

Russian Stock Market: 2013

Events and Facts

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Introduction

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

The purpose of reviews we have been published semi-annually since 2007, is a generalized representation of the Russian stock market and its key elements – instruments, participants, infrastructure, regulatory and supervisory system, as well as the main events that have occurred on the market within this period.

This Review has been prepared by the National Stock Market participants Association with the support of Moscow Exchange Group.

Some material remarks:

- first, the authors of the review try to avoid extensive comments and value judgements, except for those required to understand the data provided herein, their dynamics and the peculiarities of the Russian securities market;
- second, in most cases we provide data as of the end of 2013; however, in certain cases where the said data were unavailable at the moment of review preparation, we provide the data available at the date closest thereto;
- third, we do not aim to represent a long period of the development of the Russian market and provide historical data starting from 2005.

Where the information is provided in the table or graphic form, the data are provided as of the period end.

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

Outline of the Economic Situation in Russia

In 2013, global capital market conditions adhered to the developments in the key directions of 2012: decelerated recovery of developed countries in the euro zone, fiscal policy decisions in the USA, and expectations of further deceleration of economic growth rate in the key countries with emerging markets, primarily, in China. Concurrently, the key factor of global markets dynamics became expectations of relatively fast closing up the Quantitative Easing Program (QE3) by the US Federal Reserve System in view of recovery of the US economics and job market.

According to IMF estimates, the global economics grew only by 3% in 2013 (by 3.1% in 2012). Preliminary estimates of the World Bank are lower: global economic growth is estimated at 2.4% in 2013 (2.3% in 2012). Moreover, since 2012 international financial institutions revised global GDP growth rate forecasts to the downside for several times. Nonetheless, the World Bank forecasts active growth of the global GDP up to 3.2% and IMF – up to 3.7% in 2014 against step-by-step recovery of the US economics (1.8% in 2013) and the expectations of economic rebound in the euro zone.

Possible reduction in the asset buyout within the Quantitative Easing Program by the US Federal Reserve System in 2013 and further closing up of such program became key factors of decrease in the international investors' interest in the assets of the emerging markets from the spring 2013.

Geopolitical risks remained high in 2013: the situation in Syria have tangled due to possible military involvement of the USA and other Western governments, limitations on Iran export operations have remained in effect, internal tension in Libya and Sudan has been on the up.

Macroeconomic conditions in Russia in 2013 formed unfavourable dynamics due to gradual slackening of the investment and production activities, reduction in external demand and gradually decelerating activity of the consumer's sector resulted in more than twofold slowing down the Real GDP rate in Russia (up to 1.3% against 3.4% in the previous year).

Global Macroeconomic and Geopolitical Background and Factors

Economic growth in the developing countries, being the driver of the global economic during the recent years, continued decelerating in 2013. The greatest effect on the global markets conditions was caused by the results and forecasts of the economic activity in China, where, according to the IMF estimates, GDP increment rate remained 7.7%, as in 2012, along with forecast deceleration to 7.5% in 2014. GDP in India and Brazil have demonstrated moderate increase in real terms by 4.4% and 2.3%, accordingly. Russia has become the only BRIC country, where the economic activity slowed down to 1.3% in 2013 against 3.4% in the previous year.

As regards the developed countries, particularly, key countries in the euro zone, more active recovery after budget consolidation and sovereign crisis consequences was expected. However, according to the EUROSTAT data, we observed economic rebound in the euro zone in the second quarter 2013 after reduction by 0.6% following the results of 2012 (by 0.7% according to the IMF estimates), which resulted in the GDP reduction by 0.4% following the results of 2013 and anticipated favourable dynamics – growth up to 1.0% in 2014.

Deterioration in the business environment in Cyprus during the first months of 2013, related to the required recapitalisation of the banks affected by widespread write-off of the Greek sovereign bonds, troubled the global financial markets. Due to the threat of Cyprus default the European Commission proposed to impose a single one-time tax on depositors of the Cypriot banks to release the funds, which was extremely negatively met by the economic community and was not approved by the Government of Cyprus. Agreement with the European Commission for financial assistance in the amount of 10 billion euros was arrived at only at the end of March 2013: the Government of Cyprus was presented with the conditions of restructuring a number of major banks, which resulted in significant losses of the investors, reduction in the overgrown banking system and improvement of

the financial system in general. The consequences of the current situation in Cyprus most greatly affected the Russian investors, who had significant deposits with the Cypriot banks.

Development regarding the repurchase of assets by the US Federal Reserve System within the third stage of the Quantitative Easing Program became one of the factors determining the dynamics of world goods and capital markets from spring 2013. The foreign market conditions were determined by the expectations of possible reduction in the monthly amount of the asset repurchase within the program (USD85 billion), which were formed on the basis of outgoing macroeconomic statistics of the USA (in case it improved substantially, the probability of reduction in the asset repurchase by the Federal Reserve System increased), by the results of meetings of the Federal Committee for Open Market Transactions of the US Federal Reserve System and by the statements of its members.

The first response of economic agents on disagreeing opinions of the members of the Federal Committee for Open Market Transactions of the Federal Reserve System regarding gradual closing up expansionary actions showed up at the beginning of March 2013.

By late spring, the US economy began to show the favourable dynamics again. This increased market concerns about possible changes in the parameters of the asset repurchase, which promoted withdrawal from the assets of the developing countries and resulted in a substantial increase in sovereign spreads.

The meeting of the US Federal Reserve System in mid-June 2013, when Ben Bernanke, Chairman of the Federal Reserve, expressed a readiness to reduce the monthly amount of the asset repurchase under expansionary action program by the end of the year and closing up the actions in full in the first half of 2014, in case a favourable environment for the economic growth in the USA preserved and the labour market condition sustainably improved, was a kind of crucial moment

in trends on the global capital markets. This caused a global decline on the stock markets and promoted the reduction in international investments in risky assets on the global capital markets.

In mid-September, maintaining the repurchased assets volume was announced. In fact, the first decision of the Federal Reserve System on cutting the asset purchase program took place in December: the program was cut by USD10 billion.

The situation in the Middle East and North Africa remained unstable in 2013. The economic sanctions from Western governments (the EU and USA) regarding Iran remained in effect. Nevertheless, adoption of restrictions to Iran's nuclear program in late 2013 promoted certain easing of the sanctions. In Tunisia, opposition conflicted became strained again. The situation in Libya in 2013 was influenced by the increased instability, the lack of a unified government, the constant race for power and strategic energy resources, which resulted in new civil unrest outbreaks, breakdown and decrease in oil production. Internal contradictions in Syria causing a civil war were deepened by the expectations of potential armed conflict with the USA. The uncertainty of global consequences of a military strike on Syria destabilized global markets and deeply **increased the geopolitical tension.**

Among the significant events of 2013, a two-week termination of funding the United States Government and government organizations from the beginning of October due to the disagreements of the Republicans and Democrats in positions regarding the level of government debt and budget parameters may be pointed out. This caused a significant damage to the economy and resulted in a decline on the financial markets. Nevertheless, the problem was resolved through further temporary raising the government debt ceiling in mid-October.

However, the temporary nature and uncertainty in resolution of the problems in the US fiscal policy of the USA aggravated tensions and non-admission of risk by the economic agents.

Dynamics of the Global Commodity Market

Trends on the global financial markets and dynamics of the prices for commodities and gold were affected by the above events in 2013.

Prices for BRENT oil ranged from 97 to 118 US dollars per crude oil barrel (see Figure 1). Demand for energy resources remained at the level of the previous year, which, in particular, resulted from decelerated world economic development. A steady growth at the beginning of the year until mid-February by 6.2% against positive statistics from China and the USA followed by a fall in prices. As a result, the oil price on the

world market broke the psychological level of 100 USD/Bbl and dropped to an annual minimum of 97.4 US dollars in mid-April. This, in particular, was resulted from decreased forecasts for world economic growth and growth in the euro zone. Reduction and disruptions in oil supplies recorded in Nigeria, the United Arab Emirates, Iran, Libya and Qatar positively affected the oil market prices. In particular, in Iran, oil production was decreased due to additional sanctions by the USA; and in Libya, the civil wars resulted in multifold reduction in oil production. Possible military strike of the USA on Syria at the

end of the year aggravated tensions on the global markets and supported the oil quotations additionally.

According to the estimates of the International Energy Agency, the consequences of the Arab war in 2012 at growing political instability in Africa (Libya, Syria, Algeria, etc.) will affect oil production in the region until 2018 and, accordingly, support the oil prices on the world market.

The dynamics of prices on the gold market was explicitly downward for the first time since 2000, reducing by 27.3% per year or by 453 US dollars per troy

Figure 1

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



Source: theice.com.

Figure 2

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



Source: finance.yahoo.com.

ounce as against a 3.7% increase in 2012. During the first half of the year the gold prices on the London Stock Exchange fell rapidly (see Figure 2), reaching the minimum value over the last three years by the beginning of July (1,192 US dollars). The expectations of closing up the Quantitative Easing Program by the US Federal Reserve System as well as the reduction in inflation in the developed

countries appeared to be the main reasons for decrease in the investors' interest in gold as a protective asset. As a result, according to the report of the World Gold Council (WGC), the demand for gold as investment interest facility reduced to the minimum of 2009.

In the second half of the summer there was a slight rise in price; the price per troy ounce increased by 19.1% by

the end of August. However, at the beginning of autumn a downward trend in prices dynamics recovered: at the end of the year gold returned to the annual minimum at the level of 1,200 US dollars.

Certain support for gold quotations was provided by the increased demand for physical gold from China and India, without that the fall would have been more substantial.

Internal Macroeconomic Background and Factors

The growth rate of the **RF gross domestic product** in real terms demonstrated a drastic slowdown at the end of 2013 as against a 3.4% growth in the previous year, and, according to the preliminary estimates, made up 1.3%, which was lower than the expected level at 1.4%. Compared to other emerging markets, the Russian economic growth appeared to the lowest.

In 2013, the **GDP deflator index** made up 106.5% against the prices in 2012 (compared to 108% in the previous year).

The highest share in **forming value added** in 2013 (over 10%) was taken by the mining, manufacturing, wholesale and retail trade and real estate, leasing and services rendering. However, processing sector, generation and distribution of electricity, gas and water, wholesale and retail trade and agriculture, hunting and forestry increased their contribution to the value added growth at basic prices, while the contribution of the economic activities such as construction, mineral resources production and financial services significantly reduced.

The structure of GDP use (see Figure 3) indicates that private consumption remains the only driver of economic growth forming a 2.4 p.p. of real GDP growth (4.8 p.p. at the end of 2012), with the increase of the volume of private consumption expenditure in real terms slowing down to 3.4% in 2013 (6.9% in 2012). The economic slowdown

resulted in reduction in the accumulation of inventories causing a decrease in GDP by 0.8 p.p. The decline in investment in fixed assets caused a decrease in the volume of real GDP by 0.1 p.p. (against an increase by 1.4 p.p. in the previous year). The reduction of material base resulted from the expectations of reduction in demand throughout the year.

At the end of 2013, the increase in investments for the first time in the post-crisis period went negative: **investments in fixed assets** decreased by 0.3% during the year (against a 6.6% increase in 2012). In general, according to the Ministry of Economic Development, the decline in fixed capital investment was due to a reduction of investment programs of natural monopolies and state-owned companies, as well as due to the expectations of decreased profitability.

The growth rates of the industry continued to decline drastically in comparison with relevant periods of the previous year: at the end of 2013, the **manufacturing index** dropped to 0.3% as against a 2.6% increase in the previous year. The current manufacturing dynamics resulted mainly from tremendous reduction in the processing sector, which grew only by 0.1%, with the growth by 4.1% at the end of the previous year. Yearly mineral production increased slightly (by 1.2% as against 1.1% at the end of 2012), the sector of generation and distribution of electricity, gas and water demonstrated a reduction

by 1.8% as against a 1.2% increase in the previous year caused mainly by mild weather conditions within the Russian Federation during autumn and winter in 2013.

Against the overall decline in manufacturing, the **agricultural production volume dynamics** was rather positive (see Figure 4), with the growth by 6.2% in 2013, while at the end of 2012 there was a decrease in the volume by 4.8%. The current dynamics was caused mainly by the weather conditions and shift of the harvest period for a later one.

As shown in the structure of real GDP, in 2013, the consumer demand continued forming conditions for economic growth in Russia. These conditions were supported by preserved high annual growth rate of the consumer lending, growth in real disposable income and real wages for most of the year. The growth in retail turnover was stable at low levels, making up 3.9% in 2013 (as against a 6.3% increase in 2012).

Preliminary data on the main peculiarities of the **federal budget implementation** in 2013, published by the Ministry of Finance, indicate the formation of a deficit at 0.5% of GDP or in the amount of 310.5 billion Rubles (against 401.8 billion Rubles in the previous year). However, the income made up 13.02 trillion Rubles (100.9% of the annual plan), while expenses amounted to 13.33 trillion Rubles (99.6%

of the annual plan), which was very close to the amount of the approved budget allocations.

In December 2013, the **annual growth rate of the consumer price index** was 6.5% as against 6.6% in the previous year, which exceeded the 5–6% target of the Bank of Russia. At the same time, inflation was above 6% throughout the year (see Figure 5), which was mainly defined by significant growth in the prices for food and utilities. The growth in non-food prices decelerated during the year, making up 4.5% as against 5.2% at the end of 2012.

At the same time, core inflation (inflation net of the goods affected by the administrative factors of seasonal nature)

during the year was almost stable and made up 5.6% in December as against 5.7% at the end of 2012. The largest increase in prices in 2013 was observed in such segments as hotel services, alcohol and tobacco, electricity, gas and other fuels, vocational education.

The **money growth rate** on the national level, which slightly grew to September 2013, began to decline again, and at the end of the year it was 14.6% in annual terms (11.9% in the previous year).

Decisions on **implementation of the monetary policy** were adopted by the Bank of Russia based on inflation risk estimates and the prospects for economic growth. The internal and

external macroeconomic trends observed throughout the year, according to the Bank of Russia, did not contribute to a substantial reduction in inflation pressure against the decelerated economic activity, due to which the interest rate on the main refinancing instruments of the Bank of Russia did not change during the year. In the first half of the year a number of decisions aimed at improving the effectiveness of the interest rate channel of the monetary policy transmission mechanism: in April, May and June, the interest rates on individual transactions of providing and absorbing liquidity in the long-term were reduced.

In September, the Bank of Russia adopted within the transition to inflation

Figure 3

Structure of real GDP growth, %

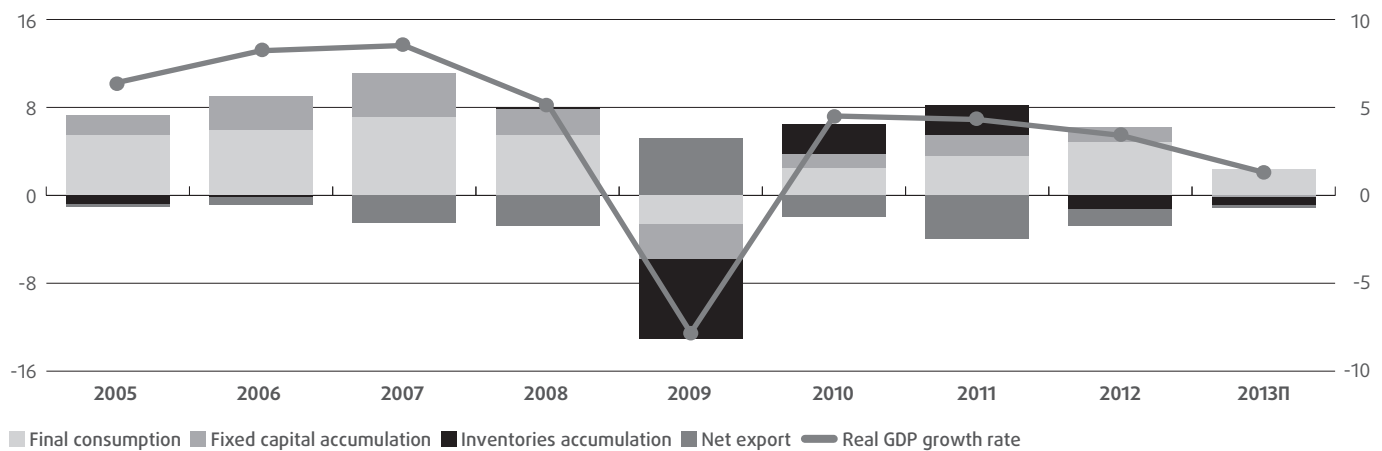
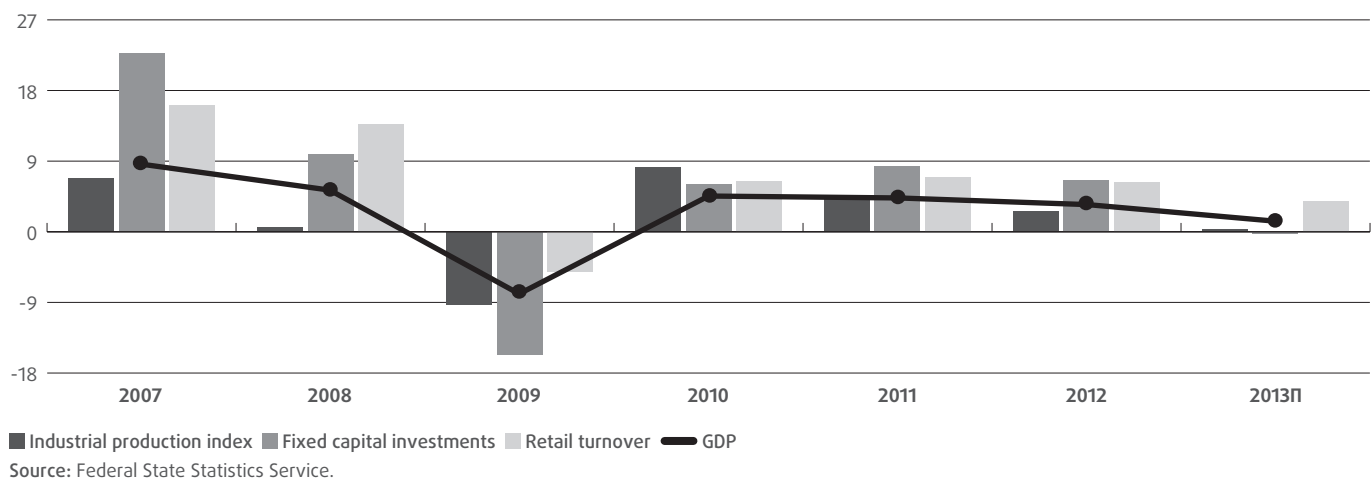


Figure 4

Main macroeconomic indices, % year-on-year



targeting made a number of decisions on changing the system of interest rate instruments in order to improve control over of short-term rates on the money market. Increased flexibility of the exchange rate strengthened the effectiveness of the interest rate channel of the monetary policy, as well.

The **Russian money market conditions** were affected by autonomous factors of forming liquidity of the banking sector in the context of the structural liquidity deficit. The demand for free reserves of the banking sector (balances on correspondent accounts of banks in the Bank of Russia and banks' balances on deposit accounts in the Bank of Russia) increased: the mean free liquidity grew by 118 billion Rubles and reached 994 billion Rubles. The mean debt on deposits of credit organizations with the Bank of Russia was gradually declining to 111 billion Rubles as against 133 billion Rubles in the previous year.

The prevailing effect on the bank liquidity was due to the currency intervention by the Bank of Russia aimed at smoothing the increased volatility in the Ruble exchange rate within the current exchange rate policy mechanism.

In total, due to the effect of autonomous factors the volume of bank liquidity reduced to 1.7 trillion Rubles for

the year as against 1.3 trillion Rubles at the end of 2012.

These factors resulted in the increased demand of the credit organizations for refinancing by the Bank of Russia, due to which the amount of debt before the Bank of Russia¹ increased by 1.8 trillion Rubles, making up 4.5 trillion Rubles in 2013. The main transactions volume of the Bank of Russia to provide liquidity as before accounted for repo transactions on an auction basis, the debt for which amounted to 2.9 trillion Rubles at the end of the year, with the increase by 1.1 trillion Rubles as compared to the beginning of the year. The share of repo transactions in the debt structure of the banking sector before the Bank of Russia made up about 80% at the average for the year.

Overnight loans, lombard loans, loans secured with gold and currency swap transactions in the aggregate made up a small share of the total volume of refinancing of credit organizations. The most popular of them were currency swap transactions with the Bank of Russia, the demand for which increased in the periods of large tax payments during the year.

Placement of the temporarily available funds of the federal budget on deposits with credit organizations remained significant: the total amount

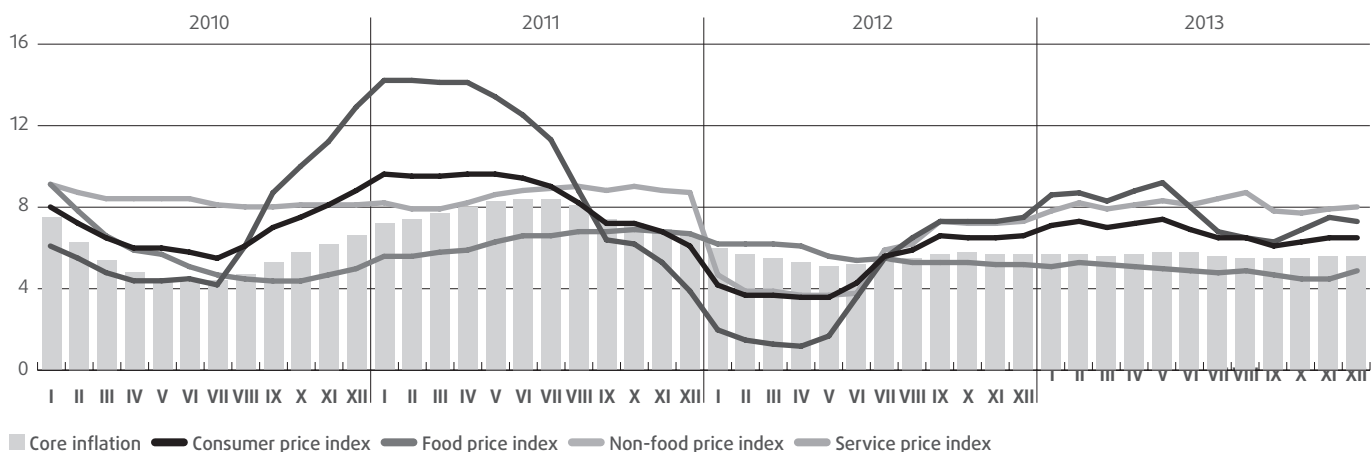
of the funds placed during the year amounted to more than 5.9 trillion Rubles (as against 2.2 trillion Rubles in the previous year); however, the volume of debt of credit organizations on allocated funds made up over 1 trillion Rubles in October.

In 2013, the decline in **international reserves of the Russian Federation** was observed for the first time since 2008: at the end of the year the amount of reserves decreased by 5.1% to 509.6 billion dollars as compared to 537.1 billion, which were formed at the end of 2012 (see Figure 6).

Throughout the year, the international reserves amount significantly changed with the overall downward trend, which was the most noticeable in the first half of the year. One of the lowest levels of reserves in the amount of 505 billion dollars was recorded at the first week of July. Then it stopped dropping and fluctuated in the range of 504 to 511 billion US dollars by the end of the year. Primarily, reduction in the international reserves resulted from the negative revaluation of foreign currency assets in the first half of the year, the depreciation of the monetary gold component, as well as from carrying out currency interventions by the Bank of Russia in the second half of the year to support the Ruble

Figure 5

Inflation indices, % year-on-year



Source: Federal State Statistics Service.

¹ Without taking into account subordinated loans issued by Sberbank of Russia OJSC, and deposits placed by the Bank of Russia with the VEB.

within the current exchange rate policy mechanism.

The official **USD to Ruble exchange rate** set by the Bank of Russia based on quotations of the interbank domestic currency market increased during the year (see Figure 7) affected by reduced demand of international investors for assets in the developing countries as well as by the expectations of decelerated economic growth in Russia. By the beginning of September, the Ruble exchange rate the maximum level of 33.47 Rubles/US dollar in 2013, with depreciation by 10.2% at the beginning of the year. During the year, the Ruble to US dollar rate decreased by 2.7% against the previous year at an

average annual rate and by 7.8% as of the year-end.

The dual currency basket value at the end of the year made up 38.24 Rubles, with the increase by 3.4 Rubles or by 9.9% compared to December 2012. The range of fluctuations in the dual currency basket value amounted to 34.5 to 38.6 Rubles. At the beginning of the year, in order to limit national currency strengthening, the Bank of Russia purchased foreign currency.

During the year, the Bank of Russia sold on the domestic market foreign currency for the total amount of 0.9 trillion Rubles. Significant sales of foreign currency in order to support the Ruble within the current exchange rate

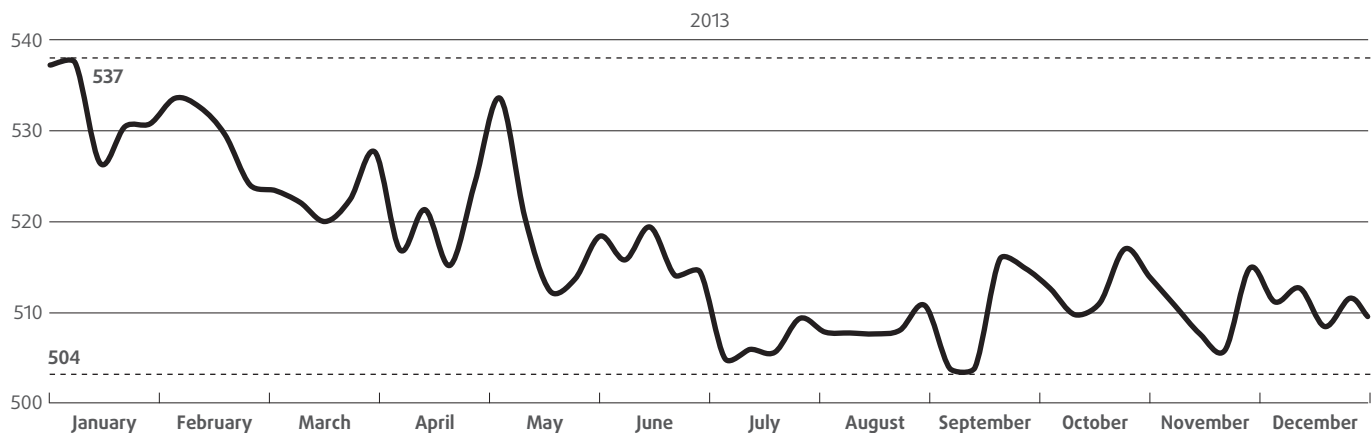
policy mechanism started in April and continued until the end of the year.

The net capital outflow from the private sector, according to preliminary estimates of the Bank of Russia, increased (see Figure 8) and made up 62.7 billion US dollars, with outflow in the amount of 54.6 billion US dollars at the end of 2012. In the first quarter 2013, non-financial sector contributed to the capital outflow from the country to a lesser extent as compared to 2012 (56.7 billion US dollars as against 73.1 billion US dollars).

Net capital inflow by the banking sector in 2012 was replaced by capital outflow from the sector in the amount of 6 billion US dollars at the end of 2013, which was mainly resulted from by a

Figure 6

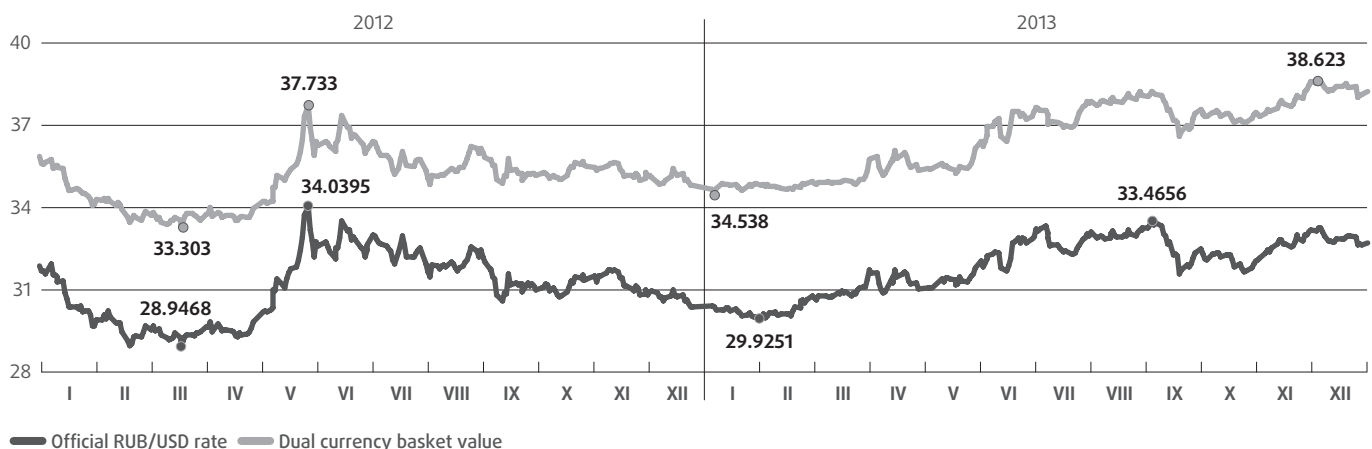
International reserves of the RF, billion USD



Source: Bank of Russia.

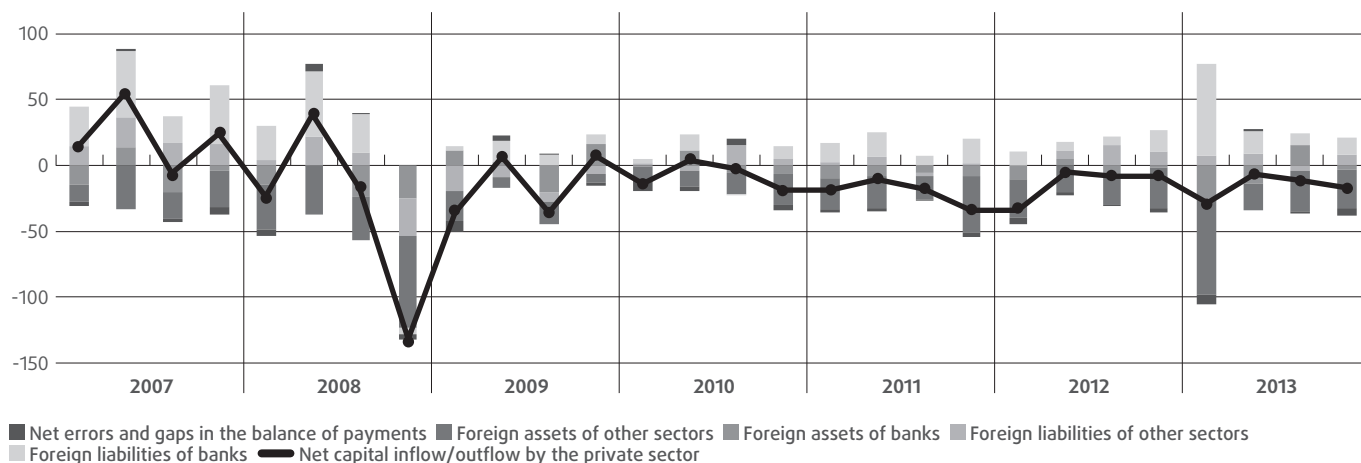
Figure 7

Dynamics of Ruble against USD exchange rate and the value of dual currency basket, Rubles



Source: Bank of Russia.

Figure 8

Net capital export/import by private sector, billion Rubles


Source: Bank of Russia.

significant increase in foreign assets in the first quarter of 2013.

Credit ratings for obligations of the Russian Federation in foreign and national currencies were confirmed by all the international credit rating agencies with stable outlook during the year.

The annual growth rate of business loans (lending to non-financial enterprises and individuals) demonstrated a gradual decline from 19.1% at the beginning of the year to 17.1% at the end of the year, which was consistent with the economic slowdown. Changes in the lending growth rate were mainly related to the robust

decrease in the growth of consumer lending with sufficiently stable growth rates of lending to non-financial organizations (excluding the public sector), which remained unchanged and made up 12.7%.

Thus, the retail lending share in the structure of business loans has been increased, replacing lending to the real sector. This trend has been persisted from the mid-2011, being an additional argument for consumer demand as the most significant driver of economic growth in Russia.

The loans to wholesale and retail trade and manufacturing industries

prevailed in the **sectoral structure of the banks' loan portfolio**: each sectors accounted for about 20% of the loans. The banks set a high share of the requirements to enterprises engaged in real estate, leasing and services rendering, and a stable share at 8%, which accounted for lending to construction companies.

According to the preliminary data, at the end of November **overdue payables of Russian companies** increased slightly as compared to the previous year and made up 1,476.8 trillion Rubles or 5.3% of the total debt (5.4% at the end of November 2012).

Private Finances

Total statistic data on the dynamics of people's welfare level in 2013, as many other macroeconomic indicators described above, evidences its deceleration. Thus, people's **real disposable income** increased by 3.3% only versus growth by 4.6% in the previous year. Gain rate of the real wage reduced to the most significant degree among the indicators characterizing people's welfare level and made

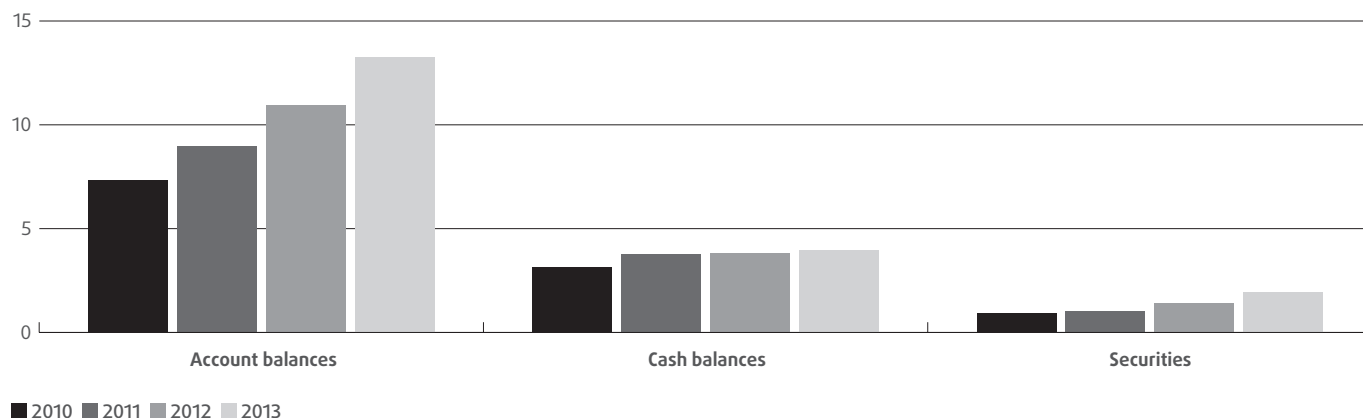
up 5.2% as against the growth by 8.4% in 2012. Real wage growth rate deceleration has been observed since September owing to increase in headline inflation and deceleration of the nominal wage growth. Nonetheless, persistent rates of real income increment of the population along with high although gradually decelerating increment rates of lending to individuals cause favourable dynamics

of the consumer demand forming the basis for economic growth.

The rate of **real gross pension** at year-end made up, according to the preliminary data, 2.8% as against the growth by 4.9% in 2012, which was caused by 2012 high base effect among other factors.

Cash personal income made up about 44 trillion Rubles in 2013, having increased against the level of

Figure 9

Private cash savings, trillion Rubles

Note: without taking into account the people's foreign currency account deposits and foreign currency holdings.
Source: Federal State Statistics Service.

the previous year by 10.8% (by 10% following the results of 2012). However, at persistent growth of the absolute income volume, the **structure of cash income use** per annum, according to the preliminary data, has slightly changed: the share used to purchase goods and to pay for services remained at the level about 74%, the people's trend towards savings at year-end has not changed and made up 10% of the cash income. For this purpose the population has used deposits and investments in securities more intensively (6.5% as compared to 6.2% for 2012). In contrast, the lower share of the cash income was invested in foreign currency (4.3% against 4.8% following the results of 2012).

The people's **cash savings volume** gain rate cut off the gradual decrease trend and at year-end made up 19.1% as against the growth by 17.2% in 2012, having reached the level of 19.2 trillion Rubles. The structure of the people's cash savings has changed. In 2013, the balances of the bank deposits as a main part of cash savings increased by 2.3 trillion Rubles (by 21.3% as against December 2012), but gain rates

insignificantly decelerated, in general. The share of the bank deposits which continued the most preferable method of savings has increased by 69%.

Furthermore, increase in the people's interest in investing in securities: according to the available estimates, the volume of funds invested in securities, for 2013 increased by 41.3% (by 34.6% in 2012 r. and by 9.6% in 2011) and made up 2 trillion Rubles. Therefore, the share of the people's savings invested in securities has grown by 10.2% by December 2013 from 7% recorded at the beginning of 2012, which is the minimum level for three last years. Reduction in cash balances from 27.5 to 20.5% during the period evidences transformation of the people's savings structure from keeping cash to investment operations (see figure 9).

The **unemployment level** at year-end made up 5.6%, showing the growth as against the level of 5.2% formed in May, and as against the level of 5.1% at the beginning of the year.

Debt on loans provided to individuals at year-end grew by 28.7% (by 39.4% in the previous year), having

reached the volume of 10 trillion Rubles in absolute terms. However, the dynamics of consumer lending gain rates shows obvious reduction formed after the maximum values of July 2012. Mainly, it resulted from high debt ratio of the population and measures taken by the Bank of Russia to control unsecured retail lending build-up rate.

Nevertheless, continued high level growth in the volume of loans provided to individuals resulted from the rather favourable dynamics of grown people's real income and demand for loans from individuals.

As a result of the continued lending and due to the deteriorated situation in servicing the loans previously issued, the share of overdue loans began to grow in the total amount of the overdue loans to individuals, reaching 4.42% at the end of the year (4.05% at the end of 2012) or 440.3 billion Rubles in absolute terms. In this case, the growth rate of overdue debt began to exceed the growth rate of lending from October: the greatest gap between these indices was recorded at the end of December (excess by 12 p.p.).

Main Indices and Trends on the Russian Stock Market in 2013

The results of 2013 on the Russian securities market fell short of moderate expectations. Pessimism prevailed among the participants and there were not so many fresh investment ideas. Stock indices were mostly negative influenced significantly by external factors and events. Investors chose conservative strategies focused on debt securities. The reforms taken place in the area of infrastructure and market regulation have not yet resulted in its re-evaluation.

In general, 2013 may be characterized as another year of lost opportunities.

Global market conditions were determined by the slow economic recovery in the developed European countries, solving the issues of the fiscal policy in the USA, the expectations of deceleration of the economic growth in the developing countries. Geopolitical risks were high. Macroeconomic conditions developing in Russia formed primarily unfavourable dynamics.

Stock market. Capitalization of the domestic market has not changed making up 25.3 trillion Rubles or 37.9% of GDP. Structural disproportions of the capitalization remained. The share of the ten most capitalized issuers is about 62%. Oil and gas industry still accounts for the half of the capitalization of the domestic stock market.

The number of issuers on the organized domestic market remained almost unchanged during the year – 273 companies.

The volume of transactions in shares on the domestic stock exchange market (without taking into account repo transactions and initial offers) was reducing; as compared to the previous year it decreased by 18.6% to 8.3 trillion Rubles. According to our estimates, about the half of the total turnover of shares in Russian companies accounted for foreign stock exchanges. For shares of certain issuers, the concentration of domestic

stock exchange turnover remained high: the share of the ten most liquid share issuers did not fall below 84% of the turnover.

The earnings per share (P/E) on the Russian stock market made up 6.4 and dividend yield (DY) – 3.6% by the end of the year.

Corporate Bond Market. Placements of new issues (at par value) at year-end demonstrated a record-breaking volume – 1.7 trillion Rubles, which is by 38.8% more than that in the previous year. The volume of domestic corporate bond market grew drastically (by 24.6% for the year) and made up 5.2 trillion Rubles at par value – 7.8% of GDP.

The number of market bond issuers (i.e. bonds in secondary circulation) increased by 3.2% up to 353 companies.

The total volume of exchange transactions (at cost, without taking into account repo transactions and placements) involving corporate bonds

made up 6.2 trillion Rubles, which is 16.5% higher than in 2012. The share of transactions in exchange bonds remained at the 2012 level – 30%.

The concentration of the stock turnover is relatively small: the share of the first ten liquid issuers of corporate bonds accounted for 42% of the turnover in the total volume of exchange transactions in bonds.

Government Bond Market. The volume of government bond market continued growing in 2012 and, at year-end, increased by 12.9% at par value, reaching 3.7 trillion Rubles or 5.6% of GDP. Exchange turnover demonstrated rapid growth – the secondary market volume (at cost, without taking into account repo transactions and placements) has increased by 35.1% to 6.0 trillion Rubles for the year. Government bond sector became the most liquid sector of the domestic debt securities market by turnover ratio.

Sub-federal and Municipal Bond Market. This market segment has long been in deep stagnation, being the most illiquid sector of the domestic debt securities market. The volume of these bonds issues made up less than 500 billion Rubles with the volume of trading (without taking into account placements of new issues and repo transactions) being 460 billion Rubles.

Repo Market. This market is the most fast-growing segment of the financial market. The volume of exchange repo transactions on the Moscow Exchange at year-end made up 204 trillion Rubles, which is 24.3% higher than in 2012. The niche of corporate bonds was gradually expanding among various types of securities used in repo transactions, making up 41% of the total volume of transactions at the end of the year. The volume of direct repo with the Bank of Russia reached 63% at the end of the year.

Derivatives Market, Underlying Assets – Securities and Stock Indices. The futures contracts the underlying assets of which are equity instruments, have become more and more various in recent years on the organized derivatives market of the Moscow Exchange. In 2013, seven new types of contracts, including contracts for the shares of foreign issuers traded on foreign stock exchanges and a de facto Russian company registered in a foreign jurisdiction, appeared. The typology of option contracts has not changed.

The volume of trading in futures contracts for securities and stock indices declined; in 2013, it decreased by 15.6% and made up 30 trillion Rubles. The dynamics of trading in futures and options was multidirectional: the volume of trading in futures dropped and in options, on the contrary, increased. The share of the stock indices in the volume of trading in futures contracts became absolutely dominant accounting for 89% for futures and 95% for options.

The total volume of open positions on the stock derivatives market grew significantly (by 147.4%) and reached 371 billion Rubles.

Stock Indices. In 2013, the Moscow Exchange revised the policy for calculating stock indices significantly, having ensured consistency with the existing indices.

As in 2012, the main stock indices for shares (MICEX and RTS indices) demonstrated growth at the beginning of the year, drop up to April-May, and then volatile return to the levels of the beginning of the year. MICEX Index fluctuated multi-directionally with high amplitude against the level of 1400, while RTS Index – against the level of 1500, but following a long-term downward trend. A long-term downward trend for RTS-2 Index was even more clear, in 2013, it dropped to 1200.

At year-end, MICEX Index showed yield amounting to 2% per annum, and RTS and RTS-2 indices were negative (minus 5.5 and minus 20.8% per annum). The results of the industry stock indices for shares varied: the power industry, metallurgy and mining demonstrated deep drop for three years in a row. According to the relevant industry index, the consumer goods index became the most profitable.

The duration of the MCX CBTR index portfolio for corporate bonds was steady at the level of 895 days. Yield to maturity of the index portfolio was at 7.93% as against 8.73% in the previous year.

MCX CBTR index for government bonds was very unstable; during the year the effective yield to maturity of government bonds amounted to the average of 6.8% as against 7.4% in the previous year.

One-day repo indicators for shares and bonds demonstrated the similar dynamics: stable behaviour with a slight upward trend by the end of the year. The average value of the indicator for shares made up 6.07% (5.57% in the previous year) and for bonds – 6.12% (5.84% in the previous year).

The Russian RTSVX volatility index is virtually identical to the international VIX index on the qualitative level, the average spread was 7.67 p.p.; the drastic decline in RTSVX volatility index was observed by the end of the year.

Issuers of Securities. Initial Public Offerings. In 2013, the number of public issuers increased by 24 companies up to 541 for account of the bond issuers. Before that, the number of issuers was decreasing. The number of issuers the securities are included in the listings remained stable – 240 to 245 companies.

Initial public offerings of Russian issuers were extremely few during the year. According to the available data, seven companies of those holding assets and conducting entrepreneurial activities in Russia organized their IPO during the period and raised USD3.2 billion in total. Three of them organized offerings on the foreign market only through holding structures formed in foreign jurisdictions; four others placed securities on the Moscow Exchange for the amount of about USD1.4 billion. These companies include the Moscow Exchange JSC itself and Alrosa, which placed securities by way of privatization, and two small volume offerings within the RII market sector.

Private Investors. Individual resident customers make up 96.6% in the total number of unique customers on the Moscow Exchange. The growth rates of individual resident customers of the MICEX Stock Exchange decreased sharply; in 2013, annual average number of such customers made up 838 thousand people as against 796 thousand people in the previous year (growth by 5.3%). However, the number of active customers decreased to 62.9 thousand people based on an average as against 77.2 thousand people in the previous year (decrease by 18.5%).

Transactions in shares accounted for 88.9% of the total volume of transactions executed by individuals on the Moscow Exchange.

Collective Investors. The growth rate of the number of mutual funds decelerated, and their total number made up 1596 by the end of the year, which is 4.9% higher than in 2012. The number of open mutual funds, which are traditionally focused on retail investors, slightly increased (by 1.4%), while the number of closed mutual fund grew by 7.3%. This type of funds is the most common for the Russian market of collective investments (68.7% of total funds).

At year-end, the net asset value of mutual funds increased by 11.7% and made up 587 billion Rubles.

Despite the versatile dynamics of entry and exit of assets from open funds during the whole year, the final result turned out to be positive – the net attracted volume in open mutual funds

made up 21 billion Rubles; this result was formed due to a significant flow of bonds attracted in funds – 27 billion Rubles.

Non-State Pension Funds. By the end of 2013, investment resources of non-state pension funds reached 1.92 trillion Rubles. Pension reserves account for 43% of this amount, although the growth rates of pension savings are much higher. In comparison to GDP, investment resources of non-state pension funds remain insignificant with a little less than 3%.

Professional participants of securities market. In 2013, the rate of

reduction in the number of professional participants of the securities market slowed down and made up only 4%. As of year-end, the number of legal entities holding various licenses of professional securities market participants made up 1,209.

The Moscow Exchange switched to a trading model with a partial preliminary security and execution of transactions on the second day upon their conclusion. The total volume of transactions in all types of non-government securities in all sectors of the stock market on the

Moscow Exchange and in all trading modes made up 150.7 trillion Rubles as of the year-end, which is 32.7% higher than in the previous year. The top gainers were investment units and corporate bonds. Shares demonstrated extremely low growth – 1.6% only.

The share of ten most active operators accounted for 62% of the total turnover, the index was 58% in the previous year. The concentration on the derivatives market is even higher: the share of the first ten settlement firms accounted for 75% of the turnover.

1. Financial Instruments

1.1. Shares

Despite the trend of reduction in the number of legal entities formed as an open joint-stock company, there are currently 31,405 such legal entities (see table 18). Less than one per cent of them are represented on organized markets.

Table 1 provides consolidated data on the shares offered on the stock market of Moscow Exchange Group, along with the estimate by Standard&Poor's² concerning the number of Russian issuers whose shares are admitted to trading on MICEX Stock Exchange, NYSE, and NASDAQ and are included in the LSE-listed S&P EMD Russia index.

The number of share issuers whose shares are traded on the domestic stock market remained virtually unchanged – 273 companies as of the year-end. However, in comparison to 2011, at the end of which a united exchange group – Moscow Exchange Group – was formed, a reduction in the number of public issuers was significant – by 47 companies (17.2% in relative terms).

The information on the capitalization of the share market is provided in Table 2.

Capitalization of the domestic share market for 2013 changed insignificantly. In Ruble terms, focusing on the stock

market of the Moscow Exchange Group, it made up 25,324 billion Rubles. (only 0.4% higher than in the previous year), as compared to GDP, capitalization dropped by 2.5 p.p. The historic maximum of share market capitalization was achieved in 2007, reaching up to 98% of GDP. Comparing current capitalization with the historic maximum capitalization, we can observe a 22.7% decrease.

The Russian share market is characterized by high concentration of capitalization both in terms of issuers and industries. Table 3 shows a list of ten most capitalized companies, and Figure 10 shows the dynamics of changes in

Table 1

Organized share market in 2008–2013.

Period	MICEX Stock Exchange		RTS		S&P
	Number of share issuers	Number of share issues (ordinary, preferred) in quotation lists	Number of share issuers	Number of share issues (ordinary, preferred) in quotation lists	
2008	231	101	275	110	314
2009	234	103	279	92	333
2010	249	113	278	91	345
Moscow Exchange Group					
2011	320	119			346
2012	275	118			323
2013	273	110			307

Sources: Moscow Exchange Group, S&P.

² *Emerging Stock Markets Review, Global Stock Markets Factbook, S&P, series of issues for 2006–2014.*

the share of the ten most capitalized companies in 2005–2013.

The list of the most highly capitalized issuers in 2013 changed insignificantly, as Magnit JSC was included in the list as a new issuer. Gazprom JSC traditionally tops the capitalization list with a wide margin.

In 2010–2013, the share of ten most capitalized issuers, in contrast to the previous years, stopped decreasing and stabilized at 1.6%. The share of the most

capitalized issuer – Gazprom JSC – was gradually decreasing: in 2006, it made up 30.7% and, in 2013, dropped to 13.0%.

The industry structure of the share market capitalization remained unchanged (see Table 4).

Quite a considerable reduction in the share of oil and gas sector observed in 2010 (to 44.6% of the total capitalization), was short-term, and the sector accounted for 50.8% at the average in 2011–2013.

We could also point out a long-term decline in the capitalization of the power industry companies and metallurgy, as well as a growth in the capitalization of issuers engaged in financial services, communication, and trade.

Figures 11 and 12 shows the data characterizing the volumes of share sales by Russian companies on the domestic market in Rubles and on the domestic and foreign organized markets in total in USD according to S&P³.

Table 2

Capitalization of Russian share issuers market in 2005–2013.

Period	Moscow Exchange Group, billion Rubles	S&P estimate, billion USD	GDP, billion Rubles	Capitalization/GDP, %
2005	9,304.0	549.0	21,609.8	43.1
2006	25,482.0	1,057.0	26,917.2	94.7
2007	32,740.0	1,503.0	33,247.5	98.5
2008	11,017.3	397.2	41,276.8	26.7
2009	23,090.9	861.4	38,807.2	59.5
2010	29,253.2	1,379.2	46,321.8	63.2
2011	25,708.0	1,096.2	55,798.7	46.1
2012	25,212.5	1,079.4	62,356.9	40.4
2013	25,323.8	1,041.1	66,689.1	37.9

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

Table 3

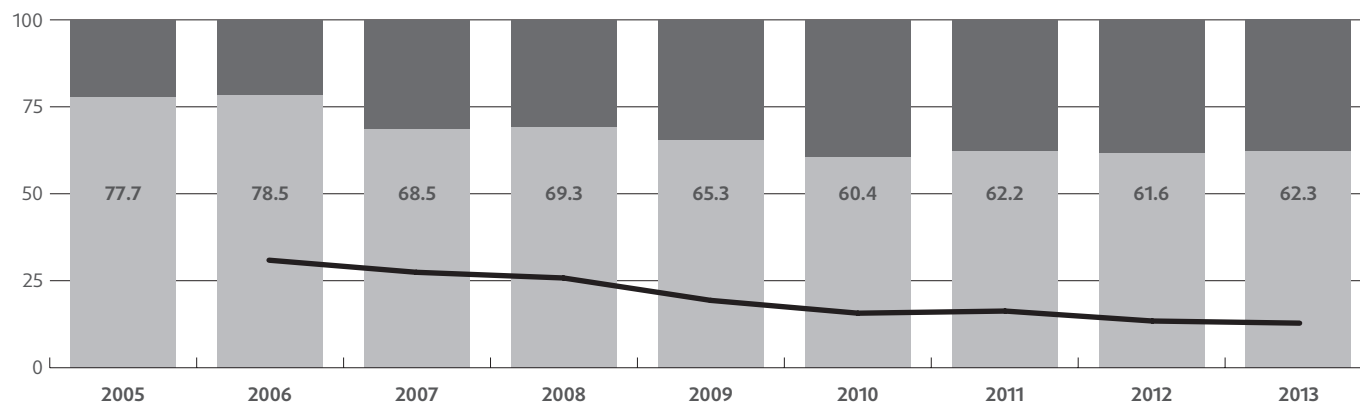
List of the most capitalized Russian issuers (at the end of 2013)

No.	Issuer	Capitalization, billion Rubles	Share in the total capitalization, %
1	Gazprom JSC	3,286.1	13.0
2	NC Rosneft JSC	2,649.9	10.5
3	Sberbank of Russia OJSC	2,260.9	8.9
4	LUKOIL JSC	1,723.6	6.8
5	NOVATEK JSC	1,218.2	4.8
6	Surgutneftegaz JSC	1,209.0	4.8
7	TNK-BP Holding JSC	1,010.8	4.0
8	Magnit JSC	869.0	3.4
9	OJSC MMC Norilsk Nickel	854.1	3.4
10	Gazprom Neft JSC	699.8	2.8
	Total	15,781.5	62.3
	Total capitalization MICEX	25,323.8	100.0

Source: Moscow Exchange Group.

³ The transactions effected in the course of main trading and negotiated deals at MICEX Stock Exchange are taken into account on the domestic market. For total number transactions in shares admitted to trading at MICEX Stock Exchange, NYSE, NASDAQ and included in the LSE-listed S&P EMD Russia index are taken into account. Without taking into account the initial offering and repo transactions.

Figure 10

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

■ Share of ten most capitalized issuers ■ Total — Including Gazprom JSC

Source: Moscow Exchange Group, estimates of NAUFOR.

Table 4

Industry structure of the Russian share market capitalization in 2006–2013, %

Item No.	Industry	2006	2007	2008	2009	2010	2011	2012	2013
1	Oil and gas	62.6	50.4	57.0	50.1	44.6	51.2	50.4	51.8
2	Financial services	9.2	11.8	10.1	14.5	13.1	12.2	13.4	15.0
3	Metallurgy	8.1	11.1	10.0	12.3	15.3	10.6	9.6	7.7
4	Power industry	11.7	12.5	8.9	9.4	10.6	8.7	6.8	4.6
5	Chemical industry	0.2	1.5	1.5	1.6	2.4	4.7	5.6	3.3
6	Communication	4.1	4.4	5.2	3.8	3.7	3.7	4.6	6.5
7	Trade	0.6	0.7	0.7	1.1	1.7	1.4	2.3	4.0
8	Transport	0.8	1.2	1.8	1.2	1.2	1.3	1.3	1.6
9	Metal fabricating industries	0.8	1.1	0.7	1.0	1.5	1.2	1.2	0.8
10	Mining industry	0.2	0.2	1.3	0.9	0.8	1.1	1.2	1.4
11	Food industry	1.1	1.2	1.2	1.0	1.6	1.0	0.9	0.2
12	Coal industry	0.1	0.3	0.2	1.0	1.1	0.8	0.7	0.3
13	Other industries	0.2	2.3	0.9	1.8	2.5	1.6	1.7	2.4

Source: Moscow Exchange Group.

From December 2011, trading in shares of Russian issuers on the domestic market was concentrated on the stock market of the Moscow Exchange Group. Among several sectors of this market (see Section 2.3.3), 98% of the turnover accounted for the Main Market sector.

At the end of 2013, the volume of exchange transactions on the domestic market (without taking into account

initial offerings and repo transactions) made up 8,313 trillion Rubles, which is 18.6% less than in the previous year. Reduction in the turnovers continued for the second year, and in comparison to 2011, which was characterized by the maximum volumes of trading, the shrinkage was over 50%. Accordingly, the average daily turnover dropped, too (see Figure 13).

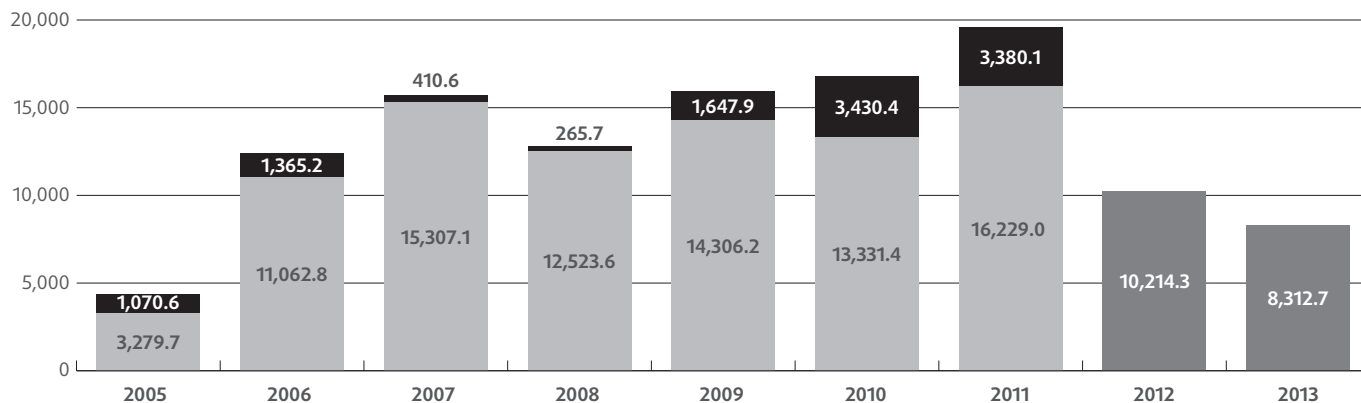
At the end of 2013, it decreased (without taking into account initial offerings and repo transactions) to 33.3 billion Rubles or by 26.7% compared to the previous year. Taking 2011 as a reference point, the average daily turnover decreased by 57.9%.

In the last two years, the ratio of the domestic share market turnover dropped as well⁴ (see Figure 14). In 2013,

⁴ The turnover ratio is calculated as a ratio between the transactions volume (without taking into account repo transactions) for the period and the simple mean capitalization at the end of the current and the prior periods.

Figure 11

Volume of shares of Russian issuers sold on the domestic exchange market in 2005–2013, billion Rubles

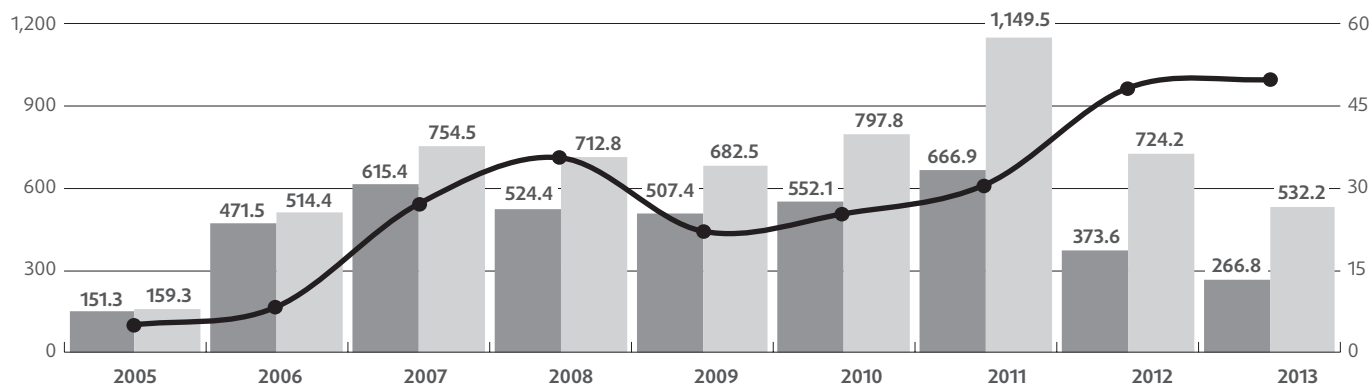


■ MICEX ■ RTS ■ Moscow Exchange Group

Source: Moscow Exchange Group.

Figure 12

Volume of shares of Russian issuers sold on the domestic and foreign exchange markets in 2005–2013

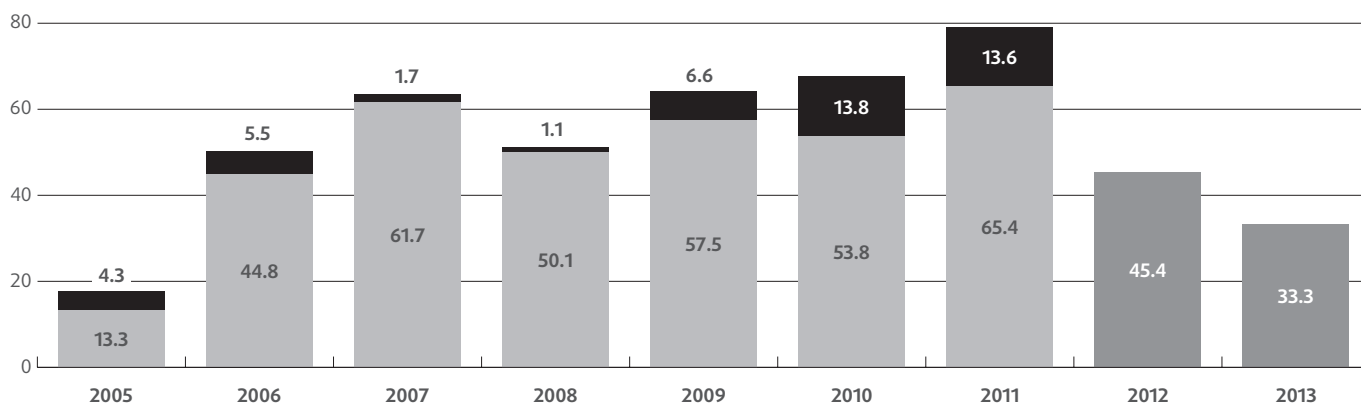


■ Trading volume of shares of Russian issuers on the stock market of the Moscow Exchange Group, billion USD (left scale) ■ S&P estimate (left scale), billion USD
 — Share of foreign stock exchanges in the total volume of shares of Russian issuers sold, % (right scale)

Source: Moscow Exchange Group, S&P, estimates of NAUFOR.

Figure 13

Average daily turnover of shares of Russian issuers sold on the domestic exchange market in 2005–2013, billion Rubles



■ MICEX ■ RTS ■ Moscow Exchange Group

Source: Moscow Exchange Group, estimates of NAUFOR.

it reduced to 33.6%. Comparing the maximum level of 2009, the domestic share market liquidity decreased by 2.7 times.

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

foreign stock exchanges in 2012–2013 may be estimated as 49% of the total turnover.

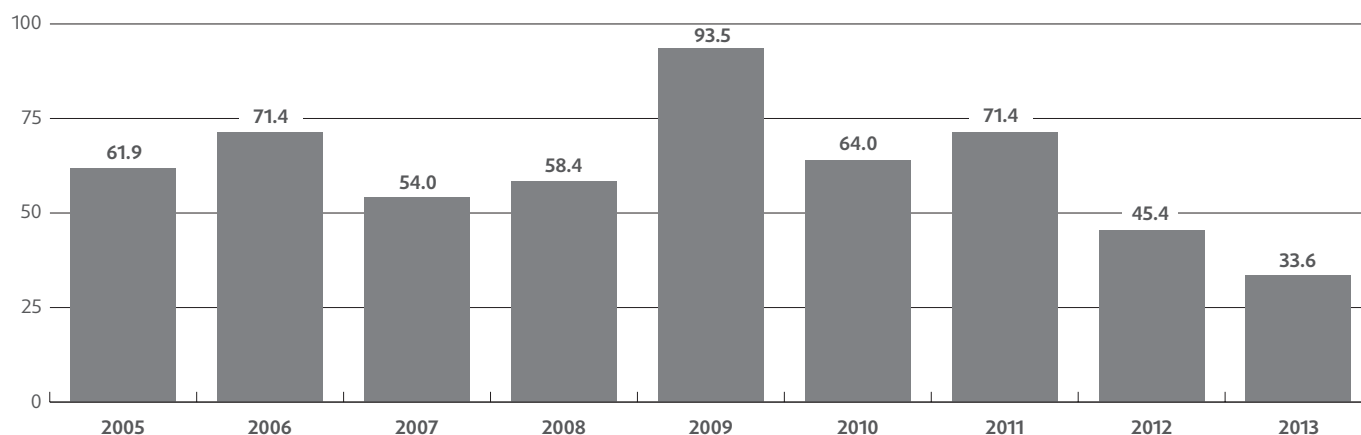
The range of instruments on which share trade is focused remained quite limited. Table 5 lists the issuers whose shares were most actively traded in transactions (including repo) on the stock market of Moscow Exchange Group in 2013, while Figure 15 shows the dynamics of changes in the percentage of the ten most actively traded share issuers over the past years.

Despite the long-term downward trend, the share of ten most liquid issuers on the domestic stock market remained very high. Thus, in 2005, this index (including all trading modes) was 95.9%, and for eight years, at the end of 2013, it decreased by 11.8 p.p. to 84.1%.

Gazprom JSC and Sberbank of Russia OJSC topped the list of the most liquid issuers traditionally. In 2012, there was a significant increase in the volume of exchange transactions in shares of Uralkali JSC and the third place of such

Figure 14

Average annual turnover ratio of the domestic share market in 2005–2013, %



Source: Moscow Exchange Group, estimates of NAUFOR.

Table 5

List of issuers whose shares were most actively traded in transactions on the stock market of the Moscow Exchange Group (at the end of 2013)

Item No.	Issuer	Share in the total trade volume, %
1	Gazprom JSC	24.9
2	Uralkali JSC	15.2
3	Sberbank of Russia OJSC	14.4
4	OJSC MMC Norilsk Nickel	7.4
5	VTB Bank JSC	6.2
6	LUKOIL JSC	3.7
7	Surgutneftegaz JSC	3.6
8	Tatneft JSC	3.1
9	NC Rosneft JSC	3.1
10	Rostelecom JSC	2.6
	Total	84.1
	HH index	1,218

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

issuer taking into account all trading modes (11.4% of total transactions). In 2013, Uralkali JSC took on Sberbank of Russia OJSC and became the second in terms of trade volumes (15.2%).

Dividend Policy of Russian Issuers

This analysis includes Russian companies whose shares are traded on the domestic and foreign organized markets and for which there is the information on interim dividends in 2013 in the Thomson-Reuters database. The information on 235 ordinary shares and 60 preferred shares, for which there are the data on dividend payments for 2011 or 2012, is used.

216 ordinary shares of the selection under study and all preferred shares are traded on the stock market of the Moscow Exchange Group, and 19 ordinary shares are traded on foreign stock exchanges only. Annual dividends for each company are calculated separately for both types of shares as a sum of all interim and final payments at this year-end.

Table 6 shows the number of dividend payers for different financial periods of 2011–2013.

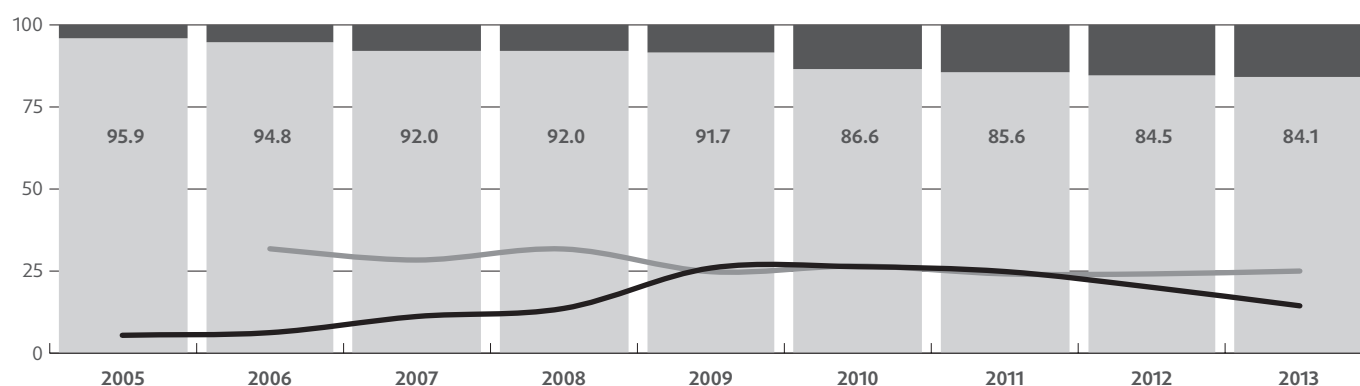
Payments of interim dividends for Russian companies is not very typical: less than one third of the payers paid interim dividends for 2011–2012. It

should be noted that Russian companies, whose shares are traded abroad only, pay interim dividends more often. In 2011–2012, a little more than the half of the payers paid interim dividends (5 of 9 in 2011 and 6 of 11 in 2012).

Dividends following the results of six months and nine months are most popular among the interim payments, dividends following the results of the first quarter are less common. This can be explained by the fact that the dates of decision on dividends for the first quarter and for the previous year are usually very close, and the companies' managements do not see the point in the official division of the payments to

Figure 15

Percentage of ten issuers whose shares were most actively traded in 2005–2013, %



■ Share of ten most liquid issuers ■ Total stock turnover (Moscow Exchange Group, all trading modes) — Including Gazprom JSC — Including Sberbank of Russia OJSC

Source: Moscow Exchange Group, estimates of NAUFOR.

Table 6

Периодичность дивидендных выплат

Number of issuers having paid pay dividends for:	Ordinary shares			Preferred shares		
	2011	2012	2013	2011	2012	2013
I quarter	10	11	10	5	4	4
Six months	16	19	15	5	2	2
Nine months	15	18	17	4	3	3
Year	103	109	n/a	46	41	n/a
Total	112	119	n/a	47	41	n/a
Number of issuers which made:						
1 interim payment for the year	30	31	28	11	7	7
2 interim payments for the year	1	4	4	0	1	1
3 interim payments for the year	3	3	2	1	0	0

Source: calculations by NRU HSE.

shareholders into two parts. In 2013, interim dividends on ordinary shares were paid by 33 companies in total, which is comparable with the figures of the previous years. 27 of these 33 companies (82%) also paid interim

dividends in 2012, 19 (58%) – in 2011–2012.

In 2013, the companies under study paid 219.4 billion Rubles in total, which was 53.5% of their dividends for 2012 or 22.2% of the dividends of all companies

for 2012. The share of Bashneft JSC, LUKOIL JSC and OJSC MMC Norilsk Nickel accounted for more than a half of the total amount of payments and the share of the ten largest payers was 88.1% (see Table 7).

Table 7

List of issuers having paid the largest dividends in 2013

Item No.	Issuer	Share in the total dividends, %
1	Bashneft JSC	20.6
2	LUKOIL JSC	17.2
3	OJSC MMC Norilsk Nickel	15.9
4	Gazprom Neft JSC	8.8
5	Vimpelcom Ltd.	8.7
6	MTS JSC	4.7
7	NOVATEK JSC	4.7
8	Uralkali JSC	2.8
9	JSC Megafon	2.7
10	Magnit JSC	2.0
	TOTAL	88.1

Source: Calculations by NRU HSE.

Table 8

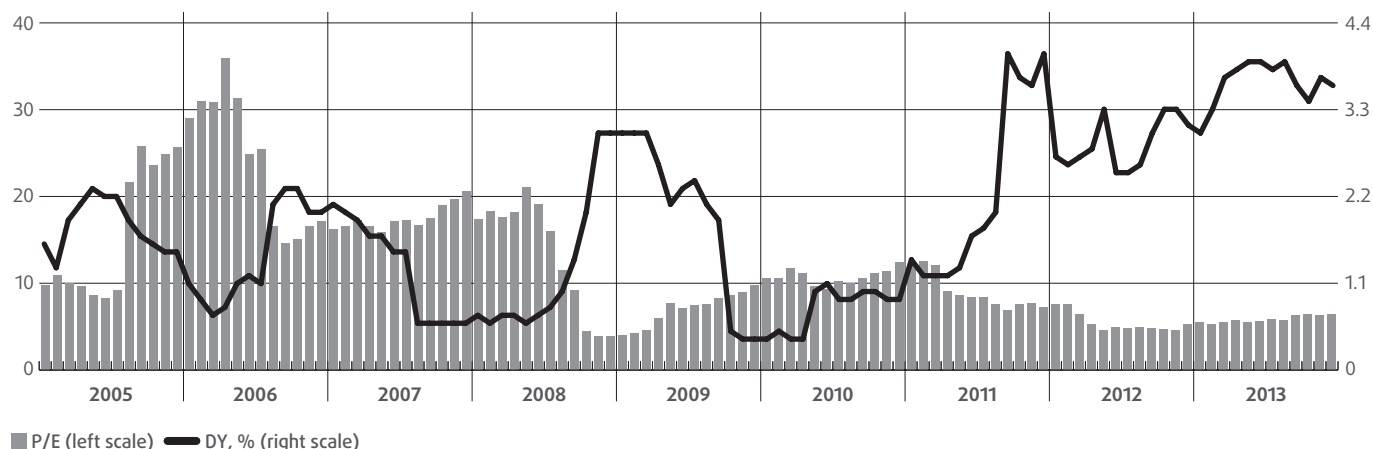
Медианные значения дивидендной доходности. %

Median dividend yield from:	Ordinary shares			Preferred shares		
	2011	2012	2013	2011	2012	2013
Interim payments	2.40	3.91	2.99	7.43	9.46	3.69
All payments made by interim dividend payers	3.86	7.13	n/a	14.19	13.59	n/a
All payments made by all payers	2.93	3.30	n/a	7.71	6.58	n/a

Source: Calculations by NRU HSE.

Figure 16

Dividend yield and price-earnings ratio for Russian issuers



Source: S&P.

Dividend yield of the interim payments was comparable to annual rates⁵. The median ratio of the dividend yield on interim payments in 2013 to the dividend yield for 2012 (as calculated based on the interim dividend payers in 2013 only) on ordinary shares was 43.4%. The remarkable fact is that the shares on which the interim dividends were paid have the final annual dividend yield, which is slightly above the median one for the selection (see Table 8).

Interim dividend payers include a large number of companies having the most liquid shares:

Gazprom Neft JSC, OJSC MMC Norilsk Nickel, LUKOIL JSC, Magnit JSC,

JSC Megafon, MTS JSC, NOVATEK JSC, Severstal JSC, VimpelCom Ltd. However, the dividend yield on shares of these companies was relatively small: generally it did not exceed 3%.

Figure 16 shows the graphs of the overall price-earnings ratio (P/E) and dividend yield (DY) for shares of Russian issuers.

The P/E index was at an average level of 5.6 for the years 2012–2013 with an increase to 6.4 by the end of 2013. These values are very different from the levels of the period from the second half of 2005 – the beginning of 2006, when the P/E index ratio exceeded 35. The dividend yield of Russian companies shows great volatility from the second half of 2011

against the upward trend, by the end of 2013 this index was estimated at 3.6%.

The earnings per share and the dividend yield indices for certain Russian issuers and industries differ significantly. For the companies of consumer sector, such as X5 Retail Group, Magnit JSC, O'KEY JSC and DIXY Group JSC, according to the available estimates⁶, the P/E index in 2013 reached the values of 28,3–52,4, with high P/E indexes for the companies specializing in coal mining (Raspadskaya JSC – 28.0) and metallurgy (OJSC MMC – 14.2). Many companies represented in the Innovation and Investment Market (IIM) sector of the Moscow Exchange Group have very high P/E values: EVK JSC – 408.3, NEKK JSC – 91.0, Nauka-Svyaz JSC – 47.4⁷.

1.2. Corporate Bonds

The number of market bond issuers, in contrast to the previous years, increased to 353 companies in 2013 (see Table 9), which is 3.2% more than in the previous year⁸. Compared to the maximum

amount of such issuers observed in 2007, the 2013 index was 27% less.

The number of market bond issues did not stop growing, and the growth rate increased. Thus, in 2013, increased the

number of issues reached 16.5%, which is the maximum index since 2006.

Figure 17 shows a graph of the volume of corporate bonds market (placed issues, at par value).

Table 9

Number of corporate bond issuers and issues in 2005–2013

Period	Number of bond issuers	Number of bond issues
2005	253	329
2006	391	521
2007	487	639
2008	495	690
2009	440	672
2010	394	707
2011	349	770
2012	342	884
2013	353	1,030

Source: CBONDS.

⁵ Dividend yield is calculated separately on ordinary and preferred shares as a ratio of the dividend on share to the average price for the year, following the results of which the dividends were paid.

⁶ Estimate by Alfa Bank.

⁷ Data of Moscow Exchange Group.

⁸ Market issuers and issues mean issues of bonds participating in the secondary circulation.

Figure 17

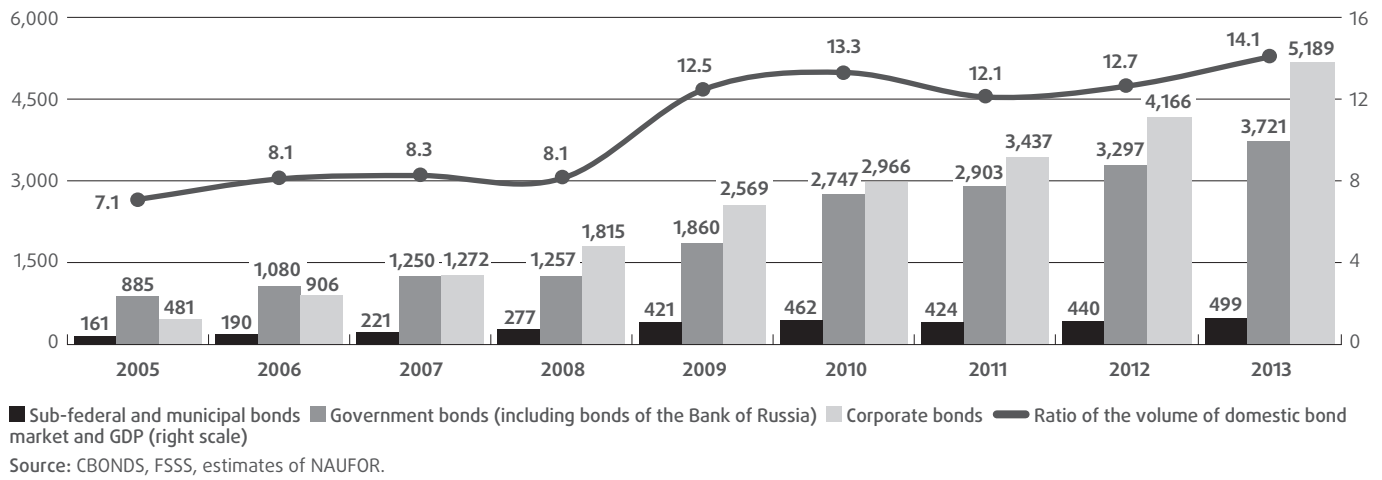
Volume of domestic bond market in 2005–2013, billion Rubles

Figure 18

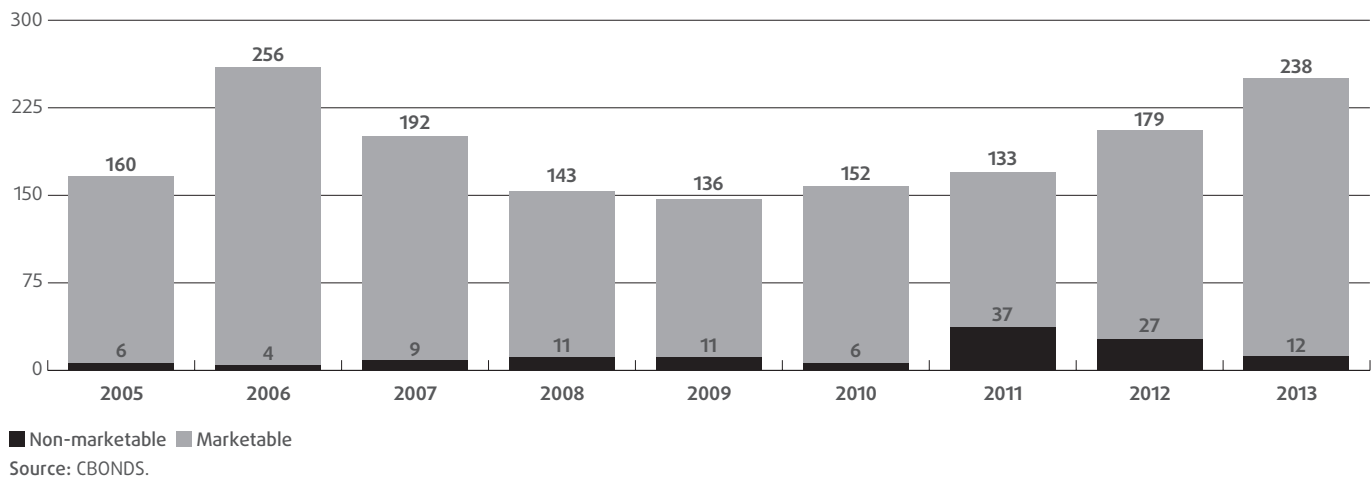
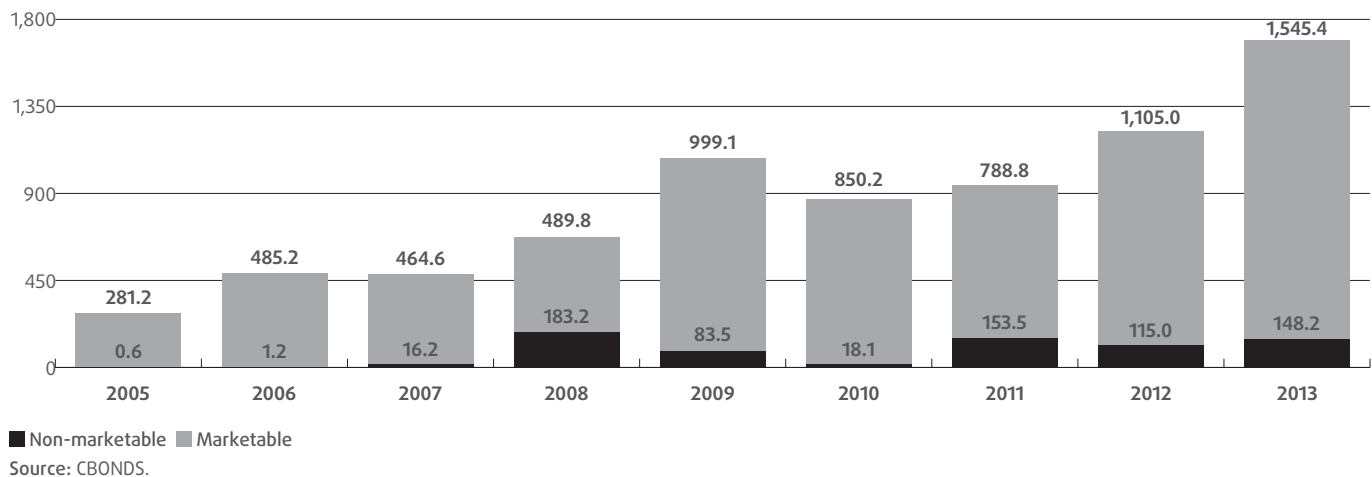
Number of corporate bond issuers which placed new bond issues in 2005–2013, pcs.

Figure 19

Number of new corporate bond issues in 2005–2013, billion Rubles

The volume of domestic corporate bond market continued growing, in 2013, it reached 5.189 trillion Rubles in nominal volume. (which is 24.6% more than in the previous year). The growth rate obviously reduced: in 2006–2008, the average annual growth was 53% and in 2010–2013, it decreased to 19.3%. In comparison to GDP, the domestic corporate bond market remained insignificant. At the end of 2013 the ratio of market to GDP was 7.8%, with an increase by 1 p.p.

In terms of placement of new corporate bonds issues, 2013 was

a record-breaking year (see Figures 18 and 19).

The volume of new corporate bonds issues made up 1.693 trillion Rubles, including 91.3% of market issues, which is 38.8% more than in the previous year. The number of issuers which carried out new placements reached 250, which is 21.4% more than in the previous year.

The specific feature of the Russian stock market is the concentration of transactions in corporate bonds on organized trades. Starting from 2010, a drastic increase in the domestic exchange

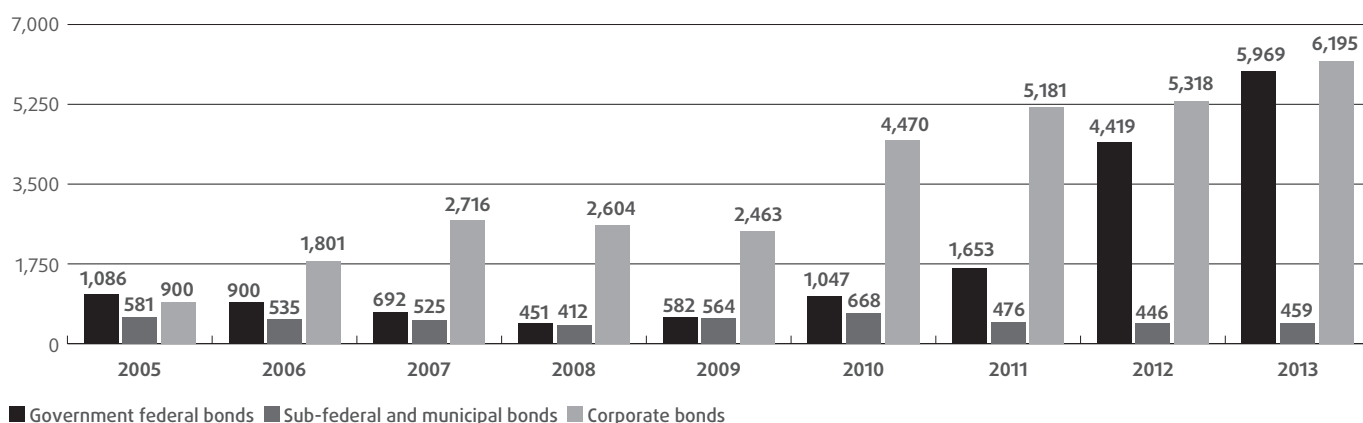
secondary market was observed (see Figure 20, the data are provided at cost, without taking into account of repo transactions and new issues placements).

In 2013, this trend continued, and at the year end the volume of trading (without taking into account repo transactions and new issues placement) made up 6.195 trillion Rubles, which is 16.5% more than in the previous year.

Despite the increase in the turnovers, the turnover ratio⁹ on the domestic corporate bonds market slowly reduced. At the end of 2013 it made up 143% as

Figure 20

Volume of trade on domestic bond market in 2005–2013, billion Rubles



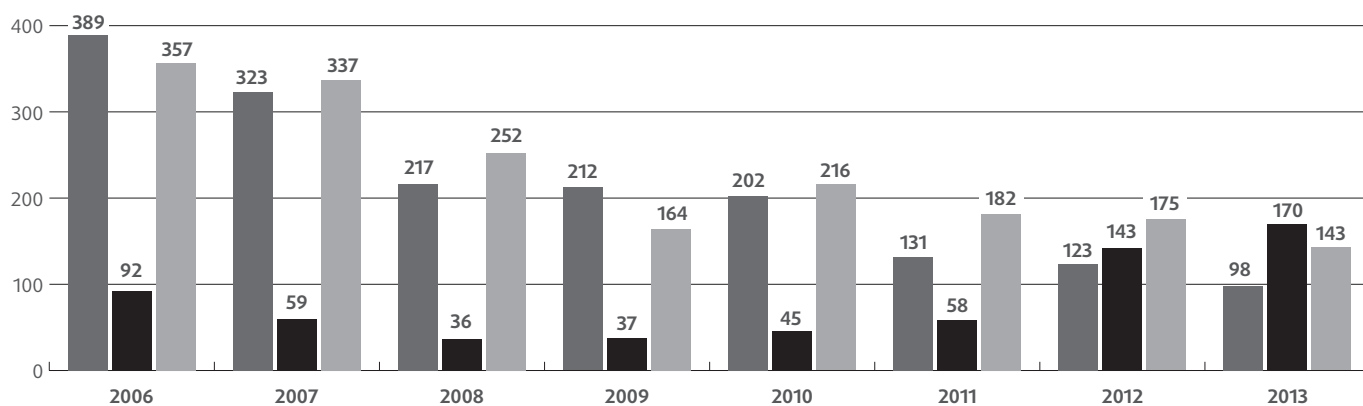
■ Government federal bonds ■ Sub-federal and municipal bonds ■ Corporate bonds

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

Sources: Moscow Exchange Group, CBONDS.

Figure 21

Average annual ratio of the domestic bond market turnover in 2005–2013, %



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

Source: CBONDS data, estimates of NAUFOR.

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

against 173% in the previous year. This is due, apparently, to the outrunning growth of the corporate bond market volume and liquidity crossover to repo transactions mode.

Starting from 2010, a rapid growth in issues and volumes of trades in exchange bonds was observed. In 2012–2013, the share of exchange bonds in the secondary corporate bond turnover

on the stock market of the Moscow Exchange Group, taking into account all trade modes, was stable at 30%.

The concentration for individual instruments on the bond market is much lower than on the stock market. The share of the ten largest bond issues at the end of 2013 (see Table 10) made up 41.9%, which was 11.3 p.p. less than in the previous year.

The list of issuers the most liquid corporate bonds changed very slightly.

Problems with various breaches in performance of obligations under corporate bonds lost their significance in 2011 (see Figure 22). In 2013, according to the available estimates, nine issuers were in breach in servicing corporate bonds totalling 8.2 billion Rubles.

Table 10

List of issuers whose corporate bonds were most actively traded in transactions on the stock market of the Moscow Exchange Group (at the end of 2013)

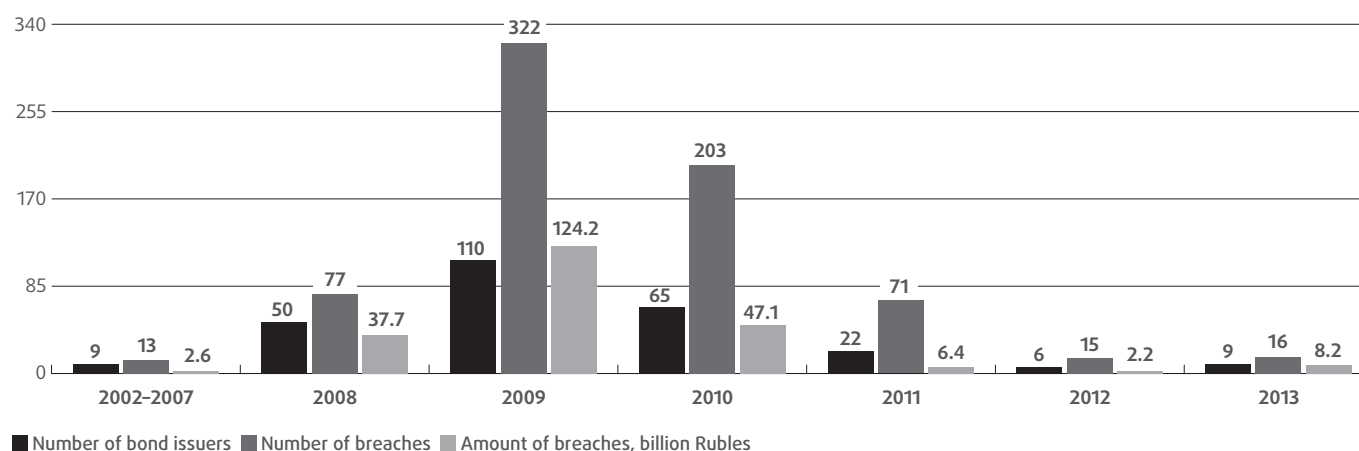
Item No.	Issuer	Share in the total trade volume, %
1	Transneft JSC	6.3
2	Russian Railways JSC	6.0
3	Rosselhozbank JSC	5.7
4	VTB Bank JSC	4.7
5	FGC UES JSC	4.5
6	Vnesheconombank	4.0
7	Gazprombank JSC	3.5
8	NC Rosneft JSC	2.7
9	AHML JSC	2.3
10	Gazprom Neft JSC	2.1
Total		41.9
HH index		247

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

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

Figure 22

Breaches of issuers' obligations under corporate bonds



Source: CBONDS.

1.3. State, Sub-federal and Municipal Bonds, Bonds of the Bank of Russia

In 2013, the market of government bonds continued growing and at the end of the year made up 3,721 trillion Rubles at par value, which is 12.9% more than in 2012 (see Figure 17). In comparison to GDP, the market of government bonds increased to 5.6% for the year.

The volume of transactions in government bonds began to grow from 2010 within the Moscow Exchange Group (see Figure 20), with the average annual growth rate amounting to 85%. In 2013,

the volume of secondary trades (without taking into account repo transactions) reached 5.969 trillion Rubles. (which is 35.1% more than in the previous year). As a result, the turnover ratio grew drastically (see Figure 21): in 2010, it made up 45% and grew to 170% at the end of 2013. A distinctive feature of 2013 was the fact that the sector of government bonds for the first time was the most liquid sector by turnover ratio on the domestic bond market.

The market of sub-federal and municipal bonds remained in deep stagnation for a long time. The volume of these bonds issues did not exceed 500 billion Rubles with the volume of trading (without taking into account placements of new issues and repo transactions) being 460 billion Rubles. This is the most illiquid sector of the domestic bond market, the turnover ratio being decreased from year to year (see Figure 21). In 2013, it dropped to 98%.

1.4. Eurobonds

The state and the Russian corporations make bond borrowings on foreign markets. The overall data for the Eurobond market volume are shown in Figure 23.

The volume of the Russian bonds foreign market made up 231.8 billion dollars, 78.4% of which accounted for corporate bonds and 23.3% were

sovereign bonds. Sub-federal and municipal bonds occupied the remaining niche accounting for less than a per cent. At the end of 2013, the market volume growth made up 20.3%, mostly for account of the corporate bond sector.

Figure 24 shows volumes of corporate borrowings using debt market

instruments on the domestic and foreign markets.

Nevertheless, in recent years, the Russian corporations focused on the domestic bond borrowing to a greater degree. Thus, in 2005, foreign borrowings made up 70.8% of the total bond market, and in 2013 this index dropped to 53.3%.

1.5. Bills

Bill market is not among the most transparent sectors of the bond market. According to the available estimates (see Figure 25), in 2006–2013, its volume made up the average of 500 billion Rubles, which is comparable to the volume of the sub-federal and municipal bond market.

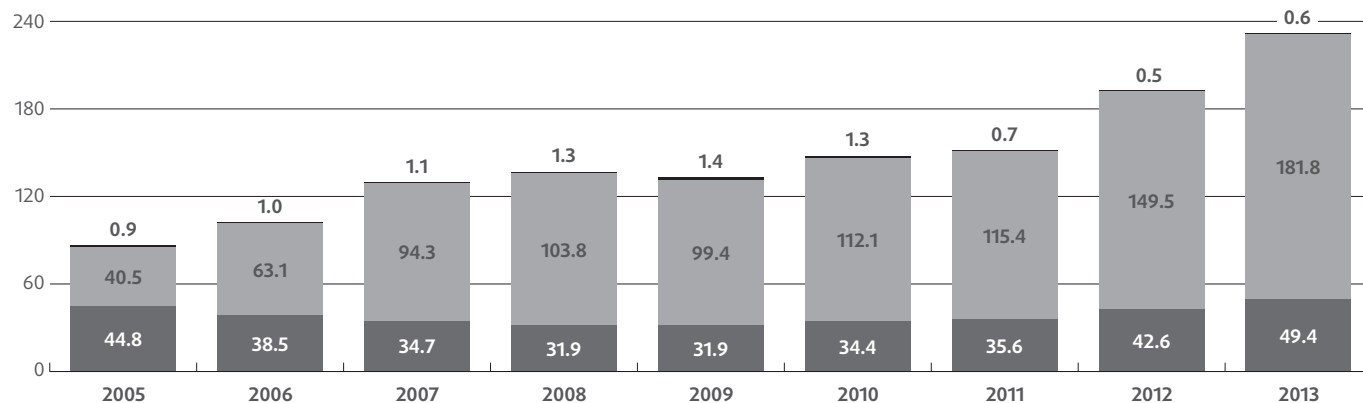
At the end of 2013, a shrinkage of the bill market by 10.9% was observed.

In the long run, the share of bills on the domestic debt market followed the trend of gradual shrinkage. Thus, according to the estimates by Region GC, it dropped from 40 to 5% during ten years. According to the same data, credit institutions are the bill drawers of about 90% of all bills issued, whereas the share of credit institutions made up about 40% ten years ago.

The time structure of bills issued remained virtually unchanged in the last two years: about 36% of all bills were issued for a period from six months to a year, and about 34% of bills accounted for the bills issued for a period from one to three years.

The secondary bill turnover at the end of 2013 was estimated at 8 billion Rubles as against 7 billion Rubles in the previous year.

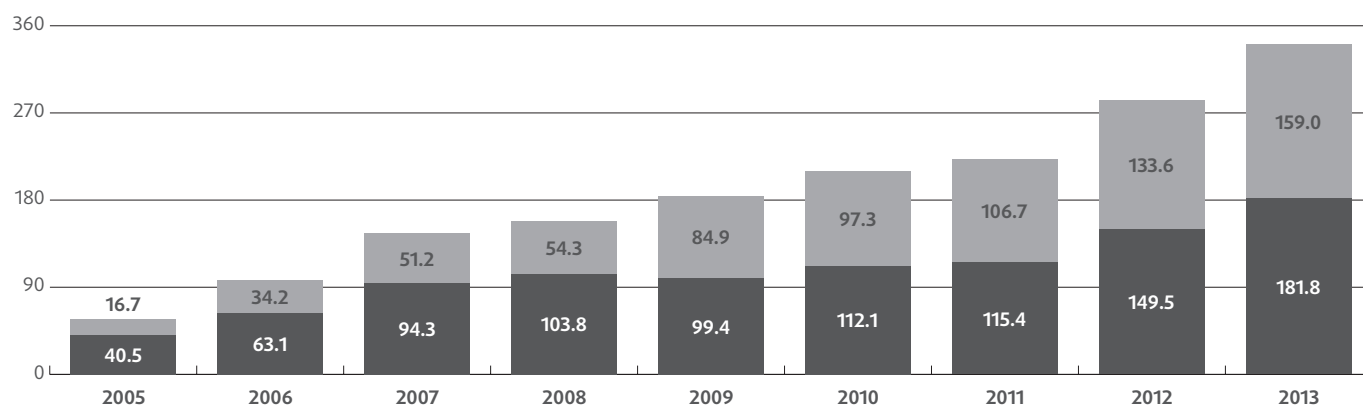
Figure 23

Volume of Eurobond market in 2005–2013, billion Rubles

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

Source: CBONDS.

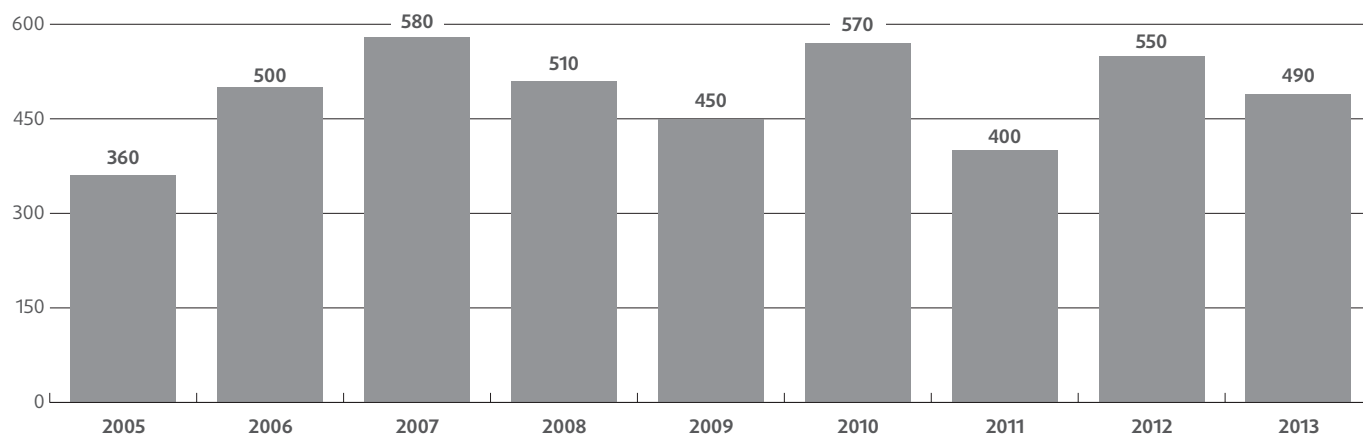
Figure 24

Domestic and foreign corporate bonds market in 2005–2013, billion USD

■ Foreign corporate bonds market ■ Domestic corporate bonds market

Source: CBONDS.

Figure 25

Volume of bill market in 2005–2013, billion Rubles

Source: Region Group of Companies.

1.6. Repo Transactions

Exchange repo is the most fast-growing segment of the Russian organized market (see Figure 26).

At the end of 2013, the volume of repo transactions in all types of securities on the stock market of the Moscow Exchange Group reached 204.6 trillion Rubles, which is 24.3% higher than in the previous year.

In terms of the types of securities (see Figure 27), at the end of 2013, 41.1% of the transactions volume accounted for corporate bonds and 34.6% for government bonds.

In the year-earlier period, the opposite proportion was observed. Starting from 2009, the niche of corporate securities in repurchase transactions was expanding, gradually taking on both government bonds and shares. Thus, during this period, the share of corporate bonds in repo transactions increased by 28.8 p.p. and the share of government bonds and shares decreased by 22.3 and 5.4 p.p., accordingly.

Depending on the financial market conditions, the proportion between

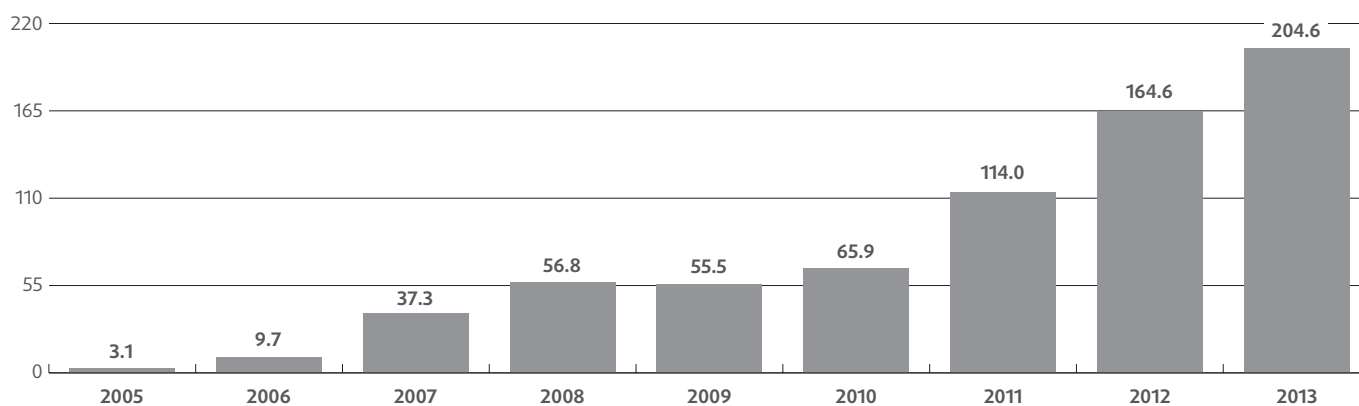
direct repos with the Bank of Russia and inter-dealer repos is constantly changing (see Figure 28).

In 2012–2013, direct repos with the Bank of Russia prevailed; at the end of 2013, its share was 63% of the total volume.

Repo transactions prevailed more and more in the total turnover of trades in recent years and became absolutely prevailing in 2012–2013: more than 90% of the total trade volume on the spot market, taking into account all trade modes.

Figure 26

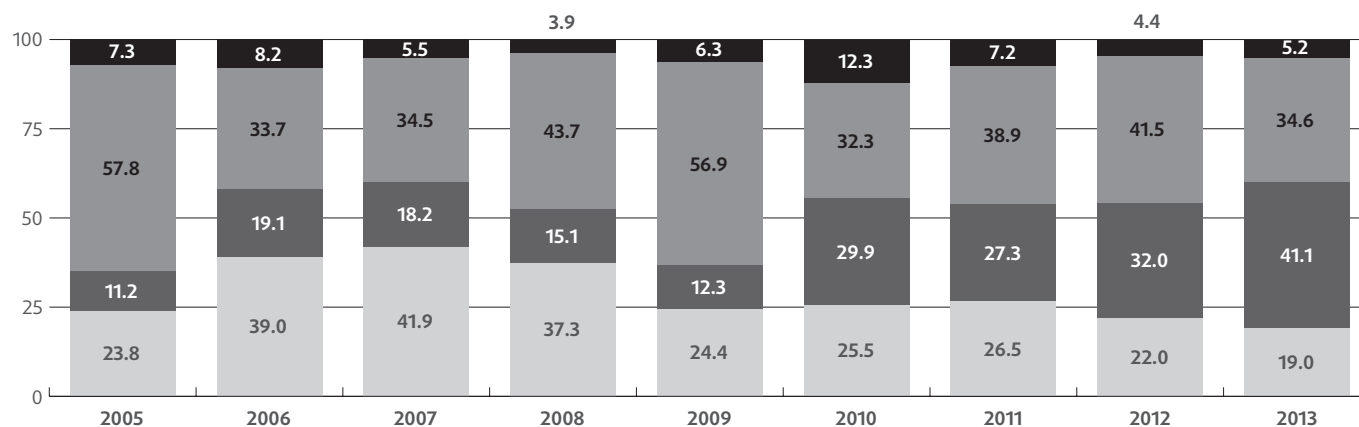
Volume of repo transactions in securities on the stock market of the Moscow Exchange Group in 2005–2013, trillion Rubles.



Source: Moscow Exchange Group.

Figure 27

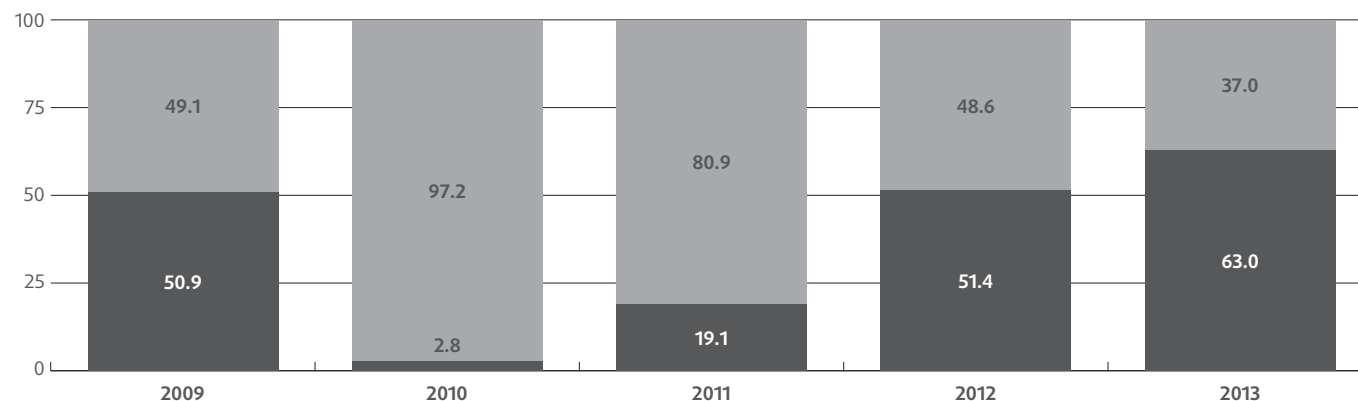
Share structure of repo transactions in securities on the stock market of the Moscow Exchange Group in 2005–2013, %



■ Shares (including RDR) ■ Corporate bonds (including exchange bonds) ■ Government bonds ■ Bonds of the RF entities and municipal bonds

Source: CBONDS.

Figure 28

Structure of repo transactions in securities on the stock market of the Moscow Exchange Group in 2009–2013, %

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

Source: Moscow Exchange Group, estimates of NAUFOR.

Table 11

Organized exchange market of investment units in 2005–2013.

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

Source: Moscow Exchange Group.

Table 12

Volume of exchange trade in investment units in 2005–2013, billion Rubles

Period	Investment units		
	MICEX Stock Exchange	RTS	TOTAL
2005	1.5	0.0	1.6
2006	5.0	0.8	5.8
2007	20.2	0.7	20.9
2008	23.1	0.1	23.2
2009	16.2	0.0	16.2
2010	31.3	19.7	51.0
2011	34.5	53.9	88.4
Moscow Exchange Group			
2012	75.1		
2013	137.8		

Source: Moscow Exchange Group.

1.7. Investment Units

The growth of the organized exchange market in investment units observed in 2012 stopped in 2013 (see Table 11).

The number of management companies that brought their investment units for trading on stock exchanges reduced by seven to 133 companies, and the number of unit investment funds decreased by 23 funds at once to 419. Such a significant reduction in the number of funds with investment units traded on the organized market was resulted from the decision of one

management company to delist all open unit investment funds under its management.

Representation of unit investment funds in quotation lists increased: by the number of management companies – by 30.5%, and by the number of funds – by 18.6%.

The exchange turnover of the investment units is traditionally volatile; in 2013 (see Table 12), it grew drastically and made up 137.8 billion Rubles, which is 83.5% higher than in the

previous year. Innovation of the stock market in investment units in 2013 was the launch of stock exchange trades in foreign exchange traded funds (ETF). In April, the first such fund was admitted to trading, and by the end of the year nine exchange traded funds traded on the MICEX Stock Exchange. The total volume of transactions in ETF units made up 491 million Rubles. Although it accounted for less than a per cent in the total volume of transactions in investment units.

1.8. Securities Futures and Options and Stock Indices

The number of types of futures contracts the underlying assets of which are equity instruments, have been constantly growing in recent years on the organized derivatives market of the Moscow Exchange (see Table 13). In 2013, seven new types

of contracts, including contracts for the shares of foreign issuers traded on foreign stock exchanges and a de facto Russian company registered in a foreign jurisdiction, appeared.

As regards the types of option contracts, their number has not changed

since 2011: there are ten different underlying assets.

Figure 29 shows consolidated information for the derivatives market of the Moscow Exchange Group in terms of volumes of derivatives transactions associated with security assets.

Table 13

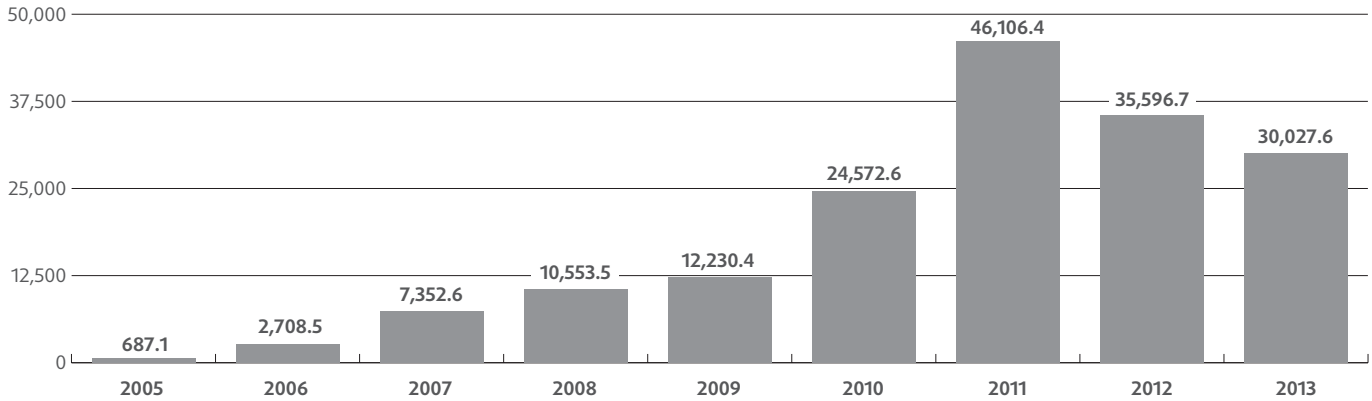
Organized market of derivatives for securities assets in 2005–2013

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

Source: Moscow Exchange Group.

Figure 29

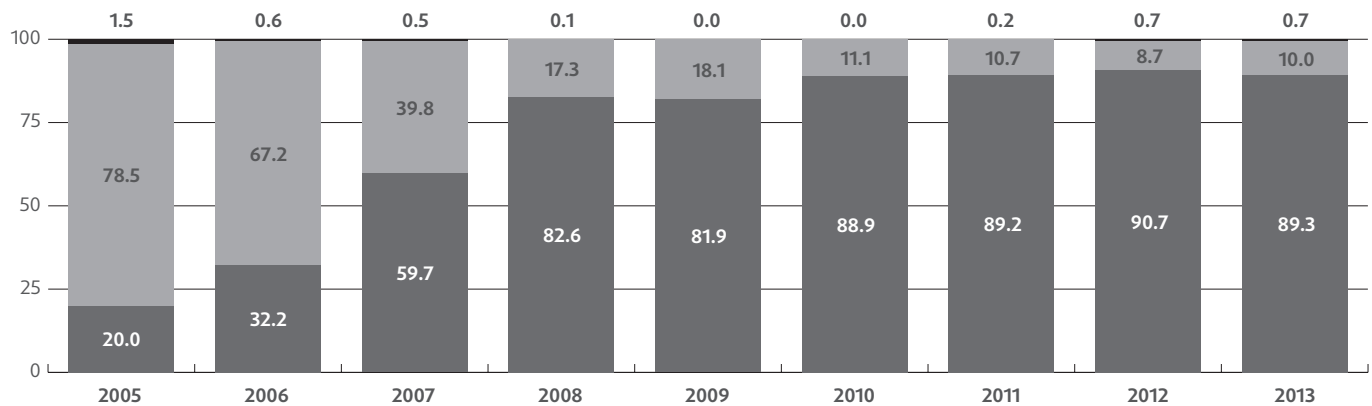
Results of trade in derivatives for securities and stock indices on the derivatives market of the Moscow Exchange Group, billion Rubles



Source: Moscow Exchange Group.

Figure 30

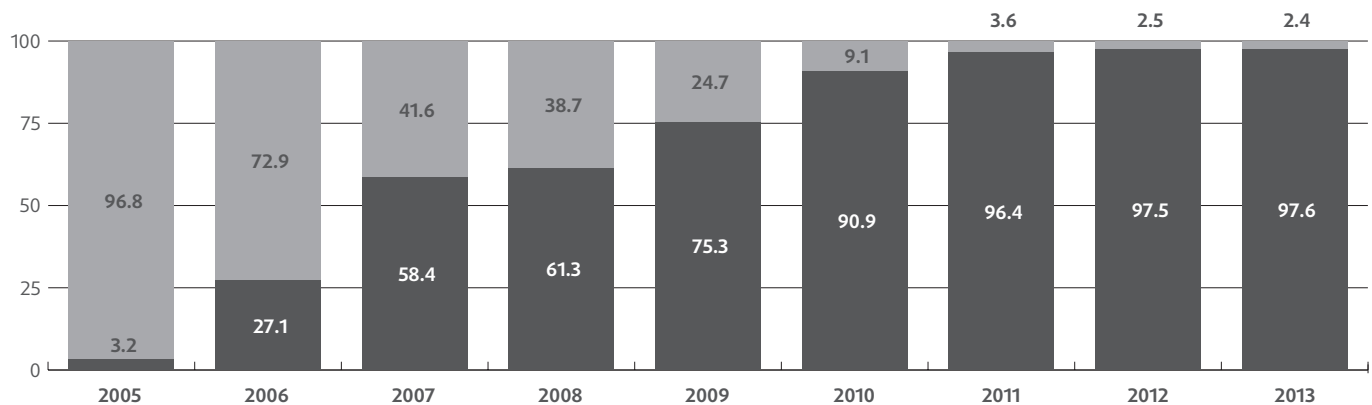
Structure of futures trade on the derivatives market of the Moscow Exchange Group, %



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

Figure 31

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



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

The volume of trading in futures contracts for securities and stock indices declined for the second year in a row and made up 30,027 billion Rubles in 2013, which is 15.6% less than in the previous year. The dynamics of trading in futures and options was multidirectional: the volume of trading in futures dropped by 14.9%, and in options, on the contrary, increased by 23.9%. Nevertheless, the share option in transactions with the unit investment funds on the organized derivatives market of the Moscow Exchange Group remained extremely low – about 10%, with a trend upward.

The structure of trade volume by types of underlying assets evolved rather quickly (see Figures 30 and 31).

Where in 2005 the share of the stock indices for futures in the volume of trade in futures (in monetary terms) made up 20%, in 2010–2013 it became absolutely dominant – 89.5%. Such growth was resulted from displacement of share futures from the turnover. The share of bonds as futures underlying asset, despite the significant growth, remained extremely low.

For options, similar trends were observed, but they were more explicit: in 2005, the share of indices was only 3.2%, and in 2010–2013, it increased to 95.6%.

Figure 32 shows a graph describing the ratio between the volume of transactions in derivative contracts with underlying assets in the form of shares and stock indices in monetary terms and the volumes of transactions in shares (without taking into account repo transactions) on the derivatives and stock markets of the Moscow Exchange Group. The turnovers on the derivatives market are presented both by derivative contracts the underlying assets of which are shares and stock indices in total and by shares.

The second half of 2013 was characterized by decline in the volumes of derivatives market in the ratio to the volume of the spot market. Taking into account the shares only, the index under study dropped from 47.7% in the second quarter to 35.9% in the fourth one.

The volume of open positions and their distribution among the various instruments vary significantly depending on the market conditions (see Table 14)¹⁰.

In 2013, the total volume of open positions on the stock derivatives market increased significantly and reached 371 billion Rubles, which is 147.4% higher than in the previous year. In the past, such a significant

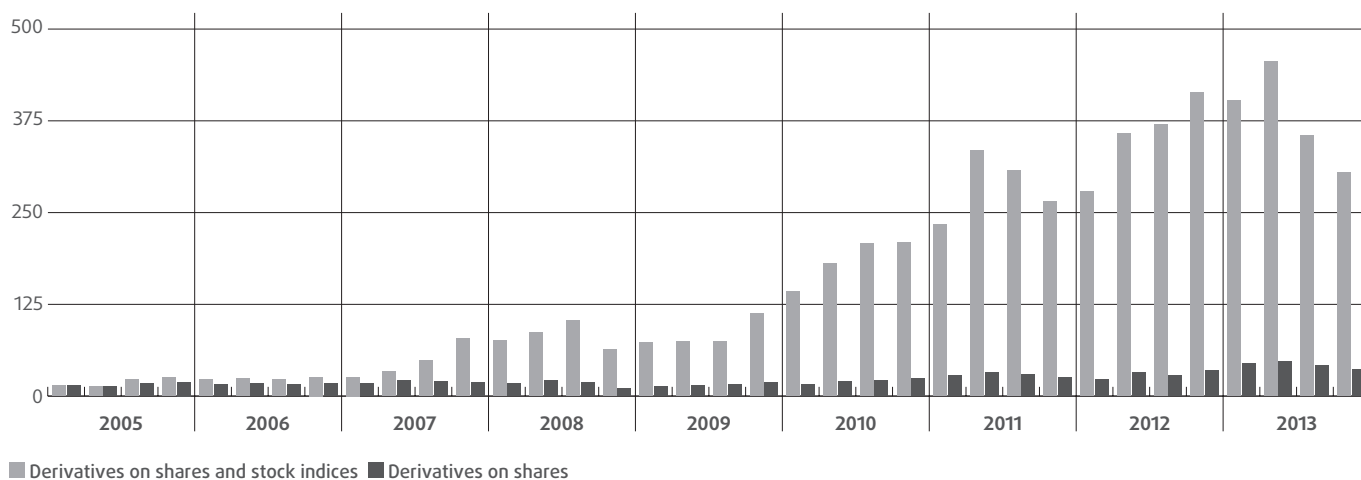
increase in the volume of open positions was observed only twice, in 2006 and 2009. The ratio of open positions between futures and options differ from the ratio prevailing in the trade volumes. Thus, in 2005, futures accounted for 64% of open positions and only for 33% in 2013. Accordingly, the share of options is constantly expanding. The relative growth of open positions in options in 2013 was especially significant: it made up 67% as against 39% in the previous year.

The structure of open positions in terms of underlying assets has been undergoing continual changes (see Figures 33,34 for open positions in monetary terms).

Open positions by underlying assets differ from those prevailing in trade volumes, as well. In 2011–2013, futures were characterized by decline in the amounts of open positions under indices and by increase of open positions under shares. Nevertheless, open positions under indices at the end of 2013 were prevailing, making up 67.5% of all futures open positions. For option contracts, stock indices absolutely prevail in open positions in 2011–2013, making up an average of 95% of the total amount of open positions.

Figure 32

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



Source: Moscow Exchange Group, estimates of NAUFOR.

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

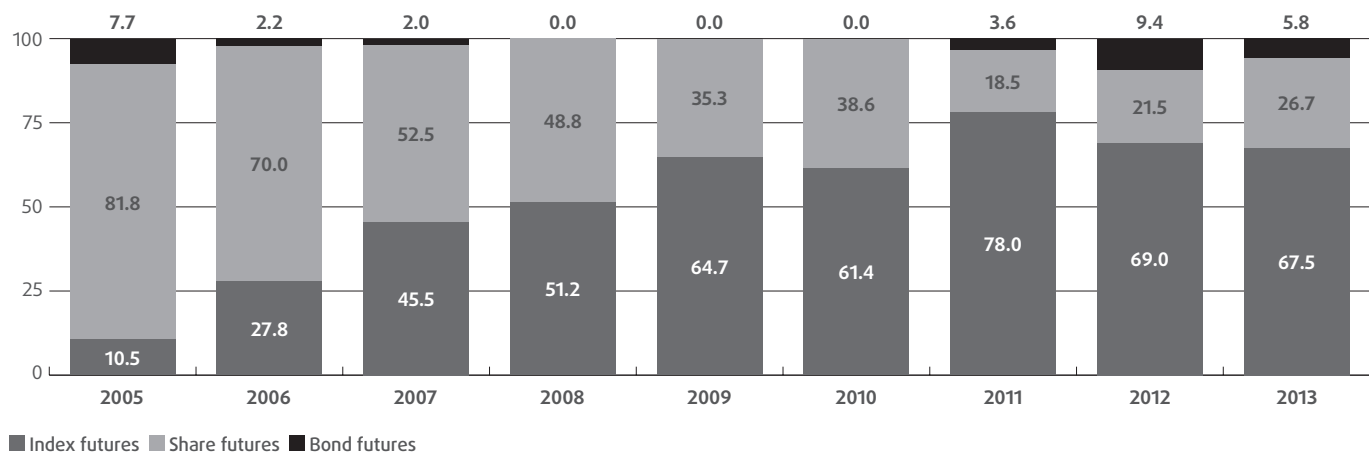
Table 14

Open positions on the derivatives market of the Moscow Exchange Group for derivatives on securities and stock indices in 2005–2013 (billion Rubles)

Period	2005	2006	2007	2008	2009	2010	2011	2012	2013
Futures contracts									
Volume of open positions	13.1	31.5	49.8	9.0	36.0	51.6	91.0	90.9	122.5
Total									
Volume of open positions	7.4	47.0	62.3	9.6	15.4	36.7	42.3	59.3	249.1
Итого									
Volume of open positions	20.4	78.5	112.1	18.6	51.4	88.4	133.4	150.2	371.5

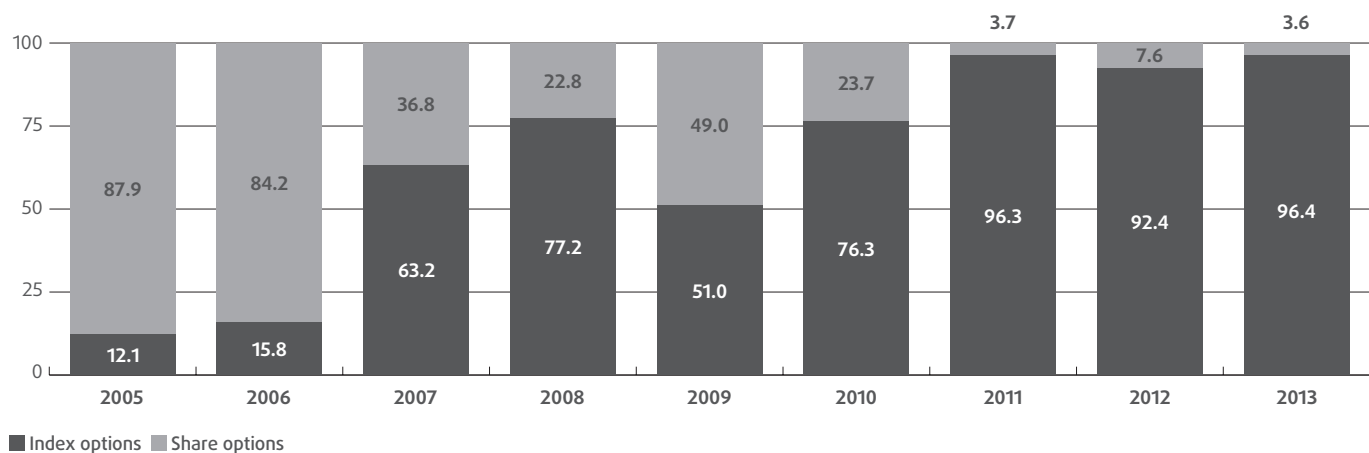
Source: Moscow Exchange Group.

Figure 33

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

Source: Moscow Exchange Group, estimates of NAUFOR.

Figure 34

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

Source: Moscow Exchange Group, estimates of NAUFOR.

1.9. Stock Indices and Indicators

In 2013, the Moscow Exchange Group revised the policy for calculating stock indices significantly.

For share indices includes one hundred most liquid and capitalized shares with the largest number of free-floating securities were included in the index basket. On the basis of such basket a family of MICEX indices are calculated according to uniform methods, including:

➤ **Broad market index.** It is calculated based on prices of the whole index basket in two currencies (Rubles and USD);

- **Main indices.** They are calculated based on prices of 50 first shares in the index basket in two currencies. These indices follow the MICEX Index (in Rubles) and RTS Index (in USD);
- **Second tier share indices.** They are calculated based on prices of 50 second shares in the index basket in two currencies. These indices follow the Start Cap Index (MICEX SC) (in Rubles) and RTS-2 Index (in USD).

In addition, on the basis of the index basket sector share and thematic indices are still calculated. The family of sector indices included transport index at the

end of 2013. The index basket is revised on a quarterly basis.

For bond indices, the formation concept was completely revised and a new family of indices segmented by type of issuer (government, sub-federal, municipal and corporate bonds), durations and credit quality of the issuer was introduced. However, consistency with the bond indices, the calculation of which began in 2002–2005, was preserved. Along with the indices by separate segments of the bond market the calculation of composite index of broad bonds market started. The

Figure 35

MICEX Index in 2005–2013



Source: Moscow Exchange Group.

Figure 36

Индекс ММВБ в 2013 г.



Source: Moscow Exchange Group.

calculation of aggregate bond market indices (duration and yield to maturity) was preserved.

As regards repo rate indicators and the Volatility Index, there no significant changes.

1.9.1. Share Indices

Figures 35–40 show the graphs of RTS, MICEX and RTS-2 indices for the historical interval of 2005–2013 and in 2013.

The behaviour of the main share indices (MICEX and RTS indices) developed according to a similar scenario for the second year in a row:

growth at the beginning of the year, decline by April and May, and then quite volatile return to the levels typical for the beginning of the year. Thus, MICEX Index fluctuated multi-directionally with high amplitude against the level of 1,400, while RTS Index – against the level of 1,500, but following a long-term downward trend.

A long-term downward trend for the RTS-2 Index was more explicit: in 2012, the average level was 1,600 and in 2013 it dropped to 1,200.

At the end of 2013 (see Table 15¹¹) MICEX Index showed insignificant yield

amounting to 2% per annum, and RTS and RTS-2 Indices were negative (minus 5.5 and minus 20.8% per annum).

Industry indices (calculated in national currency) showed various results at the end of the year. The power industry, metallurgy and mining demonstrated the largest drop for three years in a row. According to the relevant industry index, the consumer goods index became the most profitable.

In many cases, there is a high positive correlation between the main and industry indices (see Table 16).

Figure 37

RTS Index in 2005–2013.



Source: Moscow Exchange Group.

Figure 38

RTS Index in 2013



Source: Moscow Exchange Group.

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

Industry indices in oil and gas and finance are most statistically dependent on the main index. The least statistical dependence is detected for the chemical and petrochemical industries and the consumer sector. Cases of negative correlation between the main and industry indices were not detected. Among the industry indices, alternative behaviour in relation to other industry indices is mostly typical for of the consumer sector index.

Russian stock indices are characterized by high volatility¹². Table 17 provides systematized data on volatility and yields of the main consolidated equity indices, as well as the Sortino ratio¹³.

At the end of 2013 the volatility of the main consolidated equity indices was quite low and even decreased slightly as compared the indices in the previous year. Thus, for the MICEX and RTS Indices volatility was minimal during the monitoring period.

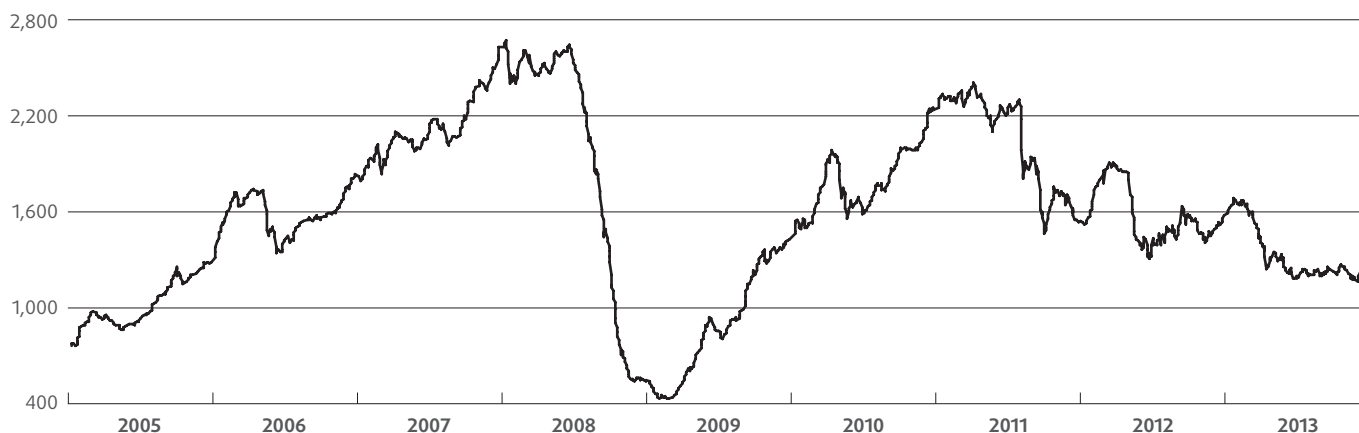
The extremely low Sortino ratio was pointed out. Moreover, in 2013 this ratio was negative for all three indices from Tables 15–17, which means the complete ineffectiveness of long-term investments in the Russian share market.

1.9.2. Bond Indices

Corporate bonds index MICEX CBI. Figure 41 shows the MICEX CBI graphs based on the total return on corporate bonds¹⁴, and Figure 42 shows the average

Figure 39

RTS-2 Index in 2005–2013



Source: Moscow Exchange Group.

Figure 40

RTS-2 Index in 2013



Source: Moscow Exchange Group.

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

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

¹⁴ The index is provided according to the relative scale.

Table 15

Yield of equity indices in 2005–2013, % per annum

	Currency	2005	2006	2007	2008	2009	2010	2011	2012	2013
Main indices										
RTS Index	USD	83.5	70.9	19.2	-71.6	128.6	22.6	-21.9	10.5	-5.5
MICEX Index	Rubles	83.1	67.7	11.6	-66.5	121.1	23.3	-16.9	5.2	2.0
RTS-2 Index	USD	69.3	42.3	43.2	-78.3	160.4	57.0	-31.8	3.2	-20.8
Industry indices										
<i>Oil and gas industry</i>										
MICEX O&G	Rubles	92.0	48.0	-3.6	-58.4	126.3	17.7	0.1	10.9	5.6
<i>Chemical and petrochemical industry</i>										
MICEX CHM	Rubles		44.0	10.5	13.1		44.0	10.5	13.1	-17.4
<i>Telecommunications</i>										
MICEX TLC	Rubles	39.1	66.0	14.6	-75.5	187.0	36.3	-14.8	3.9	11.3
<i>Metallurgy and mining</i>										
MICEX M&M	Rubles	74.6	51.7	45.6	-69.2	212.2	63.2	-47.6	-5.7	-22.0
<i>Power industry</i>										
MICEX PWR	Rubles	38.7	134.5	7.9	-73.7	167.3	44.2	-40.2	-16.9	-39.3
<i>Manufacturing industry</i>										
MICEX MNF	Rubles	28.9	69.6	61.4	-82.8	189.0	74.2	-40.5	16.9	-3.7
<i>Consumer goods</i>										
MICEX CGS	Rubles						85.4	-36.2	27.3	25.4
<i>Finance</i>										
MICEX FNL	Rubles				-67.3	131.8	32.0	-29.7	-4.4	16.4
<i>Transport</i>										
MICEX TRN	Rubles									24.1

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

Table 16

Correlation matrix of equity indices in 2013

	Index	A	B	C	D	E	F	G	H	I
A	MICEX	1								
B	Oil and gas industry	0.84	1							
C	Chemical and petrochemical industry	0.04	-0.47	1						
D	Telecommunications	0.79	0.92	-0.48	1					
E	Metallurgy	0.63	0.18	0.67	0.12	1				
F	Power industry	0.36	-0.11	0.82	-0.13	0.91	1			
G	Manufacturing industry	0.76	0.50	0.36	0.49	0.82	0.72	1		
H	Consumer sector	0.16	0.43	-0.61	0.50	-0.53	-0.66	-0.24	1	
I	Finance	0.83	0.83	-0.26	0.77	0.32	0.02	0.50	0.51	1

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

weighted duration and yield of bonds included in the above index.

According to the MCX CBI TR, average total income of the investors in corporate bonds (return on investment) for 2013 almost continuously grew at an average rate of 0.03% a day, at the end of the year the index increased by 8.62%; the similar result was reached in the previous year.

Starting from 2010, the duration of the index portfolio MCX CBI TR increased

and in 2012–2013 it was stable at the level of 895 days. Yield to maturity of the index portfolio was at average at the level of 7.93% as against 8.73% in the previous year. Most of the year the yield to maturity was below the refinancing rate of the Bank of Russia, it exceeded the refinancing rate only at the beginning of the year, in January (average spread 0.22 p.p.) and at the end of December (average spread 0.17 p.p.).

At the end of 2013 the volatility of corporate bond index (see Table 17) was minimal during the monitoring period, and the Sortino ratio grew and reached 0.11.

Government bonds index MCX RGBI TR. Figure 41 shows a graph of MICEX RGBI-TR index¹⁵, and Figure 43 shows graphs of average weighted duration and effective yield to maturity RGBEY¹⁶.

Table 17

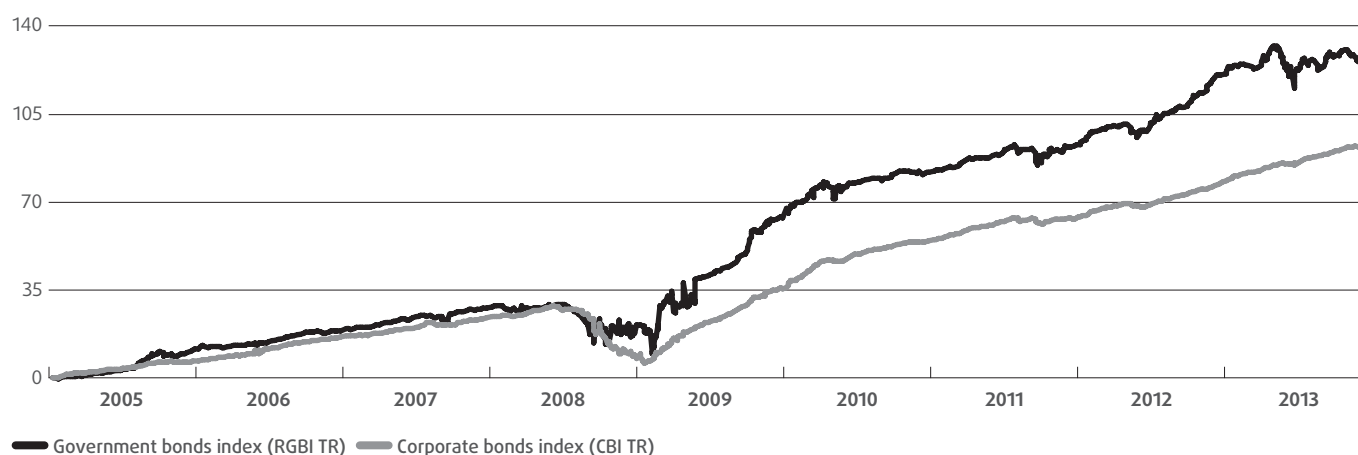
Volatility and yield of equity indices in 2005–2013

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

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

Figure 41

MCX RGBI TR and MCX CBI TR bond indices, %



Source: Moscow Exchange Group.

¹⁵ The index is provided according to the relative scale.

¹⁶ This index was calculated by the Moscow Exchange Group before September 2013.

The behaviour of MCX RGBITR index was extremely unstable in 2013. Growth at the beginning of the year gave way to a significant drop in May-June. Then, before the end of the year, the growth restored but was extremely unstable. As a result, the index grew by 3.74% for the year. It should be noted that since 2009 (see Figure 41) the prices on government bonds have growing more rapidly than the prices on corporate bonds.

During 2013, the effective yield to maturity of government bonds RGBEY ranged between 6.24 to 7.72% and was 6.8% at average (the index was 7.4% in the previous year). Spread as against the refinancing rate of the Bank of Russia made up 3.83 p.p. at average.

The duration of the government bonds portfolio was at the level of at 2,385 days in 2012–2013.

The volatility of government bond index also significantly changed from year to year (see Table 17).

At the end of 2013 the volatility of MCX RGBITR Index grew drastically and made up 0.36% (for comparison: this index was 0.17% in 2012). Typically, the volatility of government bonds index significantly exceeded the volatility of corporate bonds index during the full monitoring period, with few exceptions.

1.9.3. Repo Rate Indicators

Repo rate indicators are the calculated values reflecting the situation on

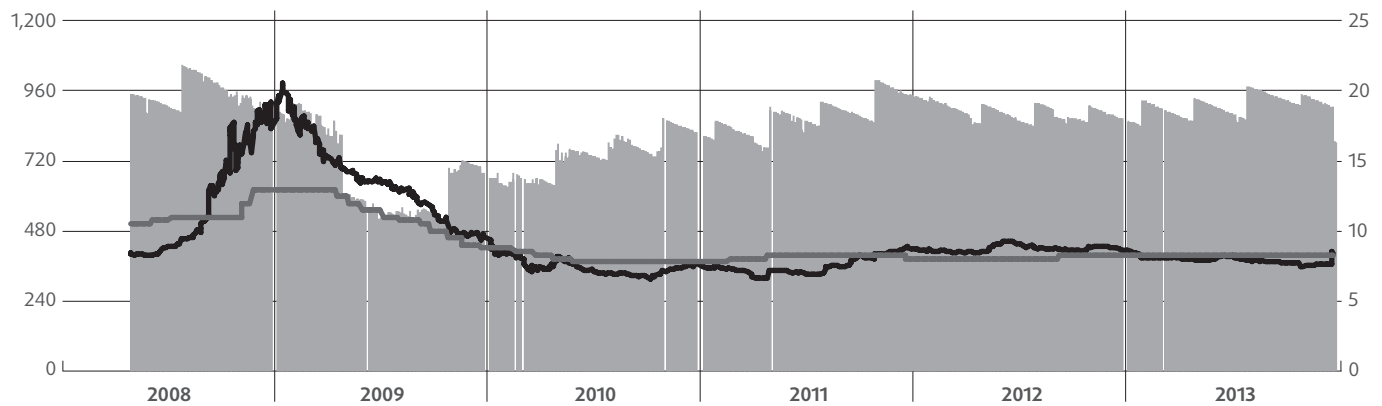
the repo exchange market in the Moscow Exchange Group. Indicators are calculated separately for repo transactions in shares and bonds, at the calculations transactions in the shares included in the MICEX Index calculation base and the bonds included in the Lombard list of the Bank of Russia are taken into account. Depending on the term of repo transactions, indicators are calculated for the periods of one day (overnight), 7 days and 14 days.

Figures 44 and 45 show the graphs of repo indicators for shares and bonds in 2006–2013.

In 2013, one-day repo indicators for shares and bonds demonstrated the similar qualitative dynamics: stable

Figure 42

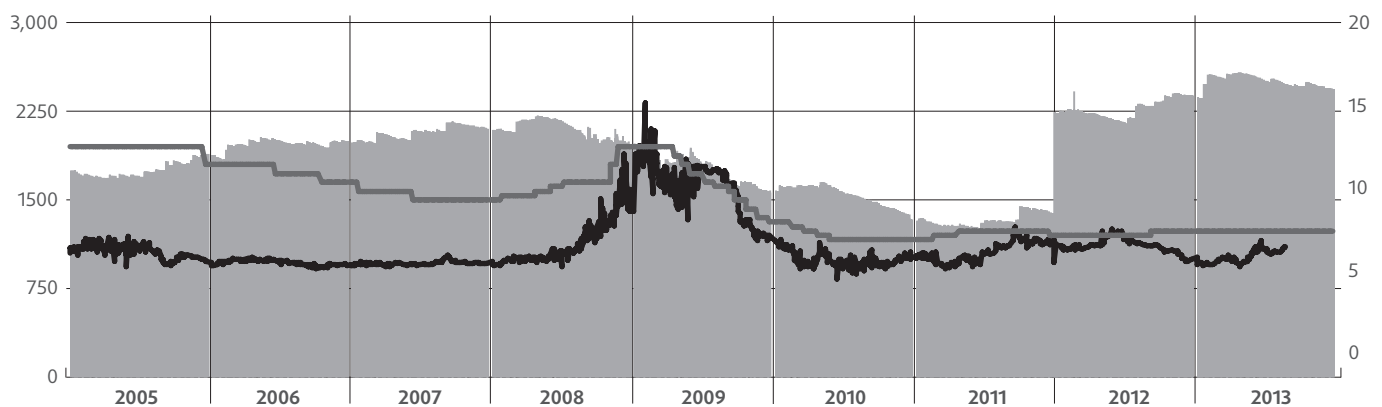
Yield and duration of MCX CBI TR corporate bond index



■ Index portfolio duration, days (left scale) — Average weighted yield of MICEX CBI, % (right scale) — Corporate bonds index (CBI TR), % (right scale)
Source: Moscow Exchange Group.

Figure 43

Effective yield to maturity and duration for government bonds



■ Duration, days (left scale) — RGBEY, % (right scale) — Refinancing rate of the Central Bank, % (right scale)
Source: Moscow Exchange Group.

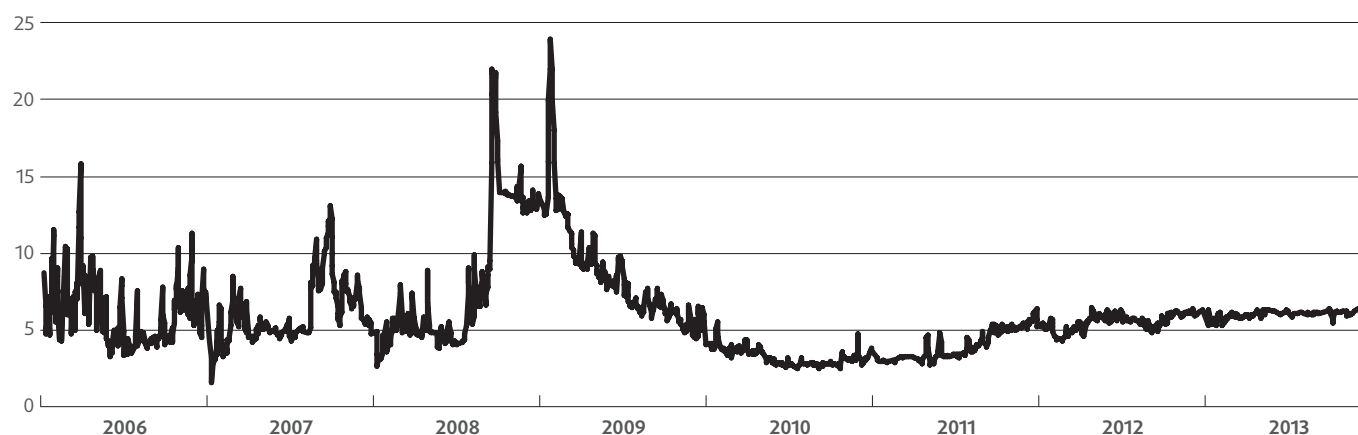
Table 17

Volatility and average yield to maturity for bond indices in 2005–2013

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

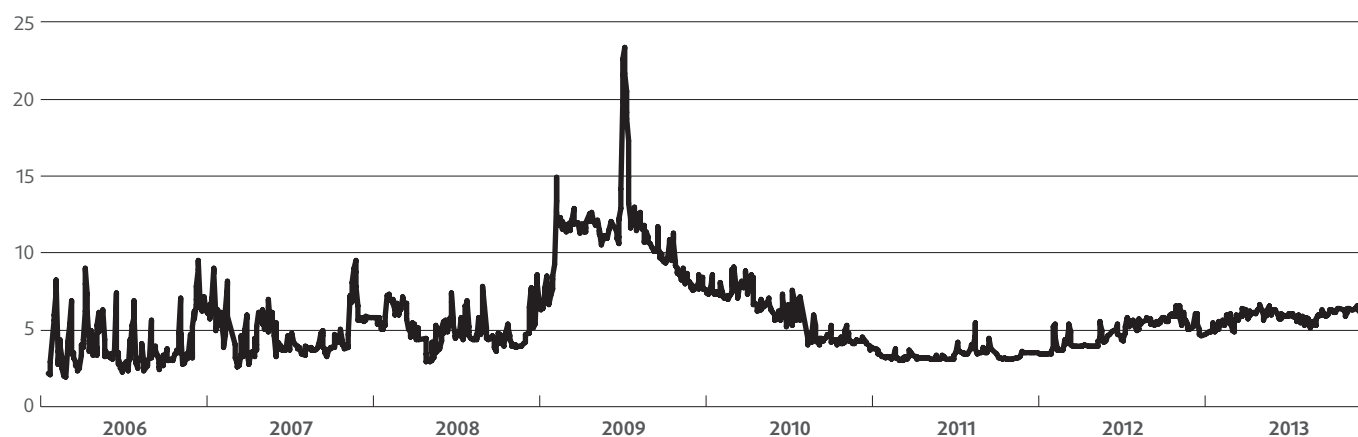
Calculated on a basis of data provided by the Moscow Exchange Group.

Figure 44

One-day repo rate indicators for shares in 2006–2013, %

Source: Moscow Exchange Group.

Figure 45

One-day repo rate indicators for bonds in 2006–2013, %

Source: Moscow Exchange Group.

behaviour with a slight upward trend by the end of the year. The average value of the indicator for shares made up 6.07% (5.57% in the previous year) and for bonds was a little higher – 6.12% (5.84% in the previous year).

1.9.4. Volatility Index

Volatility index RTSVX is calculated based on options and futures prices for

RTS Index for the closest options series. The calculation methodology is similar to that used for the international index CBOE Volatility Index (VIX). Figure 46 shows the graphs of VIX and RTSVX indices in 2010–2012.

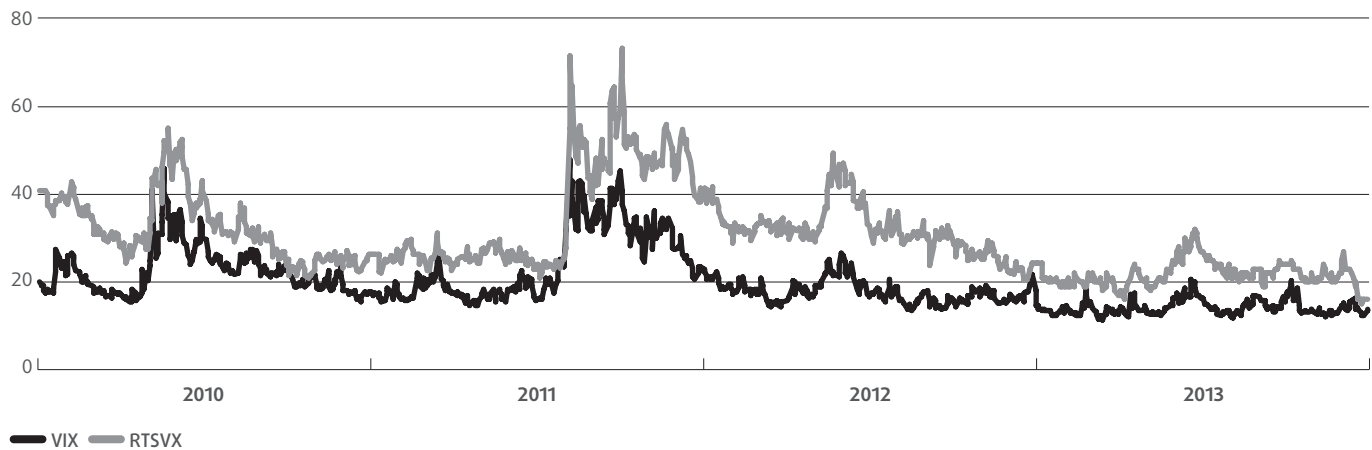
On the quality level, the Russian index RTSVX is in effect totally identical to the international index VIX. A spike in volatility was observed in late June, it

repeated a spike of VIX index at a higher level.

Notably, the values of RTSVX exceed the international analogue, with a significant difference at certain time intervals. However, in 2013 the average spread made up 7.67 p.p., which was much less than that in the previous year, and a drastic decline in RTSVX volatility index was observed by the end of the year.

Figure 46

VIX and RTSVX indices in 2010–2013.



Source: Moscow Exchange Group, Yahoo Finance.

2. Institutional Structure

2.1. Issuers of Securities. Initial Public Offerings

Any joint-stock company is an issuer, as it places shares and has to register them during incorporation. Bonds can also be issued by a limited liability company and, subject to certain conditions, a non-profit organization. The information on the number of operating legal entities is shown in Table 18, and the consolidated data on the number of issuers on the domestic organized market are provided in Table 19.

The number of open joint-stock companies, which, generally, should constitute the potential of public financial market, remained high – more than 31 thousand companies, although it was declining at an average annual

rate of 8.5%. Nevertheless, a very small percentage of the overall number of issuers is represented on the organized markets.

In recent years, a reduction in the number of issuers whose securities are admitted to trading on the stock exchanges was observed, but in 2013, the number of public companies increased by 24 amounting to 541. However, it does not mean a stable trend in the number of public issuers. In the previous year, there was a reduction on the organized market by 40 issuers, and in a deeper historical interval, it should be noted that more than 100 companies have left open market since 2007. However, the number of issuers whose shares are in

the quotation lists was stable at about 240–245 companies.

There were very few new public offerings by Russian issuers in 2013, as in 2012. According to the available data¹⁷, seven companies of those holding assets and conducting entrepreneurial activities in Russia organized their IPO during the period and raised USD3.2 billion in total. Three of them (QIWI, Luxoft and TCS Group) organized offerings through holding structures created in foreign jurisdictions, thus making offerings on the foreign market only. Four companies organized offerings on the domestic market, using the infrastructure of Moscow Exchange JSC. Moscow Exchange JSC (15 billion Rubles)

Table 18

Number of operating legal entities in 2010–2013

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

Source: Interfax Group.

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

Table 19

Issuers on the organized market in 2005–2012

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

Source: Moscow Exchange Group.

itself and Alrosa (41.3 billion Rubles), which organized offering within the scope of privatization, were among them. In addition, in 2013, two low-volume offerings were made on the Innovation and Investment Market of the Moscow

Exchange by new issuers: by Zhivoy Ofis JSC in the amount of 516 million Rubles and by TPG AESSEL JSC in the amount of 207 million Rubles.

There were securities of foreign issuers, including shares, as well as

Russian, global and American depositary receipts among securities admitted to trading on the stock market of the Moscow Exchange Group; the volume of secondary market for such issuers is insignificant.

2.2. Investors

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

Moscow Exchange Group regularly discloses information on the number and structure of customers participating in the trade, including those conducting transactions in the Main Market sector (hereinafter also referred to as «MICEX customers»).

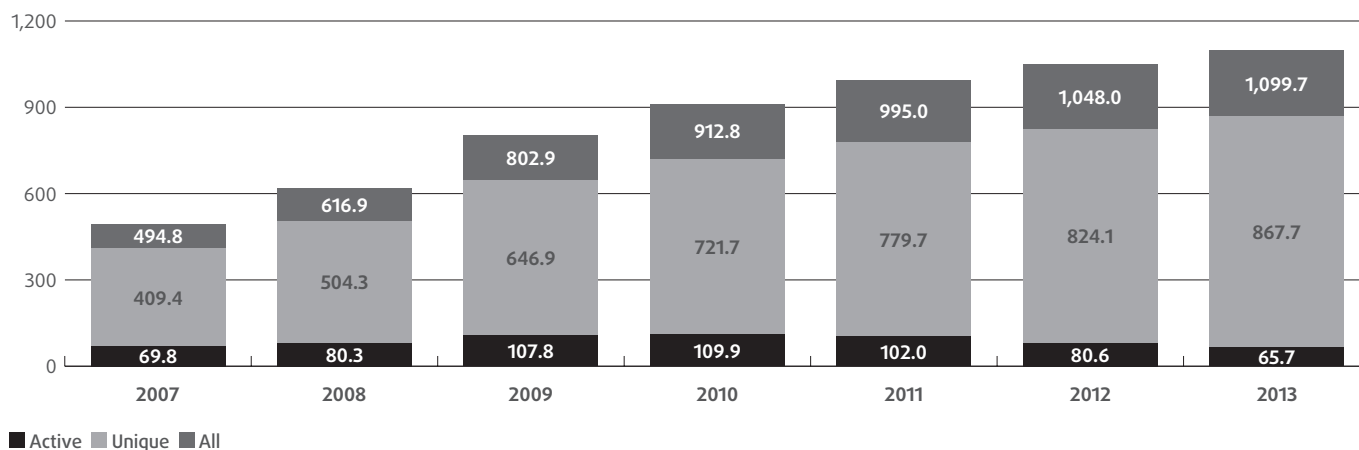
Figure 47 shows the information on the number of customers registered at the MICEX Stock Exchange¹⁸.

The total number of MICEX Stock Exchange customers followed a long-

term upward trend. However, since 2011 the growth rate of the total number of unique customers has slowed down and reached the minimum value – 5.3% – in 2013. Thus, the number was 867.7 thousand, which is by 43.6 thousand higher than in 2012. An important characteristic of the investor base is the number of the so-called active investors, i.e., those who conduct at least one transaction per month on the stock exchange. It should be noted that the

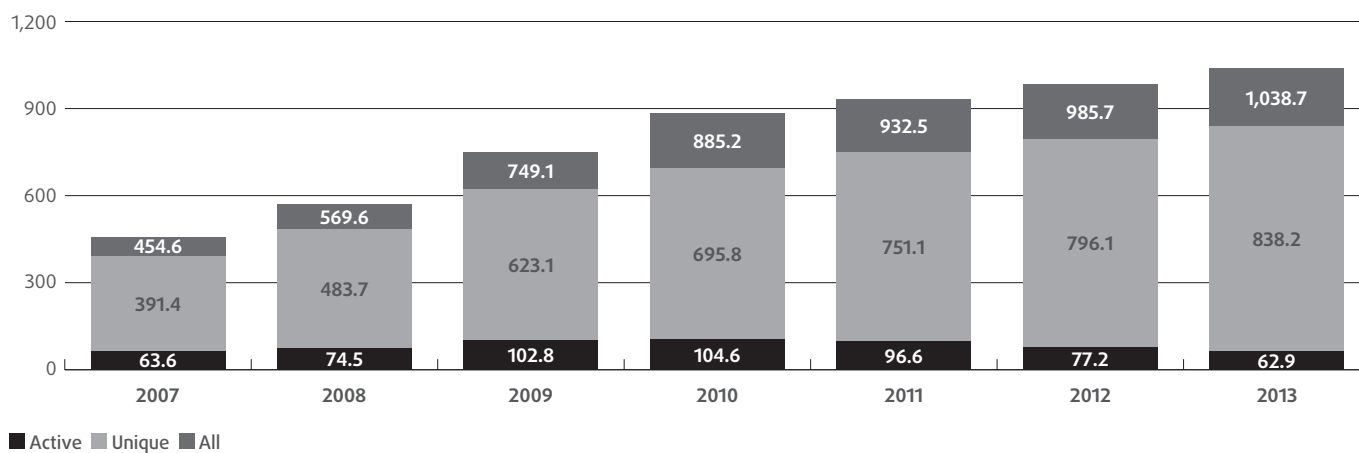
¹⁸ Annual average value is used hereinafter as a simple mean of monthly indices.

Figure 47

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

Source: Moscow Exchange Group, estimates of NAUFOR.

Figure 48

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

Source: Moscow Exchange Group, estimates of NAUFOR.

number of active customers in the total number of customers was traditionally low. In the last three years the number of active customers followed a decrease trend.

In 2013, the annual average number of active customers declined to 65.7 thousand by 18.5%. Their share in the total number of unique customers reached its minimum – 7.6%.

2.2.1. Private Investors

Private investors shall mean the so-called 'market investors' – individuals who have made informed decisions to invest on the securities market and who regularly use the services of brokers or trustees or have purchased

investment units in unit investment funds.

Figure 48 shows the information on the number of MICEX Stock Exchange customers who are resident individuals.

Individual resident customers make up 96.6% in the total number of unique customers.

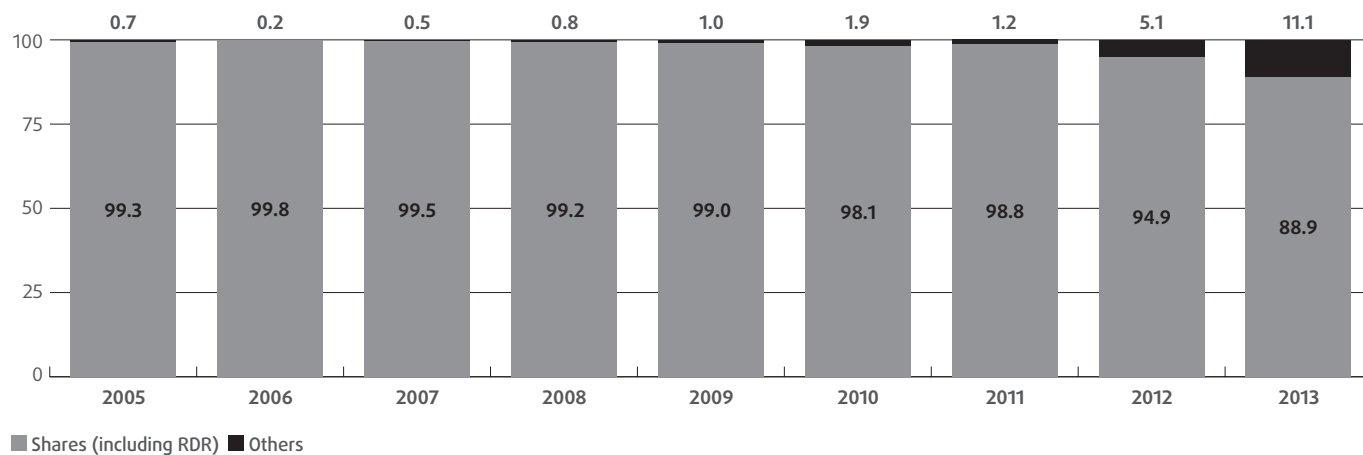
Since 2010, the growth rate of unique customers of MICEX Stock Exchange who are resident individuals has dropped drastically; in 2013, the annual average number of such customers increased by 5.3% and made up 838 thousand people.

The maximum number of customers was reached in October 2009–119.8 thousand people, with the simultaneous

maximum number of active customers at 18.4%. In 2013, active customers made up on average 7.5% of the total number, in absolute terms their number decreased to 62.9 thousand people (by 18.5% in relative terms).

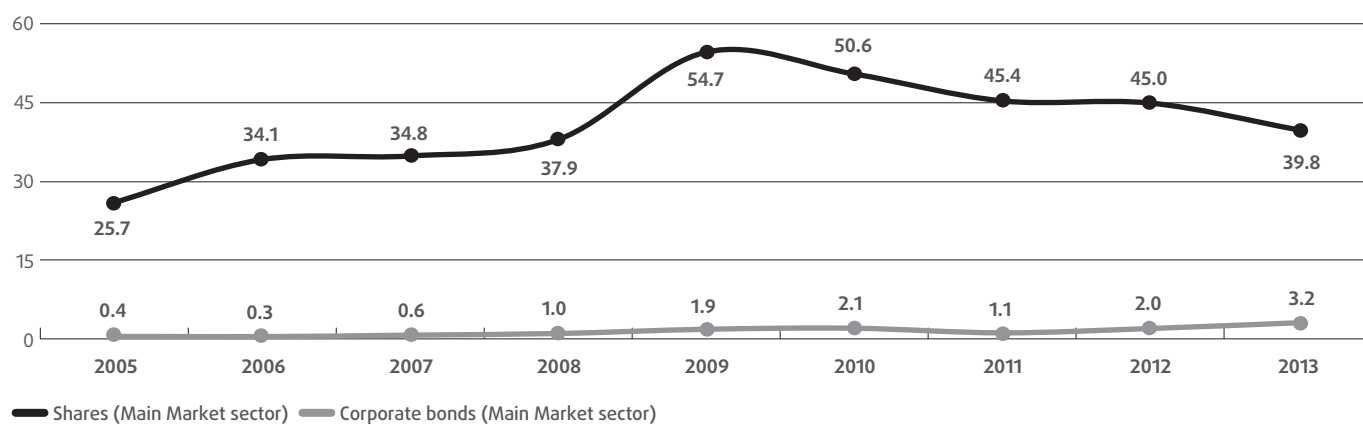
Individual investors engaged in securities transactions on MICEX Stock Exchange are mainly interested in shares. Figure 49 provides data on the structure of private investors' transactions on the stock market of the Moscow Exchange Group. Transactions in shares accounted for 88.9% of the total volume of transactions executed by individuals on the stock exchange. Other types of securities, such as bonds and investment units, made

Figure 49

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

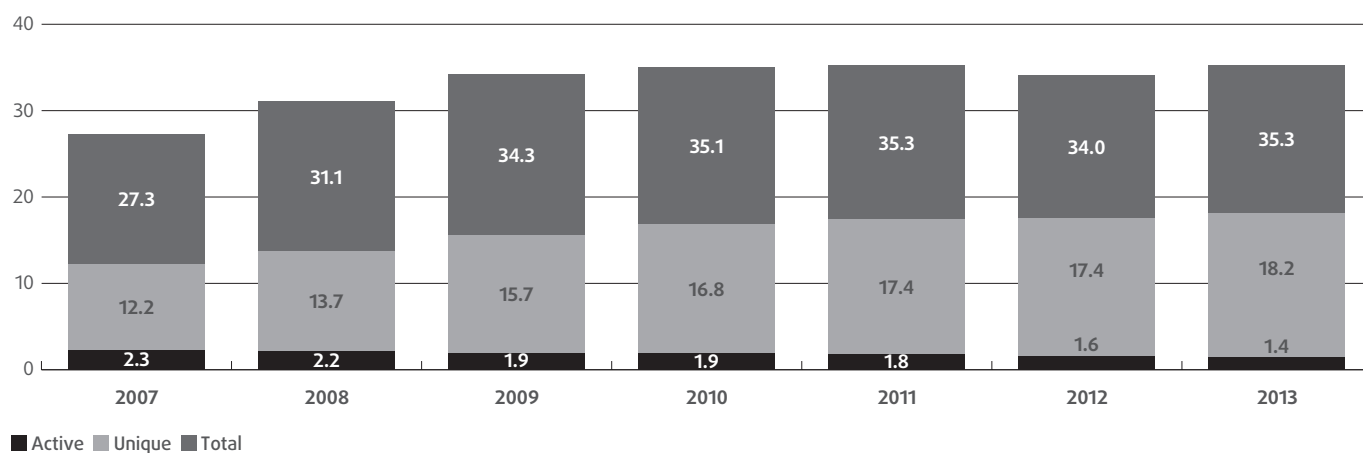
Source: Moscow Exchange Group, estimates of NAUFOR.

Figure 50

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

Source: Moscow Exchange Group, estimates of NAUFOR.

Figure 51

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

Source: Moscow Exchange Group, estimates of NAUFOR.

up 11.1% of the private investors' interest, including 6.7% accounting for corporate bonds.

The gradual reduction in the percentage of shares was pointed out. Thus, in 2005 such index was 99.3%.

Figure 50 shows a graph characterizing the percentage of resident individuals in the total value of transactions in shares and corporate on the stock market of the Moscow Exchange Group.

Starting from 2009 the share of private investors being residents in transactions in shares has reduced; by the end of 2013 it reduced to 39.8%. However, in 2013, a slight increase in the individuals' activities in trades in corporate bonds was observed: their share increased to 3.2%.

2.2.2. Corporate Investors

Corporate investors shall mean legal entities, such as enterprises, firms or joint-stock companies, acting on its behalf.

Figure 51 shows the data on the number of legal entities among MICEX Stock Exchange customers.

Since 2010, the number of legal entities being unique MICEX Stock Exchange customers has changed insignificantly. However, it should be noted that during the period under study the number of active corporate investors has decreased. In 2013, this index

decreased to 1.4 thousand companies (4.1% of the number of unique customers).

2.2.3. Unit Investment Funds

From the legal viewpoint, unit investment funds constitute asset complexes that are not legal entities. Depending on the redemption capabilities associated with investment units, funds can be open, interval and closed. Figure 52 shows consolidated data on the dynamics of changes in the number of Unit Investment Funds (UIF)¹⁹.

By the end of 2013 the number was 1,596, which is 4.9% more than in the previous year. The number of open funds focusing on retail investors increased slightly (by 1.4%), the number of closed funds grew by 7.3%. This type of funds is the most common for the Russian market of collective investments (68.7% of total funds).

Information concerning a unit investment fund for qualified investors with limited circulation of units may not be disclosed publicly. In view of the above, the currently available public aggregated data on the net asset value of UIF concern solely the funds for unqualified investors and, therefore, are of limited representativeness. Figure 53 shows the data on the net asset value of unit investment funds.

At the end of the year the net asset value of UIF increased by 11.7% and made up 587.3 billion Rubles. However, the volume of interval funds decreased by 41.1% and the volume of open funds grew by 26.6%.

Apart from the net asset value, the most important characteristic of the UIF industry is the volume of net capital raised by the funds. These data are the most indicative for open UIF, where requests for issue and redemption of units are accepted on every working day. Figure 54 provides the data on the net capital raised by open UIF (taking into account funds under formation) in 2005–2013.

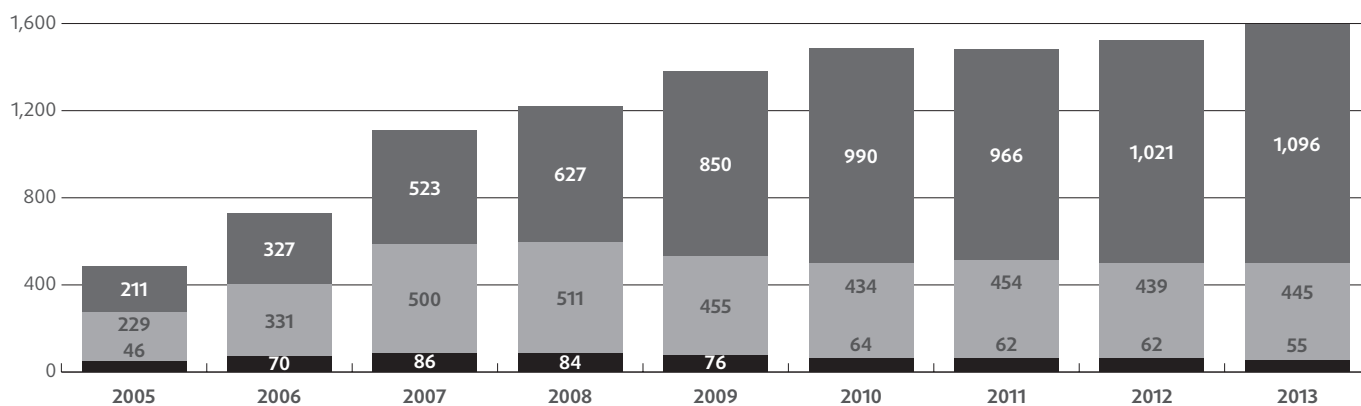
Despite the multidirectional dynamics of capital entry and exit from open funds during 2013, the final result turned out to be positive – the net capital raised by open UIF made up 21.1 billion Rubles. This result was formed due to a significant flow of raising in bond funds – 27.0 billion Rubles.

Figure 55 provides the data on the accumulated capital flow raised by open UIF taking into account the total amount of funds raised including the previous periods.

The rate of capital raised in bond funds has grown since 2009. In 2013, the accumulated flow balance increased to 136.4%. The flow raised in share funds since 2008 has been declining

Figure 52

Number of unit investment funds



■ Interval ■ Open ■ Closed

Source: investfunds.ru.

¹⁹ Taking into account only completely formed funds.

Figure 53

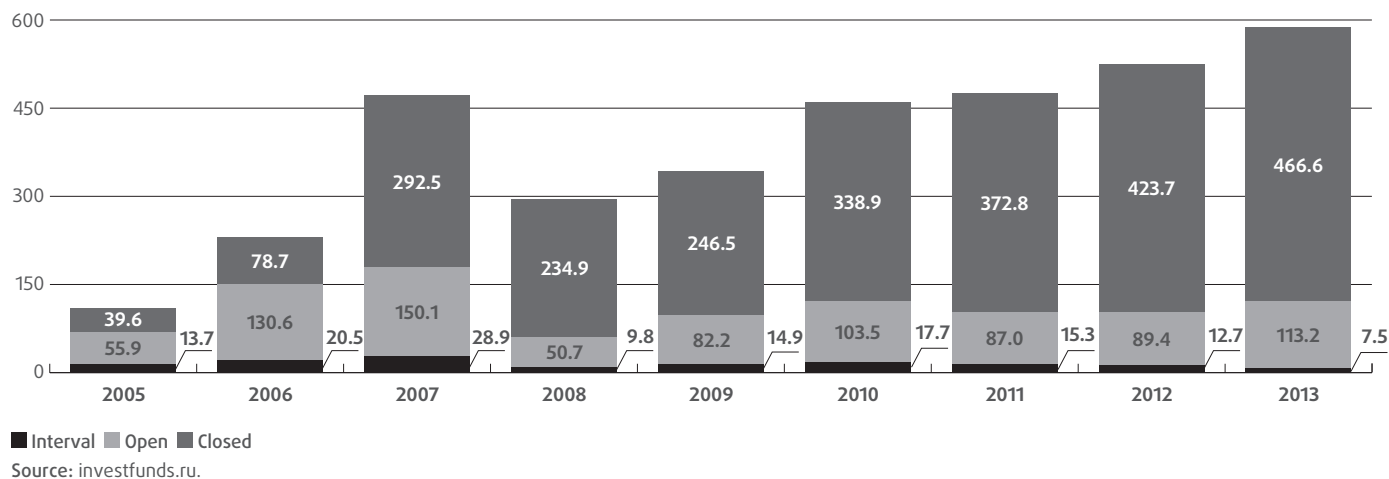
Net asset value of unit investment funds

Figure 54

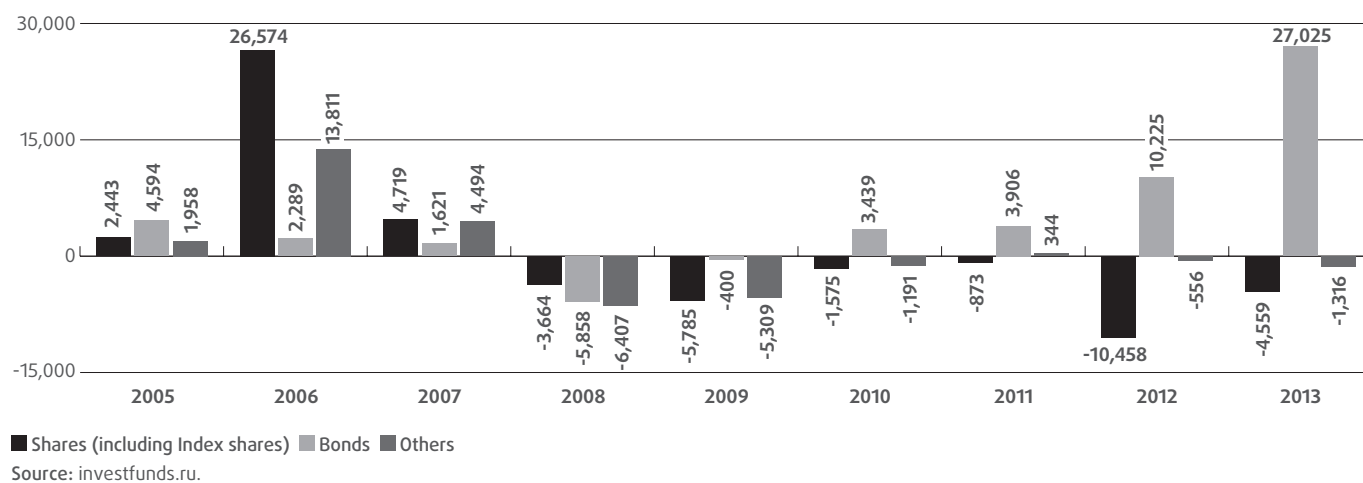
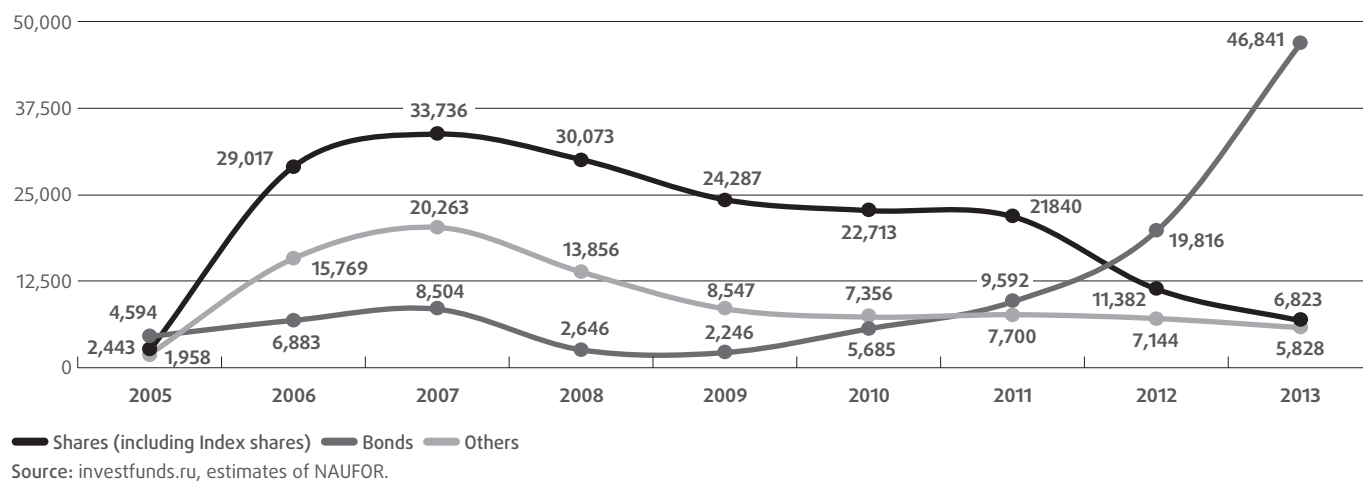
Net capital raised by open UIF, million Rubles

Figure 55

Accumulated capital flow raised by open UIF, million Rubles

year over year. In 2013, a decline made up 40.1%.

Such dynamics resulted in a significant structural change in the net asset value. Figure 56 shows a graph of changes in the categories structure of open and interval funds.

Until 2010, a significant share accounted for equity funds (the peak value made up 68.2% in 2010), and then the share of bond funds began to increase. By the end of 2013, the bond funds made up 50.3% of the market, and equity funds accounted for 35.8%. The growth in bond funds volume has made up 379.1% since 2010, while equity funds decreased by 47.5% over the same period.

The main element in the structure of a unit investment fund is a management company that offers units to unit investment funds and is responsible before their owners under the Russian law. Figure 57 provides the consolidated data on the number of management companies controlling UIF.

In 2013, the number of management companies decreased by four organizations (1.0% in relative terms). Compared to 2008, when the number of management companies was the greatest, reduction in the number made up 27.4% (by 151 organizations).

The Russian market of collective investments is characterized by high concentration of investment of resources

by management companies. Figure 58 provides the data on distribution of assets between management companies.

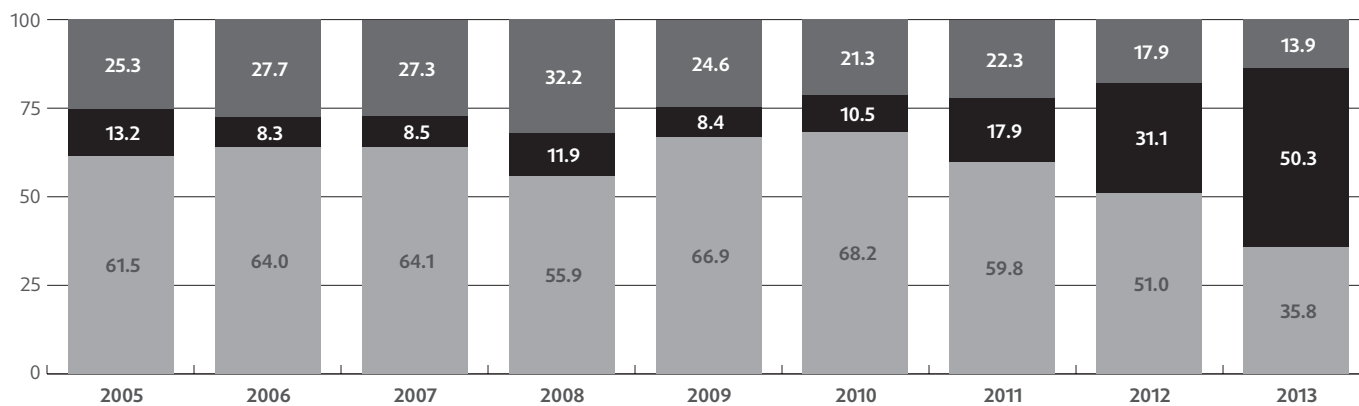
Since 2007, the share of the ten largest management companies (as regards open and interval unit investment funds) in the total volume of the market followed an upward trend. In 2013, the growth made up 9.2%, and for the whole period since 2007, this index has grown by 27.3%.

Table 20 shows a list of the ten largest management companies (as regards open and interval unit investment funds) compiled at the end of 2013.

At the end of 2013, the net assets value of the ten largest management

Figure 56

Categories structure of open and interval unit investment funds

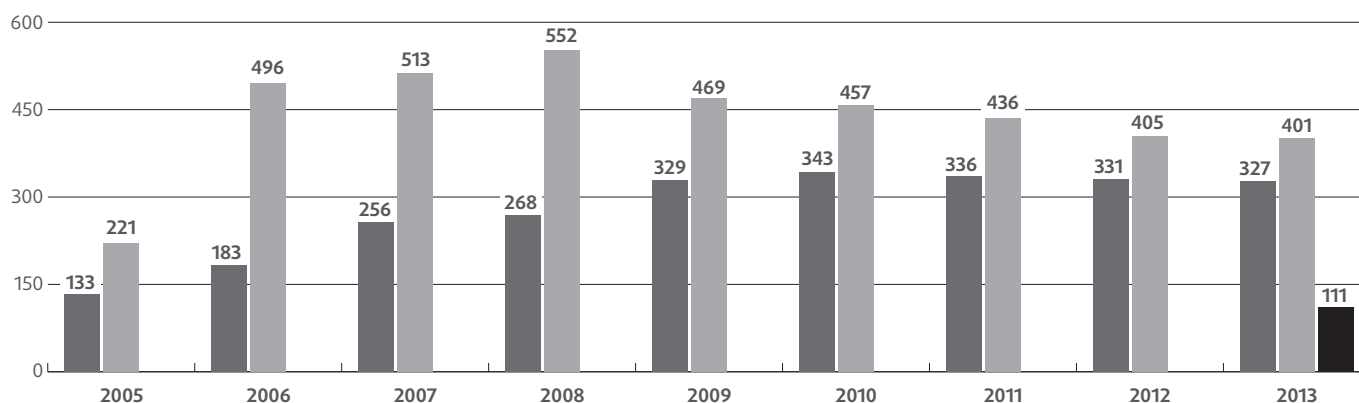


■ Shares (including Index shares) ■ Bonds ■ Mixed

Source: investfunds.ru, estimates of NAUFOR.

Figure 57

Number of management companies controlling unit investment funds

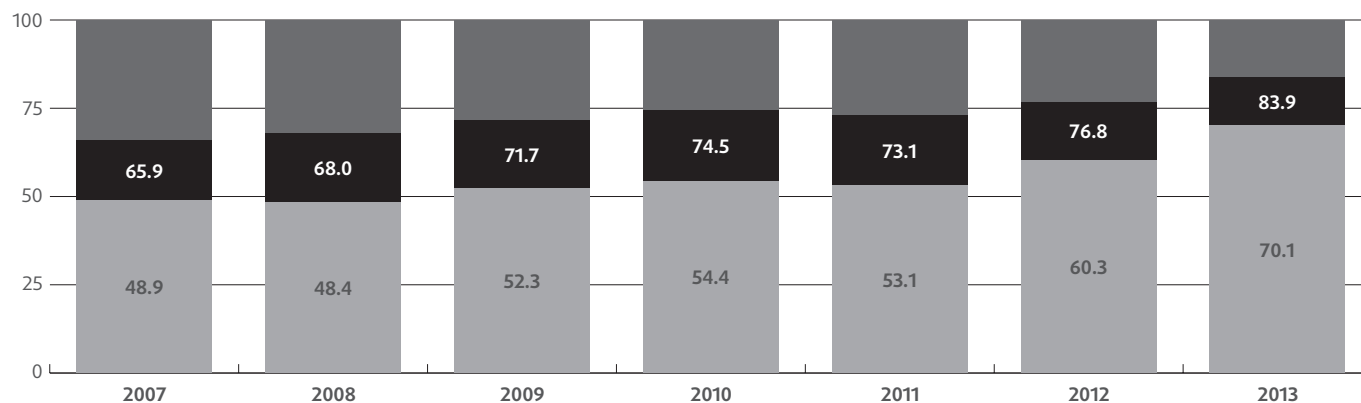


■ MC controlling UIF ■ Total number of licenses issued to MC ■ MC owning license for trust management

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

Figure 58

Share of the ten largest management companies



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

Source: investfunds.ru, estimates of NAUFOR.

Table 20

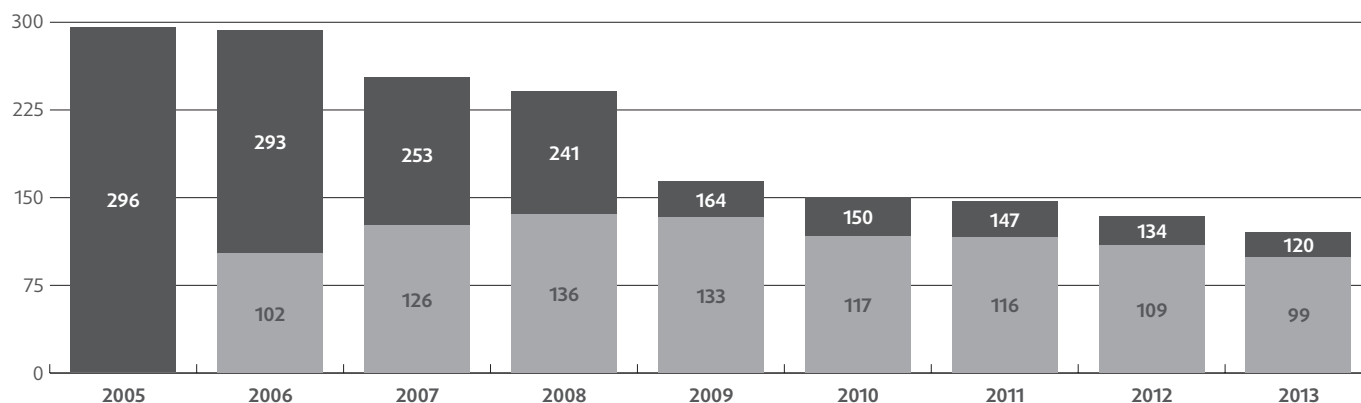
Largest management companies

No.	Name of management company	NAV, million Rubles	Share in the total net asset value, %
1	Sberbank Asset Management	25,972.0	21.5
2	Trust Investment Company	23,854.7	19.8
3	Raiffesen Capital	15,024.4	12.5
4	URALSIB	11,229.1	9.3
5	Alfa-Capital	8,538.6	7.1
6	Capital	3,663.5	3.0
7	VTB Capital Asset Management	3,521.5	2.9
8	Gazprombank Asset Management	3,196.4	2.7
9	TKB BNP Paribas Investment Partners	3,172.9	2.6
10	Ingostrakh – Investments Asset Management	3,055.9	2.5
	Total	101,229.1	83.9
	HH index		1,199

Source: Investfunds.ru

Figure 59

Number of non-state pension funds



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

Source: Bank of Russia, Pension Fund of Russia

companies made up 83.9% of the total market of open and interval funds.

In this case, HH index was 1,199 points.

2.2.4. Non-State Pension Funds

The quantitative composition of NPF industry has been reducing slowly year by year. According to the data of the Bank of Russia, at the end of 2013 120 organizations were licensed as non-state pension funds (see Figure 59) as against 134 in the previous year (a reduction made up 10.5%). Voluntary funds sent to NPF form pension reserves. The people entitled to the funded component of a retirement pension can transfer their savings to NPF licensed to carry out the mandatory pension insurance activity. There were 99 of such NPF at the end of 2013 as against 109 in the previous year (a reduction made up 9.2%). It should be noted that during the period under study a trend towards increase of the share of NPF licensed to carry out mandatory pension insurance in the total number of registered funds was observed. Thus, in 2006 such share made up 34.8% and reached its maximum of 82.5% in 2013.

The information on the investment resources of NPF associated with non-state pension schemes (pension reserves) and mandatory pension insurance (pension savings) is shown in Figure 60.

In 2013, the investment resources of NPF increased by 492.7 billion Rubles

and made up 1,919.9 trillion Rubles. Pension reserves accounted for 43% of the amount (55% at the end of 2012). The growth rate of pension savings was much higher: increased savings at the end of the year made up 419.1 billion Rubles as compared to 73.6 billion Rubles for reserves. Nevertheless, in comparison to GDP, investment resources of Russian non-state pension funds remained insignificant with a little less than 3%.

2.2.5. Investment of Pension Savings

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

According to the data of the PFR, 49 private management companies and state management company JSC State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank) are licensed to manage the pension savings.

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

The expanded portfolio is formed from government bonds of the RF, sub-federal bonds, corporate bonds, mortgage securities, bonds of international financial organizations, as well as deposits in

Rubles and foreign currencies in the Russian credit organizations. The funds from the state securities portfolio can be invested solely in government securities of the RF, corporate bonds and cash funds in Rubles and foreign currencies on accounts in the Russian credit organizations. Private management companies have wider investment opportunities, including at the expense of equity securities.

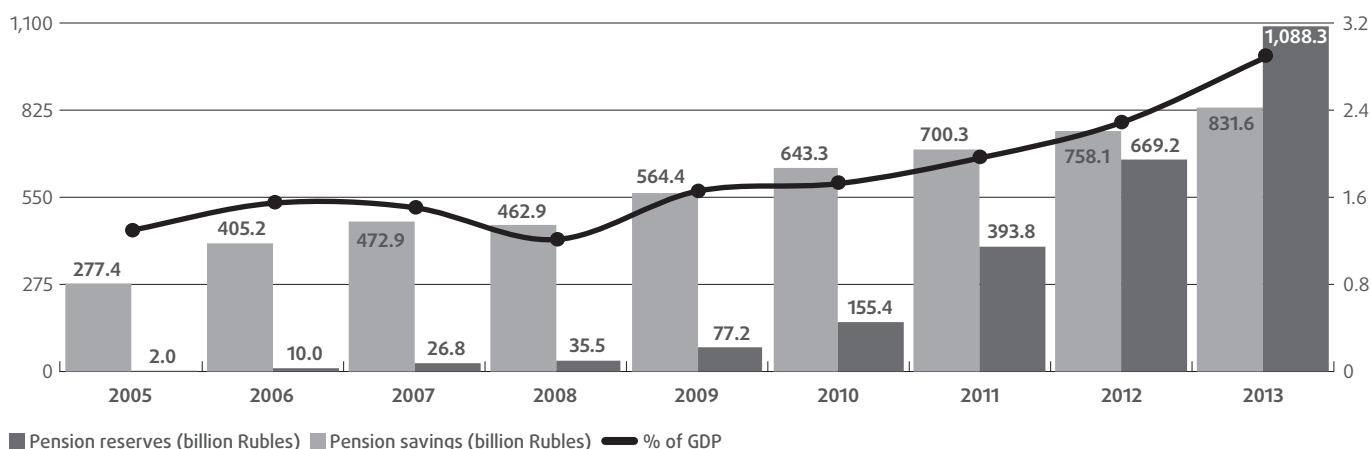
Table 21 provides data on the net assets value of the pension savings at the disposal of Vnesheconombank and private management companies in 2005–2013.

Over 98% of the pension savings of the insured individuals transferred for trust management to management companies are at the disposal of Vnesheconombank, the above index demonstrating a slight upward trend. The value of net assets managed by the state management company in 2013 reached 1,856 trillion Rubles, a 13.5% increase as compared to the previous year. The expanded portfolio constitutes the main investment portfolio of the state management company, with the state securities portfolio vanishingly small when compared to the above.

The value of net assets managed by private management companies at the end of 2013 increased by almost 10.3% compared to the similar period of the previous year, reaching 37.5 billion Rubles.

Figure 60

Investment resources of NPF



Source: Bank of Russia, Pension Fund of Russia.

Table 21

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

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

Sources: VEB, PFR, estimates of NAUFOR.

2.2.6. Commercial Banks

Many Russian banks hold licenses of professional securities market participants or act as investors.

Consolidated data on the volumes of various securities types held as assets by credit organizations are shown in Table 22.²⁰

In absolute terms, securities in assets of credit organizations at the end of 2012 were valued at almost 7,726 billion Rubles, with the annual growth of 9.8%. Currently, the banking system is the largest institutional investor, with the securities in bank assets exceeding 11% of GDP.

In 2013, the number of debt securities increased to 78.5% of the total securities portfolio of credit organizations, which is beyond their usual range of 74–75%, and the percentage of shares (without taking into account shares of subsidiaries and affiliates) accounted for 10.5%.

Table 22

Securities in the assets of credit organizations in 2005–2013, billion Rubles

Period	Securities* (TOTAL)	% GDP	including			
			Debt instruments*	Equity securities*	Controlling portfolio in subsidiary and affiliate JSC	Discounted bills
2005	1,400.1	6.5	998.0	127.1	64.9	210.1
2006	1,745.4	6.5	1,251.4	185.0	79.8	229.2
2007	2,250.6	6.8	1,541.4	316.3	141.9	251.1
2008	2,365.2	5.7	1,760.3	193.4	212.0	199.5
2009	4,309.4	11.1	3,379.1	411.8	284.5	234.0
2010	5,829.0	12.9	4,419.9	710.9	368.2	330.0
2011	6,211.7	11.4	4,676.2	914.4	387.3	233.9
2012	7,034.9	11.3	5,256.1	791.6	579.4	398.8
2013	7,726.3	11.6	6,061.1	808.3	599.1	257.8

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

Source: Bank of Russia.

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

2.2.7. Non-Residents

Figure 62 shows the information on the average annual number of unique non-resident customers of MICEX Stock Exchange. Since 2011, the Moscow Exchange Group has altered the format of data submitted on the customer base associated with non-residents. Apparently, the information on both non-resident individuals and legal entities began to be disclosed. In view of the above, the graph in Figure 61 is of composite nature.

During the period since 2008, the number of non-residents being the customers of the MICEX Stock Exchange has been growing. By the end of 2013, the number of unique customers of

the MICEX Stock Exchange being non-resident legal entities increased by 17.6% (as compared to 2012) and made up 4,040 companies. During the year the number of non-resident individuals increased, at the end of 2013 there were 2,306 individuals, which is 18.3% more than at the beginning of the year.

The number of active non-resident customers (see Figure 62) was much smaller than the total number of non-resident customers of MICEX Stock Exchange. Since the start of separate information disclosures for non-resident individuals and legal entities, a reduction in the share of active customers was observed. In 2013 the share of individuals decreased from 11.2 to 7.0%,

and the share of legal entities – from 14.9 to 11.4%.

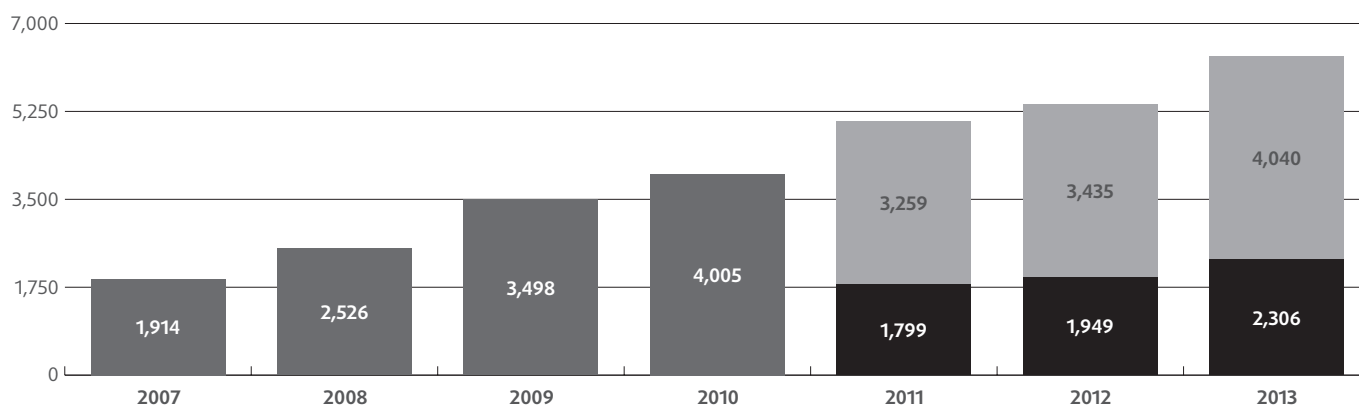
Thus, in 2013, the annual average number of active customers of the MICEX Stock Exchange amounted to 162 non-resident individuals (a decrease compared by 5.3% to the previous year) and 462 legal entities (a decrease by 6.8% compared to the previous year).

Participation of non-residents in transactions in non-government securities have changed depending on the situation on the local and the global markets (see Figure 63).

Starting from mid-2011 and until the end of 2012, participation of non-residents in transactions in the Main Market sector of the Moscow Exchange

Figure 61

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

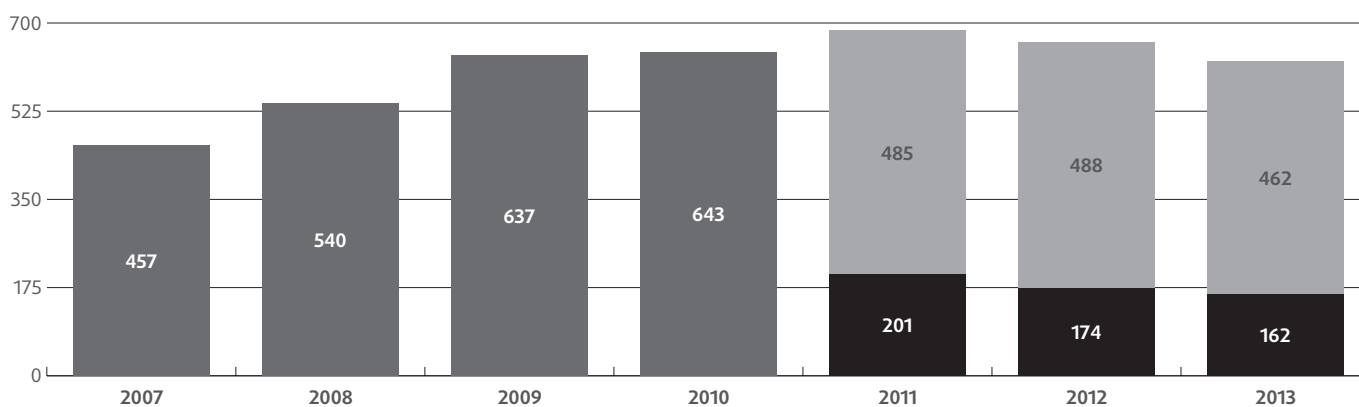


■ Non-residents ■ Non-resident individuals ■ Non-resident entities

Source: Moscow Exchange Group, estimates of NAUFOR.

Figure 62

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

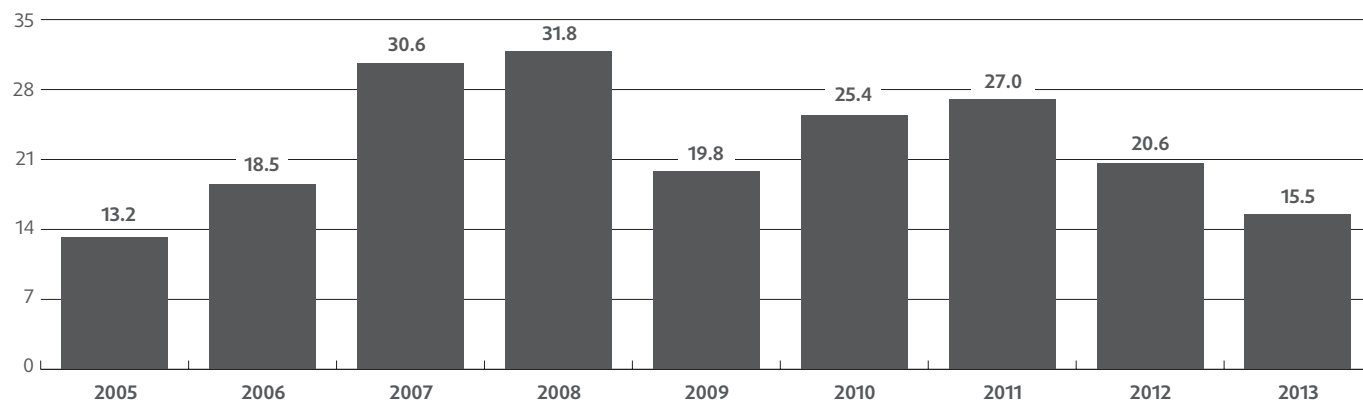


■ Non-residents ■ Non-resident individuals ■ Non-resident entities

Source: Moscow Exchange Group, estimates of NAUFOR.

Figure 63

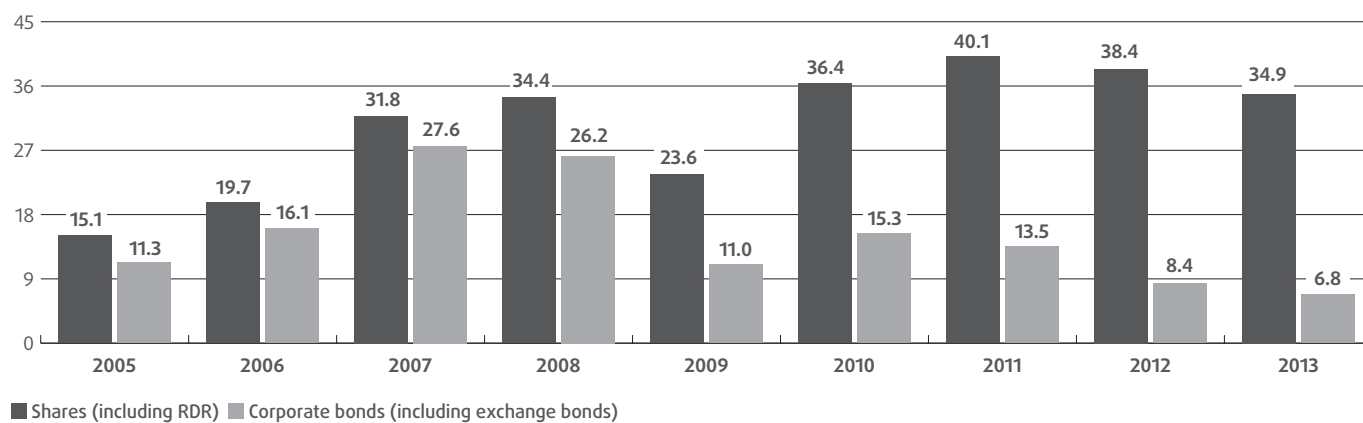
Share of non-residents in the cost of transactions in non-government securities in the Moscow Exchange Group (Main Market sector)



Source: Moscow Exchange Group, estimates of NAUFOR.

Figure 64

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

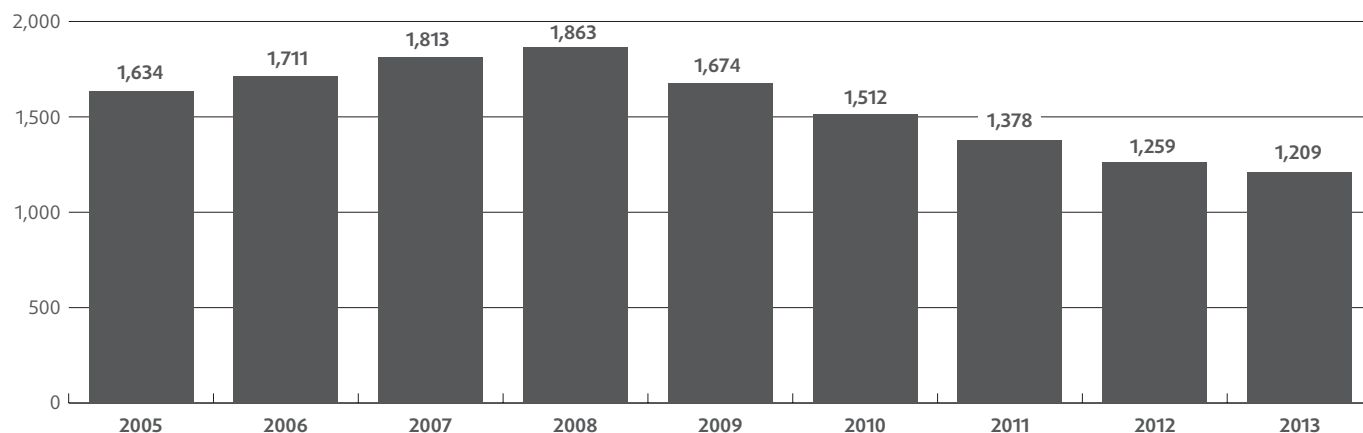


■ Shares (including RDR) ■ Corporate bonds (including exchange bonds)

Source: Moscow Exchange Group, estimates of NAUFOR.

Figure 65

Number of organizations – professional participants of the securities market



Source: Bank of Russia, estimates of NAUFOR.

was steadily decreasing: from 27.0% in 2011 to 15.5% at the end of 2013. Such a low participation of non-residents in transactions in Russian securities was observed only in 2005.

The share of transactions by non-residents with various securities changed: (Figure 64).

The activity of non-residents in transactions in shares on the Moscow Exchange has been traditionally high, except for the drop at the end of 2008 and start of 2009. However, in the past two years, the activity decreased again. In 2013, participation of non-residents in transactions in shares decreased from

38.4 to 34.9%. As for transactions in corporate bonds, a long-term downward trend was observed from the second half of 2008. In 2013, the share of non-residents in transactions in corporate bonds in the Main Market sector of the Moscow Exchange Group dropped to 6.8% as against 8.4% in 2012.

2.3. Professional Participants of Securities Market

2.3.1. General information on the professional participants of securities market

The total number of professional participants of the securities market has been decreasing continually since 2009. However, in 2013, this reduction was not significant at 4.0%, and at end of the year the number of legal entities holding licenses of professional securities market participants in various combinations made up 1,209 companies (see Figure 65)²¹.

2.3.2. Brokers, Dealers, Trustees

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

The total number of organizations holding licenses to brokerage, dealer and securities management activities (for any combinations of licenses) at the end of 2013 made up 1,102 (at the beginning of the year there were 1,163 of such companies). 43.6% of the above are credit organizations. Most (65.1%) of the head offices of professional intermediary participants are located in Moscow.

The most common legal organizational forms of professional intermediary participants include limited liability company (47.5% of the total number of intermediaries), while closed and open joint-stock companies are equally represented (see Table 23)²².

The Bank of Russia is authorized to carry out transactions in securities,

including those on the organized market, without special licenses.

The information on the number of active licenses issued to professional intermediaries is shown in Figure 66, while Figure 46 describes the current combinations of various license types.

The number of valid licenses has been decreasing along with the number of professional intermediary organizations. The greatest reduction in 2011–2013 was observed for licenses for trust management of securities, with the average reduction rate of 12% per annum.

The majority of companies (about 61.2%) hold all the three licenses for broker, dealer and securities management activities. Among the

Table 23

Legal organizational forms of professional securities market participants holding licenses for broker, dealer and trust management activities in 2013

Legal organizational form	Number of companies	Share of the total number, %
Closed joint-stock company	290	26.3
Open joint-stock company	288	26.2
Limited liability company	523	47.5

Source: Bank of Russia, estimates of NAUFOR.

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

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

Figure 66

Licenses held by professional intermediaries

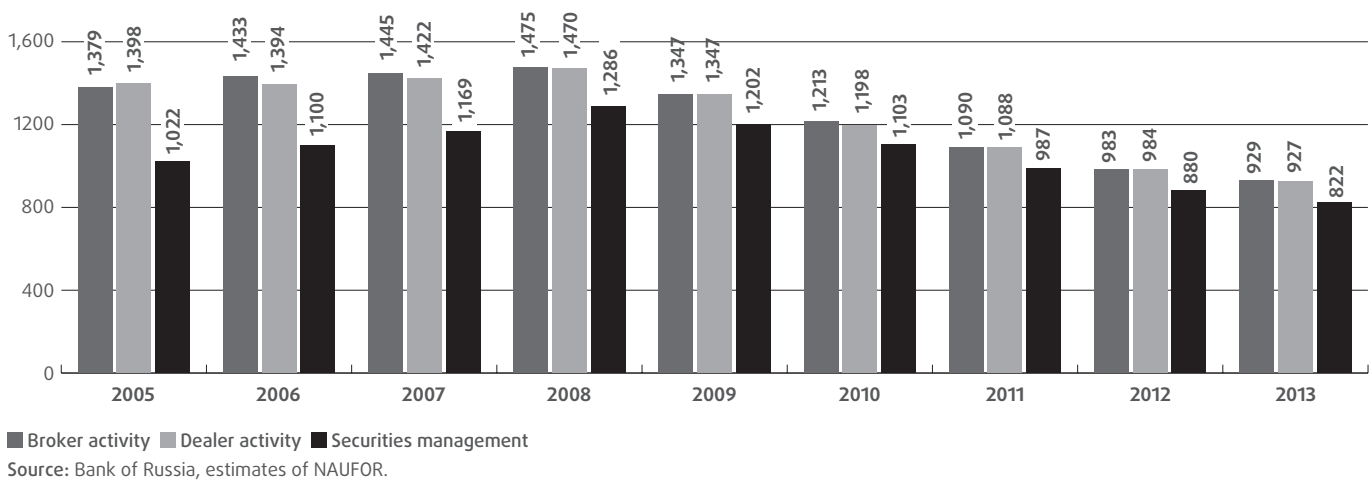


Figure 67

Combination of valid licenses held by professional participants of the securities market in 2013

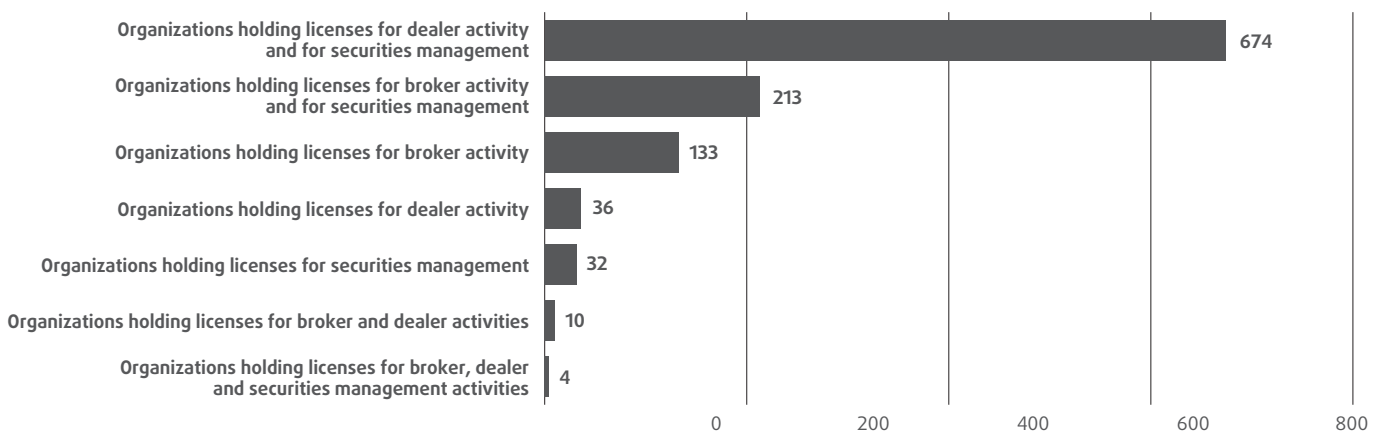
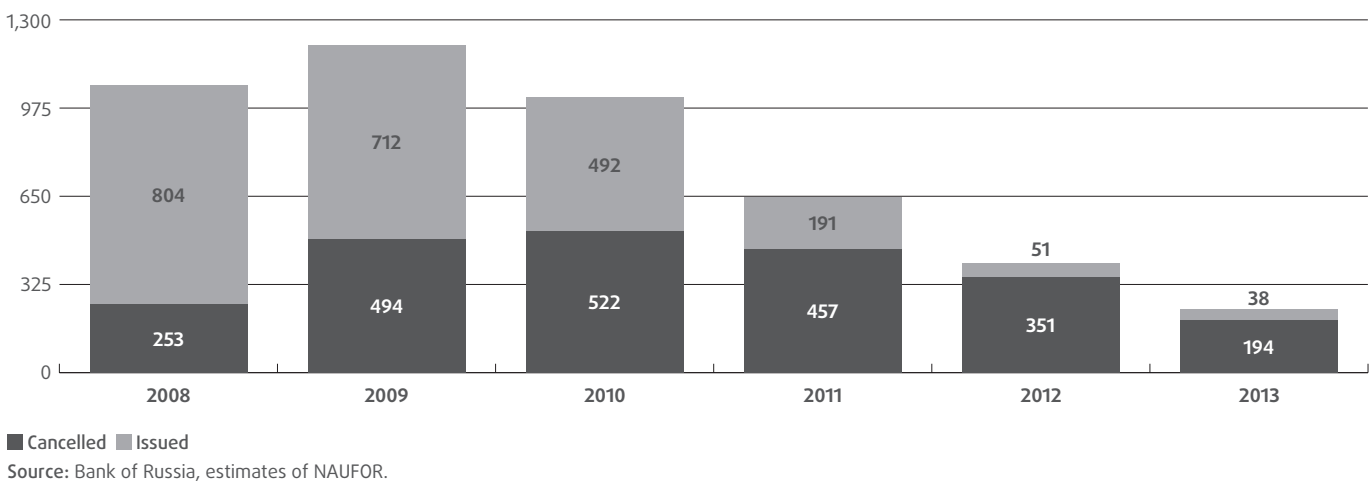


Figure 68

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



companies holding a broker, dealer or securities management licenses, about 65% also hold a depository license.

The number of licenses issued and cancelled varies within a wide range depending on the situation on the securities market and the policy of the regulatory authority, including increasing the capital adequacy standards (2010) and changing the rules for licensing of

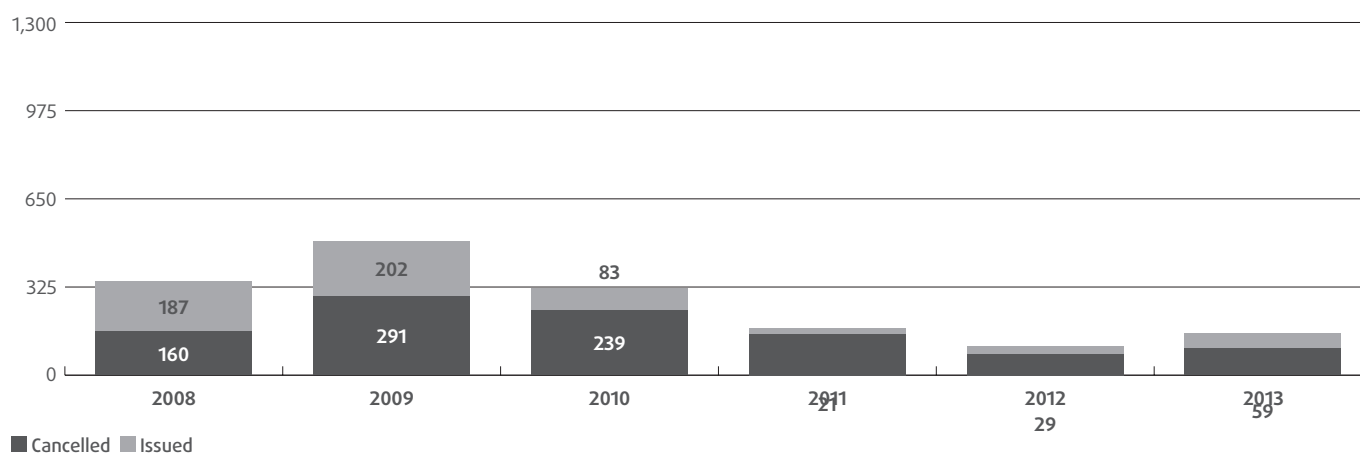
new companies (2012) (see Figures 68 and 69).

At the end of 2013, the number of cancelled licenses decreased by 44.7% as compared to the previous year. In general, in 2013, 291 licenses of professional participant of the securities market were cancelled and 97 were issued, while the total number of intermediaries reduced by 61 companies.

In 2013, 599 organizations participated in trading on the stock market (see more about the markets, sectors and operating modes in Section 2.3.3). Table 24²³ provides a list of the traders that concluded the largest volumes of transactions in non-government securities on the main market of the Moscow Exchange Group in 2013²⁴.

Figure 69

Issue and cancellation of licenses to professional participants of the securities market in the regions, licenses



Source: Bank of Russia, estimates of NAUFOR.

Table 24

List of traders that concluded the largest volumes of transactions in non-government securities on the main market of the Moscow Exchange Group at the end of 2013

Item No.	Name of organization	Transaction volume (purchase+sale), billion Rubles	Share in the total volume, %
1	Bank of Russia	68,448	22.70
2	Sberbank Rossii Group	35,709	11.84
3	VTB Group	22,893	7.59
4	Otkrytiye Group	18,202	6.04
5	Gazprom Group	9,908	3.29
6	Renaissance Group	7,976	2.65
7	BCS Group	7,475	2.48
8	ING BANK (EURASIA) CJSC	5,640	1.87
9	Promsvyazbank JSC	5,634	1.87
10	ALFA-BANK JSC	4,865	1.61
	TOTAL	186,751	61.9
	HH index		708

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

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

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

The concentration of turnover was growing: the share of ten most active operators accounted for 61.9% of the total turnover, while the index was 58.3% in the previous year. The most active trader was the Bank of Russia, and its share increased in 2013: at the end of the year it accounted for 22.7% of the total turnover, while the index was 16.0% in the previous year.

As a result, the value of Herfindahl-Hirschman Index (it determines the concentration degree, HH Index) grew during the year: from 582 to 708. The leading role of the Bank of Russia in the total turnover resulted from its role on the repo market.

The list of the most active traders remained stable: comparing to 2012, it differed by two items only.

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

In transactions in shares, the concentration of traders is traditionally higher than for the main market in general. The top ten companies ensured 68.2% of the transaction volume, which is slightly lower than 70.7% in the previous year. HH index dropped drastically from 861 to 429.

Table 25

List of traders that concluded the largest volumes of transactions in shares on the main market of the Moscow Exchange Group at the end of 2013

Item No.	Name of organization	Transaction volume (purchase+sale), billion Rubles	Share in the total volume, %
1	Sberbank Rossii Group	15,228	16.1
2	Otkrytiye Group	8,748	9.3
3	VTB Group	7,587	8.0
4	Renaissance Group	7,350	7.8
5	BCS Group	5,969	6.3
6	Bank of Russia	4,830	5.1
7	FINAM Group	4,370	4.6
8	Gazprom Group	3,833	4.1
9	Promsvyazbank JSC	3,639	3.9
10	ING BANK (EURASIA) CJSC	2,893	3.1
TOTAL		64,448	68.2
HH Index			429

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

Table 26

List of traders that concluded the largest volume of transactions in corporate bonds on the main market of the Moscow Exchange Group at the end of 2013

Item No.	Name of organization	Transaction volume (purchase+sale), billion Rubles	Share in the total volume, %
1	Bank of Russia	55,509	30.2
2	Sberbank Rossii Group	16,123	8.8
3	VTB Group	14,682	8.0
4	Otkrytiye Group	8,689	4.7
5	Gazprom Group	5,944	3.2
6	UniCredit Group	5,328	2.9
7	BC REGION LLC	3,523	1.9
8	Vnesheconombank Group	3,457	1.9
9	Ursa Capital LLC	3,336	1.8
10	Raiffeisenbank CJSC	2,591	1.4
TOTAL		119,184	64.7
HH Index			1,057

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

The list of the most active traders in shares remained stable, as well: in 2013, it changed by one item only.

In the corporate bonds sector, the concentration of turnovers among traders was focused on the top ten participants, their share increasing slightly over the year: from 56% to 64.7%, and the Bank of Russia ensured 30.2% of transactions in corporate bonds. In the previous year, its share was much smaller at 23.9%. Accordingly, the HH index grew drastically from 762 to 1057.

Table 27 provides a list of traders with the largest volumes of transactions in non-government securities in the Standard and Classica sectors of the Moscow Exchange Group in 2013. The total of 100 organizations traded within the above sectors in 2013.

The Standard and Classica sectors used to function as part of RTS Group. The concentration of traders' transactions on the stock exchange market of RTS grew rapidly during the period preceding the merger, with

ten traders accounting for 91.8% of turnover in 2012 and with the HH Index of 1320.

In 2013, the share of the ten most active traders decreased to 86.4%, while the HH index, on the contrary, increased significantly up to 1957. The list of the main operators remained without material changes.

High concentration of transactions among clearing firms on the derivatives market of the Moscow Exchange Group was also typical (see Table 28).

Table 27

List of traders with the largest volumes of transactions in non-government securities in the Standard and Classica sectors of the Moscow Exchange Group (at the end of 2013)

Item No.	Name	Transaction volume (purchase+sale), billion Rubles	Share in the total turnover, %
1	OTKRYTIYE Brokerage House JSC	153.0	40.7
2	Sberbank CIB CJSC	33.6	9.0
3	FINAM Investment Company CJSC	31.4	8.4
4	KIT Finance LLC	23.8	6.3
5	ALOR+ LLC	21.0	5.6
6	Investment Firm OLMA JSC	19.8	5.3
7	CentroCredit Joint Stock Commercial Bank CJSC	12.2	3.2
8	IC ALMAZ Brokerage House CJSC	10.8	2.9
9	Investment Company IT Invest JSC	9.9	2.6
10	Deutsche Bank LLC	8.9	2.4
TOTAL		324.4	86.4
HH index			1,957

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

Table 28

List of traders with the largest volume of transactions in derivatives contracts on the derivatives market of the Moscow Exchange Group (at the end of 2013)

Item No.	Name of organization	Transaction volume (purchase+sale), billion Rubles	Share in the total volume, %
1	OTKRYTIYE Brokerage House JSC	20,438	21.1
2	BCS Company LLC	18,313	18.9
3	Investment Company IT Invest JSC	9,934	10.3
4	FINAM Investment Company CJSC	6,582	6.8
5	Renaissance Online LLC	3,634	3.8
6	ALOR+ LLC	3,155	3.3
7	ALFA-BANK JSC	3,124	3.2
8	VTB Bank JSC	2,914	3.0
9	JSC IC ZERICH Capital Management	2,817	2.9
10	Sberbank CIB CJSC	2,196	2.3
TOTAL		73,107	75.5
HH Index			1,038

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

In 2013, the top ten of 133 clearing firms (85 general and 48 specialized ones) trading on the derivatives market accounted for 75.5% of the trade volume for all types of derivatives contracts, with the HH Index at 1,038. The share of the most active trader made up 21.1% of the total turnover. In comparison to 2012, the concentration indices decreased slightly.

2.3.3. Trading and Settlement Infrastructure

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

- stock exchanges
- clearing organizations
- settlement depositories

The infrastructure includes credit organizations acting as settlement organizations.

According to the Bank of Russia, in 2013, eight companies had licenses of the stock exchange and seven ones held licenses of the clearing organization (including three acting as a central counterparty).

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

Moscow Exchange Group

Moscow Exchange Group constitutes a vertically-integrated trading and settlement infrastructure with the

parent organization MICEX-RTS Moscow Exchange JSC (abbreviated as Moscow Exchange JSC). At the end of 2013, 1,825 persons were recorded as holders of ordinary shares in the above company, the major shareholders including the following:

- Bank of Russia – 22.474% of votes
- Sberbank of Russia OJSC – 9.783% of votes
- Vnesheconombank – 8.043% of votes
- European Bank for Reconstruction and Development – 5.809% of votes
- Chengdong Investment Corporation – 5.381% of votes

Moscow Exchange OJSC, in addition to its consolidating role in the group, is a trade organizer on the derivatives market.

At the beginning of January 2013, the functions of the group's organizations were distributed as follows:

➤ **MICEX Stock Exchange CJSC**

MICEX Stock Exchange CJSC is a trade organizer in all sectors of the stock market and on the market of government securities.

➤ **Non-Banking Credit Organisation National Settlement Depository CJSC**

NCO NSD CJSC is a settlement depository and carries out monetary settlements on the stock market for all sectors: Main Market, Classica and Standard. In the Classica sector (in the 'delivery versus payment' mode), NSD, in addition to its settlement functions, is also responsible for clearing.

In 2012, NSD acquired the status of central depository.

NSD accounts include records of the guarantee and insurance funds for the derivatives market. In addition, NSD provides settlement services for all types of equity securities on the OTC market.

➤ **National Clearing Centre Joint-Stock Commercial Bank CJSC**

NCC JSCB CJSC acts as a clearing organization and the central counterparty on the stock market for the Main Market and Standard sectors, as well as on the derivatives market.

The equity capitals of separate organizations comprising Moscow Exchange Group are shown in Table 29.

The equity capitals of the companies comprising Moscow Exchange Group, directly ensuring functioning of the stock and derivatives markets made up 74.9 billion Rubles at the end of 2013, which is 18.1% higher than in the previous year. The most capitalized company in the group is the parent organization, Moscow Exchange JSC, its equity capital making up 37,6 billion Rubles. Shares of this issuer are traded on the open market, and market capitalization exceeded its estimated capital by four times. The largest increase in capitalization by 10 billion Rubles was recorded for DCC CJSC (59% in relative terms).

In 2013, Moscow Exchange Group maintained several markets and trading modes.

Stock market of Moscow Exchange Group consisted of three sectors:

Table 29

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

Period	Moscow Exchange JSC (Derivatives market)		MICEX SE CJSC (stock market)	NSD CJSC (settlements)	NCC CJSC (clearing)	Total
	Equity capital	Market capitalization				
Q4 2011	17,065		946	5,410	10,123	33,544
Q1 2012	18,048		1,044	6,325	10,987	36,404
Q2 2012	20,100		1,203	5,020	11,103	37,426
Q3 2012	20,850		743	5,642	12,908	40,144
Q4 2012	23,737		1,012	6,003	13,168	43,920
Q1 2013	35,400	109,277	1,285	6,348	14,927	57,962
Q2 2013	34,323	127,439	813	6,113	16,388	57,637
Q3 2013	37,418	146,491	1,062	6,861	18,085	63,425
Q4 2013	37,634	154,031	1,222	7,308	28,755	74,920

Source: Moscow Exchange Group.

- Main Market sector;
- Standard sector;
- Classica sector.

MICEX SE CJSC is the trade organizer for all sectors. In September 2013, the Main Market sector switched from delivery versus payment mode (T+0) to partial pre-depositing mode settlements (T+).

Main Market Sector is the exchange market of shares, corporate, government, sub-federal and municipal bonds and investment units where trading is conducted both with and without the participation of the central counterparty. The functions of a clearing organization and the central counterparty are performed by JSCB NCC CJSC. Upon transition to a new mode, the settlements are performed subject to partial preliminary collateral and transaction execution on the second day after conclusion (settlement cycle T+2). Cash and security settlements are carried out by NCO NSD CJSC, with all settlements performed in Rubles.

Trading in the Main Market sector takes place from 9:30 to 19:00 in various trading modes, including:

- T+2 Market:
 - Auction mode T+;
 - Negotiated deals mode with the central counterparty;
 - Odd lot mode.
- Repo market with the central counterparty:
 - Repo transaction mode with the central counterparty – transactions open to any counterparties;
- T0 Market:
 - Auction mode;
 - Negotiated deals mode.
- Repo market:
 - Repo transaction mode in shares;
 - Repo transaction mode in bonds.
- Repo market with the Bank of Russia:
 - Repo transaction mode with the Bank of Russia, auction market.

Standard sector, a share exchange market with a central counterparty, and Classica sector, direct share market with possible settlements in USD, are not currently representative.

Derivatives market of Moscow Exchange Group was formed based on the FORTS derivatives market that used to function in RTS Group and the MICEX derivatives market that used to function in MICEX Group, which merged in 2012.

The derivatives market of Moscow Exchange is based on the anonymous order auction (order-driven market). Quotations and settlements are made in Rubles. Moscow Exchange JSC is the trade organizer on the derivatives market. JSCB NCC CJSC acts as the clearing center and the central counterparty, as well as the settlement organization. In terms of organization, the derivatives market is divided into the following four sections:

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

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

A special trading platform called Innovations and Investments Market also operates in Moscow Exchange Group.

Innovations and Investments Market (IIM) has existed since 2007; it is oriented on high-tech companies and designed for their financing using exchange mechanisms, including by means of private placements among funds and qualified investors.

By the end of 2013, 26 share issuers were placed on the market, including three of them during the year (Zhivoy Ofis JSC, Dalenergomash JSC, TIG AESSEL JSC). This market also includes nine venture funds, including one (Regional Venture Closed Unit Investment Fund of Tver Region) that was licensed for trading in 2013. In the same year, securities of two foreign issuers (QIWI Plc and FinEx MSCI USA IT UCITS ETF) and bonds of two companies (RUSNANO and PJSC GEOTECH Seismic Services) were placed on the market.

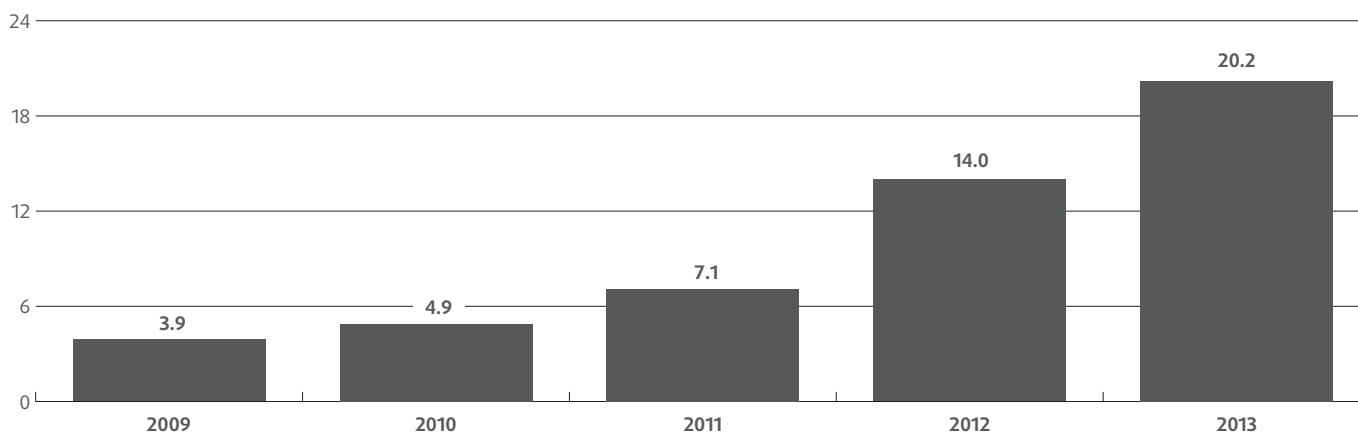
IIM trade volumes are insignificant with an upward trend (see Figure 70).

At the end of 2013, the volume of trading in all financial instruments presented on the IIM made up to 20.2 billion Rubles, which was 44.8% higher than in the previous year.

Overall results of trades in corporate securities and futures contracts²⁵ in

Figure 70

Trade volume on the Innovation and Investment Market, billion Rubles



Source: Moscow Exchange Group.

MICEX Group in 2005–2011, taking into account all modes, are shown in Table 30.

The total volume of transactions in all types of non-government securities in all sectors of the stock market of the Moscow Exchange Group and in all trading modes made up 150,749 billion Rubles at the end of 2013, which is 32.7% higher than in the previous year. The top

gainers were investment units, corporate, sub-federal and municipal bonds. Shares demonstrated extremely low growth – 1.6% only.

The derivatives market of Moscow Exchange Group has continued declining for the second year in a row. The volume of transactions in derivative financial instruments for all types of underlying assets made

up 48,415 billion Rubles at the end of 2013, which was 3.1% less than in the previous year.

Shares, corporate, sub-federal and municipal bonds constitute the basis for the exchange turnover of non-government securities on the stock market of Moscow Exchange Group. The share of other types of securities is insignificant (see Figure 71²⁶).

Table 30

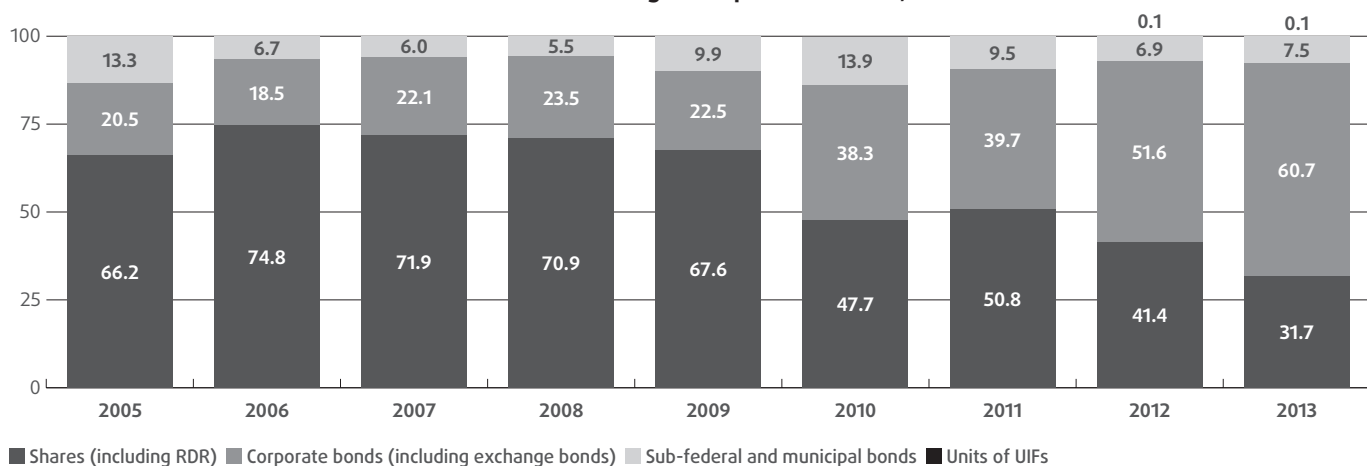
Results of trade in non-government securities and derivative contracts in Moscow Exchange Group in 2005–2013 (billion Rubles)

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

Source: Moscow Exchange Group.

Figure 71

Structure of trade on the stock market of Moscow Exchange Group in 2005–2013, %



²⁵ Auction mode, negotiated deals mode, repo transactions and initial offerings are taken into account. All types of the underlying assets are taken into account for the derivatives market.

²⁶ Auction mode, negotiated deals mode, repo transactions and initial offerings are taken into account.

In 2013, the structure of the exchange turnover of securities, continued reducing in the percentage of shares and increasing in the share of corporate bonds. Thus, in 2005, shares accounted for 66.2% of the total turnover and only for 31.7% in 2013. The share of corporate bonds has increased from 20.5 to 60.7% during this year.

Figures 72 and 73 show graphs characterizing the shares of auction mode, negotiated deals mode and repo

transactions mode of trading in shares and corporate bonds on the stock market of Moscow Exchange Group.

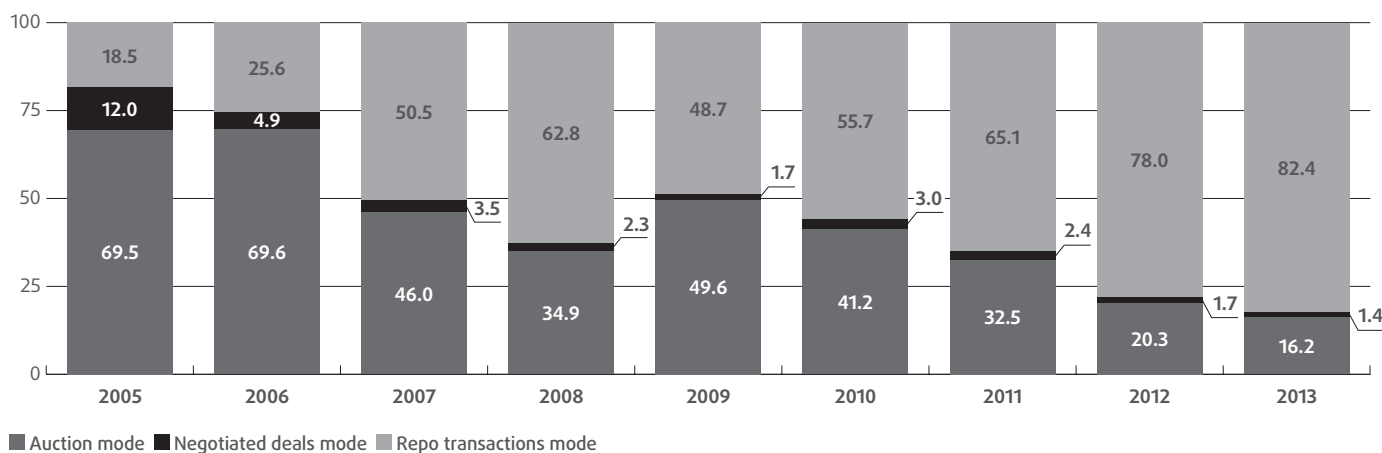
Reduction in the volume of auction mode and increase in the share of repo transactions were a long-term trend for transactions in shares on the domestic organized market. Thus, from 2005 to 2013, the share of auction mode in the total transactions volume has decreased from 69.5 to 16.2%, while the share of

repo transactions mode has increased, on the contrary, from 18.5 to 82.4%. In 2013, negotiated deals mode occupied the remaining niche making up 1.4%.

As regards transactions in corporate bonds, by 2013 the share of repo transactions became prevailing amounting to 93.1%, the share of auction mode reduced to 1.9%, and negotiated deals mode which prevailed in 2005, declined to 4.9%.

Figure 72

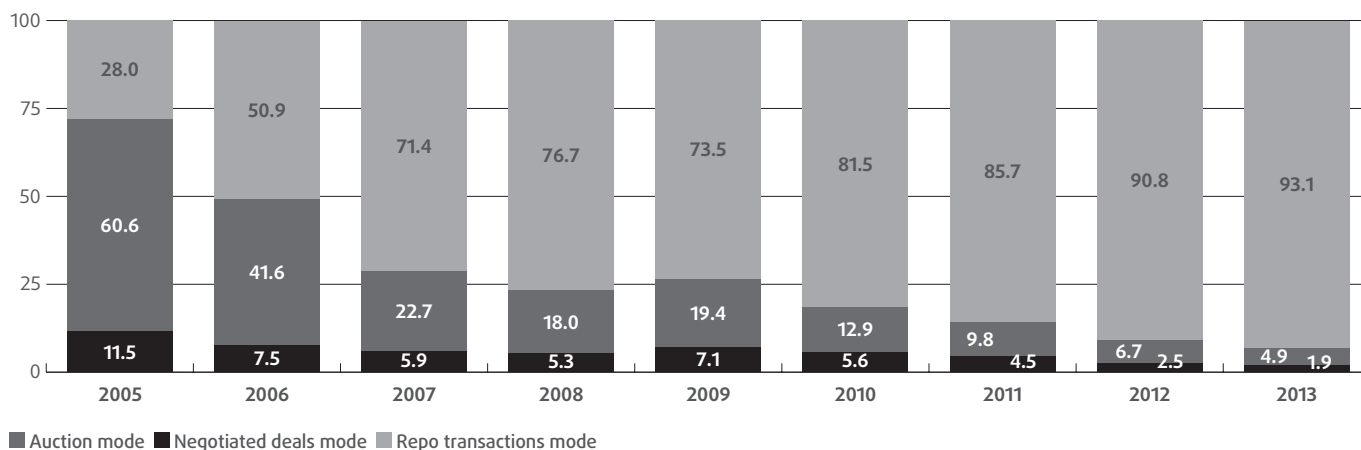
Structure of trading mode for shares on the stock market of Moscow Exchange Group in 2005–2013, %



Source: Moscow Exchange Group, estimates of NAUFOR.

Figure 73

Structure of transactions in corporate bonds on the stock market of Moscow Exchange Group in 2005–2013, %



Source: Moscow Exchange Group, estimates of NAUFOR.

3. Legislative Framework

The regulatory legal framework in the sphere of the securities market in the Russian Federation is formed by several laws (On Securities Market, On Protection of Rights and Legal Interests of Investors in the Securities Market, On Mortgage Securities, On

Joint-Stock Companies) which define the general rules applicable to the securities market, as well as by-laws which establish the special norms. The operation of individual institutions is regulated by special laws: «On investment funds», «On non-state

pension funds», «On investments for financing of the funded component of retirement pension», «On the savings and mortgage system of housing provision for servicemen», which are also supported by significant volumes of by-laws.

3.1. Taxation on the Securities Market

1. From January 1, 2013, the amendments to the Civil Code (Article 149), according to which the services rendered by registrars, depositories, including specialized depositories and the central depository, dealers, brokers, securities managers, management companies of investment funds, unit investment funds and non-state pension funds, clearing organizations and trade organizers, based on the licenses for the respective activities, shall be exempt from value added tax (VAT) entered into force.

On August 31, 2013, the Decree of the Government Russia defining the list of additional services directly related to the activities of such organizations was signed. The list included services

of a broker for providing prices of derivatives contracts, maintaining supply and demand on trade in financial instruments, organization of securities issues, including consulting, services of an agent for issuing investment units, financial consulting, functions as a certifying center, etc.

These related services as defined in the list of the Government of Russia, shall be also exempt from VAT from January 1, 2013.

2. On December 3, 2013, the amendments²⁷ to the Tax Code of the Russian Federation concerning taxation of income on securities entered into force.

The cascade system of paying income on securities implemented on the Russian

financial market involves separation of duties on transferring payments between the issuer and the depository depending on the place where the rights to securities are accounted. According to the new rules, the issuer shall directly perform the duty on transferring dividends on shares and payments on registered bonds to holders of such securities and other authorized persons, in case the rights of such persons to the relevant securities are accounted on a personal account in the register.

In case the rights to the securities are accounted in the depository, the issuer shall make payments to the depository, and the depository upon receiving such payments shall transfer them to its depositors.

²⁷ Federal Law No. 306-FZ dated November 2, 2013 On Amending the Parts One and Two of the Tax Code of the Russian Federation and Certain Legislative Acts of the Russian Federation.

In order to optimize taxation of payments on securities issued by Russian organizations, in some cases, the functions of a tax agent may be imposed on the depository which transfers payments on securities to its depositors. For individuals, the depository shall perform such functions both in case the rights to securities of Russian issuers are accounted on the owner's depository account and in case the rights of individuals to state and/or municipal securities and securities of Russian issuers in the foreign organizations operating in the interests of third parties and holding relevant accounts with the depository are accounted. The depository shall be a tax agent for foreign organizations the rights of which to securities of Russian issuers are accounted on the holder's depository account, as well.

3. On December 28, 2013, the Federal Law²⁸ On Amending Article 27.5–3 of the Federal Law On Securities Market and Parts One and Two of the Tax Code of the Russian Federation entered into force.

The law provides for introduction of investment tax deductions allowing the citizens to receive tax benefits in the form of exemption from personal income tax at investing in instruments of the Russian stock market from January 1, 2014.

In determining the tax base size the taxpayer will be able to get a tax deduction in the amount of positive financial result gained on sale (redemption) of the securities purchased after January 1, 2014 and owned by the taxpayer for more than three years. This benefit will apply to the securities admitted to trading of the Russian trade organizer on the securities market as well as to the investment units of unit investment funds regardless of whether they are traded on the organized trades or not. The law also shall set forth the procedure for determining the maximum amount of a tax deduction provided to the taxpayer.

Other tax incentive actions are related to introduction of individual investment accounts (IIA) from January 1, 2015. Two

options for taxation of income on IIA are set as may be chosen by the taxpayer being the account holder.

In accordance with the first option, the taxpayer will be able to apply annually to tax authorities to get a deduction on personal income tax in the amount which was placed with the account not exceeding 400 thousand Rubles. The second option involves refusal of annual return of the personal income tax on the funds placed with the account; however, at closing IIA (at least after three years), the taxpayer will get a deduction on personal income tax on the total amount of income received from the investment.

The total amount of the funds to be placed with IIA in both cases is limited to 400 thousand Rubles a year, and the number of IIA opened per citizen is limited to one.

The law shall set forth no additional restrictions to IIA transactions but provide for possible monitoring by the regulator.

3.2. Issue of Securities

1. At the end of December 2012, Federal Law²⁹ No. 282-FZ On Amending Certain Legislative Acts of the Russian Federation and Invalidating Certain Provisions of Legislative Acts of the Russian Federation was passed which along with other amendments made the securities issue procedure much simpler.

The law altered materially the norms regulating state registration of the securities issue.

Thus, starting from the middle 2013, preliminary review of the documents required for state registration of securities issue became possible, provided that the registration of the said

issue is accompanied by registration of the securities prospectus. The law introduced the possible registration of the securities prospectus in parts and reduced materially the number of cases where registration of the securities prospectus is mandatory. The cases when registration of the securities prospectus is not required were set, for example, in case the amount of the funds to be raised by issuer through equity securities placement of one or more issues (additional issues) during a year does not exceed 200 million Rubles.

The amendments also involved the procedure for securities placement

and circulation. It is established that, in case equity securities are offered by subscription, the subscription period, which used to be no larger than one year from the state registration of the equity securities issue (additional issue), can be extended by the issuer by making the relevant changes in the resolution on issue (additional issue) of equity securities. The law also reduced the number of cases requiring registration of the issue report. Formerly only issuers being non-credit institutions could choose to submit a notice of the securities issue results instead of registering the respective report,

²⁸ Federal Law No. 420-FZ dated December 28, 2013 On Amending Article 27.5-3 of the Federal Law On Securities Market and Parts One and Two of the Tax Code of the Russian Federation (enters into force on January 1, 2014, except for certain provisions).

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

provided that a broker rendered equity securities placement services by open subscription and a stock exchange listed the said securities. Now, the above right can be exercised by any issuers subject to simultaneous satisfaction of the conditions regarding placement, payment for securities and their admission to the organized trade.

Starting from January 2, 2013, the federal law provides for that transactions in securities can be executed immediately following the state registration of their issue (additional issue) or assignment of an identification number for the issue. However, the transfer of title to equity securities is prohibited until they are fully paid for. Formerly, transactions in securities could be executed only after the registration of the report on issue (additional issue) results or notice of the results to the registration authority.

The law also cancelled some limitations of exchange-traded bonds issue. Before that, exchange-traded bonds could be issued only by those issuers whose securities had already been included in the quotation list of a stock exchange, and the maturity period for exchange-traded bonds could not exceed three years. The above limitations did not apply starting from January 2, 2013.

Equity securities can be admitted to organized trading without inclusion in the quotation lists starting from January 2, 2013, provided that there is no registered prospectus and subject to the issuer's disclosure of information according to the requirements of the trade organizer.

The approach to determining the content of the securities prospectus was changed. The number of requirements to the prospectus set directly by the law On Securities Market was reduced, and the establishment of the said requirements was referred to the competence of the Bank of Russia.

Starting from the middle of 2013, amendments associated with the issue of securities during reorganization of joint-stock companies will take effect. In case a bonds issuer is reorganized, instead of

registering a new bonds issue, the issuer shall be replaced by its successor by making the respective amendments in the resolution on bonds issue (additional issue) registered earlier. This is possible provided that all obligations under the bonds of a certain issue are transferred to a single successor and the successor's legal organizational form entitles the successor to issue bonds.

The amendments also affected the procedure of disclosing information on securities and other financial instruments. From January 2, 2013 the information on securities intended for qualified investors may be disclosed to general public, however, such information shall include an indication that it is addressed to qualified investors.

Along with the simplified issue procedure, the above law also made some amendments to the corporate legislation. The minimum duration of the pre-emptive right is reduced from 20 to 8 calendar days, with the acquisition of additional shares or equity securities convertible into shares if the offering price of such securities is not determined in advance, and the information contained in the notice of the possibility of pre-emptive rights, is disclosed in accordance with the legislation of the Russian Federation on securities.

The law also provided that a resolution to apply to a stock exchange requesting delisting of shares, which could earlier be taken by the issuer's sole management body, is now referred to the competence of the general meeting of the company members or its board of directors.

As for dividends for shares traded on the organized markets, a special procedure was established for calculating the date when the persons entitled to receive the above dividends are determined. The said date cannot fall sooner than 10 days after the resolution to pay (declare) dividends is made or later than 20 days after the said resolution. However, from January 1, 2014, the depository will be fully responsible for notifying its depositors of the general meetings of shareholders, as well as

providing them with the information (materials) that must be delivered to the persons entitled to participate in the general meeting of shareholders.

As part of implementation of new laws, the FFMS of Russia adopted the Order³⁰ approving new standards for the securities issue and registration of the securities prospectuses, which entered into force on November 10, 2013.

The federal law³¹ adopted on December 21, 2013 set forth the procedure for forming and carrying out the activities of the specialized companies engaged in the issue of bonds secured by a pledge of monetary claims.

Two types of specialized companies may be formed: a specialized financial company engaged in acquisition of rights to monetary claims for subsequent lodging and a specialized project financing company engaged in financing long-term investment project through acquisition of monetary claims. Activities of these companies is accompanied by issue of bonds secured by a pledge. One of the benefits of the specialized companies' activities is providing them with the right to prescribe in the agreement concluded with the creditor or in the conditions of bond issue that in case there is no enough money derived from sale of the pledged monetary claims, outstanding claims of the creditor or bond holders shall be terminated.

Amendments concerning the regulation of the specialized companies' activities were also entered into the Federal Law On Insolvency (Bankruptcy). It is provided that exercising rights of a bankruptcy creditor to petition to the court to declare the specialized company bankrupt may be limited with a certain period and (or) certain circumstances, which have not yet occurred at the moment of the said petition, in the agreement between such creditor and the specialized company. In addition, a specialized company may provide for a priority of payments in case of bankruptcy in the conditions of such bonds issue when issuing two or more bonds issues having the same collateral.

³⁰ Order of the FFMS of Russia No. 13-55/pz-n dated July 4, 2013 On Approving Standards of the Securities Issue and Registration of Securities Prospectuses.

³¹ Federal Law No. 379 FZ dated December 21, 2013 On Amending Certain Legislative Acts of the Russian Federation (enters into force on July 1, 2014, except for certain provisions).

3.3. Activity of Professional Participants

On June 30, 2013 Amendments³² to the federal laws On Securities Market and On Investment Funds determining a set of new requirements to governing boards, employees and members (shareholders) of management companies of UIF and NPF as well as to professional securities market participants not being credit organizations entered into force.

The Federal Law On Securities Market was supplemented with new Article 10.1 extending the range of persons in respect of which the requirements to having no record of convictions for crimes in the sphere of economic activity and/or for crimes against the public order and having no record of administrative penalties in the form of disqualification were set.

These persons, in addition to the sole executive body of the professional securities market participant, inspector and persons comprising the board of directors, included persons comprising the executive board (Management Board), branch managers and managers of separate business units engaged in professional activities on the securities market. The similar requirements for governing boards and branch managers of management companies set in the amendments to the Federal Law On Investment Funds.

The professional securities market participants being not credit organizations were additionally charged with a duty for prior agreement upon candidates of the sole executive body, director of internal control service (inspector) of the professional securities market participant as well as manager of the business unit formed to carry out activities of the professional securities market participant (in case the activities of the professional securities market

participant are combined with other activities) with the state regulator.

In order to clarify the procedure for fulfilling new duties the FFMS of Russia issued the information letter³³ which contained more accurate data regarding the persons subject to the new requirements on July 23, 2013. Notification forms to be sent to the state regulator were attached to that letter, as well.

Along with the above requirements, the restrictions for individuals to participate in the authorized capital of financial organizations were set. An individual with unexpunged or uncleared convictions for crimes in the sphere of economic activities or crimes against the public order are not entitled to obtain, directly or indirectly, alone or jointly with other persons, the right to dispose of 10 per cent or more of the votes attached to the voting shares (stakes) comprising the authorized capital of a management company or a professional securities market participant not being a credit organization.

2. In 2013, the rules regulating margin transactions changed. On September 27, 2013, the order³⁴ of the FFMS of Russia setting the rules for carrying out broker activities at executing transactions resulting in an unsecured position entered into force. After the order entered into force, the by-laws regulating the procedure for executing margin and unsecured transactions earlier were terminated. However, the obligation to bring its activities in compliance with the new rules was imposed on brokers only after six months from the date the order entered into force.

The new rules defined three categories of the broker's customers: customer with a standard level of risk,

customer with a high level of risk and customer with a specific level of risk. The procedure for calculating the value of the customer's portfolio, the amount of the initial and minimum margin depends on the category the customer is referred to. However, it was provided that individuals cannot be referred to the category of customers with a specific level of risk, which is not subject to certain provisions of the new requirements.

The brokers carrying out actions resulting in an unsecured position shall meet the requirements for availability of software and hardware required for calculation of necessary indices and for appointment of an officer responsible for managing risks arising out of an unsecured position, for sending notices to customers and for actions to close the unsecured positions of clients. In addition, the broker shall post the information on the risks arising for customers and related unsecured positions on its official website.

One of the features of the new regulation is its application to both exchange and off exchange transactions.

3. On January 4, 2013 the new regulation³⁵ of the FFMS of Russia on internal control of a professional securities market participant entered into force.

Compared to the previous regulatory legal act that set the requirements to the internal control of a professional securities market participant, the new regulation was supplemented with a section on the procedure for internal control within the framework of countering illegal use of insider information and market manipulation. The regulation set the requirements to the report on the internal control for the purposes of countering illegal

³² Federal Law No. 134-FZ dated June 28, 2013 On Amending Certain Legislative Acts of the Russian Federation as regards Counteracting Illegal Financial Transactions.

³³ Information Letter No. 13-ДП-02/27429 of the Federal Financial Market Services of Russia dated July 23, 2013 On Clarifying Certain Issues regarding Information Submission related to Federal Law No. 134-FZ dated June 28, 2013 On Amending Certain Legislative Acts of the Russian Federation as regards Counteracting Illegal Financial Transactions.

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

³⁵ Order 12-32/pz-n of the FFMS of Russia dated May 24, 2012 On Approving the Regulation on Internal Control of Professional Securities Market Participants.

use of insider information and market manipulation, as well as the requirements to the suspicious transaction notice, which is to be sent by decision of the company's sole executive body to the state regulator.

Another novelty introduced in the regulation is the principle of internal control continuity, which defines the procedure for performing the duties of the inspector of a professional securities market participant during the inspector's temporary absence.

In addition, the new regulation establishes a wider list of duties that can be additionally imposed on the inspector of the professional securities market participant in case the organization combines professional activity on the securities market with other types of activity as compared to previous regulatory legal act. Thus, according to the new regulation, the inspector of a professional securities market participant shall be entitled to perform the functions associated with internal control and (or) audit of compliance of the personal data

processing with the applicable regulatory acts.

The regulation provides for the possibility of electronic document flow with the use of an electronic signature in the preparation, submission, accounting and storage of the inspector's reports.

4. From October 4, 2013 the new regulations³⁶ governing the procedure for notifying the persons of their inclusion in the list of insiders and exclusion therefrom, the procedure for transferring the lists of insiders to trade organizers and the procedure for sending notices to insiders of the executed transactions entered into force. As opposed to the previous regulation, methods for sending notices, including by means of electronic communication, were specified. Also the necessity to send the list to the trade organizers, through which transactions in financial instruments, foreign currency and (or) goods are executed, after each change in the list of insiders was cancelled.

Instead, the trade organizer may request lists of insiders from the

organization in order to check non-standard transactions (orders) for illegal use of insider information and (or) market manipulation. As regards sending notices of the transactions executed by the insiders, the amendments affected the procedure for and period of notices (for certain individuals within 10 working days from the date of the transaction, and for the others upon request of the organization).

5. The information letter³⁷ dated June 27, 2013 of the FFMS of Russia clarified the procedure for determining the maximum amount of the fee paid for the services of a specialized depository at forming and investing of pension savings. In particular, it was clarified that the specialized depository receives fee for the services both under the agreement entered into with non-state pension fund (in the amount not exceeding 0.1 per cent of the net asset value of the fund) and under the agreement entered into with management company (in the amount not exceeding 0.1 per cent of the net asset value of the fund).

3.4. Reporting

1. In accordance with Article 51.5 of the Federal Law On Securities Market, the parties to repo agreements, an agreement being derivative financial instrument, not entered into at the organized trading, as well as the parties to other agreements entered into on the basis of a master agreement (uniform agreement), shall also provide the information on such agreements to the repository keeping the

register of the relevant agreements. On February 5, 2013 the amendment³⁸ to the previously set procedure for keeping the said register, which made possible for the repositories to start keeping the register only for certain types of agreements and for all agreements listed at once, entered into force.

At the beginning of February 2013, NSD obtained the status of a repository.

From February 2013, the register is kept by NCO NSD CJSC in respect of currency swaps and repo agreements. On April 29, 2013, Saint Petersburg Stock Exchange JSC also obtained the status of a repository and began keeping the register in respect of repo agreements after that. These organizations sent a message on their intention to keep the register of all other agreements provided

³⁶ Order No. 13-51/pz-n of the Federal Financial Markets Service dated June 18, 2013 On Approving Regulation on the Procedure for Notifying the Persons of Their Inclusion in the Insiders List and Exclusion Thereof, Regulation on the Procedure for Submitting Insiders Lists to Trade Organizers through which the Transactions in Financial Instruments, Foreign Currency and/or Goods are Executed, Regulation on the Procedure for and Period of Sending Notices to Insiders on the Transactions Executed by Them.

³⁷ Information Letter No. 13-ДП-10/23779 of the Federal Financial Markets Service dated June 27, 2013 On Paying for Services of Specialized Depository.

³⁸ Order No. 12-105/pz-n of the Federal Financial Markets Service dated December 4, 2012 On Amending Order No. 11 -68/pz-n of the FFMS of Russia dated December 28, 2011 On Approving Procedure for Keeping Register of Agreements Entered into on Conditions of a Master Agreement (Uniform Agreement), Providing Information Required to Keep the Register and Information from such Register as well as Providing Register of Agreements Entered into on Conditions of a Master Agreement (Uniform Agreement) to the Federal Executive Authority for Securities Market.

by Article 51.5 of the Federal Law On Securities Market from October 1, 2013 to the regulatory authority.

2. On March 25, 2013, the Order³⁹ of the FFMS of Russia approving the new procedure for report submission by professional securities market participants entered into force. According to the above procedure, starting from March 25, 2013, professional securities market participants shall send the reports according to the

prescribed forms⁴⁰ only in the form of an electronic document with an electronic signature. Moreover, the electronic report files shall be signed with an electronic signature of the person acting as the sole executive body of the professional participant, and an electronic signature of the professional participant's inspector. The information letter⁴¹ dated March 26, 2013 of the FFMS of Russia clarified the procedure for filling in reports on

transactions executed with non-residents by the professional participants.

In particular, it was clarified that, due to the great amount of the information, in certain cases the data on unilateral transactions (i.e. purchase transactions or sale transactions) executed during one trading day in relation to securities of the same issue may be summarized by the number of securities and indicated in form 20 as a single transaction.

3.5. Accounting of Rights to Securities

1. On January 2, 2013, amendments⁴² to Article 7.1 of the Federal Law On Securities Market, which sets forth the procedure for receiving income and other monetary payments on equity securities with mandatory centralized storage, entered into force.

Before that, the period for transferring payments on securities was the same for all depositors, and now different periods for different categories of depositors are set. Thus, depository engaged in mandatory centralized storage of bonds shall transfer payments on bonds to its depositors, which are nominal holders or trustees within one working day after the date of receipt, while such payments to other depositors shall be transferred within five working days after the date of receipt.

In this case, the depository engaged in mandatory centralized storage of

bonds shall disclose the information both on transferring received payments to depositors and on receiving payments on such securities by the depository itself from January 2, 2013.

In order to develop such requirement, on April 16, 2013, the FFMS of Russia approved Regulation⁴³ on the procedure for, period and scope of disclosure of the information on receipt and transfer of payments related to securities by a depository engaged in mandatory centralized storage of securities.

2. Due to introduction of the cascade system of paying income on securities, the Federal Law On Securities Market was supplemented⁴⁴ with Article 8.7 entering into force on January 1, 2014. This Article sets forth peculiarities of receiving dividends on shares through the depository as well as income in

money terms and other money payments on nominal bonds. In particular, the periods and the procedure for accruing payments to depositors are set, as well as it is explicitly defined that income on securities are to be paid to depositors on shares at the end of the trading day on the date as of which the persons entitled to receive them are determined, and on registered bonds at the end of the trading day preceding the date which is determined in accordance with the decision on issue of registered bonds, and as of which the obligation to make payments on registered bonds is to be executed (if the issuer performs the obligations within the prescribed period).

3. On April 9, 2013, the Order⁴⁵ of the FFMS of Russia determining the maximum fee charged by registrars for recording of transactions entered

³⁹ Order No. 12-108/pz-n of the Federal Financial Markets Service dated December 6, 2012 On Periods of and Procedure for Providing Reports by Professional Securities Market Participants.

⁴⁰ Report forms are set forth by the Regulation on Reporting of the Professional Securities Market Participants as approved by Decree No. 33/109H of the FSMC of Russia and of the Ministry of Finance of Russia dated December 11, 2001.

⁴¹ Information letter No. 13-ЦП-10/10297 of the Federal Financial Markets Service dated March 26, 2013 On Filling in Reports of Professional Securities Market Participants according to Form No. 020 Notices on Transactions Executed by an Organization with Non-Residents.

⁴² Federal Law No. 282-FZ dated December 29, 2012 On Amending Certain Legislative Acts of the Russian Federation and Invalidating Certain Provisions of Legislative Acts of the Russian Federation.

⁴³ Order No. 13-29/pz-n of the Federal Financial Markets Service dated April 16, 2013 On Approving Regulation on the Procedure for, Period and Scope of Disclosure of the Information on Receipt and Transfer of Payments related to Securities by a Depository Engaged in Mandatory Centralized Storage of Securities.

⁴⁴ Federal Law No. 282-FZ dated December 29, 2012 On Amending Certain Legislative Acts of the Russian Federation and Invalidating Certain Provisions of Legislative Acts of the Russian Federation.

⁴⁵ Order No. 12-111/pz-n of the Federal Financial Markets Service dated December 25, 2012 On Maximum Fee Charged by Registrars from Registered Persons for Recording Transactions in the Register, and the Procedure for Determining the Above Fee.

into force. Before that, the registrar service fees were determined by the Regulation on licensing of the activity of keeping the registered securities register as approved by Decree No. 24 of the Federal Commission for Securities Market dated June 19, 1998. According to the new order, the maximum amount of the registrar service fee was increased materially. Thus, for instance, a fee for provision of an account statement was increased from 10 Rubles to 200 Rubles.

4. From September 30, 2013, the Order⁴⁶ of the FFMS of Russia approving the procedure for opening and keeping the registers of holders of securities of personal and other accounts was valid. The procedure was adopted in connection with the necessity to bring the by-laws in line with the amendments to be introduced in the Federal Law On Securities Market starting from 2011. The procedure applies to individuals keeping

the register of holders of registered equity securities, including issuers keeping such registers individually, as well as individuals keeping the register of holders of investment units in unit investment mutual and individuals keeping the register of holders of mortgage participation certificates.

5. On May 5, 2013 the order⁴⁷ of the FFMS of Russia approving the requirements to the procedure for providing information on the holders of depository receipts and on other persons exercising rights to depository receipts, as well as on the number of depository receipts held by such persons by a person, for which a depository program account is opened, entered into force.

6. Taking into account various issues arising in implementing reconciliation by the depository of the securities number, the information letter⁴⁸ of the FFMS of Russia dated February 12, 2013

clarified that, during reconciliation, providing the statement by the registrar on transactions for the personal account of the nominal holder in the form of electronic communication by e-mail shall not constitute a violation of the registrar's obligations to ensure confidentiality of the information on the person for which the personal account is opened as well as of the information on such account, including account transactions.

The issue of confidentiality was considered in the information letter⁴⁹ dated April 26, 2013, as well. The FFMS of Russia clarified that the depository is entitled to request the list containing the information on the depositors from the persons, for which the nominee accounts are opened, upon presentation of the issuer's request by the registrar only in case when such issuer's request is based on the Russian laws, pursuant to which the issuer is requesting the said information.

3.6. Organized Trading and Clearing

On September 30, 2013, the Procedure⁵⁰ for admission of securities to organized trading, simplifying the system of trade organizers' quotation lists entered into force. The new procedure provides only two types of the quotation lists instead of four lists required previously: list of the first (top) and the second level. However, it was set forth that the securities circulation

of which is limited in accordance with the Russian laws, including the securities intended for qualified investors, may not be included in the quotation lists.

The trade organizers are obliged to bring their rules for admitting securities to organized trading in line with this procedure and to generate a new list of the securities admitted to organized

trading within one year from the date of its entry into force.

2. In accordance with Article 7 of the Federal Law On Organized Trading⁵¹, setting forth the obligation to send relevant notices to the FFMS of Russian for the persons entitled to, directly or individually or jointly with other related persons, dispose more than 5 per cent of the votes attached to the voting shares

⁴⁶ Order No. 13-65/pz-n of the Federal Financial Markets Service dated July 30, 2013 On the Procedure for Opening and Keeping Personal and Other Accounts by Registrars of Securities Holders and for Amending Certain Regulatory Legal Acts of the Federal Financial Markets Service.

⁴⁷ Order No. 13-7/pz-n of the Federal Financial Markets Service dated February 5, 2013 On Approving Requirements to the Procedure for Providing Information on Holders of Securities Issued by Foreign Issuer and on Other Persons Exercising Rights to Securities of a Foreign Issuer by a Person for which a Depository Account with regard to Depository Programs is Opened, Confirming Rights to Shares of Russian Issuer as well as on Number of Securities of Foreign Issuer which are Owned by Such Persons.

⁴⁸ Information letter No. 13-ДП-О1/4229 of the Federal Financial Markets Service dated February 12, 2013 On Applying Clause 1, Subclause 9 of Order No. 12-78/pz-n of the FFMS of Russia dated August 30, 2012 On Approving the Procedure for Opening and Servicing Depository and Other Accounts by Depositories.

⁴⁹ Information letter No. 13-CX-01/15297 of the Federal Financial Markets Service dated April 26, 2013 On Clarifying Issues related to Providing Information by Securities Registrars and Nominal Holders.

⁵⁰ Order No. 13-62/pz-n of the FFMS of Russia dated July 30, 2013 On Procedure for Admitting Securities to Organized Trading.

⁵¹ Federal Law No. 325-FZ dated November 21, 2011 On Organized Trading.

(stakes) comprising the authorized capital of the trade organizer, the FFMS of Russia approved the regulation⁵² on the requirements to the scope, procedure, period and format of such notices.

3. The FFMS of Russia also adopted a number of regulatory legal acts relating to the regulation of the procedure for organized trade and compliance with the standards set forth for the trade organizers.

In particular, the requirements⁵³ to equity structure of the trade organizers, to the procedure for and period of their

calculation, as well as requirements⁵⁴ to the system of risk management and internal control were approved.

On January 4, 2013, the amendments⁵⁵ to the Regulation on activities for organizing trading in the securities market entered into force. According to these amendments, the traders' obligation to register on the stock exchange and to keep a register of its employees engaged in transactions during the organized trade was excluded.

On February 3, 2013, the amendments⁵⁶ to the procedure for

rendering services by the stock exchange facilitating the conclusion of futures contracts, according to which some foreign financial instruments may constitute the underlying asset of the derivative financial instruments admitted to the organized trading.

4. On January 6, 2013, the Regulation on the requirements for clearing activities entered into force⁵⁷. It defines the requirements to the procedure for clearing, registering clearing participants as well as sets the rules for use of individual and collective clearing security.

3.7. Countering Legitimization of Proceeds of Crime

1. Federal Law No. 134-FZ dated June 28, 2013 On Amending Certain Legislative Acts of the Russian Federation with regard to Counteracting Illegal Financial Transactions amended the existing system of regulation of countering legitimization of proceeds of crime.

The above law introduced a beneficial owner term meaning an individual who finally, directly or indirectly (through third parties), owns (has a dominant equity participation more than 25 per cent) a corporate customer or can control customer's activities.

Organizations engaged in transactions with funds or other assets are required to take reasonable actions, available under the existing circumstances, to identify the beneficial owners of its customers from June 30, 2013. However, in some cases, actions to identify beneficial owners are not taken, for example, in case a customer is the issuer of the securities admitted to organized trading and discloses the information in accordance with the laws of the Russian Federation on securities.

In accordance with the above law, an inter-departmental coordination

body authorized to resolve on freezing (blocking) money or other assets of an organization or individual shall be formed. These resolutions shall be implemented by organizations engaged in transactions with money funds or other assets without delay, not later than within one working day from the date of posting them on the Internet on the official website of the authority. The resolution on freezing (blocking) money or other assets may be taken in case of reasonable grounds to suspect the involvement of the organization or individual in

⁵² Order No. 13-31/pz-n of the Federal Financial Markets Service dated April 18, 2013 On Approving Regulation on Requirements to Scope, Procedure, Period and Form of Providing Notices to the Federal Executive Authority for Financial Markets by Persons Specified in the First Paragraph of Article 7, Part 1 of the Federal Law On Organized Trading (entered into force on July 26, 2013).

⁵³ Order No. 13-31/pz-n of the Federal Financial Markets Service dated April 18, 2013 On Approving Regulation on Requirements to Scope, Procedure, Period and Form of Providing Notices to the Federal Executive Authority for Financial Markets by Persons Specified in the First Paragraph of Article 7, Part 1 of the Federal Law On Organized Trading (entered into force on July 26, 2013).

⁵⁴ Order No. 13-30/pz-n of the Federal Financial Markets Service dated April 16, 2013 On Approving Requirements to Equity Structure of Trade Organizers as well as to Procedure and Period of Calculation.

⁵⁵ Order No. 13-53/pz-n of the Federal Financial Markets Service dated June 25, 2013 On Approving Requirements to Activities of Trade Organizer in Arranging Risk Management System and Procedure for Internal Control as well as to Certain Internal Documents of Trade Organizer.

⁵⁶ Order No. 12-96/pz-n of the Federal Financial Markets Service dated November 20, 2012 On Amending Certain Regulatory Legal Acts of the Federal Financial Markets Service.

⁵⁷ Order No. 12-95/pz-n of the Federal Financial Markets Service dated November 20, 2012 On Amending Order No. 06-95/pz-n of the FFMS of Russia dated August 24, 2006 On Procedure for Rendering Services Facilitating Conclusion of Futures Contracts as well as Specific Features of Clearing of Futures Contracts.

terrorist activities (including terrorism financing).

On December 28, 2013, the Federal Law⁵⁸ amending the Federal Law On Anti-Money Laundering and Combating Terrorism Financing was passed.

Amendments affected regulation of the activities of the individuals included in the list of organizations and individuals with respect to which there is evidence of their involvement in extremist or terrorist activities, based on certain

grounds. The grounds for suspending transactions by organizations engaged in transactions with money or other assets were also amended and the period of such suspension was increased.

3.8. Overview of Amendments to the Civil Code of the Russian Federation

1. In 2008, intensive work on amending the civil laws affecting almost all aspects of performing business activities, including the procedure for executing transactions on the financial market, began. Amendments to the Civil Code of the Russian Federation are scheduled to be adopted as separate laws for several years.

On May 7, 2013, amendments to⁵⁹ the Section of the Civil Code regulating the procedure for executing transactions and the ground for their invalidity were introduced. These amendments entered into force on September 1, 2013. The most important provisions for financial organizations are the following:

1) presumption, according to which the transaction violating the requirements of the law or other legal act, as a general rule is defeasible (i.e. invalid due to its recognition as such by court), but not void (i.e. void initially, regardless of the court's decision). The exception is when the transaction encroaches on the public interest or rights and third parties' interests protected by law; in this case, the transaction is initially void unless otherwise is explicitly provided by law;

2) amendments to the articles on representation: now it is expressly permitted to grant the powers to a representative not by listing them in a separate document (power of attorney) but by incorporating them directly into the text of the agreement. It is essential for brokers acting on behalf of and for the account of the customer, at specifying its powers in the agreement for broker services. In addition, the provision limiting the maximum period of the power of attorney to three years is invalidated.

Formerly, the representative was prohibited to execute transactions on behalf of the person represented with regard to himself/herself. From September 1, 2013, such transactions cannot be recognized as invalid if there is consent for executing such transaction. In addition, in order to perform or ensure performance of the obligation of the person represented by the representative or persons on behalf of or for the benefit of which the representative acts, the possibility of issuing irrevocable power of attorney, which cannot be cancelled before the expiration thereof, is provided.

2. On October 1, 2013, another set of amendments to⁶⁰ the Civil Code of the Russian Federation concerning the objects of civil law rights, including uncertificated securities, entered into force.

The records for accounting of rights to uncertificated securities may be currently kept only by the person holding relevant license.

In this regard, joint-stock companies being keepers of shareholders' register, shall assign keeping the register to the registrar holding license, one year after the date of this provision.

Amendments also affected the procedure for protection of violated rights in case of unlawful cancellation of uncertificated securities and consequences of losing accounts certifying the right to uncertificated securities.

On December 21, 2013, the Federal Law⁶¹ radically amending the provisions of the Civil Code of the Russian Federation concerning regulation of a pledge was passed. From July 1, 2014 the possibility to pledge the property to be acquired by the pledgor in future will be expressly provided. In this case, the pledge arises for a pledge holder upon creation or

⁵⁸ Federal Law No. 403-FZ dated December 28, 2013 On Amending the Federal Law On National Payment System and Federal Law On Anti-Money Laundering and Combating Terrorism Financing.

⁵⁹ Federal Law No. 100-FZ dated May 7, 2013 On Amending Subsections 4 and 5 of Section I of Part One and Article 1153 of Part Three of the Civil Code of the Russian Federation.

⁶⁰ Federal Law No. 142-FZ dated July 2, 2013 On Amending Subsection 3 of Subsection I of Part One of the Civil Code of the Russian Federation.

⁶¹ Federal Law No. 367-ФЗ dated December 21, 2013 On Amending Part One of the Civil Code of the Russian Federation and Invalidating Certain Legislative Acts (Provisions of Legislative Acts) of the Russian Federation (enters into force on July 1, 2014).

acquisition of the relevant property by the pledgor, unless otherwise provided by law or by the agreement. In addition, the possibility to sign an agreement on pledge for main obligation arising in future will be set forth.

Important novelty of the above law is abolishing to indicate assessment of the pledged item in the pledge agreement as a prerequisite and introducing the possibility to establish seniority of prior and subsequent pledges on a contractual basis.

As a result of adoption of the above federal law and federal law⁶² No. 379-FZ dated December 21, 2013 On Amending Certain Legislative Acts of the Russian Federation in December 2013 new types of bank accounts were introduced. One of them is pledged account, at opening of which the rights under bank account agreement may constitute a pledged item. A nominee account taking into account funds not owned by the account holder is specifically provided. With respect to such account,

cases of seizure and debiting against the obligations of the account holder are limited.

Another new bank account is an escrow account, which is to be opened by the bank to transfer the funds recorded on this account to the person (beneficiary) specified by the account holder. The funds are transferred to the beneficiary in case of the grounds provided for by the agreement entered into by and between the bank, account holder and beneficiary.

⁶² Federal Law No. 379-FZ dated December 21, 2013 On Amending Certain Legislative Acts of the Russian Federation (enters into force on July 1, 2014, except for certain provisions).

4. Regulatory System

4.1. The Bank of Russia

4.1.1. General Powers

The Central Bank is not included in the system of executive authorities and operates based on special law⁶³. As an organization responsible for organizing currency circulation and the stability of the Russian banking system, the Bank of Russia has a set of powers that influence the securities market to one extent or another or affect its participants.

Thus, the Bank of Russia, in cooperation with the RF Government, develops and pursues a unified state monetary policy, which affects many parameters of the securities market. For the purpose of implementation of the monetary policy, the Bank issues its own bonds and carries out transactions on the open market with government securities and its own bonds, being a large player on the above market.

As the banking system regulator, the Bank of Russia determines the peculiarities of the procedure for securities issue by credit organizations and registers the issues of the respective securities. It exercises banking supervision of the activities of credit organizations and banking groups, including their activities as investors on the securities market. Finally, by participating in the capital of

infrastructure organizations on the securities market (such as Moscow Exchange JSC), the Bank of Russia carries out indirect regulation of the securities market.

4.1.2. Powers to Regulate Activities of Non-Credit Financial Organizations and Issuers

On July 23, 2013, Federal Law No. 251-FZ On Amending Certain Legislative Acts of the Russian Federation in view to Transfer Powers to Regulate, Control and Supervise on the Financial Markets to the Central Bank of the Russian Federation. This law provided powers to regulate activities of professional securities market participants, non-state pension and investment funds, management companies, specialized depositories, insurance companies, microfinance organizations, credit and housing savings cooperatives, trade organizers, actuaries, credit reference bureaus, rating agencies to the Bank of Russia from September 1, 2013. The Bank of Russia is also provided with the functions of combating insider dealings and manipulation as well as of supervision over issuers' compliance with the requirements of the laws on joint-stock companies and securities. On July 25, 2013, the President of Russia

signed a Decree⁶⁴ On Discontinuing Federal Financial Markets Service from September 1, 2013.

The Bank of Russia regulates, controls and supervises on financial markets over non-credit financial organizations in order to ensure sustainable development of the financial market of the Russian Federation, effective management of risks arising on financial markets, protection of rights and legitimate interests of investors on the financial markets, policyholders, insured persons and beneficiaries, as well as the insured persons under mandatory pension insurance, investors and participants of a non-state pension fund under non-state pension provision, and over other consumers of financial services from September 1, 2013.

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

With regard to the professional securities market participants, the Bank of Russia develops and approves uniform requirements to the rules of professional activity in securities, is responsible for licensing professional

⁶³ Federal Law No. 86-FZ dated July 10, 2002 On the Central Bank of the Russian Federation (Bank of Russia).

⁶⁴ Order No. 645 of the President of Russia dated July 25, 2013 On Discontinuing Federal Financial Markets Service, Amending and Invalidating Certain Acts of the President of the Russian Federation.

activities on the securities market, ensures information disclosure, keeps a register of professional securities market participants. The Bank of Russia carries out inspections of professional participants, which may result in issuing orders, suspending or revoking breacher's license.

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

The Bank of Russia sets forth the procedure for and period of calculating the market value of the assets, in which the funds are of pension reserves are placed, and the aggregate market

value of the fund's pension reserves, approves standard insurance rules of the fund, a standard form of agreement for rendering services of a specialized depository to the fund, a standard form of agreement on mandatory pension insurance, approves requirements to pension schemes applicable to non-state pension provision, procedure, form and period of preparing and submitting reports on the activities of funds, sets forth mandatory terms and conditions of asset management agreement to be entered into by and between the fund and a management company.

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

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

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

4.2. Ministry of Finance of the Russian Federation

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

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

above securities⁶⁵ as well as the issue reports. In addition, the Ministry of Finance itself acts as an issuer of federal government securities.

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

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

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

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

According to the Regulation on the Ministry of Labour and Social Protection of the Russian Federation, approved by Decree No. 610 of the RF Government dated July 19, 2012, the Ministry of Labour exercises the functions associated with the development of the state policy and legislative regulation, including the spheres of pension provision, non-state pension provision, and social

insurance (excluding mandatory medical insurance).

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

Before September 1, 2013, the Ministry of Labour of Russia performed functions on adopting regulatory legal acts setting forth the requirements to pension schemes applicable to non-state pension provision, and on approving standard insurance rules of non-state pension fund.

From September 1, 2013 these functions were assigned to the Bank of Russia.

⁶⁵ Decree No. 329 of the Government of Russia dated June 30, 2004 On the Ministry of Finance of the Russian Federation.

4.4. Other Government Bodies

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

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

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

4.5. Self-Regulatory Organizations

The securities market regulation system includes self-regulatory organizations (SRO), as well. They are formed by professional participants of the securities market, management companies and non-state pension funds with a view to ensuring their operating conditions, compliance with the professional ethic standards, protection of customer interests, and setting the rules and standards of transactions ensuring effective activities on the securities market.

SROs act on the financial market within the law On Securities Market. SROs are formed as non-profit organizations, they set the rules of professional conduct on the securities market and the standards of transactions in securities mandatory for the members of SRO, and control the compliance with the above. Membership in SRO is voluntary.

Currently, the following seven organizations hold the status of SRO for professional securities market participants and collective investment institutions in Russia⁶⁶:

- National Association of Securities Market Participants (NAUFOR) unites brokers, dealers, managers and depositories. In 2013, NAUFOR was authorized to acquire the status of SRO for management companies. As of the end of 2013, there are 255 members. NAUFOR has a central office in Moscow and branches in 12 regions of the country.
 - Professional Association of Registrars, Transfer Agents and depositories (PARTAD) includes 37 depositories and 28 registrars;
 - National Funding Association (NFA) includes companies holding licenses to carry out broker, dealer, and depository activities and trust management of securities, being primarily credit organizations. NFA includes 214 organizations;
 - National League of Management Companies (NLU), which includes 56 organizations, unites UIF and non-state pension funds management companies; in 2013, it was authorized to acquire the status of SRO for professional participants.
 - Non-commercial Partnership of Professional Stock Market Participants of the Ural Region (PUFRUR) is currently the only SRO with the office located not in Moscow, but in Yekaterinburg. PUFRUR members include 19 professional participants of the securities market in the Ural region;
 - National Association of Non-state Pension Funds (NAPF) is a self-regulatory organization bringing together non-state pension funds of Russia. NAPF members include 76 organizations.
 - Association of Professional Managers of the Stock Market (Moscow). Association members include seven organizations.
- According to our estimates, the average of 33% of the total number of professional securities market participants are members of at least one self-regulatory organization, with registrars reaching the highest SRO membership level – 75%. The exchange trade participants are also quite representative in SRO.

⁶⁶ According to the Bank of Russia and SRO sites.

5. Key Events Calendar for 2013

January	
01	Amendments to the Civil Code, according to which the services rendered by registrars, depositories (including specialized depositories and central depository), dealers, brokers, securities managers, management companies of investment funds, unit investment funds and non-state pension funds, clearing organizations and trade organizers are exempt from VAT, entered into force
04	Order No. 12-32/pz-n of the FFMS of Russia dated May 24, 2012 On Approving the Regulation on Internal Control of Professional Securities Market Participants entered into force
05	Order No. 12-87/pz-n of the FFMS of Russia dated October 11, 2012 On Approving the Regulation on Requirements to Clearing Activity entered into force
17	Agreement on information exchange between the FFMS and NCO NSD CJSC
21	Moscow Exchange JSC announced its intention to carry out public offering Following the sales on the global markets, Russian share indices dropped (RTS Index by 2.14%, MICEX Index by 1.17%)
25	The President of Russia supported decision on forming a mega regulator of the financial market on the basis of the Bank of Russia, to which the FFMS of Russia will be adjoined, at the meeting on stock market development
February	
03	Order No. 12-95/pz-n of the Federal Financial Markets Service dated November 20, 2012 On Amending Order No. 06-95/pz-n of the FFMS of Russia dated August 24, 2006 On Procedure for Rendering Services Facilitating Conclusion of Futures Contracts as well as Specific Features of Clearing of Futures Contracts entered into force
04	Moscow Exchange JSC announced price range of the initial public offering: 55 to 63 Rubles per share Repo transaction trades and negotiated deals with the central counterparty started on the stock market of the Moscow Exchange Group
07	Euroclear international settlement and clearing organization was announced to begin its work in Russia
08	NAUFOR working group presented draft project for regulating margin and unsecured transactions to the regulator in relation to stock exchange's plans to switch to T+ mode
13	Representative of the FFMS informed of possible ease of restrictions to conversion of Russian shares to depository receipts. Russian equity shares demonstrated growth (RTS Index by 1.91%, MICEX Index by 1.71%)
15	Initial public offering of Moscow Exchange JSC took place. Offering price amounted to 55 Rubles per share, offering volume was 15 billion at tender volume in the amount of 30 billion Rubles
19	At the meeting of I. Shuvalov, First Deputy Chairman of the Government of Russia, distribution of powers on regulation, control and supervision on the financial market between the Bank of Russia and Government of Russia was agreed
22	The FFMS detected the fact of securities manipulation
23	The Moody's decreased sovereign credit rating of Great Britain from the highest level by one position to AA1
26	Political crisis in Italy resulted in European stock indices slump. After that, Russian share indices dropped, too (RTS Index by 2.19%, MICEX by 1.26%)
28	Clearstream international settlement and clearing organization was announced to begin its work in Russia
March	
07	The FFMS of Russia detected the fact of securities manipulation
12	The Ministry of Finance began public consultation on draft federal law On Amending the Federal Law On Non-State Pension Funds

18	Possible imposition of a tax on deposits was announced in Cyprus and marked the beginning of political crisis in the country. Russian share indices dropped (RTS Index by 2.82%, MICEX Index by 2.16%)
20	The FFMS announced imposition of fine on an individual for market manipulation
21	It was announced that Rosneft JSC consolidated 100% of shares of TNK-BP Holding JSC
22	The S&P rating agency decreased credit rating of Cyprus from CCC+ to CCC
24	Parliament hearings dedicated to forming mega regulator for the financial market were held at the Council of the Federation
25	The first stage of switching to T+2 trade mode started on the stock market of the Moscow Exchange Group, 15 shares and all issues of government bonds were admitted to such trade mode Order No. 12-108/pz-n of the FFMS dated December 6, 2012 On Periods of and Procedure for Providing Reports by Professional Securities Market Participants entered into force
April	
01	The Government of Russia brought a legislative package on mega regulator for the financial market in the State Duma, while bringing in bill on self-regulatory organizations on the financial market was deferred
09	Order No. 12-111/pz-n of the FFMS dated December 25, 2012 On Maximum Fee Charged by Registrars from Registered Persons for Recording Transactions in the Register, and the Procedure for Determining the Above Fee entered into force
16	Act of terrorism in Boston (USA). Stock indices in the USA and ATP region dropped in return. The event was almost unnoticed in Russia as against the falling market
23	Hackers attacked the website of the AP information agency and posted false message on assassination attempt and injury of the US President. US stock indices dropped in the short run. Russian stock indices did not responded to the event
29	Moscow Exchange JSC admitted first foreign exchange traded fund in Russia – Fin Ex Tradable Russian Corporate Bonds UCITS ETF – to trades
30	For political cause, Sergey Guriev, popular economist, rector of the Russian School of Economics, who were under investigation with regard to UKOS case, left Russia
May	
6	NAUFOR was authorized by the FFMS of Russia to acquire SRO status of management companies
13	NAUFOR sent remarks on bill on regulating dealer activities on the forex market as well as concept of regulating forex retail market prepared by NAUFOR to the Office of the President of Russia
14	Annual NAUFOR conference Russian Stock Market in 2013: What to Wait? took place
20	The State Duma passed the bill on transferring powers on regulating the financial market to the Bank of Russia at the first reading
23	Asian stock indices dropped drastically. After that, Russian stock indices decreased (RTS Index by 3.56%, MICEX Index by 4.18%)
June	
04	Trades in Yandex N.V. shares futures started on the derivatives market of the Moscow Exchange Group.
11	The State Duma of Russia approved amendments to the law On Securities Market as regards regulating activities on the forex market
15	Order No. 13-30/pz-n of the FFMS dated April 16, 2013 On Approving Requirements to Equity Structure of Trade Organizers as well as to Procedure and Period of Calculation entered into force
19	Moscow Exchange Group informed of default on two-sided repo transactions by two market participants
20	Against statement of the representative of the US Federal Reserve System on possible closing up QEIII Quantitative Easing Program Russian stock indices dropped (RTS Index by 3.75%, MICEX Index by 2.01%) Revised version of methods for calculating indices of the Moscow Stock Exchange entered into force Public offering of ordinary shares of the foreign issuer Polymetal International plc. took place on the Moscow Stock Exchange.
24	Elvira Nabiullina took a charge of the Bank of Russia, having replaced Sergey Ignatyev at that position
30	Amendments to the laws On Securities Market and On Investment Funds determining a set of new requirements to governing boards, employees and members (shareholders) of management companies of UIF and NPF as well as to professional securities market participants not being credit organizations entered into force
July	
01	S&P and Fitch decreased rating of Cyprus to the selective default level Revised version of methods for calculating Ruble fixing on the Moscow Stock Exchange, providing for change in calculation time from 12:00 to 12:30
08	The second stage of switching to T+2 trade mode launched on the stock market of the Moscow Exchange Group, 25 shares were admitted to such trade mode
09	National Council for Ensuring Financial Stability was formed according to the Decree of the Chairman of the Government of the Russian Federation
13	Fitch Rating Agency decreased rating of France to AA+

5. KEY EVENTS CALENDAR FOR 2013

23	NAUFOR addressed to the Federal Financial Monitoring Service requesting to make the procedure for identifying brokers' customers simpler
24	The President of Russia signed the bill on transferring powers of the federal financial markets service to the Bank of Russia
August	
05	NAUFOR sent a letter to the CBR, expressing its concern related to opening fiduciary accounts by international centralized systems of accounting rights to securities Euroclear/Clearstream
08	Fitch Rating Agency confirmed rating of Russia as BBB, stable
09	The Board of Directors of the Bank of Russia resolved on forming Financial Markets Service of the Bank of Russia within the Bank of Russia
22	NAUFOR, Russian Bankers' Association and All-Russian Insurance Association signed agreement on cooperation
26	Vladislav Baumgartner, Director General of Uralkali JSC, was arrested in Minsk. The company's shares went down in value by 3.5% on the Moscow Stock Exchange.
27	The FFMS announced on first sentencing the person who manipulated in securities
September	
01	The law on transferring powers of the federal financial markets service to the Bank of Russia entered into force. Sergey Shvetsov was appointed as the head of the Financial Markets Service of the Bank of Russia
02	The stock market of the Moscow Exchange Group was switched to T+2 trade mode in full
05	The list of services rendered by professional participants to be exempt from VAT as approved by the Government of Russia was published
10	The Financial Markets Service of the Bank of Russia detected the fact of securities manipulation
17	The Supreme Arbitrazh Court published draft information letter on issues of resolving disputes arising out of interest swap agreements entered into on the basis of master agreement on off exchange futures transactions
19	Senior executives of the US Federal Reserve System resolved on keeping the scope of the QEIII Quantitative Easing Program the same. US stock markets demonstrated vigorous growth
27	Order No. 13-71/pz-n of the FFMS of Russia dated August 08, 2013 approving requirements to the rules for broker activities as regards unsecured positions entered into force. The professional participants were provided with six months to bring their activities in conformity with new requirements
October	
01	Repositories (NCO NSD CJSC and Saint Petersburg Stock Exchange JSC) began keeping register of all types of agreements entered into on the basis of master agreement and provided for in Article 51.5 of the Federal Law On Securities Market
	Amendments related to uncertificated securities adopted by Federal Law No. 142-FZ dated July 2, 2013 On Amending Subsection 3 of Subsection 1 of Part One of the Civil Code of the Russian Federation entered into force
03	Share futures of the leading German issuers were introduced on the derivatives market of the Moscow Stock Exchange
04	NAUFOR sent proposals to the Bank of Russia regarding amending the requirements to securities prospectus within new laws simplifying issue procedure
08	NAUFOR, Russian Bankers' Association and National Foreign Exchange Association sent a letter to the Supreme Arbitrazh Court regarding their standpoint on the issue of resolving disputes with regard to interest swap at entering into off exchange futures contracts
15	The Government of Russia brought a bill On Guaranteeing Rights of the Insured Persons within the System of Mandatory Pension Insurance at Forming and Investing Funds of Pension Savings in the State Duma
	Working groups of the financial market participants arranged by the working group for forming international financial center provided proposals on KPI for financial market development at the initiative of the Financial Markets Service of the Bank of Russia
17	The Government of Russia approved draft federal law On Non-Contributory Pensions determining pension formula according to which non-contributory pension component will be calculated in ratios but not in absolute values
	The Government of Russia brought a bill On amending the Federal Law On Non-State Pension Funds and Certain Legislative Acts in the State Duma
19	The Government of Russia brought a bill On Non-Contributory Pensions in the State Duma
22	NAUFOR sent a letter to the CBR regarding differentiating and lowering requirements to the capital of professional participants
25	Annual Ural conference Russian Stock Market took place in Yekaterinburg
November	
08	S&P Rating Agency decreased the rating of France to AA
10	Order of the FFMS of Russia No. 13-55/pz-n dated July 4, 2013 On Approving Standards of the Securities Issue and Registration of Securities Prospectuses entered into force
13	The Financial Markets Service of the Bank of Russia detected the fact of securities manipulation
20	The CBR revoked license to carry out banking operations from CB Master-Bank with the scope of obligations in the amount of 64.85 billion Rubles

21	A protest action related to suspension of preparations for signing Association Agreement between Ukraine and European Union by the Government of Ukraine began in the center of Kiev
29	The Bank of Russia published the list of priorities (KPI) in financial market development
30	A crackdown of Euromaidan by armed forces was attempted in Kiev, 35 people requested medical assistance
December	
03	Law No. 306-FZ dated November 2, 2013 determining specific features of accruing and paying taxes on income received on securities by depositories performing functions as tax agent entered into force
13	S&P Rating Agency confirmed the rating of Russia as BBB, stable The Bank of Russia revoked the license of CB Smolenskiy with the scope of obligations amounting to 23.4 billion Rubles
20	S&P Rating Agency decreased the rating of the European Union to AA+, stable The President of Russia Vladimir Putin signed the ordinance on oblivion of Mikhail Khodorkovskiy, ex-director of NC UKOS, sentenced 10 years and 10 months of imprisonment, the market did not respond
22	The Ministry of Finance published draft law On Self-Regulatory Organizations in Financial Markets providing for mandatory membership of financial companies in self-regulatory organizations for anti-corruption examination
23	The State Duma of Russia passed the law on amending the federal law On Non-State Pension Funds and law On Guaranteeing Rights of the Insured Persons within the System of Mandatory Pension Insurance covering pension savings with the guaranteeing system and providing for reorganization of non-state pension funds engaged in mandatory pension insurance to joint-stock companies The State Duma passed the law On Non-Contributory Pensions determining new pension formula
24	Shares of Gazprom JSC were included in the A2 quotation list of the Moscow Stock Exchange NAUFOR sent proposals to the Financial Markets Service of the Bank of Russia regarding amendments to the requirements to issuers' quarterly reports
21	The State Duma passed the amendments to the law In Securities Market allowing securitization transactions The State Duma passed the amendments to the law On Securities Market and to the Civil Code cancelling personal income tax on securities owned for more than three years and introducing personal investment accounts under privileged tax regime
27	The Financial Markets Service of the Bank of Russia detected the fact of securities manipulation