

# The Russian Capital Market 1st and 2nd Quarters, 2009

Events and facts



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# Introduction

This report presents the next in a series of reviews on the Russian capital market.

The objective of such reviews, published bi-annually since 2007, is to present a general picture of the Russian securities market and its key components: its instruments, participants, infrastructure, regulatory system and monitoring, as well as to highlight the main events that occurred in the market during this given period.

The reports are issued by the National Association of Securities Market Participants, with the active cooperation of the Moscow School of Management, SKOLKOVO.

Please note the following key points:

1. In this review we have tried to minimise extensive commentary or evaluation, other than where strictly necessary in order to comprehend fully the data it contains, the dynamics, or the specifics of the Russian capital market;
2. In the majority of cases we have used information pertaining to the end of June 2009; however in some cases where this data was not available at the time of writing, we have used facts that relate as close to this date as possible;
3. It is not our intention to demonstrate the growth of the Russian market over a lengthy period prior to 2009. Generally, when using historical data, we will make reference to nothing earlier than 2005;
4. Numerical indicators used in this report are noted in both national and foreign currency. This is due to the peculiarities of trading and the way in which its results are presented;
5. We will often refer to data from a number of different sources in order to demonstrate existing discrepancies in evaluations or accounts.

We would like to thank the Groups MICEX and RTS, the REGION Group of companies, the National League of Governors, Standard&Poor's, Ernst&Young, the JSC companies Interfax Business Service, Interfax (SPARK), Finmarket (Rusbonds Project), DerEX and CBONDS for the material they provided and their cooperation.

## Main indicators and trends for the first half of 2009

*For the Russian securities market 2008 proved a landmark year. The consequences of the global financial and economic crisis dramatically changed the vector of market growth. A critical phase of the crisis came to an end at the close of 2008 – the beginning of 2009, and the first two quarters of 2009 show a market recovery. However main indicators show that the Russian market is still far from the level it had reached pre-crisis.*

**Stock Market.** Capitalisation of the Russian stock market rose by 43% in half a year and constituted 0.54 trillion dollars. Respectively this was 61% less for the same period of the previous year. The capitalisation of the Russian stock market remained at traditionally high concentration. The ten most capitalised companies took around a 70% share of capitalisation, in the industrial sector 57% capitalisation was held by oil and gas (extraction and refining). The number of stock issues floated on the quotation lists on the domestic organised market was notably reduced. There were approximately 320 company stock issuers on both the domestic and foreign market. As of the second quarter, the domestic exchange transaction turnover of Russian stock demonstrates an uptrend. However, in monetary terms, the results of the first half of the year show the transaction volume (discounting repurchase agreements (REPOs)) to be around 5.8 trillion rubles — 27% down on the same period the previous year. From the second quarter the share of repurchase deals in the overall exchange stock turnover began to decline, reaching 57% at the end of the half year point. The concentration of the exchange turnover of stocks of individual issuers remained very high — the share of the securities of the ten most liquid issuers in general circulation exceeded 90%. The shift in trading activity on the foreign markets experienced July-November of the previous year did not continue further, and in the first half year the ratio of deals on the domestic and foreign markets reverted back to the pre-crisis 70:30 in favour of the domestic market.

**The Corporate bonds market.** The overall volume of corporate bonds in circulation on the domestic market constituted 2.05 trillion rubles, an increase of 37% in comparison to the same period of the previous year. The increase was sporadic and relates to the end of the second quarter. The volume of bond issuers decreased by 7% to 433 companies. The total exchange and off-exchange corporate bond deal volume (excluding repurchase agreements) demonstrated a tendency toward growth in the second quarter, however overall for the half year fell by 33% in comparison with the same period of the previous year and came to 1.1 trillion rubles. The share of exchange transactions that had fallen sharply toward the end of the previous year had returned to its pre-crisis level — 73% by the mid year point. A pronounced dip in the number of bond issues was noted, both those released into circulation and those placed onto the quotation lists on the internal organised market. The volume of exchange transactions excluding repurchase agreements fell by 32% at the end of the first two quarters in comparison to the same period of the previous year and constituted 0.85 trillion rubles. The share of repurchase agreements in the total exchange turnover of corporate bonds, which had fallen sharply at the end of 2008, returned to its pre-crisis level — 62%. A sharp increase in the concentration of corporate bond transactions of certain issuers is worthy of note. Initial corporate bond placements resumed in May, and towards the end of the second quarter the volume of placements came to 261 billion rubles. The numerous defaults in corporate bonds,

a phenomenon that appeared in the previous year, continued. In the industrial sector the vast majority of defaults occurred in commercial companies, the food industry and construction.

**Derivatives market.** In the first two quarters, compared with the same period in 2008, in monetary terms there was a fall in the volume of derivatives deals of 33%. That said there was a rise in the deal volume of the number of contracts — 55% and in the number of deals — 159%.

Amongst derivatives contracts an overwhelming share of the turnover (approximately 90%) was taken by futures, niche options exhibiting a downward trend. In the structure of underlying assets derivatives prevailed on the stock indexes — more than 80% of the turnover in monetary terms; the share of bonds became vanishingly small. The proportion of the volume of the derivatives market, the underlying assets of which are stocks and stock indices, and the volume of the spot market excluding repurchase agreements during the half-year period fell to the level 72—74%. The volume of open positions for derivative contracts has had a downturn as of the end of last year. At the end of the first two quarters of 2009 the volume of open positions fell in comparison with the same period of the year before in monetary terms by 80%, the number of contracts by 46%. A pronounced contraction in the share of the indexes occurred in the structure of open positions (from 75 to 58%).

**Stock indexes.** The main stock indexes experienced fast-moving share growth during the first half of the year, evident as of March. Rate of return (in annual percentage) on the composite indexes were — RTS index — 113%, MICEX index — 114%. The imbalance of the same stock indices, calculated by various stock exchanges, which became perceptible in the second half of the previous year remained. The main corporate bond stock indexes continued right up to March, a decline that had come about mid 2008, then began to grow sharply. The index calculated volume weighted effective yield reached 25% at the beginning of February, but fell to 14% toward the end of the second quarter. Volume weighted duration contracted sharply and towards the end of the second quarter fell to 400 days.

**Issuers.** The number of stock and bond issuers on the organised market did not significantly change over the half-year period, but the number of issuers on the quotation lists was seen to drop. There were no public stock offerings. Alternative platforms created on leading Russian stock exchanges for the placement and circulation of the securities of innovative companies and those of low capitalisation showed insignificant volumes of placements and secondary market.

**Private Investors.** The number of private investors operating on the MICEX stock exchange is growing steadily and came to 622,000 at the end of the half-year period. The number of active investors is increasing monthly and reached 112,000 people.

**Collective Investors.** The number of Unit Investment Funds (UIFs) grew slightly to 1089 funds, the increase due to the rise in the number of closed-end UIFs. The number of open-end and interval UIFs decreased. The total net asset value of UIFs, despite rising during the first two quarters, was 19% less than that of the same period of the previous year, coming to 640 billion rubles. The price of opened-end and interval fund net assets fell to a far greater extent (by 25% and 39% respectively). In opened-end UIFs the net outflow that commenced in the second quarter of 2008 continued. The mid year results show a net investment credit balance deficit to the tune of 6.4 billion rubles.

**Private Pension Funds (PPFs).** For the two quarters the number of PPFs with private pension surety fell to 71 funds (by almost 30%). At the end of the first quarter PPF investment resources remained almost unchanged in comparison to the same period of the previous year.

**Foreign Investment Funds.** According to available data, around 2200 foreign funds invest into Russian assets (both local stocks and depository receipts), from those which are obliged to declare their activity. This is 8% fewer than at the beginning of the year. The investments of these funds into Russian assets were seen to fall by 1.8%. The volume of Russian securities in assets is estimated at 75 billion dollars,

a quarter of these assets procured on the Russian stock exchanges. In addition, a sharp increase in activity was noted with regard to specialised funds (the share of Russian assets being more than 75%) and their number grew by 42% in the half year period to 51 funds; assets increased by 165% to 23 billion dollars.

# 1. Instruments

## 1.1. Stocks

Russian legislation requires all joint stock company (including closed joint stock company) stock issues to be registered. SPARK data pertaining to issuers and stock issues is presented in Table 1.

**Table 1** Stock issuers

	2005	2006	2007	2008	1H 09
Number of stock issuers	460 352	471 010	481 372	487 765	489 382
<i>Incl. open stock companies</i>	62 960	64 431	65 706	66 466	66 643
Number of stock issues <sup>1</sup>	463 206	473 881	483 244	490 645	492 262

Source Interfax (SPARK).

An overwhelming number of these stocks are totally illiquid and have no secondary market whatsoever. Only the smallest proportion of issuers is represented on the stock exchanges. Table 2 presents information on shares which are available on the Russian stock exchanges.

**Table 2** Organised stock markets

	MICEX					RTS				
	2005	2006	2007	2008	1H 09	2005	2006	2007	2008	1H 09
Number of stock issuers	163	190	208	231	278	261	281	302	275	278
Number of stock issues	256	325	309	309	396	383	398	413	395	396
<i>incl. on quotation lists (ordinary/ preferred shares)<sup>1</sup></i>	34/16	46/14	71/16	86/15	80/13	46/13	63/13	87/16	95/15	80/13

Source: MICEX, RTS.

It can be seen from Tables 1 and 2 that fewer than 0.5% of all open stock companies are represented on the stock exchanges as stock issuers, and this has been the case for the past few years.

In general, in 2005–2008 the number of public stock issuers followed an upward trend, however there were no changes worthy of note during this period. At the end of the first half of 2009 the number of stock issuers and issues of stocks remained practically on the same level as in 2008, but there was an evident reduction in quotation lists, whereas growth rates in the number of instruments included on the quotation lists was 30–35% in 2006–2007, and in 2008 — 7–15% towards the beginning of the year.

<sup>1</sup> Excluding additional issues.

It should be noted that the majority of stock issues floated on the organised market (around 70% of the total figure of 2007—2009) relate to securities released for trading without undergoing the listing procedure (unlisted securities). In 2005—2006 this figure was higher — around 80%.

The possibility of simultaneously trading the securities of one issuer on both of the main Russian stock markets is a particular characteristic of the Russian securities market. Therefore a significant proportion of issuers are represented on both the main Russian stock markets and the stocks of a range of Russian issuers are traded on foreign exchanges as depository receipts.

Table 3 shows the distribution of issuers' stocks on the main Russian stock exchanges, and also the Standard&Poor's evaluation of the number of Russian issuers whose stocks are released for trading on RTS, MICEX, NYSE, NASDAQ and are on the LSE listed S&P EMD Russia index. Slight discrepancies in the data of tables 1 and 2 can be explained by the reporting methodology.

**Table 3** The distribution of stock issuers on the main stock exchanges

	MICEX (only)	MICEX & RTS	RTS (only)	Total no. of issuers	S&P evaluation
	1	2	3	1+2+3	
2008	37	201	79	317	314
1H 09	38	196	85	319	322

Sources: MICEX, S&P.

Thus we can see that just over 300 Russian stock issuing companies are represented on the domestic and foreign organised stock markets, a figure that has hardly changed over the past few years. Around 60% of stock issuers are present on both the leading Russian stock exchanges, and in recent years this indicator has not changed significantly.

Data on the capitalisation of the Russian issuers' stock market is represented in Table 4. One should note that there is no generally accepted method of calculating the capitalisation of the Russian stock market, therefore data is provided from various sources.

**Table 4** Capitalisation of the Russian issuers' stock market

Period	Measurement	2005	2006	2007	2008	2009	
						Q1	Q2
MICEX (for stocks circulated on the exchange)	Billion rubles	7440	23 338	29 974	9912	12 137	15 532
	Billion dollars	259	885	1 217	337	360	496
MICEX (overall evaluation of the stock market)	Billion rubles	n/a	25 482	32 740	11 017	13 155	16 730
	Billion dollars	n/a	966	1 329	375	387	535
RTS (for stocks circulated on the exchange)	Billion dollars	329	966	1 329	374	387	535
S&P evaluation	Billion dollars	549	1057	1 503	397	426	598
GDP	Billion rubles	21 625	26 904	33 114	41 540		
Capitalisation/GDP	%	34,41	94,72	98,87	26,52		

Sources: MICEX, RTS, The Federal State Statistics Service (FSSS), S&P.

The growth in capitalisation of the Russian issuers' stock market as evidenced in previous years (2006 — 175%, 2007 — 40%), in 2008 gave way to a dramatic decline: the annual fall in capitalisation

constituted more than 950 billion dollars in absolute terms, or 72% in relative terms. In the first half of 2009 this trend was broken and capitalisation grew by 43% towards the end of this period, amounting to 535 billion dollars. However, in relation to the same period of the previous year it had dropped by 61%.

Interestingly, if in 2005 the share of stock capitalisation of Russian issuers on foreign trading platforms was estimated at 40%, then in 2006 this figure was about 6—12%.

The Russian stock market is noted for its high concentration of capitalisation, by issuers as by the industry to which the issuer belongs.

Table 5 shows a list of the ten most capitalised companies, and Table 6 — the change dynamics of the share of the ten most capitalised companies from 2005—2009.

**Table 5** List of the ten most capitalised Russian issuers (by the end of the first half of 2009)

Nº	Issuer	Capitalisation (billion dollars)	Share in overall capitalisation (%)
1	OJSC «Gazprom»	121,4	24,5
2	OJSC «NK Rosneft»	53,7	10,8
3	OJSC «Lukoil»	39,0	7,9
4	OJSC «Sberbank Russia»	27,4	5,5
5	OJSC «Surgutneftegaz»		5,1
6	OJSC «MMC Norilsk Nickel»	17,9	3,6
7	OJSC «Gazprom Neft»	15,6	3,1
8	OJSC «Novatek»	12,4	2,5
9	OJSC «NLMK»	12,2	2,5
10	OJSC «Mobile TeleSystems»	10,6	2,1
<b>TOTAL</b>		<b>335,5</b>	<b>67,6</b>
<b>Overall capitalisation</b>		<b>496,4</b>	<b>100,0</b>

Source: MICEX.

**Table 6** Share of the ten most capitalised issuers in the overall capitalisation of the stock market

	2005	2006	2007	2008	2009	
					1Q	2Q
Total (%)	77,7	78,5	68,5	69,3	69,5	67,6
of which OJSC «Gazprom»	-	30,7	27,3	25,7	25,0	24,5

As calculated by MICEX

Over the past few years the list of the ten most capitalised issuers has not changed a great deal. The end of 2005 was marked by the deregulation of OJSC «Gazprom» and from 2006 it has taken first place on the list of the most capitalised Russian companies. In 2006 OJSC «NK Rosneft» entered the list as a new issuer following an IPO and in 2007, also as a result of an IPO — OJSC «VTB Bank» (by the end of the first half of 2009 VTB had exited the list of the ten most capitalised public companies). In mid 2008 one of the most capitalised and liquid issuers, RAO «UES Russia», ceased its activities as a result of the completion of reforms in the electric power industry. In general the first seven positions on the list of the most capitalised issuers are traditionally taken by these same companies.

Table 7 shows data dynamics of the Russian stock market concentration of capitalisation by industry over the past few years. In this table petrochemicals and mineral fertilizers are categorised as the 'Chemicals industry', pharmaceuticals as 'Other'.

**Table 7** The Capitalisation of the Russian Stock Market by industry

№	Industry	2006	2007	2008	2009	
					Q2	
1	Fuel industry	62,4	50,4	57,0	60,9	56,7
2	Metallurgy	9,2	11,8	9,6	10,8	11,4
3	Electric Power		12,5	8,9	7,2	9,8
4	Financial	8,1	11,0	10,1	7,1	8,5
5	Communications		5,8	5,6	6,0	4,9
6	Mining		1,3	1,9	1,8	1,8
7	Chemical	0,0	1,3	1,4	1,7	1,7
8	Transport	0,8	1,1	1,8	1,2	1,3
9	Food		1,2	1,2	0,9	1,1
10	Trade	0,6	0,7	0,7	0,8	0,9
11	Mechanical Engineering and Metal Working	0,3	0,7	0,7	0,6	0,8
12	Construction	0,2	1,5	0,5	0,4	0,3
13	Other	0,2	1,0	0,5	0,5	0,6

Source: MICEX.

Table 7 shows a downtrend in the share of companies specialised in the field of the mining and refining of oil and gas that arose in 2007 and there was no further growth; as before more than half of the capitalisation of the Russian stock market was focused on the fuel industry. A new trend in industry structure appeared in 2007 where the share of companies in the financial sector increased, linked to the large share offerings of two credit organisations OJSC «Sberbank Russia» and OJSC «VTB Bank». From the second half of 2008 the share of electric power companies dropped considerably due to the fact that RAU «UES Russia» ceased trading. From 2007 the share of companies in the mining and chemical industry increased. Apart from this, there have been no major changes in the industry structure over the past few years.

Table 8 demonstrates data regarding the trading volumes of Russian stocks on the leading stock exchanges.

**Table 8** Stock trading volumes of the stock of Russian companies

Period	measurement	2005	2006	2007	2008	2009		1H 09
		Total	Total	Total	Total	Q1	Q2	Total
MICEX <sup>1</sup>	Billion rubles	4025,0	14 859,6	30 927,1	33 704,7	5901,9	7485,8	13 387,7
Classic market RTS <sup>2</sup>	Billion dollars	7,7	16,1	14,6	9,8	0,4	0,6	1,0
Exchange market RTS <sup>2</sup>	Billion rubles	82,0	27,3	23,5	28,1	1,0	7,0	8,1
Market RTS Standard <sup>2</sup>	Billion rubles	-	-	-	-	-	217,9	217,9
Saint Petersburg stock market <sup>2</sup>	Billion rubles	936,8	1 205,9	64,2	41,7	0,3	0,6	0,8
Average exchange rate for the US dollar for the period (for reference)		28,28	27,18	25,57	24,81	33,92	33,20	33,05
<b>TOTAL (estimate) inclusive of repurchase agreements</b>								
	Billion rubles	5260,2	16 530,5	31 386,8	34 012,3	5918,4	7512,9	13 431,3
	Billion dollars	186,0	608,2	1233,2	1393,8	174,5	226,3	400,8
Share of repurchase agreements	%	17,23	24,89	49,94	62,41	67,44	48,11	56,63
<b>TOTAL (estimate) exclusive of repurchase agreements</b>								
	Billion rubles	4 354,1	12 415,6	15 713,0	12 783,8	1 926,8	3 898,4	5 825,2
	Billion dollars	151,3	471,5	621,2	524,4	56,8	117,4	174,2
S&P evaluation	Billion dollars	159,3	514,4	754,5	712,8	84,3	161,3	245,6
Turnover ratio (annual) <sup>3</sup>	%	45,98	48,81	46,74	140,27			
Turnover ratio (quarter) <sup>3</sup>	%					14,69	21,96	

Sources: Bank of Russia, MICEX, RTS, S&P.

Notes:

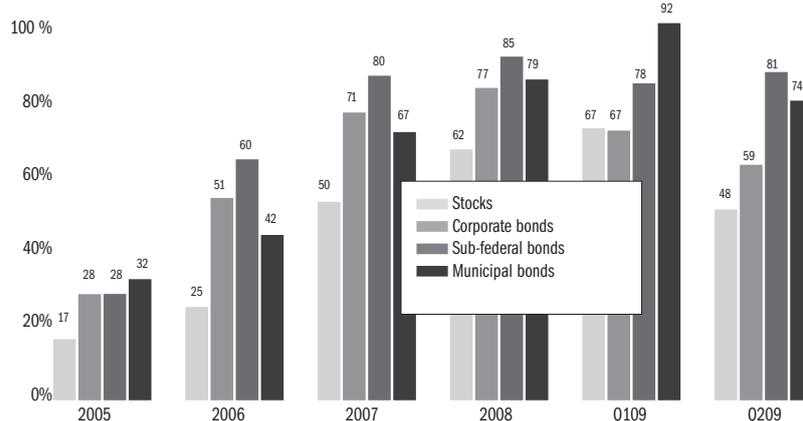
1. Bidding mode, negotiated deal mode and repurchase agreements are all included in MICEX trading. Initial offerings are not included.
2. Market, two-sided transactions and repurchase agreements are included in RTS and Saint Petersburg stock exchange calculations. Initial offerings are not included
3. The turnover ratio is the ratio of the deal volume (excluding repurchase agreements) for the period (year, quarter) to capitalisation at the end of that period.

The volumes of Russian stock exchange transactions in 2005 — 2007 (in monetary terms) grew steadily. Thus, the aggregate volume of trade on the leading trading platforms (excluding repurchase agreements) in 2006 in comparison to 2005 increased practically threefold; in 2007 annual growth was less — around 30%. In the first two quarters of 2008 growth stopped, but in the second half of the year the quarterly deal volume began to decline. Correspondingly, at the end of 2008 the total volume of trade (excluding repurchase agreements) fell in relation to the currency of settlement by 16-18%. The volumes of stock trading in the first quarter of 2009 remained on the scale of the fourth quarter of 2008, but the second quarter of 2009 saw an increase in trading activity. However, at the end of the first half of 2009

the aggregate volume of stock deals on the domestic stock market (excluding repurchase agreements) was 27% in ruble terms and 48% in dollar terms less than the same period of the previous year. It should be noted that monetary terms are used to compare the volumes of exchange transactions, therefore the depreciation of traded assets played its role in the evaluations following the plummeting price quotations that occurred in the second half of 2008.

Attention should be paid to the fact that the share of stock repurchase agreements changed considerably as of 2007 (see Table 8 and Figure 1). If in 2005 it was aggregately estimated at 17% of the total volume of domestic stock exchange transactions, but in 2006 — 25%, then in 2007 this indicator reached a distinctly different level — 50%. In 2008 the share of repurchase agreements of stocks on the domestic market increased still further and exceeded 60%, indeed on certain stock exchanges the volume of these deals rose above 85%, that is to say was predominant. In the first quarter of 2009 the growth in the volume of repurchase agreements continued, and the share of such deals exceeded 67% of the total volume of exchange transactions of stocks. However, in the second quarter this went into decline and the share of repurchase agreements fell to the level of 2007 — 48%. The volume of repurchase agreement transactions show that the over the past few years the domestic stock market is being frequently used as a financial market secured against securities.

**Figure 1.** Share of securities repurchase agreements on the domestic stock market



Sources: MICEX, RTS.

Stock trading is largely focused on a limited range of instruments. Table 9 shows the list of issuers whose stock was most actively traded on MICEX (including repurchase agreements), and Table 10 — the dynamic of change in the last few years of the share of the ten most actively traded issuers' stocks.

**Table 9** List of issuers whose stocks were most actively traded on the MICEX stock exchange (for the end of the first half of 2009)

Nº	Issuer	Share in overall turnover (%)
1	OJSC «Gazprom»	31,2
2	OJSC «Sberbank Russia»	19,9
3	OJSC «Rostelecom»	19,0
4	OJSC «Lukoil»	5,3
5	OJSC «NK Rosneft»	4,8
6	OJSC «MMC Norilsk Nickel»	4,3
7	OJSC «Surgutneftegaz»	3,3

Nº	Issuer	Share in overall turnover (%)
8	OJSC «VTB Bank»	2,4
9	OJSC «Tatneft»	2,0
10	OJSC «RusHydro»	1,0
<b>Total</b>		<b>93,3</b>

Source: MICEX.

**Table 10** Share of the ten issuers whose stocks were most actively traded

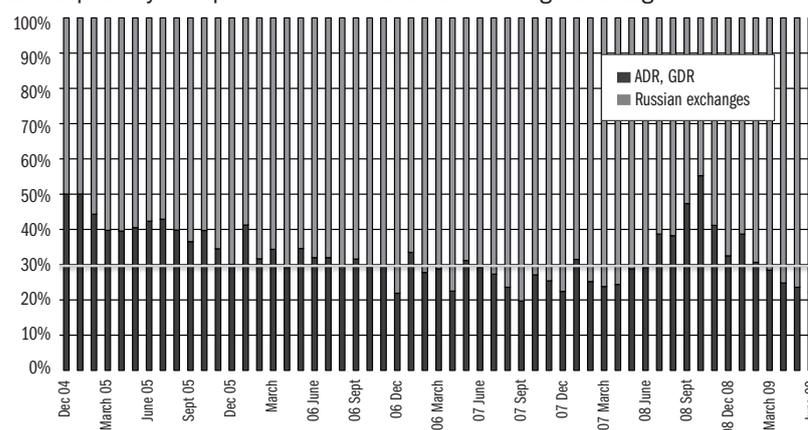
	2005	2006	2007	2008	1H 09
TOTAL (%)	95,9	94,8	92,0	92,0	93,3
Incl. OJSC «Gazprom»	-	32,0	28,4	31,9	31,2

Calculated according to MICEX data.

It can be seen from Tables 9 and 10 that turnover concentration is particularly high and only a very slight downtrend is evident. Over the past few years the list of the most liquid stock issuers has changed little. From the moment OJSC «Gazprom» liquidised its stocks, this issuer has been in first place on the list. RJSC «UES of Russia» was second on the list until it ceased its activities mid 2008, and in the first half of 2009 this position was taken by OJSC «Sberbank Russia». In 2006-2007 OJSC «NK Rosneft» and OJSC «VTB Bank» entered the list of the most liquid issuers after an IPO, and in 2009 a new issuer OJSC «RusHydro» appeared on the scene as a result of the electric power reforms.

The correlation between domestic and foreign trading platforms in the general structure of the turnover of Russian stocks is a serious question for the Russian securities market.

**Figure 2** Trading volumes of depository receipts and the stocks of Russian companies, and depository receipts which are traded on the foreign exchanges.



Source: MICEX

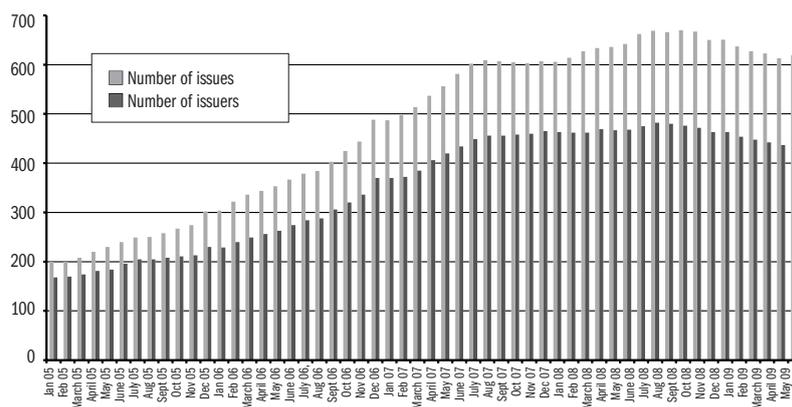
At the end of 1990 foreign trade in depository receipts far outweighed that of domestic. However, towards the end of 2004, (see Figure 2), Russian exchanges restored parity with foreign ones, and from 2005-2007 set an average 70:30% ratio in their favour with insignificant fluctuation in either direction. That said, in the second half of 2008 (July-Nov) this ratio changed, and in the remaining months the

volume of trade on foreign platforms exceeded that of those on the domestic market. Towards the end of 2008 the established 70:30% ratio in favour of the domestic trading platforms was restored. A transition trend to another level — 80:20% can be seen from February 2009. This had already occurred in May — September 2007, however on that occasion it was not consolidated.

## 1.2. Corporate Bonds

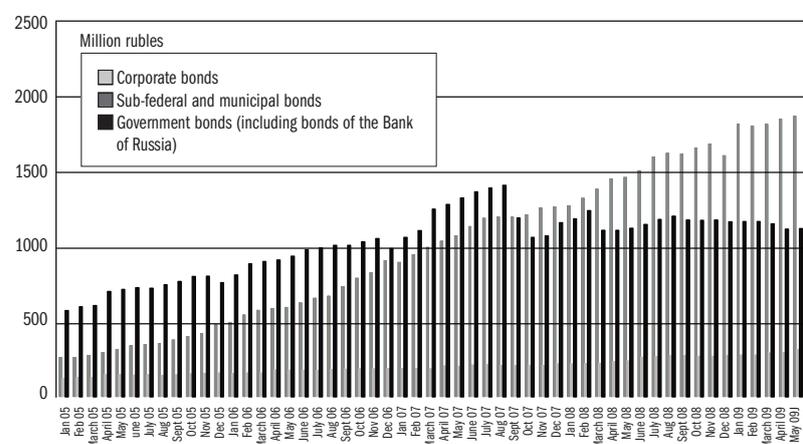
The domestic Russian corporate bonds market developed from the very outset predominantly as an exchange market. Its development to mid 2007 was characterised by a fast increase in the number of issuers, bond issues and the growth in trading volumes. However, from July 2007 the growth rates of this market slowed down significantly, and after July 2008 there was a decline (see Figure 3 and 5). In 2005 the growth in the number of bond issues and issuers constituted 53 and 36% respectively, in 2006 — 62 and 61%, in 2007 24—26%. At the end of 2008 the number of bond issues increased by 7%, but the number of issuers hardly changed. According to CBONDS, at the end of the first half of 2009 619 corporate bond issues were in circulation on the domestic market and there were 433 issuers. This was 4 and 7% respectively less than the same period of 2008.

**Figure 3** Number of corporate issuers and issues on the domestic debt market



Source: CBONDS.

The volume of Russian corporate bonds in circulation (see Figure 4) at the end of the first half of 2009, according to the agency CBONDS, was 2047.36 billion rubles in nominal value, having increased in comparison to the same period of the previous year by 37%, moreover the leap in growth lasted until the very end of the period — June 2009. To put that into context — in 2005 the annual growth was 88%, in 2006 — 87%, in 2007 it decreased to 39% and at the end of 2008 to 27%. That said, it should be noted that in 2008 — 2009 the share of so-called “non-commodity» corporate bond issues — issues which do not have a secondary market changed significantly. If in 2005 to the beginning of 2008 it was estimated (according to the agency CBONDS) on average at 0.5% of the overall volume of issued bonds, then towards the end of 2008 the volume of «non-commodity» issues reached 4%. In the first half of 2009 this indicator already exceeded 10%.

**Figure 4** Volume of the domestic debt market (in nominal value)

Source: CBONDS

In September 2007 the volume of corporate bonds exceeded that of government bonds, including the bonds of the Bank of Russia, and the divide between them then continued to grow constantly. It is interesting that the share of financial sector companies is constantly growing in the general volume of corporate bonds in circulation<sup>3</sup>: at the end of 2005 this was 21%, in 2006 — 26%, in 2007 it reached 32%, and in 2008 — 40%. Towards the end of the first half of 2009 the share of companies in the financial sector constituted 42%. Thus, financial companies, primarily credit organisations, are using in greater volumes the debt market as debt finance.

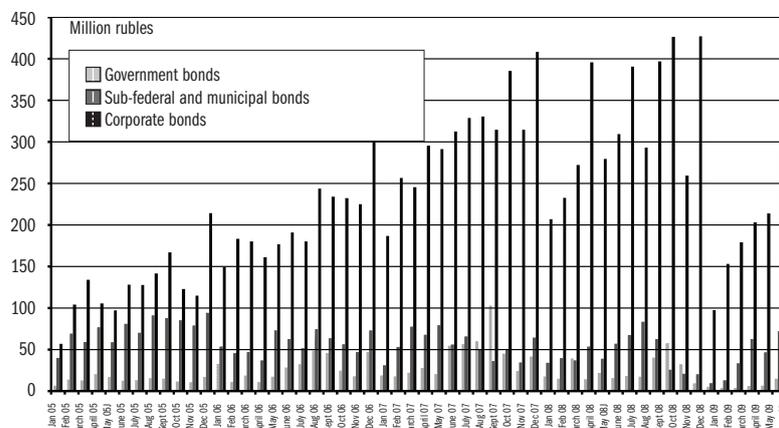
In 2006 the volume of corporate bond initial offerings was 470 billion rubles, in 2007 — around 484 billion. The volume in 2008 is estimated at 618.4 billion, with the main volume of offerings occurring in the period from August, with peaks in March and July, then placements ceased. According to the experts, the share of so-called «technical» placements in the volume of initial offerings undertaken in the first place by large Russian banks was significant. Without them the volume of IPOs in 2008 remained on the level of 2006—2007, and is estimated at 470 billion rubles. The initial placements of corporate bonds was renewed in May 2009, and at the end of the first half year the volume of IPOs reached 261 billion rubles<sup>4</sup>.

The secondary market<sup>5</sup> (both exchange and off-exchange) of corporate bonds in 2005—2008 grew constantly in volume (see Figure 5). However, during the year turnovers have differed substantially from month to month. So, over the past few years, seasonal factors have appeared significant: December activity stands out and a fall is expected at the beginning of the year. With this in mind, the first half of 2009 does not differ from the previous periods, with the exception of a sharp decline in the volume of deals to the level that characterised 2005—2006.

3 CBONDS evaluation

4 «REGION» Group of Companies evaluation

5 Here and henceforth when evaluating the volumes of these bonds on the secondary market, repurchase agreements are not included, unless expressly stated otherwise.

**Figure 5** Overall trading volume on the domestic debt market (monthly)

Source: CBONDS.

The aggregate volume of corporate bond deals on the secondary market (including exchange bonds) in 2005-2009 is presented in Table 11.

**Table 11** Volume of corporate bond transactions

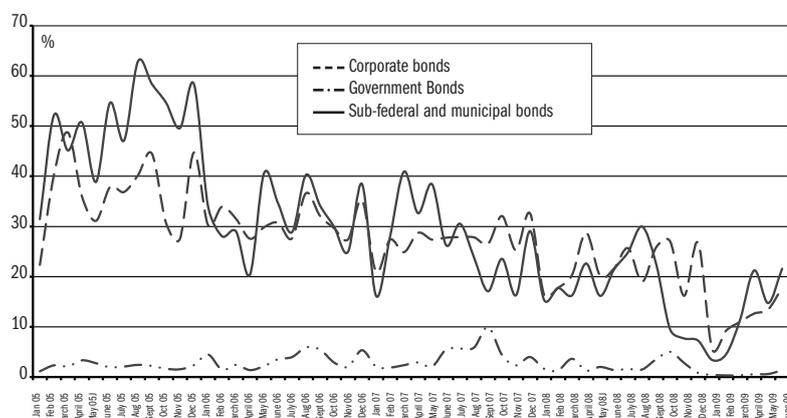
Period	Measurement	2005	2006	2007	2008	2009		1H 09
		итоги	итоги	итоги	итоги	Q1	Q2	Итого
Aggregate turnover	Billion rubles	1 514	2 438	3 670	3 890	430	707	1 137
Share of exchange deals in the total turnover	%	60	72	74	68	69	77	73

Source: CBONDS.

As shown in Table 11, in 2005 — 2008 the volume of corporate bond deals grew constantly: the aggregate turnover at the end of 2006 exceeded that of 2005 by 61%, by the end of 2007 the deal volume had risen by 51%. In 2008 a slowdown was observed: the annual deal volume was only 6% greater than in 2007. In the first half of 2009 the corporate bond deal turnover had decreased by 33% in comparison to the same period of 2008.

The share of exchange transactions in general turnover grew constantly, and in the middle of 2008 it reached 78%. However, in the second half of 2008 the trend changed sharply — the fourth quarter was characterised by the fact that the share of corporate bond exchange transactions only rose slightly above 50% of the overall turnover. In the first half of 2009 the share of exchange deals returned to the level characteristic of 2006 to 2007 — 73%.

The corporate bond market has always stood out for its fairly high liquidity (see Figure 6).

**Figure 6** Turnover indicators for various sectors of the domestic debt market

Source: CBONDS.

However, corporate bond turnover indicators<sup>6</sup> have undergone considerable change, including seasonal fluctuations. Indeed, in 2005—2008 its median value decreased continuously from 37% in 2005 to 21% in 2008. In the first half of 2009 this median value turnover indicator fell still further to 12%.

Exchange trading of corporate bonds takes place on MICEX and RTS. Table 12 shows composite data relating to the corporate bonds (including exchange bonds) circulating on the Russian stock exchanges, and Table 13 contains information on the trading volumes of bonds on MICEX<sup>7</sup>.

**Table 12** The organised corporate bond market

	MICEX stock exchange					RTS				
	2005	2006	2007	2008	1H 09	2005	2006	2007	2008	1H 09
Number of bond issuers	202	316	445	455	422	4	77	79	74	69
Number of bond issues	250	414	577	622	577	4	118	120	108	100
<i>Incl. in the quotation lists (issuers/issues)</i>	46/62	69/98	149/207	198/280	190/247	1/1	0/0	0/0	2/2	2/2

Source: MICEX, RTS.

6 In the given example the ratio of monthly trading volume to the volume of corporate bonds in circulation is nominally calculated at the end of the month.

7 The information on bond trading on the RTS in this Table and in Table 18 does not include relatively small volumes (in 2005 the aggregate volume of deals on the Classic and RTS Exchange market of corporate, sub-federal and municipal bonds, including market and two-sided deals, constituted 0.15 billion rubles; in 2006 — 8.24 billion; in 2007 — 1.23 billion; in 2008 — 6.21 billion and in the first half of 2009 — 0.017 billion rubles).

**Table 13** Corporate bond trading volume on the MICEX stock exchange<sup>8</sup>

Period	Measurement		2005	2006	2007	2008	2009		1H 09
			Total	Total	Total	Total	Q1	Q2	Total
Corporate bonds	Excl. REPO	млрд руб.	900,4	1 801,3	2 700,5	2 604,1	300,4	553,8	854,2
	Incl. REPO		1 249,7	3 665,1	9 374,4	11 348,8	907,32	1 342,7	2 250,1
Share of REPOs in the corporate bond deal volume		%	27,95	50,85	71,19	77,05	66,89	58,76	62,04

Source: MICEX.

Thus, as seen from Figure 2 and Table 12, at present approximately 95% of all corporate bonds issues are presented on the organised market. At the end of the first half of 2009 a reduction on average of 7% occurred in the number of bond issuers and bond issues, whereas in 2005 – 2008 growth occurred. So, at the end of 2006 the number of bond issuers on the organised market had risen by 56%, in 2007 – 40% and in 2008 – 2%.

Despite the continuous increase in absolute volumes of exchange transactions with corporate bonds, the growth rates in 2006–2007 fell. Thus, if in 2006 twofold growth was witnessed in comparison to 2005 (excluding repurchase agreements), then in 2007 an increase of 50% can be observed. In 2008 corporate bond exchange deals (discounting repurchase agreements) dropped by 3.5%, and in the first half of 2009 the fall in turnover seemed more substantial – by 32% in comparison to the same period of the previous year.

The trend, which has appeared over the past few years, indicates a sharp increase in the volumes of repurchase agreements in the secondary circulation of corporate bonds. Hence, for the two years from 2005 through 2007 this indicator rose 2.5 times and exceeded 70%. In 2008 this tendency continued, and in the third quarter the share of repurchase agreements reached 82%. In the fourth quarter of 2008 the share of repurchase agreements unusually fell to 52%. This was a consequence of the critical events that issued from the mass of non-fulfilled deals and the arising mutual distrust of market players. During the first half of 2009 the share of repurchase transactions of corporate bonds was recorded to be on the level of 2006–2007 – a little over 60%. Thus the organised market for corporate bonds, just as the stock market, is being used to a significant extent as a financial market underwritten by securities.

The characteristic peculiarity of the corporate bonds market that stands out positively from the stock market is the low concentration of trading volumes. Table 14 shows information on the ten bond issues with which the greatest volumes of exchange deals were made in 2008<sup>9</sup>.

<sup>8</sup> Bidding mode and negotiation deals are included. Initial offering deals are not included.

<sup>9</sup> Including repurchase agreements.

**Table 14** List of corporate bond issues that were traded most actively on the MICEX stock exchange (at the end of the first half of 2009)

Nº	Security	Issuer	Share in overall turnover (%)
1	SIBURHold2	OJSC «SIBIR Holding»	6,52
2	SIBURHold3	OJSC «SIBIR Holding»	5,60
3	MTS 04	OJSC «Mobile TeleSystems»	2,82
4	VEB 01 USD	Vnesheconombank	2,70
5	AHML-9-on	OJSC «AHML»	2,41
6	SIBIRHold5	OJSC «SIBIR Holding»	2,39
7	Sistema-01	JSFC «Sistema»	2,31
8	RZD – 12obl	OJSC «Russian Railways»	2,18
9	NOMOS-Liz1	OJSC «NOMOS-Leasing»	2,13
10	MDM Bank 8	URSA Bank (OJSC)	1,85
<b>Итого</b>			<b>30,90</b>

Calculated with MICEX data.

Thus, the secondary market for corporate bonds is concentrated on individual instruments to a far lesser degree than the stock market. It should be noted that until recently the concentration of corporate bond deals has been on a downward trend — by the end of the first quarter of 2007 the share of the ten most actively traded corporate bonds constituted 26%, and at the end of 2007 — 20%.

In 2008 concentration decreased to 17.2%. However in the first quarter of 2009 this trend was disrupted and the concentration of corporate bonds deals grew sharply to 30.9%. It should also be pointed out that the list of the most liquid corporate bonds underwent considerable change.

In March 2008 there was a debut placement of exchange bonds on MICEX. Government registration is not necessary for the issuing of exchange bonds, neither is an issues report — these functions are transferred to the stock exchange, a practice which substantially reduces the time gap between when the decision to issue is made to the commencement of secondary trading. The issuer must comply with a series of requirements in order to release exchange bonds for circulation on the stock exchange, including:

- the shares of the exchange bonds issuer must be included on the exchange's quotation lists;
- the issuer must have been in business for at least 3 years and must have properly ratified annual financial statements for the last two fiscal years;
- the date of maturity on the exchange bonds cannot exceed one year after the offering date.

In the course of 2008, 66 exchange bonds issues of eight issuers, the total volume of which came to 159 billion rubles, were registered on the MICEX stock exchange. The primary offering initiated with 15 issues of eight issuers totalled 14 billion rubles<sup>10</sup>. Secondary turnover of exchange bonds (including repurchase agreements) came to 106.7 billion rubles. In the overall volume of corporate bonds trading in 2008 this was less than 1%.

In June 2009 the «Regulations for the release of exchange bonds on the MICEX stock exchange» were amended. This included:

- the circulation period for bonds increased from one to three years;
- the scope for potential issuers was widened on account of issuers who have both stocks and bonds included on the exchange's quotation lists.

By the end of 2009, 95 exchange bonds issues of 11 issuers were registered with an overall volume of 204 billion rubles, and in the first half of 2009 the initial placement of four issues of two issuers came

<sup>10</sup> MICEX data.

to 20.8 billion rubles. In the first half of 2009 there were four exchange bond issues of two issuers in secondary circulation, the deal volume (including repurchase agreements) constituting 31.0 billion rubles. In overall corporate bond trading volume this was a little over 1%.

In 2008 a whole range of bond issuing companies were unable to fulfill their obligations on time and in full. According to the agency CBONDS, payment breaches were lodged for 54 bond issues of 49 issuers during the course of this year. Actual default occurred with regard to 37 corporate bond issues of 33 issuers for an overall sum of more than 27 billion rubles<sup>11</sup>. Thus, up to 10% of corporate bond issuers declared various breaches in servicing their debt. This is a new phenomenon, which, in previous years, has not been observed to such an extent. In 2002—2007, also according to CBONDS data, ten instances of non-fulfillment of obligation were registered with regard to corporate bonds.

Violations occurred on a greater scale in the first half of 2009, according to several evaluations. CBONDS data suggests that for this period various types of breaches were recorded pertaining to 140 bond issues of 70 issuers. Many bond issuers who had admitted violations had experienced overwhelming difficulties with regard to refinancing the offer, the payment of warrants or the settlement of a particular debt. Therefore the majority of these violations grew into actual defaults. 77% of breaches in servicing bonds led to complete default (in the previous year this indicator was a little less — around 60%<sup>12</sup>). In industrial sectors the most defaults were recorded in commercial retail companies, then in descending order came the food industry and construction<sup>13</sup>. Overall in 2008 through to the first half of 2009 the aggregate volume of defaults rose above 90 billion rubles<sup>14</sup>.

According to available data, defaults in corporate bonds will not end in the near future.

### 1.3. Government, sub-federal and municipal bonds and bonds of the Bank of Russia.

The first Russian Federation government bonds were issued in 1991. Rapid development of the domestic government bonds (GKO, i.e. Russian Government Treasury Bills and OFZ, i.e. Federal Loan Bonds) exchange market took place between 1993 and 1998, but was interrupted by a default that occurred on 17 August 1998. Since then this market has recovered neither the volumes, nor the role in the financial system that it held before the crisis. The bonds of the Bank of Russia, issued since 2005, are not formally government securities, even though they are on the same reliability level. They are short-term securities and are used by commercial banks for liquidity management; other investors are not permitted to buy them.

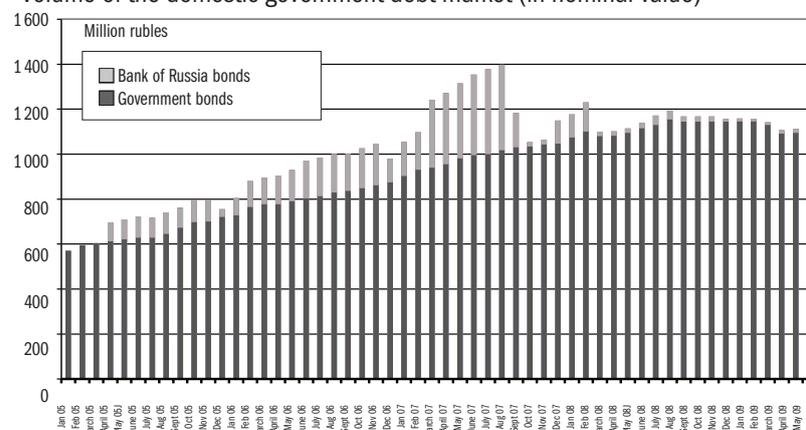
From 2005 to the first half of 2008 the volume of the government bonds market increased, then growth stopped (see Figure 7).

11 In nominal terms discounting those volumes with which bond issuers could restructure debt.

12 «REGION» Group of Companies evaluation.

13 «REGION» Group of Companies evaluation.

14 OJSC «Promsvyazbank» (PSB) evaluation.

**Figure 7** Volume of the domestic government debt market (in nominal value)

Source: CBONDS.

According to the agency CBONDS, at the end of the first half of 2009 the volume of government bonds in circulation on the domestic market had a nominal value of 1115.05 billion rubles. This is insignificantly less than for the same period of 2008. To compare: in 2006 growth amounted to 21%, in 2007 — 19% and in 2008 — 9%. The volume of the secondary market and the liquidity of governments bonds in comparison with the corporate bonds market is small (see Figures 5 and 6). The government securities market is organised on MICEX. Table 15 below gives data characterising the market turnover of government bonds.

**Table 15** Deal volume for government bonds

Period	Measurement	2005	2006	2007	2008	2009		1H 09
		Total	Total	Total	Total	Q1	Q2	Total
Turnover	Billion rubles	166,2	335,0	491,5	298,1	12,7	27,5	40,2

Source: CBONDS.

Analysis of Tables 13 and 15 shows that despite the comeasurability of the volumes of placement at par, turnover of government securities in comparison to corporate bonds is one order less, and correspondingly, a lot lesser indicator of turnover.

Interest in the government bond market is falling. While growth in the volume of transactions in 2006 was 101%, in 2007 it dropped twofold to 46.7%. In 2008 a decline in turnover of 40% was observed compared with 2007. In the first half of 2009 the decline in turnovers on the government securities market continued: a fall of 67% was observed in comparison with the same period of the previous year.

It should be noted that there is an irregularity of transaction volumes in government bonds from quarter to quarter. Thus, in 2008 the turnovers in the first and third quarters did not differ significantly, an anomaly presents itself when examining the small transaction volume in the second quarter and the sharp increase in turnover in the fourth. More than a twofold increase in trading volumes is evident in the second quarter of 2009 when compared with the first.

The volume of Bank of Russia bond issues in 2005 — 2006, with the exception of a normal December slump, grew at a fast rate; for 2006 the volume rose by 35.2%. In mid 2007 the tide turned dramatically (see Fig. 7). According to CBONDS, as of the beginning of 2008, the total volume of circulating Bank of Russia bonds was 102.9 billion rubles, in February — 131 billion, but then towards the end of the year it

fell sharply to 12.9 billion rubles. In the first half of 2009 the volume of Bank of Russia bonds in circulation was around the 12–18 billion ruble mark.

Bonds subject to the Russian Federation (sub-federal) and municipal bonds are issued in fewer volumes than government or corporate bonds and there are no particular tendencies towards change to speak of (see Fig. 4). According to the agency CBONDS, the volume of sub-federal and municipal bonds circulating on the domestic market as of the end of the first half of 2009 was 333.3 billion rubles, that is 26% less than for the same period of the previous year. For the purpose of comparison: in 2006 growth was 18%; in 2007 — 16% and in 2008 — 26%.

The total transaction volume of sub-federal and municipal bonds for 2005 — first half of 2009 is shown in Table 16.

**Table 16** Deal volumes with sub-federal and municipal bonds

Period	Measurement	2005	2006	2007	2008	2009		1H 09
		Total	Total	Total	Total	Q1	Q2	Total
Aggregate turnover	Billion rubles	890,1	682,8	663,5	539,1	55,6	181,1	236,7
Share of exchange transactions in the total turnover	%	70,0	79,9	83,2	86,1	74,5	87,3	80,9

Source: CBONDS.

Therefore, from Table 16 we can see that the total sub-federal and municipal bond transaction volume is decreasing from one year to the next. In 2006 it dropped 23%, in 2007 — 3%. In 2008 the fall in turnover amounted to 19%. One should note the sharp fall in the share of exchange transactions in the total turnover that occurred in the fourth quarter. In the first half of 2009 a decrease in the total turnover of 9% can be noted in comparison with the same period of the previous year, and a recovery in the region of 80% in the share of exchange turnovers.

Exchange trading of sub-federal and municipal bonds takes place on MICEX and RTS. Table 17 contains summary data on sub-federal and municipal bonds offered on Russian stock exchanges, and Table 18 on trading volumes of these bonds on MICEX.

**Table 17** The organised sub-federal and municipal bonds market

	MICEX					RTS				
	2005	2006	2007	2008	1H 09	2005	2006	2007	2008	1H 09
Number of bond issuers	41	50	59	45	45	2	14	16	10	8
Number of bond issues	90	105	116	116	116	16	35	30	21	16
Incl. on the quotation lists (issuers/ issues)	22/53	22/49	27/49	27/53	27/51	1/1	0/0	0/0	0/0	0/0

Sources: MICEX, RTS.

As can be seen from Table 17, the tendency towards growth in the number of issuers of sub-federal and municipal bonds on the stock exchanges as observed in 2005 — 2007 about-turned and in 2008 this number had fallen by 20%. In the first half of 2009 the number of issuers of sub-federal and municipal bonds hardly changed at all.

**Table 18** Trading volumes of sub-federal and municipal bonds on MICEX<sup>15</sup>

Period	2005		2006	2007	2008	2009	1H 09		1H 09
	Measurement	Total	Total	Total	Total	Total	Q1	Q2	Total
Sub-federal bonds	Excl. repurchase agreements (REPO)	Billion rubles	556,7	520,1	496,8	399,1	38,8	113,0	151,8
	Incl. REPO		773,2	1301,9	2478,2	2575,4	177,3	589,5	766,8
Share of repurchase agreements in the overall volume of sub-federal bonds transactions.		%	28,00	60,05	79,95	84,50	78,14	80,83	80,21
Municipal bonds	Excl. REPO	Billion rubles	24,0	24,0	28,3	13,1	0,5	2,7	3,2
	Incl. REPO		35,03	41,33	84,6	62,6	6,1	10,4	16,5
Share of repurchase agreements in the overall volume of municipal bonds transactions.		%	31,52	42,05	66,54	79,06	92,48	74,02	80,82

Sources: MICEX.

Despite the small volumes in circulation, these bonds differ generally by their relatively high liquidity. As a comparative analysis of Tables 11, 15 and 16 will demonstrate, notwithstanding the essentially small issue volumes of sub-federal and municipal bonds in 2005-2009 (significantly fewer than corporate bonds), they show a turnover exceeding that of government securities. The turnover indices for sub-federal and municipal bonds (see Fig. 6) are very similar in their values and trends to those of corporate bonds.

In the past few years the share of repurchase transactions (see Table 18) in the total exchange turnover of sub-federal and municipal bonds has changed considerably: in comparison with 2005, it has on average increased 2.5—3 times, sometimes exceeding 90%. Excluding repurchase agreements, the volumes of exchange transactions of these bonds are shrinking. 2008 saw a reduction in the numbers of exchange transactions with sub-federal bonds of 20%, and in municipal — more than 50%. In the first half of 2009 exchange transaction volumes with sub-federal bonds fell by 18%, and with municipal bonds this reached 60% in comparison with the same period of the previous year. Thus, the sub-federal and municipal bonds sector is increasingly becoming a money market underwritten by securities.

## 1.4. Investment units

The secondary organised market for investment units was solidly grounded by the end of 2007. Exchange trading of investment units takes place on the stock exchanges MICEX and RTS. Table 19 contains summary data on investment units offered on the Russian stock exchanges, and Table 20 — data on exchange trading volumes of investment units.

<sup>15</sup> Includes bidding mode and negotiation deals. Initial offering deals are not included.

**Table 19** The organised investment units exchange market

Period	MICEX					RTS				
	2005	2006	2007	2008	1H 09	2005	2006	2007	2008	1H 09
Number of management companies	33	48	88	99	99	6	10	15	23	23
Number of Unit Investment Funds (UIFs)	69	114	219	306	306	18	22	38	49	49
Incl. on the quotation lists (management company/UIFs)	3/4	4/4	20/30	25/43	19/33	1/1	3/3	6/7	8/11	6/7

Sources: MICEX, RTS.

**Table 20** Transaction volumes of UIFs on the stock exchanges

Period	Measurement	2005	2006	2007	2008	2009		1H 09
		Total	Total	Total	Total	Q1	Q2	Total
MICEX	Million dollars	43,8	186,0	790,0	950,0	125,2	54,2	179,4
RTS	Million dollars	1,7	30,9	27,9	4,0	0,2	0,2	0,4
Total	Million dollars	45,5	216,9	817,9	954,0	125,4	54,4	179,8

Sources: MICEX, RTS, National League of Management Companies (\*Abbreviation of the Russian often seen in translation and used on their own website: NLU)

The number of UIFs, investment units admitted to circulation on the stock exchanges grew considerably from 2006 — 2007 (in 2006 growth exceeded 60%, in 2007 — over 90%). In 2008 growth was less, about 40% towards the beginning of the year. In the first half of 2009 the number of management companies and of UIFs presented on the organised market had not changed, that said, there was a fall in the number of funds included on the quotation lists. In general at the present time investment units form almost 30% of the existing UIFs on the stock markets.

Exchange turnovers of investment units grew very fast from 2005-2007: in 2006 they increased by 4.7 times, 3.7 in 2007. In 2008 the growth in exchange transaction volumes of investment units was 16%. In the first half of 2009 a substantial fall took place in exchange transactions with investment units — in comparison with the same period of the previous year turnovers decreased by more than 70%. Investment units, though not all UIFs, are distinguished by their high liquidity, the concentration of transactions with investment units is very high: in 2007, the share of the top ten most liquid UIFs accounted for more than 80% of the total turnover of investment units, in 2008 this dropped to 71%. In the first half year of 2009 the concentration of investment unit deals grew to 90.1%.

## 1.5. Futures and options on securities and stock indices

At the present time exchange derivatives instruments, whose underlying assets are securities and stock indices, are concentrated on the derivatives market RTS FORTS. Besides these fixed-term instruments, gold, currency, oil and other contracts are also traded on FORTS, however the relative trading volume of these contracts is not significant, although there is a trend toward growth. Thus in 2005 — 2008 the share

of derivatives contracts, the underlying assets of which are not equities, constituted 4—7% depending on the type of indicator, and in the first half of 2009 this indicator grew to 10—20%.

By contrast, the derivatives market MICEX is oriented for the greater part toward currency and commodity assets. In mid 2007 the stock exchange MICEX introduced its first securities derivative contract – futures on the MICEX index and in April 2009 two more futures contracts on shares. The transaction volumes for these instruments, however, remain low: trade volume at the end of 2007 was 1.76 billion rubles, in 2008 — 0.86 billion and at the end of the first half of 2009 — 3.2 billion rubles, and this does not even exceed 1% of MICEX's derivatives turnover.

Instruments on the derivatives market are becoming more and more complicated (see Table 21).

**Table 21** The organised market for securities derivatives

	MICEX					RTS				
	2005	2006	2007	2008	1H09	2005	2006	2007	2008	1H09
Futures	0	0	1	1	3	9	15	40	29	34
Options	0	0	0	0	0	6	7	18	17	13
Total	0	0	1	1	3	15	22	58	46	47

Sources: MICEX, RTS.

Thus, the number of types of derivatives whose underlying assets are securities and stock indices have increased over the past few years (the growth for 2006 was 47%). In the period from 2008 to the first half of 2009 the number of traded types of contracts decreased.

Tables 22 and 23 contain summary data on the market RTS FORTS in relation to securities linked derivatives instruments for 2005–2009.

**Table 22** Securities contracts and stock indices trading results on the derivatives market FORTS

Период	2005	2006	2007	2008	2009		1H 09
	Total	Total	Total	Total	Q1	Q2	Total
Futures contracts							
Transaction volume, billion rubles.	607,8	2 397,1	6 052,4	8 813,6	1 342,5	2 779,7	4 122,2
<i>Incl. on index</i>	119,8	752,0	3 587,1	7 280,1	1 095,3	2 274,5	3 369,8
<i>Incl. on stocks</i>	471,0	1 569,6	2 389,2	1 528,6	247,2	505,2	752,4
<i>Incl. on bonds</i>	9,0	13,7	29,3	4,8			
Transaction volume, million contracts.	46,0	78,9	114,6	173,3	62,5	106,8	169,3
<i>Incl. on index</i>	2,3	9,0	34,7	87,9	27,1	38,5	65,6
<i>Incl. on stocks</i>	42,6	66,3	75,5	85,0	35,4	68,3	103,7
<i>Incl. on bonds</i>	0,8	1,3	2,8	0,5			
Number of deals, million items.	1,8	4,9	11,3	27,4	12,2	16,3	28,4
<i>Incl. on index</i>	0,1	0,7	4,3	17,1	7,7	9,8	17,5
<i>Incl. on stocks</i>	1,7	4,1	7,0	10,3	4,5	6,5	10,9
<i>Incl. on bonds</i>	0,0	0,0	0,0	0,0			
Options contracts							
Transaction volume, billion rubles.	79,3	311,4	1 300,2	1 739,9	52,1	86,8	138,9
<i>Incl. on index</i>	2,6	84,3	758,7	1 067,1	40,2	59,4	99,6
<i>Incl. on stocks</i>	76,6	226,9	541,4	672,7	11,9	27,4	39,3
<i>Incl. on bonds</i>							
Transaction volume, million contracts.	7,3	10,7	25,0	45,2	3,1	5,5	8,7
<i>Incl. on index</i>	0,0	1,0	7,1	11,4	0,9	1,0	2,0
<i>Incl. on stocks</i>	7,2	9,7	17,8	33,8	2,2	4,5	6,7
<i>Incl. on bonds</i>							
Number of deals, million items.	0,1	0,2	0,3	0,7	0,1	0,2	0,3
<i>Incl. on index</i>	0,0	0,0	0,1	0,5	0,1	0,1	0,3
<i>Incl. on stocks</i>	0,1	0,1	0,2	0,2	0,0	0,1	0,1
<i>Incl. on bonds</i>							
Total							
Transaction volume, billion rubles.	687,1	2 708,5	7 352,6	10 553,5	1 394,6	2 866,5	4 261,1
Transaction volume, million contracts.	53,3	89,6	139,6	218,5	65,7	112,3	178,0
Number of deals, million items.	1,9	5,0	11,6	28,1	12,3	16,5	28,8

Source: RTS.

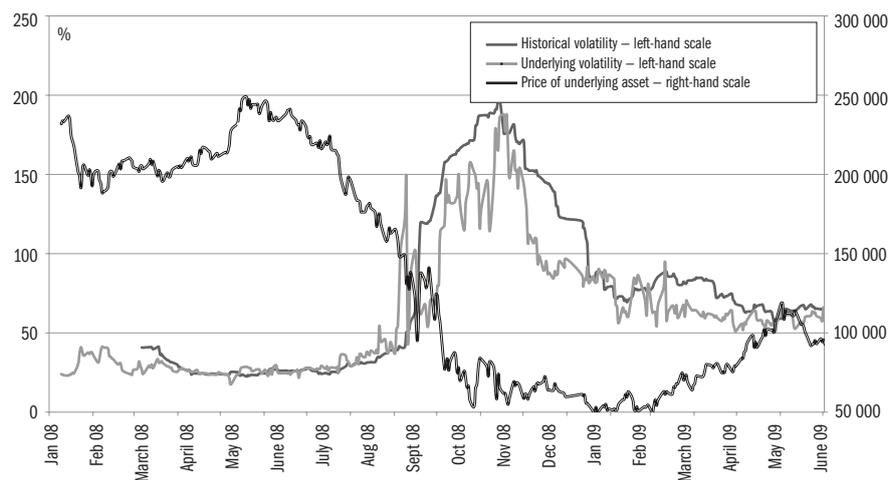
As follows from Table 22, the derivatives market FORTS experienced a period of sporadic growth in 2006: the overall trading volume in monetary terms increased almost four-fold, in the number of contracts

by 68%, and the quantity of deals — by 164%. In 2007 this growth continued: the volume of deals with derivatives instruments in monetary terms increased by 170%, the number of contracts — by 56%, and the quantity of concluded deals — 130%. In 2008 the trading volume increased to a lesser degree; in monetary terms by 44%, in the number of contracts by 56%, but growth in the quantity of deals remained on its former level — 142%. These results were obtained by the end of the third quarter; the fourth quarter of 2008 was characterised by a sharp fall in trading volumes.

In the first half of 2009, in comparison with the same period of the previous year, there was a drop in the total volumes of deals with derivatives instruments, in monetary terms by 33%. That said an increase was observed in the trading volumes of contracts of 55% and the number of deals also increased significantly — by 159%. The positive dynamics of this period were underpinned by futures contracts. There was a considerable decline in options: the trading volume in monetary terms fell by 88%, in the number of contracts by 69% and the quantity of deals remained on a par.

The proportion of the volumes of the futures and options markets from 2005 to 2009 lies between 88-96% in favour of futures in trading volumes, and from 94 to 98% in the number of deals. Moreover the options niche, already small, is contracting. One of the reasons for the decline in option trading volumes is sharply increasing volatility. Figure 7 shows a graph of past volatility (levelling out at 40 day intervals), underlying volatility and the prices of an underlying asset of an option on a future on the RTS index.

**Figure 8.** Underlying and historical volatility of options on futures on the RTS index

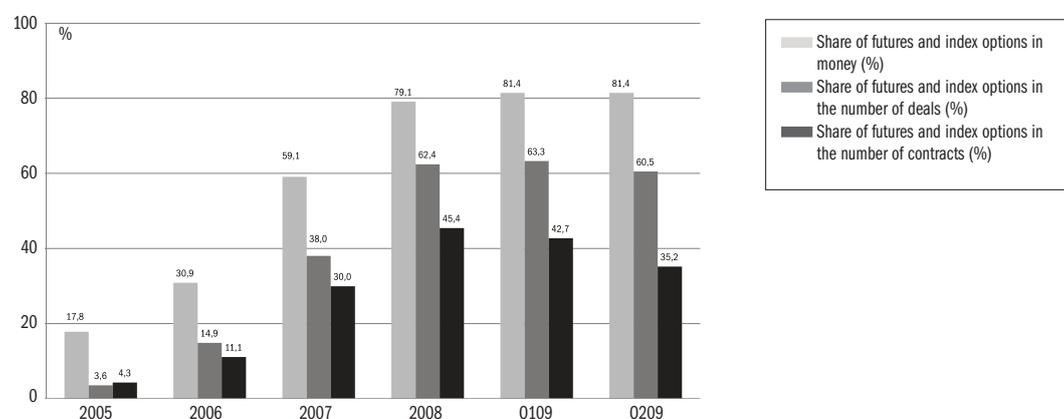


Source: DerEX.

From the graph one can see that in September-December 2008 volatility grew dramatically and on specific occasions reached the 200% mark. In the first half of 2009 volatility decreased, but nonetheless was twice the pre-crisis level.

Over the past few years the structure of the underlying assets (indicators) of derivatives contracts have changed substantially. Stock indices, stocks and bonds fall into the category of underlying assets. In 2005 the share of bonds as an underlying asset did not come to more than 1% in the overall trading volume, and in 2009 it became intangibly small. In recent years the correlation between the share of stock indices on stocks and stocks has changed substantially.

**Figure 9** The share of derivatives contracts on stock indices in the total deal volume.

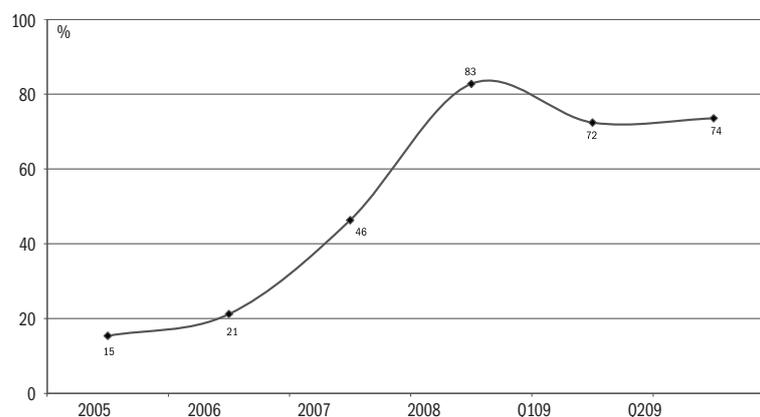


Source: RTS.

In 2005—2008 interest towards fixed-term contracts on stock indices grew constantly. While in 2005 the share of derivatives contracts on stock indices was 18% in monetary terms, in 2007 this indicator rose to 60%, that is an increase of 3.3 times. In 2008 the trading volume of contracts on stock indices became prevalent and reached 80% in monetary terms of the total volume of the FORTS derivatives market, whereas the market for derivatives contracts for particular stocks narrowed sharply. In the first half of 2009 the derivatives market, whose main indicator is the stock indices, stabilised. The share of deal volumes with these contracts in monetary terms remained at 81% over the first two quarters. The number of contracts and quantity of derivatives deals, the underlying indicator of which are the stock indices, decreased.

In recent years the proportion of derivatives market volumes, the underlying asset — (indicator) of which are stocks and share indices on stocks, and volumes of the spot-market for stocks (see figure 10) has changed substantially.

**Figure 10** Proportion of derivatives trading, whose underlying assets are stocks and share indices on stocks, in the trading volume of stocks on the domestic market (excluding repurchase agreements)



Sources: MICEX, RTS.

Thus, if in 2005 in trading volume in monetary terms the derivatives market was 15.4% of the turnover of the spot market (excluding repurchase transactions), then in 2008 it had grown to the level of 82.8%. That said, a fall in the proportion of the derivatives market and the stocks spot market was noted in the first half of 2009 to 72—74%.

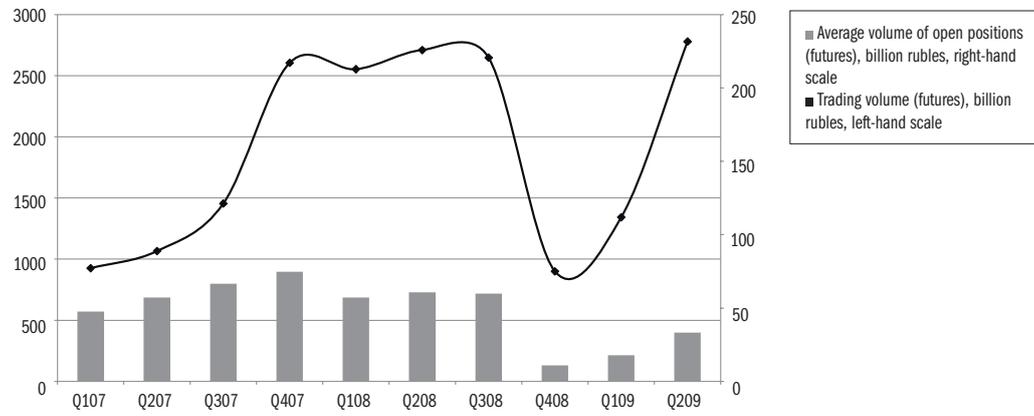
Over the last few years there has been a substantial change on the derivatives market in the volume of open positions and their distribution among various instruments (see Table 23 and Figure 10). Table 23 demonstrates the average volume of open positions — the simple average of daily open positions for the period.

**Table 23** Open positions on the derivatives market FORTS for contracts on securities and stock indices

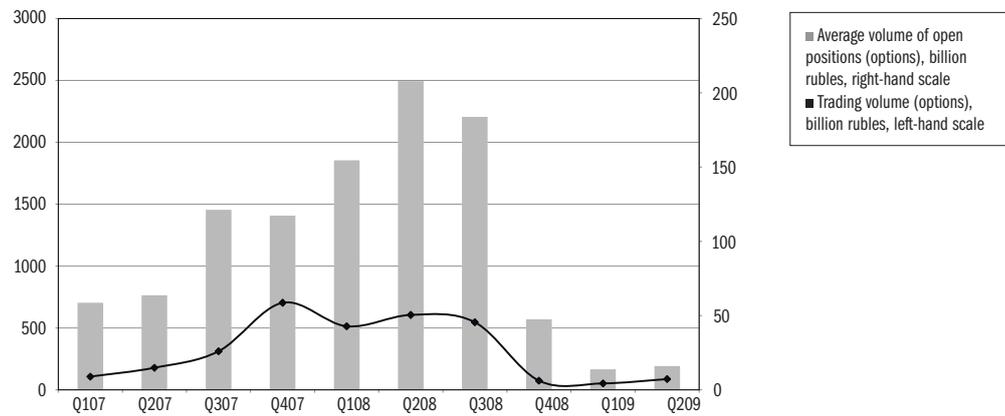
Period	2005	2006	2007	2008	2009	
	Q4	Q4	Q4	Q4	Q1	Q2
<b>Futures contracts</b>						
Average volume of open positions, billion rubles.	11,5	34,6	74,7	10,9	17,8	33,3
<i>Incl. on index</i>	0,6	7,9	33,5	5,8	11,0	22,7
<i>Incl. on stocks</i>	9,5	20,9	38,9	5,1	6,7	10,6
<i>Incl. on bonds</i>	0,7	1,6	2,3	0,0		
Average volume of open positions, million contracts.	1,0	1,2	1,9	0,9	1,3	1,8
<i>Incl. on index</i>	0,0	0,1	0,3	0,2	0,3	0,4
<i>Incl. on stocks</i>	0,9	0,9	1,3	0,8	1,1	1,4
<i>Incl. on bonds</i>	0,1	0,1	0,2	0,0		
<b>Options contracts</b>						
Average volume of open positions, billion rubles.	6,5	30,0	117,3	47,5	13,8	16,0
<i>Incl. on index</i>	0,2	9,0	71,7	38,3	9,6	5,7
<i>Incl. on stocks</i>	6,3	20,9	45,5	9,3	4,1	10,3
<i>Incl. on bonds</i>	--	--	--	--	--	--
Average volume of open positions, million contracts.	0,6	1,0	2,3	1,1	0,9	2,2
<i>Incl. on index</i>	0,6	0,9	0,7	0,6	0,3	0,1
<i>Incl. on stocks</i>	0,0	0,1	1,6	0,5	0,6	2,1
<i>Incl. on bonds</i>	--	--	--	--	--	--
<b>Total</b>						
Average volume of open positions, billion rubles.	18,0	64,6	191,9	58,4	31,5	49,3
Average volume of open positions, million contracts.	1,6	2,2	4,2	2,0	2,2	4,0

Source: RTS.

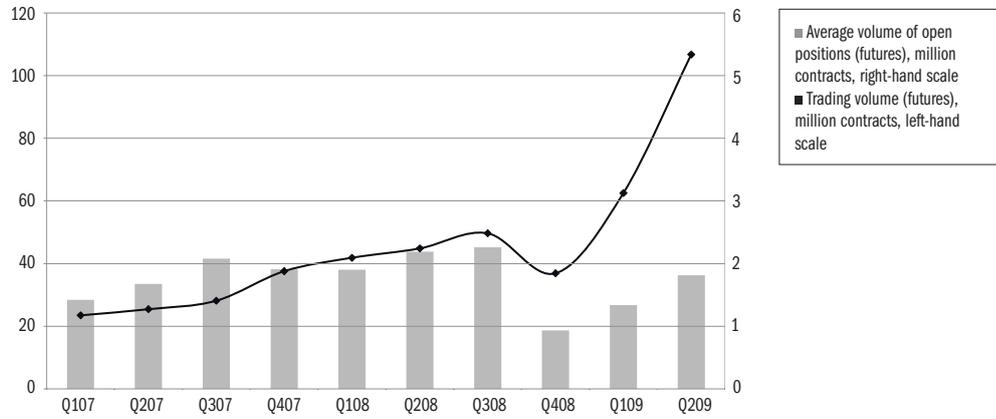
**Figure 11.1** Open positions and trading volumes of derivatives contracts



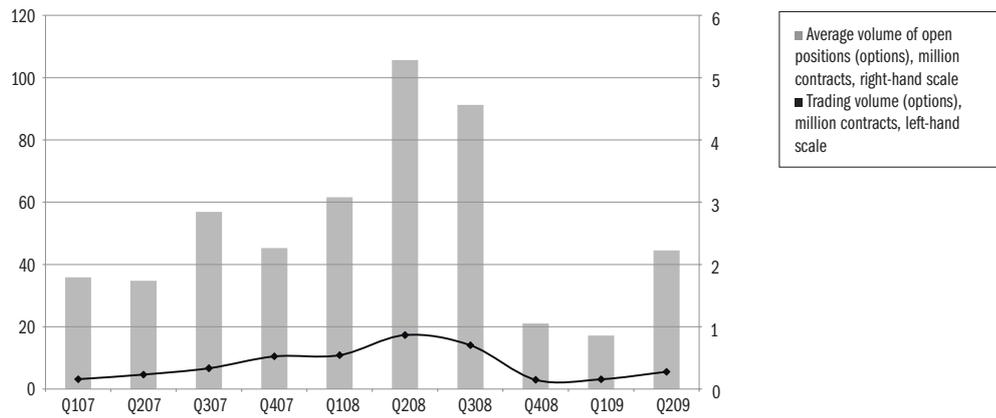
**Figure 11.3**



**Figure 11.2** Open positions and trading volumes of derivatives contracts



**Figure 11.4**



Source: RTS.

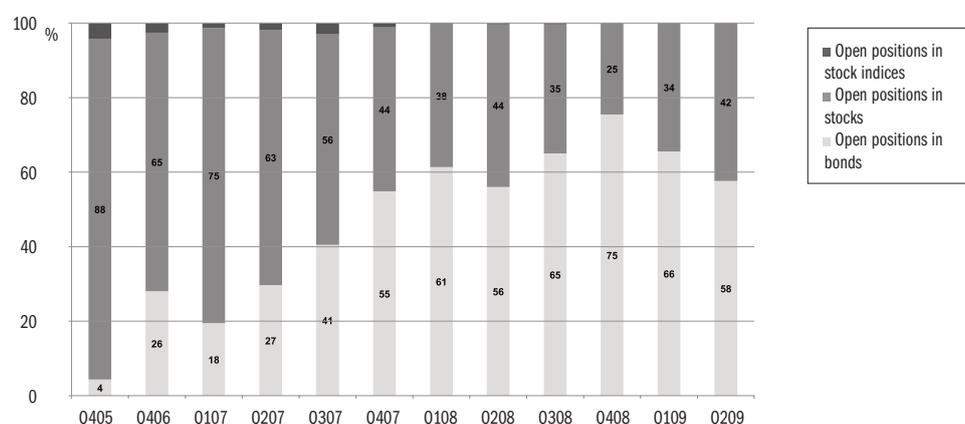
From 2005 — 2006 the volume of open positions with derivatives contracts grew alongside trading volumes. In 2006, in monetary terms, the increase came to 3.5 times, in 2007 — 3 times. In 2008 the volume of open positions reached its maximum — 267 billion rubles in the second quarter. It then fell, and in the fourth quarter of 2008, in comparison with the previous quarters, the volume of open positions constricted sharply; with futures contracts it dropped more than five times, with options – around four times. As a result, at the end of 2008, the volume of open positions had fallen by 70%. In the first half of 2009, despite a slight increase in open positions, their volume, if compared to the same period of the previous year, was less than 80%.

The share of futures and options in the overall volume of open positions has changed significantly over the past few years. Thus, if at the end of 2005 futures constituted 64% in the aggregate volume of open positions in monetary terms, then, after this the volume of open positions with futures began to decline: at the end of 2006 — 54%; in 2007 there was a quarterly decrease from 45 to 38%. In 2008 there was a fall in the volume of open positions with futures from 27 to 19%. Accordingly, in 2008 more than 80% of open positions on the RTS FORTS market were options. In the first half of 2009 however, the situation about-turned dramatically, and at the end of the second quarter the share of open positions with futures grew again to 68%.

The proportion of volumes of open positions to the trading volumes for futures and options differ substantially. For futures this (according to the data for 2005–2009) is on the scale from 1 to 5%. For options in 2007 this decreased quarterly from 55% in the first quarter to 16% in the fourth. In 2008 a converse trend was recorded — the proportion increased from 30% in the first quarter, to 64% in the fourth. In the first half of 2009 the correlation of volumes of open positions and trading volumes for options was on average 22%.

Over the past few years the share of various types of underlying assets (indicators) in the overall volume of open positions has also changed considerably. Figure 12 demonstrates the volume percentages of open positions in monetary terms for various types of underlying assets (indicators).

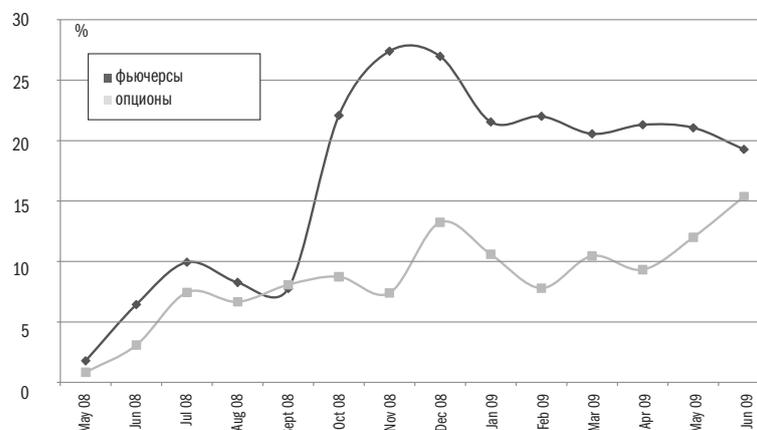
**Figure 12** Proportion of open position volumes for various underlying assets



Source: RTS.

As can be seen from Figure 12, simultaneous with growth in the turnover of derivatives contracts, the underlying indicators of which are stock indices, the share of open positions with these contracts also grew, increasing from 4% at the end of 2005 to 75% at the end of 2008. In the first half of 2009 there was a fall in open positions in indices in favour of open positions in particular assets.

In May 2008 evening trading sessions were introduced on RTS FORTS (for more information see section 2.3b). Figure 13 shows a graph of the relative volumes of trade (in monetary terms) of these evening sessions.

**Figure 13** Trading volume for evening sessions on the derivatives market FORTS (monthly)

Source: RTS.

The share of transactions per 24 hours that took place during the evening sessions stands out by its great variability, nevertheless on separate days it exceeded half of the total trading volume. The mean trading volumes of the evening sessions in 2008 is 10.9% for futures, for options — 5.6%. In the first half of 2009 these indicators grew to 21 and 11% respectively. We can observe that from the point when evening sessions were introduced to the end of 2008, there has been a trend toward growth in the share of deals done in evening sessions. In the first half of 2009 the monthly volume of futures trading in evening sessions decreased, but conversely with options it increased.

## 1.6. Stock indices.

At present dozens of various Russian capital market indexes are calculated by Russian and international organisations, such as stock exchanges, information and rating agencies, investment banks, brokerage firms etc. The most recognised of them are: for the stock market — the RTS Index, the MICEX Index, the MSCI Russia Index; FTSE Russia; for the bonds market — the IFX-Cbonds Corporate Bonds Index, Cbonds-Muni Municipal Bonds Index, MICEX CBI Corporate Bonds Index, MICEX MBI Municipal Bonds Index; for the collective investments market — RUIF Indexes calculated by the National Rating Agency. Traditionally, however, the most quoted indexes are those put together by RTS and MICEX.

The RTS Index has been calculated since 1995. It is a consolidated index currently based on 50 stocks of the most capitalised and liquid issuers. The list of stocks for index calculation is revised once every three months. Besides the main RTS Index, from 2003 the RTS Stock Exchange has put together the RTS-2 Index, an index of «second tier» company stocks which at the present time includes the stocks of 72 issuers. Since 2005–2007 industry indices have also been calculated:

1. RTS — Oil and gas index (RTSog)
2. RTS — Metals and mining (RTSmm)
3. RTS — Telecommunications (RTStl)
4. RTS — Manufacturing (RTSin)
5. RTS — Consumer goods and retail trade (RTScr)
6. RTS — Electric Power Industry (RTSeu)
7. RTS — Finance (RTSfn).

At the present time 9 to 14 issuers are rated on the industry indexes. Securities prices are expressed in US dollars for the calculation of the RTS indices.

The MICEX Index has been calculated since September 1997 and is a consolidated index currently based on 30 stocks of issuers that represent the main sectors of the economy. The index is updated twice a year.

The MICEX stock exchange began calculating industry and capitalisation indices in 2005–2007:

1. MICEX O&G — oil and gas stock index;
2. MICEX PWR — electric power stock index;
3. MICEX TLC — telecommunication stock index;
4. MICEX M&M — metallurgical and mining stock index;
5. MICEX MNF — mechanical engineering stock index.
6. MICEX LC — large cap stock index;
7. MICEX MC — mid cap stock index;
8. MICEX SC — small cap stock index.

Currently 12 to 50 issuers are entered on the industry and capitalisation indices.

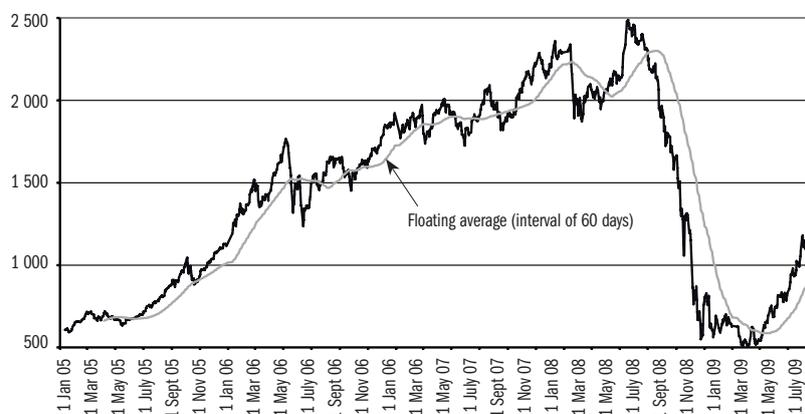
For the calculation of MICEX indices prices of securities are given in Russian rubles.

Among the industry indices maintained by various stock exchanges, a clear parity for the indices for calculation (concurrence 75-80%) can be observed for oil and gas industry indices (RTSog, MICEX O&G), telecoms (RTStl, MICEX TLC), power (RTSeu, MICEX PWR), metallurgy and mining (RTSmm, MICEX M&M), and also the financial-banking industry (RTSfn, MICEX FNL). The RTSin and MICEX MNF indices demonstrate somewhat lesser conformity.

Figures 14, 15 and 16 represent graphs of the RTS, MICEX and RTS-2 indexes.

Table 24<sup>16</sup> shows data characterising profitability on the RTS and MICEX indices over the past few years.

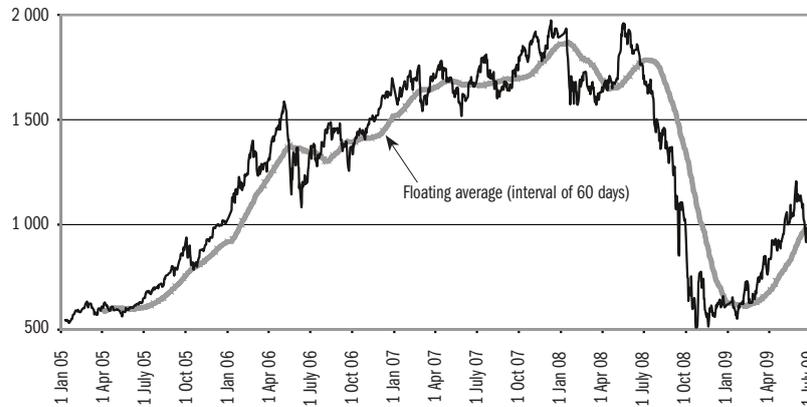
**Figure 14** RTS Index



Source: RTS.

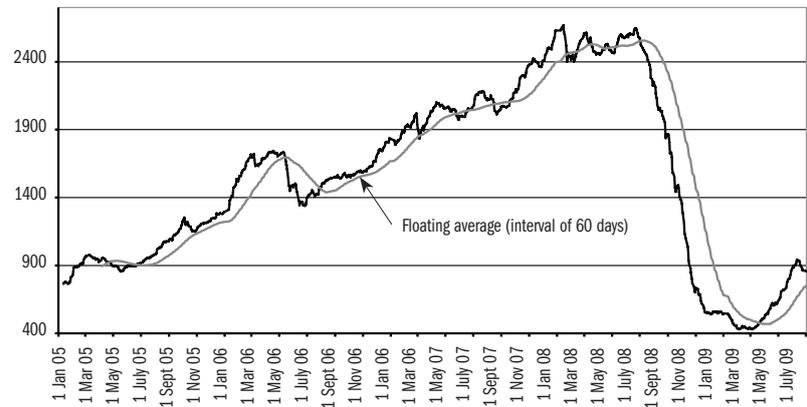
<sup>16</sup> Profitability was calculated at intervals from the last day of trading of the previous year, to the last day of trading of the period to be evaluated on the basis of 365 days.

**Figure 15** MICEX Index



Source: MICEX.

**Figure 16** RTS 2 Index



Source: RTS.

As follows from these graphs, the consolidated indices RTS and MICEX show very similar behaviour. The significant growth of these indices which began in 2005, started slowing down in 2007. In the first half of 2008, the growth rates fell still further, however in May the composite stock indices reached historical maximums. The second half of 2008 saw a downtrend in the indices that snowballed into a deep decline; indices reached the lowest values at the end of October. The maximum and minimum values of the composite indices differed fourfold across 2008.

During the first three months of 2009 the composite stock indices for the most part found themselves on a sideways trend with heightened volatility, but March onwards saw intensive growth. Over the first half of 2009 the minimal value of the composite indices was registered on 23rd January (RTS Index — 498.20; MICEX Index 553.62), and the maximum 1st-2nd June (RTS Index — 1180.56; MICEX 1206.20). The half-year period terminated on the backdrop of decline in the indices.

**Table 24** Stock indices profitability (annual percentages)

	2005	2006	2007	2008	1H 09
<b>Composite indices</b>					
RTS Index	83,52	70,94	19,23	- 71,48	113,33
MICEX Index	83,08	67,69	11,57	- 66,47	114,58
RTS-2 Index	69,32	42,27	43,17	- 78,29	114,15
<b>Industry Indices</b>					
Oil and gas industry					
<i>RTSog</i>	86,78	50,80	1,05	- 65,76	99,05
<i>MICEX O&amp;G</i>	91,95	47,95	-3,57	- 58,42	146,96
Telecommunications					
<i>RTStl</i>	40,78	81,47	28,13	- 72,74	71,34
<i>MICEX TLC</i>	39,10	65,98	14,56	- 75,55	139,29
Metallurgy and mining					
<i>RTSmm</i>	53,18	52,42	54,00	- 74,50	147,38
<i>MICEX M&amp;M</i>	74,60	51,69	42,61	- 71,96	203,03
Electric power					
<i>RTSeu</i>			31,96	- 80,33	134,92
<i>MICEX PWR</i>	38,68	134,51	7,87	- 73,72	182,94
Industry					
<i>RTSin</i>	40,50	73,76	66,83	- 84,30	40,80
<i>MICEX MNF</i>	28,90	69,62	60,57	- 85,72	128,38
Consumer goods					
<i>RTScr</i>	92,51	51,24	29,31	- 79,54	220,72
Finances					
<i>RTSfn</i>			14,30	- 78,37	59,69
<i>MICEX MNF</i>				- 67,32	60,58
<b>Capitalisation Indices</b>					
MICEX LC			9,89	- 66,47	105,71
MICEX MC			15,64	- 71,69	154,38
MICEX SC			29,17	- 76,09	169,47

Calculated on RTS and MICEX data.

As illustrated by Table 24, 2005 and 2006 are characterised by very high profitability indicators on all index types. In 2007, despite an evident slowdown, the majority of indices nevertheless showed a positive profitability, but in 2008 all the indices analysed experienced a sharp fall. The composite indices dropped by 66-78% annually. In the first half of 2009 the stock indices demonstrated a sharp surge in profitability — the composite indices in annual terms showed a profitability of over 110%.

From the second half of 2008 an imbalancing occurred on the stock indices calculated by various exchanges on a composite base of instruments. In the first half of 2009 this phenomenon became more exacerbated. Thus the profitability indicators of the industry indices linked with telecommunications and manufacturing differ by 2-3 times.

The Russian stock indices are characterised by high volatility. The maximum fall in one day of composite stock indices was recorded on 17th February at 9.4%, the maximum growth in one day registered on the RTS Index was on 10th March at 10.2%, and for the MICEX Index — 26th January constituting 10.8%.

## 1.8. Bond Indices

The corporate bond MICEX CBI Index has been composed since 2003. The calculations base includes the bonds of corporate issuers released into circulation on MICEX, which are given a rating of long-term creditworthiness with liabilities payable in foreign currency by no fewer than one international ratings agency, or conferred a rating of creditworthiness by no fewer than one national ratings agency. The minimum level of the rating according to S & P is B-. For inclusion onto the index calculations base the issuing of bonds must specifically comply with the following conditions:

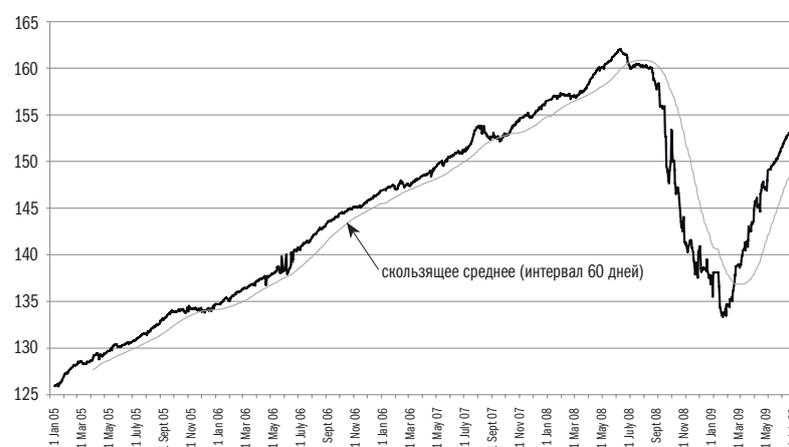
- The volume of the issue at par is not less than 3 billion rubles;
- The period to expiration/buy-back offer is no less than 6 months;
- The average daily trading volume in the previous quarter was not less than 3 million rubles.
- The number of trading days in the previous quarter was no fewer than ten.

The list of bonds issues for calculation on the MICEX CBI Index is reviewed once every three months. For these calculations the prices of securities are expressed in Russian rubles. Currently 39 bonds and 29 issuers are included in the category for calculation. Calculation of the index is performed by way of three methodologies:

- Total return — including the market value of the bonds, the accumulated coupon interest and the redeemed coupon yield;
- Clean price — including the market value of the bonds but excluding the accumulated coupon interest and the redeemed coupon yield;
- Gross price — including the market value of the bonds and the accumulated coupon interest.

Figure 17 presents a graph of the CBI MICEX Index on the basis of total return on corporate bonds.

**Figure 17** MICEX Index corporate bonds



Source: MICEX.

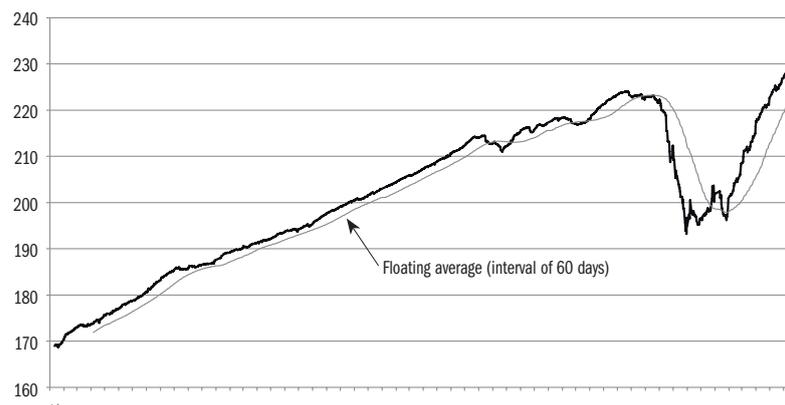
- The corporate Bonds Index IFX — CBONDS, a collaborative reworking of the index agency «RTS Interfax» and the agency CBONDS, has been formulated since 2002. The calculations base includes bonds of corporate issuers released into circulation on the trading platforms MICEX, RTS and the Saint Petersburg stock exchange. For inclusion in the index calculations, the issue of bonds must comply with (amongst others) the following conditions:
- The period of expiration/buy-back offer is not less than 1 month;
- The average daily trading volume on all trading platforms in the last month is no less than 2 million rubles;
- The number of trading days in the previous month, when the bonds issue was traded on at least one trading platform, is not lower than half the trading days of this month.

The list of bond issues for calculation on IFX — CBONDS is reviewed once a month. The price of securities taken into consideration in the index calculations is expressed in Russian rubles.

At the present time 30 bonds of 25 issuers are included in the compilation for calculating this index. The calculation is made according to total return and 'clean' price.

Figure 18 shows a graph for the Index MICEX CBI on the basis of total return on corporate bonds.

**Figure 18** Index IFX-CBONDS



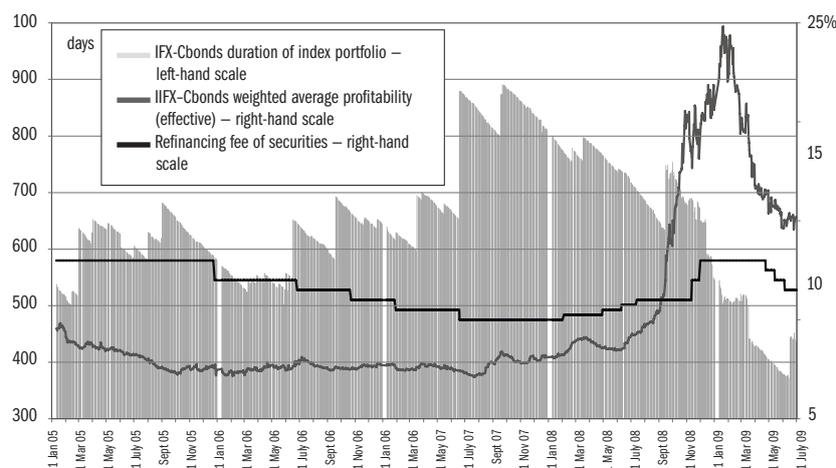
Источник: CBONDS.

Additionally, indicators are designated to the IFX — CBONDS index that characterise weighted average duration and weighted average profitability to the maturity of the index portfolio of bonds. This defines the weighted average profitability to maturity in two ways:

- «simple» — excluding annual investment of coupons
- effective — including annual reinvestment of coupons.

Figure 19 shows a graph of the weighted average duration and the weighted average effective profitability to maturity of the index portfolio of bonds IFX — CBONDS.

**Figure 19** Index IFX-CBONDS — Duration and profitability



Source: Bank of Russia, CBONDS.

As seen from the graphs of the corporate bonds indexes (see Figures 17 and 18), the average total return of investors beginning from 2005 to mid 2008 rose almost continuously. In July 2008 this growth ceased, but then a landslide fall in prices occurred which continued practically until March 2009, after which constant sharp growth was noted. The average profitability to maturity of corporate bonds (see Figure 19) in 2005 to the first half of 2008 was in the region of 7.5—10%, but then it began to rise swiftly, reaching just under 25% at the beginning of February 2009. Thereafter profitability to expiration began to decrease quite quickly and towards the end of the 2009 half-year point had dropped to 14%.

The temporary structure of the market of corporate bonds has undergone significant changes over the past few years. If in the beginning of 2005 the average duration was 500—600 days, then in the second half of 2007 it was closer to the level of 900 days. Then there was a constant tapering off in the temporary structure of the market of corporate bonds and towards the end of the second quarter of 2009 the average duration was less than 400 days.

## 2. Institutional structure

### 2.1. Issuers

In Russia there are no precise statistics relating to issuers of securities. Any joint stock company is an issuer since it floats stocks the moment it is founded (and is required to register them). A limited liability company, and, in some cases, a non-profit organisation can also be an issuer of bonds. Data from SPARK and RusBonds relating to issuers of securities is presented in Table 25. Composite data on the number of issuers on the organised markets is displayed in Table 26.

**Table 25** Issuers of securities

	2005	2006	2007	2008	1H 09
Number of issuers of stocks and bonds	460 431	471 158	481 591	487 996	489 605
<i>Incl. OJSC</i>	62 960	64 431	65 706	66 466	66 643
Number of issues of stocks and bonds	463 670	474 484	483 962	491 415	492 984

Source: « Interfax» (Database SPARK, Rusbonds).

**Table 26** Issuers on the organised stock market

	ФБ ММББ					PTC				
	2005	2006	2007	2008	1H 09	2005	2006	2007	2008	1H 09
Number of issuers (of stocks and bonds)	385	539	670	632	644	262	332	354	329	326
<i>Incl. on the quotation lists</i>	93	127	229	255	247	46	64	88	92	81

Sources: MICEX, RTS.

According to estimates, the stocks of approximately 50 issuers also circulate as depository receipts on foreign exchanges.

Therefore, only around 1% of all stocks and bonds issuers are represented on the organised markets. On the whole, as Table 25 shows, the number of issuers on the organised market in 2005—2007 grew steadily, however in 2008 to the first half of 2009 the trend changed and the number of issuers represented on the exchanges dropped by 5-7%. Also in the first half of 2009 a decrease in the number of issuers whose securities are included on the quotation lists of the stock exchanges was noted.

#### Public offerings

The floatation of most stocks currently traded on the Russian stock exchanges came about as a result of the privatisation process in the 1990s. The first public offering of Russian stocks abroad was in 1996, and on the Russian exchanges — in 2002.

In 2006—2007 the volumes of public offerings of Russian companies increased dramatically (see Table 27). At this time Russia occupied a leading global position for the total volume of placements, as well as for the capital volumes raised by a single company. It is necessary, however, to point out that such growth was caused, not as a result of a massive influx of new companies onto the market, but due to the large-scale stock placements of several companies, mainly those in which the government played a role or which the government supported. Amongst the biggest public offerings at that time were the so-called «People's IPOs» OJSC «NK Rosneft» (10.4 billion dollars), OJSC «Sberbank» (8.8 billion dollars) and OJSC «VTB Bank» (7.9 billion dollars).

By the end of the first half of 2009 changes in the market price of company stocks that had undergone public offerings in 2002–2007 relative to prices at initial offering were situated in the region of minus 98.8% to 95.6%: OJSC «NK Rosneft» – minus 17.2%, OJSC «Sberbank» — minus 57.5%, OJSC «VTB Bank» — minus 73.7%. Overall, the average weighted deviation by volumes of placements in the market prices (in mid 2009) from those achieved at actual placement was minus 44.6%<sup>17</sup>. In 2008 on a backdrop of liquidity deficit and world financial market dynamics that were hard to predict, IPOs of Russian companies as good as stopped. Many companies that had previously announced plans to float their shares cancelled, deferred the plan to a later date, or turned instead to private offerings. In the first half of 2009 no IPOs of Russian companies were performed.

**Table 27** IPOs of Russian company stocks

Period	2005	2006	2007	2008	1H 09
Placement volume (billion dollars)	4,55	17,98	23,6	1,7	0
Incl. on the domestic market (%)	6	36	44	нд	0
Number of companies	13	24	25	7	0

Sources: *Offering.ru/IPO in Russia project, «Alpha Bank», Ernst&Young, The PBN Company.*

In 2007—2008 alternative trading platforms were created on MICEX and RTS for the release of securities of innovational companies and companies of small capitalisation on to the open market. The number of issuers and trading volumes on these platforms is negligible.

Also in 2007—2009 a regulatory-legislative framework was created to facilitate the placement and circulation of foreign issuers' securities on Russian trading platforms. However to date there have been no such placements.

## 2.2. Investors

By investors we mean any individuals or institutions that invest funds in securities with a view to making a profit. Official systematised data on the structure and quantitative characteristics of the Russian securities market investor base does not yet exist, however, recently securities market professionals, self-regulatory organisations and research groups have begun work on listing and studying Russian investors.

### a) Public

Here, the term public includes «market investors» — individuals who have deliberately decided to invest in the securities market, and periodically use the services of brokers, trust managers, or who have acquired investment units in UIFs. Such investors differ from those individuals who acquired stocks as a result of voucher privatisation, or from shareholders of voucher investment funds or stakeholders in unit investment funds who emerged as a result of the reorganisation of voucher investment funds. Such investors are not included in this category.

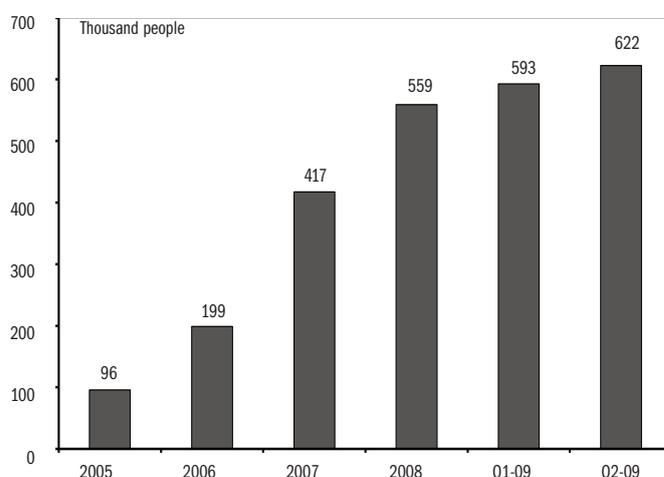
<sup>17</sup> As calculated from stockportal.ru data.

There are no complete and reliable statistics regarding the number of the individuals who operate on the Russian securities market. It is possible to create the following far from complete picture by compiling data from various disparate sources.

Since 2005 MICEX has been regularly publishing data on the number and format of their trading clients, including individuals (hereafter referred to as «MICEX clients»). It should be noted that in mid 2007 MICEX changed the way they list clients in favour of a more exact method that takes into account individual identifying attributes (unique clients).

Figure 20 shows data on the number of clients — individuals (unique clients) working on MICEX from 2005.

**Figure 20** Russian public investment in securities (MICEX clients)

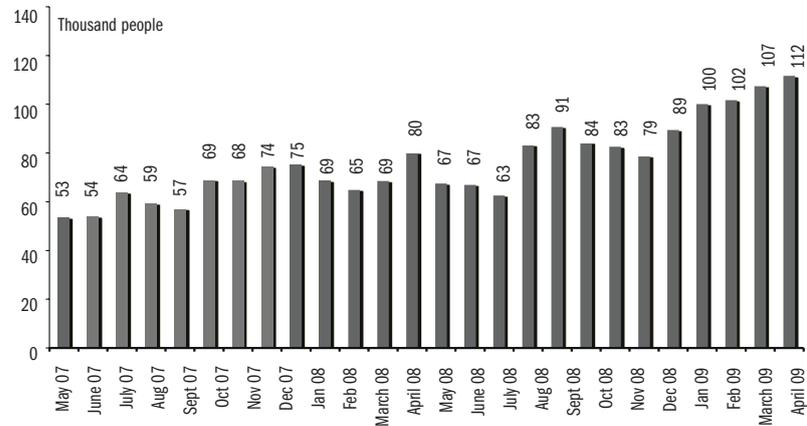


Source: MICEX.

In 2006 growth in the number of MICEX individual clients constituted 108%. The calculated growth for 2007 was similar — 109%, however if we exclude individuals who were involved in the IPO of OJSC «VTB Bank», then growth was approximately 60%. Starting from the third quarter of 2007 to the end of the first half of 2009, the growth rate of MICEX individual clients dropped to 5-7% quarterly. At the end of 2008 the increase came to 34%. At the end of June 2009 the number of individual MICEX clients reached 622,352 people, that is 32% more than for the same period of the previous year. Thus, despite the severely worsening market conditions of 2008, it would seem that the public has not lost interest in the capital market.

An important characteristic of the private investor base is the number of so-called active investors, that is, those who make at least one deal per month on the stock exchange. Figure 21 shows the data available on active individual investors on MICEX.

**Figure 21** Number of MICEX individual active investors



Source: MICEX.

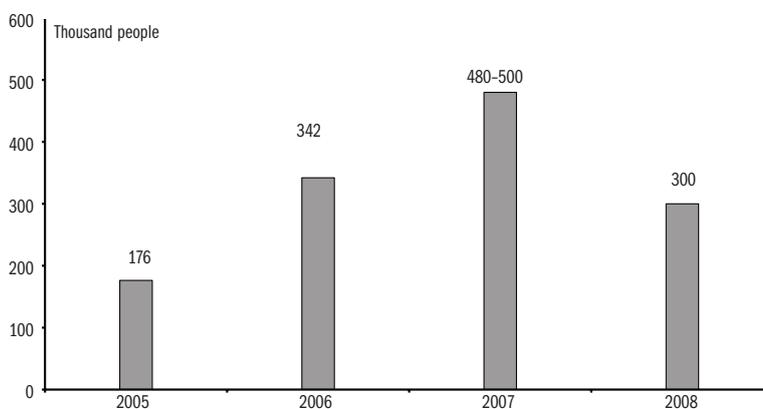
Therefore, as follows from Figures 20 and 21, active individual investors account for 13–18% of MICEX's unique client base. It is remarkable that the number of active MICEX clients is very close to the difference between the total number of MICEX client accounts and the number of its unique clients. This difference corresponds to the segment of client base that use, for example, the services of two or more brokers.

Between May 2007 (when data on the number of active clients was first published) and the end of 2007, the number of active clients rose by 40%. At the same time, in August — September there was a seasonal lull in activity.

In 2008 no long-term trend for change in the number of active clients was noted. A seasonal lull was also observed in August; the maximum monthly growth was seen in September (33%); the maximum monthly fall — in June (16%), and the median value stabilised at 72 thousand people. In the first half of 2009 a steady growth in the number of active clients was recorded. In March this surpassed a psychologically important frontier — 100 thousand people, and at the end of June the number of active investors reached 111,641 — a 66% increase on the same period of the previous year.

The National League of Management Companies has been professionally estimating the number of accounts of «market» UIF stockholders (see Figure 22) with non-zero accounts, since 2002.

**Figure 22** Russian Public investment in securities (UIF clients)



Source: National League of Management Companies (Russian abbreviation: NLU).

According to these estimates, the growth in the number of unit investment stockholders constituted 94% in 2006, and around 40% in 2007. The evaluation of the number of 'market' unit investment stakeholders in 2008 is very vague, however it does bear witness to the mass exodus of investors from UIFs. There are no figures for the number of 'market' unit investment stakeholders for the first half of 2009.

### b) Unit Investment Funds

From a legal perspective, unit investment funds are asset portfolios that do not form legal entities. Table 28 shows summarised data on the dynamics of change in the numbers of UIFs over the past few years<sup>18</sup>.

**Table 28** Number of Unit Investment Funds

Type of UIF	Period	2005	2006	2007	2008	2009	
						Q1	Q2
Opened-end		201	299	455	450	445	433
Interval		59	86	95	94	92	91
Closed-end		121	234	398	476	479	565
<i>of which – real estate</i>		73	152	269	350	348	391
<b>Total</b>		381	619	948	1 020	1 016	1 089

Source: National League of Management Companies (NLU).

In 2005 — 2007 the number of UIFs grew quickly: in 2006 growth in the number of UIFs constituted 61%, and for 2007 — 53%. In 2008 the situation changed. In the first half of the year the number of UIFs remained practically unchanged, a fact that can be explained by the lack of legislation necessary to register new funds, thus causing a delay in new registrations. The second half of the year, in the midst of the crisis, saw a downward trend in the number of UIFs, and the fourth quarter experienced a 7% drop in the number of opened-end funds. On the whole, however, there was a 7.5% overall rise in the number of funds in existence in 2008, due to an increase in the number of closed-end funds.

At the end of the first half of 2009 there were 1089 UIFs. This is 3% more than for the same period of the previous year. A significant share of this growth arose care of closed-end funds (21%), of which 16% were real estate funds. The number of opened-end and interval funds for this period dropped by 10-11%.

At the end of 2008 — beginning of 2009 a way arose to create new UIF categories: rental funds (with legal right to be included in the scope of assets of leasehold rental properties), credit funds (with rightful inclusion in the assets structure of financial obligations on credit agreements), commodity market funds (possible inclusion in the assets structure of precious metals) and hedge funds (wide investment possibilities, including derivatives). At the end of the first half of 2009 these new opportunities had only just begun to be realised. Main interest, judging by the number of registered UIFs, appears to be directed towards credit funds which, according to expert opinion, are seen as a securitisation instrument for problem credit organisations (banks). Interest is also being shown in rental funds.

Table 29 shows composite data on the change dynamics of UIF net asset values over the past few years<sup>19</sup>.

<sup>18</sup> Only completely formulated funds are included in the statistics.

<sup>19</sup> Only completely formulated funds are included in the statistics.

**Table 29** UIF net asset values (billion rubles)

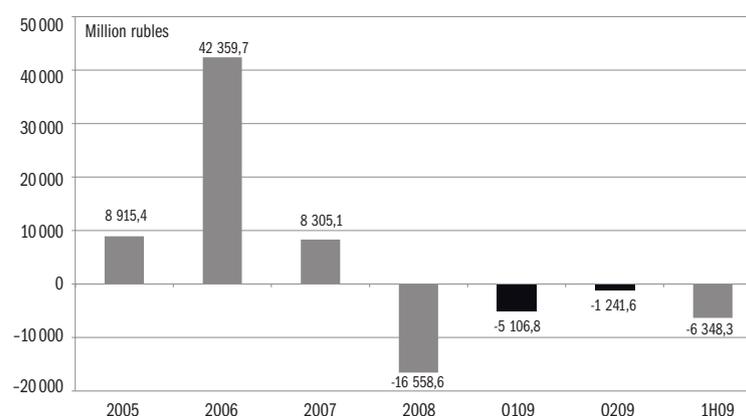
Period	2005	2006	2007	2008	2009	
Type of UIF					Q1	Q2
Opened-end	30,8	91,1	134,8	47,1	50,9	61,0
Interval	38,7	59,6	43,8	13,2	14,5	17,2
Closed-end	163,4	268,1	604,2	585,7	582,2	561,2
of which – real estate	24,9	69,0	189,9	261,3	271,9	275,5
Total	233,0	418,8	782,8	646,0	647,6	639,5
Net asset value/ GDP (%)	1,08	1,56	2,37	1,55		

Source: Federal State Statistics Service (FSSS), NLU (National League of Management Companies).

In 2005–2007 UIF net values grew quickly. In 2006 this growth constituted 80%; in 2007 — 87%. However, as a consequence of the financial crisis by the end of 2008 they had fallen by 136 billion rubles in absolute terms, or by 17.5%, relative to the beginning of the year. This was the first time in the past few years that such a sizeable fall has been recorded. To the greatest extent this downtrend concerned opened-end and interval funds (a decrease of 65-70%). For closed-end funds the fall was less obvious — around 3%, and in that the asset value of real estate funds grew by 38% a year.

At the mid point of 2009, in comparison to the beginning of the year, there was a growth in the net asset value of opened-end and interval funds (30%) and an insignificant decrease (4%) for closed-end funds. When compared with the same period of the previous year, the total net asset value was 19% down. For opened-end UIFs the slump constituted 25%, for interval — 39%, and for closed-end — 17% (that said, net asset value of closed-end real estate funds grew by 3%).

Besides the net asset value, an important characteristic of UIFs is the volume of net capital investment into the funds. The most telling statistics are for opened-end UIFs, where applications for unit issues and redemptions are accepted every working day. Figure 23 shows statistics on net raised capital in opened-end UIFs.

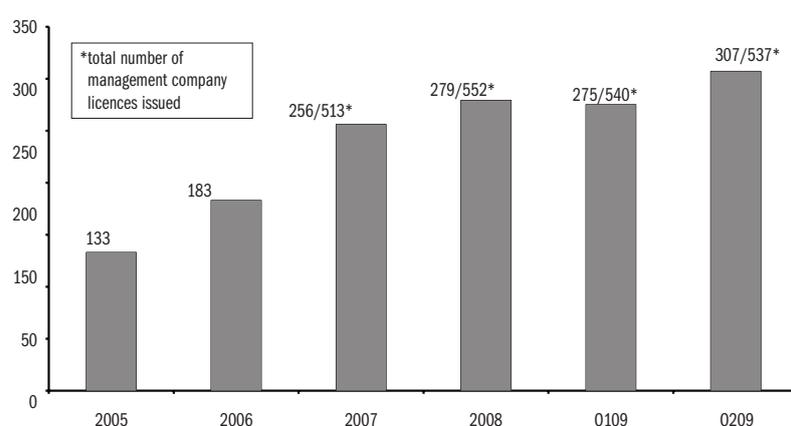
**Figure 23** Volume of net raised capital in opened-end UIFs

Source: NLU (National League of Management Companies).

As is evident from Figure 23, 2006 set the record for the last few years for new investment — the volume of net raised capital amounting to 42.4 billion rubles. 2007 saw a capital inflow in the first quarter and an outflow in the fourth; summarily over the year the volume of net raised capital amounted to one fifth of the previous year — 8.3 billion rubles. Then, with the exception of the first quarter of 2008, there was an outflow of capital from opened-end funds. As a result, at the end of 2008 the balance of invested capital into opened-end UIFs was negative — minus 16.6 billion rubles. In the first half of 2009 the outflow of capital continued to the tune of 6.4 billion rubles.

A key element in the structure of a UIF is its management company. Figure 24 depicts composite data on the number of management companies working with UIFs over the last four years.

**Figure 24** Number of management companies managing UIFs



Source: The Federal Financial Markets Service (FFMS), National League of Management Companies (NLU).

In 2006 the number of management companies controlling UIFs increased by 36.6%, and in 2007 by 39.9%. The growth statistics of 2006–2007 were remarkable against changes in the other spheres of professional activity on the securities market and demonstrated the great interest towards collective investments of the period. In the first half of 2008 growth in the numbers of management companies controlling UIFs ceased, and towards the end of the year this figure decreased. This is most likely linked to the suspension of new UIF registration and to manifestations of the economic crisis on the financial markets. In the first quarter of 2009 the number of management companies altered little, however the second gave rise to an uptrend.

Approximately half of the organisations that hold management company licences are involved in managing UIFs. The rest concentrate solely on managing private pension fund assets and on other projects. There are also companies that are not active in the market at all. In 2008–2009 demands on the equity capital of management companies increased twofold, but these changes did not have any substantial influence on the overall number of management companies<sup>20</sup>.

### c) Bank-managed mutual funds

Bank-managed mutual funds (Bank-managed MFs) are an investment product that credit organisations offer based on instructions issued by the Bank of Russia<sup>20</sup>. A Bank-managed MF is acknowledged as a property portfolio that consists of property given to trust management by various entities, as well as the property acquired by the trust manager in the course of exercising trust management. Bank-managed MFs are viewed legally as being similar to UIFs, however participation in them is not authenticated by a security. The investor investing into a Bank-managed MF receives a so-called Certificate of Participation

<sup>20</sup> Central Bank instruction of 02.07.97 «The procedure for conducting trust management transactions and the book-keeping of these operations by credit organisations of the Russian Federation».

(COP), which is not a security. Requirements as to the composition and structure of Bank-managed MF assets are less restrictive than they are for UIFs. According to existing information, around 30 credit organisations are involved in Bank-managed MF management. Statistics for the number of funds and their net asset values for the past few years are shown in Table 30.

**Table 30** Bank-managed Mutual Funds

Period	2005	2006	2007	2008	2009	
						Q2
Number of funds	173,0	239,0	273,0	291	292	292
of which – rubles	120,0	170,0	201,0	215	216	216
of which – foreign currency	53,0	69,0	73,0	76	76	76
Net asset value (billion rubles)	7,9	17,1	21,1	7,5	7,8	8,7

Source: *investfunds.ru*.

As is clear from Table 30, Bank-managed MFs stand well below UIFs, both in terms of the number of funds and in their total net asset value. While in 2006 there was growth in Bank-managed MFs (they increased in number by 38%, and their net asset value by 118%), in 2007 growth was highly insignificant (14 and 23% respectively). In 2008 growth in the number of Bank-managed MFs came to a standstill (an increase of 7%), and since the beginning of the year their net asset value had dropped by 13.6 billion rubles (around 65%). In the first half of 2009 there was no change in the number of funds. The net asset value for this period in comparison with the beginning of the year increased by 10%, however in comparison to the same period of the previous year it was down by 49%.

#### **d) Private (non-state) pension funds (PPFs)**

According to the FFMS, at the end of the first half of 2009, 170 organisations held valid private pension fund licences, of which 136 funds were eligible to work in mandatory pension insurance. This indicates that since the beginning of the year (see Table 31) the number of PPFs has fallen almost by 30%. This has resulted from the fact that a whole series of companies had their licences revoked. More than 30 funds are in the process of voluntary liquidation or reorganisation by way of a takeover.

Information on private pension fund assets linked to the private pension surety (pension reserves) and to mandatory pension insurance (pension savings) is presented in Table 31.

**Table 31** Investment resources for Private Pension Funds (billion rubles)

Period	2005	2006	2007	2008	2009	
					Q1	Q2
Number of PPFs		293	253	241	нд	170
Number of PPFs eligible for mandatory pension insurance		102	126	136	нд	136
Pension reserves	277,3	405,2	472,9	462,7	476,5	495,1
Pension savings	2,0	10,0	26,8	35,5	46,9	67,3
Total	279,4	415,1	499,7	498,2	523,4	562,4
Investment resources (PPF/ GDP (%))	1,29	1,54	1,51	1,20		

Sources: Federal Financial Markets Service (FFMS), [www.investfunds.ru](http://www.investfunds.ru).

As shown in Table 31, while in 2006 PPF pension reserves grew 1.5 times, in 2007 they increased insignificantly, only by 16.7%. Pension savings had spurts of growth in 2006 increasing fivefold, and in 2007 they increased 2.7 times. In 2008 pension reserves fell by 10 billion rubles (2% in relative evaluations), and pension savings grew by 33%.

At the end of the first half of 2009 cumulative PPF investment resources had grown by 13% in comparison to the beginning of the year. Notably, if pension reserves had increased by an insignificant amount (7%), then pension reserves had grown considerably more — by 89%. However, in comparison to the same period of the previous year, pensions reserves were down 1.5% while pension savings had risen by 56%.

The management of PPF investment resources can be undertaken by the fund independently, just as it can be passed to an investment company to be managed.

One of the principles for the placement of capital in pensions reserves and the investing of money in pension savings, according to the federal law «Private Pension Funds», is the safe-keeping of designated capital and the profitability of investors' portfolios. The management companies must provide, by means laid down by civil legislation, return of the initial investment entrusted to them.

As the experience of the past few years has shown, the said statutory provision necessitates PPFs to make management companies include conditions regarding the provision of certain profitability from investment (a minimal guaranteed return) in their contract of trust management.

In the past few years a practice has come about whereby the conditions of the agreement with management companies regarding the managing of PPF investment resources make provision for a certain revenue to be received from the investment.

On the backdrop of a steep decline in the securities market in 2008, losses in the management of PPF investment resources were incurred in a whole series of cases. Management companies began to be sued for the return in full of the capital entrusted to their management and for compensation for the losses in their investment. In April 2009 the Moscow Court of Arbitration ordered the repayment of capital from a management company, but the PPF applied for the management company's bankruptcy.

#### e) Investment of pension savings capital

Insured persons, that is employees for whom employers make pension contributions to the Pension Fund of Russia and who have an employment pension savings pot, may transfer their pension savings into a PPF or entrust it to a management company — either private or state-owned. The first tender amongst private management companies for the right to participate in the investment of pension savings was held in 2004 and commanded great interest from both the professional community and the interested

public. As a result 55 companies became eligible to manage pension savings capital. That said, in the years that followed private companies lost interest in the project.

However in 2008 four more management companies went through the tender process and became eligible to manage the employment pensions savings pot. Thus towards the end of 2008 the Pension Fund of Russia signed contracts with 59 companies for the trust management of pension savings capital. The role of state management company has, up to now, been filled by the OJSC State Corporation «Bank of Development and Foreign Trade» («Vnesheconombank»).

As a state management company, «Vnesheconombank» has the right to invest pension savings only into state securities. Private management companies have a much wider range of investment opportunities.

Figures on the size of pension savings transferred into PPFs are shown in Table 30. Table 32 gives information regarding the net asset value of the pension savings capital entrusted to «Vnesheconombank» and to private management companies.

**Table 32** Value of net assets into which pension savings capital is invested (billion rubles)

Period	2005	2006	2007	2008	2009	
					Q1	Q2
«Vnesheconombank»	176,3	267,1	362,9	343,1	325,6	446,6
Private management companies	5,6	9,4	12,2	7,1	8,6	12,7
TOTAL	181,9	276,4	375,1	350,2	334,2	459,3
Investment resources (management company/GDP (%))	0,8	1,0	1,1	0,8		

Sources: VEB («Vnesheconombank»), Pension Fund of Russia, [www.investfunds.ru](http://www.investfunds.ru).

As seen in Table 32, an overwhelming proportion (about 97%) of the volume of the insured persons' pension savings capital that was surrendered to trust management is entrusted to «Vnesheconombank». In 2006—2007 there was an increase in the capital looked after by the state management company (in 2006 the growth constituted 51.5%, in 2007 — 35.9%). In 2008, however, for the first time since the pension reform and despite a very conservative investment policy, there was a drop in the net asset value of pension savings capital under «Vnesheconombank» management, a drop of 19.8 billion rubles in absolute estimation, or of 5.5%. In the first quarter of 2009 the value of net assets under the management of this state management company dropped a further 5%. However, in the second quarter there was a growth of 37%. Overall, in comparison with the first half of 2008, a rise of 26% in the value of net assets under the management of «Vnesheconombank» was recorded.

The net asset value of pension savings under the management of private management companies in 2006—2007 grew constantly (in 2006 by 68%, and in 2007 — 30%). In 2008 the trend changed and the end of the year saw a sharp fall, in absolute terms a reduction of 1.7 billion rubles, in relative — 42%. The decline in the net asset value of pension savings, of course, was linked to the redistribution of pension savings in favour of PPFs, as well as to the negative results of management during the crisis. In the first half of 2009 a growth in the net asset value of pension funds under the management of private investment companies was observed. In the first quarter this growth constituted 21%, in the second — 46%. However, if compared to the first half of 2008 the increase was insignificant — only 3.3%.

As of the beginning of 2009 the programme for government co-financing of the employment pension savings pot came into effect. Citizens were given the right to make additional contributions to the pension savings pot, but by no more than 2000 rubles a year. In this case the government pays the remaining sum, equal to the annual contribution, but no more than 12,000 a year. The co-financing comes into effect ten

years after the payment of the first contribution. For citizens who have reached pensionable age but who continue to work, not drawing on their pension, there are special conditions: the government contribution will multiply the personal contribution fourfold, but by no more than by 48,000 rubles per year.

#### f) Commercial banks

Many Russian banks act as professional participants of the securities market, as well as being investors. Summary data on the volumes of various types of securities held as assets by credit organisations for the past few years is shown in Table 33<sup>21</sup>.

**Table 33** Securities in the assets of credit organisations (billion rubles)

Период	2005	2006	2007	2008	2009	
					Q1	Q2
Securities with repurchase agreements	1400,1	1745,4	2250,6	2365,2	2650,0	2908,6
% GDP				5,7		
Debt instruments *	998,0	1251,4	1541,4			
Equity securities *	127,1	185,0	316,3	1760,3	1994,4	2225,9
Portfolio of controlling shares in daughter and affiliate JSCs.	64,9	79,8	141,9	193,4	228,4	296,0
Discounted bills of exchange	210,1	229,2	251,1	212,0	225,6	219,0
Securities with repurchase agreements	139,3	215,9	304,1	199,5	201,6	167,8

\*Up to 1.02.08, excluding securities with repurchase agreements.

Source: Bank of Russia.

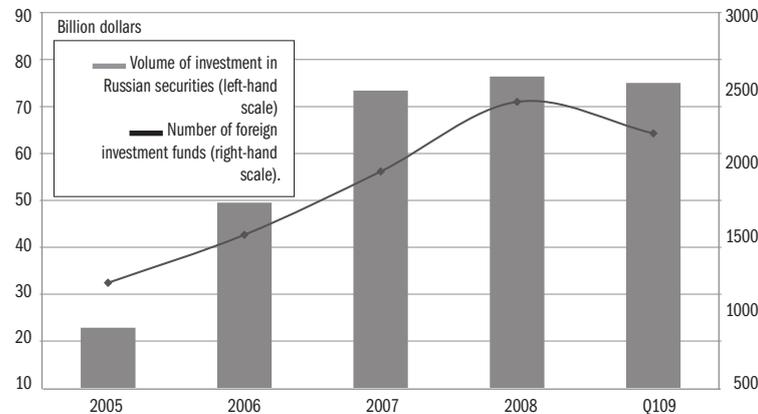
In 2006—2007 the volume of securities in the assets of credit organisations increased, on average, by 25% a year. However, in 2008 growth ceased, constituting only 5%. In the first half of 2009 the growth rates were restored and the volume of securities in the assets of credit organisations rose by 24% in comparison with the same period of the previous year. In relative terms, the share of securities (excluding repurchase agreements) in credit organisations' assets has exhibited a downward trend over the past few years: in 2005 amounting to 14%, in 2006 — 12%, 2007 — 11%. In 2008 this trend continued from 10% in the first quarter, to 8% in the fourth. However, in the first half of 2009 this tendency changed: in the first quarter the share of securities in the assets of credit organisations came to 9%, but in the second increased to 10.5%.

Debt securities in the collective securities portfolio of credit organisations constitute on average 68% -76%. The share of stocks (discounting shares of daughter and affiliate organisations) amounted to on average 9-14%, growing from 2005 to 2007, but in 2008 falling steadily. The share of bills of exchange in 2005-2009 has dropped consistently from 15 to 6%.

#### g) Foreign Investment Funds

The Russian capital market has always been attractive to foreign investment funds. According to «Interfax Business Service» (see Figure 26), the number of foreign funds (from those that disclose information regarding their activities) investing in local stocks and the depository receipts of Russian companies grew on average by 25% a year from 2005 to 2007. In 2008 these rates of growth were sustained despite the crisis, and, at the end of the year the number had increased to 2406 funds. That said, the first six months of 2009 saw a decline for the first time for several years in the number of funds — to 2196. In relative terms this is 8% from the start of the year.

21 Includes securities acquired on both the domestic and foreign markets.

**Figure 25** Foreign investment funds

Source: «Interfax Business Service».

The volume of these funds' investments into Russian securities (both in local stocks and as depository receipts) grew continuously up to 2009. In 2006 this growth amounted to 117%, in 2007 — 48%. In 2008 the volume of investment into Russian securities rose insignificantly (a rise of 4%) and reached 76.4 billion dollars. The first half of 2009 witnessed for the first time in several years a fall in the investment volumes of 1.4 billion rubles.

More than 70% of Russian assets are concentrated in foreign funds, located either in Great Britain or in the USA. Moreover, in the first half of 2009 the share of funds in the UK increased significantly and exceeded half the overall investment volume.

At the same time, the relative share of Russian assets in foreign funds is small — from 2005 to 2008 this on average accounted for 3.2% of the aggregate fund portfolio, and in the first half of 2009 this rose to 4.6%.

The number of Russia-specialised funds (where the share of Russian assets is more than 75%) is not high. In 2005 — 2008 the number increased from 24 to 36. By the middle of the year 2009 the number of funds oriented mainly towards Russia had reached 51. This growth was achieved first and foremost thanks to funds with an absolutely overwhelming volume of Russian assets — more than 90%. In Russia-specialised funds the volume of assets is rising steadily: from 3.5 billion dollars in 2005, to 8.7 billion dollars in 2008. In the first two quarters of 2009, not only did the number of Russia oriented funds skyrocket (growth of 165%), but so did their assets, surpassing the 23 billion dollar mark. This spurt was also down to funds whose volume of Russian assets exceeds 90%. The first half of 2009 shows asset growth in these funds to be more than tenfold.

There are far more so-called global funds where the share of Russian assets does not exceed 10%. By the end of 2005 such funds numbered more than 1,048, and the aggregate volume of Russian assets in them amounted to 10.1 billion dollars. In 2006 — 2007 the number of these funds and the volume of Russian assets increased, at the end of 2007 coming to 1,641 and the volume of assets to 37.5 billion dollars. In 2008 the number of global funds with interests in Russian assets climbed a further 20%, but the volume of Russian assets fell by 1.4 billion dollars (that is, by 23%). In the first half of 2009 the number of funds decreased, though the volume of Russian assets rose by 14%, reaching 33.1 billion rubles. So, unlike the specialised Russia-oriented funds, global funds would seem to behave more passively.

According to the data available, the last few years have witnessed a constant growth in the volume of net raised capital of foreign funds with interest in Russian assets<sup>22</sup> — in 2006 — 0.9 billion dollars and in 2007 — 1.2 billion dollars. In 2008 this trend continued, despite the economic crisis, and according to the same evaluations, the volume of net investment remained positive and amounted to around

22 Evaluation of «Alpha Bank».

2.0 billion dollars. That said, there was a significant inflow in May and outflow in July—August. In the first six months of 2009 the volume of net investment remained good at 0.6 billion dollars. An outflow occurred in January and at the end of June, and inflow — in April and May.

Overall the volume ratio of foreign fund investment into Russian assets, made through Russian and foreign exchanges is estimated at 25 to 75%.

Apart from the foreign investment funds that disclose information on their activities, foreign hedge funds are also interested in Russian assets. Hedge funds are far less transparent; hence it is not possible to estimate their investment.

### 2.3. Professional participants of the securities market

Composite, systematised and detailed data regarding professional participants of the Russian securities market has not been published. According to the FFMS<sup>23</sup>, the total number of professional securities market participants involved in various forms of activity based on the appropriate licences amounted to 1711 organisations at the end of 2006. According to our estimates, around 40% of these are credit organisations.

There is no data available regarding the total number of professional securities market participants for 2007, 2008 or the first half of 2009.

#### a) Brokers, dealers, trust managers

Russian legislation regulates three kinds of intermediary activities on the capital market — brokerage, dealing and the management of securities. The definitions of these various activities are more or less the same as those of the developed markets, with the following provisions:

Brokerage as such does not presuppose the registration of clients' rights on securities, therefore brokers wishing to do so must get a separate licence for depository activity;

Dealing is recognised only in buy/sell transactions of securities that are accompanied by a public declaration of the purchase and/or sale prices. Therefore companies which regularly conduct operations involving securities, even including those which publically offer to buy or sell securities but which do not declare the prices, are exempt from regulation.

The trust management of securities formally differs from that of UIFs and PPFs; a fact expressed by the existence of two separate licences for these similar types of activity.

Information on the number of valid professional intermediary licences is presented in Table 34.

**Table 34** Professional Intermediary Licences

Type of activity	2005	2006	2007	2008	Q1 09	Q2 09
Brokerage	1 379	1 433	1 445	1 475	1453	1415
Dealing	1 398	1 394	1 422	1 470	1455	1430
Securities management	1 022	1 100	1 169	1 286	1276	1249

Source: FFMS Russia.

As is clear from Table 34, over the last few years the number of professional market intermediaries has been generally stable, and in 2006—2008 had a tendency towards growth. That said, the beginning of 2009 showed a downward trend in the number of active licences. This resulted both from the FFMS policy to purge the market from organisations which had a professional securities market participation licence, but which did not conduct any activity on it, nor present financial reports, as well as from reluctance to operate during the crisis.

23 FFMS 2006 annual report.

We would point out that we are discussing namely the number of issued licences and not the number of organisations working in the securities market. The majority of professional capital market intermediaries have three or four licences (brokering, dealing, depository, and securities' management).

### **b) Trade and settlement infrastructure**

The trade and settlement infrastructure of the Russian securities market pertains to its professional participants that conduct the following activities:

- the organisation of capital market trading (including stock exchanges);
- clearing;
- depository functions as settlement depositories.

Additionally, non-banking credit organisations that conduct settlement operations also form part of this infrastructure.

According to FFMS data, since 2007 there have been 9 organisations in Russia with trading or stock exchange licences. 13 organisations have clearing house licences.

Two leading infrastructural centres were essentially formed as a result of market competition and objective integration processes — the groups MICEX and RTS. These today form the organised market for securities and derivative financial instruments in Russia.

- The MICEX Group is a vertically integrated trade and settlement infrastructure that includes:
- CJSC «Moscow Interbank Currency Exchange»;
- CJSC «MICEX Stock Exchange»;
- Non-commercial partnership «National Depository Centre»;
- Non-banking credit organisation «MICEX Settlement House» (CJSC);
- CJSC Joint Stock Commercial Bank «National Clearing Centre».

In June 2008, within the framework of the MICEX Group, a specialised company was formed — CJSC «MICEX — Information Technologies». The primary function of this new enterprise was to develop and support technical and software solutions that would link traders to the trading system MICEX.

- The MICEX Group supports several trading modes:
- Government securities market
- Main trading mode
- Negotiations mode
- Repurchase agreements (REPO) mode

The principle of an «order driven market» — a market of competitive bids in which a deal is done automatically when offsetting bids come together, on the government and municipal securities market (organised by CJSC «Moscow Interbank Currency Exchange») is based on a trading mechanism. Transactions are carried out on the principle of «delivery versus payment» with 100% preliminary depositing of assets. Deals are executed on the day they are concluded (T+0).

On the MICEX capital market (trading organiser — CJSC «MICEX Stock Exchange») a trading mechanism again forms the basis for an «order driven market» principle «delivery versus payment» with 100% pre-deposition of assets and the execution of deals on the day of their conclusion (T+0).

In negotiations mode traders are able to quote securities by entering «non-addressed» orders (invitations for a firm offer to all trading participants) and to conclude deals on a bilateral (not anonymous) basis, using counter addressed bids (an offer to conclude a deal from one trader to the address of another). If this occurs, the traders, on the conclusion of the deal, set the date for its obligations to be fulfilled that ranges from the current day of trading (T+0) to 30 calendar days post transaction completion (T+30). This trading mode allows the participants to conclude their deals either with complete collateral control or without.

REPO mode allows for deals to be concluded with the date of execution being any day, beginning from the day after the transaction is concluded to a date selected for its execution inclusively. The date of execution of the second part of the repurchase transaction is the date, defined as  $T + x + k$ , where  $T + x$  is an appropriate date for the execution of the first part of the repurchase transaction, and  $k$  — the term of the repurchase agreement ( $k$  meaning from 0 to 180 calendar days,  $x$  — from 0 to 2 settlement days).

CJSC MICEX carries out the clearing of MICEX Stock Exchange transactions. Settlement of a trader's net liabilities on executed deals is effected on the basis of settlement documents from CJSC MICEX as a clearing centre, in the «MICEX Settlement House» (a settlement house for monetary assets), and in NP «NDC» (a settlement depository for securities).

The Sector of Innovative and Growth Companies (IGC) was formed on the MICEX stock exchange in 2007, for high-tech company issuers with capitalisation up to 15 billion rubles. Up to the end of the first half of 2009 this sector had seen the placements of four companies, including one placement in April 2009. Issuers represented in the IGC sector specialise in the fields of information technologies, television broadcasting and the manufacture of chemicals. The aggregate turnover of the stocks of these companies in 2007 came to 585 million rubles, in 2008 — 1,015 million, but in the first half of 2009 — 923 million rubles.

In June 2009 MICEX and «RUSNANO» (The Russia Corporation of Nanotechnologies) signed a cooperation agreement regarding the creation of a new exchange sector based on the IGC Sector — the «Innovation and Investment Market», which will allow high-tech companies to attract investment using exchange mechanisms, including by way of conducting closed placements among funds and qualified investors. Three main segments, aimed at companies with varying levels of maturity and capitalisation, and various groups of investors will function in the framework of this market:

- Sector IGC, allowing fast growing companies in the innovation sector to do an IPO and secondary trade in all main MICEX modes;
- A platform for private placements — the main emphasis to be put on the opportunity for private placements using exchange technologies and listing. Secondary circulation will be conducted amongst qualified investors in the framework of trading technologies, oriented towards trade in large batches.
- A sector for the placement and trading of non-public companies (information board), with the aim of attracting financing for young and growing companies which are not yet ready to make an initial offering or circulate stock on the fully-fledged public market.

In August 2008 a new sector — MICEX Discovery was created on the MICEX stock exchange as part of the main market exchange, with a special procedure for the admission of stocks to trading and special criteria for the selection of companies. The stocks included in this sector are admitted to trade on the exchange's initiative, which, to reduce the risks for investors, uses a multi-level system for the selection of companies and an institute for information sponsorship. The stocks of 40 Russian companies were included in this sector during the course of 2008—2009. At the end of 2008 the stock transaction volume of these issuers on the MICEX stock exchange reached 311 million rubles, and in the first half of 2009 — 1,763 million.

In the overall volume of stock transactions, the alternative platforms — Sector IGC and MICEX Discovery occupy a niche position, not exceeding 0.01%.

In April 2009, the 'MICEX Group Development Strategy for 2009—2011' was announced.

It proposes the realisation of projects in four main directions:

- corporate construction;
- modernisation of the risk management system on all markets of the group;
- diversification of the business;
- refining and bettering the IT platforms.

Summarised totals for the trading of non-government securities on the MICEX stock exchange for 2005—2008 are presented in Table 35<sup>24</sup>, both in rubles, as well as in foreign currency.

24 Deals with stocks, corporate, sub-federal and municipal bonds and investment units are calculated, including repurchase transactions.

**Table 35** Trading totals on the MICEX Stock Exchange

Period	Measurement	2005	2006	2007	2008	2009		1H 09
		Итого	Итого	Итого	Итого	Q1	Q2	Итого
Trading volume	Billion dollars	226	755	1708,9	1 986	204	305	509
Trading volume	Billion rubles	6 400	20 380	43 500	48 359	7 065	9 766	16 831

Source: MICEX.

As follows from Table 35, 2006 and 2007 experienced furious growth in exchange turnovers on the MICEX stock exchange (the annual growth in rubles was 218 and 113% respectively. With this in mind, the growth of 2008 (11%) looks slight. The sharp fall (more than twofold) in the exchange turnovers in the fourth quarter begs note. In the first quarter of 2009 a slight rise in turnovers in ruble equivalents was seen, in the second — a leap in transaction volumes if compared with the previous quarter (50—40% depending on the currency accounted in). Nevertheless, the totals for the first half of 2009 show that the trading volume was less than for the same period of the previous year by 55—38% depending on the currency dealt in.

In 2008 there was a sharp increase in the number and volume of unexecuted deals on the MICEX stock exchange. Largely these are linked to unfulfilled repurchase transactions. According to the information provided by the exchange, 1442 cases of unfulfilled deals were recorded during the year — a sum of 38.8 billion rubles. The peak in transaction breaches occurred in September-October (1354 breaches, the sum of unexecuted deals — 36.1 billion rubles).

In the first half of 2009, 54 cases of unexecuted deals were recorded to a value of 1.78 billion rubles.

The RTS Group is an integrated trade and settlement infrastructure that includes:

- Non-commercial partnership — Stock exchange «Russian Trading System»;
- OJSC Stock exchange «Russian Trading System»;
- Non-commercial partnership — Stock exchange «Saint Petersburg»;
- CJSC «RTS Clearing Centre»;
- Non-banking credit organisation «RTS Settlement Chamber» (LLC)
- CJSC «Depository and Clearing Company» (DCC).

The RTS Group supports several trading modes:

- Exchange market (market t + 0);
- Classic market (RTS Classica);
- FORTS Derivatives market;

In 2009, a new mode — RTS Standard was introduced.

Trading is organised by OJSC «RTS Stock exchange», the NP Stock exchange «Saint Petersburg» trades the stocks of OJSC «Gazprom».

The RTS Exchange market works on the following principles: an anonymous auction of counter auction tenders (order-driven market), 100% preliminary deposit of assets; the settlement method is «delivery versus payment» on a T+0 basis, the quotations and settlements are made in rubles. The clearing centre used is CJSC «RTS Clearing Centre», the settlement depository is CJSC «DCC», and the settlement credit organisation is «RTS Settlement Chamber».

The RTS Standard Market is based on an anonymous auction of bids (order-driven market); it offers partial preliminary depositing of assets; method of settlement — «delivery versus payment» on a T+4 basis; quotations and accounting in rubles. As a clearing house it uses CJSC «RTS Clearing Centre»; as settlement depository — CJSC «DCC»; as depository credit organisation — the non-banking credit organisation «RTS Settlement Chamber». For settlements it uses the «central counterpart for transactions» technology. It offers the opportunity to use a single monetary position with the FORTS market. At the present time 20 securities have been released to trade. On the RTS Standard market an evening trading session is provided for. The main session ends at 17:45, after which there is a clearing session. The

evening session then continues from 18:00 to 23:50, the accounting of concluded deals for this period is conducted at 14:00 the following day.

In the framework of the RTS classic market two trading models are used:

- The classic market with non-anonymous trade presumes the conclusion of deals is based on non-anonymous quotations («quote-driven market»), there is no preliminary deposit of assets; the quotations are in US dollars and it is possible to choose the settlement date (from T+0 to T+30), the method of settlement («delivery versus payment» or free delivery), the currency of settlement (rubles or foreign currency). Neither a clearing centre, nor a settlement depository is used. Monetary settlements in «delivery versus payment» mode are effected through «RTS Settlement Chamber» or J.P. Morgan Chase Bank, and the settlements in free delivery mode are effected through any bank.
- The Classic market with anonymous trade presumes an anonymous bids auction (order-driven market), partial preliminary deposit of assets; the method of settlement is «delivery versus payment» on a T+4 basis; the quotations and settlements are in US dollars. The clearing centre used is CJSC «RTS Clearing Centre», the settlement depository is CJSC «DCC», the settlement credit organisation — non-banking credit organisation «RTS Settlement Chamber» or J.P. Morgan Chase Bank.

For the settlements of more liquid securities (at the present time — nine stocks) the «central counterpart for transactions» technology is used.

The FORTS derivatives market is based on an anonymous bids auction (order-driven market). Settlements and delivery are effected on the expiration date of the circulation of the contract. Quotations and settlements are made in rubles. The clearing centre is CJSC «RTS Clearing Centre», the settlement depository is CJSC «DCC», and the settlement credit organisation is «RTS Settlement Chamber». Evening trading sessions were introduced onto the FORTS derivatives market in 2008. The main session ends at 17:45, after which there is a clearing session. Evening sessions continue from 18:00 to 23:50; settlements for the session's transactions are effected at 14:00 the following day.

In February 2009 the trading of options on margin commenced of the FORTS derivatives market.

Within RTS there is an indicative quotations system RTS Board, which is based upon the following principles: the display of indicative quotations on the securities not admitted to trade on the RTS stock exchange; the absence of preliminary depositing of securities or monetary capital; quotations are made in US dollars; the possible choice of settlement date (from T+0 to T+30), the method of settlement (delivery versus payment or free delivery), the currency of settlement (rubles or foreign currency). Neither a clearing centre, nor a settlement depository is used. Monetary settlements in «delivery versus payment» mode are effected through «RTS Settlement Chamber» or J.P. Morgan Chase Bank, and settlements in free delivery mode are effected through any bank.

In 2007 a special segment — RTS START was created within the RTS Group for the entry of small cap companies onto the open market. Currently there are five issuers in this segment. Since the start-up of this project deal volumes have been insignificant.

In 2008 in the RTS Group a new project — RTS Global was launched, designed to display indicative quotations on foreign securities concluded in off-exchange deals, and also settlements for deals in CJSC «DCC». At the present time 52 securities have been admitted into this sector, however to date they have been left practically untraded.

Summary results for trading on the different markets of the RTS Group in 2005-2008 are shown in Table 36<sup>25</sup>.

25 Deals with stocks, corporate, sub-federal and municipal bonds and investment units, are calculated, including repurchase transactions; for the derivatives market FORTS — futures and options transactions in all types of underlying assets.

**Table 36** Total RTS trading

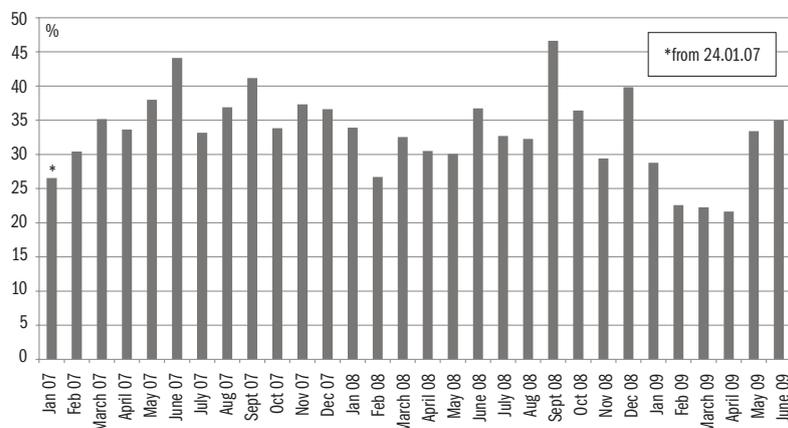
Period	Measurement	2005	2006	2007	2008	2009		2009
		Total	Total	Total	Total	Q1	Q2	Total
<b>RTS Classic market</b>								
Trading volume	Billion dollars	7,7	16,1	14,6	9,8	0,4	0,6	1,0
<b>RTS Exchange market</b>								
Trading volume	Billion dollars	82,0	27,3	23,5	28,1	1,0	7,0	8,1
<b>RTS Standard</b>								
Trading volume	Billion dollars						217,9	217,9
<b>Exchange market Stock exchange Saint Petersburg</b>								
Trading volume	Billion dollars	936,8	1 205,9	71,2	41,7	0,3	0,6	0,8
<b>FORTS Derivatives market</b>								
Trading volume	Billion dollars	687,1	2 708,5	7531,2	11 157,7	1 790,4	3 253,7	5 044,1
<b>RTS Board</b>								
Trading volume	Billion dollars	309,1	544,8	751,9	436,4	9,4	19,8	29,2

Source: RTS .

In Table 36, data on RTS Standard incorporates both the main and additional evening trading session. The results of the first half of 2009 show that the volume of deals done in evening sessions constituted 10% of overall volume.

In compliance with the Statute on the disclosure of Information<sup>26</sup>, stock exchanges collect information regarding over-the-counter (off-exchange) transactions with securities included on the stock exchanges' quotation lists, provided that the execution of their obligations provides for the transfer of ownership of these securities. Figure 27 shows a graph illustrating the share of reported off-exchange deals in the aggregate volume of exchange transactions (excluding repurchase agreements) and the reported off-exchange deals conducted (reported) through the MICEX and RTS stock exchanges.

<sup>26</sup> The FFMS decree of 22 June 2006 No. 0667/pz-n «Ratification of the regulation regarding disclosure of information on concluded transactions».

**Figure 26** Share of off-exchange transactions

Source: MICEX.

In 2007 around 8.5 trillion rubles of off-exchange transactions were recorded, in 2008 — 6.5 trillion rubles, and in the first half of 2009 — 2.5 trillion. On average, the share of reported off-exchange transactions constituted 25-35% of the total transaction volume, and certain months can be noted (for example June 2007 and September 2008) when this indicator was in the region of 45%.

### c) Registration system

On the Russian capital market there are two alternative ways in which to register rights on securities, both carrying the same legal weight: via personal accounts in the stock registering system and by depo accounts in a depository. Registrars, depositories and also issuers who independently keep registers of their shareholders together constitute the record keeping system of the capital market. The activities of registrars and depositories are subject to licence.

A Registrar is a professional participant of the securities market who keeps the securities' ownership register. This involves the collation, inputting, processing, saving and presenting of the data that makes up the securities' ownership registration system. The registrar works on the basis of an agreement with the securities' issuer; individuals opening an account in the register do not sign an agreement with the registrar. An issuer with no more than 50 shareholders is allowed to keep an independent register or to contract this out to a registrar. If the number of shareholders exceeds 50, the issuer is obliged to entrust the register to a registrar, although the issuer will remain responsible for the keeping of it.

A Depository is responsible for registering and certifying rights on securities, registering and certifying the transfer of securities, and also for the custody of securities (if issued in document form). They do their job on the basis of an agreement with an owner of securities or with an individual who has other rights with regard to securities (a depository agreement).

Russia has adopted the generally accepted global practice of dividing depositories into settlement and custodial. Settlement depositories are those that make securities' settlements according to the results of clearing and that conduct all operations in the depo accounts of capital market participants for the execution of deals made through traders. All other depositories are custodial depositories.

Information on the number of valid registrar and depository licences are presented in Table 37.

**Table 37** Registrar and depository licences

Period	2005	2006	2007	2008	1H 09
<b>Type of Activity</b>					
Registrar	82	73	66	59	57
Depository	743	831	787	789	789

Source: FFMS Russia.

Therefore, as follows from Table 37, over the past few years the number of registrars has had an obvious downward trend. A similar tendency was noted also for depositories in 2007, then the quantity of depository licences stabilised. затем значение количества депозитарных лицензий стабилизировалось.

### 3. Legislation and regulation

In the Russian Federation normative legislation for capital market regulation is laid down by several laws: «The Securities Market», «The Protection of rights and legal interests of investors on the securities market» and «Mortgage securities» which define the general rules in place on the securities market, and by sub-legislative normative acts (predominantly Russian Federal Government statutes and FFMS Russia decrees) that set out the special codes of practice. Individual institutions are regulated by special laws: «Investment Funds», «Private Pension Funds» «The investment of funds for the financing of employment pension savings» and «The mortgage-savings system for military housing», in conjunction with a significant amount of sub-legislative regulation.

On 11th January 2009 amendments were made to the federal law «The Securities Market»<sup>27</sup>, in accordance to which the right to issue exchange bonds was granted to commercial partnerships other than just open joint stock companies, and to government corporations and international financial organisations. The stocks or bonds of these organisations must be included in the quotation list of the stock exchange that admits the exchange bonds to trade. The maturity of exchange bonds (i.e. the deadline for the fulfillment of the obligations of a bond) was extended from one year to three years.

Amendments were made to the federal law of 09.02.2009 № 9-FZ in the Russian Federal Code for administrative violations (later abbreviated to RF C/a.v. (\*translator's abbreviation)), in particular with regard to increasing administrative responsibility for the violation of legislation concerning joint stock companies, limited liability companies, the securities market and investment funds. The category of entities holding administrative responsibility — functionaries was widened. According to the new compositions of administrative violations and the compositions that the amendments relate to, fines for administrators are set anywhere from 5,000 to 50,000 rubles, for legal entities — from 100,000 to 1,000,000 rubles. With regard to administrators, provision is made for disqualification for 2 years. The statute of limitations for imposing administrative responsibility for the violation of legislation in the given sphere has been lengthened to one year from the day the violation was committed (earlier, the overall time for application of these rules was 2 months).

Simultaneously with the aforementioned amendments to the RF C/a.v., amendments were made to the federal law «The Securities Market», in particular, clarifications in the definition and substantiation of the indicators of the manipulation of prices on the capital market.

In February 2009 the FFMS Russia decree of 13.11.2008 № 08-52/pz-n came into force «Making amendments to certain Federal Financial Markets Service decrees». In the given documents changes are introduced into the 'Regulation on the liquidity criteria of securities' and into the 'Regulation on trading activity on the securities market'. In particular, conditions are defined in the event of which securities are not included in, or are excluded from, the list of liquid stocks. Conditions for the suspension of stock trading conducted on the basis of non-addressed bids are clarified. Characteristics of the stock index used in order to suspend trading are discussed. Rules for the registration of the spot prices of securities in order to suspend trading in a given situation are established. Thus the spot price must be calculated no less than once a minute as an average weighted price for the previous ten minutes of trading in all deals conducted on the basis of non-addressed bids. The calculation methodology for spot prices is determined by the trading organisers independently. New rules are put in place for the inclusion on the quotation lists of the securities of an issuer, created as a result of the reorganisation.

<sup>27</sup> Federal law of 30.12.2008 № 320-FZ «Making Amendments to the clause 27.5.2 of the federal law «The Securities Market».

The FFMS Russia dictate of 10.02.2009 № 09-5/pz-n «Temporary suspension of the requirements to capitalise stocks in the case of their exclusion from the stock exchange quotation lists» came into effect on the 28th March 2009. In accordance with this document, the stock exchange is allowed, until 1st January 2010, not to apply the requirements for the capitalisation of stocks put forward for inclusion in the stocks on the exchange quotation lists «A» (first and second level) and «B», when the decision is made to exclude them from the given lists.

A new procedure for calculating the equity of professional participants of the securities market and investment and private pension fund management companies was set out<sup>28</sup>. Thus, the main resources are included into the asset portfolio estimated according to the information in the financial record (after deduction of accrued depreciation). Included in the asset portfolio are foreign financial instruments qualified as securities that have undergone the listing procedure; the security market trading organiser's share in the equity capital. The portfolio of accounts receivable included in the assets and the procedure for evaluating securities incorporated in the portfolio of financial investments have been redetermined. The stocks of closed joint stock companies (apart from the assets of infrastructural organisations) are not included in the portfolio of financial investments. The value of an organisation's assets is corrected by coefficients.

The proceeds of sureties issued by a broker guaranteeing the execution of deals conducted in the course of the trading of the trading organiser on the securities market are not included in the portfolio of liabilities.

By 1 July 2009 professional participants of the securities market and management companies became obliged to guarantee compliancy in the amount of equity, calculated as per the new rules, with the official guideline on sufficiency of proprietary means.

In its letter of 17.03.2009 № 09-BM-02/5459 — «Amendments to the Statute on the procedure of calculating the equity of professional participants of the securities market, of investment fund management companies, of unit investment funds and private pension funds, ratified by the FFMS decree of 23rd October 2008 № 08-41/pz-n», FFMS Russia made it clear that professional participants of the securities market (licensees) and applicants for licences conducting their own equity evaluation on any date until that on which the given statute came into effect, must adhere to the Methodology for Calculating the Equity of Professional Participants of the Securities Market laid down in the FFMS Russia dictate of 29.09.2005 № 05-43/pz-n.

Licence applicants accounting for their equity on a date after that on which the Statute came into effect are obliged to calculate their proprietary means as dictated by the Statute, and to comply with the legislation on the sufficiency of equity of professional securities market participants, of investment fund management companies, unit investment funds and private pension funds, as set out in the FFMS Russia dictate of 24th April 2007, № 07-50/pz-n.

In accordance with the FFMS dictate of 23.12.2008 № 08-59/pz-n «Amendments in the Statute on the organisation of trade on the securities market, ratified by the FFMS Russia dictate of 09.10.2007 № 07-102/pz-n», bonds for which a Russian Federation government guarantee or a Vnesheconombank surety safeguard the fulfillment of obligations, and also issuer-concessionary bonds are included on the relevant quotation list without due compliance with the set requirements for a monthly deal volume, a period of existence of the issuer, the absence of damages connected with the issuer and the presentation of a financial report as per procedure. These amendments came into force on 6th March 2009.

Amendments were made by the FFMS dictate of 25.12.2008 № 08-60/pz-n to the Statute on the requirements of financial markets participants to conduct their activity using electronic documents, ratified by the FFMS Russia Decree of 08.12.2005 № 05-77/pz-n. The amendments came into force on 27th March 2009.

Modifications were made to the Administrative Regulation regarding FFMS Russia performing the government function of licensing the activity of professional securities market participants, ratified by

28 FFMS Russia dictate of 23.10.2008 № 08-41/pz-n «Ratification of the Statute on the procedure for calculating the equity of professional participants of the securities market, investment fund management companies, unit investment funds and private pension funds».

the FFMS dictate of 21st August 2007 № 07-90/pz-n. From the 27th March 2009 documents presented to the FFMS Russia by an applicant for a licence had to be accompanied by another document that discloses full information on the structure of the candidate's assets<sup>29</sup>.

The foundations and procedure for conducting planned and unscheduled field audits undertaken by the FFMS Russia in the framework of its government function of monitoring and supervising are elaborated upon<sup>30</sup>. If the organisation under audit is a member of a self-regulatory body, an additional copy of the audit report is compiled for the self-regulatory organisation of which the audited organisation is a member. The FFMS Russia (Regional departments of the FFMS Russia) will decide what to do with regard to the organisation under inspection on scrutinising the findings of the field audit report, and also taking into account any objections and remarks on the field audit report presented by an employee of the self-regulatory organisation who participated in the monitoring process.

The procedure regarding temporary administration in the management of private pension funds is specified in the FFMS Dictate of 03.03.2009 № 09-6/pz-n «Ratification of the Statute on temporary administration in the management of a private pension fund», for which cases the appointment is stipulated by the Federal law «Private Pension Funds». The procedure for the allocation of a temporary administrator is regulated, its staff, organisation and the modus operandi for the limitation or suspension of authority of the fund's executive body, the working conditions, technical equipment and also the procedure for compiling a report on hindrances faced are set out in the dictate.

On the 16th May amendments in the Federal law «The Securities Market» were brought into effect concerning the placement and circulation of the securities of foreign issuers in the Russian Federation<sup>31</sup>. Conditions are set for clearance to circulate the securities of foreign issuers in the Russian Federation. Requirements and limitations, laid out for the circulation of securities earmarked for qualified investors, are imposed on the circulation of foreign issuers' securities not cleared for public placement and/or public floatation in the Russian Federation. Securities of foreign issuers complying with the requirements of the Federal law «The Securities Market» are cleared for public circulation in the Russian Federation on the condition that the Russian stock exchange decides to admit them to trade.

The Statute on the registration of an organisation's regulations and the exercising of internal control in a management company; the Statute on the registration of an organisation's regulations and the exercising of internal control in a specialised depository and changes to them; and the Statute on the registration of an organisation's regulations and the exercising of internal control in a private pension fund and changes and additions to them were ratified by the FFMS Russia Dictate of 20.03.2008 № 08-14/pz-n that came into effect on 13th June 2009.

On 12th June 2009 amendments were made in the FFMS dictate of 18.09.08 № 08-35/pz-n «Widening of the authority for the government registration of issues (additional releases) of issued securities between the Federal Financial Markets Service and its local representative offices»<sup>32</sup>. In accordance with the given amendments the FFMS Russia performs the government registration of issues (additional releases) of issued securities, the equity capital of which, at the moment the decision to issue the securities is ratified, constitutes or exceeds 5 billion rubles.

The procedure for the execution of margin and unsecured transactions was spelt out in the FFMS Russia dictate of 09.04.2009 № 09-13/pz-n «Making amendments to the regulations for brokering activity in relation to the execution of transactions on the securities market using monetary means and/

29 FFMS Dictate of 18.11.2008 № 08-53/pz-n «Amendments to the Administrative Regulation regarding FFMS Russia performing the government function of licensing the activity of professional securities market participants, ratified by the FFMS dictate of 21st August 2007 № 07-90/pz-n»

30 FFMS Russia Dictate of 20.01.2009 № 09-2/pz-n «Amendments in the Administrative Regulation on the Federal Financial Markets Service performing the government function of monitoring and supervising, ratified by the FFMS Russia Dictate of 13.11.2007 № 07-107/pz-n, and the Statute on the auditing, monitoring and supervising of organisations as is assigned to the Federal Financial Markets Service, ratified by the FFMS Russia Dictate of 13.11.2007 № 07-108/pz-n.

31 Federal law of 28.04.2009 № 74-FZ «Amendments in the Federal law «The Securities Market» and clause 5 of the Federal law «Protection of the rights and legal interests of investors on the securities market».

32 FFMS Russia dictate of 31.03.2009 № 09-9/pz-n «Making amendments to the FFMS Russia dictate of the 18th September 2008 № 08-35/pz-n 'Widening of the authority for the government registration of issues (additional releases) of issued securities between the Federal Financial Markets Service and its local representative offices'».

or securities loaned by the broker to the client (margin deals), ratified by the FFMS Russia dictate of 7th March 2006 № 06-24/pz-n». In particular the broker does not have the right to execute margin and/or unsecured deals of the sale of securities for a price 3% lower than the closing price of that security for the previous working day, as calculated by the trading organiser. The broker does have the right to execute margin or unsecured deals of the sale of securities without adhering to the given limitation if the price of the transaction is equal to or exceeds the minimal indicator of the last nominal price of the security, or the minimal indicator of the price of the last transaction with that security which was undertaken with such a nominal price in mind. The amendments came into effect on 14th June 2009.

In accordance with clause 5 of the Federal law «Counteracting the legalisation of income received by criminal means (laundering), and the financing of terrorism» (hereinafter the Law), professional participants of the securities market, classified as organisations performing operations with monetary means or by way of other property, are obliged to take measures aimed at counteracting the legalisation of income received by criminal means and the financing of terrorism. The legislation in this area, apart from by the Law, is defined by by-laws of the Russian Federation, Rosfinmonitoring (the Federal Service (Committee) for Financial Monitoring, Russia), FFMS Russia (the Federal Commission for the Securities Market) and the Bank of Russia. The Bank of Russia's informational memorandums carry considerable weight in the application of legislative standards in this area.

On the 17th February 2009 the Rosfinmonitoring dictate of 01.11.2008 № 256 «Ratification of the Statute on the requirements for the personnel of organisations conducting operations with monetary resources or with any other property to be primed and informed in order to counteract the legalisation of income received by criminal means (laundering) and the financing of terrorism» came into force.

#### **Taxation on the securities market**

The Russian Federation belongs in the category of countries that has a traditional taxation system.

Table 34 lists the main taxes and their rates applicable from 2009 to profit (the income of organisations whose activities are subject to taxation in the Russian Federation as pertaining to the trading of securities, and also to the income of individuals from securities or the trading of them).

The change in the rate of tax on the profit of organisations from 24 to 20% from 1st January 2009 is important here<sup>33</sup>

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33 Federal law of 26.11.2008 № 224-FZ «Making amendments in the first and second part of the Russian Federation Tax Code and particular legislative acts of the Russian Federation».

**Table 33**

Income	Rate for residents, %	Rate for non-residents, %
<b>Individuals</b>		
Dividends on Russian shares	9	15
Interest on bonds with mortgage backing issued up to 1 January 2007	9	30
Other income from securities and transactions with them	13	30
<b>Corporate Bodies</b>		
Dividends from daughter companies, provided that certain conditions are met	0	Не применимо
(more than a 50% share in capital, ownership for at least one year etc.; if the company is foreign it should not be located in an offshore zone)	9	15
Dividends from Russian and foreign organisations		15
Interest on government and municipal securities, interest on bonds with mortgage collateral issued after 1 January 2007, and on the income of the founding trust management on mortgage collateral, received on the acquisition of mortgage participation certificates issued by the mortgage backing management after 1 January 2007.		9
Other income from securities and transactions with them	20	20

The Russian Federation has signed international agreements on the elimination of dual taxation with 74 countries. In accordance with these agreements, companies registered in one country, receiving an income from sources in two countries (Russia and the country with whom the treaty is signed), will pay tax in only one of these countries: in Russia or in the other signatory country at a reduced rate.

The Ministry of Finance of the Russian Federation has published a list of offshore zones<sup>34</sup>, registration in which does not allow companies to transfer non-taxable dividends to Russia, as covered in point 3 of section 284 of the Russian Federation Tax Code. 42 offshore zones are included on this list.

The Russian system of capital market regulation was established in parallel with the founding of the actual market itself and in many ways has played a positive role in its development. This system generally incorporates international experience of regulating the financial markets and it follows the global tendency regarding the continued development of regulation in this area, however it does boast a range of national specifics. The most important of these is the complicated division of regulatory and supervisory authorities in the financial markets between several institutions. At present a significant proportion of the relevant financial market functions falls to one government body — the Federal Financial Markets Service, however certain powers still remain with the Central Bank and also with the Ministry of Finance and the Ministry of Health and Social Development.

### 3.1. The Federal Financial Markets Service of the Russian Federation

The Federal Financial Markets Service (FFMS) is at present the main governmental regulatory body of the Russian capital market. Its status is similar to that of a ministry, as it reports directly to the RF Government and carries both regulatory and monitoring-supervisory authority.

FFMS functions are regulated by the law «The Securities Market» and by the Statute on the FFMS, ratified by the RF Government decree of 30.06.04 № 317. According to this statute the FFMS is deemed a federal executive body that fulfills its functions by way of normative legal acts and the monitoring and supervising of the financial markets, with the exception of insurance, banking and auditing.

34 Ministry of Finance Dictate of 13.11.07 № 108n «Ratification of the list of states and territories that provide a privileged tax regime and/or which do not stipulate the disclosure of information regarding financial operations (offshore zones)».

The FFMS regulates all main capital market entities: issuers, professional participants, collective investment institutions, and also, to a certain degree, investors. The FFMS has a functional independence in that it does not coordinate its activities with any other authority. However as an executive body it does report to the RF Government, which has the right to suspend its activities or to revoke any FFMS legislative decisions.

With regard to issuers, the FFMS has the authority to ratify the standards of securities issuing, sanction the procedure for the government registration of securities and reports on its issue results, the actual registration of the issues of securities and reports on its issue results, and also approve securities prospectuses (with the exception of government and municipal securities). The FFMS also monitors issuers and in the case of breaches issues them with directives, and if necessary can suspend the issuing of securities and file for the securities issue to be declared invalid. The FFMS also determines the procedure for initial offerings and for the circulation of Russian stocks outside the Russian Federation.

Regarding professional securities market participants, the FFMS ratifies the requirements set out by the rules of professional securities trading, approves standard practice in relation to the sufficiency of equity, grants licences for professional activity on the capital market and registers certain internal documents of professional participants. It also verifies and monitors market professionals and can issue them with directives if required, prohibit or restrict particular operations on the securities market, and it also ultimately has the right to suspend or annul the licences of those in breach.

Concerning collective investment institutions, the FFMS licenses the activities of private pension funds, joint stock investment funds, management companies and specialised depositories. It registers the rules of unit investment fund trust management and mortgage backing trust management, the rules on private pension funds and the documents of specialised depositories. The FFMS also ratifies the requirements of the asset structure of joint stock and unit investment funds, determines standards for the disclosure of information and the form of reporting for PPFs and monitors these entities and issues them with directives.

The FFMS also regulates the admission of securities to public offering, to circulation, to quotation and listing, takes measures to stop unscrupulous advertising on the securities market, publishes methodology materials and recommendations on questions within its competency. It has the right if necessary to go to court or arbitration with suits or claims. An important function of the FFMS is its right to review cases of administrative violation within its area of competence, and to take responsible measures as laid down by administrative legislation.

It should be noted that there are a number of essential exemptions to the FFMS's competency relating to credit organisations: here the FFMS can neither impose measures of prudence, nor regulate the issuing of their securities. FFMS authority also does not extend to the issue and circulation of government and municipal securities.

## 3.2. The Central Bank of the Russian Federation

The Central Bank is not an executive body and fulfills its function on the basis of a special law «The Central Bank of the Russian Federation (Bank of Russia)». Its authority in the regulation of commercial banks is also determined by the law «Banks and Banking Activity». As an organisation responsible for monetary circulation and the stability of the banking system in Russia, the Bank of Russia has a range of powers that to a greater or lesser extent affect the capital market and its participants.

Thus the Bank of Russia in cooperation with the Russian government develops and implements an integrated state monetary and credit policy that influences many aspects of the capital market. In order to effect its monetary and credit policy, it acts as an issuer of its own bonds and performs open market transactions with government securities and its own bonds and is a big player on this market.

As a banking regulator, the Bank of Russia determines the specifics for the securities issuing procedures of credit organisations, and registers issues of these securities. It performs banking checks on credit organisations and banking groups, including on their involvement in the capital market as investors. As regards credit organisations as professional securities market participants, the Bank of Russia

effectively determines the rules for performing particular operations (for example, the trust management of securities, the rules for depository registration etc.). It also carries out the «indirect regulation» of the securities market by playing a part in the capital of the infrastructural organisations on the securities market (for example, MICEX).

The Bank of Russia also establishes the regulations that apply to banking operations and the procedures for the accounting and reporting of the banking system of the Russian Federation.

Thus, although the regulatory powers of the Bank of Russia with regard to the capital market and its participants affect directly only the credit organisations operating on this market, its overall influence on the market itself is significant. Using the aforementioned authority, the Bank of Russia, in essence, is the second most important state regulator of the capital market.

### 3.3. The Ministry of Finance of the Russian Federation

According to the Statute on the Ministry of Finance (ratified by a Decree of the RF Government of 30.06.04 No 329), the Ministry performs a number of functions related to the capital market and its participants. Firstly, the Ministry of Finance approves the terms of issue and circulation of federal government securities, approves decisions on particular issues of these securities, and also reports on the results of these issues. At the same time, the Ministry of Finance is itself an issuer of federal government securities.

The Ministry of Finance acts as a regulatory body in relation to government securities — sub-federal and municipal; it performs the official registration of the terms of issue and circulation of these securities and approves the standards relevant to information disclosure on these securities.

In addition, the Ministry of Finance remains a regulator of pension savings investments for the financing of the employment pension savings pot, as well as being regulator of insurance companies where, amongst other things, this pertains to their investments in securities (the supervision of insurance companies is exercised by the Federal Insurance Supervision Service that reports to the Ministry of Finance). The Ministry of Finance also passes normative legislative acts on accounting procedures and the writing of financial statements.

### 3.4. The Ministry of Health and Social Development of the Russian Federation

In accordance with the Decree on the Ministry of Health and Social Development of the Russian Federation (ratified by the RF government decree of 30.06.2004 № 321), the aforementioned ministry performs the function of the formulation of government policy and legislative regulatory standards, including in the fields of pension provision, private pension provision and social security.

The RF Ministry of Health and Social Development (\* in Russian abbreviation: Minzdravsotsrazvitiya) passes regulatory legal acts stipulating the procedure by which a private pension fund informs the RF Pension Fund and the authorised federal organ about renewed contracts concerning mandatory pension insurance; stipulating the requirements regarding pension schemes undertaken for private pension provision, and it ratifies the generic insurance regulations for private pension funds.

### 3.5. Other State bodies

The system of law enforcement on the securities market also includes the tax authorities, financial control and monitoring bodies, the anti-monopoly authority, the judiciary system and law enforcement agencies. However a detailed description of their functions and objectives goes beyond the remit of this review.

### 3.6. Self-regulatory organisations

The system that regulates the securities market includes a number of government bodies and self-regulatory organisations (SROs). They are set up by professional securities market participants with the aim of providing the terms of their professional activity, compliance with the standards of professional ethics in the securities market, protection of the interests of investors and other clients of professional market participants, and also to establish the rules and standards for trading securities that ensure efficient capital market activity. Management companies may also set up SROs.

SROs are non-profit organisations. They lay down rules, mandatory for their members, for professional activity on the securities market, and the standards of trading in securities. They also ensure compliance with these rules. Membership in a SRO is voluntary.

At the present time in Russia five organisations have the status of an SRO for professional securities market participants and collective investment institutions<sup>35</sup>.

- The National Association of Securities Market Participants (Russian abbreviation: NAUFOR) includes brokers, dealers, trust managers and depositories. It has 390 organisations as members. NAUFOR has its central office in Moscow and branches in 14 regions of the country;
- The Professional Association of Registrars, Transfer Agents and Depositories (PARTAD) comprises of 95 depositories and registrars.
- The National Association of the Government Securities Market (Russian abbreviation — NFA) includes companies that hold broker, dealer, depository and trust management licences for securities; most of these are credit institutions. The association has more than 249 member organisations.
- The National League of Management Companies (NLMC; Russian abbreviation — NLU) includes 67 organisations and unites UIF and PPF management companies.
- Non-commercial Partnership of Professional Securities Market Participants of the Ural region (Russian abbreviation PUFRRUR) is the only current SRO whose headquarters are located outside Moscow (in Ekaterinburg). It has 24 members — professional securities market participants from the Ural region.

It should be noted that professional securities market participants are quite often members of several SROs. It is therefore not possible to evaluate precisely the general involvement of the professional market community in self-regulatory structures. Nevertheless, by our estimations, approximately 30%–35% of the total number of professional securities market participants are members of at least one self-regulatory organisation; the highest level of participation in an SRO is amongst registrars — over 70%. The presence of SRO members amongst exchange trading participants is quite representative.

One should point out that over the past few years the membership base of leading SROs has stabilised, and that among large professional participant companies of the securities market, membership in self-regulatory organisations has effectively become standard professional practice.

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<sup>35</sup> Data from FMMS Russia and from SRO websites as of the end of June 2009.

## 4. Calendar of the main events of the first half of 2009

### January

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|----|--|
| 01 | Commencement of the Programme for the government co-financing of the employment pension savings pot.   |
| 11 | The law of 30.12.08 № 320-FZ «Making amendments to the section 27.5.2 of the law 'The Securities Market'» comes into effect. The amendments relate to the widening of the possibilities for the issue of exchange bonds. |

### February

- |    |  |
|----|--|
| 02 | Deals to the total value of 1.6 trillion rubles are mistakenly executed with the stocks of OJSC «Gazprom» on the MICEX stock exchange.   |
| 04 | Fitch ratings agency lowers Russia's sovereign rating by one grade with the prognosis 'negative'.  |
| 05 | The MICEX stock exchange announces the introduction of a delisting system for default bonds.   |
| 05 | At a RF Government hearing the general concept for the creation of an International Financial Centre in Russia is agreed.  |
| 06 | The FFMS dictate of 13.11.08 № 08-52/pz-n «Amendments to particular FFMS dictates» comes into effect. These include amendments in the procedure for the suspension of stock trading. The suspension of trading for one hour is to be effected when a drop/increase of 15% occurs in the stock index, and until the end of the trading day in the case of a drop/increase in the stock index of 25%.                                    |
| 17 | Trading on the RTS is suspended for an hour due to a drop in the index.  |
| 23 | The FFMS dictate of 23.10.08 № 08-40/pz-n «Making amendments to the legislative guidelines for the sufficiency of equity capital» is published. Additionally the obligation for monthly disclosure of equity capital volume online on the internet is laid down. This comes into effect 01.07.09.  |
| 24 | The FFMS dictate of 23.10.09 № 08-41/pz-n «The ratification of the Statute on the accounting procedure for the own equity of professional securities market participants, UIF management companies and PPFs» comes into effect. In accordance with this dictate it is necessary to provide compliance with this regulation for the sufficiency of own funds in the amount of equity, calculated as per this same statute, by 01.07.09. |
| 24 | The MICEX stock exchange announces it is being sued. Should the outcome go in favour of the plaintiff, this could substantially influence MICEX's financial circumstances.   |
| 27 | Trading with futures options begins on the market RTS FORTS.   |

### March

- |    |   |
|----|---|
| 03 | The FFMS revokes the certificates of competence of the Director General and Controller of CJSC «FINAM». |
| 06 | K.N. Korischenko is appointed CEO of CJSC «FINAM».  |

06	The FFMS dictate of 23.12.08 № 08-59/pz-n « Making amendments in the Statute on organised trading on the securities market» comes into effect. This stipulates that bonds whose obligations are fulfilled by way of government guarantee or by «Vnesheconombank» surety and also bonds of an issuer-concessionary are included on the quotation list without complying with a series of established requirements.
10	Technical failure on the RTS.
16	RF proposals are published for the «G-20» summit in London (April 2009).
20	An FFMS Russia management meeting is held with members of the board of the National Association of Pension Funds and the National League of Management Companies.
23	The ordinary stocks of OJSC «Sberbank Russia» grow in price by more than 40% in the course of the week in the context of insignificant growth in the stock indexes.
26	The FFMS renews its embargo on the execution of short-term unsecured sales and the restriction on the effects of the margin level in the back to back closing of margin and unsecured deals.
28	The FFMS dictate of 28.03.09 № 09-5/pz-n «The temporary suspension of the requirements to capitalise stocks in the case of their exclusion from the stock exchange quotation lists» comes into effect. It is stipulated that from 01.01.10 the existing requirements for the capitalisation of stocks do not have to be applied by stock exchanges when the decision to delist is made.
30	The Russian Prime Minister promises to help car manufacturers during a meeting with OJSC «AvtoVAZ». In the context of a general fall in quotations the stocks of this issuer rose 28%.
31	A Memorandum of reciprocal understanding is signed between the FFMS and the UAE Securities and Commodities Commission.

#### April

01	The MICEX stock exchange publishes information on the fall in the value of exchange assets and the rise in net loss in the fourth quarter of 2008, in comparison to the third quarter of 2008 of more than 10%.
01	Technical failure on the RTS.
02	The «Group 20» Summit of government leaders is held in London.
07	In accordance with the law «Investment Funds» the FFMS takes over temporary administration when the licence of a specialised depository and management company is temporarily revoked.
09	The Pension Fund of Russia disseminates information regarding the appearance of fraudulent devices in the mandatory pension insurance system that are linked to the transfer of the pension savings of citizens without their consent.
13	The law of 09.02.09 № 9-FZ «Making amendments in the Code of Administrative Violations (Russian abbreviation — KOAP) regarding increasing administrative responsibilities in the violation of legislation on joint stock companies, limited liability companies, the securities market and investment funds» comes into force. The amendments provide for a wider category of entities that carry administrative responsibility, an increased statute of limitations and increased fines.
14	The strategy for the development of the MICEX Group from 2009 — 2011 is announced by the Board of Directors of this CJSC.
17	The RF Government DUMA in a first reading passes the legislative draft «Counteracting the illegal use of insider information and market manipulation».
20	The Moscow Court of Arbitration orders the management company «Pioglobal Asset Management» to repay to the private pension fund «TNK-Vladimir» more than 230 million rubles in pension reserves entrusted to their trust management and a minimal guaranteed return.
21	The President of OJSC «VTB Bank» announces possible compensation for the loss to purchasers of stocks — individuals in the course of an IPO.
23	Work begins on the new stock market RTS Standard on the RTS.

27	Quotations fall on the Asian stock exchanges as a result of the news regarding the epidemic of swine flu.
27	Trading begins of deliverable futures on the stocks of OJSC «Gazprom» and OJSC «Sberbank» on the MICEX stock exchange.
28	The MICEX stock exchange publishes information on the rise in the value of exchange assets of more than 10% in the first quarter of 2009, in comparison with the fourth quarter of 2008.
29	The RTS announces the transfer of 15 securities from the quotation lists to the off-list securities section.
2	The FFMS makes the decision to ban part of the operations of 28 PPFs.

### May

08	The RF Government DUMA passes in the first reading the legislative bill «Making amendments to the Criminal Code and the Penal Code» that introduces criminal responsibility for such crimes on the securities market as the breach of accounting regulations, price manipulation and the violation of the rights of shareholders.
16	The law of 28.04.2009 № 74-FZ «Making amendments to the law «The Securities Market» and «The protection of the rights and legal interests of investors on the securities market» comes into effect. A new procedure for the admissibility of foreign securities onto the Russian capital market is laid down.
18	The FFMS presents for discussion a bill on the prudent monitoring and procedure of compensation payment to citizens on the securities market.
19	The FFMS announces its intention to increase the requirements regarding the equity capital of professional securities market participants.
22	The RF Government DUMA passes on first reading the legislative bill «Making amendments to the Tax Code», in relation to the tax liability of operations with derivatives.

### June

02	The FFMS decides to ban part of the operations of 5 PPFs.
02	Technical failure on the RTS.
03	The FFMS presents for discussion its draft dictate «Ratification of the Statute on the procedure for the granting of permission for the placement and/or circulation of the securities of Russian issuers outside the RF», tightening the current legislative norms.
05	The President of the RF announces at the Saint Petersburg International Economic Forum that despite the financial crisis, Russia will not renounce the idea of creating an international financial centre.
05	In the framework of the Saint Petersburg International Economic Forum, the MICEX Group and «RUSNANO» (The Russian Corporation of Nanotechnologies) signed their agreement for a collaborative project to create a new exchange sector — the Market for Innovation and Investment.
08	The Federal Court of Arbitration fines a management company for the illegal use of symbolism in the name of a unit investment fund.
08	Tenth year anniversary of the bridging system for inter-depository cooperation between the settlement depositories DCC and NDC.
10	The FFMS revokes the certificates of competence of the General Director and Internal Controller of the limited liability company «BCS».
14	The FFMS dictate of 09.04.09 № 09-13/pz-n «Making amendments to the regulations for brokering activity in relation to the execution of transactions on the securities market using monetary means and/or securities loaned by the broker to the client (margin deals)» came into effect. It is stipulated that the broker does not have the right to execute margin or unsecured deals at a price more than 3% lower than the price at the close of the previous working day.
16	The RTS announces the introduction of regulations regarding mechanical trading systems (so-called «trading robots»).

- 16      The stock exchange MICEX introduces more rigorous requirements for default bonds, procedures for cross-delisting and separate modes for trading default securities.

