



NAUFOR

IN BRIEF

2023

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The background of the entire page is a low-angle, upward-looking photograph of several modern skyscrapers. The buildings are rendered in a light, desaturated grey tone, creating a sense of height and architectural scale. The perspective is from below, looking up at the facades of the buildings, which are covered in a grid of windows.

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Oleg Vyugin

Chairman of the Board of Directors of NAUFOR

Every year, NAUFOR, as a self-regulatory organization designed to promote the country’s financial market development, expands the range of its members and markets represented. Evidence of this is the self-regulation functions consolidation for seven activities and subsequent rise of the number of members in 2023.

The constant development of applicable inspection tools used over the members’ activities, the constant concern upon financial intermediary industry and investor related legislative environment improvement makes the role of NAUFOR more tangible and significant.



Alexey Timofeev

President of NAUFOR

The 2023 was the year of consolidation of self-regulation functions for most types of Russian securities market activities in NAUFOR. We have always felt a responsibility for maintaining confident relationship between the industry and investors — its customers, and now this responsibility has become higher, and we intend to meet it.

As before, NAUFOR will contribute to the Russian financial market development promoting the rational balance of interests among its participants, investors and the state.

General information

The National association of securities market participants is a self-regulating organization (SRO) uniting brokers, dealers, asset managers, investment advisors, custodians, registrars, investment fund management companies and specialized depositories.

NAUFOR main activities:

- development of financial market operations standards and monitoring of their compliance;
- participation in drafting laws and regulations in order to create favorable development of the financial market conditions improving industry regulatory environment and ensuring investors’ interests protection;
- financial market participants methodological and consulting support;
- investment advisory auto-consultation and auto-execution software approval;
- financial market specialists qualifications assessment;
- investment advisors training and examination;
- compliance officers professional development.

NAUFOR’s office is located in Moscow, with representative offices in St. Petersburg, Kazan and Yekaterinburg.

NAUFOR has 73 employees.

In 2023, NAUFOR have consolidated self-regulatory functions for brokers, dealers, asset managers, custodians, specialized depositories, and have also become SRO for registrars. Prior to that, NAUFOR was already the only SRO uniting investment fund management companies.

NAUFOR members

By the end of 2023, 648 companies and individual entrepreneurs were NAUFOR members. Total number of members increased by 48% over the year.

NAUFOR members by license types

Brokers	253
Dealers	280
Asset managers	180
Custodians	252
Investment fund management companies	272
Registrars	31
Specialized depositories	26
Investment advisors	103
Joint-stock funds	2

NAUFOR members by institution types

Non-credit financial institutions	453
Banks	184
Individual entrepreneurs	11

NAUFOR organizational chart



Drafting Standards in 2023

NAUFOR participates in drafting basic standards in Bank of Russia committees and adopts internal standards for securities market activity.

The standards are an element of Russian financial market two-level regulation consisting of state regulation (legislation and Bank of Russia regulation) and standards (basic and internal). This regulatory construction allows implementing a flexible approach to execute control over market participants dividing powers between the Bank of Russia and SRO. The basic standards should comply with the state legislation, the internal ones - with the state legislation and the basic standards.

The standards are currently in effect:

For all NAUFOR members — NAUFOR internal standards
«Code of Business Ethics»;
«Requirements for financial instruments promotion to individuals».

For brokers:
The basic standard for the brokerage financial market operations;
The basic standard for protecting the rights and interests of individuals and legal entities-clients of SRO’s members conducting brokerage;
Internal Standard «Requirements for the information documents on financial instruments to be provided to individuals by brokers»;
Internal standard «Informing the client about risks»;
Internal standard «Reporting to the client»;
Internal standard «Conflict of interest prevention»;
Internal standard “Finding client’s gained knowledge and experience regarding financial instruments operations and provided services»;

For asset managers:
The basic standard for the asset management financial market operations;
The basic standard for protecting the rights and interests of individuals and legal entities-clients of SRO’s members conducting the asset management activity.

For custodians:
The basic standard for the custodian financial market operations;
The basic standard for protecting the rights and interests of individuals and legal entities- clients of SRO’s members conducting the custody activity.

For investment advisors:
The basic standard for the investment advisory financial market operations;
The basic standard for protecting the rights and interests of individuals and legal entities-clients of SRO’s members conducting the investment advisory activity;
The internal standard «Requirements for the investment advisory services provision by the means of auto-execution software».

For investment fund management companies:
The basic standard for protecting the rights and interests of individuals and legal entities-clients of SRO members conducting the activity of funds, the activity of management companies of funds.

The internal standard for unit investment fund management companies activities;
The internal standard for the unit investment fund net assets value and investment unit value calculating method.
The internal standard «Principles of indicators applying for indicator based unit investment fund».

For specialized depositories:
Internal standard «A specialized depository procedure for the approval of a report on termination of the unit investment fund which units are limited in trade»;
Internal standard «Consent proceedings by a specialized depository on trust management rules (amendments) of a unit investment fund which units are limited in trade»;
The internal standard «The special features of grace period records to be entered to mortgage coverage register».

For registrars:
The basic standard for the registrars financial market operations;
The basic standard for protecting the rights and interests of individuals and legal entities – clients of SRO members conducting registrar activity;
Internal standard «Registration of issue of shares»;
Internal standard for transfer agency activitiy;
Internal standard «Message transmission formats for securities holders register»;
The internal standard «Registrar software-based interaction formats applicable to communication with nominee holders and the central depository».

In 2023, NAUFOR issued the following standards:

«Principles of indicators applying for indicator based unit investment fund» for unit investment fund management companies.
The standard establishes the principles of applying of financial indicators that are not covered by regulation and not administered by the Bank of Russia and the market organizers. The standard is designed to increase the transparency and reliability of indicators based unit investment funds.

New edition of the internal standard for the init investment fund net assets value and investment unit value calculating method. The amendments were prepared in response to the unit investment funds frozen assets, information receipt cessation by foreign financial data providers and the indices calculation transition from an international scale to a national one. The comments identified during the application of the previous version were also implemented.

«Requirements for the information documents on financial instruments to be provided to individuals by brokers».
The standard has been added with three new forms of information documents:

- plain vanilla bonds of Russian issuers;
- federal bonds for individuals (OFZ-n);
- foreign depository receipts for shares.
- registration of issue of shares

«Registration of issue of shares (additional issue) by registrars».
«On transfer agency activity»
«Message transmission formats for securities holders register»
«Registrar software-based interaction formats applicable to communication with nominee holders and the central depository».

Control over members

NAUFOR conducts control over compliance with the 11 basic and 17 internal standards regulating financial market activities. Constant approach to evolve and improve the tools used to control its members activities is one of the top NAUFOR priorities.

NAUFOR carries out inspection of each of its members at least once every five years. The list of NAUFOR members included in the inspections schedule for the coming year is published in advance to provide members with the opportunity to prepare for the inspection.

Unscheduled inspections are carried out upon customer complaints and Bank of Russia request. Thematic unscheduled inspections including the «secret customer» are held as well.

System or social significance of the organization are taken into account when deciding to conduct an unscheduled inspection, the number of clients, the number of complaints received are also used as key elements of a risk-based approach:

	Customers (investment unit owners) number			
Inspection types	up to 2 000	2 000 – 20 000	20 000 – 1 mln	from 1 mln
Thematic (offering financial instruments, testing, investment profiling, etc.)	Not held	Annually	At least twice a year	At least twice a year
By type of activity (conducted in the quarter following the quarter, in which the indicator was exceeded)	Not held	If number of complaints exceeds 1% of clients (investment unit owners)	If number of complaints exceeds 1% of clients (investment unit owners)	If number of complaints exceeds 0,1% of clients (investment unit owners)

NAUFOR control priority areas

The basic standard for the brokerage financial market operations.

Best execution; complying with condition of the acting as a party to a securities loan deals at the expense of the borrower; conditions and execution order of clients’ funds and securities utilization for broker’s benefit and corresponding risks appropriate information provision to clients; clients’ orders execution features; order execution expenses information to be provided to clients.

The basic standard for the asset management financial market operations.

Client’s investment profile determination order; non-professional (non-qualified) investor common strategies information disclosure; corresponding risks and the lack of guaranteed profitability information provision to clients; actual client’s risks valuation order.

The basic standard for the investment advisory financial market operations.

Information provision verification to determine compliance with individual investment recommendation profile, disclaimer apply rules; client’s investment profile determination order; conflict of interest information disclosure.

The basic standard for protecting the rights and interests of individuals and legal entities – clients of SRO members.

Appropriate information provision to clients; non-professional (non-qualified) individuals gained knowledge and experience testing order; clients’ communication devices network addresses (IP addresses) and identifiers (MAC addresses) information records keeping; client information provision on professional (qualified) investor status obtainment; conditions and execution order of clients’ funds and securities utilization for broker’s benefit.

Internal standard «Requirements for financial instruments promotion to individuals» (related to brokers and asset managers activities).

Financial instruments promotion principles: explicit imposition prohibition, providing promoted financial instrument information in compliance with good faith, reliability and completeness, prohibition of the secured income payment promise, provision of the information on the financial instruments risks insurance absence.

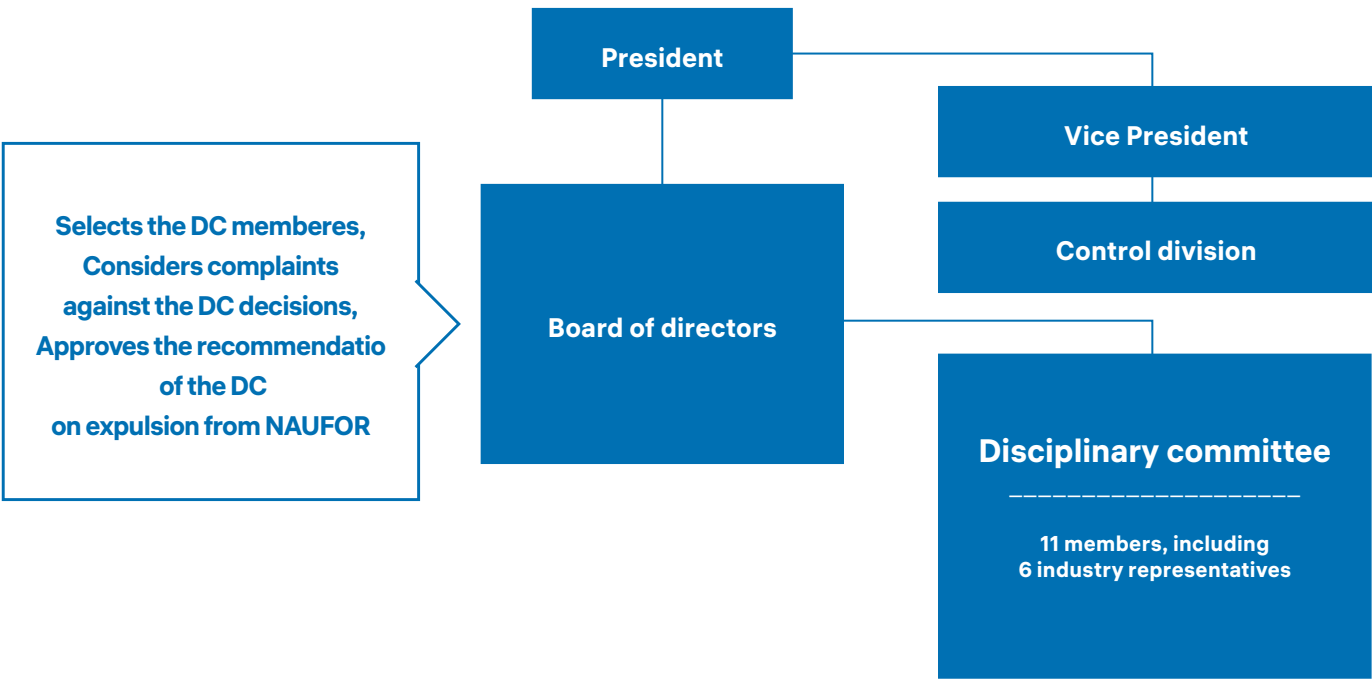
NAUFOR’s internal standard «Unit investment fund name compliance with the investment declaration requirements» (section of the Internal standard for mutual fund management companies activities).

Compliance with the unit investment fund declaration, specific assets, country, geographical region, exact industry references used in the unit investment fund name; unit investment fund investing risks information provision.

The internal standard «Informing the client about risks».

Compliance with the risk declaration, risk declaration disclosure on the NAUFOR member’s website.

Organization of control and disciplinary proceedings in NAUFOR



The Disciplinary Committee is a specialized permanent body formed annually by the Board of Directors and consisting of NAUFOR employees and industry representatives.

Disciplinary measures applied by the Disciplinary Committee are an reproof, a warning, a demand for the elimination of violations, an order, a fine (up to 1 million rubles), SRO expulsion recommendation (the Disciplinary Committee recommendation on expulsion from NAUFOR is subject to the Board of Directors approval).

The rectification of the identified violation can be taken into the Disciplinary Committee account as a sufficient condition for the liability exemption.

NAUFOR is not engaged in the injured client compensation/compensation of losses since these issues are not within the competence of SRO, however, the rectification of violation is usually accompanied by the settlement of a conflict.

In 2023, 232 inspections were carried out: 87 scheduled, 145 unscheduled including 67 inspections upon complaints and 46 inspections upon the Bank of Russia or NAUFOR requests. 32 inspections were conducted as a «secret customer».

The Disciplinary Committee held 81 meetings and considered cases of 134 of the 217 identified violations. In five cases, its decisions were appealed to the Board of Directors: two were revised, one was canceled and a new one was adopted, two decisions remained unchanged.

Measures applied by NAUFOR in 2023

	IF MC	B/D	AM	IA
Number of violations	11	56	43	79
Reproof	3	10	8	4
Warnings	1	6	4	4
Requirements to eliminate violations	3	3	3	4
Orders for action	-	4	1	2
Fines	-	7	-	4
Expulsion recommendation	-	-	-	1
Exemption of liability	-	12	-	11
Absence of violation	-	6	3	7

In 2023, NAUFOR implemented the Review of violations of the requirements of basic standards for the investors’ rights and interests protection, financial market activities, and internal standards for the provision of the financial instruments and financial services information.

The Review of investment profiling violations has been updated as well.

Investment advisory software approval

Since 2019 NAUFOR has been authorized to accredit the investment advisory software application.

During 2023, 10 software samples previously accredited by NFA SRO were transferred to NAUFOR due to the NFA SRO status termination. NAUFOR, in its turn, completed the verification of their compliance with current requirements.

By the end of 2023, 25 software samples were included in the NAUFOR software register.

Training and certification

NAUFOR is a **Qualification Assessment Center**, a body authorized by the Financial Market Professional Qualifications Council to conduct an independent assessment of qualifications for:

- a broker-dealer specialist;
- an asset management specialist;
- a custodian specialist;
- a clearing specialist;
- a stock exchange trade specialist;
- a junior financial advisor;
- a financial advisor;
- a financial education specialist (tutor).

NAUFOR also recognizes previously issued financial qualification certificates. In 2023, NAUFOR, as a Qualification Assessment Center, conducted 208 exams in which 528 applicants took part and issued 389 qualification certificates. 2,397 qualification certificates were issued in 2023 as part of NAUFOR certificates recognition activity.

In 2023, 565 participants attended 21 training seminars held for brokerage, asset management, depository activity specialists and financial advisors. Compliance officers workshop was also launched and attended by 32 students.

Through its subsidiary, NAUFOR Consulting Center LLC, the association conducted 36 professional development training seminars in the field of accounting, financial market taxation and AML/CFT which were attended by 71 students in person and had an extra audience of 846 online participants.

At the end of 2022, NAUFOR began training and certification of investment advisory specialists aimed to obtain NAUFOR certificate and advanced training certificate. The voluntary program was developed by NAUFOR in order to improve the investment advisors qualification level and designed for investment company employees engaged in investment advisory activities as well as for individual entrepreneurs.

7 face-to-face training seminars were held in 2023 and attended by 77 students who have received advanced training certificates and NAUFOR certificates upon completion of the course.

Methodological support

Supporting the unit investment fund management companies with regard to the blocked assets proceedings

As part of drafting a framework for allocating unit investment fund frozen assets to a dedicated closed-end fund, NAUFOR has implemented an evaluation method of the frozen assets and established guidelines to determine frozen assets ratio.

Furthermore, NUFOR has implemented a trust management rules template with regard to dedicated closed-end fund with provisions on a redemption agent.

Guidelines on unit investment fund assets value

In November 2023, the NAUFOR Committee on the Specialized Depositories Activity approved the guidelines on increase (decrease) of an investment unit fund’s property value representation in compiling the 0420503 report.

The approved guidelines enable to standardize the practice of compiling the report and to simplify the proceedings subject to vague interpretations of the regulatory act in effect.

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