

Capital flow: a cluster of skyscrapers in Moscow's financial district on the Moskva river



## MOSCOW MAPS ROUTE TO LEADING IFC STATUS

*Moscow is already the financial hub for the former Soviet territories, but formidable legislative and infrastructure hurdles stand in the way of its aspirations to become a global IFC. Now the city and the Russian state are striving very seriously to address these issues, says Yuri Roslyak.*

**THE BANKER'S** INTERNATIONAL FINANCIAL CENTRES (IFCs) RANKINGS put Moscow in 36th place this year, down from last year's 30th. Does this mean that Moscow is an outsider with diminishing chances of becoming an influential financial centre in the near future? And how does it relate to other emerging markets' IFCs?

Undoubtedly, Moscow ranks high 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 (CEE). As the original centre of Russia's financial system, Moscow accounts for more than 80% of the country's money flows and more than a half of Russian banking capital. The city houses close to 90% of the Russian

headquarters of foreign banks and international financial organisations doing business in the country, and is the centre for virtually all Russian trade in securities organised on exchanges.

Meanwhile, the growth rate in the foreign exchange trade volume has made Moscow Interbank Currency Exchange (MICEX), Russia's leading stock exchange, one of the largest stock exchanges worldwide. The volume of transactions on the foreign exchange market in 2009 reached \$3001bn, 12% more than in 2008.

MICEX is a global centre where liquidity accumulates and is the main stock exchange for international portfolio investment into leading Russian companies; in 2009 MICEX's share of the turnover in Russian equities and bonds reached 96%. That year, the volume of transactions in this market segment reached \$1304bn.

By total volume of trading, the MICEX group is the largest exchange in Russia, the Commonwealth of Independent States and the CEE countries. For the period January to May 2010, MICEX ranked 20th among the world's largest exchanges by volume of trading on the stock market, according to the World Federation of Exchanges.

MICEX's main Russian competitor is RTS Stock Exchange. In 2009, despite the

challenging and turbulent economic environment, RTS managed to do fairly well during the reporting period – the trading volume on all RTS markets hit a record high of \$799bn by the end of the year. RTS was ranked ninth in 2009 in the list of top derivatives exchanges worldwide by the number of futures and options traded and/or cleared.

### INTERNATIONAL COMPLIANCE

One of the key obstacles hindering the development of Moscow into becoming one of the world's leading IFCs is the fact that the Russian legislative and institutional infrastructure does not comply with international standards. At the Presidential Council for Financial Market Development in February 2010, Russian president Dmitry Medvedev said “the creation of a legislative foundation for an IFC in Russia is still on the agenda – it is the most urgent task”.

Mr Medvedev has since signed a decree to set up the Moscow IFC International Council. Representatives of influential international financial institutions such as Deutsche Bank, Morgan Stanley, JPMorgan Chase, PricewaterhouseCoopers and the London Stock Exchange have confirmed their membership of this council.

The work carried out by the Russian Federation government and the city of Moscow government should be aimed at:

- The development of Moscow as a leading IFC, supported by a national financial infrastructure and regulatory environment to speed up the country's economic development and ensure Russia's leadership in Eurasian financial markets;
- The integration of the Russian financial services sector into the global financial markets as a significant player;
- Building up an effective financial infrastructure, broadening the range of available investment opportunities and increasing the number of institutional investors;
- Creating a favourable environment for an inflow of investment to Russia from the global capital markets, facilitating an increase in the volume of initial public offerings and stock market and derivatives trading;
- The development of an up-to-date financial system to meet international competition, which will have a positive effect on every sector of the Russian economy and contribute to increased state revenues, better business infrastructure and better living standards for Moscow residents;
- The establishment of an efficient labour market in the Moscow financial services sector;



ONE OF THE KEY OBSTACLES HINDERING THE DEVELOPMENT OF MOSCOW INTO BECOMING ONE OF THE WORLD'S LEADING IFCs IS THE FACT THAT THE RUSSIAN LEGISLATIVE AND INSTITUTIONAL INFRASTRUCTURE DOES NOT COMPLY WITH INTERNATIONAL STANDARDS *Yuri Roslyak*

- The promotion of Moscow as a thriving financial centre and raising investors' confidence in doing business in Russia.

### TAX REFORMS

As a part of this work, the Russian parliament has passed Federal Law No. 281-FZ, introducing important changes to the tax treatment of securities and derivatives trading, repo transactions and stock loans in Russia, as well as other related measures. Provisions of the new law include the following:

- Under the new rules, securities must have a market quotation calculated within the three months prior to the transaction to be recognised as tradable securities for tax purposes. For non-tradable securities, the reference price can no longer be determined from the price of similar securities, which eliminates the risk of the Russian tax authorities choosing inappropriate comparables. The procedure for calculating the reference price for non-tradable securities is to be established by the Federal Service on Financial Markets (FSFM) subject to approval by the Ministry of Finance.

- Law 281-FZ harmonises the definition of derivatives with the concept set out in another federal law. This list of derivatives types (including forwards, futures, options and swap contracts) is to be adopted by the FSFM. Derivatives having an underlying asset calculated through changes in statistical information or environmental indicators (such as weather derivatives) are not recognised as derivatives for tax purposes in Russia.

- Law 281-FZ also introduces detailed rules clarifying the tax treatment of repo transactions (including cross-border repo transactions) and stock lending.

- The new law has improved the tax regime for securities and derivatives trading for individual investors. Individual investors have been given the right to carry forward losses on tradable securities and tradable derivatives for 10 years.

Turning Moscow into a leading IFC will be essential in turning Russia into one of the global economic leaders. It must be a centre for global investment, information and intellectual resources, an engine of economic growth in the context of the rapidly developing transnational economic environment, increased mobility and integration of financial markets. <sup>11B</sup>

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