

# **Russian Securities Market: 2011**

## **Events and Facts**

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# Introduction

We would like to bring to your notice a regular report on the securities market.

The aim of such reports, which we have been issuing every half a year since 2007, is to give a generalized representation of the Russian stock market and its key elements: instruments, market players, infrastructure, system of regulation and supervision, as well as about primary events that took place at the market during this period.

The review is prepared by National Association of Securities Market Participants (NAUFOR) with assistance of Group MICEX-RTS.

Some substantial notes:

- first of all, in the report we strive to avoid expanded comments and value judgments except for the ones which are essential for understanding of the data given in the review, their dynamics as well as peculiarities of the Russian securities market
- secondly, in the majority of cases we give the data as of the end of December, 2011 however, in several cases when at the time of the review generation such data was absent we give the available data the closest to this date
- thirdly, we do not aim to show a long-term period of development of the Russian market proceeding 2011 and cite historical data from January 2005
- fourthly, numerical indicators in the review are represented both in national and foreign currencies. It is related to peculiarities of biddings and representation of their results
- fifthly, in several cases we represent the data from different sources in order to show existing differences in evaluations or calculations.

With tabulated graphic representation of information, the data is given as of the period's end.

*We would like to express gratitude to MICEX-RTS Group, REGION Group, Companies Standard&Poor's, Ernst&Young, Interfax Business Service CJSC, Interfax CJSC (DB SPARK), Finmarket CJSC (Project RusBonds), CBONDS for provided materials and assistance.*

# Outline of Economic Situation of Russia<sup>1</sup>

2011 passed under the sign of deepening of debt problems in North America, Asia and Europe. Credit ratings of the USA, Japan and of many European countries were reduced. The fate of the united Europe and the unified European currency were under the threat of dissolution. Economic problems of Europe gradually outgrew into political ones and resulted in loud resignations and rising of interstate contradictions. Annual forecasts although had not been especially optimistic but in the result appeared to be blatantly overstated, expectation of continuation of the world economy recovery after the global crisis did not prove true and the general growth rate reduction was recorded. In the most stable and wealthy countries there were acts of protest against social injustice, inequality avarice and selfishness of financial institutes and corporations.

Geopolitical risks increased abruptly. In North Africa and in the Middle East political regimes and leaders changed due to revolutionary actions, civil wars and military interventions. By the end of the year, the threat of local military conflicts in this region had just increased. Relations of western countries, primarily of the USA and Russia have become much cooler.

The world was shaken with natural calamities and technogenic disasters including nuclear ones. Many experts began to speak about increase of social pessimism, global transformation and even about the change of civilization model.

Various scenarios of new wave of crisis, incoherent sovereign defaults, unfavorable and even disastrous evaluations of the nearest future predominated during the whole year. All this together created general negative background, turned on the heat at financial markets.

Nevertheless, Russian economy finished the year relatively good: GDP grew for 4.3%, the unemployment level recovered to pre-crisis levels, the rate of consumer prices growth slowed down with growth of retail trade and slight growth of real earnings, inflation decreased. Against this background, the negative dynamics of industrial output stands out especially as its annual growth rate decreased twofold. According to the results of the year, considerable net capital outflow from the private sector was registered.

Sovereign credit ratings of Russia remained unchanged. International reserves and sufficient level of liquidity in the banking system were preserved.

In general, the Russian economy supported by high prices for oil demonstrated high stability to global shocks.

In autumn Russia entered another electoral cycle, which as distinguished from previous years was accompanied with large-scale, protect actions in large cities, primarily in metropolitan ones. Some experts connect this event with capabilities' depletion of the current model of the state management.

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<sup>1</sup> According to the data of the World Bank, International Monetary Fund, Federal State Statistics Service and the Bank of Russia.

Macroeconomic indicators of a range of developed and developing countries and expectations of economic agents pointed to slowdown of economic activity in 2011. There were gradual increase of concerns about growth in inflation and slowdown of the growth rate of the global economy by estimates of the World Bank at the end reduced to 3.7%.

At the beginning of 2011, aggravation of political instability in Arabian countries in Middle East and Northern Africa began to deepen and cover more and more countries: Libya, Syria, Yemen, and Bahrain. The events happened were called 'the Arabian spring'. Disorders broken out everywhere, violent civil war in Libya and the action of the Western Coalition against the Libyan regime, concerns about further unfavorable development of the situation in the countries of this region began to exercise a significant influence on global markets and perception of risks by investors. Moreover, marked aggravation of geopolitical risks caused a significant growth of prices at the global market of energy resources that in its turn influenced increase of inflation indexes in developed countries. According to estimates of the International Monetary Fund damage for the economies, worst hit during 'the Arab spring' composed over 55 billion USD.

Besides the influence of 'the Arab spring' the most significant factors for formation of the world market situation during the year were increasing tension at the markets of sovereign debt and financial markets of the Euro-zone countries as well as examination of the issue concerning increase of the sovereign debt limit in the USA and further downgrading of the credit rating of the USA.

Concerns about aggravation of debt problems in Greece were confirmed at the beginning of May by downgrading of Greece's rating from 'B' level to 'BB-' level by Rating Agency S&P with possibility of further downgrading and in the second half of the month Fitch Agency lowered rating from 'B+' level to 'BB+' with negative forecast. In July, the rating agencies downgraded the sovereign rating of Greece to pre-

default level. Budget-debt crisis affected other countries of the Euro-zone as well which resulted in downgrading of credit ratings of Ireland, Cyprus, Portugal, Italy and Spain.

Situation in Europe was aggravated by absence of the unified position and coordinated efficient measures for debt crisis overcoming of European politicians and governmental resignations as well as mass unrests in the countries taking measures of budget economy. It piled uncertainty at European sovereign debt markets even more and postponed prospects of going out of the growing debt crisis generating risks of economic growth decrease. By the midyear the danger of debt crisis outspread to developed countries of EC, neighboring countries and regions began to be clearly noticeable. Therefore, Rating Agency S&P declared in December about possibility to reconsider credit rating of 15 out of 17 countries of the European zone with possible downgrade provided that this list included even the states with the highest long-term credit rating: Germany, France, the Netherlands, Austria, Finland and Luxemburg.

Tension at the global markets was aggravated by downgrading of credit rating of the USA having happened for the first time from the moment of the first assigning in 1917. The forecast of the long-term sovereign rating of the USA was changed from 'stable' to 'negative' in April due to the absence of an efficient plan of solutions of the developed problems with deficient budget and limit for the state debt. Actually, International Rating Agency S&P downgraded the long-term credit rating of the USA on August 5, for one grade to level 'AA+' with negative forecast that caused a new wave of risk aversion by investors.

In 2011, the world was shaken with anthropogenic and natural disasters. Thus, in January the largest over fifty years flood took place in Australia due to which many coalmines were flooded that resulted in jump in prices for coking and power generating coal. In March due to a strong earthquake in Japan and tsunami strung along with it, the largest radiation disaster took place at Atomic Power Station

Fukushima-1. Besides considerable environmental consequences for the whole Far East, this accident affected the global economy and the economy and economic situation of Japan. Prices for natural uranium and quotations of uranium producing companies dipped down, some countries announced about refusal to use nuclear power industry. In August credit rating of Japan according to version, Moody's was downgraded from Aa3 to Aa2.

Since September, actions of civil protest under common name 'Capture Wall Street' have started in economically developed countries. The aim of these actions primarily started in the financial center of New York was to attract public attention to the activity of financial elite, increasing corporate influence on democracy and growing social inequality.

Such sharp turning of events in the world afforded ground to many experts to speak about civilization dead end in which the modern society found itself and to call for reconsideration of the global model of development. Pessimistic forecasts and scenarios were predominant.

The enumerated events mostly determined the situation at the global market in 2011 and had considerable influence on the prices of the most important raw material resources.

Dynamics of prices for energy resources in the first half-year formed under the influence of the tense situation in Arabian countries and in particular, of the conflict in Libya that caused expectation of possible failures in oil delivery from this region. Being at the beginning of the year at the mark just over 95 USD per barrel, the prices of futures for oil of Brent grade by April 10 reached maximum level during the year – 127 USD. In May, free market prices for oil decreased considerably and until the end of the year, they remained at stable high (over 100 USD per barrel) but gradually decreasing level.

Downward trend appeared also due to concerns about drop in demand for resources from the part of developed economics caused by aggravation of debt and financial problems in Europe and the USA. Herewith in June, the dynamics of prices for oil was affected

by the decision of the International Energy Agency to allot 60 million barrels of oil from its strategic reserves in order to compensate possible shortage of raw material supply from Libya and balance the price level. On average over 2011, the price of oil of Brent grade increased for 39.3% in comparison with the average price in 2010 and composed 109.6 USD per barrel.

Dynamics of prices for gold suffered considerable fluctuations during the year.

From the beginning of the year, the permanent ascending trend was present at the gold market: on September 5, the price of troy ounce

reached the maximum value of 1,895 USD. However, in the following twenty days the gold lost in price 15.7%. during the remaining three months the price for gold tried to win back this downfall nevertheless, at the year-end gold quotations were closed even at the lower level than the level of recession in September – 1,531 USD per ounce. This can be characteristic of loss of investor’s interest in gold as in protecting risk-free asset. However, in spite of negative dynamics of the second half of the year, incremental price for gold generally for 2011 composed 10.3%.

For Russia external political and economic background was extremely unfavorable. Nevertheless, the year

results appeared to be less aggravating than for many other countries.

According to official estimate, the rate of growth of the gross domestic product of the Russian Federation in 2011 in fixed prices was equal to the increment for the preceding year and composed 4.3% that on current basis is equal to 54,369.1 billion RUR. Nevertheless, the pre-crisis rate of economic growth at 5.2% according to the results of 2008 was not achieved. GDP deflator index composed 115.4%. In general, the economic growth was boosted by stable internal consumer demand.

In production of value added in fixed prices the key components of

Figure 1

**Dynamics of 6-Month Futures for Crude Oil of BRENT Grade at International Petroleum Exchange (IPE), USD/barrel**



Source: Investfund.ru

Figure 2

**Dynamics of Prices for Gold (London Gold Market Fixing), USD/ ounce**



Источник: Investfunds.ru

economic growth were trading (19.0%), processing industry (16.1%), real property operations (11.6%) and mining operations (10.7%). Provided, that among the kinds of economic activity the most significant rates of increment of physical volume against the previous year were demonstrated by sectors of agriculture, hunting and forestry (increment of 16.1% due to low scope of production because of drought in 2010), fisheries and aquaculture (increment 13.2% but it takes insignificant ratio in the produced value added), processing industry (6.1%) and trading (5.0%). Positive dynamics was also demonstrated by the turnover of retail trading: for 7.2% against 6.3% in 2010.

Against this background, industrial production stands out negatively as its rate of growth in 2011 slowed down almost twice: index of industrial production composed 4.7% compared to 8.2% a year earlier. Provided, that rates of production increment in all sectors have not exceeded the indexes of the previous year.

According to the results of the year, investments into fixed capital have grown up for 6.2% against 6.0% in the year-earlier period. According to official data the federal budget for 2011 was accomplished with surplus in the amount of 0.4 trillion RUR or 0.8% GDP.

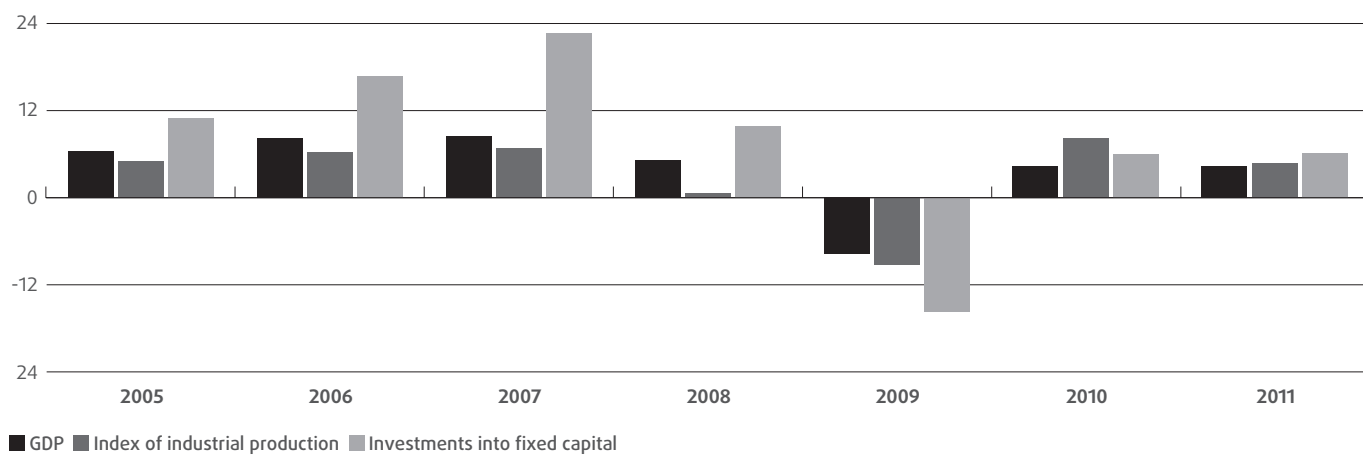
Inflation in annual expression according to the results of 2011

composed 6.1% against 8.8% in the year-earlier period, provided that the rate of increment of the core inflation (inflation net of the commodities affected by administrative factors and factors of seasonal character) composed 6.6%. Prices grew most of all in segments 'spirits and tobacco goods' (10.0%), as well as in 'housing services, water, electric power, gas and other kinds of fuel' (10.8%).

Dynamics of the unemployment figures tended to go down during the year and in December it reached the level of 6.1% of economically active population, on average unemployment composed 6.6% against 7.5% in the year-earlier period.

Figure 3

Rate of Increment of GDP, Investments into Fixed Capital and Index of Industrial Production, % against the previous period

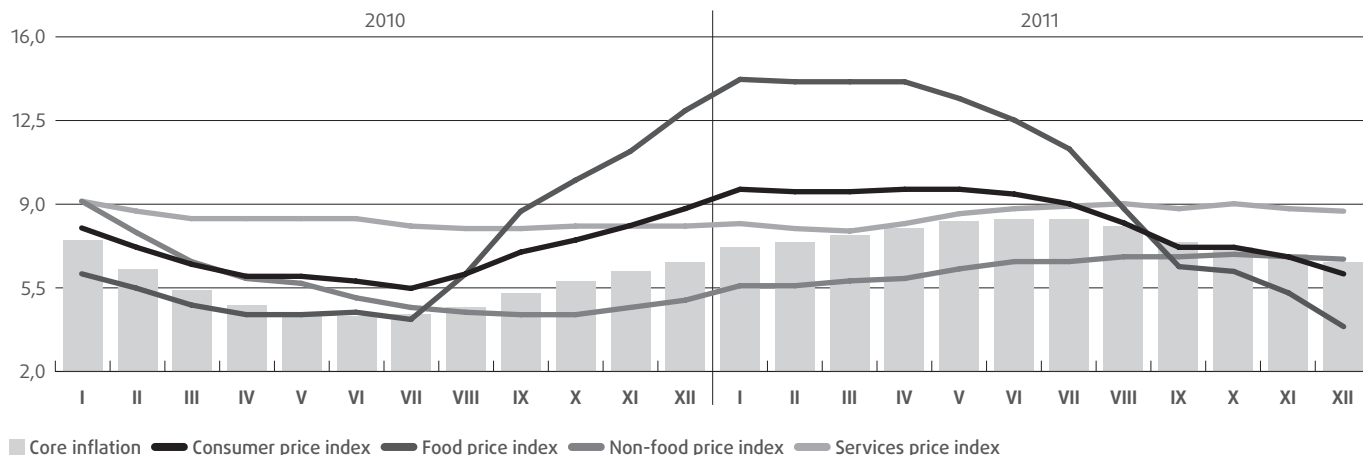


Legend: ■ GDP ■ Index of industrial production ■ Investments into fixed capital

Source: FSSS

Figure 4

Dynamics of Consumer Prices and Core Inflation, %



Legend: ■ Core inflation ■ Consumer price index ■ Food price index ■ Non-food price index ■ Services price index

Source: FSSS



The amount of debt in arrears of Russian entities according to preliminary data (as of the end of November) composed 1,201 billion RUR having increased for 21.1% compared to the corresponding period of the year earlier.

Actual available incomes of the population as of the results of the year demonstrated extremely low increment – for 0.8% compared to 5.1% in 2010.

International reserves of the Russian Federation as of the end of 2011 composed 498.7 billion USD against 479.4 billion USD in the year-earlier period, having increased for 4%.

The maximum scope of international reserves was recorded according to the

results of the third week of August (544 billion USD) after which due to currency interventions conducted by the bank of Russia the downward trend began. Recession of reserves has continued by the end of the year.

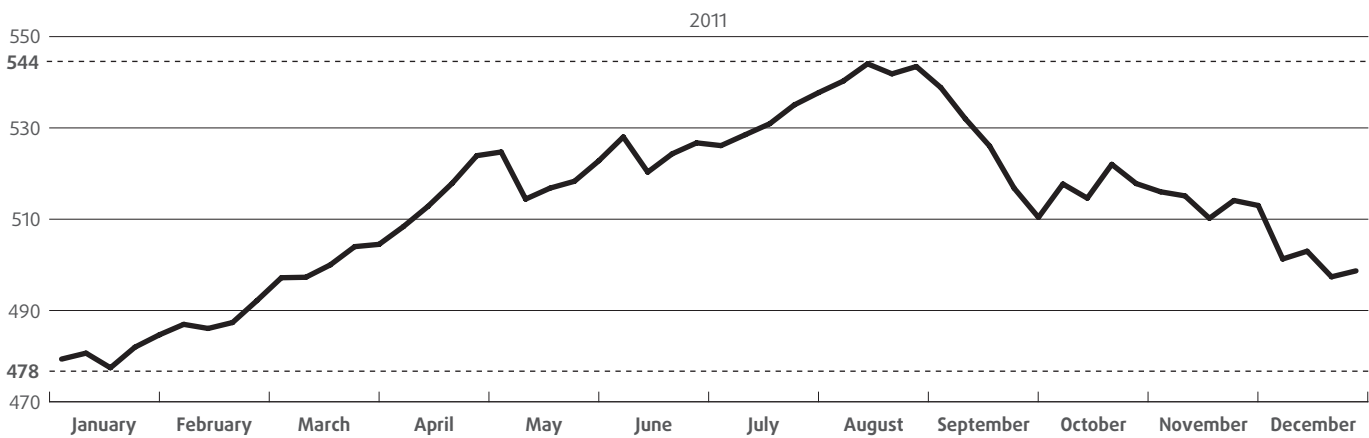
Rates of increment of the ruble money quantity M2 (in annual expression, in percentage against the relevant month of the previous year) were going down during the whole 2011 having reached the level of 22.4% against 31.1% as of January 1, 2011, provided that downtrend of the rates of growth in annual expression slowed by the end of the year.

Situation at the monetary market in 2011 was characterized with high

changeability due to transformation of the situation with the liquidity of the banking sector. During 2011 the liquidity of the banking sector (correspondent balances of banks and banks' deposits in the Bank of Russia without investments into bonds of the Bank of Russia) remained at rather high level but demonstrated stable down-trend: from the end of August the level of bank reserves almost did not exceed 1 trillion RUR (except for seasonal growth at the beginning of new averaging periods and buildup of reserves in December). Liquidity surplus characteristic for the most part of the year since autumn has been replaced with structural deficit which was formed

Figure 5

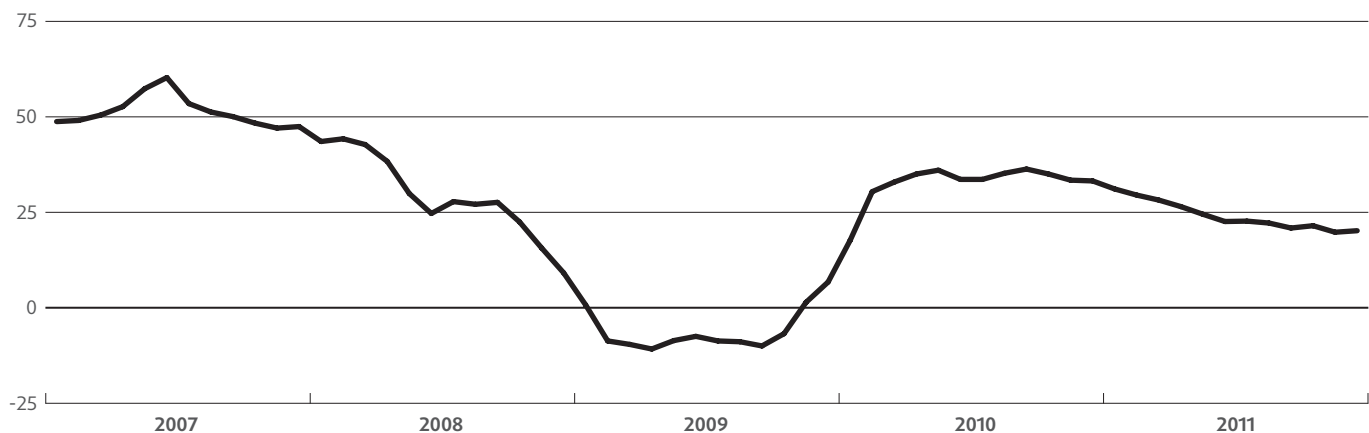
**International Reserves of the Russian Federation, Billion USD**



Source: Bank of Russia

Figure 6

**Annual Rates of Increment of Monetary Aggregate M2, %**



Source: Bank of Russia

under the influence of dynamics of autonomous liquidity factors: mostly by high level of liquidity withdrawals on the part of the budget as well as issue of disposable funds and decreased activity of the bank of Russia at the exchange market.

Due to consistent lowering of the level of bank liquidity credit rates at the inter-bank market began to increase gradually and suffer violent fluctuations. Consequently, average weighted rate MIACR for one-day rubles credits in December increased twice against the beginning of the year – up to 5.4%.

Monetary policy of the Bank of Russia was conducted in conditions of unexpired risks of inflationary pressure, risks of possible deceleration of economic growth in the country and persistent uncertainty at external markets based on assessment and balance of which decisions on interest rates for instruments of the bank of Russia were taken. Just over a year, the Bank of Russia took five decisions on change of interest rates for transactions of monetary policy provided that both rates for liquidity provision and operations of liquidity absorption at the monetary market were affected. In the first half of the year against the background of elevated risks of growth of inflation expectations and development of conditions for active capital inflow into the country due to growth of prices for oil the Bank of

Russia held gradual increase of interest rates; besides that in February, March and April legal reserve requirements were increased. Against the background of deterioration of the situation with liquidity in the banking sector and growth of uncertainty concerning external economic situation in the second half of the year it was decided to reduce interest rates for basic transactions of liquidity provision and increase deposit rates in order to narrow the collar and stabilize the situation at the monetary market. Moreover a range of measures on enhancement of possibilities for bank refinancing was introduced. Reduction of refinancing rate up to 8.0% was held by the monetary regulator at the end of December with simultaneous increase of the rate for deposits overnight of the bank of Russia up to 4.0% that also was aimed at narrowing of the collar in order to restrict volatility of rates of the inter-bank market and elevation of operation efficiency of monetary policy transmission mechanism.

During the year the ruble’s rate to the US dollar had differently directed dynamics: the nominal rate established by the Bank of Russia on a daily basis fluctuated within the limits from 27.26 RUR/USD to 32.68 RUR/USD. Provided that having strengthened for 7.4% during January-May by October the national currency was devaluated against dollar for 12.5% (in average monthly nominal values). Devaluation

of ruble against US dollar at the end of the year if compared to the end of December 2010 composed 5.6%. Nevertheless, the volatile dynamics of ruble during the year resulted in the fact that on average over the year ruble strengthened for 3.33% against the average annual rate for the previous year having demonstrated slight downtrend from 30.36 RUR/USD to 29.35 RUR/USD.

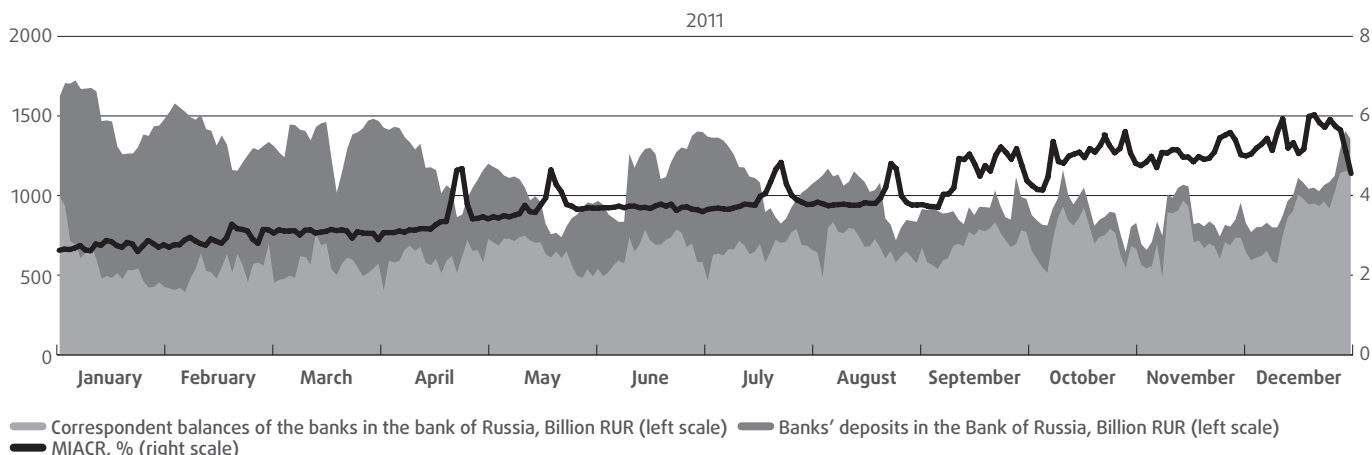
The cost of bivalent basket against ruble at the end of 2011 reached the level 36.5 RUR, having strengthened for 5.3%. Provided, that during the year dynamics of the bivalent basket was characterized with discontinuity due to price rise for energy sources and other reasons.

Net capital outflow from the private sector in 2011 composed 84.2 billion USD, larger outflow of capital was recorded only by results of 2008. Over 68% of capital was removed by non-financial sector in the part of substantial developing of foreign assets (for 103 billion USD). It is remarkable that bank executed net capital import against outflow for 26.2 billion USD.

In contrast to many other countries sovereign credit ratings of Russia remained unchanged. In 2011, after longstanding negotiations, Russia joined World Trade Organization however, this event took place at the very end of the year and it did not have any short-term influence on economic results of the year.

Figure 7

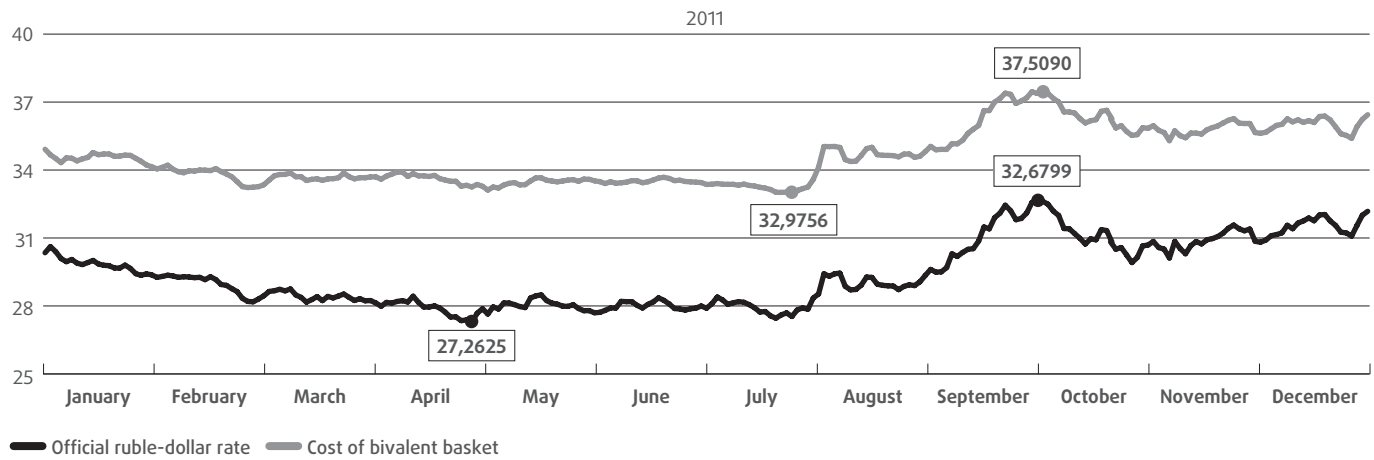
**Bank Reserves and Rate MIACR**



Source: Bank of Russia

Figure 8

**Ruble-Dollar Rate and Cost of Bivalent Basket, RUR**



Source: Bank of Russia

In the area of foreign policy positions of Russia has become more confrontational. First of all, it concerns working out of coordinated international decisions regarding events in Middle East, in Asia and North Africa. At European Continent relations with the USA, NATO and some European

countries have become strained due to their new military plans. Top leaders of Russia appeared during the year with ultimatum demands about inadmissibility of further militarization of this region.

In autumn in Russia, another election period started and risks related to

domestic policy became strained. For the first time over many years, unveiled plans on changes in top management and the process of election into the State Duma of RF caused keen discontent of the civil society in large cities, which resulted in mass actions of protest.

# Key Figures and Trends at the Russian Stock Market in 2011

The year 2011 was distinguished with extremely negative ambient background however. It was not so grave for the Russian stock market as 2008 and 2009. Nevertheless, equity indexes lost about 20% in spite of hard prices for oil.

For professional participants of the securities market the year was marked with large mergers and acquisitions of both infrastructure organizations and market intermediaries.

Large net capital export from the country affected the stock market as well; considerable withdrawal of Russian assets from foreign investment funds investing into Russian assets was recorded.

The Russian stock market still demonstrates hypersensitivity to external events and factors.

For the first time for many years internal political risks have begun to have limited short-term influence on the Russian stock market.

In general, the year results do not give any prerequisites for cardinal changes in the foreseeable future.

**Equity Market.** The instrumental basis of the Russian equity market over the last years has not demonstrated upward trends and in 2011, its evident reduction was marked out. Altogether at the internal organized market after union of leading Russian stock exchanges 320 Russian Joint Stock Companies are introduced that according to our estimates is for 7% less than a year ago. Over 20 Russian companies organized circulation of their shares only at the external market. At the internal organized market 60% of the total amount of share issues is listed at the stock exchanges, the others refer to non-listed stock.

Capitalization of the internal equity market descended to the level of two years ago and composed 798 billion USD, over the year reduction reached

19%. Regarding GDP capitalization of the internal market reduced for 47%. Structural disparities of capitalization have remained. Reduction of the rate of the ten most capitalized issuers has stopped at the level of 62%. At the end of the year the oil and gas industry composed 52% of capitalization having increased for 6 pp. Rates of metallurgy, financial sector, and electric power industry in capitalization have reduced.

Over the year trading volumes of stocks at the internal exchanging market (excluding repo transactions) increased for 17% and composed 19.6 trillion RUR. Liquidity figures of the equity market have increased: the annual turnover ratio reached 76% that however, is for 13 pp less than in 2009 – record-breaking for this figure. Ratio P/E of

the equity market had been reduced since March and by the end of the year it composed 7.2. By estimates dividend payments according to the results of 2011 can compose 937 billion RUR that for 41% larger than the year before. Consequently, the rate of dividend yield of the equity market grew to 4%.

Concentration of internal exchange turnover for shares of some issuers remains extremely high: the rate of ten most liquid issuers of shares is 86% from total turnover, provided that the rate of two issuers (Gazprom JSC and Sberbank OJSC) composes about half of turnover. Ratio of trading of shares of Russian companies at the internal and foreign markets remains at the traditional level 70 to 30% with downtrend of foreign markets.

**Corporate Bond Market.** Reduction in numbers of issuers of 'market' bonds (that is bonds in the secondary circulation) has been continued for four years; in December 2011 they became 308 – for 16% less than at the beginning of the year. Concurrently with this, the number of bond issues is growing, and according to the year results it composed 692 issues that for 4% more than at the beginning of the year. Activity of initial offering preserved at a high level. According to available estimates the volume of 'market' offering composed 789 billion RUR. Nevertheless it is for 7% less than in 2010.

For the second straight year the volume of the internal market of corporate bonds has been slightly growing – about 16% per year, having reached 3.4 trillion RUR for nominal value by the end of 2011. In terms of GDP the volume of the internal market of corporate bonds has slightly reduced and composed 6.3%.

The total volume of exchange and off-exchange transactions (at face value, excluding repo transactions) with corporate bonds composed 5.8 trillion RUR during the year that is for 2.6% less than the volume of the previous year. The role of stock exchanges at the secondary circulation of corporate bonds is constantly growing, over the year the rate of exchange transactions amounted to 88%. The volume of exchange transactions (actual price excluding repo transactions) increased for 16% up to 5.2 trillion RUR. Judging by the bases for calculation of stock indexes, the average duration of corporate bonds over the year has increased and exceeds 850 days.

The problem of defaults for corporate bonds is losing its acuteness, over the year the volume of outstanding commitments composed 6.4 billion RUR that for 86% less than in a year-earlier period.

**Government Bond Market.** The volume of issues of government bonds (GKO-OFZ) continued its growth at a more intensive rate than in 2010 and according to the results of December reached 2.8 trillion RUR, having increased for 37% in comparison with the beginning of the year. In terms of

GDP the volume of governmental bonds increased up to 5.2%. The growth of the secondary market also continued, according to the results of the year the volume of transactions (basic mode of trading, at face value, excluding repo transactions) composed 763 billion RUR that for 60% more than in a year-earlier period.

Duration of the portfolio of government bonds over the year reduced for the average value of 1,330 days.

#### **Market of Sub-Federal and Municipal Bonds.**

This market is traditionally distinguished with small volume and it does not develop; over the year its volume reduced for 1.3% – up to 424 billion RUR. The total volume of exchange and off-exchange transactions (at face value, excluding repo transactions) with sub-federal and municipal bonds has been reducing and composed 582 billion RUR over the year, having reduced for 35%. The rate of stock exchanges at the secondary circulation of sub-federal and municipal bonds is traditionally high and amounted to 81%. Over twelve months the volume of exchange transactions (actual price, excluding repo transactions) also reduced and composed 476 billion RUR – for 29% less than in 2010.

#### **Derivatives Market, Underlying Assets – Shares and Stock Indexes.**

The instrumental base of futures has not experienced any significant changes and composed 34 contract types. The main future type is stock index futures, which provide over 89% of the circulation.

Derivatives market FORTS in 2011 showed considerable growth, the volume of transactions in monetary terms increased for 87% having composed 46.1 trillion RUR. High growth of the volumes of option transactions is registered nevertheless the rate of options is preserved at the level of 2–8% of total circulation. The volume of open positions of futures at the market FORTS by the end of the year increased for 76% and composed 91 billion RUR. The volume of open positions for options increased for 15% and amounted to 42

billion RUR. According to the year results the derivatives market of instruments, the basis assets of which are shares and stock indexes exceeded the spot market of equities for circulation for 238% already.

**Stock Indexes.** Positive dynamics of consolidated equity indexes was observed only until the end of the first ten days of April. Then against the negative background related to the news concerning downgrading of credit rating of the USA and European countries, deepening of their debt problems the downward trend with a series of deep failures emerged corresponding to failures at the world markets. The upward trend being recorded in a year-earlier period was lost. Consolidated stock indexes of the 'first tier' – RTS Index and MICEX Index – showed negative yield according to the year results – minus 17–22% per annum. In 'the second tier' recession appeared to be even deeper (Index RTS-2 – minus 32% per annum). Among industrial indexes the maximum downfall showed indexes of metallurgy and mining industry as well as indexes of production industry and electric power industry. Only the index of chemical and petrochemical industry showed positive annual result. All capitalization indexes appeared in the negative area, the deepest downfall was suffered by index of companies of basic capitalization. Volatility of consolidated equity indexes increased up to the level of 1.3–2.0%.

Judging by corporate bonds indexes the aggregate income of investors into corporate bonds continued its growth to the end of the first ten days of August then a series of recessions was registered. Upward trend of the index was restored only in November. The average annual return of corporate bonds by redemption composed 7.45%. Volatility of indexes of corporate bonds increased slightly and composed 0.09%.

During the year after commencement of its publishing volatility index RTSVX shows high sensitivity to external events and market trends. In 2011, its behavior is of strongly marked unsteady character. By the end of July it was characterized by stable behavior about

the average value 25.2%. However, at the beginning of August and at the beginning of October two abrupt jumps up to the level higher than 70% were recorded. By the end of the year, the volatility index decreased but nevertheless it remained at the level almost twice higher than at the beginning of the year.

For the first time for the last years, Russian stock indexes have showed short-term negative reaction to internal political factors.

**Issuers. Public Offering.** The number of issuers of shares and bonds represented at the organized markets has been reducing for four straight years although the number of issuers included into quotation lists has stabilized.

According to available estimates, ten companies with assets and conducting activity in Russia have completed initial public offering. Seven of them held offering only at the external markets through holdings established in foreign jurisdictions. The total volume of obtained funds is measured 4.7 billion USD, 70–80% from this volume is obtained in foreign countries.

**Private Investors.** The growth rate in numbers of citizens operating at MICEX SE reduced abruptly, by the end of the year their number composed 780 thousand that only for 9% more than at the beginning of the year. The number of proactive investors during the year experienced considerable fluctuations, provided that in some months of the second half of the year it was less than during the previous years. Thus, at the end of the year the number of proactive investors reduced till 93 thousand people that 18% less than in a year-earlier period.

Shares present the major interest for investors-individuals at executing securities transactions at MICEX Stock Exchange. In the total volume of transactions executed by individuals the equity transactions take on average 98%, 1.2% from the total volume of transactions falls for corporate bonds. In the total volume of equity transactions executed at MICEX SE the rate of individuals was reducing and composed 16% on average per annum.

**Collective Investors.** According to the year results, the total amount of unit investment funds composed 1,489 funds. The number of open unit investment funds increased over the year for 5%, and the number of close unit investment funds – for 3.9%; the number of interval funds has been reducing gradually for the last four years. Over 60% of close unit investment funds fall in the category of qualified investor funds. Unit investment funds, as the sector of collective investments does not show any ability for development. According to the year results, the cost of net assets of open and interval unit investment funds composed 102 billion RUR – for 16% less than at the beginning of the year. In terms of GDP the cost of net assets of open and interval unit investment funds remains insignificant – 0.19%.

During the year the dynamics of net fund raising into open unit investment funds was differently directed. Flow of funds was observed from January to August with downward intensity, during the last four months of the year net fund raising became negative, totally at the year-end positive balance of fund raising – 3.2 billion RUR was recorded. By this, 2011 differs from three previous years when the annual volume of net fund raising was negative.

**Non-Governmental Pension Funds.** As of the date of the review, writing there was no available data at the year-end 2011. According to the data of the FFMS of Russia, as of the end of the third quarter 2011 148 entities had valid licenses of NGPF out of them 116 were allowed to activity for compulsory pension insurance. The quantitative composition of subject of pension provision has almost remained the same.

In 2009–2011 gradual growth of pension reserves was observed. Their amount as of the end of the third quarter 2011 increased for 9.5% compared to the third quarter 2010 and composed 670.3 billion RUR. Pension savings were also growing. From the third quarter 2010 they increased more than twice and according to the results of the third quarter 2011 composed 340.4 billion RUR.

**Non-residents.** Foreign Investment Funds. According to available estimates 2,410 foreign funds from among the ones, which are obliged to disclose information on their activity, invest into Russian assets (as local shares as depositary receipts) that is for 13% more than at the beginning of the year. At the same time the volume of investments of these funds into securities of Russian companies has reduced for 15.6 billion USD or 17.2% in relative terms for the first time over the last six years. Withdrawal of funds from specialized funds (rate of Russian assets is over 75%) was the most considerable: over the year the volume of assets in them reduced almost twice.

The number of non-residents – clients of MICEX SE was growing till April 2011 however, after that intensive withdrawal began and by the end of the year their number remained at the level of 3,000 units (for 29% less than at the beginning of the year). Reduction of the number of non-residents – active clients was even higher – up to 412 units (for 37%).

In the total volume of transactions with non-state securities at MICEX SE the rate of non-residents during the year composed 27% it is slightly less than in 2010.

**Professional Participants of the Securities Market.** For three straight years the number of professional participants of the securities market has been reducing on average for 9.5% per annum. At the year-end 2011 in Russia there are 1,378 organizations with these or those licenses of professional participants of the securities market, out of them about 35% are credit institutions.

Among all professional participants 1,274 companies are brokers, dealers and trust managers, 65% of them are located in Moscow.

Joining of groups MICEX and RTS at the very end of the year became the milestone event.

High concentration for the transaction volumes is noted among professional intermediaries – participants of exchange auctions. At MICEX SE ten bidders provide 59% of circulation and at RTS – 96% of circulation.

# 1. Financial Instruments

## 1.1. Shares

The data from database SPARK on issuers and share issues is presented in Table 1. This Table provides consolidated data on the number of issuers of shares and the number of registered share issues at the end of the period on an accrual basis from the registration of joint stock companies without consideration of the current status of the issuer (active/ inactive). The data on the number of active legal entities including breakdown by business legal form are given in Table 38.

The number of open joint stock companies in Russia is large however, only a little part of shares' issuers are

represented at stock exchanges. Table 2 presents consolidated data on the shares, which are offered at the main Russian stock exchanges. Table 3 gives data on distribution of shares' issuers between the main Russian stock exchanges as well as estimates by Agency Standard&Poor's<sup>2</sup> of the number of Russian issuers which shares were eligible for trading at RTS, MICEX SE, NYSE, NASDAQ and included in LSE-listed S&P EMD Russia index. Differences of the data in Table 2 and Table 3 are related to peculiarities of accounting.

Thus, at stock exchanges less than 0.5% of all open joint stock companies –

share issuers are presented and this figure has remained almost unchanged for the last years. Our estimation of the number of shares' issuers represented at Russian stock exchanges shows that in 2008–2010 their number did not show any upward trends however, in 2011 the downward trend in the number of public shares' issuers appeared. After joining MICEX and RTS the internal organized equity market of Russian companies at the year-end 2011 is represented by 320 issuers that is according to our estimations for 7% less than a year ago at both stock exchanges. According to estimations

Table 1

### Shares' Issuers in 2005–2011

Period	Number of Joint Stock Companies	including Open Joint Stock Companies	Number of share issues
2005	460,352	62,960	463,206
2006	471,010	64,431	473,881
2007	481,372	65,706	483,244
2008	487,765	66,466	490,645
2009	522,968	72,601	525,905
2010	529,132	73,437	532,125
2011	533,935	73,593	536,949

Note: the number of share issues is given without considering additional issues.

Source: Interfax Group (DB SPARK).

<sup>2</sup> *Emerging Stock Markets Review, Global Stock Markets Factbook, S&P, series of issues 2006–2011*



of foreign sources at the internal and external markets shares and depositary receipts of 346 companies are represented thus, over 20 companies being in fact Russian companies have organized circulation only at foreign stock exchanges. About 60% of share issues represented at MICEX-RTS are classified as securities eligible for bidding without a listing producer (non-listed stock).

Depositary receipts representing shares of about 70 Russian issuers are listed at foreign exchanges<sup>3</sup>.

The data on capitalization of the equity market of Russian issuers according to different estimations are given in Table 4<sup>4</sup>.

Capitalization of the equity market of Russian issuers in the first quarter 2011 continued growth began in 2009 but the second quarter was marked with insignificant downfall. During the first half-a-year capitalization of the internal equity market exceeded psychologically significant level for one trillion USD. However in the third quarter recession of capitalization for

27% at once in currency terms was recorded which was compensated by slight increase in the fourth quarter. At the year-end 2011 capitalization of the internal equity market composed 798 billion USD according to version RTS Classica and 25.7 trillion RUR according to version of MICEX that depending on the currency of calculation is for 12–19% less than at the beginning of the year. Compared to 2007 when capitalization reached its historical peak, reduction of capitalization composed 21–40%. Relation of

Table 2

**Organized Equity Market in 2005–2011**

Period	MICEX SE		RTS	
	Number of shares' issuers	Number of share issues (common shares, preferred shares) in quotation lists	Number of shares' issuers	Number of share issues (common shares, preferred shares) in quotation lists
2005	163	50	261	59
2006	190	60	281	76
2007	208	87	302	103
2008	231	101	275	110
2009	234	103	279	92
2010	249	113	278	91
Q1 2011	255	116	275	79
Q2 2011	246	119	263	81
Q3 2011	253	103	262	72
<b>MICEX-RTS</b>				
Q4 2011	320	119		
2011	320	119		

Sources: MICEX, RTS, MICEX-RTS

Table 3

**Distribution of Shares' Issuers between Main Stock Exchanges in 2008–2011**

Period	Only MICEX SE	MICEX SE and RTS	Only RTS	Total Issuers	Estimate S&P
	1	2	3	1+2+3	
2008	35	198	81	314	314
2009	49	185	98	332	333
2010	76	187	91	345	345
<b>MICEX-RTS</b>					
2011				320	346

Sources: MICEX, RTS, MICEX-RTS, S&P, calculation of NAUFOR

<sup>3</sup> Estimation of Alfa Bank.

<sup>4</sup> In this as well as in following tables in spite of legal joining of MICEX and RTS taken place at the end of the year the data on capitalization, transaction volumes, turnover ratio and other indexes for the purpose of the results comparability and due to peculiarities of information disclosure is given individually for each stock exchange.



capitalization and GDP in 2011 composed 47%, whereas in 2006–2007 this index reached its historical peak over 90%.

The Russian equity market is distinguished with high concentration of capitalization both for issuers and for sectors.

Table 5 represents the list of ten most capitalized companies and Table 6 – dynamics of changes of the rate of ten most capitalized companies in 2005–2011.

The list of the most capitalized companies for 2011 has not experienced any significant changes. The first place for

capitalization is invariably and by far from the second one (56.4 billion USD or 7.3 pp) is taken by Gazprom, JSC. NK Rosneft, OJSC moved to the second place having displaced Sberbank of Russia, OJSC to the third place. Generally, over the last years the first four places in this list have been occupied by the same companies in

Table 4

#### Capitalization of Equity Market of Russian Issuers in 2005–2011

Period	MICEX SE, billion RUR	RTS billion RUR	Estimation of S&P, billion USD	GDP, Billion RUR	Capitalization/GDP, %
2005	9,304.0	329.0	549.0	21,609.8	43.1
2006	25,482.0	966.0	1,057.0	26,917.2	94.7
2007	32,740.0	1,329.0	1,503.0	33,247.5	98.5
2008	11,017.3	374.0	397.2	41,276.8	26.7
2009	23,090.9	763.5	861.4	38,808.7	59.5
2010	29,253.2	990.5	1,379.2	45,166.0	64.8
2011	25,708.0	798.5	1,096.2	54,369.1	47.3

Sources: MICEX, RTS, MICEX-RTS, FSSS, S&P

Table 5

#### List of Most Capitalized Russian Issuers (at the Year-End 2011)

No.	Issuer	Capitalization, billion USD	Rate in total capitalization, %
1	Gazprom, JSC	126.7	16.4
2	NK Rosneft, OJSC	70.3	9.1
3	Sberbank of Russia, OJSC	55.1	7.1
4	LUKOIL, OJSC	45.1	5.9
5	TNK-BP Holding, OJSC	39.7	5.2
6	NOVATEK, OJSC	36.8	4.8
7	Surgutneftgaz, OJSC	31.9	4.1
8	MMC Norilsk Nickel, OJSC	29.5	3.8
9	Uralkali, OJSC	22.6	2.9
10	Gazprom Neft, OJSC	22.1	2.9
<b>TOTAL</b>		<b>479.9</b>	<b>62.2</b>

Sources: MICEX, MICEX-RTS

Table 6

#### Rate of Ten Most Capitalized Issuers in Total Capitalization of the Equity Market in 2005–2011

	2005	2006	2007	2008	2009	2010	2011
TOTAL (%)	77.7	78.5	68.5	69.3	65.3	60.4	62.2
including Gazprom, JSC	–	30.7	27.3	25.7	19.4	15.8	16.4

Calculated according to the data of MICEX, MICEX-RTS

Table 7

**Industrial Structure of Capitalization of the Russian Equity Market in 2005–2011, %**

Seq. No.	Industry	2006	2007	2008	2009	2010	2011
1	Oil and gas	62.6	50.4	57.0	50.1	44.6	51.2
2	Financial services	9.2	11.8	10.1	14.5	13.1	12.2
3	Metallurgy	8.1	11.1	10.0	12.3	15.3	10.6
4	Electrical power industry	11.7	12.5	8.9	9.4	10.6	8.7
5	Chemical industry	0.2	1.5	1.5	1.6	2.4	4.7
6	Communication	4.1	4.4	5.2	3.8	3.7	3.7
7	Trading	0.6	0.7	0.7	1.1	1.7	1.4
8	Transport	0.8	1.2	1.8	1.2	1.2	1.3
9	Machinery and metal working	0.8	1.1	0.7	1.0	1.5	1.2
10	Mining industry	0.2	0.2	1.3	0.9	0.8	1.1
11	Food processing	1.1	1.2	1.2	1.0	1.6	1.0
12	Coal mining	0.1	0.3	0.2	1.0	1.1	0.8
13	Other industries	0.2	2.3	0.9	1.8	2.5	1.6

Sources: MICEX, MICEX-RTS

Table 8

**Trading Volumes of Shares of Russian Issuers in 2005–2011**

Period	Unit of measurement	2005	2006	2007	2008	2009	2010	2011
MICEX Stock Exchange <sup>1</sup>	billion RUR	3,279.7	11,062.8	15,307.1	12,523.6	14,306.2	13,331.4	16,229.0
Classical market RTS <sup>2</sup>	billion USD	7.7	16.1	14.6	9.8	2.5	2.2	1.7
Exchanging market RTS <sup>2</sup>	billion RUR	81.5	24.1	15.0	16.3	10.7	6.5	6.4
Market RTS Standard <sup>2</sup>	billion RUR					1,556.5	3,356.4	3,324.7
St Petersburg Stock Exchange <sup>2</sup>	billion RUR	772.8	903.5	22.6	6.3	1.2	0.6	0.4
Average rate of exchange of USD over the period (referential)		28.28	27.18	25.57	24.81	31.68	30.36	29.35
<b>TOTAL (estimating) excluding repo transactions</b>								
	billion RUR	4,354.1	12,415.6	15,713.0	12,783.8	15,953.8	16,763.0	19,609.3
	billion USD	151.3	471.5	621.2	524.4	507.4	552.1	666.9
Estimation of S&P	billion USD	159.3	514.4	754.5	712.8	682.5	797.8	1,149.5
Relation of the volume of exchange trading with shares and GDP	%	20.1	46.1	47.3	31.0	41.1	37.1	36.1

**Notes to Table 8:**

1. For trading at MICEX SE the auction mode and negotiated deals mode are considered. Transactions in the procedure of initial offering and repo transactions are not considered.

2. For trading at RTS and St Petersburg Stock Exchange (St Petersburg Exchange, OJSC) market, two-sided transactions executed during the substantive and additional sessions are considered. Transactions in the procedure of initial offering and repo transactions are not considered.

Sources: Bank of Russia, MICEX, RTS, MICEX-RTS, FSSS, S&amp;P

the aggregate composing about 40% of capitalization.

During 2011 the rate of ten most capitalized issuers preserved at the average level of 62.2% – for 1.8 pp more than at a year-earlier period, reduction of capitalization concentration observed in the previous years stopped in 2011.

Industrial structure of capitalization of the equity market (see Table 7) remained mostly unchanged during 2011. Reduction in total capitalization of the part of companies specialized in the area of production and processing of oil and gas, which had been observed earlier, stopped and the rate of such companies has grown for over 6 pp at once – up

to 52.2%. Growth and capitalization of the companies of the chemical industry took place. Relative capitalization of metallurgic, financial companies and enterprises of electric power industry has reduced.

Table 8 and Figures 9–12 provide the data characterizing the trading volumes of shares of Russian companies at leading Russian stock exchanges.

Over 2011 the volume of exchange transactions with shares at the internal market (excluding repo transactions) composed 19.6 billion RUR or 667 billion USD (estimating), that for 17–21% depending on the currency of calculation more than in a year-earlier period. During the year quarterly trading volumes (see

Figure 10) were distributed unevenly: after recession in the second quarter for 8% there was growth in the third quarter for 23%, and for another 1% in the fourth quarter.

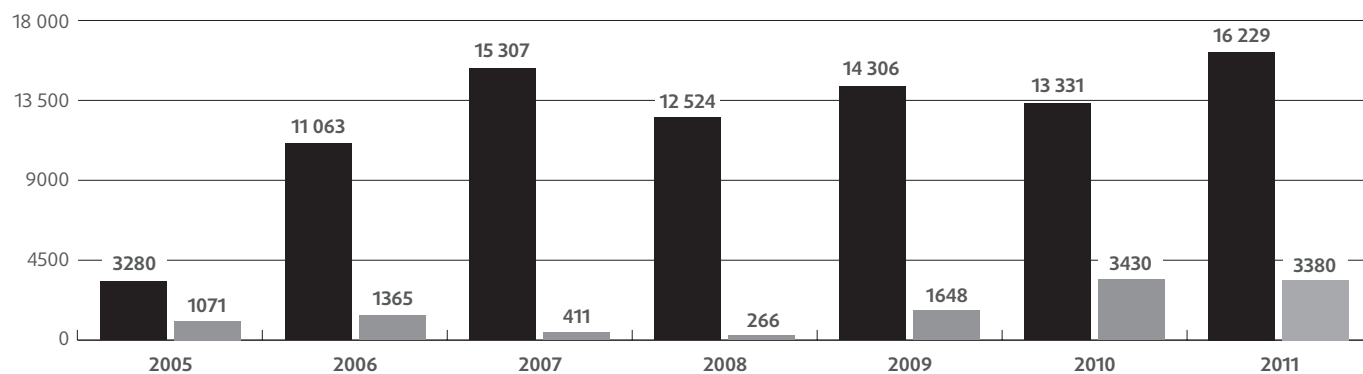
The internal exchange circulation of shares in 2010–2011 did not show any dominant trends and with a breakdown into quarters it suffered various fluctuations, prerequisites to stable volumes growth began to appear only in the third-fourth quarter 2011.

In terms of average daily circulations (see Figures 11, 12) 2009–2011 are characterized with constantly growing indexes.

As the result in 2011 average daily volume of share transactions at the

Figure 9

### Trading Volumes of Shares of Russian Issuers at the Internal Exchanging Market (Excluding Repo Transactions) in 2005–2011, billion RUR

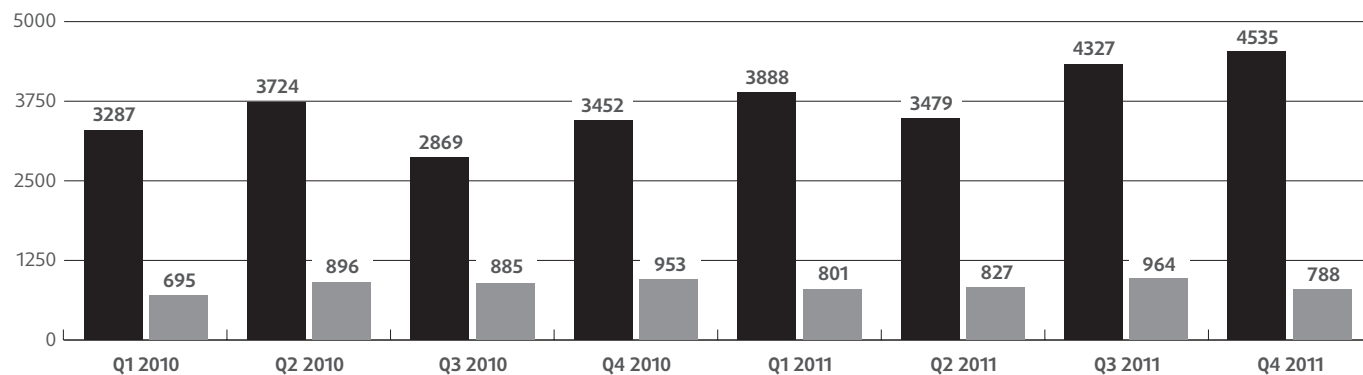


■ MICEX ■ RTS

Sources: MICEX, RTS, MICEX-RTS

Figure 10

### Trading Volumes of Shares of Russian Issuers at the Internal Exchanging Market (Excluding Repo Transactions) in 2010–2011, billion RUR



■ MICEX ■ RTS

Sources: MICEX, RTS, MICEX-RTS

Figure 11

**Average Daily Trading Volume of Shares of Russian Issuers at the Internal Exchanging Market (Excluding Repo Transactions) in 2005–2011, billion RUR**

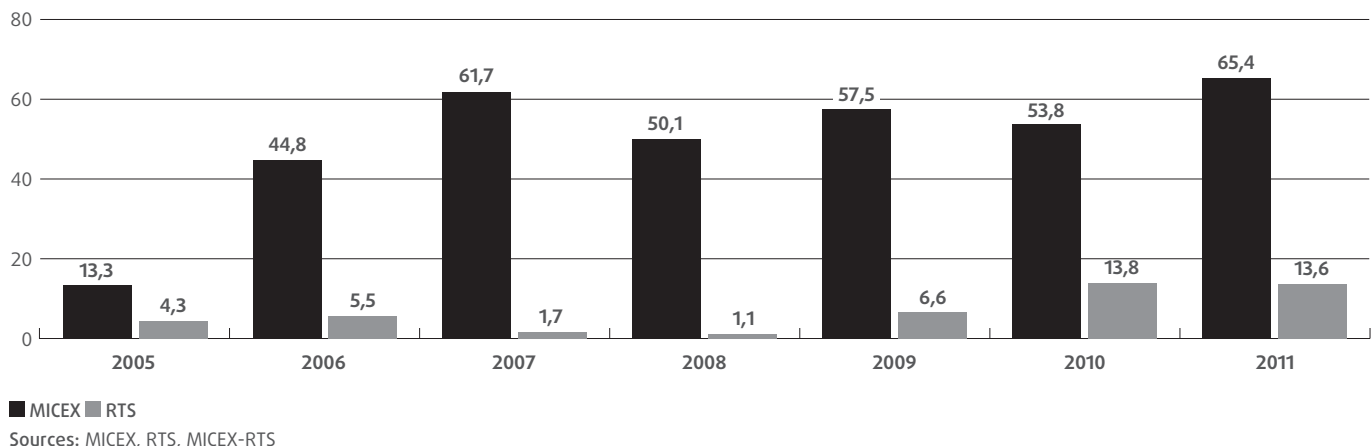


Figure 12

**Average Daily Trading Volume of Shares of Russian Issuers at the Internal Exchanging Market (Excluding Repo Transactions) in 2010–2011, billion RUR**

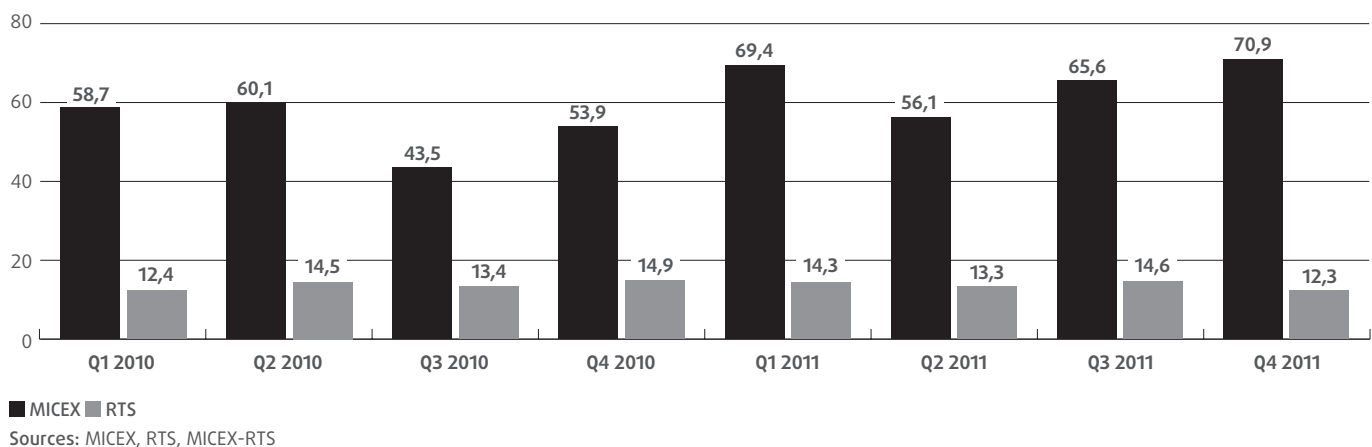
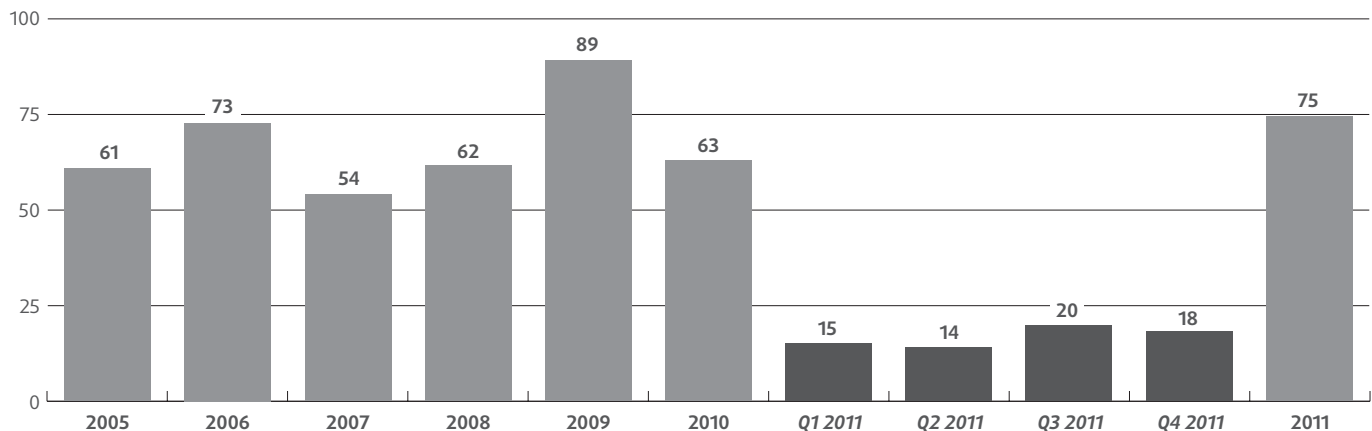


Figure 13

**Turnover Ratio of the Internal Exchanging Equity market in 2005–2011, %**



Calculated according to the data of MICEX, RTS, MICEX-RTS

internal exchanging market (excluding repo transactions) composed 79 billion RUR – for 17% more than in a year-earlier period. The main increase in circulation also fell within the second half of the year.

Against the background of the growing volume of transactions in 2011 liquidity indexes (see Figure 13) of the internal exchanging equity market<sup>5</sup> have grown up.

In 2011 the annual turnover ratio increased for 12 pp – up to 75.5%. The maximum value over the period from 2005 this ratio reached in 2009 – 89.2%. During the year the most liquid, judging by the quarterly turnover ratio, was the third quarter – 19.7%. The maximum

value over the period from 2005 the quarterly ratio reached in the second quarter 2009 – 50.5%.

Stock trading is focused on a severe limited circle of instruments. Table 9 provides the list of issuers, which transactions (including repo transactions) at MICEX SE in 2011 were executed most actively, and Table 10 provides the data on dynamics of changes over the last years of ten most actively listed shares' issuers.

At the year-end 2011 the rate of ten most liquid issuers composed 85.6%. There is a definite downward trend of circulation concentration however, in 2011 against the previous year it was extremely minor. The list of the

most liquid issuers remained almost unchanged by its composition. Since 2009 first two places for liquidity has been taken in turns by Sberbank of Russia, OJSC (considering circulation for common and preferred shares) and Gazprom, JSC in aggregate composing half of the internal exchanging volume of share transactions.

Until recently a significant point for the Russian securities market was relation of the role of internal and foreign trading facilities in the general structure of circulation of Russian shares (see Figure 14).

In the first half of 2011 relation of trading volumes at domestic and foreign stock exchanges remained at

Table 9

#### List of Issuers, Share Transactions of Which were Executed Most Actively at MICEX SE (at the Year-End 2011)

Seq. No.	Issuer	Rate in the total trading volume, %
1	Sberbank of Russia, OJSC	25.0
2	Gazprom, JSC	24.0
3	MMC Norilsk Nickel, OJSC	10.2
4	LUKOIL, OJSC	8.5
5	NK Rosneft, OJSC	4.7
6	Bank VTB, OJSC	4.5
7	Rostelecom, OJSC	2.7
8	Surgutneftgaz, OJSC	2.4
9	RusHydro, OJSC	2.0
10	Transneft, JSC	1.6
<b>TOTAL</b>		<b>85.6</b>

Source: MICEX, MICEX-RTS

Table 10

#### Rate of Ten Issuers Share Transactions of Which were Executed Most Actively in 2005–2011

	2005	2006	2007	2008	2009	2010	2011
TOTAL (%)	95.9	94.8	92.0	92.0	91.7	86.59	85.55
Including Gazprom, JSC	–	32.0	28.4	31.9	24.7	26.53	24.03
Including Sberbank of Russia, OJSC	5.4	6.1	11.1	13.6	26.1	26.48	25.00

Calculated according to the data of MICEX, MICEX-RTS

<sup>5</sup> Turnover ratio is considered as relation of the transaction volume (excluding repo transactions) over the period to average arithmetical of capitalization at the end of the current and previous periods.

the traditional level 70 to 30% that corresponds to the foreign rate of capitalization of shares of Russian companies (see Table 4). However, in the second half of the year downfall of the rate of foreign stock exchanges up to the level of 25% was noted. In this case it does not consider the circulation for shares of holding companies established in foreign jurisdictions but having assets and conducting production activity in Russia, tendency of such kind of companies establishment has appeared in Russia recently. Nevertheless, according to available estimations, accounting of trading volumes for shares of such companies will not change significantly the relation of

the role of internal and foreign trading facilities.

#### Dividend Policy of Russian Issuers

Figure 15 provides aggregated data on the volumes of dividends paid by Russian issuers eligible to trading at MICEX SE for common and preferred shares (before taxation) according to the results of 2005–2010. The data is given as in absolute values as in percentage wise to GDP.

The absolute value of dividend payouts for shares of Russian issuers except for payouts at the year-end 2008 is constantly growing. According to estimations, payouts according to the results of 2011 can compose 937 billion

RUR – for 41% more than in a year-earlier period. In terms of GDP, the total volume of dividend payouts according to the results of the last years showed differently directed trends: recession in the period 2006–2008 and further growth in 2009–2010. The minimal value this index reached in 2008–0.88% and according to the results of 2011 growth up to 1.7% is expected.

High concentration among dividend payers is noted, Table 11 provides the list of ten largest dividend payers according to the results of 2010.

Thus, the rate of first ten largest dividend payers composes over 87% of the total volume of paid-out dividends, provided that about 55% of all dividends

Figure 14

#### Trading Volumes of Depository Receipts and Shares of Russian Issuers in 2005–2011, %

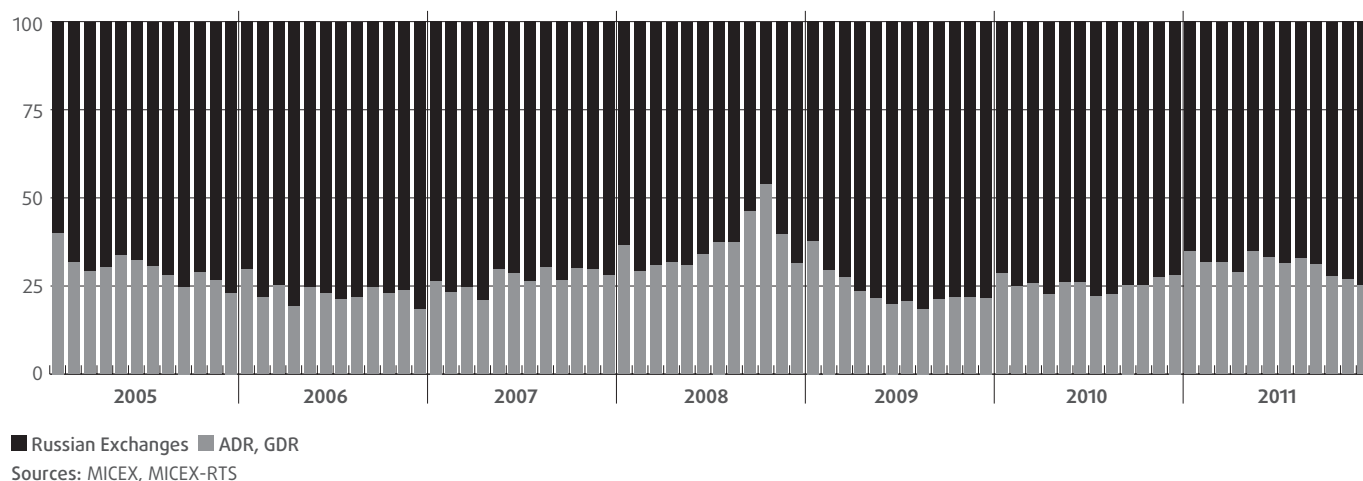
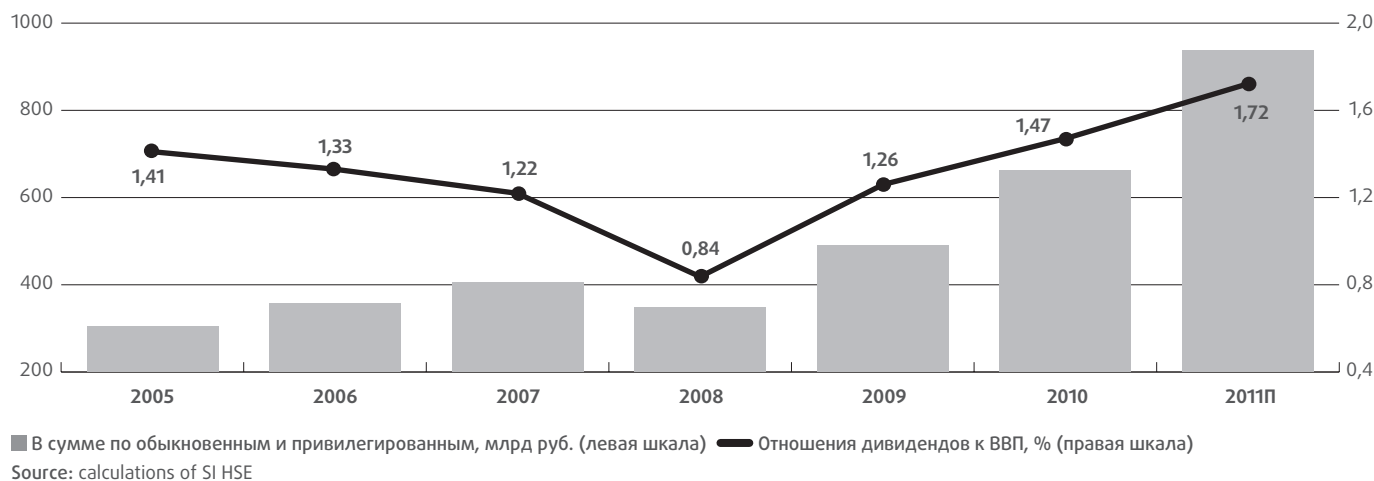


Figure 15

#### Dividend Payouts of Russian Issuers



fall to the rate of the first three dividend payers. Such high concentration of issuers according to the volumes of dividend payments is characteristic for the Russian market: according to the results of 2009 the rate of ten largest dividend payers composed over 90% of the total volume of paid-out dividends, provided that first seven positions were taken by the same issuers as in Table 11. Among the companies, which shares are

listed at MICEX SE four so called 'dividend aristocrats' – issuers who at least for five last years have been paying dividends increasing per one share are detected. They are LUKOIL OJSC, Novatek OJSC, Rosneft OJSC and «CMT» OJSC<sup>6</sup>.

In terms of industries over 65% of the total volume of dividends are paid by companies of oil and gas industry, issuers of metallurgic industry paid about 10% and communication companies – 8%

of dividends. In terms of stock indexes 85–87% of the total volume of dividends are paid by the companies included into index of high capitalization companies MICEX LC, 9–12% is included into index of standard capitalization MICEX MC and 2–4% – into index of basic capitalization MICEX SC (for detailed information on capitalization indexes see Section 1.9).

Figure 16 according to the sampling of issuers which shares were listed at

Table 11

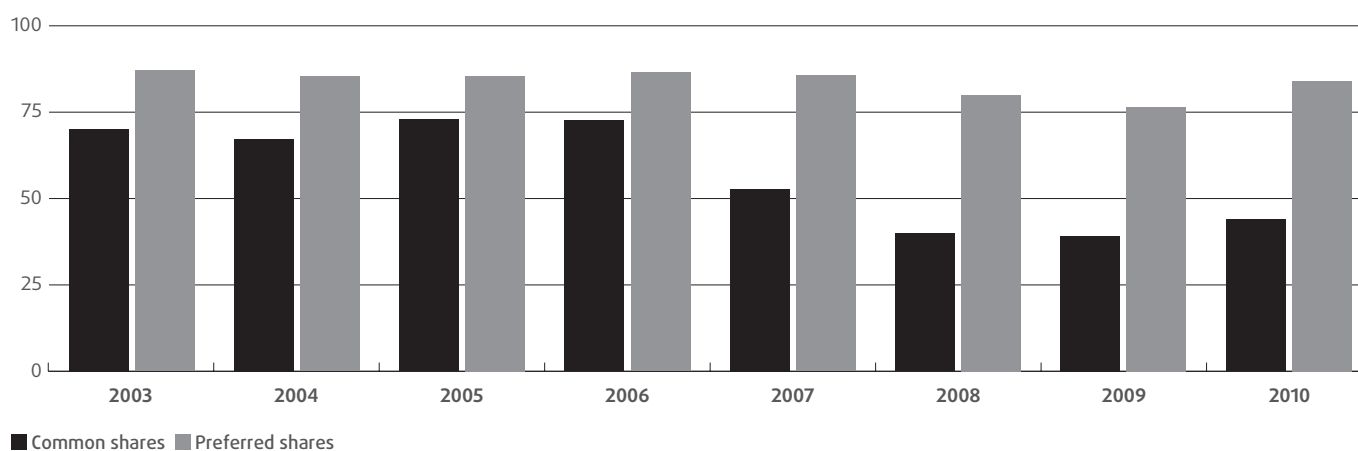
### List of Issuers Eligible to Circulation at the Equity Market of MICEX SE Having Paid the Highest Volume of Dividends (According to the Results of 2010)

Seq. No.	Issuer	Rate in the total volume of dividends, %
1	TNK-BP, OJSC	28.13
2	Gazprom, JSC	13.96
3	LUKOIL, OJSC	12.60
4	MMC Norilsk Nickel, OJSC	7.69
5	Mobile TeleSystems, OJSC	5.26
6	NK Rosneft, OJSC	4.60
7	Surgutneftgaz, OJSC	4.48
8	FosAgro, OJSC	4.13
9	Sberbank of Russia, OJSC	3.42
10	Gazprom Neft, OJSC	3.13
	<b>TOTAL</b>	<b>87.49</b>

Source: calculations of NRU HSE

Figure 16

### Rate of Issuers Eligible to Circulation at MICEX Stock Exchange for Shares of which Dividends were Paid, %



Source: calculations of SI HSE

<sup>6</sup> Hereinafter calculations of NRU HSE.

MICEX SE provides the data on the rate of issuers for which dividends were paid.

The rate of issuers of common shares listed at MICEX SE for which dividends were paid has been changing significantly for the recent years. According to the results of 2008–2010<sup>7</sup> it was recorded at the average level of 40% however, according to the results of 2005–2006 this index composed on average about 70%. For preferred shares this index is stable at the level of 85% except for crisis period of 2008–2009 when it fell down for 5–10 pp. in the majority of cases (about 77% from the number of issuers paying dividends) dividends for common shares are paid according to the results of the year.

Dividends for common shares are paid by 80–90% of the companies included into index of high capitalization MICEX LC. For the issuers included into other

capitalization indexes this figure is notably lower.

According to the results of 2005–2010 the issuers paying dividends for common shares allocated for them on average 35–40% of net profit according to Russian Accounting Standard (RAS); when using for profit calculation International Financial Reporting Standards (IFRS) this index composed on average 25%. For preferred shares for this period for payment of dividends was allocated on average 7–11% of net profit according to RAS and 5–11% according to IFRS.

Figure 17 provides diagrams of earning yield per share (P/E) and dividend yield (DY) in total for shares of Russian issuers.

Behavior of index P/E in 2011 changed. If in 2009–2010 this index grew actively and reached the value of 12.5 in March 2011 then monotonous recession began and by the end of the year, it fell to 7.2. Index of dividend yield on the

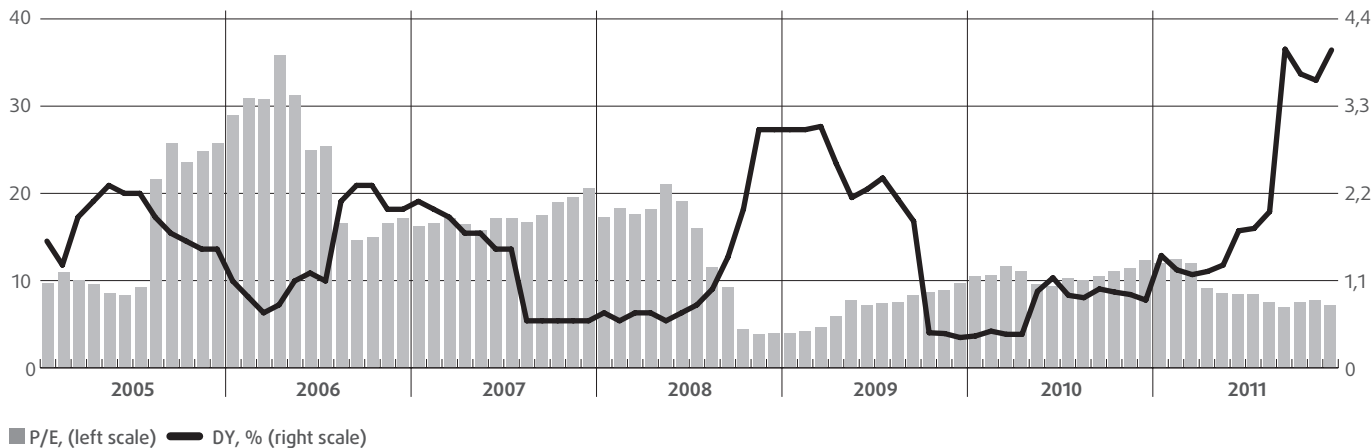
contrary showed vigorous growth from 1.4 to 4.0% per year.

Moreover, index of yield per share and index of dividend yield for individual Russian issuers are considerably different. Thus, for companies of the consumer sector Magnit OJSC and DIXY Group OJSC according to the available estimations<sup>8</sup> index P/E in 2011 reached values 22–24 and this index of the issuer of the oil and gas industry NOVATEK OJSC composed 18. Many companies introduced in sector Market of Innovations and Investments of MICEX-RTS (for detailed information see Section 2.3.3) are distinguished with very high values P/E: Utinet.Ru Platform OJSC – 119, Pharmsynthez OJSC – 54<sup>9</sup>.

Maximum value of dividend yield among the issuers the shares of which were listed at MICEX SE according to the results of 2010 was shown by Kolenergosbyt OJSC – 50.8% (common shares), MGTS OJSC – 45.9% (common shares)<sup>10</sup>.

Figure 17

#### Dividend Yield and Earning Yield per Share of Russian Issuers in 2005–2011



<sup>7</sup> There was no data at the year-end 2011 by the time of the review completion.

<sup>8</sup> Estimation of Alfa Bank.

<sup>9</sup> Data of MICEX-RTS.

<sup>10</sup> Estimation of NRU HSE.



## 1.2. Corporate Bonds

In 2011 the trend having clearly outlined over the recent years when fewer and fewer issuers make more and more frequent borrowings at the bond market.

During the year, the number of issuers of 'market' bonds was reducing: on average for 4.3% per quarter and by the end of the year it composed 308 companies – for 16.3%

less than at the beginning of the year<sup>11</sup> (see Table 12).

Reduction of the number of 'market' issuers has been continuing for four years and compared to the maximum value reached in 2007 it composed 33.8%. The number of issues of 'market' bonds is rising and in the first half 2011 it reached its historical peak – 731 issues and by the end of the year the number of bond

issues composed 692 – for 3.9% more than in the year-earlier period. Compared to 2007 the number of issues of corporate bonds has increased for 14%.

Figure 18 provides the diagram of the volume of the corporate bonds market (placed issues at nominal value), Table 13 – consolidated data according to the results of 2005–2011 (both 'market' and 'non-market' issues).

Table 12

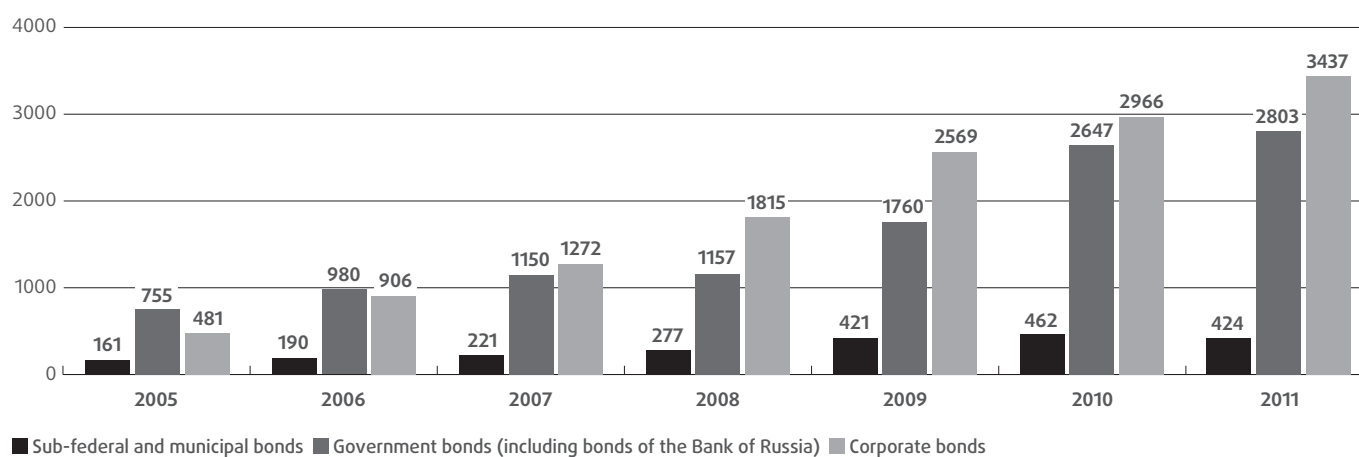
**Number of Issuers of Corporate Bonds and Issues in 2005–2011**

Period	Number of bonds' issuers	Number of bonds' issues
2005	230	302
2006	370	488
2007	465	607
2008	463	650
2009	405	630
2010	368	666
Q1 2011	358	673
Q2 2011	337	731
Q3 2011	316	696
Q4 2011	308	692
2011	308	692

Source: CBONDS

Figure 18

**Volume of the Internal Bond Market (at Nominal Value) in 2005–2010, billion RUR**



Source: CBONDS

<sup>11</sup> 'Market' issuers and issues imply issues of the bonds which participate in secondary circulation.

During 2011 the corporate bond market showed differently directed trends: maximum monthly increase of the volume for 3.5% was in March, maximum monthly downfall for 2.2% was in September. The volume of corporate bonds (placed issues, nominal value) increased over the year for 15.9% and composed 3.4 trillion RUR that is similar to the tempo of 2010. Against GDP the growth of corporate bond's volumes has been at the middle level 6.5% for the last three years.

Placement of new issues of corporate bonds happens extremely irregular. Table

14 provides the data on placements of new 'market' and 'non-market' issues of corporate bonds in 2005–2011.

In 2011 the number of issuers of corporate bonds having placed new issues increased against 2010 for almost 8% and composed 170 companies. The volume of new placements composed 942.2 billion RUR. Number of new issues remained almost unchanged against the previous year due to reduction in the number of 'market' and increase of 'non-market' issues. Number of 'non-market' issues in 2011 reached 37, that is almost three times more than in 2010 and

the volume increased in 7.5 times and composed 153.5 billion RUR.

Figure 19 provides quarterly diagram of trading volumes of corporate bonds (both exchange and off-exchange) at the internal bond market in 2005–2011 at nominal value and Table 15 consolidated data on the results of each year<sup>12</sup>.

The first and fourth quarters were characterized by reduction of trading activity for 20–23%, in the second quarter the growth for 21% was recorded. The total annual volume of bonds trading (at nominal value)

Table 13

**Volume of the Corporate Bond Market in 2010–2011**

Period	Volume of the corporate bond market, billion RUR	Volume of the corporate bond market/GDP, %
2005	481	2.2
2006	906	3.4
2007	1,272	3.8
2008	1,815	4.4
2009	2,569	6.6
2010	2,966	6.6
Q1 2011	3,152	
Q2 2011	3,317	
Q3 2011	3,296	
Q4 2011	3,437	
2011	3,437	6.3

Sources: CBONDS, FSSS

Table 14

**Placements of New Issues of Corporate Bonds in 2005–2011**

Period	Number of bonds' issuers, units.			Number of new issues, units			Volume of placement, billion RUR		
	Market	Non-market	Total	Market	Non-market	Total	Market	Non-market	Total
2005	160	6	166	164	5	169	281.2	0.6	281.8
2006	256	4	260	264	4	268	485.2	1.2	486.4
2007	192	9	201	197	10	207	464.6	16.2	480.8
2008	143	11	154	156	14	170	489.8	183.2	673.0
2009	136	11	147	175	11	186	999.1	83.5	1,082.5
2010	152	6	158	194	13	207	850.2	18.1	868.2
2011	133	37	170	171	37	208	788.8	153.5	942.2

Source: CBONDS

<sup>12</sup> Hereinafter in estimating the volumes of the secondary market of all types of bonds repo transactions are not considered unless otherwise is stated. For estimation of the volume of off-exchange transactions the data of the National Settlement Depository (NSD).

Figure 19

### Trading Volume at the Internal Bond Market (Exchange and Off-Exchange Transactions Excluding Repo Transactions), billion RUR

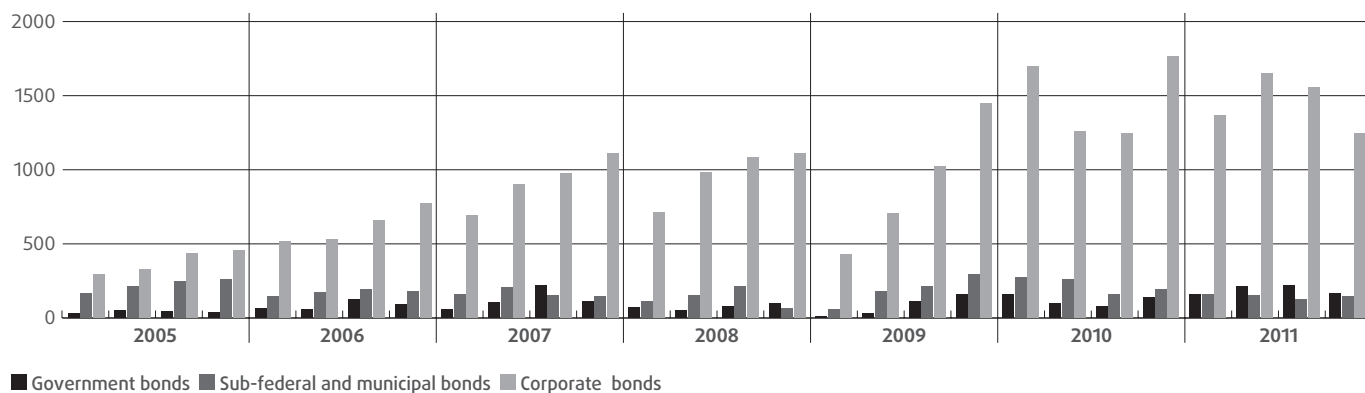


Table 15

### Trading Volume for Corporate Bonds in 2005–2011

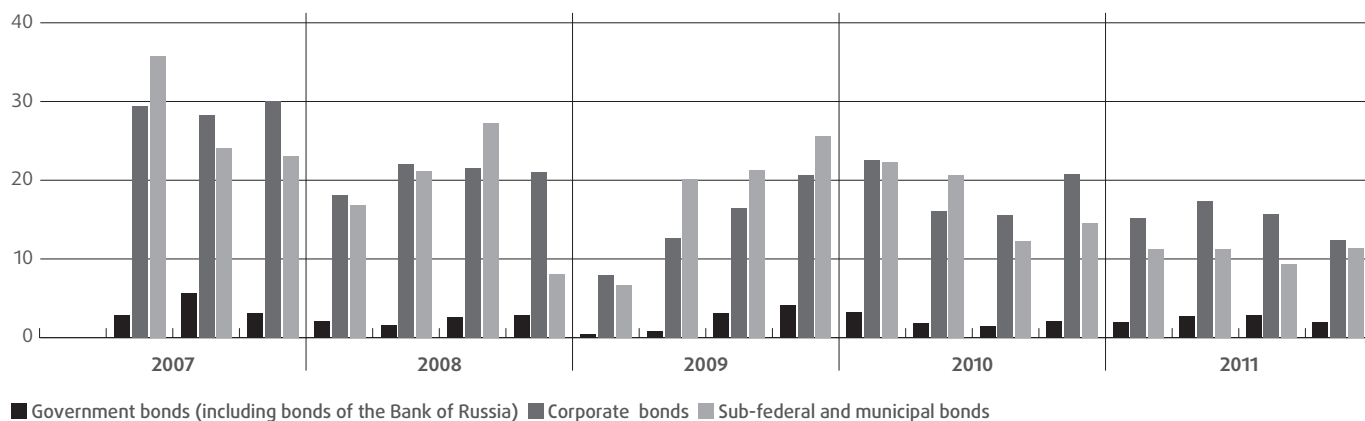
Period	Total trading volume, billion RUR	Rate of exchange transactions in the total trading volume (estimating), %
2005	1514	60
2006	2473	73
2007	3670	74
2008	3890	68
2009	3605	68
2010	5969	75
Q1 2011	1364	93
Q2 2011	1649	85
Q3 2011	1556	91
Q4 2011	1244	85
2011	5813	88

Note: excluding repo transactions, at nominal value.

Source: CBONDS

Figure 20

### Turnover Ratio of the Internal Bond Market (Exchange and Off-exchange Transactions Excluding Repo Transactions), %



reduced for 2.6% and composed 5.8 trillion RUR. Over the last six years, considerable variation of the growth rates of corporate bond circulations has been noted: leaps in 2006, 2007 and 2010 from 48 to 65%, downfall for 8% in 2009 slight increase for 6% in 2008. The rate of exchange transactions is

constantly growing: from 60% in 2005 to 88% in 2011.

Figure 20 presents diagrams of quarterly turnover ratio<sup>13</sup> at the internal bond market.

During 2011 quarterly turnover ratio of corporate bonds after slight increase in the second quarter began to fall down

and in the fourth quarter it composed 12.4%. The minimum value this index had only in the first quarter of 2009 (7.9%), the maximum value it reached in the fourth quarter of 2007 (30.1%).

Exchange trading with corporate bonds in 2011 was executed at MICEX SE and RTS. Table 16 provides the

Table 16

**Organized Corporate Bond Market in 2005–2011**

Period	MICEX SE			RTS		
	Number of Bonds' issuers	Number of bonds' issues	including the ones in quotation lists (issuers/ issues)	Number of Bonds' issuers	Number of bonds' issues	including the ones 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
Q1 2011	348	657	150/349	38	50	0/0
Q2 2011	323	673	174/388	32	44	1/1
Q3 2011	326	678	167/391	24	35	1/1
<b>MICEX-RTS</b>						
Q4 2011	318	673	177/410			
2011	318	673	177/410			

Sources: MICEX, RTS, MICEX-RTS.

Table 17

**Trading Volume of Corporate Bonds at MICEX Stock Exchange<sup>14</sup> in 2005–2011**

Period	Corporate bonds, billion RUR
2005	900.4
2006	1,801.3
2007	2,715.9
2008	2,604.1
2009	2,463.5
2010	4,470.2
Q1 2011	1,276.8
Q2 2011	1,416.7
Q3 2011	1,417.9
Q4 2011	1,069.9
2011	5,181.3

Note: excluding repo transactions, at actual cost.

Source: MICEX.

<sup>13</sup> Turnover ratio is calculated as the relation of the volume of exchange and off-exchange transactions (excluding repo transactions) at face value for the period to the average arithmetical of the bond issue volume at face value for the current and previous periods.

<sup>14</sup> The auction mode and negotiated transactions mode are considered as well as transactions with exchange bonds, everything at actual cost. Transactions under procedure of initial offering and repo transactions are not considered.

consolidated data on corporate bonds (including exchange bonds), which are listed at these stock exchanges<sup>15</sup> and Table 17 provides the data on bond trading volumes at MICEX SE in 2005–2011 at actual cost<sup>16</sup>.

In view of the downward trend in the number of issuers of corporate bonds

their number at organized markets is decreasing. According to the data of MICEX-RTS after integration of two sites the number of issuers composed 318 – for 10% less than in the year-earlier period and for 40% less against 2008 when their number reached the historical peak.

Dynamics of exchange transactions with corporate bonds repeats the dynamics of the total bonds circulation in many respects. In the fourth quarter of 2011 there was a considerable downfall in volumes (25%) however, according to the year results the volume of exchange transactions with corporate

Table 18

### List of Corporate Bonds' Issues Transactions with which were Executed at MICEX SE Most Actively (According to the Results of 2011)

Seq. No.	Security	Issuer	Transaction volume, billion RUR	Rate in the total trading volume, %
1	Transnf 03	Transneft, JSC	1,654.1	4.6
2	Sibmetin02	SIBMETINVEST, LLC	680.5	1.9
3	RZD-10obl	Russian Railways, OJSC	498.0	1.4
4	VEB 08	Vnesheconombank	484.1	1.3
5	Sibmetin 01	SIBMETINVEST, LLC	444.1	1.2
6	RZD -17 obl	Russian Railways, OJSC	440.0	1.2
7	RZD -15 obl	Russian Railways, OJSC	424.3	1.2
8	SevSt-B01	Severstal, OJSC	389.2	1.1
9	RZD B0-01	Russian Railways, OJSC	387.2	1.1
10	MTS 08	MTS, OJSC	379.5	1.1
<b>TOTAL</b>			<b>5,781.0</b>	<b>16.0</b>
Index HH				69.83

Note: with account of repo transactions, at actual cost.

Calculated according to the data MICEX-RTS

Table 19

### List of Issuers Transactions with Corporate Bonds of which were Executed at MICEX SE Most Actively (According to the Results of 2011)

Seq. No.	Issuer	Transaction volume, billion RUR	Rate in the total trading volume, %
1	Russian Railways, OJSC	3,274.58	9.1
2	Transneft, JSC	1,959.20	5.4
3	Russian Agricultural Bank, OJSC	1,820.00	5.0
4	AHML, OJSC	1,746.03	4.8
5	MTS, OJSC	1,376.60	3.8
6	Federal Grid Company of Unified Energy System, OJSC	1,175.39	3.3
7	VypelCom-Invest, LLC	1,146.86	3.2
8	SIBMETINVEST, LLC	1,124.62	3.1
9	Gazpromneft, OJSC	1,112.23	3.1
10	Mechel, OJSC	1,069.95	3.0
<b>TOTAL</b>		<b>15,805.45</b>	<b>43.8</b>
Index HH			285.5

Note: with account of repo transactions, at actual cost.

Calculated according to the data MICEX-RTS

<sup>15</sup> This table provides both 'market' and 'non-market' issues of corporate bonds.

<sup>16</sup> There is no data on bond trading at RTS in this Table and Table 25 due to their comparatively small volumes.

Table 20

**Trading Volume of Exchange Bonds at MICEX SE in 2008–2011**

Period	Trading volume, billion RUR	Rate in the total trading volume of corporate bonds, %
2008	106.7	0.9
2009	760.7	8.1
2010	4,796.5	19.9
2011	8,875.2	24.6

Note: with account of repo transactions, at actual cost.  
Calculated according to the data MICEX, MICEX-RTS

Table 21

**Violations at Accomplishment of Obligations for Corporate Bonds by the Issuers  
(Number of the Bonds' Issues and Issuers)**

Default	Offer non-performance	Number of bonds' issues			Total	Number of issuers
		Delay in offer performance	Technical default			
<b>2002–2007</b>						9
6	3	1	3	13		
<b>2008</b>						50
26	25	4	22	77		
<b>2009</b>						110
230	62	7	23	322		
<b>2010</b>						70
159	25	1	18	203		
<b>2011</b>						22
59	7	1	4	71		

Source: CBONDS

Table 22

**Violations at Accomplishment of Obligations for Corporate Bonds  
(Volume of Outstanding Commitments), million RUR**

Default	Offer non-performance	Delay in offer performance	Technical default	Total
<b>2002–2007</b>				
1,014	0	0	1,570	2,584
<b>2008</b>				
3,148	24,779	5,003	4,735	37,665
<b>2009</b>				
62,842	54,301	4,397	2,620	124,160
<b>2010</b>				
35,036	10,897	649	568	47,149
<b>2011</b>				
5,968	201	229	34	6,433

Source: CBONDS

bonds increased for 15.9% and reached 5.2 trillion RUR.

Table 18 and Table 19 provide the data on most actively traded ten issues and ten bonds' issuers<sup>17</sup>.

The secondary bond market is concentrated on individual instruments to a much less degree than the equity market. According to the results of 2011 the rate of ten most liquid bond issues composed 16%, having reduced from 25% in 2009–2010.

The rate of ten largest bonds' issuers occupies 43.8% of the total circulation that a little less than in the year-earlier period when this index was 46.1%.

The list of issuers of the most liquid corporate bonds has been changed very little over the last years – 60% of the issuers presented in Table 19 were in the similar list for 2010.

In 2011 187 exchange bond issues of 88 issuers were in circulation at MICEX Stock Exchange.

Over 2011 the secondary circulation of exchange bonds (see Table 20) increased for 85% and reached 8.8 trillion RUR, in the previous years this market increased annually in 6–7 times. Exchange bonds composed almost a quarter of trading circulation of corporate bonds at MICEX SE.

Tables 21 and 22 present the data on the number of bonds' issues, number of issuers and volumes of outstanding commitments over the last years.

The problem of defaults was not of systemic character; in 2011 violations in performance of their obligations were made by 22 issuers compared to 70 in 2010. As before the main violation was non-payment of warrants. The total volume of non-performed obligations reduced for 86% and composed 6.43 billion RUR. Nevertheless, compared to the pre-crisis period 2002–2007 when defaults were of identity character, the default statistics of 2011 remains high.

## 1.3. Government, Sub-Federal and Municipal Bonds, Bonds of the Bank of Russia

Figure 21 presents monthly diagrams of the volumes of the internal state bond market represented by government bonds (Government Short-Term Bonds – Federal Loan Bonds) and bonds of the Bank of Russia (BBR) at nominal value,

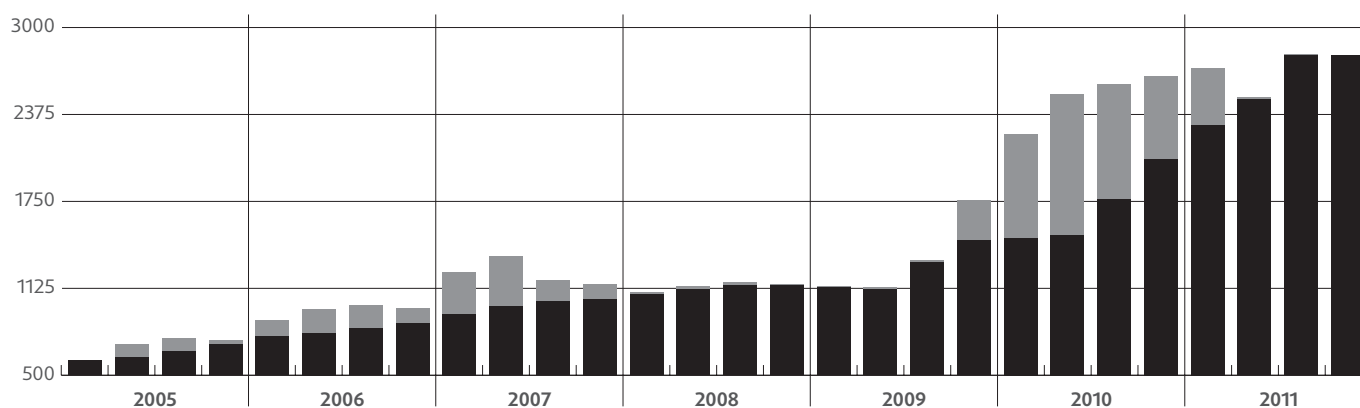
and Table 23 – consolidated data over the year.

In 2011 growth of the volume of government bonded borrowings started in the second half of 2010 continued.

Over 2011 the volume of the government bond market at nominal value, according to Agency CBONDS, increased for 37% and composed 2.8 trillion RUR. The similar growth took place in the year-earlier period. Against GDP the

Figure 21

### Volume of the Internal State Bond Market (at Nominal Value) in 2005–2011, billion RUR



■ Government bonds ■ Bonds of the Bank of Russia

Source: CBONDS

<sup>17</sup> With account of repo transactions and exchange bond transactions, at actual cost.

government bond market remains small in spite of growth for 0.7 pp up to 5.2%.

The volume of the secondary market of government bonds and its liquidity wholly concentrated at MICEX, compared to the corporate bond market, are small. Table 24 provides the data characterizing circulation of the government bond market<sup>18</sup>.

Table 14 and Table 24 show that in spite of commensurability of the

placement volumes at nominal value, the volume of government securities compared to corporate bonds is single-order less. With increase of issue volumes of government bonds the volume of the secondary market grows. According to the results of 2011 the transaction volume composed 763 billion RUR – for 60.4% more than in the previous year, the main growth of circulation fell within the second and third quarters. Such

considerable increase of circulation has been observed for two straight years, in 2010 growth composed 54%. The average quarterly turnover ratio according to the results of 2011 composed 2.4% against 2.2% in the year-earlier period (see Figure 20). Value of the same ratio for corporate bonds for 2011 is equal to 15.2%.

Duration of government bonds in 2011 decreased (for detailed information

Table 23

**Volume of the Government Bond Market in 2005–2011**

Period	Volume of the government bond market, billion RUR	Volume of the government bond market/GDP, %
2005	722	3.3
2006	876	3.3
2007	1,047	3.2
2008	1,144	2.8
2009	1,470	3.8
2010	2,054	4.5
Q1 2011	2,300	
Q2 2011	2,482	
Q3 2011	2,799	
Q4 2011	2,803	
2011	2,803	5.2

Source: CBONDS

Table 24

**Trading Volume of Government Bonds in 2005–2011**

Period	Total trading volume, billion RUR
2005	166.2
2006	335.0
2007	491.5
2008	298.1
2009	308.4
2010	475.5
Q1 2011	160.5
Q2 2011	213.6
Q3 2011	222.2
Q4 2011	166.6
2011	762.9

Note: excluding repo transactions, at nominal value at basic trading mode.

Source: CBONDS

<sup>18</sup> At nominal value. Only the basic trading mode is taken into account.



see Section 1.9.3) and on average it composed 1,330 days.

The volume of bonds of the Bank of Russia in 2011 decreased sharply (see Figure 21).

Bonds of the constituent entities of the Russian Federation and municipal bonds by issue volumes give way to both government and corporate bonds (see Figure 18). According to the data of CBONDS, in 2011 monotonous

recession of the volume of sub-federal and municipal bonds circulated at the internal market took place. According to the year results the volume of these issues at nominal value composed 424 billion RUR that for 1.3% less than at the beginning of the year.

Total (exchange and off-exchange) trading volume of sub-federal and municipal bonds at nominal value is presented in Table 25.

Transaction volume of sub-federal and municipal bonds is characterized with high changeability nevertheless, during 2011 constant recession of circulation was observed and according to the year results the trading volume composed 582 billion RUR that is for 35% less than in the year-earlier period. Consequently, liquidity is also decreasing (see Figure 20), according to the year results average quarterly turnover ratio

Table 25

**Trading Volume of Sub-Federal and Municipal Bonds in 2005–2011**

Period	Total trading volume, billion RUR	Rate of exchange transactions in the total trading volume (estimating), %
2005	890.1	70.0
2006	682.8	79.9
2007	663.5	83.2
2008	539.1	81.8
2009	740.7	84.2
2010	891.6	79.6
Q1 2011	155.7	77.8
Q2 2011	154.6	85.2
Q3 2011	124.7	75.7
Q4 2011	147.1	83.6
2011	582.1	80.9

Note: excluding repo transactions, at nominal value.

Source: CBONDS

Table 26

**Organized Market of Sub-Federal and Municipal Bonds in 2005–2011**

Period	MICEX SE			RTS		
	Number of bonds' issuers	Number of bonds' issues	Number of bonds' issues in quotation lists (issuers/ issues)	Number of bonds' issuers	Number of bonds' issues	Number of bonds' issues in quotation lists (issuers/ issues)
2005	41	90	22/53	2	16	1/1
2006	50	105	22/49	14	35	0/0
2007	59	116	27/49	16	30	0/0
2008	45	116	27/53	10	21	0/0
2009	40	107	20/52	6	14	0/0
2010	38	94	18/48	6	9	0/0
Q1 2011	34	94	19/55	6	9	0/0
Q2 2011	34	94	21/52	6	8	0/0
Q3 2011	34	92	23/55	6	7	0/0
<b>MICEX-RTS</b>						
Q4 2011	35	93	23/57			
2010	35	93	23/57			

Sources: MICEX, RTS, MICEX-RTS

Table 27

**Trading Volume of Sub-Federal and Municipal Bonds at MICEX SE in 2005–2011**

Period	Total trading volume of bonds of constituent entities of the Russian Federation and municipal bonds, billion RUR
2005	580.7
2006	535.1
2007	525.1
2008	412.3
2009	563.7
2010	668.2
Q1 2011	124.9
Q2 2011	131.9
Q3 2011	95.6
Q4 2011	123.2
2011	475.7

Примечание: без учета сделок РЕПО, по фактической стоимости.

Источник: ММББ

of sub-federal and municipal bonds composed 10.8% against 17.4% in the year-earlier period.

The rate of exchange transactions in the total volume of sub-federal and municipal bonds remained prevailing – 81%.

Exchange trading with sub-federal and municipal bonds was executed at MICEX SE and RTS. Table 26 provides consolidated data on sub-federal and municipal bonds, which are in circulation

at Russian stock exchanges, and Table 27 provides the data on trading volumes of these bonds at MICEX SE at nominal value<sup>19</sup>.

In 2011 the number of issuers of sub-federal and municipal bonds represented at stock exchanges remained almost the same. If to consider a longer period, for example from 2007 when the number of issuers reached historical peak the downfall for more than 40% is observed.

Volume of exchange trading of sub-federal and municipal bonds is also characterized with changeability. First three quarters of 2011 were marked with downfall of circulation on average for 16% and only in the fourth quarter growth was recorded. As the result over the year the transaction volume (actual cost, excluding repo transactions) composed 476 billion RUR that for 29% less than in the year-earlier period.

## 1.4. Eurobonds

General data presenting volumes of the Eurobond market is given in Figure 22.

According to the data of CBONDS, at the end of 2011 the total volume of Eurobonds issue composed 151.7 billion USD including 35.5 billion USD – sovereign Eurobonds, 115.4 billion USD – corporate Eurobonds. The volume of

Eurobonds of constituent entities of the Russian Federation is insignificant and for a long time it has composed about 1 billion USD.

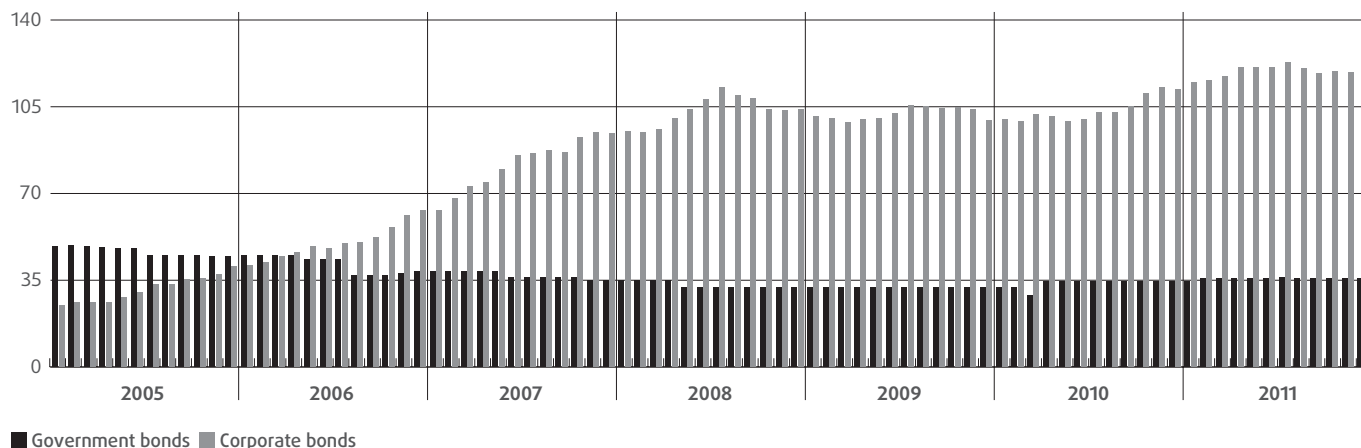
According to the year results growth of corporate Eurobonds volumes for 2.9% was recorded. The volume of sovereign Eurobonds during 2011 was at almost permanent level.

Figure 23 presents volumes of corporate borrowings using instruments of the bond market at the internal and external markets.

As it follows from Figure 23, the rate of the internal corporate bond market is constantly growing: in 2008–2011 it grew up to 47% whereas in 2005 it composed 30%.

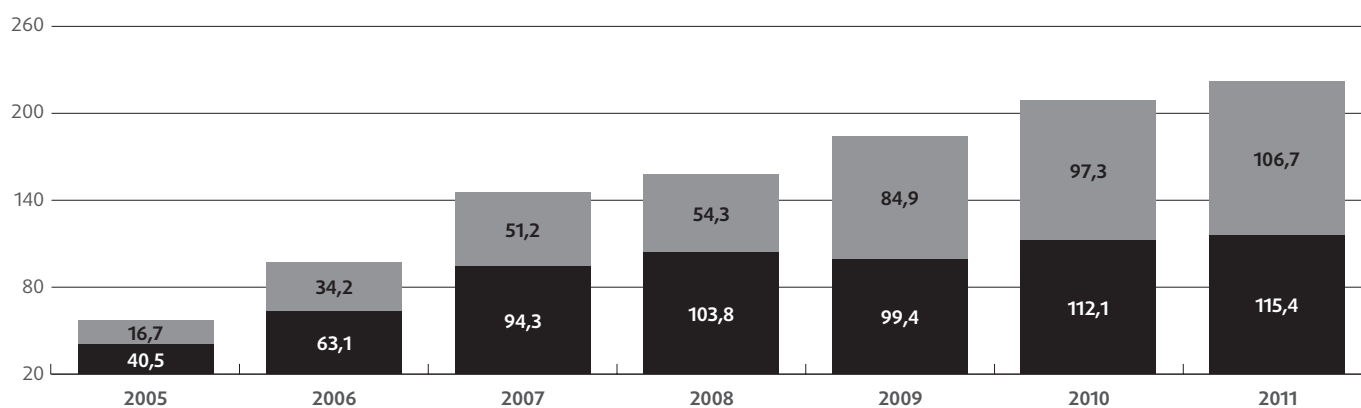
<sup>19</sup> Auction mode and negotiated transaction mode at actual value are considered. Transactions under procedure of initial offering and repo transactions are not considered.

Figure 22

**Volume of the Eurobond Market in 2005–2011, billion USD**

Source: CBONDS

Figure 23

**Internal and External Corporate Bond Market in 2005–2011, billion USD**

Source: CBONDS

## 1.5. Bills

Bills as a financing instrument are gradually expelled with bonds however, the bill market by its scale is still one of the most noticeable components of the internal bond market. According to estimations of Region Group at the end of 2011 the rate of the bill market reduced for 6% of the whole bond market whereas at the beginning of 2005 it composed 25%. Table 28 provides the

estimated data on the issues of bills in circulation.

Revival of the bill market observed in 2010 turned out to be shorty and in 2011 its volume reduced for 30%.

Time structure of the bill market (as applied to bank bills) is given at Figure 24.

The standard date of bill maturity composes from one to three years, by

volume from 34 to 48% of bills fall within this time period. Due date 'on call' and up to 90 days as well as over 3 years fall within the category of the least demanded.

The volume of bill transactions is known at the estimating level. According to the estimations of Region Group it fell down for 20% in 2011 and composed 5.4 trillion RUR.

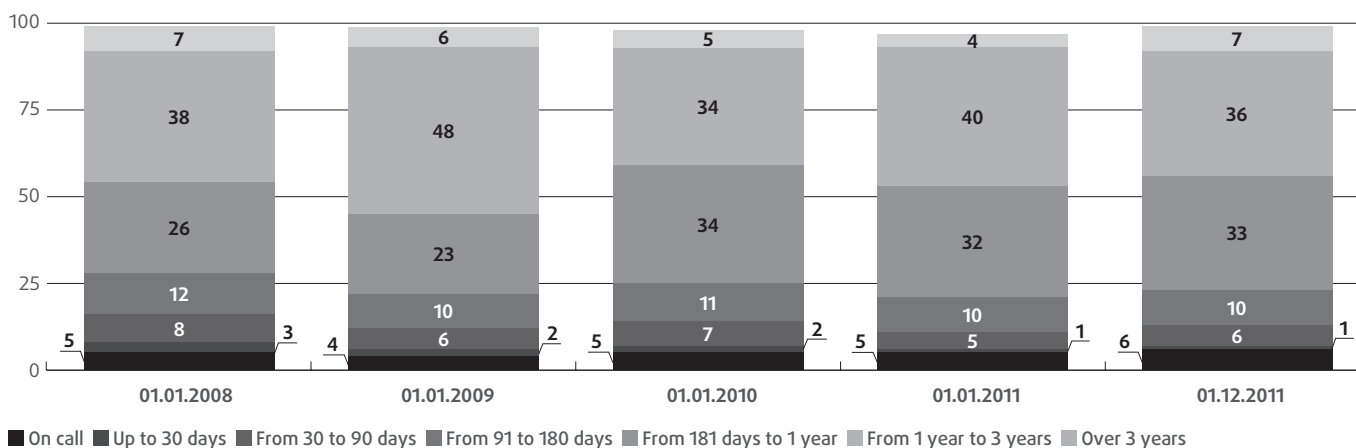
Table 28

**Bill Market Volume in 2005-2010, billion RUR**

Period	2005	2006	2007	2008	2009	2010	2011
	350-370	500	580	510	450	570	400

Source: Region Group

Figure 24

**Time Structure of the Bill Market in 2008-2011, %**

Source: Region Group

## 1.6. Repo Transactions

Operations at the Russian exchanging market quite actively apply sale and purchase transactions of securities with the obligation of their repurchase in a definite time at predefined price (repo transactions). Such transactions are often made in order to credit the market participants with money or securities. Exchange repo transactions are mostly conducted at trading sites of MICEX Group (see Cl. 2.3.3). Figures 25 and 26 provide the data on volumes of repo transactions in MICEX Group with government and non-government securities.

Over the last years volume of repo transactions with government bonds have been growing at an extremely intensive rate. Exception was only 2010 when the volume of such transactions fell down for 32.6%. In 2011 on the contrary double growth was recorded and the volume of repo transactions

with government bonds in all modes amounted to 44.3 trillion RUR. Compared to 2005 this market has grown in 25 times. During 2011 the transaction volume was distributed extremely unevenly, growth: from 6.4 trillion RUR in the first quarter to 18.4 trillion RUR in the fourth quarter was observed.

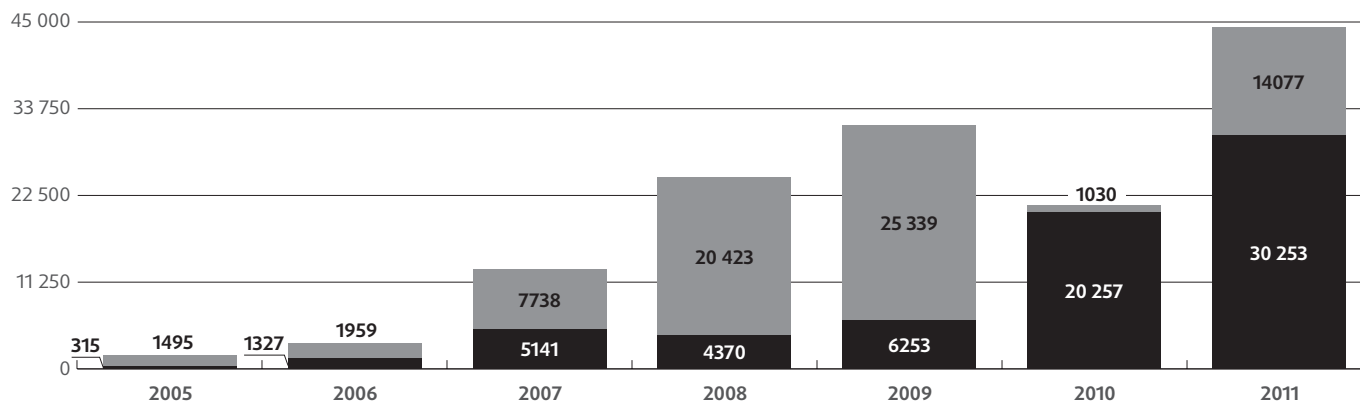
Relation among different modes of repo transactions with government bonds changes considerably year by year. In 2011 68.2% fell for inter-dealer repo, in the year-earlier period 95.1% of transactions were executed in this mode. At the same time in 2008-2009 mode of direct repo with the Bank of Russia prevailed – over 80% of the total volume.

The volume of repo transactions with non-government securities at MICEX SE is also growing dynamically. Formation of this market fell within 2006-2007 when annual increase of turnover amounted

to 300-400%. Then growth rates reduced and 2009 was marked with downfall for 25%. During 2011 constant increase of trading volumes at repo transaction market was observed at average speed 12.5% per quarter. As the result over the year the volume of repo transactions with non-government securities at MICEX SE amounted to 69.6 trillion RUR that for 56% more than in the year-earlier period.

Subject of repo transactions at MICEX SE is shares as well as corporate, sub-federal and municipal bonds. The rate of shares in the total volume of repo transactions with securities tends to recession: in 2005 it composed 56% and in 2011 it reduced up to 43%. The rate of corporate bonds over this period on the contrary grew up from 26 to 45%. The rate of sub-federal bonds on average composes 13%; municipal bonds occupy the remaining niche – 0.25%.

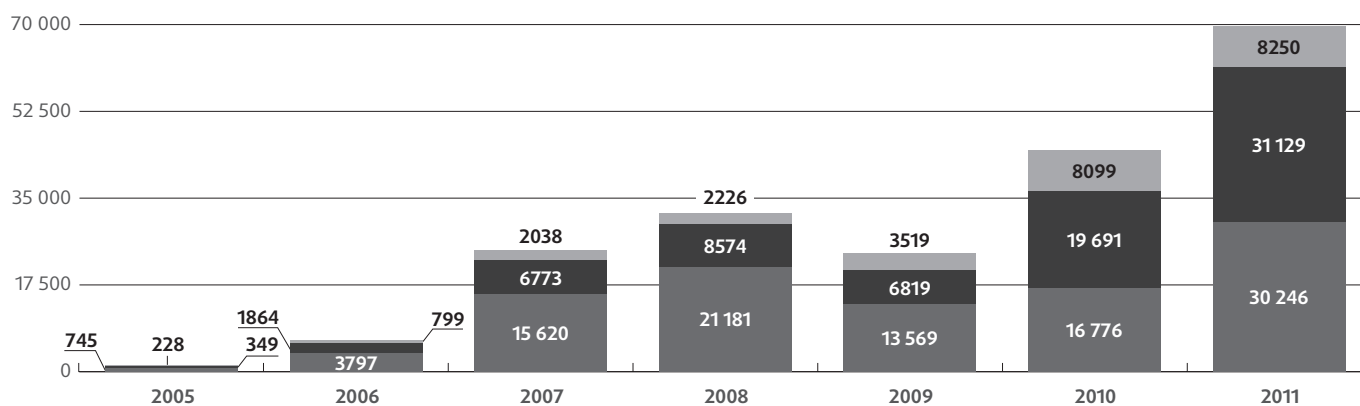
Figure 25

**Repo Transactions with Government Securities at MICEX in 2005–2011, billion RUR**

■ Inter-dealer repo ■ Direct repo with the Bank of Russia

Sources: MICEX, MICEX-RTS

Figure 26

**Repo Transactions with Non-Government Securities at MICEX in 2005–2011, billion RUR**

■ Shares (including Russian Depository Receipts (RDR)) ■ Corporate bonds (including exchange bonds) ■ Bonds of constituent entities of the Russian Federation and municipal bonds

Источник: ММВБ, ММВБ-ПТС

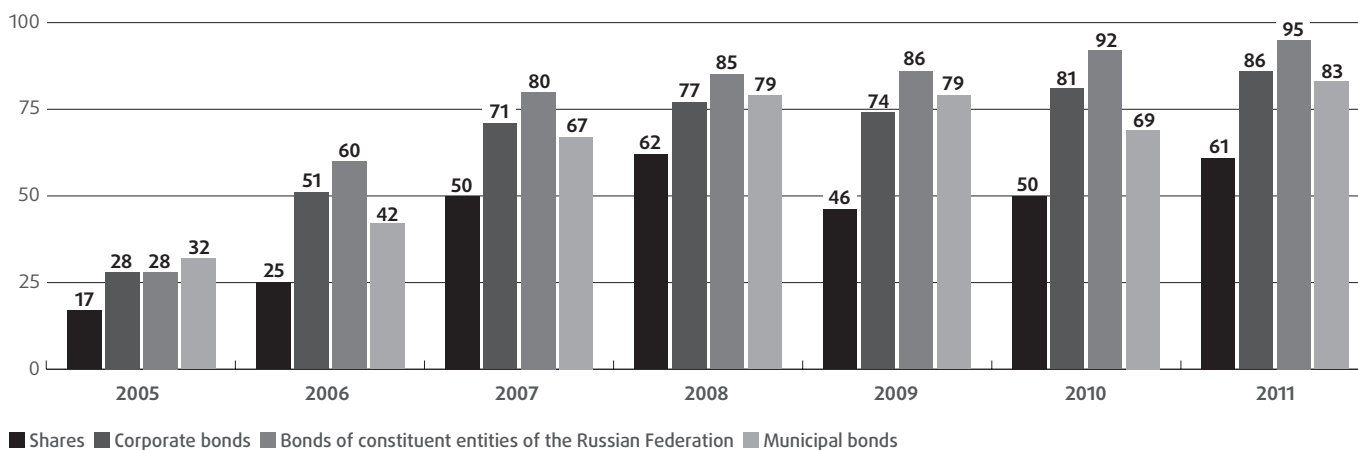
Table 29

**Volume of Repo Transactions in MICEX Group in 2005–2011, Billion RUR**

Period	Government bonds	Non-government securities	TOTAL
2005	1,810	1,322	3,132
2006	3,285	6,460	9,745
2007	12,879	24,431	37,310
2008	24,812	31,981	56,793
2009	31,592	23,906	55,498
2010	21,287	44,566	65,853
2011	44,330	69,625	113,956

Source: MICEX, MICEX-RTS

Figure 27

**Rate of Repo Transactions with Securities at the Internal Exchanging Market in 2005–2011, %**

If to compare the volume of repo transactions with non-government securities at MICEX SE with the volume of other transactions with the same securities (see Table 8, 17 and 27) then the volume of repo transactions is larger in three times.

Table 29 provides consolidated data on volumes of repo transactions in MICEX Group.

Thus, totally for all trading sites of MICEX Group the volume of repo transactions according to the results of

2011 composed 113.9 trillion RUR – for 73% more than in the year-earlier period. The rate of government securities in this volume composed 39%.

Figure 27 presents the diagram characterizing the rate of repo transactions in the total volume of transactions with non-government securities (including the auction mode, negotiated transactions mode and repo transactions) total for MICEX SE and RTS.

In the total secondary circulation of non-government securities the rate

of repo transactions has increased qualitatively over the last years. Thus, the rate of repo transactions with shares increased from 17% in 2005 to 61% in 2011, with corporate bonds – from 28 to 86%. As concerns bonds of constituent entities of the Russian Federation they have been predominantly used for repo transactions (92 – 95% of the trading volume) over the last two years.

During 2011 no considerable deviations from the average annual value was detected.

## 1.7. Investment Units

Exchange trade with units was executed at MICEX SE and RTS. Table 30 presents the consolidated data on investment units, which are in circulation at Russian stock exchanges, and Table 31 presents the data on the volumes of exchange trading of units.

In 2011 growth of the number of management companies, which brought investment units into circulation at stock exchanges, stopped. According to the results of the year their number amounted to 126 companies that composed 37% from the total number of management companies with unit

investment funds under management (see Cl. 2.2.2). Number of unit investment funds investment units of which are in circulation at the stock exchange slightly increased – for 8.7% and amounted to 397 funds, that is about 30% from the total number of established unit investment funds.

Exchange circulation of investment units is traditionally characterized with high variability of transaction volumes nevertheless, since the mid-2010 a pronounced upward trend has been observed. In spite of discontinuity of transaction volumes during 2011 the

total volume of exchanges grew up for 73% and amounted to 88 billion USD.

Due to the fact that a wide range of mutual invests funds negotiable on stock exchanges are qualified investor funds and are under prohibition for information disclosure it is impossible to estimate objectively the concentration of exchange circulation of investment units. According to our estimations, 66% of circulation at MICEX SE falls to the first ten most liquid funds. At RTS the absolute majority of transactions were executed with units of only one fund.

Table 30

**Organized Exchanging Market of Investment Units in 2005–2011**

Period	MICEX SE			RTS		
	Number of management companies	Number of unit investment funds	Including the ones in quotation lists (MC/ MIF)	Number of management companies	Number of unit investment funds	Including the ones in quotation lists (MC/ MIF)
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
Q1 2011	123	370	25/39	16	42	3/3
Q2 2011	127	377	24/39	19	47	7/6
Q3 2011	128	394	39/25	21	49	7/6
<b>MICEX-RTS</b>						
Q4 2011	126	397	40/26			
2011	126	397	40/26			

Sources: MICEX, RTS, MICEX-RTS

Table 31

**Volume of Exchange Trading of Investment Units at MICEX SE and RTS in 2005–2011**

Period	Investment units, billion RUR		
	MICEX	RTS	TOTAL
2005	1.5	0.0	1.6
2006	5.0	0.8	5.8
2007	20.2	0.7	20.9
2008	23.1	0.1	23.2
2009	16.2	0.0	16.2
2010	31.3	19.7	51.0
Q1 2011	6.5	15.1	21.6
Q2 2011	7.2	19.6	26.9
Q3 2011	10.6	10.8	21.4
Q4 2011	10.2	8.4	18.6
2011	34.5	53.9	88.4

Sources: MICEX, RTS, MICEX-RTS

## 1.8. Futures and Options for Securities and Stock Indexes

Before joining MICEX and RTS Groups exchange derivatives, which underlying assets are securities and stock indexes, circulated at the derivatives market RTS FORTS and the derivatives market MICEX Stock Exchange. The instrumental basis of the derivatives market is given in Table 32.

The number of derivatives offered at stock exchanges was at the maximum level in 2007–2009 then this index was gradually falling down. In 2011, futures for federal loan bonds were brought

back to the organized derivatives market and volatility index future was introduced. As the result of two stock exchange groups joining at the end of 2011 there was no considerable growth of the instrumental base. It is also relate the fact that at the derivatives market RTS and MICEX the same underlying assets were used.

Table 33 presents the consolidated data for FORTS market in the part of the volumes of derivatives transactions related to security assets and Table 34 –

the similar data for the derivatives market MICEX Stock Exchange.

FORTS market (in the part of underlying assets related to securities) constantly shows growth. For 2011 turnover in the monetary terms at this market composed 46.1 trillion RUR – for 87% more than in 2010. A new trend was a splash of the options market, the transactions volume with this kind of derivatives over 2011 has increased in 2.8 times. Nevertheless, in spite of increased rates of growth the options

Table 32

### Organized Derivatives Market for Security Assets in 2005–2011

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
1H 2011	8	0	8	21	9	30
<b>MICEX-RTS</b>						
2011				24	10	34

Sources: MICEX, RTS, MICEX-RTS.

Table 33

### Results of Trading at the FORTS Market with Derivatives for Securities and Stock Indexes in 2005–2011

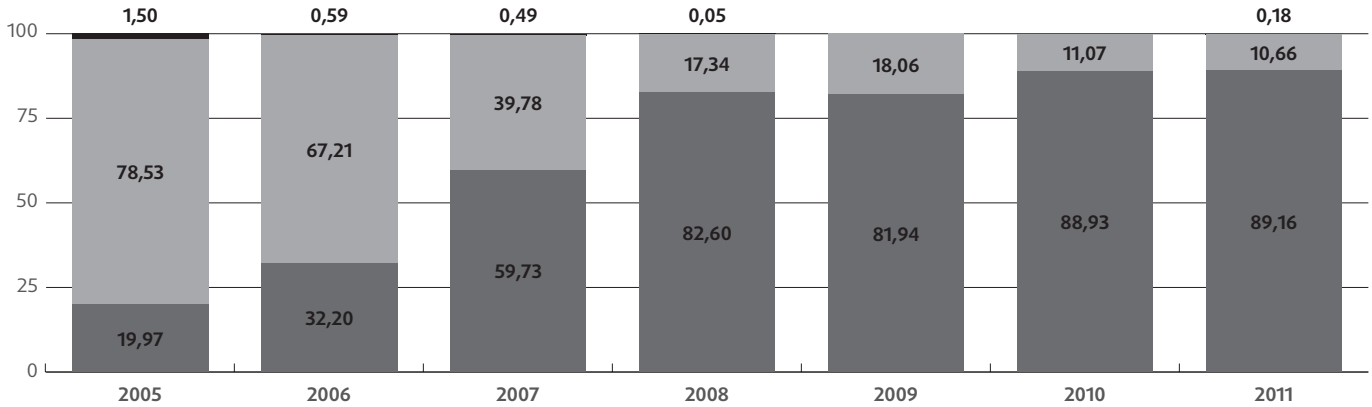
Period	2005	2006	2007	2008	2009	2010	2011
<b>Futures contracts</b>							
Trading volume, billion RUR	607.8	2,397.1	6,052.4	8,813.6	11,794.3	23,256.8	42,376.5
Trading volume, million contracts	46.0	78.9	114.6	173.3	398.7	453.7	742.5
Number of transactions, million units	1.8	4.9	11.3	27.4	70.6	107.5	193.2
<b>Options contracts</b>							
Trading volume, billion RUR	79.3	311.4	1,300.2	1,739.9	436.1	1315.8	3,729.9
Trading volume, million contracts	7.3	10.7	25.0	45.2	18.0	22.3	43.8
Number of transactions, million units	0.1	0.2	0.3	0.7	0.8	2.0	4.2
<b>Total</b>							
Trading volume, billion RUR	687.1	2,708.5	7,352.6	10,553.5	12,230.4	24,572.6	46,106.4
Trading volume, million contracts	53.3	89.6	139.6	218.5	416.8	476.0	786.3
Number of transactions, million units	1.9	5.0	11.6	28.1	71.4	109.5	197.4

Sources: RTS, MICEX-RTS



Figure 28

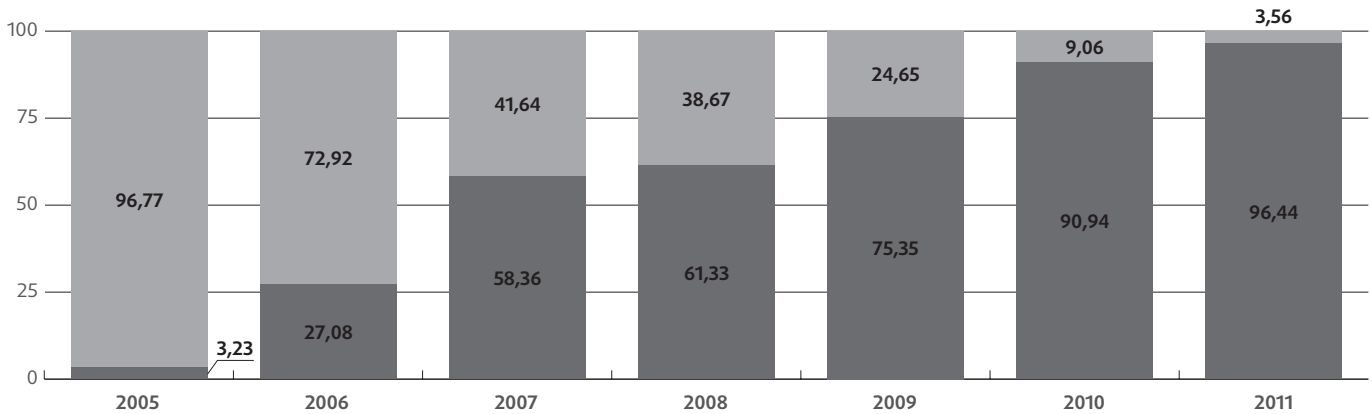
**Structure of Futures Trading at FORTS Market in 2005–2011, %**



■ Futures for index ■ Futures for shares ■ Futures for bonds  
Sources: RTS, MICEX-RTS

Figure 29

**Structure of Options Trading at FORTS Market in 2005–2011, %**



■ Options for index ■ Options for shares  
Sources: RTS, MICEX-RTS

Figure 30

**Volume of Transactions in the Evening Session at FORTS Market in 2008–2011, %**



— Futures — Options  
Sources: RTS, MICEX-RTS

niche in the total volume of transactions at FORTS market composes from 2 to 8% depending on the calculation parameter.

The underlying assets at FORTS market for futures are stock indexes, shares and bonds and for options – futures for indexes and shares. Turnover structure at this market in terms of underlying assets evolves considerably (see Figure 28, 29, turnovers are in the monetary terms).

Stock indexes are predominant for futures. In 2010–2011 their rate in the total circulation (in monetary terms) amounted to 89%, at the same time in 2005 it composed 20%. On the contrary, the rate of shares as the underlying asset is constantly reducing from 79% in 2005 to 11% in 2011. Bonds occupy the remaining niche, not exceeding percentage fractions. The similar processes were also observed for underlying assets of options. The rate of shares over the same period fell down from 97 to 4%, and the rate of indexes,

on the contrary, grew in the same proportion.

In May, 2008 at FORTS market an evening trading session was introduced. Figure 30 presents the diagram of relative volumes of transactions (in monetary terms), held during the evening session. Daily rate of transactions executed in the evening session is distinguished with high variability nevertheless, in some days it exceeded the half of the total transactions volume.

In 2010–2011 certain synchronism in behavior of the transactions volume executed with futures and options in the evening session began to be observed however, options are characterized with high spread of values month by month. During two last years the volume of futures transactions executed in the evening session is at the average level 13.5%. In terms of options increase of the average volumes of transactions executed in the evening session from

11.2% in 2010 to 13.7% in 2011 was detected.

Explosive growth of turnover at the derivatives market MICEX SE that was recorded in 2009 stopped in the second half of 2010 and in 2011, deep systemic recession was recorded. By years the trading volumes at this market composed 488 billion RUR that for 55% less than in the year-earlier period.

Relation of volumes of the derivatives market and spot market is constantly growing in favor of the derivatives market. Figure 31 presents the diagram characterizing relation of transaction volumes with futures contracts the underlying assets of which are shares and stock indexes for shares in monetary value (total at FORTS market and at the derivatives market MICEX Stock Exchange) and transaction volumes with shares (also total at all markets of RTS and MICEX Stock Exchange) excluding repo transactions.

Table 34

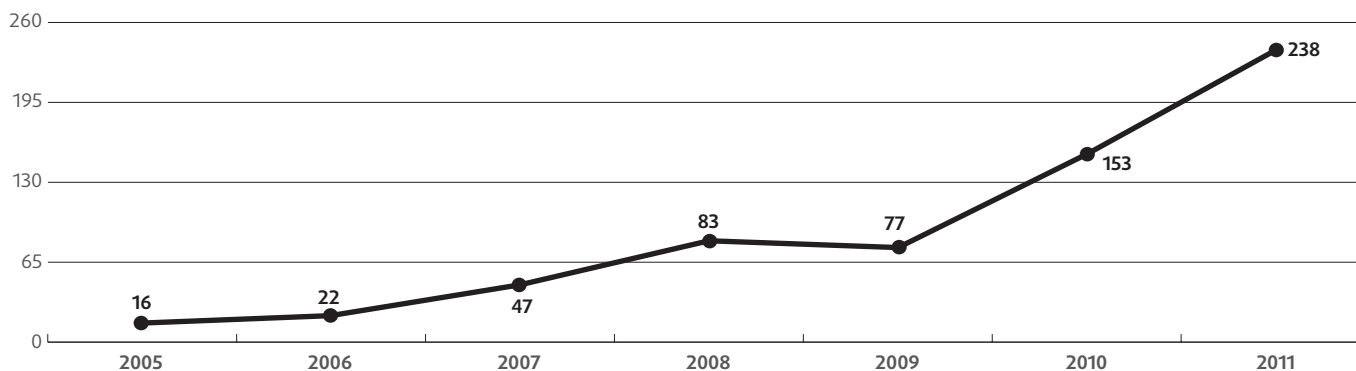
#### Results of Trading at the Derivatives Market MICEX SE with Derivatives for Securities and Stock Indexes in 2009–2011

Period	2009	2010	2011				2011
	Total	Total	Q1	Q2	Q3	Q4	Total
<b>Futures contracts</b>							
Trading volume, billion RUR	61.80	1085.25	292.15	116.34	58.78	20.73	488.00
Trading volume, million contracts	1.35	18.87	4.96	2.84	1.25	0.44	9.50
Number of transactions, million units	0.31	6.61	1.20	0.48	0.17	0.07	1.93

Sources: MICEX, MICEX-RTS

Figure 31

#### Relation of Trading Volumes of Futures Contracts the Underlying Assets of which are Shares and Stock Indexes for Shares and Trading Volumes of Shares at the Internal Market in 2005–2011, %\*



\* Excluding repo transactions.

Sources: MICEX, RTS, MICEX-RTS

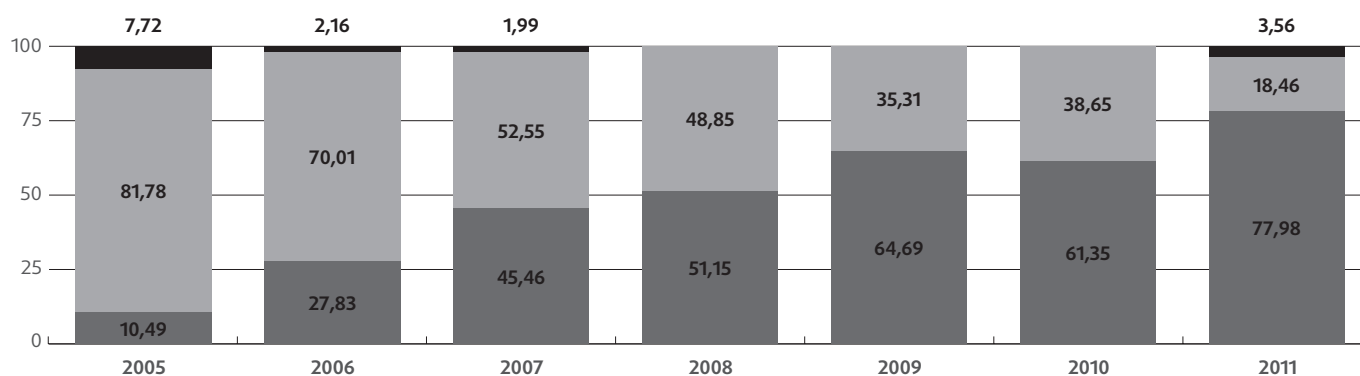
Table 35

**Open Positions at FORTS Market for Derivatives for Securities and Stock Indexes in 2005–2011**

Период	2005	2006	2007	2008	2009	2010	2011
<b>Futures contracts</b>							
Volume of open positions as of the end of the year, billion RUR	13.1	31.5	49.8	9.0	36.0	51.6	91.0
Volume of open positions as of the end of the year, million contracts	0.8	0.9	1.4	0.8	1.3	1.8	2.6
<b>Options contracts</b>							
Volume of open positions as of the end of the year, billion RUR	7.4	47.0	62.3	9.6	15.4	36.7	42.3
Volume of open positions as of the end of the year, million contracts	0.43	1.43	1.21	0.48	0.80	0.77	0.57
<b>Total</b>							
Volume of open positions as of the end of the year, billion RUR	20.4	78.5	112.1	18.6	51.4	88.4	133.4
Volume of open positions as of the end of the year, million contracts	1.2	2.3	2.6	1.3	2.2	2.5	3.1

Source: RTS, MICEX-RTS

Figure 32

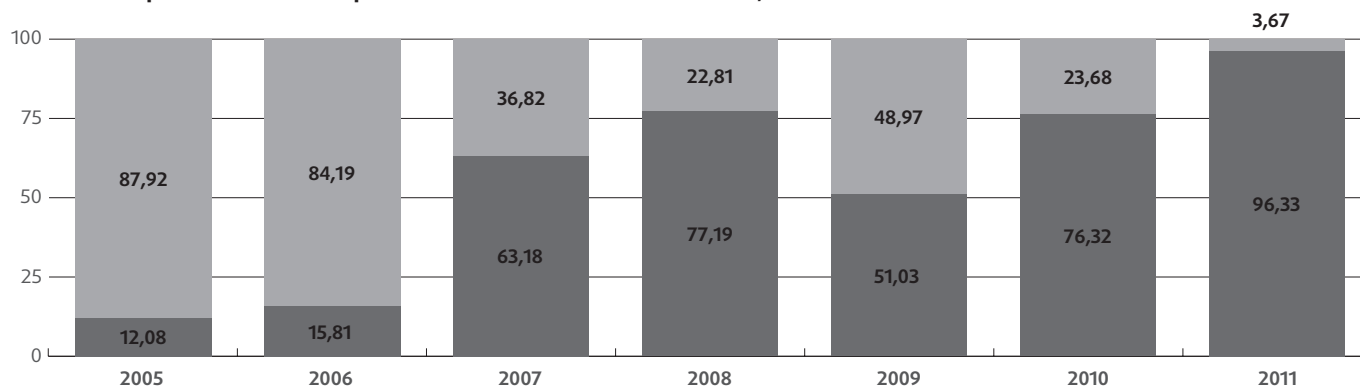
**Volume of Open Positions for Futures at FORTS Market in 2005–2011, %\***

■ Futures for index ■ Futures for shares ■ Futures for bonds

\* Data is given as of the end of each year.

Sources: RTS, MICEX-RTS

Figure 33

**Volume of Open Positions for Options at FORTS Market in 2005–2011, %\***

■ Options for index ■ Options for shares

\* Data is given as of the end of each year.

Sources: RTS, MICEX-RTS

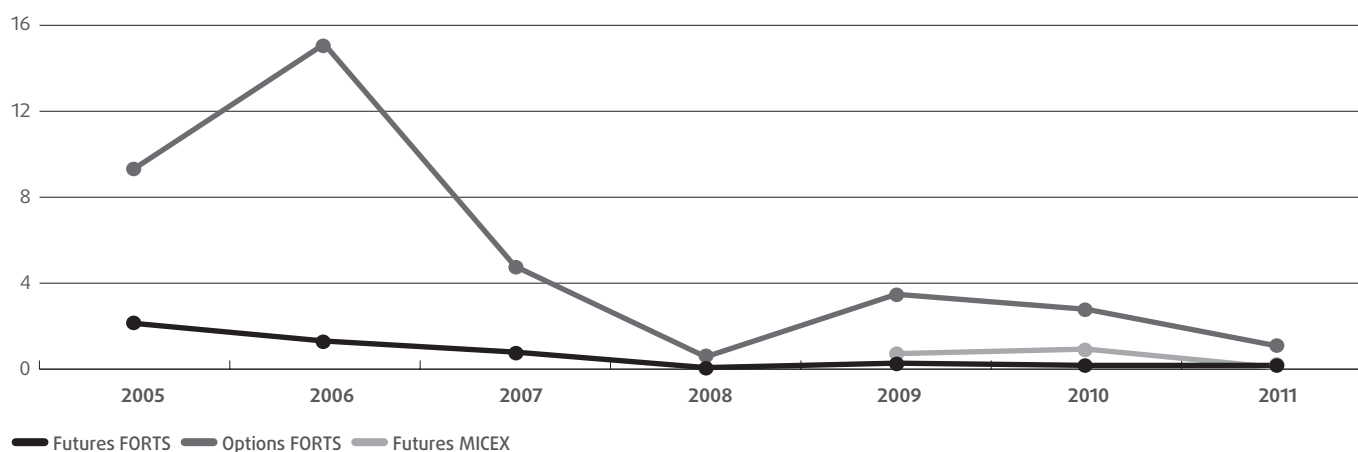
Table 36

**Open Positions at the Derivatives Market MICEX SE for Derivatives for Securities and Stock Indexes in 2009–2011**

Period	2009	2010	2011
<b>Futures contracts</b>			
Volume of open positions as of the end of the year, billion RUR	0.444	10.131	0.309
Volume of open positions as of the end of the year, million contracts	0.008	0.204	0.007

Source: MICEX, MICEX-RTS

Figure 34

**Relation of Volumes of Open Positions and Volumes of Trading for Futures Contracts in 2005–2011, %**

Sources: MICE, RTS, MICEX-RTS

During 2011 growth of the derivatives market against the spot market continued, as the result, by the end of the year relation of the derivatives and spot markets amounted to 238% in favor of the derivatives market.

At the derivatives market the volume of open positions and their distribution among different instruments change quite strongly depending on the market situation (see Table 35, 36)<sup>20</sup>.

At FORTS market growth of positions takes place simultaneously with increase of trading volumes, exception was only 2008 when the number of open positions fell in monetary value for 83% at once. At the end of 2011 the volume of open positions at this market amounted to 133.4 billion RUR having increased for 51% against 2010. As opposed to turnover, open positions for futures grew at priority rates – for 76%, smaller growth is recorded for options – 15%. Proportions of the rates

of open positions also formed differently: the rate of futures in open positions composed 68% and of options made 32% correspondingly.

Structure of open positions at FORTS market in terms of basis assets also evolves (see Figure 32, 33).

At the end of 2011 in open positions for futures at FORTS market stock indexes as underlying assets prevailed: about 78% of the volume of all open positions in monetary terms, 18% fell for shares and the remaining niche was occupied with bonds – 3.6%. Domination of indexes in open positions for futures has been observed since 2008 for comparison: in 2005 they composed 10.5%. for options the larger concentration of open positions in stock indexes is observed: at the end of 2011 their rate exceeded 96% whereas in 2005 it was much less – about 12%.

At the derivatives market MICEX SE in the part of derivatives related to the

exchanging market growth of open positions slowed down shortly by the end of 2010 and in 2011 it turned into recession and returned to the level of 2009; the volume of open positions at the end of 2011 composed 0.3 billion RUR.

Relation of volumes of open positions and volumes of transactions for futures and options has considerable differences (see Figure 34).

For futures contracts behavior of this relation for derivatives markets of MICEX and RTS is similar however, certain differences are determined. Thus, for futures traded at FORTS relation of volumes of open positions and trading volumes (in monetary terms) during 2008–2011 has been at the average level 0.2%. For futures traded at MICEX SE this relation after slight growth in 2010 up to 0.9% in 2011 reduced up to 0.1%.

For options traded at FORTS in 2009–2011 downfall of this relation from 3.5 to 1.1% was observed.

<sup>20</sup> Open positions are provided as of the period's end.

# 1.9. Stock Indexes and Indicators

At the present time numerous indexes of the Russian stock market are calculated by Russian and international organizations: stock exchanges, information and rating agencies, investment banks, broker companies and etc. The most known from them are: for the equity market – RTS Index, MICEX Index, MSCI Russia, FTSE Russia; for the bond market – Index of Corporate Bonds IFX-Cbonds, Index of Municipal Bonds Cbonds-Muni, Index of Corporate Bonds MICEX CBI, Index of Government Bonds MICEX RGBI, Index of Municipal Bonds MICEX MBI; for the market of pooled investments – Indexes RUIF, calculated by the National Rating Agency. At the end of 2010 for the first time for the Russian derivatives market volatility index began to be calculated. Moreover, stock exchanges calculate industrial, capitalization, regional indexes as well as indicators of the money market in particular indicators of repo rate.

In spite of numerous numbers of stock indexes of the Russian securities market, exchange groups RTS and MICEX are the most popular among their suppliers. Due to amalgamation of these groups at the end of 2011 integration of stock indexes also took place. In new profile stock indexes of the united stock exchange MICEX-RTS (for detailed information on the structure of the united stock exchange, sectors and trading modes see Section 2.3.3) look in the following manner:

➤ **Composite (Consolidated) Indexes of Shares.** This category includes MICEX Index and RTS Index. In spite of joining of stock exchanges names and trademarks of indexes are preserved. The basic approaches to generation of the base and methodology of indexes calculation are also preserved. Provided that calculation of RTS Index is executed according to the prices in trading sectors Standard and Classica and for conversion of prices in rubles into prices in US dollars information of the currency exchange market MICEX is used. MICEX Index is calculated according to the prices generated in the mode of basic trading of Sector Main Market, this index is used

for the purpose of suspension of shares' trading.

➤ **Industrial Indexes of Shares.**

Families of industrial indexes MICEX and RTS are converted into united product line with single calculation procedure. Rules for industrial indexes calculation provides calculation of indexes rates expressed in rubles and calculation of currency values of industrial indexes expressed in US dollars. Provided that 'history' of values of industrial indexes MICEX is used as 'ruble history' and 'history' of industrial indexes RTS is used as 'currency history'. Currency values of industrial indexes are determined by prices in trading sectors Standard and Classica, ruble values are calculated by the prices formed in sector Main Market. Industrial indexes are presented under trademark MICEX.

➤ **Thematic Indexes of Shares.**

This category of indexes include 'Blue Chips' Index MICEX10, 'Blue Chips' Index RTS Standard, Stock Index 'Second Tier' RTS-2, Index MICEX-Innovations as well as regional Index RTS-Siberia. Main approaches to these indexes generation have been remained without significant changes.

➤ **Capitalization Indexes.** This category includes Stock Index of High Capitalization Companies (MICEX LC), Stock Index of Standard Capitalization Companies (MICEX MC) and Stock Index of Basic Capitalization Companies (MICEX SC). These indexes were calculated by MICEX, main approaches to their generation have remained without significant changes. Capitalization indexes are presented under trademark of MICEX.

In the part of **bond indexes** and **indicators of repo rate** which were calculated only at MICEX and **volatility index** which was calculated only at RTS no changes have been made.

In the period 2012–2013 further harmonization and unification of stock indexes and development of the unified family of indexes of the integrated exchange MICEX-RTS.

Taking into consideration that legal integration of stock exchanges took place only in December, 2011 than in

this report stock indexes are presented individually for each of stock exchanges.

## 1.9.1 Share Indexes

Among all share indexes the most representative indexes MICEX, RTS, RTS-2, industrial and capitalization indexes will be considered.

**Index RTS** has been calculated since September 1, 1995, the calculation base includes 50 shares of the most capitalized and liquid issuers; the list of shares for index calculation is reviewed every three months. In the process of index calculation prices for securities in US dollars are considered.

**Index MICEX** has been calculated since September 1, 1997, its base consists of 30 shares of issuers representing the main economic sectors. Changes into the index base are introduced twice a year. In the process of index calculation prices for securities in rubles are considered.

**Index RTS-2** for the shares of 'second tier' companies has been calculated since the end of 2003. The list for calculation does not include the most liquid and capitalized shares or shares with parameters insufficient for accurate price determination. The expert assessment of market prospects of the shares is considered at list generation. There is no limit for the number of instruments in the calculation base, at the present time this index includes shares of 54 issuers. The list of shares for index calculation is reviewed every three times. In the process of index calculation prices for securities in US dollars are considered.

There are coincidences between the calculation bases of indexes MICEX, RTS, RTS-2. About 8% of issuers are included in all three indexes, indexes MICEX and RTS coincide for 50% and 43% of the shares included into RTS Index are also present in Index RTS-2.

In 2005–2011 RTS calculated industrial indexes:

1. RTS – Oil and gas (RTSog);
2. RTS – Metals and production (RTSmm);
3. RTS – Telecommunications (RTStl);
4. RTS – Industry (RTSin);

- 5. RTS – Consumer goods and retail trade (RTScr);
- 6. RTS – Electric power industry (RTSeu);
- 7. RTS – Finances (RTSfn).

The process of calculation of industrial Indexes RTS consider prices for securities in US dollars. At the end of 2011 these industrial indexes were integrated into industrial indexes MICEX.

In 2005–2009 MICEX began to calculate industrial and capitalization indexes:

- 1. MICEX O&G – stock index of companies of the oil and gas industry;
- 2. MICEX PWR – stock index of companies of the electrical power industry;

- 3. MICEX TLC – stock index of telecommunication companies;
- 4. MICEX M&M – stock index of companies of the metallurgic and mining industries;
- 5. MICEX MNF – stock index of companies of the machine building industry;
- 6. MICEX FNL – stock index of companies of the financial and banking industry;
- 7. MICEX CGS – stock index of consumer sector;
- 8. MICEX CHM – stock index of companies of chemical and petrochemical industry;
- 9. MICEX LC – stock index of high capitalization companies;

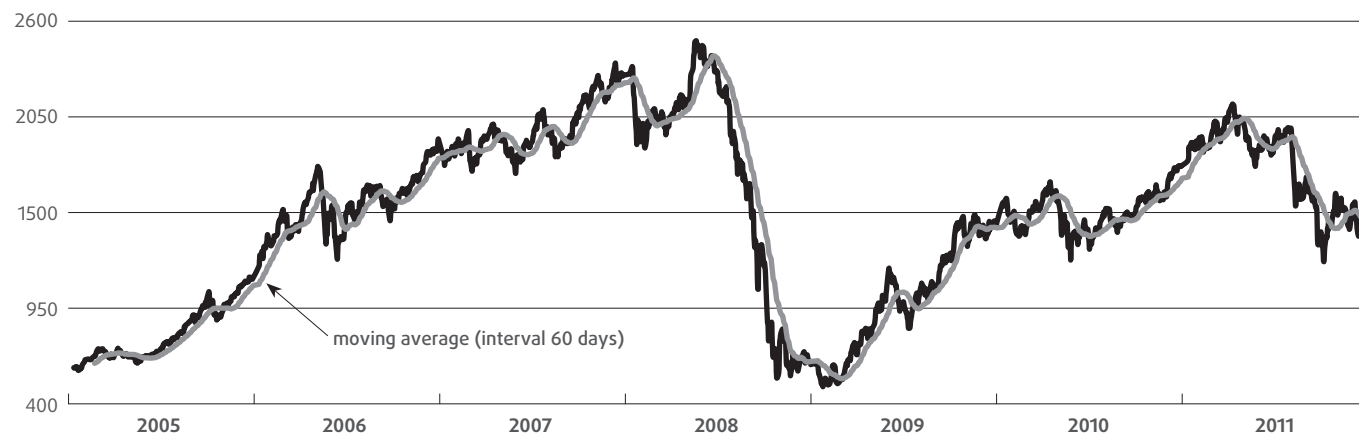
- 10. MICEX MC – stock index of standard capitalization companies;
- 11. MICEX SC – stock index of basic capitalization companies.

At the present time the bases for industrial indexes calculation include from 7 to 14 issuers and those of capitalization indexes – from 15 to 50 issuers. Calculation process of all MICEX indexes considers all prices for securities in rubles.

Among industrial indexes conducted by different stock exchanges explicit coincidence of calculation bases was traced for indexes of oil and gas industry (RTSog, MICEX O&G), telecommunication industry (RTStl, MICEX TLC), electrical power industry

Figure 35

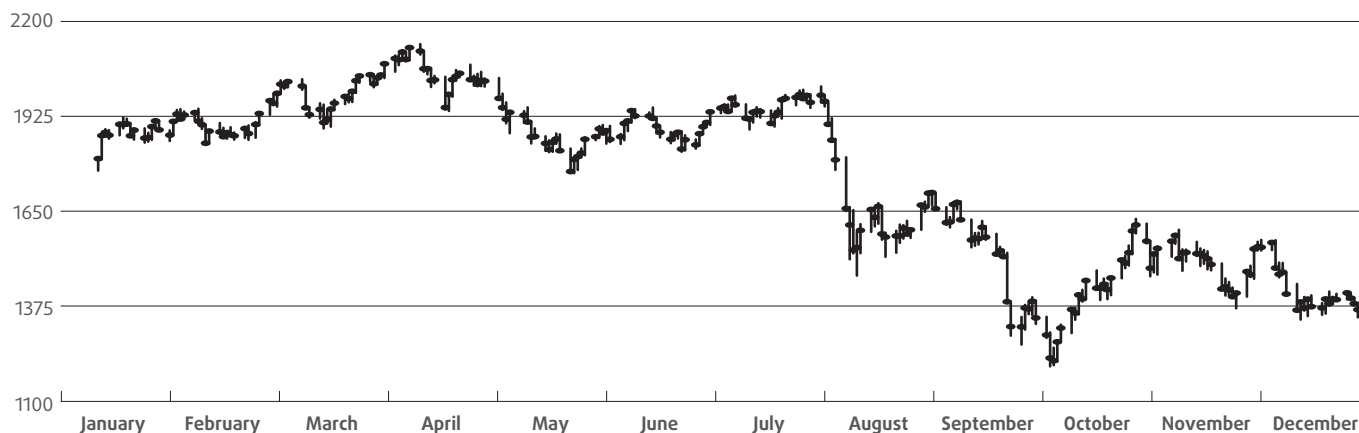
**RTS Index in 2005–2011**



Sources: RTS, MICEX-RTS

Figure 36

**RTS Index in 2011**



Sources: RTS, MICEX-RTS

(RTSeu, MICEX PWR), metallurgic and mining industries (RTSmm, MICEX M&M), financial and banking industry (RTSfn, MICEX FNL), industry (RTSin, MICEX MNF) as well as consumer sector (RTScr, MICEX CGS).

In 2011 for the first time in Russian practice depository receipts were included into calculation of consolidated and industrial stock indexes.

Figures 35-40 present diagrams of Indexes RTS, MICEX, RTS-2 for 2005-2011.

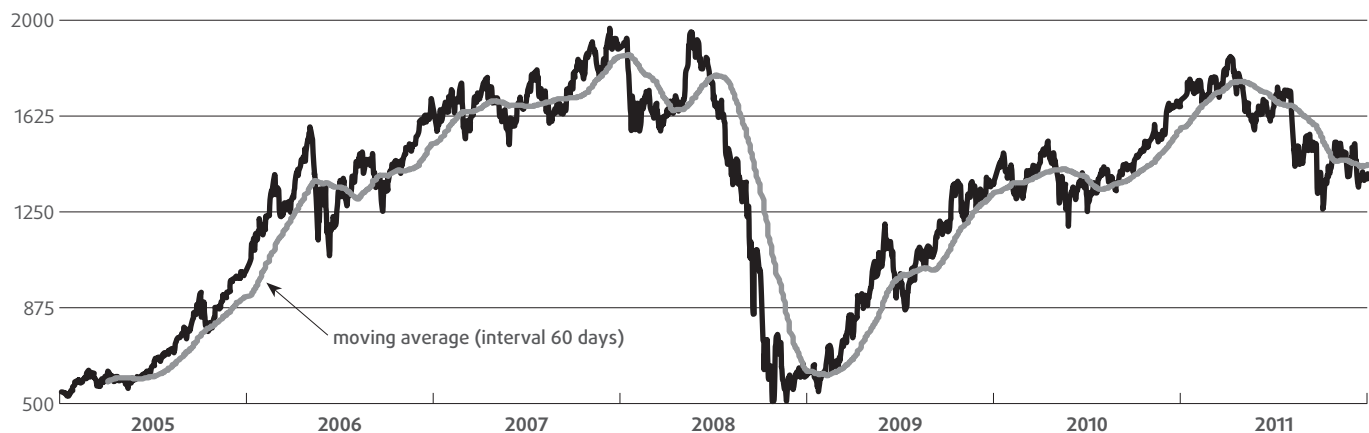
During first months of 2011 consolidated equity indexes continued growth having begun in September, 2010. The second trading day (January 12) was marked with abrupt one-day splash (+2.65% MICEX Index, +3.70%

RTS Index). Consolidated indexes reached the maximum value on April, 6-8 by this time MICEX Index for 85 days had grown for 8.5% and RTS Index for 87 days – for 17.8%. Then recession started which continued until May 23. Deep one-day downfall (minus 3.72% MICEX Index, minus 3.95% RTS Index) recorded on April 18 and could be directly related to aggravation of the forecast for credit rating of the USA. Reduction over the period of recession (45-47 days) composed minus 15.4% for MICEX Index and minus 16.9% for RTS Index. Then during 17 days before the end of the first ten days of June certain growth took place turned into recession again. The first half-a-year 2011 finished

against sideways trend of consolidated equity indexes, which continued until August.

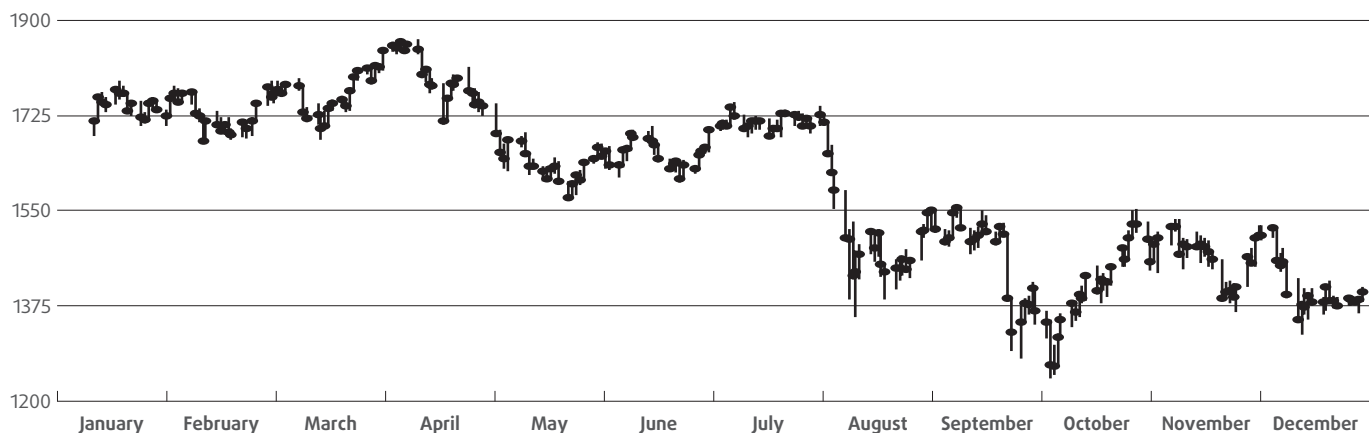
First ten days of August were marked with considerable downfall (for RTS Index – for 22.6%, for MICEX Index – for 17.0%). This also can be explained by downgrade of credit rating of the USA on August 5, subsequent aggravation of debt problems in Europe, bad macroeconomic statistics and negative forecasts. The end of September was marked with another deep one-day downfall of indexes (for RTS Index – for 8.6%, for MICEX Index – for 7.8%) with the following period of further downfall during ten days. This downfall

Figure 37

**MICEX Index in 2005-2011**

Sources: MICEX, MICEX-RTS

Figure 38

**MICEX Index in 2011**

Sources: MICEX, MICEX-RTS

happened against the background aggravating debt problems in the USA and in Eurozone and massive downfall of world stock markets. In October, a small growth of indexes took place, which changed with downfall in November-December except for splash at the end of November. As the result, at the end of the year indexes conformed to the level of the end of September.

Thus, positive trend of consolidated equity indexes being observed in the first quarter 2011 was completely lost at a later stage and three significant

downfalls dropped the indexes to the level conforming to the values of the beginning of the third quarter 2008.

Table 37<sup>21</sup> presents the data characterizing return for indexes RTS and MICEX over the last years.

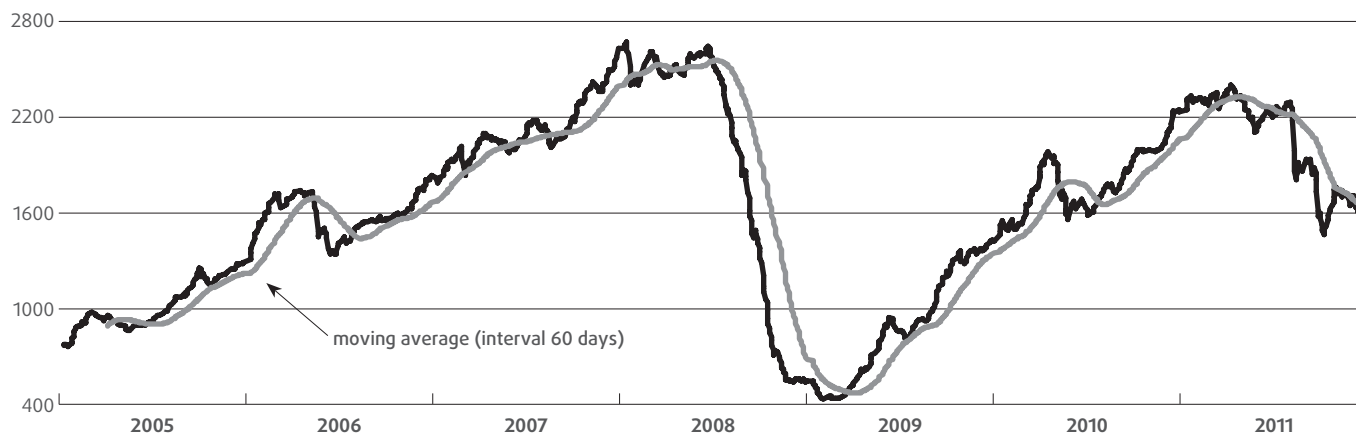
According to the year results consolidated equity indexes showed negative return. The largest recession in 2011 was demonstrated by Index RTS-2 (minus 31.8%), the smallest – by Index MICEX (minus 16.9%). In general at the seven-year historical interval (see Figure 41) cyclic character of changes of annual return of consolidated equity

indexes is noticed. Provided that starting from 2007 Index RTS-2 at the growing market shows the highest return and the falling market – the deepest recession.

Among industrial indexes the largest recession showed indexes of metallurgy and mining industry (minus 44-48%) as well as indexes of industry and electrical power industry (minus 40-42%). Indexes of oil and gas industry depending on the currency of calculation showed zero return or comparatively low downfall (minus 9%). Only index of chemical

Figure 39

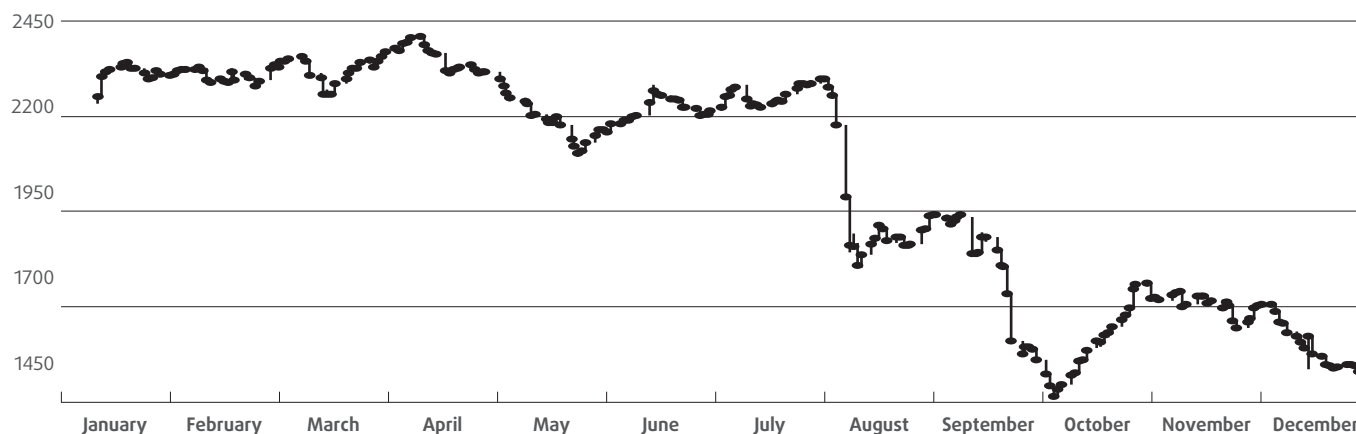
**Index RTS2 in 2005–2011**



Source: RTS, MICEX-RTS

Figure 40

**Index RTS2 in 2011**



Source: RTS, MICEX-RTS

<sup>21</sup> Return was calculated at the interval from the last trading day of the previous year to the last trading day of the assessment period on the base of 365 days.



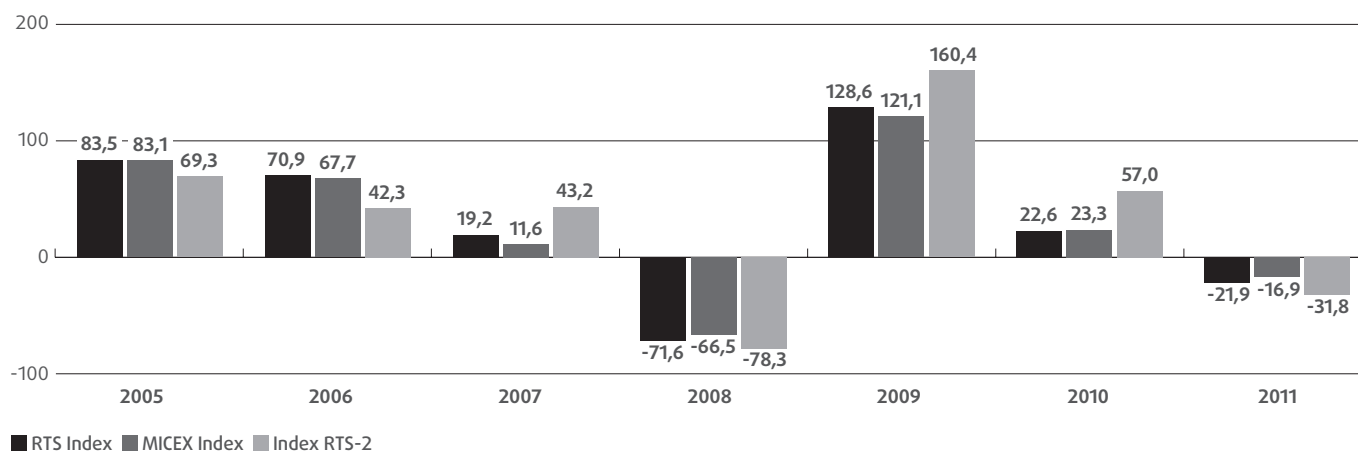
Table 37

**Return of Equity Indexes in 2005–2011, % per Annum**

	Currency	2005	2006	2007	2008	2009	2010	2011
<b>Consolidated indexes</b>								
RTS Index	USD	83.5	70.9	19.2	-71.6	128.6	22.6	-21.9
MICEX Index	RUR	83.1	67.7	11.6	-66.5	121.1	23.3	-16.9
RTS-2 Index	USD	69.3	42.3	43.2	-78.3	160.4	57.0	-31.8
<b>Industrial indexes</b>								
<b>Oil and gas industry</b>								
RTSog	USD	86.8	50.8	1.0	-65.8	93.4	5.9	-8.5
MICEX O&G	RUR	92.0	48.0	-3.6	-58.4	126.3	17.7	0.1
<b>Chemistry and petrochemistry</b>								
MICEX CHM	RUR						44.0	10.5
<b>Telecommunications</b>								
RTStl	USD	40.8	81.5	28.1	-72.7	121.8	39.1	
MICEX TLC	RUR	39.1	66.0	14.6	-75.5	187.0	36.3	-14.8
<b>Metallurgy and mining</b>								
RTSmm	USD	53.2	52.4	54.0	-74.5	157.6	55.5	-43.5
MICEX M&M	RUR	74.6	51.7	45.6	-69.2	212.2	63.2	-47.6
<b>Electrical power industry</b>								
RTSeu	USD			32.0	-80.3	133.0	34.0	-40.8
MICEX PWR	RUR	38.7	134.5	7.9	-73.7	167.3	44.2	-40.2
<b>Industry</b>								
RTSin	USD	40.5	73.8	66.8	-84.3	124.5	56.6	-41.7
MICEX MNF	RUR	28.9	69.6	61.4	-82.8	189.0	74.2	-40.5
<b>Consumer goods</b>								
RTScr	USD	92.5	51.3	29.3	-79.4	230.8	82.8	-38.7
MICEX CGS	RUR						85.4	-36.2
<b>Finances</b>								
RTSfn	USD			14.3	-78.4	124.6	22.6	-41.7
MICEX FNL	RUR				-67.3	131.8	32.0	-29.7
<b>Capitalization indexes</b>								
MICEX LC	RUR			9.9	-66.5	118.7	20.4	-16.1
MICEX MC	RUR			15.6	-71.7	148.2	57.9	-28.7
MICEX SC	RUR			29.2	-76.1	198.9	64.0	-41.8

Calculated according to the data of RTS, MICEX and MICEX-RTS.

Figure 41

**Return of Consolidated Equity Indexes in 2005–2011, % per annum**

Calculated according to the data of MICEX, RTS, MICEX-RTS

and petrochemical industry showed positive annual result (+11%).

All capitalization indexes appeared in the negative area, the deepest recession suffered index of basic capitalization companies – minus 42% and slightest downfall – index of high capitalization companies (minus 16%). According to the results of five years for which capitalization indexes has been calculated it is noticed that at the growing market indexes of basic capitalization show the highest growth and at the falling market – the largest recession.

Russian stock indexes are characterized with high volatility. Table 38 presents volatility<sup>22</sup> and yield of the main consolidated equity indexes – MICEX Index, RTS Index and Index RTS-2 in the systematized way.

From year to year, volatility of stock indexes changes within considerable limits. Provided, that at the falling market it increases (see the result of 2008). Increased volatility is also noted at abrupt growth of the market (see the result of 2009). In 2011 comparatively low volatility is observed. Nevertheless it is a little larger than in the year-earlier period.

The least volatile, judging by the data of 2005-2011, is Index RTS-2, it is not improbable that it is also caused by the largest number of instruments in the calculation base. Volatility of Index RTS-2

only in 2010-2011 began to overstep MICEX Index before this relation was reverse. Reasons for increased volatility of RTS Index need further study.

### 1.9.2 Bond Indexes

#### MICEX Index of Corporate Bonds

MICEX CBI has been calculated since the beginning of 2003. The calculation base includes the bonds of corporate issuers listed at MICEX SE, which are assigned with long-term credit rating for obligations in foreign currency at least by one of international agencies or assigned with credit rating at least by one of national rating agencies. The minimal rating level according to Agency S&P composes B-. To be included into the index calculation base the bond issue shall conform to a set of conditions including the issue volume, term to maturity, transactions volume. In April, 2011 changes providing that only bonds with all known before redemption and/or nearest offer coupon rates shall be included into the calculation base were introduced into the rules for index calculation.

The list of bonds issues for calculation of Index MICEX CBI is reviewed every three months. The rules for calculation allows including exchange bonds into the index as well as limiting admission of issuers having permitted default. The process of index calculation considers prices for securities expressed in rubles.

At the present time the calculation base includes 68 bonds of 26 issuers. Index calculation is accomplished according to three methods:

- Total Return includes market cost of bonds, accumulated coupon income (ACI) and paid coupon income
- Clean Price includes market cost of bonds excluding ACI and paid coupon income;
- Gross Price includes market cost of bonds and ACI.

Since April, 2011 calculating Index MICEX CBI weighted average duration of index portfolio and weighted average yield to maturity have been determined additionally.

Figures 42, 43 present diagrams of Index MICEX CBI on the basis of total return for corporate bonds and Figure 44 – weighted average duration and bond yield included into this index.

The average total return of investors into corporate bonds, judging by Index MICEX CBI TR, in 2011 up to the end of the first ten days of August continued growth in the trend began in the middle of the previous year at average speed 0.03% per day. However, growth rates were gradually slowing down, in the second ten days of August the growth totally stopped and the first recession was recorded. The second, more longstanding recession was recorded in the period mid-September – first ten days of October.

Table 38

#### Return and Volatility of Consolidated Equity Indexes, %

Year	Volatility MICEX	Yield of MICEX	Volatility RTS	Yield of RTS	Volatility RTS-2	Yield of RTS-2
2005	1.50	83.08	1.27	83.50	0.76	69.30
2006	2.40	67.69	2.01	70.94	0.95	42.27
2007	1.52	11.57	1.38	19.23	0.67	43.17
2008	4.53	-66.47	4.16	-71.63	1.49	-78.29
2009	2.99	121.14	2.91	128.62	1.25	160.36
2010	1.49	23.27	1.68	22.61	0.98	56.95
2011	1.70	-16.93	2.02	-21.94	1.31	-31.75

Calculated according to the data of MICEX, RTS, MICEX-RTS

<sup>22</sup> Volatility was calculated as a standard deviation of one-day relative changes of the stock index at the year-interval.

Then the upward trend restored however, the growth rate was less than before – about 0.02% per day.

As the result the changes in index over the year composed 5.72%. For comparison: over 2010 change in index composed 13.61%.

The weighted average yield to maturity of corporate bonds for Index MICEX CBI TR in the first half-a-year 2011 is characterized with stability and slight changes. However, starting with the first half of August growth was showed and in November-December weighted average yield to maturity constantly exceeds the refinancing rate of the Bank of Russia, the widest spread (0.67-0.88 pp) was observed in the last five days

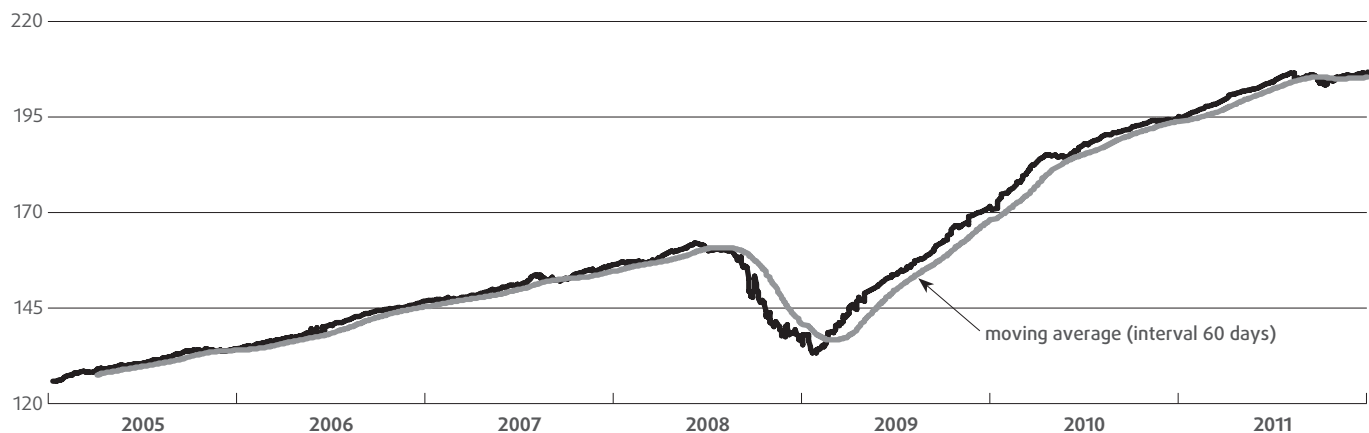
of December when the refinancing rate was reduced to 8.0%. the maximum value of return over the year composed 8.88%, the minimum value – 6.59%. The average value of return over the period is presented in Table 39. The weighted average duration of corporate bonds for Index MICEX CBI in 2010-2011 showed the upward trend. During 2011 it did not reduce less than 745 days and the maximum value of duration amounted to 996 days. The average value over the year composed 869 days. For comparison: according to the results of 2010 the average duration composed 735 days.

**Index of Corporate Bonds IFX-CBONDS** is the joint project of

agencies Interfax and CBONDS has been calculated since the beginning 2002. The calculation base includes bonds of corporate issuers listed at MICEX Stock Exchange, RTS and St Petersburg Currency Exchange. To be included into the index calculation base the bond issue shall conform to a set of conditions including the term to maturity, transactions volume, number of trading days. The list of bonds issues for calculation of Index IFX-CBONDS is reviewed once per month. The process of index calculation considers prices for securities in rubles. At the present time this index calculation base includes 30 bonds of 17 issuers. Bonds of ten issuers are simultaneously included into bases

Figure 42

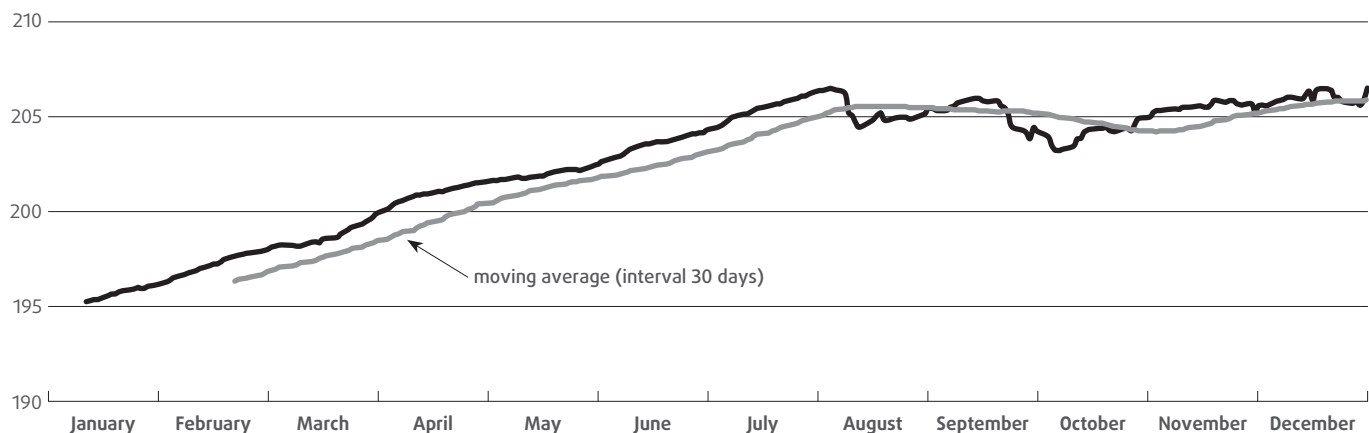
#### MICEX Index Corporate Bonds (MICEX CBI TR) in 2005–2011



Sources: MICEX, MICEX-RTS

Figure 43

#### MICEX Index Corporate Bonds (MICEX CBI TR) in 2011



Sources: MICEX, MICEX-RTS

for calculation of indexes MICEX CBI and IFX-CBONDS.

Calculation of Index IFX-CBONDS is accomplished according to the methods of total return and clean prices. In addition to the index parameters characterizing weighted average duration and weighted average yield to maturity of index portfolio of bonds are determined. Provided, that weighted average yield to maturity is determined in two variants:

- 'simple' – excluding annual investment of coupons
- effective – with account of annual reinvestment of coupons.

Figures 45, 46 present the diagram of Index IFX-CBONDS on the basis of total return for corporate bonds. Figure 47 presents diagrams of weighted average duration and weighted average ('simple') yield to maturity of index portfolio of bonds IFX-CBONDS.

Behavior of Index IFX-CBONDS in many ways is similar to Index MICEX CBI TR, average speed of growth up to the first days of August was a little higher – about 0.04% per day. Two significant downfalls are also recorded: in the first ten days of August and in the mid-September – beginning of October provided that these downfalls were of more pronounced character. Then by the end of the year growth restored at the same rate. In general according to the year results changing of Index IFX-CBONDS composed 5.93%. For comparison: over 2010 index changing composed 11.69%.

Behavior of average yield to maturity of corporate bonds for Index IFX-CBONDS in 2011 also was characterized by stability till the second half of September. Then growth of return began and from the mid-December the average yield to maturity began to exceed the refinancing rate of the Bank of Russia, provided that the maximum value of spread amounted to 0.52 pp. The minimum value of average yield to maturity of corporate bonds for Index IFX-CBONDS in 2011 composed 6.76%, and maximum value – 8.60%, the average value of return over the period is presented in Table 39.

During the year the time structure of the corporate bond market for Index IFX-CBONDS acted extremely irregular and differs a lot from the time structure for Index MICEX CBI. Reduction of duration of index portfolio IFX-CBONDS up to 528 days having begun in the middle of 2010 continued until the middle of June then growth began and by the end of the year duration composed 763 days. In general, according to the results of 2010 duration of the index portfolio is assessed in 660 days and almost does not differ from the average value at the end of 2010.

Index volatility of corporate bonds also changes greatly from year to year (see Table 39). Annual data on volatility and average yield to maturity of Indexes MICEX CBI TR and IFX-CBONDS are similar in many ways except for volatility

at the end of 2006. Compared to equity indexes, corporate bond volatility is single-order less. As with equity indexes at the falling market volatility of corporate bonds indexes is growing abruptly (see, for example, the result of 2008). In 2010-2011, comparatively low volatility of corporate bond indexes, which was characteristic for 2005, is observed.

### 1.9.3 Government Bond Indexes

MICEX where circulation of government securities of the Russian Federation is organized since December 2002 has executed calculation of indexes and indicators of return of government bonds (Government Short-Term Bonds – Federal Loan Bonds).

Indexes reflect change of market cost and include:

- Index of Government Bonds MICEX RGBI, which is calculated according to the method of Clean Price
- Index of Government Bonds MICEX RGBI G, which is calculated according to the method of Gross Price
- Index of Government Bonds MICEX RGBI TR, which is calculated according to the method of Total Return.

Calculation of these indexes is accomplished continuously on a real-time basis with settlement of transactions with government bonds.

Yield indicators are weighted at market value yield to maturity and include:

Figure 44

#### Return and Duration of corporate Bond Index MICEX CBI in 2008–2011

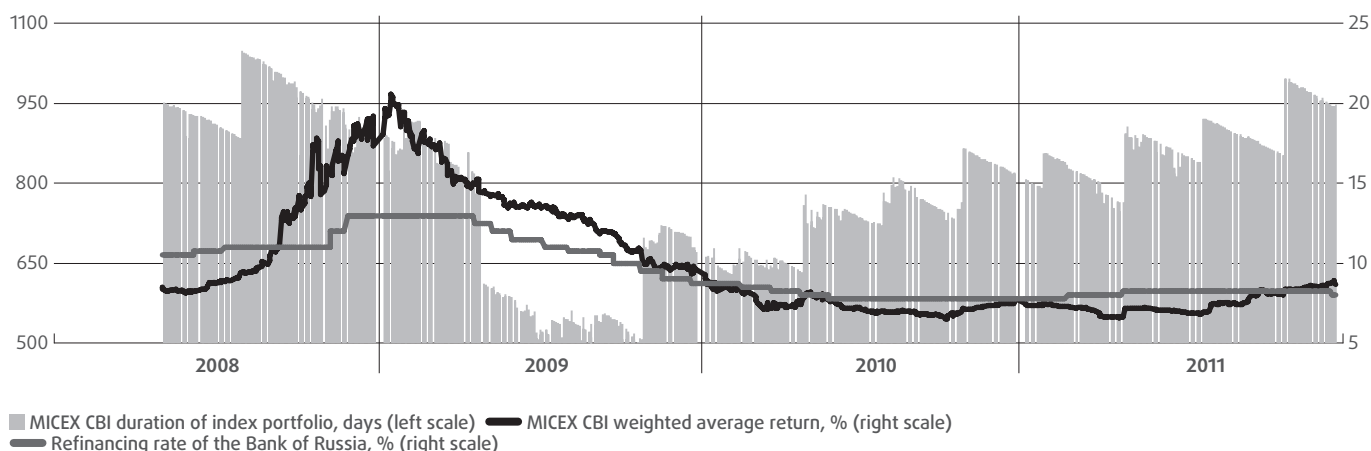
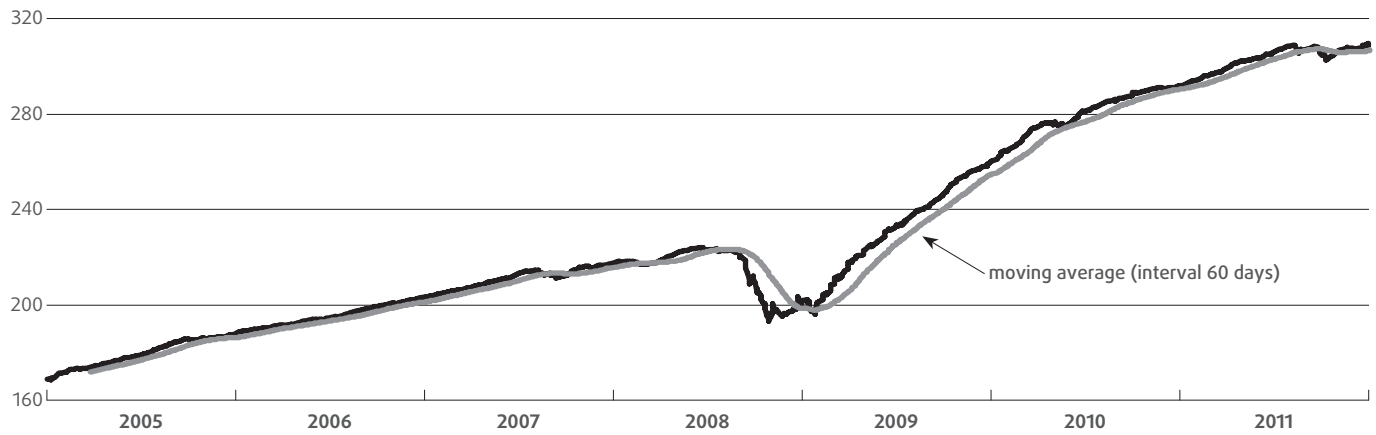


Figure 45

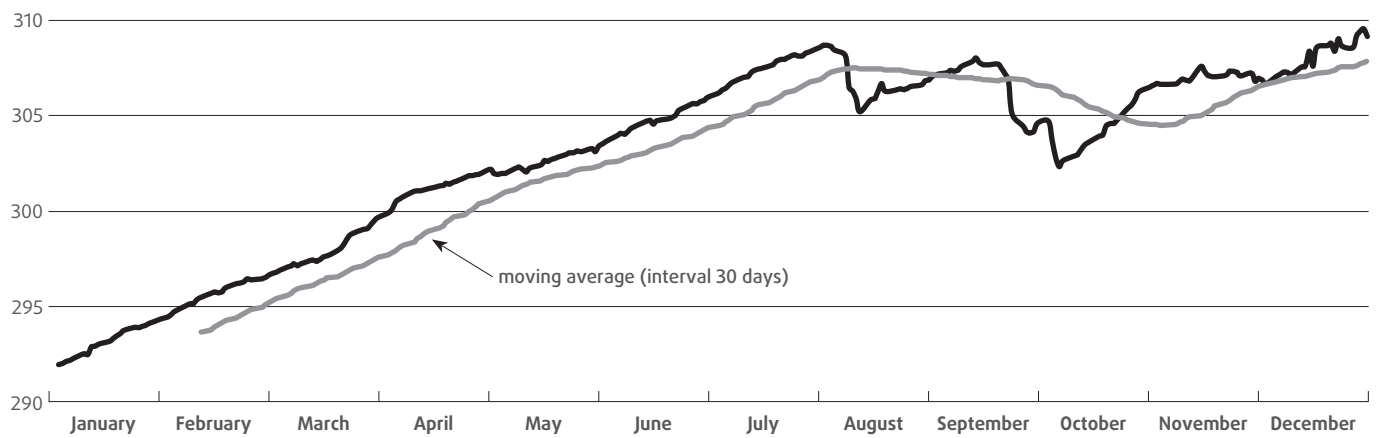
**Index IFX-CBONDS (Total Return) in 2005–2011**



Sources: CBONDS

Figure 46

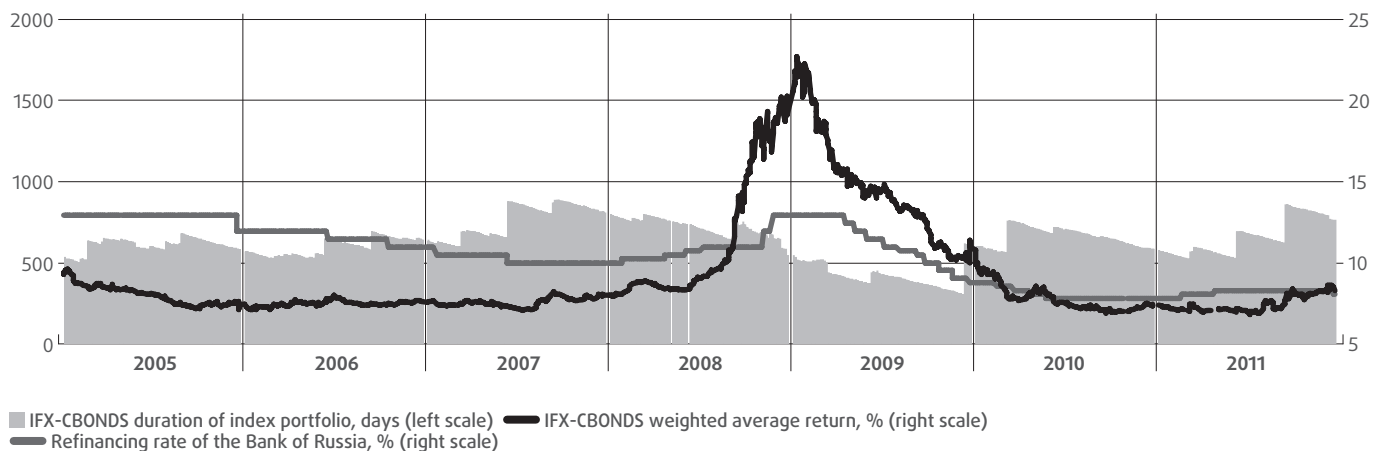
**Index IFX-CBONDS (Total Return) in 2011**



Sources: CBONDS

Figure 47

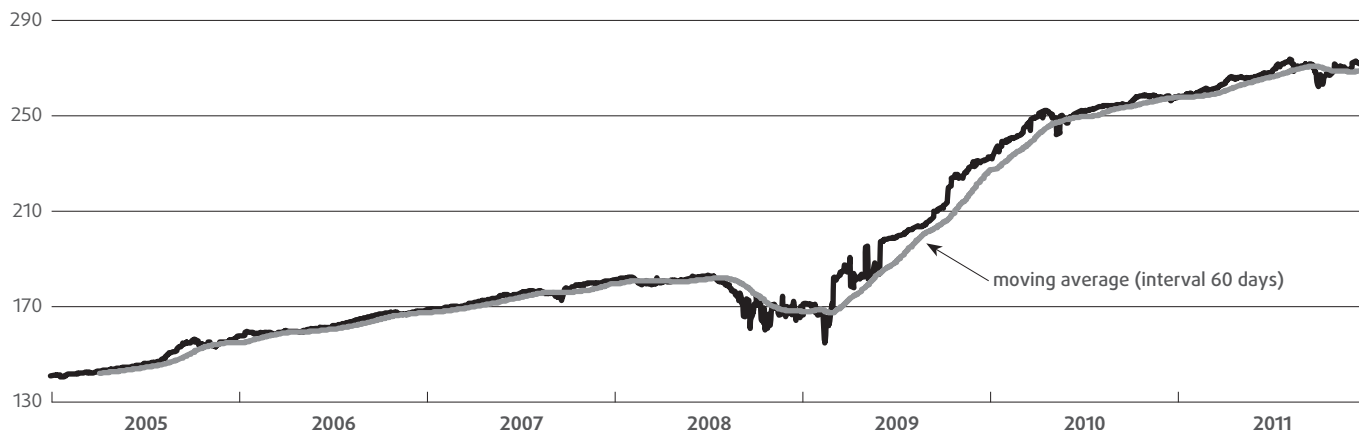
**Index IFX-CBONDS (Duration and Return) in 2005–2011**



Sources: Bank of Russia, CBONDS

Figure 48

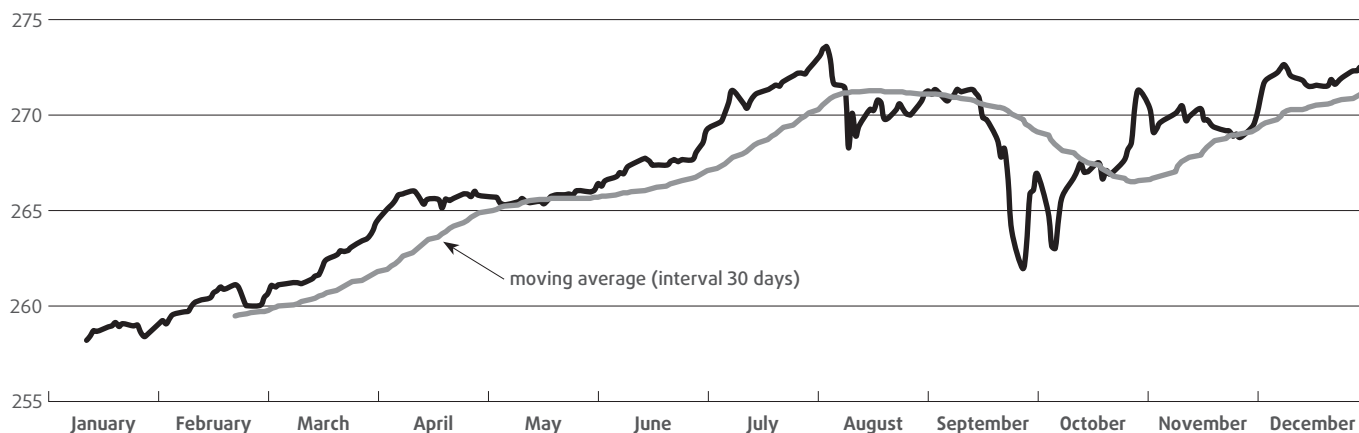
**Index MICEX Government Bonds (MICEX RGBI-TR) in 2005–2011**



Sources: MICEX, MICEX-RTS

Figure 49

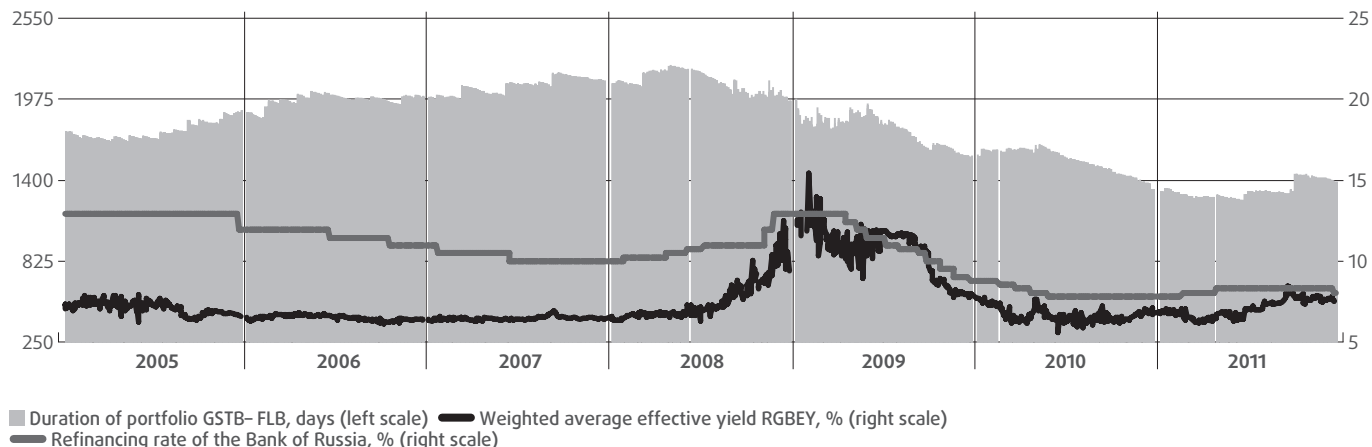
**Index MICEX Government Bonds (MICEX RGBI-TR) in 2011**



Sources: MICEX, MICEX-RTS

Figure 50

**Effective Yield to Maturity and Duration of Government Bonds in 2005–2011**



Sources: Bank of Russia, MICEX, MICEX-RTS

- indicator of efficient yield to maturity of government bonds RGBEY;
- indicator of gross yield to maturity of government bonds RGBY (with account of duration).

Yield indicators are calculated once a day at the close of trading.

Figure 48, 49 represent diagrams of Index MICEX RGBI-TR, and Figure 50 presents the diagram of efficient yield to maturity RGBEY as well as duration of government securities (Government Short-Term Bonds – Federal Loan Bonds), disclosed by the Bank of Russia. The average value of yield indicator RGBEY over the period is presented in Table 39.

In 2011 Average total return of investors into government bonds, judging by Index MICEX RGBI-TR, grew at increased rate up to the beginning of August when the annual maximum was recorded. Then over six days abrupt downfall took place changed into sideways trend with insignificant growth. In the third ten days of September – beginning of October another deeper 'double-bottomed' recession was observed. The last months of the year were marked with wide spread of index against upward trend. As the result over the year changing of Index MICEX RGBI-TR composed 5.65%. For comparison: over 2010 changing of index composed 8.70%.

Behavior of effective yield of government bonds RGBEY in the first half of 2011 was characterized with stability from August effective yield to maturity began to grow. In the third ten days of September non-recurrent excesses of the refinancing rate of the Bank of Russia up to 0.22 pp were recorded. The minimum value of yield over the year composed 6.11%, and the maximum one – 8.47%.

The time structure of the portfolio of government bonds showed downward trend from May 2008 up to the mid-2011 it reduced for 900 days and lowered to the value 1,300 days, in the second half-a-year stabilization of the duration value and slight growth was observed. The average value of duration for 2011 composed 1,330 days against 1,537 days at the year-end 2010.

Volatility of government bonds index by its behavior in 2005-2007 was in many ways similar to volatility of corporate bonds (see Table 39). At the same time from 2008-2010 volatility of government bonds index increased abruptly and in 2.5-4.5 times exceeded volatility of corporate bonds index. In 2011 volatility of government bonds index exceeded volatility of corporate bonds indexes in more than eight times provided that yield to maturity of government bonds is only for 0.3-0.4 pp lower.

#### 1.9.4 Indexes of Unit Investment Funds

The National Rating Agency has kept the family of indexes of open-ended mutual funds (RUIF) since 2003. This family includes four groups of funds: all funds (T), stock funds (S), bond funds (B) and commingled funds (M). Moreover, cost of investment unit is included into index calculation as weighted according to the cost of net assets of the fund (W) as well as without it. Indexes are calculated on a daily basis. Figure 51 presents total index with weight according to the cost of net assets RUIF-WT.

In 2011, Index RUIF-WT did not show any upward trend. Before the beginning of April against increased changeability the sideways trend had been predominant which changed into recession lasted for about 30 days, index downfall over this period composed 12.2%. Period June-July was characterized with new sideways trend but at the lower level. The beginning of August was marked with abrupt and deep recession: over 14 days the index fell for 14% and at this new level went to another up to the mid-September. At this level, except for another recession at the end of September– mid-October Index RUIF-WT finished the year. As the result the annual change of this index composed minus 21.7% i.e. in quantity

Table 39

#### Volatility of Indexes and Average Yield to maturity of Corporate and Government Bonds in 2005–2010, %

Period	Corporate bonds				Government bonds		Refinancing rate (average)
	Volatility MICEX CBI TR	Average yield MICEX CBI TR	Volatility IFX-CBONDS	Average yield IFX-CBONDS	Volatility MICEX RGBI-TR	Average yield MICEX RGBI-TR	
2005	0.10	–	0.08	7.99	0.15	7.09	12.98
2006	0.20	–	0.05	7.44	0.11	6.46	11.63
2007	0.11	–	0.07	7.53	0.15	6.42	10.25
2008	0.42	–	0.41	11.34	1.03	7.56	10.91
2009	0.26	13.68	0.22	14.62	1.22	10.18	11.31
2010	0.10	7.41	0.10	7.74	0.35	6.64	8.01
2011	0.09	7.48	0.09	7.40	0.74	7.06	8.12

Calculated according to the data of MICEX, RTS, MICEX-RTS and Bank of Russia

corresponding to annual yield for consolidated equity indexes (see Table 37). Volatility of index of unit investment funds (see Table 40) in spite of the fact the unit investment fund is a diversified investment product is in 1.1-2.0 times lower than volatility of equity indexes but much higher than volatility of corporate bonds indexes.

### 1.9.5 Indicators of Repo Rate

Indicators of repo rate are calculated rates reflected the situation of the exchanging repo market in Group MICEX. Calculations began to be disclosed in May 2010 with retrospective up to 2005.

Calculations of indicators are carried out individually for repo transactions

with shares and bonds. Calculating indicators for shares considers transactions with shares included into the calculation base Index MICEX, for bonds – transactions with bonds, included into the Lombard list of the Bank of Russia. Depending on the term of the transactions, repo indicators are calculated for the term 'overnight', '7 days' and '14 days'. Calculation includes the transactions which parties are different participants of trading; transactions with negative repo rate are not taken into calculation.

Figures 52 and 53 present diagrams of repo indicators for shares and bonds in 2010-2011. Indicators with the term '7 days' and '14 days' show larger

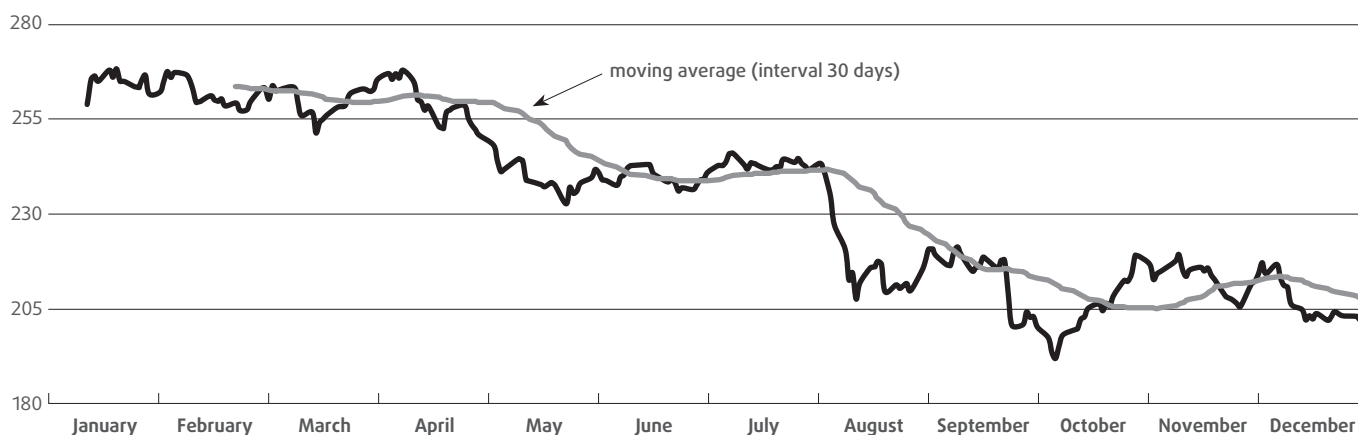
changeability day after day that is why at the diagrams for these terms moving average at intervals 7 and 14 days correspondently are given.

For repo transactions with shares indicator overnight from the mid-October, 2010 and up to mid-July, 2011 demonstrated similar behavior differing with average level of 3.2% and individual emissions. However, then a significant upward trend appeared in the indicator's behavior and by the end of the year indicator of repo transactions overnight with shares increased to 6%.

Behavior of repo indicator with bonds overnight at the qualitative level is similar to behavior of the similar indicator with shares but it differs with a bit higher

Figure 51

### Index of Unit Investment Funds RUIF-WT in 2011



Source: National Rating Agency

Table 40

### Volatility and Annual Change of Index RUIF-WT in 2005-2011, %

Year	Volatility RUIF-WT	Change RUIF-WT
2005	0.74	44.43
2006	1.37	49.29
2007	1.43	2.46
2008	2.27	-54.34
2009	1.72	80.78
2010	1.28	10.73
2011	1.14	-21.66

Calculated according to the data of national Rating Agency



Figure 52  
**Indicators of Repo Rate for Shares in 2010–2011, %**

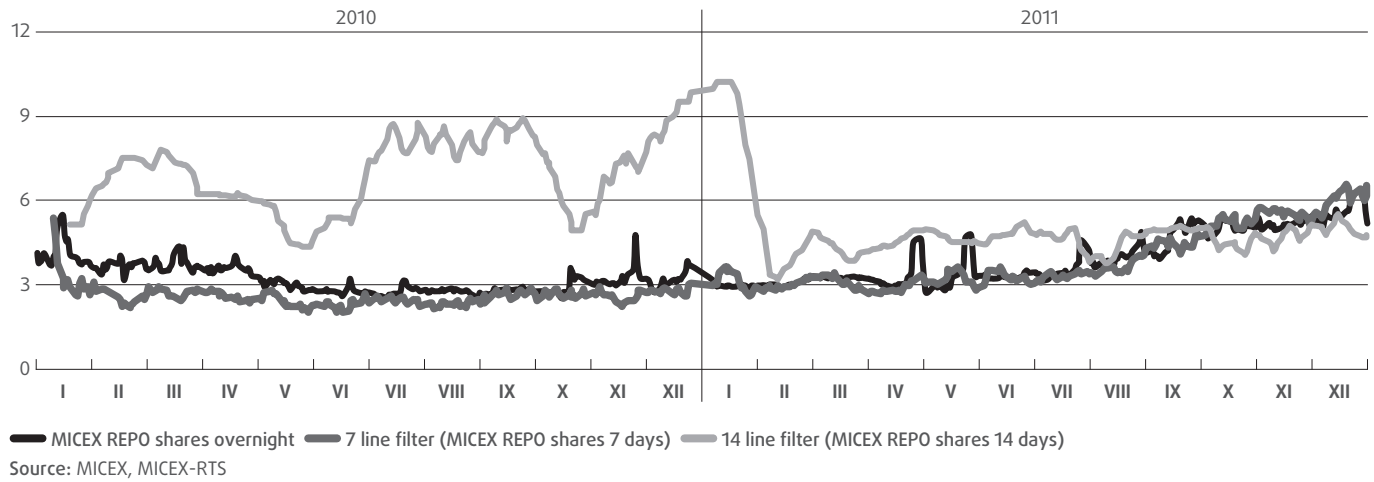


Figure 53  
**Indicators of repo Rate for Bonds in 2010–2011, %**

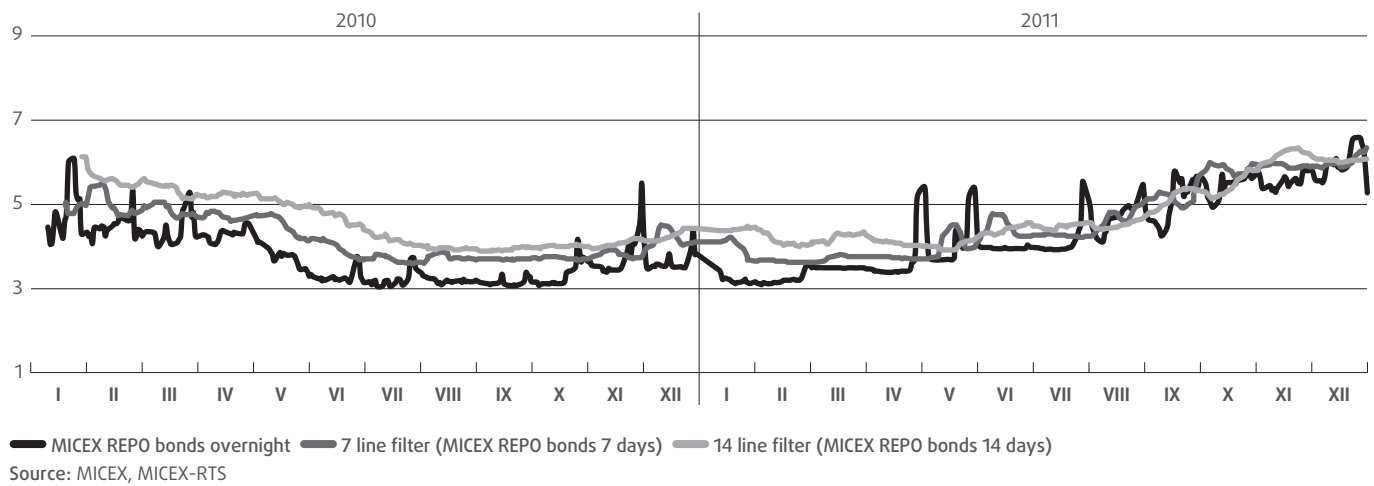
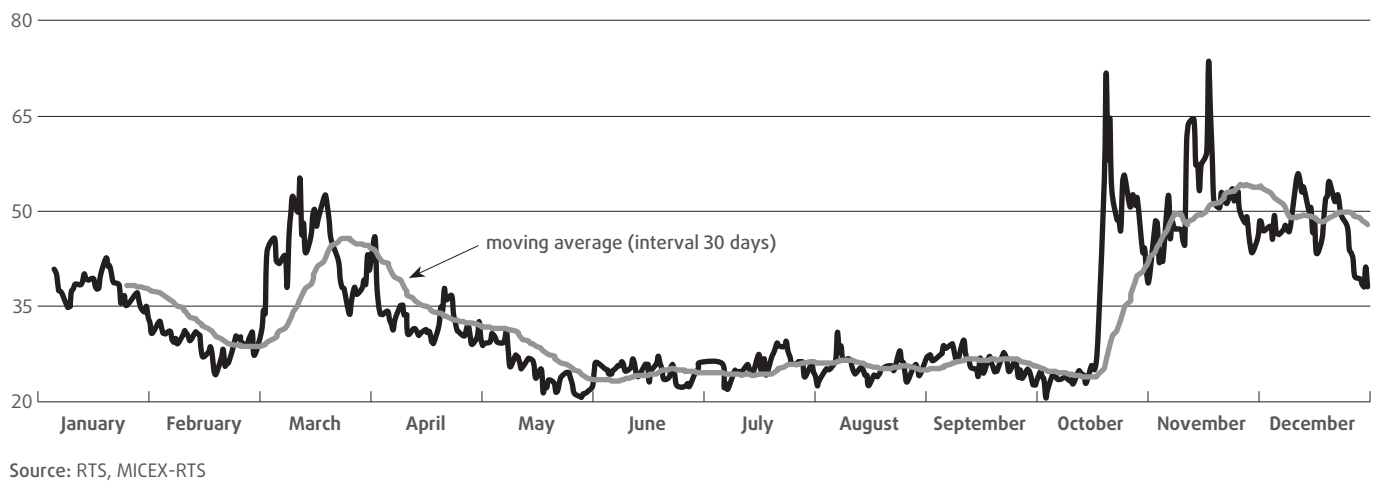


Figure 54  
**Russian Volatility Index RTSVX in 2010–2011, %**



values. Thus, the average value according to the results of the first half-a-year 2011 composed 3.61%.

Smoothed repo indicator with shares with the term '7 days' in 2011 was at the level of indicator overnight with average value 3.08%. behavior of repo indicator with bonds with the term '7 days' is also similar.

At the same time behavior of smoothed repo indicators with shares and bonds with the term '14 days' differs significantly. In January, 2010 – January, 2011 repo indicator with shares changed considerably and at some moments it exceeded the level of 10%. At the later stage evident reduction of this indicator

was observed it began to repeat indicator overnight at the lower level. On the contrary, repo indicator with bonds with the term '14 days' repeats dynamics of indicator with the term '7 days' at a bit higher level.

#### **1.9.6 Volatility Index**

Volatility Index RTSVX began to be disclosed by RTS from December, 2011 with retrospective to 2006, the index is calculated on the basis of option prices for futures for RTS Index for the closest series of options. For calculation formula of Black–Scholes is used. Figure 54 presents diagram of Index RTSVX in 2010-2011.

Behavior of volatility index in 2011 was of strongly pronounced unsteady character. In the period October, 2010 – July, 2011 volatility index showed stable behavior against the average value 25.2%. However, at the beginning of August the situation changed abruptly: on August 9 an abrupt jump of the index to the value 71% was recorded. By the end of August the index value reduced to 40%. However, on October 4 a new also abrupt jump to 73% appeared. Then during several days volatility index reduced to 50% and by the end of the year – up to the level of 38-40% that nevertheless is almost twice higher than at the beginning of the year.

# 2. Institutional Structure

## 2.1. Issuers. Public Offerings

Any joint-stock company is an issuer as at its establishment it places shares and is obliged to register them. A limited liability company can be also bonds' issuer as well as non-commercial organization at some certain conditions. The data from databases SPARK and RusBonds in the part of securities' issuers is presented in Table 41. This table provides the consolidated data on the number of issuers and number of

registered issues at the period's end on an accrual basis from the registration beginning without consideration of the current status of the issuer (active/inactive). The data on the number of active legal entities is given in Table 42 and the consolidated data on the number of issuers at internal organized markets – in Table 43.

Number of issuers (of both shares and bonds) grows at average rate of about

2.5% per year however, in 2010-2011 the growth rates were reducing. In 2011 reduction of the number of active open joint stock companies were recorded. In any case, very few companies from the total number of issuers are presented at the organized markets.

Growth of the number of issuers securities of which are eligible for circulation at stock exchanges finished as early as 2007 then their constant

Table 41

### Issuers of Securities in 2005–2011

Period	Number of issuers of shares and bonds	including OJSC	Number of issues of shares and bonds
2005	460,431	62,960	463,670
2006	471,158	64,431	474,484
2007	481,591	65,706	483,962
2008	487,996	66,466	491,415
2009	523,172	72,601	526,641
2010	529,304	73,437	532,876
2011	534,071	73,593	537,711

Source: Interfax Group (DB SPARK, RusBonds)

Table 42

### Number of Active Legal Entities in 2010–2011

Period	Number of 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

Source: Interfax Group

reduction began which continued in 2011. However, the number of issuers the securities of which are included into quotation lists has been at the stable level 40-43% since 2008 whereas in 2005 this index was 24%.

In 2011 initial public offerings, according to available estimations<sup>23</sup>, were completed by three companies with status of residents of the Russian Federation. Two of them accomplished parallel offerings at the internal and external markets and one of them – only at the internal market – Market of Innovations and Investments MICEX (about the market see Section 2.3.3.). Other seven companies having assets and executing business activity in Russia accomplished offerings only at the external market through holding companies established in foreign jurisdictions. The total volume of funds attracted by all these companies is estimated in 4.7 billion USD, 70-80% from this volume is attracted abroad. From the number of large offerings it is possible to distinguish offering at the stock exchange in the USA NASDAQ of Yandex Company registered in the Netherlands (Russian Internet-company Yandex) with volume of 1.3 billion USD. As small

offering can be considered a chain of pizza restaurants in St Petersburg and Moscow under brand WorldWide Papa's (the head office is registered in Great Britain, offering for 19.7 million USD is accomplished at German stock exchange Deutsche Börse) as well as Russian Internet-shop Utinet.ru (offering for 13.9 million USD is accomplished at MICEX). The majority of transactions IPO fell within the first half of the year. Judging by the available comments the objective of many offerings was escaping the business of majority shareholders with funds receipt from sale of shares belonging to them in foreign jurisdictions.

In 2007–2009 special trading sites were established at MICEX and RTS in order to bring to the open market of securities of innovative companies and companies of low capitalization. Number of issuers and volumes of transactions at these sites are insignificant (for detailed information see Section 2.3.3).

In 2007–2010 the regulatory legal base was prepared which provides a possibility for offering and circulation of securities of foreign issuers and Russian depository receipts at Russian trading sites. At the end of 2010 for

the first time offering of bonds of a foreign state – the Republic of Belarus (one issue for 7 billion RUR) took place. Secondary circulation of these securities is organized at MICEX Stock Exchange. Over 2011 the transactions volume composed 9 billion RUR. Also at the end of 2010 trading of Russian depository receipts of Sberbank of Russia, OJSC certifying rights for registered ordinary shares UC Rusal plc began for the first time at RTS and MICEX Stock Exchange. Over 2011 the volume of the secondary market totally for both stock exchanges composed 54.1 billion RUR.

At the beginning of December, 2011 offering of an issue of foreign bonds Uranium One Inc. – Canadian Company – uranium producer took place at MICEX Stock Exchange. The volume of issue into circulation composed 14.3 billion RUR. At the secondary market there were no transactions settled with this instrument by the end of the year.

In general foreign securities and Russian depository receipts at the Russian exchanging market is just an incipient segment which has not come over the limits of pilot projects tryout. Volumes of the primary and secondary markets of this segment are not provided.

Table 43

**Issuers at the Organized Market in 2005–2011**

Period	MICEX Stock Exchange		RTS	
	Number of issuers (of shares and bonds)	including the ones in quotation lists	Number of issuers (of shares and bonds)	including the ones in 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
Q1 2011	562	247	293	71
Q2 2011	534	246	279	69
Q3 2011	502	222	272	66
<b>MICEX-RTS</b>				
Q4 2011	557	241		
2011	557	241		

Sources: MICEX, RTS, MICEX-RTS

<sup>23</sup> Project offering.ru/IPO in Russia, Ernst&Young, The PBN Company.

## 2.2. Investors

Investors in our understanding mean any persons and institutions, which invest funds into securities for the purpose of profit making. There is no official organized data on the composition and quantitative characteristics of the investment base of the Russian market. Nevertheless, professional participants of the securities market, self-regulating organizations and research groups hold work on accounting and study of the investment base.

### 2.2.1 Private Investors

To private investors we refer so called 'market investors' – individuals who took a conscious decision on investing at the securities market and occasionally use services of brokers, trustees or acquire investment units in Unit Investment Funds. In Russia there is no full and reliable statistics on the number of individuals executing transactions at the securities market. Using the data from different sources it is possible to develop the following but not nearly broad picture.

MICEX SE on a regular basis discloses information on the number and structure of customers of trading participants including individuals (hereinafter we will also call them 'customers of MICEX Stock Exchange') possessing individual identification characteristics (unique customers). Figure 55 presents the data

on the number of customers of MICEX SE (unique customers).

In spite of integration of MICEX and RTS in December, 2011 the data on the fourth quarter for the purpose of results comparability are given only in relation to customers of MICEX Stock Exchange. During 2010-2011 growth rates of the number of customers – individuals reduced abruptly and composed 6-9% per year. For comparison: in 2009 growth for 20% was recorded and in 2006-2007 annual doubling of the number of individuals executing exchange transactions with securities was observed. In general for its volume this client niche of private investors is close to saturation and amounted to 780,760 people at the end of 2011.

An important characteristics of private investment base is the number of so called proactive investors – individuals – those who execute at least one transaction per month at the stock exchange; the data on proactive investors – individuals, executing transactions at MICEX SE are available from May, 2007. Figure 56 presents the data on proactive investors – individuals – customers of MICEX SE in 2008 – 2011. Considering the fact the seasonal factors: noticeable recession in summer and increased activity at the beginning of autumn, are strongly

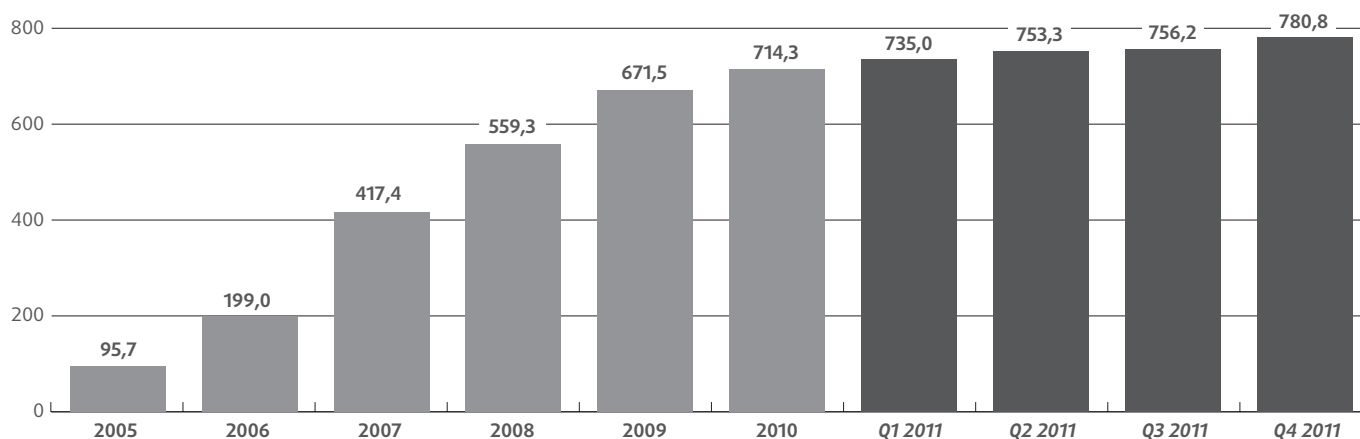
pronounced in behavior of proactive investors then the data in this diagram is given on a month-to-month basis.

The number of proactive investors – individuals traditionally composes a little rate from the total number of unique customers – individuals. Over the whole period of information disclosure on proactive customers their maximum number was recorded in October, 2009 – 119,838 people, the rate of proactive customers was also maximal – 18.4%. Then the downward trend appeared. In 2011 only in February and August, the number of proactive customers was larger than in the previous years and in September-December the number of proactive customers began to reduce. As the result at the end of the year the number of proactive investors – individuals at MICEX SE composed 93,294 people – for 18% less than in the year-earlier period. The rate of proactive investors was also reducing: in June, 2011 it composed 10.7% – it is the minimal value over the whole period of observation and in December, it grew a little and composed 11.9%.

Shares represent the main interest for investors-individuals at executing of transactions with securities at MICEX Stock Exchange. In the total volume of transactions executed by individuals at this stock exchange transactions

Figure 55

### Individuals-Customers of MICEX Stock Exchange in 2005–2011, thousand people



Source: MICEX, MICEX-RTS

Figure 56

**Individuals-Proactive Customers of MICEX Stock Exchange in 2008–2011, thousand people**

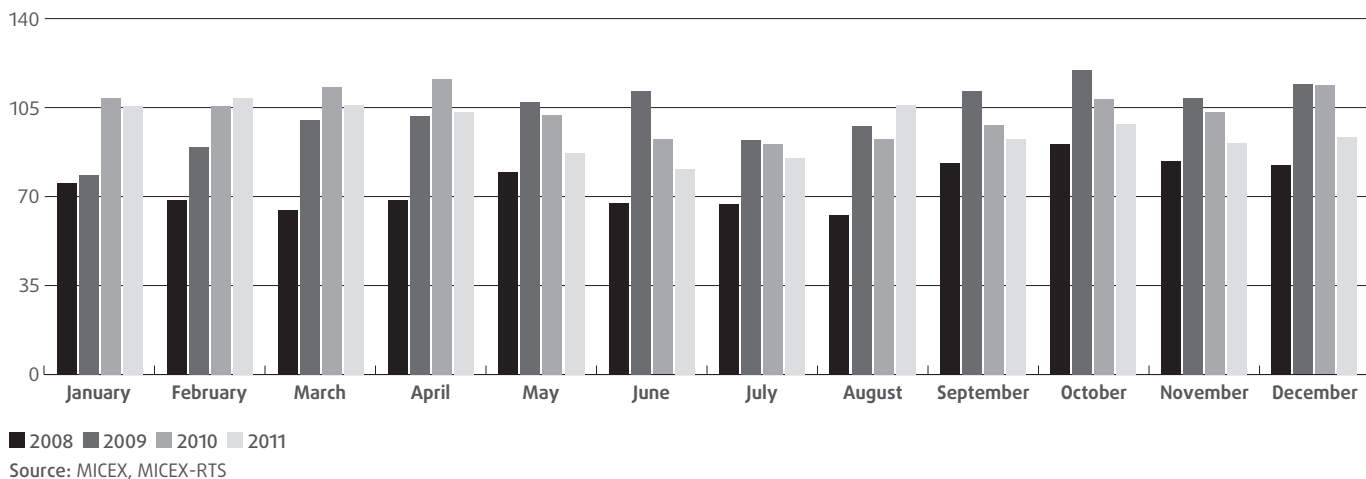


Figure 57

**Rate of Individuals in the Monetary Volume of Transactions with Securities at MICEX Stock Exchange in 2005–2011, %**

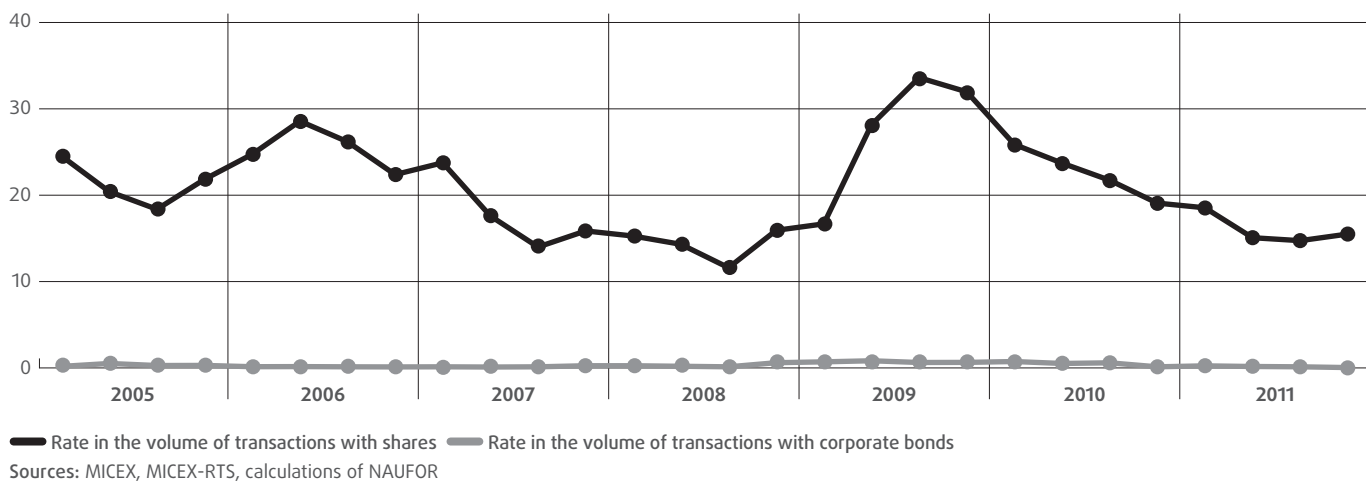
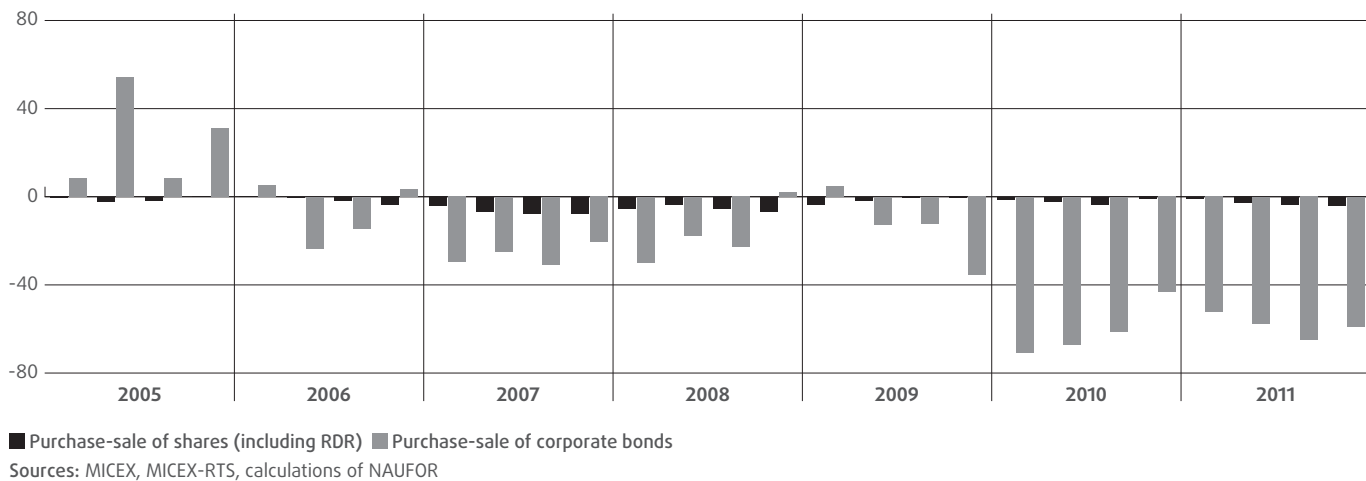


Figure 58

**Direction of Transactions of individuals at MICEX Stock Exchange in 2005–2011, %**



with shares occupied on average 98%, corporate bonds take only 1.2% from the total volume of transactions. For other kinds of securities including sub-federal, municipal bonds and investment units just percentage fractions are remained.

Figure 57 presents the diagram characterizing the rate of individuals in the total monetary volume of transactions with shares and corporate bonds in all modes of trading at MICEX Stock Exchange.

Thus, after the third quarter, 2009 when the rate of private investors in the volume of transactions with shares reached the maximum value 33.5%, constant recession of participation of individuals in transactions with shares has been recorded. In the second half of 2011 this index stopped at much lower level – 15.1%. Such reduction takes place simultaneously with reduction of the number of proactive customers. The rate of individuals in transactions with corporate bonds is constant and very small – on average 0.3%.

Direction of transactions is of special interest. Figure 58 presents the diagram characterizing the difference between the purchase and sale volumes of securities (in monetary terms) in transactions of individuals in the total volume of their transactions at MICEX Stock Exchange.

In transactions with individuals with shares and corporate bonds there are significant differences. In transactions with shares purchases are traditionally predominate. In the second half of 2007 balance of sales of shares reached the maximum level (7.4%). In 2011 volumes of sales exceeded volumes of purchases on average for 2.8%; the maximum rate of sales fell within the fourth quarter – 4.1%. In transactions with bonds broader variability is recorded however, during 2010-2011 sales clearly predominated, the average balance of sales in the total volume of transactions with bonds over these two years composed 59.5%.

### 2.2.2 Unit Investment Funds

In legal terms unit investment funds are property complexes not being legal entities. Depending on possibilities of presentation for redemption open-end, interval and close-end investment funds are distinguished. Table 44 presents consolidated data on dynamics of changes in the number of unit investment funds<sup>24</sup>.

By quantitative composition the industry of pooled investments is close to saturation, the growth rates of the number of unit investment funds in 2008-2011 slowed down abruptly and composed on average 9.3% per year. For comparison: in 2006-2007 the

dynamics was much higher – about 56% per year. It is characteristic that in 2011 the largest increase fell for open-end funds (5.2%) when before the industry of close-end funds had been growing at accelerated rates. The niche of interval unit investment funds has been in the stagnation state since 2008 and is slowly reducing.

In 2008-2009, the opportunity appeared to develop interval and close-end funds for qualified investors. By the end of 2011 according to the data of the national League of Management Companies over 42% unit investment funds have been funds for qualified investors that is little different from the indexes of 2010. From the total number of close-end unit investment funds about 68% are funds for qualified investors.

In compliance with the applicable legislation<sup>25</sup>, information on the unit investment fund for qualified investors the investment units of which are limited in circulation can be provided only to the owners of investment units and other qualified investors. Due to this fact available at the present time public aggregated data on the cost of net assets of unit investment funds concerns only the funds for unqualified investors and thus it has limited representation. Table 45 presents the data on the cost

Table 44

### Number of Unit Investment Funds in 2005–2011

Period	Type of the Unit Investment Fund			TOTAL
	Open-end	Interval	Close-end	
2005	219	55	154	428
2006	320	77	272	669
2007	487	94	466	1,047
2008	498	94	572	1,164
2009	443	86	797	1,326
2010	424	71	937	1,432
2011	446	69	974	1,489

Source: Investfunds.ru

<sup>24</sup> Funds having completed their formation are considered.

<sup>25</sup> Law dated 26.11.01 No 156-FZ 'Concerning Investment Funds' Art., 52, Cl. 3.

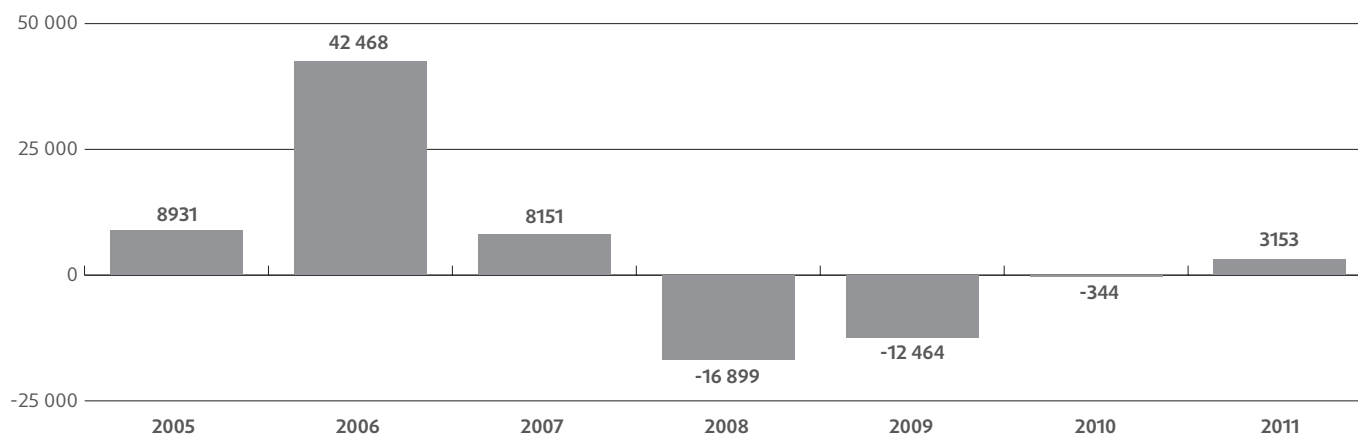
Table 45

**Cost of Net Assets of Open-End and Interval Unit Investment Funds in 2005–2011, billion RUR**

Period	Open-end	Interval	TOTAL	% to GDP
2005	48.1	21.6	69.7	0.32
2006	116.6	34.2	150.9	0.56
2007	137.4	41.4	178.8	0.54
2008	48.1	12.7	60.7	0.15
2009	76.5	20.4	97.0	0.25
2010	97.1	24.0	121.1	0.27
2011	83.0	19.1	102.1	0.19

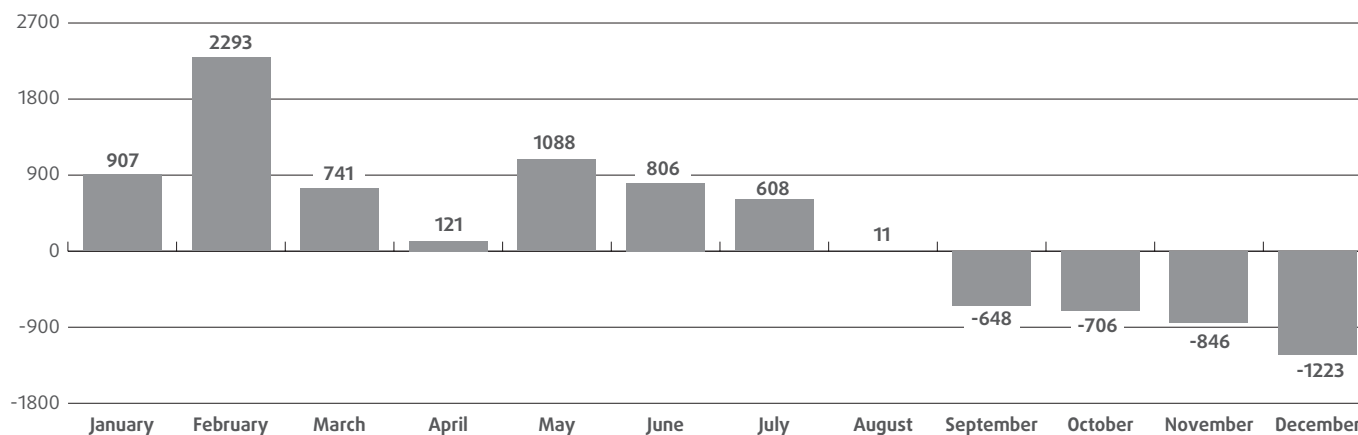
Source: Investfunds.ru

Figure 59

**Volume of Net Employment into Open-End Unit Investment Funds in 2005–2011, million RUR**

Source: National League of Management Companies

Figure 60

**Volume of Net Employment into Open-End Unit Investment Funds in 2011, million RUR**

Source: National League of Management Companies



of net assets of open-end and interval funds.

In the first quarter of 2011 growth of the net assets cost of open-end and interval funds was observed however, later its reduction began and by the end of the year it reduced for 19 billion RUR or 15.7% against the beginning of the year. The net assets cost of open-end and interval unit investment funds reached its historical peak in 2007 in the next year against the financial crisis it reduced in three times at once. In the following years in spite of some growth the net assets cost remains much lower than the record levels, at the end of 2011 it composed 43% from the result of 2007.

Besides the net assets cost, the most important characteristic of the industry of unit investment funds is the net employment of resources into funds. This data is most reprehensive for open-end unit investment funds in which submission of applications for withdrawal and redemption of units is carried out every business day. Figures 59, 60 present the data on net employment of resources into open-end unit investment funds.

Dynamics of net employment of resources into open-end unit investment funds during 2011 was differently directed. Flow of funds was observed from January to August with different intensity provided that positive balance was recorded in February – 2.3 billion RUR. Period May-August was marked with reduction of fresh resources

volumes in the open-end funds: from 1 billion RUR to 11 million RUR. And during the last four months of the year direction of net mobilization changed and became negative provided that outflow of funds was constantly growing from 648 million RUR in September to 1.2 billion RUR in December. Nevertheless, totally, according to the year results, positive balance of resources mobilization into open-end unit investment funds was recorded – 3.2 billion RUR. By this fact 2011 differs from three previous years when the annual volume of mobilization was negative. At the same time against 2006 when the record volume of mobilized resources was recorded – 42.5 billion RUR, the results of 2011 look very modest.

The main element in structure of unit investment funds is the managing company which offers units of unit investment funds and according to the Russian legislation is liable to their owners. Figure 61 presents the consolidated data on the number of managing companies regulating unit investment funds.

The number of management companies with relevant licenses of FFMS of Russia has been constantly reducing since 2009; over 2011 their number reduced for another 4.6% and composed 436 companies. On the other hand the number of managing companies regulating unit investment funds tends to grow although in 2010-2011 the growth slowed down abruptly. It comes

under notice that in 2009-2011 70-77% from the total number of managing companies have funds under their regulation whereas in 2006-2008 this index composed 36-50%.

### 2.2.3 Bank-Managed Mutual Funds

Bank-managed mutual fund (BMMF) is an investment product offered by the credit organizations. BMMF is the property complex consisting of the property transferred into trust to different persons as well as acquired by the trustee in the process of trust management exercising. In legal terms BMMFs basically are similar to unit investment funds however, participation in them is not certified with a security. The activity on management of BMMF, according to available data, involved about one hundred credit organizations, the data on the number of funds and net assets cost is given in Table 46.

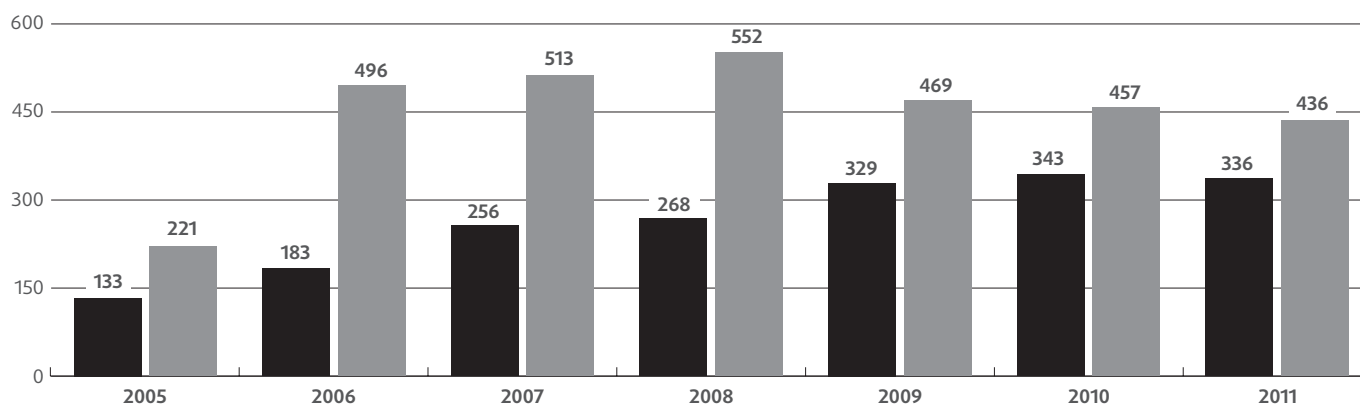
As it follows from the presented data BMMF noticeably give in to unit investment funds as for the number of funds as for total cost of net assets. No considerable changes in the number of funds have happened lately and the cost of net assets in 2010-2011 was reducing. Especially essential was reduction in 2011 – for 2.2 billion RUR or for 25.8% in relative terms.

### 2.2.4 Non-Governmental Pension Fund

At the time of the review writing there was no data at the end of 2011. According to the data of FFMS of Russia

Figure 61

#### Number of Managing Companies Regulating Unit Investment Funds in 2005–2011



■ MC regulating UIF ■ Total number of licenses issued to MC

Sources: FFMS, NLMC

at the end of the third quarter 2011 148 organizations had valid licenses of NGPF 116 out of them were allowed to activity on compulsory pension insurance. The quantitative composition of subjects of pension provision at that period of time has not changed much.

The data on investment resources of NGPF related to non-governmental pension provision (pension reserves) and compulsory pension insurance (pension savings) are given in Table 47.

In 2010 – the third quarter of 2011 gradual growth of pension reserves was observed. According to the results of the third quarter of 2011 their amount reached to 670.3 billion RUR that is for 9.5% more than according to the results of the analogous period in 2010. From quarter to quarter pension savings grow by leaps depending on transfer of funds from the Pension Fund of the Russian Federation. Over 2010 and first

nine months of 2011 pension savings increased almost in three times according to the results of the third quarter of 2011 and amounted to 340.4 billion RUR.

According to the results of the third quarter of 2011 investment resources of NGPF composed 1,010.7 billion RUR and increased for 26.5% over 9 months of 2011.

### 2.2.5 Investment of Pension Savings

The persons insured in the system of compulsory pension insurance having a cumulative part of labor pension can transfer their savings to NGPF or transfer their management to the management company: private or state one.

According to the data of the Pension Fund of the Russian Federation as of the end of 2011 54 companies were allowed for management of funds of pension savings. Functions of the state management company up to the

present time have been executed by State Corporation Bank for Development and Foreign Economic Affairs, OJSC (Vnesheconombank).

Vnesheconombank as the state management company is entitled to invest pension savings of citizens into two investment portfolios: extended investment portfolio and government securities portfolio.

The extended portfolio is formed from government bonds of the Russian Federation, sub-federal and municipal bonds, corporate bonds, mortgage bonds, bonds of international financial organizations as well as deposits in Russian credit organizations. Funds of the investment portfolio of government securities can be placed only into government securities and corporate securities guaranteed by the state. Private management companies have wider opportunities to invest.

Table 46

### Bank-Managed Mutual Funds in 2005–2011

Period	Number of funds	including ruble ones	Including currency ones	Net assets cost (billion RUR)
2005	175	122	53	7.9
2006	241	172	69	17.1
2007	277	205	72	21.1
2008	287	212	75	7.4
2009	283	208	75	9.3
2010	283	209	74	8.5
2011	283	212	71	6.3

Source: investfunds.ru

Table 47

### Investment Resources of NGPF in 2010–2011, billion RUR

Period	2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Number of NGPF	164	163	159	150	151	149	148	No data
Number of NGPF allowed to compulsory pension insurance (CPI)	133	133	133	117	105	103	116	No data
Pension reserves	584	591	612	643	657	669	670	No data
Pension savings	115	142	147	155	264	301	340	No data
Total	699	733	759	799	921	971	1,011	No data

Sources: FFMS of Russia, investfunds.ru

The data on the amount of pension savings transferred to NGPF is presented in Table 47. Table 48 presents the data on the cost of net assets of pension savings funds being in disposal of Vnesheconombank and private management companies in 2011.

Since the beginning of the pension reform the suppressing (over 97%) volume of pension savings funds of insured persons transferred into trust management of the management companies is in disposal

of Vnesheconombank. The cost of net assets under management of the state management company except for the crisis year 2008 is growing. According to the results of 2011 it composed 1,333.7 billion RUR that for 80.2% more than at the similar period of 2010. The main investment portfolio of the state management company became the extended portfolio.

The cost of net assets of pension savings under management of private management companies is under similar

trends. As of the end of the third quarter 2011 the cost of net assets of pension savings increased against the similar period of 2010 for almost 40% and composed 26.3 billion RUR.

### 2.2.6 Commercial Banks

Many Russian banks act at the securities market as professional participants as well as investors.

The consolidated data on the volumes of different types of securities in assets of credit organizations is given in Table 49<sup>26</sup>.

Table 48

#### Cost of Net Assets where Pension Savings Funds were Invested in 2010–2011, billion RUR

Period	Vnesheconombank			Private management companies	TOTAL
	Extended portfolio	Portfolio of government securities	TOTAL		
Q1 2010	709.1	1.2	710.2	17.8	728.1
Q2 2010	723.4	1.8	725.2	18.1	743.2
Q3 2010	731.0	2.4	733.4	18.9	752.3
Q4 2010	737.5	2.4	739.9	19.5	759.4
Q1 2011	941.0	3.2	944.3	23.1	967.4
Q2 2011	1,054.9	4.1	1,059.0	25.3	1,084.3
Q3 2011	1,191.5	4.6	1,196.1	26.3	1,222.4
Q4 2011	1,328.6	5.2	1,333.7	No data	No data

Sources: VEB, PFR, investfunds.ru, NLMC.

Table 49

#### Securities in Assets of Credit Organizations in 2005–2011, billion RUR

Period	Securities* (TOTAL)	% of GDP	including			
			Liabilities*	Equity securities*	Portfolio of control participation in subsidiaries and dependent joint-stock companies	Discounted bills
2005	1,400.1	6.5	998.0	127.1	64.9	210.1
2006	1,745.4	6.5	1,251.4	185.0	79.8	229.2
2007	2,250.6	6.8	1,541.4	316.3	141.9	251.1
2008	2,365.2	5.7	1,760.3	193.4	212.0	199.5
2009	4,309.4	11.1	3,379.1	411.8	284.5	234.0
2010	5,829.0	12.9	4,419.9	710.9	368.2	330.0
2011	6,211.7	11.4	4,676.2	914.4	387.3	233.9

\* Before 1.02.08 without accounting of securities under repurchase agreement.

Source: Bank of Russia

<sup>26</sup> Securities acquired both at the internal and external markets are considered.

In absolute terms securities in the assets of credit organizations according to the results of 2011 are estimated almost in 6.2 trillion RUR, over the year growth composed 6.6%. the rate of securities in the assets of credit organizations is gradually growing and according to the results of 2011 it is at the level of 14.9% of assets of credit organizations.

Debt securities in the total security portfolio of credit organizations compose about 75.3%. The rate of shares (excluding shares of subsidiaries and dependent organizations) changes depending on the market situation; in 2011 it composed 14.7% whereas in 2010 this index was at the level 12.2%. The rate of bills is gradually reducing and according to the results of 2011 it composed 3.7% of security portfolio of credit organizations.

### 2.2.7 Non-Residents

According to estimations of Interfax Business Service (database Thomson One for IR), the number of foreign funds (from the number of disclosing information on their activity) invested into local shares and depository receipts after certain recession in 2009 grew in the following two years and according to the results of 2011 it composed 2,410 funds (Figure 62). That is for 12.8% percent more than at the beginning of the year and conforms to the values of 2008 record for this index.

Moreover in 2011 the volume of investments into securities of Russian companies (as into local ones as in the

form of depository receipts) of these funds has reduced for 15.6 billion USD or 17.2% in relative terms for the first time over six years. The rate of Russian assets in foreign funds is not high, on average it composes 3-4% of the total funds portfolio. About 60% of Russian assets are concentrated in foreign funds located in Great Britain and the USA.

There are not many funds specialized on Russia (rate of Russian assets over 75% of the fund's assets) (Figure 63): from 2005 to 2011 the number of such funds increased from 24 to 52.

There are much more so called global funds where the rate of Russian assets does not exceed 10%. On average that is 85% of all funds investing into securities of Russian issuers. The dynamics of changing of the number of global funds completely repeats general dynamics of foreign funds: recession in 2009 and growth in 2010-2011 up to the record values of 2008.

In funds specialized on Russia the volume of assets in 2005-2010 was constantly growing at least for 10% per year. However, in 2011 abrupt breakdown of the trend took place and withdrawal for the amount of 13.9 billion USD was recorded, the volume of assets reduced almost twice.

Relation of volumes of investments of foreign funds executed into Russian securities and depository receipts for them is estimated as 25 to 75%.

Besides foreign investment funds disclosing information on their activity

foreign hedge funds also invest into Russian assets, these funds are much less transparent and this does not allow estimation of their investments.

MICEX SE on a regular basis discloses the information on the number of customers – participants of trading being non-residents in compliance with the applicable legislation and on the volumes of transactions executed by them. Figure 64 presents the data on the number of unique customers of MICEX SE – non-residents.

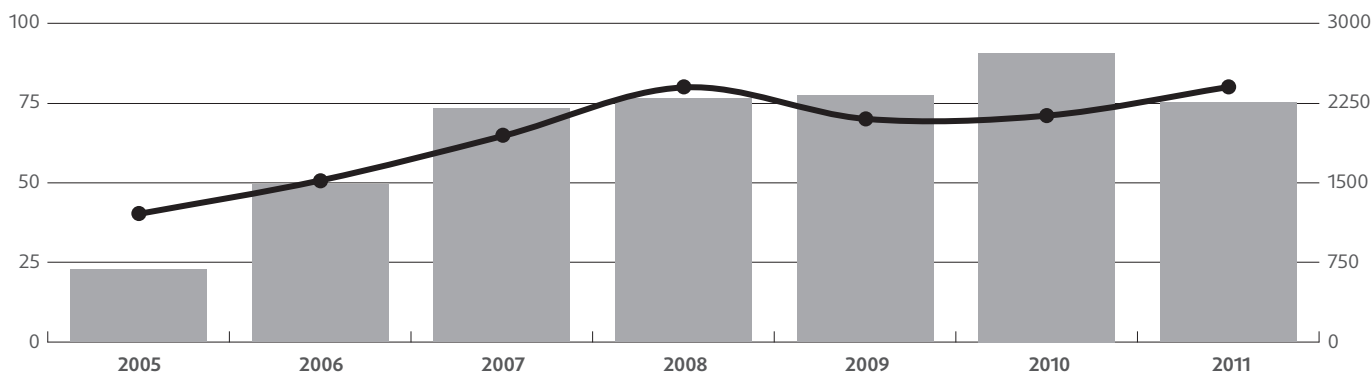
Since the time when disclosure of the information on non-residents – customers of MICEX SE started their number almost constantly had been growing with average speed of 2.1% per month by April, 2011 when it reached the historical peak – 4,550. However, later the satiation changed abruptly and already in August the number of non-residents fell for 35% – up to 2,939. Till the end of 2011 the number of non-residents remained at the level of 3,000.

The number of proactive customers – non-residents (see Figure 65) is much less than the total number of customers – non-residents at MICEX Stock Exchange: on average from June, 2007 to December, 2011 it composed 18.2% from the total number.

In absolute terms dynamics of the number of proactive customers – non-residents is more volatile than the dynamics of the total number of non-residents. The maximum historical peak the number of proactive customers

Figure 62

### Foreign Investment Funds in 2005–2011



■ Volume of investments into securities of Russian companies, billion USD (left scale)  
 ● Number of foreign investment funds, units (right scale)

Source: Interfax Business Service

Figure 63

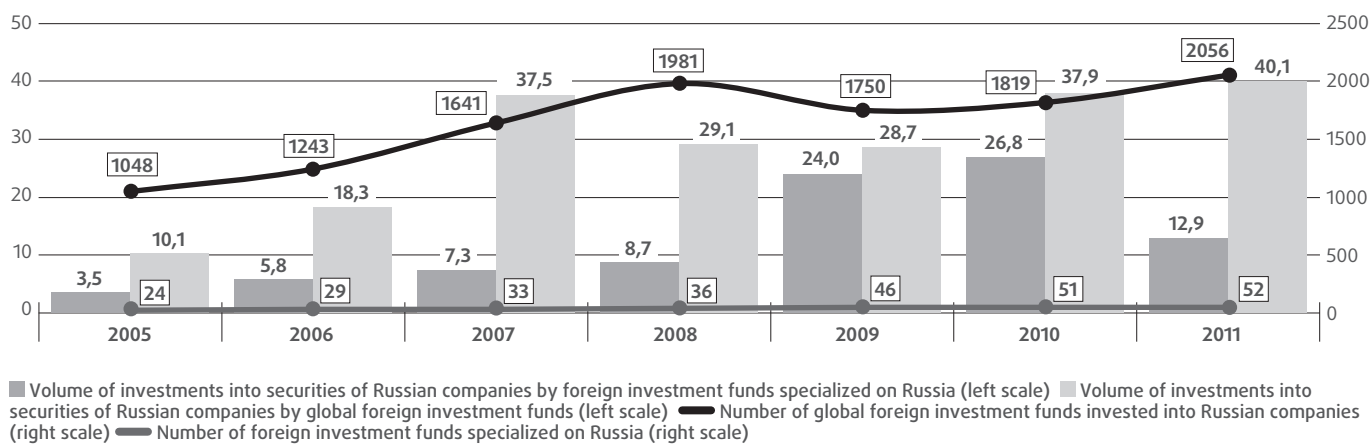
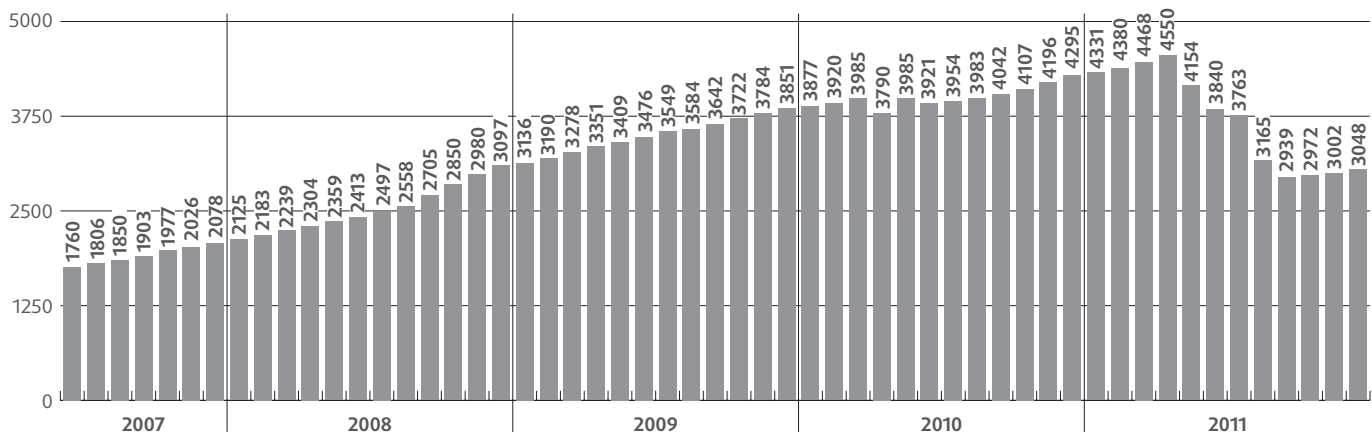
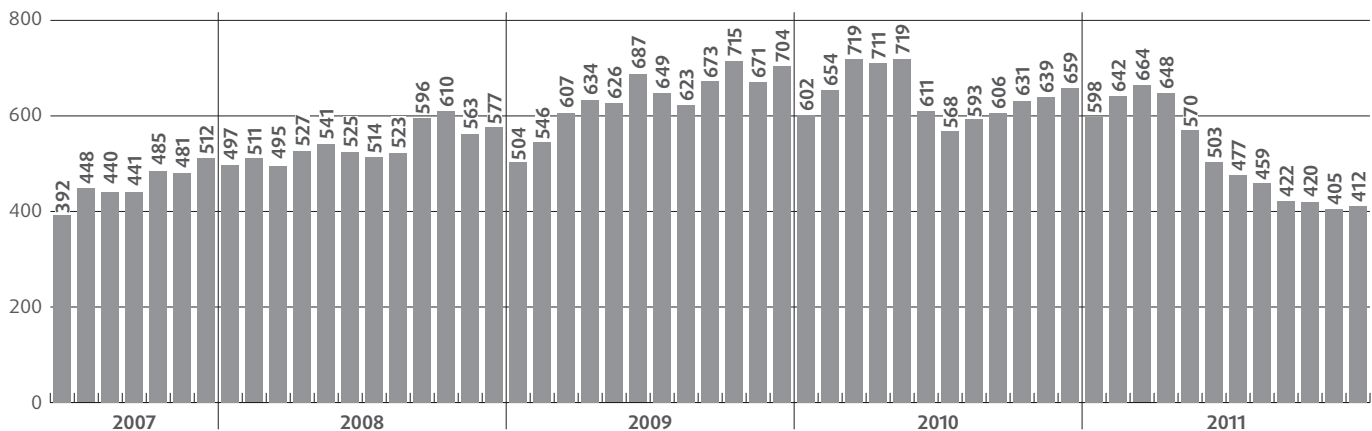
**Specialization of Foreign Investment Funds in 2005–2011, billion USD**

Figure 64

**Non-Residents – Customers of MICEX Stock Exchange in 2007–2011, unit**

Source: MICEX, MICEX-RTS

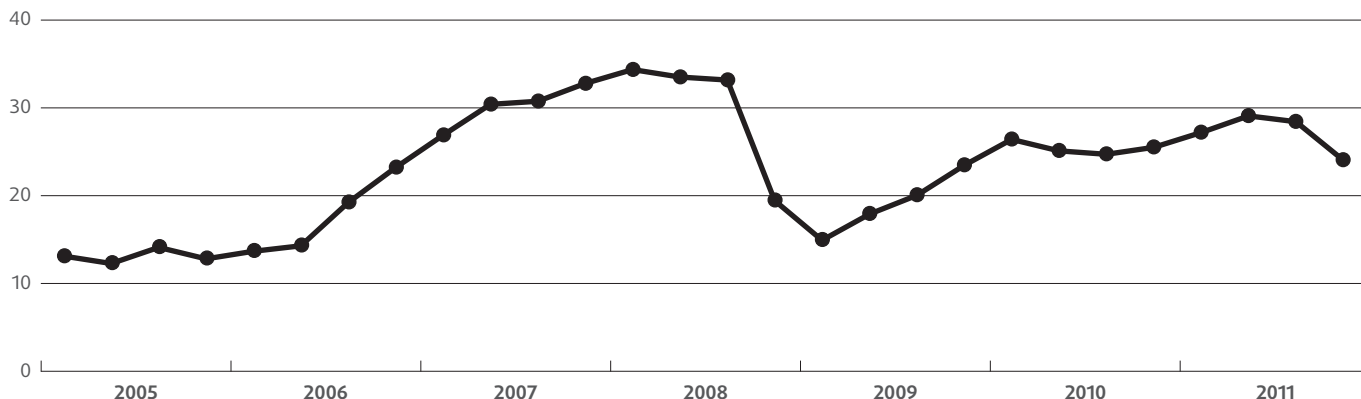
Figure 65

**Non-Residents – Proactive Customers of MICEX Stock Exchange in 2007–2011,**

Source: MICEX, MICEX-RTS

Figure 66

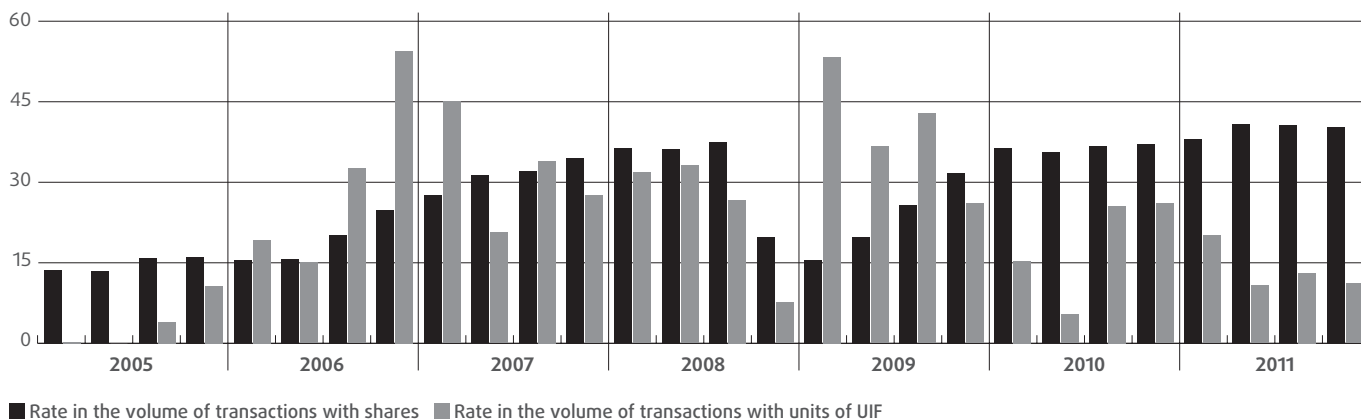
**Rate of Non-Residents in the Cost Volume of Transactions with Non-Government Securities at MICEX Stock Exchange in 2005–2011, %**



Sources: MICEX, MICEX-RTS, calculations of NAUFOR

Figure 67

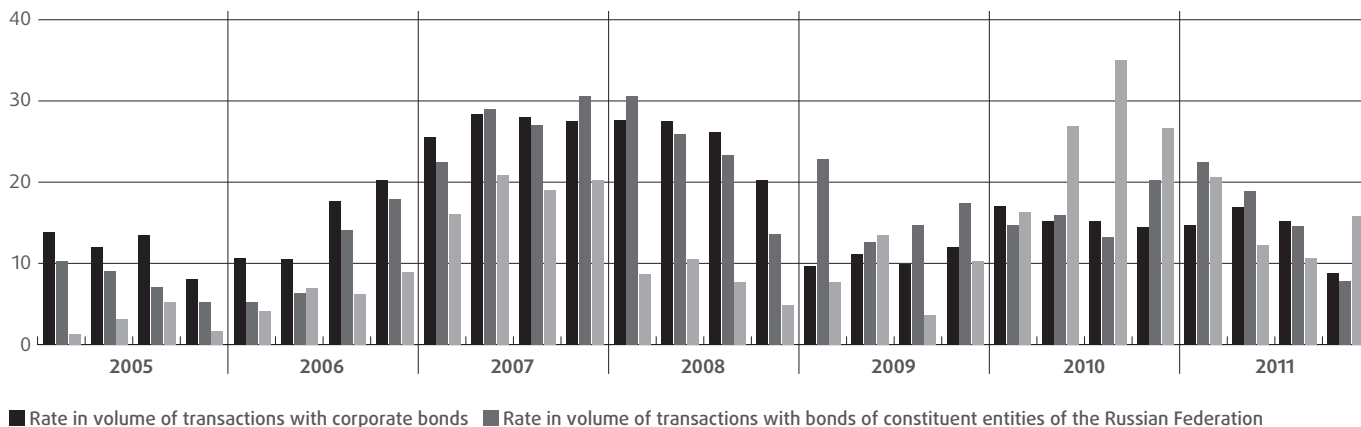
**Rate of Non-Residents in the Cost Volume of Transactions with Shares and Units of UIF at MICEX Stock Exchange in 2005–2011, %**



Sources: MICEX, MICEX-RTS, calculations of NAUFOR

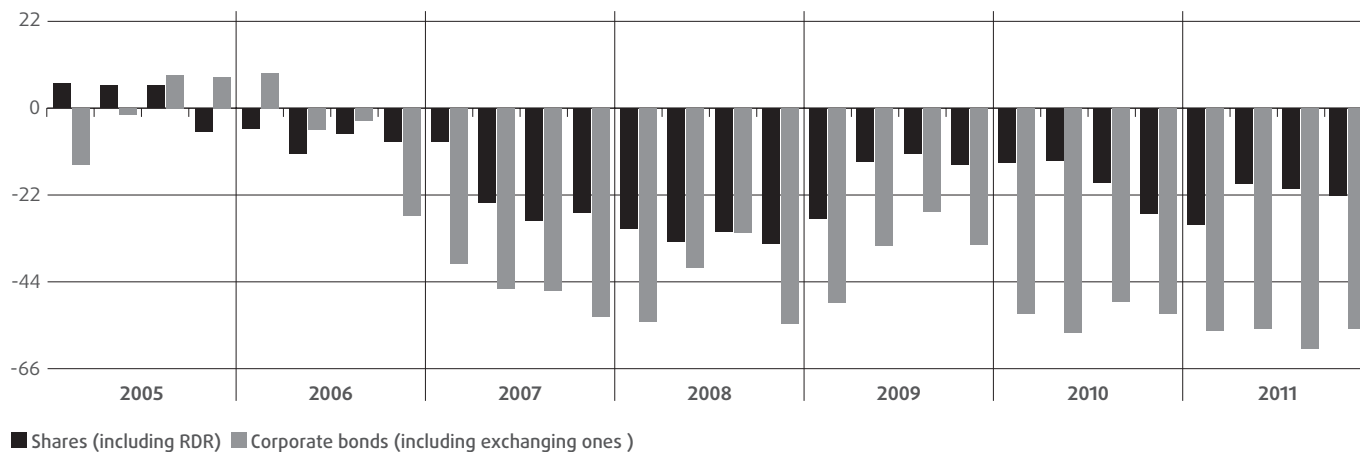
Figure 68

**Rate of Non-Residents in the Cost Volume of Transactions with Bonds at MICEX Stock Exchange in 2005–2011, %**



Sources: MICEX, MICEX-RTS, calculations of NAUFOR

Figure 69

**Direction of Transactions of Non-residents at MICEX Stock Exchange in 2005–2011, %**

Sources: MICEX, MICEX-RTS, calculations of NAUFOR

reached in February-April 2010 – 715. In 2011 the maximum number of proactive customers – non-residents was recorded in April – 648, then recession began and by the end of the year their number reduced for 36.4% – up to 412.

Participation of non-residents in transactions with non-government securities changes within significant limits depending on the situation at the local and global markets (Figure 66).

Over the period from 2005 the rate of non-residents in the total cost volume of transactions in all trading modes at MICEX SE reached the maximum value (33%) at the end of 2007 – first half of 2008. Then during the first half of 2008 – first quarter 2009 deep recession up to 15% took place changed into growth in the second quarter of 2009, which continued up to the end of the first half-a-year 2011. Moreover, in the second half-a-year 2011 activity of non-residents began to slow down and by the end of the year composed 24%.

Investment objects for non-residents are all kinds of securities traded at MICEX Stock exchange. Volumes of transactions with certain security types

differ considerably from period to period. Figures 67 and 68 present diagrams characterizing the transaction rate of non-residents in the total cost volume of transactions with shares, investment units and debt securities.

Activity of non-residents in transactions with shares has been constantly growing since the second quarter 2009. From that time and to the end of the first half-a-year 2011 the rate of non-residents grew twice – from 20 to 40% of the total volume of transactions with shares at MICEX SE and at this level it remained by the end of the year. Participation of non-residents in transactions with investment units is characterized with wide spread that apparently is related to low liquidity of this instrument.

Volumes of transactions of non-residents with bonds depend on the bonds type. Thus, for corporate bonds the rate of non-residents during 2009–2011 was at the average level of 13.4% from the total volume of transactions with corporate bonds at MICEX SE with downward trend. For comparison: in 2007–2008 this index composed 26.4 %.

In 2011 for bonds of constituent entities of the Russian Federation recession of the volumes of transactions of non-residents was observed from 20.3% in the first quarter to 7.8% in the fourth quarter. In 2007–2008 this index was at the average level 25.4%. After the leap in the third quarter of 2010 up to 35% activity of non-residents in transactions with municipal bonds abruptly fell down and according to the results of 2011 it reduced to the average level of 15%.

Figure 69 presents the diagram characterizing difference between the volumes of purchases and sales of securities (in monetary terms) in transactions of non-residents in the total volume of their transactions (purchase + sale) with shares and corporate bonds at MICEX Stock Exchange.

Thus, since mid-2006 for non-residents volumes of securities sales have been constantly exceeding purchase volumes. For shares, balance of transactions towards sales in 2010–2011 was at the level of 20.5%. Concerning corporate bonds in the same period balance of transactions towards sales was at the average level of 55%.

## 2.3. Professional Participants of the Securities Market

### 2.3.1 General Data on Professional Participants of the Securities Market

In 2011 the total number of professional participants of the securities market exercising different types of activity reduced for 134 companies (8.9% in the relative terms) (see Table 50)<sup>27</sup>.

Reduction in the number of professional participants has continued for three straight years on average for 9.5% per year. Reduction takes place as a consequence to severization of requirements to own funds as due to market conditions.

### 2.3.2 Brokers, Dealers, Trustees

The Russian legislation regulates three types of activity of operators-intermediaries of the stock market – broker activity, dealer activity and activity on securities management. Definitions of these types of activity in general conform to the understanding accepted at developed markets with due consideration of the following reservations:

- broker activity in and of itself does not assume accounting of the customer's rights for securities for this reason those brokers who

want to execute such accounting shall obtain a separate license for depository activity

- only such sale and purchase transactions of securities are considered as dealer activity which is accompanied with public announcement of purchase and/or sale prices. For this reason the companies which accomplish transactions with securities on a regular basis including even public offer to purchase or sell securities however do not announce prices are excused from regulation

Table 50

#### Number of Organizations-Professional Participants of the Securities Market in 2005–2011

	2005	2006	2007	2008	2009	2010	2011
Professional participants of the securities market	1,634	1,711	1,813	1,863	1,674	1,512	1,378

Sources: FFMS of Russia, calculations of NAUFOR

Table 51

#### Legal Organizational Form of Professional Participants of the Securities Market with Licenses for exercising Broker, Dealer Activity and Activity for Securities Management in 2011

Legal Organizational Form	Number of companies	Rate from the total number, %
Close Joint Stock Company	341	27
Open Joint Stock Company	310	24
Limited Liability Company	622	49

Calculated according to the data of FFMS of Russia

Table 52

#### Licenses of Professional Intermediaries in 2005–2011

Period	2005	2006	2007	2008	2009	2010	2011
Broker activity	1,379	1,433	1,445	1,475	1,347	1,213	1,090
Dealer activity	1,398	1,394	1,422	1,470	1,347	1,198	1,088
Securities management	1,022	1,100	1,169	1,286	1,202	1,103	987

Source: FFMS of Russia

<sup>27</sup> The Table takes account of the companies which have licenses for execution of broker dealer, depository, clearing activities, activity on securities management, activity on maintenance of the register of securities holders, activity on arrangement of trading at the securities market, activity of the stock exchange.



- securities trust management differs from trust management of unit investment funds and NGPF that is expressed in the presence of two different licenses types for this activity types.

At the end of 2011 the total number of organizations with licenses for exercising of broker, dealer activity and activity on securities management (in any combinations of licenses) composed 1,274 companies among which 40% are credit organizations. For the most part (about 65%) head offices of organizations – professional participants are located in Moscow. Over the year the number of professional participants – intermediaries reduced for 132 companies or for 9.4% in relative terms.

Prevailing legal organizational form is 'Limited Liability Company', the least common – 'Open Joint Stock Company' (see Table 51). One professional participant – Vnesheconombank – has legal organization form 'State Corporation'.

The rate of credit organizations, rate of metropolitan companies and structure of legal organizational forms of professional participants have remained almost unchanged over the last years.

The data on the number of valid licenses of professional participants is represented in Table 52, and Table 53 presents available combinations of different types of licenses.

Prevailing number of companies (about 65%) has all three licenses: for exercising of broker, dealer activities

and activity for securities management. Among the companies with broker, dealer licenses or the license for exercising of activity on securities management, about 50% have also the depository license. Such combination of professional participants – intermediaries has remained almost unchanged over the last years.

In 2011 the number of licenses for exercising of activity on securities management reduced to the most extent. For different violations in 2011 almost the same number of licenses was cancelled as for the previous year, in absolute terms – 286 licenses. In 2011 the number of licenses cancelled upon application of the companies reduced having composed 228 against 372 in the year-earlier period. Totally for violations

Table 53

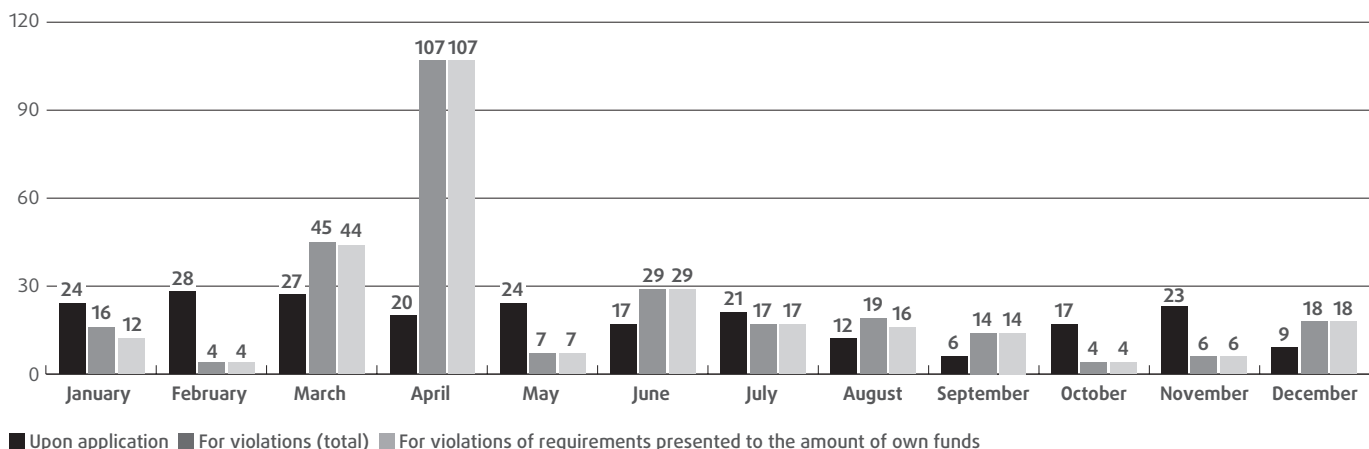
#### Combination of Valid Licenses of Professional Participants of the Securities Market in 2011

Broker	Dealer	Trust management	Number of companies	Rate from the total number, %
x	x	x	827	64.9
x	x		223	17.5
		x	146	11.5
x			32	2.5
	x		33	2.6
x		x	8	0.6
	x	x	5	0.4
<b>TOTAL</b>			<b>1,274</b>	<b>100.0</b>

Sources: FFMS of Russia, calculations of NAUFOR

Figure 70

#### Reasons for Cancelling of Professional Participants' Licenses in 2011, licenses, units



■ Upon application ■ For violations (total) ■ For violations of requirements presented to the amount of own funds

Source: FFMS of Russia, calculations of NAUFOR

and upon application of the companies 514 licenses were cancelled – for 21% less than in 2010 (Figure 70).

In 2011 129 licenses were cancelled and total 17 licenses were issued in regions. For Moscow companies the FFMS of Russia cancelled 412 licenses and issued 164 licenses.

It is necessary to note that from July, 2011 issue of new licenses to professional participants– intermediaries almost stopped and by the end of the year only two licenses for exercising

activity on securities management were issued (see Figures 71, 72). Such abrupt reduction of the number of issued licenses is related to coming into force in May of new license requirements which provides the licensing authority with powers for more detailed study of the activity of companies interested in obtaining of licenses: the term documents processing is increased for 60 days and the procedure of pre-license control of companies has been implemented.

Table 54<sup>28</sup> provides the list of participants of trading having accomplished at MICEX SE the largest volume of transactions with non-government securities<sup>29</sup> during 2011. In total 634 organizations participated in trading during one half a year.

Thus, concentration of turnovers of the trading participants at MICEX SE is relatively high – 42.5% of the total turnover falls for the first ten most active operators, and the first twenty make 64.7%. Provided, that Herfindahl-

Figure 71

### Issue and Cancellation of Licenses of Professional Participants in Moscow in 2008–2011, units

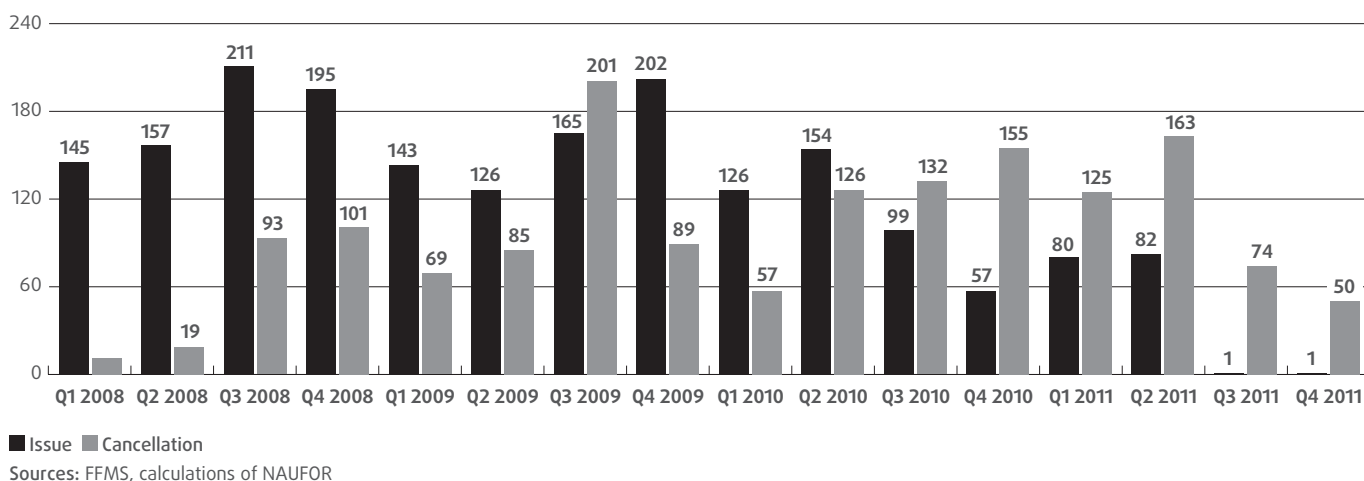
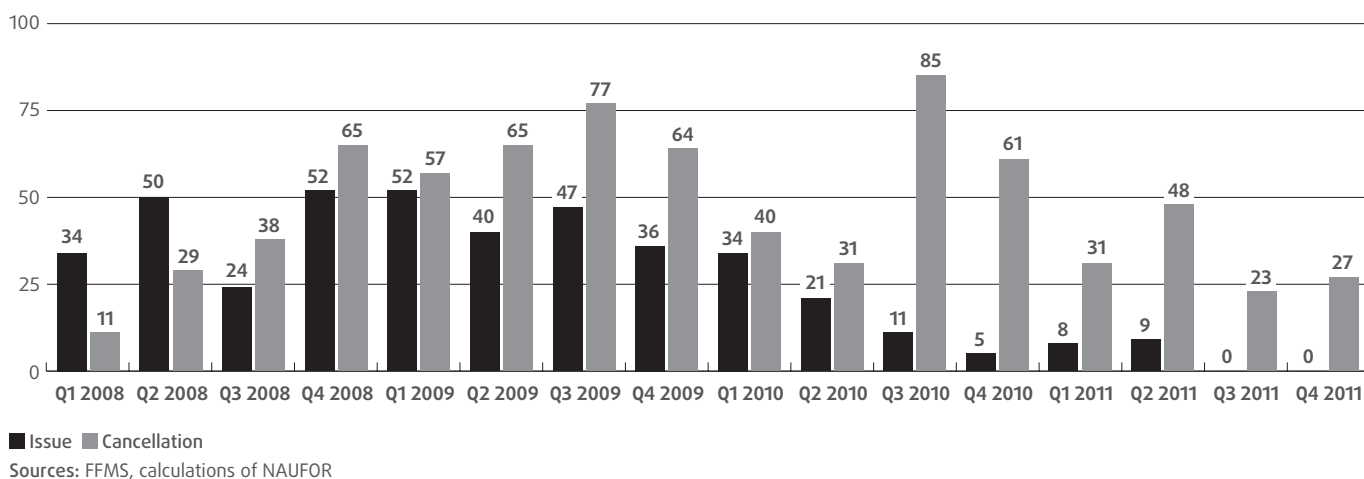


Figure 72

### Issue and Cancellation of Licenses of Professional Participants in Regions in 2008–2011, units



<sup>28</sup> In this table and further trading participants are united into implicit groups of companies. In spite of integration of MICEX and RTS at the end of 2011, hereinafter in this section the data on stock exchanges is given separately for the purpose of the results' comparability.

<sup>29</sup> Hereinafter in this section all trading modes and repo transactions with shares, corporate bonds and investment units are taken into account.

Table 54

**List of Participants of Trading at MICEX SE Having Accomplished the Largest Volume of Transactions with Non-Government Securities (According to the Results of 2011)**

Seq. No	Name of the organization	Volume of transactions (purchase + sale), billion RUR	Rate in the total volume, %
1	VTB Group	14,546	7.9
2	IC Troika Dialog, CJSC	13,815	7.5
3	Sberbank of Russia, OJSC	13,406	7.3
4	OTKRYTIE Group	9,156	5.0
5	Renaissance Group	7,756	4.2
6	Bank of Russia	7,745	4.2
7	Promsvyazbank, OJSC	5,984	3.2
8	FINAM Group	5,892	3.2
9	Gazprombank Group	5,682	3.1
10	BCS Group	4,854	2.6
11	JSCB CentroCredit, CJSC	4,518	2.5
12	ALFA-BANK, OJSC	3,659	2.0
13	ALOR Group	3,297	1.8
14	ATON, LLC	3,086	1.7
15	ING BANK (EURASIA) ZAO	3,064	1.7
16	Bank of Moscow, OJSC	2,795	1.5
17	RONIN, LLC	2,663	1.4
18	UniCredit Group	2,641	1.4
19	BC REGION, LLC	2,425	1.3
20	JSCB Sviaz-Bank, OJSC	2,103	1.1
	<b>TOTAL</b>	<b>119,087</b>	<b>64.7</b>
	Index HH		265.6

Calculated according to the data of MICEX, MICEX-RTS.

Table 55

**List of Trading Participants at MICEX SE Having Accomplished the largest Volume of Transactions with Shares (According to the Results of 2011)**

Seq. No	Name of the organization	Volume of transactions (purchase + sale), billion RUR	Rate in the total volume, %
1	IC Troika Dialog, CJSC	11,454	12.3
2	VTB Group	8,290	8.9
3	Sberbank of Russia, OJSC	6,844	7.4
4	OTKRYTIE Group	6,798	7.3
5	Renaissance Group	6,644	7.2
6	FINAM Group	5,835	6.3
7	BCS Group	4,452	4.8
8	Promsvyazbank, OJSC	4,259	4.6
9	Gazprombank Group	3,837	4.1
10	ALOR Group	3,100	3.3
11	ATON, LLC	2,839	3.1
12	ALFA-BANK, OJSC	2,413	2.6
13	Credit Swiss Group	1,694	1.8
14	ING BANK (EURASIA) ZAO	1,692	1.8
15	IC ZERICH Capital Management, OJSC	1,656	1.8
16	AK BARS Group	1,081	1.2
17	KIT Finance Group	1,056	1.1
18	Vnesheconombank Group	1,045	1.1
19	Goldman Sachs Group	1,011	1.1
20	IC VELES Capital, LLC	922	1.0
	<b>TOTAL</b>	<b>76,921</b>	<b>82.9</b>
	Index HH		478.3

Calculated according to the data of MICEX, MICEX-RTS

Hirschman Index (Index HH) composes 265.6. According to the results of 2010 the first twenty companies made 61.1% of turnover and the first ten – 46% of the turnover, and Index HH – 234.3.

Specialization according to the securities types is characteristic of many trading participants at MICEX Stock Exchange. Tables 55 and 56 present similar lists individually for transactions with shares and corporate bonds.

The largest concentration of trading participants is observed in transactions with shares (the first ten participants provide 58.8% of transaction volumes, first twenty – 82.9%, and Index HH – 478.3). Over 2010 the first ten companies

provided 63.1% of turnover, first twenty – 77.9%, and Index HH – 411.7.

For corporate bonds concentration of turnovers among the trading participants is less (33.3 and 56.7%, 214.7 correspondently).

Table 57 presents the data on the companies having accomplished in the first half-a-year 2011 the largest volumes of transactions owing to customers at MICEX Stock Exchange. It is important to emphasize that as opposed to the data given in Tables 54-56, this table provide the data only on the companies which granted permission to MICEX SE for disclosure of information on the volumes of their agency operations. Information on the total volume of agency

operations at MICEX SE is not subject for disclosure.

Against the results of 2010 the list of trading participants with the largest volume of agency operations and their rates in the total volume has changed very little.

Table 58 presents the list of trading participants with the largest volume of transactions with non-government securities in all trading modes at the Classical and stock markets RTS during 2011. In total 136 organizations participated in trading.

Concentration of transactions of trading participants at stock market RTS over the last years had been skyrocketing and in 2010 it achieved saturation –

Table 56

#### List of Trading Participants at MICEX SE Having Accomplished the Largest Volume of Transactions with Corporate Bonds (According to the Results of 2011)

Seq. No	Name of the organization	Volume of transactions (purchase + sale), million RUR	Rate in the total volume, %
1	Bank of Russia	5,518	7.5
2	Sberbank of Russia, OJSC	4,329	5.9
3	VTB Group	4,143	5.6
4	RONIN, LLC	2,314	3.1
5	IC Troika Dialog, CJSC	2,305	3.1
6	UniCredit Group	2,291	3.1
7	OTKRYTIE Group	1,891	2.6
8	Gazprombank Group	1,738	2.4
9	BC REGION, LLC	1,711	2.3
10	UBRiR, OJSC	1,686	2.3
11	Bank of Moscow, OJSC	1,599	2.2
12	CB Citybank, CJSC	1,544	2.1
13	RIC-Finance, LLC	1,540	2.1
14	Promsvyazbank, OJSC	1,530	2.1
15	Raifeisenbank, CJSC	1,499	2.0
16	BANK OF KHANTY-MANSIYSK, OJSC	1,464	2.0
17	JSCB Sviaz-bank, OJSC	1,357	1.8
18	Ursa Capital, LLC	1,157	1.6
19	ICB Sovcombank, LLC	1,114	1.5
20	ING BANK (EURASIA) ZAO	1,054	1.4
	<b>TOTAL</b>	<b>41,787</b>	<b>56.7</b>
	Index HH		214.7

Calculated according to the data of MICEX, MICEX-RTS

ten trading participants provided 96% of turnover and Index HH composed 1901.1. In 2011 index within the limits of statistical discrepancy did not change except for Index HH which reduced a little. It is necessary to pay attention that only one group of companies –trading participants provided about one third of the total turnover at stock market RTS.

High concentration of transactions among the clearing companies at derivatives market RTS FORTS (Table 59).

Thus, for the first half of 2011 from 137 clearing companies – participants of derivatives market FORTS about 81% fell for the first ten companies as in the year-earlier period.

### 2.3.3 Trading-Clearing Infrastructure

The trading-clearing infrastructure of the Russian securities market includes professional participants of the securities market exercising the following activity types:

- activity on arrangement of trading at the securities market (including stock exchanges)
- clearing activity
- depositary activity as clearing depositories.

Besides that the infrastructure includes credit organizations exercising functions of clearing organizations.

The number of organizations with licenses of trade organizer, stock exchange or license of a clearing

Table 57

### List of Trading Participants at MICEX SE Having Accomplished the Largest Volume of Agency Operations (According to the Results of 2011)

Seq. Number	Name	Volume of agency operations, billion RUR	Rate in the volume of the largest ten participants, %
1	IC Troika Dialog, CJSC	13,851	28.0
2	FC OTKRITIE	7,815	15.8
3	FINAM, CJSC	5,867	11.9
4	BCS Company, LLC	4,800	9.7
5	Promsvyazbank, OJSC	3,551	7.2
6	ALOR Group	3,317	6.7
7	ATON, LLC	3,037	6.1
8	RONIN, LLC	2,661	5.4
9	Renaissance Group	2,683	5.4
10	IC VELES Capital, LLC	1,850	3.7
<b>TOTAL</b>		<b>49,432</b>	<b>100.0</b>

Calculated according to the data of MICEX, MICEX-RTS.

Table 58

### List of Trading Participants at Stock Market RTS Having Accomplished the Largest Volume of Transactions with Securities (According to the Results of 2011)

Seq. No.	Name	Volume of transactions (purchase + sale), billion RUR	Rate on the total turnover, %
1	OTKRYTIE Group	1,983	29.9
2	Troika Dialog Group	1,340	20.2
3	ALOR Group	1,081	16.3
4	Investment Company IT Invest, OJSC	738	11.1
5	Investment Company OLMA, OJSC	620	9.4
6	KIT Finance, OJSC	151	2.3
7	Investment Company FINAM, CJSC	120	1.8
8	BCS Company, LLC	106	1.6
9	JSCB METALLINVESTBANK, OJSC	75	1.1
10	IMC Instroyinvest, LLC	65	1.0
<b>TOTAL</b>		<b>6,280</b>	<b>94.7</b>
Index HH			1,795.6

Calculated according to the data of RTS, MICEX-RTS

company, has been stable over the last years and changes into this or that side very slightly. As of December, 2011 according to the data of the FFMS of Russia seven organizations have the license of the trade organizer or stock exchange, eleven organizations have the license of clearing organization.

Over the last years as a consequence of the market competition and objective integration processes two leading infrastructural centers have been developed: MICEX Group and RTS Group, which formed up to the end of 2011 the organized market of securities and derivatives in Russia. In February, 2011 shareholders of MICEX signed the agreement of intent to acquire the majority stake of RTS, OJSC with shareholders of RTS jointly possessing over 50% of the authorized capital. This agreement laid the foundation to integration of two leading Russian exchange structures. Legal procedures of joining of RTS to MICEX were accomplished on December 19 and since that time the united infrastructural center MICEX-RTS Group has been functioning at the Russian financial market.

MICEX-RTS Group is vertically integrated trading-clearing infrastructure the head organization of which is MICEX-RTS, OJSC. The composition of the largest

shareholders of this company at the end of 2011 includes:

- Bank of Russia – 24.3% votes
  - Sberbank of Russia, OJSC – 10.4% votes
  - UniCredit Bank, CJSC – 9.5% votes
  - Vnesheconombank – 8.7% votes.
- MICEX-RTS, OJSC is the trade organizer at the securities market and derivatives market FORTS.

The group includes:

- **CJSC MICEX Stock Exchange**  
CJSC MICEX SE is the trade organizer in all sectors of the stock market.
- **CJSC Non-Bank Credit Company National Settlement Depository**  
CJSC NBCC NSD is the settlement depository and executes cash settlements for sector 'Main Market', renders services on all kinds of equity securities at the off-exchange market.
- **CJSC Joint-Stock Commercial Bank National Clearing Center**  
CJSC JSCB NCC executes functions of the clearing organization and central counterparty of the sector 'Main Market'.
- **CJSC RTS Clearing Center**  
CJSC RTS CC executes the functions of the clearing organization and central counterparty of the sector Standard and FORTS Market.
- **CJSC Non-Banking Credit Organization** RTS Settlement Chamber

CJSC NBCO RTS SC provides settlement services for sectors Standard and FORTS Market.

#### ➤ **CJSC Depository Clearing Company**

CJSC DCC executes functions of the settlement depository of sectors Standard, Classica, and FORTS market as well as the clearing organization for sector Classica.

The last three organizations have passed into MICEX-RTS Group from RTS Group in the result of integration. Integration has not affected Non-Commercial Partnership RTS and St Petersburg Stock Exchange, OJSC. The near-term plans of MICEX-RTS Group include further internal consolidation of the companies and execution of initial public offering of shares of MICEX-RTS, OJSC. The data on the equity capital of the organizations – members of MICEX-RTS Group is presented in Table 60.

In new profile MICEX-RTS Group supports several markets and trading modes. Thus, placement and circulation of government securities is executed at the Monetary Market, placement and circulation of non-government securities – at the Stock Market and derivatives the underlying assets of which are securities and stock indexes – at the Derivatives Market.

Table 59

#### List of Trading Participants at Derivatives Market FORTS Having Accomplished the Largest Volumes of Transactions with Futures Contracts (According to the Results of 2011)

Seq. No.	Name	Volume of transactions (purchase + sale), billion RUR	Rate on the total turnover, %
1	OTKRYTIE Group	27,267	24.9
2	Investment Company IT Invest, OJSC	14,278	13.0
3	BCS Company, LLC	13,839	12.6
4	IC ZERICH Capital Management, OJSC	9,341	8.5
5	ALOR Group	6,019	5.5
6	Investment Company FINAM, CJSC	5,285	4.8
7	ALFA-BANK, OJSC	3,640	3.3
8	Troika Dialog Group	3,422	3.1
9	VTB Group	2,892	2.6
10	IMC Instroyinvest, LLC	2,880	2.6
	<b>TOTAL</b>	<b>88,864</b>	<b>81.0</b>
	Index HH		1,124.8

Calculated according to the data of RTS, MICEX-RTS

Table 60

**Equity Capital of Organizations – Members of MICEX-RTS Group as of the End of the 4th Quarter 2011 (million RUR)**

OJSC MICEX-RTS	CJSC MICEX SE	CJSC NSD	CJSC NCC	CJSC RTS CC	CJSC RTS SC	CJSC DCC
<b>Functions at organization of trading with non-government securities</b>						
Trade organizer of the derivatives market	Trade organizer of the stock market	Settlement depository, clearing organization of the stock market	Clearing of the stock market	Clearing of the stock and derivatives markets	Settlement organization of the stock and derivatives markets	Settlement depository of the stock and derivatives markets
17,065	946	5,410	10,123	2,349	1,117	336

Source: MICEX-RTS

In the process of arrangement of trading with **government securities** setting of orders and conclusion of transactions are executed during the trading day at the main and additional trading sessions. The procedure of holding of the additional session is established by the Bank of Russia and at the present time it is meant for conclusion of transactions of direct repo against the Bank of Russia and ad hoc transactions with the Bank of Russia.

The main (system) mode of trading is executed according to the principle 'order-driven market' — the market of orders competing against each other wherein the transaction is concluded automatically at agreement of conditions in offsetting orders. Trading process is anonymous, trading participants put in zero-address orders into the trading system, submission of limit and market orders is allowed. Transactions in the main trading mode are executed according to the principle 'delivery versus payment' with 100% advance assets depositing. Trade settlement is executed on the date of their conclusion (T+0).

Ad hoc transactions are concluded on the basis of addressed orders. Transactions in this mode can be concluded as with advanced assets depositing as without it. Trade settlement is executed according to the principle 'delivery versus payment' either on the data of the transaction conclusion or in n days. The permissible values are determined by the Bank of Russia. Trading with government securities is held from 10:30 a.m. to 5:30 p.m..

**Stock market of MICEX-RTS Group**

consists of three sectors:

- Sector 'Main Market'
- Sector Standard;
- Sector Classica.

The main market unites all trading modes of MICEX available before amalgamation as well as RTS Exchange Market (market T+0). Sector Standard is fully similar to the market RTS Standard, and Sector Classica is similar to the targeted RTS Classical Market. The trade organizer in all sectors is CJSC MICEX SE.

*Sector 'Main Market'* is the exchange market of shares, corporate, sub-federal, municipal bonds and investment units with the central counterparty. Functions of the clearing organization and central counterparty are accomplished by CJSC JSCB NCC under terms of full preliminary provision with transactions settlement on the date of their conclusion (T+0). Monetary settlements and settlements for securities is carried out by CJSC NBCO NSD, all settlements are executed in rubles.

Trading in Sector 'Main Market' is held from 9:30 a.m. to 7:00 p.m. in different trading modes including:

- Basic trading mode
- Negotiated transactions mode
- Trading mode 'Qualified Investors'
- Repo trading mode.

The basic trading mode consists of three periods: pre-trading period, trading session and post-trading auction. During the pre-trading period only limited orders are submitted to the trading system. On the basis of orders for each security submitted during the pre-trading period the price of the pre-trading period ensuring conclusion of transactions with the largest number of securities being the subject of these transactions

is determined by the close of this period. The trading mechanism in the process of the trading session is based on the principle 'order-driven market', submission of limit and market orders is allowed. During post-trading auction collection of trading participants' bids of takes place and them on their bases the unified price of the post-trading auction is formed.

Within the frames of negotiated transactions mode the participants inform the market on intent to execute transactions by setting of zero-address orders and come to agreement with their contractors by setting targeted orders. In this mode the participants can stipulate the term of transaction settlement from the current trading day to the term of up to 30 days after conclusion of the transaction.

Trading modes 'Qualified Investors' are designated for trading for securities oriented to qualified investors and limited with the following modes: 'Qualified Investors – basic Trading Mode' and/or 'Qualified Investors – Negotiated Transactions Mode'.

'Repo' trading modes provides an opportunity of transactions' conclusion with the settlement date on any day starting from the day next to the transaction's conclusion to and including the selected date of its settlement. The settlement date of the second part of the repo transaction is the date determined as  $T+x+k$ , where  $T+x$  is the appropriate settlement date of the first part of the repo transaction and  $k$  is the term of the repo transaction ( $k$  takes value from 0 to 180 calendar days,  $x$  from 0 to 2 settlement days).

In December, 2011 another trading mode was introduced: Trading mode

with large blocks of securities. Trading in this mode is executed in the form of auctions during the trading day for a limited set of securities provided that the minimum size of the order is determined. It is possible to set as limit as market orders. The trading participant can get only information on his/ her orders.

*Sector Standard* is based on anonymous auction of orders (order-driven market), it offers particle preliminary depositing of assets, method of settlement is 'delivery versus payment' for T+4, quotations and settlements are in rubles. CJSC RTS CC is used as the clearing center, CJSC DCC – as the settlement depository, CJSC RTS SC – as the settlement credit organization. For settlements the technology of the central counterparty for transactions is used. There is a possibility to execute repo transactions with the central counterparty with the term of settlements from one to four days for zero-address and targeted orders.

The main and evening sessions are provided in Sector Standard. The main session starts at 10.00 a.m., at 2.00 p.m. the intermediate clearing is held, the main session finishes at 6:45 p.m. after which clearing is held. The evening

session lasts from 7:00 p.m. to 11:50 p.m., settlements for transactions concluded in this period are executed at 2: 00 p.m. in the following day.

*Sector Classica* provides transactions' conclusion on the basis of non-anonymous orders (quote-driven market), absence of the preliminary depositing of the assets, quotations in US dollars as well as a possibility to select the date for settlement (from T+0 to T+30), way of settlement ('delivery versus payment' or 'free delivery'), settlement currency (as rubles as foreign currency). CJSC DCC is the clearing center and settlement depository in the mode 'delivery versus payment'. For cash settlements in the mode 'delivery versus payment' CJSC RTS SC, J.P Morgan Chase Bank, Citibank (NY) are engaged, in the free delivery mode – any bank. Trading in this sector is executed from 10:00 a.m. to 6:45 p.m..

**Derivatives Market of MICEX-RTS Group** has been formed on the basis of derivatives market **FORTS** functioned in RTS Group. This market is based on the anonymous action of orders (order-driven market). Settlements and delivery are executed by the contract maturity. Quotations and settlements are executed

in rubles. The trade organizer at the derivatives market is MICEX-RTS, OJSC. CJSC RTS CC is used as the clearing center and the central counterparty, CJSC DCC – as the settlement depository, CJSC RTS SC – as the settlement credit organization. Duration of the trading session at FORTS Market is 10:00 a.m.– 6:45 p.m. (day session), 7:00 p.m.-11:50 p.m. (evening session), two clearing sessions are provided. Duration and structure of trading sessions at FORTS Market are synchronized with Sector Standard. Moreover, the unified system of delivery and settlements is developed for these markets. The possibility to use unified cash position is provided for the Stock and Derivatives Markets MICEX-RTS. By its structure the Derivatives Market is divided for four sections:

- stock section
- goods section
- monetary section
- options section.

In order to ensure performance of obligations for transactions the clearing center accumulates collaterals for guarantees as well as the insurance and reserve funds are established. The data on the state of these funds as of the end of 2011 is given in Table 61.

Table 61

### Collaterals for Guarantees, Insurance and Reserve Funds (million RUR)

Seq. No.	Source	Amount
1	Collaterals for guarantees deposited by the market participants and their customers	41,827.4
	including monetary funds	40,215.7
	including in kind	1611.7
2	Resources in funds:	
	Insurance fund	1,289.6
	Reserve fund	1,500.0
	Guarantee fund	1.5
3	Total monetary resources of the market participants on accounts of CJSC RTS CC	41,505.3
	including in Sberbank, OJSC	25,702.1
	including in CJSC RTS SC	15,803.2
4	Blocked for collaterals	
4.1	Securities	1,178.5
4.2	Currency:	
	US dollar	433.3
	<b>TOTAL</b>	<b>87,735.7</b>

Source: MICEX-RTS



A special trading site – Market of Innovations and Investment is also functions in MICEX-RTS Group.

**Market of Innovations and Investments (MII)** was established in 2007, initially it was named Sector of Innovative and Growing Companies, in mid-2009 after signing of the agreement between MICEX and RUSNANO it received its current name. This market is oriented to high-technology companies and designated for their financing applying exchanging mechanisms including holding of private placement among the funds and qualified investors.

By the end of 2011 23 issuers had entered this market including seven unit investment funds among them ten new issuers during this year. Total capitalization of this market according to the data of MICEX-RTS at the year-end 2011 composed 40.4 billion RUR including capitalization of share issuers and cost of the funds' net assets. About 60% of capitalization makes the cost of the funds; net assets provided that one fund ensures one fourth of the whole capitalization. The trading volume at MII is growing: in 2009 it composed 4.07 billion RUR, in 2010 – 6.18 billion RUR and in 2011 – 9.29 billion RUR.

Within the frames of program 'Moscow – Innovative Capital of Russia' the Government of Moscow ensures a possibility of subsidy provision for repayment of expenses of small innovative companies – issuers related to admittance of their securities for trading at the stock exchange. In 2011 one company which shares were admitted for circulation in MII Sector received such subsidy.

The system of indicative quotations **RTS Board** existed within the frames of RTS Group has remained behind the scope of the transaction on joining of MICEX and RTS.

*Taking into consideration that integration of MICEX and RTS took place at the very end of 2011 annual results of trading with securities and futures contracts in these groups are presented separately.*

Summarizing results of trading with non-government securities and futures contracts<sup>30</sup> in MICEX Group in 2005–2011 with account of all modes are presented in Table 62.

Total volume of transactions with non-government securities at MICEX Stock Market in 2011 composed 92.5 trillion RUR that for 44.5% more than

in the year-earlier period. The main growth fell within the second and third quarters whereas in the first quarter recession was recorded and growth of the fourth quarter was insignificant. Among different kinds of securities the highest growth of turnover was recorded for shares (54.2%) as for sub-federal and municipal bonds, on the contrary, slight recession was recorded. Dynamic growth of MICEX Stock Market has been observed for two straight years and in 2010 growth composed 57.5%.

The basis of the exchange turnover of non-government securities at the MICEX Stock market consists of shares, corporate, sub-federal and municipal bonds. The rate of other kinds of securities does not exceed percentage fractions.

The volume of share trading was predominant and in 2005-2009 it was at the average level of 68% (see Figure 73). In 2010-2011 the rate of shares in the turnover structure reduced to the average value 49% and the rate of corporate bonds, on the contrary, increased from 23 to 39%. Turnover of sub-federal and municipal bonds during 2005-2011 composed on average 9% of

Table 62

### Results of trading with Non-Government Securities and Futures Contracts in MICEX Group in 2005–2011, billion RUR

Period	Trading volume at the stock market								Trading Volume at the derivatives market
	Shares	RDR for shares of Russian issuers	Corporate bonds	Sub-federal and municipal bonds	Bonds of International Financial Organization and Eurobonds	Bonds of foreign states	Units of unit investment funds	TOTAL	
2005	4,025	-	1,510	865	0.6	-	2	6,402	187
2006	14,860	-	4,131	1,386	0.6	-	5	20,383	894
2007	30,927	-	9,946	2,604	0.2	-	20	43,498	2,208
2008	33,705	-	11,896	2,735	0.2	-	23	48,359	3,325
2009	26,254	-	10,163	4,194	37.3	-	16	40,664	660
2010	30,108	0.3	24,982	8,867	33.9	7.0	31	64,030	1,514
2011	46,424	50.7	36,977	8,786	257.5	9	35	92,539	739

Sources: MICEX, MICEX-RTS

<sup>30</sup> The auction mode, negotiated transactions mode, repo transactions and initial offering were considered. All types of underlying assets were considered for the derivatives market.

Figure 73

**Structure of Exchange Turnover of MICEX SE in 2005–2011, %**

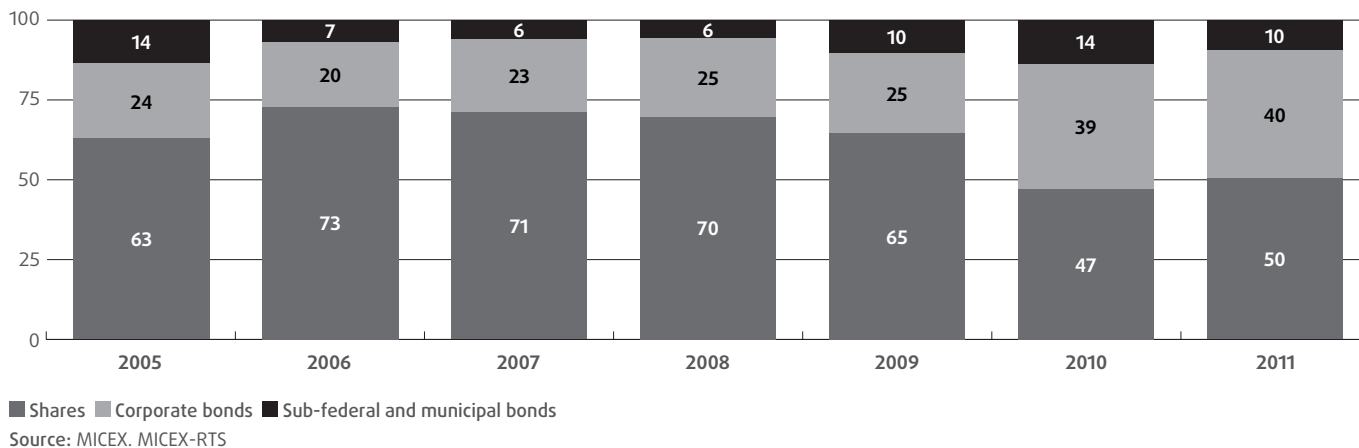


Figure 74

**Modes of Share Trading at MICEX SE in 2005–2011, %**

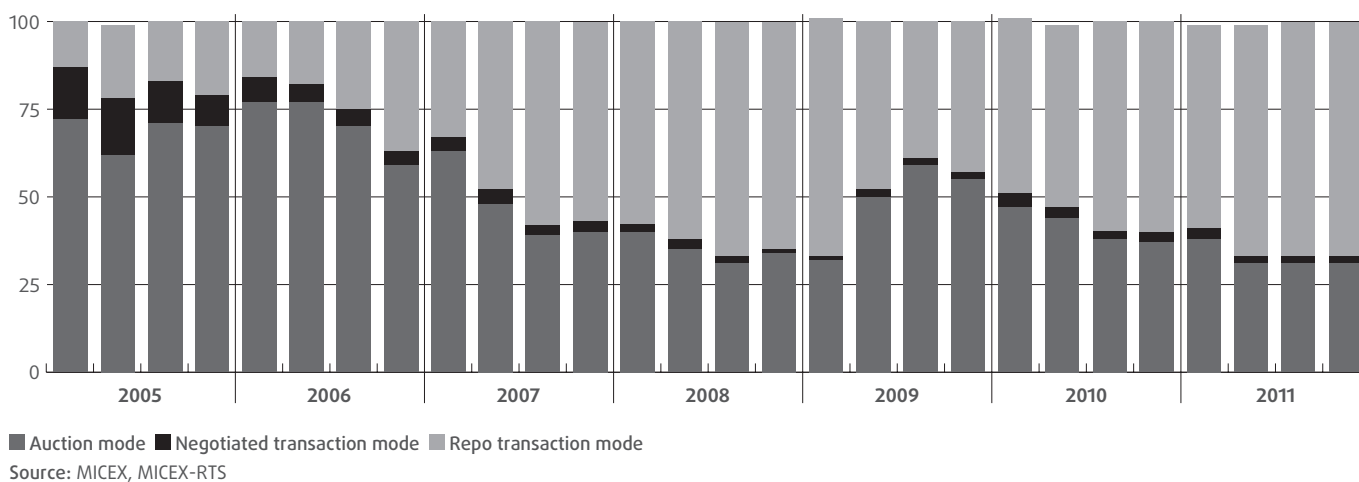
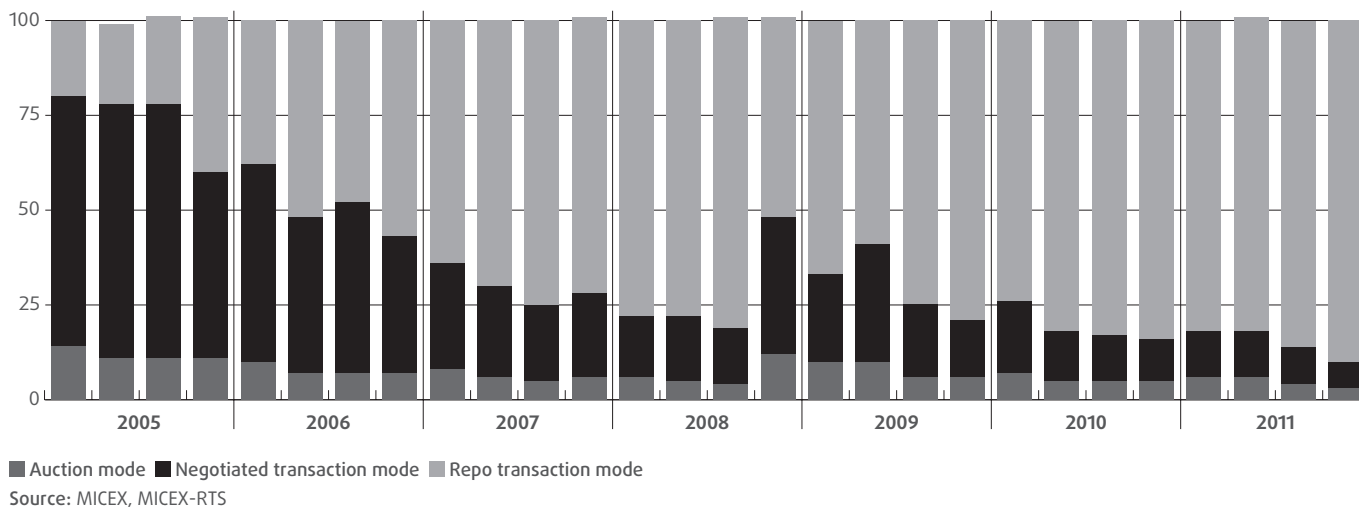


Figure 75

**Modes of Corporate Bond Trading at MICEX SE in 2005–2011, %**



the total turnover of non-government securities.

Structure of trading modes with different kinds of securities is different and evolves rather seriously. Figures 74 and 75 present diagrams characterizing rate of the auction mode, negotiated transaction mode and repo transaction mode with shares and corporate bonds at MICEX SE.

Repo transactions were prevailing in share transactions in 2010-2011 their rate in the total volume of transactions composed about 60% with further upward trend. Starting from the third quarter 2009 the auction mode has been reducing in volumes: from 59% to 31% in the second half of 2011. The negotiated transaction mode occupied the remaining niche of 2-4% in 2007-2011. It shall be noted that in 2005-2006 structure of the share trading modes at MICEX SE was absolutely different and the auction mode composed over 70% of the total trading volume.

Structure of trading modes with corporate bonds is different. Repo transaction mode in transactions with corporate bonds has been predominant since the beginning of 2007 and in 2010-2011 it occupied over 80% of the total turnover. The auction mode for the last seven years has never been

significant and occupied the remaining niche from 14% at the beginning of 2005 to 3% at the end of 2011. In 2010–2011 the negotiated transaction mode composed 12% of the total volume of corporate bond transactions. Modern structure of trading modes with corporate bonds at MICEX SE also differs significantly from the one that was in 2005-2006. At that period of time the negotiated transaction mode was predominant one.

Sizes of the securities transaction at MICEX SE depend on the trading mode. Table 63 presents the data on the average size of transaction with shares and corporate bonds in the auction mode and negotiated transaction mode.

Thus, in the auction mode the average size of a share transaction in 2009-2011 composed about 120 thousand RUR. Provided that at the negotiated transaction mode the average transaction size is distinguished with rather wide spread and is much higher: the average estimation over the last two years is 6.2 million RUR. The average size of repo transaction is also distinguished with wide spread even more: according to the results of 2011 it composed 32.5 million RUR.

Transactions with corporate bonds are characterized with much larger average

size of transactions. In the auction mode it is constantly growing and according to the results of 2011 it is estimated in 5.4 million RUR and in the negotiated transaction mode – 69.5 million RUR. The average volume of the repo transaction with corporate bonds in 2011 composed 75.9 million RUR.

In 2011 at MICEX SE 24 outstanding transactions were recorded executed in the repo transaction mode and negotiated transaction mode, the volume of outstanding commitments composed 26.5 billion RUR.

Total trading results at different markets of RTS Group are given in Table 64<sup>31</sup>.

RTS Exchanging Market is concentrated on share trading. RTS spot markets except for RTS Standard are distinguished with high changeability of turnovers and abnormal emissions which according to our estimates are caused by non-recurrent large transactions. The main exchanging spot market at RTS is RTS Standard where 97% of volumes of securities transactions are concentrated. The total volume of securities transactions at all exchanging RTS spot markets is estimated according to the results of 2011 in 3.75 trillion RUR that for 4% more than the year-earlier period. Moreover, Derivatives Market

Table 63

#### Average Size of Transaction with Securities at MICEX SE in 2005–2011, thousand RUR

Period	Shares (including RDR)			Corporate bonds (including exchange ones)		
	Auction mode	Negotiated transaction mode	Repo	Auction mode	Negotiated transaction mode	Repo
2005	196	1,399	9,900	1,053	20,439	17,815
2006	301	3,503	13,244	1,453	29,515	31,579
2007	314	6,992	26,873	1,989	39,617	42,010
2008	193	5,304	30,312	1,907	41,531	42,314
2009	121	2,343	24,254	1,930	42,183	81,021
2010	114	6,492	18,895	4,575	65,108	76,351
2011	123	5,948	32,551	,5430	69,461	75,927

Sources: MICEX, MICEX-RTS, calculations NAUFOR

<sup>31</sup> It took into account transactions with shares, corporate bonds, sub-federal, municipal bonds, and investment units including repo transactions. For Derivatives Market FORTS – transactions with futures and options for all kinds of underlying assets. The data for RTS Standard and FORTS are presented with account of the basic and additional evening trading sessions.

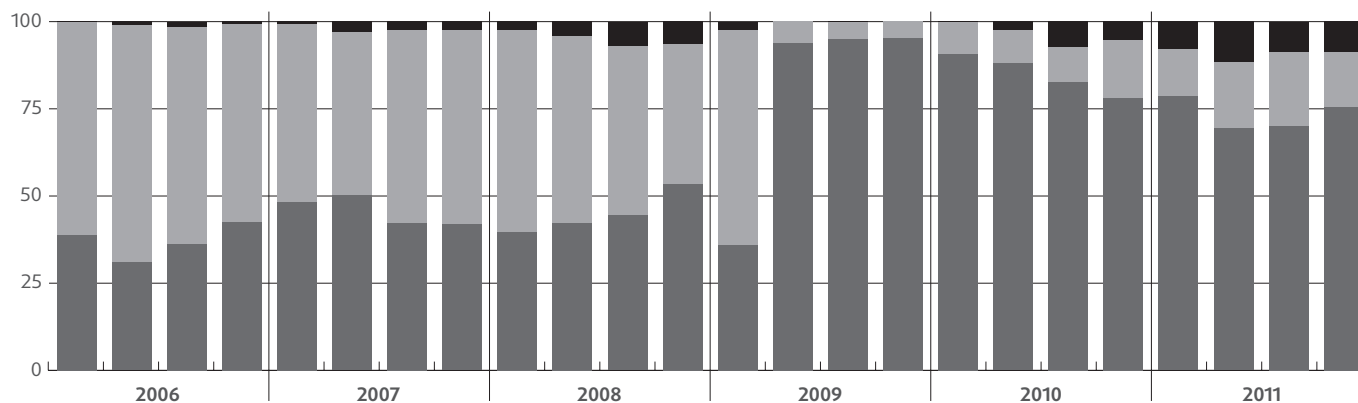
Table 64

**Results of Trading with Non-Government Securities and Futures Contracts at RTS in 2005–2011**

Period	RTS Classic Market, billion USD	RTS Exchanging Market, billion RUR	RTS Standard, billion RUR	St Petersburg SE Exchanging Market, billion RUR	FORTS Derivatives Market, billion RUR	RTS Board, million USD
2005	8	82	–	937	687	309
2006	16	27	–	1,206	2,709	545
2007	15	23	–	71	7,531	752
2008	10	28	–	42	11,158	436
2009	3	12	1,557	1	14,169	109
2010	2	12	3,502	27	29,350	145
2011	2	39	3,656	12	56,029	135

Source: RTS, MICEX-RTS

Figure 76

**Modes of Share Trading at RTS in 2006–2011, %**

■ Auction mode ■ Negotiated transaction mode ■ Repo transactions

Calculated according to the data of RTS

Table 65

**Average Size of Securities Transaction at RTS Standard Market in 2009–2011, thousand RUR**

Period	Market transactions	Two-sided transactions
Q2 2009	747	939
Q3 2009	477	1,937
Q4 2009	430	1,170
Q1 2010	424	1,898
Q2 2010	334	1,656
Q3 2010	376	1,344
Q4 2010	376	1,132
Q1 2011	268	958
Q2 2011	210	1,315
Q3 2011	192	1,760
Q4 2011	191	862

Calculated according to the data of RTS, MICEX-RTS

FORTS is characterized with constant dynamic development. According to the results of 2011 the transaction volume at this market composed 56.0 trillion RUR that for 91% more than in a year-earlier period. The same increase was also recorded in 2010.

Figure 76 presents diagrams characterizing rates of the auction mode, negotiated transaction mode and repo transaction mode with shares at all RTS markets.

For share transactions the auction mode became the defining (94% of the total transaction volume) from the second quarter of 2009 when RTS Standard was launched. At the later stage the rate of this mode reduced a little and according to the results of 2011 it

composed 73.4%. Moreover, the volume of negotiated transactions began to grow: from the second quarter of 2009 to the end of 2011 their rate increased for more than twice: from 6.1 to 15.6%. For RTS the repo transaction mode became noticeable only in the middle of 2010 when the transaction volume in this mode composed 2.3% from the total volume of share transactions. In 2011 the volume of repo transactions increased and on average over the year amounted to 9.3%.

Table 65 presents the data on the average size of securities transaction at RTS Standard Market in the modes of market and two-sided transactions and Table 66 – for the average size of transaction at FORTS Market.

The average size of the market transaction at RTS Standard Market has been constantly reducing since the time of this market establishment. If in the second quarter of 2009 this index composed 747 thousand RUR then to the middle of 2011 it reduced for almost four times and set at the level of 191 thousand RUR. The average size of the two-sided transaction differs with higher changeability from period to period, in total since the time of RTS Standard Market establishment it has composed 1.36 million RUR.

At FORTS Market the average transaction size in monetary terms has evolved rather seriously in the course of time. If in the period 2006 – third quarter 2008 it composed about 570 thousand

Table 66

**Average Size of Securities Transaction at FORTS Market in 2006–2011**

Period	Average size of transaction, thousand RUR	Number of contracts, units
Q1 2006	559.5	790,281
Q2 2006	568.5	1,379,020
Q3 2006	510.1	1,353,108
Q4 2006	528.4	1,499,056
Q1 2007	524.3	1,967,842
Q2 2007	538.3	2,312,565
Q3 2007	630.9	2,913,350
Q4 2007	757.0	4,489,603
Q1 2008	583.2	5,479,299
Q2 2008	595.2	5,802,535
Q3 2008	458.7	7,429,187
Q4 2008	109.8	10,021,589
Q1 2009	138.2	12,957,064
Q2 2009	191.6	16,981,606
Q3 2009	193.5	19,309,517
Q4 2009	215.2	25,040,934
Q1 2010	223.8	23,541,221
Q2 2010	225.8	33,794,499
Q3 2010	240.5	29,767,500
Q4 2010	311.8	29,857,141
Q1 2011	291.8	36,643,480
Q2 2011	297.0	47,120,677
Q3 2011	262.5	63,194,918
Q4 2011	218.7	62,075,394

Calculated according to the data of RTS, MICEX-RTS

RUR then by the end of 2008 the average transaction size due to abrupt impairment of underlying assets fell down in five times at once. At the later stage the average transaction size increased and according to the results of 2011 it composed 270 thousand RUR. Moreover, according to the results of the last five years the average transaction size in the number of contracts has evident upward trend and doubled on an annual basis. Thus, according to our calculations at the end of 2011 the average transaction size at FORTS Market amounted to 62 million contracts, which is more than in 40 times more than at the end of 2006.

In compliance with the Regulations on Information Representation<sup>32</sup> stock exchanges execute collection of information on off-exchange transactions with securities listed at stock exchanges. Figure 77 presents diagram characterizing the rate of reported off-exchange transactions in the total volume of exchanging (excluding repo transactions) and reported off-exchange transactions executed (reported) through MICEX SE and RTS including the transactions executed at RTS Board.

In 2011 the rate of off-exchange transactions was at the average level of about 38%. For comparison: on average according to the results of the previous year the rate of off-exchange transactions composed 45%.

### 2.3.4 Accounting System

At the Russian stock market there are two alternative methods of accounting of rights for securities with equal legal force: on personal accounts in the system of the register maintenance and on securities account in the depositary. Registrars, depositaries as well as issuers maintaining the register of their shareholders on their own in the aggregate form the accounting system of the stock market. The registrar and depositary activity is licensed.

The registrar is a professional participant of the securities market exercising activity on maintenance of the register of security holders (collection, recording, processing and representations of the data composing the maintenance system of the register of security holders). The registrar operates on the basis of the agreement with securities' issuer; the persons opening accounts in the register do not conclude the agreement with the registrar. The issuer with the number of shareholders not exceeding 50 is entitled to maintain the register on his/ her own or to conclude the agreement with the registrar. If the number of shareholders exceeds 50 then the issuer is obliged to transfer register maintenance to the registrar provided that he/ she is still responsible for register maintenance.

The depositary renders services on accounting and certification of rights for securities, accounting and certification of securities transfer as well as on custody of securities (in case of hard copy issue). He/ she shall exercise his/ her activity on the basis of the agreement with the securities holder or the person with other rights in relation to securities (depositary agreement).

Division of depositaries into settlement and custody ones accepted in the international practice has taken place in Russia. The settlement depositaries include the depositaries executing settlements for securities based on clearing results and holding of all operations on securities accounts of participants of the securities market at settlement of transactions accomplished through the trade organizers. The custody depositaries cover all other depositaries.

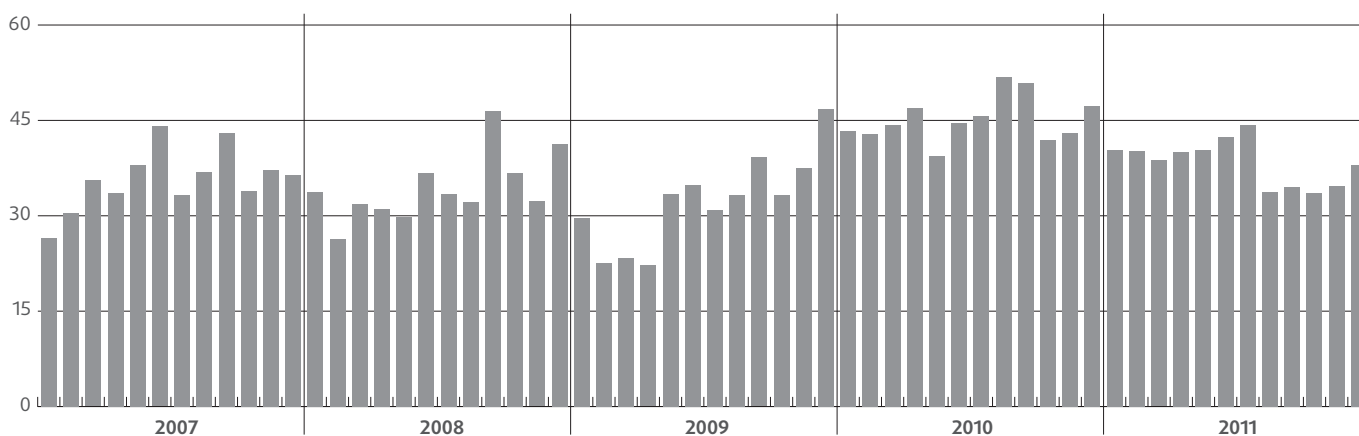
The data on the number of valid licenses of registrar and depositaries is represented in Table 67.

Thus, since 2008 the number of registrars and depositaries has shown an evident downward trend. In 2011 the number of registrars reduced for another five companies and the number of depositary licenses – for 34 licenses at once.

It is necessary to note that about 60% of companies having depositary

Figure 77

### Rate of Off-Exchange Transactions in 2007–2011, %



Source: MICEX, MICEX-RTS

<sup>32</sup> Order of the FFMS of Russia dated 22.06.06 No 06-67/pz-n "Concerning Approval of Regulations for Information Representation on Transactions Conclusion".

licenses are credit organizations. Only 6.7 % of organizations executing accounting of rights for securities and custody of securities certificates have only one license for this activity type. The other 93.3% of organizations combine depositary activity with other types of professional activity at the securities market (Table 68).

The most often combination is the combination of the depositary activity

with broker activity, dealer activity with the activity for securities management. The presented combinations of licenses are traditional in many ways and compared to the results of the previous year it has not experienced any changes at the qualitative level.

At the end of 2011 amendments were introduced into the legislation; these amendments are oriented to changes which shall be made in 2012-2013 in

the accounting system of the rights for securities having formed in Russia and anticipating appearance of a new participant of the accounting system – Central Depository as well as provision of an opportunity to foreign organizations possessing securities in the interests of other persons to open nominee accounts in Russian depositaries. The specified changes will be described in more details below.

Table 67

**Licenses of Registrars and Depositaries in 2005–2011**

Activity kind	Period						
	2005	2006	2007	2008	2009	2010	2011
Registrar's	82	73	66	59	50	45	40
Depositary's	743	831	787	789	761	720	686

Source: FFMS of Russia

Table 68

**Combination of Licenses of the Companies Executing Depositary Activity (According to the Results of 2011)**

Broker	Dealer	Trust management	Depositary	Number of companies	Rate from the total number, %
			x	46	6.7
		x	x	3	0.4
	x		x	2	0.3
x			x	9	1.3
x	x		x	119	17.3
	x	x	x	0	0.0
x		x	x	3	0.4
x	x	x	x	504	73.5
<b>TOTAL</b>				<b>686</b>	<b>100.0</b>

Calculated according to the data of FFMS of Russia

# 3. Legislative Framework and Regulation

In the Russian Federation the regulatory legal basis in the sphere of the securities market's regulation is formed with several laws ('Concerning the Securities Market', 'Concerning the Protection of the Rights and Legitimate Interests of Investors on the Securities Market', 'Concerning Mortgage-Backed Securities') which define the general rules operating at the securities market as well as with sub-legislative regulatory legal acts (mainly by decrees of the Government of the Russian Federation and orders of the FFMS of Russia)

setting special standards. Functioning of individual institutions is regulated by special laws: 'Concerning Investment Funds', 'Concerning Non-Government Pension Funds', 'Concerning Resources Investment for Financing of Cumulative Part of the Labor Pension', 'Concerning the Savings and Mortgage System of Housing Provision for Servicemen' which are also accompanied sub-legislative regulation considerable by the scope.

Significant events of 2011 are coming into force of Federal Law 'On

Counteracting Illegal Use of Insider Information and Market Manipulation and on Introduction of Amendments into Individual Legislative Acts of the Russian Federation' as well as approval of Federal Laws 'Concerning Central Securities Depository', 'Concerning Organized Trading', 'Concerning Clearing and Clearing Activity'.

The review of the most significant changes of 2011 in the regulatory legal basis related to regulation of the securities market is presented below.

## 3.1. Counteracting Illegal Use of Insider Information and Market Manipulation

1. On July 31, 2011 particular provisions of Federal Law No 224-FZ<sup>33</sup> 'On Counteracting Illegal Use of Insider Information and Market Manipulation and on Introduction of Amendments into Individual Legislative Acts of the Russian Federation' (hereinafter –

the Law) concerning the insider information, procedure of maintenance and transfer of the lists of insiders and control over the transactions executed at organized trading came into force. Moreover, norms on administrative responsibility for

violation of the legislative requirements for counteracting illegal use of insider information and market manipulation came into force.

2. In 2011 the FFMS of Russia approved a series of sub-legislative acts provided by the Law as well as released

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<sup>33</sup> Federal Law dated 27.07.2010 No 224-FZ 'On Counteracting Illegal Use of Insider Information and Market Manipulation and on Introduction of Amendments into Individual Legislative Acts of the Russian Federation'.



several information letters explaining its particular provisions.

2.1. Order of the FFMS of Russia dated 21.01.2011 No 11-2/pz-n<sup>34</sup> established the procedure and conditions for support of price, demand, supply or trading volume with financial instrument, foreign currency and (or) products which shall not be considered as the market manipulation. According to the Order the information on support of price, demand, supply or trading volume shall be disclosed at the site of the trade organizer.

2.2. In its Information Letter<sup>35</sup> the FFMS of Russia stated that the professional participant of the securities market is entitled to determine (appoint) its inspectors as the official exercising control over compliance with the Law's requirements who will be accountable to the Board of directors and in case of its absence – to the Supreme Management Body of the legal entity.

2.3. Order of the FFMS of Russia dated 21.01.2011 No 11-3/pz-n<sup>36</sup> established the procedure of presentation of the lists of insiders to the trade organizers and notifications to insiders about transactions executed by them as well as

reasonable time and methods of transfer lists and notifications.

Order of the FFMS of Russia dated 28.06.2011 No 11-28/pz-n<sup>37</sup> having come into force on July 31 provided a possibility of transfer of the list of insiders only to one of the trade organizers if this trade organizer would undertake an obligation to transfer the specified list of insiders to other trade organizers ('one contact' principle). Herewith it was established that in the process of transfer of the list of insiders to the trade organizer it was not required to transfer to him/ her written consent of insiders for processing of their personal data. In Letter of the FFMS of Russia<sup>38</sup> it is explained that processing of personal data specified in the Law falls within exceptions established by Federal Law 'Concerning Personal Data'<sup>39</sup> and does not require consent of relevant individuals for such processing.

2.4. At the end of July, 2011 Order of the FFMS of Russia<sup>40</sup> came into force; this order approved the exhaustive list of information related to insider information on the basis of which insiders shall generate their own lists of insider information for each category

of persons specified in the Law. The Order determines the lists of insider information for issuers, management companies, business entities occupying the dominant position at the market, trade organizers, clearing organizations, settlement depositaries and credit organizations accomplishing settlements on transactions results executed through trade organizers as well as professional participants of the securities market and exchange intermediaries. According to the Order, for example, the information contained in customer's order subject for execution if execution of such orders can exert material influence on the prices of relevant securities or the price of the relevant exchange product can be classified as the broker's insider information

Letter of the FFMS of Russia<sup>41</sup> published in June, 2011 stated that determining persons included into the list of insiders it is necessary to consider availability of actual but not potential access to the insider information. In itself conclusion of the person into the list of insiders does not imply prohibition for execution of transactions with financial instruments,

<sup>34</sup> Order of the FFMS of Russia dated 21.01.2011 No.11-2/pz-n "Concerning Approval of the Regulation on the Procedure and Conditions of Support of Prices, Demand, Supply or Trading Volume with Financial Instrument, Foreign Currency and (or) Products and Amendments into the Regulation on the Procedure of Services Rendering Facilitating Conclusion of Futures Agreements (Contracts) as well as Peculiarities of Clearing Execution of Futures Agreements (Contracts), Approved by Order of the FFMS of Russia dated 24.08.2006 No. 06-95/pz-n'.

<sup>35</sup> Information Letter of the FFMS of Russia dated 27.01.2011 'Concerning Measures for Implementation of Federal Law dated 27.07.2010 No 224-FZ 'On Counteracting Illegal Use of Insider Information and Market Manipulation and on Introduction of Amendments into Individual Legislative Acts of the Russian Federation'.

<sup>36</sup> Order of the FFMS of Russia dated 21.01.2011 No 11-3/pz-n 'Concerning Approval of Regulation on the Procedure of Notification of the Persons about their Inclusion into the List of Insiders and Expulsion from such List, Regulation on Transfer of Lists of Insiders to the Trade Organizers through which Transactions with Financial Instruments, Foreign Currency and (or) Products are Executed, Regulation on the Procedure and Time of Forwarding by the Insiders of the Notification on Transactions Executed by them'.

<sup>37</sup> Order of the FFMS of Russia dated 28.06.2011 No 11-28/pz-n 'Concerning Introduction of Amendments into Order of the FFMS of Russia dated 21.01.2011 No. 11-3/pz-n 'Concerning Approval of Regulation on the Procedure of Notification of the Persons about their Inclusion into the List of Insiders and Expulsion from such List, Regulation on Transfer of Lists of Insiders to the Trade Organizers through which Transactions with Financial Instruments, Foreign Currency and (or) Products are Executed, Regulation on the Procedure and Time of Forwarding by the Insiders of the Notification on Transactions Executed by them' and into Provision on Transfer of Lists of Insiders to the Trade Organizers through which Transactions with Financial Instruments, Foreign Currency and (or) Products are Executed Approved by this Order'.

<sup>38</sup> Letter of the FFMS of Russia dated 15.06.2011 No. 11-DP-05/15533 'Concerning Reading of the Appeal in Relation to Federal Law dated 27.07.2010 No. 224-FZ 'On Counteracting Illegal Use of Insider Information and Market Manipulation and on Introduction of Amendments into Individual Legislative Acts of the Russian Federation'.

<sup>39</sup> Federal Law dated 27.07.2006 No. 152-FZ 'Concerning Personal Data'.

<sup>40</sup> Order of the FFMS of Russia dated 12.05.2011 No. 11-18/pz-n 'Concerning Approval of the List of Information Related to Insider Information of the Persons Specified in Clauses 1 – 4, 11 and 12 Article 4 of Federal Law 'On Counteracting Illegal Use of Insider Information and Market Manipulation and on Introduction of Amendments into Individual Legislative Acts of the Russian Federation' as well as the Procedure and Time of such Information Disclosure' (together with 'Regulation on the Procedure and Time of Insider information Disclosure of the Persons Specified in Clauses 1 – 4, 11 and 12 Article 4 of Federal Law 'On Counteracting Illegal Use of Insider Information and Market Manipulation and on Introduction of Amendments into Individual Legislative Acts of the Russian Federation').

<sup>41</sup> Letter of the FFMS of Russia dated 27.06.2011 No. 11-AC-05/16551 'Concerning Requirements of Federal law dated 27.07.2010 No 224-FZ 'On Counteracting Illegal Use of Insider Information and Market Manipulation and on Introduction of Amendments into Individual Legislative Acts of the Russian Federation'.

foreign currency and (or) products but prohibition for use of the insider information at transactions execution shall cover all persons including the ones not listed as insiders.

2.5. At the end of December, 2011 the FFMS of Russia published the Letter<sup>42</sup> which provided explanations to the questions concerning inclusion of particular categories of subjects into the lists of insiders – professional participants. It was stated that setting of an order for execution of a transaction with financial instrument at trading of the trade organizer by the broker does not consider as transfer of the insider information to such trade organizer by the broker. The FFMS of Russia also explained that when operating according to sub-

broker scheme setting of an order for transaction execution by the broker to the superior broker on the basis of the customer's order is not considered as provision of access to the insider information of the inferior broker. The trade organizer at the securities market and superior broker shall not be included into the list of the broker's insiders unless the insider information is transferred to them in another manner. Moreover, it was explained that the obligation of informing about the accomplished transactions is imposed only on the persons included into the list of insiders – issuers, management companies, trade organizers, clearing organizations, business entities occupying predominant position at the market, trade organizers,

clearing organizations, settlement depositaries and credit organizations, accomplishing settlements on the transactions results, executed through trade organizers.

2.6. On October 27, 2011 the FFMS of Russia together with the Bank of Russia approved the procedure for the conduct of inspections<sup>43</sup> to the extent concerning compliance with requirements of the Law and regulatory legal acts approved in compliance with it. Joint inspections are held in cases when the insider information and (or) market manipulation concern foreign currency and agreements being derivatives, performance of obligations for which depends on changes in foreign exchange rates and values of loan interest rates.

## 3.2. Accounting of Rights for Securities

Adopted at the end of 2011 Law 'Concerning Central Settlement Depository'<sup>44</sup> and related to it Law 'Concerning Introduction of Amendments into Particular Legal Acts of the Russian Federation Related to Passing of Federal Law 'Concerning Central Settlement Depository'<sup>45</sup> change the accounting system of rights for securities having been established in Russia to a greater extent.

One of the most significant changes is appearance of a new participant of the accounting system – the central settlement depository.

Status of the central settlement depository can be assigned only to one legal entity, which has a license

of a non-banking credit organization and which (predecessor of which) has exercised the functions of the settlement depository for at least three years, by the date of application for awarding of the status the central settlement depository. Provided that the amount of equity funds of the central settlement depository shall compose at least four billion rubles. Awarding of the status of the central settlement depository to the person satisfying the specified requirements is executed by the FFMS of Russia.

The Laws established requirements to shareholders and management bodies of the central settlement depository, to the system of risk management

related to exercising of its activity. Establishment of the committee of users of the central settlement depository's services is provided one of the functions of which includes consideration of internal documents of the central settlement depository including rates for its services.

The main function of the central depository is the centralized storage and accounting of the rights for securities eligible for organized trading. To exercise this function the law provides the following:

1) the central settlement depository receives the exclusive right to open nominee accounts in the registers of the security holders, registration

<sup>42</sup> Informational Letter of the FFMS of the Russian Federation dated 28.12.2011 No. 11-DP-10/37974 'Concerning Explanation of Particular Questions of the Application Practice of Federal Law dated 27.07.2010 No 224-FZ 'On Counteracting Illegal Use of Insider Information and Market Manipulation and on Introduction of Amendments into Individual Legislative Acts of the Russian Federation'.

<sup>43</sup> Order of the FFMS of the Russian Federation No. 11-55/pz-n, Bank of Russia No 374-P dated 27.10.2011 'Concerning Approval of Regulation on the Procedure for the Conduct by the Federal Service for Financial Markets Jointly with the Central Bank of the Russian Federation of Verification of Compliance with the Requirements of the Legislation for Counteracting Illegal use of the Insider Information and Market manipulation'.

<sup>44</sup> Federal Law dated 07.12.2011 No. 414-FZ 'Concerning Central Settlement Depository'.

<sup>45</sup> Federal Law dated 07.12.2011 No. 415-FZ 'Concerning Introduction of Amendments into Particular Legal Acts of the Russian Federation Related to Passing of Federal Law 'Concerning Central Settlement Depository'.

of which issue was accompanied with prospectus registration as well as in the register of holders of investment units and mortgage participation certificates, if the rules of trust management, unit investment fund or mortgage collateral provides a possibility of their circulation at the organized trading. In order to emphasize a special status of these accounts and exclusive right of the central settlement depository for their opening in the law these accounts received a special name 'nominee accounts of the central settlement depository'. Other depositories lose an opportunity to open nominee accounts in the above-mentioned registers and to account rights for the relevant documents and they are bound to become depositors of the central settlement depository

2) in order to provide finality of records on the nominee account of the central settlement depository in the register at every transaction on the specified account and in case if there were no such transactions during the day then at least once per day the provision is made to carry out verification of records of the number of securities between the central settlement depository and the register keeper. Moreover, it is established that the records on the personal account of the nominee of the central settlement depository executed at settlement of transactions without carrying out of records verification and (or) in case of any discrepancies found shall not have legal force and shall not imply

any legal consequences including all further records in the register. In failure to eliminate the discrepancies found the data according to the results of the previous verification shall be recognized as correct

3) to account rights for foreign securities the central settlement depository obtains the right to open in foreign organizations the account of the person acting in the interests of other persons

4) bearer bonds with compulsory centralized storage are eligible for circulation at the organized trading only under condition that centralized storage of such bonds is accomplished by the central settlement depository.

Law 'Concerning Central Settlement Depository' with only a few exceptions came into force from January 1, 2012 provided, that for some of its provisions a transition period is anticipated. In particular, opening of nominee accounts by ordinary depositories in the register of securities circulated at the organized trading is prohibited only from the opening date of the nominee account of the central settlement depository in them.

Another not less significant change is an opportunity to open accounts of foreign organizations possessing securities in the interests of other persons in Russian depositories.

A possibility to open the following new kinds of securities accounts is provided:

1) securities account of a foreign nominee – this account can be opened to a foreign depository that

is for a foreign organization which in compliance with its personal law is entitled to execute account and rights transfer for securities. Provided, that for international centralized accounting systems of rights for securities and settlements for securities as well as for foreign centralized depositories, settlement depositories and clearing organizations the securities account of a foreign nominee can be opened only in case if such organizations are included into the list approved by the FFMS of Russia and only in the central settlement depository

2) securities account of a foreign custodian – this account can be opened for a foreign trustee that is for a foreign organization which in compliance with a personal law is entitled not being the securities holder to execute in its name and on behalf of other persons any legal and practical actions with securities as well as exercise rights for securities

3) securities account of depository programs – this account is designated for accounting of rights for Russian securities, placement or circulation of which is executed outside Russia by means of depository receipts certifying rights for the specified securities.

Changes related to the possibility of the above-mentioned accounts opening come into force at different time and for some of them the transitions period is anticipated during which the participants of the financial market need to bring their activity in compliance with the specified changes.

## 3.3. Activity of Professional Participants

1. On May 6, 2011 Regulation on Activity on Trade Arrangement at the Securities market approved by Order of the FFMS of Russia dated 28.12.2010 No. 10-78/pz-n<sup>46</sup> came into force.

The document established additional as compared to the earlier established requirements for disclosure of information on the services of the trade organizers (for example,

stock exchanges rendering services facilitating conclusion of options agreements (contracts) are obliged to disclose at their site in the Internet the calculation procedure of the theoretical

<sup>46</sup> Order of the FFMS of Russia dated 28.12.2010 No. 10-78/pz-n 'Concerning Approval of Regulation on Activity on Trade Arrangement at the Securities Market'.

option price and delta). Moreover, this regulation established requirements for disclosure of information on software and other technical equipment for trading holding.

2. In April, 2011 the FFMS of Russia approved new requirements<sup>47</sup> to the broker at execution of transactions with monetary funds of customers which come into force on June 19, 2011. In compliance with the specified requirements in case of erroneous placement of the amount of the customer's funds to the personal bank account of the broker the latter is obliged to give an instruction to the credit organization about transfer of the specified amount of monetary funds to a special broker account (accounts).

The broker cannot transfer the funds placed on a special broker account to the third persons in discharge of obligations from transactions executed at his expenses as well as to use as guarantee of such obligations. However, the broker is entitled to transfer these funds in disposal of the clearing organization for execution (guarantee of execution) of obligations for securities

transactions as well as for agreements being derivatives including the ones executed (concluded) at the expense of this broker.

It also specified the list of information which the broker is obliged to provide to the customer during conclusion of the broker services agreement. This is information:

- that the monetary funds of the customer will be placed to a special broker account together with funds of other customers and risks arising at consolidation of the customers' funds
- on possibility and conditions of an individual special broker account opening for monetary funds of the customer
- on possibility and conditions of using the monetary funds of the customer by the broker in his interests as well as on the risks arising in this relation.

Earlier, in compliance with void Decree of the FFMS of Russia<sup>48</sup> along with the above-mentioned information the broker during conclusion of the broker services agreement with the customer was obliged to provide the customer with information on the procedure of internal accounting of

the monetary funds of each customer placed on a special broker account (accounts) and/or personal account of the broker, reporting procedure of the broker to the customer as well as information on the credit organization (organizations) on the accounts of which the customer's funds will be accounted including (upon request of the customer) information publishing of which is provided by federal laws.

3. On May 24, 2011 the FFMS of Russia approved new standards<sup>49</sup> for capital adequacy of the professional participants of the securities market as well as management companies of the investment funds, unit investment funds and non-government pension funds. By this document the FFMS of Russia partially cancelled the earlier-scheduled<sup>50</sup> increase of standards for capital adequacy for the specified persons. From July 1, 2011 the standard increased only for management companies and specialized depositories of the investment funds, unit investment funds and non-government pension funds (from 60 to 80 million RUR).

## 3.4. Organized trading

On November 21, 2011, Federal Law No.325-FZ "On the Organized Trading"<sup>51</sup> (hereinafter referred to as the Law on the trading) was adopted to establish a legal framework for organization of trading, requirements

to entities organizing the trading and the principles of the state regulation and control for arrangement of the organized trading.

In accordance with the Law on the trading, the services of organized trading

on the commodity and/or financial markets may be performed on the basis of the exchange or trading system license. In this case the organized trading with conclusion of contracts used as derivatives may be carried out only by

<sup>47</sup> Order of the FFMS of Russia dated 05.04.2011 No. 11-7/pz-n 'Concerning Approval of Requirements for Rules of Exercising of Broker Activity at Execution of Transactions with Monetary Funds of the Broker's Customers'.

<sup>48</sup> Decree of the FCSM of Russia dated 13.08.2003 No. 03-39/ps 'Concerning Regulation on Requirements for Division of Monetary Funds of the Broker and Monetary Funds of his/ her Customers and Securing the Customer's Rights Using the Customers' Monetary Funds in Personal Interests of the Broker'.

<sup>49</sup> Order of the FFMS of Russia dated 24.05.2011 No. 11-23/pz-n "Concerning Approval of Standard for Capital Adequacy of Professional Participants of the Securities Market as well as Management Companies of investment Funds, Unit Investment Funds and Non-Government Pension Funds'.

<sup>50</sup> Order of the FFMS of Russia dated 30.07.2009 No. 09-29/pz-n 'Concerning Introduction of Amendments into Standards of Capital Adequacy of Professional Participants of the Securities Market as well as Management Companies of investment Funds, Unit Investment Funds and Non-Government Pension Funds, Approved by Order of the Federal Financial Market Service dated April 24, 2007 No. 07-50/pz-n'.

<sup>51</sup> Federal Law dated November 21, 2011 No.325-FZ "On the Organized Trading".

an exchange. Regulations of the FFMS of Russia may determine exclusions for this provision.

Organizers of trading should comply with requirements set to obtain licenses and requirements to activities of such entities. It was determined that the rules of the organized trading and other documents specified in the Law on the trading, as well as all amendments thereto shall be registered in the FFMS of Russia.

The Law on the trading introduced new definitions (such as clearing broker) and determined particulars for conclusion of contracts with clearing brokers and the central counterparty at the organized trading.

The Law on the trading shall come into force on January 1, 2012, except

for certain provisions that shall be valid from January 1, 2013. From January 1, 2013, operations for the organized trading shall be allowed only with new licenses. It was also established that the organizations holding licenses as of January 1, 2013, on the basis of which they carried out the organized trading before the Law on the trading entered into force, shall bring their operations in compliance with the new requirements by January 1, 2014, and obtain new licenses under the Law on the trading.

In connection with the Law on the trading, certain legislative acts, including Federal Laws "Concerning the Securities Market", "On Joint Stock Companies" and "On Insolvency (Bankruptcy)", were amended<sup>52</sup>.

The amendments to the Federal Law "Concerning the Securities Market" are associated with admission of securities to trading. While previously listing of securities meant their inclusion to the quotation list by the exchange, now, according to the amendments introduced, listing means admission of securities to the organized trading. Listing of securities without their inclusion in the quotation list may be performed by any trade organizer, and listing of securities through including them to the quotation list may be carried out only by the exchange. The securities may be included in the securities quotation list only if the exchange has the agreement with the issuer of such securities (except for own securities and federal government securities).

## 3.5. Clearing

1. On February 7, 2011, Federal Law No. 7-FZ "On Clearing and Clearing Activities" (hereinafter the Law on clearing) was adopted to establish principles of clearing, requirements to entities carrying out clearing activities and/or functions of the central counterparty, as well as the principles of state regulation and control for clearing activities.

The Law on clearing determines that the functions of the central counterparty may be performed by a clearing organization or a duly accredited credit institution.

In order to reduce the risk of default by the clearing members, the Law makes provisions for the individual and collective clearing collateral. The clearing members may guarantee performance of their obligations through creation of the collective clearing collateral in

form of the guarantee fund formed by contributions made by the clearing members.

The Law on clearing prohibits combination of clearing and any production, commercial or insurance activities. Clearing organizations may not keep registers of the securities holders or perform fiduciary management of joint-stock and mutual investment funds, as well as non-state pension funds. Clearing may be executed by using both the trading accounts and clearing accounts.

The Law established that a clearing organization shall provide free access to its constituent documents, clearing rules, annual reports and other information specified in the Law on clearing.

The clearing rules as well as all amendments thereto shall be registered in the FFMS of Russia.

The Law on clearing entered into force on January 1, 2012.

2. In connection with adoption of the Law on clearing, certain legislative acts, including Federal Laws "Concerning Banks and Banking Activities", "Concerning the Securities Market" and "On Insolvency (Bankruptcy)", were amended<sup>53</sup>. In accordance with the said amendments, the FFMS of Russia particularly prohibited disclosure of the information about commercial and clearing accounts of legal entities and transactions thereon received from the relevant credit institutions by the third parties. In addition, the central counterparty was included in the traders list at the stock exchange and clearing organizations were included in the list of qualified investors in compliance with the law.

<sup>52</sup> Federal Law dated November 21, 2011 No.327-FZ "On amendments to certain legislative acts of the Russian Federation in connection with adoption of the Federal Law "On the Organized Trading".

<sup>53</sup> Federal Law dated February 07, 2011 No.8-FZ " On amendments to certain legislative acts of the Russian Federation in connection with adoption of the Federal Law "On Clearing and Clearing Activities" (entered into force on February 11, 2011, except for certain provisions).



## 3.6. Derivatives market

1. By Decree of March 2010, the FFMS of Russia<sup>54</sup> approved the regulation establishing the types of contracts recognized as derivative. In addition, it determined the items that may be basic (underlying) assets of derivatives.

2. In February 2011, the Federal Law "On the Securities Market" was supplemented by new article 51.5 "Standard terms and conditions of contracts and the general agreement (unified contract) in the financial market"<sup>55</sup>. The new article governs the cases when the parties intend to conclude more than one contract having securities and/or foreign currency as its

subject. In this case such contracts may be concluded on the terms determined in the general agreement. In addition, the terms of the contracts and/or general agreement may include the provision according to which their certain conditions are determined by standard terms of the contracts as approved by the self-regulating organization of professional participants of the securities market and published in the press or posted in the Internet.

The Federal Law "On the securities market" stipulates obligatory submission of information about transactions being the subject of the general agreement to the self-regulatory organizations,

exchanges or clearing organizations functioning as the repository.

Article 51.5 of the Federal Law "On the securities market" includes requirements to standard terms and conditions in the contracts of the self-regulating organizations of professional participants of the securities market and provides for obligatory coordination thereof with the FFMS of Russia.

In furtherance of provisions in article 51.5 of the Federal Law "On the securities market", the Federal Law "On Bankruptcy" was supplemented with article 4.1 that provides for the close-out netting for transactions being the subject of the general agreement.

## 3.7. Financial instruments intended for qualified investors

1. On May 13, 2011, the Regulation on the assets composition and structure in the investment funds and mutual funds as approved by Decree of the FFMS of Russia dated December 28, 2010, No. 10-79/нз-н<sup>56</sup>. This document abolished restrictions on the amount of funds deposited to a single credit institution. In the end of May, the Regulation was amended<sup>57</sup>: an additional category of the long-term direct investments funds was separated. The latter may be created only

in form of closed mutual funds and their shares should be intended only for the qualified investors.

From July 19, 2011, the FFMS of Russia permitted the management companies of investment funds whose shares or participatory interest are intended for qualified investors, to obtain loans and credits from the qualified investors in compliance with the law<sup>58</sup>.

The FFMS of Russia approved the Regulation on circulation of and

registration of title to securities intended for qualified investors and foreign securities<sup>59</sup>. The document determines the conditions when securities intended for qualified investors and/or foreign securities not admitted for public offering and/or public circulation in the Russian Federation may be purchased without a broker (for example, in case of purchase of securities with limited circulation by a foreign physical or legal entity, or as a result of reorganization of the issuer).

<sup>54</sup> Decree of the FFMS of Russia dated March 04, 2010 No.10-13/нз-н "On Approval of Regulation on the types of financial derivatives".

<sup>55</sup> Federal Law dated February 07, 2011 No.8-FZ "On amendments to certain legislative acts of the Russian Federation in connection with adoption of the Federal Law "On Clearing and Clearing Activities".

<sup>56</sup> Decree of the FFMS of Russia dated December 28, 2010 No.10-79/нз-н "On approval of the Regulation on the assets composition and structure in the investment funds and mutual funds".

<sup>57</sup> Decree of the FFMS of Russia dated May 31, 2011 No. 11-24/нз-н "On amendments to the Regulation on the assets composition and structure in the investment funds and mutual funds as approved by Decree of the FFMS of Russia dated December 28, 2010 No. 10-79/нз-н".

<sup>58</sup> Decree of the FFMS of Russia dated May 12, 2011 No. 11-19/нз-н "Concerning non-application of restrictions on conclusion of loan and credit agreements on account of assets of investment funds whose shares or investment interests are intended for qualified investors".

<sup>59</sup> Decree of the FFMS of Russia dated April 05, 2011 No. 11-8/нз-н "On approval of the Regulation on circulation of and registration of title to securities intended for qualified investors and foreign securities".

## 3.8. Organization of the electronic document flow

1. On April 8, 2011, the Federal Law "On the electronic signature" entered into force<sup>60</sup>. It separated three types of electronic signatures (simple electronic signature, enhanced non-qualified electronic signature and enhanced qualified electronic signature) differing in the manner of their creation and use when signing electronic documents. It is established that until July 1, 2012, the entities using electronic document flow may sign documents with the electronic digital signature issued in compliance with the previously applicable Federal Law

"On the electronic signature"<sup>61</sup> and such document shall be considered signed by qualified electronic signature.

2. In information letter of the FFMS of Russia dated February 15, 2011, No.11-BM-10/3086 "Concerning change of the electronic documents format of the FFMS of Russia", the FFMS of Russia announced that after March 15, 2011, it shall not accept electronic documents containing reports of the professional market participants prepared according to templates of electronic documents from versions of "Electronic Profile of the FFMS of Russia" under 2.12.0.

3. On October 2, 2011, the changes<sup>62</sup> in the organization of electronic document flow approved by the FFMS of Russia entered into force. According to the said changes, if due to the failure and/or interruption of electronic documents acceptance, the participant of the information exchange was unable to submit any electronic document to the FFMS of Russia within the established term, such event shall not be considered as violation by the participant of the information exchange of the legislation of the Russian Federation.

## 3.9. Anti-Money Laundering

1. In order to define a representative of client and/or beneficiary for the purposes of Federal Law *On Anti-Money Laundering and Prevention of Financial Support for Terrorism* (hereinafter referred to as the Law on Anti-Money Laundering), on March 17, 2011 the Bank of Russia in its letter<sup>63</sup> specified that a representative of individual or legal entity is a person conducting on behalf or in the interests or at the expense of individual or legal entity, which powers are verified by power of attorney, agreement, law or statement of a duly authorized state body or local body. A representative of legal entity also includes sole executive body of legal entity which is identified upon

opening a bank account to legal entity. In the opinion of the Bank of Russia, other persons representing individual or legal entity should be identified if the said persons are specified by client as its representatives.

Furthermore, the information letter of the Bank of Russia No. 18 dated March 31, 2011 Summing Up Application of Federal Law *On Anti-Money Laundering and Prevention of Financial Support for Terrorism* and regulatory acts of the Bank of Russia adopted in accordance with it specified that in the absence of power of attorney, agreement, law or statement of a duly authorized state or local body an employee of legal entity contributing

funds of this legal entity to be transferred to its account with a lending institution or obtaining funds from an account of this legal entity, formally, is not a representative of legal entity and may be regarded as person serviced by a lending institution (client) which should be identified. In addition, the Bank of Russia noted that information on foreign public officials should be updated as the said persons apply to a lending institution at least once a year if a client's transaction is referred to high risk and not less than once in three years in other cases.

2. Federal Law No. 308-FZ<sup>64</sup> dated November 8, 2011 introduced

<sup>60</sup> Federal Law dated April 06, 2011 No.63-FZ "On the Electronic Signature".

<sup>61</sup> Federal Law No. 1-FZ dated January 10, 2002 On Electronic Digital Signature.

<sup>62</sup> Decree of the FFMS of Russia No. 11-36/pz-n dated August 2, 2011 On Amending the Procedure for Arranging Electronic Document Flow Upon Presentation of Electronic Documents with Electronic Digital Signature to the Federal Finance Market Service as approved by Decree of the FFMS of Russia No. 10-21/pz-n dated March 25, 2010.

<sup>63</sup> Letter of the Bank of Russia No. 12-1-5/382 dated March 17, 2011 On Application of Federal Law No. 115-FZ.

<sup>64</sup> Federal Law No. 308-FZ of November 8, 2011 On Amending Federal Law On Anti-Money Laundering and Prevention of Financial Support for Terrorism and the Code of the Russian Federation on Administrative Violations.

amendments to Law on Anti-Money Laundering in accordance with which a transaction with immovable property for the amount of 3 million rubles or more is mandatory only if it results in transfer of title. Moreover, the information letter of the FFMS of Russia No. 12-SKh-02/1101 dated January 17, 2012 *On Change in the Procedure for Approval of the Rules of Internal Conduct for the Purposes of Anti-Money Laundering and Prevention of Financial Support for Terrorism and Elimination of the Procedure for Approval of These Rules* additionally states that the procedure for approval of rules of internal conduct for the purposes of prevention of anti-money laundering and financial support for

terrorism in organizations with the FFMS of Russia is eliminated.

3. In August 2010 Rosfinmonitoring (Financial Monitoring Committee of Russia) approved the Regulation<sup>65</sup> setting requirements for preparation and training of employees of organizations conducting transactions with funds or other property (hereinafter referred to as the Regulation). As a rule, target training in accordance with the said Regulation shall be carried out by organizations accredited by the FFMS of Russia to attest finance market specialists. However for employees of organizations conducting professional activities on securities market, as lending institutions, target training may be carried out by other organizations.

The order of Rosfinmonitoring<sup>66</sup> approved the training program for employees of organizations conducting transactions with funds or other property.

4. Since July 22, 2011 the order of Rosfinmonitoring<sup>67</sup> defining the procedure for identification of clients and beneficiaries entered into force. This documents determined procedures for identification of clients and registration of data, grounds and frequency for data updating. The information letter<sup>68</sup> of the FFMS of Russia recommended professional participants to take into account new requirements for the identification procedure and risk assessment program and update rules of internal conduct.

## 3.10. Taxation Applied on the Securities Market

1. Federal Law No. 395-FZ of December 28, 2010<sup>69</sup> provides for exemption of profit tax (application of 0% tax rate) of transactions for sale or other withdrawals of assets of Russian organizations (shares in authorized capital of Russian organizations) purchased by tax-payers since January 1, 2011, provided that as of the date of sale (other withdrawal) of such shares (stakes) they have been continuously owned by tax-payer for over five years. In respect of shares tax-payers may use the said privilege upon compliance with one of the following conditions:

- if shares of Russian organizations are securities not floated on the organized securities market during the entire period of title of tax-payer to such shares;
- if shares of Russian organizations relate to securities floated on the organized securities market and during the entire period of title of tax-payer to such shares are shares of high-technology (innovation) economy sector;
- if shares of Russian organizations as of the date of their purchase by tax-payer are securities not floated on the organized securities market and as of

the date of their sale or other withdrawal (including repayment) with the said tax-payer are securities floated on the organized securities market and are shares of high-technology (innovation) economy sector.

The procedure for referring securities to shares of high-technology (innovation) economy sector will be established by the Government of the Russian Federation.

2. Federal Law No. 395-FZ of December 28, 2010 updated the procedure for determining tax base, calculation and payment of tax on

<sup>65</sup> Order of Rosfinmonitoring No. 203 of August 3, 2010 *On Approval of the Regulation on Requirements for Preparation and Training of Personnel of Organizations Conducting Transactions with Funds or Other Property for Anti-Money Laundering and Prevention of Financial Support of Terrorism.*

<sup>66</sup> Order of Rosfinmonitoring No. 250 of July 19, 2011 *On Establishing Training Program as Target Briefing for Employees of Organizations Conducting Transactions with Funds or Other Property.*

<sup>67</sup> Order of Rosfinmonitoring No. 59 of February 17, 2011 *On Approval of the Regulation on Requirements for Identification of Clients and Beneficiaries with Regard to Degree (Level) of Risk of Conducting by Client of Transactions for the Purposes of Anti-Money Laundering and Prevention of Financial Support for Terrorism (effective since July 22, 2011).*

<sup>68</sup> Information Letter of the FFMS of Russia of September 30, 2011 *On Entry into Force of the Regulation on Requirements Related with Identification of Clients and Beneficiaries, Including with Regard to Degree (Level) of Risk of Conducting by Client of Transactions for Anti-Money Laundering and Financial Support for Terrorism as approved by the Order of the Federal Service for Financial Monitoring No. 59 of February 17, 2011.*

<sup>69</sup> Federal Law No. 395-FZ of December 28, 2010 *On Amending Part Two of the Tax Code of the Russian Federation and Separate Laws of the Russian Federation.*



transactions with securities and transactions with finance instruments under time transactions. This document amended the concept of tax agent for the purposes of articles 214.1, 214.3 and 214.4 of the Tax Code of the Russian Federation and the procedure for tax calculation and deduction by tax agent. According to it, since January 31, 2011 tax agent is obliged to deduct calculated tax from tax-payer's funds disposable by tax agent in broker accounts, special broker accounts, special client accounts, special deposit accounts, as well as on bank accounts of tax agent – fiduciary manager – used by the said manager for separate storage of funds of founder members on the basis of balance of ruble funds of client in relevant accounts as of the date of tax deduction.

Furthermore, when tax agent determines tax base on transactions with securities, tax agent may take into account actual and documented expenses which are related with purchase and storage of relevant

securities and which tax-payer conducted without participation of tax agent, including prior to concluding agreement with tax agent, in the presence of which the latter determines tax-payer's tax base. The document defines what documented expenses include.

Federal law No. 132-FZ of June 7, 2011<sup>70</sup> introduced changes to the Tax Code of the Russian Federation aimed at promoting foreign investment in shares of Russian issuers floated on organized markets. Earlier income of foreign organizations on sale of shares (stakes in the capital) of Russian organizations of over 50 percent of assets of which comprise immovable property located in the Russian Federation and financial instruments, derivative from such shares (stakes), was recognized income from sources in the Russian Federation and was subject to tax deducted from the source of payment of income. Exclusion from this rule was provided only for sale of derivatives from shares of Russian organization and financial instruments

on foreign stock exchange. Since June 8, 2011 a new exclusion is introduced: income from sale of shares of Russian organizations recognized as floating on the Russian organized securities market, will also not be regarded as income from sources in the Russian Federation.

5. Federal Law No. 330-FZ of November 21, 2011<sup>71</sup> introduced changes to the Tax Code of the Russian Federation in terms of taxation of repo transactions. Since January 1, 2012 in the event of improper performance (non-performance) of the second part of repo and in the event of early termination of repo agreement, participants of repo transaction should record income on sale (expenses for purchase) of securities in the first part of repo as of the date of execution of the second part of repo as agreed by parties. It is established that expenses in the form of stock exchange, broker and depository commissions relating to execution of repo transactions will decrease tax base under repo transactions.

## 3.11. Arrangement of activity of the FFMS of Russia

In 2011 powers of the FFMS of Russia were expanded. The RF President in his order No. 270 dated March 4, 2011 *On Improving State Regulation of Finance Market in the Russian Federation* determined to attach Rosstrakhnadzor (Russian Insurance Supervision Service) to the FFMS of Russia and assign to it

functions of control and supervision in the field of insurance. For the purpose of execution of the order the resolution<sup>72</sup> of the RF Government set forth main powers of the FFMS of Russia for control and supervision in the field of insurance.

Powers of the FFMS of Russia were also expanded due to imposition

on it of functions of normative legal regulation, control and supervision in the field of credit cooperation and microfinance.

According to the new Regulation on the FFMS of Russia<sup>73</sup> powers were redistributed between the Finance Ministry of the Russian Federation and

<sup>70</sup> Federal Law No. 132-FZ dated June 7, 2011 *On Amending Article 95 Part One, Part Two of the Tax Code of the Russian Federation in Terms of Creating Favorable Tax Conditions for Innovation Activity and Article 5 of Federal Law On Amending Part Two of the Tax Code of the Russian Federation and Separate Laws of the Russian Federation.*

<sup>71</sup> Federal Law No. 330-FZ of November 21, 2011 *On Amending Part Two of the Tax Code of the Russian Federation, Article 15 of the Law of the Russian Federation On Status of Judges in the Russian Federation and Recognizing Separate Laws of the Russian Federation Void.*

<sup>72</sup> Resolution of the RF Government No. 326 dated April 26, 2011 *On Activity of Federal Bodies of Executive Power in the Field of Finance Markets.*

<sup>73</sup> Resolution of the RF Government No. 717 dated August 29, 2011 *On State Regulation in the Field of Finance Market of the Russian Federation (along with the Regulation On the Federal Service for Finance Markets).*

the FFMS of Russia. The document states that in order to adopt a number of regulatory acts, the FFMS of Russia should coordinate them with the Finance Ministry of Russia.

The Finance Ministry of Russia was partially assigned powers of

development of legal acts on finance markets, e.g. upon determining standards of capital adequacy for professional participants of the securities market. However upon adopting such regulatory acts on finance markets the Finance Ministry of Russia is obliged

to coordinate them with the FFMS of Russia.

Furthermore, in 2011 the FFMS of Russia approved new documents defining the arrangement of activities of the Service<sup>74</sup> and the procedure for execution by it of certain functions<sup>75</sup>.

## 3.12. Other

1. In accordance with Federal Law No. 208-FZ of July 27, 2010 On Consolidated Financial Statements consolidated financial statements are to be made in accordance with International Financial Reporting Standards (hereinafter referred to as IFRS).

In February 2011 the Resolution of the RF Government No. 107<sup>76</sup> set forth the procedure for recognition and explanation of IFRS in the Russian Federation.

Recognition of IFRS documents means the process of taking a decision on entry into force of each document of international standards in the Russian Federation through certain procedures: official obtaining from the IFRS Foundation of a document on international standards; expert examination of applicability of a document on international standards in the Russian Federation; taking

a decision on entry into force of a document on international standards in the Russian Federation and publishing a document on international standards.

Adoption of the said Resolution realized the majority of requirements of the Law *On Consolidated Financial Statements*.

2. From July 1, 2011 the Bank of Russia suspended the conclusion of direct repo transactions as secured by shares of Russian companies<sup>77</sup>. Furthermore, the Bank of Russia informed that since July 1, 2011 it will conclude repo transactions only with lending institutions which signed general agreement on terms of repo transactions at MICEX stock exchange<sup>78</sup>. The said agreement will be concluded by territorial institutions of the Bank of Russia with lending institutions.

3. Since July 27, 2011 amendments to Federal Law On Personal Data<sup>79</sup> according to which the RF Government

is entitled to establish levels of protection for personal data upon data processing in information systems with regard to threats for such data, requirements for protection of personal data upon data processing in information systems which execution ensures the established levels of protection for personal data, requirements for media with biometric personal data and technologies for storage of such data outside information systems of personal data.

4. The FFMS of Russia approved a new regulation<sup>80</sup> on information disclosure by issuers of securities. The said document offers a more detailed procedure for information disclosure in the form of statements of material facts, specifying the kind of information that should be given in a specific statement of material fact. The regulation will enter into force on March 2, 2012.

<sup>74</sup> Order of the FFMS of Russia No. 11-64/pz-n of December 1, 2011 On Approval of the Rules of the Federal Service for Finance Markets.

<sup>75</sup> Order of the FFMS of Russia of January 25, 2011 No. 11-5/pz-n On Approval of the Administrative Rules for the Provision by the Federal Service for Finance Markets of a State Service of Licensing the Activities of Professional Participants of the Securities Market.

<sup>76</sup> Resolution of the RF Government No. 107 of February 25, 2011 On Approval of the Regulation on Recognition of International Financial Reporting Standards and Explanation of International Financial Reporting Statements for Application in the Russian Federation.

<sup>77</sup> Information of the Bank of Russia of March 23, 2011 On Suspension of Repo Transactions with Shares.

<sup>78</sup> Letter of the Bank of Russia No. 60-T of April 26, 2011 On General Agreement on the Terms of Conducting by the Bank of Russia and a Lending Institution of Repo Transactions at MICEX Stock Exchange.

<sup>79</sup> Federal Law No. 261-FZ of July 25, 2011 On Amending Federal Law On Personal Data.

<sup>80</sup> Order of the FFMS of Russia No. 11-46/pz-n of October 4, 2011 On Approval of the Regulation on Information Disclosure by Issuers of Securities.

## 3.13. Federal Finance Markets Service of the Russian Federation

The main state regulatory body on the Russian securities market is the Federal Finance Markets Service (FFMS of Russia). By its status, it is equivalent to ministry as it reports directly to the RF President and combines both regulatory and control supervision powers.

By the order of President of Russia No. 270 of March 4, 2011 On Improving State Regulation in the Field of Finance Market of the Russian Federation the FFMS of Russia was attached to the Federal Service for Insurance Supervision (Rosstrakhnadzor), which entailed enhanced competence of the FFMS of Russia due to regulatory and supervision functions in the field of insurance. At the same time, the said order provided for reduction in the powers of the FFMS of Russia: powers on normative legal regulation of finance markets along with the FFMS of Russia were assigned to the Finance Ministry of the Russian Federation. The RF Government was instructed to distribute functions on normative legal regulation between the two state bodies.

Currently activities of the FFMS of Russia are regulated by the Law On Securities Market and the Regulation of the FFMS of Russia approved by the resolution of the RF Government No. 717 of August 29, 2011<sup>81</sup> (hereinafter referred to as the Regulation On the FFMS of Russia). According to this document the FFMS of Russia is a federal body of executive power responsible for normative legal regulation, control and supervision in the field of finance markets (except banking and audit activities), as well as for control and supervision in the field of insurance, credit cooperation and microfinancing, activity of stock exchanges, stock mediators and stock brokers, state control of compliance with requirements of laws of the Russian Federation on prevention of unlawful use of insider information and market abuse.

The FFMS of Russia regulates all principal subjects of the stock market: issuers, professional participants, institutions for collective investment and, in certain aspects, investors. As body of executive power it reports to the RF Government which may suspend or cancel any act of the FFMS of Russia. As a rule, the FFMS of Russia does not coordinate its activities with other bodies. However the Regulation On the FFMS of Russia, effective since September 8, 2011, restricted functional independence of the FFMS of Russia upon approval of normative legal acts, e.g. setting the procedure for licensing of various types of professional activities on the securities market, standards for exposure of securities to the public, procedure and deadlines for information disclosure by issuers of securities, requirements mandatory for professional participants of the securities market aimed to prevent conflict of interests. Such documents may be approved only upon coordination with the Finance Ministry of Russia.

At the same time, the Finance Ministry in the frame of powers on legal regulation of finance markets, e.g. upon determining qualification requirements for employees of professional participants of the securities market mandatory for professional participants of the securities market, except lending institutions, standards for capital adequacy, will exercise them only upon consultation with the FFMS of Russia.

In respect of issuers the FFMS of Russia is authorized to approve standards for issuing securities, approving the procedure for state registration of securities and reports on results of issuance, as well as securities prospectuses (except state and municipal securities). The FFMS of Russia also conducts audit of issuers, in the event of breach issues prescriptions to them

and, if necessary, may suspend issuance of securities and file a claim to court to recognize issuance of securities void.

In respect of professional participants of the securities market the FFMS of Russia will license professional activity on the securities market, register certain internal documents of professional participants, maintains a register of professional participants of the securities market. It also conducts audit of professional participants, where necessary may issue prescriptions to them, prohibit or restrict conducting separate transactions on the securities market and, finally, suspend or cancel licenses of violators.

In respect of institutions of collective investment the FFMS of Russia will register rules for fiduciary management of mutual funds and rules for fiduciary management of mortgage security, rules of non-state pension funds and documents of specialized depositaries. The FFMS of Russia conducts audit of all the above entities and issues recommendations to them, coordinates normative legal acts of the Finance Ministry of Russia providing for requirements to the structure of assets of incorporated investment funds and mutual investment funds.

The FFMS of Russia also establishes the procedure for calculation of market value of assets and net assets to which pension contributions formed in non-state pension funds are invested and upon consultation with the Finance Ministry of Russia the procedure for calculation of results for investing pension contributions for their record in pension accounts of individuals, standards for dissemination, presentation and disclosure of information on activities of non-state pension funds. Upon coordination with the Ministry for Health and Social Development of Russia the FFMS of Russia establishes forms of reports of non-state pension

<sup>81</sup> Resolution of the RF Government No. 717 dated August 29, 2011 On Certain Issues of State Regulation in the Field of Finance Market of the Russian Federation (along with the Regulation On the Federal Service for Finance Markets).

funds, procedure and time for submission and mandatory terms of fiduciary management agreement concluded by non-state pension funds with managing company, approves standard form of specialized depository services agreement in respect of pension assets.

Furthermore, the FFMS of Russia establishes forms of reports of managing

companies, specialized depositories and actuaries, procedure and deadlines for submission.

The FFMS of Russia also issues guidelines and recommendations on issues within its competence and sums up practice of applying laws in the established field. Where necessary, it is entitled to apply claims to court

and arbitration court. The important function of the FFMS of Russia is the right to process cases on administrative violations referred to its competence and take actions contemplated by laws on administrative violations.

Powers of the FFMS of Russia do not cover issuance and floatation of state and municipal securities.

## 3.14. Central Bank of the Russian Federation

The Central Bank is not incorporated in the executive system and operates in pursuance of the specific Central-Bank-of-Russian-Federation Law (Bank-of-Russia Law). The authorities of the Bank of Russia related to the governing of the commercial banks are also stipulated in Bank and Banking Activity Law. As the entity responsible for the arrangement of the currency circulation and banking stability in Russia, the Bank of Russia is vested with some authorities that somehow affect the securities market or involve the securities market participants.

Thus, in the cooperation with RF Government, the Bank of Russia elaborates and implements the uniform monetary policy that affects plenty of parameters of the securities market. For the purposes of the monetary policy

implementation, Bank is represented as the issuer of own bonds and conducts operations on the open market with the governmental securities and own bonds being major player on this market.

As a bank system regulator, the Bank of Russia specifies the features of the procedure for issue of the lending institutions' securities and registers the issues of the relevant securities. Bank provides the banking control over the activities of the lending institutions and banking groups including the relevant operations thereof as the investors on the securities market. Towards the operations of the lending institutions as the professional participants of the securities market the Bank of Russia actually establishes the rules of specific operations to be conducted

(for example, depository accounting rules, etc.). Finally, the Bank of Russia provides 'indirect management' of the securities market by the involvement in the capital of the infrastructure entities on the securities market (e.g. MICEX).

The Bank of Russia also establishes banking operation rules and rules of accounting and financial reports for RF banking system.

Therefore, although the regulatory authorities of the Bank of Russia towards the securities market participants directly cover the lending institution operating on the market, the general influence of this institution is fairly profound on the market. Using above authorities the Bank of Russia is basically the second national regulator of the securities market in terms of value.

## 3.15. Ministry of Finance of the Russian Federation

By Order of the President of Russia No. 270 of March 4, 2011 *On Improving State Regulation in the Field of Finance Market of the Russian Federation* the Ministry of Finance was authorized to develop and implement state policy and provide normative legal regulation in the field of finance markets. At

the same time, the right to adopt normative legal acts in the said field is preserved for the FFMS of Russia. Powers were distributed between the two state bodies in the Regulation on the FFMS of Russia.

Based on the effective Regulations on the Ministry of Finance of Russian

Federation (approved by the RF Government Resolution No. 329 dd. 30.06.04) this Ministry approves the terms of issue and circulation of the federal governmental securities, and decisions made on the offering of the specified issues of such securities, and reports related to the results of such

offering. Alongside with that, Ministry of Finance of Russia operates as the issuer of the federal governmental securities as well.

Ministry of Finance is represented as the regulatory body in relation to the governmental securities of the constituents of Russian Federation and municipal securities providing that it maintains the state registration of the terms of issue and circulation of such securities, and it approves the standards

of disclosure of the information on such securities.

Moreover, Ministry of Finance of Russia remains the regulator in the field of pension saving investments for financing of the funded part of the pension.

In addition, Ministry of Finance of Russia adopts regulatory legal acts related to the issues of accounting and financial reports and accredits the rating agencies upon request.

Pursuant to the new Regulation on the FFMS of Russia the Ministry of Finance of Russia may upon consultation with the FFMS of Russia determine requirements which entities should meet in order to be recognized qualified investors, requirements for the size and calculation procedure for own funds of incorporated investment fund, mutual investment fund and non-state pension fund, for the asset structure of incorporated investment funds and mutual investment funds.

## 3.16. Ministry of Health and Social Development of the Russian Federation

In accordance with the Regulation on the Ministry of Health and Social Development of the Russian Federation, approved by RF Government Resolution No. 321 dd. 30.06.2004, the Ministry performs the functions of development

of the national policy and legal control regulations including those in the field of pension insurance, non-governmental pension insurance, and social insurance.

The Ministry of Health and Development of Russian Federation

accepts regulatory legal acts that set the requirements to the pension schemes used for non-governmental pension insurance, and approves the standard insurance rules of the non-governmental pension fund.

## 3.17. Other state bodies

The law enforcement system used on the securities market includes the taxation body, financial control and

monitoring body, anti-trust body, judicial system, and law enforcement authorities. However, this overview does

not cover the detailed description of the functions and objectives of these bodies.

## 3.18. Self-Regulated Organizations

Along with state bodies, the system for regulation on the securities market includes self-regulated organizations (SROs). These are established by professional participants of the securities market, management companies and non-state pension funds for the purpose to ensure conditions for their activities,

compliance with professional ethics standards, protection of clients' interests, as well as setting rules and standards for conducting transactions ensuring effective operation on the securities market.

SROs are established as non-governmental organizations. They set

the rules binding on all involved and related to professional operations on the securities market and standards of operations with the securities, and provide the enforcement of these rules. The SRO membership is voluntary.

Currently, only five following organizations have the status of SRO of

professional participants of the securities market and cooperative investment institutions<sup>82</sup>:

➤ Russian National Association of Securities Market Participants (NAUFOR) that unites the brokers, dealers, trust managers, and depositories. There are 293 members. NAUFOR holds the central office in Moscow and regional offices in 14 regions of Russia;

➤ The Professional Association of Registrars, Transfer Agents, and Depositories (PARTAD) unites 77 depositories and registrars;

➤ National Securities Market Association (NSMA) incorporates the organizations that have brokerage licenses, dealer licenses, depository licenses, and trust management licenses,

represented mainly by the lending institutions. 225 organizations are incorporated in NSMA;

➤ National Trust Manager League (NTML) that incorporated 65 organizations unites the managing companies of the Pension Investment Funds and Non-Governmental Funds;

➤ Ural Region Non-Profit Professional Securities Market Participant Partnership (URPSMP) is the only SRO today that has the head office in Yekaterinburg and not in Moscow. 19 professional participants of securities market of Ural Region are the URPSMP members;

➤ National Association of Non-State Pension Funds (NAPF) is self-regulated organization incorporating

non-state pensions funds of Russia. 88 organizations are NAPF members.

It should be emphasized that the professional participants of the securities market are often members of few SROs at the same time. Therefore, it is bound to be impossible to assess the full involvement of the market community in the self-regulatory mechanisms. Nevertheless, based on our assessments 30 up to 35 per cent professional participants of the securities market out of the total number are the members of at least one self-regulated organization; and the highest rate of participation in SRO among the registrars exceeds 70 per cent. The presence of the SRO members among the stock exchange trading participants is fairly respectable.

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<sup>82</sup> Source: *The FFMS of Russia and SRO websites.*

# 4. Calendar of the Main Events for 2011

January	
11	The MICEX Stock Exchange was assigned the status Recognized Stock Exchange by the UK Tax and Customs Service.
14-17	Mass disorders and armed clashes in Tunisia had little effect of Russian stock indexes.
20	The RF President signed a list of orders upon results of the meeting on the creation of the international financial center in Russia, including on optimization of the structure of bodies of executive power and withdrawal of the Bank of Russia from the MICEX shareholding.
21	The FAS Expert Board for competition on finance markets recognized presence of financial pyramid signs in the MMM-2011 scheme.
24	The FFMS of Russia authorized to split shares of RTS OJSC with ratio of 1:100.
24	Terrorist act in the Domodedovo airport has little effect on Russian stock indexes.
27	The Federal Law of July 27, 2010 No. 224-FZ "On Prevention of Unlawful Use of Insider Information and Market Manipulation" entered into force.
27	The FFMS of Russia published letter "On implementing the Law "On Prevention of Unlawful Use of Insider Information and Market Manipulation".
27	At the World Economic Forum in Davos the RF President announced that a special sovereign fund will be established to attract private investment to the economy.
27	At the World Economic Forum in Davos a representative from the Bank of Russia informed that negotiations on RTS acquisition by the MICEX Group will be finalized in a short time.
28	The RF President held a meeting on economic issues, with discussion of the prospects of creation in Russia of the uniform service for finance market regulation.
29-30	Mass disorders and armed clashes took place in Egypt. Stock indexes dropped in the Middle East and on the global markets. This had little effect on Russian stock indexes.
February	
01	Agreement on the intent of five majority shareholders of RTS to sell its shares to MICEX CJSC.
02	Mayor of Moscow announced that the city will not use external borrowings in the forthcoming years.
02	RTS obtained the status of observer at the Federation of European Securities Exchanges (FESE).
03	The Bank of Russia announced its plans to introduce own criteria for selecting depositaries for working with lending institutions.
07	The MICEX announced the decrease in rates on repo transactions from February 14. Furthermore, to ensure economic support for the conclusion of major transactions, the minimum commission on transactions with securities is introduced and the size of lot is increased as of March 1.
07	The Federal Law No. 7-FZ "On Clearing and Clearing Activities" was signed and comes into force on January 1, 2012.
08	The State Duma adopted in the first reading amendments to the Law "On securities market" in terms of prudential regulation.
11	NAUFOR sent to the President a letter with proposals on the priority measures designed for development of the stock market, including possible risks of the merger of the MICEX and RTS exchanges.
14	Futures auctions for the federal loan bonds basket started in the sector of the RTS FORTS derivatives market.



#### 4. CALENDAR OF THE MAIN EVENTS FOR 2011

18	The Head of the FFMS of Russia supported abolition of restrictions on the issue of depositary receipts for shares of the Russian issuers.
18	The MICEX published the information about a new shareholder of CJSC MICEX Stock Exchange – LLC MICEX-Finance owning 12.7% of registered ordinary shares.
22	The media reported that the agreement between the MICEX and RTS shareholders allows both stock exchanges to pay dividends.
28	Sberbank of Russia reported on purchase of 5.6% RTS shares.
<b>March</b>	
04	The President of Russia held the meeting on the formation of a global financial center.
04	The President of Russia adopted Decree No. 270 "On measures to improve government regulation of financial markets". Federal Insurance Supervision Service was integrated with the Federal Service for Financial Markets. The Ministry of Finance is now responsible for development and implementation of the public policy and legal regulation of financial markets.
10	The extraordinary General Meeting of Shareholders of MICEX JSC decided on increase in its share capital through placement of additional shares in exchange for shares of CJSC MICEX Stock Exchange.
11	The Head of the FFMS of Russia supported abolition of restrictions on the issue of depositary receipts for shares of the Russian issuers in the countries where the FFMS of Russia signed memorandums of information exchange with the regulators.
11	Sberbank of Russia and IC Troika Dialog signed the agreement of intent to merge.
14-15	Series of earthquakes, tsunamis and a disaster at the NPP led to drop in the stock index in Japan. Russian stock indexes dropped by 1.5-1.9%.
14	The FFMS of Russia and the Agency for Financial Markets in Liechtenstein signed a memorandum of cooperation.
15	The rates in the FORTS market changed, including the exchange fee for transactions with futures contracts for shares of certain issuers was reduced by half, and the exchange fee for transactions with option contracts was doubled.
19	Western countries started military operations in Libya. This had little effect on Russian stock indexes.
21	Draft Decree of the Government "On certain activities of the Federal Service for Financial markets" was published at the web-site of the Ministry of Finance.
24	Sberbank of Russia reported an increase of its share in CJSC MICEX Stock Exchange up to 10.18%.
24	The FFMS of Russia banned several transactions of IC Troika Dialog.
25	President of Republic of Tatarstan announced plans to issue Islamic bonds.
28	Futures auctions for the federal loan bonds started on the derivatives market of the MICEX Stock Exchange.
29	The media reported that some assets required for operation of RTS and held on the balance of NP RTS, turned out to be outside of the framework of the transaction between MICEX and RTS shareholders.
29	The representative of the MICEX Board of Directors informed that the combined stock holding must be prepared for public offering by 2013.
30	The meeting of brokers and depositories took place at RTS with participation of the FFMS of Russia and was devoted to development of market infrastructure.
<b>April</b>	
01	NAUFOR sent proposals about creation of a central depository in Russia to a working group designed to establish the IFC.
08	The FFMS of Russia demanded that a number of NPFs compensated their customers for losses accrued on their accounts for 2008 within one month.
11	D. Pankin was appointed the Head of the FFMS of Russia after V. Milovidov.
13	Technical failure at RTS.
14	The FFMS of Russia and the Financial Sector Supervisory Commission of Luxemburg signed a memorandum of understanding and information exchange.
14	The appeal to the President of the RF was published following the discussion by the Working group designed to create the IFC of changes in Chapter 4 of the Civil Code of the RF "Legal Entities".
15	The extraordinary Meeting of the Board of NP RTS was announced to be called on request of more than 25% of members.
18	Rating agency S&P changed its forecast for the US rating from "stable" to "negative". Many world markets reacted by lower indexes and the USA stock index decreased by 1.67%. Russian consolidated stock indexes dropped (MICEX index – 3.72%, RTS index – 3.95%).
22	The FFMS of Russia published Decree No.11-3/нз-н dated January 21, 2011 "On approval of Regulation on the procedure for notification of persons on their inclusion in and exclusion out of the insiders list, Regulation on transfer of the insiders lists to trade organizers through which the transactions with financial instruments, foreign currency and/or goods are made, and Regulation on the procedure and terms for notification of insiders about the transactions made".



<b>May</b>	
03	The media reported that the Board of Directors of RTS accepted the offer of NP RTS for redemption of its property.
06	Decree of the FFMS of Russia No. 10-78/пз-н dated December 28, 2011, "On approval of Regulation on organization of trading in the securities market" entered into force.
09	Rating agency S&P reduced credit rating of Greece from B down to BB-.
10	Decision of the Government of the RF No.326 dated April 26, 2011 "On some issues of federal executive bodies activities in the financial markets" entered into force.
12	The meeting of representatives of MICEX and RTS bidders with top management of stock exchanges took place in connection with creation of the unified exchange infrastructure.
12	Decree of the FFMS of Russia No.11-18/пз-н "On approval of the List of information recognized as insiders information as well as the procedure and terms for its disclosure" was signed (enters into force on July 31, 2011).
13	The 6th annual conference of NAUFOR.
15	The FFMS of Russia published the draft regulation cancelling introduction of more strict requirements to the equity capital of professional participants in the securities market planned for July 1.
16	The media reported that members of NP RTS were not satisfied with the offer of RTS for redemption of the partnership property.
18	The extraordinary Meeting of the Board of NP RTS took place. The members of the partnership decided not to carry out activities for organization of trading or compete with RTS and the unified stock exchange.
21-23	International rating agencies lowered credit ratings or their forecast for ratings of Japan, Greece and Italy. Global stock indexes reduced on average by 2%. Consolidated stock indexes in Russia dropped as well (MICEX index- 1.92%, RTS index- 3.30%).
25	Sberbank of Russia declared about its request to the FFMS of Russia for circulation of 25% of its shares in the foreign stock exchanges in the form of depositary receipts.
25	The FFMS of Russia reported about the price manipulation.
25	The Head of the FFMS of Russia announced plans for a more flexible approach to penalties.
26	Sberbank of Russia and IC Troika Dialog signed the legally binding agreement for acquisition of 100% investment company.
<b>June</b>	
01	Moody's rating agency lowered the credit rating of Greece from B1 down to Caa1 with "negative" forecast. Russian consolidated stock indexes slightly declined.
02	The Head of the FFMS of Russia informed that the Service will not impose penalties on the market participants for violation of the law "On prevention of unlawful use of the insider information and market manipulation" until January 01, 2012.
06	The representative of the Bank of Russia reported about execution of the Presidential order on preparation of proposals for exclusion of the Bank of Russia from the MICEX capital (proposals were not publicly disclosed).
14	Rating agency S&P lowered the credit rating of Greece by three points down to CCC with a "negative" forecast. Russian consolidated stock indexes slightly declined.
15	The FFMS of Russia permitted circulation of ordinary shares of Sberbank of Russia outside of the RF.
17	President of Russia supported cancellation of restrictions for placement of shares of Russian companies abroad at St. Petersburg International Economic Forum.
19	Decree of the FFMS of Russia No. 11-8/пз-н dated April 05, 2011 "On approval of Regulation on methods of circulation and accounting of rights to securities intended for qualified investors and foreign securities" entered into force.
22	The FFMS of Russia registered report on results of additional issue of ordinary shares of MICEX CJSC. The issue took place for further exchange of the shares to shares of MICEX Stock Exchange. As a result MICEX become almost 100% holder of shares of MICEX Stock Exchange. Thus, the transfer of MICEX Group to common stock was completed.
22	Decree of the FFMS of Russia No. 11-23/пз-н dated May 24, 2011 "On approval of capital adequacy requirements for professional participants of the security market and management companies of investment funds, mutual funds and non-state pension funds" was registered. The decree canceled increasing requirements to the equity capital from July 01, 2011 for all professional participants except management companies regulating investment funds, mutual funds and non-state pension funds.
22	Trading of depositary receipts for shares of Sberbank of Russia started on the US OTC market.
<b>July</b>	
01	Trading of depositary receipts for shares of Sberbank of Russia started on LSE and Deutsche Boerse.
01	President of Russia signed the list of instructions following the results of St. Petersburg International Economic Forum. Among them there was a proposal to cancel restrictions for placement and circulation of securities of Russian issuers outside of Russia while improving the competitiveness of the Russian stock exchange infrastructure. Quotation of shares of those issuers whose depositary receipts are traded on foreign markets increased.

#### 4. CALENDAR OF THE MAIN EVENTS FOR 2011

06	Bank of Russia published a list of 29 professional participants of securities market, i.e. depositories whose transactions need special attention.
03-13	Moody's rating agency lowered credit ratings of Portugal and Ireland.
14	Moody's rating agency placed the credit rating of the USA under review for possible downgrade. Rating agency S&P declared possible decrease in credit rating of the USA.
12	The FFMS of Russia held a meeting with professional participants of the securities market devoted to implementation of the law on prevention of unlawful use of the insider information.
18	The FFMS of Russia published the list of regulatory documents regarding prevention of unlawful use of the insider information prior to its registration in the Ministry of Justice at its web-site.
25	Moody's rating agency lowered credit rating of Greece from Caa1 down to Ca.
29	One of the minority shareholders of MICEX requested the Bank of Russia (the major shareholder) to block the deal of merger with RTS.
29	FAS decided to prolong consideration of the MICEX motion for acquisition of RTS JSC and other companies of this group with regard to the possible restrictions for competition on the securities market, for two months.
<b>August</b>	
01	Administration of the US President and the Congress parties agreed on increase in the national debt limits.
03	Moody's rating agency confirmed the credit rating of the USA as AAA and changed its forecast to "negative". Russian consolidated stock indexes dropped (MICEX index - 3.38%, RTS index - 3.37%).
03	The framework agreement for transfer of assets between NP RTS and RTS JSC was signed.
05	Extraordinary General Meetings of Shareholders of RTS JSC and MICEX took place. In particular the decision on restructuring RTS JSC through accession to MICEX was approved.
05-08	Rating agency S&P lowered the credit rating of the USA down to AA+. Most global markets reacted by lowering their indexes and the US stock index S&P 500 dropped by 6.7%. Russian consolidated stock indexes considerably dropped (MICEX index - 5.50%, RTS index -7.84%).
09	RTS reported on conditions for redemption of shares in connection with decision on accession to MICEX.
09	Technical failure at RTS.
10	The FFMS of Russia published the report on the fact of price manipulation.
11	The amendments to the Law "On Insolvency (Bankruptcy)" introduced by Federal Law No.8-FZ dated February 07, 2011, and related to use of close out netting for transactions being the subject of the general agreement, entered into force.
18	Technical failure at MICEX Stock Exchange.
18	The MICEX Group applied to the Government of the RF with remarks about the draft amendments to the central depository legislation.
24	Moody's rating agency lowered the credit rating of Japan from Aa2 down to Aa3.
<b>September</b>	
01	MICEX increased duration of the trading session starting at 9.30 and ending at 19.00.
02	Rating agency S&P confirmed the credit rating of Russia as BBB with "stable" forecast.
08	Decision of the Government of the RF dated August 29, 2011 "On some issues of regulation on financial markets" entered into force. Regulation on the FFMS of Russia was approved inclusive of new authorities.
09	FAS approved the transaction of merger of MICEX and RTS.
13-22	A number of meetings of service committees of MICEX and RTS devoted to merger of two stock exchanges took place.
16	The FFMS of Russia registered issue of ordinary shares of MICEX placed through conversion with dilution; conversion ratio was 1:10,000 and new nominal value amounted to one ruble as at RTS JSC.
20	Rating agency S&P lowered the credit rating of Italy by one point from A+ down to A with "negative" forecast. Global markets responded to this by drop. Responses of the Russian market showed up later.
22	In conditions of growing debt issues in the USA and EC, a large-scale drop occurred on the global stock markets, the US stock index S&P 500 decreased by 3.19%. Russian consolidated stock indexes experienced the most considerable drop (MICEX index -7.82%, RTS index - 8.61%).
24	The issue of the candidate for President of Russia at the March 2012 elections was clarified at the congress of "United Russia".
26	The Minister of Finance A. Kudrin was dismissed.
26	The FFMS of Russia held a meeting with participants of financial markets devoted to operation of the market in the high volatility period.

October	
04	Rating agency S&P published the report on increased risks of second-wave crisis in Europe.
05	Moody's rating agency lowered the credit rating of Italy by three points from Aa2 down to A2 with "negative" forecast.
06	At the investment forum Russia Calling, the Prime Minister of the RF outlined the significance of merger of the leading stock exchanges in Russia and estimated the approximate annual volume of transactions at the unified stock exchange as 200 trillion rubles.
07	MICEX and RTS Groups proposed to cancel the practice of trading halts.
10	The meeting of Presidential Council for the Financial Market Development took place. In particular, the draft law on the central depository was agreed.
11	FSB of Russia approved the NAUFOR standard "Protection of personal data during their processing by operators – professional participants of financial markets in the personal data information systems".
12	Stock exchanges at the BRICS emerging markets announced establishment of an alliance designed to attract international investors and improve liquidity.
12	RTS received a full member status of the World Federation of Exchanges (WFE).
14	Rating agency S&P lowered the sovereign credit rating of Spain from AA down to AA- with "negative" forecast.
19	Moody's rating agency lowered the sovereign credit rating of Spain from Aa2 down to A1 with "negative" forecast.
21	The FFMS of Russia issued the stock exchange license to MICEX CJSC.
25	President of Russia instructed to ensure adoption of the law "On the central depository" in the autumn session.
27	Following the meeting in Brussels, EU leaders agreed on measures to bring the region through the debt crisis.
28	The first meeting of the International advisory board for the creation and development of the International financial center in Russia took place.
November	
01	Technical failure at MICEX Stock Exchange.
03	Clearing at the stock market of the MICEX Group was transferred from MICEX CJSC to CJSC JSCB NCC.
08	Technical failure at MICEX Stock Exchange.
10	The FFMS of Russia registered the prospectus of the Uranium One Inc. (Canada) securities and allowed for public offering and circulation two bond issues totaling 29 billion rubles.
14	The FFMS of Russia approved the members of four expert panels (for the securities market, corporate governance, collective investments and insurance).
17	The Head of the FFMS of Russia publicly criticized the leading Russian stock exchanged for technical failures.
22	The law "On the organized trading" (enters into force on January 01, 2012).
23	Working regime of MICEX-RTS stock, derivative and currency markets during the New Year holidays was announced.
24	Technical failure at RTS.
28	It was reported on suppression of the activities of group of persons, including the professional securities market participants, aimed to withdraw large amounts abroad.
29	Fitch rating agency confirmed the highest credit rating of the USA but changed its forecast to "negative".
30	The world's leading central banks announced new coordinated measures to support the global financial system. The response of financial markets was positive. Russian stock indexes increased by 3-5%.
December	
04	The VIth State Duma was elected.
05-06	The State Duma elections triggered a wave of criticism from foreign observers and protests in Moscow and other cities. Sale of Russian assets started, stock indexes dropped by 3.9-4.7%.
05	The decision on granting subsidies from the Moscow City Government was adopted to recover losses related to access to the MICEX MII stock exchange.
06	Rating agency S&P placed the credit ratings of 15 EU countries under review for possible downgrade.
07	President of Russia signed the law "On the central depository".

#### 4. CALENDAR OF THE MAIN EVENTS FOR 2011

07	The first issue of the Uranium One Inc. (Canada) bonds in amount of 16.5 billion rubles was placed in MICEX JSC at nominal value.
08	The extraordinary General Meeting of Shareholders of MICEX took place. It approved a new version of the Articles of association including provisions about changes in organizational form and new name OJSC "MICEX-RTS".
09	President of Russia signed a list of instructions following the meeting of the International advisory board for the creation and development of the International financial center.
12	OJSC "MICEX-RTS" signed a cooperation agreement with the Organization for Economic Cooperation and Development. The cooperation program includes development of approaches in the field of corporate governance.
12	Fitch, Moody's and S&P rating agencies stated that the measures taken by the European Union were not sufficient to maintain credit ratings of the EU countries.
12	The FFMS of Russia imposed penalties to seven NPFs.
13	Rating agency S&P lowered the credit ratings of nine EU countries, in particular, France and Austria lost their highest ratings.
16	The protocol on Russia's accession to the WTO was signed.
19	The calculation base for FTSE 100 index included shares of Russian issuers' holding companies "Polymetal" and "EVRAZ".
19	The legal merger of MICEX and RTS Groups was declared. The first trading day of the unified MICEX-RTS stock exchange. Technical failure occurred.
20	The management of MICEX-RTS submitted public apology for the technical failure.
20	The Prime Minister of the RF expressed sharp criticism of the management of energy companies due to their affiliation with the contractor companies. Quotation of shares of the said companies changed slightly.
22	President of Russia published the message to the Federal Assembly. He drew attention to the importance of reducing the inflation rate to develop the financial system and the need to improve the voluntary pension schemes. Russian stock indexes changed slightly.
25	The sanctioned rally took place in Moscow at Sakharov Prospect under the slogan "For fair elections". Russian stock indexes changed slightly.
25	Decree of the FFMS of Russia dated November 17, 2011, No. 11-60/пз-н "On amendments to certain FFMS regulations" entered into force; in particular, it provides conditions for the stock trading during holidays as well as the possibility to hold discrete auctions during the trading halts at the exchange.
28	The FFMS of Russia agreed the new version of Standard documentation for derivative transactions on financial markets, prepared by NAUFOR, ARB and NFEA.
30	The Board of the Accounts Chamber of the RF reviewed the results of the strategic audit for the financial market development. It noted that of 12 indicators determined by the Financial Market Development Strategy to 2020, only two may be achieved.
30	Decree of the FFMS of Russia dated November 17, 2011, No.11-61/пз-н "On brokerage activities in transactions made at the expense of customers during holidays on the securities market" entered into force.