LIFE AFTER THE CRISIS

By Eddie Astanin, Chairman of the Executive Board, National Settlement Depository

In the past three-five years, the focus of attention for most global investors was quite far from the fundamental shifts occurring in the financial markets. We have seen the crash of the financial system that existed until 2008, little appetite for risks in conditions of widespread turbulence, the dramatic situation in Europe where an unjustified apocalyptic attitude has been replaced with groundless optimism, and loud calls to tighten belts have been replaced by persistent demands to ease credit and financial policies for creating the conditions for growth… This long and strong storm focuses our attention on the most important things and prevents looking at the details. However, sooner or later this storm will come to the end. In this post-crisis period, investors seeking growth opportunities will see a lot of interesting and new issues in the peripheral markets, including the Russian market.

One thing a discerning investor will see regarding Russia – a gap between the fundamental economic indicators and the role played by the Russian financial market in the post-crisis world; this gap has remained and grown deeper following the turmoil. Moscow has been ranked 65th among 77 financial centers according to the recent Z/Yen rating, despite the fact it has been recognized as a global, not regional center. Meanwhile, Russia is steadily moving up to join the top 10 biggest economies in the world, it has the biggest mineral reserves on earth, and the situation with state finances is impressive. According to a professional investor's approach, such a gap is a cause to analyze the disbalance. Moreover, Z/Yen considers Moscow as one of the ten global financial centers with the best outlook for strengthening their positions.

Of course, Russia faces a lot of challenges and unsolved problems. Clearly, the risks associated with investing in Russian assets are quite high. However, it is worth remembering that the key task of investors is to assume risks at an attractive price. Given the fundamental reduction of infrastructural risks, post-crisis Russia may become very attractive for global investors.

When I speak about fundamental mitigation of Russia's infrastructural risks, I speak not as a chief of a central settlement organization. This is more likely the position of our Western colleagues. When they discuss the rate and depth of changes which have occurred during the past three years, they use words such as "gigantic" and "impressive" more and more often. I have to stress that this does not mean that they are completely happy with our market's structure. But it is clear that the professionals, who know how long the formation of such infrastructure takes, are clearly impressed with the rate of change.

What changes have occurred in Russia in the past few years? First of all, the central securities depository which importance had been emphasized by our foreign colleagues for the past ten years has finally been created. But it is not enough to create a universal recordkeeping and settlement organization; we need to make it efficient and safe, to get market recognition regarding the correctness of the selected model, to create conditions for the inflow of new investors to the market and successful competitiveness in the global context. Today we can proudly say that all these tasks are being addressed in Russia successfully.

Speaking about efficiency and safety, it needs to be remembered that in just one and half years we succeeded in integrating the biggest settlement institutions and to prepare the infrastructure to operate as a central securities depository. The next steps such as assets transfer, opening nominee CSD accounts in registers, preparation for the mass conduct of corporate actions in the CSD regime – all this is being undertaken smoothly, without interruption. The newspapers do not write about the absence of infrastructural problems, however professional participants in the market understand that we have made a great work on the infrastructure's technological modernization, tuning, stress testing and interacting with dozens of financial institutions in Russia and abroad. And this work has been accomplished in a very short period.

But has this infrastructure been recognized by the market? Certainly it has. By late March 2013 jointly with registrars and the largest custodians we completed mass transfer of assets to the central securities depository; 1,200 issuers' securities were involved in this process. Finally, today assets worth RUB18 trillion are kept in NSD's accounts. This means that the great number of investors and largest financial institutions of the world in fact have recognized the eligibility of Russia's CSD and its compliance with SEC 17f7. A few months after NSD obtained CSD status, investors decided to transfer their assets to our depository. These are billions of dollars. Representatives of custodians say that their clients had no doubts about the reliability and efficiency of our infrastructure.

At the same time, Euroclear and Clearstream, the biggest international depositories, opened their accounts with NSD after long and thorough due diligence; this means they recognized our infrastructure as efficient and reliable. The launch of operations in these accounts allowed a significantly reduced yield on governmental securities and led to a genuine rally in the OFZ market due to revaluation of the risks arising from Russian financial infrastructure and new opportunities for operations with these assets. It is worth adding such developments as the creation of the trading repository, launch of a trilateral repo with the Bank of Russia, and the formation of a regional settlement hub through the joint efforts of central depositories- AECSD members. All this has helped attract new investors to the market and Russia's growing competitiveness in a global perspective.

I have to note that we never hide our intention to develop on the basis of trends and technologies widely used all around the world. We discuss our every step with the leading global financial infrastructure organizations in order to implement the most efficient and latest approaches to providing services to investors in Russia. This allows us to say that the probability of revaluation of markets such as the Russian market in the post-crisis period is very high.

Yes, we have many unsolved problems. I think that one of the crucial problems is the low internal demand for Russian assets. This reflects the longstanding and inefficient policy of "market protection," as well as skepticism related to the placement of securities of Russian state-owned companies in Moscow instead of, for example, London.

Of course, we can continue protecting our internal market with its modest volume if we fear to lose it. We have been doing this during the past ten years, as we thought that major transactions could be undertaken only in global markets. It led to the situation where a few dozens of the largest companies do not have any other choice except to seek funds where funds are available and inventing complicated methods of avoiding barriers. All this escape from reality creates a feeling of danger in any liberalization, opening the borders or playing the game using the rules accepted in the global financial world.

However the increased interest in Russia related to the launch of the CSD contributes to an understanding of how to break the deadlock. I see the need in steady and sustainable movement towards opening the market and integrating it into the global financial system. The government should and must provide opportunities for the attraction of international investments in Russian assets here, in Russia, demonstrating these opportunities by the example of privatization of state assets through IPOs. If our intentions are implemented, and the government shows their commitment to this development model, I am sure that the modernized infrastructure of the Russian market will contribute to the higher competitiveness of our country in fighting for global investments even in this decade.