non-credit institutions could choose to submit a notice of the securities issue results instead of registering the respective report, provided a broker rendered equity securities placement services by open subscription and a stock exchange listed the said securities. Now, the above right can be exercised by any issuers subject to simultaneous satisfaction of the following conditions:

a) securities have been placed by open subscription;

b) during placement, securities have been paid for in cash and (or) equity securities admitted to organized trading;

c) securities are admitted to organized trading.

Subject to the above conditions, the possibility of securities issue recognition as void is also limited, and the possibility of invalidation of the said issue is excluded.

Starting from January 2, 2013, transactions in securities can be executed immediately following the state registration of their issue (additional issue) or assignment of an identification number for the issue (additional issue). However, the transfer of title to equity securities is prohibited until they are fully paid for.

The law also cancelled some limitations of exchange-traded bonds issue. Before, exchange-traded bonds could be issued only by those issuers whose securities had already been included in the quotation list of a stock exchange, and the maturity period for exchange-traded bonds could not exceed three years; the above limitations shall not apply starting from January 2, 2013.

Equity securities can be admitted to organized trading without inclusion in the quotation lists starting from January 2, 2013, provided there is no registered prospectus and subject to the issuer's disclosure of information according to the requirements of the trade organizer.

In addition, the approach to determining the content of the securities prospectus was changed. The number of requirements to the prospectus established directly by Law “On securities market” was reduced, and the establishment of the said requirements was referred to the competence of the FFMS of Russia.

Starting from July 2, 2013, amendments associated with the issue of securities during reorganization of joint-

stock companies will take effect. In case a bonds issuer is reorganized, instead of registering a new bonds issue, the issuer will be replaced by its successor by making the respective amendments in the resolution on bonds issue (additional issue) registered earlier, provided that all obligations under the bonds of a certain issue are transferred to a single successor and the successor's legal organizational form entitles the successor to issue bonds.

Along with the simplified issue procedure, the above law also made some amendments to the corporate legislation.

A resolution to apply to a stock exchange requesting delisting of shares, which could earlier be taken by the issuer's sole management body, is now referred to the competence of the general meeting of the company members or its board of directors.

As for dividends for shares traded on the organized markets, a special procedure was established for calculating the date when the persons entitled to receive the above dividends are determined. The said date cannot fall sooner than ten days after the resolution to pay (declare) dividends is made or later than 20 days after the said resolution. Starting from January 1, 2014, payments on shares and registered bonds will be performed only through a depository where the securities holders are registered as depositors. In addition, the depository, in its role as the nominal holder, will be fully responsible for notifying depositors of the general meetings of shareholders, as well as providing them with the information (materials) that must be delivered to the persons entitled to participate in the general meeting of shareholders.

As for the preemptive right, the amendments have affected the period for exercise of the above right.

3.3. Countering illegal use of insider information and market manipulation

In 2012, changes were made in the existing regulatory system for countering illegal use of insider information and market manipulation.

1. In May 2012, amendments³⁹ to the order of the FFMS of Russia determining the list of insider information based on which insiders shall form their own lists of insider information took effect. The amendments affected primarily the list of issuers' insider information. Insider information of issuers shall now include the information contained in the auditor's opinion with regard to the annual or intermediary (quarterly) accounting (financial) reports (including consolidated reports), information on conclusion by the issuer of an interested-party transaction which is to be approved by the issuer's authorized management body according to the law of the Russian Federation, subject to a certain amount

of such a transaction; information on any facts when the board of directors (supervisory board) of an issuer which is an open joint-stock company does not adopt a resolution on recommendations concerning any voluntary, including competitive, or mandatory offer, including evaluation of the offer price of the acquired equity securities and a possible change in their market value after the acquisition, evaluation of the plans of the person that sent a voluntary, including competitive, or mandatory offer concerning the above issuer, including its employees, as well as the information on any strategic partnership or other agreement signed by the issuer if such agreements may have a material effect on the price of the issuer's equity securities.

2. In its information letter⁴⁰ dated December 21, 2012, the FFMS of Russia

explains that inclusion of the persons with access to insider information of an organization in the list of insiders shall be based on the availability of agreements signed with such persons and their actual access to the organization's insider information defined in the internal list of insider information. It was recommended that organizations keeping the insider lists should recommend their insiders on the appearance of any additional or termination of any previous grounds for inclusion in the insider list.

3. In addition, FFMS of Russia approved methodological recommendations⁴¹ for calculation of the income or losses evaded by a person due to illegal use of insider information, as well as the compensation for the losses caused by illegal use of insider information.

3.4. Activity of professional participants

1. In May 2012, the FFMS of Russia approved a new regulation⁴² on internal control of a professional securities market participant. Compared to the previous regulatory act that set the requirements to the internal control of a professional securities market participant, the new regulation is supplemented

with a section on the procedure for internal control within the framework of countering illegal use of insider information and market manipulation. The regulation sets the requirements to the report on the internal control for the purposes of countering illegal use of insider information and market

manipulation, as well as the requirements to the suspicious transaction notice, which is sent by decision of the company's sole executive body to the FFMS of Russia.

Another novelty introduced in the regulation is the principle of internal control continuity. As a result, the

³⁹ Order No. 12-2/n3-H of the FFMS of Russia dated January 17, 2012 "On approval of amendments to the List of information referred to insider information of the persons listed in cl. 1-4, 11 and 12, Article 4 of Federal Law "On countering illegal use of insider information and market manipulation and on amendments to certain legislative acts of the Russian Federation", approved by Order No. 11-18/n3-H of the FFMS of Russia dated May 12, 2011".

⁴⁰ Information Letter of FFMS of Russia dated December 21, 2012 "On clarification of certain issues related to practical application of Federal Law No. 224-ФЗ "On countering illegal use of insider information and market manipulation and on amendments to certain legislative acts of the Russian Federation".

⁴¹ Order No. 12-49/n3-H of the FFMS of Russia dated June 28, 2012 "On approval of Methodological recommendations for calculation of the income or losses which the person evaded due to illegal use of insider information, and the compensation for the losses caused due to illegal use of insider information".

⁴² Order No. 12-32/n3-H of the FFMS of Russia dated May 24, 2012 "On approval of Regulation on internal control of a professional securities market participant" (effective from January 4, 2013).

regulation defines the procedure for performing the duties of the inspector of a professional securities market participant during the inspector's temporary absence.

In addition, the new regulation establishes a wider list of duties that can be additionally imposed on the inspector of the professional securities market participant in case the organization combines professional activity on the securities market with other types of activity. According to the new regulation, the inspector of a professional securities market participant shall be entitled to perform the functions associated with internal control and (or) audit of compliance

of the personal data processing with the applicable regulatory acts, as well as internal control of an exchange intermediary that signs derivative contracts in exchange trade with the underlying asset being an exchange commodity.

The regulation provides for the capability of electronic document flow with the use of an electronic signature in the preparation, submission, accounting and storage of the inspector's reports.

2. On December 6, 2012, FFMS of Russia adopted an order⁴³ approving the new procedure for report submission by professional securities market participants. According to the above procedure, starting from March

25, 2013, a professional securities market participant shall send to the FFMS of Russia the reports mentioned in Annex 2 to the Regulation on reporting of professional securities market participants, approved by Decree No. 33/109n of the Federal Securities and Exchange Commission and the Ministry of Finance of Russia dated December 11, 2001, only in the form of an electronic document with an electronic signature. The electronic report files shall be signed with an electronic signature of the person acting as the sole executive body of the professional participant, and an electronic signature of the professional participant's inspector.

3.5. Organized trading

1. On January 1, 2012, Federal Law No. 325-Ø3 "On organized trading"⁴⁴ (hereinafter – Law on Trading) took effect. The law establishes the legal framework of organized trading activity, the requirements to the persons responsible for organization of trading, and the fundamentals of state regulation and control over the organized trading activity.

According to the Law on Trading, services associated with organized trading on a commodities and (or) financial markets can be provided based on a stock exchange license or a trading system license. The Law establishes that organizations that, as of January 1, 2013, hold any licenses based on which organized trading was conducted prior to the enactment of the Law on Trading, must bring their activities in compliance with the new

requirements by January 1, 2014 by acquiring a new license.

In addition, the Law on Trading establishes the peculiarities of signing contracts with the central counterparty or clearing brokers during organized trading (a clearing broker is a clearing participant that is a party to contracts signed based on orders submitted by another participant of organized trade not in the broker's interests).

2. Due to the adoption of the Law on Trading, amendments⁴⁵ were introduced in certain legislative acts, including Federal Laws "On securities markets", "On joint-stock companies", "On insolvency (bankruptcy)".

Changes in the Federal Law "On securities market" affect the admission of securities to trading. While earlier securities listing meant inclusion of securities in the quotation list by a stock

exchange, now, according to the new amendments, listing shall mean admission of securities to all organized trades. Listing of securities without inclusion in the quotation list can be performed by any trade organizer, while listing of securities by inclusion in the quotation list can be performed only by a stock exchange, just as it was before. Securities can be included in the quotation list only if the stock exchange has signed an agreement with the issuer of the relevant securities (except for own securities and federal government securities).

3. On September 1, 2012, amendments⁴⁶ to Federal Law "On investment funds" took effect, providing for the capability of creating Exchange Traded Funds (ETF) in Russia. The creation of the above funds will be possible after a set of by-laws is adopted to regulate the procedure for their activity.

⁴³ Order No. 12-108/n3-H of the FFMS of Russia dated December 6, 2012 "On the terms and procedure for report submission by professional securities market participants" (effective from 2013).

⁴⁴ Federal Law No. 325-Ø3 dated November 21, 2011 "On organized trading".

⁴⁵ Federal Law No. 327-Ø3 dated November 21, 2011 "On amending certain legislative acts of the Russian Federation due to enactment of Federal Law "On organized trading".

⁴⁶ Federal Law No. 145-Ø3 dated July 28, 2012 "On amending certain legislative acts of the Russian Federation".

3.6. Clearing

1. On January 1, 2012, Federal Law No. 7-Φ3 “On clearing and clearing activity” took effect (hereinafter – the Law on Clearing), establishing the legal framework for clearing, the requirements to the persons engaged in clearing activity and (or) acting as central counterparty, and the fundamental principles of state regulation and control over the clearing activity.

The Law on Clearing determines that the functions of the central counterparty can be exercised by a clearing organization or a credit organization subject to the appropriate accreditation.

To reduce the risks of default on obligations by the clearing participants, the Law provides for individual and collecting clearing collateral. The clearing participants shall be entitled to secure the performance of their obligations by forming collective clearing collateral – a guarantee fund that is to be formed by contributions of the clearing participants.

2. To ensure the operation of clearing organizations, the FFMS of Russia has adopted a set of regulatory acts. Thus, FFMS adopted the regulation on requirements to clearing activity⁴⁷ and the requirements to the equity capital of clearing organizations⁴⁸ and approved the qualification requirements to the experience of the persons⁴⁹ specified in the Law on Clearing.

3. FFMS of Russia adopted a set of regulatory acts⁵⁰ regulating the

procedure for opening and closing of trading and clearing accounts used for clearing and discharge of the obligations admitted to clearing.

According to Article 15 of the Law on Clearing, a trading securities account shall mean a separate securities account opened for clearing participants and other persons (their customers) to record the rights to securities which can be used for discharge and (or) enforcement of the obligations admitted to clearing, as well as obligations to exchange infrastructure organizations. The main identifying feature of a trading securities account is complete control by the clearing organization over the transactions on the said account. Transactions on the trading securities account shall be concluded based on instructions of the clearing organization without the depositor’s order, or based on the depositor’s order, subject to the consent of the clearing organization.

Securities in the trading securities account that are required to discharge the obligations admitted to clearing (transactions executed by the depositor) are also protected against mandatory withdrawal upon demand of government authorities or other parties. Forfeiture of the assets recorded in the trading securities account is possible only with respect to the securities remaining after the performance (termination) of clearing obligations. Arrest shall be imposed

on the above assets immediately after receiving the respective notice from the court bailiff, yet it does not prevent the transactions necessary to perform (terminate) the obligations admitted to clearing by instruction of the clearing organization. If bankruptcy proceedings are initiated against a clearing participant, the bankruptcy estate shall include only those of the securities recorded on the trading securities account which remain after the performance (termination) of all obligations based on the clearing results.

According to Article 16 of the Law on Clearing, clearing accounts can be used during clearing and performance of obligations admitted to clearing. Clearing accounts are opened for the clearing organization and are used to record the assets of clearing participants, the person acting as the central counterparty and (or) other persons stipulated by the clearing rules.

When securities are credited to the clearing securities account, the depository shall open sub-accounts for the holder, nominee or trustee to record the rights to the above securities. Such sub-accounts are opened based on the law without signing a depository agreement with the above persons. Holders of the securities whose rights are recorded in the above sub-accounts shall exercise all the rights vested by the said securities.

⁴⁷ Order No. 12-87/нз-н of FFMS of Russia dated October 11, 2012 “On approval of Regulation on requirements to clearing activity”.

⁴⁸ Order No. 12-83/нз-н of FFMS of Russia dated October 2, 2012 “On requirements to equity capital of clearing organizations”.

⁴⁹ Order No. 12-84/нз-н of FFMS of Russia dated October 4, 2012 “On approval of Qualification requirements and requirements to professional experience of persons specified in Part 2, Article 6 of Federal Law No. 7-Φ3 dated February 7, 2011 “On clearing and clearing activity”, Part 2, Article 6 of Federal Law No. 325-Φ3 dated November 21, 2011 “On organized trading”.

⁵⁰ Order No. 12-7/нз-н of FFMS of Russia dated February 9, 2012 “On approval of Procedure and terms for opening and closing of clearing and trading commodity accounts, and transactions involving the said accounts”; Order No. 12-12/нз-н of FFMS of Russia dated March 15, 2012 “On approval of Regulation on the peculiarities of the procedure for opening and closing of trading and clearing securities accounts, and transactions involving the said accounts”.

3.7. Derivatives and repo market

1. According to Federal Law “On securities market”, a register of agreements signed under the terms of the general agreement (universal agreement) is kept. The register-keeping activity is regulated by the respective order of the FFMS of Russia⁵¹.

In December 2012, FFMS of Russia adopted an order⁵² amending the procedure for keeping the above register established earlier. According to the order, in its notice to the FFMS of Russia the repository shall be entitled to specify the type (types) of agreements for which it intends to keep the register and the period upon expiry of which the

repository shall have to keep the register of agreements of all types.

The period for submission to the repository of information on agreements signed under the terms of general agreements after August 11, 2011 and until the signing of an agreement with the repository has been increased from six to nine months.

In early February 2013, NCO NSD CJSC acquired the repository status. The above repository keeps the register for the following types of agreements:

1. Repo agreements.
2. Agreements stipulating one party's obligation to deliver currency to the second

party, and the obligation of the second party to accept and pay for the currency, as well as the obligation of the second party to deliver currency to the first party, and the first party's obligation to accept and pay for the currency. Such an agreement shall not stipulate any other obligations of the parties with regard to payment or transfer of currency (cash funds).

2. According to the federal law⁵³, derivative contracts may be concluded using the pension savings subject to compliance with the risk limitation requirements established by the regulatory acts of the federal executive authority for securities market.

3.8. Countering legitimization of proceeds of crime

1. On January 17, 2012, FFMS of Russia published an information letter⁵⁴ explaining that professional securities market participants no longer have to submit to FFMS for approval the rules for internal control aimed at countering legitimization (laundering) of proceeds of crime and terrorist financing.

2. On June 29, 2012, the Bank of Russia summarized the practice⁵⁵ of application of Federal Law “On countering legitimization (laundering) of the proceeds of crime and financing of

terrorism” and the regulations adopted by the Bank of Russia under the above law. According to the above Letter, a person with whom a credit organization signs a surety or pledge agreement to secure the performance of the borrower's obligations shall not be regarded as the organization's client provided there are no other civil law relations, and thus, no mandatory identification is required concerning this person. The Letter also explains that the procedure for recording and storage of information on the client's

representatives can be determined by the credit organization independently. Credit organizations have to make regular updates of information only on their clients and beneficiaries.

3. Federal Service for Financial Monitoring (Rosfinmonitoring) published an Information Letter⁵⁶ on August 24, 2012 explaining the procedure for submission of information on transactions in monetary funds or other assets. Thus, if an organization intends to send the above information in hard

⁵¹ Order No. 11-68/n3-H of FFMS of Russia dated December 28, 2011 “On approval of the Procedure for keeping the register of agreements signed under the terms of the general agreement (universal agreement), provision of information required to keep the above register and the information from the above register, as well as submission of the register of agreements signed under the terms of the general agreement (universal agreement) to the federal executive authority for the securities market”.

⁵² Order No. 12-105/n3-H of FFMS of Russia dated December 4, 2012 “On amending Order No. 11-68/n3-H of FFMS of Russia dated December 28, 2011 “On approval of the Procedure for keeping the register of agreements signed under the terms of the general agreement (universal agreement), provision of information required to keep the above register and the information from the above register, as well as submission of the register of agreements signed under the terms of the general agreement (universal agreement) to the federal executive authority for the securities market”.

⁵³ Federal Law No. 242-03 dated December 3, 2012 “On amending individual legislative acts of the Russian Federation on issues concerning payments at the expense of pension savings”.

⁵⁴ Information Letter No. 12-SKh-02/1101 of FFMS of Russia dated January 17, 2012 “On amending the procedure for approval of rules on internal control aimed at countering legitimization (laundering) of proceeds of crime and terrorist financing, and exclusion of the approval procedure for the above rules”.

⁵⁵ Information Letter No. 20 of the Bank of Russia dated June 29, 2012 “Summary of practical application of Federal Law “On countering legitimization (laundering) of proceeds of crime and financing of terrorism” and the regulatory acts of the Bank of Russia adopted under the above law”.

⁵⁶ Information Letter No. 19 of Rosfinmonitoring dated August 24, 2012 “Clarification of the procedure for information submission to the Federal Service for Financial Monitoring”.

copy, a written request (in free form) for approval of information provision in hard copy should be sent to Rosfinmonitoring, the request containing the details of the organization (person) and the reasons for inability to submit messages in electronic form.

4. In its Information Letter⁵⁷ dated September 3, 2012, Rosfinmonitoring clarified the issues associated with application of the requirements to internal control rules developed by

the organizations which conclude transactions in cash funds or other assets (except for credit organizations), approved by Decree No. 667 of the Russian Federation Government dated June 30, 2012. In particular, it stated that the dates for amending the internal control rules due to changes in the applicable legislation on countering money laundering/terrorist financing have not been established to date by Federal Law No. 115-Ø3 dated August

7, 2001 "On countering legitimization (laundering) of the proceeds of crime and financing of terrorism" or by any other regulatory acts. However, if changes are made in the regulatory acts on countering money laundering/terrorist financing, it is recommended that organizations should amend their internal control rules accordingly within 30 calendar days after the above changes or a new regulatory act take effect.

3.9. Taxation on the securities market

1. On January 1, 2012, amendments⁵⁸ to the Tax Code of the RF connected with taxation of repo transactions took effect. Starting from January 1, 2012, in case of improper performance (default) on the second part of a repo or early termination of a repo agreement, the participants of the repo transaction shall recognize the profit from sale (cost of purchase) of the first part of repo on the performance date of the second part of repo (established by the agreement) or the date of early

termination of the repo agreement by consent of the parties. In this case, it is established that the costs in the form of exchange, broker or depository fees associated with the repo transactions shall reduce the taxation base for repo transactions.

2. On July 28, 2012, a federal law⁵⁹ was adopted, according to which the following types of services shall be exempt from VAT starting from January 1, 2013: services rendered by registrars, depositories, including

specialized depositories and the central depository, dealers, brokers, securities managers, management companies of investment funds, unit investment funds and non-state pension funds, clearing organizations and trade organizers, based on the licenses for the respective activities. Related services by the above persons can also be exempt from VAT if they are included in the special list that is to be approved by the Government of the Russian Federation.

⁵⁷ Information Letter No. 20 of Rosfinmonitoring dated September 3, 2012 "Issues associated with the application of Requirements to internal control rules developed by organizations which conclude transactions in cash funds or other assets (except for credit organizations), approved by Decree No. 667 of the Russian Federation Government dated June 30, 2012".

⁵⁸ Federal Law No. 330-Ø3 dated November 21, 2011 "On amending Part Two of the Tax Code of the Russian Federation, Article 15 of Law of the Russian Federation "On the status of judges in the Russian Federation", and invalidation of individual provisions of legislative acts of the Russian Federation".

⁵⁹ Federal Law No. 145-Ø3 dated July 28, 2012 "On amending individual legislative acts of the Russian Federation".

3.10. Information disclosure and presentation on the securities market

1. On March 2, 2012, a new regulation⁶⁰ on information disclosure by issuers of equity securities took effect. The regulation governs the content, procedure and periods for mandatory disclosure of information by joint-stock companies, disclosure of data during the issue stages, and in the format of a securities prospectus, the issuer's consolidated accounting (consolidated financial) reports, quarterly report, and corporate action notices.

The above regulation provides a more detailed description of the information disclosure procedure in the form of corporate action notices, including the specification of data to be included in individual corporate action notices.

The regulation applies to all issuers, including foreign ones, including the international financial organizations

whose securities are placed and (or) traded in the Russian Federation, except for the Bank of Russia and issuers of Russian government and municipal securities.

The regulation offers a new possibility for disclosure of information not only in Russian but also in English, for instance, for information on foreign issuer's securities to be disclosed on the website of a Russian stock exchange that admitted such foreign securities to trading.

2. Starting from February 3, 2012, a regulation⁶¹ took effect concerning the requirements to the notices sent by the persons that are defined in Federal Law "On securities market" and are related to the issuer that must publicly disclose or present information according to Federal Law "On securities market". The regulation established the forms,

periods and procedure for sending such notices. They shall be sent to the respective issuer and the FFMS of Russia either on paper and electronic media or in the form of an electronic document signed with an electronic signature. Notices can also be sent through a dedicated information agency authorized to carry out information disclosure activities on the securities market.

3. Starting from January 2, 2013, amendments⁶² to Federal Law "On securities market" took effect, according to which the information on securities, including on investment units of unit investment funds and derivatives designated for qualified investors, can be disclosed to the general public, provided the information contains a reference to the fact that it is addressed to qualified investors.

⁶⁰ Order No. 11-46/n3-H of the FFMS of Russia dated October 4, 2011 "On approval of the Regulation on information disclosure by issuers of equity securities".

⁶¹ Order No. 11-44/n3-H of the FFMS of Russia dated October 4, 2011 "On approval of the Regulation on the content, form, period and procedure for sending notices by persons defined in cl. 19-22, Article 30 of Federal Law "On securities market" containing information stipulated by cl. 19-22, Article 30 of Federal Law "On securities market" (revision of January 26, 2012).

⁶² Federal Law No. 282-Ø3 dated December 29, 2012 "On amending individual legislative acts of the Russian Federation and invalidation of individual provisions of legislative acts of the Russian Federation".

4. Regulatory system

4.1. Reform of the financial markets supervision system

In the autumn of 2012, the discussion concerning the ways for enhanced supervision on the financial markets became more active. The following three variants were discussed more than others:

1) significant financial and staff reinforcement of the FFMS of Russia that would enable to raise the efficiency of regulation and control in the regulated spheres of the financial market;

2) transforming the FFMS of Russia into a separate organization in the system of the Bank of Russia, which would solve the problem of additional financing and allow to maintain a certain distance between the financial markets regulation and the main functions of the Bank of Russia, i.e., protecting the ruble, ensuring its stability, development and strengthening of the banking system, ensuring the stability and development of the national payment system;

3) dissolution of the FFMS of Russia and transfer of all its powers to the Bank of Russia, with a complete transfer of FFMS employees to the respective subdivisions of the Bank of Russia.

The first variant, which required material costs from the federal budget, was not supported by the interested government authorities. FFMS of Russia was in favor of its transformation into a separate agency in the system of the Bank of Russia. The Bank of Russia, along with the Ministry of Finance of the RF, believed the third variant, providing for complete integration of FFMS with the Bank of Russia, to be more feasible.

In November 2012, public hearings on the project for reforming the financial supervision system took place within the scope of the 'Open government', and at the end of December, Chairman of the Government of the RF sent the President

a letter with his proposals regarding the creation of a mega regulator for the financial market.

On January 24, 2013, the President of the RF supported the decision to create a mega regulator by including the FFMS in the Bank of Russia. The following main stages of the financial regulation reform were determined:

1) from the end of 2013 to the start of 2015, FFMS of Russia will function in the Bank of Russia autonomously, without redistribution of its functions to the structural subdivisions of the Bank of Russia;

2) From January 2015, all functions of the FFMS of Russia will be transferred to the structural subdivisions of the Bank of Russia.

The legislative formalization of the reform of the financial markets supervision system is to be completed in 2013.

4.2. Federal Financial Markets Service

Currently, the state regulatory authority for the Russian securities market is the Federal Financial Markets Service of Russia (FFMS of Russia).

The activity of FFMS of Russia is regulated by Federal Law "On securities market" and Regulation on FFMS of Russia, approved by Decree No. 717 of the RF Government dated August 29, 2011 (hereinafter – Regulation on FFMS of Russia).⁶³

FFMS of Russia is responsible for statutory regulation, control and supervision in the sphere of financial markets (excluding banking and audit activities), in the sphere of insurance activity, credit cooperation and micro-financial activity, activity of commodity exchanges, exchange intermediaries and exchange brokers, formation and investment of pension savings, including those included in the payment reserve, ensuring state control over compliance with the requirements of the laws of the Russian Federation on countering illegal use of insider information and market manipulation. Some regulatory acts of the FFMS are adopted subject to approval by the Ministry of Finance of the RF.

FFMS of Russia regulates all of the main entities on the stock market, including issuers, professional participants, collective investment institutions, and, in some aspects, even investors.

Being an executive body, FFMS is subordinated to the Government of the RF, which is entitled to suspend or

cancel any act of the FFMS. With regard to issuers, FFMS of Russia is entitled, subject to the consent of the Ministry of Finance, to approve securities issue standards, approve the procedure for state registration of securities and issue reports, to register securities issues and issue reports, as well as securities prospectuses (excluding government and municipal securities). FFMS of Russia also conducts inspections of issuers, issues improvement notices if any breaches are detected, and, if necessary, it can suspend issuance of securities and file an action with the court requesting invalidation of a securities issue.

With regard to professional securities market participants, FFMS of Russia licenses professional activities on the securities market, registers some internal documents of professional participants, and keeps the register of professional securities market participants. It also conducts inspections of professional participants, and, if necessary, can issue improvement notices, prohibit or limit some transactions on the securities market and, finally, suspend or cancel licenses of breaching participants.

With regard to collective investment institutions, FFMS of Russia registers the trust management rules for UIF and the trust management rules for the mortgage pool, the rules of NPF, and documents of specialized depositories. FFMS of Russia inspects the activity of all of the above entities, issues improvement

notices, approves the regulatory acts of the Ministry of Finance providing for the requirements to the asset structure of joint-stock investment funds and unit investment funds.

FFMS of Russia also determines the procedure for calculation of the market value of assets and the net value of assets in which the pension savings formed in NPF are invested, and, subject to approval by the Ministry of Finance, it determines the procedure for calculation of the results of pension savings investments for recording them in the pension accounts of individuals, and the standards for dissemination, presentation or disclosure of information on the activities of NPF.

In addition, FFMS of Russia establishes the forms of reports of management companies, specialized depositories and actuaries, and the procedure and periods for submission of the above reports.

Moreover, FFMS of Russia publishes methodological materials and recommendations on issues referred to its competence and summarizes the law application practice in the dedicated sphere of activity. It is entitled, if the need arises, to submit claims and applications to the court or arbitration court. Another important function of FFMS is its right to review administrative cases referred to its competence and to impose sanctions established by the administrative offences legislation.

The powers of FFMS of Russia do not apply to the issue and circulation of government and municipal securities.

⁶³ Decree No. 717 of the RF Government dated August 29, 2011 "On some issues of state regulation in the sphere of financial markets in the Russian Federation" (including "Regulation on the Federal Financial Markets Service").

4.3. Ministry of Finance of the Russian Federation

The Ministry of Finance carries out the functions aimed at implementing the state policy in the sphere of financial markets and, together with the FFMS of Russia, is responsible for the legal regulation in this sphere.

According to the applicable Regulation on the Ministry of Finance⁶⁴ it approves issues and circulations of federal government securities and resolutions on individual issues of the above securities,

as well as the issue reports. In addition, the Ministry of Finance itself acts as an issuer of federal government securities.

The Ministry of Finance acts as a regulatory authority with regard to government securities of RF entities and municipal securities – it is responsible for state registration of the conditions of such securities issue and circulation and approves the information disclosure standards for the above securities.

In addition, the Ministry of Finance remains a regulator in the sphere of pension savings investments for financing the funded part of the retirement pension.

Moreover, the Ministry of Finance adopts legal regulations on issues associated with the accounting and reporting procedures and carries out the accreditation of rating agencies based on their applications.

4.4. Central Bank of the Russian Federation

The Central Bank is not included in the system of executive authorities and operates based on special law “On the Central Bank of the Russian Federation (Bank of Russia)”. Its powers associated with regulation of commercial banks are also determined by the law “On banks and banking activity”. As an organization responsible for organizing currency circulation and the stability of the Russian banking system, the Bank of Russia has a set of powers that influence the securities market to one extent or another or affect its participants.

Thus, the Bank of Russia, in cooperation with the RF Government, develops and pursues a unified state monetary policy, which affects many parameters of the securities market. For the purpose of implementation of the

monetary policy, the Bank issues its own bonds and carries out transactions on the open market with government securities and its own bonds, being a large player on the above market.

As the banking system regulator, the Bank of Russia determines the peculiarities of the procedure for securities issue by credit organizations and registers the issues of the respective securities. It exercises banking supervision of the activities of credit organizations and banking groups, including their activities as investors on the securities market. As for the activities of credit organizations as professional participants of the securities market, the Bank of Russia, in effect, determines the procedural rules for individual transactions (for instance, the rules of depository accounting, etc.).

Finally, by participating in the capital of infrastructure organizations on the securities market (such as Moscow Exchange JSC), the Bank of Russia carries out ‘indirect regulation’ of the securities market.

The Bank of Russia also establishes the rules of banking transactions, as well as the accounting and reporting rules for the banking system of the RF.

Therefore, despite the fact that the regulatory powers of the Bank of Russia with respect to the securities market participants directly apply only to credit organizations operating on the market, the overall influence of this institution on the financial market is quite large. Using the above powers, the Bank of Russia, in effect, ranks second in importance as a state regulator of the securities market.

⁶⁴ Decree No. 329 of the Government of the RF dated June 30, 2004 “On the Ministry of Finance of the Russian Federation”.

4.5. Ministry of Labor and Social Protection of the Russian Federation

According to the Regulation on the Ministry of Labor and Social Protection of the Russian Federation, approved by Decree No. 610 of the RF Government dated July 19, 2012, the Ministry of Labor exercises the functions associated with the development of the state policy and legislative regulation,

including the spheres of pension provision, non-state pension provision, and social insurance (excluding mandatory medical insurance). Before, the above functions were performed by the Ministry of Health and Social Development of the Russian Federation.

The Russian Ministry of Labor adopts regulatory acts setting the requirements to the pension schemes used for non-state pension provision and the rules on payment of retirement and state-provided pensions, and approves the standard insurance rules for non-state pension funds.

4.6. Other government bodies

The law enforcement system on the securities market also includes tax authorities, financial control

and monitoring authorities, the antimonopoly authority, the judicial system, and the law enforcement bodies.

However, a detailed description of their functions and tasks is beyond the scope of this review.

4.7. Self-regulatory organizations

In addition to the government authorities, the securities market regulation system includes self-regulatory organizations (SRO). They are formed by professional participants of the securities market, management companies and NPF with a view to ensuring their operating conditions, compliance with the professional ethic standards, protection of customer interests, and establishing the rules and standards of transactions ensuring effective activities on the securities market.

SRO are formed as non-profit organizations. They set the rules of professional conduct on the securities market and the standards of transactions in securities mandatory for the members

of SRO, and control the compliance with the above. Membership in SRO is voluntary.

Currently, the following five organizations hold the status of SRO for professional securities market participants and collective investment institutions in Russia⁶⁵:

- National Association of Securities Market Participants (NAUFOR) unites brokers, dealers, managers and depositories. It has 271 members. NAUFOR has a central office in Moscow and branches in 14 regions of the country;
- Professional Association of Registrars, Transfer Agents and Depositories (PARTAD) includes 70 depositories and registrars;

- National Funding Association (NFA) includes companies holding licenses to broker, dealer, and depository activities and trust management of securities. NFA includes 230 organizations, mainly credit organizations;
- National League of Management Companies (NLU), which includes 56 organizations, unites UIF and NPF management companies;
- Noncommercial Partnership of Professional Stock Market Participants of the Ural Region (PUFRUR) is currently the only SRO with the office located not in Moscow, but in Yekaterinburg. PUFRUR members include 19 professional participants of the

⁶⁵ According to FFMS of Russia and SRO websites.

securities market in the Ural region;

- National Association of Non-state Pension Funds (NAPF) is a self-regulatory organization bringing together non-state pension funds of Russia. NAPF members include 88 organizations.

In December 2012, FFMS of Russia issued a permit for operation as a self-regulatory organization of management companies, investment funds, unit

investment funds and non-state pension funds to non-commercial partnership Association of Professional Stock Market Managers (Moscow). According to mass media, this organization includes 18 members.

It should be pointed out that quite often professional participants of the securities market are members of several SROs at the same time. That is why it seems hardly possible to provide an accurate estimate of the

overall involvement of the professional market community in the self-regulatory mechanism. Nevertheless, according to our estimates, the average of 33% of the total number of professional securities market participants are members of at least one self-regulatory organization, with registrars reaching the highest SRO membership level – 75%. The exchange trade participants are also quite representative in SRO.

5. Main event calendar for 2012

January	
01	Federal Law No. 325-ФЗ "On organized trading" took effect
	Federal Law No. 414-ФЗ "On the central depository" took effect
	Federal Law No. 7-ФЗ "On clearing and clearing activity" dated February 7, 2011 took effect
16	Fitch rating agency announced that Russia's credit rating prognosis deteriorated from 'positive' to 'stable'
23	FFMS of Russia investigated the circumstances associated with the technical failure on MICEX SE on December 19, 2011. The Stock Exchange was ordered to conduct an audit of its technical trading equipment engaging independent experts
	Sberbank Rossii and Troika Dialog IC announced completion of the transaction: Sberbank acquired 100% ownership of the investment company
26	Moscow Exchange Group announced its plans to amend the procedure for exclusion of issuers from the list of securities admitted to trading
31	It was announced that EBRD had acquired a large package of shares of Moscow Exchange JSC
February	
02	Mass media reports appeared concerning placement of sovereign bonds of Azerbaijan and Montenegro on the Russian stock market
	During Russia 2012 Forum, Chairman of the Government of the RF instructed VTB Bank JSC to work on the issue of buyback of shares of the 'people's IPO' at the offer price. A short spike in the bank's share quotes was observed
04	A mass opposition rally in Bolotnaya Square in Moscow, with a pro-government rally on Poklonnaya Hill. The above had no particular effect on the behavior of the stock indices
09	NAUFOR sent a letter to FFMS of Russia with proposals to revise the current system of inspections and penalties with regard to professional participants
13	A representative of the Bank of Russia announced the plans of IPO by Moscow Exchange JSC in the fourth quarter of 2012 and of the approximate capitalization following the IPO – at least 6 billion USD
	Moscow Exchange Group began the transfer of trade in Russian government bonds to MICEX SE CJSC
14	NAUFOR sent proposals to the State Duma regarding the priorities of financial legislation for 2012, emphasizing the incentives for domestic investors and simplification of the issuance procedure
	Moody's rating agency revised credit ratings for nine European countries: the ratings of Spain, Italy, Malta, Portugal, Slovakia and Slovenia were reduced. The ratings of Austria, Great Britain and France remained on the top level, with prognosis changing from 'stable' to 'negative'
17	FFMS of Russia informed professional participants of its intent to restore the report collection service by March 1, 2012 following a technical failure that lasted since December 27, 2011. On the same date, NAUFOR was able to send to the regulator 2,792 sets of company reports submitted through NAUFOR and stored on its server during the above breakdown period
23	Fitch rating agency reduced the credit rating of Greece to C (pre-default condition)
27	S&P rating agency reduced the credit rating of Greece to SD (selective default)
30	Supervisory Board of CJSC NCO NSD approved the transaction involving purchase of shares of CJSC DCC
March	
04	Presidential election in the RF had no significant effect on the behavior of stock indices
05	JSC VTB Bank announced the parameters of share buyback from the bank's shareholders of IPO in 2007, including the maximum buyback amount of 500 thousand rubles and the buyback period until April 13

05	Mass protests were organized in Moscow against the presidential election results, with clashes with the police and arrests of protesters. The above had no significant effect on the behavior of stock indices
	Fitch rating agency announced that implementation of the election pledges of the RF presidential election winner could cost 8% of the GDP within 6 years
	A study was published stating that the default of Greece would cost the euro zone 1 trillion Euros
13	Trading in shares of UC Rusal plc was suspended for one day on the Hong Kong Stock Exchange
	Fitch rating agency raised the credit rating of Greece to B with a 'stable' prognosis
	FFMS of Russia imposed a fine of 700 thousand rubles on MICEX SE CJSC for incomplete submission of documents upon the request of FFMS
14	NAUFOR and the Bank of Russia signed an agreement for cooperation and exchange of information on control of the financial position of professional securities market participants
27	New listing rules took effect in the Moscow Exchange Group, which, without limitations, provide for new procedures for securities exclusion from the lists of securities admitted to trading
30	NAUFOR's Board of Directors approved the Standards of personal data safety for professional participants, developed by the association and approved by the Federal Security Service
April	
03	NAUFOR submitted amendments to the legislation on simplified issuance procedure at a meeting of the task group for GFC creation headed by A. S. Voloshin
04	Bank of Russia announced that bank-managed mutual funds would terminate their activities from March 1, 2013, with the current trust management agreements being valid until their expiry
06	NAUFOR hosted a meeting with the market participants and representatives of regulatory authorities concerning approaches to regulation of the retail forex market
10	FFMS of Russia informed all interested parties of the appearance of a clone website on the Internet which copied the design and structure of the official FFMS website and had an invalid draft order on the homepage
11	A representative of the Moscow Exchange Group announced the plans to organize direct access to trading from London
	FFMS of Russia informed that 14 claims by citizens against JSC MMM were accepted for execution in the first quarter of 2012 and urged investors to be careful while investing their funds
16	Ministry of Health and Social Development put forward a proposal to cancel the mandatory funded component of pensions
17	NAUFOR and the State University of the RF Ministry of Finance signed an agreement on formation of an undergraduate department
18	The results of VTB Bank JSC share buyback were announced: 74.3 thousand orders were filled, the total buyback amount was 11.4 billion rubles, the average order size was 152.5 thousand rubles
23	A technical failure occurred in the Main Market sector of Moscow Exchange Group. The Exchange found the situation a force-majeure
24	FFMS of Russia recommended Moscow Exchange Group to make some staff decisions to improve the IT and apply administrative sanctions to managers responsible for the operation of the information technology complex
26	S&P rating agency reduced the credit rating prognosis for India from 'stable' to 'negative'
28	S&P rating agency reduced the credit rating prognosis for Spain by two points to BBB+
May	
02	S&P rating agency raised the credit rating of Greece to CCC with 'stable' prognosis
06	Mass protests took place in Moscow against the upcoming inauguration of the RF President, with civil unrest and arrests of protesters. The above had no significant effect on the behavior of stock indices
08	Opposition activists set up a mobile camp on Chistye Prudy in Moscow, near the monument to Abai Kunanbaev. The above had no significant effect on the behavior of stock indices
	A technical failure occurred on the FORTS derivatives market and in the Standard market sector of Moscow Exchange Group.
12	Fitch rating agency announced its intention to revise the ratings of all euro zone countries downwards if Greece leaves the euro zone due to political crisis or default on financial obligations to creditors
15	IMF announced the possible withdrawal of Greece from the euro zone. Multiple comments and forecasts of euro zone crisis appeared. The global stock markets reacted by a drop in indices. Russian consolidated stock indices fell sharply
	FFMS of Russia announced that it had returned without review the demand for mandatory buyback of shares of Sedmoi Kontinent JSC to Pakva Investments Limited and had sent a notice to both companies prohibiting them from actions aimed at buyback of shares of Sedmoi Kontinent JSC
16	Chairman of the Bank of Russia reported that the outflow of private capital during the period from January to April was 42 billion USD
	Law enforcement agencies liquidated the opposition camp Occupy Abai in Chistye Prudy in Moscow based on the liquidation order issued by Basmany Court of Moscow. The above had no significant effect on the behavior of stock indices
	FFMS of Russia imposed a fine of 300 thousand rubles on MICEX SE CJSC

5. MAIN EVENT CALENDAR FOR 2012

17	Police and OMON chased away the opposition camp in Kudrinskaya Square in Moscow, which was formed after the liquidation of the camp in Chistye Prudy. The above had no significant effect on the behavior of stock indices
	NAUFOR sent to FFMS of Russia a letter protesting against access of Euroclear and Clearstream to the Russian market labeling it premature before the formation of the CD and increase in its competitiveness
21	A transfer of settlements on securities for transactions executed in Standard sector began from DCC to NSD
	The new composition of the RF Government was declared, with the number of ministers increased from 19 to 21 and three quarters of new staff. The event went unnoticed on the market, accompanied by high market volatility caused by foreign factors
24	President of the RF signed a decree cancelling the planned privatization in the power sector
25	Financial Market Council was created, comprising the managers of NAUFOR, NP RTS, NLU, NAPF, NFA, PARTAD, VSS, NAUMIR
31	Mass media reports appeared concerning the planned consolidation of up to 60% of shares of Saint Petersburg Exchange JSC by NP RTS
	NAUFOR resumed consultations with FFMS of Russia concerning loosening of the requirements to equity capital of professional participants due to a new draft order of the FFMS of Russia toughening the capital calculation
June	
01	Moscow hosted an annual NAUFOR conference Russian Stock Market
07	A session of the RF Government approved changes to the forecast plan on privatization of federal property. The scheduled income from privatization in 2012 may be about 300 billion rubles
	Fitch rating agency reduced Spain's credit rating by three stages – to BBB
09	Moody's rating agency made a statement that, in case Greece left the euro zone, the agency would revise the ratings of all countries, including those with top ratings
12	The opposition organized March of Millions in Moscow. The day before, activists of the protest movement had their apartments searched. The above had no significant effect on the behavior of stock indices
	Order No. 46n of the Russian Ministry of Finance dated April 13, 2012 "On approval of the Procedure for assigning the central depository status" took effect
14	Moody's rating agency reduced the credit rating of Spain by three stages – to Baa3, with 'negative' prognosis
	Moody's rating agency reduced the credit rating of Cyprus by two stages – to Ba3, with 'negative' prognosis
20	The annual general meeting of shareholders of MICEX-RTS JSC approved the resolution on altering the commercial name and separating the powers of the President and Chairman of the Board. Chairman of the Board became the sole executive body. Aleksandr Afanasyev was elected Chairman, while Ruben Aganbegyan remained President
	It was announced that First Deputy Chairman of the Board of MICEX-RTS JSC Roman Goryunov would head NP RTS
29	A change in the name of MICEX-RTS Group to Moscow Exchange Group was registered (abbreviated as Moscow Exchange JSC)
July	
09	Roman Goryunov was approved on the post of President of NP RTS
11	Fitch rating agency confirmed the AAA credit rating of the USA with a negative prognosis
13	Moody's rating agency reduced the credit rating of Italy by two stages – from A3 to Baa2, with a negative prognosis
24	Moody's rating agency changed its credit rating prognosis for Germany to negative
28	Federal Law No. 145-Φ3 was adopted, exempting from VAT the services rendered by professional securities market participants, management companies of investment funds, unit investment funds, non-state pension funds, clearing organizations and trade organizers starting from January 1, 2013
August	
08	Chief Directorate for Economic Security and Corruption Management of the Ministry of the Interior announced opening of a criminal case for market manipulation
20	A technical failure occurred on the stock market of Moscow Exchange Group
22	Russia became an official member of WTO
28	During a meeting presided by First Deputy Prime Minister I. Shuvalov, it was decided to organize consultations and study the trends of financial markets regulation due to the scheduled membership of Russia in OECD
30	Federal Arbitration Court of the Moscow District dismissed a cassation appeal of UniCredit Bank CJSC against the court decision on a dispute related to unilateral dissolution of agreement constituting a derivative
September	
01	Amendments to Federal Law "On investment funds" took effect, providing for the possible formation of Exchange Traded Funds in Russia
03	An additional commission fee for traders exceeding the threshold number of submitted orders was introduced on the stock market of Moscow Exchange Group

03	CJSC DCC stopped settlements on securities under transactions in the Standard sector of the stock market and the derivatives market of Moscow Exchange Group. These functions were transferred to CJSC NCO NSD
04	Moody's rating agency confirmed the credit rating of EU on Aaa level, changing the prognosis from stable to negative
07	During a meeting presided by First Deputy Prime Minister I. Shuvalov, it was decided to review the possibility for creating a financial mega regulator by merging FFMS of Russia and the Bank of Russia
11	During a meeting presided by the Minister of Finance of the RF devoted to the formation of a mega regulator, it was found expedient to transfer the powers of FFMS of Russia on legal regulation, control and supervision of financial markets to the Bank of Russia
12	NAUFOR sent the Ministry of Finance and FFMS of Russia a concept of retail forex market regulation, developed by specialists of the Association and approved by the Board of Directors of NAUFOR
13	The American FRS announced the start of a new round of quantitative easing (QE3)
14	Reports appeared concerning R. Aganbegyan's resignation from the post of President of the Moscow Exchange Group
19	A part of shares of Sberbank Rossii JSC were placed on the Moscow Exchange by way of privatization
	Exchange Board of the Ukrainian Exchange decided to start trading an hour later to demonstrate its protest against the approach implemented in the draft law "On depository system of Ukraine". Moscow Exchange Group, as one of the shareholders of Ukrainian Exchange, published a statement saying it 'does not support this form of position demonstration.
21	FFMS of Russia announced it had detected a fact of market manipulation
	It was reported that the Ministry of Finance of the RF, the FFMS of Russia and the Bank of Russia had agreed upon the issue of creating a mega regulator of the financial market based on the Bank of Russia and had prepared a report on the above to Chairman of the Government and President of the RF
	An extraordinary general meeting of shareholders of Moscow Exchange JSC passed a resolution to increase the authorized capital by placing additional shares for the amount of 200 million rubles
25	Ruben Aganbegyan terminated his employment as President of Moscow Exchange Group
October	
01	CJSC SC RTS stopped monetary settlements on transactions in the Standard sector of the Stock Market of Moscow Exchange Group. These functions were transferred to CJSC NCO NSD
09	Moody's rating agency reduced the credit rating of Cyprus by three stages from Ba3 to B3 with a negative prognosis
11	S&P rating agency reduced the credit rating of Spain by two stages from BBB+ to BBB- with a negative prognosis
14	Order No. 12-65/пз-н of the FFMS of Russia dated July 27, 2012 "On approval of the list of foreign organizations to which the central depository shall open foreign nominee securities accounts" took effect. The list includes Euroclear and Clearstream, but, until July 1, 2014, only debt securities and securities of foreign issuers can be credited to their securities accounts
15	In its letter to First Deputy Prime Minister of RF I. Shuvalov and Aid to the RF President E. Nabiullina, NAUFOR set forth its position on the issue of transfer of financial market regulation powers to the Bank of Russia
16	Financial Market Council sent the President of RF its resolution concerning the reform of the financial market regulation and supervision system
24	A meeting was organized with Chairman of the RF Government D. Medvedev dealing with the creation of an international financial center in the country
	The Board of Directors of NP RTS adopted a resolution to create a clearing broker based on NP RTS due to the expected launch of T+2 trading mode on Moscow Exchange
25	Deputy Minister of Finance of RF Aleksey Savatyugin sent a letter to heads of associations of financial market participants requesting them to submit their proposal defining the role and place of SRO and professional associations on the financial market of the RF
29	The Board of Directors of Saint Petersburg Exchange (NP RTS Group) approved the project of repository formation based on Saint Petersburg Exchange
November	
06	FFMS of Russia assigned the status of a central depository to CJSC NCO NSD
	The first meeting of the Open Government took place and was devoted to improvement of the financial market regulation system
08	Yekaterinburg hosted the annual NAUFOR Ural Conference on Russian Stock Market
09	Vice Prime Minister Olga Golodets sent a letter to Chairman of the State Duma of RF Sergey Naryshkin declaring the RF Government's support of the reduction of the funded pension component from 6 to 2%
15	The second meeting of the Open Government took place and was devoted to improvement of the financial market regulation system
16	Moscow Exchange Group and Deutsche Borse Group signed an agreement of intent
20	Moody's rating agency reduced the credit rating of France by one stage - from Aaa to Aa1, with a negative prognosis
23	Supreme Arbitration Court dismissed the application for supervisory review of the case between UniCredit Bank CJSC and Ermitazh Development LLC concerning a unilateral dissolution of agreement constituting a derivative

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28	Minister of Finance Anton Siluanov announced that a possibility of tax privileges for individuals holding securities for over three years was being considered
29	FFMS of Russia announced it had detected a fact of market manipulation
December	
03	Members of Financial Market Council prepared their proposals concerning the role of SRO in the regulatory system and sent them to the Ministry of Finance of the RF, the Bank of Russia and the FFMS of Russia
	Federal Law No. 242-ФЗ "On amending individual legislative acts of the RF on issues concerning payments at the expense of pension savings" was adopted, allowing to use pension savings for signing derivatives agreements
04	President of RF Vladimir Putin signed the law "On amending individual legislative acts of the RF on issues of mandatory pension insurance", stipulating a reduction of the insurance contribution to the funded component of pensions from 6 to 2% starting from January 1, 2014 for citizens who have not yet decided how to use their pension savings
06	S&P credit agency reduced the credit rating of Greece from CCC to SD – selective default
	NAUFOR's Board of Directors approved a commodities annex to the Standard Documentation for derivative transactions on OTC financial markets and amendments to the general agreement clarifying the rights of the parties associated with early termination of the agreement
07	NAUFOR published a study of the variants of a reform in the financial market regulation and supervision system in connection with the scheduled formation of a mega regulator in Russia
12	Management of Moscow Exchange Group made public their intent to organize IPO in February 2013 on the domestic market
	President of the RF made a speech addressed to the Federal Assembly, pointing out that the planned privatization should be implemented on Russian exchanges, and the RF Government was instructed to develop steps for de-offshorization of the economy
14	The Government of the RF announced its decision to integrate FFMS of Russia in the Central Bank of RF within 1.5-2 years
20	S&P rating agency raised the credit rating of Greece by six positions: from SD to B-
	False mass media reports appeared concerning buyback of shares by JSC AvtoVAZ, which increased the stock price materially. FFMS of Russia announced a start of an inspection to detect possible market manipulation
27	Chairman of the RF Government Dmitry Medvedev said he had sent the President a proposal to form a mega regulator of financial market based on the Bank of Russia
	FFMS of Russia adopted NAUFOR's documents on implementation of prudential supervision over non-banking financial organizations on the Russian finance market, developed within the scope of the state order for development of a concept for preventive detection of risks on the Russian non-banking financial services market
28	RF Government approved the Strategy of the Russian Pension System Development
29	Federal Law No. 282-ФЗ "On amending individual legislative acts of the Russian Federation and invalidation of individual provisions of legislative acts of the Russian Federation" was adopted, which materially simplified the securities issue procedure in the Russian Federation. Most provisions of the Law take effect on January 2, 2013, while the remaining provisions take effect on July 2, 2013