

The Concept for the Development of Moscow as a National and International Financial Centre (IFC)

1. Basis for the development

Order 1662-p of 17 November 2008 by Government of the Russian Federation approved the Long-term Concept of Russia's Social and Economic Development until 2020 (Concept-2020). The Order requires that executive authorities of the government and constituent regions of the Russian Federation develop their policies, plans and performance indicators in line with the approved Concept.

The said Concept defines establishment of an international financial centre (IFC) as an international system to facilitate the cooperation of organisations seeking to raise capital and investors willing to place their funds as the long-term priority in terms of financial markets development. Building an IFC is seen as an essential step for Russia to move to innovative, socially-oriented economic development. Creating the infrastructure of an international financial centre in Moscow is defined as Stage 1 of the innovation-based economic development.

Order "On High-Priority Measures for the Development of Moscow as a National and International Financial Centre" 1801-RP of 7 August 2008 by the Moscow Government defines the development and implementation of such measures as a priority for the Moscow Government. The proposed Concept for the Development of Moscow as a National and International Financial Centre has been developed in line with the said order of the Moscow Government pursuant to the corresponding provisions of the Long-term Concept of Russia's Social and Economic Development until 2020, the Strategy for Russian Federal Capital Market Development for the Period up to 2020 (approved by Order of the Russian

Government No. 2043-r dated 29 December 2008), the Concept for Developing an International Financial Centre in the Russian Federation²(approved by the Russian Government on 5 February 2009), Principal Tax Policies in the Russian Federation for 2008–2010 (approved by the Russian Government Presidium on 26 May 2008).

2. Objectives of the Concept

2.1. Develop Moscow into a leading international financial centre supported by a mature national financial infrastructure and adequate regulatory environment to catalyse the country's economic development and ensure Russia's leadership in Eurasian financial markets.

2.2. Integrate Moscow's financial sector in the international financial relations as a significant element.

2.3. Build up an effective financial infrastructure, broaden the range of available financing instruments and increase the number of institutional investors.

2.4. Create a favourable environment for an inflow of investment to Russia, Moscow and other Russian constituent regions from the global capital market; facilitate an increase in IPO volume, value of equity trading and derivatives.

2.5. Build a modern financial system to meet the highest international standards that will have a positive effect on every sector of the Moscow economy and contribute to increased budget proceeds, better business infrastructure and living standards of Moscow residents.

2.6. Establish a receptive labour market in the Moscow financial sector.

2.7. Promote Moscow as a thriving financial centre and raise investors' confidence.

3. Basis for the Moscow's development as an international financial centre

The recent years saw significant changes in the geography of IFCs: the renowned financial centres like Tokyo, Frankfurt and³Geneva had to make room in the Top 10 for Hong Kong and Singapore. Other financial centres of booming economies like Shanghai, Mumbai and others try to repeat the success stories of these latter cities. The trend reflects the new realities of a rapidly changing world where developing countries, having secured their positions in industrial and raw materials markets, go on to make serious claims for a leadership in international finance.

Without doubt, Moscow ranks among the rising regional financial capitals of the world. Today, Moscow is the largest centre of capital concentration both in the post-Soviet space and in Central and Eastern Europe. As the original centre of Russia's financial system, Moscow accounts for over 80% of the country's cash flows and more than half of the Russian banking capital. The city houses close to 90% of headquarters of foreign banks and international financial organisations doing business in Russia and is the centre for virtually all exchange trade in securities. Meanwhile, the exchange trade growth rate has made the Moscow Interbank Currency Exchange (MICEX), Russia's leading stock exchange, one of the largest stock exchanges worldwide. By the total volume of trading, the MICEX Group is the largest exchange in Russia, CIS and CEE countries. The MICEX stock exchange is a global centre where liquidity accumulates and is the main stock exchange for international investments into leading Russian companies. It accounts for over 80 % of the Russian stock market turnover, of which up to 30% is provided by non-residents.

Almost one-third of all insurance agencies operate in Moscow with the amount of premiums and claims paid comprising around $\frac{2}{3}$ of the total amount in Russia.

Corporate finance is a major segment of the financial system in any country. In 2007, net financial result (profit less loss) of organisations in Moscow amounted to RUB 2 trillion.

A key component of Moscow's financial system is the city budget which, with its over RUB 1.3 trillion in 2008 according to the results of the 2008 budget execution, trails only the federal budget.

Household budgets are also included in Moscow's financial system since they have a significant impact on the cash and finance situation in the city. In 2007, the volume of monetary income of Moscow citizens was RUB 4.33 trillion which stands for 20.4% of the total income in Russia. One third of the population's bank savings are concentrated in Moscow, which to a great extent ensures stability of the banking system and shapes a robust credit capital.

Moscow's high economic growth rates also involve development of a unique (in the context of Russian and CIS) legal environment based on leading Russian and foreign legal firms and organisations.

Moscow is one of the largest cities of scientific and production, as well as social and cultural importance where nearly every type of economic activity is to be found. The city's 10.47 million population accounts for nearly 7.4% of Russia's population. Moscow produces over 18% of Russia's gross domestic product. Moscow's real GRP doubled in 2000–2007, with an average annual growth of 110%. Estimates for 2007 show that per capita GRP in Moscow was over RUB 650,000 (around USD 26,000), which is 2.8 times as much as the nationwide index.

Moscow is the largest commercial hub in Russia responsible for about 19% of retail turnover, 40% of wholesale turnover, 14% of turnover from foreign trade, including 3% of export and 32% of import operations, and provides 23% of total paid services to Russia's population. Moscow accounts for 11% of Russia's total domestic investments in fixed capital.

In 2000–2007, Moscow's average growth rate of annual industrial production was 116%, real disposable income of the population grew by 108.6% p.a. Investments in fixed capital increased by 108.4%, and turnover growth in retail and wholesale was 106% and 115.3% p.a., respectively. Within that period, total industrial production increased 3.2 times, real disposable income of the population

increased 1.9 times, investment in fixed capital increased 1.9 times and retail and wholesale turnover increased 1.6 times and 3.1 times,⁵ respectively.

Speaking of the basis for the development of Moscow as an international financial centre, we should not overlook the correction factors introduced to the economic development by the current global financial crisis which today is going through its active phase. Statistics shows that in November-December 2008, a declining trend came to replace the previous dynamic growth of Russia's economy. In December 2008, the country's industrial production index amounted to 89.7% of the same index for the same period in the previous year. There was a decline in such critical export-oriented industries as mining (97.7%), metal and metal goods manufacturing (93.9%), chemical production (71.1%). December 2008 saw a sharp drop in the production of machinery and equipment (82.7%), textile and clothing manufacturing (79.5%) and food, beverage and tobacco sector (93.5%). Real disposable income of Russia's population decreased by 11.6%.

August 2008 was the start of the acute phase of the crisis for the Russian market and the base point for a rapid drop in international reserves of the Russian Federation, mass capital outflow and rouble devaluation to the dollar/euro basket. Among the effects of continuous devaluation of the rouble – a tactics employed by the Bank of Russia from the said moment – were the so called flight from the rouble, converting all available rouble cash to currency assets, rapid withdrawal of banks from lending programmes and operations in the domestic financial markets. Another manifestation of the financial crisis has been a panic flight of capital from the Russian stock market, as the result of which in January 2009 its capitalisation decreased 4.5 times as compared to its peak value.

In spite of the crisis and the economic decline recorded in the fourth quarter, the year 2008 will be remembered as the period of Russia's economic growth. Compared to 2007, Russia's 2008 GDP rose by 5.6%, industrial production – by 2.1%, fixed capital investments – by 9.1%, retail turnover – by 13%, while real disposable income of the population grew by 2.7%.

To stabilise the financial and credit system, in the fourth quarter of 2008 the Russian Government and the Bank of Russia implemented a series of steps to support the liquidity and strength of the banking system and financial market, which drastically decreased the risks of a systemic crisis in this field.

However, basic forecast for social and economic development in 2009 determines a slowdown in Russia's GDP growth at 2.2%. The anticipated 2009 decline in Russian business should be mitigated by additional anti-crisis measures designed to support the real sector of the economy, as well as the benefits of investment programme implementation by natural monopolies and infrastructure economic sectors. These steps, as well as an active policy to diversify the economy and encourage investment and innovation, sound management of public finance and reserves and measures to support the country's financial system, indicate that the Russian economy has preserved its growth potential and that the ascending trend will be restored in the post-crisis period.

Thus, in spite of the destabilising effect of the global financial crisis, the basis remains for the development of Moscow as a national and international financial centre. In fact, the crisis will speed the approval of legislative acts and measures aimed at changing the infrastructure of the financial market and stock market which, in its turn, will facilitate the development of Moscow as an IFC.

Moscow's claim to be an IFC is justified by international expert evaluations. The 19th European Cities Monitor annual report rated Moscow as #1 in the category *European Expansion: those that can expect the biggest influx of companies in the next 5 years*. The Forbes World's Greatest Cities 2008 named Moscow among the cities with the highest potential supporting the development of 30 leading global markets (ranked 14 out of 85). Moscow is one of the largest markets with its growth potential not fully activated. By unfolding its unique potential, Moscow will secure itself a place in the global environment as an international finance centre.

Turning Moscow into an IFC is essential for success in addressing Russia's strategic challenge – to become one of five global economic leaders. It really must

be an IFC – the centre of major investment, information and intellectual resources, an engine of economic growth in the context of rapidly⁷ developing transnational economic ties, increased mobility and financial markets integration. An IFC creates the opportunities required for rapid economic investment capacity building and turning the national currency into a global reserve currency.

This is even more of a priority given the fact that the ongoing financial crisis will inevitably cause adjustment of the international financial markets, review of their regulation standards and creation of new centres of gravity for capital. When the crisis of the entire financial relations system triggers such an adjustment, those countries will benefit that will be able to contribute to shaping new financial markets architecture and use this contribution to develop the national financial services market and integrate it in the global financial relations.

It should be noted that the initiative to develop Moscow as a national and international financial centre must be implemented without delay, for losing time may mean wasting the entire edge gained by Moscow. In the context of the global financial crisis and weakening positions of several largest financial institutions, expansion of still viable international financial centres to developing economies will gain momentum. These centres will strengthen their position and expand their financial influence area. As the result, there is an increased risk that the number of countries where independent and robust financial markets are still functioning will be progressively smaller. In the coming decade, a number of national financial markets will either evolve to international financial centres or be included in the influence area of existing global financial centres. Thus, availability of a self-dependent international financial centre in a country will be one of the key indicators of competitive power of such economies, a pledge of their increased influence globally and an essential condition of their economic and therefore political sovereignty.

Ensuring long-term competitive power for the Russian financial sector must become top priority of Russia's economic policy. Facilitating the development of financial system and finance-related business is a critical area of the city's

development. Developing Moscow into an IFC is a process that is integrated with the transformation of the global foreign exchange, financial and capital markets.

4. Issue and challenges of developing Moscow as an IFC

International experience shows that development of Moscow as an IFC hinges on successful economic and financial development manifesting itself in good performance indicators. Both emerging IFCs (Singapore, Hong Kong, Dubai, Mumbai, Shanghai) and strengthening 'traditional' global and regional financial centres (London, New York, Frankfurt, Luxemburg) resulted from targeted and to a large extent innovative public policy. Therefore, the Russian IFC development must start from best practices of leading financial centres in terms of financial markets regulation, qualified staff training, social and business infrastructure development.

Financial markets regulation: global practices

Before the crisis, global financial centres of London and New York have maintained the position of acknowledged leaders in terms of regulatory control over financial markets. But with finance laws of Continental Europe and, to a certain extent, the United States tending to rather clearly codify all the regulating rules and provisions and describe financial instruments and markets (*rule-based regulation*), the UK legislation is very often knowingly vague in words. Such practice ensures flexibility of the regulatory system and prompt adaptation to new developments in financial markets. The flexible regulatory system attracted in London a considerable segment of business of global investment and commercial banks (in particular, related to corporate finance).

The Honk-Kong financial law was modified in 2003, with ten laws abolished and uniform Securities and Futures Ordinance (SFO) adopted in compliance with international and primarily UK practice.

Following London's example, developing regional IFCs such as Dubai, Singapore and Mumbai also opted for more flexible⁹ legislative system. In Dubai, an autonomous jurisdiction was established on the IFC territory, governed by specific standards similar to the UK law. Although China adheres to Romano-Germanic (codified) law, its post-WTO financial law reform was aimed at getting closer to US and UK standards.

Using international practice appears to be reasonable when developing state policy tools and establishing drivers that trigger Moscow's transformation into an IFC. But at the same time, there must be a circumspect and elaborate approach taking into account both all the issues relating to operation of existing financial centres and the lessons from the current financial crisis. The latter is especially important since the recession has demonstrated that none of effective and regarded-as-exemplary national regulating schemes could resist its outbreak and unfolding, while in the USA the national system even contributed to the crisis aggravation and globalisation.

Tax issues

In tax law the key features of a system include: shared, fair and reasonable level of tax burden for investors (both residents and non-residents), specifics of taxation for securities trading and financial transactions, effective, fair and reasonable tax administration, as well as availability of international double taxation agreements. In this case, not just tax benefits for IFC participants are significant but transparency and effectiveness of taxation system in general.

By level of tax burden, IFCs of concern can be broken down into two groups: markets with concessional (Hong Kong, Singapore, Dubai) and conservative (London, New York, Frankfurt, Mumbai, Shanghai) regimes for taxation.

Concessional regime in Hong Kong is aimed at stimulating foreign investments inflow into certain areas of economy, including securities market. Tax benefits in Singapore were introduced particularly for IFC development. They specifically simplify taxation for large holding companies and transactions with

securities. There are also benefits for derivatives trading. Dubai initially identified the offshore position of IFC and as of 2008 has low level of total¹⁰tax levies (14.4% of company's profit).

The three criteria used to calculate ease of paying taxes are as follows: total tax levies (percentage of company's profit), tax payments and time spent on tax reporting and payment procedure. Tax systems of Hong Kong, Singapore and Dubai are regarded as most favourable for business due to low tax rates and uncomplicated administration system. Despite higher tax burden on companies, the UK system also ranks near the top due to efficient organisation of taxation system. American and German tax systems are more complex and burdensome for companies.

It is unlikely that IFC development in Moscow by means of considerable tax preferences for financial market participants could prove to be effective. Apparently, Russia will first experience a flow of speculative capital and capital of suspicious origin driving higher inflation rates and encouraging financial bubbles. However, conservative institutional investors whose funds secure financial markets stability are primarily focused not on tax benefits but on country risks, favourable regulatory environment and market infrastructure development. Moreover, according to international surveys, at this point Moscow can already compete with major global financial centres in terms of attractive tax regime. Therefore, it is scarcely reasonable to consider fiscal stimulation of foreign capital inflow as primary technique for Moscow's transformation into IFC.

It is also critical to further improve federal tax laws by simplifying taxation and tax administration systems and quickly adopting new regulations in line with the Principal Tax Policies in the Russian Federation for 2008–2010. Such new regulations should provide for introduction of consolidated tax reporting of corporate profits tax, ensure streamlined tax assessment of transactions with securities and financial instruments of forward deals, cover securitisation issues and introduce other essential tax law provisions that affect the investment climate.

In order to secure reasonable and fair approach of fiscal agencies to exercising control over tax collection procedures, in addition to adopting stricter tax control, it is necessary to enhance the protection of taxpayer's rights in terms of refunding any unduly paid taxes, resolving disputes arising out of vague tax law wordings, as well as possible preliminary negotiations with tax agencies in respect of any complex issues.

To prevent possible misinterpretation of tax law provisions, a uniform and fair approach should be adopted for considering tax claims. This objective can be reached by introducing new methods of targeted professional training for tax officers and judges involved in taxation court proceedings.

Integration into global economy

None of modern financial centres functions autonomously from the rest of the world: the size of national economies is insufficient to ensure necessary liquidity level. Thus, integration into global capital markets is one of the key factors driving the competitiveness of a financial centre. Availability of financial resources circulating in foreign markets depends largely on capital flow regulation system, information disclosure requirements and other aspects of financial administration.

But a totally free capital market and low requirements to information disclosure for issuers as well as to qualification of professional institutes might entail both incubation of mala fide participants, especially in emerging markets, and excessive volatility of such markets.

Through effective disclosure procedures in the financial market in line with global standards, strong market discipline and enhanced corporate governance, stability, transparency and attractiveness of the market can be substantially increased. At present, the role of such reporting and disclosure system is performed by International Financial Reporting Standards (IFRS). Full-scale implementation

of IFRS as the basic unified accounting system in Russian companies will provide a good platform for further integration into global economic¹²society.

Some countries, such as China or India, have rigid restrictions on foreign investors' access to their stock markets. However, such restrictive practice might prevent a financial centre from actually becoming international. That is why the leading financial centres have minimum restrictions for foreign participants.

Skilled resources

Large and competitive labour market, in particular it applies highly skilled employees, is critical for financial industry development. There are two ways to increase the supply of skilled resources: internal human capital development and attracting workforce from abroad.

Countries with developing IFCs initially dragged behind the leaders in human capital development and suffered from severe shortage of qualified staff. Nevertheless, state-driven educational programmes have triggered outstanding results. Today Hong Kong, Shanghai, Singapore and Mumbai have flexible and business-tailored higher education systems. The average level of universities in terms of research and teaching quality is still lower than that of American institutions, consequently leading to fast "brain drain". However, in each of these countries there already are separate world-class universities and business schools with certain programmes included in the world's Top 20.

Another technique to enhance higher education quality is applied in Dubai: instead of developing local educational institutions, a state-driven programme aimed at involving foreign universities has been implemented. The state sponsors establishment of branches and pays for students' education.

In Moscow, it appears essential to build favourable conditions for developing a professional education system both at the level of universities and special educational centres training people who wish to obtain additional knowledge and skills. National educational standards should be developed and implemented for

secondary, vocational and higher education, as well as professional re-training and development in economics and finance. 13

It is also highly important to establish – as part of higher or continuing professional education – a system of national professional qualification similar to other international qualifications, such as ACCA (Association of Chartered Certified Accountants), CPA (Chartered Public Accountant), CFA (Certified Financial Analyst), CIMA (Chartered Institute of Management Accountants), CMA (Certified Management Accountant), CIA (Certified Internal Auditor), etc. It is equally important to promote mutual acknowledgement of professional qualifications obtained from various educational institutions in different countries.

Social infrastructure

To make an IFC more attractive to the people working in it, it is critical to ensure acceptable living and working conditions especially important for foreign specialists. Comfortable living and recreation conditions, high level of security and law enforcement, medical care quality, etc. may be regarded as key indicators of a mature social infrastructure.

IFCs fall into distinct groups subject to the level of social infrastructure maturity. London, New York and Frankfurt boast the most mature type of infrastructure for historical reasons. Even though affected by certain problems, Singapore, Dubai and Hong Kong are rated relatively high in terms of their living standards. Regardless of their aggressive growth, Mumbai and Shanghai still have immature social infrastructure.

Issues and challenges of developing Moscow as an IFC

In view of the above, simple one-off political or administrative decisions will render impossible the effort of ‘establishing’ an ‘international financial centre’ in Moscow. Cities develop as international financial centres where they can give rise to vibrant economic growth driven by relevant legislation and accommodating social environment. Even though a short-lived political campaign cannot turn

Moscow into an international standard financial centre, there are objective reasons and political will for developing Moscow as a centre for¹⁴ international standard financial services. In the first place, those drivers include the country's rapid economic growth and a sprawling community of major companies operating in Russia and looking for international standard financial services as well as access to global cash flows and international investment. International financial quarters are seeking investment in Russia. Moreover, the largest economic crisis in history does not leave Russia any other option but a fundamental and carefully thought up reform of the financial services sector. The development of Moscow as an international financial centre must follow this trend and facilitate Russian economic growth. The development of Moscow as a centre for value-added financial services will undoubtedly add up to the economic weight of the city budget and Russia at large.

The objective to be accomplished is furthering the development of financial services in Russia at large and a centre for Moscow-based international standard financial services, specifically, rather than merely seeking to 'establish' an 'international financial centre' in Moscow. As early as today, Moscow ranks among the world's 10 largest cities and economic centres. It is also the international financial centre of national importance serving as the gate to the Russian capital market. It has the relevant infrastructure which ranks 12 or 13 globally for financial transactions as of mid-2008.

The development in Moscow of an international financial centre calls for a thorough study of effective legal, regulatory and tax frameworks governing the financial services in Russia at large. Some federal executive agencies, market regulators and self-regulated organisations from the professional community are already involved in this process. Thus, Russia's Federal Service for Capital Markets (FSCM) developed a "Strategy for Russian Federal Capital Market Development for the Period up to 2020" which was approved under Russian Federal Government Order No. 2043-r of 29 December 2008. The Russian

Ministry of Economic Development has developed a basic Concept for Developing an International Financial Centre in the Russian¹⁵Federation.

Today's main impediments to the goal include property protection rights, protection of investors' interests, dispute resolution in court and tax law inconsistencies which do not address the complexity of capital market transactions. The framework for regulation and supervision, too, has numerous gaps waiting to be filled. These include disjunct individual sectors of the capital market. In fact, there is no regulatory framework for certain capital market instruments (i.e. derivatives), no legal provisions in place to govern transactions which are standard for mature capital markets (i.e. asset securitisation, including assets of local government agencies).

The Concept for Developing an International Financial Centre in the Russian Federation, approved by the Russian Government, details a list of issues to be resolved and activities to be completed.

Regardless of the importance of implementing an institutional reform in Russia or the need for stabilising macroeconomic performance, the financial centre cannot achieve its international status where there is a risk of electric power or heat supply failure or where there is a shortage of housing to accommodate seconded specialists, or where the socio-cultural environment in Moscow is falling short of standards typical of the well-established international financial centres. All these put the development of non-financial infrastructure on the priority list in an effort to transform Moscow into an international financial centre. The immediate measures include an energy preparedness programme for the capital city and resolution of its transport problems, including the improvement of the airports, network of roads in Moscow and Moscow Region, and the development of telecommunications. Further measures include: provisions and an environment to be put in place for developing and thoughtfully locating financial clusters within the city as centres for providing relevant services, including legal support of transactions; improving the quality of education, healthcare and environmental

protection; developing Moscow's social infrastructure; pushing down the crime rate; raising the security standard and preventing terrorism. 16

Education calls for an analysis of the professional resources requirement for Moscow's IFC, whether or not such a need can be supported by the resources in place for producing the required pool of professionals. Also, it calls for an environment and stimuli for developing a system of international standard education in finance and law.

The current stage of economic development, both in Russia and globally, is marked by extra attention paid to professional competence of staff, which is of specific importance for financial service organisations.

Business in the financial sector (which does not belong to production industry) largely depends on human and technology capital being companies' key asset and the major driver of successful and sustainable development of individual financial institutions, the financial sector and the economy at large. Most importantly, each employee that has the required professional skills and expertise is an asset with an increasingly large value.

Raising the level of the people's real income is an issue that can be viewed isolated or closely related to the prospects of Moscow seeking to evolve into an IFC. The task is to achieve higher growth rates keeping pace with the national economy labour productivity growth rates for all types of people's income, i.e. salaries, wages, pensions, allowances, private business income (for small and medium businesses in the first place). Breeding a strong middle class as the guarantor of political and economic stability in society is a pivotal task to be accomplished. It should be specifically underscored that higher income and living standards (i.e. the volume of goods and services the people can have) is an important source for building up the Moscow budget and developing a proper socio-economic environment in the city.

The city's social priorities include higher quality of social services and utilities, mature transport infrastructure, higher standard of environmental

protection in Moscow, better performing consumer market for goods and services and a higher standard of law and order maintained. Major¹⁷capital investment is required to resolve those lofty tasks for the city. Moscow's financial strategy is evolving in a way as to accommodate and address all those tasks as comprehensively as possible, with a view, inter alia, to transforming the city into an international centre for financial services.

5. Moscow Government steps towards Moscow evolving as an IFC

The development of Moscow as an international financial centre may achieve the desired result only subject to close cooperation between federal government agencies, the Moscow Government as well as the Russian and international financial and expert communities. The prerogative of the federal government clearly includes the development of a financial infrastructure for the IFC as well as the legal, regulatory and tax framework governing the financial sector operations in Russia at large. This is where the Moscow Government is to step forward, among others, to explore and elevate the programme to the level of the Russian Government and federal public agencies in association with Russian capital market experts, international financial institutions, professional organisations, other cities serving as international financial centres (i.e. Frankfurt, London, New York, Chicago, Luxemburg, Dubai, Singapore, Hong Kong) whose top officials have repeatedly shown interest in joining efforts for Moscow to become an international financial centre and with which Moscow has effective cooperation agreements to promote the cause.

At the same time, the prevailing competence of the Moscow Government is the development of non-financial infrastructure within the city. Without such infrastructure in place, it is hard to expect Moscow to turn an IFC.

Therefore, the Moscow Government is to join forces with the financial community for developing steps towards Moscow becoming an international financial centre. These fall into two major categories:

(1) Issues within the terms of reference of the federal government agencies that are to be resolved in close association with such agencies; 18

(2) Issues to be resolved by the Moscow Government.

5.1. Issues to be resolved in team with the federal government agencies. Improving the institutional basis for the Russian capital market

The federal government agencies address the following issues:

- Improve Russian law governing the capital market operations;
- Build a cohesive system for regulating capital markets and assess whether it is reasonable to establish a macro regulator (a single federal agency) to supervise banks, insurance companies, financial service providers, etc.;
- Ensure availability of an effective judicial system;
- Build a tax environment conducive to financial transactions;
- Develop national financial institutions (i.e. banks, exchanges, clearing agencies, depositaries, private pension funds, insurance companies and agents), ensure their reliability and financial sustainability, develop investment advisory practices, establish a shared central depository and subsequently ensure its cooperation with international markets, build up an effective internationally acknowledged clearing house;
- Enhance the transparency of the financial market through implementing effective disclosure and reporting procedures in the financial market in line with global standards;
- Develop and improve corporate governance;
- Provide for sufficient human resources potential in the financial market and increase the general level of the people's financial education by developing and implementing national educational standards for secondary, vocational and higher education, as well as professional re-training and development in economics and finance;

- Integrate an international professional qualification system into the Russian higher education system or create a similar one tailored¹⁹ for Russia;
- Improve the existing tax administration system;
- Enforce a fair and reasonable approach to collection and payment of taxes and enhance protection of taxpayers' rights;
- Build an environment attractive enough for high-skilled foreign professionals to come to our country, if required;
- Step up cooperation in transacting foreign exchange and financial business with Russia's leading foreign trade partners, CIS countries in the first place; use the Russian Rouble (RUB) as legal tender for settlements and raise the RUB to the status of the regional reserve currency.

The Moscow Government can lead the process of resolving the tasks at this level by involving the scientific and expert communities and professional players in the capital market for analysing the effective Russian legislation and formulating adjustments thereto as well as assessing economic and social impacts of the solutions. With this in mind, by Order No. 1997-RP dated 2 September 2008, the Moscow Government set up an Advisory Council to work on a standing basis for Moscow to become a national and international financial services centre.

Working groups will be set up under the Advisory Council to take care of relevant issues and areas in an effort to transform Moscow into a national and international financial services centre.

5.2 Primary focuses of Moscow Government agencies for the development of non-financial infrastructure in Moscow

Turning Moscow into an international financial centre calls for re-focusing administrative and financial energies on priority projects critical to the competitive edge of Moscow as a centre for world-standard financial services. The primary focuses include:

- Accelerate the development of the city transport infrastructure, including:
 - Development of the Moscow Underground;

- Upgrading and widening of the motorway network;
- Complete the Vnukovo Airport retrofit to have an extended²⁰ runway and a business aviation terminal in the airport grounds;
- Establish a major Russian national air carrier seeking to lead the domestic and foreign air services market;
- Design and construct at the Moscow City Business Centre a line change junction for the speed railway linking Sheremetyevo, Domodedovo and Vnukovo Airports.
- Develop and improve the city power supply infrastructure to enhance the standard of uninterrupted power supply to the municipal consumers, including IFC organisations.
- Take priority steps towards securer water supply and drain; achieve a higher quality standard for potable water in Moscow.
- Upgrade and accelerate the development of the centralised heat supply system in Moscow.
- Provide accommodation for foreign specialists and city visitors, including:
 - Expansion of the hotel network;
 - Construction of lease housing in Moscow plus all relevant facilities for everyday services to provide comfortable accommodation for foreign specialists and their families on a long-term basis;
 - Building additional office space;
- Improve Moscow's environment, including:
 - Changing the fleet of public passenger, technological and cargo transport for motor vehicles meeting the Euro 3 emission standard;
 - Expansion of amenity planting in Moscow to have 20 sq m of planted greenery per resident;
 - Steps to improve the condition of water bodies within Moscow.
- Build a friendlier environment for expat residents, including foreign professionals working at the IFC. The effort is to include:
 - Road and location signs in two languages, i.e. Russian and English;

- Information stands with English materials on Moscow Underground;
- Emergency Help Desk, including legal advice, in²¹ Moscow for resident expats;
- Completion of the automated “Foreign Guest Map” information system in association with the Moscow branch of the Federal Migration Service and the Frontier Guards Department of the Russian Federal Security Service;
- Measures to streamline the registration and visa support for expats relocated to Moscow to work for organisations within the international financial centre;
- Implementation of an English language training programme for Moscow Government staff; English language knowledge appraisal programme;
- Push down the crime rate, achieve a higher standard of public security, prevent terrorism.
- Put the people’s financial knowledge onto a higher level to have a new class of investors, including by way of:
 - Development of a basic financial cross-curriculum training course for school students and its implementation on all educational stages.
- Develop Moscow as a scientific centre and a centre of training professionals in modern finance, including:
 - Additional specialised courses in current capital market practice to be developed and introduced at schools, universities and colleges;
 - Building an environment favourable for opening branches of leading Western business schools and developing similar national practices,
 - Holding regular specialised conferences in Moscow (the International Financial Forum on the Development of Moscow as an IFC).
- Further the healthcare system in Moscow; raise medical service to a higher world-class level; improve insurance medicine programmes.
- Improve Moscow’s social infrastructure, including higher standards for community, transport and other services.
- Use Moscow as the base for giving foreign investment a deeper penetration into Russian constituent regions – an area where Moscow Government can draw

upon the benefit of its relations with its executive power counterparts in regions;
build a favourable administrative environment. 22

- The Moscow Government is to take the lead in bringing together scientists, capital market professionals and other stakeholders for developing proposals for adjusting the relevant regulatory acts.
- Facilitate media coverage of the development of Moscow as a national and international financial centre, including an international promotion campaign of Moscow as an international financial centre, events aimed at building up Moscow's reputation among other countries as a safe and comfortable European city.

These tasks have become even more important once fully incorporated in the draft Concept for Developing an International Financial Centre in the Russian Federation approved by the Russian Government. At the same time, their implementation hinges totally on a coordinated effort of all the agencies within the Moscow Government sharing the effort.

Under the circumstances, it seems feasible that related activities and steps should be carried out based on the finance provided for under the effective target-oriented municipal programmes as part of developing IFC non-financial infrastructure in Moscow, where the project-related Moscow executive agencies act as coordinators and customers of such programmes. It is also necessary to take such activities into consideration when developing new the mid-term municipal programmes. This approach removes the need for allocating additional resources, because project work will be done under the target-oriented programmes (already under way or in design stage) aimed at accomplishing general objectives for the development of social and industrial infrastructure in Moscow. Another seemingly feasible move would be assigning priorities to certain steps in those target-oriented programmes, with a view to speeding up the development of an international financial centre in Moscow.

Action plan for Moscow executive agencies to develop Moscow as a national and international financial centre

1. Actions to improve the institutional base of the Russian financial market and input of Russian Federal public agencies to such work.

No.	What needs to be done	Objective	Timeframe (years)	Moscow executive agencies responsible
1.1.	Coordinate activities of the Moscow Government with corresponding executive public agencies and participate in their efforts to develop an international financial centre in Russia.	Involvement of the Moscow Government in related institutional reforms, actions and steps.	2009-2011	State Debt Committee of the City of Moscow, Moscow City Economic Policy and Development Department
1.2.	When implementing the concept, engage scientists, research organisations and institutions, financial market professionals and other stakeholders, including international and foreign organisations.	A scientific basis to help Moscow evolve as an IFC, comprehensive analysis of IFC-related legislative initiatives and activities of the Russian and Moscow Governments, amendments to draft legal acts and regulations.	2009-2011	State Debt Committee of the City of Moscow, Moscow City Economic Policy and Development Department, Moscow Mayor's Youth Expert Group

1.3.	Hold meetings of the Advisory Council to deal with the development of Moscow as a national and international financial centre, working on a standing basis in cooperation with the financial community.	Mechanism for continuing participation of the financial and expert community in the development of the national and international financial centre.	2009-2011	State Debt Committee of the City of Moscow, Moscow City Economic Policy and Development Department, Moscow City Finance Department
1.4.	Hold regular specialised conferences in Moscow (the International Financial Forum on the Development of Moscow as an IFC).	Use of international practice related to the development and operation of IFC for planning and carrying out related activities in the Moscow.	2009-2012	Moscow Mayor's Council of Authorised Banks, State Debt Committee of the City of Moscow, Moscow City Economic Policy and Development Department
1.5.	Foster relations with government authorities of Hessen (Germany) and management bodies of Frankfurt am Main under the existing and future cooperation agreements for sharing experience and planning activities related to the development of Moscow as an IFC.	Engagement of experts from the German financial community to review laws regulating the Russian financial markets and draft proposals on its reform; reviewing and using the practice of turning Frankfurt am Main into an IFC.	2009-2011	State Debt Committee of the City of Moscow, Moscow City Foreign Economic and International Relations Department
1.6.	Develop legislative initiatives related to the development of Moscow as an IFC	Improvement of legislation related to the regulation and operation of financial markets.	2009-2011	State Debt Committee of the City of Moscow, Advisory Council on the development of Moscow as a national and international finance centre

2. Actions to develop the non-financial infrastructure of Moscow's IFC

No.	What needs to be done	Objective	Timeframe (years)	Moscow executive agencies responsible
2.1.	Development of transport infrastructure			
2.1.1.	Develop the Moscow Underground	Further required extension of underground lines by 130 km and construction of the third transfer loop, reduction of 'out-of-reach' areas.	2010-2015	Roads, Bridges and Engineering Construction Department of the City of Moscow, Moscow City Economic Policy and Development Department
2.1.2.	Reconstruct and expand the motorway network, enabling Moscow to be easily accessed by common motor roads	Construction of radially extending, belt and chord highways (Northern and Southern lateral roads), including alternates for Kutuzovskiy Prospect, Volgogradskiy Prospect, Dmitrovskoye and Schyolkovskoye Shosse, part of Veshnyaki-Liubertsy highway from B. Kosinskaya Street to the Forth Traffic Ring, the Fourth Traffic Ring, Lipetskaya Street (extension of the Don Highway) and extending the following roads to join the city: Moscow-St Petersburg, Moscow-Noginsk and Moscow-Borodino (by-passing Oditsovo).	2010-2015	Roads, Bridges and Engineering Construction Department of the City of Moscow, Moscow City Economic Policy and Development Department

2.1.3.	Complete the retrofit of Vnukovo Airport	Easier access to Moscow and increased capacity of the airport up to 20 mln passengers a year.	2009	Moscow City Economic Policy and Development Department, Moscow City Capital Construction Order Department, Moscow City Transport and Communication Department
2.1.4.	Reconstruct Vnukovo Airport's runway	Increasing flight security	2010-2011	Moscow City Economic Policy and Development Department.
2.1.5.	Establish a major Russian national air carrier seeking to lead the domestic and foreign air services market	Easier access to Moscow	2009 -2010	Moscow City Property Department, Moscow City Economic Policy and Development Department
2.1.6.	Design and construct at the Moscow City Business Centre a line change junction for the speed railway, construct an alternate highway for Kutuzovskiy Prospect.	Easier access to the Moscow City Business Complex and linking it to Domodedovo, Sheremetyevo and Vnukovo airports.	2009-2015	Roads, Bridges and Engineering Construction Department of the city of Moscow, Moscow City Capital Construction Order Department, Moscow City Economic Policy and Development Department

2.2	Development and improvement of the city power supply infrastructure			
2.2.1.	Build up the required power supply infrastructure	Expanding power supply networks to a required level	2009-2015	Moscow City Fuel and Power Department, Roads, Bridges and Engineering Construction Department of the city of Moscow, Moscow City Economic Policy and Development Department
2.2.2	Develop the infrastructure of gas supply for power generators	Ensuring reliability of electric power generation	2009-2015	Moscow City Fuel and Power Department, Roads, Bridges and Engineering Construction Department of the city of Moscow, Moscow City Economic Policy and Development Department

2.3.	Top-priority activities aimed at enhancing the reliability of water supply and removal			
	Accelerate the reconstruction of water supply and water removal networks	Improving the quality of services, prevention of emergencies	2009- 2012	Moscow City Housing and Utilities Infrastructure Department, Roads, Bridges and Engineering Construction Department of the city of Moscow, Moscow City Economic Policy and Development Department
2.4.	Upgrading and further accelerated development of the centralised heating system			
	Accelerate the reconstruction of heat supply networks, implement heat saving technologies	Improving the quality of services, prevention of emergencies	2009-2012	Moscow City Housing and Utilities Infrastructure Department, Roads, Bridges and Engineering Construction Department of the city of Moscow, Moscow City Economic Policy and Development Department
2.5.	Actions to locate IFC institutions in Moscow			
2.5.1	Develop and implement measures to ensure location of international financial institutions and major Russian and international companies at the Moscow City Business Centre.	Concentration of financial service companies at the Moscow City Business Centre	2009-2012	Moscow City Economic Policy and Development Department, Moscow City Foreign Economic and International Relations Department

2.5.2	Build an environment to further establish IFC technological facilities as part of implementing Priority 2 Moscow City Business Centre projects (City 2) and urban development of AMO ZiL territory no longer used for production purposes.	Making Moscow Business Centre and the reorganised territory of AMO ZiL more attractive for locating IFC institutes.	2009 - 2015	Moscow City Economic Policy and Development Department, Moscow City Control Committee
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2.6.	Accommodation for foreign specialists and visitors			
2.6.1	Expand the hotel network	Short-term accommodation of temporary employees	2009-2011	Moscow City Urban Development Department, Moscow City Economic Policy and Development Department
2.6.2	Ensure hotel accommodation for foreign specialists	Short-term accommodation of temporary employees	2009-2015	Moscow Mayor and Moscow Government Administration
2.6.3	Construct lease housing and apartments in Moscow plus all relevant facilities to provide comfortable accommodation	Meeting foreign companies' requirement in long-term accommodation of employees and their families.	2009-2015	Moscow City Housing Policy and Housing Infrastructure Department, Moscow City Construction Department, Moscow City Economic Policy and Development Department

2.6.4	Build additional office space, including: - budget construction - investment construction - construction, reconstruction and capital repair under the programme of non-residential renovation, also with the use of investor funds	Increase in the volume of available high-quality office space	2009-2011	Moscow City Construction Department, Moscow City Capital Construction Order Department, Prefectures of Moscow Administrative Districts (other than Prefecture of the Central Administrative District), Moscow City Economic Policy and Development Department
2.7.	Improvement of Moscow's environment			
2.7.1	Reduce emissions by road public transport	Less air pollution by Moscow road transport	2010	Moscow City Transport and Communication Department, Moscow City Economic Policy and Development Department
2.7.2	Preserve and develop planted areas	Higher living standards in Moscow due to more favourable visual environment	2009-2010	Moscow City Environment Department, Moscow City Housing and Utilities Infrastructure Department, Moscow City Economic Policy and Development Department

2.7.3	Rehabilitate urban water bodies and improve their environment	Higher living standards in Moscow with new landscaped recreation areas, rehabilitated small rivers, springs and improved adjacent territory.	2009-2011	Moscow City Environment Department, Moscow City Housing and Utilities Infrastructure Department, Moscow City Economic Policy and Development Department
2.7.4	Monitor environmental situation	Improving the quality of the environment. Monitoring air quality, geological processes, noise pollution, surface water bodies and soil.	2009 - 2010	Moscow City Environment Department, Moscow City Economic Policy and Development Department

2.8.	Measures to build up Moscow's international reputation			
2.8.1	Install road and location signs in two languages, i.e. Russian and English	Creating a friendly information environment	2010	Moscow City Housing and Utilities Infrastructure Department, Moscow City Committee for Advertisement, Information and Design
2.8.2	Install stands with Russian/English materials in Moscow Underground	Creating a friendly information environment	2010	Moscow City Transport and Communication Department, Moscow City Committee for Advertisement, Information and Design

2.8.3	Facilitate media coverage of the activities aimed at developing Moscow as an IFC	Creating a friendly information environment	2009-2015	Moscow City Telecommunications and Mass Media Department, Moscow City Economic Policy and Development Department, Moscow City Finance Department
2.8.4	Hold an international campaign to promote Moscow as an international financial centre	Promoting the image of Moscow as a global centre for financial services		Moscow City Foreign Economic and International Relations Department, Moscow City Telecommunications and Mass Media Department, Moscow City Economic Policy and Development Department
2.8.5	Develop and carry out measures to create an international image of Moscow as a safe and comfortable European city.	Promotion of the Moscow's image as a centre for financial services and a safe and comfortable European city		Moscow City Foreign Economic and International Relations Department, Moscow City Telecommunications and Mass Media Department, Moscow City Economic Policy and Development Department

2.8.6	Promote the project for developing Moscow as an IFC through http://moscow.ru	Creating a business information environment	2009-2012	Moscow City Foreign Economic and International Relations Department, Moscow City Economic Policy and Development Department, Moscow City Telecommunications and Mass Media Department, State Debt Committee of the City of Moscow
2.8.7	Complete the automated “Foreign Guest Map” information system	Reduction of bureaucratic barriers faced by foreign specialists working in Moscow	2009-2011	Moscow City IT Department
2.8.8	Develop a system of target indicators for the development of Moscow as an IFC	Development of metrics to estimate the development of Moscow as an IFC	2009 - 2010	State Debt Committee of the City of Moscow
2.8.9	Calculate target indicators for the development of Moscow as an IFC and prepare annual reports to the Moscow Government on changes of the said indicators	Measurement of the progress with which the IFC in Moscow approaches leading global financial centres	2010 - 2015	State Debt Committee of the City of Moscow
2.8.10	Provide English training to representatives of Moscow public authorities that are directly involved in the work of organisations forming the Moscow international financial centre. At the end of such course, they should be able to make themselves understood in English.	Facilitation of communication	2009-2011	Moscow City Government HR Department
2.9.	Putting the people’s financial knowledge on a higher level			
2.9.1	Develop a basic financial cross-curriculum training course for school students and implement it on all educational stages	Putting the people's financial knowledge on a higher level in general	2010	Moscow City Education Department
2.9.2	Develop additional specialised courses in current capital market practice and introduce	Training of local professionals for working with IFC organisations	2010	Moscow City Education Department

	them at schools, universities and colleges;			
2.9.3	Develop a set of measures to make people of all ages more knowledgeable in finance	Overall increased involvement of the people in the financial market	2009-2010	Moscow Mayor's Youth Expert Group, State Debt Committee of the City of Moscow

2.10	Development of Moscow social infrastructure			
	Enhance general services, public catering, transport services, raise the quality of services	Increasing living standards in Moscow. In 2009, 1707 general service companies* and 235 new catering companies seating 14105 people are to be opened. * the figures may alter depending on possible changes in the 2007-2009 Target Programme of Developing Moscow Consumer Market and Services	2009	Moscow City Consumer Market and Service Department, Moscow City Transport and Communication Department

2.11.	Using Moscow as the base for giving foreign investment a deeper penetration into Russian constituent regions – an area where Moscow Government can draw upon the benefit of its relations with its executive power counterparts in regions; building a favourable administrative environment			
	Arrange interregional cooperation in investment, facilitate the access of regions to the stock and financial markets of Moscow, create a favourable administrative regime	Establishing a platform for the active development of regional economies and forming incoming capital flows	2009-2012	Moscow City Foreign Economic and International Relations Department, Moscow City Economic Policy and Development Department, State Debt Committee of the City of Moscow

3. Special activities aimed at developing the Russian financial market

No.	What needs to be done	Objective	Timeframe (years)	Moscow executive agencies responsible
3.1	Support listings of large and medium-sized infrastructure enterprises in Moscow	Raising the capitalisation of the Russian stock market, using the stock market to further develop Moscow infrastructure enterprises	2009-2011	Moscow City Economic Policy and Development Department, Moscow City Department for the Support and Development of Small Businesses, Moscow City Property Department, Moscow City Property Department, State Debt Committee of the City of Moscow