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Russia's New Horizons

UNDERPINNING RUSSIA'S FINANCING ASPIRATIONS

Panel

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Moderator:

Viatcheslav Pivovarov, Chief Executive Officer, Altera Capital

Panellists:

Alexander Afanasiev, Chairman of the Executive Board, Chief Executive Officer, Moscow Exchange

Ruben Aganbegyan, Chief Executive Officer, Otkritie Financial Corporation

Patrick Clackson, Chief Executive, Corporate and Investment Banking, EMEA, Barclays

Alexey Moiseev, Deputy Minister of Finance of the Russian Federation

Dmitry Pankin, Head, Federal Service for Financial Markets

Denis Shulakov, First Vice-President, Gazprombank (Open Joint-stock Company)

Sergey Shvetsov, Deputy Chairman, Central Bank of the Russian Federation

V. Pivovarov:

Good evening. I suggest we begin. All the participants are here already. I am pleasantly surprised: it is six in the evening and the auditorium is completely full. We will try to leave some time at the end for questions from the audience. I am Viatcheslav Pivovarov, the Chief Executive Officer of Altera Capital and the moderator of today's session. The organizers have told me that they have prepared a short video on the topic of our discussion. I think we can watch that now.

Voiceover:

To create an internationally competitive financial center, Moscow relies in part on strengthening its insurance and pension industries. While these initiatives have large challenges, both hold even larger potential. Russia is comparatively underinsured for property and even less so for lives. Just 1.2% of Russians have personal insurance, versus 8.2% in the EU. For life insurance, the take up is less than 0.2%, so there is room to grow, and it has been doing so, bearing 43% in 2010 and 54% in 2011. At this pace, life insurance funds could be large enough to be useful for long-term internal investment capital within a decade.

The Russian government is reforming the sector overall, reviewing insurance law, making insurance fraud a criminal offense and streamlining online buying. Currently, most sales are by banks, card dealers or travel agents, who typically charge large commissions. However, an increase in direct Internet sales, and a consolidation favoring major institutions, are disruptive forces coming to play.

The pension system in Russia is undergoing a major reform; differing approaches are being hotly debated. Some fund managers worry that current strategies will reduce the amount invested into private pension funds, at least in the short term, although the government plans to incentivize workers to increase their fund contributions voluntarily and to stimulate corporate pension rates.

Are the steps, under way now, enough to help Russian meet its aspirations in the long-term? How can Russia attract organizations and professionals from abroad, to accelerate this process? What can be done to nurture a positive attitude towards insurance and savings in Russians so that B sectors can reach their full potential? We invite the debate.

V. Pivovarov:

That was an excellent video. It seems to have answered the majority of the questions we wanted to ask today.

Allow me to introduce our participants. I believe their high calibre is what attracted this kind of audience. From the far right, we have: Denis Shulakov, First Vice-President of Gazprombank; then Patrick Clackson, Chief Executive, Corporate and Investment Banking for Europe, the Middle East, and Africa at Barclays; Ruben Aganbegyan, Chief Executive Officer of Otkritie Financial Corporation; Alexander Afanasiev, Chairman of the Executive Board and Chief Executive Officer at the Moscow Exchange; Sergey Shvetsov, the Deputy Chairman of the Central Bank of the Russian Federation; Alexey Moiseev, Deputy Minister of Finance of the Russian Federation; and Dmitry Pankin, Head of the Federal Service for Financial Markets.

The topic of our discussion today is the global financial centre (GFC) and the financial infrastructure of the Russian market. This is one of the main areas of focus in the government’s strategy to speed up Russia’s economic growth. This issue truly demands a concentrated effort: at present, Russia’s capital markets equate to approximately 40% of GDP, which is considerably lower than the same measure in the US, where it is around 100% of GDP. Even more important is that Russian stocks trade at a significant discount, not only compared to developed and developing companies, but also compared to their own fair price. We usually hear two explanations for this and today’s discussion will probably centre on them. First, further development of the financial market infrastructure is necessary, so that global players can fully participate in it. Secondly, we manage a limited amount of long-term domestic instruments that could be placed on that market. This would decrease its volatility and increase the value of Russian stocks.

I would like to ask Patrick Clackson to start the discussion.

I would like to ask Mr. Patrick Clackson to give us a brief, comparative assessment of the current financial infrastructure in Russia; in comparison to other leading global financial centers. Based on this, could you provide us with some thoughts or recommendations on where the Russian financial infrastructure can move forward to achieve the objectives that the government would like to achieve?

P. Clackson:

Thank you. Good afternoon, everyone. I thought that perhaps one interesting way of looking at the Russian financial infrastructure was by comparing it with London, as I know the London market quite well. If I may take you back 30 years – thirty years ago, the London market was competing with all the other centers in Europe; it was a very domestic market. In the early 1980s, four things happened. The first one was Prime Minister Margaret Thatcher. I do not know if any of you remember the Thatcher government. It did a few things. The government under Prime Minister Thatcher abolished foreign exchange controls in the UK. They introduced a massive privatization program, about 100% of pretty much every asset the government owned. It deregulation the market, which was nicknamed the 'Big Bang'.

The Big Bang was Prime Minister Thatcher's way of dealing with what she believed were two problems in the London market at the time. One was that she believed the market was overregulated. The other one was that she thought it was run by an elitist, 'old-boy' network; that the whole market was run by people who went to the same school and the same university, and that the only people who could get the best jobs had to be friends of friends. Thatcher believed in free market doctrine and unfettered competition. A new, much clearer regulatory regime was put in place. The United Kingdom had hundreds of regulators. It ended up with one regulator for all markets and all institutions. It was cutting edge, robust, but also pretty simple.

Today, some people look at that liberalization and see it as one of the causes of the 2008 crisis, and so people probably look at Thatcher's reforms in a different light. At the time, however, that liberalization resulted in a huge boom in the London market. And even though the UK is a relatively small size and has a small domestic market, it has been able to retain that position ever since then for the last 30 years. Just to give you an idea of how strong London is: 45% of global foreign exchange is traded out of London. London did not suffer at all when almost all of Europe converted to the euro. It actually did not lose any business. Despite those sorts of things happening, London has maintained that strong position.

What are the London's strengths? How is it able to stay so strong? London has some enduring advantages. It has the English language, good international travel links, a skilled workforce and a stable, independent and predictable legal system. It has also benefited. Once you are a financial center, you receive liquidity in your markets; that gets more flows into your markets, and you have a self-reinforcing factor, which makes it quite difficult for other places to compete with you.

When I look at London, I think of five things which make London strong: location, language, legal system, labor and liquidity. I thought of five words beginning with 'L' – L for 'London'. If I look at those five items therefore, how does Russia compare?

First, location. Russia is, as you all know, is the heart of many global trade routes. It feels to me that, as the economic centre of the world shifts across to Asia, Russia's location is optimal. Russia is in the right place. Second, language. Russia, in a way, benefits like England does. Russian is a language which is spoken in quite a few countries outside of the Russian Federation. But it also has a very well-trained multilingual workforce. So in terms of language, Russia also has a strong position.

Regarding the legal system, the UK enjoys a huge benefit. Its legal system has been tried and tested. People have been through downturns. Companies have collapsed. Things have gone wrong, and people have seen how the legal system works, and it is predictable. People believe it is independent and predictable. The problem is, again, for almost anyone who is competing, however good your legal system is, people are going to want to see how that is applied and what happens when times are tough. It is actually a very hard thing for other jurisdictions to compete if their legal system has not had that same tried and tested evidence. As I am sure many of you know, some countries, such as Dubai, have tried to get around that factor by setting up a financial center using English law as the law for that financial center.

Fourthly, labour, or work talent. Russia has a highly educated, talented population. Looking at London, why has London done well? London's done well because it is a place where people like to work. If you go onto a trading floor in London, you will find as many Germans, Italians, French and Russians as you will English people. To get your financial center to work, Russia has to work out how it can motivate its the talent to stay here. If Moscow is a financial center, then Moscow has to be a place where people want to live and work.

The fifth factor – and in my mind, the most important – is liquidity. If I am an investor, I care more about liquidity than anything else. I am going to invest my money in whatever market it is. But in a market in Russia, when I want to get my money out, how easy will that be? If I am an investor, I am always going to want to put my money in the most liquid market possible. Even if I have got the same asset trading in two different markets, I will pay more for that asset in a liquid market.

I have heard a really simple example. As many of you probably know, Royal Dutch Shell is listed in Amsterdam and in London. Its trades shares at a premium in London because those are the shares which people think they can liquidate more quickly. Russian shares traded on the Moscow exchange and in London generally have the same thing – they trade at a discount on the Moscow exchange because investors are taking the rational choice and saying, "I am going to invest where the market is most liquid." So liquidity really matters. But the problem with liquidity is that it is dependent on many factors: taxes, regulation, transparency of information and transferability of legal title. To get things to work for the investor, all of these factors need to be aligned and made simple. I was listening to the Russian Federation – United States panel earlier today. In that discussion, some of the Americans commented that what American investors demanded was transparency, corporate governance and clarity around beneficial ownership. All of these are things which a market needs to become truly liquid.

In summary, I think the thing Russia needs to do, and it is working on this, is to figure out how it can make investors' lives easier. It has many advantages: a great economy, companies raising equity, a large privatization program and lots of liberalization going on. It has a lot of the factors that London had 30 years ago. The focus though, I believe, has to be on building talent, increasing liquidity and demonstrating that the legal system is predictable and independent.

V. Pivovarov:

We have now heard a preliminary analysis. The speaker believes that Russia is already in a good position today, and that, most importantly, it has excellent potential. I think the next speaker should be from the Moscow Exchange, which is the heart of the global financial centre in Russia. This is one of our biggest success stories. First and foremost, I am referring to the Exchange's IPO. Could you share your achievements, as well as point out the most important current challenges and the problems you are going to have to address in the short term?

A. Afanasiev:

Thank you very much, Viatcheslav.

We are setting the bar high right away, comparing ourselves directly with London, then calling the Exchange the heart of the market and only afterwards letting the government agencies speak. The pressure of expectation on the Exchange, especially after the unification of all the exchanges, really is extremely high right now. There is also a great amount of general attention on the financial market. Look at the figures on the screens now: you can see what a small amount of leverage we have. Meanwhile, Russia is seeing significant economic growth. If you take the average for the last seven to ten years and compare it even with that of countries like Brazil, China, and India, we are going to look completely respectable. The developed economies lag far behind us. I should add that we are the ninth-largest economy in the world by volume. These data, taken together – measures of current capitalization and the debt-to-GDP ratio – tell us that our economic growth is currently being driven by sources other than the financial market. These kinds of trends, which are being seen the world over at the moment, are our key challenges. How are we responding to them? Presently, it seems that the most important trend is the globalization of trading technologies as the nationalization of markets and the centralization of post-trade systems continues.

What does that mean for us? First, it means the globalization of technology. This is a completely different situation to the one described by our British colleague when he was talking about the Thatcher era. That was a different world. It was different from the point of view of risk management, trading technologies, and globalization. Even the concept of emerging markets barely existed back then. The competition between markets, including developing markets, was completely different. We joined that world 20 years ago and our financial sector is in a much more complex situation now than even England’s was in the 1970s.

Nevertheless, a good deal has already been done and continues to be done. Infrastructure is developing in line with those two major trends. Market globalization means we have to create a more comfortable situation for global players. First of all, protection needs to be provided for investors and a central depositary has to be created. This has already significantly increased the level of investor protection in Russia. We need to talk about this and spread the word, because Western funds are not always aware of what is going on here. We are seeing a tendency for the centralization of risk management at the post-trade system level. Central clearing procedures have already been created on nearly all exchange markets. A transition from the T+0 model to the so-called T+ model is ongoing. T+0 was a good model for a market in its infancy, but those times have passed. This process is now nearing its conclusion. Our infrastructure is becoming comparable to international standards.

This is not just being done for the global players. The most important thing is to open up domestic consumer demand for financial services and for the participation of our legal entities and individuals in the financial market. Until now, that involvement has really been low-level. The share of pension funds operating on this market is less than 2.2%. This is probably the lowest level of its kind even among the developing economies.

Individuals are used to going to brokers in order to be provided direct access to the exchange. Then they go there as if they are going to work: they look at the screens themselves and engage in speculation. Other products need to be created for them, products that will be of interest even to the most conservative of investors. Today, an important international trend is product sophistication. Products are becoming increasingly complex, which attracts new groups of market participants.

There are three very simple keys to domestic demand. The first is to change the way pension funds operate: they need to be given the opportunity to invest. Nearly everyone agrees with this. We are participating in various meetings at different levels in order to overcome the last obstacles to this. However, the last ‘i’ has not been dotted. The reasons are clear: interdepartmental agreements are needed. I think our colleagues from the government agencies will discuss this. Nevertheless, this is not yet a done deal. As of now, the fact is that we have an agreement in principle, but that is all.

Secondly, changes need to be made to the investment policy statements of sovereign wealth funds. Of course, the interest of individual parties is highly significant. The financial market has two very powerful competitors: the bank deposit market and the real estate market, in which our citizens are currently investing to a much greater extent than they are in the capital markets. But capital markets are not just about stocks. The last crisis showed that market participants are not very eager to accept market risk because it can very quickly became a credit risk. Nevertheless, products that are linked with interest rate risk and with things that fall under the definition of fixed income are now successfully being developed on the exchange. Thanks to the opening of accounts for sovereign bonds, they have doubled in the first quarter of this year compared to the same period last year, as have repurchase agreements. Currency swaps, which are more an instrument for managing interest rate risk, surpassed spot operations on the Forex market for the first time in the history of the exchange. So the interest is there. The diversified model of the Moscow Exchange more than makes up for the depressed returns from the stock market. Nevertheless, the range of products currently on offer to clients of professional capital market participants is probably inadequate.

Finally, we have tax incentives. We now hear that we need to make them equal to the tax breaks in effect on other markets. There are tax incentives on the bank deposit market and there are real estate tax breaks. There are good proposals from the Ministry of Finance, although, in my view, freedom from capital gains tax after three years of holding the stocks (as is the case for real estate) is probably insufficient. This should come after one year. Real estate is a much slower product: you cannot buy it quickly, and it is difficult to sell quickly because of the specifics of the market. What takes a year in the stock market requires three for real estate. This scale could most likely be applied in calculations.

Finally, the third key is the emergence of new names onto the market. For example, a famous IPO, a famous story about the entry of new companies. Of course, during a recession, the motivation of market participants falls: new businesses are being not created, and so there are no new trading ideas. Privatization is one of the keys to making these new names emerge, notably those of active, well-known companies that are well-run.

These are the three keys to the domestic market. We are gradually beginning to apply them. Not everything has been achieved yet, but we really hope that this will trigger explosive growth in the capital markets, although not necessarily the stock market.

I have a few more points to make. We are currently bringing foreign assets onto the exchange. Yesterday, we signed an agreement with Deutsche Börse: futures will be issued for five German stocks. These stocks are beloved in Moscow and St. Petersburg because among others, there are stocks from Daimler, Volkswagen, and BMW. So this covers a substantial part of the cars owned in the two largest cities in the country.

We have issued foreign ETFs. One has been issued so far and the next ones are in the pipeline. We are also seeing the return of Russian companies that left for other jurisdictions. Just a few days ago, we saw Polymetal list, and a few more companies will follow soon.

That is all very positive. What else do we need? Financial market infrastructure is not only about the exchange, but also the participants and regulation. We expect more creativity in the introduction and development of new products, which will bring in new groups of potential market participants: individual investors, first and foremost. These are not the sort of people who will be day traders, selecting strategies by themselves. That is most likely where the future lies.

As far as regulation goes, the desire is to work under the conditions that were called outcomes-focused regulation in Singapore. The idea of this approach is simple: a certain precise goal is set and there is an understanding of what we want to achieve with a given regulatory measure. From our point of view, that goal should be increasing price quality. That is, not the quantity of these prices, but their quality. Price quality not only incorporates how much something costs, but what kind of risk management stands behind it; on what kind of structure it is based; and what expenditures have been implemented by the trade organizers. And then, protection of investors' rights is very important. This is connected with listing and the development of corporate governance. Finally, the centralization of risk management and the determination of its rules for market participants, in addition to the diversification of their types, are important. Not everything is for everyone. Not everyone should simultaneously be clearing members and trading members on all the world's exchanges and trading floors. In relation to this, aggregation is extraordinarily important, especially because we now have a unified mega-regulator.

And here is the last important component. Our colleague from London reminded us just now of the substantial difference in price between Russian assets traded in Moscow and, for example, those traded in London. It is customary to think that that happens because we do not have such a convenient system of settlements and security deposits. That is not the case anymore, but not everyone knows that. We have a central depositary and a convenient settlement system that is hardly different from the global one, although that is still news to the markets. The difference in price exists exclusively for those stocks for which the DR issue limit has already been exceeded or nearly has. If it is approaching 25%, then most likely, supply-demand dynamics will take effect. If there is a shortage, it grows somewhat in price. For stocks where the limit is still far from being reached, we do not see any difference.

We have gathered here to, among other things, bring you information on the substantial changes in the infrastructure of the Russian market. Perhaps you will help us spread information about these changes, which enable us to globalize international trading technologies and strengthen the local market. That is also the foundation of the financial market from the point of view of its liquidity pools and post-trade structures. Thank you.

V. Pivovarov:

Thank you, Alexander. You have reminded us of the government's role in the financial sector. For that reason, my next question is for Sergey Shvetsov. It would be fair to say that the Bank of Russia is one of the ideologues behind the development of the Moscow Exchange. The Bank of Russia is also one of the largest participants on the monetary market. My question is this: how does the Bank of Russia see the further development of this market, as well as the facilitation of the financial stability of the GFC in Russia, in the context of what I hope is the now-finished global financial crisis?

S. Shvetsov:

Thank you, Viatcheslav. I will try to speak briefly, as we are a bit behind schedule.

Yes, in conjunction with other banks, the Bank of Russia did create the Moscow Exchange; it brought it to its IPO and plans to sell its stake. All the decisions have been taken. Before March 2015, a deal will be made and our 23% share will be sold, no matter what. That is good news. It is good because – and here I am in agreement with my English colleague – business should be in private hands. It should be directed by market forces. But the Moscow Exchange is not just a business. First and foremost, it is also our infrastructure. So swapping influence over the development of the Moscow Exchange for influence over the quality of the regulator is the logical and appropriate step for the government and the Central Bank. In September, the Central Bank will be consolidated with the Federal Service for Financial Markets. This will allow market participants to weather the Central Bank's capital withdrawal safely. In terms of measures to provide financial stability, we are not just going to look at the development of the Moscow Exchange, at the CCP: the National Clearing Centre and the Central Depositary. We are going to put even greater oversight in place. As before, we will bear responsibility for the infrastructure, but not as an owner now, but rather as the unified regulator of the entire financial market.

Russia's oldest problem, starting in the Russian Empire, continuing throughout the Soviet Union, and now present in the Russian Federation is, as they say, 'fools and roads'. In terms of the financial market, I would say that the investment the government is making in infrastructure and in improving regulation is going to repair those very roads. Without good infrastructure, trading losses in Russia will always be higher than what investors will tolerate. When talking about a break strategy, we need to understand that withdrawal from an investment is determined by market depth. Market depth is determined by spread and spread is determined by losses. If you have large trading losses, you have a wide spread, low liquidity, and a shallow market. Our task is to increase the size of the market on the one hand, so that infrastructure losses are reduced, and to improve the exchange's effectiveness on the other. And here, it is extremely important to us that the reduction in volume does not take place due to risks. Financial stability is achieved when markets function normally and insurance premiums are kept to a minimum.

For better or worse, the largest risk on the financial market is a loss of trust. That loss of trust is like a plane losing the speed it needs to maintain in order to stay in the air. If a plane flies too fast, it breaks apart; if it flies too slowly, it falls. The Central Bank's task in facilitating financial stability is to ensure that the market functions at a speed that corresponds to the level of leverage. We can see the giant potential Russia has for leverage growth. This opens up big opportunities for infrastructure, for both issuers and investors. But this process needs to be accompanied by an increase in market transparency and a reduction in risk associated with financial stability.

What does the Central Bank do? We have three lines of defence. The first line is preventive. We are taking measures to regulate the market adequately and to analyse the connections there are on the market; online, we are analysing the trade links between banks, brokers, dealers, and large investors. This allows us to see in good time where the pressure points are and to relieve those points if they are having a systemic effect.

Then, we have a financial literacy programme. It is impossible to create an adequate market if millions of unaware – or sometimes reckless – individuals are going to participate. Because they, like a flock of sheep, are going to run in the same direction because they do not understand what is happening. It is the herd mentality. We need to invest in financial literacy. These are long-term investments, but they are highly effective. Today, the Ministry of Finance holds programmes (maybe my colleague will talk about them). Now there are also private programmes for the creation of educational courses for secondary schools. Because no one older than 22 is amenable to learning. Some of course are but, believe me, the majority are unteachable. Our largest client in terms of education is secondary school pupils in the 9th, 10th, and 11th grades and students at institutes of higher and specialized professional education. We simply have to teach everyone how to assemble and disassemble a Kalashnikov. Translated into financial terms, this means we have to teach them how the financial market works and when to buy and sell. You cannot build a financial market where everyone is confined to technical analysis because technical analysis gives rise to a herd mentality. We need a long-term investor who knows what the score is. This first line of defence – forestalling problems related to financial stability – is the most important.

The second line is the localization of any problems that arise. We have cost-benefit analyses, which say that a 100% result will be more expensive than the benefit from that 100% result. Therefore, any activity comes with inherent risks. Certain problems definitely could arise for us on the market. The saying comes to mind: ‘To close the stable door after the horse has bolted.’ In 2008, the horse bolted. We created a vast array of instruments for the Central Bank: it can now take effective measures to provide financial stability and end specific problems. These instruments include the special financing of individual banks in order to remove critical assets from the market (this was used in 2008 to unload the repo market), to finance credit organizations (with stock as security, among other things) and many other excellent methods.

The third line of defence is to overcome large systemic crises that might be caused by systemic shocks. Over the 20 years of the Central Bank’s operations, we have accumulated a rather large amount of experience in applying measures like that. In today’s Russia, thank God, there is a reserve fund. Our ability to stop problems that are no less serious than the ones in 2008 is sufficient to overcome these negative events. For that reason, I would like to say that the reins are in the hands of the Moscow Exchange and our business is to provide a competitive environment for the banks, brokers, and dealers. We need to provide an adequate level of financial literacy to the population because they are our anchor investor, including their pension savings.

The last thing we need to do is to keep up with the global risk reduction trend. We should not be competing in terms of risk. Russia does not need to be a riskier country. We need to have mechanisms in place that allow foreign investors to assume the risks they want and not to encounter anything unexpected. Corporate governance reform is part of that work and it is going full speed ahead. Thank you.

V. Pivovarov:

Thank you, Sergey, for those excellent analogies. I cannot help but ask Dmitry Pankin to comment on the idea of the ‘herd mentality’ and then request that Alexey Moiseev talk about the ‘fools’. Incidentally, talking seriously now, the unification of the Federal Service for Financial Markets and the Central Bank has created a mega-regulator. Many are now wondering what the influence of this super-organization will be on the financial industry. That is probably the first question: what are the goals and what will be the influence of this agency?

My second question is a continuation of a question raised by Sergey. The protection of minority shareholder rights and the problem of corporate governance culture as a whole are connected with the development of the capital markets. To this day, we have a good number of examples of minority shareholders' rights violations: shareholders may discover unexpectedly that they are no longer shareholders. How does the mega-regulator intend to address those problems and what should we expect in the short-term?

D. Pankin:

Thank you, Viatcheslav.

We should probably start with the mega-regulator. Over the past six months, all we have been hearing is, "mega-regulator, mega-regulator." Yes, the Federal Service for Financial Markets and the Central Bank are going to be unified. But that is not the question. The question is: what is to be done in reality? We could talk for a very long time about the structures and functions and about how the departments are going to be redistributed within the Central Bank. But the principal question is: what is to be done in reality with the regulation and supervision of the financial market? What are the key steps that need to be taken in this area? It is time to move the emphasis from conversations about the mega-regulator to a discussion about what the real steps should be to return the most important thing to the market. I am in complete agreement with my colleague from the Central Bank that the most important thing on the market is trust. If there is no trust in the financial market or insurance market, than how can we reach the metrics mentioned before: in other countries, insurance premiums represent 8% of GDP, while in Russia, insurance premiums are 1% of GDP. How can collective investments flourish when there is no trust in the existing forms of collective investments or in investment companies? The main task of the regulator now is to concentrate on the transition to having control over the level of risk that financial system participants take on.

What is happening now? How does the regulator operate? How does supervision take place? Our main job is to make sure that the rules and procedures are followed. Does a professional participant need to submit accounts? We make sure that they are submitted. What about if they are not? It goes badly for that company, which will face injunctions, fines, and revocation of its licence. But, as a rule, when accounts are not submitted, it is too late: that means that there is already no money, and most likely, there are not even any employees in that financial institution. This means that it is necessary to make an initial analysis of the financial condition of this participant and to control the amount of financial risk it is taking on. We have to restructure the supervisory agency's entire response system.

Right now, our reaction time is far too slow. This system – the collection of quarterly, if not half-yearly, reporting, and then the writing of an injunction, followed by the analysis of the reaction to the injunction – is absolutely unacceptable in our modern, fast-changing world. We need to switch to operating in real time. We need to see the situation on the financial market, see what is happening with a given participant on that market and have the opportunity to take adequate measures. Right now, the legislation is such that we often do not have any opportunity even to restrict operations. So we see that a violation is occurring, that assets are being siphoned off, but we cannot do anything and we just write an injunction saying that the culprit has to bring certain metrics into line within a month and present a report on the measures taken. The result is obvious: there are no assets and no employees, but there is a crowd of swindled investors or holders of insurance policies for which money is not being paid out. In my opinion, we need to concentrate on this now and I hope that the unification with the Central Bank will give us the necessary opportunities and resources to work in this arena. Our priorities are speed of reaction, risk-oriented supervision, and the imposition of proper sanctions on violators on the market.

The protection of minority shareholders is also a very important issue. This is a double-edged sword. On the one hand, we have large issuers who are moaning because they are being ripped off by one shareholder who is trying to obtain information the company should not disclose, throwing spanners in the works and preventing shareholders' meetings from being held. On the other hand, there is a huge number of examples in which the rights of minority shareholders are violated: mandatory share buybacks do not happen or activities go on that lead to the violation of their rights. We need a balance here and our challenge will be to find the balance of rights between the interests of minority and majority shareholders. In the process of the unification with the Central Bank, it is very important to preserve the functions of control and protection of the rights of shareholders, as well as placing these issues at the centre of attention in the unified service. Thank you.

V. Pivovarov:

Thank you, Dmitry.

Dmitry and Sergey have given us a good answer to the question of where financial industry regulation is going. It would now be logical to ask Alexey Moiseev a question about the development of the GFC. In the press, we often hear it said that global financial centres and investments are set to become one of the main drivers for speeding up the country's economic development. It would be nice to hear more detail about the main reforms the Russian government is working on and about the results we can expect to see in the short-term.

A. Moiseev:

Thank you very much, Viatcheslav.

Three or four years ago, one of the panel's participants said that he did not care whether we got a GFC or not: the most important thing was for us to organize normal financial markets as we went along. I actually adopted that sentence as my motto: it largely reflects the point of our activities.

In my view, it is not the goal of the GFC, in and of itself, to make foreigners come and invest in Russia. You could achieve that fairly easily. For example, you could cancel the taxes on some specific operations that are subject to taxation in other countries. I can guarantee you that those specific operations will happen only in Moscow. You can find things like that to do if you set yourself that goal. But the thing is that building a GFC is not a goal in itself. The real goal is to build financial markets that will be sources of investment for the Russian economy.

I was shocked when one of my government colleagues said, in the heat of a debate at a meeting, that our market is not a source of investment. I was going to start arguing with him, but then it dawned on me that, perhaps in some sense, he was right. Our capital markets really are in a condition where they cannot be viewed as a reliable, stable source of long-term investments. In the first place, it is an IPO market and a market for listing bonds with longer than a five-year term. This situation is in no way good for us. The President has set the goal of significantly increasing the share of investments in GDP. This goal is dictated by the condition of our economy, which is currently hostage to many years of salary increases that have outstripped growth in labour productivity. Labour productivity will not grow while there are no investments. We have wound up in a closed circle, in a world in which, according to the IMF, an investment deficit is going to be seen for many years. We cannot rely on other countries to help us in this situation. We need to count on our own efforts. For that reason, the main goal of the reform is to attract domestic investors.

I agree with nearly everything Alexander has said: regulation is now set up in such a way that a retail investor has no reason to enter the market unless he really wants to speculate. From the tax perspective, a deposit is better. From a reliability point of view, certainty in supervision and even in direct protection through guaranteed investments, a deposit is also better. And income from deposits is substantially higher. Moreover, there is a system for the protection and insurance of investments. I see the reform as the creation of a system of positive and negative motivations for people to enter the financial markets.

The first positive motivation is the reform of the non-governmental pension fund regulation system. The market has been asking for that for a long time. In principle, nothing new is required. Everything is built on how we regulate the investment process. That is, this is a December 31 problem: a ban on a negative financial result for pension funds. This involves the opportunity to switch from fund to fund on an annual basis, as well as questions connected with how funds can invest. You know, we have now permitted funds to enter the primary market. The declarations system is being reviewed and expanded. That is the first step.

The second step is the reform of the pension system, which was built on unprecedented principles of duplication. Suffice it to say, in Russian law, in the grand scheme of things, there is no difference between pension funds and Greenpeace. If either is closed, all the assets should return to the state because pension funds, like Greenpeace, are non-commercial organizations and are regulated identically. We have just written a draft law in accordance with which pension funds will be established as commercial organizations: up to a given limit, they will seek to make a profit. They will be able to be bought and sold and so on.

Moreover, we are actively working with the OECD on the issue of setting up our pension products. The OECD calls them pension schemes, so in order to be compliant, we also have to call them pension schemes. The system that the OECD is proposing to us is very simple: pension schemes need to be funded and they need to be distinguished from other assets. In other words, the assets in which the pension scheme is held need to be separate from other assets. They need to have distinct characteristics: the number of years over which they are invested or drawn down. They should all be precisely distinguished. This draft law has been written and is being reviewed by the government. We very much hope that it will be adopted within seven government sittings. This is part of our OECD accession process. I do not know about the other elements of the accession, but this aspect will be very beneficial. We are beginning to build a new non-governmental pension fund system next to the existing one. We do not want to tear anything down. We are not saying that everything that has come before has to be stopped right away. As one of my colleagues said, nothing is stopping us from being smarter today than we were yesterday. Of course, we believe that we are smarter today than we were yesterday, but we do not need to travel down that road. We are not going to destroy the existing pension funds. We have a total of more than seven million people in the pension fund system right now, so we are not going to tear anything down. But we will be building a new system that will be based, first and foremost, on commercial principles (a pension fund as a commercial organization), and secondly, the structure of these pension schemes will be built on the principles recommended to us by the OECD. I hope we will launch it this autumn and, in the near future, we will develop a pension savings guarantee system.

In conjunction with the concept of a mega-regulator, we have developed the concept of a mega-liquidator. It has been suggested that the Deposit Insurance Agency become this mega-liquidator: that the Deposit Insurance Agency be assigned, among other things, the function of guaranteeing pension savings. At this stage, we are proposing to guarantee the face value of citizens' pension contribution savings in the mandatory pension insurance system. We will see how that will work. This system will inevitably include the creation of internal reserves based on actuarial analysis. Literally within the last few days, a law on actuarial business was adopted at its second reading. When creating a guarantee system, you have to create elements of procedural supervision. We understand that, without this, we will not be able to build a normal system. The desire to introduce guarantees pushes us to begin creating elements of procedural supervision, because we need to understand who to turn in to the Deposit Insurance Agency, and who not to turn in. We need to know not, as Dmitry says, when the last employees have already headed for the hills, but when there is still something that can be turned in, or at least when they have not yet thrown away the documents indicating how much the pension fund owes and to whom. Dmitry's presence is keeping me honest here: that used to be the case, on occasion. In addition to the creation of a unified regulator, the introduction of elements of procedural supervision will be a very important factor in increasing trust. The Ministry of Finance's working group on pension sector

reform has now developed a preliminary plan for the introduction of procedural supervision. I hope we will be able to implement it.
Now Sergey is going to tell me off because I have also violated a regulation. So I will just very briefly touch on the issue of negative motivations. We have three draft laws in the Duma at the moment. I hope they will be passed by autumn. They are intended to limit the misuse of deposit guarantees through deposit interest rates that are too high. The most effective measure will be a tax on refinancing rates of 3% instead of 5%. Remember that the tax on deposits is not 13%, but 30%; the tax rate there is prohibitive. Of course, universal life insurance companies also need to be founded. That is included in the OECD recommendations. We plan to incorporate universal life insurance companies fully into the pension system and regulate them just like we regulate the pension funds.

V. Pivovarov:
Thank you for that detailed answer, Alexey, and also for the small preview of tomorrow's session on pension reform. I would like to make note of the phrase, "Other countries will help us", on which we should not rely. Yesterday saw the conclusion of a session at the US Federal Reserve System. During that session, the Chair noted that, in approximately 12 months, the monetary stimulus programme will come to an end. Given this, money that might have gone to other markets, including Russia, is becoming less and less of a certainty. This brings up a question for our professional participants, for our Russian investors. Where are they seeing their development potential coming from in this context? How could it be accelerated?
I will begin with Denis Shulakov and Gazprombank. Over the last few years, Gazprombank has made a leap forward and become one of the leaders on the euro and local bond placement markets. Do you have a strategy for the development of other instruments in which Gazprombank might become a leader, thereby facilitating the development of the GFC?

D. Shulakov:

Thank you very much. In my experience, when you get down to the matter at hand, time gets shorter and shorter. Yesterday's market also demonstrated this: if there is domestic support, a good deal can be achieved. Yesterday, we were able to float preferred shares of Alliance Oil. The deal itself was not a large one, but it was only the seventh ICM deal from Russia. Although the company is listed on the Stockholm Stock Exchange, we were able to put the deal through, notwithstanding everything that is going on in the market. This was done just hours before Bernanke's announcement. Nevertheless, the deal is complete, with Swedish retail investors and Russian investors participating in it.

Now I would like to address what has been said about national investors. I took a bit of a risk at the beginning of the discussion when I put up a slide showing the potential of the Russian financial market. I am very gratified that my fellow panellists used it for reference. There is actually no contradiction between the capital markets and the deposit market, because 'both are worse'. If you really look at the upper right-hand corner of this slide, you will see that it shows our lag as a whole on the financial market: we are in ninth place. A lot of people sitting in this auditorium are probably not happy to see that. This market includes both deposits and derivative instruments, but most importantly, it includes credit and the foundation of the market: market instruments (securities and stocks).

Why am I showing this slide here at all? It is not to scare you and make you say, "Well, we already knew that things are not going very well." Actually, our financial assets to real economy ratio is as follows: for every dollar in the real economy, there are two on the financial market. If we lose one, there will be nothing left to play with. The right to take risks is practically gone. Look: not only are we lagging behind the developed countries we consider to be our G8 partners by a wide margin, but we are also behind the emerging markets (the slightly lighter green colour).

This slide is a template. We did not come here today to propose complete solutions, but to do some thinking. We are working with all the regulators, market players, and investors. I came from Barclays just eight months ago and I did it completely deliberately. I realized that the moment has come for the market to make a quantum leap: a good deal is changing and the very tone of this discussion speaks to what these changes are leading to. On the market, there are professionals and virtual teams. I did not have the faintest idea that I would end up sitting next to my former Barclays colleague, but that is what happened. I am very glad this happened: in some way, it could be taken as an aside, but the first rouble bond was created by Barclays for Gazprombank. Such is life.

The main thing that probably inspired me to come here is that we have had success and it is important to share that success. To share success, and not just risk: that is the reason that we are talking today about the need to focus on the creation of a national investor. We also need to focus on the creation of an oil production champion and a fertilizer production champion. It is absolutely necessary to create our own financial investor. Work your way around clockwise to see why the template is the way it is. The debt market is where it all begins. Here we have the largest interest rate basis, but it is the most liquid market. This market determines the price for an entire class of debt assets and the aggregate price of companies when we get to the lower left-hand corner of our slide. The right-hand corner just talks about the fact that the traditional credit model is undergoing changes. The pressure from Basel III and the reduction in the number of players on the market makes that arrow of the compass lie diagonally, from south-west to north-east. Where should a Russian investor put his money today? That is an important question. Let us go to the next slide and see where our investor is.

This is an even more interesting picture, which shows that, in sum, just 8% of our GDP is under institutional management. Even if we took the average normalized metric and brought it into line with our BRIC partners, it would be almost 2.5 times higher. But I am not showing this to scare people. We have to acknowledge where we really are and on whom we can truly rely. That is the amount of money under management. The issue is not that it is small in comparison with the other BRIC countries or in relation to GDP. The key thing is that it is insufficient for the development of the financial market. We do not have enough of our own reserves. If you think about the fact that our total issue of domestic and foreign bonds is just USD 485 billion, and the free float of the Russian stock market is USD 260–280 billion depending on market fluctuations, then we have a situation in which with USD 160 billion we do not even cover a quarter on a good day. What supports this market, then? It turns out that the market survives on external resources. It could probably develop even further on those external resources, but serious changes will take place there too. As one of the speakers said today, you cannot develop a market on that kind of analysis because it truly survives on flows. It depends specifically on flows. We currently get the positive or negative change from our stocks or bonds. But we do not see the flows. The voice of experience says that, if it were easy to integrate into the global financial system, the leading Russian banks would have done so long ago. But the problem is that simple cooperation at the bank-to-bank level is not enough. With all due respect to my colleagues from Barclays, we need to recognize that we are competitors in the battle for access to the end investor, to the very same trillions of dollars that are currently being managed professionally abroad.

How do we access them? The first step has been taken. The beginning of the quantum leap was signalled by the decision to allow Euroclear and Clearstream onto the bond market. Look at what happened. Starting in October of last year, there was a huge influx of foreign money into Russian federal loan obligations. Today, it is 19% of the federal loan obligation market. Yes, the market is small – just 100 billion – but a fifth of it, 20 billion, is in the hands of foreigners. That is the most liquid segment of the Russian market today. Here we see good interaction between national investors – pension funds, national players and the Central Bank – and foreign investors. It would probably be nice to see that kind of success when working with the stock market. Right now, things are not very fun there. Whilst, in the US economy, we see 15% on the market, in Russia we have exactly the same thing, but with a minus sign in front of it.

Now I will make my last point. I was talking about the flow of funds. Look at the lower right-hand corner of the slide. Since January, we have not been able to boast of a single week with a positive flow of equity funds in Russia. From the beginning of the year, we have had more than a billion and a half in outflows.

Can this situation continue on the market as a whole? It would probably be good to count on us being able to form a debt market and move in that direction. But there is a gap here: no one has given up on the economics of capitalism. The debt-to-equity ratio needs to be a sensible one. If you do not comply with the target capital structure, you will not be valued on the stock market at all. For now, this gap is only increasing. It turns out that our leading, system-creating companies cannot further finance their development based on attracting money to their balance sheet alone. The price of their stocks is low; what could make it grow? What could attract money for infrastructure financing? The issue of investor–product equilibrium arises.

My colleagues have asked me to talk about which products we consider to be necessary. There are three classes of products. Privatization is also a product. Without infrastructure bonds, the market will die. But it is impossible to create that mechanism quickly because at least eight federal laws would have to be changed. Only then could we get a comprehensive instrument. The first steps in that direction have been taken: for the Finance and Construction Corporation and for Russian Railways, so-called infrastructure bonds have been issued. These are basically just inflation bonds, but they do exist. This is a practical solution with which it would be nice to start, moving step by step from there. Gazprombank is not the only one that needs to work on this. We also need foreigners who could price the bonds when they are at least analogous to something the pension funds would also participate in.

The second issue is corporate subordinated debt. That is another instrument that everyone needs. At the beginning of my speech, I talked about preferred shares. This was out of the need to supplement the capital base, because it is impossible to float common shares. And it is also clear what needs to be done. Changes have to be made to legislation that enable a ranking of creditors to be established.

Finally, there is privatization. At the very start, Patrick said that London’s financial centre became what it is today due to privatization. As part of the privatization process, we have an excellent chance to develop the institution of pension funds as investors.

That is all I wanted to say. Thank you.

V. Pivovarov:

Thank you very much, Denis. Ruben Aganbegyan is ready to speak now. Otkritie Financial Corporation manages large non-governmental pension funds that invest citizens' voluntary savings in the funded component of a pension. We could continue this topic after naming the main priorities of non-governmental pension funds, as they play a key role in the formation of long-term domestic investors. What stands in their way and what is their potential? Could you please take just a few minutes to answer that?

R. Aganbegyan:

We really have a strategic partnership up and running in this area. Everything I want to say about this has been said by Alexey Moiseev, and I was very glad that he and I agree on the priorities and on what needs to be done. I will say a couple of words about the financial market and about the role of the non-governmental pension system in the market, in the context of what has been discussed today.

Today, the financial market has three large 'pockets' containing money: the banking system; the insurance market, where a significant volume of premiums is being saved (not all these instruments lead to profit for the insurance companies; a large part of the premiums remain unprofitable); and, thirdly, the fairly large segment of the financial market, which could be described as the non-governmental pension system. If we look at the sources of long-term money, we see that this money's only de facto potential is non-governmental pension money.

What is missing? A system for the institutional management of citizens' money is missing and there is a lack of life insurance. The video we began with today truly demonstrated the makeup of the problem and what is missing in the insurance industry and in life insurance. The other panellists have already noted that citizens' money is not being brought into circulation. I would suggest that greater financial literacy amongst the population will really help us: citizens would understand how the financial markets work and how they need to invest. But it is no less important to create a system in which a non-institutional investor can approach the market with the help of institutional intermediaries. We do not yet have that.

Maybe that model is now being created in the reform of the non-governmental pension system that is being introduced currently, in the guarantee and supervisory systems. Perhaps we will select the most successful solutions and try to transfer them into the collective investment management system, which does not work at all today. That system, unfortunately, is not full of money right now. We need to immerse ourselves in it and see why it is not working. Direct public investment in the stock market is not working either. We can see quite clearly that, over the past few years, the number of clients in that sphere has grown from 730,000 to 780,000. That is just terrible: 780,000 out of a population of 140 million! The market is almost nonexistent: it is truly minimal. Investment in bonds is not growing. If you say that people are not buying stocks because it is dangerous, then I would respond that they are not buying bonds either, which are a significantly safer investment. It seems to me that the problem is specifically linked to the lack of a brokerage system.

I also completely agree that our current tax stimuli for investing money in deposit accounts and real estate give people a strong incentive as to how they should save their money. But unfortunately, people do not think about the fact that no one is saving anything, that inflation is eating it all up.

It is no secret that the most money is de facto invested in bank deposits. That is no accident and the reforms Alexey was talking about should unlock that. It should put that money into a wider range of instruments and expand the investment horizon. That is a very powerful stimulus.

Why is all this necessary? Whatever Bernanke does, however he stimulates American and global investors to invest in foreign markets, Russia will always lose on those markets while it does not have local money coming into local markets.

Today, non-governmental pension funds are the resource for this money. This needs to be used, carefully and methodically. Moreover, we need to create two more ‘pockets’ of money: the first is life insurance and the second is a collective investment mechanism.

If we look at the history of the GFC from the very beginning, it becomes clear that we are not doing badly. Things are worse in the area of general legislation, law enforcement, the courts, and so on, but with respect to infrastructure reforms, we have truly made great progress. This includes the Central Depositary and T+ reform and so on. It is good that we are now reforming the long-term money we already have. We need it to come to the market and work there: safely, under supervision, and for the benefit of its investors. We all need to sit down together and discuss the collective investment system and deal with the life insurance system immediately. Then we will have not three financial markets – banking, insurance, and non-governmental pensions – but four or five, and we will look a good deal more attractive to the world. Thank you.

V. Pivovarov:

Thank you, Ruben. We are almost out of time, but I wanted to ask whether the audience had any questions. If not, then I have a question for the audience: why do we not open brokerage accounts at Otkritie Financial Corporation?

R. Aganbegyan:

There are clients of ours in the auditorium.

V. Pivovarov:

All right. If there are questions, they can be asked briefly now. Christopher.

C. Granville:

I am Christopher Granville from Trusted Sources Research. I have a question on corporate governance. I remember that after the scandals of the 1990s, there was a major reform of company law in 2001. Back then, in speaking to investors. I found investors to be very skeptical. Rules are rules but, actually that reform was extremely successful. The most important changes in the company law at that time reflected the experience of the abusive dilution of minority investors. There have not been any such scandals since. There was one attempt in Ingosstrakh, but that was defeated.

My question is, why does there seem to be a delay now? This is such an encouraging episode. Why are we wasting so much time, waiting for similar loopholes to be closed? Mr. Dmitry Pankin mentioned the ability to control majority shareholders, on technicalities, avoiding their legal obligation in buyouts of minorities in mergers and acquisitions, and other things of that nature. Can we expect more activism?

V. Pivovarov:

I believe that was a question for Mr. Pankin.

D. Pankin:

I agree with you. In 2001, very good changes were indeed introduced, but it is not possible to adopt a law that makes things good for everyone. The movement is taking baby steps. For example, one small step we are discussing here is the introduction into the Civil Code of the concept of affiliation. Who are 'affiliated parties'? That is very difficult to define. We are discussing the question of whether a mandatory offer was conducted or not, whether the majority shareholder reached the 30%, 50%, or 70% threshold or not. But the key question is how that majority shareholder behaved. Did it reach that threshold in conjunction with its affiliated parties or alone?

It is almost never the case that one shareholder is represented by a single company that buys up 50%. In practice, we have many companies – from Cyprus, the Netherlands and Switzerland – and we have to prove that the group of companies reached the 50% or 70% threshold. That is a typical case: the kind of thing our service is constantly encountering. We are trying to prove that. Sometimes we are able to; sometimes not.

We receive responses from other regulators, but we cannot disclose the information or the beneficiaries. If we do disclose them, it is sometimes impossible to prove that they are affiliated. Defining the concept of affiliation and introducing it into the Civil Code is an extremely important task. And that is just one of the examples. I could give you a good many more. I repeat: the work is difficult, but it is being done and it is having results.

S. Shvetsov:

I would like to add something. There are two paradigms. The Russian paradigm is one whereby the rules are complex, but if you find a way around them, there can be no claims against you. There is another paradigm, in which the general outline of the rules is established. They are not very complex and are comprehensible. For example, a majority shareholder has to do x and y. If he does not, he goes to prison for 20 years. We talk to regulators in other countries and they tell us, “You know, in our country, the people who violate the laws are convicted of other things.” We say, “What do you mean?” And they reply, “It is hard to get a court conviction on this law, so we convict them for other violations.” We are at a crossroads. Should we continue to write complex rules and say, “Oh, you found a way around it? Good for you. You came up with a legal loophole; no problem”? Or should we really try to protect the rights of minority shareholders? Because even stock valuations made for buyout purposes can be very different. The person doing the valuation can set the value at one penny or he can announce that each share costs ten million. You see, he sets the valuation according to the wishes of those paying him. People know this is a fraud, but it is stated that an expert is supposed to set the value! He evaluated it and that is his reasoned decision. This is a very difficult thing to deal with, especially in Russia, where the memory of Stalinist repressions has left a sort of allergy to punishment.

However, we are at a crossroads and we need to understand that the cost of regulating complex laws is huge and that we are not going to be competitors in day-to-day management if we are going to go the way of creating complex, detailed rules and respecting people who find loopholes, continuing to shake their hand, as before.

We need to discuss this and not just amongst the regulators. The professional community should have an opinion of some kind. The regulators and professionals need to come to a consensus about how we are going to sort out the complex situation related to the balance of interests.

D. Pankin:

I would like to add one more important thing with regard to the example I gave on introducing the concept of affiliation to the Civil Code. We are trying to make it possible for a court to reach a reasoned decision, rather than making a full list of the 20 or 30 signs of affiliation. You can always think up the 31st or 32nd identifier, but it is a good deal more important to give the court the opportunity to make a reasoned decision on whether given parties are affiliated.

V. Pivovarov:

Thank you. I do not want to end the session on such a worrying note, so I would like to ask all the participants to take a moment to sum up, give their recommendations or provide their final comments on the topic of the GFC. Denis, we will start with you.

D. Shulakov:

I am going to stick to my guns and say that, without an institutional investor, we will not survive. Let us all look at the two or three elementary instruments that can be included in the list right now and expand the declaration for pension funds. We have to at least start somewhere. First and foremost, with infrastructure bonds.

A. Moiseev:

We have included all that and certainly infrastructure bonds.

D. Shulakov:

Yes, but there is no legal regulation yet.

A. Moiseev:

Our pension funds can buy infrastructure bonds.

D. Shulakov:

We just do not have a concept of infrastructure bonds.

A. Moiseev:

Then we will continue the discussion after this panel...

P. Clackson:

Yes, I think your recommendation about the step by step approach, which my colleagues here have spoken about, is clearly the key thing. But I love the idea about educating school children, too.

R. Aganbegyan:

I believe the key factor is the investment climate. A good investment climate will stimulate the development of the stock market, IPOs, and everything else. That, in turn, will raise capitalization and return confidence in the idea that it will be profitable for shareholders to put funds in the company, rather than stealing money away.

The result will be removing the need to put strict rules into legislation or imprison a shareholder for violations. They will have an economic incentive to respect minority shareholders and develop the market.

It seems to me that this should work: economic mechanisms can incentivize observance of the rules.

V. Pivovarov:

Thank you, Ruben.

A. Afanasiev:

In my view, the development of the financial market is a very complex topic. It has at least three components: the market's own infrastructure, market regulation, and the motivation of the participants, which is connected to the economic situation, the investment cycle, and so on. There have been many plans to unify all this. It would be great to imagine that, having agreed on a specific roadmap, we can work on several things at once. But for now, unfortunately, we are not having much success at unifying anything.

It seems to me that the time has come to create understandable regulation: not in the details, which will change many times, but in terms of everything for which we are striving. For regulation is also a question of trust. It has been said more than once here that the financial market as a whole and exchanges rely on trust, but trust is a derivative of regulation. Look, we have regulated the banks. As a result, the volume of deposits is growing and the number of banks is falling. Our brokers are nowhere near as regulated, but, as a result, there are a huge number of brokers. Yet, their clients are decreasing.

We probably need to unify the rules in such a way as to reduce the number of market participants and increase the number of clients and the sums invested.

S. Shvetsov:

You know, no other country in the world has so many shops selling expensive watches or has so many Mercedes 600s taking Forum participants from their homes to a conference.

In talking about pension reform, we are talking about how we should improve the investment of our reserves. Generally speaking, the path to a truly strong domestic investor is a matter about flows, which means we are talking about the rouble. We can only increase the savings rate through trust in the national currency and low inflation. We need a real sense that if you do not spend your money today, there will still be money there tomorrow. Long-term trust in the rouble is a key factor and this is the key responsibility of the Central Bank.

The Central Bank is required to provide that and it does provide it. Its success is indisputable because the national currency has truly become money. It has become a measure of cost, a measure of payment, and a means of investment. Today, the rouble is undergoing another test: that of a change in the Chair of the Central Bank. Clearly, the market is concerned: over the past few days, we have seen certain changes in the exchange rate of the national currency. I think this is a good thing, like an injection. It strengthens the immune system. This concern is beneficial because people will see that everything is all right, so when we change chairs again (which I hope will not happen anytime soon), we will not have this turbulence.

My proposal therefore is this: everyone should attend to their business, and the main task of the Central Bank is to guarantee trust in the rouble and facilitate low inflation. This will create flows for us and increase the investment level relative to consumption. Thank you.

V. Pivovarov:

That is an excellent topic for the next discussion.

A. Moiseev:

I caught myself thinking that I wanted to say a well-known sentence that has ruined a colossal number of financial market participants: ‘This time it’s different.’ For many years, the financial markets were a toy for the government: something it just had to have. It is like children wanting an iPhone: in principle, they need it to be able to call their mothers. They could do that with any phone, but nevertheless, they need an iPhone. Previously, we had the same sort of situation. Why did we need financial markets? We did not know, but we needed them. Now, the situation has changed drastically. I am not telling you anything you do not know. Just remember the

President and Prime Minister's speeches about how the country's leadership has begun to lend great significance to the development of the financial markets, understanding that they are basically Russia's only chance to achieve a more or less acceptable level of economic growth. Either we develop financial markets and we get everything we have talked about here – investments come, savings rates increase, and so on – or we do not develop them, but then we develop at another speed entirely. In my opinion, it is that specific part of the wider general reforms that is going to be the prime focus now.

D. Pankin:

In summing up our discussion on the GFC, I would like to remind you of one short sentence: 'Movement is everything; the goal is nothing.' It is not important whether or not we attain the status of a global financial centre. The important things are the reform of our infrastructure and the creation of attractive conditions for investors. I think that on those measures where Russia comes out at 5, other emerging markets are at about 14. Well, we are not going to bridge that gap with our infrastructure-related measures. Other serious questions come into play here, related to volatility, the dependency on resources and on our economy's resource prices, with its orientation towards resource export. But these are the basic questions of the economic climate. Does that mean that we do not need to work on changing our financial infrastructure? Of course not. Of course we have to work and try to create beneficial conditions for investors to the extent that we can. Thank you.

V. Pivovarov:

I would like to thank the audience for listening and all the participants for an interesting discussion. As Dmitry said, let us continue to move forward.