

**RUSSIAN CAPITAL MARKET:
January–June 2007
Facts and events**

Introduction

This paper deals with the situation in the Russian capital market within the period ending in June 2007. Our purpose was to give a general idea of the Russian capital market and its key elements – instruments (including non-Russian instruments, e.g. depository receipts and Eurobonds closely connected with the Russian capital market), its participants – intermediaries and investors, its infrastructure, regulation and supervision systems and as well to list principal events which have occurred in the market within the first six months of 2007.

The present review was prepared by the National Association of Securities Market Participants with active participation of the Moscow School of Management SKOLKOVO. We created this review while preparing the NAUFOR research «Ideal model of the Russian capital market».

A few more remarks:

First, in this review we strived to avoid comments, except for those necessary to understand the data contained in the present review, its dynamics, as well as the essential features of the Russian capital market;

Secondly, whenever possible we used the data as of the end of June 2007, however in some cases when such data were unavailable we used available data with the timestamp as close to this date as possible;

Thirdly, it was not our purpose to show the period of the Russian market development prior to 2007. Generally we limit ourselves with the information dating to no earlier than 2005.

Sums in the review are denominated in both national and foreign exchange due to peculiarities of holding tenders and presenting their results.

We acknowledge and are thankful for the materials and assistance granted to us by RTS Group, Moscow Interbank Currency Exchange Group, Group of companies «REGION», the League of Management Companies and PARTAD (both are self-regulating organizations), and as well Standard&Poor's and CBONDS agencies.

We intend to issue this kind of reviews regularly and hope they will be of use to the readers, first of all to capital market specialists, investors, State bodies' employees, researchers, business mass media and generally those interested in the Russian capital market.

1. Instruments

1.1. Shares

The CJSC SKRIN database contains entries on 124 935 share issues effected as of the end of June 2007 by 85 489 issuers. Russian legislation requires registering all share issues of all joint-stock companies (including closed joint-stock companies). The Federal Financial Markets Service (FFMS)¹ has registered in 2005 as many as 15 319 share issues, and 12 669 share issues in 2006. The overwhelming majority of all these shares is absolutely illiquid, they are not quoted in secondary markets.

A tiny part of these share issues is traded on stock exchanges. See summary data on shares offered at Russian stock exchanges in Table 1.

Table 1. Formal share market (data as of 01.07.07)

	MICEX	RTS
Number of issuers	192	290
Quantity of share issues	300	405
<i>Including in the quoted lists</i>		
(ordinary shares/ preferred shares)	57/14	73/15

Sources: MICEX, RTS

It should be noted that the overwhelming majority of the share issues traded on formal markets (75–80% of their total number) refer to non-listed securities. The number of the share issues offered on formal markets has a certain growth tendency: from the beginning of 2007 their quantity has grown by approximately 15%.

Russian capital markets feature the opportunity to conduct organized trade in securities of one issuer simultaneously on several stock exchanges. Therefore a considerable part of the issuers is present at both of the principal Russian stock exchanges, besides, shares of some Russian issuers in the form of depository receipts are traded at foreign exchanges as well. Standard&Poor's estimates² the number of Russian issuers listed at RTS, Moscow Interbank Stock Exchange, NYSE, NASDAQ and also entered in the LSE-listed S&P EMD Russia index at the end of 2006 at 309 companies, and as of May 2007 at 313 companies.

The data on the Russian issuers share market capitalization are shown in the Table 2.

¹ Report of FFMS activities in 2006.

² Emerging Stock Markets Review, S&P, 2007 issues series.

Table 2. Russian issuers share market capitalization (US\$ billion, data as of the end of period)

	2005	2006	Q1 – 07	Q2 – 07
Capital market section of the MICEX	259	885	908	964
RTS Classical market	329	966	1 028	1 060
S&P Estimation ³	549	1 057	1 125	1 169

Sources: MICEX, RTS, S&P

For the last two years Russian share market capitalization has grown more than 3,5 times, and 2006 was the year of the most rapid growth (at the average rate of 200%). Capitalization growth in first half of 2007 was insignificant and did not exceed 10%.

High degree of capitalization is a specific feature of the Russian share market; it's true if you consider both issuers and issuers' branches of economy.

Table 3 contains the list of the ten most capitalized companies, and Table 4 shows change dynamics of the ten most capitalized companies' shares within the first half of 2007.

Table 3. List of the most capitalized Russian issuers (under results of the second quarter of 2007)

№	Issuer	Capitalization (US\$ billion.)	Share in total capitalization (%)
1	OAO «Gazprom»	245,3	25,5
2	OJSC «Savings Bank of Russia»	86,7	9,0
3	OJSC «NK «Rosneft»	75,9	7,9
4	OJSC «LUKOIL»	65,1	6,8
5	OJSC RAO «UES of Russia»	57,8	6,0
6	OJSC «Surgutneftegaz»	43,9	4,6
7	OJSC «MMC Norilsk Nickel»	39,6	4,1
8	OJSC «Mobile TeleSystems»	19,6	2,0
9	JSC «Gazprom neft»	19,4	2,0
10	OJSC «Novolipetsk Steel»	17,7	1,8
	Other	292,7	30,4
	Total capitalization	963,6	100

Source: MICEX

Table 4. The ten most capitalized issuers' share in the share market total capitalization

	Q4–06	Q1–07	Q2–06
TOTAL (%)	78,5	74,3	69,6
<i>Incl. OAO «Gazprom»</i>	<i>30,7</i>	<i>27,5</i>	<i>25,5</i>

Calculated from the data of MICEX

³ The estimation includes Russian issuers listed at RTS, MICEX, NYSE, NASDAQ and as well entered in the LSE-listed S&P EMD Russia index.

Table 5 shows the dynamics of the Russian market capitalization concentration by branches for 2006 and the first half of 2007. In this Table petrochemical industry and manufacturing of mineral fertilizers assigned to Chemical industry, pharmaceutical industry to Other branches.

Table 5. Branch structure of the Russian share market capitalization (%)

№	Branch	2006				2007	
		Q1	Q2	Q3	Q4	Q1	Q2
n.n.							
1	Fuel industry	69,1	69,0	68,1	62,4	55,9	50,2
2	Financial activities	5,3	5,0	6,9	9,2	9,1	15,7
3	Power industry	10,0	8,8	8,8	11,9	15,9	13,4
4	Metallurgy	6,3	9,8	8,6	8,1	9,8	10,5
5	Communication	4,6	3,5	3,7	4,1	4,5	4,3
6	Food industry	1,5	1,2	1,3	1,5	1,6	1,6
7	Construction	0	0	0	0	0	1,2
8	Mechanical engineering and metal working	1,0	0,7	0,8	0,8	0,9	1,1
9	Transport	1,1	0,9	0,8	0,8	0,9	0,7
10	Trade	0,4	0,6	0,6	0,6	0,7	0,6
11	Mining	0,6	0,3	0,3	0,3	0,4	0,4
12	Chemical industry	0	0	0	0,2	0,2	0,1
13	Other branches	0,2	0,1	0,2	0,2	0,2	0,2

Source: MICEX

As one may see from the Table 5, despite of the expressed downtrend more than a half of the Russian share market capitalization is still concentrated in the oil and gas companies. In the middle of 2007 there emerged a new positive tendency in the branch structure. It consists in an increase in the financial companies' share which has grown more than three times if compared with the similar period of 2006. This rise was connected with large offers of shares by two financial organizations – Sberbank and VTB Bank in the first half of 2007. On the other hand, no new sectors appeared in the branch structure of capitalization for the previous two and a half years, probably except for construction.

Table 6 includes data on the Russian companies' shares trading.

Table 6. Russian companies' shares trading (US\$ billion, data for the period)

	2005	2006	Q1 – 07	Q2 – 07
MICEX capital market section ⁴	177,50	550,20	219,30	263,30
RTS classical market	7,65	16,15	3,20	3,07
RTS exchange market	2,82	0,91	0,16	0,11
<i>Turnover rate⁵, S&P estimation (percents, as of the end of the period)</i>				
	3,3	4,3	6,5	5,1

Sources: MICEX, RTS, S&P

⁴ Without repurchase transactions.

⁵ Calculated as the last month of the period sales volume to the end of the period capitalization ratio.

Russian companies' shares trading volumes have significantly increased in the past years. So, trading volume in 2006 has increased more than three times if compared to 2005, and has exceeded in the first half of 2007 the total volume of 2006 trading by more than 25%.

At the same time, trade in shares is conducted with a rather limited variety of instruments. In Tables 7 and 8 you may see lists of issuers whose shares were traded most actively in the first half of 2007.

Table 7. Lists of issuers whose shares were traded most actively in the first half of 2007 at MICEX (under results of the first half-year of 2007)

№	Issuer	Share in total turnover (%)
1	RAO «UES of Russia»	28,5
2	OAO «Gazprom»	25,0
3	OJSC «Savings Bank of Russia»	11,3
4	OJSC «MMC Norilsk Nickel»	8,7
5	OJSC «Lukoil»	8,5
6	OJSC «Surgutneftegaz»	4,7
7	OJSC « Rostelecom»	4,6
8	OJSC «NK Rosneft»	2,9
9	OJSC « Uralsvyazinform»	1,2
10	OJSC «Tatneft»	1,0
TOTAL		96,4

Source: MICEX

Table 8. List of instruments most actively traded on the RTS Classical market (under results of the second quarter of 2007)

№	Issuer	Share in total turnover (%)
1	RAO «UES of Russia»	32,6
2	OJSC «Savings Bank of Russia»	15,7
3	OJSC «MMC Norilsk Nickel»	10,6
4	OAO «Gazprom»	8,3
5	OJSC «Lukoil»	8,2
6	OJSC «Surgutneftegaz»	2,8
7	OJSC «NK Rosneft»	1,7
8	OJSC MTS	1,7
9	OJSC «Polyus Gold»	1,4
10	JSC «AK Transneft»	1,3
TOTAL		84,3

Source: RTS

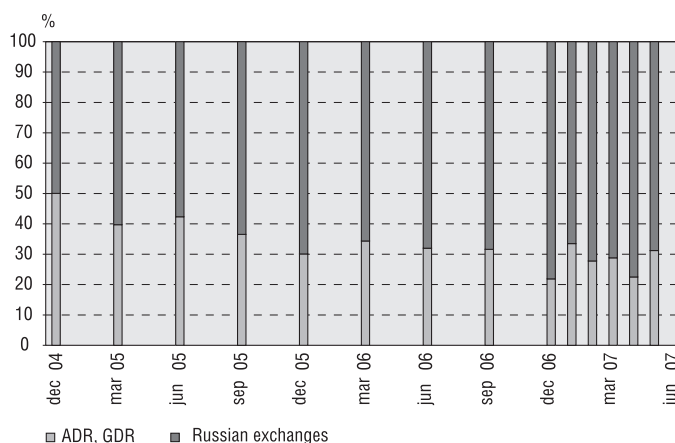
So the overwhelming majority (85–95%) of exchange transactions with shares is carried out with just approximately 3% of available instruments. This trading volume concentration is actually unprecedented.

Turnover rate is also rather low (see Table 6) though it tends to growth.

The domestic-to- foreign marketplaces ratio in the general structure of the Russian shares turnover is as well an essential matter influencing the Russian capital market.

Foreign trade in depository receipts far exceeded domestic trade in these instruments at the end of the 1990s. However from the end of 2004 (see Fig. 1) domestic exchanges have restored the parity with foreign exchanges and in 2006 – first half of 2007 have established the ratio of 70% to 30% in favor of domestic companies.

Fig. 1. Trading of Russian companies' shares and depository receipts traded on foreign marketplaces



Source: MICEX

1.2. Corporate bonds

Unlike many other national bond markets, the Russian domestic corporate bonds market developed from the very beginning as predominantly an exchange market.

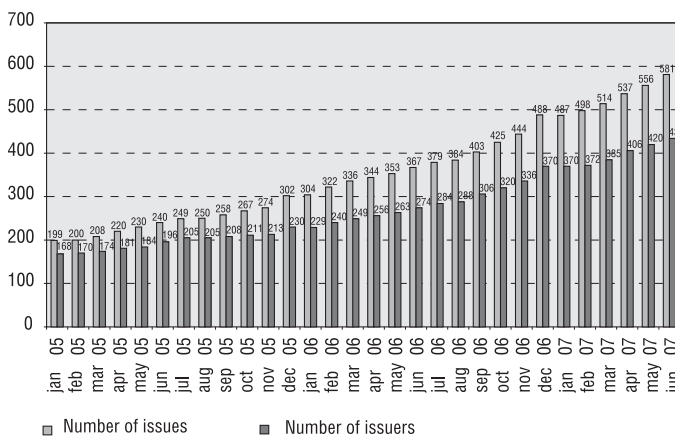
Development of the corporate bonds market for the last two years shows a stable increase in the quantity of issuers and issues, as well as growth in trading volumes.

According to the CBONDS agency there were 581 issue of corporate bonds of 434 issuers in circulation as of 01.07.2007, which exceeds by 19,3 % and 17,3 % accordingly the beginning of 2007 (see Fig. 2). The same induces of growth existed in the similar periods of 2005 and 2006

Exchange trade in corporate bonds in concentrated mainly at MICEX where as of the end of the first half-year of 2007 there were traded 516 issues of corporate bonds of 390 issuers, approximately 35% of all bond issues are included in the lists of various levels. In RTS there were traded 126 issues of corporate bonds of 81 issuers (all of them are not listed).

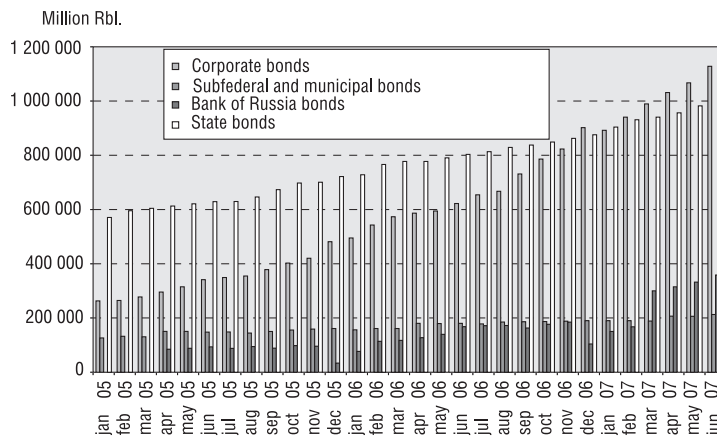
According to CBONDS agency, the total amount of the Russian enterprises' corporate bonds in circulation as of 01.07.07 has made 1 128,14 billion rbl. at par value, which is an increase by 25 % if compared with the beginning of 2007 (see Fig. 3).

Fig. 2. Number of corporate issuers and issues in domestic debt instruments market



Source: CBONDS

Fig. 3. Volume of domestic debt instrument market (at par value)



Source: CBONDS

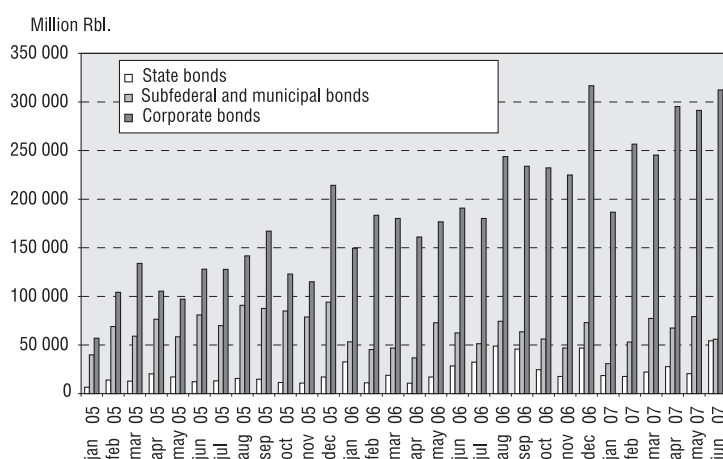
At that the share of the so-called «non-market issues» (i.e. issues not for free sale) has reduced down to 0,28%. Circulating corporate bonds' growth for the same period of 2006 made 29,2%. It should be noted that in the first half of 2007 the volume of the corporate bonds has exceeded the volume of the State bonds. It is notable that the share of financial companies in the total amount of circulating corporate bonds has been constantly growing⁶: it made 16,9 % in the middle of 2005,

⁶ CBONDS estimation.

23,2% in the middle of 2006, and reached 30% by the middle of 2007. So the finance companies, and first of all crediting entities increasingly use the debt market as a source of additional debt financing.

The trading volume at the secondary corporate bonds market has been permanently increasing (see Fig. 4).

Fig. 4. Total trading volume on the domestic debts instruments market (by months)



Source: CBONDS

See total volume of transactions with corporate bonds for 2005–2006 and for the first half of 2007 in Table 9.

Table 9. Volume of transactions with corporate bonds

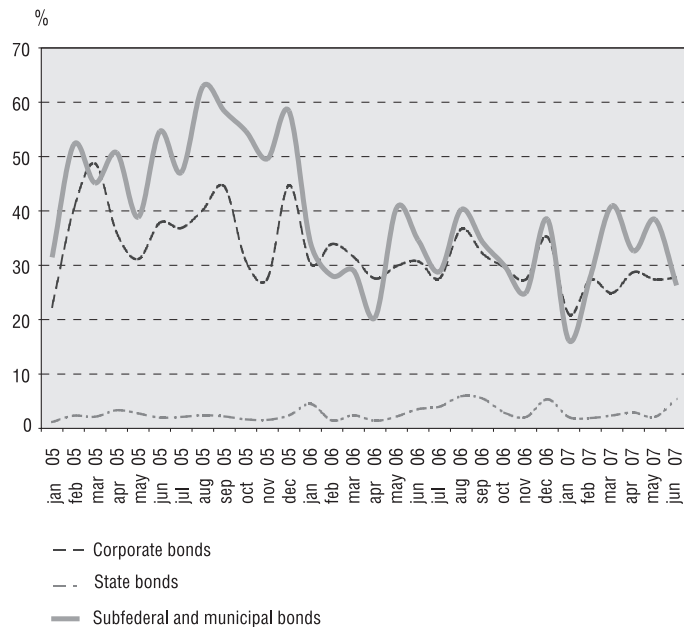
	2005	2006	Q1 – 07	Q2 – 07
<i>Total turnover (billion rbl., data for the period)</i>				
	1 514,3	2 437,5	688,7	899,0
<i>Share of exchange transactions in the total turnover (percents, average for the period)</i>				
	60,31	72,19	74,23	75,83

Source: CBONDS

As it follows from the Table 9, the volume of transactions with corporate bonds is constantly increasing: the total turnover of 2006 has exceeded by 61 % the result of 2005; in the first half of 2007 the volume of transactions has exceeded by 52% the volume of transactions for the similar period of 2006. The share of exchange transactions in the total turnover has been constantly growing and in the second half-year of 2007 the growth has exceeded 75%.

The corporate bonds market has a rather high liquidity (see Fig. 5).

Fig. 5. Turnover index of different segments of the domestic debt instruments market



Source: CBONDS

Corporate bonds turnover index⁷ is subject to considerable changes, but within 2006 – first half of 2007 its average value made approximately 30% which is a rather high value if compared with the share market.

The principal difference of the corporate bonds market from the share market lies in low concentration of its trading volumes. Table 10 allows comparing data on ten most actively traded bond issues. This table integrates in the common list both corporate bonds and subfederal and municipal bonds since they have similar investment qualities and demand.

So the secondary market of bonds has concentrated on separate instruments to a much smaller degree.

In the first half of 2007 there appeared an opportunity to work with a new financial instrument – the so-called exchange bonds. Exchange bonds may become a convenient instrument for liquidity management; they allow covering cash gaps and realizing promissory notes replacement programs. Nevertheless there was no placement of exchange bonds in the first half of 2007. Primary placements are expected in the autumn of 2007.

⁷ Calculated in this instance as a ratio of monthly sales volume to the circulating corporate bonds at par under the results of the month.

Table 10. List of the most actively traded bond issues (under results of the first quarter of 2007)

№	Security	Issuer	Share in total turnover
п.п.			(%)
1	MGor44-ob	Moscow Government	7,11
2	MGor39-ob	Moscow Government	7,00
3	Mos.obl.5v	Moscow Area Administration	5,81
4	MGor47-ob	Moscow Government	4,59
5	OGK-5 ob-1	OJSC OGK-5	4,08
6	TsentrTel-4	OJSC «Tsentrtelecom»	3,58
7	Mosenergo1	OJSC «Mosenergo»	2,55
8	AlZhK 8ob	OJSC «AlZhK»	2,41
9	MOESK-01	OJSC «MOESK»	2,18
10	AlZhK 7ob	OJSC «AlZhK»	2,16
TOTAL			41,47

Calculated under the data of MICEX

1.3. State, subfederal and municipal bonds, bonds of the Bank of Russia

The first State bonds of the Russian Federation were issued in 1991. Rapid development of the domestic exchange market transactions with these bonds (GKO, i.e. State Credit Bonds, and OFZ, i.e. Federal Loan Bonds) took place in 1993–1998, however it was interrupted by default on August 17, 1998, and since then this market never recovered those volumes nor had that role in the financial system.

Nevertheless, the State bonds market (see Fig. 3) grows: according to the CBONDS agency, volume of the State bonds circulating in the domestic market as of 01.07.2007 made at par value 995,6 billion rbl., having increased from the beginning of the year by 13,7%. At the same time, the volume of the secondary market and liquidity of State bonds are small if compared with those of the corporate bonds market (see Fig. 4 and Fig. 5). The State securities market is organized at MICEX. See Table 11 for the data on State bonds market turnover.

Table 11. Volume of transactions with State bonds (billion rbl., total turnover, data for the period)

	2005	2006	Q1 – 07	Q2 – 07
Turnover	166,16	335,01	58,45	102,65

Source: CBONDS

From the Tables 9 and 11 we may see that despite of commensurability of the par value placement volumes, the turnover of the State securities is almost ten times less than that of the corporate bonds, and accordingly the turnover rate is as well much less.

Bonds of the Bank of Russia are formally not State securities though they have the same reliability level. They are short-term securities and are used by commercial banks for liquidity management,

other investors are not allowed to acquire them. Volumes of issue of these bonds are growing very fast. So, according to CBONDS, the total amount of circulating bonds issued by the Bank of Russia made as of 01.01.07 the total of 104,2 billion rbl. and as of 01.07.07 – 358,8 billion rbl., i.e. for first half of 2007 it increased 3,4 times (for reference: in the whole of 2006 the total amount of the bond issues of the Bank of Russia has grown by 35,2%). The bonds of the Bank of Russia increase their share in the general structure of the State borrowings – if in 2006 their share made about 10%, it increased by the middle of 2007 up to 26,5%. Such an intensive rise in the borrowings carried out by the Bank of Russia in 2007 requires additional comprehension.

Subfederal and municipal bonds have lesser volumes of issue than State and corporate bonds, and in the last half year they were left behind by the bonds of the Bank of Russia issue volumes, and they do not show any special tendencies to growth (see Fig. 3). According to CBONDS, the volume of subfederal and municipal bonds circulating in domestic market has made as of 01.07.07 as much as 212,9 billion rbl. at par value, having increased from the beginning of the year by 12,1%. At the same time, these bonds have a rather high liquidity despite of the small volumes of circulation. The exchange turnover of subfederal and municipal bonds is concentrated at MICEX, as of 01.07.07 at this market-place were traded 108 issues of such bonds of 49 subfederal and municipal issuers. At RTS there were traded 31 issues of 14 issuers.

Total volume of transactions with subfederal and municipal bonds for 2005–2006 and the first half of 2007 is shown in the Table 12.

Table 12. Subfederal and municipal bonds transactions volume

	2005	2006	Q1 – 07	Q2 – 07
<i>Total turnover (billion rbl., data for the period)</i>				
	890,1	682,8	161,1	202,7
<i>Share of exchange transactions in the total turnover (percents, average for the period)</i>				
	70,0	79,9	84,2	92,0

Source: CBONDS

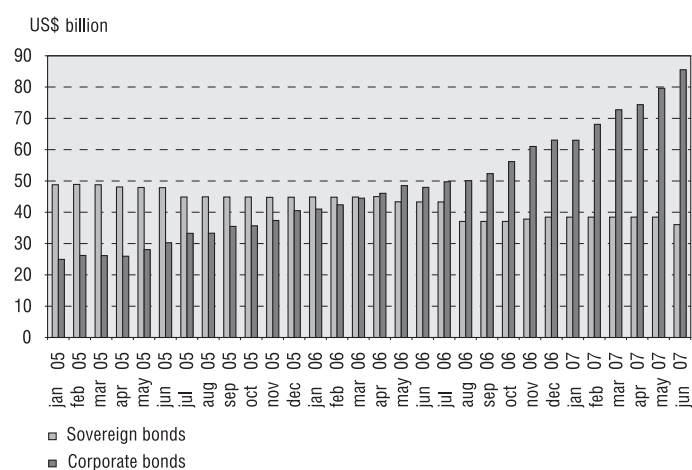
Comparative analysis of the Tables 9, 11 and 12 shows that subfederal and municipal bonds, having essentially smaller than corporate bonds volumes of issue, had in 2006 – first half of 2007 a turnover rate exceeding approximately twice the turnover of the State securities. The turnover rate of subfederal and municipal bonds (see Fig. 5) is rather similar under its values and tendencies to that of the corporate bonds.

1.4. Eurobonds

Russian Federation, sebfederal entities, municipal bodies and Russian companies raise money for their development not only issuing rouble bonds, but as well placing their Eurobonds at foreign markets. Fig. 6 depicts data showing Eurobonds market volume by various segments.

According to CBONDS, there were 263 Eurobond issues (including international holding companies that operate in Russia) circulating as of 01.01.07 for the total of US\$ 122,65 billion, including US\$

Fig. 6. Eurobonds market volume



Source: CBONDS

36,06 billion of sovereign Eurobonds and US\$ 85,53 billion of corporate Eurobonds. The volume of municipal Eurobonds is insignificant and remains for a long enough time on the level of US\$ 1 billion. Approximately 50 % of all corporate Eurobonds were issued by financial entities.

Sovereign and corporate Eurobonds have alternate trends in the last two years. If the volume of sovereign Eurobonds is stable enough and has a small downtrend, the volume of corporate Eurobonds has a permanent growth: in 2005 by 62,49 %, in 2006 by 53,70 %, in the first half of 2007 by 35,73%. It should be noted that the volume of corporate Eurobonds has for the first time exceeded in March – April 2006 the volume of sovereign Eurobonds, and the difference in volumes continues to grow.

If we compare the volume of corporate borrowings in domestic and foreign markets in the second half of 2007 with the debt market instruments, the domestic-to-foreign borrowings ratio has increased from 33,9% to 66,1%.

1.5. Promissory notes

These securities were extremely popular in Russia in the mid-90s. They had a two functions: firstly, they were used as money substitutes for settlements between enterprises and organizations, and as well for tax payments in conditions of extremely low level of the Russian economy monetarization, secondly, they substituted bonds used for debt financing, alternative to bank crediting. From the end of 90s the promissory notes were substituted gradually as an instrument of financing with bonds, perceived as more «civilized», reliable and liquid instrument; however the promissory note market remains one of the significant elements of the domestic debt market. According to estimates and calculations by GK «Region», the share of the promissory note market has lowered from 25% of all the debt market in the beginning of 2005 to 17% in the middle of 2007. Table 13 shows estimates of the issued promissory notes in circulation and transactions with promissory notes at the secondary market.

Table 13. Volume and turnover of the circulating promissory notes market
(Billion rbl., total turnover, data for the period)

	2005	2006	Q1,2–07
<i>Volume of circulating promissory notes (billion rbl., data for the period)</i>			
	350–370	480–500	450–475
<i>Average daily turnover of the secondary promissory note market (billion rbl.)</i>			
	7,0–8,0	10,0–12,0	12,5–13,0

Source: GK «Region»

As it follows from the Table 13, after a period of active growth in 2006 (when the yearly volume of the promissory note market has increased by 35%), there is some slowdown in the growth in the first half of 2007. At the same time activity of the secondary promissory note market did not decrease. So, according to the estimates and calculations of GK «Region», the share of promissory note market in the general turnover of domestic debt market makes about 40% and closely approaches the corporate bonds sector. Among the reasons of this success are large nominal values of promissory notes and large volumes of individual transactions.

The tendency of the last years is a decrease in the non-financial organizations' share in the promissory note market, nowadays it has reduced from 60–70% to 10%.

1.6. Investment units

Unit investment funds (UIF) dominate in the sphere of collective investments in Russia, the volume of their assets has considerably exceeded that of the equity investment funds. A UIF is not a legal person, but a property complex entrusted to a management company. Customers' investments in UIF are registered as a purchase of special securities – investment units, income on them is not predefined and may be received only due to growth of the unit's value; the unit's value depends in its turn on the price of the UIF's underlying assets. Investment funds are intended for accumulating funds of small private investors, however in Russia they are as well popular among large investors – both private and non-financial corporate entities.

The secondary market of investment units is rather weak, however it tends to grow. Units of 157 various UIFs (including 9 entered in quotation lists) controlled by 58 management companies are allowed for trade on MICEX as of 01.07.2007; the total volume of exchange transactions in the first half of 2007 amounted to 9,9 billion rbl., which is seven times more than in the same period of the previous year. Investment units of 33 funds (including 5 included in quotation lists) controlled by 14 management companies are traded on RTS.

1.7. Futures and options on securities and market indices

Such financial instruments as futures and exchange options do not refer formally to securities, however they are closely connected with the capital market. Nowadays the instruments market (the prin-

cial assets of which are securities and market indices) is concentrated at the futures market FORTS of RTS. This market trades not only in forwards and futures but as well in gold, currency, oil and so forth, however the volume of transactions in them is relatively insignificant and depending on the type of volume indicator, amounts to less than 1–5%.

Tables 14 and 15 summarize the data on FORTS market for the last two years in regard to assets linked with securities assets.

Table 14. Contracts on securities and stock indices trading at the FORTS futures market
(data for the period)

	2005	2006	Q1–07	Q2–07
Futures contracts				
Trading volume, billion rbl.	599,764	2 335,372	904,692	1 040,225
including:				
<i>on index</i>	119,788	752,000	328,001	391,506
<i>on equities</i>	470,967	1 569,633	573,642	641,959
<i>on bonds</i>	9,009	13,739	3,049	6,760
Trading volume, million cont.	45,712	76,549	22,613	24,616
including:				
<i>on index</i>	2,251	8,973	3,412	4,164
<i>on equities</i>	42,623	66,314	18,920	19,804
<i>on bonds</i>	0,838	1,262	0,281	0,648
Number of transactions, million pcs.	1,782	4,815	1,902	2,235
including:				
<i>on index</i>	0,067	0,727	0,328	0,455
<i>on equities</i>	1,714	4,087	1,574	1,780
<i>on bonds</i>	0,001	0,001	0,000	0,000
Option contracts				
Trading volume, billion rbl.	79,192	311,233	106,233	178,619
including:				
<i>on index</i>	2,561	84,286	23,313	61,058
<i>on equities</i>	76,631	226,947	82,920	117,561
<i>on bonds</i>	--	--	--	--
Trading volume, million cont.	7,279	10,720	3,135	4,645
including:				
<i>on index</i>	0,046	0,991	0,239	0,649
<i>on equities</i>	7,233	9,729	2,896	3,996
<i>on bonds</i>	--	--	--	--
Number of transactions, million pcs.	0,113	0,150	0,048	0,064
including:				
<i>on index</i>	0,001	0,020	0,009	0,018
<i>on equities</i>	0,112	0,130	0,039	0,046
<i>on bonds</i>	--	--	--	--
Total				
Trading volume, billion rbl.	678,956	2 646,605	1 010,925	1 218,844
Trading volume, million cont.	52,991	87,269	25,748	29,261
Number of transactions, million pcs.	1,895	4,965	1,950	2,299

Source: RTS

As it follows from Table 14, the FORTS futures market has experienced fast growth in 2006: the total number of contracts has increased almost twofold, and the number of transactions grew by 164%. In the first half of 2007 the growth has continued: for the first half-year the volume of derivatives sold (in money terms) and transactions concluded have increased by more than 80% compared to results of the whole of 2006.

Table 15. Open positions in the FORTS derivatives market of contracts on securities and stock indices (data for the period)

	2005	2006	Q1–07	Q2–07
Futures contracts				
Average open positions, billion rbl.	10,799	30,421	41,468	48,113
including:				
on index	0,587	7,949	9,449	12,161
on equities	9,487	20,911	30,767	33,983
on bonds	0,725	1,561	1,252	1,969
Average open positions, million cont.	0,977	1,116	1,255	1,451
including:				
on index	0,011	0,092	0,100	0,152
on equities	0,899	0,880	1,040	1,113
on bonds	0,067	0,144	0,115	0,186
Option contracts				
Average open positions, billion rbl.	6,495	29,927	58,549	63,695
including:				
on index	0,163	8,986	10,036	21,009
on equities	6,332	20,941	48,513	42,686
on bonds	--	--	--	--
Average open positions, million cont.	0,633	1,024	1,790	1,735
including:				
on index	0,630	0,912	1,688	1,510
on equities	0,003	0,112	0,102	0,225
on bonds	--	--	--	--
Total				
Average open positions, billion rbl.	17,294	60,348	100,017	111,808
Yearly open positions, million cont.	1,610	2,140	3,045	3,186

Source: RTS

It should be emphasized that in 2007 the futures market not only experienced impressive quantitative changes but also changed its quality and shifted to a new level. First of all, there was a major shift in the scale of open positions (Table 15). While in 2005–2006 this measure made 1,8 %–2,1 % of total futures trading volume and 8,2 %–9,6 % of options volume, in the first half of 2007 it has reached 4,6%–5,6% for futures and 35,7 %–57,0 % for options. Such revolutionary change may mean that not only speculators and arbitragers work now at the futures market, but large institutional investors interested in risk hedging have entered as well.

Futures contracts traditionally prevail in the general structure of FORTS term instruments (85 %–88 % of the total trading volume, 94%–97 % of the total number of transactions), because unlike option contracts, futures are more simple and comprehensible instruments for investors.

1.8. Market indices

At present both Russian and international organizations, such as exchanges, news agencies, investment banks, brokerage offices etc. calculate tens of various indices of the Russian capital market. The most recognized of them are: for the share market – the RTS Index, MICEX Index, MSCI Russia Index; for the bond market – the Corporate bonds Index RUX-Cbonds, Municipal bonds Index Cbonds-Muni, MICEX Corporate bonds Index, EMBI+ Russia Index; for the market of collective investments – RUIF Indices calculated by National Rating Agency.

Nevertheless, the most popular and quoted indices are traditionally RTS Indices and MICEX Indices.

RTS Index is being calculated from 01.09.95, now its basis includes 50 shares of the most capitalized and liquid issuers. The list of shares for calculation of indices is revised once in three months. The starting value of this index was 100, historical minimum – 38,53 points (05.10.98), historical maximum – 2008,42 points (16.04.07).

Besides this principal RTS Index, RTS has begun to calculate from 31.12.03 the RTS-2 Index for shares of the second tier companies, and from 11.01.05 branch indices as well:

- ♦ RTS – Oil and gas;
- ♦ RTS – Metals and mining;
- ♦ RTS – Telecommunications;
- ♦ RTS – Industry;
- ♦ RTS – Consumer goods and retail trade.

The MICEX Index is calculated since 22.09.97, originally its basis included 21 most liquid shares, trade in which was conducted at the basic trade sessions of MICEX. In a first quarter of 2007 the basis for calculation of this index was extended to 30 shares of the issuers representing main sectors of economy. Modifications to the index basket are made once in a quarter on the basis of expert opinion of the Index committee. The starting value of this index was 100, historical minimum – 18 points (05.10.98), historical maximum – 1777,84 points (16.04.07).

Besides this main MICEX Index, since 31.12.04 the Moscow Interbank Currencies Exchange also calculates branch indices :

- ♦ MICEX O&G – oil-and-gas companies shares index;
- ♦ MICEX PWR – power companies shares index;
- ♦ MICEX TLC – telecommunication companies shares index;
- ♦ MICEX M&M – metallurgical and mining companies shares index;
- ♦ MICEX MNF – engineering companies shares index.

Fig. 7 and 8 depict RTS and MICEX indices diagrams accordingly. Table 16 summarizes profitability data calculated under these indices for 2005, 2006 and the first half of 2007.

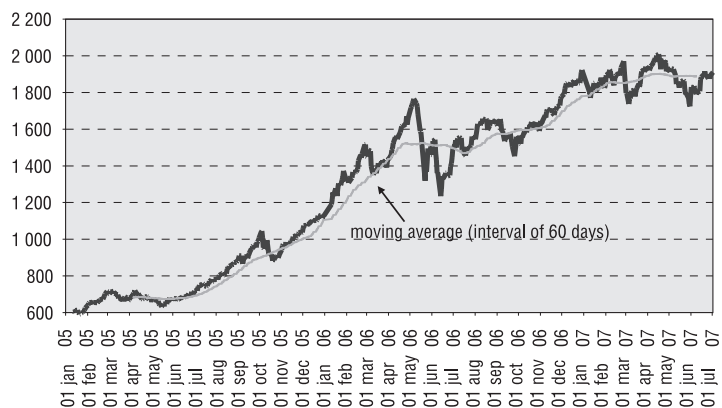
Table 16. Profitability under RTS MICEX Indices (annual interest rates)⁸

	2005	2006	Q1,2–07
RTS Index	88,21	63,55	23,52
MICEX Index	87,41	61,03	25,54

Calculated according to the data of MICEX and RTS

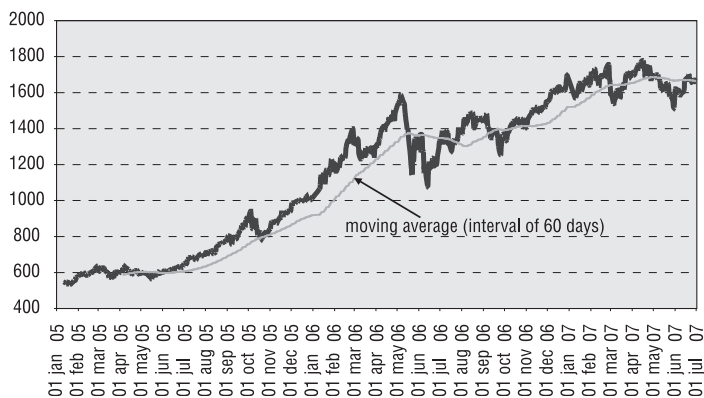
⁸ Calculations were conducted from the first to the last trading day of the period on the 365 days' basis.

Fig. 7. RTS Index



Source: RTS

Fig. 8. MICEX Index



Source: MICEX

As it follows from Fig. 7 and 8, RTS and MICEX Indices show practically identical behaviour. Significant growth of these indices which began in 2005 proceeded by inertia and gradually slowed down; nevertheless, in April 2007 they reached their historical maxima. In the first half of 2007 the RTS and MICEX Indices have experiences three recession periods – in February, March and May. As a whole dynamics of RTS and MICEX indices behavior is rather volatile. In Table 17 you may find data on the indices' volatility within a half-year period.

Table 17. RTS and MICEX indices' volatility (%)

Volatility	RTS	MICEX
Q3,4-06	1,32	1,64
Q1,2-07	1,49	1,70

Calculated by MICEX

As it follows from the data of the Table 17, the volatility of the Russian capital market in the first half-year 2007 has somewhat increased.

2. Institutional structure

2.1. Issuers

In Russia there are no precise statistics relating to issuers. Any joint-stock company is an issuer because it issues and places shares at incorporation (and is required to register them).

Here we use the data on the issuers, whose securities (both shares and bonds, and as well investment units) are traded on formal markets – be it securities included in quotation lists or those traded over-the-counter. As of 01.07.2007 shares of 375 issuers were admitted to trade at RTS and shares of 662 issuers were admitted to trade at MICEX and between them there are significant crossings.

Historically the most demanded shares in the capital market were the shares of major enterprises inherited by the Russian economy from the Soviet period and transformed into joint-stock companies in the course of privatization. Majority of the actively traded Russian shares was created on the basis of such companies or after their reorganization. On the other hand, there are as well «new» companies among the issuers traded on exchanges, these companies were created in the course of the market reforms and have occupied new niches in economy – for example, mobile communication companies (MTS, Vypelcom), media-companies (RosBusinessConsulting) etc.

A specific feature of the Russian share market is the extensive presence of the state in the general structure of capitalization, and in the last two years this share is becoming even more prominent. Five of the ten most capitalized companies (see Table 3) comprising about 50% of the general capitalization of the Russian capital market are directly or indirectly controlled by the state. Under existing estimations the share of the state in the general capitalization of the Russian capital market made as of the beginning of 2006 as much as 29,6%, and as of the beginning of 2007 it increased up to 35,1%⁹. No estimations for a later period are available now, nevertheless, we may assume with a considerable confidence (keeping in mind, in particular, public offering conducted in the first half of the year of such issuers as Sberbank and VTB), that the share of the state in the Russian capital market capitalization has increased even more.

One more essential feature of the Russian capital market is its high concentration of controlling interests and consequently low level of free-floating shares. Even the issuers traded on exchanges have free-float levels of 10 % and lower; it is especially true for the companies not striving to public circulation of their shares.

One of the important features of the developing Russian share market is its close connection with the mass privatization of 90s. Placement of the greater part of the shares traded today at the Russian stock exchanges has happened during privatization and has not brought any financial assets to issuing companies. The first public placement of the Russian shares has happened in 1996 (company «Vypelcom» has placed its ADR with NYSE). The first IPO at the Russian exchanges has taken place in 2002 (company «RosBusinessConsulting» at MICEX and RTS).

⁹ Monitoring of the investors' activity in Russia. – Alfa Bank, February 2007.

In the last few years the volumes of the public offerings of the Russian companies have drastically increased. In the Table 18 and 19 you may find detailed and summary data on the volumes of public offerings for the last two years and a half¹⁰.

Table 18. Public offerings of the Russian companies' shares (first half-year of 2007)

№	Issuer	Volume of placement (US\$ million)
1	Polymetal	690
2	Sitronix	402
3	Integra	667
4	Savings Bank (SPO)	8 830
5	MMK	1 000
6	Nutriinvestholding	200
7	Pharmstandart	880
8	VTB	7 969
9	PIK Group	1 850
10	AFI Development	1 400
11	DIKSI Group	360
12	Volga Gas	125
13	Rosinter	100
14	RTM	80
15	Vozrozhdenie Bank	177
16	Open investments (SPO)	325
	TOTAL	25 055

Sources: www.merges.ru, www.offering.ru, rusipo.com, data of the companies, mass-media

Table 19. Public offerings of the Russian companies' shares (data for the period)

	2005	2006	1H-07
Volume of offerings (US\$ billion)	4,55	17,98	25,06
Including in domestic market (%)	6,47	32,43	56,61
Number of companies	13	24	16

Sources: www.merges.ru, www.offering.ru, rusipo.com, data of the companies, mass-media

As it follows from Table 19, the market of the Russian companies' securities public offerings in the last years has experienced rapid growth and achieves leading positions in the world, both under total volume of placements and under volumes of assets raised by a separate company. Total amount of offers in 2006 has 4 (!) times exceeded the result of 2005, and the first half-year of 2007 has exceeded 1,4 times the result of 2006. Among the world's largest public offerings under the results of the first half-year there were: in the banking sector – Sberbank (\$US 8,8 billion) and VTB (US\$7,9 billion), in real

¹⁰ Taking into consideration placements connected with reforming of the power industry and as well secondary offerings.

estate sector «PIK Group» (US\$1,9 billion), in the pharmaceutical industry «Pharmstandart» (US\$0,9 billion). Under available estimations¹¹ in 2007 about 86 % of total assets raised in the course of public offerings were transferred at the issuing company's disposal, for the same period of 2006 this index made 58%. It is important to note that since 2006 the share of the assets raised in the domestic market is constantly growing.

It should be noted that the branch structure of the companies which were carrying out public offerings in the first half of 2007 (see Table 20) has noticeably differed from the branch structure of the share market capitalization (see Table 5).

Table 20. Branch structure of public offerings of the Russian companies' shares
(Data for the first half-year of 2007)

№	Branch	Share in total amount of placements (%)
1	Financing activities	59,5
2	Real estate	17,7
3	Metallurgy	8,5
4	Pharmaceutical industry	4,7
5	Fuel industry	4,2
6	Trade	2,4
7	Communications	2,1
8	Food industry	0,9

Source: ReDeal Group

First of all it should be noted a small presence of the oil and power companies and essential volume of offerings of the issuers belonging to financial sector of economy. It is necessary to emphasize especially high interest to attracting capital by public offerings of the real estate and development companies. It is obviously connected with a significant development of this branch and permanent rise in prices on living apartments and office real estate.

In the first half of 2007 at the both principal exchanges there were organized and began to work specialized trade marketplaces for attracting investments into new innovative companies, and also in the companies having small and average capitalization.

A Sector of innovative and growing companies (IGC) was formed within the MICEX Group. The following criteria of issuers' selection were defined for this sector:

- ♦ Essential part of proceeds is generated by activities in the branches connected with use of the innovative and high technologies;
- ♦ Capitalization lies within the range from 0,1 billion rbl. up to 5 billion rbl.

For the information transparency of the companies present in the IGC Sector the institution of listing agents was introduced. Functions of a listing agent include fulfillment of works under agreement with the issuer on preparing the documents for admission of securities to circulation, ensuring the information disclosure process and so forth.

¹¹ IPO in Russia: Records achieved in half-year. – ReDeal Group, 2007.

There was only one issuer in Sector IGC in the first half-year of 2007 – ZPIF of especially risky (Venture) investments «FINAM – Information technologies».

There was a special segment created within RTS Group – RTS START. Capitalization of the companies included in this segment cannot exceed 3 billion rbl. If any bonds are offered for circulation at this marketplace their total at par value should not exceed 0,5 billion rbl.

Increase in the information transparency of the companies present in the RTS START was achieved by introducing the institution of authorized financial advisers and market makers. Their functions include fulfillment under agreement with the issuer of such works as ensuring the issuer information disclosure process and liquidity management.

The first issuer presented by RTS START became OJSC «BF «Kommunar», and within the first half of 2007 there appeared three more issuers at this marketplace – OJSC «Armada», OJSC «Kosogorsky metallurgical complex» and OJSC «SiGMA».

2.2. Investors

Investors are any structures investing funds in securities for the purpose of gaining profit. No official systematized data on the structure and quantitative features of the Russian capital market investor base are available. Nevertheless, professional market participants of securities, self-regulating organizations and research groups have begun recently to conduct studies on registration and investigation of the Russian investors.

a) Population

Population includes for the purposes of the present paper «market» investors – citizens who have either decided to work independently in the capital market and periodically use brokers or trust managers, or purchase investment fund units. Individual holders of shares received in the course of the voucher privatization, as well as shareholders of check investment funds, or holders of units in unit investment funds which have emerged in the result of transformation of the check investment funds, do not refer to this category.

There is no complete and authentic statistics on the quantity of the individuals engaged in market deals in securities in Russia. It is possible to create the following, far from complete picture by compiling data from various non-systematic sources.

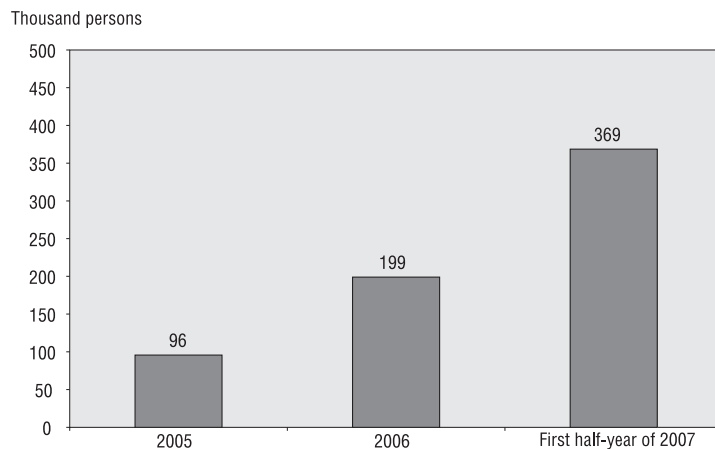
MICEX has been disclosing information on the quantity and structure of its customers participating in transactions (hereinafter referred to as MICEX customers) on the regular basis since 2005. It should be noted that in the middle of 2007 MICEX has changed its methods of customer registration to a more exact one, taking into consideration individual identification features.

Fig. 9 depicts data on the quantity of individuals working at MICEX defined using new methods.

Increase in the number of individuals on MICEX has made for 2006 a total of 108%. As of the beginning of 2007 individuals had 198,9 thousand unique customer accounts on MICEX, as of the end of the first quarter of 2007 this number was 239,5 thousand, and as of the end of the second quarter – 368,6 thousand. So the gain for the first half-year of 2007 has already made 85,3%.

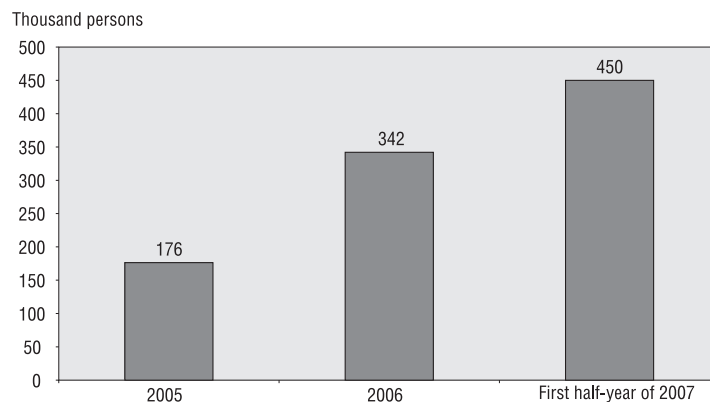
RTS does not disclose quantitative indices of its customer base on the regular basis. As of 01.11.06 private individuals had 8 070 customer accounts belonging to private investors. We have every reason to believe that individual investors operating in the futures market do not belong to a separate investor niche, but work most often at the spot market, using futures market instruments for arbitrage transactions and hedging.

Fig. 9. Participation of population in securities market investments (MICEX customers)



Source: MICEX

Fig. 10. Participation of population in securities market investments (UIF customers)



Source: LMC

League of Management Companies of Russia (NLU) fulfills estimation of the UIF «market» shareholders accounts number since 2005 (see Fig. 10).

Under these estimates the gain in the number of the unit holders in 2006 was as much as 94%. According to NLU there were 342 thousand shareholders as of the beginning of 2007, their quantity has increased to 450 thousand by the end of the second quarter. So the gain in the number of shareholders was 31,6 % for the first half of 2007, which is much less than the gain in the number of customers trading on MICEX. This disproportion may be explained by unstable behavior of the capital mar-

ket in the first half 2007 (see Fig. 7 and 8), and also by the fact that investment funds customers have practically no opportunity to gain profit from the falling market or from a long-term lateral trend with increased volatility. The opportunities of direct investments in the capital market instruments in such conditions are much wider – scalping, short sales, futures and so forth. Another possible reason for the slowdown in the shareholders' number growth in the first half of 2007 is the large public offerings conducted in this period by the leading Russian banks – Sberbank and VTB Bank. They were accompanied by intensive advertising companies and have undoubtedly attracted some interest of private investors. Unit investment funds have no opportunity to purchase securities at the stage of their public placement due to existing legal restrictions.

A separate new group of mass private investors consists of the private individuals who participated in the so-called «people's IPO» of Rosneft in July 2006, and as well that of Sberbank and VTB Bank in the first half of 2007. According to the data of issuing companies and mass-media, the total number of such citizens was approximately 115 thousand persons at the Rosneft shares placement, 30 thousand persons at the Sberbank shares placement and 131 thousand persons at the VTB shares placement.

Certain private investors not only use brokers, but also acquire investment units, and probably those issued by more than one investment fund, and have also participated in the recent public offerings, so the direct summation of the above data would be incorrect. It is not obviously possible to define now a methodologically reasonable discount ratio. Nevertheless we estimate the quantity of the Russian citizens conducting market transactions in securities, directly (including at public placements) or through collective investments instruments, to be 670–680 thousand persons. It is less than 1% of the economically active population of the country (68,3 million persons) as of the first half of 2007.

b) Investment funds

In Table 21 you may see data on UIF quantity changes dynamics for the last two and a half years.

Table 21. Number of Unit Investment Funds (data as of the end of the period)

	2005	2006	Q1–07	Q2–07
<i>Number of UIFs</i>				
Open-ended	199	298	316	340
Interval	58	86	91	93
Closed-ended	122	230	258	299
<i>Including real estate</i>	73	149	166	198
TOTAL	379	614	665	732

Source: NLU

There were in total 732 registered UIF in Russia as of 01.07.07, which was by 18,7% more than in the beginning of the year. Taking into consideration that for 2006 the gain in UIF number has made 60,7%, it is necessary to note that in 2007 the rate of increase in UIF quantity have decreased. The UIF structure has changed in the last two and a half years. If open-ended UIFs has made about 52% of the total number of funds in 2005, this index made 46 % in the end of the first half-year of 2007. On the other hand, the share of the closed-ended UIFs has increased from 32% to 42%, first of all due to real estate funds. The share of interval UIFs has been constantly decreasing – for the first half-year of 2007 there were registered only six new funds, and the niche of interval funds was decreased to 12%.

Table 22 summarizes data on the UIFs' net assets cost dynamics for the last two and a half years.

Table 22. UIFs' net assets cost (Billion rbl. data as of the end of the period)

	2005	2006	Q1–07	Q2–07
TOTAL	233,4	419,1	544,1	639,2
<i>Including:</i>				
Open-ended UIFs	30,8	91,1	131,0	127,8
Interval UIFs	38,7	59,6	46,0	46,8
Closed-ended UIFs	163,9	268,4	367,1	464,6

Source: NLU

The cost of the UIFs' net assets has made as of 01.07.07 the total of 639,2 billion rbl., which is by 52,5 % more than in the beginning of the year. Taking into consideration that in 2006 the total growth in the net assets value has made 79,6 % it is possible to draw a conclusion that decrease in formation of new UIFs is accompanied by constant growth in assets of already working funds. At that if in 2006 the open-ended UIFs were rapidly increasing their net assets cost (195,7 % for the year), in the first half of 2007 the greatest growth was noted in the closed-ended UIFs – 73,0 %. It seems to be connected with the general securities market condition. It is necessary to note, that while total UIFs' net assets cost was increasing in the first half of 2007, the interval UIFs' net assets cost has decreased by 21,4 %. One of the reasons of stagnation of the interval funds niche is low liquidity which is not compensated by an adequate profit premium.

Tables 23 and 24 summarize data on the quantity and costs of net assets of various UIF types as of the end of the second half-year of 2007.

As it follows from the Tables 23 and 24, the most popular open-ended UIFs are shares funds (37,3% of the total number of OEUIFs, 58,3 % of the net assets cost of OEUIFs), they are followed by mixed funds (29,6 % and 26,0 % accordingly) and bonds funds (20,8 % and 10,6 %). Preferences in

Table 23. Relative data on UIFs quantity (%)

Structure of assets	Number of UIFs by categories			Total
	Open-ended	Type Interval	Closed-ended	
Money market	1,22	0	0	0,58
Bonds	20,80	7,69	0	10,93
Mixed	29,66	41,76	4,85	21,57
Shares	37,31	46,15	10,82	28,13
Indices	8,56	1,10	0	4,23
Funds of funds	2,45	3,30	0	1,60
Real estate			64,55	25,22
Especially risky (venture) investments	These types of funds are not provided for by legislation		12,69	4,96
Direct investments			3,36	1,31
Mortgage			3,36	1,31
Total	100,00	100,00	100,00	100,00

Source: NLU

Table 24. Relative data on the UIFs' net assets cost (%)

Structure of assets	UIFs' net assets cost by categories			Total
	Open-ended	Interval	Closed-ended	
Money market	0,08	0	0	0,02
Bonds	10,63	0,43	0	2,21
Mixed	26,01	24,37	13,33	16,73
Shares	58,33	72,33	43,47	48,63
Indices	4,28	0,33	0	0,90
Funds of funds	0,68	2,54	0	0,33
Real estate			22,88	16,52
Especially risky (venture) investments	These types of funds are not provided for by legislation		4,13	2,98
Direct investments			14,77	10,66
Mortgage			1,42	1,02
Total	100,00	100,00	100,00	100,00

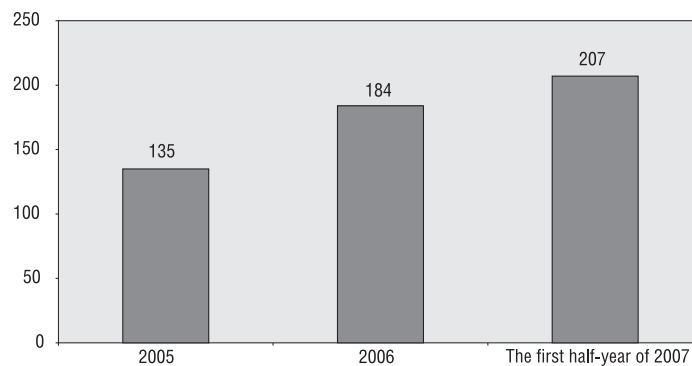
Source: NLU

Interval UIFs are similar. Such distribution of funds by categories corresponds as a whole to the world practice. Real estate funds are the most popular for closed-ended UIFs (64,5 % of the total number), but the greatest volume of assets is concentrated in shares funds (43,4 % of the total net assets cost of CEUIFs). At the same time it is necessary to emphasize that UIF classification by types of assets is conditional because legal norms allow to have in the shares fund, for example, up to 40 % of bonds etc. There is no generalized statistics on distribution of assets in UIFs by various classes of financial instruments.

It is necessary to note, that a number of UIF types was not actually incorporated up to the present.

Share investment fund is property complex without formation of a legal person; the leading element in UIF is its management company. Fig. 11 depicts summary data on the quantity of management companies controlling share investment funds for the last two and a half years.

Fig. 11. Quantity of management companies controlling UIF



Source: NLU

The quantity of the management companies controlling UIFs has increased in 2006 by 36,3%, and for the first half-year of 2007 by 12,5 %, it makes in total 207 organizations. Such growth testifies to a considerable interest to collective investments branch. It should be mentioned that according to official data of the FFMS there were 393 management companies licenses issued up to nowadays. So about 90 % of all organizations having management companies licenses are conducting business of managing UIFs. The others are engaged only in Pension funds assets management and in other projects, but there are as well companies which do not carry any activity.

Assets concentration is traditionally high in the market of UIF assets management though it has a certain downtrend. So in the end of 2006 the share of the first ten companies made 74,9% of the total UIF assets, in the first quarter of 2007 this index has decreased to 70,5%¹².

c) Pension funds

According to the FFMS¹³, 293 organizations have Pension funds licenses (no date indicated in the source), from them 102 funds (as of 09.06.06) were allowed to engage in obligatory pension insurance program.

The data on PF assets connected with non-State pensions and obligatory pension insurance are included in the Table 25

Table 25. PF investment resources (billion rbl., data as of the end of the period)

	2006	Q1-07	Q2-07
Pension reserves	405,18	417,61	431,33
Pension savings	9,96	19,85	19,92

Source: www.investfunds.ru

In February 2007 there were enacted new rules of the pension reserves placement essentially changing the PF investment opportunities. So promissory notes and real estate were excluded from the list of allowed assets, PF are required to ensure compliance with these new requirements on the structure of assets and reserves within a three-year term. The following capital market instruments may be acquired to pension reserves: State, subfederal, municipal, corporate bonds, shares of Russian open joint-stock companies admitted for trade at Russian exchanges, mortgage securities, units of various UIF types and under certain conditions as well futures contracts. However it is not possible to create any generalizing view on distribution of pension reserves using information from open sources.

As it follows from the Table 25, PF pension reserves have slightly increased in the first half-year of 2007 – only by 6,45 % (in the second quarter by 3,29 %). Pension savings were nearly doubled in the first quarter due to transfer of insured persons' assets from the Pension fund of Russia, growth of the pension savings in the second quarter is absolutely insignificant – 0,35 %.

Pension reserves and savings concentration among PF is rather high and for pension reserves it tends to increase. So if in the end of 2006 the share of the ten first PF was 60,4% of all pension

¹² Calculated under the data of the National Rating Agency.

¹³ www.fcsn.ru

reserves, by the end of the second half-year of 2007 this index has increased up to 86,4%. The similar index for pension savings in the end of 2006 – first half of 2007 was 77–79%¹⁴.

d) Pension savings investment

Insured persons, that is employees for whom their employers pay pension installments to the Pension fund of Russia and having saving part of their pension may transfer pension savings to PF or transfer them for trust to a management company – either private or state-owned. The first competition among private management companies for the right of participation in investment of pension savings assets was conducted in 2004 and attracted attention of both professional market community and interested public. 55 companies were admitted to the management of pension savings assets. At the same time in the next years any interest to this project from private companies has gone. Functions of the State management company are fulfilled by the «State corporation «Bank of Foreign Trade Activities Development» («Vneshekonombank»).

The size of the pension savings transferred to PF is shown in Table 25. Table 26 contains data on the net assets cost of the pension savings assets being at disposal of the State and private management companies.

Table 26. Cost of the net assets in which pension savings are invested

(Billion rbl., data as of the end of the period)

	2006	Q1–07	Q2–07
TOTAL	276,445	270,075	274,533
Including:			
State management company	267,072	260,668	265,126
Private management companies	9,373	9,407	9,407

Sources: VEB, Pension fund of Russia, www.investfunds.ru

As it follows from the Table 26 the overwhelming majority (about 96,6 %) of the pension savings volume of insured persons transferred for trust was distributed in favour of the State management company. The private management companies services market stagnates on the background of the PF on obligatory pension insurance activity.

Being State management company «Vneshekonombank» has right to invest pension savings only in State securities. On the other hand, private management companies have wider range of investment opportunities. Summary data on the structure of investments of the private management companies is shown in Table 27.

As it follows from Table 27, on the average 26–29% of the assets received by private managing companies are invested in shares, then follow subfederal and corporate bonds. It should be noted that in the first half-year of 2007 the share of subfederal bonds was steadily decreasing (from 23% to 15%), and the share of corporate bonds was on the contrary growing (from 22% to 33%). The share of State bonds remained insignificant (10,4 %–9,0 %) and had a downtrend. Note that many admissible asset classes are still absent in investment portfolios, both due to their insufficient availability in the market (for example, mortgage bonds) and due to insufficient understanding of the manner they may be purchased (for example, foreign index funds units).

¹⁴ Calculated under the data of www.investfunds.ru

Table 27. Structure of assets in which private management companies invest pension savings
(percents, data as of the end of the period)

№	2006	Q1–07	Q2–07
1 Money on accounts with financial entities	0,77	5,46	0,24
2 Rouble deposits in financial entities	6,60	7,23	7,21
3 State securities of the Russian Federation	10,37	10,17	9,04
4 State securities of the Russian Federation for placement of institutional investors' assets	0,00	0,00	0,00
5 Bonds of foreign bonded loans of the Russian Federation	0,00	0,00	0,00
6 Subfederal State securities of the Russian Federation	22,99	17,60	15,28
7 Municipal bonds	2,02	1,68	1,60
8 Bonds of the Russian economic companies	21,90	22,59	32,90
9 Shares of the Russian issuers incorporated as OJSC	29,43	26,65	29,98
10 Bonds with a mortgage backing, issued according to the legislation of the Russian Federation on mortgage securities	0	0	0
11 Mortgage participation certificates issued according to the legislation of the Russian Federation on mortgage securities	0	0	0
12 Units (shares) of the index investment funds placing assets in State securities of foreign countries, bonds and shares of other foreign issuers	0	0	0
13 Debt receivable, including:	5,90	8,61	3,74
14 <i>Pension savings on special discretionary accounts</i>	4,95	7,61	2,74
15 <i>Debt receivable under percent (coupon) income from bonds</i>	0,94	0,97	0,99
16 <i>Other debt receivable</i>	0	0	0,01

Calculated according to Pension fund of Russia

e) Commercial banks

Many Russian banks act as professional participants of capital market and as well as investors at their own expense.

Summary data on the volumes of various types of securities in the assets of financial entities for the last two and a half years are shown in Table 28¹⁵

Table 28. Securities in the assets of financial entities (Billion rbl. data as of the end of the period)

	2005	2006	Q1–07	01.06.2007
Securities (TOTAL)	1 539,4	1 961,4	2 404,4	2 546,1
<i>Including</i>				
Debt instruments	1 036,6	1 341,2	1 627,3	1 740,9
<i>From them</i>				
Debt instruments of the Russian Federation	492,0	537,2	585,6	617,3
Shares	292,8	391,0	531,8	562,1
<i>From them controlling participation portfolio</i>	64,9	79,8	104,3	87,3
Discounted promissory notes	210,1	229,2	245,3	243,1

Source: Bank of Russia

¹⁵ Taking into consideration securities purchased in the both foreign and domestic markets.

Share of securities in the assets of the Russian financial entities averaged recently 14 %–16 % and has reached in absolute figures as of the beginning of June 2007 the total of 2 546,1 billion rbl., having increased with the beginning of the year by 29,8%. Debt securities in the aggregate portfolio of financial entities average 67%–68%. Share of State securities (including bonds of the Bank of Russia) have a downtrend (from 47,5 % in the end of 2005 to 35,5 % as of 01.06.07) and are replaced with corporate bonds. On the other hand, share of equity (disregarding shares of affiliated and dependent companies) show a certain growth (from 14,8 % of the aggregate investment portfolio in the end of 2005 to 18,6 % as of 01.06.07). Share of promissory notes constantly decreases (from 13,6 % in the end of 2005 to 9,5 % as of 01.06.07).

f) Foreign investment funds in the Russian capital market

The Russian capital market did not yet become attractive enough for the largest global investment and pension funds. Funds specializing in investments in the Russian economy usually have low capitalization and are mainly hedge-funds or funds working with qualified investors.

According to the site EmergingPortfolio.com data, the cost of investments of portfolio investment funds in Russia made approximately US\$23 billion as of the beginning of 2007.

2.3. Professional capital market participants

No generalized, systematized and detailed data on professional participants of the Russian capital market are available. According to FFMS data the total number of professional market participants dealing in securities on the basis of appropriate licenses has made 1 711 organizations as of the end of 2006. Under our estimations about 39% of them are financial entities. According to the same data their number as of the end of 2005 totaled 1 634 organizations. So the gain for 2006 has made 4,7 %. No data on the total number of professional capital market participants are available for the first half of 2007.

a) Professional intermediaries

Russian legislation regulates three kinds of intermediary activities in the capital market – brokerage activity, dealer activity and equity management activity. Definitions of these kinds of activities correspond as a whole to the understanding accepted in the developed markets, taking into consideration the following reservations:

- ♦ Brokerage activity as such does not imply registration of the customers' rights on securities, therefore brokers wishing to carry out such registration should receive a separate license on depositary activity;

- ♦ Dealer activity is understood as only sale and purchase of securities accompanied by public announcement of the bid and/or sale prices only, therefore are exempt from this regulation companies and citizens who regularly make transactions in securities, including even those publicly offering to purchase or sell securities, but not announcing the prices;

- ♦ Equity trust management formally differs from trust management by UIF and Pension funds which is proved by existence of two different types of licenses for these similar kinds of activity.

According to the FFMS, the number of valid broker licenses as of the end of 2006 made 1 433, dealer licenses – 1 394, equity trust management licenses – 1 100. If compared with the figures as of the end of 2005, they have changed correspondingly by 3,9 %, minus 0,2 % and 7,6 %. According to

the FFMS¹⁶ the number of such licenses as of 01.06.07 has made 1401, 1384 and 1113 correspondingly, i.e. if compared with the figures as of the beginning of the year there was a change by minus 2,2 %, minus 0,7 % and 1,2% correspondingly. So we may conclude that for the last two and a half years the structure of professional market intermediaries is stable, though is subject to minor variations in both directions. Please note, that we mean the number of issued licenses, but not the number of organizations-intermediaries working in the capital market. Majority of professional capital market participants have three or four licenses.

Intermediary business in the capital market is rather competitive. Under our calculations based on accessible reporting, Herfindahl-Hirschman Index under total turnover of professional intermediaries in the capital market is within the range from 800 to 1000.

b) Trade and settlement infrastructure

The professional capital market participants conducting the following kinds of activity refer to the trade and settlement infrastructure of the Russian capital market:

- ♦ Activity on organizing trade in the capital market (including stock exchanges);
- ♦ Clearing activity;
- ♦ Depository activity as settlement depositories.

Besides the constituent of this infrastructure are non-banking financial entities engaged in settlement operations.

According to the FFMS there were 9 organizations having licenses for organizers of trade or stock exchange and 9 organizations having clearing organization license in Russia as of 01.06.2007. At the same time due to market competition and objective integration processes there actually emerged two leading infrastructural centers – MICEX Group and RTS Group which are actually the formal market for dealing in securities and derivatives in Russia.

MICEX Group is an integrated trade and settlement infrastructure including, inter alia:

- ♦ Closed Joint-Stock Company « Moscow Interbank Currency Exchange»;
- ♦ Closed Joint-Stock Company «MICEX Stock exchange»;
- ♦ Noncommercial partnership «National Depository Center»;
- ♦ Not-banking financial entity «MICEX Clearing house» (CJSC);
- ♦ CJSC Joint-Stock Commercial Bank «National Clearing Centre»;

As to the operations connected with capital market, within the MICEX Group function the following markets:

- ♦ Capital market;
- ♦ State securities market.

Futures market offering settlement future on share index began working in the end of the second quarter of 2007.

Capital market of MICEX (organizer of trade is CJSC «MICEX Stock Exchange») functions on the basis of «order-driven market» principle where the transaction is made automatically if there are corresponding anonymous bids. Transactions are carried out on the principle « delivery against payment» with 100 % preliminary assets deposit. Transactions fulfillment is carried out on the date of their conclusion (T+0).

In the negotiated transactions mode the traders have an opportunity to quote securities by making non-addressed bids (invitations to offer for all traders) and to make a transaction on bilateral (not

¹⁶ Report on FFMS for 2006.

anonymous) basis using addressed cross-bids (offer for transaction from one trader to the address of the other trader). At that traders define the appropriate date of fulfillment of their obligations within the range: beginning from the current business day (T+0) to 30 calendar days after conclusion of the transaction (T+30). This mode of trade allows traders making transactions either with complete control of backing or without the control of backing.

Clearing on MICEX Capital Market transactions is carried out by CJSC MICEX. Settlements under net-obligations of traders on their transactions are carried out on the basis of CJSC MICEX settlement documents as clearing centre in «MICEX Clearing house» (settlement organization on money) and in NP «NDC» (settlement depository on securities).

In the nearest future the function of the clearing organization on all markets within MICEX Group will be fulfilled by CJSC JSCB «National Clearing Centre».

Summary of MICEX Group equity trades in the first half-year of 2007 are shown in Table 29¹⁷.

Table 29. Results of MICEX Group equity trades in the first half-year of 2007
(data as of the end of the period)

	Q1-07	Q2-07
Trading, US\$ billion	297,40	387,6

Source: MICEX

RTS Group is an integrated trade and settlement infrastructure including, inter alia:

- ♦ Noncommercial partnership «Stock exchange «Russian Trade System»;
- ♦ OJSC «Stock exchange «Russian Trade System»;
- ♦ CJSC «RTS Clearing Centre»;
- ♦ Non-banking financial entity «RTS Clearing house» (LLC);
- ♦ CJSC «Depository and Clearing Company».

Within RTS Group there are a few formal markets trading in securities:

- ♦ classical market;
- ♦ exchange market;
- ♦ Futures and options market FORTS.

The trade organizer is OJSC «SM RTS».

Within Classical market of RTS there are used two models of trade:

- ♦ Classical market with non-anonymous trade implying making transactions on the basis of non-anonymous quotations («quote-driven market»), absence of preliminary assets deposit, quotations in US dollars and as well opportunity to choose settlement date (from T+0 to T+30), method of settlement («delivery against payment» or free delivery), currency of settlement (roubles or foreign exchange). Clearing centre and settlement depository are not used here. Money settlements are fulfilled in «delivery against payment» mode through NFE «RTS Clearing house» or J.P Morgan Chase Bank, in the free delivery mode through any bank.

¹⁷ Taking into consideration transactions with shares, corporate, subfederal, municipal bonds, investments units, including repurchase transactions.

♦ Classical market with anonymous trade implying anonymous auction of bids («order-driven market»), partial preliminary deposit of assets, method of settlement – «delivery against payment» on T+4 basis, quotations and settlements in US dollars. Clearing centre is NP «SE RTS», settlement depository – CJSC «DKK», settlement financial entities – NFE « RTS Clearing house» or J.P Morgan Chase Bank.

♦ RTS Exchange market works on the following principles: anonymous bids auction («order-driven market»), 100% preliminary assets deposit, settlement method – «delivery against payment» on T+0 basis, quotations and settlements in roubles. Clearing centre is NP «SE RTS», settlement depository – CJSC «DKK», settlement financial entities – NFE « RTS Clearing house».

Futures market FORTS is based on anonymous bids auction («order-driven market»). Settlements and delivery are carried out after the term of the contract circulation. Quotations and settlements are carried out in roubles. Clearing centre is NP «SE RTS», settlement depository – CJSC «DKK», settlement financial entities – NFE « RTS Clearing house».

Besides within RTS there exists indicative quotations system – RTS Board, working on the following principles: displaying indicative quotations on securities not admitted to trade at RTS stock exchange, no preliminary security and money deposits, quotation in US dollars, opportunity to choose the settlement date (from T+0 to T+30), method of settlement («delivery against payment» or free delivery), currency of settlement (roubles or foreign exchange). Neither clearing centre nor settlement depository are used here. Money settlements in «delivery against payment» mode are fulfilled through NFE « RTS Clearing house» or J.P Morgan Chase Bank, in free delivery mode through any bank.

Trade results for various RTS Group markets achieved in the first half-year of 2007 are shown in Table 30.

Table 30. Trade results for various RTS Group markets achieved in the first half-year of 2007
(data for the period)

	Q1–07	Q2–07
Classical market		
Volume of trade, US\$ billion	3,20	3,07
Exchange market		
Volume of trade, Billion rbl.	4,30	2,60
FORTS Futures market		
Volume of trade, Billion rbl.	1 031,80	1 244,90
RTS Board		
Volume of trade, US\$ billion	0,17	0,15

Source: RTS

c) Registration system

There are two alternative methods to register rights on securities in the Russian capital market: on repurchase transactions accounts with depository and on personal accounts in the register keeping system. Depositories, registrars and issuers keep independently register of shareholders, forming in aggregate the capital market registration system.

Depositories

Depositories render services on registering and certifying rights on securities, registering and certifying transfer of securities, as well as on keeping securities (if issued in documentary form). A depository carries out its activity on the basis of agreement with the proprietor of securities or the person having other rights on securities (depository agreement).

Depository activity in the Russian Federation is subject to licensing. According to the FFMS¹⁸ there were 831 organizations with depository licenses as of the end of 2006, whereas as of the end of 2005 their quantity made 743, i.e. there was an increase by 11,8%. In a reverse trend, as of 01.06.07 the quantity of depository licenses has decreased to 748. Hence, within the last half-year the quantity of organizations having opportunity to render depository services has decreased by 10 %. So the number of organizations rendering depository services may considerably change.

In Russia depositories are divided into settlement and custodial as it is generally accepted in the world practice. Settlement depositories are those which make settlements with securities following the results of clearing and conduct all operations under capital market participants' deposit accounts while fulfilling transactions made through trade organizers. Custodial depositories are all other depositories.

Table 31 shows data on the largest Russian depositories by market value of securities accepted from depositors.

According to PARTAD, the total amount of securities deposited with 30 leading Russian depositories corresponded as of 01.01.07 to a market value of 19 587 billion rbl., including shares – 16 700 billion rbl., bonds (including State bonds) – 2 887 billion rbl. However it should be taken into consideration that here is probably a «double count» as the same security may be shown in the account of a settlement depository and of its customer – a custodial depository. These data exceed indices of the first half of 2006 by 39,9% on total market value, by 47,5 % on stock value and by 18,9 % on cost of bonds. The depository services market is extremely monopolized – the top ten depositories listed in Table 31 took 89,2% of the total market value of securities accepted for service.

Registrars

A registrar is a professional capital market participant whose primary activity is keeping the register of investors (collecting, fixing, processing, keeping and granting data included in the structure of shareholders' register). Registrar works on the basis of an agreement with the issuer; entities opening accounts with the register do not conclude an agreement with the registrar. The issuer with the number of shareholders not exceeding 50 has right to keep the register independently or to conclude an agreement with the registrar. If the number of shareholders exceeds 50, the issuer is obliged to transfer keeping register to a registrar though it continues to be responsible for keeping the register.

Registrar activity is subject to licensing in the Russian Federation. The number of registrars in the Russian capital market is slowly decreasing. According to the FFMS¹⁹, as of the end of 2006 there were 73 organizations licensed to keep investor registers, and as of the end of 2005 their number was 82, i.e. within a year the number of registrars decreased by 12,4%. In the first

¹⁸ Report on FFMS for 2006.

¹⁹ Report on FFMS for 2006.

Table 31. 30 LARGEST DEPOSITARIES (as of the end of 2006)

№	Name	Status	Cost of securities (Billion rbl.)
1	GAZPROMBANK	Credit organization	4 511,096
2	ING BANK (EURASIA)	Credit organization	4 081,669
3	NATIONAL DEPOSITARY CENTER	Settlement depositary	3 340,605
4	DEPOSITARY AND CLEARING COMPANY	Settlement depositary	1 729,334
5	SETTLEMENT AND DEPOSITARY COMPANY	Settlement depositary	1 121,725
6	DEPOSITARY AND CORPORATE TECHNOLOGIES	Specialized depositary	852,945
7	DEUTSCHE BANK	Credit organization	758,173
8	VNESHEKONOMBANK	Credit organization	*385,848
9	SAVINGS BANK OF RUSSIA	Credit organization	369,496
10	URALSIB DEPOSITARY COMPANY	Specialized depositary	361,989
11	ROSBANK	Credit organization	358,118
12	GARANT SDK	Specialized depositary	259,556
13	SPECIAL DEPOSITARY	Specialized depositary	225,422
14	SETTLEMENTS AND STOCK CENTER	Investment company	220,876
15	REIFFEISENBANK AUSTRIA	Credit organization	174,243
16	FIRST SPECIALIZED DEPOSITARY	Specialized depositary	143,700
17	BANK OF MOSCOW	Credit organization	114,458
18	CENTRAL DEPOSITARY OF THE REPUBLIC OF TATARSTAN	depositary – not part-timer	99,465
19	INTERNATIONAL MOSCOW BANK	Credit organization	74,564
20	SOYUZ AKB	Credit organization	72,259
21	JOINT DEPOSITARY COMPANY	Specialized depositary	55,420
22	METALLINVESTBANK	Credit organization	51,598
23	TRUST IB	Credit organization	49,514
24	KIT FINANCE	Investment company	41,897
25	ZENITH BANK	Credit organization	36,038
26	SPECIALIZED DEPOSITARY CENTER	Specialized depositary	31,595
27	DEPOSITARY AND SETTLEMENT UNION	Settlement depositary	23,262
28	ATON	Investment company	21,763
29	NOMOS-BANK	Credit organization	19,790
30	CENTRAL MOSCOW DEPOSITARY (LLC)	Specialized depositary	19,448

* taking into consideration securities quoted at foreign exchanges and in Reuters and Bloomberg information systems.

Source: PARTAD

half of 2007 their number almost has not changed – as of 01.06.07 they totaled 74 organizations.

The data on the largest Russian registrars by number of issuers being served are shown in Table 32.

Table 32. 30 LARGEST REGISTRARS (Data as of the end of 2006)

Place Name	Number of issuers with the number of holders exceeding 500	Total served issuers
1 OJSC «Registrar R.O.S.T.»	372	1 965
2 OJSC «Central Moscow Depository»	265	1 252
3 OJSC «Register»	189	1 631
4 OJSC «Consolidated registration company»	113	907
5 Closed Joint-Stock Company «National registration company»	102	574
6 Closed Joint-Stock Company «Uniform registrar»	98	549
7 OJSC «Registrar NIKoil»	95	911
8 Closed Joint-Stock Company « Professional registration center»	94	582
9 Closed Joint-Stock Company «Moscow Equity Center»	91	488
10 Closed Joint-Stock Company «Petersburg Central Registration Company»	83	409
11 Closed Joint-Stock Company «Irkol»	82	658
12 OJSC «Independent Registrar UFO»	79	850
13 OJSC «ORR «Vesta»	77	285
14 Closed Joint-Stock Company «M-Register»	76	419
15 Closed Joint-Stock Company «RK-REGISTER»	76	331
16 OJSC «Siberian Register»	71	517
17 Closed Joint-Stock Company « Registration system»	70	217
18 OJSC «Inter-regional Registration Center»	69	302
19 Closed Joint-Stock Company «New registrar»	67	709
20 Closed Joint-Stock Company «SR-DRAGA»	67	479
21 OJSC «Central Registry»	64	241
22 Closed Joint-Stock Company «Register-RN»	63	481
23 Closed Joint-Stock Company «Keeping Companies Registers»	63	324
24 Closed Joint-Stock Company «Register A-plus»	60	651
25 Closed Joint-Stock Company KRTs « Dominica»	60	207
26 Closed Joint-Stock Company «Surgutinvestneft»	60	156
27 Closed Joint-Stock Company «Volga and Uralsib Registrar»	59	273
28 Closed Joint-Stock Company «Registrar Intrako»	59	205
29 Closed Joint-Stock Company «Industry-REGISTER»	58	296
30 OJSC «Northwest Registration Center»	58	248

Source: PARTAD

The market of registrar services is monopolized in a lesser degree than the depository services market: the first ten registrars mentioned in the Table 32 service 54,1 % of the total number of issuers being served and 52,9 % of the number of the issuers with the number of shareholders exceeding 500.

3. Legislative base and regulation

The legal base regulating capital markets in the Russian Federation is now in place. It is formed by several special laws («On capital markets», «On protection of rights and legitimate interests of investors in the capital markets», «On mortgage securities») which define general rules for the capital market, and by numerous subordinate normative acts (predominantly decrees of the Government of the Russian Federation and orders of the FFMS) establishing special rules and norms.

Functioning of separate institutions is regulated by special laws: «On investment funds», «On non-State pension funds», «On investment of assets for financing savings part of labour pension», «On savings and mortgage system of military men's housing» which are also accompanied by extensive subordinate legislative acts.

General provisions of the Civil Code of the Russian Federation and norms regulating joint-stock companies established by the law «On joint-stock companies» are also applied to the Russian capital market.

The Russian system of capital market regulation was formed in parallel with the formation of market and has played in many aspects a positive role in its development. This system follows generally the norms of international capital market regulations and meets world development trends of regulation in this sphere, however it has a number of national features. The most important feature is difficulty in distribution of regulatory and supervising authorities in the sphere of financial markets between several departments. At present a significant part of the corresponding functions in this sphere has actually passed to one State body – Federal Financial Markets Service, however certain authorities still remain with the Central Bank and to a lesser degree with the Ministry of finance.

3.1. Federal Financial Markets Service of the Russian Federation

The principal State regulating authority on the Russian capital market is at present the Federal Financial Markets Service (FFMS). Its status is similar that of a ministry because it works directly under the Government of the Russian Federation and consolidates at that both regulating and supervising authorities.

The activities of the FFMS are defined by the Law «On capital market» and by the Regulation on FFMS approved by the Decree of the Government of the Russian Federation from 30.06.04 Nr 317. According to this Regulation, the FFMS is a federal executive authority carrying out functions on making normative legal acts, controlling and supervising over financial markets except for insurance, banking and auditing activities.

The FFMS carries out regulation of all principal subjects of the capital market: issuers, professional participants, collective investment institutions and in some cases of investors. The FFMS has functional independence, it does not adjust its actions with other bodies. However being an executive body it works under the Government of the Russian Federation which has right to suspend or cancel any act of the FFMS.

Concerning *issuers*, the FFMS has authority to approve the standards of securities issue, securities registration orders and reports on results of issue, and also prospectuses of securities (except for State and municipal securities). The FFMS also carries out checks of issuers and if there are any violations it issues to them instructions, and if necessary it may suspend issue of securities and submit to court a claim to recognize a securities issue null and void. The FFMS also determines the order of the admission to IPO and circulation of the Russian issuers' securities outside the territory of the Russian Federation.

Concerning *professional capital market participants*, the FFMS approves requirements to the rules of conducting professional activities with securities, approves norms of sufficiency of internal funds, carries out licensing of professional activities in the capital market, registers internal documents of professional participants. It also carries out checks of professional participants and issues to them (if necessary) instructions, forbid or limit conducting separate deals in securities, and has right to suspend or to cancel licenses of violators.

Concerning *collective investment institutions* the FFMS licenses activity of PF, equity investment funds, activity of management companies and specialized depositories. It registers rules of investment fund management and rules of mortgage backing management, rules for pension funds, and documents of specialized depositories. The FFMS also approves requirements to the structure of assets of joint-stock and unit investment funds, defines standards of disclosing information and forms of reporting for pension funds; conducts checks of these organizations and issues instructions to them.

The FFMS also regulates admission of securities to public placement, their circulation, quotation and listing, takes measures to stop unfair advertising in the capital market, publishes materials and recommendations on the matters referring to its competence. It has right to bring claims to the court and arbitration court. Important function of the FFMS is the right to consider matters on administrative violations referring to its area of competence, and also to take measures established by administrative legislation.

It should be noted that that the FFMS competence has a number of essential exemptions concerning financial entities: the FFMS cannot establish for them measures of prudential nature nor regulate issue of their securities. The authority of the FFMS does not extend to the matters of issue and circulation of the State and municipal securities.

3.2. Central Bank of the Russian Federation

Central Bank is not an executive body and carries out its activity on the basis of the special law «On the Central bank of the Russian Federation (Bank of Russia)». Its authorities on regulation of commercial banks are defined by the law «On banks and banking». Being an organization responsible for the organization of monetary circulation and stability of the banking system in Russia, the Bank of Russia has a number of the authorities affecting to some extent the capital market or its participants.

So the Bank of Russia works together with the Government of the Russian Federation in development and carrying out an uniform state monetary and credit policy which influences capital market. Realizing its monetary and credit policy, it acts as an issuer of its own bonds and carries out open market transactions with State securities and own bonds, being a large player in this market.

As a banking system regulator, the Bank of Russia defines features of securities issue procedure for financial entities and registers issues of these securities. Further on, it carries out supervision of the banking activity of financial entities and bank groups, including their activity as investors in the

capital market. Concerning the activity of financial entities as professional capital market participants, the Bank of Russia actually defines rules of conducting some operations (for example, trust of securities, rules of conducting depository registration etc.). At last, it participates in the capital of infrastructural organizations of capital market (for example, MICEX) and carries out «indirect regulation» of capital market.

The Bank of Russia also defines rules for fulfillment of banking operations, for accounting and reporting of the banking system of the Russian Federation.

So, authorities of the Bank of Russia in relation to the capital market participants exist directly only in relation to operating in this market financial entities, but its total influence on financial market is rather great. Using its authorities the Bank of Russia is the second in importance of the capital market State regulators.

3.3. Ministry of Finance of the Russian Federation

According to the Regulation on the Ministry of finance (approved by the Decree of the Government of the Russian Federation from 30.06.04 Nr 329), it carries out a number of functions relating to capital market and its participants. First of all, Ministry of Finance approves terms of issue and circulations of Federal State securities and makes decisions on separate issues of these securities, and also reports on the results of their issue. At the same time, Ministry of Finance is itself issuer of Federal State securities.

Further, it acts as a regulating authority in relation to State securities of subfederal level and municipal securities – it carries out State registration of the terms of issue and circulations of these securities, approves standards of disclosing information on these securities.

Besides the Ministry of Finance remains a regulator in the area of pension savings investments for financing savings part of labour pension, and also regulator for insurance companies including their financial investments in securities (supervising functions in relation to insurance companies are exercised by Federal Insurance Supervision Service which is subordinate to the Ministry of Finance). At last, Ministry of Finance accepts normative acts concerning the order of accounting and financial reporting.

3.4. Other State bodies

Law enforcement system in the capital market includes as well tax authorities, financial control and monitoring bodies, antimonopoly body, judiciary system, law-enforcement agencies. However detailed analysis of their functions and tasks is beyond the limits of the present work.

3.5. Self-regulating organizations

System of capital market regulation includes not only State bodies but as well Self-Regulating Organizations (SROs). They are created by professional capital market participants with the purpose to maintain conditions of their professional activities, compliance with the standards of professional ethics in the capital market, protection of investors' and other clients' interests, and as well estab-

lishments of the rules and standards of trading in securities ensuring effective work in the capital market. SROs may be also established by management companies.

SROs are created in the form of non-profit organizations. They establish obligatory for their members rules of conducting professional activities in the capital market and standards of trading in securities, and as well carry out control over compliance with these rules. Membership in a SRO is voluntary.

At present six organizations being professional capital market participants and collective investment institutions have SRO status in Russia:

- ♦ National association of capital market participants (NAUFOR) includes brokers, dealers, managers and depositaries. The total number of its members as of 01.07.07 made 406 organizations. NAUFOR has central office in Moscow, and branches in 14 regions of the country;

- ♦ Professional association of registrars, transfer-agents and depositaries (PARTAD) consolidates depositaries and registrars. As of 25.06.07 PARTAD had 99 members including 52 depositaries and 47 registrars²⁰;

- ♦ National Equity Association (NFA) includes organizations having licenses to conduct broker, dealer, depositary activities and trust management of securities, they are mainly financial entities. As of 01.01.2007 NFA had over 240 members²¹;

- ♦ League of Management Companies of Russia (NLU) includes 74 organizations²² being management companies;

- ♦ Professional institute of placement and circulation of equity instruments (PROFI) – specialized SRO of brokers and dealers rendering services on consulting the issuers. As of 01.01.04 it totaled 20 members²³;

- ♦ Noncommercial partnership of professional capital market participants of the Ural region (PUFRUR) – the only SRO which has on office outside Moscow (in Ekaterinburg). Its members are 25 professional capital market participants from the Ural region²⁴ (according to the site www.uralprofi.ru).

It should be noted that rather often professional capital market participants are members of several SROs simultaneously. Therefore it is impossible to evaluate precisely the general involvement of professional market community into self-regulating activities. Nevertheless, under our estimations approximately 30%–35% of the total number of professional capital market participants are members of at least one self-regulating organization, the highest level of participation in SRO is among registrars – over 60%. It is necessary to note that in the last years the member base of leading SROs has stabilized and the membership in the self-regulating organizations has actually become a standard of professional work among large professional capital market participants.

²⁰ www.partad.ru

²¹ www.nfa.ru

²² www.nlu.ru, no date indicated.

²³ FFMS data are used. More recent data are not available, official site www.profi-sro.ru if filled with irrelative content.

²⁴ www.uralprofi.ru, no date indicated.

4. Principal events of January-June 2007

January	01.01.2007	FFMS Order from 02.11.06 № 06-126пз «On modification in regulations on trade organization activity in the capital market» came into effect, ordering to stock exchanges suspending trade at 18.00 to grant reports to the traders and to conduct clearing of transactions.
	09.01.2007	Came into effect new «Rules of securities' admission to trade at RTS», providing new requirements, inter alia requirements to admission and circulation of exchange bonds, defining requirements to entering in the quotation lists «B» and «И».
	10.01.2007	Came into effect amendments to the law «On capital market» relating to the issue of the Russian depository receipts (RDR).
	11.01.2007	Came into effect the Amendments to the law «On banks and banking» and «On the Central bank of the Russian Federation», simplifying acquisition of shares (units) in financial entities, including non-residents.
	21.01.2007	State Duma has approved amendment to the Article 1062 of Part II of the Civil code of the Russian Federation, granting judicial protection to claims connected with settlement derivative financial instruments.
	24.01.2007	FFMS Order from 22.06.06 №06-67/пз-н «On approval of regulation on granting information on transactions» came into effect, defining the order of reporting on over-the-counter transactions.
	29.01.2007	MICEX and RTS are approved as affiliated members of World Exchange Federation (WEF).
	30.01.2007	The marketplace RTS START has begun its work at RTS; RTS START is intended for placement and circulation of issuers of small and average capitalization. The first issuer was «BF Communar».
	February	01.02.2007
02.02.2007		Drastic (by 7%) fall within one trading session of the prices on Sberbank shares of after rumors on the possible price of stock placement during forthcoming SPO.
08.02.2007		Trading in the RTS derivatives market (FORTS) suspended due to software failures.
15.02.2007		Came into effect the Decree of the Government of the Russian Federation from 01.02.07 №63 «On approval of the Rules of placement of PF pension reserves and control over their placement»

		which has significantly changed requirements to the structure of pension reserves.
	24.02.2007	SPO of Sberbank completed, US\$ 8,83 billion raised.
	27.02.2007	Largest fall of the Chinese capital market in the last 10 years entailing drastic recession in the world markets.
March	02.03.2007	Daily turnover of securities transactions at MICEX has reached historical maximum – US\$8,43 billion
	08.03.2007	Came into effect the instruction of the Bank of Russia №130 «On the order of receiving the preliminary consent of the Bank of Russia on purchase and (or) receiving to trust of shares (units) of financial entities», simplifying procedures of dealings in stocks of financial entities
	13.03.2007	Trade in delivery futures on bonds started on FORTS.
	21.03.2007	Defined results of placement of the additional share issue of OJSC RTS placed via closed subscription, 721,1 million rbl. raised.
	22.03.2007	Completed all preparatory works necessary for issue and circulation of exchange bonds. FFMS has designated the first serial number to the stock exchange allowing to form an identification number of the exchange bond for its admission to trade.
	26.03.2007	Came into effect internal documents of MICEX and RTS providing for completion of trade at 18.00.
April	03.04.2007	Regular order of work of the CJSC «DCC» has been disturbed and staff was evacuated after report of explosives at the facilities rented by the depository.
	09.04.2007	Rules on tendering in the MICEX futures market came into effect, formation of traders list has begun.
	11.04.2007	Problems with telephone networks and access to exchange services encountered at the RTS Stock Exchange due to technical problems.
	16.04.2007	MICEX index has reached its historical maximum – 1777,84.
	16.04.2007	RTS index has reached its historical maximum – 2008, 24.
	19–20.04.2007	Failures and following suspension of trade occurred on the MICEX Stock Exchange due to breakdowns in electric supply and in communication networks.
May	11.05.2007	State Duma has given preliminary approval to the Bill «On the central depository».
	15.05.2007	There are published plans of creation of the International Stock Exchange «St.-Petersburg» (IXSP), formed ин NP «SE St.-Petersburg» and Swedish OMH group.
	17.05.2007	Vladimir Milovidov has taken the position of the FFMS Director.
	18.05.2007	IPO of VTB Bank was completed, US\$ 7,97 billion raised.

- 25.05.2007 First placement on MICEX of mortgage securities issue backed by pool of mortgages under credits (issuer – CJSC «First mortgage agent AlZhK», 2,9 billion rbl. placed).
- 29.05.2007 Shares of OJSC «RTS» are included in the RTS Board system.

June

- 01.06.2007 FFMS Order from 29.03.07 №07-32/пз-н «On non-use of the Item 9.1 of Regulations on clearing activity in the capital market» came into effect, canceling ban on combining clearing under forward contracts with clearing under other securities transactions.
- 04.06.2007 FFMS Order from 24.04.07 №07-50/пз-н «On approval of internal funds sufficiency specification for professional capital market participants and as well of the management companies of investment funds, share investment funds and non-state pension funds» was published (comes into force from 01.01.08). Since January 01, 2008 the requirements to the own capital are increased twice.
- 14.06.2007 Sector of innovative and growing companies began work at MICEX. Its first issuer was the fund «FINAM – Information technologies».
- 15.06.2007 FFMS Order from 06.03.07 №07-21/пз-н «On approval of the order of licensing of the kinds of professional activities» came into effect, providing inter alia initial licensing without limiting its term of validity.
- 25.06.2007 FFMS Order from 03.04.07 №07-37/пз-н «On approval of securities management procedure» was published, establishing uniform requirements to securities management procedure, requirements to the objects of management, limitation of activity of the managing company, the order of defining management results (comes into effect on 06.07.07).
- 26.06.2007 The FFMS has announced completion of preparing normative base necessary for beginning RDR issue and circulation.
- 26.06.2007 Trade in futures contracts on federal loan bonds started on FORTS. Delivery of the base asset is carried out as address transactions at MICEX.
- 29.06.2007 MICEX has begun trade in settlement futures for MICEX index.

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