

Russian Stock Market: 2014

Events and Facts

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Introduction

Please find below the regular review of the Russian securities market.

The purpose of reviews we have been published semi-annually since 2007 is a generalized representation of the Russian stock market and its key elements – instruments, participants, infrastructure, regulatory and supervisory system, as well as main events occurred on the market within this period. This Review has been prepared by the National Stock Market Participants Association with the support of Moscow Exchange Group.

In most cases we provide data from 2005 to 2014; however, in certain cases where the said data were unavailable at the moment of review preparation, we provide the data available at the date closest thereto. Where the information is provided in the table or graphic form, the data are provided as of the period end.

We are grateful to Moscow Exchange Group, REGION Group, Standard&Poor's, CJSC Interfax, and CBONDS for the materials and assistance provided.

Outline of the Economic Situation in Russia

Continued existence and growth of geopolitical risks, in particular, related to the situation in Ukraine, low rates of the global economic recovery, expectation of growth in interest rates after completion of the asset repurchase program of the US Federal Reserve System, and fall in oil prices determined the dynamics of world capital markets in 2014.

Development of Russian economics was affected by the economic sanctions imposed by the Western countries, fall in oil prices, foreign trade food import restrictions, depreciation of the national currency, reduction in the investment activities and decrease in consumer demand on the back of swift inflation. As a result, economic growth in 2014 was only 0.6%. According to the updated forecasts of the Ministry of Economic Development of Russia and the International Monetary Fund, the real GDP of Russia in 2015 will decrease by 3%.

Global Macroeconomic and Geopolitical Background and Factors

Decelerated world economic recovery as a factor of decrease in external demand for the Russian market in 2014 was caused by growth stagnation in the euro zone, its deceleration in developed and key developing countries. In particular, the GDP growth rate in China was 7.4% against 7.7% in the previous year; in Brazil, the GDP growth decreased to 0.3% against 2.5% in 2013. In this context, the situation in India, where real economic growth up to 5.6% was observed at the end of 2014 against 5% in the previous year, stands out.

The world economic growth rate at the end of 2014, according to the IMF estimates, was only 3.3%. IMF's forecasts of the world economic development for 2015 were revised downward to 3.5%. The World Bank, as is customary, forecasts lower economic growth rates: after growth in 2014 by 2.6% (2.5% at the end of 2013), according to its estimates, global economic growth would be 3% in 2015.

The process of closing up the asset repurchase program of the US Federal Reserve System within the third stage of the Quantitative Easing Program

(QE3) and expectation of transition to more stringent monetary policy by the Federal Reserve System on the back of favourable macroeconomic indices in the USA continued affecting the conditions of world financial markets and causing decrease in demand for assets in developing countries, although more slightly than at the end of 2013.

Contradictions and conflicts in the Middle East and North Africa reached new levels in 2014. The ongoing civil war in Syria resulted in loss of control by the current government in numerous areas of the country, and a formation

named the Islamic State setting out its rules, guided by religious sanctions and intensifying unstable position of the region, appeared near the borders of Syria and Iraq. In Yemen, a confrontation between the Sunnis and Shia renewed; and internecine clan wars continued destabilizing the situation in Libya.

The key factor of geopolitical tensions determining all sectors of Russian economics in 2014 was the situation in Ukraine, uncertainty in its development, and Russian participation therein. After February events in Kiev causing the change of regime in the country, March referendum in the Crimea and accession of the Crimea to the Russian Federation following the results of the referendum, outbreak of the armed conflict in the South-East of Ukraine, the international relations of

Russia became strained. Imposition of economic sanctions against a number of Russian companies, credit institutions and individuals by the European countries and USA resulted in significant adverse consequences for the Russian economics.

Restricted access to long-term financing on external markets increased risks of and requirements to return on investments in the Russian capital, thereby increasing borrowing costs on the domestic market. Uncertain future of the relations among Ukraine, EU countries, USA, and Russia became the key factor in decreasing global investors' interest in the Russian assets and financial market as a whole; the private capital outflow from Russia intensified.

Another important factor for the Russian market was retaliatory sanctions

imposed by Russia, i.e. restrictions on food import from the countries supporting the sanctions against Russia, which resulted in significant inflation of food prices.

Against a background of deteriorating relations with the European countries and USA, development of **cooperation between Russia and China** was observed. Thus, in May 2014, a major long-term gas contract for over 400 billion US Dollars providing for construction of the Power of Siberia gas pipeline between China and Western Siberia and for further gas supply to China during 30 years was signed.

Under current conditions of enhanced geopolitical risks and slower recovery of the world economics, the environment of world financial markets, including commodity markets, was formed.

Dynamics of the Global Commodity Market

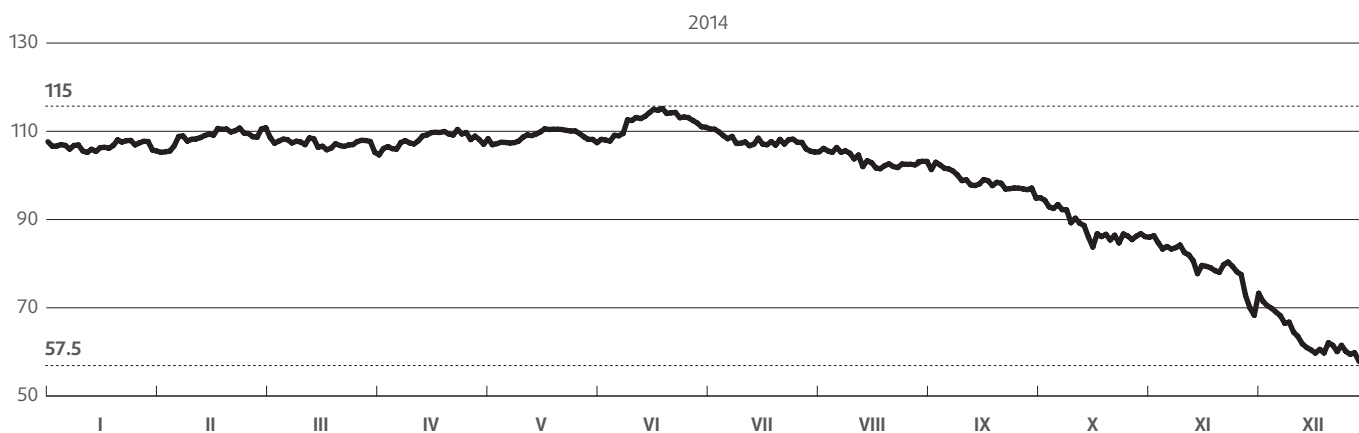
Dynamics of the **prices for BRENT crude oil** attracted the global attention of the economic community in 2014. In mid-June, on the back of renewed armed conflict in Iran, the maximum price for crude oil in the amount of 115.1 US Dollars/barrel was reached (see Figure 1).

Thereafter, oil price quotations sharply slid down and crossed a psychologically crucial threshold of 60 US Dollars/ barrel to 57.5 US Dollars/barrel at the end of 2014, or 50% of the maximum summer price. The avalanching dynamics of prices for energy sources was discussed

at the meeting of the Organization of the Petroleum Exporting Countries on November 27, 2014; nonetheless, it was resolved to maintain the current rates (30 million barrels per day until June 2015), which caused continuing decline in quotations.

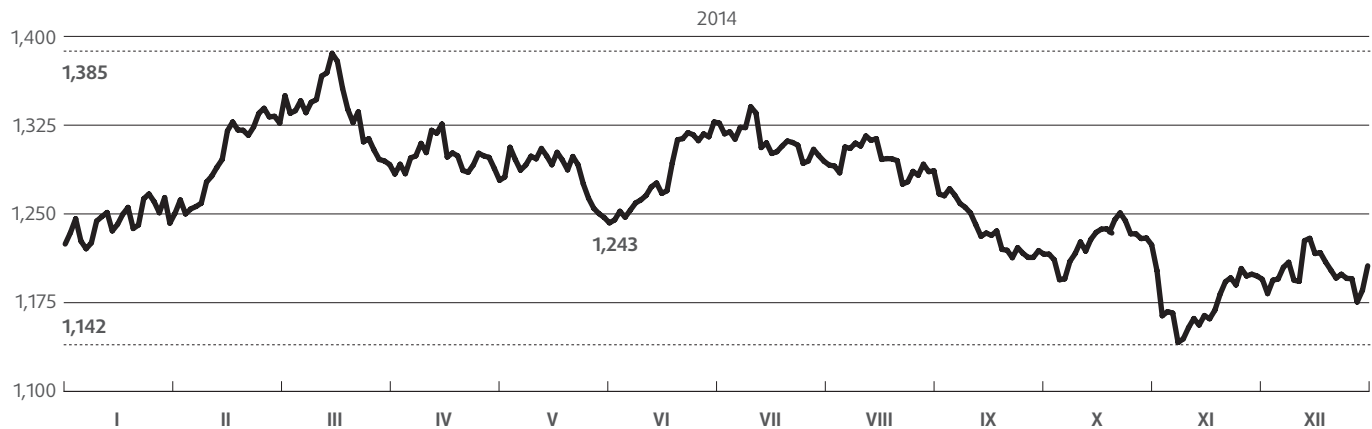
Figure 1

Dynamics of prices for BRENT crude oil on the International Petroleum Exchange (IPE), USD/barrel



Source: theice.com.

Figure 2

Dynamics of gold prices (London Gold Market Fixing), USD/ounce

Source: finance.yahoo.com

The main reason for decline in oil prices was likely to be excessive crude oil offer on the world market due to significant increase in production and shale oil field development in the USA, export from Iraq and renewed oil supplies from Libya over demand due to decelerated economic growth rates of the key oil consuming countries, in particular, China and euro zone. Increase in the value of US Dollar as compared to other currencies due to decreased volume of incentive programs became an additional demand contraction factor.

Price quotations on **the gold market** went back to the level of the previous

year-end by the end of 2014 and were 1,206 US Dollars per troy ounce. During the year, the prices ranged from 1,385 to 1,142 US Dollars per troy ounce and were mildly volatile as compared to the previous period (see Figure 2). Over the period of first 2.5 months of the year the prices for gold were increasing, specifically, due to growing uncertainty in the relations between Russia and Ukraine. The quotations on the London Commodity Exchange reached their annual peak in the amount of 1,385 US Dollars per troy ounce on March 14. Then, the prices went downward variably adjusting, whereupon, at the beginning of November, the gold price

reached its minimum level of 1,142 US Dollars since 2010, reducing by 17.5% against its maximum level in March and by 5.2% against the beginning of the year.

In general, the annual dynamics of this investment asset prices was determined by increasing gold offering in China, Argentina, Mongolia, and in a number of African countries, strengthening US Dollar due to completion of the asset repurchase program by the US Federal Reserve System and expected transition to the traditional monetary policy, uncertainties in the European Union and Greece, conflict escalation in Ukraine and general geopolitical tensions.

Internal Macroeconomic Background and Factors

According to the preliminary data of the Federal State Statistics Service, **gross domestic product of Russia** in real terms increased in 2014 by 0.6% against a 1.3% increase in the previous year, and by 3.4% at the end of 2012. This value complied with the latest forecasts of the Ministry of Economic Development of Russia, but they were revised several times during the year. Such low increase continued the trend of slowdown in the growth of

Russian economic development that has been formed since 2010, but this growth has been minimal since 1999 (excluding the results of 2009 recession). The quarter GDP increase dynamics also showed a recession: the figures of real GDP increase have not exceeded 0.9% during the year, thus indicating the economic growth slowdown in the fourth quarter of 2014. Such poor growth has not been observed since the fourth quarter of 2009.

Decline in economic activity in 2014 was caused both by structural factors, including intense use of production capacities and minimum unemployment rates in demographic crisis conditions, and external factors, including severe economic sanctions and fall in prices for energy sources. The internal development conditions, such as reduced investment activities of the enterprises, decline in human welfare and, as

a result, decelerated growth in consumer activities, also affected the economic growth.

In 2014, the **GDP deflator index** slightly changed in comparison with the previous year prices and made up 106.6% (106.5% at the end of 2013).

Such sectors as mineral resources production, wholesale and retail trade, manufacturing sector, real estate, leasing and services rendering continued contributing to the **formation of value added** in 2014. However, the **physical GDP volume index** at fixed prices for the first two above economic activities as against the previous year mildly exceeded the level of 2013. As such, a certain growth in physical volume as against the previous year took place in healthcare and social services sector (101% against 100.7% at the end of 2013). The production in «Generation and distribution of electric power, gas, and water» and «Public administration, defence and social security» sectors continued reducing, but slower as compared to the previous year. Overall production in «Construction» sector continued reducing and decreased by 5.2% as compared to the level of 2013; decrease in the physical GDP volume was also observed in «Fishery», «Hotels and restaurants», «Education», and «Other utilities, social and personal services» sectors.

According to the **structure of GDP use**, final consumption and net export factors formed each 1.1 pp of GDP increase in real terms. The volume of final consumption expenditure became less contributive to GDP as compared to 2.8 pp in 2013¹ (see Figure 3, the preliminary data for 2014). The share of net export, on the contrary, increased from 0.5 pp, which is related to the outrunning growth in export over import due to the national currency depreciation, restrictions to food products import and decrease in demand for imported products. In real terms, the share of net export in GDP formation also increased (8.3% of GDP in 2014 against 7.3% in the previous year).

Low overall increase in real GDP in 2014 amounting to only 0.6% was caused by significant reduction in accumulation of working capital that decreased growth rate of GDP by 1 pp (by 2.3 pp in 2013) and by reduction in investments in fixed capital appearing, which has been occurred for the first time since 2009.

Reduction in **investments in fixed capital** at the end of 2014 made up 2.5%. This indicates a significant slowdown in the investment activities as compared to 2013 (0.2% decrease) in conditions of restricted access to external financial resources and appreciation of internal financial resources, decreased efficiency of the activities carried out by non-financial companies, increased value

of imported investment goods, and geopolitical uncertainties.

According to the updated quarter data of the Federal State Statistics Service, growth rates of the investment activities have started decreasing gradually since the first quarter 2012. At the end of the first quarter of 2014, the investments in fixed capital reduced by 4.8% on an annualized basis, and it was a peak.

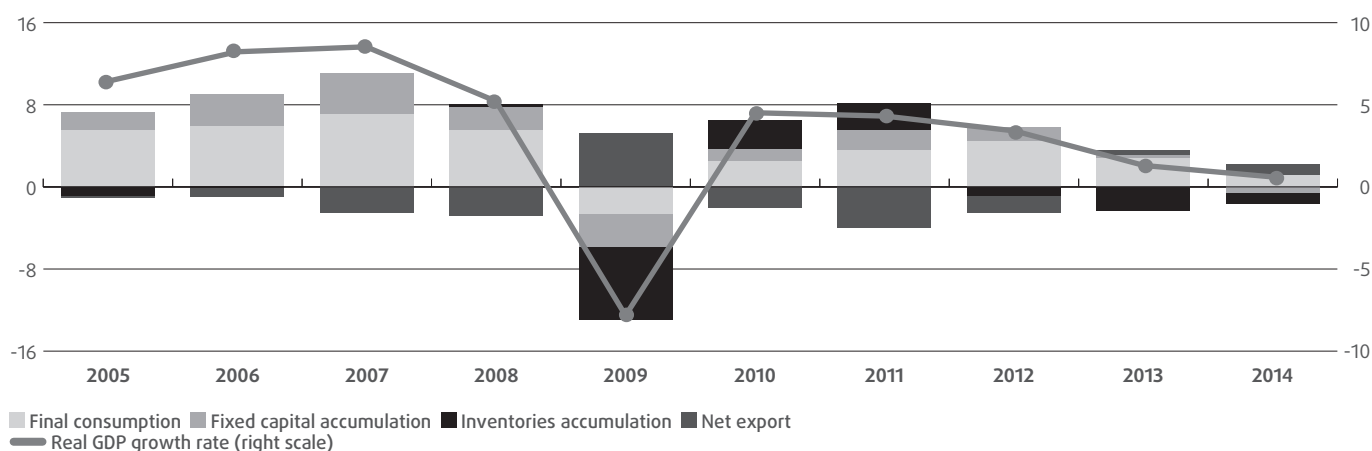
The **industrial production index in 2014** remained relatively low and made up 101.7% against 100.4% in the previous year (see Figure 4). This level was primarily determined by intensified growth in manufacturing in the fourth quarter of 2014 (by 2.1% according to the preliminary data). a certain growth as against the previous year was caused by the positive dynamics of all index components, but principal growth in production was typical for the manufacturing sector (by 2.1% against 0.5% at the end of 2013) due to intensified import substitution in the context of Ruble depreciation.

An insignificant decline was recorded in the area of generation and distribution of electric power, gas and water (a 0.1% decrease against a 2.5% decrease in 2013). The mineral resources production volume increased by 1.4% as against a 1.1% growth in the previous year.

As at the end of 2013, intensified growth in the manufacturing industry

Figure 3

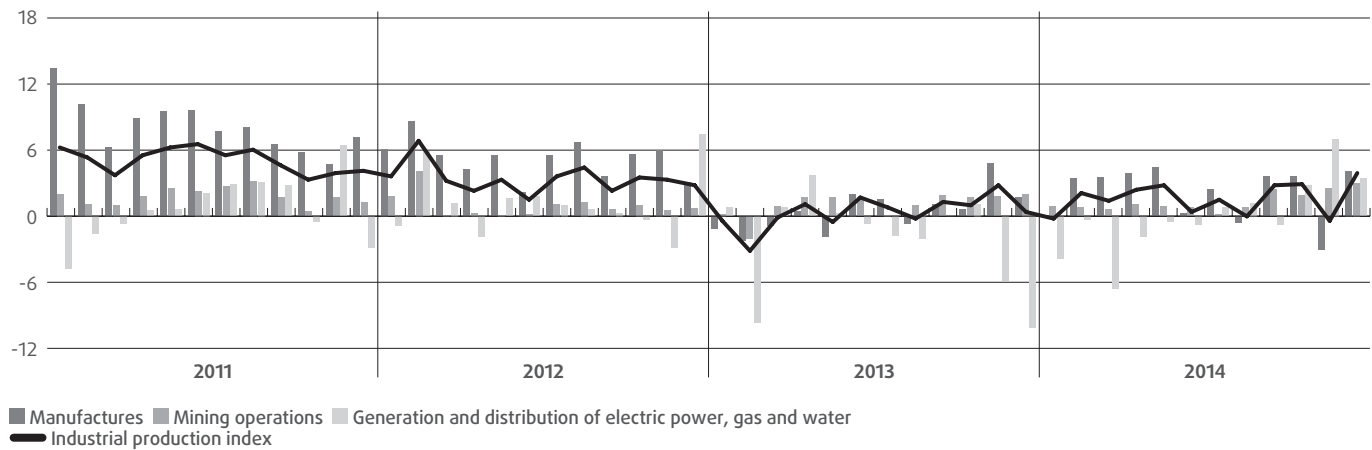
Structure of real GDP growth by elements of use, %



Source: Federal State Statistics Service.

¹ In general, the growth rate of final consumption expenditure decreased to 1.5% against 3.9% at the end of 2013.

Figure 4

Structure of industrial production, % year-on-year

Source: Federal State Statistics Service.

was observed in December 2014, when the growth made up 3.9% as against the corresponding month of the previous year: the maximum since 2012.

A certain recovery of the **manufacturing industry** is related, mainly, to intensified growth in output of vehicles and equipment (by 8.5% against 2.2% in 2013), rubber and plastic products (7.5% against 5.9% in 2013), coke and petroleum products (5.7% against 2.3% in 2013), food products, including beverages, and tobacco (2.5% against 0.6% in 2013). After decline in production in 2013, output in pulp and paper sector, publishing and printing (by 0.4%) and in production of other non-metal mineral commodities (by 1.8%) slightly increased. The sector of metal production and finished metal products grew by 0.6% as against a zero growth in 2013.

Growth in chemical production at the end of 2014 remained positive, but substantially lower as compared to the previous period: only 0.1% against 5.4% in 2013. In the sector of vehicles and equipment requiring many investment resources, decline in production was observed for the second year in a row: at the end of 2014 output decreased by 7.4% as against a 3.4% decrease in the previous year. In addition, the situation in the sector of electrical equipment, electronic and optical equipment, textile and garment manufacture as well as in wood processing and woodware production changed for the worse.

Reduction in the volume of works in «**Construction**» sector by 4.5% at the end of 2014 as against a low 0.1% growth in the previous year is also related to restrained investment activities. The index of **freight turnover** as an outrunning indicator of the economic activities decreased by 0.1% against a 0.6% increase in 2013.

The volume of agricultural products continued to grow intensively on the back of the restrictions to food products import from the Western countries, increasing by 3.7% against a 5.8% growth at the end of 2013.

Within the trend of reduction in consumer spending growth rate and in its share in forming real economic growth as formed since 2011, the growth in **retail trade turnover** decelerated to 2.5% in 2014 (3.9% in 2013). This results from saturation of the consumer loans market, decelerated growth in real wages and reduction in real disposable income. In December 2014, exceedingly substantial growth in turnover of the wholesale trade in non-food products took place amounting to 10.5% against 4.8% at the end of December 2013. Under conditions of uncertainty and Ruble depreciation, the consumers transferred their funds into durable products causing feverish demand on the market.

According to the preliminary data of the Federal State Statistics Service, at the end of November 2014, **overdue payables of Russian companies**

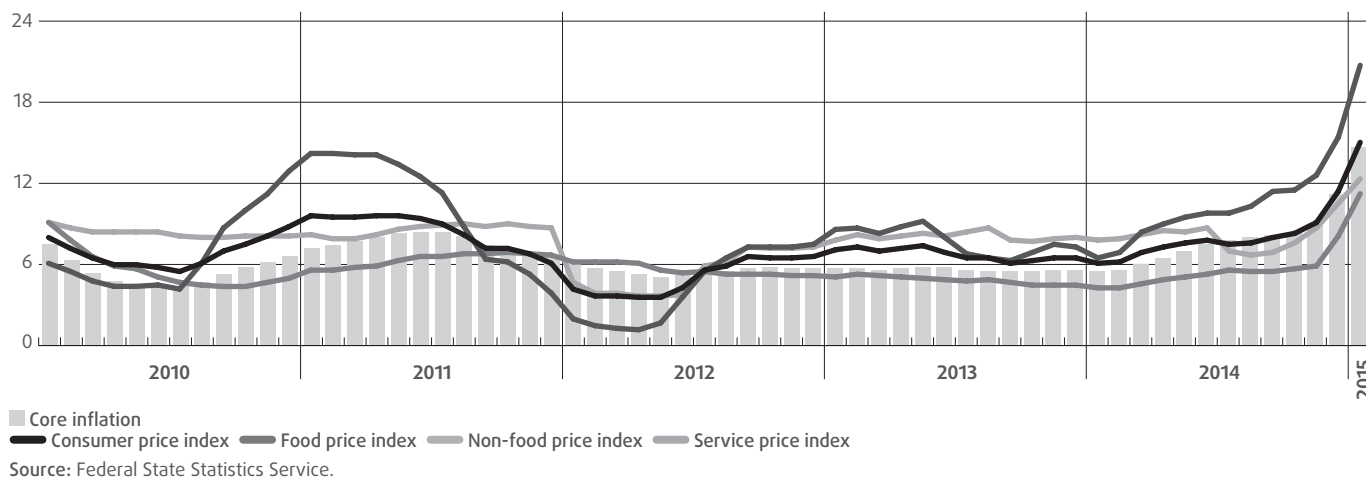
increased as compared to 2013 and made up 1,891.9 billion Rubles or 6% of the total debt (against 5.3% at the end of November 2013).

According to the preliminary estimate of the **RF federal budget implementation** at the end of 2014 provided by the Ministry of Finance of Russia, the budget deficit was 0.5% of GDP, or 328 billion Rubles, which almost corresponded to the level of the previous year. It should be also noted that 2014 estimated income of the federal budget exceeded the plan Figure by 1.8% amounting to about 14.5 trillion Rubles, and the incurred expenses by 6.2% (which was lower than updated budget breakdown Figure by 1.5%) amounting to about 14.8 trillion Rubles. It should be also noted that, when setting out the budget, the Ministry of Finance of Russia took into account 1 trillion Rubles transferred as federal loan bonds to the Deposit Insurance Agency as a part of expenses. Without taking into account such transfer, the federal budget may be deemed as implemented with a budget surplus in the amount of 0.7 trillion Rubles, or 0.9% of GDP.

Law «On the 2015 Federal Budget and 2016–2017 Budget Plan» of December 01, 2014 assumes the federal budget income in 2015 in the amount of 15.082 trillion Rubles and expenses in the amount of 15.513 trillion Rubles, which will form the federal budget deficit in 2015 amounting to 0.6% of the expected GDP, or 430.7 billion Rubles.

Figure 5

Inflation indices, % year-on-year



In December 2014, the annual **growth rate of the consumer price index** reached its maximum since 2008 recession in the amount of 11.4%, exceeding the inflation index at the end of the previous year by 4.9 pp (see Figure 5). The growth in price level has been observed since 2014, and the inflation has been growing almost exponentially since October. The key driver of the growth in prices was the situation in the food sector, where the annual growth rate of price index increased from 6.5% in January 2014 up to 15.4% at the end of December.

This dynamics resulted from the national currency depreciation effect, restrictions to food products import from the European countries, increased prices for a number of goods on the

world market, and small output yield of particular crops in 2014, which, in aggregate, affected the growth in people's inflation expectations. Granulated sugar (40% by December 2013), cereals and legumes (34.6% by December 2013), fruits and vegetables (22% by December 2013) became the most expensive. The prices for non-food products as well as prices for services started to grow more intensively from the mid-year. The growth rates of prices over 15% at the end of 2014 per annum were observed in the following sectors: tobacco goods, food products, water supply and other utility services, household appliances, including repair, arrangement for all-inclusive recreation, social security, insurance².

In February 2014, the index of core inflation (inflation less goods exposed to administrative factors being of seasonal nature), rather stable during 2012–2013, started increasing rapidly, strictly following the dynamics of growth in the primary consumer price index and reaching 14.7% at the end of December 2014 against 5.6% in the previous year. In particular, this indicates more fundamental nature of the current dynamics of headline inflation not affected by seasonal factors and changes in regulated prices and tariffs.

In January 2015, the situation continued deteriorating: the inflation rate was 15% against annual growth rate of prices for food products amounting to 20.7%. The growth in prices for January 2015 was maximum since 1999.

Monetary Policy

The Bank of Russia's transition to the inflation targeting policy and decelerated economic activities took place on the back of consistent reduction in money (**M2 monetary aggregate**) growth

rates in national terms from 14.6% as of January 01, 2014 to 2.2% per annum as of January 01, 2015 (see Figure 6). The current rate has been the minimum since 2009 recession and continues going

downward in M2 dynamics arisen in September 2010.

Implementation of the monetary policy by the Bank of Russia in 2014 was based on purposes for transition

² According to the estimates of the Consumer Price Indices in the group of the classification of individual consumption according to purpose (COICOP).

to inflation targeting mode and for attainment of price stability. As is customary, decisions on change in key interest rate were adopted on the basis of macroeconomic forecast, insignificant economic growth rates and risks of inflationary pressure. There were adopted six decisions on increase in key interest rate of the Bank of Russia in total, which resulted in its increase by 11.5 pp from 5.5% as at the beginning of the year up to 17% in December 2014.

In addition, the Bank of Russia took a number of actions aimed at increasing efficient management of liquidity by

credit organizations in the context of high demand for refinancing and deficit of currency liquidity. In particular, the period of loans granted on the pledge of non-marketable assets and sureties at variable interest rate was increased up to 549 days in order to balance maturities of the assets and liabilities in the balance sheets of credit organizations. The temporary instruments to provide currency liquidity to credit organizations were also implemented: currency swap transactions to resell US Dollars (September 2014), repo transactions in a foreign currency up to 12 months

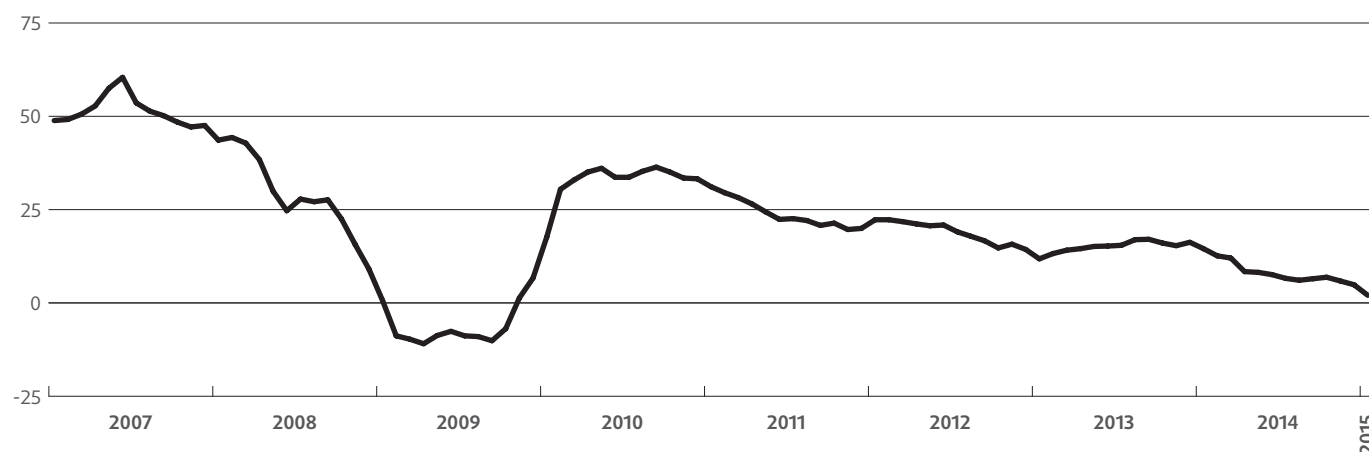
(October 2014), and loans in a foreign currency on the pledge of claims on obligations of legal entities expressed in a foreign currency up to 12 months (December 2014). The latter was, among other things, aimed at facilitating the process of refinancing foreign debts by Russian exporting companies.

The **Russian money market conditions** were formed in the context of increasing structural liquidity deficit.

As a result of uncertain situation and reduced opportunities to obtain external funding, demand for free reserves of the banking sector³ in 2014 significantly

Figure 6

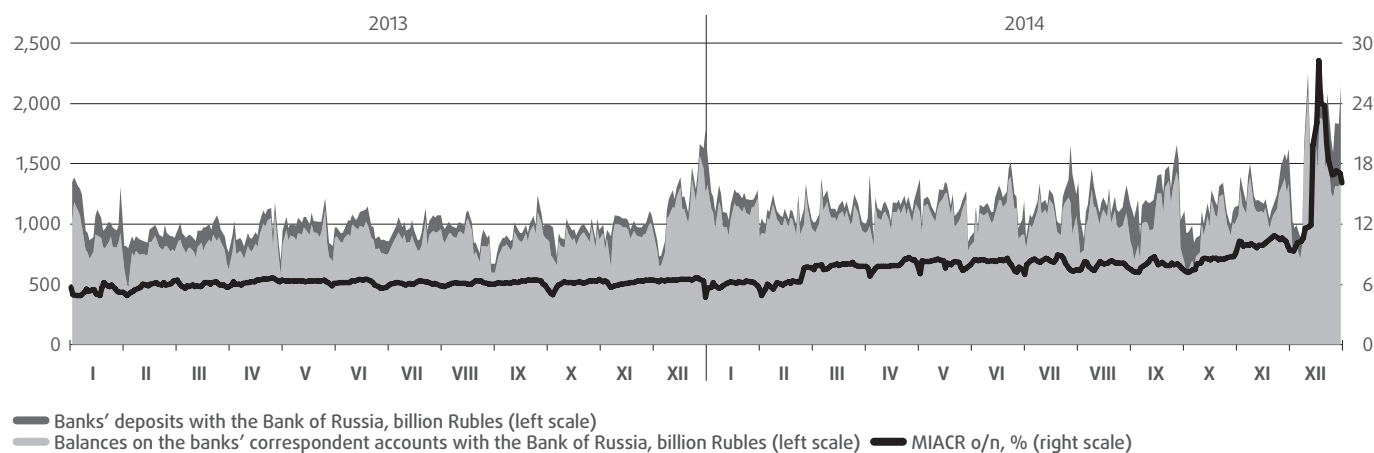
Money dynamics in national terms, % as against the corresponding period of the previous year



Source: Bank of Russia.

Figure 7

Liquidity in the banking sector and interbank loan rate



Source: Bank of Russia.

³ Balances on correspondent accounts of banks in the Bank of Russia and banks' balances on deposit accounts in the Bank of Russia.

Figure 8

Factors for forming bank liquidity for a month, billion Rubles


Source: Bank of Russia.

increased and reached the mean value of 1,221.4 billion Rubles, which exceeded the mean demand for free reserves in 2013 by 22.9% (see Figure 7). Both reserve components increased, which indicates enhanced distrust of counterparties on the interbank loan market.

Though the key factor for liquidity withdrawal from the bank sector in 2014, as in the previous year, was currency interventions performed by the Bank of Russia to maintain the national currency exchange rate, the liquidity situation changed structurally (see Figure 8). By means of sale by the Bank of Russia of foreign currency out of the international reserves on the internal currency market, the Ruble liquidity in the amount of 3.4 trillion Rubles was withdrawn as against 0.9 trillion Rubles in 2013. The strong growth of budget expenses and placement of deposits of the Federal Treasury into the accounts of credit organizations throughout the year, in particular, in February, September, and December, resulted in currency inflow observed for the first time since 2011 to the banking sector through the budget channel in the amount of 1.2 trillion Rubles against outflow in the amount of 0.4 trillion Rubles at the end of 2013.

Demand for cash during 2014 was generally characterized by seasonal

trends, except for the period of enhanced speculations and demand for foreign currency in April and December.

Nonetheless, the outflow from the banking system made up only 0.3 trillion Rubles (0.5 trillion Rubles in the previous year). The cumulative withdrawal of the Ruble liquidity from the banking sector affected by autonomous factors of bank liquidity increased by 0.7 trillion Rubles as compared to the previous year and reached 2.5 trillion Rubles at the end of 2014.

Recorded decrease in liquidity in the banking system resulting from demand for cash and from widespread interventions on the domestic currency market in 2014 caused increased needs for refinancing transactions of the Bank of Russia. Thus, gross loans of credit organizations owed to the Bank of Russia⁴ grew by 3 trillion Rubles for 2014 and made up 7,2 trillion Rubles.⁵ The said increase in debts of the banking sector payable to the Bank of Russia was fully formed by growth in debts on the loans granted on the pledge of non-marketable assets and sureties for 1 to 549 days, which made up 4.4 trillion Rubles, or over 60% of the total debts as of the end of the year.

The debts on repo transactions on an auction basis remained almost unchanged as of the beginning of the

year and made up 2.8 trillion Rubles. Increase in collateral pool in the form of non-marketable assets, which may be presented to the Bank of Russia to obtain refinancing, contributed to easing the pressure on market collateral available to credit organizations. Intensive participation of credit organizations in auctions on granting loans secured with non-marketable assets and sureties caused decrease in the share of debts on short-term repo transactions throughout the year from 66% to 38% of the gross loans of the Bank of Russia (see Figure 9). Overnight loans, lombard loans, loans secured with gold and currency swap transactions in the aggregate continued to make up a small share of the total volume of refinancing of credit organizations.

The situation of growing structural liquidity deficit resulting from currency interventions caused the position of **MIACR rate** for one-day interbank loans over the key interest rate during 2014 near the upper limit of the cap and floor. The position of interest rates on the money market near the key interest rate during a certain period in 2014 was caused by short-term liquidity surplus in the banking sector and increased demand for currency liquidity, which pushed the rates for currency swap transactions downward. The last months

⁴ Without taking into account subordinated loans issued by Sberbank of Russia OJSC, and deposits placed by the Bank of Russia with the VEB.

⁵ Without taking into account repo transactions in a foreign currency.

of 2014 were described by increased volatility on the money market due to enhanced distrust of the counterparties and due to increased uncertainty of the Ruble exchange rate. The mean MIACR overnight rate for 2014 increased up to 8.6% against 6.1% in 2013.

Due to national currency depreciation and exchange rate policy mechanism maintained until November 10, 2014, according to which the Bank of Russia performed currency interventions to smooth fluctuations in the national currency exchange rate within the cap and floor, **the international reserves amount** reduced by 24.5% making up 386.2 billion US Dollars for 2014 (see

Figure 10). Before summer 2014, there were no significant fluctuations in the dynamics of international reserves, from summer 2014, the reserves were spent more rapidly due to the economic sanctions imposed by the Western countries: from the end of July to the end of the year the international reserves decreased by more than 86 billion US Dollars.

Throughout 2014, for the purposes of step-by-step transition to floating exchange rate mode and increasing flexibility of the exchange rate regime, the Bank of Russia made numerous decisions on transforming **exchange rate policy** mechanism.

Thus, in January, the targeted currency interventions were cancelled, but in March, due to possible threat to financial stability resulting from avalanching dynamics of the Ruble exchange rate, the amount of accumulated interventions required to shift the limits of the floating cap and floor was increased from 350 million US Dollars up to 1.5 billion US Dollars. In August, in the context of decreased tensions on the currency market the amount of accumulated interventions was restored to 350 million US Dollars, and the floating operating interval was increased from 7 to 9 Rubles. At the beginning of November, the maximum amount

Figure 9

Debts on refinancing transactions of the Bank of Russia in 2013–2014, billion Rubles

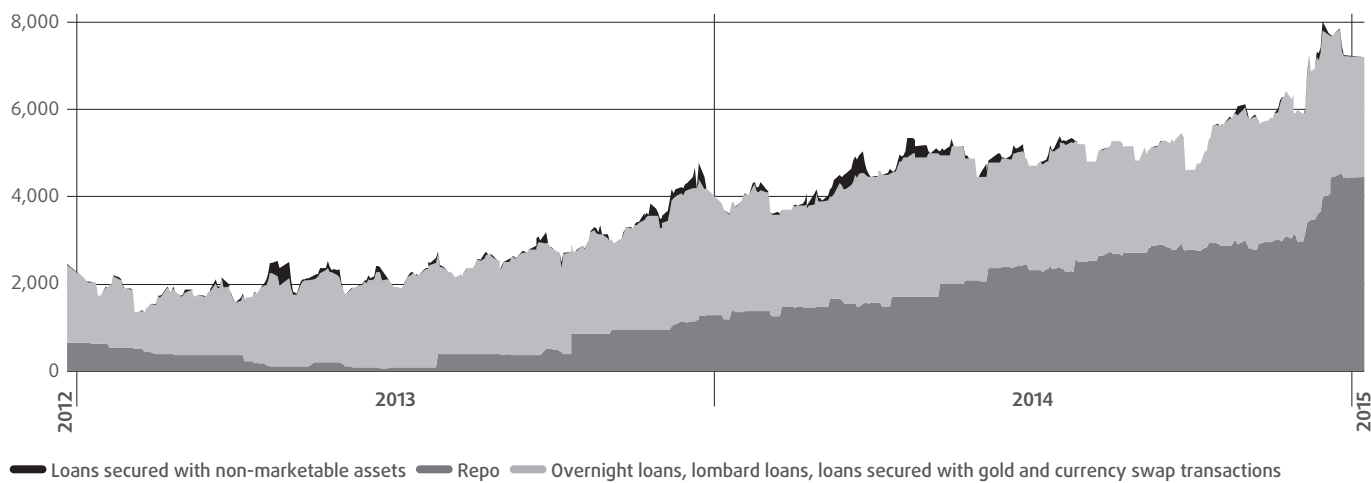
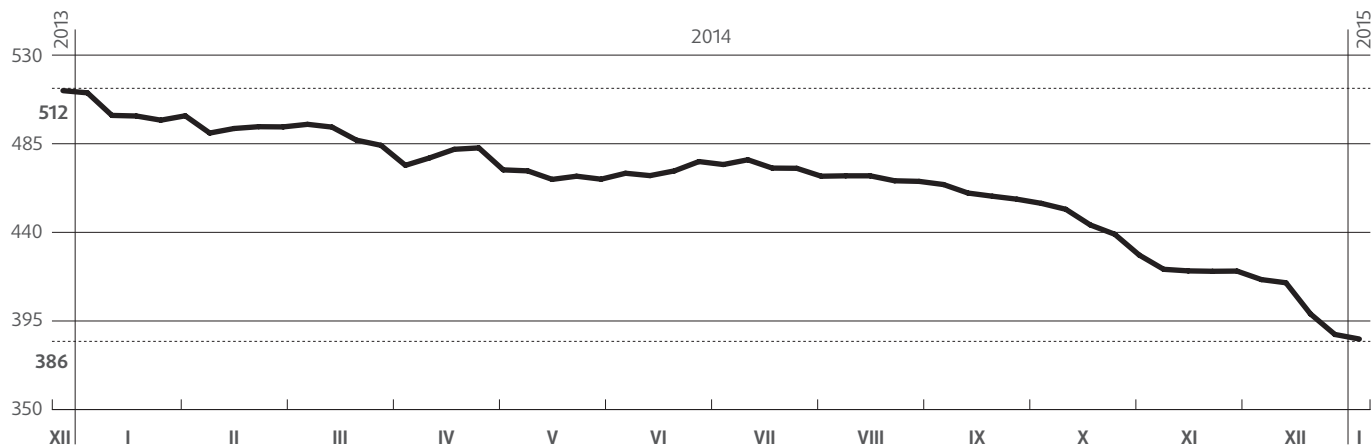


Figure 10

International reserves of the RF, billion USD



of daily interventions was set in the amount of 350 million US Dollars, but simultaneously the Bank of Russia noted that in case of risks for financial stability additional interventions would be performed depending on the situation.

From November 10, 2014 the Bank of Russia repealed the current exchange rate policy mechanism providing for regular currency interventions and proceeded to floating exchange rate mode, in fact. At the beginning of December 2014, the Bank of Russia renewed interventions on the currency market due to the fact that the exchange rate showed significant deviation from the fundamental reasonable rate and extreme volatility.

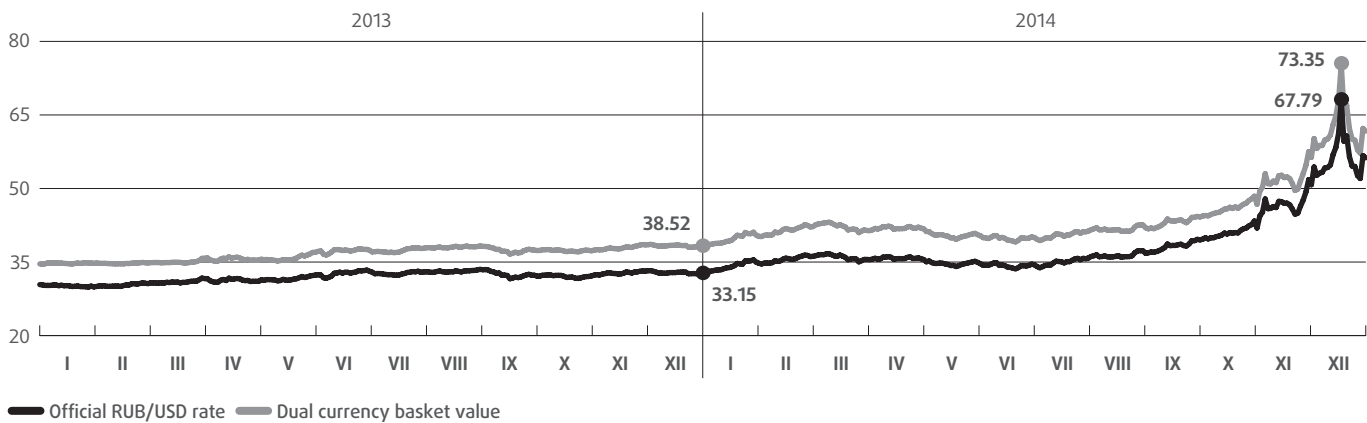
The dynamics of **Ruble to USD official exchange rate** was forming in the context of exchange rate policy transformation (see Figure 11). At the beginning of 2014, the exchange rate was affected by continuing decrease in demand for assets of developing countries as a result of expectations and actual reduction in asset repurchase by the US Federal Reserve System as well as evident weakening of the Russian economics. Accelerated rates of the national currency depreciation were observed in early spring as a result of increased uncertainty relating to the conflict in Ukraine and reception of the Crimea accession to the territory of Russia: in mid-March the Ruble to USD exchange rate reached

36.65 Rubles/US Dollar. After certain adjustments completed in July the phase of dynamic Ruble depreciation started as affected by the restricted access to external funding, needs to repay external debt and significant decrease in oil prices on external market, which, resulting from panic and speculations on the currency market, led to Black Tuesday, December 18, 2014, when Ruble stock exchange rate exceeded 80 Rubles/US Dollar. In general, Ruble depreciation in 2014 made up 72.2% and the maximum was 104% following the results of December 18, 2014 as against the beginning of the year.

The dual currency basket value comprising 55% of the Ruble to USD exchange rate and 45% of the Ruble

Figure 11

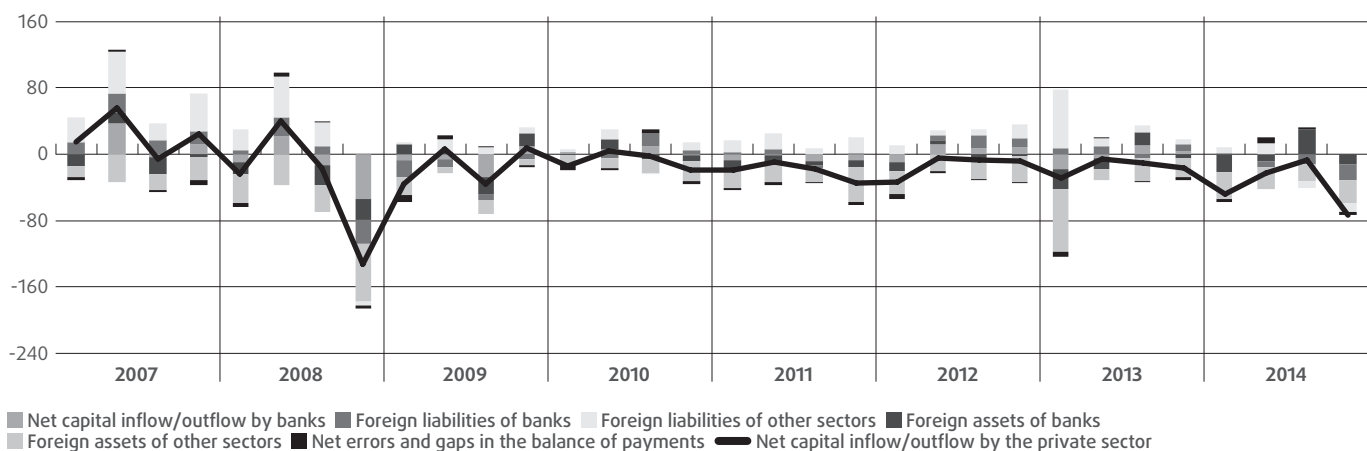
Dynamics of Ruble against USD exchange rate and the value of dual currency basket (official rates of the Bank of Russia), Rubles per unit



Source: Bank of Russia.

Figure 12

Net capital export/import, billion USD



Source: Bank of Russia.

to euro exchange rate was 61.7 Rubles as of the end of 2014, which was more than its value as of the beginning of the year by 61.4%. Fluctuations in the dual currency basket value ranged throughout the year significantly from 38.5 Rubles up to 75.4 Rubles on Black Tuesday, December 18, 2014.

The net capital outflow from Russia (see Figure 12), according to the preliminary estimates of the Bank of Russia, was tremendous in the amount of 151.5 billion US Dollars at the end of 2014 (61 billion US Dollars in 2013). The decrease (by 106 billion US Dollars) in foreign assets of the real economic sector remained the main item forming the capital outflow without growth in liabilities (starting from the third

quarter, the non-financial sector began to decrease foreign liabilities, which may be caused by restrictions to raise foreign capital due to the sanctions). This resulted in almost twofold increase in private capital export as compared to 2013 (101.7 billion US Dollars against 53.6 billion US Dollars).

The banks increased capital outflow by private sector by 6.7 times up to 49.9 billion US Dollars. Such great capital outflow was primarily related to necessity to repay the external debt in the amount of 130 billion US Dollars in the context of restrictions to refinance it on external markets.

Credit ratings of sovereign obligations of the Russian Federation have been revised for several times

during 2014. Standard&Poor's decreased the long-term foreign currency rating of Russia from BBB to BBB- with a negative outlook in April 2014, and confirmed that decision in October. Decrease in the rating by Moody's Investors Service from Baa1 to Baa2 with a negative outlook took place in October 2014.

At the beginning of 2015, the most important for the global investment community changes in the credit rating of Russia took place: decrease in the credit ratings of the Russian obligations in foreign currency to the speculative grade first by Standard&Poor's (to BB+) and by Moody's Investors Service (to Ba1) in several weeks. It should be noted that these decisions were probably made for political reasons.

Private Finances

In the context of general decline in the Russian economics in 2014 the indices of the people's standard of life fell, as well. As a result of rapid inflation growth, decelerated economic activities and less visible growth in wages, **the real disposable income**, according to the preliminary data of the Federal State Statistics Service, decreased by 0.8% at

the end of 2014 as against a 4% increase for 2013 (see Figure 13). The most rapid decrease took place in December, when the disposable income reduced by 6.2% at once as against the corresponding period of the previous year.

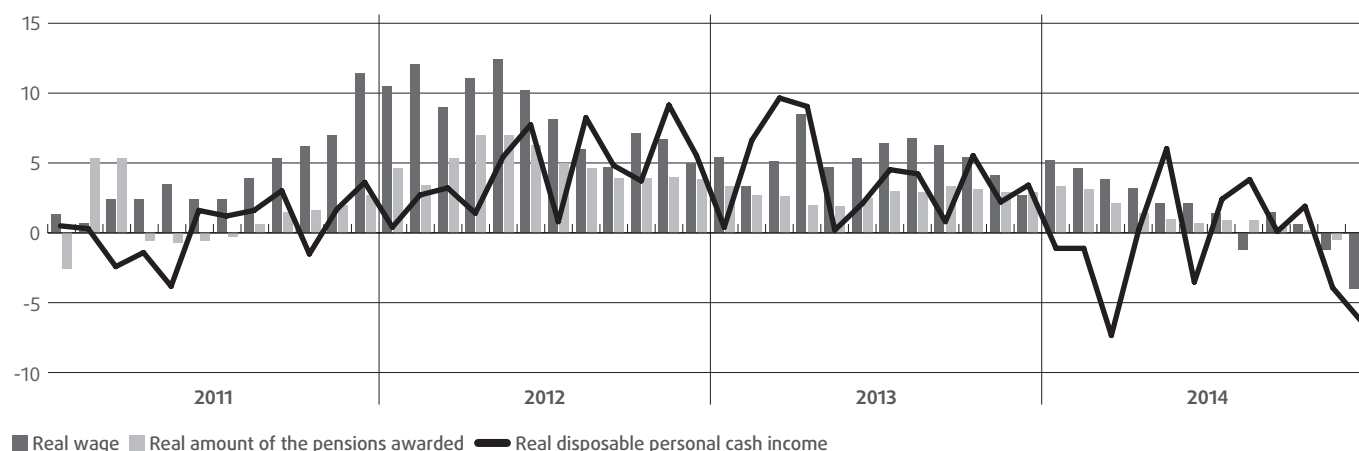
The similar dynamics was typical for the index of annual growth rate of **real wages**, which, despite dynamic

reduction throughout the year, was positive and made up 1.3% against 4.8% at the end of 2013. **The real gross pension** slightly grew at the end of 2014, as well, increasing by 0.9% (against 2.8% in 2013).

Cash personal income increased by 7% at the end of 2014 as compared to a 10.8% growth in 2013 and made

Figure 13

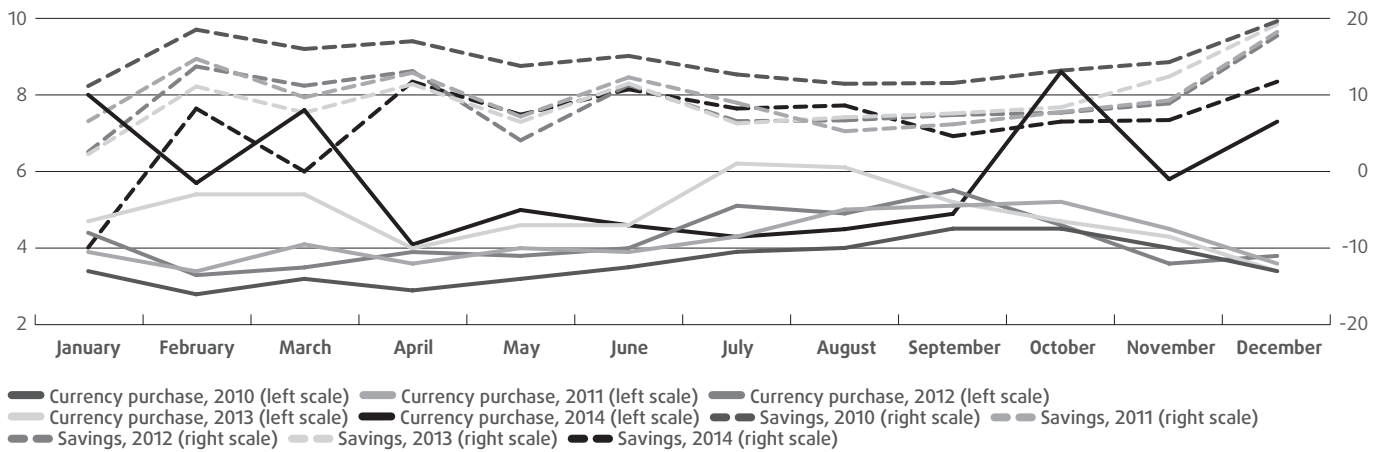
Dynamics of the personal income and retail trade turnover, % as against the corresponding period of the previous year



Source: Federal State Statistics Service.

Figure 14

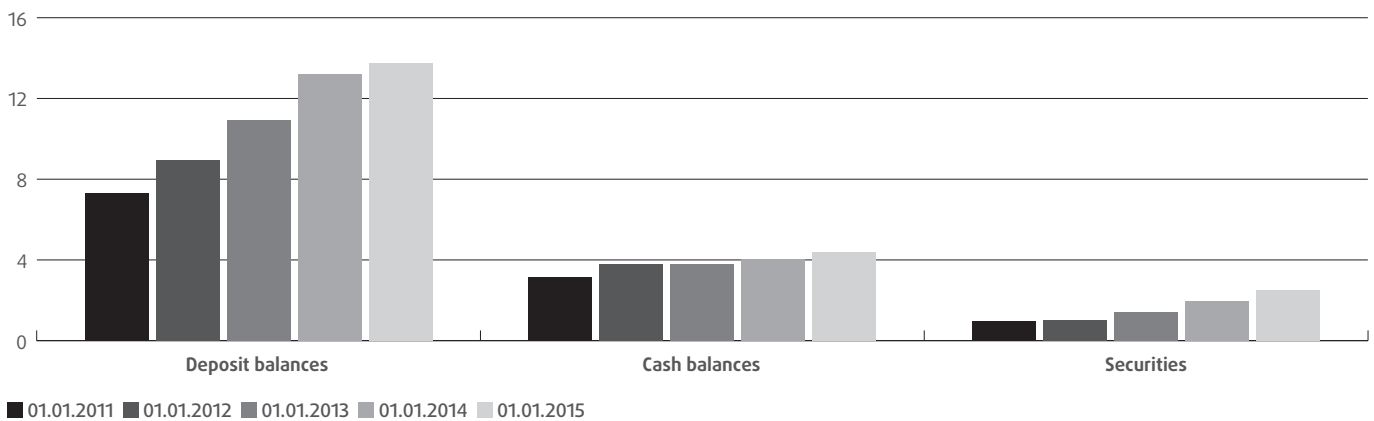
Structure of cash income use, % of the cash income for month



Source: Federal State Statistics Service.

Figure 15

Private cash savings, trillion Rubles*

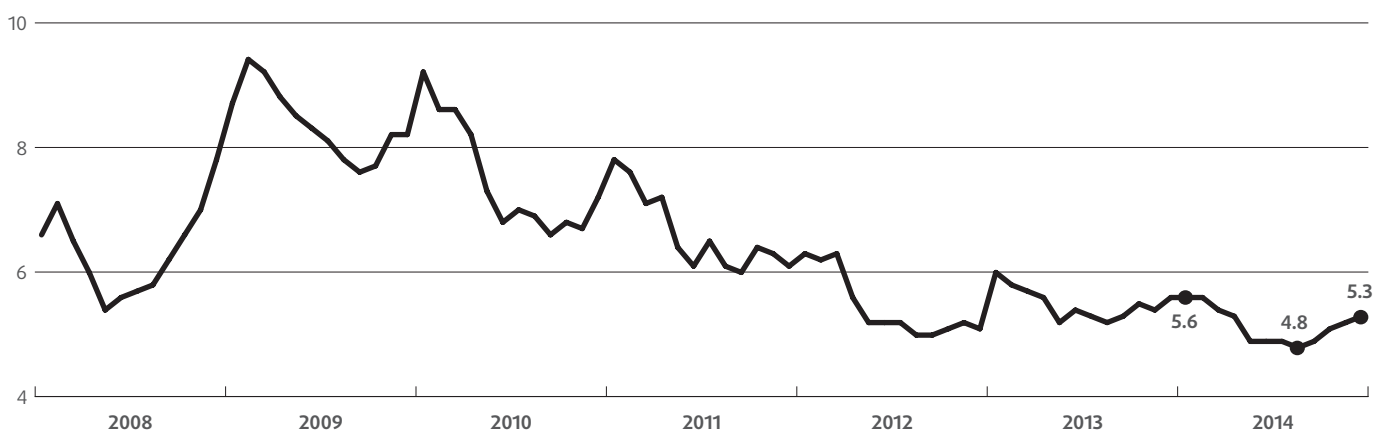


* Without taking into account the people's foreign currency account deposits and foreign currency holdings.

Source: Federal State Statistics Service.

Figure 16

Unemployment rate, % of the economically active population in the Russian Federation



Source: Federal State Statistics Service.

up 47.8 trillion Rubles. Among them, according to **the structure of cash income use**, over 75% were spent on goods and services purchase (73.6% in 2013), while the share of savings significantly reduced and made up only 6.9% of the cash income against 9.8% in the previous year. The people's trend towards savings in 2014 appeared to be minimum since 2009. Due to national currency depreciation, the people used maximum since 2009 share of the cash income to purchase foreign currency: 5.9% against 4.2% of the income in 2013.

Monthly dynamics of the indices of the cash income use structure shows distinct correlation between decreased people's trend towards savings and

people's deposits flow in foreign currency purchase as against the distinct trend of Ruble depreciation in winter-spring and autumn-winter (see Figure 14).

Growth in the people's **cash savings** volume (see Figure 15) made up only 1.5 trillion Rubles, or 7.6% against a 19% and 17.2% increases in 2013 and 2012, respectively. Due to the growth in inflation and depreciation expectations, the growth in balances on the bank accounts at the end of 2014 was only 4.3%, and their share as a main item in cash savings decreased by 2.1 pp to 66.6% of the total savings at the end of the year for the first time. In this context, a 28.3% increase in investing by the people in securities up to

2.5 trillion Rubles was prominent, which substituted decrease in the share funds placed with credit organizations and reached 12.2% of the total cash savings for the reporting year (10.2% as of the end 2013).

The unemployment level

(see Figure 16) reached its historical minimum in August 2014 and made up 4.8% of the economically active population in the Russian Federation, whereupon it started to grow until the end of the year making up 5.3% in December.

The current unemployment rate to a large extent reflected full use of the work force in the context of intense demographic load on the population.

Main Indices and Trends on the Russian Stock Market in 2014

The internal and external conditions for the Russian securities market in 2014 turned out to be beyond any rational forecasts. The forceful change of the regime and the largest armed conflict in a new age at the adjacent areas, sanctions imposed against Russia by the USA and EU, fall in oil prices, capital outflow, poor economic indices, all this affected the financial markets depressively.

The issuers and investors lost their mid- and long-term benchmarks. The market behaviour throughout the year was determined not by fundamental factors but prompt «reports from the front-line» and current geopolitical situation.

The Russian stock market showed negative results in almost all respects and proceeded to the stagnation stage.

Stock market. The reduction in the number of share issuers on the domestic organized market persisted, at the end of the year their number decreased by 7% to 254 companies. The capitalization reduced by 8.6% to 23.2 trillion Rubles and made up **33% of GDP** of the country. Structural disproportions of the capitalization remained unchanged: the share of ten most capitalized companies in 2010–2014 was 61%.

The volume of transactions in shares on the domestic stock market (without taking into account repo transactions and initial offerings) made up 10.0 trillion Rubles, which was slightly more than that in the previous year, mostly due to increased turnovers in March and December. According to our estimates, about the half of the total turnover of shares in Russian companies accounted for foreign stock exchanges. For shares of certain issuers, the concentration of domestic stock exchange turnover remained high: the share of the ten most

liquid share issuers did not fall below 82% of the turnover.

The ratio between market price and earnings per share (P/E) on the Russian stock market was 6.0 by the end of the year; the ratio between share market price and its book value (P/ BV) made up 0.7; and dividend yield (DY) was 5.4%.

Corporate Bond Market. Placements of new issues (at par value) at year-end amounted to 1.8 trillion Rubles, which is by 6.6% more than that in the previous year. The share of off-market placements grew abruptly up to 68%. The volume of domestic corporate bond market grew by 28% making up 6.6 trillion Rubles at par value, which was 9.3% of GDP.

The number of bond issuers on the organized market remained unchanged – 323 companies.

The total volume of exchange transactions (at cost, without taking into account repo transactions and placements) involving corporate bonds made up 4.3 trillion Rubles, which is

30% lower than in 2013. The share of transactions in exchange bonds consistently made up 30% of the secondary market volume.

The concentration of the stock turnover on corporate bonds was relatively small: the share of the first ten most liquid issuers of corporate bonds accounted for 45% of the turnover.

Government Bond Market. The volume of government bond market continued growing in 2014 and, at year-end, increased by 26% at par value, reaching 4.7 trillion Rubles or 6.6% of GDP. However, exchange turnover demonstrated reduction – the secondary market volume (at cost, without taking into account repo transactions and placements) has decreased by 36% to 3.8 trillion Rubles for the year.

Sub-federal and Municipal Bond Market. This market segment has long been in deep stagnation, being the most illiquid sector of the domestic debt securities market. The volume of

these bonds issues made up less than 500 billion Rubles with the volume of trading (without taking into account placements of new issues and repo transactions) being 379 billion Rubles.

Repo Market. The volume of exchange repo transactions on the Moscow Exchange at year-end made up 183 trillion Rubles, which is 10% lower than in 2013. The share of corporate bonds in the total transaction volume shrank to 39%. The volume of direct repo with the Bank of Russia reached 55% at the end of the year.

Derivatives Market, Underlying Assets – Securities and Stock Indices.

The peculiarities of futures and option contracts remained unchanged.

The volume of trading in futures contracts for securities and stock indices declined for the third year in a row – in 2014, it decreased by 8.2% and made up 28.9 trillion Rubles. The share in contracts for stock indices remained absolutely prevailing – 86% for futures and 99% for options.

The total volume of open positions on the stock derivatives market declined significantly (by 47%) and reached 133 billion Rubles.

Stock Indices. MICEX index showed very unstable position throughout the year without any prevailing trend. RTS index calculated in a foreign currency was pressed due to Ruble depreciation and decreased drastically. Two drastic falls in the stock indices for shares were recorded, which related to the situation in Ukraine (March 3) and increase in the accounting rate of the Bank of Russia (December 16). As a result, the yield for the year made up minus 8.3% according to MICEX index and minus 47% according to RTS index. The yield according to the industrial indices for shares were mostly negative, as well.

Based on MCXCBITR index, the return on investment in corporate bonds has not grown during the year almost at all and has become negative (minus 1.6%) by the end of the year. The index portfolio duration decreased to 660 days, and yield to maturity increased up to 15% at year-end.

MCXRGBITR index for government bonds was very unstable, which resulted in the return on investment amounting to minus 14% for the year.

The duration changed slightly amounting to 2,350 days, and yield to maturity increased up to 14% at year-end.

Repo rate indicators grew drastically at year-end and flattened at 17–18%.

RTSVX volatility index showed two abrupt jumps in March and December and made up 50% at year-end.

Issuers of Securities.

Initial Public Offerings.

The number of public issuers of securities (both Russian and foreign) increased by 26 companies for the year and reached 567. The number of issuers, the securities of which are included in the listings, also increased up to 260 companies.

Initial public offers of Russian issuers almost stopped. According to the available data, only one company having assets and performing business activities in Russia carried out IPO during this period. It raised about one billion US Dollars on the foreign stock exchange.

Private Investors. Individual resident customers make up 90% in the total number of unique customers on the Moscow Exchange. The growth rates of their number dropped. The annual average number of such customers in 2014 was 906 thousand people against 838 thousand people in the previous year: a 8.1% growth. However, the number of active customers decreased to 62.5 thousand people based on an average as against 62.9 thousand people in the previous year.

Transactions in shares (89%) traditionally prevail in the total volume of transactions executed by individuals on the Moscow Exchange.

Collective Investors. The number of mutual funds was 1,559 at year-end, having decreased by 2.3% for the year. The number of open mutual funds, which are traditionally focused on retail investors, decreased by 5.5% (up to 387), while the number of closed mutual funds decreased by 2.2% down to 1,120 funds. Closed funds remained the most common amounting to 72% of the total number of mutual funds.

At year-end, the net asset value of mutual funds decreased by 3.1% and made up 569 billion Rubles. The net asset value of open and interval funds decreased by 24% and made up

92.6 billion Rubles, which was 0.13% of GDP.

Despite the versatile dynamics of entry and exit of assets from open funds during the whole year, the final result turned out to be negative – the net exit volume made up 29.4 billion Rubles, and this result was formed due to significant outflow of bonds from funds, whilst there was a significant inflow to such funds in the previous year.

Non-State Pension Funds. In 2014, the investment resources of NPF remained almost unchanged and made up 2,032.5 billion Rubles. Pension reserves were 44.3%.

Professional participants of securities market. The trend of decreasing the number of professional participants of securities market persisted, the average rate was 4% per annum for the second year in a row. As of 2014 year-end, the number of legal entities holding various licenses of professional securities market participants made up 1,093. According to the statistics of licenses issued to brokers, dealers, and trustees, one license issued accounted for 5–6 cancelled ones.

The total volume of transactions in all types of non-government securities in all sectors of the stock market on the Moscow Exchange and in all trading modes made up 141.3 trillion Rubles as of the year-end, which is 6.3% lower than in the previous year. The lowest decline was observed in the returns on corporate bonds, amounting to 14.3%.

Total volume of transactions on the derivatives market of the Moscow Exchange in derivative financial instruments for all types of underlying assets made up 61.6 trillion Rubles at the end of the year, which was 27% more than in the previous year.

The share of the first ten most active operators on the stock market of Moscow Exchange in transactions in all non-government securities accounted for 64% of the total turnover, while in the previous year this index was 62%. The decrease in foreign banks' activities was recorded.

The concentration on the derivatives market remains almost the same: the share of the first ten settlement firms accounted for 75% of the turnover.

1. Financial Instruments

1.1. Shares

Despite the trend of reduction in the total number of open joint-stock companies, there are currently 30,360 such legal entities (see table 17). Less than one per cent of them are represented on organized markets.

Table 1 provides consolidated data on the Russian shares traded on the stock market of Moscow Exchange

Group, along with the estimate by Standard&Poor's⁶ concerning the number of Russian issuers whose shares are admitted to trading on MICEX Stock Exchange, NYSE, and NASDAQ and are included in the LSE-listed S&P EMDB Russiaindex.

The number of share issuers whose shares are traded on the domestic

stock market decreased by 7% to 254 companies as at the end of 2014. This trend has been typical for the last three years. Since 2011, 66 companies have left the domestic stock market. The number of issues of the shares included in the quotation lists on the domestic stock market was more stable, though it was also prone to decrease.

Table 1

Organized share market in 2005–2014.

Period	MICEX Stock Exchange		RTS		S&P estimate
	Number of share issuers	Number of share issues (ordinary, preferred) in quotation lists	Number of share issuers	Number of share issues (ordinary, preferred) in quotation lists	
2005	163	50	261	59	296
2006	190	60	281	76	309
2007	208	87	302	103	328
2008	231	101	275	110	314
2009	234	103	279	92	333
2010	249	113	278	91	345
Moscow Exchange Group					
2011	320	119			346
2012	275	118			323
2013	273	110			307
2014	254	106			306

Sources: Moscow Exchange Group, S&P.

⁶ *Emerging Stock Markets Review, Global Stock Markets Factbook, S&P, series of issues for 2006-2014.*

Table 2

Capitalization of Russian share issuers market in 2005–2014.

Period	Moscow Exchange Group, billion Rubles	S&P estimate, billion USD	GDP, billion Rubles	Capitalization/GDP, %
2005	9,304.0	549.0	21,609.8	43.1
2006	25,482.0	1,057.0	26,917.2	94.7
2007	32,740.0	1,503.0	33,247.5	98.5
2008	11,017.3	397.2	41,276.8	26.7
2009	23,090.9	861.4	38,807.2	59.5
2010	29,253.2	1,379.2	46,321.8	63.2
2011	25,708.0	1,096.2	55,798.7	46.1
2012	25,212.5	1,079.4	62,356.9	40.4
2013	25,323.8	1,041.1	66,689.1	38.0
2014	23,155.6	517.3	70,975.8	32.6

Sources: Moscow Exchange Group, FSSS, S&P.

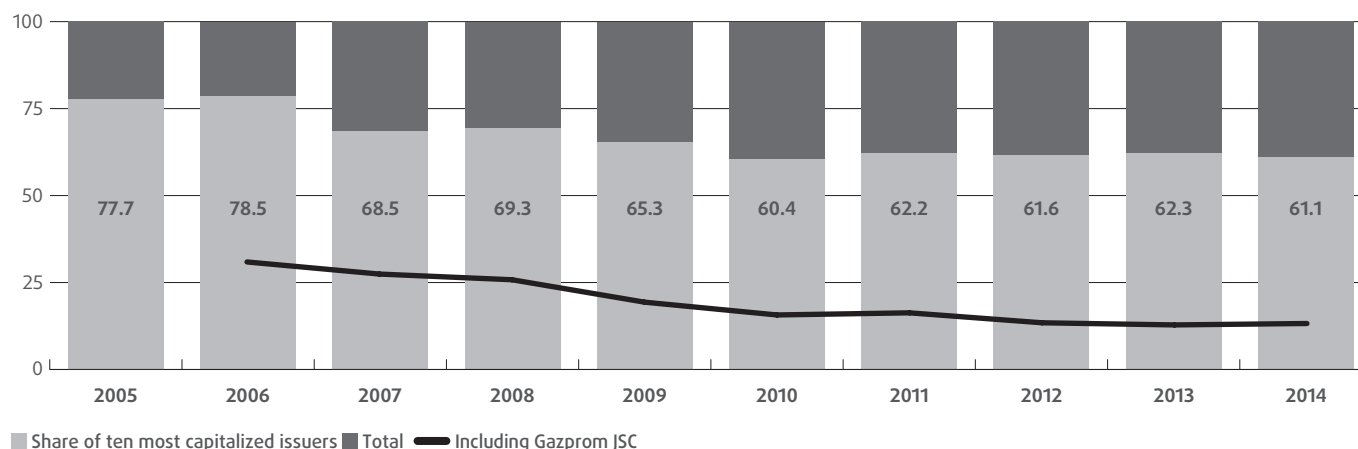
Table 3

List of the most capitalized Russian issuers (at the end of 2014)

No.	Issuer	Capitalization, billion Rubles	Share in the total capitalization, %
1	Gazprom JSC	3,112.6	13.4
2	NC Rosneft JSC	2,071.4	8.9
3	Oil Company LUKOIL JSC	1,886.1	8.1
4	NOVATEK JSC	1,323.8	5.7
5	OJSC MMC Norilsk Nickel	1,291.6	5.6
6	Sberbank of Russia OJSC	1,163.8	5.0
7	Magnit PJSC	931.8	4.0
8	VTB Bank JSC	856.0	3.7
9	Surgutneftegaz JSC	850.6	3.7
10	Gazprom Neft JSC	668.0	2.9
	Total	14,155.8	61.1
	Total capitalization MICEX	23,155.6	100.0

Source: Moscow Exchange Group.

Figure 17

Share of ten most capitalized issuers in the total capitalization of the share market, %

Source: Moscow Exchange Group, estimates of NAUFOR.

According to the available foreign estimates, the shares (depository receipts) of 306 Russian issuers and holding companies having assets in Russia were traded both on the domestic and foreign stock markets. Their number has decreased since 2011 by 40 companies.

In addition, the securities of officially foreign issuers (shares, global and American depository receipts, Russian depository receipts), which, in fact, were based on the Russian assets, were traded on the stock market of the Moscow Exchange Group. The volumes of transactions in such instruments are not indicative, thus, they are not considered in detail.

The information on the capitalization of the Russian share issuers market is provided in table 2.

The capitalization of Russian issuers on the domestic share market decreased by 8.6% for 2014 and made up 23,156 billion Rubles gearing to the stock market of the Moscow Exchange Group, as compared to GDP the capitalization decreased by 5.3 pp more amounting to 32.6%.

According to the available international data, the capitalization in currency terms reduced even more –

by 50.3% at once and dropped to 517 billion US Dollars. In fact, without taking into account 2008 recession, such capitalization of the Russian share market corresponds the level of 2005.

The Russian share market is distinguished by high concentration of the capitalization. Table 3 shows a list of ten most capitalized companies, and Figure 17 shows the dynamics of changes in the share of the ten most capitalized companies in 2005–2014.

The list of the most capitalized issuers has not changed significantly for 2014; Sberbank of Russia OJSC dropped from the third position to the sixth one and Bank VTB JSC was again included in the list of ten most capitalized issuers.

The share of ten most capitalized issuers in the total capitalization of the share market during 2010–2014 stopped decreasing and is about 61.5%. Gazprom JSC traditionally tops the capitalization list with a wide margin; since 2012 the share of this issuer has also stopped decreasing and is about 13.3%.

Figures 18 and 19 shows the data characterizing the volumes of share sales of Russian companies on the domestic market in Rubles and on the domestic

and foreign organized markets in total in USD according to S&P⁷.

In 2012–2014, the volume of exchange transactions in shares on the domestic market (without taking into account repo transactions and initial offerings) decreased drastically as compared to the period of 2009–2011.

At the end of 2014, the volume of trading in shares on the stock exchange of the Moscow Exchange Group made up 10,062 billion Rubles, i.e. slightly higher than in the previous year. Such growth was to a large extent caused by the increased turnovers in March and December and was not fundamental.

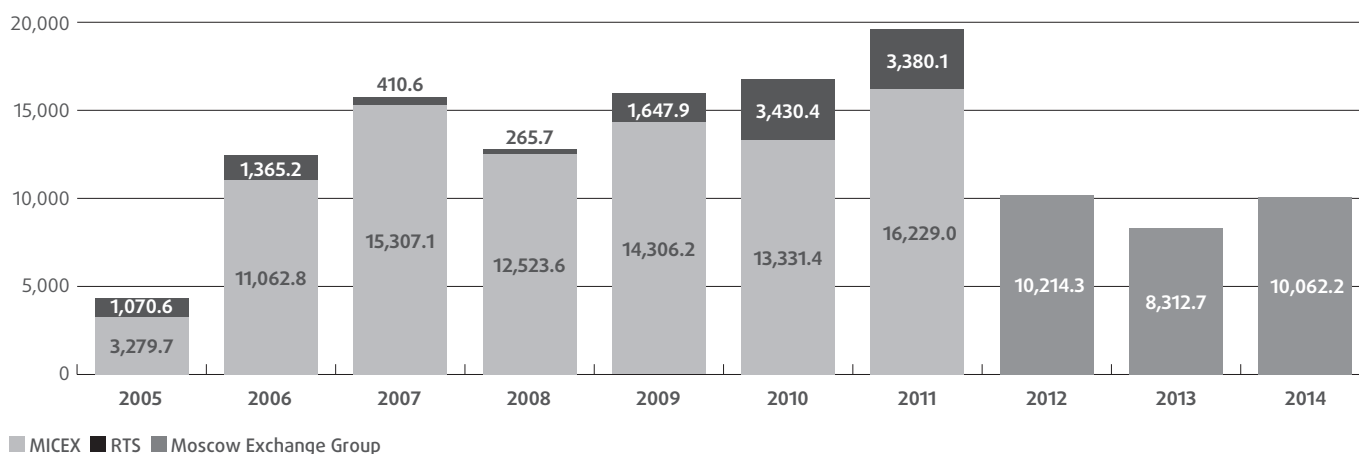
Accordingly, the average daily turnover changed too (see Figure 20).

At the end of 2014, it was (without taking into account repo transactions and initial offerings) 40.4 billion Rubles, which was greater by 21.3% than in 2013 and complied with the values of 2012. Taking 2011, when the maximum annual average turnover (79.0 billion Rubles) was recorded, as a starting point, the result of 2014 will be less by 48.9%.

The turnover ratio of the domestic share market⁸ (see Figure 21) was 36.0% in 2014, which was slightly greater than that in the previous year. However,

Figure 18

Volume of shares of Russian issuers sold on the domestic exchange market in 2005–2014, billion Rubles



Source: Moscow Exchange Group.

⁷ The transactions effected in the main trading sector at MICEX Stock Exchange are taken into account on the domestic market. For total number transactions in shares admitted to trading at MICEX Stock Exchange, NYSE, NASDAQ and included in the LSE-listed S&P EMDB Russiaindex are taken into account. Without taking into account the initial offering and repo transactions.

⁸ The turnover ratio is calculated as a ratio between the transactions volume (without taking into account repo transactions) for the period and the simple mean capitalization at the end of the current and the prior periods.

Figure 19

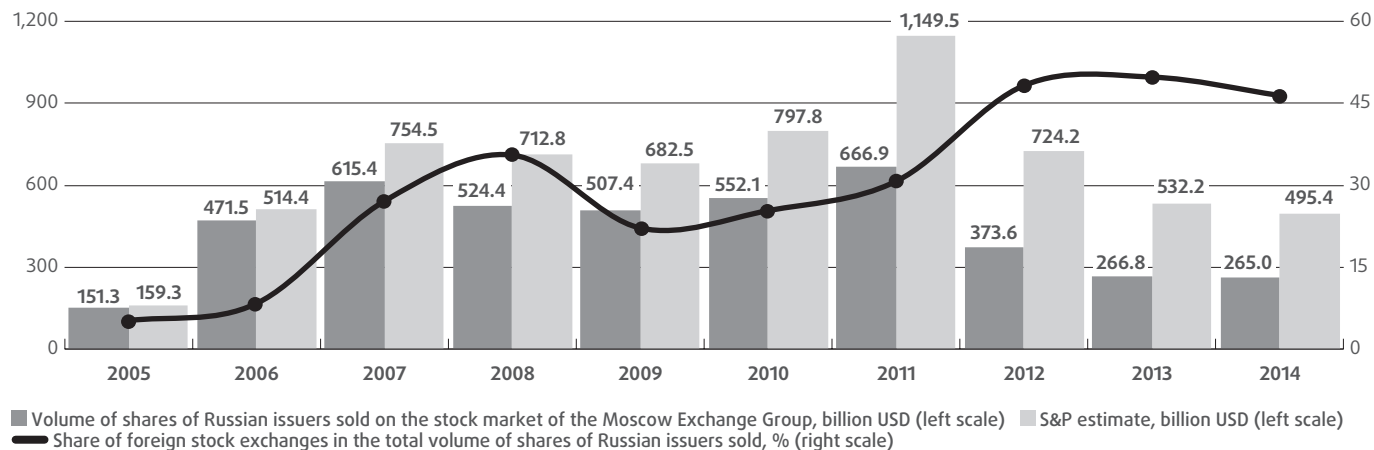
Volume of shares of Russian issuers sold on the domestic and foreign exchange markets in 2005–2014, billion Rubles

Figure 20

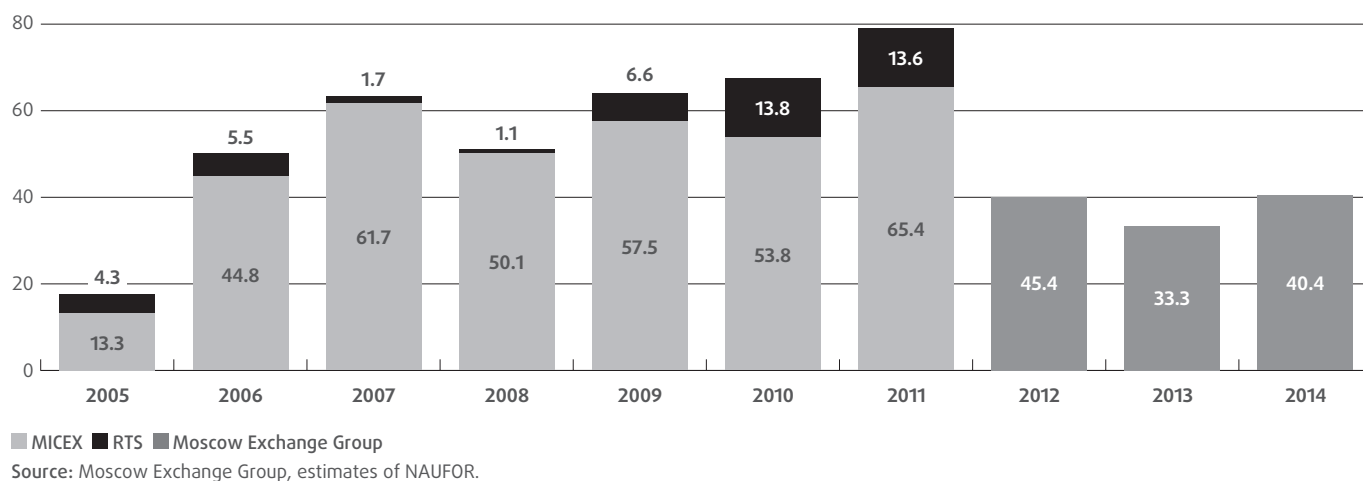
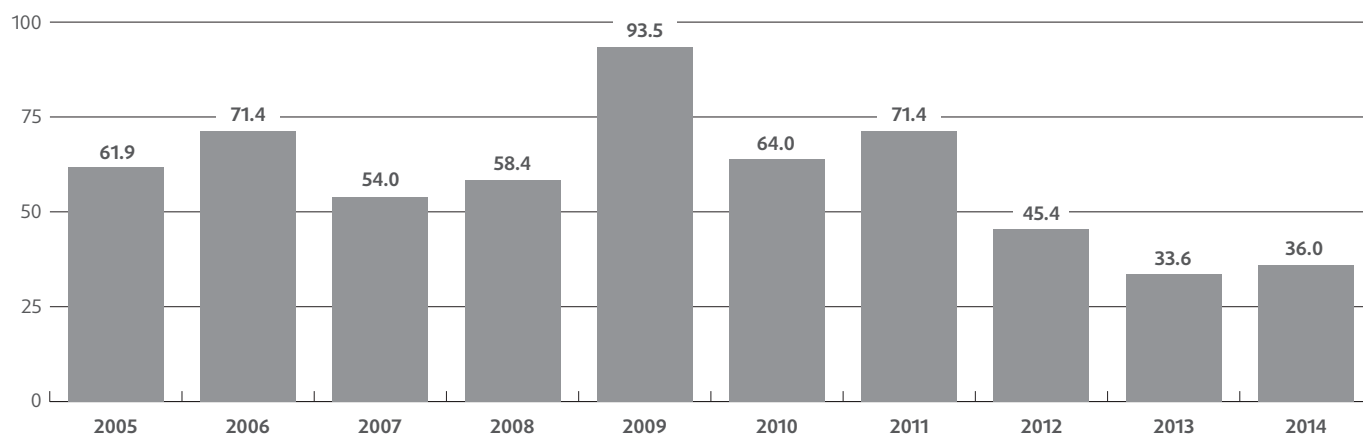
Average daily turnover of shares of Russian issuers sold on the domestic exchange market in 2005–2014, billion Rubles

Figure 21

Average annual turnover ratio of the domestic share market in 2005–2014, %

Source: Moscow Exchange Group, estimates of NAUFOR.

comparing with the maximum level observed in 2009, the domestic share market liquidity decreased by 2.6 times.

The similar figures are identified according to the S&P's data, taking into account secondary turnover of the Russian shares both on the domestic and foreign markets (both in the form of depositary receipts and shares of de facto Russian companies registered in foreign jurisdictions). The share of sales of Russian shares sold on the foreign

stock exchanges in 2012–2014 may be estimated as 48% of the total turnover.

The range of instruments on which share trade is focused remained quite limited. Table 4 lists the issuers whose shares were most actively traded in transactions (including repo) on the stock market of Moscow Exchange Group in 2014, while Figure 22 shows the dynamics of changes in the percentage of the ten most actively traded share issuers over the past years.

Despite the long-term stable downward trend, the share of ten most liquid issuers on the domestic stock market remained very high. Thus, in 2005, this index (including all trading modes) was 95.9%, and for nine years (at the end of 2014) it decreased by 13.8 pp to 82.1%.

Gazprom JSC and Sberbank of Russia OJSC topped the list of the most liquid issuers traditionally. However, in 2013 Sberbank of Russia OJSC gave up its second position to Uralkali JSC. In 2014,

Table 4

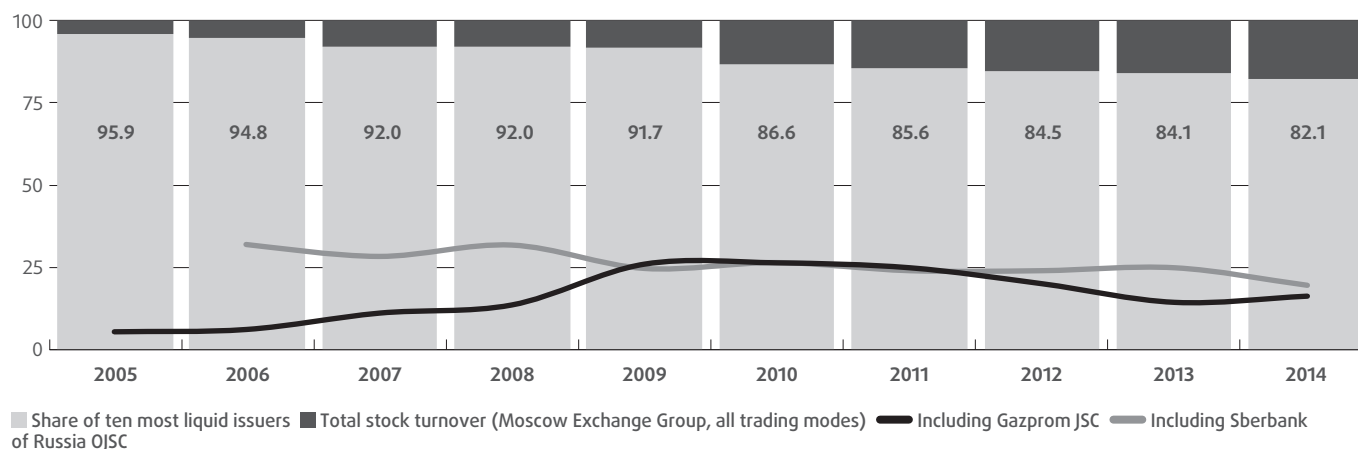
List of issuers whose shares were most actively traded in transactions on the stock market of the Moscow Exchange Group (at the end of 2014)

Item No.	Issuer	Share in the total trade volume, %
1	Gazprom JSC	19.5
2	VTB Bank JSC	16.8
3	Sberbank of Russia OJSC	16.3
4	OJSC MMC Norilsk Nickel	9.0
5	NC Rosneft JSC	4.3
6	Surgutneftegaz JSC	3.9
7	PIK Group of Companies JSC	3.6
8	LUKOIL JSC	3.4
9	Tatneft JSC	3.1
10	Magnit PJSC	2.3
	Total	82.1
	HH index	1,100

Calculated on a basis of data provided by the Moscow Exchange Group.

Figure 22

Percentage of ten issuers whose shares were most actively traded in 2005–2014, %



Source: Moscow Exchange Group, estimates of NAUFOR.

the volume of transactions in shares of Uralkali JSC decreased, the issuer fell out of the list of ten most actively traded shares, and the second position was taken by Bank VTB JSC.

What stands out is that the share of Gazprom JSC in the list of the most liquid shares is gradually decreasing, in 2014 it dropped by 5.4 pp amounting to 19.5%.

In 2014, the share market of Russian companies was extremely volatile, and exchange prices ranged very variably.

Tables 5 and 6 provide the lists of ten shares showing the highest yield/loss.

Therefore, on the back of significantly impaired shares there were shares, which price increased by two to four times.

Dividend Policy of Russian Issuers

This analysis includes Russian companies, which shares are traded on the stock market of the Moscow Exchange Group.

Russian public companies increased their payments to shareholders in

2014 (see Figure 23). Total payments to shareholders following the performance results of the companies in 2013 exceeded 1 trillion Rubles, which was the maximum since 2004.

The analysis of the companies being share issuers, which assets exceeded 10 billion Rubles as of the end 2013, showed that the number of dividend payers decreased to 106 companies which corresponds to the level of 2006. The share of the companies paying dividends in the

Table 5

List of shares showing the highest yield on the stock market of the Moscow Exchange Group (at the end of 2014)

No.	Share	Price, RUB	Yield, %
1	RUSAL JSC, etc.	401.90	303.92
2	Dagestan ESK JSC, joint-stock company	0.06	205.43
3	Chelyabinsk Zinc Plant JSC, joint-stock company	363.00	186.96
4	PIK Group of Companies JSC, joint-stock company	189.80	161.79
5	Organicheskiy Sintez JSC (previously Kazanorgsintez), joint-stock company	16.00	126.95
6	DEK JSC, joint-stock company	1.00	122.10
7	ALROSA JSC, joint-stock company	68.60	112.60
8	PolymetalInternational, joint-stock company	593.00	109.93
9	FosAgro JSC, joint-stock company	1,890.00	88.06
10	Severstal JSC, joint-stock company	577.00	86.43

Source: CBONDS.

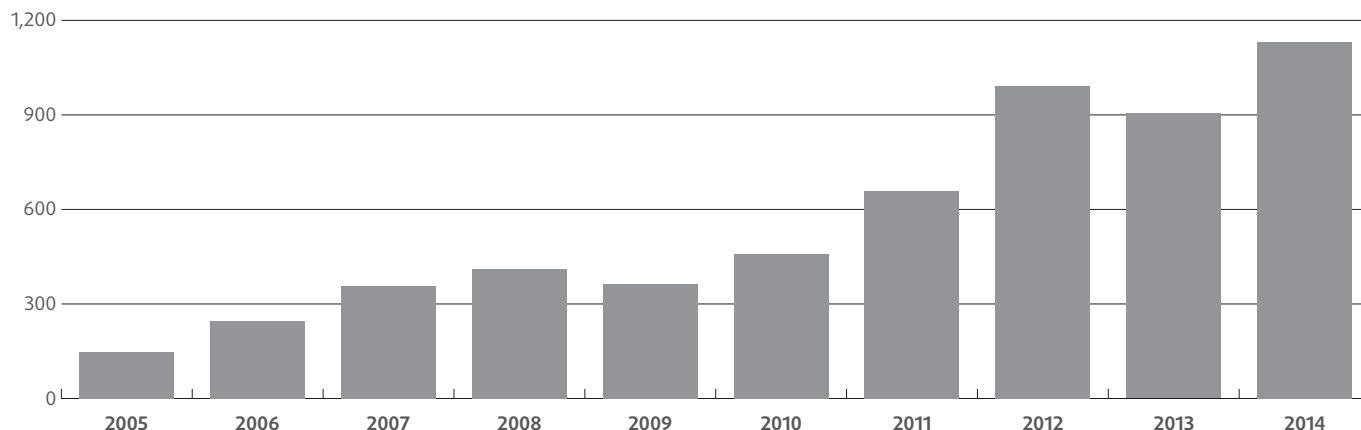
Table 6

List of shares showing the highest loss on the stock market of the Moscow Exchange Group (at the end of 2014)

No.	Share	Price, RUB	Yield, %
1	GlavTorgProdukt JSC, joint-stock company	1.50	-94.30
2	Sofrinsky Experimental Mechanical Plant JSC, joint-stock company	7.10	-87.04
3	Plazmek JSC, joint-stock company	1.03	-79.38
4	Armada JSC, joint-stock company	38.00	-77.10
5	GTL JSC, joint-stock company	0.05	-77.01
6	Mediaholding JSC (previously O2TV), joint-stock company	0.13	-71.65
7	AFK Sistema JSC, joint-stock company	12.54	-71.50
8	Russian Navigation Technologies, joint-stock company	4.70	-66.90
9	Utair JSC, joint-stock company	8.55	-64.22
10	Kubanenergosbyt JSC, joint-stock company	51.00	-63.01

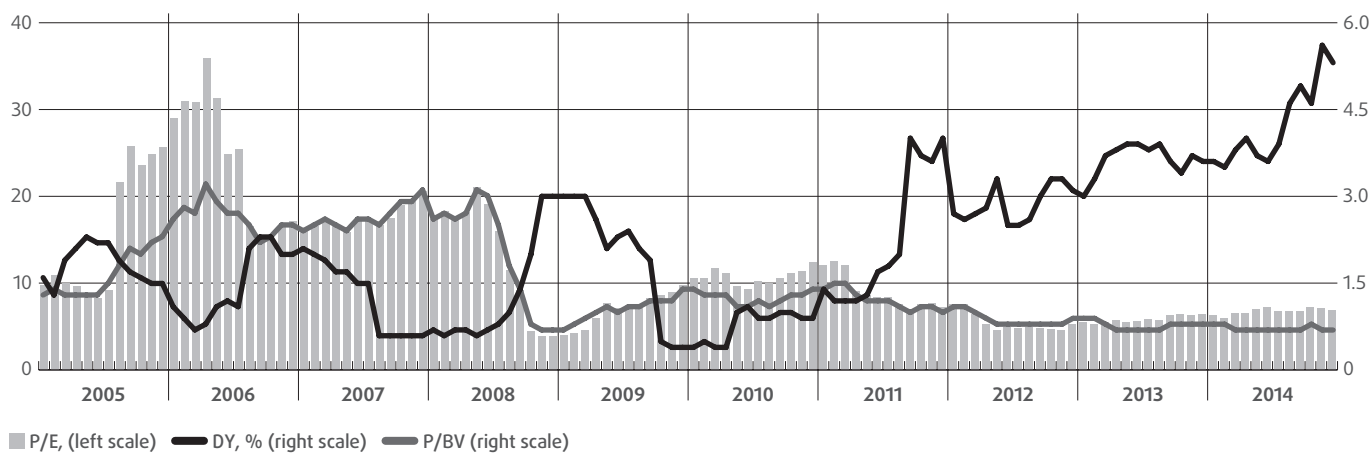
Source: CBONDS.

Figure 23

Dividends on ordinary shares of Russian issuers, billion Rubles

Source: calculations by NRU HSE.

Figure 24

Dividend yield and price-earnings ratio for Russian issuers

■ P/E, (left scale) ■ DY, % (right scale) ■ P/BV (right scale)

Source: S&P.

total number of the public companies was 47% corresponding to the level of 2009 recession.

The increase in dividends was observed in a number of large companies. Such companies include OJSC MMC Norilsk Nickel, Severstal JSC, Bashneft JSC and some others.

Within industrial comparisons, the maximum share of net profit allocated to dividends showed metal companies (median value is close to 70%). They are followed by retail trade companies (44%) and chemical companies (43%).

Figure 24 provides indices of the ratios between market price and earnings per share (P/E), market price and book value (P/BV) and dividend yield (DY) in general on shares of the Russian issuers.

The P/E index was at an average level of 6.0 during 2012–2014. This is very different from the levels of the period from the second half of 2005 – the beginning of 2006, when the P/E index exceeded 35.

The P/BV index dropped below one at the beginning of 2012, and its value amounted to 0.7–0.8 as of the end of

2014. This confirms the fact that the Russian share issuers are assessed by the market with the values below than those arising out of the accounting statements. It should be noted that in 2006 – beginning of 2008, the P/BV index ranged from two to three, and that encouraged the issuers to put their shares to the open market. The dividend yield of Russian companies shows great volatility from the second half of 2011 against the upward trend, by the end of 2014 DY index was estimated at 5.4%.

1.2. Corporate bonds

The distinctive feature of the Russian corporate bond market is the fact that over 95% of the secondary market accounts for organized exchange trades. Table 7 provides the consolidated data on corporate bonds offered on the stock market of the Moscow Exchange Group.

In 2014, the number of corporate bond issuers presented on the organized market remained almost unchanged (323 companies against 328 companies in the previous year). However, comparing to 2008, when the number of public corporate bond issuers reached its maximum, a rather drastic reduction by 29.0% may be noted. The number of bond issues, on the contrary, shows long-term upward trend, thus, since 2008 to 2014 the number of bond issues presented on the organized market increased by 52.4% and made up 950 issues.

In addition, the bonds of international financial organizations and corporate eurobonds are also traded on the stock market of the Moscow Exchange Group. Due to their insignificant turnovers these instruments are not considered in detail.

Figure 25 shows a graph of the volume of corporate bonds market (placed issues, at par value).

The volume of domestic corporate bond market continues growing, in 2014, it reached 6,623 billion Rubles in nominal volume (which is 27.6% more than in the previous year). However, in comparison to GDP, the domestic corporate bond market remains insignificant: at the end of 2014 the ratio of market to GDP was 9.3%, with an increase by 1.5 pp

In terms of placement of new corporate bonds issues, 2014 significantly differs from the preceding year (see Figures 26 and 27).

The number of issuers placed new issues of corporate bonds decreased by 28% to 180 companies. At the same time, the share of issuers placing securities off-market made up 42.8%, which was the maximum since 2005. The volume of new issues grew in aggregate up to 1,805 billion Rubles (a 6.6% growth as against the previous year). The share of off-market placements was extremely high amounting to 67.9%. This was due to off-market placement of bond issues of NK Rosneft JSC in the amount of 625 billion Rubles, which took place in December.

Among corporate bond issuers, the concentration of issue volumes is rather intense (see table 8, the data without taking into account placed bonds of NK Rosneft JSC).

Thus, the share of the first ten corporate bond issuers accounted for 83.0% of the total volume of new issues in 2014 with a 30% share of VTB Group.

Figure 28 provides the data on the secondary exchange turnover of corporate bonds (at cost, without taking into account repo transactions and placements of new issues).

During the year, the volume of exchange transactions in corporate bonds decreased by 30% at once and made up 4,293 billion Rubles. This is the most significant fall in turnovers since 2005, even during the recession in 2008–2009 the decline was 4–5%. Such drastic fall in secondary turnovers on the back of significant increase in the market volume may be, among other things, explained by disproportionately large off-market placements.

The abrupt drop in the trade volume could not but affect the liquidity index of the secondary bond market – the turnover ratio⁹ (see Figure 29).

Table 7

Organized corporate bonds market in 2005–2014.

Period	MICEX Stock Exchange			RTS		
	Number of bond issuers	Number of bond issues	including those in quotation lists (issuers/issues)	Number of bond issuers	Number of bond issues	including those in quotation lists (issuers/issues)
2005	202	250	46/62	4	4	1/1
2006	316	414	69/98	77	118	0/0
2007	445	577	149/207	79	120	0/0
2008	455	622	198/280	74	108	2/2
2009	418	702	167/317	57	78	3/3
2010	357	648	168/332	43	52	0/0
Moscow Exchange Group						
2011	309	673	177/410			
2012	308	793	185/495			
2013	328	937	187/548			
2014	323	950	194/536			

Source: Moscow Exchange Group.

⁹ Turnover ratio is calculated as a ratio between the volume of transactions (without taking into account repo transactions and new issues placements) for the period and the simple mean of the bonds issues at par value for the current and the past periods.

Figure 25

Volume of domestic bond market in 2005–2014, billion Rubles

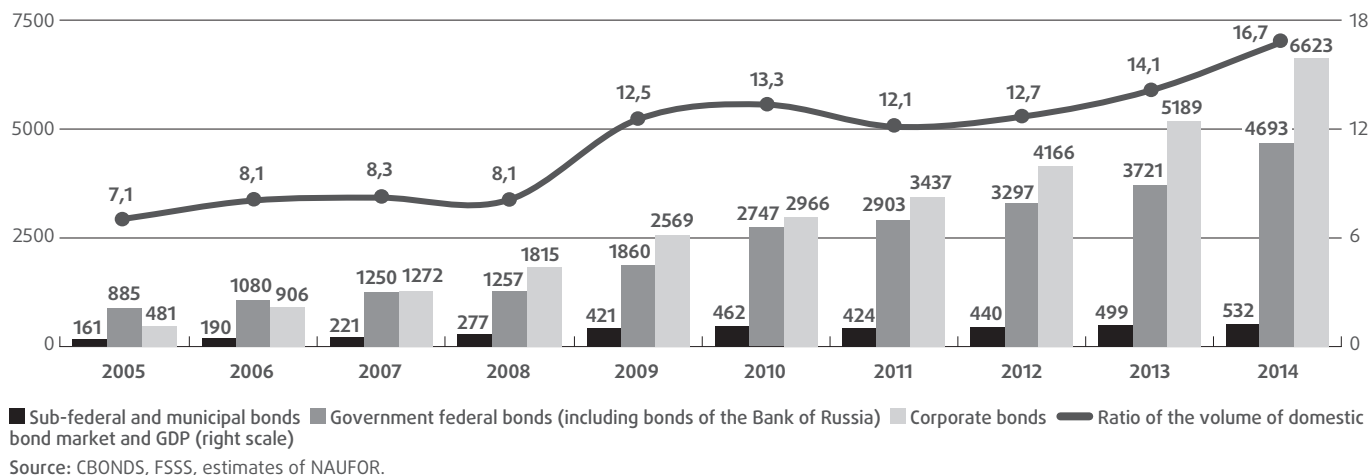


Figure 26

Number of corporate bond issuers which placed new bond issues in 2005–2014, pcs.

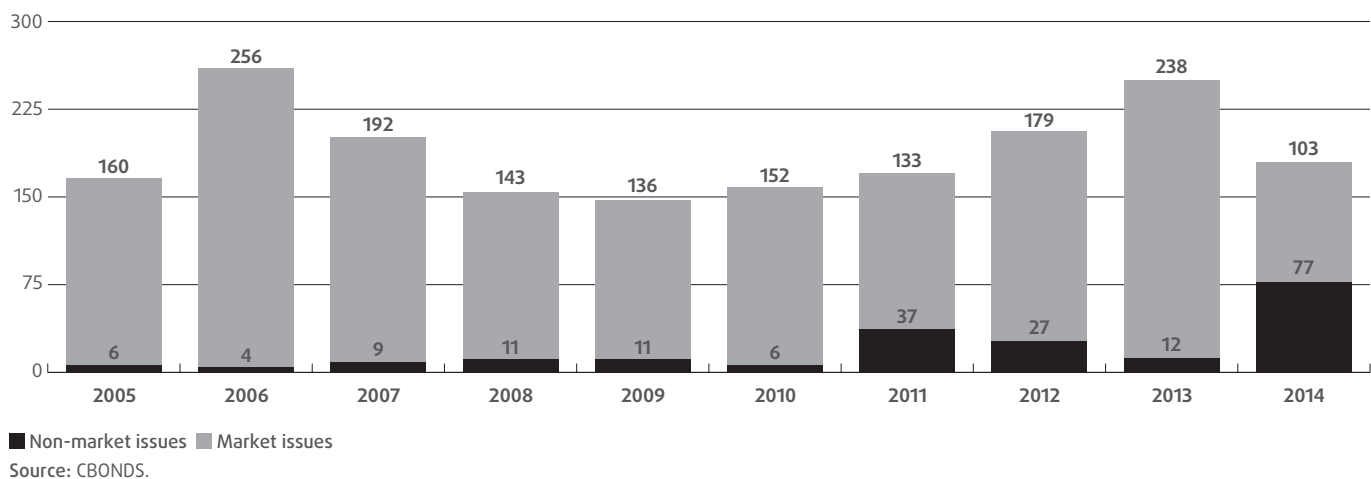


Figure 27

Number of new corporate bond issues in 2005–2014, billion Rubles

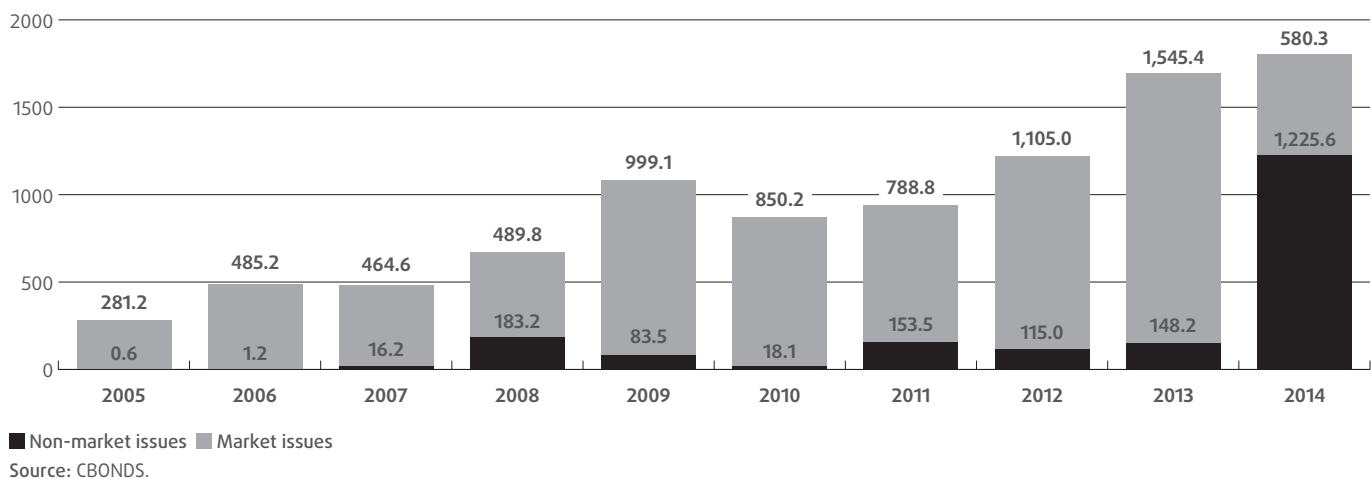


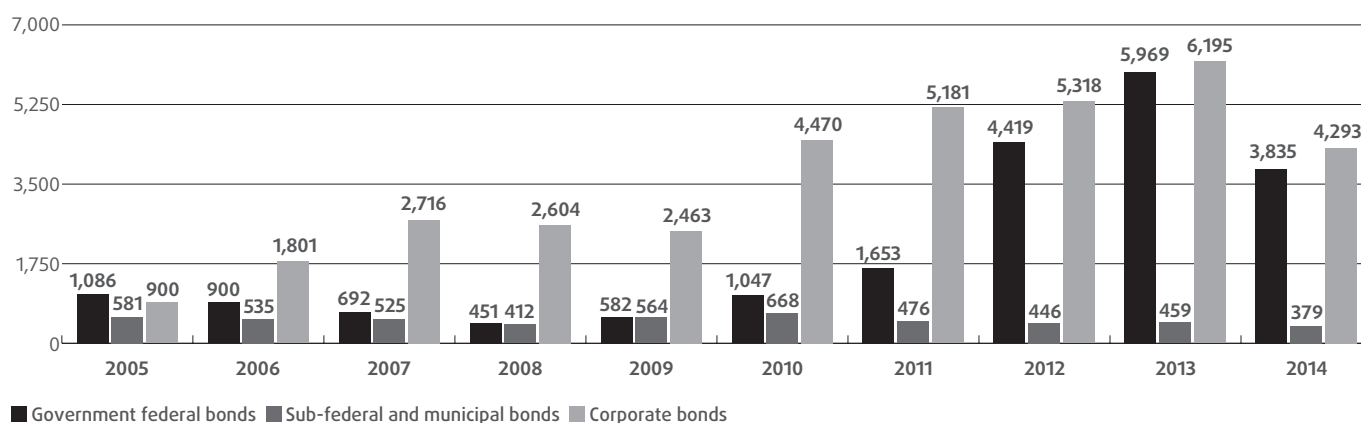
Table 8

List of the most active traders organizing corporate bonds placements (at the end of 2014)

	Trader organizing placement	Amount of placements, billion Rubles	Market share, %
1	VTB Group	355	29.9
2	Bank FK Otkrytie PJSC	156	13.1
3	Sberbank CIB JSC	96	8.1
4	BK Region Group of Companies	81	6.8
5	ROSBANK PJSC	77	6.5
6	VEB Capital LLC	65	5.5
7	RONIN LLC	50	4.2
8	Raiffeisenbank JSC	38	3.2
9	AO UniCredit Bank	34	2.9
10	Svyaz-Bank JSC	33	2.8
	Total	985	83.0
	Total market	1,186	100
	HH index	1,312	

Source: CBONDS.

Figure 28

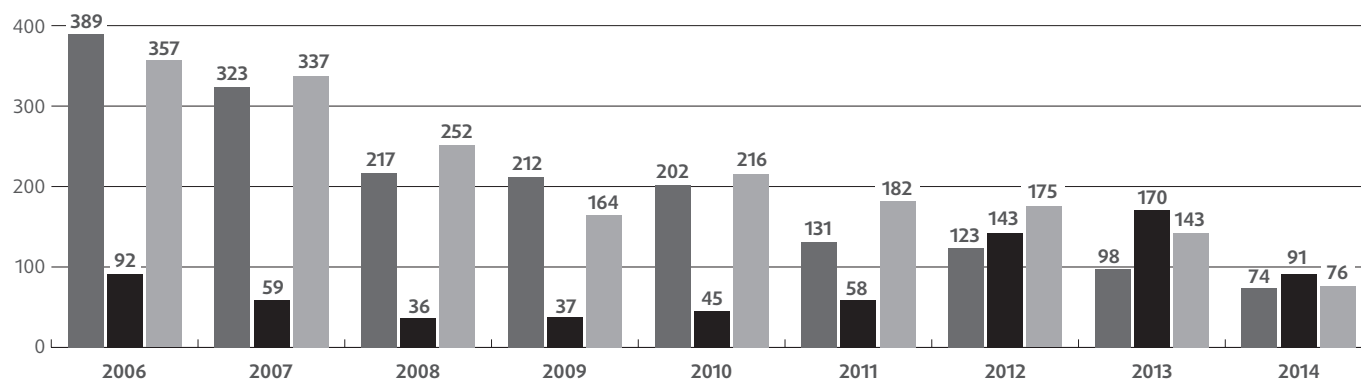
Volume of trade on domestic bond market in 2005–2014, billion Rubles

■ Government federal bonds ■ Sub-federal and municipal bonds ■ Corporate bonds

Note: at actual value, without taking into account repo transactions and new issues placements.

Sources: Moscow Exchange Group.

Figure 29

Average annual ratio of the domestic bond market turnover in 2005–2014, %

■ Government federal bonds (including bonds of the Bank of Russia) ■ Sub-federal and municipal bonds ■ Corporate bonds

Sources: Moscow Exchange Group, CBONDS, estimates of NAUFOR.

At the end of 2014 it made up 76% having decreased during the year by 46.6%. In general, the corporate bond turnover ratio shows the long-term downward trend and has decreased by 4.7 times since 2006.

In 2009–2011, we observed an explosive growth in the turnover of exchange bonds; in 2012–2014, the share of exchange bonds in the total volume of transactions in corporate

bonds in all modes stabilized at 30%. The concentration for individual issuers on the bond market is much lower than on the stock market. The share of the first ten corporate bond issuers according to their turnovers (see table 9) made up 45.2% at the end of 2014 by 3.3 pp more than that in the previous year.

The list of issuers of the most liquid bonds changed slightly; in 2014, it included a new member: United Aircraft

Corporation JSC. The top position was taken by NK Rosneft JSC ranking eighth at the end of 2013.

Problems with breaches in performance of obligations under corporate bonds lost their significance in 2011 (see Figure 30).

In 2014, according to the estimates, 12 issuers were in breach in servicing corporate bonds totalling 7.0 billion Rubles.

Table 9

List of issuers whose corporate bonds were most actively traded in transactions on the stock market of the Moscow Exchange Group (at the end of 2014)

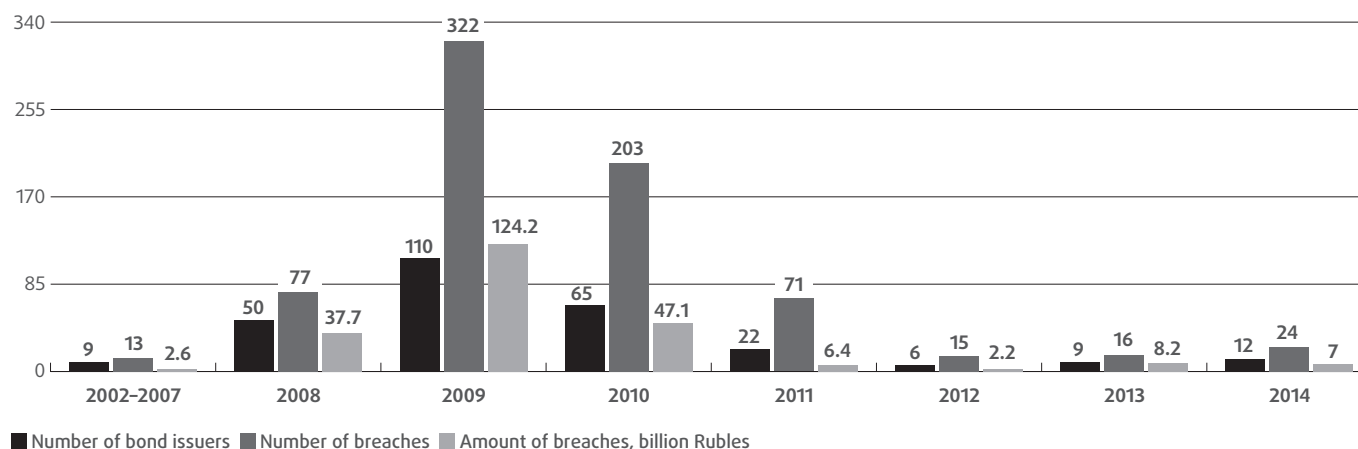
Item No.	Issuer	Share in the total trade volume, %
1	NC Rosneft JSC	8.5
2	Transneft JSC	7.7
3	Russian Railways JSC	5.4
4	Rosselhozbank JSC	5.3
5	FGC UES JSC	3.7
6	VTB Bank JSC	3.7
7	Vnesheconombank	3.7
8	Gazprombank JSC	3.5
9	AHML JSC	1.9
10	UAC JSC	1.9
	Total	45.2
	HH index	284

Note: taking into account repo transactions, at actual value.

Calculated on a basis of data provided by the Moscow Exchange Group.

Figure 30

Breaches of issuers' obligations under corporate bonds



Source: CBONDS.

1.3. State, sub-federal and municipal bonds

In 2014, the volume of government bonds market continued growing (see Figure 25) and at the end of the year made up 4,693 billion Rubles at par value, which is by 26.1% more than in 2013. As compared to GDP, the government bonds market grew up to 6.6% for the year, by 1.03 pp than that in the previous year.

As in the corporate bonds sector, the volume of transactions in government bonds on the market of the Moscow Exchange Group decreased drastically

(see Figure 28) and made up 3,835 billion Rubles without taking into account initial offerings and repo transactions (by 35.8% less than that in the previous year). As a result, the turnover ratio declined significantly (see Figure 29): in 2013, it made up 170% and dropped to 91% at the end of 2014. Nonetheless, as in 2013, according to the turnover ratio on the domestic debt market, the sector of government bonds remained the most liquid.

The market of sub-federal and municipal bonds remains in deep stagnation. The volume of these bonds issues did not by much exceed 500 billion Rubles with the volume of trading (without taking into account placements of new issues and repo transactions) being 379 billion Rubles. This is the most illiquid sector of the domestic debt market, the turnover ratio being decreased from year to year, in 2014 it decreased down to 74%.

1.4. Eurobonds

The overall data for the Eurobond market volume are shown in Figure 31.

As of the end of 2014, the volume of the Russian bonds foreign market made up 214.6 billion Dollars, 77.3% of which accounted for corporate bonds and 22.5% were sovereign bonds. Sub-federal and municipal bonds occupied the remaining niche accounting for less than a per cent. For the first time since

2009, the decrease in the volume of external bond market was observed: the volume of sovereign and corporate bonds reduced by 2.5% and by 8.8%, respectively. The general macroeconomic problems of Russia and the economic sanctions imposed against it may be indicated as the reasons.

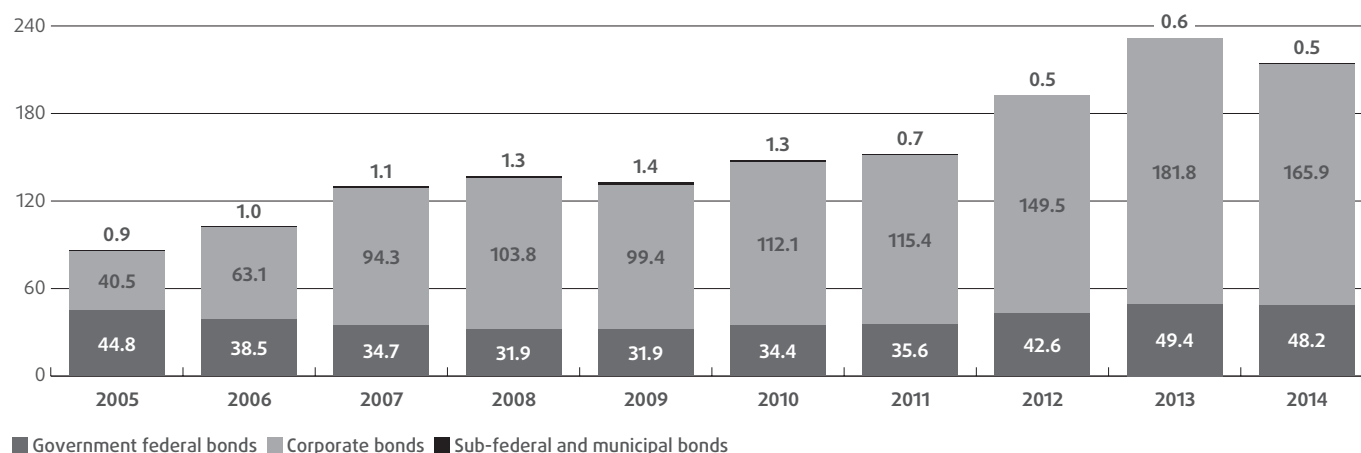
Figure 32 shows volumes of corporate borrowings using debt market

instruments on the domestic and foreign markets.

In recent years, the Russian corporations focused on the domestic bond borrowing to a greater degree. Thus, if in 2005 foreign borrowings made up 70.8% of the total bond market, in 2014 this index for the first time dropped to 48.7% being less than a half of the total bond market.

Figure 31

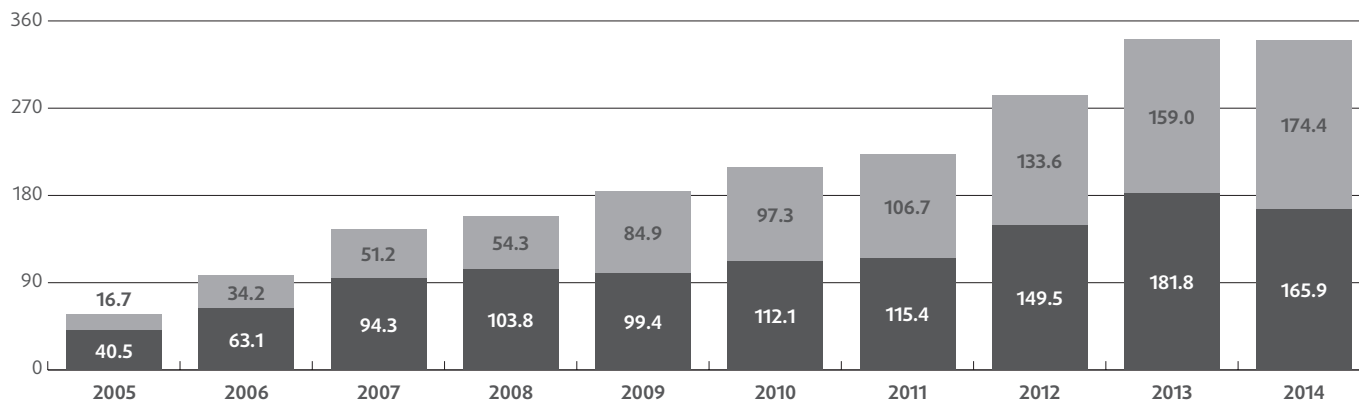
Volume of Eurobond market in 2005–2014, billion USD



■ Government federal bonds ■ Corporate bonds ■ Sub-federal and municipal bonds

Source: CBONDS.

Figure 32

Domestic and foreign corporate bonds market in 2005–2014, billion USD

■ Foreign corporate bonds market ■ Domestic corporate bonds market

Source: CBONDS.

1.5. Repo Transactions

Until recently, exchange repo was the most fast-growing segment of the Russian organized market (see Figure 33). However, in 2014, the volume of repo transactions in all types of securities on the stock market of the Moscow Exchange Group reduced by 10.5% and made up 183.1 trillion rubles,

There were certain changes in repo transactions by securities type (see

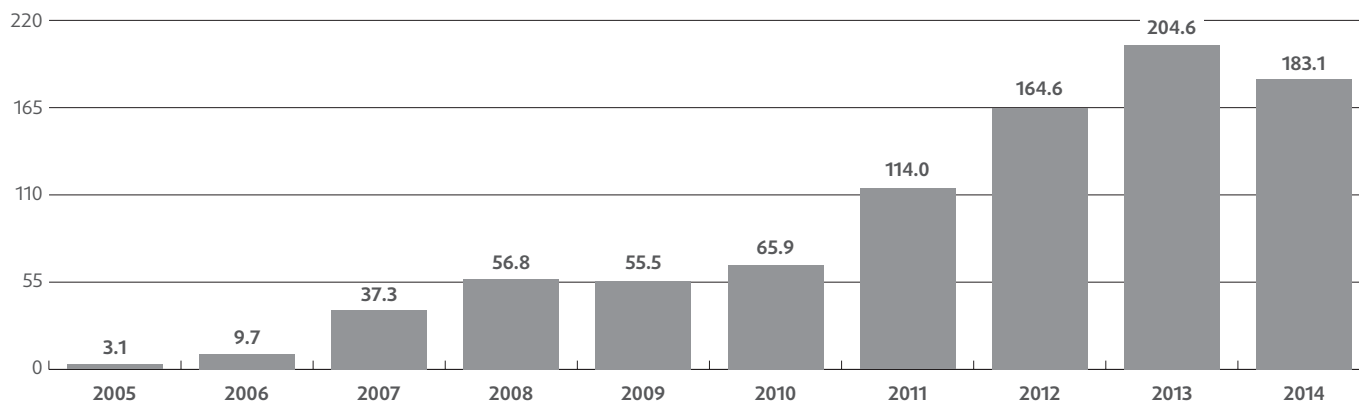
Figure 34). Thus, at the end of 2014, the percentage of shares grew up to 24.3% in the volume of repo transactions, the share of corporate bonds decreased by 1.3 pp (to 39.8%) and 32.0% of the repo transactions volume accounted for the government bonds.

Previously, the opposite proportion was observed: the niche of corporate securities in repo transactions was

expanding, gradually taking on both government bonds and shares. Depending on the financial market conditions, the proportions of various repo transactions modes are constantly changing (see Figure 35).

The direct repo with the Bank of Russia remained prevailing in 2014; 55.1% of the transactions were effected in this mode against 60.9% in the previous year. The

Figure 33

Volume of repo transactions in securities on the stock market of the Moscow Exchange Group in 2005–2014, trillion Rubles.

Source: Moscow Exchange Group.

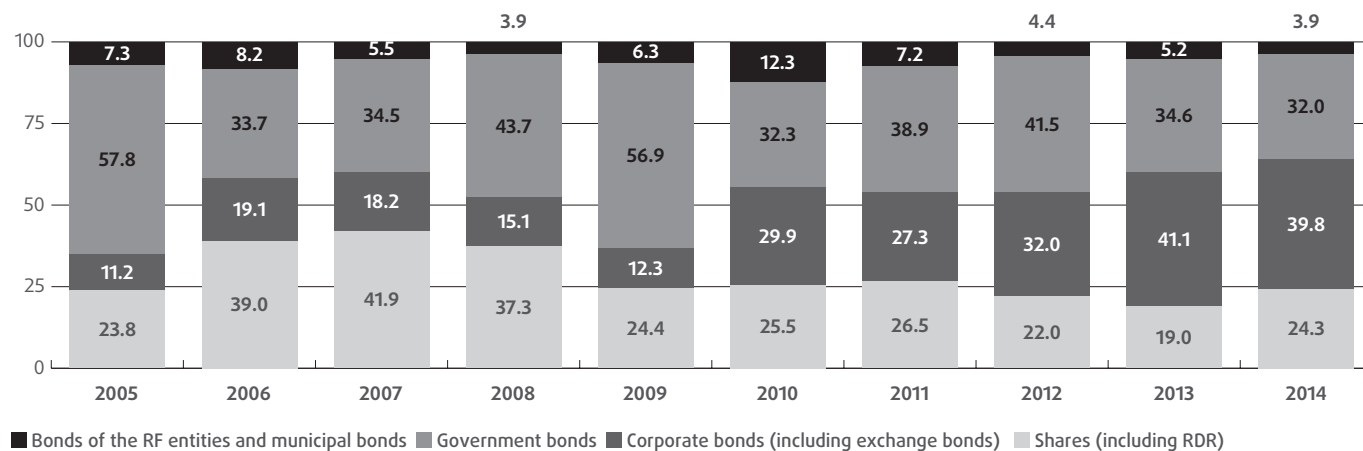
volume of repo transactions with the central counterparty grew drastically: if, in 2013, only 1.8% of the turnover accounted for the transactions in this mode, in 2014, this share made up 13.7%. Inter-dealer

repo showed a long-term downward trend in volumes. Thus, in 2010, the share of inter-dealer repos accounted for 97.2%, it decreased to 31.2% in 2014. Repo transactions prevailed more and

more in the total turnover of trades in recent years and became absolutely prevailing in 2012–2014: more than 90% of the total trade volume on the spot market, taking into account all trade modes.

Figure 34

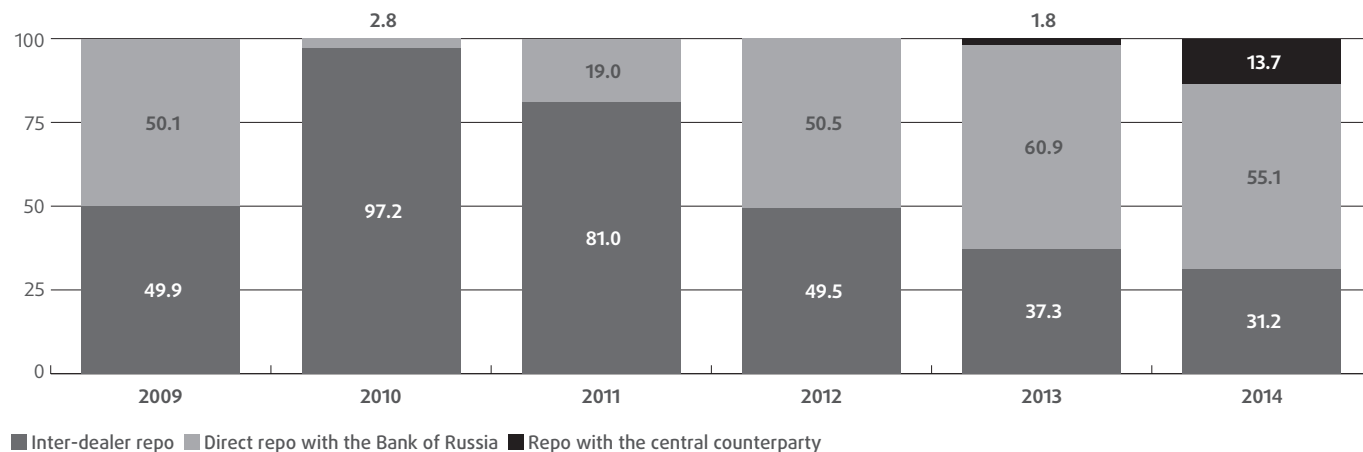
Share structure of repo transactions in securities on the stock market of the Moscow Exchange Group in 2005–2014, %



Source: Moscow Exchange Group, estimates of NAUFOR.

Figure 35

Modes of repo transactions in securities on the stock market of the Moscow Exchange Group in 2009–2014, %



Source: Moscow Exchange Group, estimates of NAUFOR.

1.6. Investment Units

The growth of the organized exchange market in investment units observed in 2012 was replaced by the decline in 2013–2014 (see table 10).

The number of management companies on the exchange market reduced by 12% to 117 companies during 2014. The decrease in the number of mutual funds appeared to be more significant: by 42% to 241 funds.

The exchange turnover of investment units was traditionally variable, at the same time it demonstrated growth in 2013–2014 (see Figure 36).

At the end of 2014, the volume of trading in investment units on the stock exchange of the Moscow Exchange Group made up 177.3 billion Rubles, i.e. by 28.6% higher than in the previous year. Innovation of the stock market in investment units in 2013 was the launch

of stock exchange trades in foreign exchange traded funds (ETF). In 2014, 11 exchange funds were under control of the one management company at MICEX Stock Exchange. The aggregate volume of transactions in ETF units has grown by seven times for the year and made up 3.5 billion Rubles. However, it accounted for about two per cent in the total volume of transactions in investment units.

Table 10

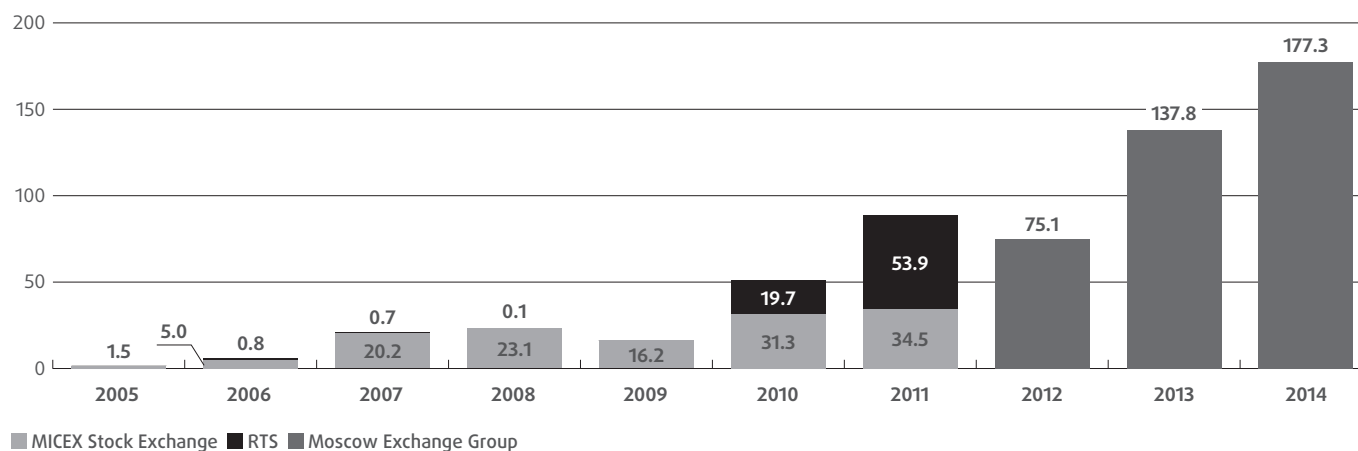
Organized exchange market of investment units in 2005–2014.

Period	MICEX Stock Exchange			RTS		
	Number of management companies	Number of unit investment funds	including those in quotation lists (MC/UIF)	Number of management companies	Number of unit investment funds	including those in quotation lists (MC/UIF)
2005	33	69	3/4	6	18	1/1
2006	48	114	4/4	10	22	3/3
2007	88	219	20/30	15	38	6/7
2008	99	306	25/43	23	49	8/11
2009	104	312	17/30	21	47	4/5
2010	125	365	41/20	17	43	3/3
Moscow Exchange Group						
2011	126	397	40/26			
2012	140	442	36/59			
2013	133	419	47/70			
2014	117	241	36/50			

Source: Moscow Exchange Group.

Figure 36

Volume of exchange trade in investment units in the Moscow Exchange Group, billion Rubles



Source: Moscow Exchange Group.

1.7. Securities Futures and Options and Stock Indices

The number of types of futures and option contracts, the underlying assets of which are equity instruments, on the organized derivatives market of the Moscow Exchange has not changed during 2014 (see table 11).

Figure 37 shows consolidated information for the derivatives market of the Moscow Exchange Group in terms of volumes of derivatives transactions associated with security assets.

The volume of trading in futures contracts for securities and stock indices declined for the third year in a row and made up 28,929 billion Rubles in 2014, which is 8.2% less than in the previous year. Taking 2011, when the maximum trade volumes were recorded, as a starting point, the decrease was 37.3%. The proportions between trade in futures and options preserved in 2014: 87% accounted for

the transactions in futures and 13% – for the transactions in options. About 13% of the total turnover accounted for the evening session.

The structure of trade by types of underlying assets has stopped changing over the last years (see Figures 38 and 39).

Since 2008, the share of stock indices in the trade volume of futures has prevailed making up over 80%. The share

Table 11

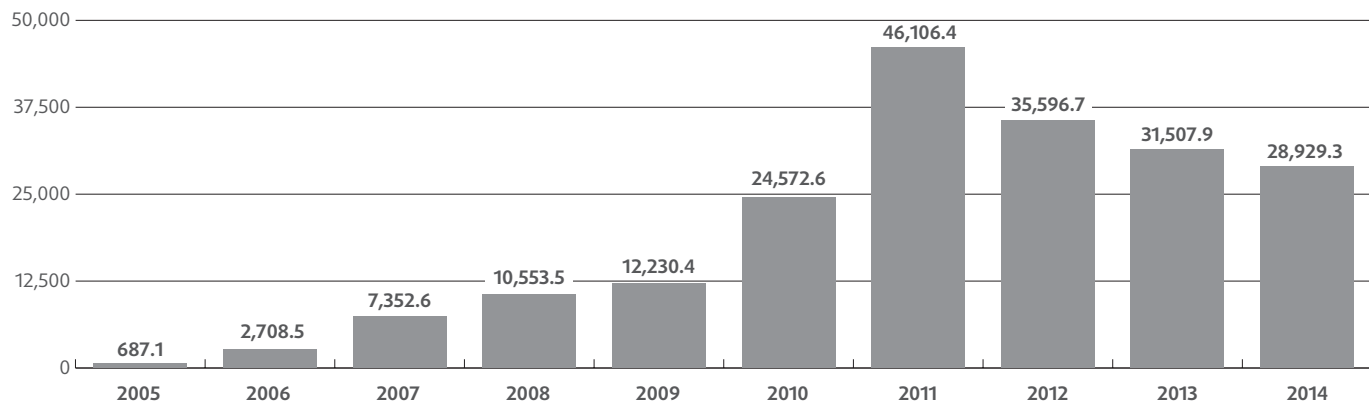
Organized market of derivatives for securities assets in 2005–2014.

Period	MICEX Stock Exchange			RTS		
	Futures	Options	TOTAL	Futures	Options	TOTAL
2005	0	0	0	9	6	15
2006	0	0	0	15	7	22
2007	1	0	1	19	16	35
2008	1	0	1	21	14	35
2009	5	0	5	21	14	35
2010	5	0	5	18	9	27
Moscow Exchange Group						
2011				27	10	37
2012				33	10	43
2013				40	10	50
2014				40	10	50

Source: Moscow Exchange Group.

Figure 37

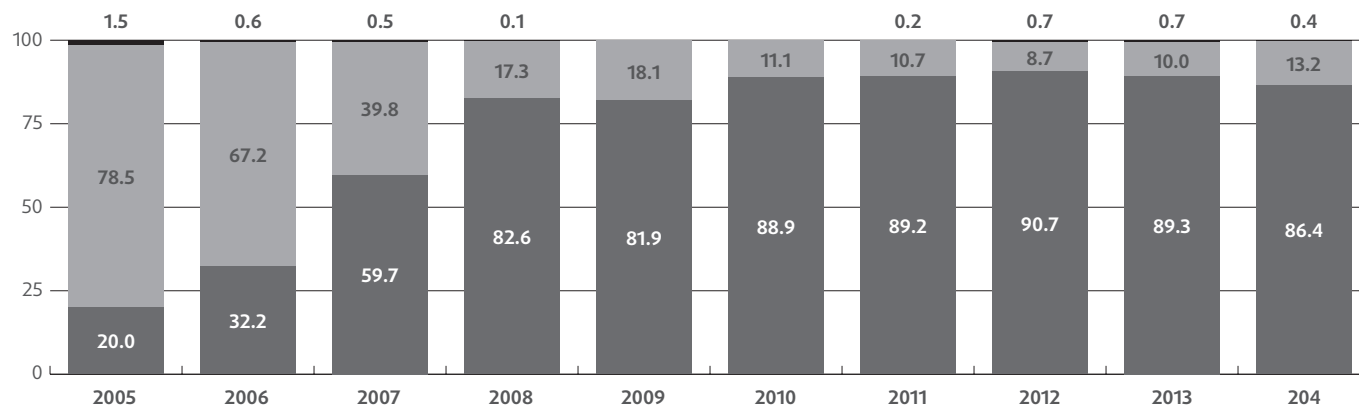
Results of trade in derivatives for securities and stock indices on the derivatives market of the Moscow Exchange Group, billion Rubles



Source: Moscow Exchange Group.

Figure 38

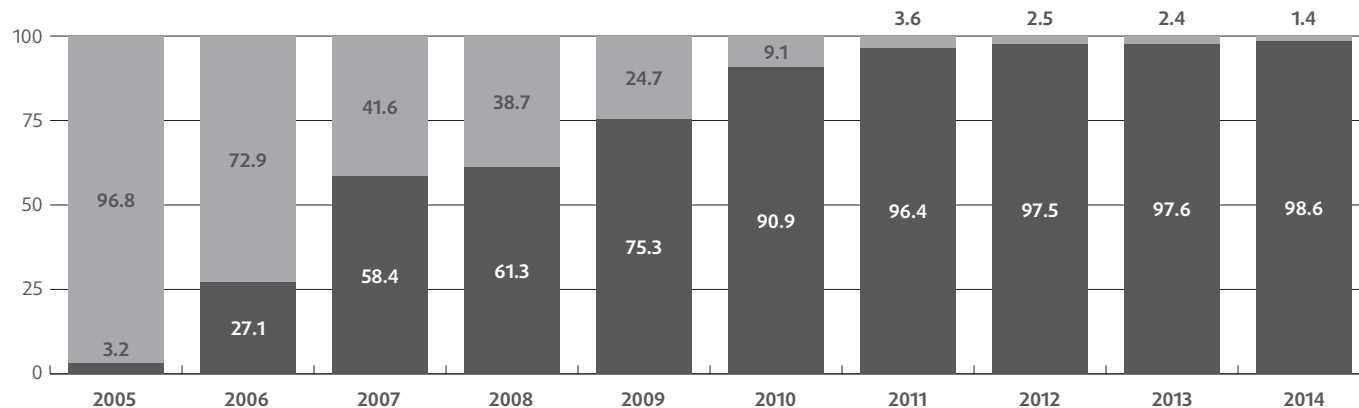
Structure of futures trade on the derivatives market of the Moscow Exchange Group, %



■ Index futures ■ Share futures ■ Bond futures
 Source: Moscow Exchange Group, estimates of NAUFOR.

Figure 39

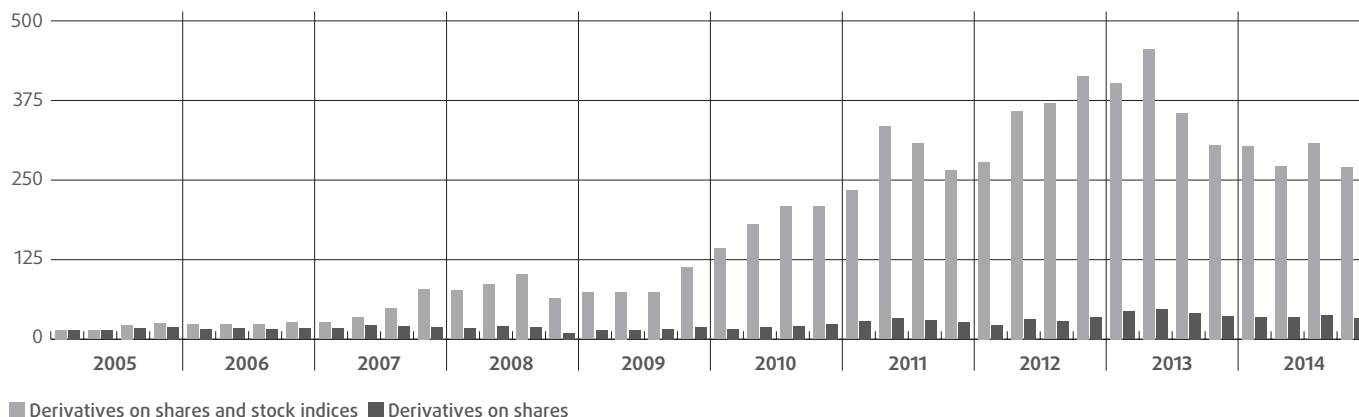
Structure of options trade on the derivatives market of the Moscow Exchange Group, %



■ Index options ■ Share options
 Source: Moscow Exchange Group, estimates of NAUFOR.

Figure 40

Ratio between the volume of trade in derivative contracts with underlying assets in the form of shares and stock indices and the volumes of trade in shares in the Moscow Exchange Group, %



■ Derivatives on shares and stock indices ■ Derivatives on shares
 Source: Moscow Exchange Group, estimates of NAUFOR.

Table 12

Open positions on the derivatives market of the Moscow Exchange Group for derivatives on securities and stock indices in 2005–2014 (billion Rubles)

Period	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Futures contracts										
Volume of open positions	13.1	31.5	49.8	9.0	36.0	51.6	91.0	90.9	122.5	83.0
Option contracts										
Volume of open positions	7.4	47.0	62.3	9.6	15.4	36.7	42.3	59.3	129.1	49.6
Total										
Volume of open positions	20.4	78.5	112.1	18.6	51.4	88.4	133.4	150.2	251.6	132.7

Source: Moscow Exchange Group.

of other instruments as underlying asset of the futures remained extremely small.

The similar conditions were observed on the options market. The share of index options in 2011–2014 exceeded 95%.

Figure 40 shows a graph describing the ratio between the volume of transactions in derivative contracts with underlying assets in the form of shares and stock indices in monetary terms and the volumes of spot transactions in shares (without taking into account repo transactions) on the derivatives and stock markets of the Moscow Exchange Group. The turnovers on the derivatives market are presented both by derivative contracts the underlying assets of which are shares and stock indices in total and by shares.

Since the second half of 2013 the decline in the volume of derivatives market in the ratio to the volume of the spot market was observed. Considering the derivative contracts for shares and stock indices, the decline for 2014 was 11.4%. Taking mid-2013, when the ratio between the trade volume on the derivatives market and on the spot market reached its maximum, as a starting point, the decline was even greater: 40.7%. Taking into account the derivative contracts for shares only, the

decline indices would be 9.2 and 31.6%, respectively.

The volume of open positions and their distribution among the various instruments vary significantly depending on the market conditions (see table 12)¹⁰.

At the end of 2014, the total volume of open positions on the stock derivatives market dropped significantly and made up 133 billion Rubles, which was 47.3% less than that in the previous year. The ratio of open positions between futures and options differ from the ratio prevailing in the trade volumes. 62.6% of open positions (in monetary terms) accounted for the futures contracts and 37.4% – for the option ones. a year ago, the other ratio was observed: 48.7% for futures and 51.3% for options. Thus, in 2014, shrinkage of open positions for options appeared to be more significant than for futures.

The structure of open positions by underlying assets has been undergoing continual changes (see Figures 41 and 42 for open positions in monetary terms).

The futures in 2011–2013 were characterized by decline in open positions by indices and increase in open positions by shares, however, in 2014, growth in open positions by indices up

to 82% was observed due to decrease in the amount of open positions by shares and bonds. For option contracts, stock indices absolutely prevail in open positions in 2011–2014, making up an average of 95% of the total amount of open positions.

Figure 43 provides a graph describing the ratio between open positions by derivative contracts and transactions therewith (in monetary terms). In a determinate sense, such ratio may indicate liquidity of the derivatives market.

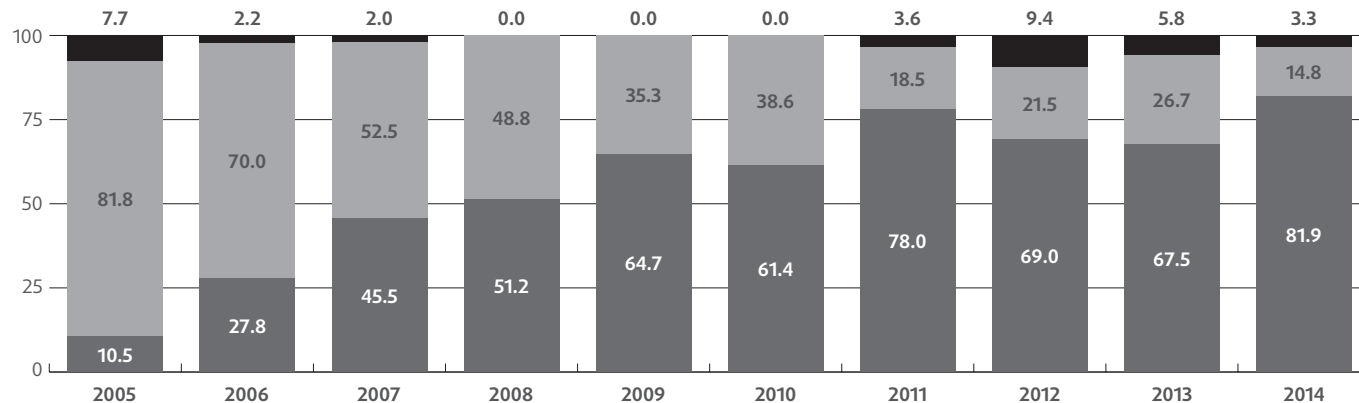
For the futures in 2009–2014 this ratio remained almost unchanged, ranged from 0.2% to 0.3% and confirmed large turnover.

This index for options is more variable. Thus, during the historical period the maximum value amounting to 15.1% in 2005, when the futures market was poorly developed, and the minimum value amounting to 0.6% in 2008, when due to the recession the positions were widely closed, may be distinguished. Further, the ratio between open positions and options trade volume ranged from 1.1% to 3.5%. In 2014, the increased volume of options trade was observed: the ratio between open positions and transactions volume made up 1.3%.

¹⁰ Open positions are shown as of the end of period.

Figure 41

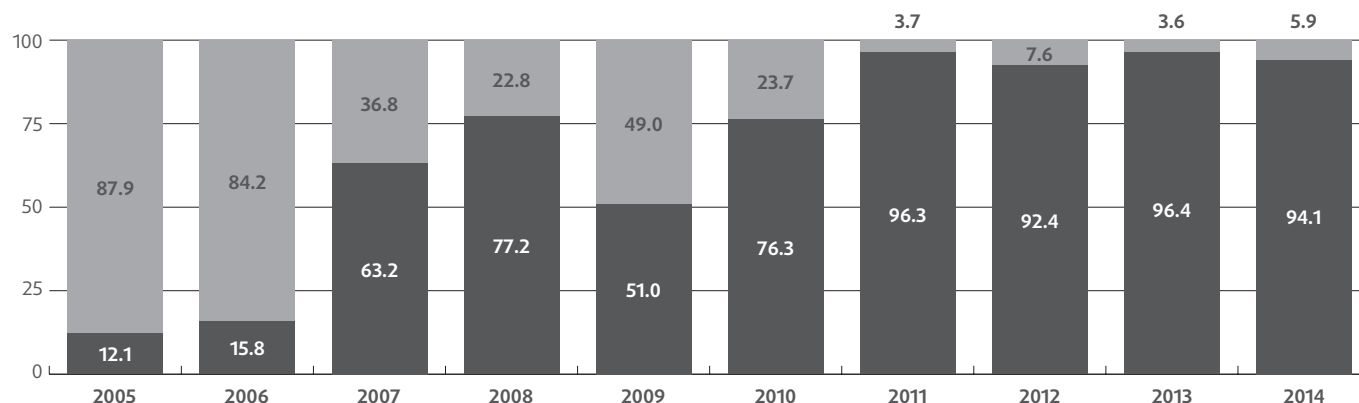
Volume of open futures positions on the derivatives market of the Moscow Exchange Group, %



■ Index futures ■ Share futures ■ Bond futures
 Source: Moscow Exchange Group, estimates of NAUFOR.

Figure 42

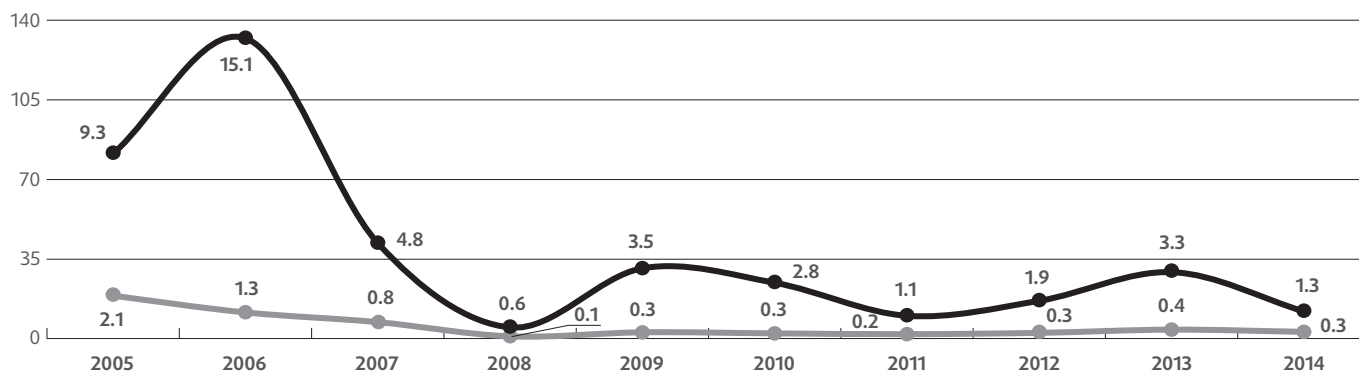
Volume of open options positions on the derivatives market of Moscow Exchange Group, %



■ Index options ■ Share options
 Source: Moscow Exchange Group, estimates of NAUFOR.

Figure 43

Ratio between the volume of open positions and the volume of futures contracts trade on the derivatives market of the Moscow Exchange Group, %



— Futures — Options
 Source: Moscow Exchange Group, estimates of NAUFOR.

1.8. Stock Indices and Indicators

In 2014, the Moscow Exchange Group has not revised the policy for calculating stock indices. a new indicator – Rate indicator of repos with the central counterparty – was introduced.

1.8.1. Share Indices

Figures 44–47 show the graphs of MICEX and RTS indices for the historical interval of 2005–2014 and in 2014.

In 2014, MICEX index showed unstable position throughout the year without any prevailing trend. Two drastic falls were distinguished, the reasons for which were easily determined (on March

3, one-day fall by 11.7% as a result of the resolution of the Federation Council to meet the request of the President of Russia to use armed forces in Ukraine and on December 16 fall by 6.7% as result of the resolution of the Bank of Russia to increase the key rate).

During the longer period (2011–2014), MICEX index was characterized by the permanent sideways trend with fluctuations against 1,400 ranging $\pm 20\%$ for the period of 6–8 months.

RTS index, as opposed to MICEX index, is calculated in a foreign currency, thus, in 2014, it was pressed due to

Ruble depreciation. Its position was characterized by deep parabolical decline, on the back of which volatility was less visible. Drastic one-day falls took place on the same dates as MICEX index falls, but they were more distinct (on March 3–12.6%, on December 16–19.5%).

In 2011–2014, RTS index demonstrated a long-term downward trend, which became more distinct in 2014, when the index value got close to the level of the end of 2008 – beginning of 2009 by the end of the year.

Figure 44

MICEX Index in 2005–2014.



Source: Moscow Exchange Group.

Figure 45

MICEX Index in 2014.



Source: Moscow Exchange Group.

Figure 46

RTS Index in 2005–2014.

Source: Moscow Exchange Group.

Figure 47

RTS Index in 2014.

Source: Moscow Exchange Group.

At the end of 2014 (see table 13¹¹, yield of main world currencies is provided in this table as an alternative for reference), MICEX index dropped (minus 8.3%). The main stock indices of Russian shares nominated in a foreign currency (RTS and RTS-2 indices) were dramatically negative (minus 47%). Such deep fall of these indices has been observed for the first time since 2008.

Industry stock indices for shares (calculated in national currency) showed mostly negative results at

the end of 2014. The deepest fall was shown by the transport index (minus 53.4%), industry index (minus 46.8%) and telecommunications index (minus 39.4%).

In this context, yield of metallurgy and mining indices was distinguished (plus 52.7%). Analysing the longer period, the oil and gas index should be distinguished as its yield has been positive since 2009. All other main and industry indices were very versatile in this historical period ranging from positive to negative values year by year.

In many cases, there is a high positive correlation between the main and industry indices (see table 14).

Industry indices in oil and gas and consumer goods are most statistically dependent on the main index. Indices in transport and industry are least dependent. Cases of negative correlation between the main and industry indices were not detected.

Russian stock indices are characterized by high volatility¹². Table 15 provides systematized data on volatility and yields of the main

¹¹ The yield was calculated within the interval from the last trading day of the previous year to the last trading day of the evaluated period on 365-day basis.

¹² Volatility is calculated as a standard deviation of daily relative changes in the stock index on the annual interval.

Table 13

Yield of equity indices in 2005–2014, % per annum

	Currency	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Main indices											
RTS Index	USD	83.5	70.9	19.2	-71.6	128.6	22.6	-21.9	10.5	-5.5	-47.5
MICEX Index	Rubles	83.1	67.7	11.6	-66.5	121.1	23.3	-16.9	5.2	2.0	-8.3
RTS-2 Index	USD	69.3	42.3	43.2	-78.3	160.4	57.0	-31.8	3.2	-20.8	-47.0
Industry indices											
Oil and gas industry											
MICEX O&G	Rubles	92.0	48.0	-3.6	-58.4	126.3	17.7	0.1	10.9	5.6	1.4
Chemical and petrochemical industry											
MICEX CHM	Rubles		44.0	10.5	13.1		44.0	10.5	13.1	-17.4	19.8
Telecommunications											
MICEX TLC	Rubles	39.1	66.0	14.6	-75.5	187.0	36.3	-14.8	3.9	11.3	-39.4
Metallurgy and mining											
MICEX M&M	Rubles	74.6	51.7	45.6	-69.2	212.2	63.2	-47.6	-5.7	-22.0	52.7
Power industry											
MICEX PWR	Rubles	38.7	134.5	7.9	-73.7	167.3	44.2	-40.2	-16.9	-39.3	-22.7
Manufacturing industry											
MICEX MNF	Rubles	28.9	69.6	61.4	-82.8	189.0	74.2	-40.5	16.9	-3.7	-46.8
Consumer goods											
MICEX CGS	Rubles		85.4	-36.2	27.3	25.4	-12.6				
Finance											
MICEX FNL	Rubles		-67.3	131.8	32.0	-29.7	-4.4	16.4	-22.1		
Transport											
MICEX TRN	Rubles		24.1	-53.4							
Main currencies (for reference)											
USD	Rubles	2.6	-7.1	-7.6	20.3	2.7	0.5	5.0	-4.6	7.4	72.2
EUR	Rubles	-9.3	0.4	4.3	15.2	4.9	-6.8	0.7	-2.3	13.2	51.7

Calculated on a basis of data provided by the Moscow Exchange Group and the Bank of Russia.

Table 14

Correlation matrix of equity indices in 2014.

		A	B	C	D	E	F	G	H	I	J
A	MICEX Index	1									
B	Oil and gas industry	0.88	1								
C	Chemical and petrochemical industry	0.38	0.62	1							
D	Telecommunications	0.54	0.19	-0.47	1						
E	Metallurgy and mining	0.43	0.72	0.85	-0.44	1					
F	Power industry	0.59	0.22	-0.41	0.93	-0.41	1				
G	Manufacturing industry	0.25	-0.14	-0.37	0.74	-0.63	0.75	1			
H	Consumer goods	0.74	0.71	0.16	0.39	0.44	0.43	-0.12	1		
I	Finance	0.32	-0.04	-0.29	0.68	-0.50	0.71	0.83	-0.07	1	
J	Transport	0.17	-0.20	-0.36	0.68	-0.65	0.68	0.98	-0.21	0.82	1

Calculated on a basis of data provided by the Moscow Exchange Group.

Table 15

Volatility and yield of equity indices in 2005–2014.

Period	MICEX Index			RTS Index			RTS-2 Index		
	Volatility, %	Yield, %	Sortino ratio	Volatility, %	Yield, %	Sortino ratio	Volatility, %	Yield, %	Sortino ratio
2005	1.5	83.1	0.15	1.3	83.5	0.30	0.8	69.3	0.24
2006	2.4	67.7	0.09	2.0	70.9	0.16	1.0	42.3	0.13
2007	1.5	11.6	0.02	1.4	19.2	0.06	0.7	43.2	0.18
2008	4.5	-66.5	-0.08	4.2	-71.6	-0.17	1.5	-78.3	-0.44
2009	3.0	121.1	0.11	2.9	128.6	0.21	1.3	160.4	0.28
2010	1.5	23.3	0.05	1.7	22.6	0.07	1.0	57.0	0.16
2011	1.7	-16.9	-0.05	2.0	-21.9	-0.08	1.3	-31.8	-0.13
2012	1.2	5.2	0.00	1.6	10.5	0.02	1.3	3.2	-0.01
2013	1.0	2.0	-0.01	1.2	-5.5	-0.06	1.0	-20.8	-0.12
2014	1.6	-8.3	-0.04	2.7	-47.5	-0.10	2.5	-47.0	-0.10

Calculated on a basis of data provided by the Moscow Exchange Group.

consolidated equity indices, as well as the Sortino ratio¹³.

At the end of 2014, volatility of the main summary stock indices for shares grew. Volatility of RTS-2 index grew significantly up to 2.5%, which was the maximum during the period under consideration.

The extremely low Sortino ratio was pointed out. Moreover, in 2013–2014, this value was negative for all three indices considered in table 15.

1.8.2. Bond Indices

Corporate bonds index MCXCBI.

Figures 48 and 49 show the MCXCBI TR index graphs based on the total return on corporate bonds¹⁴ in 2005–2014 and in 2014, and Figure 50 shows the average weighted duration and yield of bonds included in the above index.

Based on MCXCBI TR index, the average total income of investors in corporate bonds (return on investment) has been growing slightly throughout 2014 and started to decrease from mid-September. From mid-November to the end of the year the income was negative, as a result, the total income of investors in corporate

bonds made up minus 1.6% at the end of 2014.

Analysing MCXCBI TR index during the longer period, it may be noted that the index position in 2014 were to a large extent similar to the dynamics of mid-2008.

Starting from 2013, the duration of MCXCBI TR index portfolio has been reducing and was 660 days by the end of 2014.

Yield to maturity of MCXCBI TR index portfolio during 2014 demonstrated rather complicated dynamics. At the beginning of the year, it made up the level comparative to the refinancing rate of the Bank of Russia amounting to 8.25%. There were increases up to 10% in March and up to 11% in October. Then, it continued to grow and reached about 15% at the end of the year. The higher yield to maturity of corporate bonds was observed only at the end of 2008 – beginning of 2009. The refinancing rate has not changed during the year and the maximum spread of yield to maturity of corporate bonds reached 7.6 pp

At the end of 2014, corporate bond index volatility (see table 16) grew almost by ten times and reached 0.3% (for

reference: the maximum volatility was observed in 2008 amounting to 0.42%), and the Sortino ratio was negative for the first time during the period it was observed.

Government bonds index

(MCXRGBI TR) Figure 48 shows a graph of MCXRGBI TR index¹⁵, and Figure 51 shows graphs of average weighted duration and effective yield to maturity RGBEY.

The position of MCXRGBI TR index in 2014 was even more unstable than that of the corporate bond index. In fact, from the beginning of the year the total income of investor in government bonds became negative and from November to the end of the year – dramatically negative. As a result, the total income of investors in government bonds was minus 14.4% at the end of the year.

The duration of government bonds was 2,350 days, which did not differ much from the data for 2013.

During 2014, effective yield to maturity of RGBEY government bonds has been constantly growing from 7.2% at the beginning of the year up to 14.3% at the end of the year.

¹³ Effective yield to maturity of RGBEY government bonds adjusted to one day basis, average as of the year-end, was used as a no-risk rate at calculating Sortino ratio.

¹⁴ The index is provided according to the relative scale.

¹⁵ The index is provided according to the relative scale.

Figure 48

MCX RGBI TR and MCX CBI TR bond indices in 2005–2014, %

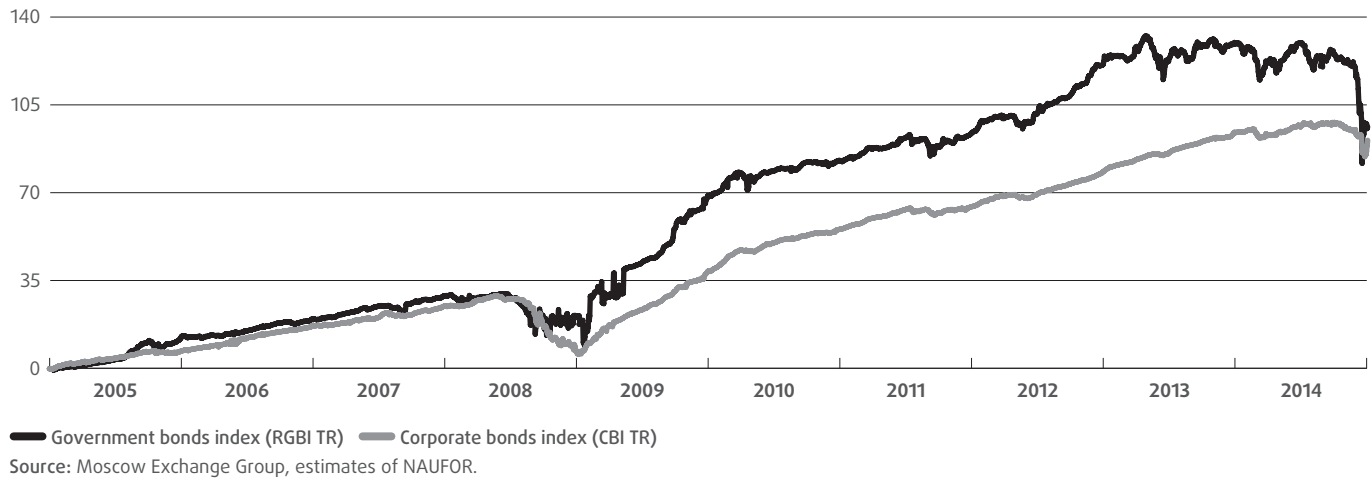


Figure 49

MCX RGBI TR and MCX CBI TR bond indices in 2014, %

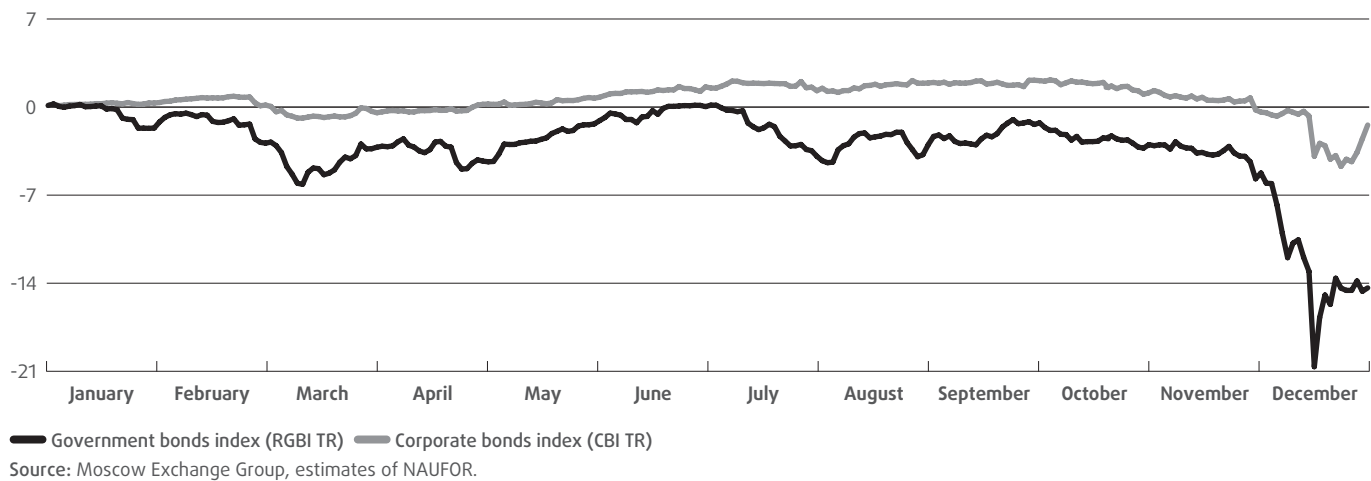


Figure 50

Yield and duration of MCX CBI TR corporate bond index

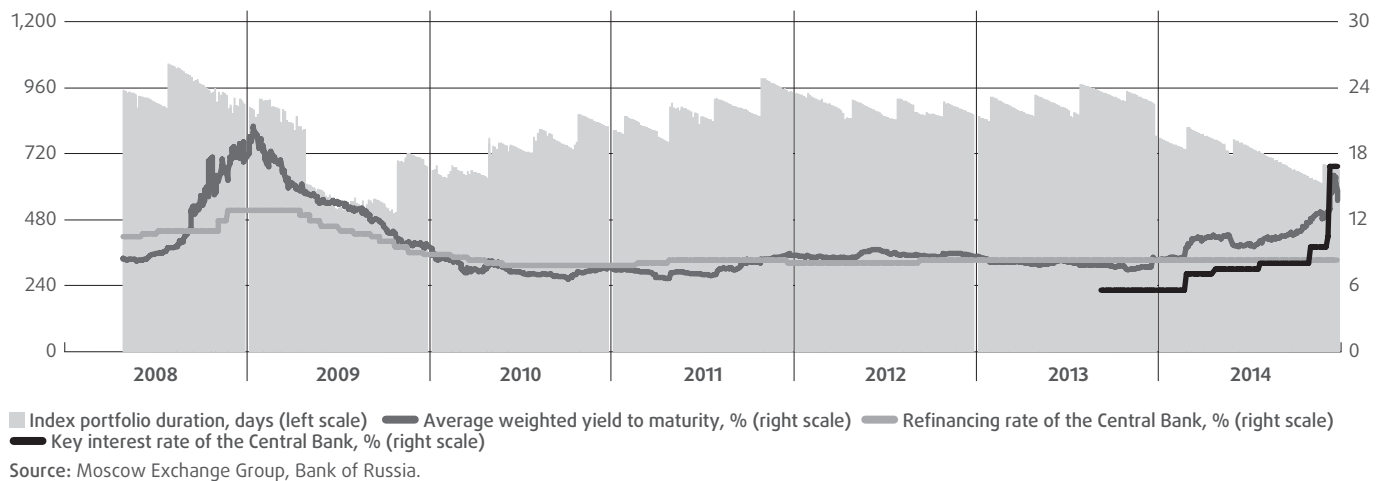
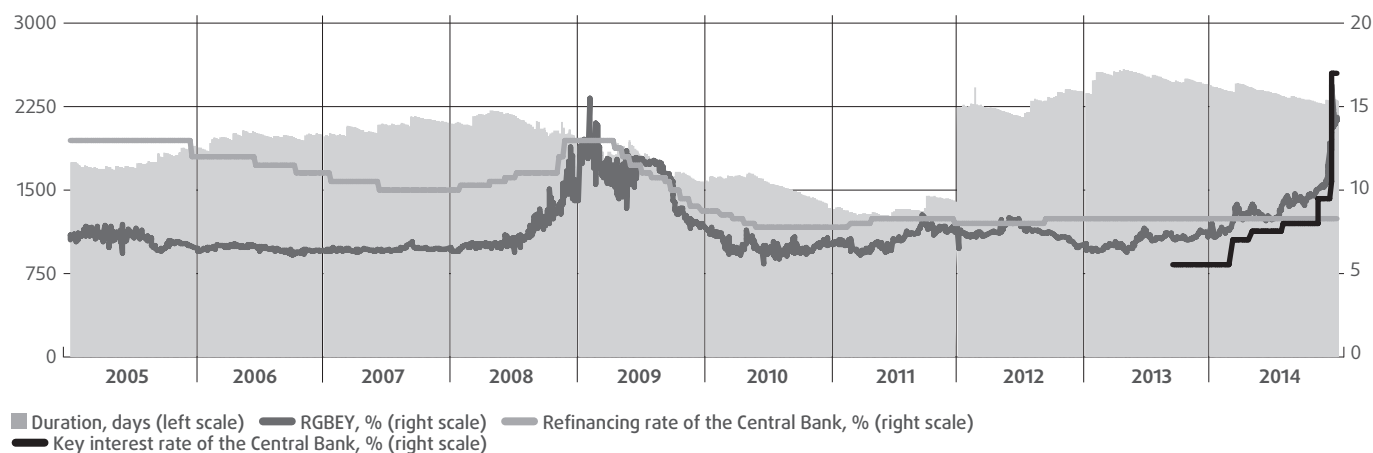


Figure 51

Effective yield to maturity and duration for government bonds

Source: Moscow Exchange Group, Bank of Russia.

The volatility of government bond index significantly changes from year to year (see table 16).

At the end of 2014, the volatility of MCXRGBI TR index grew drastically and made up 0.80% (for comparison: the maximum volatility was recorded in 2009 amounting to 1.22%).

Typically, the volatility of government bonds index significantly exceeded the volatility of corporate bonds index during the full monitoring period, with few exceptions.

1.8.3. Repo Rate Indicators

Figures 52 and 53 show the graphs of repo indicators for shares and bonds in 2006–2014.

In 2014, one-day repo indicators for shares and bonds demonstrated the similar qualitative dynamics: stable behaviour at the level higher than in the previous year, with a drastic increase at the end of the year. The average value of the indicator for shares made up 8.16% in January – November (6.07% in the previous year);

on December 16, after the Bank of Russia implemented a new key rate, the indicator jumped up to 19.93%. The maximum indicator value was 35.63% (on December 18), and the indicator stabilized amounting to 18.4% at the end of the year.

The average value of the indicator for bonds made up 8.02% in January – November (6.12% in the previous year); on December 16 the indicator jumped up to 16.97% and stabilized amounting to 17.52% at the end of the year.

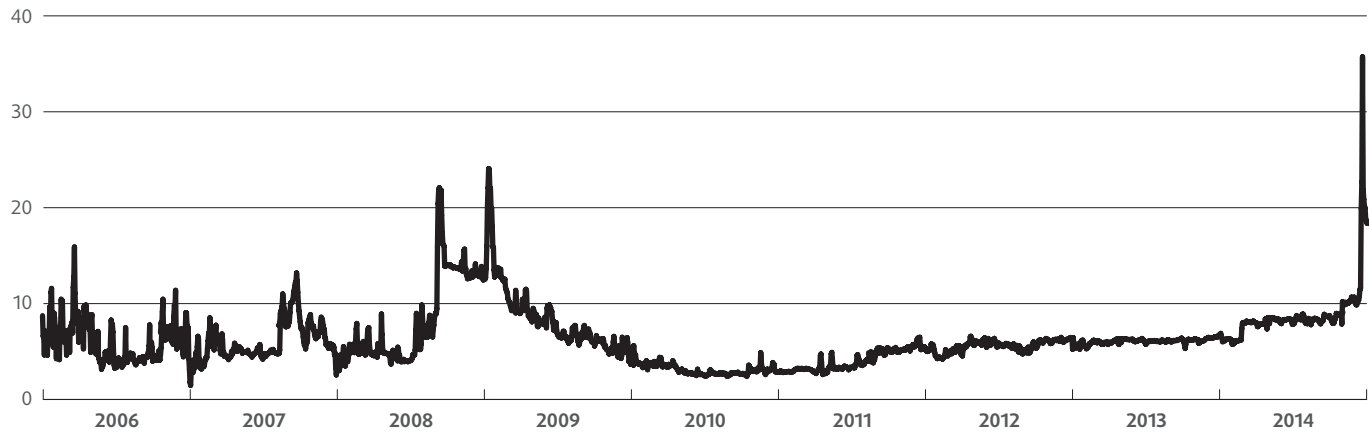
Table 16

Volatility and average yield to maturity for bond indices in 2005–2014.

Period	Corporate bonds			Government bonds		Refinancing rate (average), %
	MCX CBI TR volatility, %	Average yield to maturity MCX CBI TR, %	Sortino ratio	MCX RGBI TR volatility, %	Average yield to maturity MCX RGBI TR, %	
2005	0.10	–	–	0.15	7.09	12.98
2006	0.20	–	–	0.11	6.46	11.63
2007	0.11	–	–	0.15	6.42	10.25
2008	0.42	–	–	1.03	7.56	10.91
2009	0.26	13.68	0.05	1.22	10.18	11.31
2010	0.10	7.41	0.03	0.35	6.64	8.01
2011	0.09	7.48	0.02	0.22	7.06	8.12
2012	0.06	8.73	0.09	0.17	7.41	8.07
2013	0.04	7.93	0.11	0.36	6.79	8.25
2014	0.30	10.44	–0.14	0.80	9.16	8.25

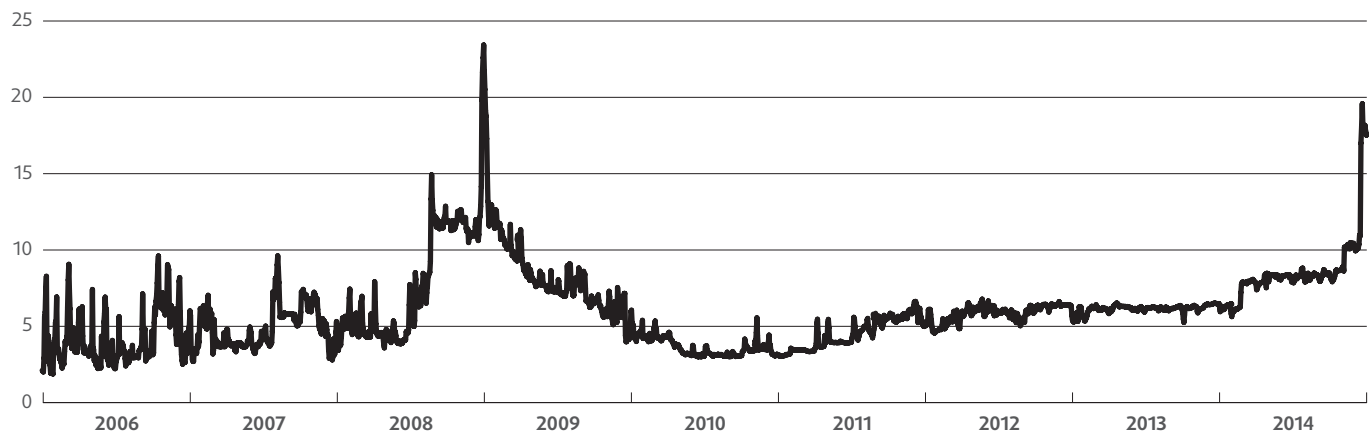
Calculated on a basis of data provided by the Moscow Exchange Group.

Figure 52

One-day repo rate indicators for shares in 2006–2014, %

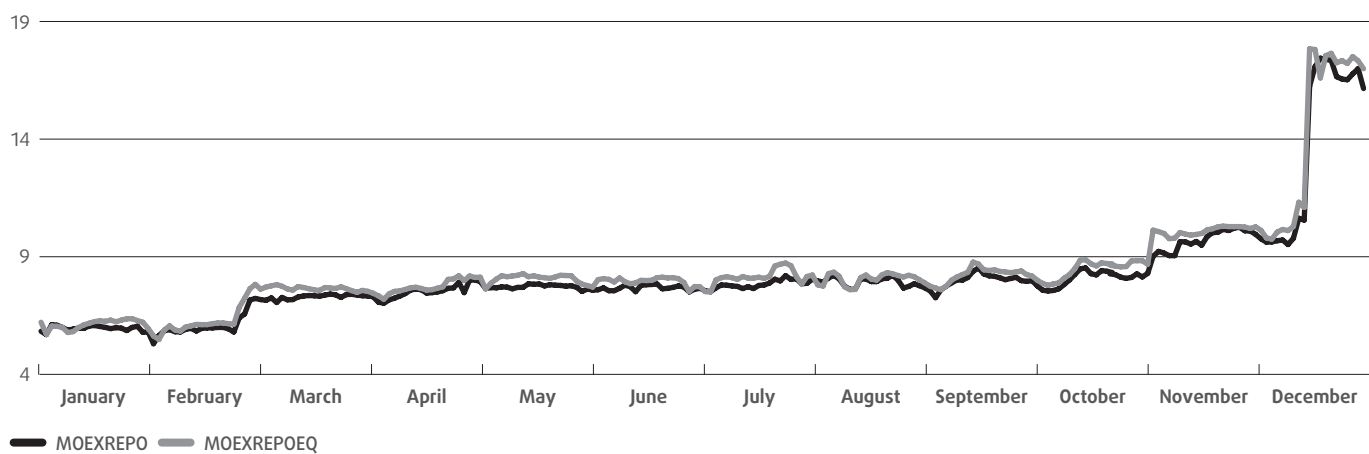
Source: Moscow Exchange Group.

Figure 53

One-day repo rate indicators for bonds in 2006–2014, %

Source: Moscow Exchange Group.

Figure 54

Rate indicators of repos with the central counterparty in 2014, %

Source: Moscow Exchange Group.

In 2014, new repo rate indicators were introduced: rate indicator of repos with the central counterparty.

These indicators are calculated separately for government bonds (MOEXREPO) and shares (MOEXREPOEQ). The indicators are calculated on the basis of repo transactions in direct and indirect modes with overnight calculation period. They are calculated twice a day: in the afternoon (12:30) and in the evening (19:00).

Figure 54 provides graphs of daily rate indicators of repos with the central counterparty in 2014.

The indicators of repos with the central counterparty showed different trends during three periods in 2014. In January-

February, the rates were rather low: the average value was 5.94% for government bonds (6.12% for shares). From March to December 15 the repo rates grew: 8.03% and 8.33%, respectively. From December 16 up to the end of the year the repo rates grew drastically: 16.81% and 17.34%, respectively.

1.8.4. Volatility Index

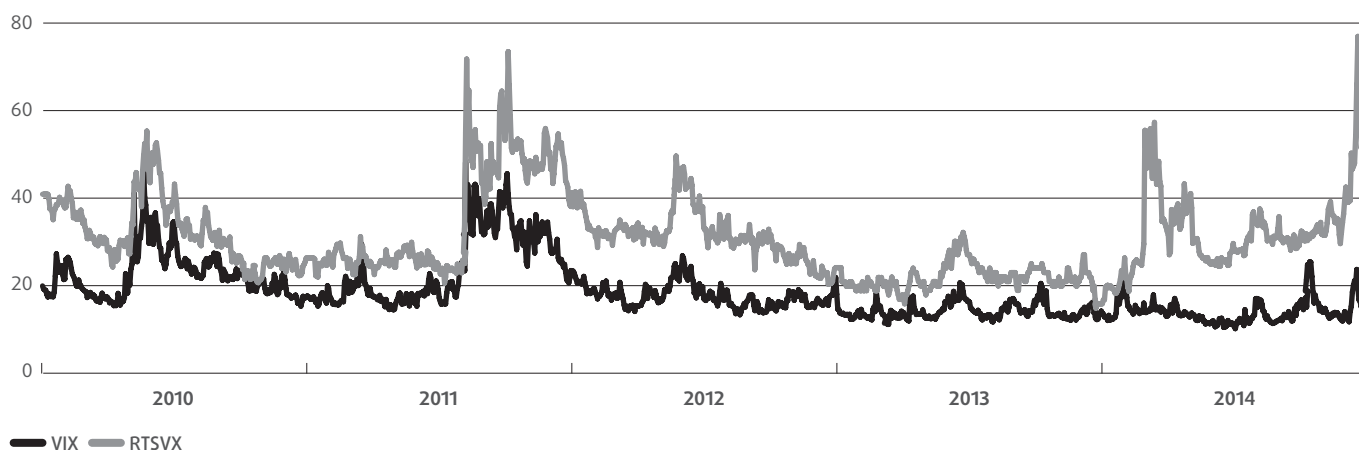
Volatility index RTSVX is calculated based on options and futures prices for RTS Index for the closest options series. The calculation methodology is similar to that used for the international index CBOE Volatility Index (VIX). Figures 55 and 56 show the graphs of VIX and RTSVX indices in 2010–2014 and 2014.

Russian RTSVX index in 2010–2013 was almost similar to international VIX index in qualitative terms and followed it at the higher level. However, in 2014, a number of internal events resulted in the fact that RTSVX index began to deviate from VIX index, and in some cases the deviation was significant.

Thus, on March 4 a 87.5% spike was observed, whereupon the Russian volatility index was unnaturally high until the beginning of May. The second spike took place on December 16–17 (12.8 and 21.7%, respectively), as a result of which RTSVX index reached its historical maximum amounting to 76.8%. By the end of the year, the index decreased to about 50%.

Figure 55

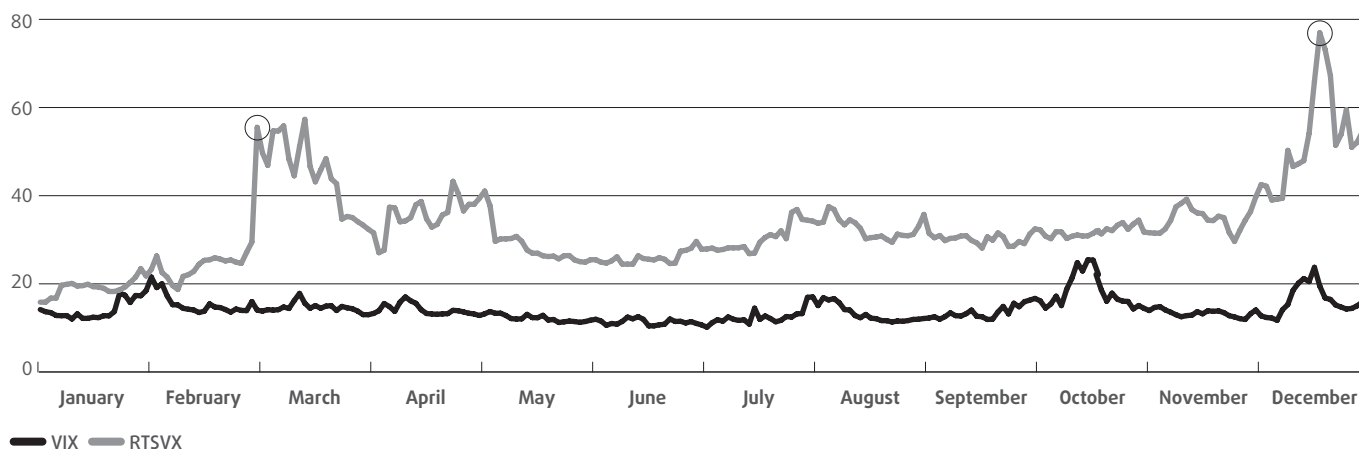
VIX and RTSVX indices in 2010–2014, %



Source: Moscow Exchange Group, Yahoo Finance.

Figure 56

VIX market volatility index and Russian RTSVX volatility index in 2014, %



Source: Moscow Exchange Group, Yahoo Finance.

2. Institutional Structure

2.1. Issuers of Securities. Initial Public Offerings

Any joint-stock company is an issuer, as it places shares and has to register them during incorporation. Bonds can also be issued by a limited liability company and, subject to certain conditions, a non-profit organization. The information on the number of operating legal entities is shown in table 17, and the consolidated data on the number of issuers on the domestic organized market are provided in table 18¹⁶.

The number of open joint stock companies, although it was declining at an average annual rate of 6.8%, remained

rather high – more than 30 thousand companies. a very small percentage of the overall number of issuers is represented on the organized market.

In 2014, the number of issuers whose shares and (or) bonds are traded on the organized market continued to grow and made up 567 companies. However, it is too early to discuss a stable trend towards increasing in the number of public issuers. Thus, in 2012, a reduction by 40 issuers took place, while, taking the longer period, more than 100 companies have left the

open market since 2007. However, the number of issuers whose shares are in the quotation lists was stable at about 240–260 companies.

There were very few new public offerings by Russian issuers in 2012–2014. According to the available data¹⁷, only one Russian company (Lenta Ltd) carried out IPO in 2014 on the LSE, and the amount of funds raised was assessed in the amount of one billion US Dollars. Then, global depository receipts of this issuer were admitted to trading on the stock market of the Moscow Exchange.

Table 17

Number of operating legal entities in 2010–2014.

Period	Number of operating legal entities	Including		
		OJSC	CJSC	LLC
2010	2,779,026	40,290	222,030	2,516,706
2011	4,019,603	37,755	155,434	3,826,414
2012	3,822,886	32,982	137,538	3,652,366
2013	3,855,077	31,405	127,397	3,696,275
2014	3,931,038	30,360	112,600	3,788,078

Source: Interfax Group.

¹⁶ This Table shows both Russian and foreign issuers whose securities are traded on the stock market of the Moscow Exchange Group.

¹⁷ offering.ru/IPO project in Russia, Ernst&Young, The PBN Company.

Table 18

Issuers on the organized market in 2005–2014.

Period	MICEX Stock Exchange		RTS	
	Number of issuers (of shares and bonds)	including those in the quotation lists	Number of issuers (of shares and bonds)	including those in the quotation lists
2005	385	93	262	46
2006	539	127	332	64
2007	670	229	354	88
2008	632	255	329	92
2009	602	230	353	87
2010	570	241	307	76
Moscow Exchange Group				
2011	557	241		
2012	517	240		
2013	541	245		
2014	567	260		

Source: Moscow Exchange Group.

2.2. Investors

Investors shall mean any persons or institutions investing funds in securities with the aim of obtaining profit. There are no official systematized data on the composition and quantitative characteristics of the investor base for the Russian securities market. The investor base accounting and research are carried out by professional participants of the securities market, self-regulatory organizations and research groups.

Moscow Exchange Group regularly discloses information on the number and structure of customers participating in the trade, including those conducting transactions in the Main Market sector (hereinafter also referred to as «MICEX customers»). Figure 57 below shows the information on the number of customers registered at the MICEX Stock Exchange¹⁸. The total number of MICEX Stock

Exchange customers followed a long-term upward trend. In 2014, the growth in the number of unique customers made up 7.7%. As at the end of the year, their number was 934.9 thousand, which is by 67.2 thousand higher than in 2013. An important characteristic of the investor base is the number of the so-called active investors, i.e., those of the unique customers, who conduct at least one transaction per month. It should be noted that the number of active customers in the total number of customers was traditionally low. In the last three years the number of active customers decreases. For 2014, the average annual number of active customers decreased by 1.8% to 64.5 thousand. At the same time, their share in the total number of unique customers reached its minimum in the amount of 7.4%.

2.2.1. Private Investors

Figure 58 shows the information on the number of MICEX Stock Exchange customers who are resident individuals.

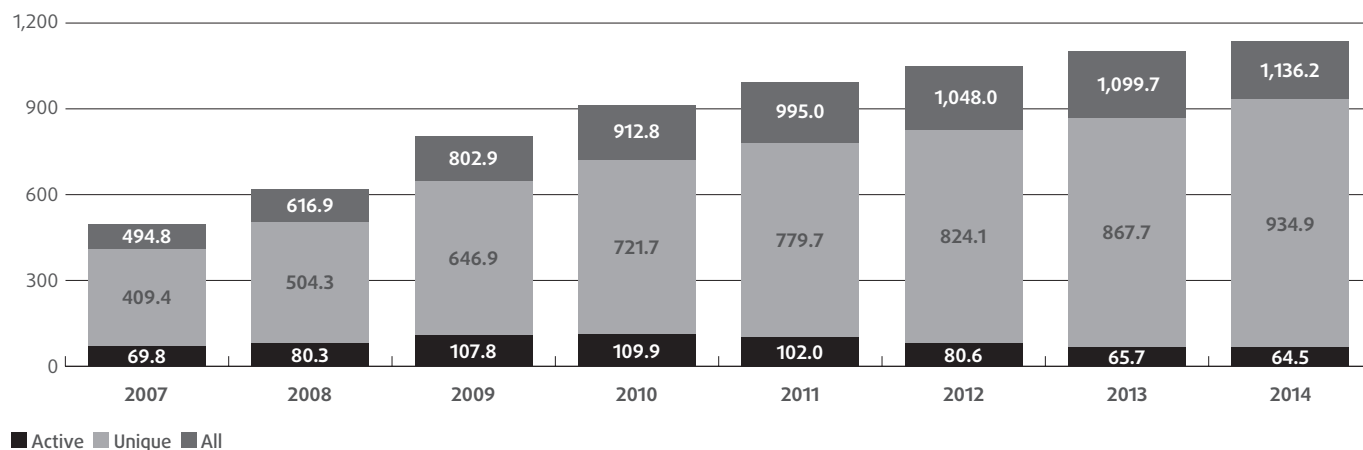
Individual resident customers make up 90.3% in the total number of unique customers.

Since 2010, the growth rate of unique customers of MICEX Stock Exchange who are resident individuals has dropped drastically; in 2014, the annual average number of such customers increased by 8.1% and made up 906.4 thousand people.

The maximum number of active investors being individuals was reached in October 2009–119.8 thousand people, with the simultaneous maximum number of active customers at 18.4% of the unique customers. In 2014, active customers made up on average 6.9%

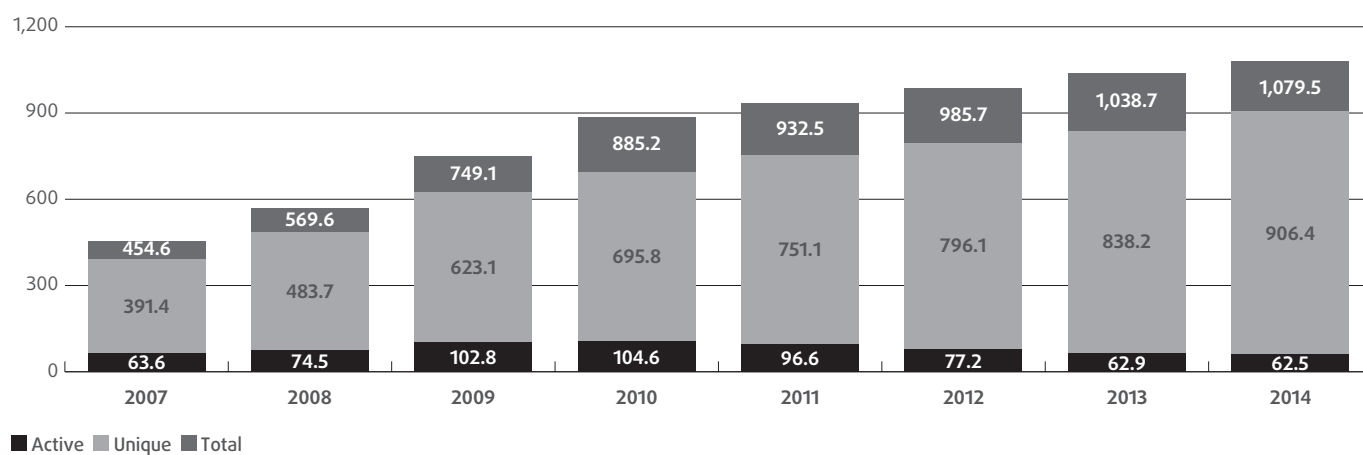
¹⁸ Annual average value is used hereinafter as a simple mean of monthly indices.

Figure 57

Customers of MICEX Stock Exchange (Main Market sector), thousand people

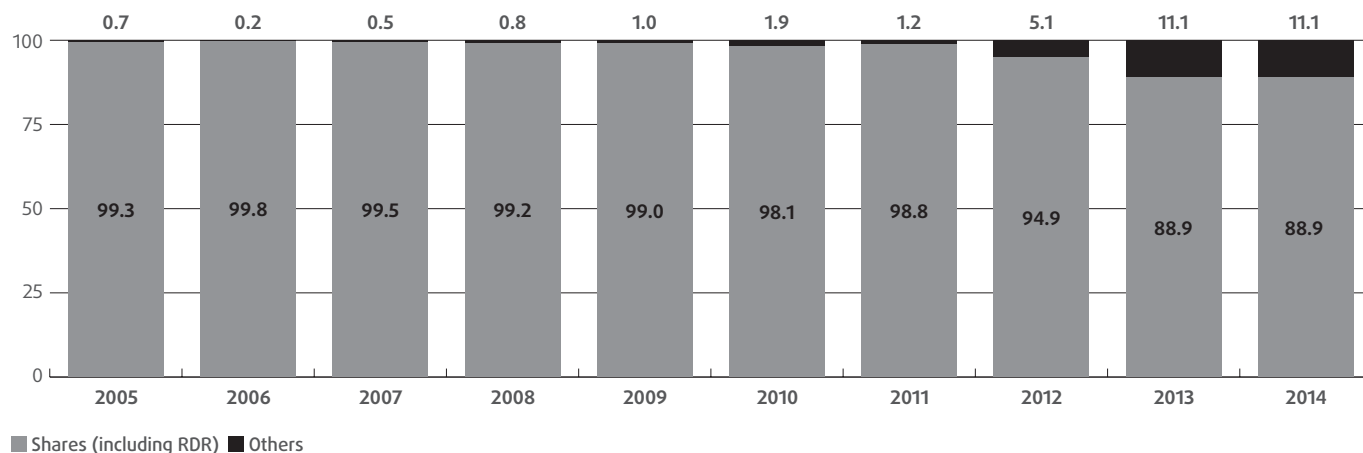
Source: Moscow Exchange Group, estimates of NAUFOR.

Figure 58

Resident individuals – customers of MICEX Stock Exchange (Main Market sector), thousand people

Source: Moscow Exchange Group, estimates of NAUFOR.

Figure 59

Structure of individuals' transactions on the stock exchange of the Moscow Exchange Group, %

Source: Moscow Exchange Group, estimates of NAUFOR.

of unique customers, in absolute terms their number decreased to 62.5 thousand people (by 0.7% in relative terms).

Figure 59 provides data on the structure of private investors' transactions on the stock market of the Moscow Exchange Group. Individual investors engaged in securities transactions on MICEX Stock Exchange are mainly interested in shares. Transactions in shares accounted for 88.9% of the total volume of transactions executed by individuals on the stock exchange, as in the previous year. Other types of securities, such as bonds and investment units, made up 11.1% of the private investors' transactions, including 6.0% accounting for the corporate bonds.

It should be also noted that the percentage of shares in the transactions of private investors, in spite of its high value, is decreasing gradually.

Thus, in 2005 this index was 99.3%. Figure 60 shows a graph characterizing the percentage of resident individuals in the total value of transactions in shares and corporate on the stock market of the Moscow Exchange Group.

Starting from 2009 the downward trend in the share of private investors being residents in transactions in shares has become apparent; by the end of 2014 it reduced to 37.6%. To the contrary, in 2014, a slight increase in the individuals' activities in trades in

corporate bonds is observed: their share increased to 4.2%.

2.2.2. Corporate Investors

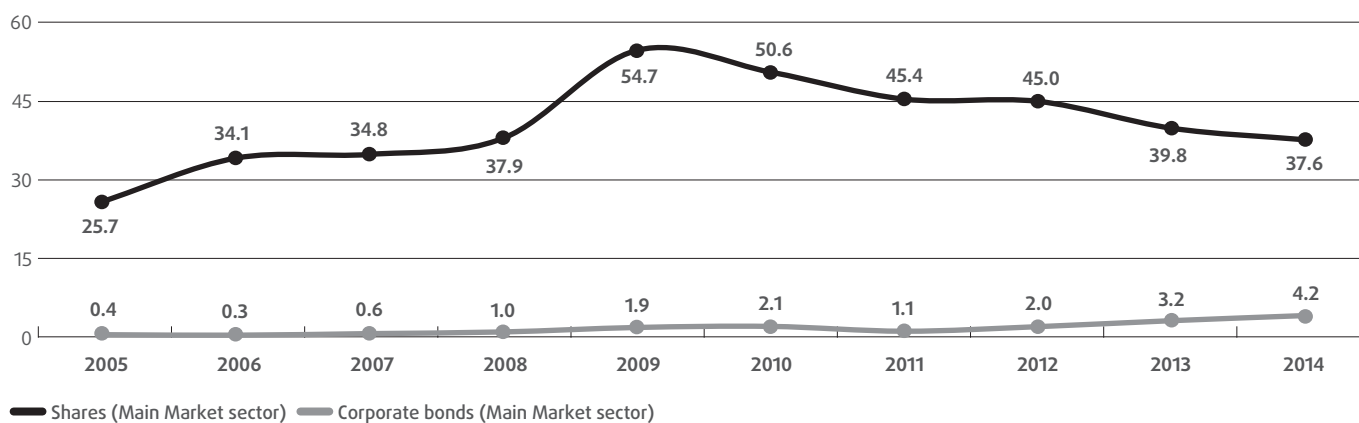
Corporate investors shall mean legal entities acting on their own behalf.

Figure 61 shows the data on the number of legal entities among MICEX Stock Exchange customers.

Since 2010, the number of legal entities being unique MICEX Stock Exchange customers has changed insignificantly. In 2014, their number increased by 8.8% and made up 19.8 thousand companies. However, it should be noted that during the period under study the number of active corporate investors decreased. Losing

Figure 60

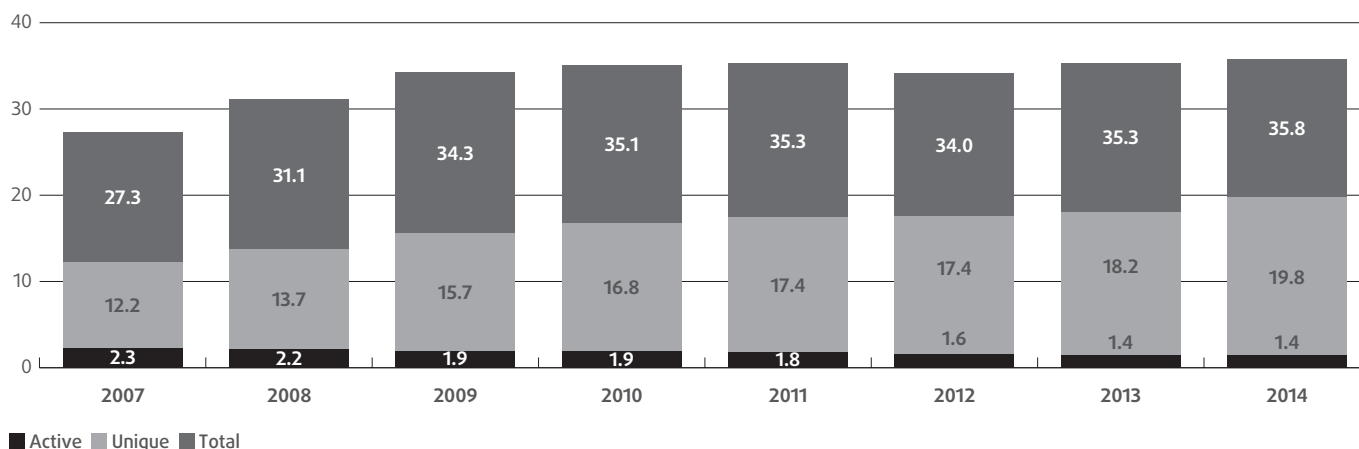
Share of individuals in the volume of transactions in securities on the stock market of the Moscow Exchange Group (without taking into account repo transactions), %



Source: Moscow Exchange Group, estimates of NAUFOR.

Figure 61

Legal entities which are customers of the MICEX Stock Exchange (Main Market sector), thousand people



Source: Moscow Exchange Group, estimates of NAUFOR.

7.4% per annum at an average, this value reached its minimum in 2014 and made up 1,422 companies (4.0% of the number of unique customers).

2.2.3. Trust customers

Figure 62 provides the data on the number of individuals and legal entities being MICEX Stock Exchange customers, who placed their funds into trust.

In comparison with the number of customers performing brokerage transactions on the stock exchange (see Figure 58), the number of customers, who placed their funds into trust for

transactions on the organized market is extremely small – 12,901 investors in total. The share of unique trust customers in percentage to the total number is stable from year to year: about 35%, in absolute terms – 5,179 investors in 2014.

The niche of active trust investors in the number of unique customers changes significantly from year to year depending on the market conditions: from 90% (in 2007) to 16% (in 2013). In 2014, 35% of the number of unique customers were active, but in absolute terms this value is very small – 1,834 investors only.

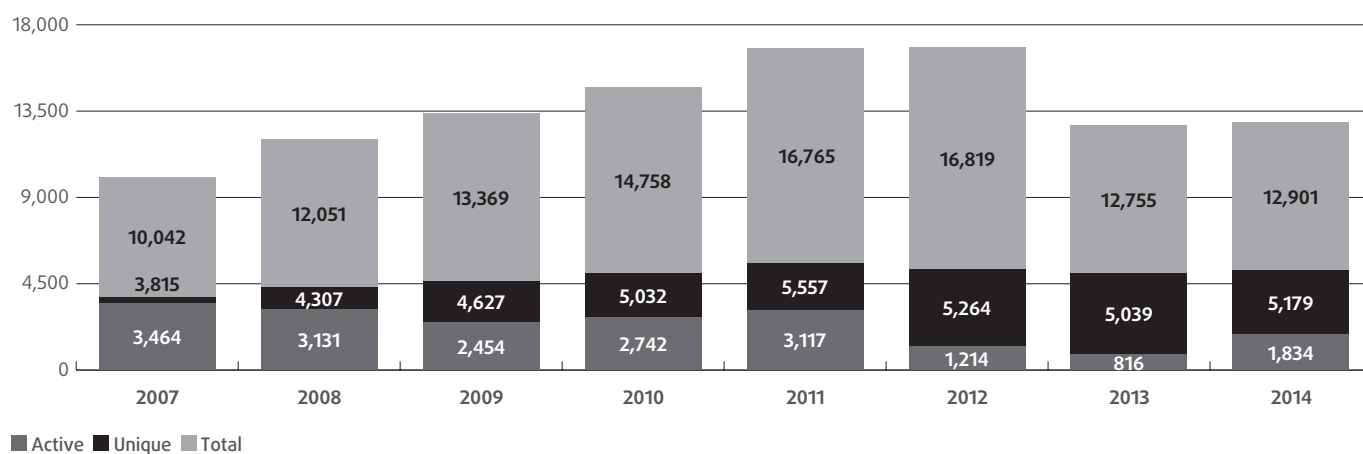
2.2.4. Unit Investment Funds

From the legal viewpoint, unit investment funds constitute asset complexes that are not legal entities. Depending on the redemption capabilities associated with investment units, funds can be open, interval and closed. Figure 63 shows consolidated data on the dynamics of changes in the number of Unit Investment Funds (UIF)¹⁹.

Starting from 2009, the growth rate in the number of mutual funds decelerated, and its number began to decrease in 2014. The number of funds was 1,559, which was by 2.3% less than that in the

Figure 62

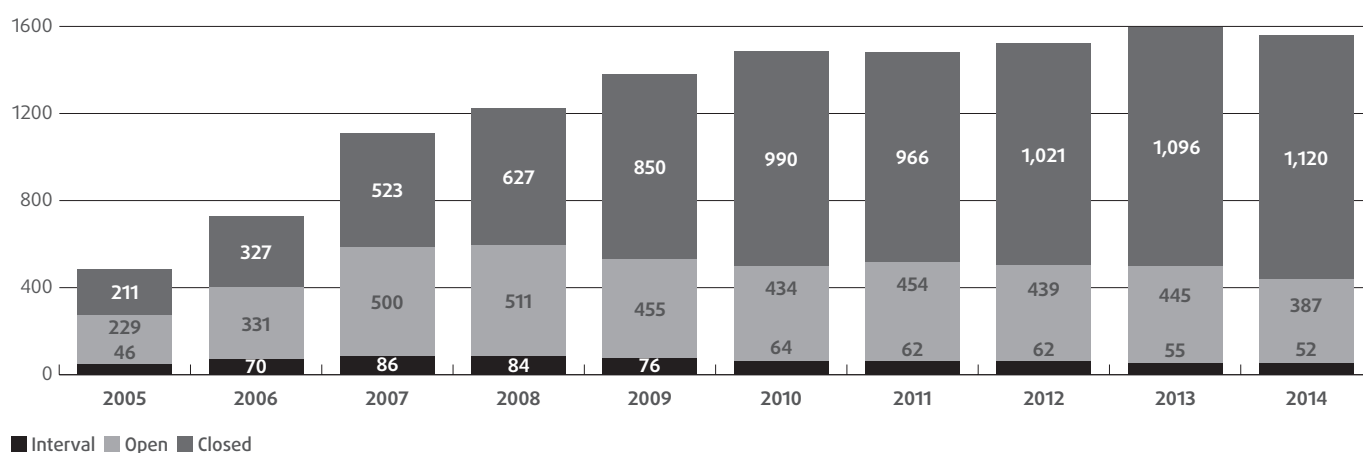
MICEX Stock Exchange customers who placed their funds into trust



Source: Moscow Exchange Group, estimates of NAUFOR.

Figure 63

Number of unit investment funds



Source: investfunds.ru.

¹⁹ Taking into account only completely formed funds.

previous year. The number of closed funds, which are traditionally focused on qualified investors, grew insignificantly, by 2.2%. This type of funds is the most common for the Russian market of collective investments (71.8% of total funds). The number of open funds focused on retail investors decreased by 5.5% to 387 funds.

Information concerning a unit investment fund for qualified investors with limited circulation of units may not be disclosed publicly. In view of the above, the currently available public aggregated data on the net asset value of UIF concern solely the funds for unqualified investors and, therefore, are of limited representativeness.

Figure 64 shows the data on the net asset value of unit investment funds.

At the end of 2014, the net asset value of UIF decreased by 3.1% and made up 569.1 billion Rubles. However, NAV of interval funds decreased by 15.2% and NAV of open funds – by 23.8%. The net asset value of open and interval funds has dropped below 100 billion Rubles for the first time since 2010. Taking 2007 as a starting point, when the net assets value of open and interval funds reached its historical maximum, reduction in this index made up 48.7% in 2014.

Apart from the net asset value, the most important characteristic of the UIF industry is the volume of net capital raised by the funds. These data are the

most indicative for open UIF, where requests for issue and redemption of units are accepted on every working day. Figure 65 provides the data on the net capital raised by open UIF (taking into account funds under formation) in 2005–2014.

Despite the multidirectional dynamics of capital entry and exit from open funds during 2014, the final result turned out to be negative – the net capital outflow from open UIF made up 29.4 billion Rubles. It should be noted that such result was formed due to significant outflow of bonds from the funds amounting to 33.6 billion Rubles.

Starting from 2010, the rate of capital raised in the bond funds has accelerated,

Figure 64

Net asset value of unit investment funds, billion Ruble

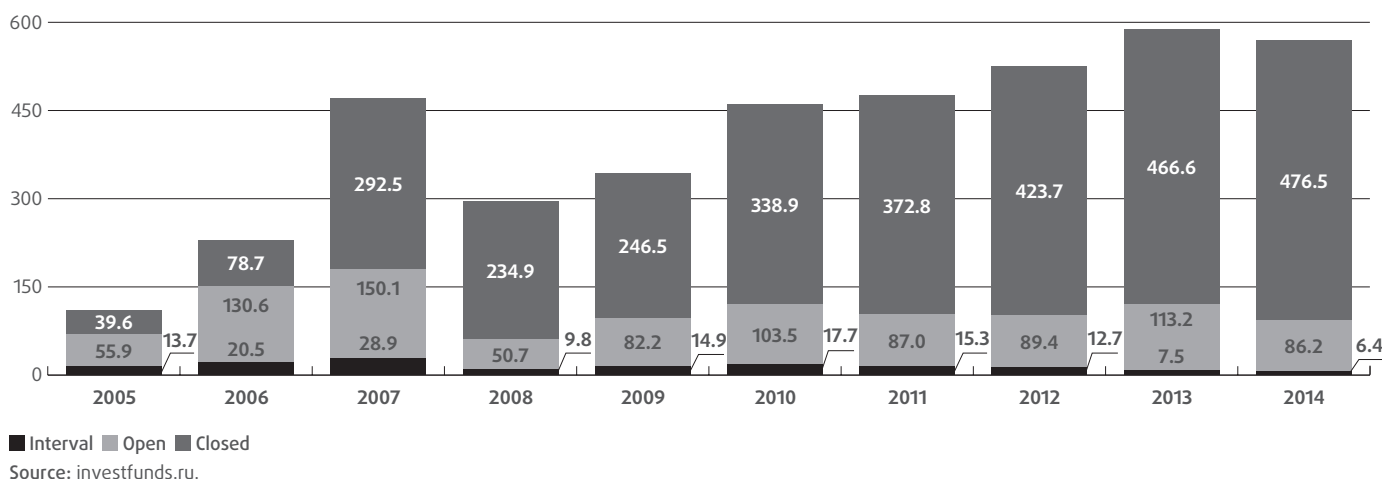
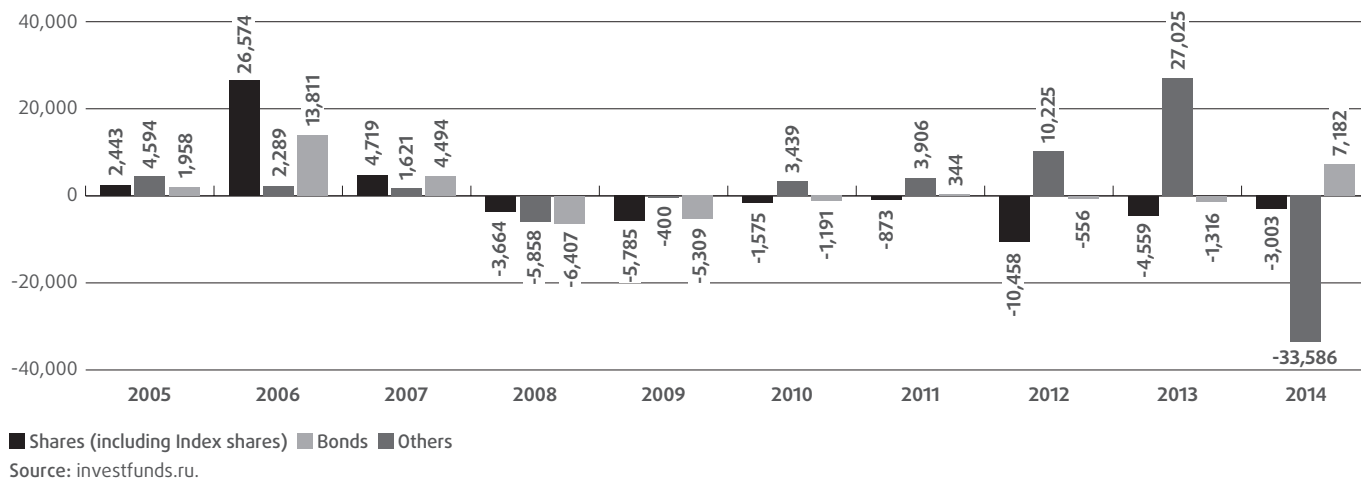


Figure 65

Net capital raised by open UIF, million Rubles



the cumulative flow balance has increased by 136.4% for 2013. However, in 2014, this growth was offset by significant decrease by 71.7%.

The balance of capital raised in the share funds has been negative since 2008 year over year.

The effect of such dynamics of capital raised in the unit investment funds was significant structural change in the total net asset value. Figure 66 shows a graph of changes in the categories structure of open and interval funds investing in securities.

In 2005–2010, the substantial share accounted for the share funds, the relative volume of such funds in the total net asset value of open and

interval funds reached its peak in 2010 amounting to 68.2%. Then, the trend of increase in the amount of bond funds began to form. By the end of 2013, the bond funds made up 50.3% of the market, and equity funds accounted for 35.8%. In 2014, the situation changed dramatically: the amount of share funds decreased by 90.2% and made up only 3.5% of the total net asset value of open and interval funds. The bond funds have also decreased their amount and made up 32.6% of the total net asset value by the end of 2014. The most significant structural changes for the year were related to the funds of mixed investment: the growth of their share accelerated by 4.5 times, and such funds

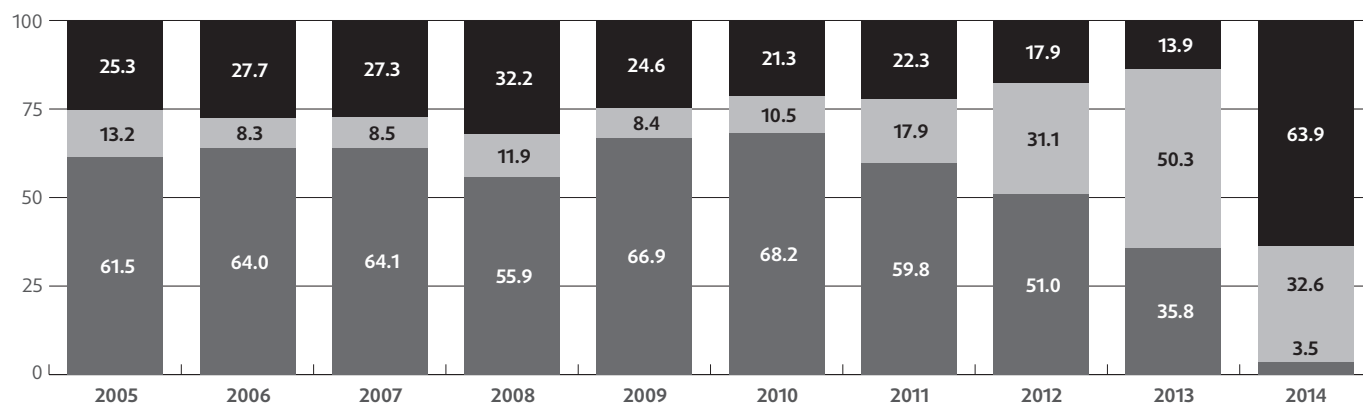
became the largest comprising 63.9% of the total net asset value of open and interval funds.

The main element in the structure of a unit investment fund is a management company that offers units to unit investment funds and is responsible before their owners under the Russian law. Figure 67 provides the consolidated data on the number of management companies controlling UIF.

The number of management companies has been decreasing over the last years. In 2014, their number decreased by five more organizations. Compared to 2008, when the number of management companies was the greatest, the management companies

Figure 66

Categories structure of open and interval unit investment funds, %

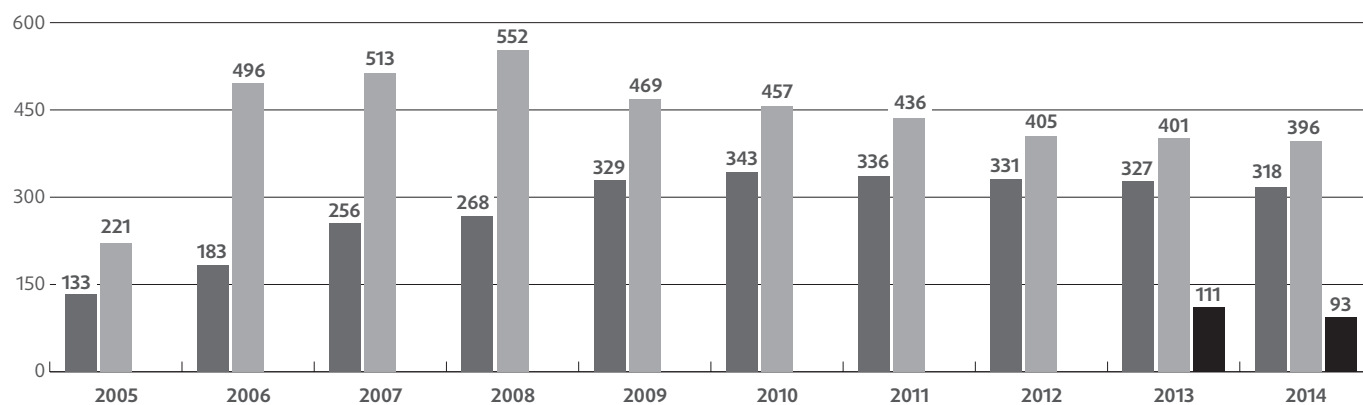


■ Shares (including index shares) ■ Bonds ■ Mixed

Source: investfunds.ru, estimates of NAUFOR.

Figure 67

Number of management companies controlling unit investment funds



■ MC controlling UIF ■ Total number of licenses issued to MC ■ MC owning license for trust management

Sources: Bank of Russia, National Managers League, estimates of NAUFOR.

market reduced by 156 organizations (28.3%). At the same time, the number of management companies having mutual funds under control was rather stable in 2011–2014, although it showed an insignificant downward trend. In 2014, 318 management companies (80.3% of the total number) had unit investment funds under control.

The Russian market of collective investments is characterized by high concentration of investment of resources by management companies. Figure 68 provides the

data on distribution of assets between management companies (with regard to open and interval funds).

Since 2007, the share of the ten largest management companies in the total volume of the market followed an upward trend.

Table 19 shows a list of the ten largest management companies (as regards open and interval unit investment funds) compiled at the end of 2014.

At the end of 2014, the net assets value of the ten largest management companies made up 84.1% of the total

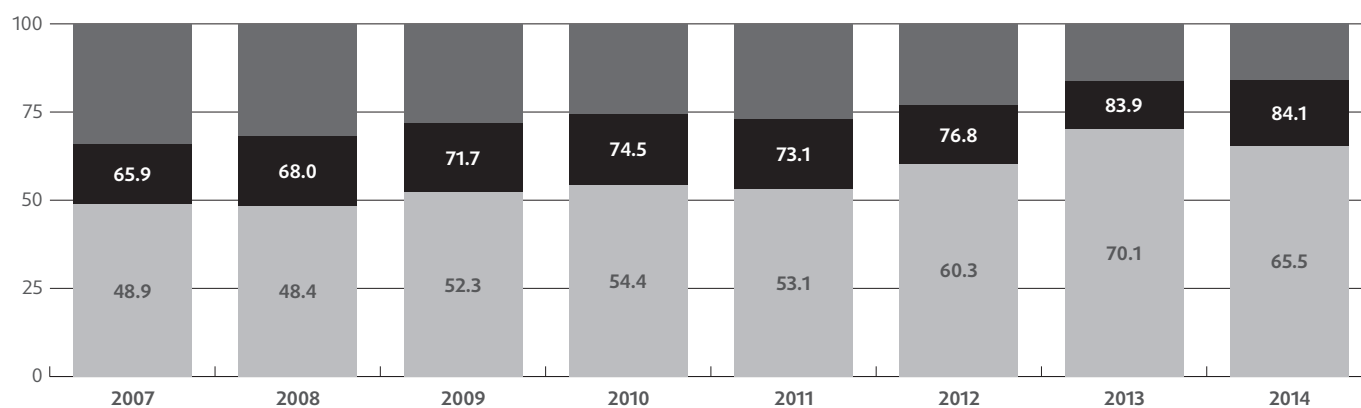
market of open and interval funds complying with the figures for the previous year. The list of the largest management companies remained the same, but few positions changed.

Despite the unfavorable conditions, a number of mutual funds achieved good investment results in 2014. Table 20 shows a list of the ten most profitable funds (as regards open and interval unit investment funds) compiled as at the end of 2014.

For the most successful funds in 2014, the investment unit value increased from

Figure 68

Share of the ten largest management companies, %



■ Share of 5 major MC ■ Share of 10 major MC ■ Total

Source: investfunds.ru, estimates of NAUFOR.

Table 19

Largest management companies (at the end of 2014)

No.	Managing Company	City	NAV, million Rubles	Share in the total net asset value, %	Number of funds
1	Sberbank Asset Management CJSC	Moscow	20,074.0	21.9	19
2	Raiffeisen Capital LLC	Moscow	16,304.1	17.8	18
3	URALSIB LLC	Moscow	8,933.9	9.8	19
4	Alfa-Capital LLC	Moscow	7,706.6	8.4	17
5	Trust Investment Company, LLC	Moscow	6,918.7	7.6	3
6	VTB Capital Asset Management, CJSC	Moscow	4,244.2	4.6	19
7	Capital LLC	Moscow	3,689.0	4.0	10
8	Gazprombank – Asset Management CJSC	Moscow	3,388.9	3.7	11
9	Ingosstrakh – Investments LLC	Moscow	2,992.3	3.3	8
10	TKB BNP Paribas Investment Partners JSC	Saint Petersburg	2,691.2	2.9	6
	Total		7,642.7	84.1	130
	HH index				1,111

Source: investfunds.ru.

75 to 102%. Except for one, these funds are referred to open funds category and have invested, primarily, in foreign assets.

2.2.5. Non-State Pension Funds

The quantitative composition of NPF industry has been reducing slowly during 2009–2013. At the same time, in 2014, the total number of NPF remained almost unchanged – 119 funds (see Figure 69). Voluntary funds sent to NPF form pension reserves. The people entitled to the funded component of a retirement pension can transfer their savings to NPF licensed to carry out the mandatory pension insurance activity. There were 90 of such NPF at the end of

2014 as against 99 in the previous year (a reduction made up 9.1%).

The information on the investment resources of NPF associated with non-state pension schemes (pension reserves) and mandatory pension insurance (pension savings) is shown in Figure 70.

In 2014, the investment resources of NPF increased just by 112.6 billion Rubles and made up 2,032.5 billion Rubles, of which pension reserves are 44.3%. The stabilization of the pension savings amount was caused by the government decisions on temporary suspension of pension savings transfer from the Pension Fund of Russia to pension funds and management companies.

The growth in pension reserves was not administratively restricted but it was insignificant, which, among other things, was related to closing up of corporate voluntary pension maintenance programs and low activity of the people.

2.2.6. Investment of Pension Savings

Individuals entitled to the funded component of a retirement pension may transfer their savings to NPF or transfer for management to a management company, either private or state.

According to the data of the PFR, 36 private management companies and state management company JSC State Corporation Bank for Development

Table 20

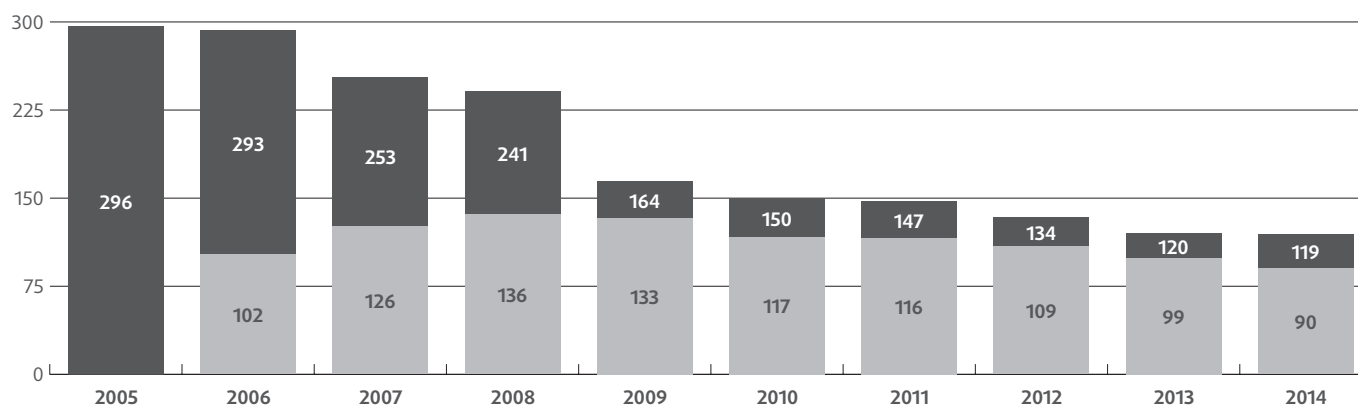
Most profitable funds

No.	Fund name	Category	Managing Company	Increase, %
1	URALSIB Global Real Estate	FF	URALSIB LLC	102.3
2	Otkrytie – Foreign Estate	FF	OTKRYTIE LLC	99.9
3	RGS – Global Technologies	FF	Savings Management LLC	95.9
4	Raiffeisen USA	FF	Raiffeisen Capital LLC	81.8
5	Otkrytie USA	FF	OTKRYTIE LLC	79.8
6	URALSIB Joint Stock Markets of Developed Countries	FF	URALSIB LLC	79.3
7	Sberbank America	FA	Sberbank Asset Management CJSC	78.4
8	URALSIB Debt Markets of Developed Countries	FF	URALSIB LLC	78.1
9	Otkrytie – China	FF	OTKRYTIE LLC	76.5
10	URALSIB Gold	FF	URALSIB LLC	75.2

Source: investfunds.ru.

Figure 69

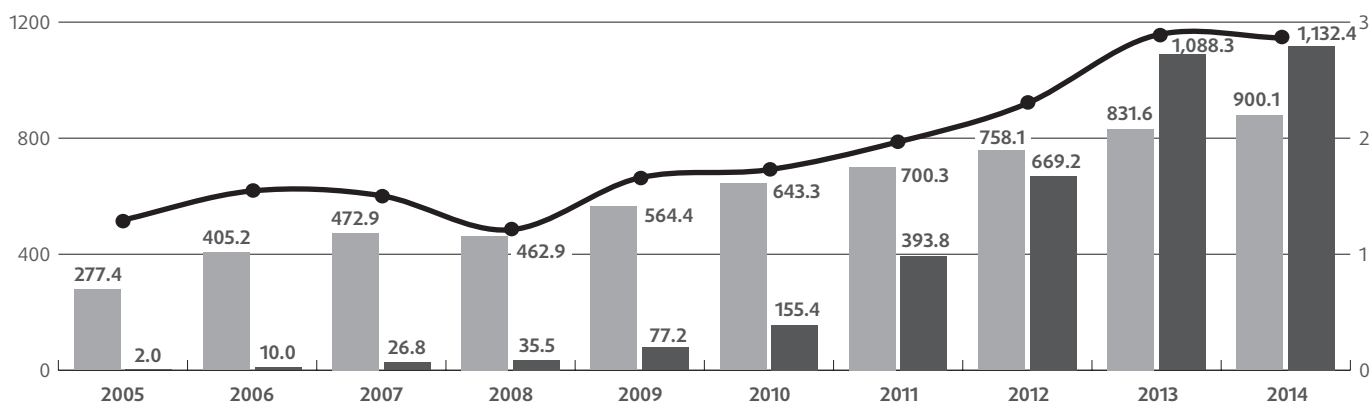
Number of non-state pension funds



■ Number of NPF licensed to carry out mandatory pension insurance ■ Total number of NPF

Source: Bank of Russia, Pension Fund of Russia.

Figure 70

Investment resources of NPF

■ Pension reserves, billion Rubles (left scale) ■ Pension savings, billion Rubles (left scale) — In % of GDP (right scale)

Source: Bank of Russia, Federal State Statistics Service.

and Foreign Economic Affairs (Vnesheconombank) are licensed to manage the pension savings.

As a state management company, Vnesheconombank is entitled to invest pension funds of citizens in two investment portfolios – an expanded investment portfolio and a portfolio of state securities.

The expanded portfolio is formed from government bonds of the RF, sub-federal bonds, corporate bonds, mortgage securities, bonds of international financial organizations, as well as deposits in Rubles and foreign currencies in the Russian credit organizations. The funds from the state securities portfolio can be invested solely in government securities of the RF, corporate bonds (if performance of obligations is secured by the state guarantee) and cash funds in Rubles and foreign currencies on accounts in the Russian credit organizations. Private management companies have wider investment opportunities, including at the expense of equity securities.

Table 21 provides data on the net assets value of the pension savings at the disposal of Vnesheconombank and private management companies in 2005–2014.

Over 98% of the pension savings of the insured individuals transferred for trust management to management

companies are permanently at the disposal of Vnesheconombank. The value of net assets managed by the state management company in 2014 reached 1,940 billion Rubles, a 2% increase as compared to the previous year. The expanded portfolio constitutes the main investment portfolio of the state management company, with the state securities portfolio vanishingly small when compared to the above.

The value of net assets managed by private management companies for 2014 remained almost unchanged compared to the similar period of the previous year, reaching 37.6 billion Rubles.

2.2.7. Commercial Banks

Many Russian banks hold licenses of professional securities market participants or act as investors. Consolidated data on the volumes of various securities types held as assets by credit organizations are shown in table 22²⁰. In absolute terms, securities in assets of credit organizations at the end of 2014 were valued at 9694.5 billion Rubles, with the annual growth of 24.7%. Currently, the banking system is the largest institutional investor, with the securities in bank assets exceeding 13% of GDP.

In 2014, the number of debt securities increased to 78.9% of the total securities portfolio of credit organizations, which is

beyond their usual range of 74–75%, and the percentage of shares (without taking into account shares of subsidiaries and affiliates) fell almost by half, despite the growth in absolute values, and accounted for 5%.

2.2.8. Non-Residents

Figure 71 shows the information on the average annual number of unique non-resident customers of MICEX Stock Exchange. It is worth noting that since 2011 the Moscow Exchange Group has altered the format of data submitted on the customer base associated with non-residents. Before that, apparently, the information on non-resident legal entities was disclosed only, then the information on both non-resident individuals and legal entities began to be disclosed. In view of the above, the graph in Figure 71 is of composite nature.

During the entire monitored period since 2008, the number of non-residents being the customers of the MICEX Stock Exchange has been growing. For 2014, the number of unique customers of the MICEX Stock Exchange being non-resident legal entities increased by 7.3% and made up 4,334 companies. Throughout the year the number of non-resident individuals increased permanently, at the end of 2014, their annual average number was

²⁰ Securities acquired both on the domestic and foreign markets are taken into account.

Table 21

Net value of assets in which pension savings were invested, billion Rubles

Period	Vnesheconombank			Private management companies	TOTAL	Investment resources of MC/GDP (%)
	Expanded portfolio	Portfolio of government securities	TOTAL			
2005		176.3	5.6	181.9	0.84	0.84
2006		267.1	9.4	276.4	1.03	1.03
2007		362.9	12.2	375.1	1.13	1.13
2008		343.1	7.1	350.2	0.83	0.83
2009	479.8	0.8	480.6	14.9	495.4	1.23
2010	737.5	2.4	739.9	19.5	759.4	1.69
2011	1,328.6	5.2	1,333.8	28.8	1,362.6	2.44
2012	1,635.3	8.0	1,643.2	34.0	1,677.2	2.69
2013	1,854.1	10.9	1,865.0	37.5	1,902.5	2.85
2014	1,891.7	10.5	1,902.3	37.6	1,940.8	2.73

Sources: VEB, PFR, estimates of NAUFOR.

Table 22

Securities in the assets of credit organizations in 2005–2014, billion Rubles

Period	Securities* (TOTAL)	% GDP	Including			
			Debt instruments*	Equity securities*	Controlling portfolio in subsidiary and affiliate JSC	Discounted bills
2005	1,527.9	7.1	1,036.6	227.9	64.9	198.5
2006	1,956.2	7.3	1,341.2	311.2	79.8	224.1
2007	2,353.1	7.1	1,674.7	286.5	144.5	247.4
2008	2,350.7	5.7	1,760.3	193.4	212.0	185.0
2009	4,286.2	11.0	3,379.1	411.8	284.5	210.8
2010	5,810.1	12.5	4,419.9	710.9	368.2	311.1
2011	6,191.8	11.1	4,676.2	914.4	387.3	213.9
2012	6,944.4	11.2	5,265.1	791.6	579.4	308.2
2013	7,774.2	11.7	6,162.9	790.4	599.1	221.8
2014	9,694.5	13.7	7,651.4	488.7	1,365.9	188.4

* Until February 1, 2008, without taking into account securities under repurchase agreements.

Source: Bank of Russia.

2,815 people, which was by 22.1% more than that in the previous year.

As opposed to the residents, where the number of individuals is two orders greater than the number of legal entities, the number of non-resident individuals is less than the number of non-resident legal entities by 1.5 times.

The number of active non-resident customers (see Figure 72) was much

smaller than the total number of non-resident customers.

Since the start of separate information disclosures for non-resident individuals and legal entities, a reduction in the share of active customers is observed. However, in 2014, the burst of activity took place. The number of active non-resident individuals increased by 14.2%, and the growth in the number of active

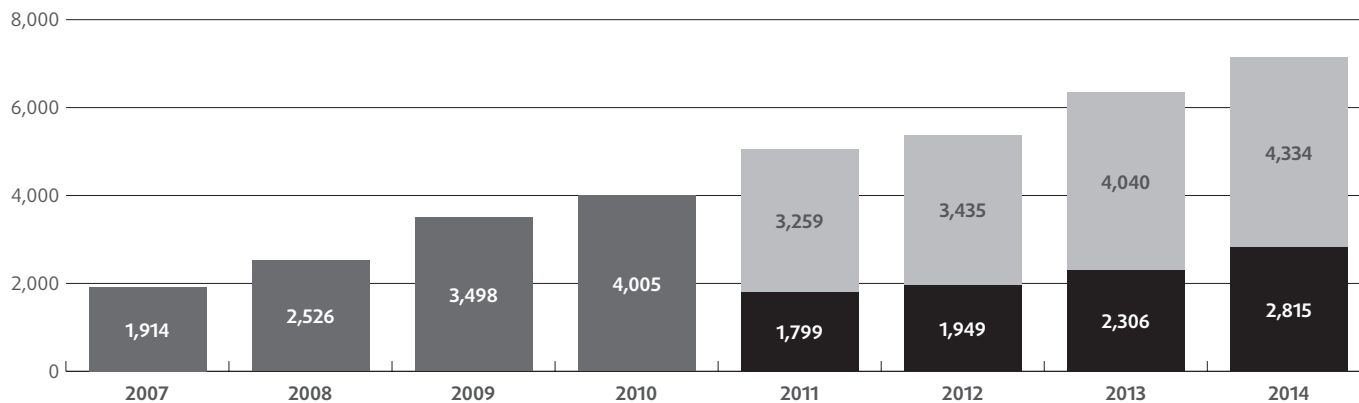
non-resident legal entities made up 21.2%.

Participation of non-residents in transactions in non-government securities have changed depending on the situation on the local and the global markets (see Figure 73).

Starting from mid-2011 and until the end of 2013, participation of non-residents in transactions on the stock

Figure 71

Non-resident customers on the stock market of the Moscow Exchange Group (Main Market sector)

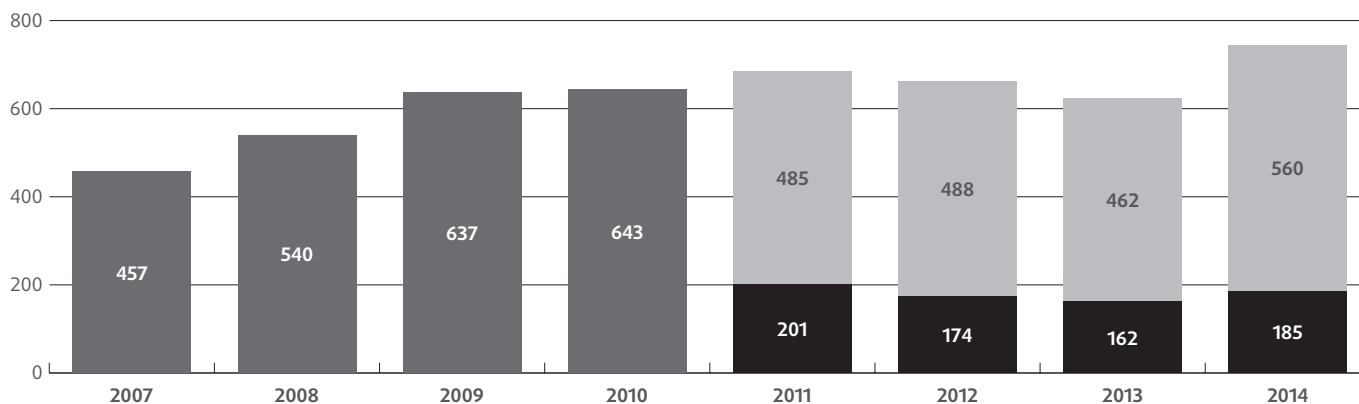


■ Non-Residents ■ Non-resident individuals ■ Non-resident entities

Source: Moscow Exchange Group, estimates of NAUFOR.

Figure 72

Active non-resident customers on the Stock Market of Moscow Exchange Group (Main Market sector)

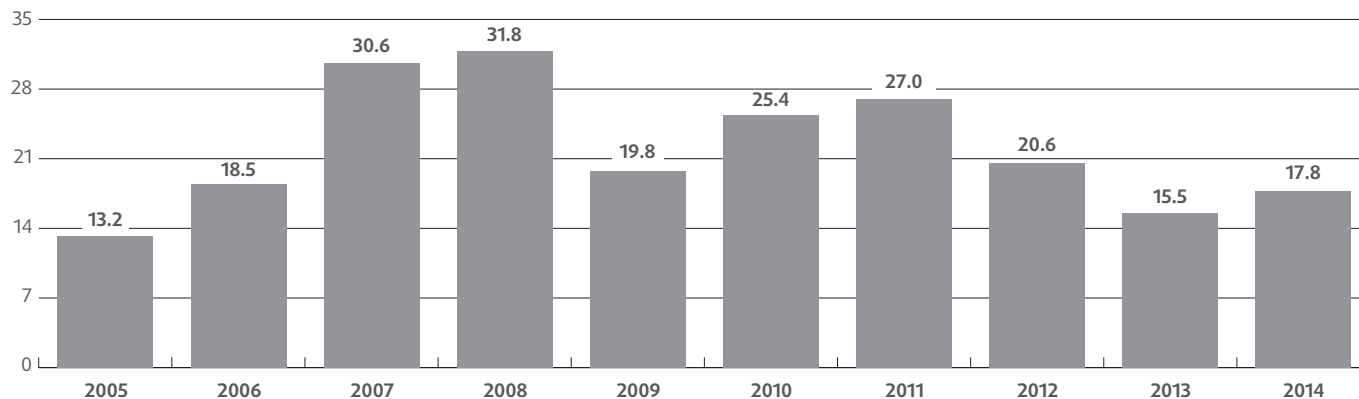


■ Non-Residents ■ Non-resident individuals ■ Non-resident entities

Source: Moscow Exchange Group, estimates of NAUFOR.

Figure 73

Share of non-residents in the cost of transactions in non-government securities in the Moscow Exchange Group (Main Market sector)



Source: Moscow Exchange Group, estimates of NAUFOR.

Figure 74

Share of non-residents in the cost volume of transactions in shares and corporate bonds in the Moscow Exchange Group (Main Market sector)

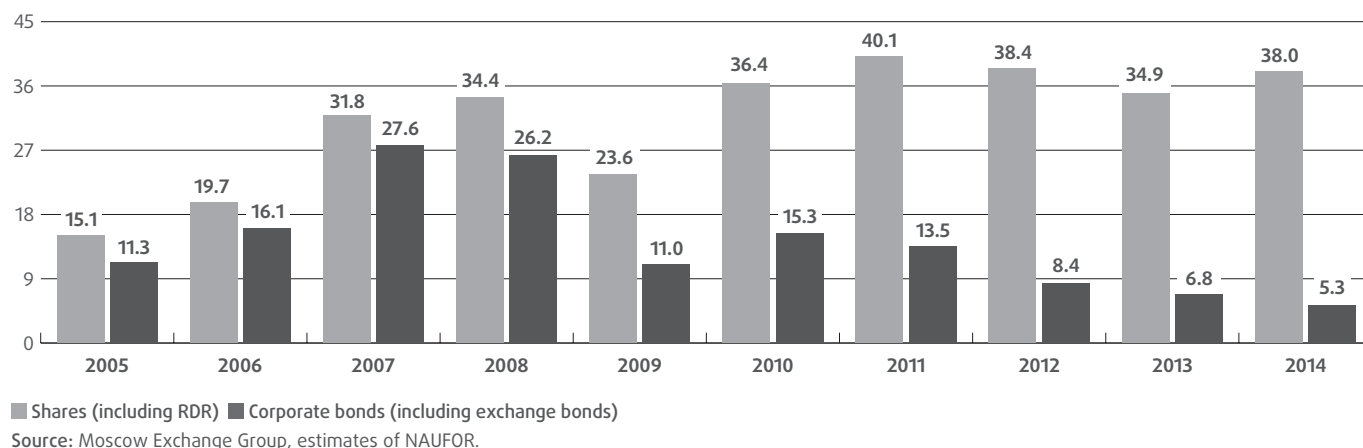
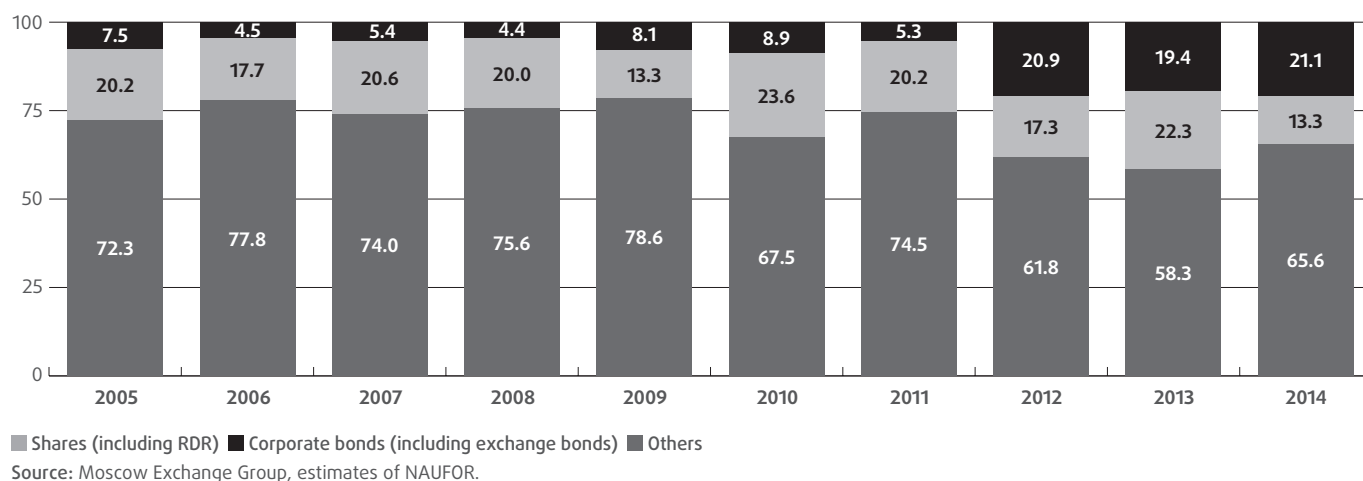


Figure 75

Structure of non-resident customers' transactions on the stock exchange of the Moscow Exchange Group, %



market of the Moscow Exchange Group was steadily decreasing. However, in 2014, the share of non-residents in the total value of transactions in non-government securities increased up to 17.8%.

The share of transactions effected by non-residents in various types of securities (including repo transactions) was versatile (see Figure 74).

Non-residents' activity in transactions in shares was traditionally intense, except

for decline in 2009. In 2014, participation of non-residents in transactions in shares made up 38.0%, which was by 3.1 pp more than that in the previous year. The transactions in corporate bonds showed a long-term downward trend, which arose in 2008–2009. At the end of 2014, the share of non-residents in transactions in corporate bonds decreased to 5.3% against 6.8% in 2013.

Non-resident investors engaged in securities transactions on MICEX Stock

Exchange are mainly interested in shares. Figure 75 provides data on the structure of non-resident investors on the stock market of the Moscow Exchange Group.

In the total number of transactions effected by non-residents in 2014 in all trading modes, the transactions in shares accounted for 65.6% and in corporate bonds – for 13.3%. Other types of securities, such as sub-federal, municipal bonds and investment units, made up 21.1% in total.

2.3. Professional Participants of Securities Market

2.3.1. General information on the professional participants of securities market

The total number of professional participants of the securities market has been decreasing continually since 2009. However, over the last two years this decrease ceased to be significant. In particular, in 2014, their number decreased by 6.1% (71 company in quantitative terms) and at end of the year the number of legal entities holding licenses of professional securities market participants in various combinations made up 1,093 companies (see Figure 76)²¹.

2.3.2. Brokers, Dealers, Trustees

Along with infrastructure organizations, the main participants of the Russian stock market include brokers, dealers and trustees of securities.

The total number of organizations holding licenses to brokerage, dealer and securities management activities (for any combinations of licenses) at the end of 2014 made up 1,033 (at the beginning of the year there were 1,102 of such companies). 43.5% of the above are credit organizations. Most (64.4%) of the head offices of

professional intermediary participants are located in Moscow.

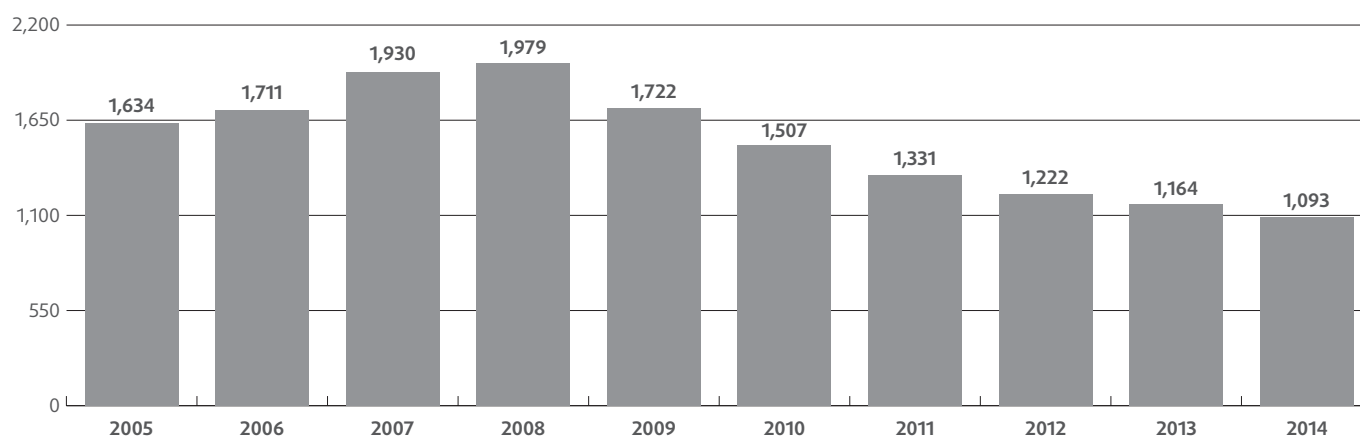
The most common legal organizational form of professional intermediary participants is a limited liability company (47.7% of the total number of intermediaries), while closed and open joint-stock companies are almost equally represented (see table 23)²².

The Bank of Russia is authorized to carry out some transactions in securities, including those on the organized market, without special licenses.

The information on the number of active licenses issued to professional

Figure 76

Number of organizations – professional participants of the securities market



Source: Bank of Russia, estimates of NAUFOR.

Table 23

Legal organizational forms of professional securities market participants holding licenses for broker, dealer and trust management activities in 2014.

Legal organizational form	Number of companies	Share of the total number, %
Closed joint-stock company	271	26.2
Open joint-stock company	269	26.1
Limited liability company	492	47.7

Source: Bank of Russia, estimates of NAUFOR.

²¹ The table shows companies holding licenses to broker, dealer, depositary or clearing activities, securities management activity, activity of registrars of security holders, activity of trade organization on the securities market.

²² State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank) holds licenses of professional securities market participants, as well; it is not taken into account in the table.

Figure 77

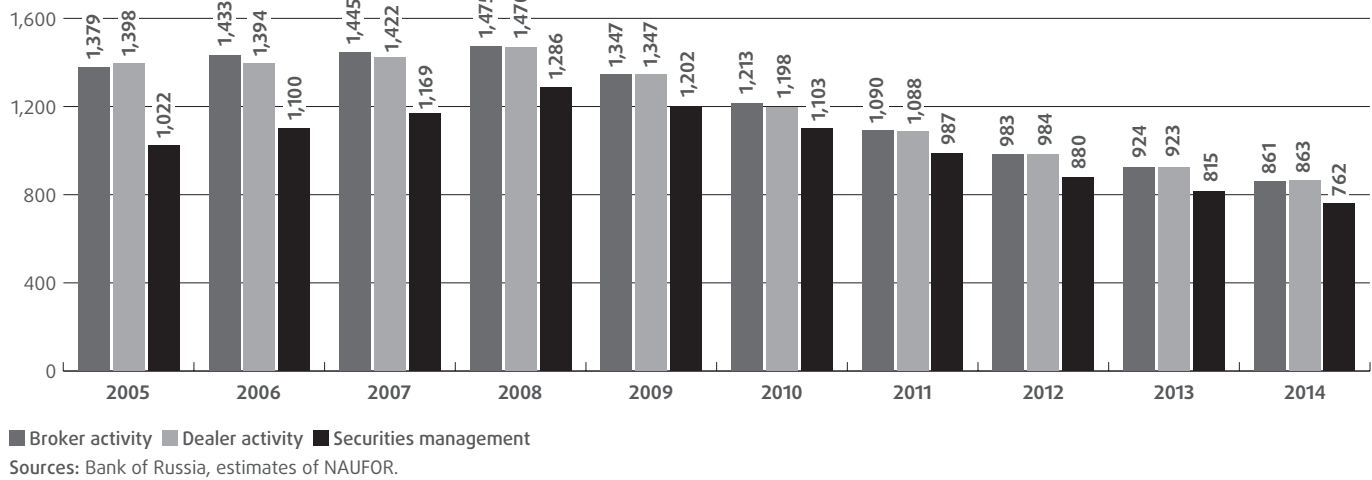
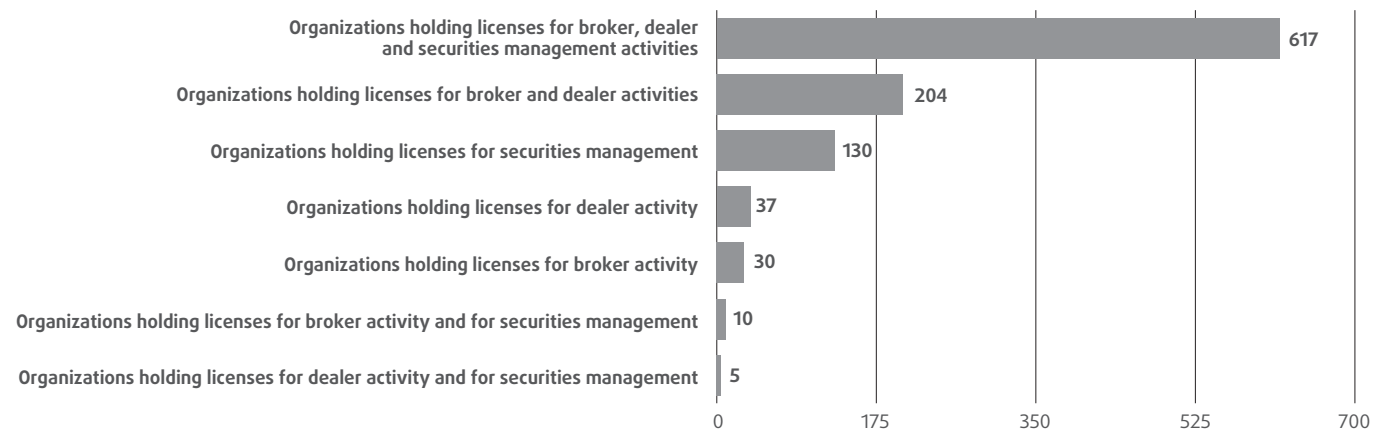
Licenses held by professional intermediaries

Figure 78

Combination of valid licenses held by professional participants of the securities market in 2014.

Source: Bank of Russia, estimates of NAUFOR.

intermediaries is shown in Figure 77, while Figure 78 describes the current combinations of various license types.

The number of valid licenses has been decreasing along with the number of professional intermediary organizations. The greatest reduction in 2009–2014 was observed for licenses for broker activity, with the average reduction rate of 9.4% per annum.

The majority of companies (59.7%) hold all the three licenses for broker, dealer and securities management activities. Among the companies holding a broker, dealer or securities management licenses, about 65% also hold a depository license. The number of licenses issued and

cancelled varies within a wide range depending on the situation on the securities market and the policy of the regulatory authority, including increasing the capital adequacy standards (2010) and changing the rules for licensing of new companies (2012) (see Figures 79 and 80).

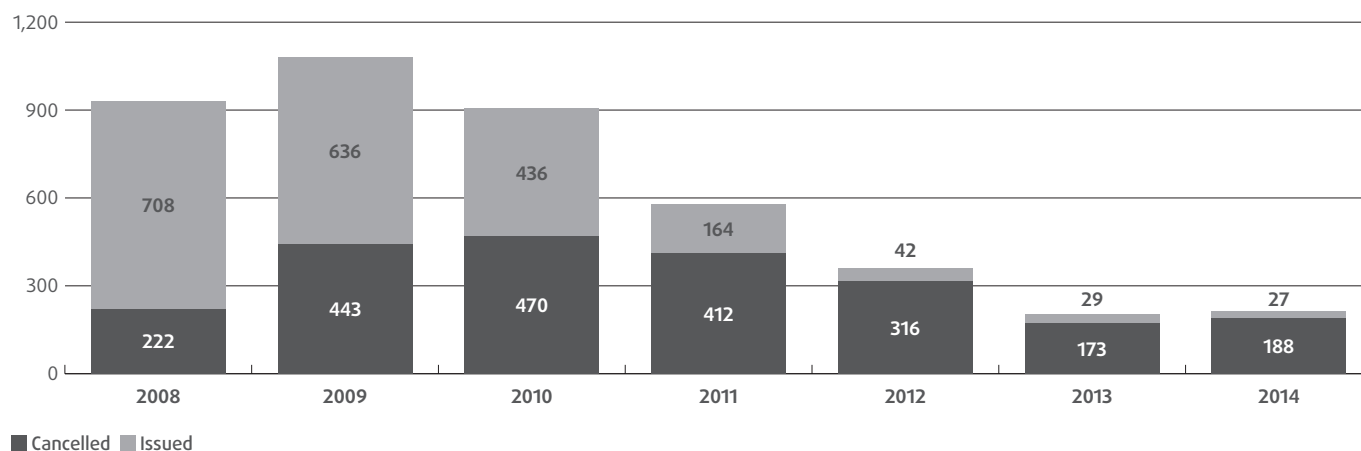
At the end of 2014, the number of cancelled licenses remained almost unchanged – by 0.4% more as compared to the previous year. In general, in 2014, 263 licenses of professional participant of the securities market being an intermediary were cancelled and 67 were issued, while the total number of intermediaries reduced by 69 companies.

It should be noted that for metropolitan companies one license issued accounted for 5–6 cancelled ones in 2012–2014. In 2008–2009, there were the contrary proportion: one license cancelled accounted for 2–3 issued ones.

For regional companies the proportions differed: in 2009–2014, one license issued accounted for two cancelled ones. 2011, when one license issued accounted for seven cancelled ones, was the exception.

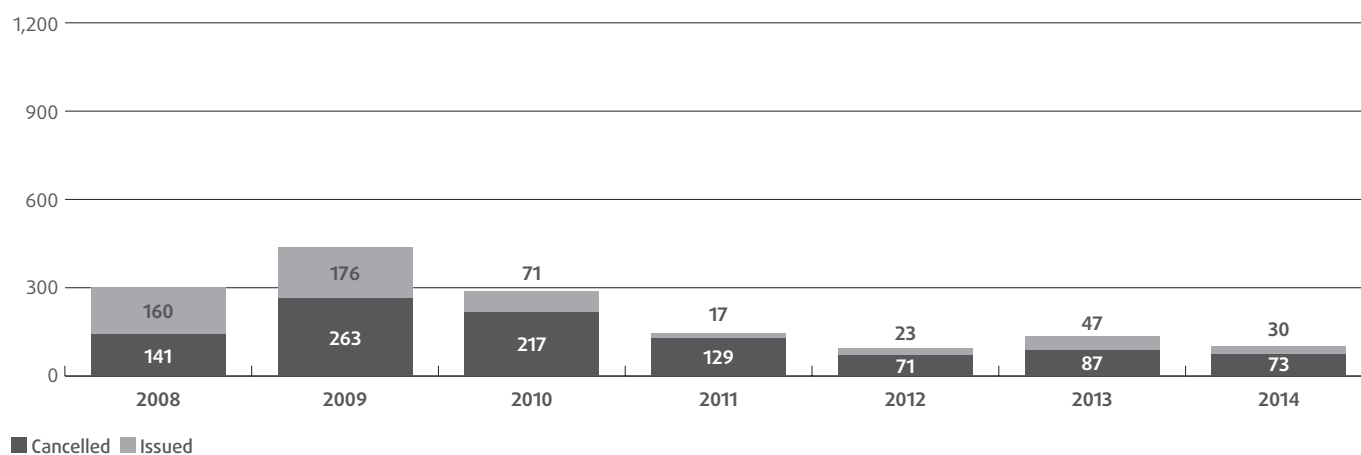
In 2014, 536 organizations participated in trading on the stock market of the Moscow Exchange Group (see more about the markets, sectors and operating modes in Section 2.3.3).

Figure 79

Issue and cancellation of licenses to professional participants in Moscow, licenses

Source: Bank of Russia, estimates of NAUFOR.

Figure 80

Issue and cancellation of licenses to professional participants in regions, licenses

Source: Bank of Russia, estimates of NAUFOR.

Table 24

List of traders that concluded the largest volumes of transactions in non-government securities on the main market of the Moscow Exchange Group (at the end of 2014).

Item No.	Name of organization	Transaction volume (purchase+sale), billion Rubles	Share in the total volume, %
1	Bank of Russia	60,412	21.4
2	Otkrytiye Group	27,513	9.7
3	Sberbank Rossii Group	25,115	8.9
4	VTB Group	23,974	8.5
5	BCS Group	10,988	3.9
6	Gazprom Group	9,067	3.2
7	Renaissance Group	7,088	2.5
8	Vnesheconombank Group	5,835	2.1
9	Bank Saint Petersburg JSC	5,347	1.9
10	BC REGION LLC	5,282	1.9
	TOTAL	180,621	63.9
	HH index		611

Calculated on a basis of data provided by the Moscow Exchange Group.

Table 24²³ provides a list of the traders that concluded the largest volume of transactions in non-government securities in the Main Market sector in 2014²⁴.

The concentration of turnover is growing: the share of ten most active operators accounts for 63.9% of the total

turnover, while the index was 61.9% in the previous year.

The most active trader remained the Bank of Russia, its share decreased slightly in 2014: at the end of the year it accounted for 21.4% of the total turnover, while this index was 22.7% in the previous year. Promotion of

Otkrytie Group to the second position became the distinctive feature of the list of the most active traders: usually this position was taken by Sberbank of Russia Group.

Tables 25 and 26 provide the lists of traders separately for transactions in shares and corporate bonds.

Table 25

List of traders that concluded the largest volumes of transactions in shares on the main market of the Moscow Exchange Group (at the end of 2014).

Item No.	Name of organization	Transaction volume (purchase+sale), billion Rubles	Share in the total volume, %
1	Sberbank of Russia Group	16,965	15.5
2	Otkrytie Group	15,479	14.2
3	BCS Group	9,693	7.0
4	VTB Group	7,649	5.4
5	Renaissance Group	5,934	8.9
6	Gazprom Group	5,499	2.9
7	FINAM Group	4,295	3.9
8	ALFA-BANK JSC	3,822	5.0
9	Promsvyazbank JSC	3,544	3.5
10	Bank of Russia	3,172	3.2
	TOTAL	76,051	69.7
	HH index		402

Calculated on a basis of data provided by the Moscow Exchange Group.

Table 26

List of traders that concluded the largest volume of transactions in corporate bonds on the main market of the Moscow Exchange Group at the end of 2014.

Item No.	Name of organization	Transaction volume (purchase+sale), billion Rubles	Share in the total volume, %
1	Bank of Russia	51,921	32.9
2	Sberbank of Russia Group	15,719	10.0
3	VTB Group	11,386	7.2
4	Otkrytie Group	6,313	4.0
5	Gazprom Group	4,797	3.0
6	UniCredit Group	4,298	2.7
7	BC REGION LLC	3,562	2.3
8	Vnesheconombank Group	3,325	2.1
9	UBRD JSC	2,968	1.9
10	Bank Saint Petersburg JSC	2,387	1.5
	TOTAL	106,675	67.6
	HH index		1,195

Calculated on a basis of data provided by the Moscow Exchange Group.

²³ Hereinafter, traders are combined into reputed groups of companies.

²⁴ Hereinafter in this section, all trading modes and repo transactions in shares, corporate bonds and investment units are taken into account.

In transactions in shares, the concentration of traders is traditionally higher than for the main market in general. The top ten companies ensured 69.7% of the transaction volume, which is slightly higher than 68.2% in the previous year. The composition and positions of the most active traders in shares remained almost unchanged. ING BANK (EURASIA) CJSC left the top list.

In the corporate bonds sector, the concentration of turnovers on the top ten participants has increased slightly over the year: from 64.7% to 67.6%, and the Bank of Russia ensured 32.9% of transactions in corporate bonds. In the previous year, its share was smaller at 30.2%. The composition and positions of the most active traders in corporate bonds remained almost unchanged. Raiffeisenbank JSC left the top list.

High concentration of transactions among clearing firms on the derivatives market of the Moscow Exchange Group was also typical (see table 27).

In 2014, the top ten of 97 clearing firms trading on the derivatives market accounted for 74.6% of the trade volume for all types of derivatives contracts. The share of the most active trader made up 22.4% of the total turnover. In comparison to 2013, the concentration indices changed insignificantly. The composition and

positions of the most active traders in corporate bonds remained almost unchanged. It should be noted that BCS Company LLC took the first position from the second one.

2.3.3. Trading and Settlement Infrastructure

The trading and settlement infrastructure of the Russian securities market comprises:

- stock exchanges
- clearing organizations
- settlement depositories

The infrastructure includes credit organizations acting as settlement organizations.

According to the Bank of Russia, in 2014, eight companies had licenses of the stock exchange and five ones held licenses of the clearing organization (including three acting as a central counterparty).

In practice, as a result of the integration processes since the end of 2011, there is one large infrastructure center on the Russian financial market – Moscow Exchange Group.

Moscow Exchange Group

Moscow Exchange Group constitutes a vertically-integrated trading and settlement infrastructure with the parent organization MICEX-RTS Moscow

Exchange JSC (abbreviated as Moscow Exchange JSC). Among the largest shareholders holding over 5% of the authorized capital, according to the data for the fourth quarter of 2014, only two legal entities remained:

- Bank of Russia – 11.730% of votes;
- Vnesheconombank – 8.395% of votes

In 2014, Moscow Exchange Group maintained several markets and trading modes, including: stock, currency, derivatives markets. The functions of certain organizations of the group are distributed as follows:

- **Moscow Exchange OJSC**, in addition to its consolidating role in the group, is a trade organizer on the derivatives and currency market.
- **MICEX Stock Exchange CJSC** is a trade organizer in all sectors of the stock market and on the market of government securities.
- **Non-Banking Credit Organisation National Settlement Depository CJSC** is a settlement depository and carries out monetary settlements on the stock market for all sectors: Main Market, Classica and Standard (in the delivery versus payment mode). It has the status of a central depository.

NSD accounts include records of the guarantee and insurance funds for the derivatives market. In addition, NSD

Table 27

List of traders with the largest volume of transactions in derivatives contracts on the derivatives market of the Moscow Exchange Group (at the end of 2014)

Item No.	Name of organization	Transaction volume (purchase+sale), billion Rubles	Share in the total volume, %
1	BCS Company LLC	27,627	22.4
2	OTKRYTIYE Brokerage House JSC	25,021	20.3
3	Investment Company IT Invest JSC	9,586	7.8
4	FINAM Investment Company CJSC	7,154	5.8
5	Renaissance Online LLC	5,482	4.4
6	ALOR+ LLC	4,311	3.5
7	JSC IC ZERICH Capital Management	3,767	3.1
8	Renaissance Broker LLC	3,224	2.6
9	Sberbank CIB CJSC	3,017	2.4
10	ALFA-BANK JSC	2,660	2.2
	TOTAL	91,850	74.6
	HH index		1,095

Calculated on a basis of data provided by the Moscow Exchange Group.

Table 28

Equity capitals of organizations comprising Moscow Exchange Group (million Rubles)

Period	Moscow Exchange OJSC		MICEX SE CJSC	NSD CJSC	NCC CJSC	TOTAL SK
	SK	Market capitalization				
Q1 2013	35,400	109,277	1,285	6,348	14,927	57,960
Q2 2013	34,323	127,439	813	6,112	16,388	57,636
Q3 2013	37,418	146,491	1,062	6,861	18,085	63,425
Q4 2013	37,535	154,031	1,222	7,308	28,755	74,821
Q1 2014	32,941	136,906	1,558	7,951	30,852	73,303
Q2 2014	27,341	152,874	950	7,861	33,200	69,351
Q3 2014	n/a	132,708	n/a	8,630	39,525	n/a
Q4 2014	65,135	138,449	1,771	9,411	34,129	110,473

Source: Moscow Exchange Group.

provides settlement services for all types of equity securities on the OTC market.

➤ **National Clearing Centre Joint-Stock Commercial Bank CJSC** acts as a clearing organization and the central counterparty on the stock market for the Main Market and Standard sectors, as well as on the derivatives and currency markets.

The equity capitals of separate organizations comprising Moscow Exchange Group are shown in table 28.

The data provided in table 28 are not complete as the Moscow Exchange Group stopped disclosing the information on calculations of net worth of Moscow Exchange OJSC and MICEX SE CJSC on the group's website from the second half of 2014; the data as of the end of 2014 are obtained from the consolidated financial statements of the group.

The equity capitals of the group companies directly engaged in supporting the stock, derivatives and currency markets grew by 47.7% at the end of 2014 and made up 110.5 billion Rubles with market capitalization in the amount of 138.4 billion Rubles. The ratio between market capitalization and equity capital was 1.25 against 1.87 in the previous year.

The most capitalized organization of the group is a parent company – Moscow Exchange OJSC – accounting for 59.0% of the aggregate equity capital. It is followed by the clearing organization—NCC CJSC – accounting for 30.9% of the aggregate equity capital.

Stock market of Moscow Exchange Group consists of two sectors:

- Main Market sector;
- Classica sector.

Main Market Sector is the exchange market of shares, corporate, government, sub-federal and municipal bonds, investment units and depositary receipts where trading is conducted both with and without the participation of the central counterparty.

In this sector, two markets may be distinguished:

- Equity market (T+ market). Provides for settlements based on trade with the central counterparty, partial security and deferred execution. Covers trade in shares, depositary receipts, and investment units;
- Debt capital market (T0 market). Provides for settlements based on trade with the central counterparty, full security and execution on the transaction date. Covers trade in bonds.

The trading session includes three parts:

- pre-trading period;
- trading period;
- closing auction/post-trading auction.

The pre-trading period lasts from 9:45 to 10:00 in the form of discrete auction. Following its results, the opening price is determined, which ensures transactions in the most number of securities.

The main trading period lasts from 10:00 to 18:40 for shares and depositary receipts and from 10:00 to 18:45 for

units and bonds. It is held in the form of open continuous bilateral auction. All transactions are effected with the central counterparty.

Trading in the Main Market sector takes place in various trading modes, including:

- T+ Market:
 - Auction mode T+;
 - Negotiated deals mode with the central counterparty;
 - Odd lot mode.
- T0 Market:
 - Auction mode;
 - Negotiated deals mode.
- Repo market with the central counterparty:
 - Repo transaction mode with the central counterparty – transactions open to any counterparties;
 - Repo transaction mode with the central counterparty – two-sided transactions.
- Repo market:
 - Repo transaction mode in shares;
 - Repo transaction mode in bonds.
- Repo market with the Bank of Russia:
 - Repo transaction mode with the Bank of Russia, auction market.

After the main trading period until 18:50 the closing auction is held to determine representative closing price.

In case of increase or decrease by 20% during 10 minutes in a row in the current prices in the course of a trading session from 10:00 to 17:00 of the closing price on the previous day, a discrete auction is held. Maximum period of the discrete auction is 15 minutes.

Two clearing sessions at 16:00 and 19:00 are provided for.

Classica sector is a direct share market with possible settlements in US Dollars. Currently, it is not very active.

In December 2014, the Moscow Exchange Group launched a new information service – MOEX Board indicative quotation system. It is a «message board», which allows investors to set and review quotations of the shares not presented on the Russian organized market.

In 2014, the complete listing reform was carried out on the Moscow Exchange. The new listing rules registered in February reduced the number of listing tiers from six to three. The A1 and A2 quotation lists were consolidated in the first (highest) tier quotation list, the second tier quotation list included securities from B, V and I lists. The third tier list comprised securities not included in the higher tier lists. Further formation of the premium listing segment was also

announced. In June, these rules came into force.

As a result of the listing reform, the following structure of the securities traded was on the Moscow Exchange by the end of 2014 (see table 29).

According to the estimates carried out based on the data of Moscow Exchange, 74% of all transactions in all modes were effected in the securities included in the first tier listing in 2014, 15% accounted for the second tier listing, the remaining turnover (11%) accrued to the transactions in third tier securities.

The Main Market sector also includes the Innovations and Investments Market (IIM) distinguished by separate procedures for admission of securities to trading. This market is oriented on high-tech companies and designed for their financing using exchange mechanisms, including by means of private placements among funds and qualified investors.

At the end of 2014, this market included 22 share issuers, one of which

appeared in 2014 (UAC JSC). Units of eight venture capital funds, securities of two foreign issuers and bonds of five Russian companies, two of which (Poliplast JSC and PO UOMZ JSC) entered the IIM in 2014, are also traded on this market.

IIM trade volumes are insignificant but with an upward trend (see Figure 81²⁵).

At the end of 2014, the volume of trading in all financial instruments (excluding bonds) on the IIM made up 30.0 billion Rubles, which was 48.4% higher than in the previous year.

Over last two years, the trade volume of bonds has considerably grown on the IIM: 135.3 billion Rubles in 2013 as against 352.1 billion Rubles in 2014. As a result, the amount of transactions in bonds is the next-higher order than the amount of transactions in other financial instruments on the Innovations and Investments Market.

The derivatives market of the Moscow Exchange Group is based on the anonymous order auction.

Table 29

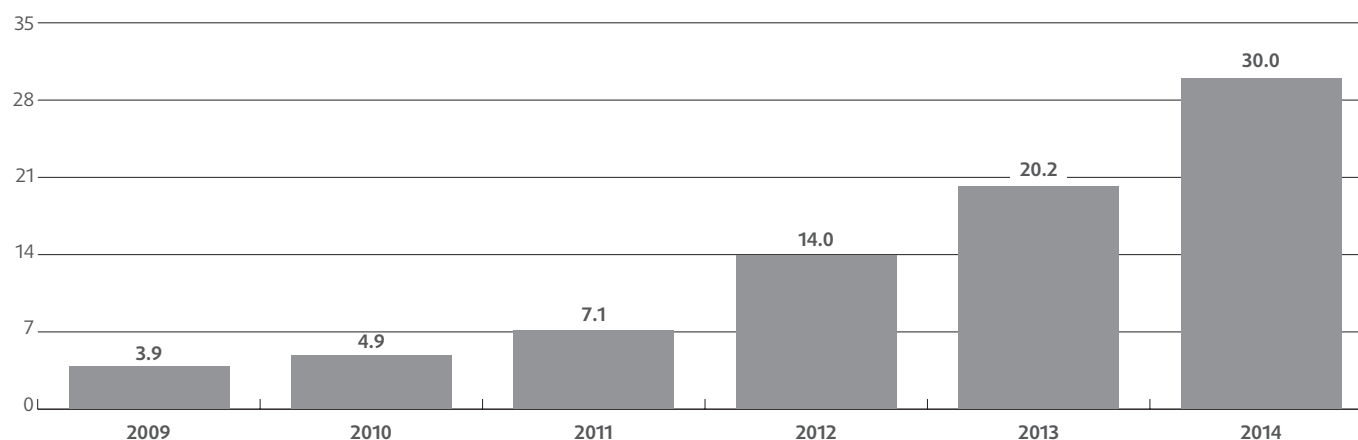
Structure of securities listing in the Moscow Exchange Group

Listing tier	Type of a security			
	Shares	Corporate bonds	Sub-federal and municipal bonds	Investment Units
I	64	322	86	9
II	42	214	0	41
III	208	414	27	191

Source: Moscow Exchange.

Figure 81

Trade volume on the Innovation and Investment Market, billion Rubles



Source: Moscow Exchange Group.

Quotations and settlements are made in Rubles.

In terms of organization, the derivatives market is divided into the following three sections:

- stock section;
- commodity section;
- money section.

The trading session on the derivatives market lasts from 10:00 to 18:45 (day session) and from 19:00 to 23:50 (night session), with two clearing sessions provided for.

Overall results of trades in corporate securities and futures contracts²⁶ in MICEX Group in 2005–2014, taking into account all modes, are shown in table 30.

The total volume of transactions in all types of non-government securities in all sectors of the stock market of the Moscow Exchange Group and in all trading modes made up 141,296 billion Rubles at the end of 2014, which is 6.3% lower than in the previous year. Fall in turnovers on the spot market was also observed in 2009. To a large extent, the

current fall was caused by decrease in the amount of transactions in corporate bonds (minus 14.3%), although this type of securities has been a driver for growth in turnovers over the last years.

The decline observed in 2012–2013 on the derivatives market of the Moscow Exchange Group gave way to growth. The volume of transactions in derivative financial instruments for all types of underlying assets made up 61,601 billion Rubles at the end of 2014, which was 27.2% more than in the previous year.

Shares, corporate, sub-federal and municipal bonds constitute the basis for the exchange turnover of non-government securities on the stock market of Moscow Exchange Group. The share of other types of securities is insignificant (see Figure 82²⁷).

In 2014, the structure of the exchange turnover of securities ceased reducing in the percentage of shares and increasing in the share of corporate bonds. Thus, the percentage of shares grew from 31.7% up to 39.1%. The share of corporate bonds

in the total exchange turnover, on the contrary, decreased from 60.7 to 55.4%.

Figures 83 and 84 show graphs characterizing the shares of auction mode, negotiated deals mode and repo transactions mode of trading in shares and corporate bonds on the stock market of Moscow Exchange Group.

Reduction in the volume of auction mode and increase in the share of repo transactions were a long-term trend for transactions in shares on the domestic organized market. Thus, from 2005 to 2014, the share of auction mode in the total transactions volume has decreased from 69.5 to 17.5%, while the share of repo transactions mode has increased, on the contrary, from 18.5 to 81.6%. In 2014, negotiated deals mode occupied the remaining niche making up 0.9%.

As regards transactions in corporate bonds, by the end of 2014 the share of repo transactions became prevailing amounting to 94.4%, the share of auction mode reduced to 1.6%, and negotiated

Table 30

Results of trade in non-government securities and derivative contracts in Moscow Exchange Group in 2005–2014 (billion Rubles)

Period	Stock market					Derivatives market
	Shares	Corporate bonds	Sub-federal and municipal bonds	Investment units of UIF	TOTAL	
MICEX and RTS Groups						
2005	4,025	1,510	865	2	6,402	687
2006	14,860	4,131	1,386	5	20,382	2,709
2007	30,927	9,946	2,604	20	43,498	7,531
2008	33,705	11,725	2,735	23	48,187	11,158
2009	27,875	10,199	4,194	16	42,284	14,169
2010	30,108	25,016	8,874	31	64,030	29,350
2011	46,475	37,235	8,795	35	92,540	55,345
Moscow Exchange Group						
2012	46,499	59,188	7,854	75	113,616	49,969
2013	47,249	92,046	11,316	138	150,749	48,415
2014	54,573	78,919	7,627	177	141,296	61,601

Source: Moscow Exchange Group.

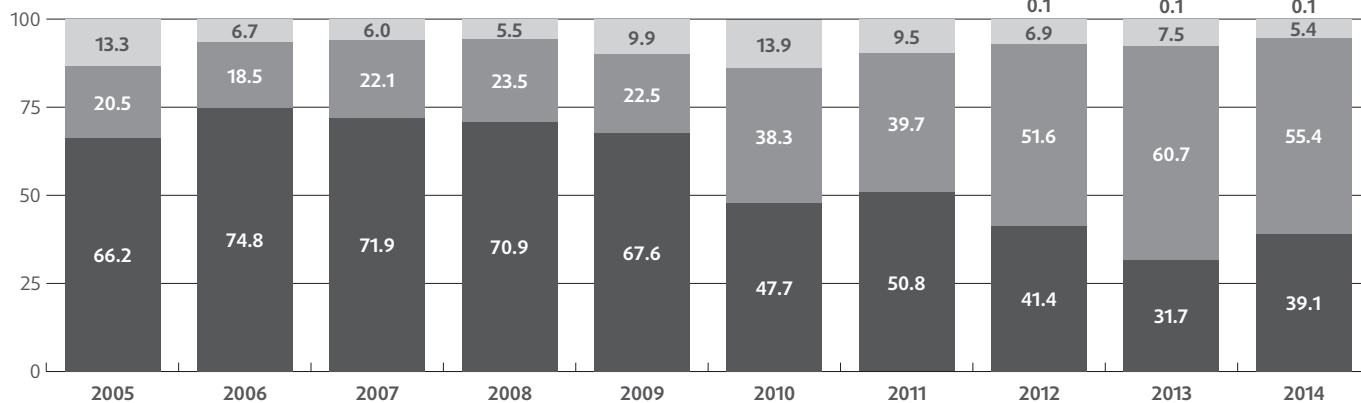
²⁵ All securities, except for bonds, are taken into account.

²⁶ Auction mode, negotiated deals mode, repo transactions and initial offerings are taken into account. All types of the underlying assets are taken into account for the derivatives market.

²⁷ Auction mode, negotiated deals mode, repo transactions and initial offerings are taken into account.

Figure 82

Structure of trade on the stock market of Moscow Exchange Group in 2005–2014, %

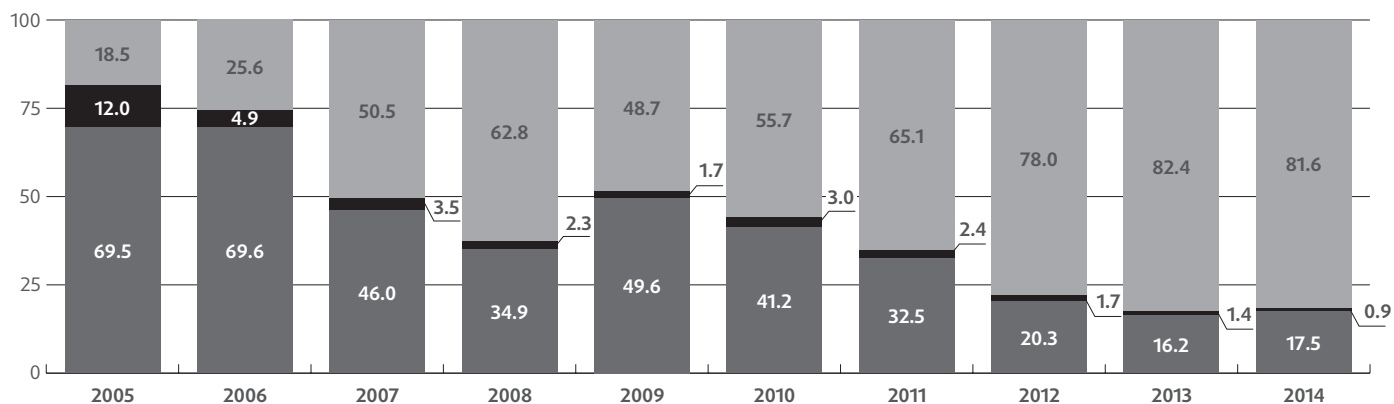


■ Shares (including RDR) ■ Corporate bonds (including exchange bonds) ■ Sub-federal and municipal bonds ■ Units of UIFs

Source: Moscow Exchange Group, estimates of NAUFOR

Figure 83

Structure of trading mode for shares on the stock market of Moscow Exchange Group in 2005–2014, %

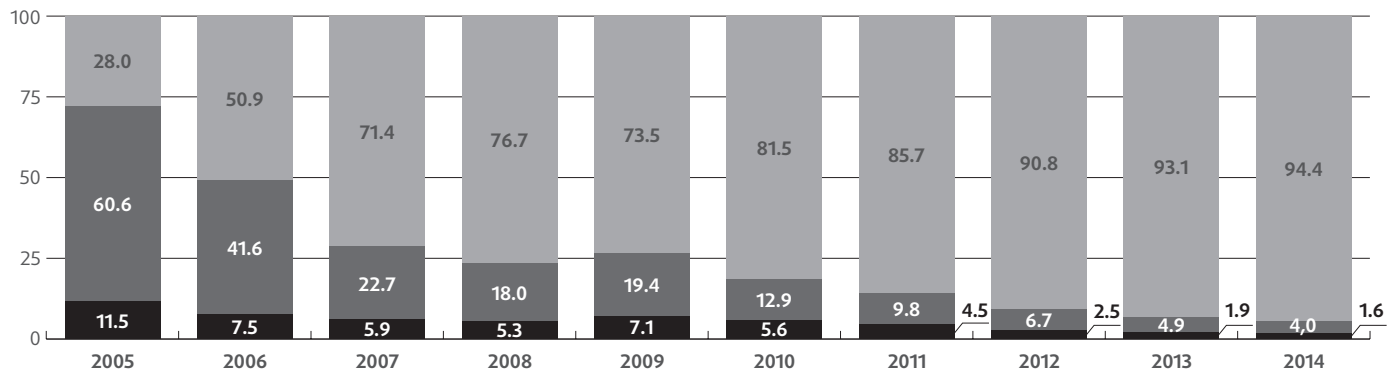


■ Auction mode ■ Negotiated trades mode ■ Repo transactions mode

Source: Moscow Exchange Group, estimates of NAUFOR.

Figure 84

Structure of transactions in corporate bonds on the stock market of Moscow Exchange Group in 2005–2014, %



■ Negotiated trades mode ■ Auction mode ■ Repo transactions mode

Source: Moscow Exchange Group, estimates of NAUFOR.

deals mode which prevailed in 2005, declined to 4.0%.

Currency Market. The functions of a trader and technical center are performed by Moscow Exchange OJSC. The transactions are effected in the mode of double auction, central clearing is carried out by NCC CJSC.

In the trading system, US Dollar, euro and other currencies are traded on the currency market, and swap transactions with different maturity dates are effected. The trading results on the currency market are provided in table 31.

The volume of trading on the currency market grew by 46.5% in 2014 and made up 228.5 trillion Rubles, while the share of non-bank organizations in the aggregate turnover was 7.5% in December 2014 against 2.4% in the previous year.

At an average, in 2009–2014 the spot transactions made up 43.9% of the total volume of currency trading. The most popular currency pair is US Dollar/Ruble, in 2014, trading in this pair in spot transactions made up 86.5% of the volume and in swap transactions – 80.6%.

In 2014, there were 534 traders on the currency market, including 494 credit organizations and 40 non-credit ones.

According to the data of Moscow Exchange, in 2014, the number of customers on the currency market increased by 4.5 times up to 212 thousand, including 4 thousand non-resident customers. The turnover on customer transactions increased by two times up to 60 trillion Rubles. The rating of traders according to the volume of customer transactions (as of December 2014) is provided in table 32.

Table 31

Results of trade on currency market in 2005–2014, billion Rubles

Period	2009	2010	2011	2012	2013	2014
Currency market, total	95,999	79,519	87,015	116,980	156,016	228,546
Including						
Spot transactions	37,353	37,571	47,092	61,543	57,297	77,798
US Dollar/Ruble	34,297	34,625	42,742	55,795	49,327	67,267
Euro/Ruble	2,807	2,749	3,893	5,120	6,446	8,954
Euro/US Dollar	247	197	199	386	1,425	1,311
Yuan/Ruble	0	0	4	8	20	252
Other currencies	0	0	74	191	79	14
Swap transactions	58,646	41,948	39,923	55,436	98,720	150,748
US Dollar/Ruble	43,342	33,833	30,241	42,355	77,899	121,555
Euro/Ruble	14,634	7,309	8,867	12,574	19,644	25,758
Euro/US Dollar	671	805	815	506	1,160	3,382
Yuan/Ruble	0	0	0	0	16	53

Source: Moscow Exchange Group.

Table 32

Rating of traders on the currency market according to the volume of customer transactions

Position in the rating	Dealer's Name
1	BCS FG
2	OTKRYTIE FG
3	Renaissance Capital IC
4	Investment Company IT Invest JSC
5	FINAM JSC
6	URALSIB Capital – Financial Services LLC
7	ATON LLC
8	KIT Finance LLC
9	JSC IC Zerich Capital Management
10	RICOM –TRUST IC CJSC

Source: Moscow Exchange Group.

Table 33

Key figures of the Moscow Exchange Group in 2012–2014 (million Rubles)

	2012	2013	2014
Operating revenues	21,547	24,606	30,394
<i>Including:</i>			
fee and commission revenues	11,407	12,792	15,586
interest and other financial revenues	10,033	11,755	14,279
Other operating revenues	107	59	529
Net profit	8,200	11,582	15,993
Earnings per share (Rubles)	3.86	5.23	7.21
Return on equity (%)	7.50	9.37	11.55
Dividends per share (Rubles)	–	1.23	2.39

Source: Moscow Exchange Group.

The key figures of the Moscow Exchange Group according to the International Financial Reporting Standards are provided in table 33.

The revenues of the Moscow Exchange Group at the end of 2014 grew by 23.5% and reached 30.4 billion Rubles. The structure of operating revenues over last three years included fee revenue in the amount of 52% at an average and interest income in the amount of 47%. Net profit for 2014 grew by 38.1% up to 16.0 billion Rubles, and basic earnings per share increased by 37.9% up to 7.21 Rubles per a share with nominal value 1.00 Ruble.

In the total structure of fee and commission revenue, based on the

consolidated statements for 2014, trading on the currency market made up 21.8% of the revenues or 3.41 billion Rubles, on the stock market – 20.2% of the revenues or 3.15 billion Rubles, and on the derivatives market – 10.5% or 1.64 billion Rubles. The fee and commission revenue in depositary and settlement transactions made up 3.19 billion Rubles or 20.6% of the total revenues.

The fee and commission revenue from trade in various securities on the stock market depends to a large extent on the general market conditions. Thus, in 2014, 56.1% of the fee and commission revenue on the stock market was received from transactions in shares

(46.8% in the previous year) and 32.8% from transactions in bond (45.9% in the previous year). The revenues from securities listing and other service fees made up 11.4% (7.2% in the previous year).

At the same time, the liabilities of the Moscow Exchange Group grew drastically in 2014. Thus, the volume of traders' funds provided to organizations of the Moscow Exchange Group increased by 3.8 times up to 1,232 billion Rubles; 94.6% of this amount accounted for the funds of clearing members. The financial liabilities of the central counterparty grew by 2.9 times and made up 139.6 billion Rubles.

3. Legislative Framework

The regulatory legal framework in the sphere of the securities market regulation in the Russian Federation is formed by several laws (On Securities Market, On Central Depository On Protection of Rights and Legal Interests of Investors in the Securities Market, On Mortgage Securities) which define the general rules applicable to the

securities market, as well as by-laws which establish the special norms. The operation of individual institutions is regulated by special laws: On Investment Funds, On Non-State Pension Funds, On Investments for Financing of the Funded Component of Retirement Pension, On the Savings and Mortgage System of Housing Provision for Servicemen, On

Central Depository, On Organized Trades, On Clearing and Clearing Activities, which are also supported by significant volumes of by-laws.

The most important changes implemented in the regulatory legal framework in 2014 and related to the securities market regulation are reviewed below.

3.1. Taxation on the Securities Market

1. From January 1, 2014 the securities ownership period started in order to apply investment tax deductions in accordance with Federal Law No. 420-FZ «On Amending Article 275–3 of Federal Law «On Securities Market» and Parts One and Two of the Tax Code of the Russian Federation». Since January 1, 2017, when determining the tax base size the individual taxpayers will be able to get a tax deductions in the amount of positive financial result gained on sale (redemption) of the securities purchased after January 1, 2014 and owned by the taxpayers for more than three years. This benefit will apply to the securities

admitted to trading of the Russian trade organizer on the securities market as well as to the investment units of unit investment funds regardless of whether they are traded on the organized trades or not.

2. Throughout 2014 the professional securities market participants have been preparing to open customers' individual investment accounts (IIA). Amendments to the laws²⁸ regulating the procedure for opening and maintaining individual investment accounts as well as provision of tax deductions on the said accounts were introduced at the end of 2013 and entered into force from January 1, 2015.

The purpose of the said amendments is to stimulate individuals' investments on the Russian stock market by providing them tax benefits.

An individual investment account is an internal account opened for a customer by a broker or trustee and intended for separate accounting of the customer's monetary funds, securities and liabilities. The individual investment account owner may apply either type of tax deductions:

- deduction on contribution: the taxpayer may obtain a tax deduction on the personal income tax on an annual basis in the amount of monetary funds placed into the IIA during the tax period

²⁸ Federal Law «On Amending Certain Legislative Acts of the Russian Federation» dated December 21, 2013 No. 379-FZ, Federal Law «On Amending Article 27.5-3 of the Federal Law «On Securities Market» and Parts One and Two of the Tax Code of the Russian Federation» dated December 28, 2013 No. 420-FZ.

(subclause 2 of clause 1 of article 219.1 of the Tax Code of Russia);

– deduction on income: upon expiration of the contract for maintaining IIA, upon at least three years, the taxpayer may obtain a tax deduction on personal income tax in the amount of income received from transactions on IIA, i.e. all investment income of the taxpayer will be exempt (subclause 3 of clause 1 of Article 219.1 of the Tax Code of Russia).

The amount which may be credited to the individual investment account by the taxpayer on an annual basis is limited to 400,000 Rubles. An individual may have only one individual investment account with an exception in case the customer switches to the services from one professional securities market participant to another. The professional securities market participants shall be obliged to inform the tax authority at their location of opening and closing their customers' individual investment accounts.

Due to introduction of IIA, the Federal Tax Service of Russia adopted²⁹ two orders, one of which approved the form and format of notice on opening/closing

IIA and the procedure for submitting such notice to the tax authority and the other approved the scope of information on an individual and his/her IIA to be provided by a professional securities market participant to other professional securities market participant in case the customer switches to the services of such participant.

On October 1, 2014, the Bank of Russia sent explanatory statements on the procedure for applying laws on IIA to NAUFOR indicating, in particular, that yield on securities will be credited to IIA without taking into account the limit set for crediting monetary funds (400,000 Rubles a year).

3. From January 1, 2014 the amendments³⁰ to the Tax Code of the Russian Federation came into force, in accordance with which the trust management services rendered with regard to pension savings, payment reserves and pension savings of the insured persons entitled to term pension payment in accordance with the laws of the Russian Federation in the field of forming and investing pension savings,

are exempt from the value added tax (VAT). Transactions effected in the course of clearing activities and related to transfer (return) of the property intended for collective clearing collateral and (or) individual clearing collateral, payment of interest accrued on the guarantee fund formed on account of the property being the subject of collective clearing collateral and (or) individual clearing collateral, payable by the clearing organization to clearing members and other persons in accordance with the clearing rules of such clearing organization, were also exempt from VAT.

4. On November 24, 2014 Federal Law No. 366-FZ «On Amending Part Two of the Tax Code of the Russian Federation and Certain Legislative Acts of the Russian Federation» was adopted. Among other things, the said Law increased tax rate from 9% to 13% on dividends both for individuals (when calculating personal income tax) and legal entities (when calculating corporate income tax). The amendments concerning increase in the tax on dividends entered into force on January 1, 2015.

3.2. Issue of Securities

On July 21, 2014 the amendments³¹ to Federal Law «On Securities Market» were introduced, which were aimed at:

1) facilitating conditions of issue of certificated bonds subject to obligatory centralized storage without collateral, including opportunity to issue commercial bonds without state registration of their issue, prospectus

and report of the issue results or for the issuer to provide the Bank of Russia with a notice of the issue results;

2) providing for state registration of general conditions of several issues of bonds (bond program).

2. On August 11, 2014, the Bank of Russia adopted Regulation No. 428-P³² setting out new standards for securities

issue and procedure for state registration of securities issue, registration of reports of their issue and prospectuses for securities. The regulation determines issue conditions of bonds secured with monetary claims, the issuers of which, among others, are specialized companies, and of bonds secured with various priority of the obligations performance.

²⁹ Order of the Federal Tax Service of Russia dated December 15, 2014 No. MMB-7-11/645@, Order of the Federal Tax Service of Russia dated December 15, 2014 No. MMB-7-11/646@.

³⁰ Federal Law No. 420-FZ dated December 28, 2013 «On Amending Article 27.5-3 of the Federal Law «On Securities Market» and Parts One and Two of the Tax Code of the Russian Federation».

³¹ Federal Law No. 218-FZ dated July 21, 2014 «On Amending Certain Legislative Acts of the Russian Federation».

³² Regulation of the Bank of Russia dated August 11, 2014 No. 428 P «On Standards for Securities Issue, Procedure for State Registration of Securities Issue (Additional Issue), State Registration of Reports of the Issue (Additional issue) Results, and Registration of Prospectuses for Securities».

3.3. Activity of Professional Participants

1. On December 29, 2014 the amendments³³ to Federal Law «On Securities Market» introducing a new type of professional activity on the securities market such as Forex dealer activities were adopted. In accordance with the said amendments the organizations carrying out Forex dealer activities shall be obliged to obtain a license of a professional securities market participant to carry out Forex dealer activities and to enter the self-regulatory organization of Forex dealers before January 1, 2016 or to discontinue such activities. The self-regulatory organization of Forex dealers shall form the compensation fund to make compensation payments. The requirements to the amount of Forex dealer's net worth (no less than 100 million Rubles), to the availability of Forex dealer's own website in the Internet and to disclosure of the information there as well as the requirements to advertisements promoting transactions with Forex dealers are set out.

2. Instruction of the Bank of Russia dated April 18, 2014 No. 3234U On Uniform Requirements to the Rules of Broker Activity at Executing Certain Transactions for account of Customers superseded the previous requirements approved by order of the Federal Financial Markets Service of Russia dated August 8, 2013 No. 13-71/pz-n³⁴. The provisions of this Instruction reproduce the said act of the Federal Financial Markets Service of Russia, except for the following changes:

- prohibition of unsecured positions or increase in unsecured position at executing transactions on anonymous trading at the price less than the closing price of the respective securities for the

previous trading day by five and more per cent shall not be applied to the transactions, obligations from which are admitted to clearing involving the central counterparty with regard to which the Bank of Russia resolved to recognize the quality of central counterparty management as satisfactory³⁵;

- the brokers rendering services only to customers referred to the category of customers bearing extra risks are relieved of their duty to use software and hardware facilities to calculate the values of planned positions, customer portfolio value, initial margin amount and minimum margin amount.

3. On October 1, 2014, the amendments³⁶ to Instruction of the Bank of Russia dated April 30, 2014 No. 3253U On Procedure for Keeping Register of Agreements Entered into on Conditions of a Master Agreement (Uniform Agreement), Period for Providing Information Required to Keep the Said Register and Information from the Said Register as well as Providing Register of Agreements Entered into on Conditions of a Master Agreement (Uniform Agreement) to the Central Bank of the Russian Federation (the Bank of Russia) entered into force.

The instruction is supplemented with the list of legal entities obliged to provide the information to the repository. There are credit organizations, brokers, dealers, managers, depositories, non-state pension funds, management companies and some other persons among them. The requirement on obligatory inclusion of the international codes of identification of the legal entities being the parties to a master agreement and of the informer in the text of agreement for repository services entered into after January 1, 2015 is set out. The date of

providing the information on contracts being derivatives entered into on the basis of a master agreement was moved from January 1, 2015 to April 1, 2015.

4. On September 1, 2014, Instruction of the Bank of Russia dated July 21, 2014 No. 3329-U On Requirements to Net Worth of the Professional Securities Market Participants, Investment Fund Management Companies, Investment Unit Funds and Non-State Pension Funds entered into force. As opposed to the previous order of the Federal Financial Markets Service of Russia setting out general capital adequacy ratio for each type of professional activities on the securities market, the new Instruction also takes into account types of transactions and deals executed by the professional securities market participants.

Thus, instead of uniform capital adequacy ratio for brokers (35 million Rubles) the following ratios are set out:

- 35 million Rubles for prime brokers, i.e. brokers entitled to use in its best interests monetary funds of the customer and (or) execute transactions in securities and derivatives at the customer's expense without engaging other broker (agent) on the basis of agreement for brokerage services with the customer,

- 3 million Rubles for brokers (i.e. not being prime brokers),

- 5 million Rubles for brokers carrying out their activities only on the basis of contracts being derivatives, the underlying asset of which are goods.

The capital adequacy ratio was decreased from 35 million Rubles to 3 million Rubles for dealers and from 60 million Rubles to 15 million Rubles for depositories, except for settlement depositories and issuers of Russian depository receipts.

³³ Federal Law No. 460 FZ dated December 29, 2014 «On Amending Certain Legislative Acts of the Russian Federation» will enter into force on October 1, 2015.

³⁴ Order No. 13-71/pz-n of the Federal Financial Markets Service of Russia dated August 8, 2013 On Uniform Requirements to the Rules of Broker Activity at Executing Certain Transactions for account of Customers and on Invalidating Certain Regulatory Legal Acts of the Federal Financial Markets Service.

³⁵ The quality of management of National Clearing Centre Joint-Stock Commercial Bank CJSC was recognized as satisfactory by the Bank of Russia on October 18, 2013.

³⁶ Instruction of the Bank of Russia dated September 17, 2014 No. 3382 U On Amending Instruction of the Bank of Russia dated April 30, 2014 No. 3253 U On Procedure for Keeping Register of Agreements Entered into on Conditions of a Master Agreement (Uniform Agreement), Period for Providing Information Required to Keep the Said Register and Information from the Said Register as well as Providing Register of Agreements Entered into on Conditions of a Master Agreement (Uniform Agreement) to the Central Bank of the Russian Federation (the Bank of Russia), certain provisions enter into force on July 1, 2015.

The Instruction also provides for opportunity to decrease the capital adequacy ratio (to 15 million Rubles for brokers and 5 million Rubles for managers) for the professional securities market participants being the members of self-regulatory organizations existing for more than 5 years or comprising at least 30 per cent of the organizations carrying out certain professional activities on the securities market and approved certain standards for professional activities.

4. On September 21, 2014, Instruction of the Bank of Russia dated July 25, 2014 No. 3349-U On Uniform Requirements to the Rules of Broker Activity at Executing Certain Transactions in the Property of the Broker's Customer entered into force.

The Instruction sets out the procedure for broker activities and conditions of their cooperation with prime brokers.

In particular, it is set out that a broker may accept orders from its customers providing for executing transaction on the organized trading following the results of which it is cleared or on the non-organized trading if the liabilities arising out of this transactions are subject to clearing involving the central counterparty or such transaction is repo agreement.

The prime broker shall account for the monetary funds of a broker and of its customers separately. The prime broker shall not be entitled to satisfy its claims to a broker for account of the property of the broker's customer,

except for claims on liabilities arising out of performance (termination of performance) by the broker of the obligations from the transactions executed for account of the property of such broker's customer.

A broker being clearing member not entitled to use the customer's monetary funds in its best interests shall require from the clearing organization to account for the monetary funds and other property of such customer transferred to the clearing organization as individual clearing collateral separately. The said monetary funds and other property may not be used to ensure and (or) to perform the obligations of such broker to be performed for account of its other customers.

3.4. Accounting of Rights to Securities

1. On January 1, 2014, the amendments to³⁷ Federal Law «On Securities Market» setting out the procedure for receiving cash dividends on shares, cash income and other payments on registered bonds entered into force. In accordance with the said amendments, the holders of shares and registered bonds as well as other persons exercising rights on the said securities in accordance with the federal laws, the rights of which to the securities are taken into account by the depository, shall receive cash dividends on shares, cash income and other cash payments on registered bonds through the depository to which they are depositors.

The payments on shares shall be transferred by the depository to persons being its depositors as of the end of the trading day on the date when the persons entitled to receive dividends declared on the issuer's shares are determined. The payments on registered bonds shall be transferred by the depository to persons being its depositors as of the end of the trading day preceding the date which is determined in accordance with the decision to issue registered bonds and as of which the obligation to make payments on registered bonds shall be performed.

The payments shall be made by the depository by transferring monetary funds to its depositors to the bank

accounts specified by the depository agreement.

2. In order to clarify the issues related to the procedure for ensuring confidentiality of the information by the registrars and the depositories as provided for in article 8.6 of Federal Law «On Securities Market», the Bank of Russia issued explanatory statements³⁸ relating to provision of the information by registrars and depositories. The scope of persons which shall be provided with the confidential information on personal account and custodian account by the registrars and depositories in accordance with the federal laws was specified. Special attention was paid to the procedure for providing information to the pledge holder and issuer.

³⁷ Federal Law No. 282-FZ dated December 29, 2012 «On Amending Certain Legislative Acts of the Russian Federation and Invalidating Certain Provisions of Legislative Acts of the Russian Federation».

³⁸ Letter of the Bank of Russia dated May 29, 2014 No. 015-55-4/4158 «On Clarifying Issues related to Providing Information by Securities Registrars and Nominal Holders (Depositories)».

3.5. Activity of non-state pension funds

On January 1, 2014, the amendments to Federal Law «On Non-State Pension Funds» entered into force³⁹. Currently, non-state pension funds may be established only in the form of joint stock companies. Previously formed

funds being non-profit organizations and carrying out activities of an insurer for compulsory pension insurance shall be transformed into non-state pension funds being joint stock companies or liquidated before January 1, 2016, and those not

carrying out the said activities – before January 1, 2019. Due to entry into force of the above amendments, the Bank of Russia issued explanatory statements⁴⁰ related to reorganization of non-state pension funds.

3.6. Organized Trading

On October 17, 2014, the Bank of Russia approved Regulation No. 437-P⁴¹ setting out new requirements to the procedure for organized trading. As compared to the previous order of the Federal Financial Markets Service

of Russia, the Regulation specifies the procedure for keeping register of traders and their customers, register of contracts (transactions); certain amendments has been also introduced in the procedure for information

disclosure by trader. The name of the index, the change in the value of which is used to suspend organized trading, has been changed from stock to core and the procedure for suspension of trading has been specified.

3.7. Anti-Money Laundering and Combating Terrorism Financing

Federal Law «On Anti-Money Laundering and Combating Terrorism Financing» has been changed during 2014 for several times.

On May 5, the amendments⁴² supplementing the Law with the term «simplified identification», which shall be carried out on the basis of the information received from the information systems of state

authorities, or by means a unified identification and authentication system using an electronic signature, were introduced.

The right to carry out simplified identification of individual customers was granted to credit organizations when transferring funds according to the individual customer's order without opening a bank account, including

electronic cash, as well as when providing the individual customer with electronic payment instruments.

On July 21, the amendments⁴³ to the law providing for

1) an opportunity for professional securities market participants and management companies to authorize credit organizations to carry out identification of individual customers,

³⁹ Federal Law No. 410-FZ dated December 28, 2013 «On Amending the Federal Law «On Non-State Pension Funds» and Certain Legislative Acts of the Russian Federation».

⁴⁰ Information Letter of the Bank of Russia dated February 28, 2014 No. 50-02/7024 «On Reorganization of Non-State Pension Funds Being Non-Profit Organizations».

⁴¹ Regulation of the Bank of Russia No. 437-P dated October 17, 2014 On Activities in Organized Trading. Entered into force on February 6, 2015.

⁴² Federal Law No. 110-FZ dated May 5, 2014 «On Amending Certain Legislative Acts of the Russian Federation».

⁴³ Federal Law No. 218-FZ dated July 21, 2014 «On Amending Certain Legislative Acts of the Russian Federation».

representatives of beneficiaries and beneficial owners;

2) the right not to carry out identification of beneficiaries in case the customer is a professional securities market participant or a management company were introduced.

On December 29, the Law was amended⁴⁴ as to provide professional securities market participants and management companies along with credit organizations with an opportunity to carry out simplified identification of customers (remotely), provided that all settlements between them and the customer are carried out only in non-cash form on the accounts

opened with the Russian credit organizations.

2. On December 5, 2014, the Bank of Russia adopted Instruction No. 3470-U⁴⁵ determining the requirements to specific officers for AML/CFT in non-credit financial organizations. The requirements relate to the availability of higher or secondary vocational education, work experience in AML/CFT, and, in some cases, work experience in a senior position.

3. Instruction of the Bank of Russia dated December 5, 2014 No. 3471-U⁴⁶ expanded the list of employees of non-credit financial organizations who are obliged to complete specific training on AML/CFT.

4. On December 12, 2014, the Bank of Russia adopted Regulation No. 444-P⁴⁷ setting out the requirements to identification of customers, customers' representatives, beneficiaries and beneficial owners by non-credit financial organizations: procedure for identification, information received for identification, data included in the customer's questionnaire (the file), exclusions from the scope of identifiable persons.

5. On December 15, 2014, the Bank of Russia adopted Regulation No. 445-P⁴⁸ setting out the requirements to the internal control rules in non-credit financial organizations for AML/CFT.

3.8. Amendments to the Civil Code of the Russian Federation

The Federal Law⁴⁹, which entered into force on September 1, 2014, amended the Civil Code of the Russian Federation with regard to types of legal entities.

In accordance with the said amendments, the legal entities are divided into corporate and unitary ones. The legal entities, which members are entitled to participate (to be a member) therein and form their supreme management body, shall be corporate legal entities (corporations). They include, among others, economic partnerships and companies, associations (unions). The legal entities, which founders do not become their members and do not

acquire the rights of membership therein, shall be unitary legal entities. They include state and municipal unitary enterprises, funds, institutions, autonomous non-profit organizations, religious organizations, and public companies.

The economic companies are divided into public and non-public ones instead of closed and open ones. Public joint stock companies are joint stock companies, which shares are publicly placed (through public offering) or publicly traded on the conditions set forth by the laws on securities. The rules on public companies shall also apply to joint stock companies, the articles of

association and business name of which contain a reference that the company is public. The limited liability companies and joint stock companies not meeting the above criteria shall be recognized as non-public.

The constituent documents and names of legal entities formed before the effective date of these amendments shall be brought in line with them at the first amendments to the constituent documents. The constituent documents of legal entities before they are brought in line with the new regulation shall be effective to the extent not contradicting to such regulation.

⁴⁴ Federal Law No. 484-FZ dated December 29, 2014 «On Amending Certain Legislative Acts of the Russian Federation».

⁴⁵ Instruction of the Bank of Russia dated December 5, 2014 No. 3470-U «On Qualification Requirements to Special Officers Responsible for Implementation of Internal Control Rules for Anti-Money Laundering and Combating Terrorism Financing in Non-Credit Financial Organizations». Entered into force on January 11, 2015.

⁴⁶ Instruction of the Bank of Russia dated December 5, 2014 No. 3471-U On Requirements to Personnel Training and Education in Non-Credit Financial Organizations.

⁴⁷ Regulation of the Bank of Russia dated December 12, 2014 No. 444-P On Identification of Customers, Customers' Representatives, Beneficiaries, and Beneficial Owners by Non-Credit Financial Organizations for Anti-Money Laundering and Combating Terrorism Financing enters into force on March 1, 2015.

⁴⁸ Regulation of the Bank of Russia dated December 15, 2014 No. 445-P On Requirements to Internal Control Rules in Non-Credit Financial Organizations for Anti-Money Laundering and Combating Terrorism Financing enters into force on March 1, 2015.

⁴⁹ Federal Law No. 99-FZ dated May 5, 2014 «On Amending Chapter 4 of the Part One of the Civil Code of the Russian Federation and Invalidating Certain Provisions of Legislative Acts of the Russian Federation».

3.9. Miscellaneous

1. Federal Law⁵⁰ dated June 28, 2014 No. 173-FZ set the procedure for transactions of financial organizations in the territory of the Russian Federation with the persons subject to the laws of a foreign state on taxation of foreign accounts (mainly, the Foreign Account Tax Compliance Act, or FATCA). The financial organizations are obliged to take reasonable actions available under the circumstances to identify the persons subject to the laws of a foreign state on taxation of foreign accounts among the customers. The criteria for inclusion of the customer in the category of customers being foreign taxpayers and methods of obtaining the necessary information from them shall be determined by the financial organization individually in its internal documents to be posted on its official website in the Internet. In case a customer being foreign taxpayer is identified, the financial organization shall

send the information on such customer to the competent state authorities of the Russian Federation.

The financial organization shall also notify the competent authorities of registration with a foreign tax authority in order to provide the information prescribed by the laws of a foreign state on taxation of foreign accounts. The information on customer of the financial organization may be submitted to the foreign tax authority and (or) to the foreign tax agents only in case of the customer's consent to transfer of the information, provided that the Russian competent authorities are notified in advance and do not prohibit transfer of the information.

2. Due to admitting the Republic of Crimea to the Russian Federation and formation of new constituent entities – the Republic of Crimea and Sevastopol federal city – as part of the Russian Federation, there arose a need

to integrate newly formed constituent entities into the financial system of the Russian Federation. For this purpose, Federal Law⁵¹ «On Peculiarities of Financial System Functioning in the Republic of Crimea and Sevastopol Federal City for the Transition Period» was adopted on April 2, 2014.

In accordance with this Law, all banks and non-bank financial organizations (including professional securities market participants), registered on the peninsula and having the license to carry out relevant activities issued by the competent authorities of Ukraine shall be entitled to carry out their activities on the basis of previously obtained licenses until January 1, 2015.

The Bank of Russia, in turn, issued an information letter⁵² clarifying that a Russian depository shall be entitled to open a nominee account for a depository institution located in the Republic of Crimea and Sevastopol.

⁵⁰ Federal Law dated June 28, 2014 No. 173-FZ «On Peculiarities of Financial Transactions with Foreign Citizens and Legal Persons, Amending the Code of Administrative Offenses of the Russian Federation and Invalidating Certain Provisions of Legislative Acts of the Russian Federation».

⁵¹ Federal Law dated April 2, 2014 No. 37-FZ «On Peculiarities of Financial System Functioning in the Republic of Crimea and Sevastopol Federal City for the Transition Period».

⁵² Letter of the Bank of Russia dated May 26, 2014 No. 95-T «On Arrangement for Functioning of Depository Institutions in the Republic of Crimea and Sevastopol Federal City».

4. Regulatory System

4.1. Bank of Russia

The Central Bank is not included in the system of executive authorities and operates subject to the special law⁵³.

As a banking system regulator, the Bank of Russia determines peculiarities of the procedure for securities issue by credit organizations and registers issues of the respective securities. It regulates and supervises over the activities of credit organizations and banking groups.

The Bank of Russia also regulates, controls and supervises on financial markets over non-credit financial organizations in order to ensure sustainable development of the financial market of the Russian Federation, effective management of risks arising on financial markets, protection of rights and legitimate interests of investors on the financial markets, policyholders, insured persons and beneficiaries, as well as the insured persons under mandatory pension insurance, investors and participants of a non-state pension fund under non-state pension provision, and over other consumers of financial services.

The Bank of Russia registers issues of equity securities, as well as regulates, controls and supervises over issuers' compliance with the requirements of the laws of the Russian Federation on joint-stock companies and securities.

With regard to the professional securities market participants, the Bank of Russia develops and approves uniform requirements to the rules of professional activity in securities, is responsible for licensing professional activities on the securities market, ensures information disclosure, keeps a register of professional securities market participants. The Bank of Russia carries out inspections of professional participants, which may result in issuing orders, suspending or revoking breacher's license.

With regard to collective investment institutions, the Bank of Russia registers rules of managing UIF and rules of non-state pension funds as well as documents of specialized depositories. The Bank of Russia carries out inspections of activities of all listed entities and may issue orders to them.

The Bank of Russia sets forth the procedure for and period of calculating the market value of the assets, in which the funds of pension reserves are placed, and the aggregate market value of the fund's pension reserves, approves standard insurance rules of the fund, a standard form of agreement for rendering services of a specialized depository to the fund, a standard form of agreement on mandatory pension insurance, approves requirements to

pension schemes applicable to non-state pension provision, procedure, form and period of preparing and submitting reports on the activities of funds, sets forth mandatory terms and conditions of asset management agreement to be entered into by and between the fund and a management company.

The Bank of Russia also determines qualifying requirements for persons exercising the functions of the sole executive body of the Fund and for inspectors (managers of the internal control service).

Upon agreement with the Ministry of Labour and Social Protection of the Russian Federation, the Bank of Russia approves a standard form of pension agreement for early non-state pension provision and standard rules of early non-state pension provision.

The Bank of Russia is entitled to prepare recommendations on the application of the laws of the Russian Federation governing the relations related to operation of the securities market. The Bank of Russia may, if necessary, bring actions and petitions before the court and arbitration court. An important function of the Bank of Russia is considering cases on administrative offenses referred to its competence as well as applying sanctions set forth by the laws on administrative offenses.

⁵³ Federal Law No. 86-FZ dated July 10, 2002 On the Central Bank of the Russian Federation (Bank of Russia).

4.2. Ministry of Finance of the Russian Federation

The Ministry of Finance develops, in cooperation with the FFMS of Russia, main directions of the financial market.

According to the applicable Regulation on the Ministry of Finance⁵⁴ it approves issues and circulations of federal government securities and resolutions on individual issues of the

above securities as well as the issue reports. In addition, the Ministry of Finance itself acts as an issuer of federal government securities.

The Ministry of Finance acts as a regulatory authority with regard to government securities of the RF entities and municipal securities – it is responsible

for state registration of the conditions of such securities issue and circulation and approves the information disclosure standards for the above securities.

Moreover, the Ministry of Finance adopts federal accounting standards and summarizes practices of accounting standards application.

4.3. Ministry of Labour and Social Protection of the Russian Federation

According to the Regulation on the Ministry of Labour and Social Protection of the Russian Federation, approved by Decree No. 610 of the RF Government dated June 19, 2012, the Ministry of Labour exercises the functions associated with the development of the state policy

and legislative regulation, including the spheres of pension provision, non-state pension provision, and social insurance (excluding mandatory medical insurance).

The Ministry of Labour of Russia approves the procedure for confirming

periods of work entitling to early old-age retirement pension, rules of applying for retirement pensions of federal civil servants, its purpose and benefits, rules of paying retirement pensions and pensions under the state pension provision.

4.4. Other Government Bodies

The law enforcement system on the securities market also includes tax authorities, financial control and

monitoring authorities, antimonopoly authority, judicial system, and law enforcement bodies. However,

a detailed description of their functions and tasks is beyond the scope of this review.

⁵⁴ Decree No. 329 of the Government of Russia dated June 30, 2004 On the Ministry of Finance of the Russian Federation.

5. Key Events Calendar for 2014

January	
01	The amendments to Federal Law «On Non-State Pension Funds» entered into force, according to which NPFs may be formed only in the form of joint stock companies. Previously formed funds should go public within two years or be liquidated
06	The first trades on the stock market were marked by an avalanching fall after the decline in global stock markets and outlined pullback in global oil prices
February	
06	ETF fund started trading in share index of MSCI China companies on the Moscow Exchange Moscow Exchange recorded a year to date growth in the average daily volume of transactions of individuals being residents on the currency market of Russia by more than 30%
08	Anton Siluanov, head of the Ministry of Finance, stated that transfer of the second tranche in the amount of 1.98 billion US Dollars as financial assistance to Ukraine, the total amount of which, according to the December's agreements, was 15 billion US Dollars, would be carried out after repayment of the debt for Russian natural gas; the amount of debt is assessed at 3.35 billion US Dollars
21	Viktor Yanukovich, President of Ukraine, and opposition spokesmen signed an agreement on resolution of the political crisis developing in Ukraine since November 2013 The Irish Stock Exchange (ISE) announced the cancellation by the Ministry of Finance of Ukraine of placement of sovereign Eurobonds for the amount of 1.984 billion US Dollars at an interest rate of 5% per annum with a maturity date in 2015, which was to be purchased by Russia. Russia decided to postpone the second tranche provided as financial assistance to the country due to the marked aggravation of the situation in Ukraine
March	
01	The Federation Council unanimously approved a request from the President of Russia to permit use the Armed Forces of the Russian Federation in Ukraine. All sectors of the Russian stock market dropped in response
03	Abolition of the Financial Markets Service of the Bank of Russia was announced. All powers of the Financial Markets Service of the Bank of Russia were transferred to structural units of the Bank of Russia; and the procedure for forming mega regulator completed. There was an avalanching fall in quotations at the opening of trading on the Moscow Exchange. During the main trading session the discrete auctions were held. Trading in securities did not stop The Board of Directors of the Bank of Russia decided to temporarily increase the key interest rate (one-week repo auction rate)
06	Trading of global depository receipts for ordinary shares of Lenta Ltd began on the Moscow Exchange VTB Capital announced postponement of the investment forum in April, which the company holds in New York every year
11	Sberbank announced postponement of the Russia 2014 Annual Investment Forum scheduled for April 10-11
16	In the Crimea, a referendum on the status of the peninsula was held, over 95% of participants voted to join Russia
17	A number of international organizations, including the EU, NATO, and a number of countries announced suspension of cooperation with Russia on individual projects and imposition of sanctions against some Russian politicians
18	The President of Russia approved the draft agreement between Russia and the Crimea
20	S&P revised its outlook on the sovereign rating of Russia from stable to negative The USA imposed sanctions against Rossiya Bank

	The State Duma of the Federal Assembly of Russia ratified the agreement on accession of the Crimea and Sevastopol to Russia
21	Visa and MasterCard refused to serve Sobinbank, Rossiya Bank, SMP Bank, InvestCapitalBank, and Finservice
	Fitch revised its outlook on the sovereign rating of Russia from stable to negative
23	MasterCard and Visa unblocked the cards of InvestCapitalBank and SME Bank and restored their servicing
April	
01	The agreement between the Russian Federation and the Republic of Crimea on admitting the Republic of Crimea to the Russian Federation and formation of new constituent entities as part of the Russian Federation entered into force
02	Federal Law No. 37-FZ «On Peculiarities of Financial System Functioning in the Republic of Crimea and Sevastopol Federal City for the Transition Period», in accordance with which non-bank financial organizations of the said constituent entities were entitled to operate without license of the Bank of Russia before January 1, 2015, was published and entered into force
07	NAUFOR, NAPF and PARTAD sent comments on the draft Instruction on the Procedure for Carrying out Inspections of the Activities of Non-Credit Financial Organizations and SROs to the Central Bank
09	The First Deputy Chairman of the Government of Russia appealed to Russian companies which securities are traded on foreign stock exchanges to transfer the securities to the Russian stock exchanges
11	The USA imposed sanctions against seven representatives of the government of the Crimea and against Chernomorneftegaz
15	Alexander Turchinov, Acting President of Ukraine, announced the beginning of anti-terrorist raid by special forces in the north of Donetsk Region. Due to the news of hostilities outbreak, the Russian stock indices dropped to the levels which were observed three years ago
	NAUFOR sent a letter containing comments on the draft Instruction on the Procedure for Carrying out Inspections of the Activities of Non-Credit Financial Organizations and SROs to the Central Bank
18	The representatives of the EU, the USA, Ukraine, and Russia agreed in Geneva on initial steps to de-escalate tension in Ukraine. The share market win its weekly loss back
20	S&P downgraded the sovereign rating of Russia from BBB to BBB- with negative outlook
21	Military clashes in the South-East of Ukraine renewed
24	Moscow Exchange admitted the five bonds with partial collateral in repo mode and negotiated deals with the central counterparty to trading
28	The USA imposed sanctions against seven Russian citizens and 17 Russian companies, including Stroytransgaz, Volga Group, Transoil, Sobinbank, InvestCapitalBank, SMP Bank, Avia Group, due to the situation in Ukraine. The Russian market grew in response
	The EU decided to expand the list of persons against whom the sanctions are imposed by 15 people
29	MasterCard and Visa stopped executing transactions on the cards of SMP Bank and InvestCapitalBank
30	The Bank of Russia decided to agree upon reorganization of the first two NPF in the form of demerger along with IPO
	A bill to expand the sanctions against Russia, providing for sanctions against Sberbank of Russia, Bank VTB, Vnesheconombank, Gazprombank, Gazprom, Novatek, Rosneft, and Rosoboronexport, was introduced to the US Senate
May	
02	There was a clash between the supporters and detractors of the Maidan in Odessa, resulting in fire at the Trade Union House, which 50 people were killed and about 200 people were injured. The Russian indices dropped below 1,300 points
11	Management of the Donetsk People's Republic and Luhansk People's Republic declared state sovereignty following the results of the referendums held on the same day
12	The EU expanded the list of persons against whom sanctions are imposed by 13 people and imposed sanctions against Chernomorneftegaz and Feodosia
15	Annual NAUFOR conference Russian Stock Market in 2014: New Risks, New Opportunities took place in Moscow
16	Trading in shares of ETF fund started on the Moscow Exchange
21	NAUFOR addressed the Central Bank of Russia with a letter on easing restrictions to mutual funds investing in currency instruments
22	St. Petersburg International Economic Forum was opened in Saint Petersburg. a number of countries refused to participate in SPIEF due to the events in Ukraine; the forum was attended by official delegations from 73 countries (81 in 2013) and 175 agreements were signed
June	
03	Yandex's shares were listed on the Moscow Exchange and included in the a first tier quotation list. The company's shares also continued to be traded on the NASDAQ
09	The new listing rules entered into force on the Moscow Exchange
	Trading in GDR for the shares of Gazprom JSC began on the Singapore Exchange
17	Moscow Exchange held its first delivery in futures for shares of the Russian issuers based on the new technology by executing transactions in a T+2 trading mode

5. KEY EVENTS CALENDAR FOR 2014

23	QIWI plc announced closing of the public offering carried out simultaneously on the Moscow Exchange and NASDAQ, in the course of which 7.9 million ADRs of the company were placed
25	The Federation Council of the Federal Assembly of Russia revoked permit to use the Armed Forces of Russia in Ukraine issued to the President of Russia on the first of March
July	
02	The Bank of Russia sold a 11% stake in Moscow Exchange OJSC. The percentage of free floating shares exceeded 50%
17	There was a crash of Malaysia Airlines Boeing 777 carrying out a scheduled flight from Amsterdam to Kuala Lumpur in the east of Donetsk Region in Ukraine in the area of armed stand-off in eastern Ukraine. There were 283 passengers and 15 crew members aboard, all of them died The USA and EU imposed additional sanctions against Russia. The Russian stock indices dropped and national currency depreciation was observed
28	The Permanent Court of Arbitration in the Hague obliged Russia to pay 50 billion US Dollars to shareholders of YUKOS, which decision adversely affected Russian stock indices
30	The USA and EU imposed so-called sectoral sanctions against Russia. The Russian stock indices responded moderately
31	Trading on the stock market of the Moscow Exchange suspended The European Court of Human Rights obliged Russia to pay compensation in the amount of 1.86 billion euros to the shareholders of YUKOS
August	
01	S&P announced possible exclusion of the Russian companies from its global indices
04	MSCI Inc. announced launch of new indices which would not include the Russian companies
05	FTSE announced possible imposition of restrictions to participation of the Russian companies included in the sanctions lists in the leading indices of the company When discussing the draft federal budget, the Government of Russia decided to allocate the full amount of contributions to compulsory pension insurance to forming and funding the distribution part of pension in 2015
06	The President of Russia signed a decree on the ban of import of certain agricultural products, raw materials and food from the countries supported the sanctions against the Russian Federation
14	Hackers broke into the official account of Chairman of the Government of Russia and placed a post on his resignation. This event was unnoticed by the market
28	The President of Ukraine interrupted his international visit and announced bringing of Russian troops to Ukraine. The Russian stock indices dropped, and national currency depreciation was observed
September	
01	The new Instruction of the Bank of Russia on the requirements to net worth of professional securities market participants and management companies providing for differentiation and reduced requirements to the company's net worth depending on the range of their transactions entered into force
03	It was announced that the Presidents of Russia and Ukraine agreed upon ceasefire in the Donbass. The market grew in response
05	Negotiations of the contact group (Ukraine, Russia, OSCE) took place in Minsk. The protocol aimed at implementation of the peace formula offered by the presidents of Russia and Ukraine was signed
12	The EU announced new sanctions against the Russian Federation. The stock indices dropped shortly in response
16	Vladimir Evtushenkov, Chairman of the Board of Directors of AFK Sistema, was arrested and placed under house arrest. There was a drastic drop in prices of shares of AFK Sistema and Bashneft JSC. The stock indices responded moderately
23	On the back of negotiations on debt restructuring, the share quotations in Mechel JSC decreased drastically
October	
01	Bloomberg reported the Bank of Russia to consider possibility of imposing restrictions on capital flow, which led to a drastic rise in the exchange rate. The Bank of Russia contested such report
14	Trading on the derivatives market of the Moscow Exchange suspended
20	Moody's downgraded the sovereign rating of Russia from Baa1 to Baa2 with a negative outlook
27	Moscow Exchange announced launch of a new information service – MOEXBoard indicative quotation system – by the end of the year
29	The US Federal Reserve System announced completion of the QE3 Quantitative Easing Program
31	The Bank of Russia decided to raise the key rate from 8.00% to 9.50%
November	
10	The Bank of Russia announced new parameters of the exchange rate policy cancelling the range of permissible values of the dual currency basket and regular interventions
21	Moscow Exchange announced changes in the tariff policy on the stock market

24	The Federal Law increasing the tax rate on dividends for individuals and legal entities from 9% to 13% from 1, January 2015 was adopted
27	New Zealand reportedly joined sanctions against Russia
December	
04	The Bank of Russia announced additional stabilizing measures due to the situation on the currency market and repo transactions in foreign currency The President of Russia addressed to the Federal Assembly with an annual message. The short-term changes in the stock indexes and exchange rates were observed
08	Moscow Exchange launched a new information service: MOEXBoard indicative quotation system
11	Moscow Exchange disclosed placement results of 14 issues of exchange bonds of NK Rosneft JSC totalling 625 billion Rubles at par value
15	The Bank of Russia announced additional measures to prevent possible market manipulation during price calculation period of expiration of futures contracts for RTS index
16	The Bank of Russia announced increase in the key rate from 9.50% to 17.00%. All sectors of the Russian financial market dropped The management of the Bank of Russia recognized the situation on the financial market as critical
17	Chairman of the Board of Directors of AFK System was released from house arrest. a drastic increase in the shares of this company was observed
18	The Bank of Russia informed of additional measures to maintain the stability of the Russian financial sector The US President signed the Ukraine Freedom Support Act. The document provides for military assistance to Ukraine and authorizes the US President to impose new sanctions against Russia, but does not imply immediate implementation
23	The law providing for opportunity for professional securities market participants and management companies to authorize the credit organizations to carry out identification of individual customers entered into force
24	Moscow Exchange issued a statement where disproved the information on possible price manipulation on the currency market by the Moscow Exchange and Bank of Russia
26	The President of Russia signed the law providing for allocation of 1 trillion Rubles to the Deposit Insurance Agency for recapitalization of banks
29	The law providing for opportunity for professional securities market participants and management companies to carry out simplified identification of customers entered into force