



2013-2015



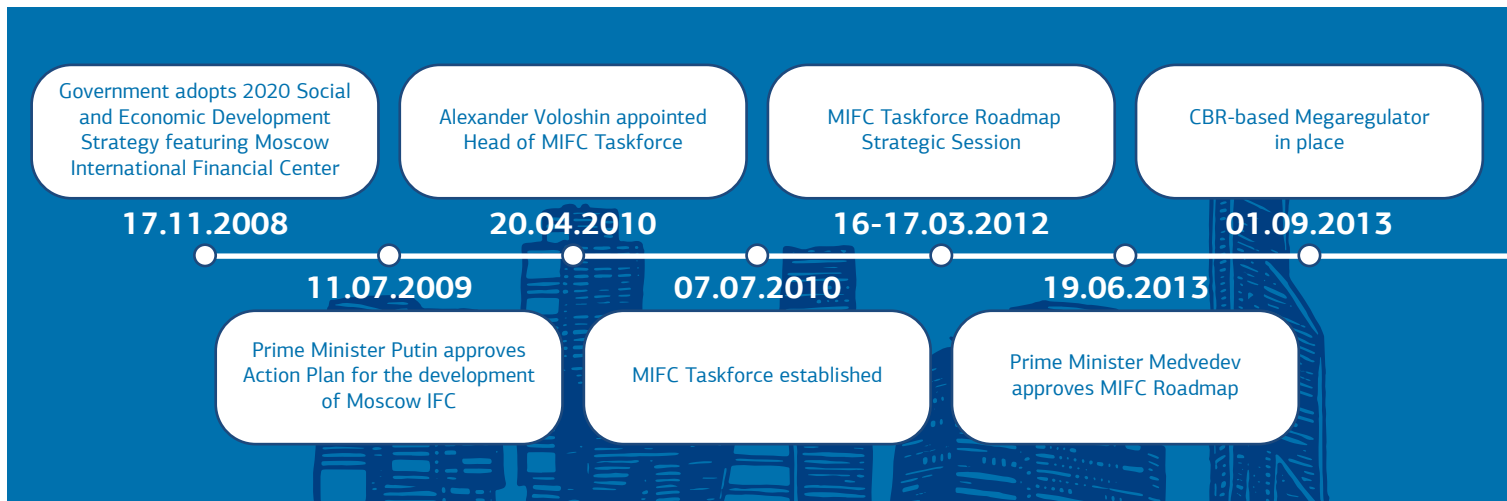
BUILDING
AN INTERNATIONAL
FINANCIAL CENTER
IN RUSSIAN FEDERATION:
PROJECT DEVELOPMENT

MIFC TASKFORCE / 2016

CONTENTS

	Foreword	2
	Key Achievements	4
Introductions by Dmitry Medvedev, Elvira Nabiullina and Alexander Voloshin		6
Financial Markets Regulation, Control And Oversight System Reform		8
Improved Access to Financial Instruments and Resources		10
Financial Markets Infrastructure Development		12
Corporate Governance and Enforcement, Including Investor Rights Protection,		14
Insolvency, Contract Performance, Financial Market Disputes		
Financial Market Taxation		16
Russia's Competitive Edge, Including Worldwide Promotion and Ratings		18
Moscow City Environment and Non-Financial Regulation		19





FOREWORD

The objective to develop Moscow as an international financial center was set in 2008 as part of Russia's strategy for the future. Our course was proved right when the global economic and financial crisis highlighted the urgent need to diversify Russian economy by boosting the competitive edge of the Russian financial services market.

MIFC is a vital strategic project launched directly by the President and the Government. In November 2008, 'building international financial center infrastructure in Moscow' was declared as part of the government-approved 2020 Social & Economic Strategy. In July 2009, Prime Minister Putin signed the initial MIFC plan for 2009-11. In 2010, the organizational structure and pool of experts were in place for our project. President Medvedev established the MIFC Taskforce on 7 June, and appointed executives from major global financial institutions to the MIFC International Advisory Board on 29 December.

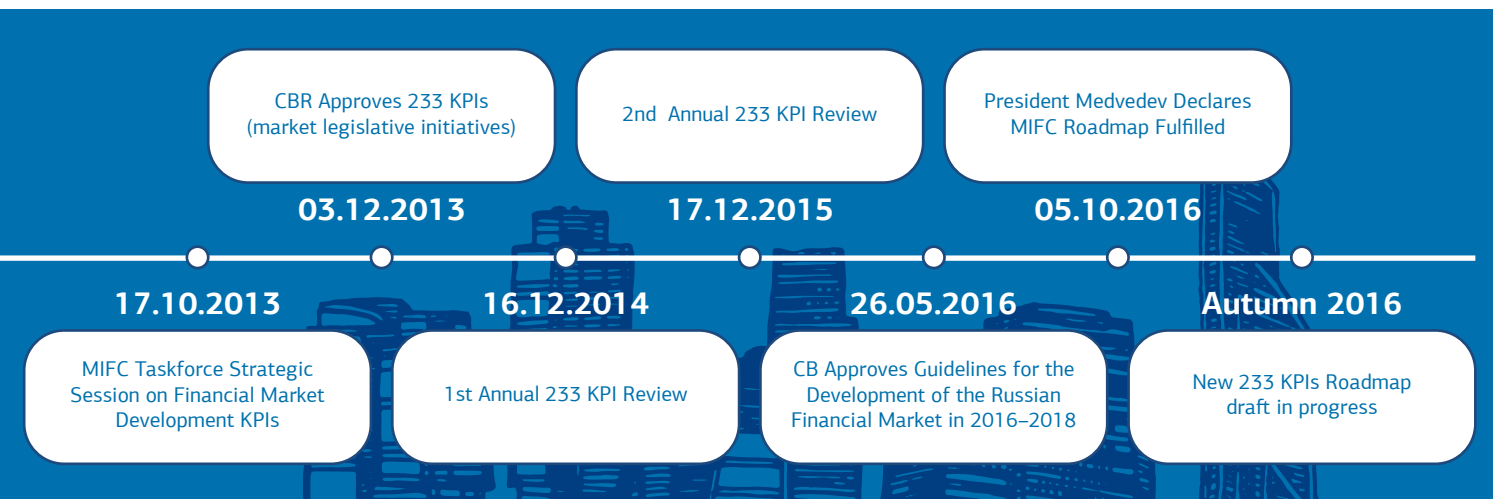
The Taskforce was charged with planning MIFC efforts and drafting joint solutions with state officials and financial market experts. MIFC International Advisory Board presents to the government financial market development proposals, ideas on implementation of international practice in regional financial center regulation, eliminating economic, social, legal, administrative and other barriers for market participants, issuers and investors.

MIFC International Advisory Board meetings are convened and conducted by the President. Following up the IAB meeting on 28 October 2011, President Medvedev issued 40 task assignments based on Board recommendations to improve the business climate for the IFC. The bulk of these task assignments was carried out in 2012.

Further development of the project was outlined in the MIFC Roadmap, the results of which are presented here. The Roadmap was approved by the Government on 19 June 2013 and scheduled for 2013-15. The process of drafting the Roadmap clearly demonstrated that the state, national finance and the global business community share an interest in forming an IFC as a hub for capital demand and supply.

On 16-17 October 2012, Moscow hosted the MIFC Strategic Session, attended by over 200 experts from state and regulatory bodies, Russian and international investors, and representatives of foreign financial centers. The debate identified key market trends in Russia: over-concentrated capital market, low private investor activity, under-developed collective investment institutions, low effectiveness and transparency of courts, unbalanced financial market regulation and oversight, patchy and inflexible laws, low quality of urban environment. A poll showed that the majority of Strategic Session participants (65.9%) see business climate (quality of regulation and taxation, rule of law) as the cornerstone of Moscow IFC. This opinion influenced the structure of the 7-part MIFC Roadmap (each part covered in this report). The Roadmap employs all instruments available to the state and the business community: legislation and statutory base improvement, developing industry standards to ensure implementation of best practices, harmonization of Russian and international rules and regulations, social protection.

We have made deep system changes in financial market regulation, market infrastructure, corporate law and governance, taxation.



Delegation of functions in financial market regulation has transformed fundamentally:

- The Bank of Russia-based financial market megaregulator paves the way towards the elimination of regulatory arbitrage
- Regulation partly delegated to SROs
- Functioning market feedback system ('233 regulation measures' drafted by the MIFC Taskforce)

Financial market infrastructure changes include Central Depository, Moscow Exchange brought trading up to international standards and revised listing procedures, Euroclear and Clearstream gained access to Russian bonds and shares.

The NPF system has been urgently reloaded, creating potential for the sector to play a new role in the country's economy.

Newly incorporated NPFs, selected for the savings guarantee system are poised to become an effective source of long-term money for the economy. We expect the NPFs to become a responsible investor with high demands to the corporate sector.

The Civil Code and corporate law reform has effectively levelled the playing field with foreign jurisdictions in terms of structuring business and transactions, by introducing new mechanisms and instruments to Russian law.

The newly adopted Corporate Governance Code has built a base for radical reform. The state has started implementing the Code in its companies, seeking to raise asset value through quality corporate governance.

In taxation, the planned reform has been completed almost entirely – we now have a better tax regime for licensed participants, and new tax incentives for private investors based on best international practice.

Intensive Moscow city infrastructure development, primarily transport and multi-language services, has strengthened the city's appeal as a place for doing business.

At the same time, the potential upside from the reform has been diminished by the political developments of 2014-15. Instability in neighboring countries, international sanctions, plummeting ratings have dealt a blow to Russia's investment standing. This led to revision of financial market development plans. For instance, the US refusal to sign the FATCA agreement with Russia has prompted Russia to draft and pass a special law on foreign tax disclosure procedures for the Russian financial industry.

The continuing adverse effect of these factors on Russia's investment appeal highlights the need to further strengthen the vital institutions and mechanisms of the national financial market. The ultimate goal of the joint effort by the state and the financial industry is to build opportunities and incentives for the internal investor.

As part of contingency planning, and to make cash transfers more effective and accessible, a law was passed to establish a National Payment Card System with the Bank of Russia.

The recently formed Eurasian Economic Community has laid the foundations of Moscow as an acting financial hub for the member states. Actively growing economic ties with Asia also raise the stakes for the financial sector with new demand for capital.

Despite current setbacks and lack of enthusiasm from investors, the goal remains for Russia and Moscow to become an international financial center. The state and the financial community understand the need for constant collective effort to reach this goal by upgrading regulation, infrastructure, and improving the business climate.

KEY ACHIEVEMENTS



Bank of Russia-based
financial markets
megaregulator
established

SROs joined regulatory
system



Bank of Russia signed
IOSCO Multilateral
Memorandum
of Understanding

Central Depository
established

Corporate Conduct
Code passed



**MOSCOW
EXCHANGE**

RTS and MICEX
were integrated
to form
Moscow Exchange

VAT exemption for financial
market services introduced



Foreign securities
now listed in Russia

NPF reform
completed

Moscow Exchange
launched

T+2

Close-out netting
introduced

Individual Investment
Accounts introduced

**160
THOUSAND**

opened in 2015-2016



Bondholders rights protection law passed

Full foreign investor access to Russian shares and bonds through Euroclear and Clearstream

Forex market regulated

Moscow Exchange launched ETF trading

\$3.3 BLN
worth of Russian shares floated on Moscow Exchange in 2013-2015

Civil Code amendments introduced representations and warranties, indemnity, escrow and other financial and investment deal structuring mechanisms

Foreign investors' share trading volumes on MoEx up
38% → 44%
in 2013-2016

Average transit speed in Moscow rose
12%
in 2011-2016

The proportion of CCP-cleared repos has increased to
60%
of the total exchange repo market since 2013


New Moscow Exchange markets: **precious metals** and **grain**

The Exchange launched clearing of OTC derivatives to meet Russia's commitment to the G20

The proportion of the Moscow's trading volume in dual listed securities increased from
55% → 60%
2013 1Q 2016



Dmitry
MEDVEDEV

Prime Minister of the Russian Federation



Elvira
NABIULLINA

Chairman of the Central Bank
of the Russian Federation

In 2013, Russia adopted an international financial center development plan. Its implementation is a remarkable joint effort by the state and the business, primarily the financial industry. We have been able to maintain a consistently high level of interaction throughout all project levels, from setting tasks to monitoring results. Liaisons worked equally well in good and bad economy. This shows that all of us are committed to the development of our nation's financial sector, boosting its global competitive edge and establishing it as a fully-fledged and independent part of the economy. Today we draft future plans in a new geopolitical and macroeconomic situation. Change points us towards active search of reliable and promising partnerships, toward building stronger investment ties with the Asia Pacific region, but also toward continued efforts at improving our domestic market.

Financial services must be fully available to private individuals and businesses. Our financial industry must be trusted for quality service, variety of instruments, affordability and robustness. The state will continue to play its part in creating a comfortable investment climate with stable rules and flexible regulation, dedicated to financial market development.

I would like to thank everybody who took an active part in implementing the MIFC Roadmap. Good luck!

Three years ago, the Bank of Russia became the financial market megaregulator, assuming all regulatory and oversight functions for the financial industry. Our task was to come up with balanced approaches to non-banking regulation, especially where statutory gaps exist. In banking regulation we have been continually pursuing the implementation of international standards.

Financial market development trends have shown that interpenetration between banking and non-banking services is set to grow. Regulation should meet today's challenges. That is why we aim to develop the cross-sectoral approach and risk-based regulation.

In late 2015, the Bank of Russia drafted a mid-term financial market regulation and oversight strategy for 2016-18.

In recent years, the financial market has seen some significant change. The pension reform has commenced, the pension savings guarantee system has been practically established.

Russian banking practice is adopting international regulation approaches such as Basel II, Basel II.5, and Basel III. A lot of effort has been put into financial market infrastructure. National Payment Card System has been launched. Insurance development focus is now on asset quality control. We have set up an agency to protect minority shareholders and financial services customer rights protection.

In 2015, Russia ascended to the IOSCO MoU, enhancing our possibilities for dialogue with the regulators' community in the interests of national finance.

The Bank of Russia highly values interaction with market participants. The 233-step financial market development plan, drafted by the MIFC Taskforce in 2013, has laid the foundation for the regulator's ongoing dialogue with the industry.

I expect that the regulatory measures the Bank of Russia has implemented and planned will add to the competitive edge of the national financial industry, improving Russia's standing as a lucrative jurisdiction for financial business.



Alexander VOLOSHIN

Head of the MIFC Taskforce

The three years it took us to implement the MIFC Roadmap have been pivotal for the development of Russian financial market institutions. Infrastructure and regulation, taxation and professional standards – a joint effort by the state and the business transformed these on a scale the financial market has not seen since its inception in the 1990's.

The idea of developing Moscow with the purpose of building an international financial center did not come out of the blue. Our entire history has been pointing us in this direction, and besides, we were guided by strategic plans to diversify the economy.

Wishful thinking aside, Moscow is already acting as a financial center. It is here that cash flows are diverted, core market infrastructure is based, major banks and corporations are headquartered.

Obviously, Moscow has reasons to grow as an international financial center. One of the reasons is that Russia in itself is a huge economy, it demands capital and sources capital on a global scale. Another advantage is that our IT sector is highly developed. Fintech is steadily becoming a vital competitive edge, and financial centers themselves turn into de facto hi-tech projects. In recent years, our market has seen a breakthrough in IT infrastructure, posing Moscow Exchange at the forefront of global derivatives trading.

Of course, our aims in developing the financial center stretch beyond merely gaining a foothold in the global market. The quality of the financial industry along with global market opportunities directly influence the economy and private wealth.

A developed financial sector offers individuals an opportunity to multiply pension savings, invest in life insurance and user-friendly instruments. We have only started structuring the long-term investment mechanisms and setting up incentives for people to use them. We need to pursue this issue further.

For companies, depth of market and robust financial institutions translate into cheaper loans, selecting the most business-appropriate method of raising money, or simply being able to securely deposit leftover cash and use state-of-the-art financial services.

Finally, a developed financial industry is one of the diversification factors for our economy. It does not merely service other sectors, but has independent value, plays a part in economic growth by creating jobs and generating taxes. The MIFC Taskforce has established an effective liaison between the market and the regulators, became a forum for open dialogue on market development strategies. This is how we drafted the MIFC Roadmap in 2012, and this is how we implemented it. And our approach turned out to be a winner.

We would not have made so much progress across the board, had the various interested parties not seen this job as a mission of the entire community, or with the state and the regulators paying less attention to the interests of the market from, or with passive licensed participants.

I think that Russia's financial and legal communities, our foreign colleagues, the President's Executive Office and the Government, the Bank of Russia, and the Parliament should all be credited for their joint effort.

The future of Moscow as a business center depends in part on the quality of city infrastructure. In this regard, over the past few years, the city government has made remarkable strides. Moscow is becoming a more open, comfortable and friendly place for the locals and visitors alike, as well as a friendly environment for business, including finance. I think this change cannot be overstated.

As we make further plans, we should admit that our business climate has flaws that restrict the positive impact of many achievements. These issues fall outside the MIFC Taskforce mandate. On the other hand, it is clear that the business and the society call for a better business climate – higher quality of court justice, more lenient laws, liberalized procedures, anti-corruption. We are willing to contribute to this effort.

The deadline for the international financial center project is neither one day nor three years. We must constantly improve, constantly strive to beat global competition. What we have achieved in these few years is a solid foundation that will enable us to compete further. However, we need to do much more to feel the effect. I hope that the spirit and the quality of our joint effort will remain the same in the future.



FINANCIAL MARKETS REGULATION, CONTROL AND OVERSIGHT SYSTEM REFORM

The key idea behind regulation and oversight reform was to set up a new administrative and conceptual model of financial market regulation.

According to the model that has been functioning since the 1990s, the Central Bank of Russia performs regulation and oversight in banking, while government bodies handle other financial market sectors. The global crisis of 2008-09 underscored that complex assessment of financial system risks by regulators is critical. This triggered debate in Russia on the need to consolidate oversight. In January 2013, a Bank of Russia-based financial market megaregulator became a strategy; the Parliament passed the law in the spring session, and the megaregulator started operation in September.

Consolidation of financial market oversight became the largest administrative reform in Russia's modern history, due to the amount of functions delegated from the Government to the independent Bank of Russia and liquidation of the Federal Financial Market Service.

The Financial Market SRO Act, passed in July 2015, was the final pillar in the new regulation and oversight structure. The act made SRO participation mandatory for licensed participants and delegated some functions from the regulator to SROs.

Regulation and oversight consolidation vested the entire financial market development responsibility in the Bank of Russia, including sectors that had until then remained a blind spot for the regulators – with the help of new legislation, such as the Forex Regulation Act of 29.12.14 and the Credit Ratings Act of 13.07.15.

The Bank of Russia has launched the oversight concept reform, aiming for prudential oversight, primarily in the NPF industry: a new type of incorporation for NPFs and a savings insurance system.

In December 2015, the Bank of Russia produced its first cross-sectoral strategy as a megaregulator: the 2016-2018 Financial Market Development and Stability Plan.

International integration was high on the agenda, including liaison with other regulators and readiness of the Russian financial market to integrate into the Eurasian Economic Union.

In February 2015, the Bank of Russia signed the IOSCO MMoU, becoming the organization's 105th full member. The Memorandum enables the Bank of Russia to liaise effectively with IOSCO, including participation in committees and working groups. This step will promote exchange of information on key financial market regulation and oversight issues, opening new opportunities for Russian companies to attract capital worldwide.

Financial Markets Regulation, Control And Oversight System Reform

1	Create a Central Bank-based financial markets egaregulator. Lay the groundwork for prudential supervision in the financial market. Organize and expand the mandate of SROs as part of the new regulatory system	§ 251 / 23.07.13 223 / 13.07.15
2	Sign IOSCO Memorandum	 Signed / 16.02.15
3	Implementation of Basel II, Basel II.5, Basel III	§ 146 / 02.07.13
4	Streamline the public offering procedure	§ 282 / 29.12.12 
5	Implement compulsory standards of investment results disclosure. Implement prudential supervision of NPFs. Introduce pension savings security mechanisms	§ 410 / 28.12.13 422 / 28.12.13 
6	Boost consumer rights protection in financial services	§ 353 / 21.12.13
7	Implement facsimile signatures for the visually handicapped	§ 267 / 21.07.14
8	Introduce motivated opinion in banking and the financial market in general. Improve bank holdings supervision	§ 146 / 02.07.13 
9	Draft commodity market development strategies	Federal Act drafted
10	Harmonize financial regulation in the Customs Union and Common Economic Space	
11	Introduce compensation and guarantee mechanisms for financial market participants	§ 234 / 23.07.13 422 / 28.12.13
12	Differentiate sanctions for administrative offences in the financial market	§ 249 / 23.07.13 375 / 21.12.13 515 / 31.12.14
13	Increase the Bank of Russia's powers to appoint authorized representatives at banks	§ 184 / 02.07.13
14	Improved capital access to the financial (banking) services market. Organize requirements to qualification, business reputation and financial standing	§ 146 / 02.07.13 
15	Improve financial literacy based on G20, Financial Stability Council and Organization for Economic Cooperation principles. Implement the Minfin/World Bank 'Financial Education and Financial Literacy' Project	
16	Unify bank stability and deposit insurance system criteria based on global supervisory principles	§ 335 / 02.12.13

 Federal Act passed
  CBR Regulation passed
  Federal Government Decree passed
  Moscow exchange Rules passed
  Moscow city Decree passed
  Supreme Court Ruling passed
  On an ongoing basis



IMPROVED ACCESS TO FINANCIAL INSTRUMENTS AND RESOURCES

Better access to financial instruments and resources implies deeper stock market instruments outreach and appeal to retail investors, as well as financial innovation opportunities for licensed participants.

The MIFC Roadmap and the state policy both focus on long-term money for the economy with the necessary instruments and incentives. Establishing long-term securities investment mechanisms will deepen the market and make it more robust, while private individuals enjoy a variety of investment options.

To this end, we have drafted, set up legislation for and implemented instruments such as the Individual Investment Account with tax credit option (2015), tax rebate for long-term investment in listed stock (2014), and income tax relief for private investors in long-term life insurance (2015). Time must pass before these instruments prove their effect; however, the market already shows a demand for them today.

The Government passed a decision to distribute 2013-14 funded pension savings, which blocked the mobilization of long-term money and hindered pension industry development. The decision was in part prompted by pension industry reform, yet the resulting controversy left both market participants and private NPF clients confused. In Spring 2015, the money was returned to NPFs, but the situation remains unclear.









Plans to develop financial market instruments were a success: the Exchange launched ETF and bullion trading, laid the groundwork for the settlement of complex financial securitization trades.

Levelling the tax regime for investments in different financial instruments remains an important part of the MIFC Taskforce effort. For instance, terms for private investment in corporate bonds remain less lucrative than bank deposits. Individual Investment Accounts are most sensitive to the current tax regime, since the IIA tax rules do not cover bond coupons, while bonds, including corporate, remain a preference for conservative investors. In 2015, the MIFC Taskforce drafted a law to solve this problem, and passed the draft to the Ministry of Finance.

In his December 3, 2015 address to the parliament, President Putin proposed tax exemption for corporate bond coupons, including private income tax. The measure would tap into domestic investment potential. The Ministry of Finance has started to draft the law (amendments to Part 2 of the Tax Code, Chapters 23 and 25).

Building the statutory base for trading foreign securities in Russia has been a breakthrough. Federal Act 218 of 21.07.2014 allows public trading of foreign securities listed by the Russian Exchange (eligible securities are already listed or in the process of being listed on one of the foreign exchanges approved by the Bank of Russia). Investors have now gained access to these instruments, trading became transparent and investor rights protection improved.

Improved Access to Financial Instruments and Resources

17	Improve legal regulation of bullion bank transactions	§ 111 / 02.05.15
18	Improve regulatory framework for stock exchange bullion trading	 
19	Introduce special purpose accounts for private investment	§ 379 / 21.12.13 
20	Introduce fixed term deposits	Terminated by Government order
21	Develop regulatory framework for stock exchange share investment funds	  
22	Improve legal regulation of credit reference agencies	§ 189 / 28.06.14
23	Stimulate wire transfers: promote card settlement, limit cash settlement	§ 112 / 05.05.14
24	Develop debt market instruments, including securitization and infrastructure bonds	§ 367 / 21.12.13 § 379 / 21.12.13
25	Develop regulatory framework for mortgage-backed securities	§ 281 / 29.12.12 § 461 / 30.12.15
26	Expand the list of instruments eligible for pension savings and pension reserves investment	§ 218 / 21.07.14  

- 
Federal Act passed
- 
CBR Regulation passed
- 
Federal Government Decree passed
- 
Moscow exchange Rules passed
- 
Moscow city Decree passed
- 
Supreme Court Ruling passed
- 
On an ongoing basis



FINANCIAL MARKETS INFRASTRUCTURE DEVELOPMENT

Russia's financial markets entered a period of radical infrastructure reform in 2011-2012, with the merger of the MICEX and RTS exchanges and the creation of a central securities depository (CSD).

Over the past few years, the integrated Moscow Exchange has spearheaded vital reforms, bringing Russian financial market infrastructure into line with global best practices. Moscow Exchange Group now contains a Central Depository and a Clearing House acting as Central Counterparty across all markets. Moscow Exchange offers one of the broadest arrays of asset classes of any exchange group globally, including equities, bonds, FX, derivatives, money markets and commodities. In sum, the exchange offers clients the full range of trading and post-trading services.








International clearing houses Euroclear and Clearstream now work with Russian securities; shares and bonds are now pre-deposited. In 2013, six major global banks launched Direct Market Access (DMA) to Russia. Listing on Moscow Exchange is based on a new, more robust Corporate Governance Code, with higher standards for independence of Board members, interaction between shareholders and management, etc. And, in response to a G20 resolution on over-the-counter (OTC) derivatives clearing, Moscow Exchange created an OTC market with a central counterparty in 2013.

As of 2016, Moscow Exchange is among the top 25 exchanges by total capitalization of shares traded and among the five largest exchange platforms in bond and derivatives trading. MOEX accounts for a third of the world's trading volumes in the Rouble/Dollar forex pair. In the second half of 2016 Moscow Exchange hosted the fourth highest trading volumes in Brent futures globally.

International investors represent an increasing share of trading volumes, accounting for approximately 45% of both equities and derivatives turnover. The reforms have also led to increased investments from Russian retail customers, with the number of active retail clients increasing since December 2013 by more than 50% on the Equities Market, nearly doubling on the Derivatives Market, and increasing 20-fold on the FX Market.

The reforms successfully set up a domestic liquidity and pricing center for Russian assets. Moscow now hosts most equity capital raisings by Russian companies, and all IPOs of Russian companies have taken place solely on Moscow Exchange since March 2014. Russian companies are more actively exploring the exchange-traded debt market. A total RUB 7.3 trillion worth of sovereign and corporate bonds were issued on Moscow Exchange in 2013-2015. At present more than 400 sovereign, regional government and corporate issuers have bonds traded on Moscow Exchange.

Financial Markets Infrastructure Development

27	Set the Russian stock exchange infrastructure on standby to process privatization deals. Run privatization	 
28	Develop Central Depository	 414 / 07.12.11 
29	Introduce T+N settlement at the Moscow Exchange	
30	Implement international standards in Russian financial market infrastructure practices Implement Principles for Financial Market Infrastructures by the Committee on Payment and Settlement Systems	 403 / 29.12.15 
31	Develop Repository	 218 / 21.07.14 430 / 30.12.15 

 Federal Act passed
  CBR Regulation passed
  Federal Government Decree passed
  Moscow exchange Rules passed
  Moscow city Decree passed
  Supreme Court Ruling passed
  On an ongoing basis



CORPORATE GOVERNANCE AND ENFORCEMENT, INCLUDING INVESTOR RIGHTS PROTECTION, INSOLVENCY, CONTRACT PERFORMANCE, FINANCIAL MARKET DISPUTES

Corporate governance and enforcement agenda in the Roadmap includes civil law reform, new corporate law institutions, improved norms and corporate practices. The founding principle of the reform was to clear the backlog of institutional barriers that hinder capital market development.

In part, these barriers were replaced by foreign institutions (foreign infrastructure, law and courts facilitate complex shareholder agreements and major investment transactions). In part, the barriers' negative effect was mitigated by high investment yield in the fast-growing Russian economy.

To lift institutional restrictions, Russian President Medvedev declared corporate governance one of the MIFC Taskforce workstreams. In April 2012, the President spearheaded civil law reform, and a draft of the new Civil Code with improved corporate norms was brought to the Parliament. The reformed Civil Code, for instance, liberalized corporate governance rules in non-public corporations, shareholder agreement and reorganization rules. Other MIFC Taskforce-supported initiatives formed a balance in investor rights protection by improving infrastructure mechanisms, IPO procedures, disclosure to shareholders and the board of directors, dividend payment, insider trading rules, rules of shareholder rights protection during charter capital increase and delisting.

Additional powers of enforcement were granted to the Bank of Russia. Court practice has begun to change: for instance, in July 2013, the Supreme Arbitration Court of Russia published guidelines that extended freedom of contract and shareholder rights protection in cases of mismanagement.

Law reform was backed by new soft law mechanisms – in 2014, the Government and the Bank of Russia Board of Directors approved the new Corporate Governance Code, replacing the outdated Corporate Conduct Code of 2002. The reformed Code introduced new and updated corporate control measures for shareholders, with a more prominent role for the Board of Directors, more active involvement of independent directors in balancing powers and interests, independent internal audit, control and risk management structures, extended disclosure rights for shareholders and Board members, more transparency and control of material events and assets within the holding company.

The Government and the Bank of Russia have taken steps to implement the new Code in corporate practice. Moscow Exchange incorporated parts of the Code in its listing rules, amended in June 2014 and April 2015. An important part was a series of MIFC Taskforce/Open Government seminars on the Corporate Governance Code for Board members, corporate secretaries and managers, attended by over 300 corporates. MIFC Taskforce and Open Government experts continue to consult state-owned companies on Corporate Governance Code implementation.

Corporate Governance and Enforcement

32	Improve regulation of affiliation, corporate control, controller's liability	§ 99 / 05.05.14
33	Improve regulation of mandatory offer, buyout and related procedures	§ 210 / 29.06.15
34	Introduce and regulate public and non-public entities	§ 99 / 05.05.14
35	Improve listing/delisting rules	§ 282 / 29.12.12  
36	Adopt Corporate Governance Code	 
37	Improve regulation of major transactions and interested party transactions	§ 343 / 03.07.16
38	Simplify issuer information access for shareholders and investors	§ 99 / 05.05.14
39	Increase transparency of insurance companies	§ 234 / 23.07.13
40	Develop regulation of damages compensation and counterparty liability	
41	Make Shareholders Agreement a viable practice	§ 99 / 05.05.14
42	Reform regulation of independent directors and the Board of Directors	§ 99 / 05.05.14
43	Protect investor rights during reorganization and related valuation procedures	§ 99 / 05.05.14
44	Introduce statutory norms of electronic communication between shareholders and the JSC	§ 218 / 21.07.14 210 / 29.06.15
45	Effective functioning of JSC internal control	
46	Introduce Bond Holder Meetings	§ 210 / 23.07.13 379 / 21.12.13
47	Develop private arbitration	§ 382 / 29.12.15
48	Create the Financial Ombudsman institution	Federal Act drafted
49	Define recovery procedures for private debt	§ 476 / 29.12.14
50	Make financial report fraud a criminal offense	§ 218 / 21.07.14
51	Assign bank recovery functions to Deposit Insurance Agency	§ 432 / 22.12.14
52	Introduce mandatory public disclosure of professional qualifications and work experience of bank executives	§ 334 / 04.11.14



Federal Act passed



CBR Regulation passed



Federal Government Decree passed



Moscow exchange Rules passed



Moscow city Decree passed



Supreme Court Ruling passed



On an ongoing basis



FINANCIAL MARKETS TAX SYSTEM AND TAX ADMINISTRATION REFORM

At the time when the MIFC Roadmap was adopted, certain parts of Russian tax law had hindered the development of the financial market and dampened investor appetite for Russia. Tax laws had obstructed the development of Moscow as an international financial center as well.

The MIFC tax reform agenda was based on three principles:

- Make Russian tax competitive versus leading international IFCs by tax burden level, clarity and transparency of law and effective administration.
- Clarify tax law, eliminate loopholes and gaps which hinder the development of financial products and institutions.
- Financial market development incentives must not affect macroeconomic stability and development of other sectors of the economy. Tax law reform must be in line with the key principles of the state tax policy.

The bulk of the MIFC Roadmap measures has been implemented to the benefit of the national financial market.

Some of these key reforms are:

- Long-term tax incentives for private investors, including tax relief for the sale of listed securities owned for 3+ years and Individual Investment Accounts.
- VAT exemption for a wide range of financial services.
- Eurobond coupons exempted from tax through Tax Code amendments.
- New tax rules for Financial Market transactions (Federal Act 420 of 28.12.2013).

The de-offshorization campaign had a strong impact on tax law development and the investment climate in general. The campaign introduced new legal concepts such as:

- Factual receiver of income
- Foreign tax resident
- Foreign controlled enterprise (FCE)

The Tax Code amendments law (Act 376 of 24.11.2014) was enacted on 01.01.2015.

According to the law, FCE controller is defined as a Russian citizen or corporation with a 50%-plus share from 2015 and 25%-plus from 2016. FCE controllers are also 10%-plus owners of foreign companies if all Russian tax residents own over 50% of the same company. If shares are distributed otherwise, but control remains, the person is still recognized as a FCE controller. FCE profit must be declared by the controller if it exceeds RUB 50 mln for 2015, RUB 30 mln for 2016 and RUB 10 mln for 2017. The Act also introduced taxation for indirect sale of Russian companies with material share in real estate.

MIFC Taskforce experts have taken an active part in the de-offshorization law debate, and the Tax Code amendments have incorporated a number of Taskforce proposals: special norms for non-recognition of foreign banks and insurance companies by FCEs, collective investment vehicles, Eurobond issuers, etc. De-offshorization law improvement will continue, since a number of issues remain unresolved and pose a threat to the financial industry.

In 2015, a federal law was passed on voluntary declaration of bank accounts by private individuals (Act 140 of 08.06.2015), aimed at protecting private capital and property at home and abroad, mitigation of risks related to possible restriction on the use of Russian capital abroad and Russia's foreign account tax compliance cooperation with foreign countries.

A number of Roadmap initiatives remain outstanding today, and have been incorporated in the state Tax Policy 2015-17. These include the implementation of OECD rules for recognition of income and expenses in multinational holdings and advanced tax agreement, both marked as MIFC Taskforce mid-term priorities. In 2015, a Base Erosion and Profit Shifting plan was drafted in accordance with OECD guidelines, necessitating further tax law amendments.

Financial Markets Tax System and Tax Administration reform

53	Clarify withholding tax treatment and performance of tax agent obligations by Russian entities in regard to coupon payments on Eurobonds issued on or after 01.01.2014	§ 97 / 29.06.12
54	Reform pricing and loss calculation rules for securities and financial derivatives	§ 420 / 28.12.13
55	Introduce recognition of expenses distributed in holding companies	→
56	Define taxable and tax-free securities trading volumes to improve VAT set-off procedure	§ 420 / 28.12.13
57	Compile a VAT-exemption list for services by securities market participants	→
58	Reform coupon expense accounting rules for corporate profit tax purposes	§ 420 / 28.12.13 32 / 08.03.15
59	Improve taxation of trust management and collective investment market participants	§ 420 / 28.12.13
60	Improve REPO taxation	§ 420 / 28.12.13
61	Introduce rules whereby economic substance determines the application of tax laws to transaction results. Introduce tax pre-approval	→
62	Improve tax treatment of long-term life insurance policy holders and insurers, non-state pension funds, stimulate long-term private investment	§ 379 / 21.12.13 382 / 29.11.14
63	Formulate a standpoint on FATCA (Foreign Account Tax Compliance Act) adopted in the USA	§ 173 / 28.06.14
64	Clarify tax agent procedures in dividend taxation	§ 306 / 02.11.13
65	Reform tax treatment of coupon payments in connection with the opening of Central Depository accounts for foreign entities	§ 306 / 02.11.13 382 / 29.11.14
66	Equal distribution of profit tax burden for different types of private investment	§ 420 / 28.12.13 382 / 29.11.14

 Federal Act passed
  CBR Regulation passed
  Federal Government Decree passed
  Moscow exchange Rules passed
  Moscow city Decree passed
  Supreme Court Ruling passed
  On an ongoing basis

RUSSIA'S COMPETITIVE EDGE, INCLUDING WORLDWIDE PROMOTION AND RATINGS

The MIFC Roadmap uses several international ratings as key benchmarks to gauge the position of Moscow among international financial centers: the World Economic Forum's Global Competitiveness Index (part of the annual Global Competitiveness Report), the World Bank's annual Doing Business rating, and the Z/Yen Global Financial Centers Index, published every six months.

In recent years, the Russian financial market has improved its standing in the Global Competitiveness Index: #64 out of 148 (2012-2013), #67 out of 144 (2013-2014), #53 out of 144 (2014-2015). In 2015-2016, Russia finished 45th out of 140. In Doing Business 2013, Russia cracked the Top 100, at #92 out of 189, and outranked China, Brazil and India in 2015, moving up to #51. Z/Yen Global Financial Centers Index 2015 placed Moscow at #78 out of 84, and in March 2015, Moscow was #75 out of 82.

The main purpose of setting up a special marketing unit is to keep foreign financial markets, including issuers, up to date on Russia's infrastructure development and new laws. The Foreign Investment Advisory Board recommended a PR and marketing plan as one of the tools for the MIFC project in October 2014.

Studies of international financial centers show that more than half of the agencies responsible for their development were initially state projects with not-for-profit partnership status. In time, many of these agencies have become partly or fully financed from private sources.

Russia is frequently misrepresented in the media today, and it is only fair that we should have a communication strategy in place so that investors who have already discovered Russia and those who are still looking into Russia get the same picture.

67 Establishing a vehicle for the promotion of Moscow as international financial center



Federal Act passed



CBR Regulation passed



Federal Government Decree passed



Moscow exchange Rules passed



Moscow city Decree passed



Supreme Court Ruling passed



On an ongoing basis



MOSCOW AGGLOMERATION: URBAN ENVIRONMENT AND NON-FINANCIAL REGULATION

Quality urban environment and social services are the cornerstone of every financial center. Both federal and Moscow authorities remain focused on these areas. In the process of MIFC Roadmap implementation, Moscow was hit by New Moscow integration in 2012 and the overall macroeconomic situation. Moscow has been running a limited budget with deficit since 2012. Gross Regional Product is also down (9% in 2013, 2% in 2014).

Nevertheless, the city managed to bring to life several complex projects with a strong impact on the urban environment.

For the first time, traffic congestion in the center and on the main thoroughfares has been contained: paid parking zones were introduced in 2013 and have been expanding, public transport schedules have also improved. In 2014, Moscow ceased to be the world's congestion champion according to TomTom Traffic Index, with new leaders Istanbul, Mexico and Rio de Janeiro. Research data shows Moscow traffic jams have dropped from 66% to 50%.

Regulation of taxis has brought transparency into the cab business. Licensed taxis in Moscow now serve over 100 mln passengers a year.

Eco-friendly transport development has considerably improved living conditions. In 2010-15 CO₂ levels dropped by 30%, NO₂ by 20%, Suspended Particular Matters – by 10%. Overall, Moscow air became 20% cleaner.

Public areas have changed, too. City parks have been renovated to accommodate people of all ages and interests. As a result, Moscow parks attract more locals and tourists, and are praised by international city planning experts. In Summer 2015, parks drew 17.6 mln visitors (vs. 5 mln in 2010). On weekdays, Gorky Park welcomes up to 40 thousand people, and up to 250 thousand on weekends. In 2014, the park ranked #6 in the world by Instagram geotags, beating Red Square and the Louvre. In 2015, the Park became host to a world-class modern art museum, Garage. Lonely Planet declared Gorky Park Top Choice in “Top Things to do in Moscow”. Free Wi-Fi is now available in the Moscow Metro and in city parks.

There are plenty of offices to choose from in Moscow, with 3.1 mln square meters of office space built in 2011-15. Large-scale investment projects are being launched in office development. In 2015, Moscow Urban Planning and Land Commission approved the Rublevo-Arkhangelskoye development project, a new district outside the West Ring Road (total office and residential space of 4.1 mln sq. meters) with a focus on business infrastructure. The project is set to create 76.3 thousand jobs. The main investor is Sberbank.

A developed transit system, clean air and water, quality office space – these are the benefits available to everyone. At the same time, to form an international financial center you have to cater to very specific needs of foreign professionals. These include visa and immigration control, and consistently top-grade social services.

Multilingual services should be introduced across the board – in transport and navigation, in schools, hospitals, and media. These services are part of the MIFC Roadmap and Moscow City Government agenda. A simplified visa procedure was introduced for highly qualified foreign professionals in 2010.

Moscow Agglomeration: urban environment and non-financial regulation

68	Develop the transport network	 
69	Increase the number of pedestrian zones	 
70	Create multi-language street and public transport navigation	 
71	Increase the number of healthcare organizations catering to foreigners	
72	Simplify visa procedures for foreign businessmen, scientists, teachers, doctors and artists	
73	Develop Russian language programs for foreign finance professionals	
74	Make healthcare more investor attractive	 
75	Set up a multi-language web portal on education in Moscow	 

- 
Federal Act passed
- 
CBR Regulation passed
- 
Federal Government Decree passed
- 
Moscow exchange Rules passed
- 
Moscow city Decree passed
- 
Supreme Court Ruling passed
- 
On an ongoing basis

