

## **Moscow IFC Strategy Session**

### **IFC Success Factors**

## **I. IFCs 10 Year Progress**

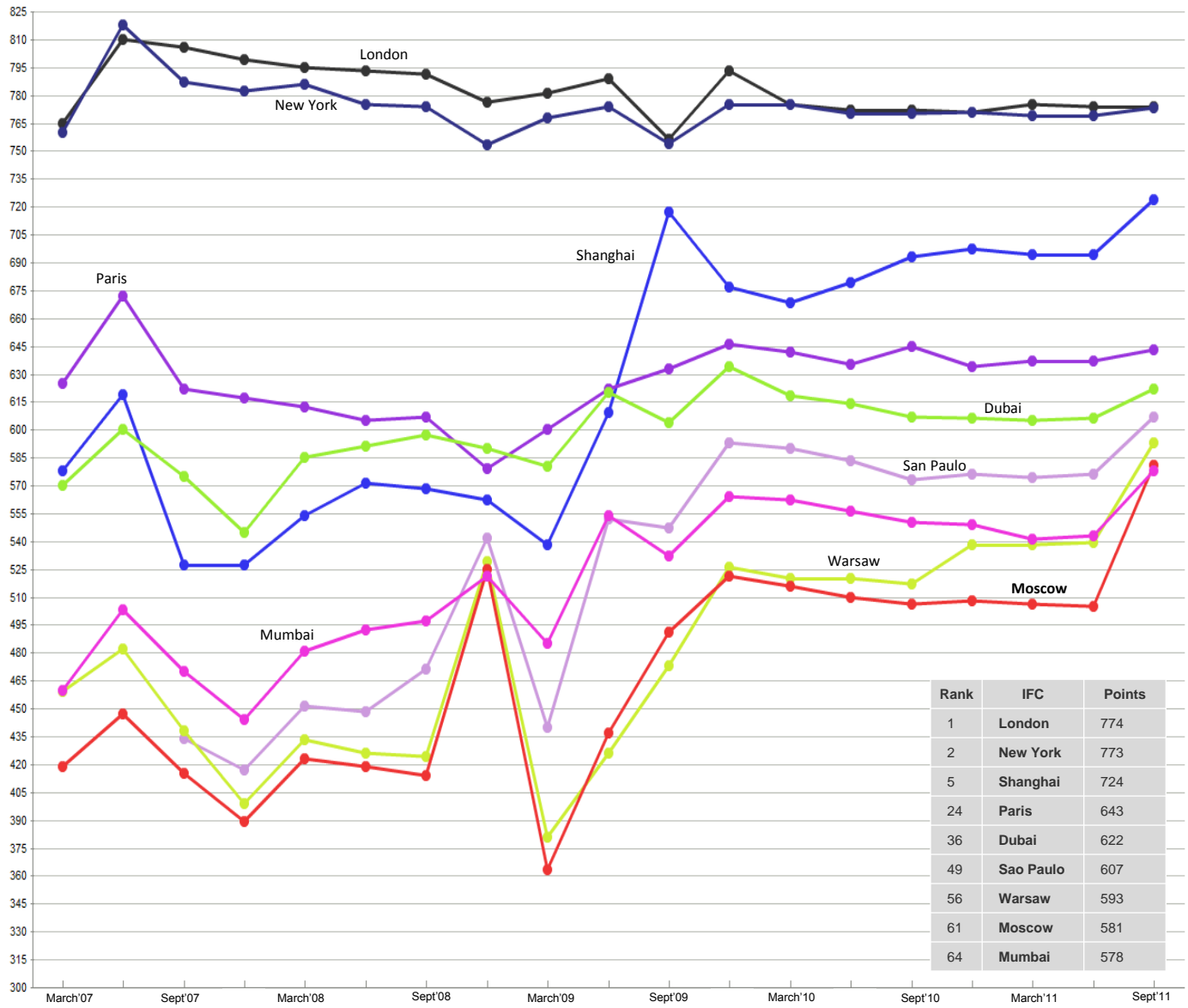
## **II. The Key IFC Success Factors**

## **III. Government Initiatives to Unlock Moscow's Potential**

Centers likely to become more significant	Number of mentions
Seoul	80
Shanghai	65
Singapore	38
Hong Kong	37
Toronto	17
Tel Aviv	16
Beijing	14
Mumbai	14
Moscow	9
Liechtenstein	7

Competitiveness factors	Rank
The availability of skilled personnel	1
The regulatory environment	2
Access to international financial markets	3
The availability of business infrastructure	4
Access to customers	5
A fair and just business environment	6
Government responsiveness	7
The corporate tax regime	8
Operational costs	9
Access to suppliers of professional services	10
Quality of life	11
Culture & language	12
Quality / availability of commercial property	13
The personal tax regime	14

Data sources	
Online survey	Instrumental factors (external indices)
28,604 online assessments	5 areas of competitiveness <ul style="list-style-type: none"><li>• People</li><li>• Business Environment</li><li>• Infrastructure</li><li>• Market Access</li><li>• General Competitiveness</li></ul>
1,887 financial services professionals	



Source: The Global Financial Centers Indices Reports 1-10

Moscow gained 7 positions moving up to #61 (gained up 75 points, demonstrating a strong increase in competitiveness)

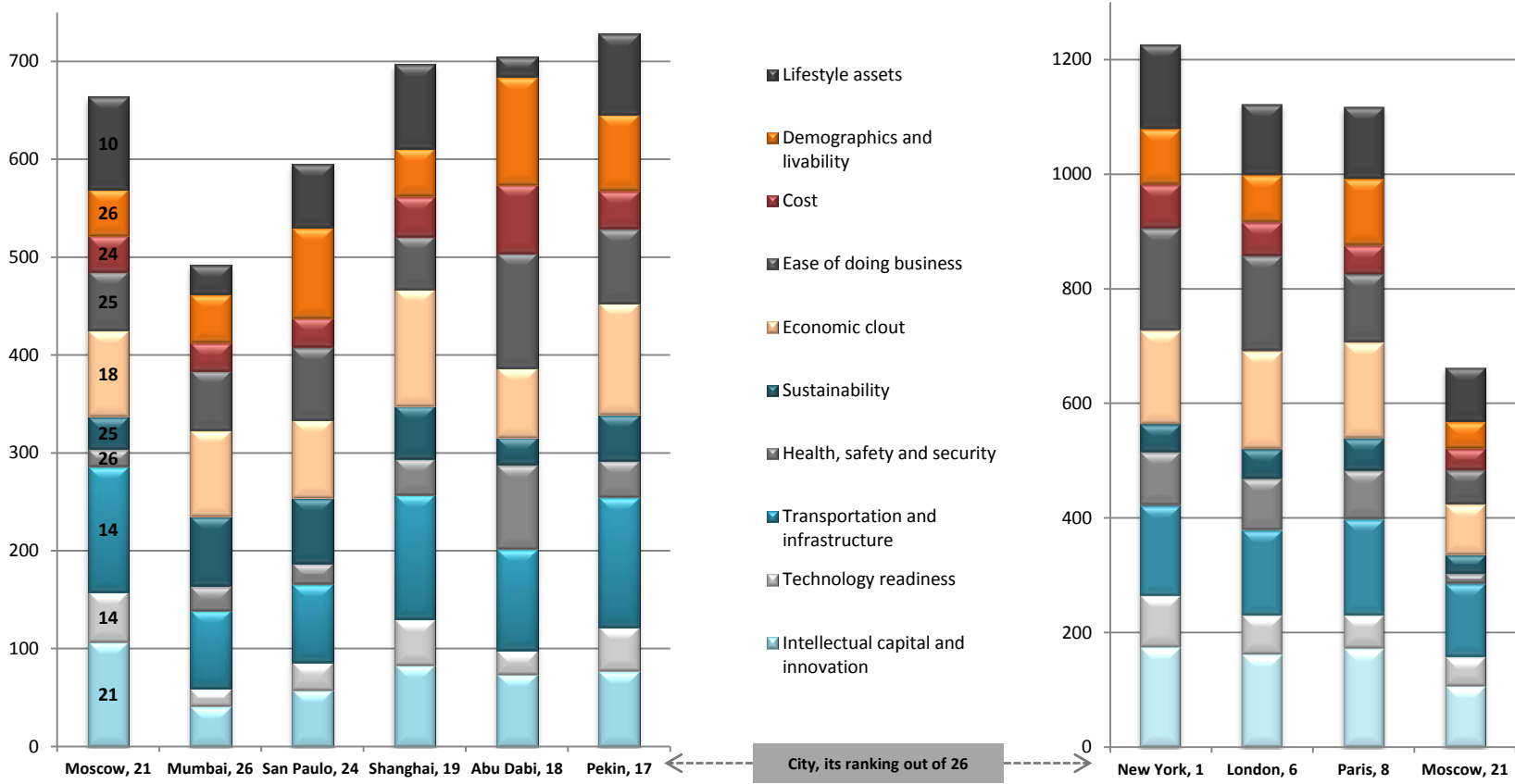
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# II. The Key IFC Success Factors – 1/6

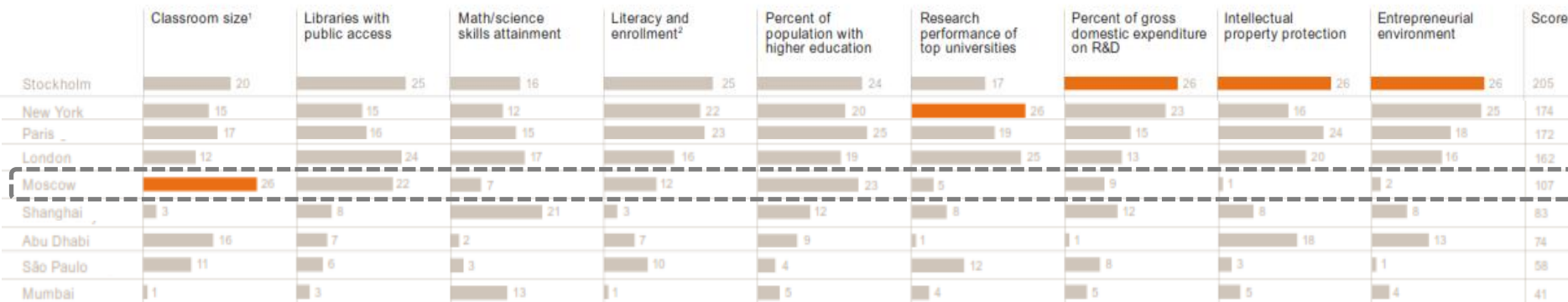
## PWC 2011 Ranking Summary



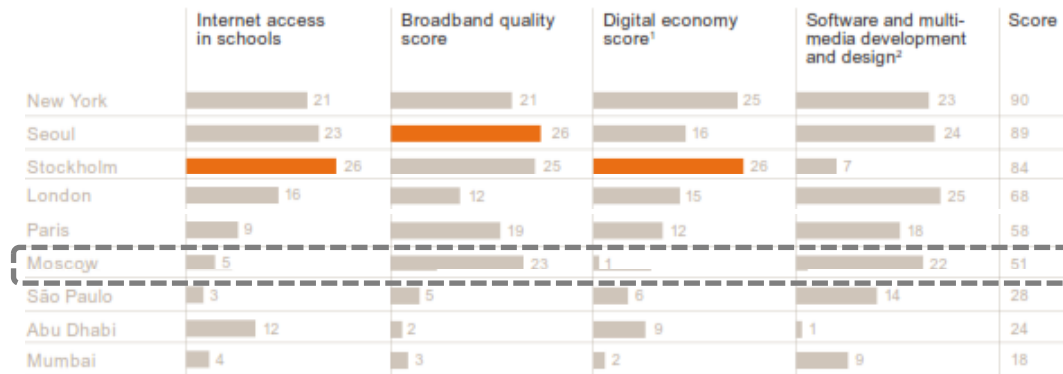
Source: PWC report "Cities of Opportunity" 2011

## II. The Key IFC Success Factors – 2/6

### Intellectual capital and innovation



### Technology readiness



#### Classroom size

Number of students enrolled in public primary education programs divided by the number of classes in these programs.

#### Literacy and enrollment<sup>2</sup>

Measurement of a country's ability to generate, adopt and diffuse knowledge.

#### Digital economy score<sup>\*</sup>

Assessment of the quality of a country's information and communications technology (ICT) infrastructure and the ability of its consumers, businesses and governments to use ICT to their benefit.

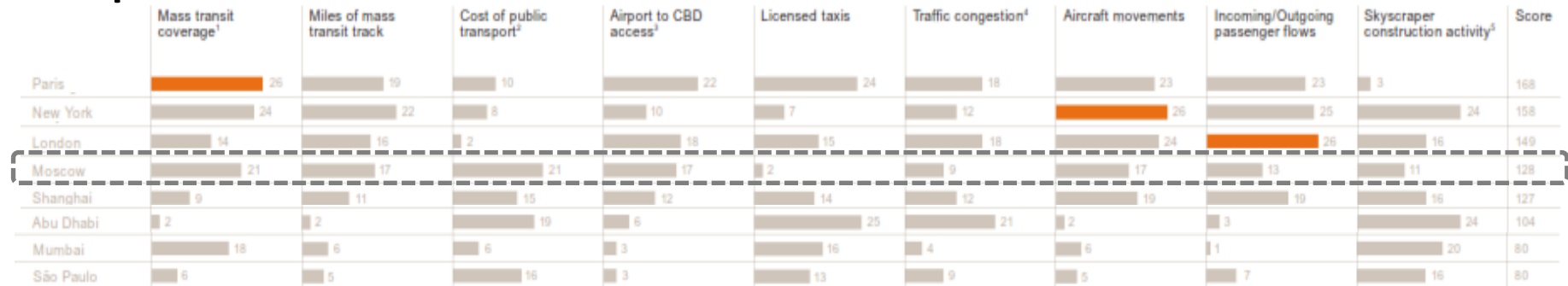
#### Software and multimedia development and design

Combined score for each city in *fDi* magazine's Best Cities for Software Development and Best Cities for Multi-Media Design Centres

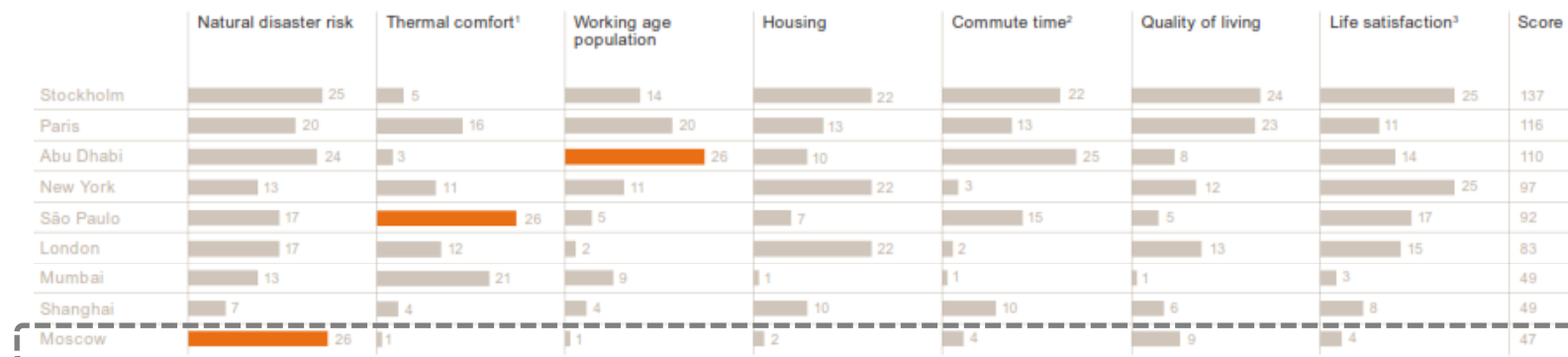
Source: PWC report "Cities of Opportunity" 2011

## II. The Key IFC Success Factors – 3/6

### Transportation and infrastructure



### Demographics and livability



#### Mass transit coverage

Ratio of kilometers of mass transit track to every 100 square kilometers of the developed and developable portions of a city's land area.

#### Traffic congestion

Measure of traffic congestion

#### Cost of public transport

Cost of the longest mass transit rail trip within a city's boundaries. The cost of a bus trip is used in the cities where there are no rail systems.

#### Skyscraper construction activity

Count of skyscraper construction projects in each city under way as of September 26, 2010. A skyscraper is defined as any building 12 stories or greater in height.

#### Airport to CBD access

Measure of the ease of using public transit to travel between a city's central business district and the international terminal of its busiest airport in terms of international passenger traffic.

#### Thermal comfort

Measure of the average deviation from optimal room temperature (72 degrees Fahrenheit) in a city.

#### Commute time

Assessment of the average commute time for workers commuting into or within a city across all modes of transport, measured in minutes.

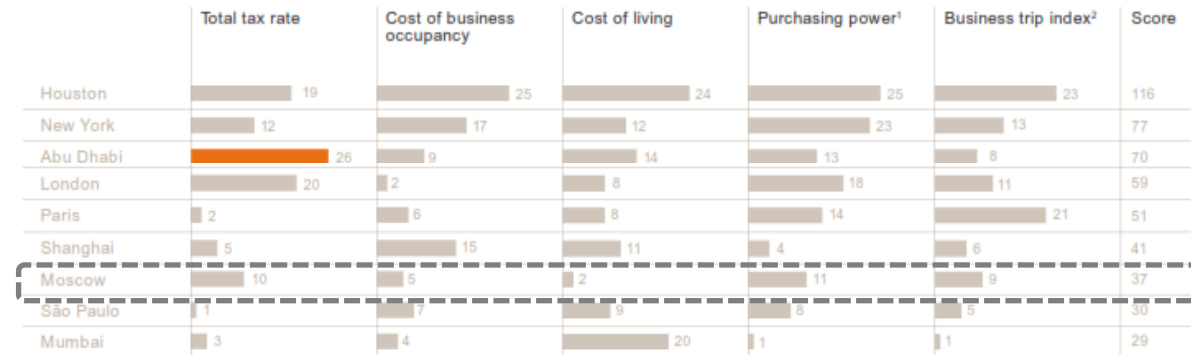
#### Life satisfaction\*

Average score in robust international surveys of country populations in response to the question, "All things considered, how satisfied are you with your life as a whole these days?"

Source: PWC report "Cities of Opportunity" 2011

## II. The Key IFC Success Factors – 4/6

### Cost



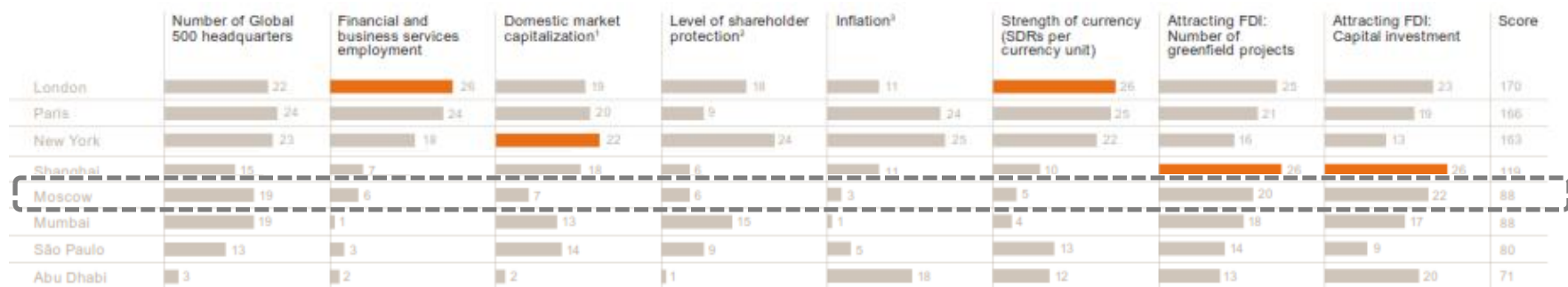
#### Purchasing power

Measure of the comparative relationship between prices and earnings calculated by dividing net hourly income by the cost of a basket of 122 goods and services, including rent.

#### Business trip index

Weighted index of the cost of a business trip to a city, including measures such as taxi cab rates, lunch prices, and quality of entertainment and infrastructure.

### Economic clout



#### Domestic market capitalization

Total number of issued shares of domestic companies listed at a city's stock exchange(s) multiplied by their respective prices at a given time. This figure reflects the comprehensive value of the market at that time in millions of USD.

#### Inflation

Ranking according to how far a country deviates from a +2% inflation rate, with inflation that is closer to +2% being favored over inflation or deflation that is further from this rate.

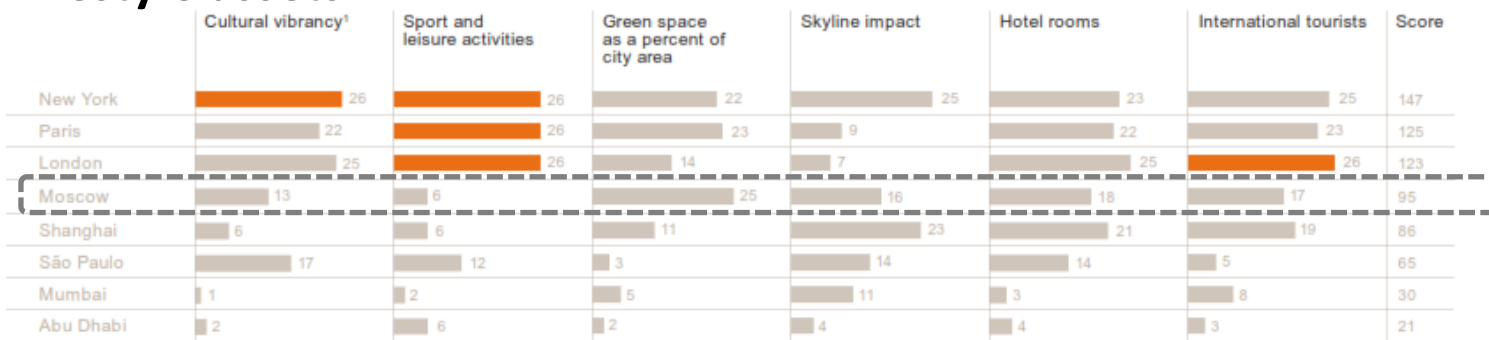
#### Level of shareholder protection

Measurement of the strength of minority shareholder protection against misuse of corporate assets by directors for their personal

Source: PWC report "Cities of Opportunity" 2011

## II. The Key IFC Success Factors – 5/6

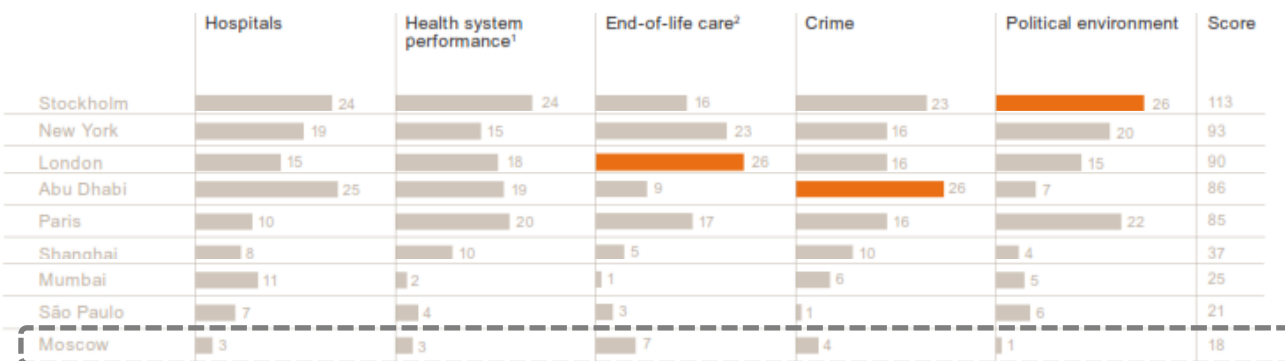
### Lifestyle assets



#### Cultural vibrancy

Weighted combination of city rankings based on: the quality and variety of restaurants, theatrical and musical performances, and cinemas within each city.

### Health, safety and security



#### Health system performance\*

Measurement of a country's health system performance made by comparing healthy life expectancy with healthcare expenditures per capita in that country.

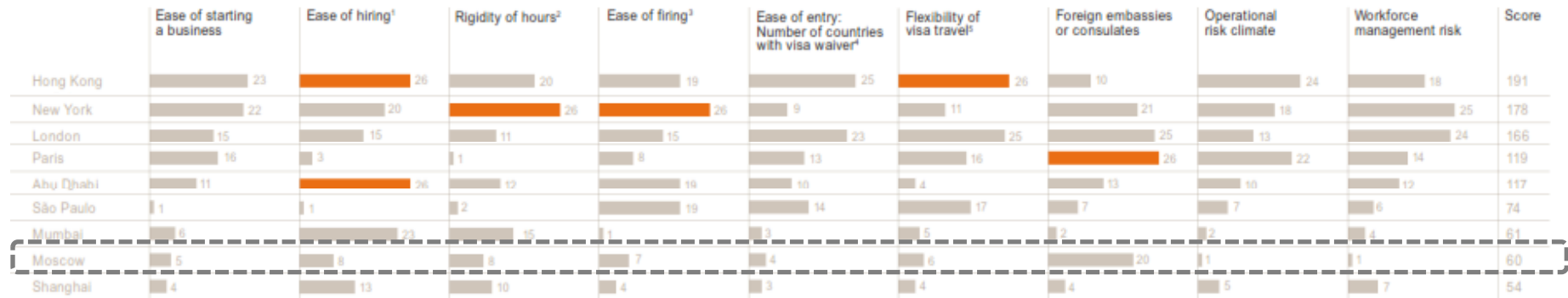
#### End-of-life care\*

Ranking of countries according to their provision of end-of-life care. The Quality of Death Index scores countries across four categories: Basic End-of-Life Healthcare Environment; Availability of End-of-Life Care; Cost of End-of-Life Care; and Quality of End-of-Life Care.

Source: PWC report "Cities of Opportunity" 2011

## II. The Key IFC Success Factors – 6/6

### Ease of doing business



#### Ease of hiring

Ranking based on restrictions and regulations employers must follow when taking on new staff.

#### Rigidity of hours

Ranking based on the flexibility in scheduling of nonstandard work hours and annual paid leave for a business.

#### Ease of firing

Ranking based on notification and approval requirements for termination of a redundant worker or a group of redundant workers, obligation to reassign or retrain, and priority rules for redundancy and re-employment.

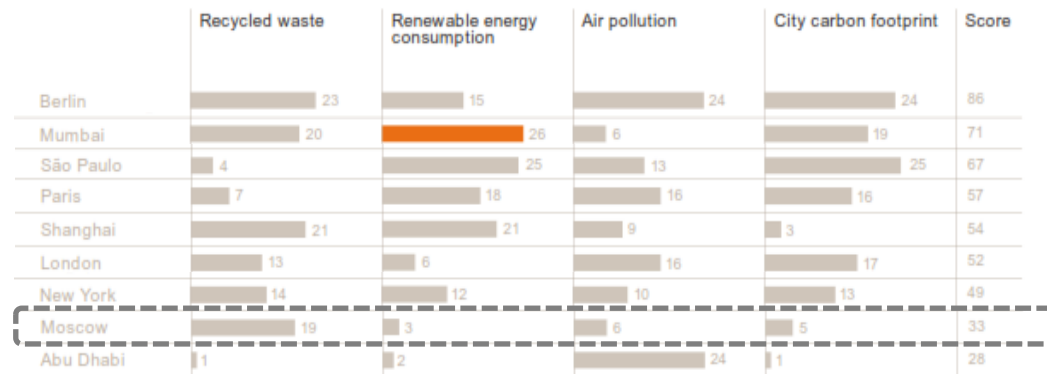
#### Ease of entry: Number of countries with visa waiver\*

Number of nationalities able to enter the country for a tourist or business visit without a visa. Excludes those nationalities for whom only those with biometric, diplomatic or official passports may enter without a visa.

#### Flexibility of visa travel\*

Ranking based on the number of visa waivers available for tourist or business visits and the length of time for which the visa waiver is granted.

### Sustainability



Source: PWC report "Cities of Opportunity" 2011

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**III. Government Initiatives to Unlock Moscow's Potential**

Moscow Mayor **Sergey Sobyanin**: Development strategy for Moscow is aimed at transforming the city into a global megapolis and a regional development center

Investment

- Investment:**
- Moscow launched an ambitious commercial real estate program involving retail and office space
  - Retail, hotels, healthcare, sports and transport sectors have received significant investment
  - \$50 bn will be spent on recreation areas, social development, medical and transportation infrastructure, and hotels
  - The city is developing \$12-15 bn program to solve local traffic and parking issues

Zoning and land regulation

- Zoning and land regulation:**
- Local government plans to build new campuses, site a financial center and government buildings, etc.
  - Moscow To Double In Size: 20-Year plan that would increase Moscow from its current 264,000 acres to 620,000 acres (taking in forestland and surrounding communities in south and southwest)
  - Switching to an electronic procurement system have helped the city budget to save \$2bn

Human recourses

- Human recourses:**
- Moscow as a center of innovation (one in three Russian scientists lives in Moscow)
  - The high influx of people into Moscow
  - Foreigners are comfortable in Moscow
  - Unemployment rate is 1%
  - Average life expectancy has risen to 75, the birth rate exceeds the mortality rate

- ❑ 600+ banks out of a total of 1,250 credit institutions operating in Russia
- ❑ 80% of the country's financial resources are transferred through the city's financial system
- ❑ The Moscow Interbank Currency Exchange (MICEX) ranks among the world's Top 10 largest stock exchanges: accounts for over 80% of Russia's organized securities market, with roughly 30% of all deals being struck by non-residents
- ❑ All the world top companies have representative offices/headquarters and operate in Moscow

Success Factors

- ❑ Davos, Jan 26, 2011 – President Medvedev stated the main goal is “to turn Moscow into a major international financial center (IFC)”
- ❑ Working group to turn Moscow into an IFC
  - Stephen A. Schwarzman, Blackstone Group
  - Lloyd C. Blankfein, Goldman Sachs
  - Jamie Dimon, JPMorgan Chase
  - Vikram Pandit, Citigroup

Difficulties

- ❑ Highly competitive environment where Moscow would need to find a niche as IFC
- ❑ Need to lower the effective cost of doing business for market participants
- ❑ Scarcity of available skilled human capital in Moscow (includes financial skills and language skills)

**Immigration procedure facilitating:**

- Russia adopted a progressive law establishing a simplified immigration procedure for highly qualified specialists;
- Likewise changes in tax law on the most beneficial tax rate available for HQS expatriates

**Tax law :**

- Capital gains on long term investments (>5yrs) are tax exempt
- Interest deductibility limit significantly reduced for loans in foreign currency
- Skolkovo area tax benefits to hi-tech companies clarified
- Profit tax exemption for contribution of assets aimed at increasing net assets

**Cadastral valuation legislation:**

- The cadastral price of land is equal to its market price in cases when the market price of such land is determined
- Cadastral valuation is to be performed by professional appraisers in accordance with provisions regulating valuation
- A cadastral valuation report is subject to expert examination by a self-regulating organization of appraisers

**Construction in Moscow :**

- Reduction in the time required for Moscow agencies, institutions and organizations to prepare certain documents
- Reduction in the number of documents that applicants must submit to agencies and institutions – by eliminating the need to submit documents already in possession of other Moscow departments and committees

**Legislation Improvements**

*Source: Association of European Business Report 2011*

Limited competition, improving investment climate and supporting government initiatives lead to high ER on investments

### III. Government Initiatives to Unlock Moscow's Potential – 3/3

#### PR and Country Marketing

- Invite dialogue and act upon investor concerns
- Russia Troika Forum 2012 - **Prime Minister Putin**: "Russia must rise from 120th to 20th place according to the quality of its investment climate" including:
  - a 3/4 time cut to connect business to energy grids
  - a 2/3 time cut to fill out tax records
  - an 85% time cut for **customs** controls
  - investors to receive building licenses in 1/50 of the current period and will fill in a 1/3 of the current amount of documents

#### Demographic & Social

- Grow productive labor force which leads to more room for capital deployment
- Stem population decline
- Promote migration and mobility
- Boost skill rotation, fit and flexibility
- Labor structure optimization

#### Capital Market Infrastructure

- Central depository
- Full DR/Local fungibility
- Mandatory IFRS accounting
- World class large liquid cash and derivative exchange platform with self-regulating authority (MICEX V2.0)

#### Institutional, Legal and Regulatory

- Stop corruption
- Uphold rule of law and cut authority abuse
- Judicial reform to boost judiciary independence, competence and productivity for speed and objectivity of dispute resolution
- Provide lighter, predictable, regulatory environment
- Simplify decision and approval processes
- Eliminate conflicting regulations including visa regime
- Optimize junior government ranks and revise comp structure

#### Macro & Fiscal

- Boost banking system
- Larger credit availability for lower cost of capital and more investor equity need/room
- Accelerate Privatization effort: transparency of process and full commitment to complete the program
- Reduced government ownership for higher productivity growth and faster GDP growth
- More aggressive use of RDIF partnership platform
- Precedent /alignment of interest with large international investors
- Sustainable fiscal balance and predictable tax regime
- Lower breakeven oil price
- More diversified tax revenue base
- Pragmatic spending policy