

Opening Remarks by Alexander Voloshin at the London-Moscow IFC JLG Meeting

7 July 2014

Good afternoon and welcome!

Since we last met in London, a lot has changed in the financial markets. I would like to emphasize, though, that we have continually moved forward in our international financial centre effort, making important progress along the way. I am happy to take this opportunity to tell you a bit about our achievements today.

As you know, a year ago, on the 19th of June 2013, the Russian Government approved the MIFC Roadmap. This plan has a three-year timeline. **Today, we already see a third of the Roadmap objectives fulfilled.** We are talking not only system shifts and political steps (such as the new, Bank of Russia-based financial megaregulator), this change also means small-scale pin point adjustments aimed at investment climate improvement. There is a Roadmap progress table in the brochures you have in front of you. A more detailed up-to-date report will follow by the end of this month, and we will post it on the Taskforce website.

A few days before this meeting, on the 1st of July, a whole package of important financial market laws was enacted. These laws contain innovative amendments that were drafted with the direct involvement of the MIFC Taskforce.

- The Securities Market Act amendments have introduced two new types of entities – **specialized financial companies and specialized project finance companies** (the Russian analog of SPV). This change enables us to launch the mechanism of **securitization**.

- A new instrument has arrived on the market, **the individual investment account** – another incentive for long-term private investment in the stock market.

- There are several Civil Code amendments that have also been enacted: new Articles regulate **escrow account** and **nominee account agreements**.

- Bond holders have received more rights and interests protection tools: **the early redemption procedure, the institution of bondholder representatives and General Bondholder Meetings**.

Now, a few words on regulatory reform. A year ago, as we prepared for the launch of the megaregulator, one of the transitional period risks that we were aware of was a possible hiatus in regulation. Today, with the megaregulator up and running for over 10 months (*10 months and one week*), I am proud to say that no breakdown occurred. What's more, we have seen serious efforts taken by the CB

to improve the quality of regulation and oversight – which was the exact goal we set for the megaregulator.

Last October, the MIFC Taskforce hosted a Strategic Session to draft the financial market regulation policy. As a result of the session, the **Central Bank formulated and approved with the market a two-hundred and thirty-three step action plan to develop regulation and oversight across all market sectors**. Market participants dubbed it “233 Good Deeds List”.

Two weeks ago we had a meeting with Sergey Shvetsov and his team to talk about how they are moving forward with this plan. People from all financial industry segments were there, and as far as I could tell, they all felt rather positive about the progress made by the Bank of Russia.

Today we will hear more about this effort from the Regulation work stream. I just want to point out that the process of laying down the base of the pension savings guarantee system is going full speed, which means a new form of incorporation for Russian NPFs. We will also discuss this today when Mr. Dmitriev presents his report on long-term finance.

Another **two initiatives** are bound to bring radical change to business climate in the financial market.

First, the Bank of Russia in cooperation with market participants is engaged in active work on **insider trading laws**. Unfortunately, existing laws are quite useless and require thorough modernization. I expect the draft Act to be ready by our next meeting.

Second, the Bank of Russia has come forward with the **financial market digitalization initiative**. My colleague Karachinsky (*JLG member Anatoly Karachinsky, CEO, IBS Group*), who will join us tonight, has quoted stats that expose Russia as a birthplace of over a billion financial market-related paper documents per annum. So-called ‘client’ papers (utility bills, assorted fines, banking and insurance papers). There is also a monstrous mass of market participants’ reports. Naturally, this takes quite a lot of competitive edge off our market.

The Bank of Russia has set a goal to get rid of paper interaction by building direct links. There is a lot of work ahead that involves both legislative and technological decisions. However, in taking down these barriers we hope for a system-wide effect: it will cut costs for market participants and make the entrance ticket cheaper for new participants, including private individuals.

We have passed most of the key financial market infrastructure reforms last year. The integrated Moscow Exchange has been gaining momentum, offering the market new products and technologies; the Central Depository has been launched. Personally, I think we made certain impact as early as **last December, when the ratio of MOEX-traded Russian shares and LSE-traded DRs reached 63/37**.

This was the top result for our Exchange. Right now, sadly, this ratio has slipped a bit, for the obvious reasons.

As you know, last week **the Bank of Russia made an international placement of Moscow Exchange shares, selling off 11% of its MOEX stake.** The bidding was very active, and the book was oversubscribed several times by about a hundred institutional investors from Russia, Asia, the Middle East, Europe and the USA. We think this deal **made clear that the market gives our Exchange top marks for its fast growth**, the quality of its business model and the level of corporate governance.

The next issue is not on today's agenda; however, I see it as very important. This spring, we adopted a new **Corporate Governance Code**. It was passed by the Bank of Russia Board of Directors and the Russian Government.

The Code recommendations include:

- A more prominent role for the Board of Directors and its members (including new independence criteria)
- Risk management and internal control requirements
- More transparency for controlled companies, with increased control by the Board of Directors
- Protection of shareholders' dividend rights, including measures to prevent non-dividend income generation by shareholders
- Regulation of material corporate actions, including transparency issues and shareholder rights protection guarantees

The Code is a number of recommendations, but we have thought of ways to implement it in corporate culture. It is essential for the State – a major property owner – to initiate the implementation of the Code in state-owned companies. In the case of public companies, Code standards will be implemented through the Moscow Exchange listing procedure.

Finally, let me thank my colleagues for all the efforts they have made on our journey together – towards this meeting.