



Bank of Russia



RUSSIAN FINANCIAL MARKET DEVELOPMENT PROGRAM FOR 2022–2024

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INTRODUCTION

The Russian Financial Market Development Program for 2022–2024 (hereinafter, the Program) is a medium-term document that discloses the main goals, principles and areas of the policy for the development of the financial market as well as key tasks to be solved by the Bank of Russia together with the Government of the Russian Federation in order to create favourable conditions for market forces that determine the development of the financial market.

When preparing and implementing the Program, the Bank of Russia and the Government of the Russian Federation take into account the main global and national economic, technological and social trends to promptly respond to challenges and use available opportunities to the maximum extent. Given that participants of the financial market play a key role in its development, the Bank of Russia and the Government of the Russian Federation actively involve representatives of the real and financial sectors and their associations in the development and implementation of plans for financial market development and ensure information transparency of their policy by discussing goals, objectives and accomplished results on a regular basis.

Measures for the development of the Russian financial market are recorded in the joint roadmap of the Bank of Russia and the Government of the Russian Federation for meeting the Program as well as other documents and roadmaps aimed at solving certain problems affecting the development of the financial market¹. The Program contain indicators² that are used to monitor the development of the financial market. The main results of financial market development are presented annually by the Bank of Russia in the Annual Report³.

Given legislative changes, starting from 2021, the Russian Financial Market Development Program will be prepared and published annually. This approach will make it possible to quickly react to the increasingly dynamic and accelerated introduction of innovations in the financial market and to economic, social, technological and other changes in various areas of public life which have a significant influence on the financial market in Russia and globally, and adjust previously made plans in a timely manner. The Bank of Russia together with the Government of the Russian Federation will maintain a medium-term policy-planning horizon for financial market development by preparing a document each year for a three-year outlook.

When developing the Program, the Bank of Russia proceeds from the understanding that financial market development should primarily serve the interests of society by helping to meet the needs of individuals and ensuring the growth of their prosperity and contribute to national economic development through the market's fulfilment of its key functions for accumulation of savings and their transformation into investments, and for risk management. The development of the financial market contributes to the achievement of national goals of the development of the Russian Federation and the implementation of national projects, which is also taken into account when developing the Program.

In the three-year perspective, the Bank of Russia together with the Government of the Russian Federation will pay special attention to sustainable development and ESG factors⁴ in the operation of the financial market, its digitalisation, the use of new technological solutions, the safe use of

¹ [Appendix 3](#) contains a list of documents that, together with the Program, touch upon matters of financial market development which are referenced in the Program or its roadmap.

² See [Appendix 1](#).

³ [Appendix 2](#) presents the interim results of the implementation of the Russian Financial Market Development Program for 2019–2021.

⁴ Environmental, Social and Governance factors.

financial market instruments by individuals and the creation of favourable conditions for companies to attract debt and equity financing at all stages of business.

It should be noted that, although the financial market plays an important role in economic development, it cannot be its main driver. The financial market mostly contributes to the development of the economy and its sustainable growth by creating conditions for the growth of personal income and improvement of the business climate while progressively overcoming structural problems in the economy, improving public and private economic and legal institutions, effectively protecting property rights and ensuring fair competition. Meeting these complex objectives successfully requires unified private and public efforts and will contribute to the achievement of the national development goals.

SECTION 1. GOALS, PRINCIPLES AND INSTRUMENTS OF THE POLICY FOR THE DEVELOPMENT OF THE RUSSIAN FINANCIAL MARKET

Pursuant to the Federal Law ‘On the Central Bank of the Russian Federation’¹, the development of the financial market is one of the goals of the activities of the Bank of Russia. Since 2013, the Bank of Russia has been a mega-regulator – that is, it performs the functions of both a central bank and a financial market regulator.

The Bank of Russia and the Government of the Russian Federation are jointly elaborating and implementing the policy for financial market development, creating, first and foremost, a favourable environment – that is the necessary macroeconomic, institutional and legal conditions – for the accumulation of savings and their channelling into loans and investments.

An important factor in the development of the financial market is a balanced and consistent macroeconomic policy based on price and financial stability as well as the sustainability of public finance. The Bank of Russia and the Government of the Russian Federation take part in creating the financial market infrastructure, especially when market forces are unable to cope with this, and when it is necessary in order to create a healthy competitive environment and develop innovations or to ensure the country’s financial sovereignty. Particular attention is also paid to the protection of financial consumers’ rights and the formation of the fundamentals of financially literate consumer behaviour.

Although the Bank of Russia and the Government of the Russian Federation are actively involved in the development of the financial market, the result depends, to a large extent, on strategies, culture and the motivation of its participants acting according to market principles in a competitive environment. In this context, financial market participants, when interacting with each other, choose for themselves the optimal chains for transforming savings into investments and the channels and formats of service and determine the demand and, consequently, the prospects for the development of certain products, instruments, services and technologies.

Having this in mind, the Bank of Russia and the Government of the Russian Federation actively involve financial market participants, that is representatives of the financial and real sectors and their associations and the expert community, in the development and implementation of financial market development plans and ensure the transparency of information in relation to goals, principles, objectives and results, thus creating benchmarks for financial intermediaries, business and individuals.

THE ROLE OF THE FINANCIAL MARKET IN ECONOMIC DEVELOPMENT

A developed financial market contributes to economic growth and an increase in the level and quality of life of individuals, enabling households and business to use financial products, instruments and services to accomplish their vital objectives and implement business and personal plans.

The financial market allows financial consumers to reallocate their income over time, thereby managing their savings and spending. Using saving, investment and borrowing instruments properly, individuals can purchase residential property and durable goods, maintain a certain consumption level in the event of fluctuations in income and after retirement and keep money for large expenses in case of emergency. Depending on their preferences and needs, individuals can choose instruments with a particular investment horizon, risk profile, profitability and liquidity.

¹ Article 3 of Federal Law No. 86-FZ, dated 10 July 2002, ‘On the Central Bank of the Russian Federation (Bank of Russia)’.

Traditional instruments for savings (first and foremost, bank deposits protected by the deposit insurance system) are characterised by low risk and typically bring moderate income which mainly preserves the purchasing power of investments. They are distinguished by relative ease of use and require no special qualification. Such instruments, inter alia, are suitable for forming a so-called safety net, that is savings for which the liquidity and high safety of investments are more important than their profitability.

Capital market instruments can bring higher returns as compared to savings instruments, making it possible to augment one's investments, but they are also associated with a higher risk of not receiving income or losing a portion of invested funds. The use of such instruments is more economically viable over the long term. Long-term strategies for making investments in the capital market have their specifics, bringing positive real profitability over the long term, with possible fluctuations in investment results from year to year.

To make good use of capital market instruments, one needs to obtain special knowledge and skills. Therefore, a non-qualified investor unwilling or unable to delve into the specifics and context of operations in the stock market should apply passive investment strategies or transfer funds for trust management to professional financial market participants. In addition to savings and investments, individuals can apply for loans and borrowings to satisfy their current needs for goods and services against future income as well as to start implementing such large personal and family plans as, for example, the purchase of residential real estate or the financing of education. Borrowing instruments contribute to the well-being of individuals only if financial discipline is observed, and debt does not grow excessively compared to income. In particular, such instruments as savings combined with mortgages help individuals to better plan financing of residential real estate purchases. Besides mortgages, alternative strategies to resolve the housing problem, such as rent and leasing, can be used².

The financial market creates opportunities for transforming savings into sources of debt and equity financing for business, contributing to economic development. For that purpose, there is a wide range of instruments in the financial market that facilitate the channelling of savings into investments. The financial market offers instruments that meet the needs of business both for short-term financing to replenish working capital and for long-term resources to finance investment projects. There may be financing instruments in the market for companies at various stages of the life cycle, from the start of a business to a public company. The state is also an independent participant of the financial market and can act as an issuer, a lender or an investor.

By performing the function of transforming savings into investments on market terms, the financial market contributes to the efficient allocation and use of resources in the economy given that decisions of financial institutions and institutional and private qualified investors on providing debt and equity financing and on the investment horizon are made based on a wide range of factors. Among these factors are national macroeconomic and institutional characteristics, including the balance of regulation; the competitive environment; protection of property rights; individual indicators of particular enterprises and their financial stability, competitiveness and business development strategies. This function of the financial market makes it possible to provide financing, first of all, to the most efficient and promising business. The ability of the financial market to accumulate savings for transformation into investments depends not only on trust in financial institutions and their stability but also, to a large extent, on income level and the availability of funds for the formation of savings among participants of economic relations.

Given the open nature of the Russian economy and free cross-border movement of capital, the Russian financial market is a part of the global financial market. Therefore, it contributes not only to the financing of investments through domestic savings but also to the attraction of foreign capital to the Russian economy and the placement of savings of Russian individuals and legal entities abroad. Thus, the Russian financial market is involved in the redistribution of capital between countries, industries and companies.

² Residential real estate leasing is not yet well developed in Russia, but it is an option for resolving housing matters in other countries.

The financial market provides participants of economic relations with risk management instruments. These instruments allow companies and entrepreneurs to reduce uncertainty in their activities, including international ones, and allow individuals to use risk insurance services in various life situations. It is important that, when performing their activities, professional financial intermediaries take the financial risk management function, first and foremost, on themselves and not impose it on private customers who are incapable of managing such risks.

By performing the abovementioned functions and providing participants of economic relations with instruments for keeping and increasing savings, borrowing funds and insuring risks, the financial market becomes a significant sector of the economy that ensures economic growth, creates new jobs, increases tax revenues, generates demand for innovations and contributes to the diversification of the economy and the more efficient use of available financial resources.

Trust and competitive interaction between participants are important factors in the efficient functioning of the financial market. This reduces the risks of non-market pricing – which limits the efficiency of the financial market – and helps to reduce the costs of consumers and suppliers and enhance the availability and quality of financial products and services.

The **introduction of advanced technologies in the economy and the large-scale digitalisation of the financial market,** leading to the emergence of new business models, value chains, products and services, the acceleration of service and the elimination of territorial and timing barriers, contribute to the improvement of competition and financial inclusion. The use of digital technologies and online channels, including those based on platform solutions, provides consumers of financial services with access to the products and services of a wide range of suppliers, providing the latter with access to customers irrespective of their location. Although the introduction of innovations often requires a certain amount of investment activities, small businesses can develop in the financial market by actively using outsourcing and offering customers products and services which are of interest to them.

THE ROLE OF MACROECONOMIC STABILITY IN FINANCIAL MARKET DEVELOPMENT

Systemic financial stability, price stability and the stability of public finance, as key elements of predictable macroeconomic conditions, are crucial for the market's efficient performance of its functions and its positive contribution to economic development. The Bank of Russia and the Government of the Russian Federation create such conditions by pursuing a consistent and balanced macroeconomic policy within the framework of their functions.

The transition of the Bank of Russia to an inflation-targeting regime and the **reduction and stabilisation of inflation near the target level have played an important role in forming a favourable environment for financial market development.** The Bank of Russia seeks to maintain annual inflation at about 4% by applying monetary policy measures, ensuring the stability of the ruble's purchasing power. Price stability is the basis for trust in the national currency and is important for the financial and investment planning of households and business and the formation of consistently lower long-term interest rates in the financial market due to the reduction of the risk premium associated with inflation fluctuations. In turn, the transmission mechanism, that is the effectiveness of monetary policy, which affects the economy and inflation through changes in the key rate, depends on the maturity of the financial market.

Systemic financial stability and the resilience of the real and financial sectors are necessary for the smooth functioning of the financial market and the entire economy. In the context of the open economy and the free movement of capital, it is important to ensure that the economy and the national financial system are not vulnerable to external shocks, which may be caused by changes in the global economic environment, the increased volatility of capital flows, significant fluctuations of prices for significant export goods and geopolitical events. The balanced dynamics of volumetric

and price indicators of the financial market along the lines of fundamental factors and the absence of overheating ('bubbles') in the entire market or segments thereof are a crucial aspect of financial stability. Systemic financial stability is ensured primarily by measures of macroprudential policy and microprudential regulation.

A **balanced and predictable approach to the management of public finance and domestic and external public debt** is important both for the stability of the financial market and macroeconomic conditions in general and for the formation of short-term and long-term interest rates in the economy as well as the country risk premium. The **fiscal rule** is a key element of the budgetary policy of the Russian Federation. It smooths the impact of changes in the external economic environment on internal conditions, including the dynamics of the ruble exchange rate, which reduces its volatility. Moreover, the fiscal rule ensures a transparent approach to the formation of budgetary expenditures and the management of public debt, contributing to the long-term sustainability of public finance.

OPPORTUNITIES AND LIMITATIONS OF THE FINANCIAL MARKET

Contributing to economic growth and development, the financial market itself, its condition, structure and scale and the variety of its functions reflect, in turn, the maturity of the country's economy and the quality of its institutions and the business climate. The indicators of the entire financial market and its segments and the demand for certain financial products and services also depend on the welfare and income flow of individuals and legal entities, trust in public and private institutions, protection of property rights and other structural factors.

The financial market creates opportunities for long-term savings and their transformation into investments and forms the prerequisites for acceleration of economic growth and improvement of the welfare of individuals, but it cannot be the main or sole driver of these processes. The financial market contributes positively to the development of the economy by overcoming structural barriers to economic growth, including improving labour and capital efficiency, increasing the efficiency of the economy and its growth potential in general and configuring legal and other institutions.

The use of financial market instruments for the development of business and the achievement of life objectives by households can be sustainable only if borrowed funds are reinforced by investment of one's own resources, and if current debt can be covered by future income. Investment-friendly economic growth requires not only long-term resources but also attractive investment areas and the existence of companies with a transparent long-term strategy and effective operations that can provide worthy returns.

If economic growth is stimulated solely by the financial market instruments and in reliance on debt financing without the resolution of structural problems, that can lead, on the contrary, to negative consequences for individuals, business and the entire economy. More specifically, encouraging the excessive growth of lending as compared to income dynamics may have only a short-term positive influence on economic dynamics and may entail debt problems that can threaten the stability of the real and financial sectors and even cause an economic crisis and social tension. A rapid increase in lending not supported by the expansion of the country's production capabilities leads to the separation of the value of goods and assets from fundamental factors, the emergence of 'bubbles' in the markets, the acceleration of inflation and, ultimately, a drop in economic growth and the real income of individuals.

Thus, **the potential of the financial market as a development factor should be used in a balanced manner, taking into account the speed and nature of the development of the entire economic system.**

GOALS OF FINANCIAL MARKET DEVELOPMENT POLICY

In the context of the current financial, economic, technological and other trends and given the objectives set within the framework of achieving national goals and implementing national projects, the **Bank of Russia has identified the following medium-term goals of the financial market development policy.**

1. Strengthening the trust of retail consumers and investors in the financial market by improving its security, increasing financial literacy and enhancing the availability of financial services.

This goal acquires its specifics in the context of the digitalisation of financial and economic relations, which leads to a change in the nature of interaction between suppliers and consumers of financial products and services, the shortening of the customer path and the entry of mass consumers into financial market segments with an increased level of risk where investing requires special qualifications as well as attention and time. With the introduction of new technologies, financial consumers must be increasingly skilled in the use of modern devices and remote channels, and the risks of digital inequality become higher. The safety of a product offered to consumers (investors) and the quality of its promotion in the market are gaining particular importance. New types of fraud and unfair practices are emerging, which requires the improvement of methods for countering them. Under these circumstances, the additional adjustment of mechanisms for protecting the rights of retail investors and consumers of financial products and services, given the use of artificial intelligence and robotisation of relations between consumers and the financial industry (M2M finance) and the improvement of investment, digital and cyber literacy, is required.

2. Developing a modern financial market to satisfy the needs of the Russian economy for investments and efficient payment services.

These needs are primarily related to demand for the accelerated implementation of innovations in the real and financial sectors and the digitalisation of economic relations, including the introduction of a digital form of the national currency (the digital ruble). It is important to take into account structural changes in the financial market, the emergence of ecosystems, the blurring of boundaries between the financial sector and other sectors of the economy and demand for domestic long-term financing sources, including the achievement of declared national development goals, especially in the context of persisting geopolitical challenges. Moreover, the increased role of sustainable development factors in the global economic agenda poses new challenges for the development of the Russian financial market and the economy in general, including those related to developing the necessary tools, infrastructure and legal framework for financing the transition to a low-carbon economy as well as attracting the attention of individuals, retail and domestic institutional investors to the sustainable development agenda, raising their awareness of this agenda and generating demand for financial products and services contributing to the achievement of sustainable development goals.

3. Ensuring financial stability, that is the smooth functioning of the financial market, including in conditions of stress.

Financial stability is of special importance under current circumstances, when global risks, including geopolitical ones, are quite high. It is important to maintain the stability of the financial sector amid the phase-out of anti-crisis measures related to the pandemic as well as the active growth of the mortgage market in the context of growing residential real estate prices and the limited solvency of borrowers. In terms of the monitoring and analysis of systemic risks, focus is needed on the strengthening of the role of non-bank financial institutions, the entry of tech companies into the Russian financial market and the influence of the growing interest of investors in ESG factors on global capital flows.

The financial market development goals set for the next three years are consistent with the goals presented in the Russian Financial Market Development Program for 2019–2021. The three-year goals take into account the current context and trends of the economic, technological, social

and other areas of public life in Russia and worldwide as well as key challenges for financial market development over the three-year medium-term horizon.

Solving tasks aimed at achieving these medium-term goals of financial market development will, in turn, contribute to the achievement of national development goals. These include improving the well-being of Russian citizens, developing the economy and its digital and environmental transformation, introducing innovative instruments to finance investments and entrepreneurship and enabling a comfortable and safe living environment. As one of the sectors of the Russian economy, the financial market contributes to GDP growth and creates new jobs and demand for innovations; it is a significant source of the state budget. The proper use of financial services expands the possibilities of individuals and business; consequently, the enhanced availability of financial services and financial literacy creates additional potential and opportunities for self-realisation and the development of talents, which is a national goal.

PRINCIPLES OF FINANCIAL MARKET DEVELOPMENT POLICY

When planning its activities and implementing financial market development measures, the Bank of Russia relies on the following important principles to ensure that its policy is consistent and predictable, and that market participants understand the logic of its decisions.

1. Priority of the interests of financial consumers (individuals and businesses) as the ultimate beneficiaries of financial market development when determining the goals and objectives of its development.

Financial market development is not an end in itself; it should primarily contribute to improving the well-being of individuals and help expand opportunities to create and expand business, driving growth in the overall Russian economy. In view of this, the Bank of Russia defines the goals, areas and objectives of financial market development and the priority level of measures; it evaluates planned and actual results in terms of their value for the end consumer.

2. Development of the financial market on the basis of a free market environment, competition and trust.

In creating the necessary conditions for the development of the market, the Bank of Russia strives to minimise its interference in the operation of market mechanisms and fair competition, which, as a rule, ensure more efficient allocation of resources, creating incentives for innovations and improved quality of financial products and services. The Bank of Russia is primarily focused on solving systemic problems which the market cannot always cope with on its own.

The Bank of Russia places great emphasis on a culture of interaction in the financial market which is primarily based on ethical principles and the good practices of its participants.

3. A proactive approach to financial market development given key internal and external trends and factors. The priority of the strategic development vector over tactical decisions.

When planning financial market development activities, the Bank of Russia pays special attention to the timeliness of the measures, taking into account not only current market conditions but, first and foremost, the emerging trends and drivers of future economic development in a rapidly changing environment. This proactive approach makes it possible to respond promptly to new challenges by creating the necessary legal and technological conditions and removing barriers to the dynamic development of the financial market.

Given the increasing speed of ongoing changes, the Bank of Russia will update the Russian Financial Market Development Program for a three-year period on an annual basis. This will make it possible to promptly adjust the development agenda in response to changes.

The Bank of Russia's policy is consistent in terms of achieving strategic goals and does not allow short-term tactical steps to significantly conflict with the accomplishment of long-term objectives.

4. Transparency of the financial market development policy. Involvement of financial market participants from the financial and real sectors in the development and implementation of market development plans.

Recognising that professional participants of the financial market play a key role in its development, the Bank of Russia attaches great importance to the activities of their associations and self-regulatory organisations. The need of the real sector for services is a no less important factor in financial market development. Taking this into account, the Bank of Russia closely interacts with associations of representatives of the financial and real sectors when developing and implementing its measures, including through public consultations, conferences and other formats of discussion with the expert and professional community, meetings with market participants and discussion of their initiatives.

The Bank of Russia regularly informs market participants and the public as a whole about approaches, goals and plans for financial market development, measures being taken, the reasons for them, and the obtained results. This communication contributes to the transparency and predictability of the mega-regulator's actions, which is the basis for public trust in its policy. The transparency of the Bank of Russia enables market participants to take the development plans announced by the mega-regulator into account when formulating their business strategies.

5. Consistency and continuity of goals, approaches, objectives and measures for financial market development at different levels in thematic and sectoral areas.

When developing and implementing the Russian Financial Market Development Program, the Bank of Russia takes into account the provisions of the strategic planning documents of the Government of the Russian Federation, with adjustment for possible changes in the internal and external environment, after their approval. The Russian Financial Market Development Program is a top-level document that sets goals and priority areas for development, identifying focus areas for sectoral and topical medium-term documents of the Bank of Russia related to financial market development, where the respective areas are disclosed in more detail³. Continuity with similar documents of previous years is also ensured, which is important for the consistency of the policy being pursued.

The Bank of Russia and the Government of the Russian Federation constantly interact on strategic and topical matters of financial market development, which ensures the mutual consistency of planned and implemented measures.

Although with the digitalisation of economic relations, including financial relations, more and more objectives of financial market development are acquiring an extraterritorial nature, in the medium term focus should turn to regional aspects of financial market development, given the diversity of the territorial and geographical features of Russia. For this, close interaction (primarily in the area of financial literacy, financial inclusion and competition) with regional authorities and representatives of the real and financial sectors and the expert community in the regions is required, including the active participation of the regional branches of the Bank of Russia.

6. Developing regulatory decisions with due regard for the total costs of market participants and applying proportionate and risk-based approaches.

When developing and implementing regulatory and supervisory requirements, the Bank of Russia takes into account not only the immediate goals of their introduction but also market participants' costs of compliance. To reduce these costs, the Bank of Russia, among other things, is expanding the use of up-to-date digital technologies in cooperation with supervised financial institutions (SupTech⁴ and RegTech⁵).

³ For this reason, in most sections of the Program, planned activities are shown as an overview, or only key tasks and measures are presented. However, the Program contains references to related documents touching on matters of financial market development. A list of such documents is presented in [Appendix 3](#).

⁴ Supervisory Technology (technology used by regulators to enhance the efficiency of their regulation and supervision of the activities of financial market participants).

⁵ Regulatory Technology (technology used by financial institutions to enhance the efficiency of compliance with regulatory requirements).

The Bank of Russia applies a release approach providing for the introduction of new measures, as a rule, not earlier than six months after the publication of relevant regulatory documents unless special circumstances⁶ require an immediate response. This approach enables financial institutions to prepare in advance for changes and embed regulatory innovations into their business processes.

The Bank of Russia forms regulatory requirements proportionate to the scale and complexity of the activities of market participants. Priority is given to identifying and preventing the realisation of risks in the activities of financial institutions at early stages, which makes it possible to prevent the accumulation of problems that can cause significant losses for consumers and providers of financial services.

7. Developing international standards and integration processes. Ensuring the financial sovereignty of the Russian economy in the context of geopolitical risks.

The Bank of Russia takes an active part in the development and updating of international principles and standards of regulation and supervision. Following international standards and agreements, the Bank of Russia exchanges information with other regulators. These approaches are implemented in Russia with due account for the specifics of the national financial market.

When planning and implementing financial market development measures, the Bank of Russia also takes integration processes (including within the framework of the Eurasian Economic Union, the Commonwealth of Independent States and the Union State of Russia and Belarus) into account, enabling the emergence of an integrated foreign exchange market and a common financial market and economic area, and fulfils the corresponding obligations of the Russian Federation⁷.

In accomplishing the strategic objectives of financial market development, the Bank of Russia also minimises risks associated with geopolitical factors, which is necessary to ensure national economic security. First of all, this relates to the creation and development of the necessary settlement and payment infrastructure.

INSTRUMENTS OF FINANCIAL MARKET DEVELOPMENT POLICY

To develop the Russian financial market and ensure its sustainability, including the introduction of innovations, the expansion of the set of instruments, products and services, the enhancement of their availability, the protection of consumer rights and the formation of an environment of trust, a wide range of tools are used subject to the objectives.

The main tools for influencing the financial market and creating conditions and incentives for its development are:

- regulation and supervision;
- soft regulation in the form of codes and standards of self-regulatory organisations (SRO) and letters with recommendations;
- creation and development of digital infrastructure elements of the financial market with equal access;
- creation and support by the state of mechanisms for collective insurance (guarantee) of individuals' savings in the banking sector, the insurance market and non-governmental pension funds (NPFs);
- tax incentives and subsidies;
- enhancement of financial literacy and educational activities;
- training of personnel for the financial industry;
- information transparency and interaction with market participants.

⁶ Under the release approach, regulations come into effect on October 1 or April 1, but no earlier than six months after the publication of the relevant regulatory documents.

⁷ These obligations include, among other things, the mutual recognition of licences (mutual admission) and cross-border provision of financial services, harmonisation of financial laws and regulations, financial consumer protection, information security.

Although these tools generally remain unchanged, their specifics and the approaches to their use may change over time given the trends and conditions of financial market development. Generally, the Bank of Russia and the Government of the Russian Federation use a combination of tools, which allows them to increase the efficiency of the measures to be taken.

Financial market development tools are used on the basis of a comprehensive analysis of expected results, which takes into account benefits, possible costs and global practices. The Bank of Russia actively participates in the international agenda on financial market development, using this process, among other things, to protect national interests as efforts are made to develop international approaches to financial market regulation.

The Bank of Russia contributes to financial market development and encourages the emergence of predictable macroeconomic conditions by ensuring price and financial stability. A monetary policy conducted within the framework of an inflation-targeting regime and a macroprudential policy aimed at maintaining financial stability influence financial market development. At the same time, the instruments of monetary policy and macroprudential policy are not intended for use or used outside the scope of these policies specifically to stimulate financial market development. This use would have a significant adverse impact on price and financial stability goals and, consequently, on the sustainable development of the entire financial market.

The Bank of Russia and the Government of the Russian Federation **cooperate with legislative authorities in shaping the legal environment for financial market development**, including the creation of a legal framework for new forms and types of activity, formats of interaction between providers and financial consumers and service channels in the context of the introduction of state-of-the-art technologies.

Tax incentives and subsidies are important instruments of the Government of the Russian Federation that are used to support and accelerate the development of certain types of activities, instruments and mechanisms in the financial market, especially at their initial stages, when development on market terms may be difficult. **Special development institutions** that operate in those niches where market mechanisms cannot apply play the same role. The approach to the use of such incentives should be systemic and should provide for their regular update: assessment of the action, prioritisation of support areas and redistribution of resources to them by cancelling previous measures that have already achieved their goal.

In terms of the creation of the digital infrastructure of the financial market, the Bank of Russia and the Government of the Russian Federation **primarily implement those projects that cannot be implemented by the market on its own** but could become the basis for the further development of technological and infrastructure solutions by market participants. The Bank of Russia and the Government of the Russian Federation also create incentives and conditions for the involvement of the private sector in the setup and development of infrastructure facilities.

To ensure the financial sovereignty of Russia and the systemic stability and the competitiveness of the national financial market, the Bank of Russia continues to participate in some infrastructure organisations of the financial market, including Moscow Exchange PJSC, National Payment Card System JSC, Russian National Reinsurance Company JSC and the Russian Union for Cash Collection Divisions (ROSINKAS).

Participation in the capital of banks undergoing financial rehabilitation is a measure to restore the stability of such banks and ensure systemic stability. Once such credit institutions have built efficient business models, the Bank of Russia withdraws from their capital.

The **access of financial intermediaries and other participants of the financial market to a labour market offering specialists with the necessary qualifications** is of great importance for the dynamic development of the financial market, including the processes of digitalisation and ESG transformation. The shortage of this supply not only impedes development but also generates an outflow of personnel to large companies offering competitive terms of remuneration, which limits staffing of financial institutions, depriving them of key personnel. More so, the speed of training

programme development and update, of retraining and advanced training programmes does not meet the needs of the labour market, which is pushing up employee training and development costs.

This is why an emerging priority task is to enable continuous training and create a strategy and mechanisms for financial market participants to interact with each other, the state and the education sector, with a view to developing skills. The Government of the Russian Federation and the Bank of Russia pay great attention to the tasks of updating educational programmes, standards and disciplines and increasing the flexibility of interaction between the educational system and business.

Information transparency and interaction with market participants play an important role in creating a clear understanding of the goals, plans and actions of the Bank of Russia and the Government of the Russian Federation and assessing the trends and results of financial market development. This creates benchmarks for the activities of financial institutions. Regular communication with consumers and providers of financial services enhances policy transparency, which contributes to the growth of trust in it and strengthens the impact of measures. Exchange of information with market participants is also an important element of communication: it provides the Bank of Russia and the Government of the Russian Federation with feedback, helping identify needs and enabling in-depth review of ongoing market processes in order to take them into account when formulating market development programmes.

SECTION 2. THE CURRENT STATE, OPPORTUNITIES AND CHALLENGES FOR THE DEVELOPMENT OF THE RUSSIAN FINANCIAL MARKET

THE MAIN CONDITIONS AND TRENDS OF THE DEVELOPMENT OF THE RUSSIAN FINANCIAL MARKET IN 2019–2021

In 2019–2021, macroeconomic, technological and social factors of both a country-specific and a global nature as well as the economic policy of the Government of the Russian Federation and the Bank of Russia, which, to a large extent, took shape under the influence of the coronavirus pandemic, had a significant effect on the development of the Russian financial market. During this period, trends emerged and strengthened. They will largely determine the development of the Russian financial market in the coming years. They include, among other things, accelerated digitalisation and ecosystem transformation as well as the massive influx of individuals into the capital market. And while the large-scale implementation of digital technologies in processes and products in the financial market, the formation of ecosystems and the entry of BigTech companies into the financial market are global trends, such trends as the massive inflow of funds from millions of new private customers to the capital market and the active participation of banks in the creation of ecosystems are peculiar to Russia.

During the economic crisis caused by the coronavirus pandemic, the **Russian financial market has demonstrated its resilience and ability to support the economy and be a conductor of governmental anti-crisis measures**. This was, to a large extent, possible due to the policy the Bank of Russia had pursued in previous years, which was intended to remove weak and bad-faith players from the financial sector and increase the resilience of financial intermediaries to various shocks.

The financial sector played an important role in ensuring the transmission of the monetary policy softening that the Bank of Russia implemented in 2020 to the economy and inflation dynamics under weaker economic conditions. In 2020, the financial sector grew by 7.3% in real terms¹, thereby limiting the drop in GDP. The contribution of the financial sector to gross value added by industries grew to 4.9% in 2020 (from 4.3% in the previous two years).

The measures for state support of the economy also affected the dynamics of individual segments of the financial market, contributing to a significant expansion in mortgage lending, lending to small- and medium-sized enterprises (SMEs) and non-financial institutions in general. **At the stage of overcoming the crisis and normalising the economic situation, it is important to ensure the stability of the real and financial sectors** and prevent the formation of ‘bubbles’ in the residential real estate and consumer and mortgage lending markets.

The objective of a balanced exit from the crisis is a key item of the current global economic agenda for the governments and central banks of most countries. The dynamics of global financial markets and the volatility and direction of capital flows depend, to a large extent, on the successful fulfilment of this objective. The ultra-soft monetary policy of previous years that was intensified during the pandemic, as well as large-scale fiscal incentives in most countries during this period, led to a significant increase in investors’ risk appetite (to secure return on investments), contributed to the development of the private investment market and caused significant growth of prices for assets in the global financial market. In the future, the phase-out of support measures may reveal additional problem areas in the public and private sectors, including those related to the debt burden, especially in emerging market economies. This may have a material influence on the dynamics and the development of global financial markets. It is important to take this macroeconomic context into account to ensure the systemic stability of the Russian financial market.

¹ Section K Financing and Insurance, Russian National Classifier of Economic Activities (OKVED 2).

Another global trend that was growing in previous years and will continue to have an increasingly material influence on the global financial market is the **increased relevance of the sustainable development agenda and its role in economic policy**. Many countries have declared their commitment to sustainable development goals and have chosen the path of carbon neutrality. Sustainable development includes the concept of responsible financing, that is, investors are taking ESG factors into account when making investment decisions, which is making a strong impact on the global redistribution of capital flows. Russia's integration into the sustainable development agenda is an increasingly important factor in the development of the national economy and financial market: it is a prerequisite for attracting financing. For this, adjustments of the regulatory environment and the creation of necessary infrastructure – that is globally recognised – are required.

The rapid introduction of technological innovations in the financial sector is the most important phenomenon of recent years that defines market development in Russia and worldwide. The use of digital technologies alongside new platform solutions is driving fundamental changes in the principles of financial service delivery and interaction between business and clients, interaction between other financial market participants and regulators, as well as an increase in the scope and speed of transactions. The introduction of digital technologies has made it possible to enhance the accessibility of financial products and services, both geographically and in terms of commission fees. Digitalisation requires appropriate protection to consumers, suppliers and the financial market infrastructure from cyberattacks, fraud and so-called social engineering, as well as a certain level of digital knowledge and skills of individuals. Moreover, the introduction of new financial technologies falling under the regulation of FATF standards requires a preliminary assessment of the risks of money laundering and financing of terrorism.

The active development of platform solutions providing the remote receipt of a wide range of 'one-click' financial services has led to their **commoditisation** (the standardisation of financial products, when it is not important to a consumer who is their supplier) and has changed consumer habits in the financial market. The introduction of digital technologies and remote sales channels is gradually changing the chains of interaction between suppliers and consumers of financial services, excluding some unnecessary functions of suppliers that they performed earlier, that is, it leads to **disintermediation**.

Digitalisation and growing competition for the customer, who wants to receive an increasingly wider range of products and services with minimal effort and time, have led to the **emergence of ecosystems on the basis of financial and non-financial organisations providing financial services**. Ecosystems seek to integrate various financial and non-financial services for consumers on the basis of platform solutions, which causes a blurring of lines between financial and non-financial services.

The creation of ecosystems also has a significant influence on the competitive environment. On the one hand, this is a challenge for market participants with traditional business models, and, on the other hand, it results in growing competition with new players, including Russian and global BigTech companies. The formation of ecosystems creates many opportunities for consumers and providers of financial services but is associated in the long term with risks of abuse of market power by large ecosystems, which requires adjustment of the regulation.

Technological progress and related financial innovations are also a key driver of the ongoing globalisation process. With the spread of the Internet, financial services have become simpler and more accessible, easily overcoming national boundaries. The increasing functionality of financial technologies and the development of remote formats of service allow users to easily switch between financial intermediaries, including reaching out to foreign suppliers and purchasing their products and services.

The extended extraterritoriality of financial services creates the conditions for regulatory arbitrage. With financial services open to consumers remotely and the rapid movement of capital and persisting differences in financial sector regulation across jurisdictions, individuals and legal entities

can relatively easily receive financial products and services of suppliers from countries with softer legislation in terms of taxation, identification, investment rules, time frames for the introduction of innovations etc. Efforts are needed to maintain the competitiveness of the Russian financial market in a global context. The cross-border provision of financial services hampers the protection of financial consumers, primarily retail consumers, due to differences in statutory provisions and law enforcement practices in different jurisdictions, which requires additional attention from the regulator.

In terms of global factors, some geopolitical risks remain. International sanctions limiting access to international sources of financing and elements of infrastructure have been repeatedly imposed on Russia and are in force. These processes have become a driver for the development of national infrastructure solutions in the financial market that ensure national economic security and financial sovereignty.

Individuals' investments in securities had grown strongly in many countries; however, it was more noticeable in Russia against relatively low investments of individuals in capital market instruments at the beginning of 2019. Purchases of securities by individuals were to a great extent facilitated by reduced interest rates for traditional banking products (deposits), the growing interest of large banks in the expansion of financial products and services and in additional income through cross sales and customer path simplification including digitalisation of brokerage services. The Government of the Russian Federation support measures aimed at the development of individual investment accounts also made a strong impact. As individuals make increasingly more forays into the stock market as investors, focus is turning to their protection from malpractices of financial intermediaries, including misselling and ineffective investments, with financial literacy and financial discipline assuming more importance.

In 2019–2020, **the core segments of the financial market reported positive performance.** Over two years the assets of financial institutions grew both in absolute terms (by 24.9%, to ₹136.5 trillion) and relative to GDP (from 105.2% to 127.6%)². In 2021, the assets of financial institutions continued to grow and amounted to ₹153.9 trillion, based on Q3 results³, which is 12.8% higher compared to the beginning of the year.

With the steady development of all major segments of the financial market, its structure was gradually changing. **Although banks and banking products still account for the main share of the market, the role of non-bank financial institutions and the capital market increased in 2019–2021.** The share of banks' assets in the total assets of financial institutions decreased from 78.9% to 74.4% at the end of the third quarter of 2021. The share of other financial institutions increased, to a large extent, owing to assets under brokerage and trust management, which accounted for 13.1% of total assets of financial institutions for the first nine months of 2021, after 9% at the beginning of 2019. The role of the bond market was growing, and its capacity allowed the state to significantly increase borrowing to support the economy in the crisis year of 2020. Despite the crisis year of 2020, the capital market retained its role as a source of debt financing for Russian companies. In 2019–2021, the share of bond borrowings remained at 23–24% in the total borrowings of non-financial organisations.

However, the depth of the Russian financial market remains insufficient to fully serve the needs of the economy, including large national borrowers. More specifically, in terms of bank loans to the private sector of the economy to GDP, Russia is behind many developed countries (59.9% vs 158.5% in OECD countries, 94.8% in the euro area in 2020⁴) but is comparable to some developing markets (e.g., 70.2% in Brazil, 55.3% in India). Russia's ratio of bonds of non-financial organisations

² Total assets were calculated on the basis of assets of the banking sector and insurers, the investment portfolios of NPFs and the Pension Fund of Russia, the net asset value of UIFs, owned assets of professional participants that are NFIs, assets under brokerage, assets under trust management and core assets of microfinance organisations.

³ Net of core assets of microfinance organisations.

⁴ According to the World Bank data.

to GDP is also below the OECD level (8.1% vs 24.2% at the end of 2020) and China (30.7%) and close to Brazil's indicator (7%).

Raising equity capital has not yet become a significant source of long-term resources in the Russian economy. Its further development and the enhancement of its role in meeting the needs of individuals, business and the economy, the insurance and pension sectors are required.

Considering the shallow depth of the Russian financial market and the limited availability of long-term financing, the role of own funds in financing fixed capital investments continues to grow (its share in total sources of investment financing increased from 53% in 2018 to 55.2% in 2020).

Most segments of the Russian financial market are still highly concentrated. The most monopolised segment of financial services is Payments and Transfers (see Table 1). Competition in the other main segments of financial products and services, such as Lending, Borrowing, Investment Services and Insurance Services, is generally medium or low⁵, with a unique market structure in each of these segments.

Segments of the Russian financial market often have competition between several major players. However, in a number of market segments, one major participant predominates. This is taking place in the context of the development in the Russian financial market, alongside banking associations (banking groups and holdings), of cross-sectoral associations of financial institutions in which both banking and non-banking financial institutions participate. State stakeholding in major credit institutions is another characteristic feature of the financial sector which also affects the competitive environment.

Further, in the context of the general trends described, we will consider in more detail the development and dynamics of individual significant segments of the financial market and changes in the financing conditions or preferences of certain groups of financial consumers that have had a significant impact on financial market development.

BANKING SECTOR

The banking sector is showing steady growth and is the largest segment of the Russian financial market. At the end of 2020, the ratio of credit institutions' assets⁶ to GDP amounted to 97.1%. In 2021, amid dynamic lending growth, assets continued to grow and totalled ₺115.6 trillion by early November, growing 12.5% compared to the beginning of the year.

Banks remain a key source of borrowed funds for the real sector of the economy, including amid increased volatility in the global financial markets and uncertainty in the development of the economic situation in the context of the pandemic. Adjustments of regulation in previous years, accumulation of a capital buffer by the banking sector and measures of the Bank of Russia and the Government of the Russian Federation to support the economy facilitated the significant expansion of bank lending during the crisis. The bank loan portfolio⁷ grew from 50.9% of GDP as of early 2019 to 60.6% as of early 2021. The bank loan portfolio continued to grow and amounted to ₺74.9 trillion by the beginning of November 2021, which is a 14% increase compared to the beginning of the year.

In 2019–2020, both corporate and retail lending recorded positive performance. Corporate loans amounted to 41.8% of GDP as of the beginning of 2021, showing a significant increase compared to the beginning of 2019 (36.6% of GDP). In 2020, amid increased demand for credit resources in the economy and the operation of concessional lending programmes, the growth of corporate lending

⁵ Some segments of the insurance market are characterised by relatively high competition. For details, see the Subsection [Insurance companies](#) of this Section.

⁶ Net of provisions.

⁷ In this case, the loan portfolio means corporate and retail debt (before provisions).

accelerated noticeably compared to 2019 (to almost 10% after 5.8% a year earlier)⁸. In 2021, the corporate loan portfolio continued growth to ₹50.5 trillion by the beginning of November and the annual growth rate was 12%⁹. Banks extended loans both to large projects and to SMEs. In addition, a significant increase was facilitated by lending to developers as part of the new model of project financing using escrow accounts.

In 2019–2020, mortgage lending grew at high rates in the context of record low interest rates and concessional lending programmes (annual growth rates exceeded 20% as of the end of 2020). The mortgage portfolio grew to 8.7% of GDP as of the beginning of 2021 (from 6.2% as of the end of 2018), making a significant contribution to the expansion of retail lending (its share in GDP over the same period increased from 14.3 to 18.7%). Despite the change in the conditions of the concessional mortgage lending programme (an increase in the interest rate and a decrease in the maximum loan amount)¹⁰ and rising interest rates throughout 2021, the mortgage portfolio is still growing rapidly. For example, for the first ten months of 2021, ₹4.5 trillion worth of mortgage loans were provided, which is more than total loans for 2020 (₹4.4 trillion), and the portfolio grew 23%.

At the same time, significant growth in demand in the primary housing market caused by, among other things, an increase in concessional mortgages, resulted in substantially higher prices in the market (in particular, as of the end of 2021 Q3, prices in the primary housing market had grown 22.8% YoY), limiting the affordability of housing and the effectiveness of government support measures. Affordability of housing can be facilitated by the development of alternative housing strategies, including short-term and long-term rentals and residential real estate leasing.

The Bank of Russia is concerned by the growth of retail loans to borrowers with a high debt burden and is paying increased attention to the development of tools for macroprudential regulation of the retail segment, especially of unsecured lending.

The Bank of Russia is also aware of accelerated growth in unsecured consumer lending in 2021 after the stress of 2020 when the growth of unsecured lending had slowed amid both the tightening of bank requirements and the growing uncertainty about the dynamics of household incomes during the crisis.

Among other factors, the decrease in interest rates to historic lows in the Russian market throughout 2020 **encouraged banks to use financial instruments with floating interest rates**. From 1 February 2019 to 1 November 2021, the volume of corporate floating-rate ruble loans to resident legal entities and individual entrepreneurs went up by a factor of 2.1 to ₹14.8 trillion. The share of such loans in banks' portfolio increased from 25.8% to 39.4%. The expanded use of financial instruments with floating rates allowed banks to redistribute part of interest rate risks to corporate borrowers. In the context of the increase in the Bank of Russia key rate, this results in a growing debt burden of borrowers due to higher interest payments, which, in turn, may aggravate credit risk for banks. To limit risks for households and credit institutions, the Bank of Russia may introduce regulation for floating rates in household lending¹¹.

The growth in lending at floating rates has accelerated the development of the market for ruble ordinary interest rate swaps. From the beginning of January 2019 to the beginning of October 2021, the total volume of contracts in this market went up by a factor of more than 4.7 to ₹10 trillion¹². The

⁸ The figures for growth exclude the effect of currency revaluation (recalculation of the currency component into rubles at the exchange rate effective at the beginning of the period under review) for credit institutions operating as of 31 December 2020 (including previously reorganised banks).

⁹ Starting from February 2021, the increase is calculated taking into account acquired rights of claim.

¹⁰ Decree of the Government of the Russian Federation No. 566, dated 23 April 2020.

¹¹ According to the instruction of the President of the Russian Federation, dated 12 July 2021, the State Duma introduced Draft Law No. 1212906-7 'On Amending Certain Legislative Acts' on the regulation of floating rate consumer lending, including mortgage lending. To develop the most effective regulation for floating interest rates, on 3 March 2021, the Bank of Russia published the Consultation Paper [Regulation of Risks Related to a Potential Wide Use of Variable Interest Rates in Mortgage Lending](#) on its website.

¹² These growth rates turned out noticeably higher than in 2016–2018, when the open position increased from ₹0.8 trillion to ₹2.1 trillion (i.e., by a factor of 2.8).

current market structure began to form in the spring of 2019. In this structure, most transactions constitute an exchange of fixed payments from systemically important credit institutions (SICIs) for floating payments from non-residents and foreign subsidiary banks¹³. This enables SICIs to hedge the risks of rising interest rates related to their own ruble liabilities, while their counterparties secure a fixed rate including the interest risk premium. Non-financial companies that hedge floating rate loans are also interested in exchanging fixed payments for floating ones; almost all such transactions have been concluded with SICIs¹⁴. Thus, SICIs assume interest rate risks from non-financial companies and transfer them to non-residents and foreign subsidiaries.

To reduce their interest rate risk in 2020, banks preferred to invest in floating-rate federal loan bonds (OFZs): from May 2020 to 1 October 2021, such investments quadrupled to ₹3.9 trillion, and their share in the banking portfolio grew from 33.0% to 51.9%¹⁵.

The banking sector is demonstrating positive financial results. Due to the fact that banks did not stop lending to the economy during the stress period despite the deteriorating conditions amid the pandemic, in 2020 the banking sector made a profit of about ₹1.6 trillion. Return on equity amounted to 15.7%, which is comparable to the average level of the previous two years. Compared to other industries, this indicator is noticeably lower than in metallurgy (more than 40%), telecommunications (20.3%), agriculture and the food industry (21.2%), retail trade (22.9%) but exceeds the figures for the oil and gas (7.2%) and power industries (5.8%)¹⁶. In general, the investment attractiveness of banking is relatively low both in Russia and abroad. Therefore, regulators pay special attention to the development of the capital market.

As for the maturity of loan-based bank financing, the corporate loan portfolio of banks mostly consists of loans with a maturity of more than three years (51% as of 1 November 2021). By providing the real sector with borrowed funds to finance operating activities and implement medium-term projects, banks allow businesses to invest their own funds in long-term projects. At the same time, due to the nature of the banking sector, its ability to finance long-term investment projects and participate in equity financing is noticeably limited both in Russia and abroad.

The banking sector has a fairly high level of concentration (see Table 1). According to the CBR-Composite index, the banking sector is one of the least competitive in the Russian financial market. In the first 9 months of 2021, the top five banks accounted for almost 74% of lending services and about 70% of fundraising operations. The share of the largest bank amounted to almost half of lending services and about a third of fund raising operations.

The role of major banks increased primarily in the area of services to households, which, among other things, was facilitated by the rapid development of remote service channels by these banks as well as other market and non-market advantages associated with the use of accumulated big data, access to public financial resources, brand awareness etc.

The state share in the banking sector remains high, which is reflected in the competitive environment in terms of both the objectives of the bank and the assessment of the sustainability of such banks by financial consumers (as a rule, this also makes it possible to attract more stable funding). Often, owners or shareholders of credit institutions are federal and regional authorities, which potentially creates additional advantages for the business of these banks.

The growth of state stakeholdings in the banking sector is partly due to financial rehabilitation measures. The compulsory direct participation of the Bank of Russia in the capital of banks to be rehabilitated through the use of the Fund of Banking Sector Consolidation is temporary. The number of credit institutions having to undergo bankruptcy prevention measures is gradually declining. The Bank of Russia adheres to a consistent policy of selling its stakes in the capital of

¹³ As of 1 December 2021, the net position of systemically important credit institutions in paying fixed rates amounted to ₹0.6 trillion, and non-residents and foreign subsidiaries had a reverse net position of ₹0.3 trillion.

¹⁴ In total, the position amounted to ₹140 billion as of the beginning of December 2021.

¹⁵ Over the same period, banks' investments in fixed-coupon OFZs increased by a factor of 1.8 to ₹3.3 trillion.

¹⁶ Bank of Russia estimates based on financial reporting data of companies accumulated in Capital IQ.

rehabilitated banks after their financial position is restored. At the same time, in 2020, in order to comply with the principle of equidistance of the Bank of Russia from supervised entities, that is competitive neutrality, **the Bank of Russia sold the controlling stake in the capital of Sberbank** to the Government of the Russian Federation.

The **active role of major banks in the development of ecosystems** is a distinctive feature of the Russian financial market. In the context of digitalisation, credit institutions are introducing significant changes in their business models, expanding the range of their services (including offered remotely) and entering adjacent segments in the real sector. All of this requires substantial investments. Russian technology companies are competing with banks in the ecosystem business as they begin to integrate certain financial services into their platforms. Competition from global BigTechs is also increasing.

As consumers become more and more used to receiving a wide range of personalised services through online channels, **the classic business model of banks, including small- and medium-sized credit institutions, is also changing.** In an environment where their ability to implement new technologies and big data processing mechanisms to improve their services is limited by the scale of their activities, a connection to emerging online financial platforms that will become more and more widespread may open up new opportunities for their business, including access to a wide range of customers. At the same time, the ability to offer interesting products and services to customers will become a significant factor in the competitiveness of platform participants.

INSURANCE COMPANIES

In 2019–2020, **the penetration of insurance services in Russia did not undergo any significant changes.** In 2020, the ratio of insurance premiums to GDP remained at 1.4%, close to the values of the previous several years. In the OECD, this indicator for 2019 was 9%, and in the developing economies of Brazil and Indonesia, 3.5 and 1.7% respectively¹⁷. In 2019–2020, the average growth rate of insurance premiums in Russia showed a significant slowdown to 2.1% after increasing by an average of 12% in 2017–2018¹⁸. For the first nine months of 2021, their dynamics improved: during this period, insurance premiums increased 19.4% to ₹1356 billion, compared to the same period last year, which is associated with the low base effect of the previous year and the accelerated growth of premiums for the main types of insurance, mainly driven by credit insurance due to the growth of lending amid loose monetary policy throughout 2020 and the operation of concessional lending programmes.

The low penetration of insurance in Russia is explained not only by the lack of an established insurance culture but also by high costs of distribution and low value of insurance products for customers. This is due to relatively low insurance payments and high transaction costs of obtaining them for insured persons. For insurance products, especially those sold through bank sales channels, premiums tend to include large agency commissions. This applies to such types of insurance as investment life insurance and insurance for borrowers obtaining consumer loans, mortgages or other loans. In 2019–2020, the ratio of insurance payments to insurance premiums in Russia did not exceed 43%; the ratio rose slightly in the first nine months of 2021 to 44%, which is lower than in other countries. For example, in 2019, this indicator amounted to 95% in the UK, 70% in Germany and 71% in Indonesia¹⁹.

To the greatest extent, the low customer value of insurance products is manifested in most types of imputed insurance. According to the 2020 Bank of Russia survey of this segment, in

¹⁷ According to OECD.

¹⁸ In 2018–2020, the return on equity of insurance companies remained relatively high at 29–33%; however, the indicator declined sustainably to 23% in the first nine months of 2021.

¹⁹ According to OECD.

2017–2019²⁰, the average payment ratio for prescribed insurance amounted to 17.2% (vs 32.5% in voluntary insurance and 68.6% in compulsory insurance over the same period). To increase its value for individuals, imputed insurance requires additional adjustments in its regulation (including the establishment of a clear list of insurance risks, insured events and minimum insured amounts). Development by insurance companies of marketplaces and their own remote sales and service channels will also help reduce the cost of insurance services.

The customer value of compulsory motor third party liability insurance (CMTPL) as one of the most widespread types of compulsory insurance should be increased by the differentiation of its rates in August 2020, which allowed insurance companies to determine the rate depending on the level of risks of a particular driver. This will also increase the affordability of this type of insurance for responsible drivers. It should be noted that the individualised approach to determining CMTPL rates is a balanced model enabling insurers to retain an economic interest in this segment, while consumers should receive affordable and high-quality services. In addition, given the high demand for CMTPL due to its mandatory nature and the possible need for consumers to compare rates of various insurance companies, sales of CMTPL policies through marketplaces have a high potential for growth.

An increase in the efficiency of the insurance market was facilitated by a noticeable expansion of the activities of the **institution of the financial ombudsman**, who has the right to settle disputes out of court. This made it possible to speed up the consideration of disputes and to cut the costs of both insurance companies and policyholders by reducing the number of disputes considered in court.

The competitive environment in the insurance market differs by segments. The CMTPL market is the most competitive (a high level of competition according to the CBR-Composite index). In the first nine months of 2021, the share of the top five insurers in the volume of insurance premiums amounted to 65%, while each of them accounted for 8–17% of the market (see Table 1).

The segments of voluntary insurance services have a higher level of monopolisation. In terms of the volume of insurance premiums, the largest company has a more noticeable lead over other participants than in the CMTPL market. Its share amounted for 28%, while the top five companies accounted for 65% of insurance premiums.

The presence of the state in the insurance market is manifested indirectly, through the participation of insurance companies in banking groups. In particular, three out of the top five insurance companies belong to banking groups, including two associated with credit institutions with state stakeholdings.

In 2019–2021, the competitive environment in the insurance sector remained relatively stable. The development and implementation of digital technologies, which require certain resources from insurance companies, have not yet had such a significant impact on competition in this segment as in the banking sector. However, the importance of this factor will grow given that the penetration of digital technologies in insurance is still significantly lower than in the banking market, and the insurance market has potential for further digitalisation, reduction of the costs of insurance activities and improvement of its overall efficiency.

The Bank of Russia focused on improving the financial stability of the insurance sector and removing insolvent intermediaries from the market. In 2019–2021, the number of insurance companies dropped from 199 to 151. The decline in the number of insurers is partly due to voluntary withdrawal from the market, including by those insurance companies that did not conduct any actual business.

²⁰ Bank of Russia Consultation Paper [Current Situation in the Prescribed Insurance Segment of the Russian Insurance Market](#). Published on the Bank of Russia website on 19 February 2021.

NON-GOVERNMENTAL PENSION FUNDS

In 2019–2020, growth of pension savings and reserves was mainly driven by investment income, rather than an influx of new customers. In two years, the aggregate amount of pension funds of NPFs grew 16.2% to almost ₹4.5 trillion²¹ (4.2% of GDP) and remained at about the same level of ₹4.55 trillion through November 2021.

Contributions and payments in non-governmental pension provision (NPP) increased in 2021 as compared to 2018–2020. Overall contributions to NPP reached ₹ 107.3 billion over the first ten months of 2021, exceeding the average for the first ten months of 2018–2020 by ₹ 26 billion (+32.1%), whereas non-governmental pension payments increased to ₹ 63.6 billion over the first ten months of 2021, which is 11.5% more than the average recorded in the previous three years. The numbers of participants in non-governmental pension schemes and concluded agreements did not change in 2019–2021 as compared to 2018. Over the three years, customers in NPP numbered approximately 6.2 million, and concluded contracts – 2.6 million (2.7 million as of the end of September 2021).

Yields on investments in NPFs as a tool for long-term savings remain relatively low. NPFs' yields on investments (before fees)²² are still barely higher than inflation. In particular, between 2016 and 2021 Q3, the weighted average annual yield on investment of pension savings and reserves was 6.2% and 6.4% per annum respectively. During this period, consumer prices increased 4.4% per year on average. In this period, the average yields on RUCBITR amounted to 8.6%, on RGBITR, to 9.5%, and on MOEX 10, to 7.5%.

Expansion of the segment of individual savings plans is a positive trend, but its volume remains small. In 2020, total contributions of individuals to individual pension plans went up by a factor of 2.7 against 2018 to ₹19.8 billion. Among other things, the significant increase is due to extensive marketing efforts for the individual pension programmes of several large NPFs.

The structure of the NPF market is relatively homogeneous and saw no significant changes in 2020–2021. Competition is moderate, with several large participants. The share of the top five NPFs was 95% in portfolios of pension savings and close to 85% in pension reserves²³. In the pension savings market, the shares of the top two NPFs ranged from 23 to 26%, the next two accounted in the range from 18 to 20% and the top five was closed by a fund with a share of a little less than 10%. In the segment of pension reserves, the top two NPFs had about 30%, and the shares of the next three NPFs ranged from 5% to 9%.

NPFs and the pension system as a whole still play a small role in the formation of long-term investment resources in the economy. As of the end of 2020, NPF assets amounted to 4.2% of GDP, and assets of the pension system (including the assets of the Pension Fund of Russia) amounted to 6.0% of GDP (vs 5.6% in 2019). This indicator shows that the amount of assets of the pension system in Russia significantly lags behind the level of advanced economies (the average for the OECD in 2020 was 99.9%), Brazil (28.2%) and India (9.3%) but exceeds the figure for China (2.2%)²⁴.

At the same time, it should be noted that in some countries (in particular, China), long-term retirement savings are generated in the insurance sector. If we take into account the insurance reserves under life insurance contracts in Russia (usually with a longer maturity), they will add another 1.2% of GDP to the assets of the pension system; nevertheless, it is still a modest value relative to the volume of assets of the pension systems of most advanced and many emerging market economies.

²¹ Pension savings of NPFs increased by 14.2% to ₹3.0 trillion, while pension reserves increased by 18.7% to ₹1.5 trillion.

²² Before fees paid to management companies, a special-purpose depository or a fund.

²³ A consolidated approach is used when calculating the concentration index. Within NPFs total assets are included in one group.

²⁴ Based on 2020 data from the OECD report [Pension Markets in Focus](#) (2021). The report presents comparable data on pension systems of different countries for 2020, taking into account pension savings in the public and private pension system (including funds accumulated in pension funds and through pension insurance).

Although the general trend in the dynamics of portfolios of pension savings and pension reserves in 2019–2021 was an increase in the share of bonds²⁵ and a decrease in the share of cash, on average NPF investments in bonds remained short-term. As of the end of 2021, the average maturity amounted to about three years, which was also due to the generally short maturity of the instruments of the Russian financial market and the unwillingness of its participants to commit to long-term investments. So far, the Russian market has few corporate bond issues with maturities/offers of more than 5 years.

Investments in stocks make up a small portion of the NPF portfolio²⁶. This is due to both the volatility of the Russian stock market and the low risk appetite of NPFs. In addition, the horizon and structure of NPF investments are affected by their obligation to guarantee safety, that is a break-even point of pension reserves at the end of each year, and by the fact that under pension agreements NPFs' remuneration for each year depends only on the income received at the end of the year. The Bank of Russia will continue its efforts to adjust regulation to encourage NPFs to form more balanced portfolios in terms of structure and maturity while ensuring their financial stability.

The development of the pension sector is hindered by both a lack of confidence in the pension system and a lack of experience in the independent formation of pension savings among the public. The repeated extension of the freeze of pension savings remains one of the most significant factors limiting the inflow of pension savings into the financial market and reducing the role of NPFs as institutional investors.

CAPITAL MARKET INSTRUMENTS

Bonds

Since the beginning of 2019, the Russian bond market has showed steady growth. In 2019–2020, the market increased by a factor of almost 1.5: the total amount of bonds with Russian depositories went up from ₹27.1 trillion to ₹39.5 trillion (or from 26.1 to 36.9% of GDP). For the first nine months of 2021, investments amounted to ₹41.3 trillion.

The Ministry of Finance of Russia has been actively increasing the placement of OFZs and attracted a total of ₹9.9 trillion (gross amount) between 2019 and the first eleven months of 2021. **The market capacity allowed the Ministry of Finance to borrow a record ₹5.3 trillion in 2020 to finance large-scale support measures for the economy**, of which more than half of issues were placed at a floating rate.

Corporate bonds of non-financial issuers were the top-two segment by volume and growth: from the beginning of 2019 to the end of 2021 Q3, it went up 45% to ₹9.9 trillion. Approximately two-thirds of the increase occurred in 2020. Oil and gas companies remained the main bond issuers, although their share dropped from 55% in 2018 to 45% as of the end of 2021 Q3. The share of telecommunications and trade companies grew slightly.

Bonds are becoming an important additional source of funding for highly rated companies. The share of banks as holders of corporate bonds dropped in 2019–2020 (from 55 to 45%), mainly in favour of non-bank financial institutions, non-financial organisations and retail investors.

New instruments in the corporate bond market include green and social bonds. As of early December 2021, there are 20 issues worth of ₹177 billion in the sustainable development sector of the Moscow Exchange.

²⁵ The share of bonds in the portfolio of pension savings was 53.0%, and 50.5% in the portfolio of pension reserves. An increase in bonds' value also contributed to the increase in their share.

²⁶ As of the end of November 2021, the share of stocks in the portfolio of pension savings amounted to 6.0%, and their share in the portfolio of pension reserves amounted to 10.1%.

Stocks

The stock market has not become a significant source of financing for the economy. The capitalisation of the Russian stock market for the first eleven months of 2021 totalled ₺63.4 trillion, having added 23.4% since the year start. However, when compared to GDP, it remains significantly lower than in other countries (at 8.1% of GDP as of late 2020 from 37.8% two years before). This figure in OECD countries is above 130%; in India it is close to 100%; in Brazil it amounts to 68%; and in China it amounts to about 80%²⁷.

Public offerings of stocks by Russian issuers (IPOs²⁸ and SPOs²⁹) remain sporadic. In terms of the number of offerings and the volume of attracted funds, Russia lags behind not only advanced economies but also BRICS countries. In 2019–2021, only 26 IPOs and SPOs took place, while Brazil recorded several times more such transactions during this period, and India, China and the United States registered hundreds, with a corresponding difference in the total amount of raised funds. In foreign markets, IPOs of companies quite often have small volumes of placement, which also makes this process more common. Investors' confidence in such offerings is largely due to strict requirements for issuers' disclosures on the current and future plans of companies and business risks, complemented by significant potential criminal liability of management for providing incomplete or inaccurate information.

Among other things, the low number of public offerings in Russia is due to the fact that in a weak demand environment equity financing is relatively expensive for Russian companies. Therefore, they prefer debt financing to equity financing, that is, they raise funds in the bond market. In 2019–2021, a number of companies of Russian origin registered in foreign jurisdictions made very successful but selective public offerings³⁰. They are more attractive to businesses due to a comfortable legal environment, efficient court systems and favourable taxation³¹. The development of the equity market in Russia is an important objective for the near future. Among other things, this can be facilitated by elimination of some of the existing restrictions and establishment of a more favourable environment for businesses registered in Russia.

Securitisation

In 2020, the securitisation market in Russia continued its active expansion, although it remains small in volume. Placements of bonds issued as part of securitisation transactions exceeded ₺380 billion, or 0.36% of GDP (vs ₺297 billion, or 0.27% of GDP in 2019), and the number of bond issues and the number of issuers also grew compared to 2019³². The market is dominated by mortgage-backed securities of DOM.RF (over ₺370 billion). In general, DOM.RF bonds account for about 85% of the market due to the extensive growth of mortgage lending³³.

However, securitisation of other types of loans is still underdeveloped (there have been only a few such placements) in contrast to the foreign markets where it is quite common for car loans, student loans and other consumer loans, loans to non-financial organisations and leasing claims. This may be due to credit institutions' lack of a need to securitise assets associated with high capital adequacy and limited demand from eligible borrowers.

²⁷ According to the World Bank data.

²⁸ Initial Public Offering.

²⁹ Secondary Public Offering.

³⁰ Ten offerings have taken place since the beginning of 2019. Investors showed great demand for securities of foreign companies of Russian origin which were offered close to the upper price of the declared range (in some cases even higher). The offerings were followed by a significant rise in quotations.

³¹ The structuring of transactions in offshore jurisdictions is not an exclusive feature of the Russian market: in most advanced economies (the USA, the UK, France etc.), a significant number of transactions are also formally executed in foreign jurisdictions due to attractive legal and tax conditions.

³² According to the Encyclopaedia of Russian Securitisation.

³³ According to Expert RA rating agency, [Encyclopaedia of Russian Securitisation](#) (2021).

Venture capital

In Russia, the private equity and venture capital market as a special source of financing for new and growing businesses is underdeveloped and lacks significant positive dynamics. The total investment in 2020 amounted to ₺39.2 billion (\$531.3 million, 0.037% of GDP), which is significantly lower than the average value for the last 5 years of ₺70.3 billion (\$1.1 billion)³⁴. Even when in 2019 the volume of direct and venture capital investments amounted to ₺93.9 billion (\$1.5 billion)³⁵, or 0.085% of GDP, it was one of the lowest in the world. For example, in the US and UK, the market volume in 2020 amounted to 3.5%³⁶ and 2.0%³⁷ of GDP respectively.

A peculiarity of the Russian market is that startups are usually purchased by one of several major players before their product or technology is recognised in the market. Not only does this limit the profit of entrepreneurs, but it also prevents the emergence of new market players that could potentially claim leadership in the innovative sector of the economy. This situation is associated with extremely high bureaucratic barriers for new companies that lack market standing and are unable to break through the complicated procurement procedures of state and state-adjacent consumers.

FINANCIAL CONSUMERS

In 2019–2021, the financial market was characterised by a significant increase in the involvement of households; growth in financial inclusion, including through the development of remote service channels; an increase in the use of financial products and services by households, including market instruments; and development of non-bank financing sources for small- and medium-sized enterprises.

Financing of small- and medium-sized enterprises

Increased availability of financing for small- and medium-sized enterprises is especially relevant as the development of this sector would boost the potential for economic growth in Russia and make a significant contribution to employment and to saturation of the market with goods and services. However, due to their specifics, small- and medium-sized enterprises are most vulnerable to the problem of more expensive financial resources in comparison with large businesses. Therefore, SME financing in Russia is still developing with significant government support.

Due to the incentives adopted by the Government of the Russian Federation and the Bank of Russia, **in 2019–2021 Q3, lending to SMEs became one of the fastest-growing segments.** In the context of a significant deterioration in the economic situation in 2020, the expansion of bank lending to SMEs was primarily facilitated by government anti-crisis support measures, including the expansion of concessional lending to support and maintain employment³⁸ and to resume activities³⁹ (under these programmes in 2020, SMEs received over 250,000 loans) as well as the temporary regulatory exemptions for restructured loans introduced by the Bank of Russia for credit institutions. As a result, over the period from early 2019 to early November 2021, the SME loan portfolio grew by 63.3% (to ₺6.8 trillion) and by 27.6% year on year.

³⁴ Bank of Russia estimates for 2015–2019 based on data from the Russian Venture Capital Association.

³⁵ Report of the Accounts Chamber [On the Results of the Expert Analysis of Venture and Direct Capital Investment Mechanisms with the Use of Federal Budget Funds \(2020\)](#). According to the Russian Venture Capital Association. The volumes of direct and venture capital investments in rubles are recalculated at the average annual exchange rate of the ruble to the US dollar.

³⁶ According to the National Venture Capital Association and the American Investment Council.

³⁷ According to the British Private Equity & Venture Capital Association.

³⁸ Government of the Russian Federation Resolution No. 422, dated 2 April 2020.

³⁹ Government of the Russian Federation Resolution No. 696, dated 16 May 2020.

The Growth Sector of the Moscow Exchange is expanding opportunities for small- and medium-sized businesses to attract debt financing. SME issuers get preferential treatment: subsidies and compensations, sureties and guarantees for bond issues, participation of development institutions in the placement of bonds. In 2020, the volume of bond placements in the Growth Sector more than doubled (by 106%) compared to 2019 and amounted to ₹6.4 billion, exceeding the targets for the volume of bonds issued by SMEs established in the national project ‘Small- and Medium-sized Enterprises and Support for Individual Entrepreneurial Initiatives’⁴⁰. At the end of the first eleven months of 2021, placements amounted to ₹7.9 billion.

Leasing and factoring are essential for the development of SMEs. **Services to SMEs make up a significant part of the leasing market:** as of the end of 2021 H1, the share of SMEs in the value of leased property amounted to 60.7% compared to 47.6% in 2018⁴¹. **SMEs account for about 13% of the factoring market.** As of the end of 2021 Q3, the total portfolio of the Russian factoring market amounted to ₹1.2 trillion, which is almost twice as much as at the beginning of 2019⁴². Development of digital factoring via smart contracts will contribute to further expansion of this market. To ensure the successful development of factoring, large companies which are often counterparties of SMEs should adopt a standard practice of timely issuance of acceptance certificates (for goods and works) and provision of services that are used in factoring transactions; it is also necessary to identify and eliminate other potential obstacles for the development of this type of financing.

Crowdfunding occupies its own niche in attracting financing for small- and medium-sized businesses. Currently, it is mainly used as a tool for attracting short-term borrowed resources, but in the future this market will develop instruments of bond borrowing and equity financing and use utility digital rights and digital financial assets, which actually have not been used before due to the underdevelopment of the taxation regime. After the adoption of a federal law and the transition of the market to the supervision of the Bank of Russia, crowdfunding is gradually growing, with the total amount of funds raised via investment platforms equalling ₹8.0 billion in the first nine months of 2021.

Individuals in the financial market

In the context of the digitalisation of the financial market, the commoditisation of financial products and services and the arrival of non-financial organisations in the financial market, competition for consumers between various financial intermediaries is intensifying. Before, Russian consumers mainly saved spare cash in bank deposits, but in 2020–2021, the capital market saw a significant inflow of retail investors. This was due to both declining real interest rates on bank deposits in 2019–2020 and extensive offerings of investment instruments by financial intermediaries through convenient remote sales channels.

Amid **weakening interest among individuals in bank deposits**, their growth slowed to 4.2% in 2020, vs 6.3% and 9.7% in 2018 and 2019, respectively⁴³. Compared to the beginning of 2019, the share of household funds in the structure of credit institutions’ liabilities decreased from 33% to 28.4% by the beginning of November 2021. At the same time, due to the persisting low rate differential with time deposits, the share of time deposits declined, and the share of current accounts grew. However, the rise in interest rates following the key rate hikes triggered an increase in household time deposits, which grew by 0.6% in October (vs 0.9% in September and 0.5% in August). The recovery in deposit growth is also assisted by social support measures (as part of payments to families with children and pensioners totalling around ₹0.7 trillion in August–September). As a result, in October 2021, the growth of household funds recovered to 6.3% in annual terms.

⁴⁰ For details, see the [National Project ‘Small- and Medium-sized Enterprises and Support for Individual Entrepreneurial Initiatives’](#). Target values are established in the [passport of the federal project ‘Acceleration of Small- and Medium-sized Businesses’](#).

⁴¹ According to Expert RA rating agency.

⁴² According to the Association of Factoring Companies.

⁴³ Excluding escrow accounts under equity construction agreements.

Increasingly often, individuals opted for capital market instruments, preferring brokerage services over trust management. From the beginning of 2019 to the end of October 2021, the market saw a surge in the number of customers of brokerage services (more than eight times, up to 18.2 million) and trust management (almost five times, up to 725 thousand). As of the beginning of November 2021, the volume of assets in brokerage and trust management amounted to ₹18.8 and ₹1.8 trillion respectively. By the end of 2021 Q3, the number of open individual investment accounts increased more than sevenfold and reached 4.4 million, the volume of assets reached ₹482.2 billion⁴⁴.

The inflow of household funds into the capital market can increase the availability of financial resources for companies and become an additional factor in the development of the real sector of the economy. However, **in the current environment, such a massive arrival of novice retail investors can in many ways be a challenge** as most new investors do not fully understand the specifics of the complex financial instruments they buy and are not aware of the risks associated with such instruments and their fundamental difference from bank deposits. The situation is complicated by the behaviour of financial intermediaries selling investment products that do not always act in good faith, often fail to explain the specifics of instruments to customers and may use misselling and mispricing practices.

In these conditions, **the Bank of Russia focuses on the development and implementation of rules for informing customers when selling financial products**, including in cooperation with financial market self-regulatory organisations and banking associations. In particular, a requirement has been embedded in law whereby financial institutions are to inform consumers about the provisions of financial service agreements and risks associated with the execution of such agreements. In addition, the Bank of Russia developed internal standards for SROs of NFIs to improve the quality of information about financial products in the form of key information documents that describe the key characteristics of financial instruments in simple and straightforward terms. By mid-2021, relevant internal standards had entered into force in respective sectors of the securities, collective investments and forex dealers markets. Banking associations also approved standards for the sale of financial products, including for the promotion, sale and support of financial products and services of NFIs by credit institutions.

In addition, a **mandatory testing procedure for non-qualified investors** was introduced as a statutory requirement starting from October 2021. The testing will allow professional securities market participants to evaluate customers' knowledge of complex financial instruments and associated risks and assess their readiness to invest in such instruments. The testing results will also become a reference point for novice investors, protecting them against unexpected and unjustified losses.

The Bank of Russia together with the Government of the Russian Federation and market participants will continue to adjust the system of rules for the sale of financial products and services in the future, alongside the work to improve the investment literacy of consumers.

The entry of retail investors into the stock market along with the development of remote service channels is accompanied by an **increase in household investments in foreign securities**. In 2020–2021, this trend has especially intensified. From early 2020 to early November 2021, investments in shares of non-residents⁴⁵ increased by a factor of 9.5 (to ₹979 billion), and in bonds, by a factor of 1.7 (to ₹725 billion).

Although investments in Russian securities still account for the main portion of investments in the portfolios of individuals (82% as of the beginning of November 2021), the active growth of investments in foreign securities requires ongoing monitoring in order to limit risks to both financial stability and the well-being of citizens.

⁴⁴ 4.0 million in brokerage accounts, 455,000 in trust management.

⁴⁵ According to depository reports 0409711 and 0420415.

At the same time, with the widespread use of remote service formats and digital financial services, illegal activities in the financial market through online channels have intensified. Citizens without sufficient knowledge and experience become more vulnerable to fraud. Under these conditions, the number of entities identified by the Bank of Russia as showing signs of illegal activity is growing; in the first nine months of 2021, the Bank of Russia identified 61.6% more entities with signs of illegal activity than in the same period last year. About 42% of them engaged in illegal lending. The other two most noticeable groups are illegal participants in the securities market (32%) and financial pyramid schemes (26%). Most of the financial pyramid schemes identified by the Bank of Russia operated on the Internet (287 or 67.7% were Internet projects and foreign organisations). They promoted their own activities through bloggers, among other things, and posted videos on popular video hosting sites. Starting 1 June 2021, the Bank of Russia regularly publishes the [list of detected companies having signs of illicit activity in the financial market](#) on its official website; furthermore, the early detection system was reconfigured, which has made it possible to proactively identify more entities.

The growth in the number of private investors on Russian stock exchanges also generates an increase in the supply of dubious and substandard investment recommendations and advice on the internet, social networks and messengers. Moreover, anonymous sources can deliberately manipulate the behaviour of investors, and transactions conducted on the basis of such advice may not always be legal. In particular, as part of the ongoing monitoring of exchange trading, the Situation Centre for Monitoring Exchange-trading Markets of the Bank of Russia has already identified the coordination of unfair practices in stock trading and attempts to involve private investors in them through popular messengers.

Changes in the formats of illegal activity require a corresponding improvement in the methods for combating it as well as an increase in the level of household knowledge about the peculiarities of purchasing financial products through online channels and the ability to distinguish legal activities from illegal ones.

As for the structure of the market **in the professional services segment of the securities market, the role of banking groups in the provision of brokerage and trust management services has been strengthened**. This was facilitated by their size, the accumulated base of banking clients and their active involvement in the investment services market through a single sales channel as well as opportunities associated with the development of financial technologies.

The market of brokerage services and trust management is characterised by a low level of competition, which is especially evident in trust management.

Over the first nine months of 2021, the share of the first five managers amounted to 67% and 90% respectively by portfolio value and number of clients (see Table 1). Furthermore, the first manager occupies more than 50% of the market by the number of clients.

Although the share of the first five brokers remained almost unchanged by transaction turnover and was close to 50% (with the share of the largest broker at 20%); in 2018–2020, it increased from 74% to 92% by the number of clients. At the same time, at the end of 2021 Q3, the shares of the two largest brokers stood at 40% and 29%, respectively, by the number of clients. This indicates the ongoing build-up of the customer base by large banking brokers (including through online banking platforms).

In 2019–2021, with the transition to remote service formats, **territorial and temporary barriers to the supply of financial products and services are progressively decreasing, and their availability is increasing**. The restrictions due to the pandemic have increased the demand for the use of non-cash payments, online channels and various digital services, including payment services. The share of cashless payments in retail turnover in January–September 2021 was 72.6% compared to 55.6% in 2018. Payments and transfers of individuals made remotely in January–September 2021 increased by 57.2% in number and 72.1% in volume compared to January–September 2019.

Consumers trust digital payment instruments and are expanding their use. Since 2019, there has been a significant increase in the use of NFC payment methods. In January–September 2021, 26.2 billion transactions using NFC technologies were carried out in the amount of ₹23.5 trillion, which is 2.1 times more in number and 2.6 times more in volume than in January–September 2019. Almost a quarter (24.6%) of such transactions were made using payment applications on smartphones and other devices. In the future, the trend of replacing cash and plastic cards with digital payment instruments will continue.

At the same time, **the payment services market is characterised by a high concentration of business.** The share of the first five issuing banks (by volume of transactions) in the segments of card transfers and payments for goods and services made by their customers is about 96% and 90%; the share of the largest issuing bank is 92% and 71%, respectively. The share of the first five acquiring banks (by volume of transactions) in the segment of acceptance of cards when making payments in trade and service enterprises (acquiring services) is about 86%; the share of the largest acquiring bank is 71%.

The relatively low competition in the market of payments and transfers is associated with the spread of bank cards through payroll projects. As a result, one of the market participants gained access to a historically formed large array of customer data, which allowed it to occupy significant positions in the field of payments and transfers.

Taking into account the geographical diversity of Russia, in order to ensure financial inclusion for individuals living in rural areas or in remote and sparsely populated territories, **'light' formats of banking services are becoming increasingly popular.** In particular, by the end of the first nine months of 2021, compared with the beginning of 2019, the number of post offices in which individual banking transactions can be performed had increased significantly (by 18%, to 35,600). The number of trade and service companies where you can withdraw cash when making a purchase has increased many times (from 93 to 5,900). The network of remote service points with employees of credit institutions and other stationary service points of citizens with agents and partners of credit institutions is also expanding (in 2020, their number increased by 26% to 524,500⁴⁶).

In order to increase the availability of financial services, develop competition and reduce the costs for individuals and businesses, **the Bank of Russia is creating and developing a digital financial infrastructure.**

In 2018, **a Unified Biometric System** that enables the use of biometric technologies to safely and reliably identify citizens to provide them with services was launched.

In 2019, the Bank of Russia launched the **Faster Payments System (FPS)**, which enables online transfers between the accounts of customers of credit institutions participating in the FPS on a 24/7/365 basis. In the first two years since the launch of the FPS, citizens have made 118 million transfers worth over ₹850 billion. At the same time, in 2020, operations through the FPS increased many times compared to 2019 (16 times in quantity and 13 times in volume). The rapid growth of operations continued in 2021; during the first eleven months of 2021, the number of operations increased ninefold, and their volume – 7.2-fold year on year.

Furthermore, since 2020, an experiment has been being conducted to create and use a **Digital Profile** infrastructure that allows citizens to submit reliable and legally significant information about themselves to financial institutions online to receive remote services. Since the launch of the experiment, citizens have used the Digital Profile more than 8.5 million times.

⁴⁶ Data on these service points with employees and agents of credit institutions have been calculated since the beginning of 2019 (in two years their number has increased by 13%), and with partners, since the beginning of 2020.

MICROFINANCE INSTITUTIONS

Microfinance institutions, pawnshops and consumer cooperatives⁴⁷ are among the main sources of borrowed funds for citizens and small- and medium-sized businesses that for one reason or another do not have access to bank loans, including in small towns and rural areas.

The Bank of Russia pays special attention to the rehabilitation of the microfinance sector. A considerable number of inactive or ineffective organisations have been excluded from the State Register. Some companies have left the market voluntarily.

Epidemic restrictions and the tightening of the risk policies of microfinance organisations have significantly affected the microfinance market. In 2020, almost the same volume of microloans was issued as in 2019 (worth about ₹417 billion), although in previous periods the volume of issuance increased by about a third annually. However, at the beginning of October 2021, the microloan portfolio was worth ₹305 billion, posting a 35% increase compared to the beginning of July 2020.

According to the Bank of Russia, the market has shifted towards operations with a lower level of risk, focusing more on medium-term consumer loans and loans to small- and medium-sized businesses.

In 2020, SMEs received about ₹52 billion from microfinance organisations (MFOs), which is 22% more than in 2019. A contribution to the dynamics of SME loans was also made by anti-crisis measures – the allocation of ₹13 billion for distribution through state MFOs. **At the end of 2021 Q3, loans to small- and medium-sized businesses accounted for 21% (₹64 billion) of the portfolio of microfinance organisations.**

The MFO market is actively developing technologies, scoring models and online channels for issuing loans: currently, about 71% of all contracts are concluded remotely.

The loan portfolio of consumer cooperatives at the beginning of July 2021 amounted to ₹61 billion. **The Bank of Russia is gradually improving the principles of the association of shareholders of consumer cooperatives** (based on territorial, social and professional principles), which should contribute to the formation of a real community of members and the suppression of the work of unscrupulous organisations using the legal form of a CCC, including for the creation of financial pyramid schemes.

FINANCIAL MARKET INFRASTRUCTURE

For several years, the importance of infrastructure organisations of the financial market has increased significantly, and the scope of their services has expanded due to new types of activities. Consumers of high-tech services of such organisations now include not only professional participants but also their clients.

With the strengthening of the role of infrastructure, the importance of its sustainability increases. In particular, the **completion of the central counterparty (CCP) regulatory reform in 2020** contributed to ensuring sustainability. Its results were the distinguishing of CCPs as a separate type of non-bank credit institution and the creation of a comprehensive risk-oriented model for regulating the activities of CCPs in accordance with international standards. By the end of 2021, three organisations received the status of an NCI CCP.

Since the beginning of the reform in 2014, Non-bank Credit Institution – Central Counterparty National Clearing Centre (Joint-stock Company) has steadily increased the value of the levels of protection of the CCP. The increase in the overall level of risk protection led to a twofold decrease in the amount of collateral charged from clearing participants as well as indirectly to an increase in trading volumes in the Moscow Exchange markets. At the same time, in total, from 2014 to 2020,

⁴⁷ Consumer credit cooperatives (CCCs) and agricultural consumer credit cooperatives.

the volume of trading in the repo market with the CCP increased by a factor of 12.7⁴⁸, in the stock market, by a factor of 2.6, and in the commodity market, by a factor of 4.2. Due to the expansion of the list of instruments for which the CCP is a party to the transaction provided to the participants of the Moscow Exchange money market, financial organisations and large corporate clients have access to placement and raising of funds at money market rates, which is important for reaching the objectives of maintaining financial stability, implementing monetary policy and developing the capital market as a whole.

New participants have appeared in the financial market – financial and investment platform operators, whose activities provide the possibility of issuing and circulating digital rights and making financial transactions via the Internet. In 2019–2020, the legal framework for their activities was formed⁴⁹. As of early December 2021, four financial platform operators (marketplaces) and 50 investment platform operators were listed in the Register of the Bank of Russia.

The law⁵⁰ on digital financial assets and digital currency aimed at regulating relations arising during the creation, issuance, storage and circulation of digital financial assets as well as providing the possibility of using distributed ledger technology entered into force from the beginning of 2021. The formation of the infrastructure necessary for the full-fledged turnover of digital rights and digital financial assets began. Although the provisions of this law also allow for the possibility of attracting investments for the issuance of digital financial assets on blockchain, further elaboration of legal norms is necessary for the development of this type of financing.

The activity of new market participants has not yet reached significant proportions. However, in the future, their formation will expand the possibilities of innovative development of both the financial and real sectors and will help to reduce transaction costs and increase financial accessibility. At the same time, at the initial stage, it is important to ensure the stability of new participants and to stop unfair practices in order to build trust in these institutions on the part of customers.

DEVELOPMENT INSTITUTIONS

Development institutions play an important role in the implementation of projects in priority areas of the economy for the creation, modernisation and reconstruction of socially significant infrastructure facilities, industrial development, innovation and so on. Taking into account their special status and role, development institutions, among other things, support significant sectors of the economy and participate in projects with excessive risks for commercial organisations. They focus primarily on the implementation of projects that lack financing by market methods and thereby create the necessary conditions for balanced and sustainable economic development.

Development institutions make a significant contribution to the development of the financial market, ensuring the development, testing and standardisation of schemes and tools used in project financing as well as mechanisms for hedging project risks. Furthermore, they form the necessary conditions for combining private and public project potentials.

At the end of 2020, a **reform of development institutions**⁵¹ was launched in Russia, one of the goals of which is, among other things, to ensure sustainable financing and the implementation of large-scale investment projects in infrastructure, industry and social development. Consolidation of the activities of various development institutions takes place on the basis of the State Development Corporation VEB.RF, which is also assigned coordinating functions for the activities of other major

⁴⁸ Including CCP repo deals with clearing participation certificates.

⁴⁹ Federal Law No. 211-FZ, dated 20 July 2020, 'On Performing Financial Transactions Using a Financial Platform', Federal Law No. 259-FZ, dated 2 August 2019, 'On Investment Raising Using Investment Platforms and on Amending Certain Laws of the Russian Federation'.

⁵⁰ Federal Law No. 259-FZ, dated 31 July 2020, 'On Digital Financial Assets, Digital Currency and on Amending Certain Laws of the Russian Federation'.

⁵¹ Order of the Government of the Russian Federation No. 3710-r, dated 31 December 2020.

development institutions, including the Joint-stock company Russian Small and Medium Business Corporation (JSC RSMB Corporation).

In order to maintain the mission of the largest financial institutions of development as well as taking into account their special status, **appropriate regulatory requirements** are stipulated for VEB.RF, the unified development institution in the housing sector (JSC DOM.RF) and JSC RSMB Corporation, which are acceptable in accordance with the criteria set forth in the Basel Accords⁵². In particular, a special regulatory regime is established for calculating the standards for the activities of credit institutions⁵³. At the same time, in accordance with the [press release of the Bank of Russia of 16 August 2021](#), there are also plans to introduce changes in the regulation of the liquidity risk and market risk of banks⁵⁴.

Taking into account the consolidation of development institutions on the basis of VEB.RF, the Government of the Russian Federation, with the participation of the Bank of Russia, plans to audit and optimise project financing mechanisms in the next three years, including the mechanism of the Project Finance Factory, a programme for financing infrastructure projects using bonds of the Special-purpose Project Financing Company. At the same time, special attention is to be paid to the issues of support and distribution of risks used in these mechanisms.

CHALLENGES AND OPPORTUNITIES FOR THE FINANCIAL MARKET AND AREAS FOR ITS DEVELOPMENT

Based on the analysis of trends in the development of the Russian financial market and its segments, the following conclusions can be drawn about important conditions for the development of the financial market and the existing challenges and emerging opportunities.

The increased stability of the financial market, both in general and in individual segments, is the basis for increasing confidence in financial services and meeting the demand of economic entities for various types of financing.

The phased adjustment by the Bank of Russia of the regulation of the financial sector and the removal of unscrupulous players from the market have contributed to increasing the stability of the financial sector and the formation of a **sufficient stock of capital in financial institutions, which creates the potential for further sustainable growth in the supply of products and services provided by them**.

A significant factor in the development of the financial market and the economy as a whole is the **ensuring of stable and predictable macroeconomic conditions** through a consistent monetary policy aimed at price stability and a balanced fiscal policy complying with the fiscal rule as well as through limiting risks to systemic financial stability. **Such macroeconomic conditions are also important for the growth of long-term financing potential in the economy**.

Digitalisation, which significantly changes various aspects of the financial market's functioning, creates prerequisites for further development, improving the availability and quality of financial products and services for consumers as well as **increasing labour productivity** in the financial sector.

With the introduction of platform solutions, **new innovative tools and platforms for attracting and placing capital** are appearing in the financial market. This expands the range of possible sources of financing and increases competition. **The proactive position of the Bank of Russia in creating financial market infrastructure** will also contribute to improving the competitive environment in the financial market and expand its potential.

⁵² [The Consolidated Basel Framework](#) (CRE20 'Standardised approach: individual exposures', p. 20.12, footnote 7).

⁵³ Bank of Russia Instruction No. 199-I, dated 29 November 2019; Bank of Russia Regulation No. 590-P, dated 28 June 2017.

⁵⁴ Bank of Russia Regulation No. 421-P, dated 30 May 2014, and Bank of Russia Regulation No. 511-P, dated 3 December 2015, accordingly.

Digital transformation **creates new challenges in terms of consumer protection, information protection and the operational reliability (cyber resilience) of the financial market** as important elements of its sustainability and quality of service to citizens.

The mass influx of citizens to the capital market creates opportunities for their participation in financing long-term investments, including the green (ecological) transition of the economy to a low-carbon basis. In order for citizens' participation in the financial market to become a stable trend, it is necessary to improve the culture (ethics) of interaction between financial intermediaries and clients, primarily in the field of investment financial services, enhance the financial literacy of novice retail investors and monitor risks to financial stability.

The strengthening of cross-border provision of financial services and the growth of citizens' investments in foreign financial instruments require attention from the point of view of both consumer protection and financial stability.

The rapidly changing environment of the financial market under the influence of digital technologies requires the prompt **development of new approaches to regulation**, including one that can quickly adapt to new realities. In particular, it is necessary to **create and adjust the appropriate regulation of ecosystems** so that their development creates advantages for individuals and businesses and does not entail significant risks to the competitive environment and financial stability.

Digital technologies also open up **new opportunities for optimising the interaction of the Bank of Russia and financial intermediaries**, which should help increase the efficiency of their activities and alleviate transaction costs and regulatory burden.

The high concentration in most segments of the financial market as well as the still significant presence of the state in the capitals of financial intermediaries pose a challenge to the formation of a balanced competitive environment. The ability of market forces to ensure the progressive development of the financial market directly depends on the solution of this problem.

A limitation for the development of the financial market is the **insufficient investment attractiveness of the Russian economy**, which generates unwillingness on the part of investors to invest for long periods. **The long money segment is also negatively influenced by** uncertainty in the development of the pension market due to another freeze of pension savings and uncertainty about their future prospects.

The challenge for the development of the Russian financial market and the economy as a whole is the timely **consideration of sustainable development factors (ESG factors)**, which are becoming particularly significant in the global economic agenda and important for the further development and growth of both the Russian financial market and the economy as a whole.

It is important to take into account and respond in a timely manner to **changes in external conditions with increasing imbalances in the global economy**, which, as a rule, influence the state of global financial markets as well as continuing **geopolitical factors**.

Taking into account current trends as well as challenges and opportunities for the financial market, the Bank of Russia together with the Government of the Russian Federation will promote its development over the medium-term horizon, working in the following key directions:

1. improving the security of financial consumers and investors and increasing financial literacy;
2. support of digitalisation;
3. enhancement of financial inclusion for households and businesses;
4. promoting competition in the financial market;
5. ensuring financial stability;
6. expanding the contribution of the financial market to the achievement of sustainable development goals and ESG transformation of Russian business;
7. development of long money (long-term financing);
8. development of the financial market sectors regulation.

A detailed description of the measures planned by the Bank of Russia for the next three years is presented in [Section 3 of the Russian Financial Market Development Program](#).

CONCENTRATION AND COMPETITION IN FINANCIAL MARKET SEGMENTS IN 2018 –2021¹
(%)

Table 1

Segment of the financial market	Leader's share in 100%			Share of the top 5 in 100%			Leader's share in the top 5			CBR-Composite ² 2020		CBR Composite ² 2021 9M	
	2018	2020	9M2021	2018	2020	9M2021	2018	2020	9M2021				
Acceptance of card payments (acquiring) ³	66.6	70.9	-	82.2	85.5	-	81.1	82.9	-	●			-
Card payments ⁴	70.5	71.2	-	87.3	90.0	-	80.8	80.0	-	●			-
Card transfers ⁵	94.0	92.2	-	95.7	95.9	-	98.1	96.2	-	●			-
Lending	37.2	47.3	50.2	67.5	75.7	74.3	55.2	62.5	67.4	● (Ind)	● (LE)	● (Ind)	● (LE)
Fundraising ⁶	35.7	34.7	33.9	69.5	69.8	69.9	51.3	49.8	48.4	● (Ind)	● (LE)	● (Ind)	● (LE)
Brokers (turnover)	18.1	21.3	19.8	48.9	48.4	50.2	37.1	44.0	39.5	●			●
Brokers (clients) ⁶	22.3	34.7	40.3	73.9	89.2	91.5	30.2	39.0	44.0	●			●
Trust management (portfolio) ⁶	23.8	26.1	24.9	69.6	72.3	66.6	34.2	36.1	37.3	●			●
Trust management (clients) ⁶	41.5	53.4	50.1	91.1	92.7	90.4	45.6	57.6	55.4	●			●
NPF (CPI) ⁶	22.2	22.4	26.0	78.5	77.9	95.8	28.3	28.7	27.0	●			●
NPF (NPS) ⁶	32.0	30.2	33.3	79.8	79.3	84.0	40.1	38.1	39.6	●			●
OSAGO	15.7	17.4	16.8	57.7	64.2	64.8	27.3	27.2	26.0	●			●
Voluntary Insurance	24.7	26.8	27.7	63.0	62.6	64.5	39.3	42.9	43.0	●			●

¹ When calculating competition indicators, a consolidated approach is used (for NPFs since 2021), in which the indicators of companies belonging to the same group are summed up, and the parent or largest organisation is indicated as the representative of the group.

² CBR-Composite is an aggregated indicator calculated by the Bank of Russia and characterising the overall level of competition in a particular market:

● – low level of competition;

● – moderate level of competition ;

● – high level of competition.

Ind – individuals, LE – legal entities.

³ Acceptance of payments for goods and services in trade and service enterprises (including online stores) on the territory of Russia using cards issued by Russian credit organisations and non-resident banks.

⁴ Domestic payments for goods and services made using cards issued by Russian credit organisations.

⁵ Cashless transactions made using cards issued by Russian credit institutions and not related to payment for goods and services (for example, from card to card, from card to bank account etc.).

⁶ Indicators calculated at the end of the specified period.

SECTION 3. THE RUSSIAN FINANCIAL MARKET DEVELOPMENT DIRECTIONS

3.1. IMPROVING THE SECURITY OF FINANCIAL CONSUMERS AND INVESTORS AND INCREASING FINANCIAL LITERACY

Ensuring the protection of financial consumers and investors and improving their financial literacy are the most important activities of the Bank of Russia. Currently and in the next three years, work in this area will be strengthened in terms of investment products and services as well as cyber defence, which is associated with the influx of millions of new investors to the financial market using mainly online service channels.

As credit institutions with a broad customer base are actively promoting investment products, the massive influx of individuals into the capital market continues. At the same time, most citizens do not yet have investment experience and do not have the necessary knowledge to assess the specifics of financial instruments, correlate their characteristics with their life needs and distinguish investment products and the risks associated with them from bank deposits. Additionally, the situation is complicated by the fact that financial intermediaries only partially give their clients the necessary explanations and information about products in an understandable and accessible form and sometimes consciously or unconsciously mislead citizens.

As a result, citizens encounter the problem of buying financial instruments and services that do not meet their expectations and goals, which creates risks of forming a negative experience for retail investors and reducing their confidence in the financial market and its institutions. This, in turn, limits the use of financial market opportunities to meet the needs of citizens and the development of the economy, a potential that can be realised only in case of the correct use of financial market products and services as well as the conscientious behaviour of its participants.

Furthermore, with the spread of digital technologies in the financial sector, new types of illegal activities and fraud are emerging. The widespread use of online channels and mobile communications for customer service increases the speed and convenience of access to financial services but at the same time makes citizens more vulnerable to the actions of cyber fraudsters and threats of social engineering, which makes it necessary to increase their security when receiving financial services. Illegal and unlawful activity not only creates threats of financial losses for citizens but also casts a shadow on bona fide participants, reducing confidence in the financial market as a whole.

In the context of the described trends and ongoing changes, in order to ensure the protection of the rights of consumers of financial services and investors, the Bank of Russia considers it a priority to achieve the following objectives:

1. creating conditions for consumers and investors to make conscious decisions when using financial products, instruments and services;
2. creating incentives for financial service providers to build long-term strategies to increase customer satisfaction and loyalty;
3. improving the effectiveness of measures to counter unfair practices and illegal activities.

The accomplishment of these objectives will contribute to the preservation and growth of citizens' confidence in the financial market, including the creation of incentives and conditions for their interest in a long-term and conscious presence in the capital market.

Objective 1. Creating conditions for consumers and investors to make conscious decisions when using financial products, instruments and services

The choice of citizens in favour of certain financial products and services as well as expectations from their use largely depend on two factors:

- the content, format and timeliness of information provided to consumers and investors about financial instruments and services;

- financial discipline, the level of financial, including investment, literacy of citizens and their practical experience with financial instruments.

Considering that, the Bank of Russia will take steps aimed first at improving the consumer properties of information received by citizens from financial institutions; second, at increasing the availability of educational content to help them acquire theoretical knowledge and practical experience in handling financial products, including investment instruments; and, finally, at informing the public on a regular basis of fraud and unfair practices in the financial market, possible risks and losses associated with the use of financial products and services, the opportunities and characteristics of each of them.

A systemic approach to solving this problem is possible when using a set of communication channels and tools, including social advertising, in cooperation with the Bank of Russia, the Government of the Russian Federation and the media. Such an integrated approach should contribute to the formation of conditions under which citizens will be able to make more informed decisions on the purchase of financial products, instruments and services.

An important element in solving this problem will be the creation of incentives for financial intermediaries to correlate the savings and investment needs of clients and the level of their training and financial situation with the offering of financial products and services to be formed. In fact, a financial intermediary should play a key role in helping citizens make informed investment decisions that correspond to their life goals.

The first step in this direction is to improve the procedure for financial organisations to provide information to citizens before conclusion of a contract in order to prevent the practice of unfair sales. Financial service providers are legally obliged to provide customers with the necessary and complete information about products offered as well as the risks associated with them. The Bank of Russia is authorised to establish the form, methods and procedure for providing this information.

The Bank of Russia plans to oblige financial institutions to **standardise the disclosure of information about investment products to the client** in the form of a financial product passport (key information document, KID)¹. Considering that citizens have different levels of training and willingness to spend time using information when making investment decisions, the KID will have a short format that visualises the level of risks associated with a financial instrument in the simplest form. At the same time, consumers will be enabled to review a more detailed version, which allows them to learn about the features of financial products quickly and in an accessible form. Although the use of KIDs is especially relevant for complex financial instruments, the availability of such simple and intuitive specifications for most financial products will help citizens choose those that meet their needs and risk appetite.

Additionally, there have been compiled joint plans with the FAS of Russia to develop recommendations regarding **advertising of financial products and services**, taking into account best practices, which should also mitigate the risks of misleading consumers and of their making emotional decisions threatening their well-being.

In October 2021, **testing of non-qualified investors began**, which will help achieve several objectives: it will enable clients to assess their own readiness to purchase complex investment instruments, create incentives and guidelines for improving investment literacy and also allow financial intermediaries to obtain additional information about clients and warn them against making transactions with elevated risk. Taking into account the results of the implementation of testing of non-qualified investors in the securities market during the planned period, there are proposals to develop approaches to testing in the investment life insurance market and assess the feasibility of testing in the sphere of digital financial assets (DFA) and crowdfunding. To this end, the Bank of

¹ Key information documents (KIDs) were introduced in 2020. They have been developed and recommended for a number of financial products, including structured ones. Currently, the use of most KIDs is advisory or is established by the standards of self-regulatory organisations. In respect of UIFs for non-qualified investors, effective from 1 October 2021, the use of KIDs became mandatory in accordance with the requirements of the Bank of Russia.

Russia will examine the possibility of applying the same approach to crowdfunding and investment platforms as in the securities market where qualified investors can purchase any products, and a wider range of products will be available for non-qualified investors who have passed testing than for those who have not passed.

Furthermore, special attention should be paid to improving the mechanisms for recognising an individual as a qualified investor. The current procedure has become obsolete and contains material shortcomings identified in the course of law enforcement practice. In this regard and also taking into account the rapid growth of individuals recognised as qualified investors over the past year, plans are underway to improve the procedure for recognising individuals as qualified investors.

The Bank of Russia will use a behavioural assessment tool with respect to regulatory norms related to the requirements for the form, content and procedure for communicating information about financial products as well as the procedure of interaction of product suppliers with customers.

Box 1

Behavioural assessment

Behavioural assessment is a study of the financial decision-making process of retail investors and consumers of financial services using scientific methods. Such a study is conducted in order to collect evidence for the development and improvement of behavioural regulation.

In 2020, the Bank of Russia organised the first behavioural assessment in order to evaluate questions for testing non-qualified retail investors. The event was held as part of the annual Moscow Exchange competition 'The Best Private Investor' from 17 September to 17 December 2020. As many as 429 people took part in the survey.

The conducted assessment will enable the Bank of Russia not only to identify the actual level of retail investors' preparedness to handle complex financial instruments but also to use the results obtained when developing the relevant regulation and improving the tests.

Also, there are plans to **clarify the methodology for calculating the total cost of a consumer loan (TCL)** in order to oblige banks and other creditors to include the amount of payments for additional services purchased by borrowers upon receipt of a consumer loan in the calculation of the TCL. This will allow borrowers to more accurately assess the costs of obtaining a consumer loan and will contribute to creating conditions for fair competition between lenders. The Bank of Russia will also assess the feasibility of using banking regulation tools to limit the debt burden of citizens paying for goods and services in installments envisaged by the seller at the expense of a bank loan.

In addition, it is planned to develop legislative amendments that would entitle people facing hardships to receive consumer loan repayment holidays. Moreover, financial institutions will be obliged to consider borrowers' requests for loan restructuring.

The Bank of Russia has the **authority to take measures against financial organisations that violate the rules for selling financial products and informing customers**. Such measures may include requirements for the repurchase of financial instruments from customers as well as limiting the opportunities for financial institutions to enter into contracts with individuals in the future.

An important area of the Bank of Russia's work together with the Government of the Russian Federation will remain **improving the financial literacy of citizens**. Citizens having the necessary knowledge, skills and attitudes are the basis for an informed choice of financial products and services and comfortable participation in financial relations.

In addition to the traditional areas of financial literacy reflected in the [Strategy for the Improvement of Financial Literacy in the Russian Federation for 2017–2023](#), **special attention will be paid to investment, digital and cyber literacy** in changing realities. These topics have rapidly entered the perimeter of the key issues of financial literacy given that an informed choice of financial products and services presupposes the ability of citizens to make this choice correctly through online channels, to distinguish bona fide suppliers from illegal ones and not to be misled by fraudsters, including those using social engineering. Given that it usually takes a long time to accumulate knowledge and

acquire skills, the focus in the coming years will be primarily **on the formation and promotion of basic attributes of correct behaviour when making investments**, the use of digital technologies in the financial market and the detection of fraudulent activities. The Bank of Russia will also seek to inform citizens about fraudulent schemes and persons who use them. It is advisable to pay special attention to the placement of information materials on countering fraud, including fraud using social engineering methods, at transport and social infrastructure facilities.

The formation of basic investment behaviour patterns among the population will solve the problem of obviously erroneous investment decisions and will be complemented by the availability of accessible content explaining the basics of investment activity on the websites of financial intermediaries as well as those of the Bank of Russia and federal executive authorities. Citizens who are willing to spend their time acquiring investment knowledge should have access to relevant content. As part of this work, the Bank of Russia plans to develop the Financial Culture website (fincult.info)² to help citizens navigate the increasingly complex and multifaceted environment of the financial market. This resource will provide guidance on how to choose financial instruments corresponding to one's investment goals, how to choose a financial intermediary/provider and use the services of financial platforms (marketplaces), how to choose the right investment strategy, and how to avoid fraud in the financial market. The Bank of Russia together with the Ministry of Finance of Russia will also contribute to the creation and development by financial market participants of educational resources and content on financial literacy, including investment literacy. Moreover, in order to increase the interest of citizens in the subjects of financial literacy and security, it is planned to hold various Olympiads, competitions, and nationwide tests and dictations on financial literacy and financial security, including on the international level.

The Bank of Russia expects that improving the quality of provision of information and advice to citizens by financial organisations as well as the formation of basic behaviour patterns and the promotion of knowledge on investment literacy will create conditions for non-qualified investors to choose less risky forms of entry into the capital market: trust management, and passive investment strategies³.

The Bank of Russia also plans to analyse the results of various active and passive investment strategies with the use of artificial intelligence technologies and big data measurement and take them into account when developing regulation. The results of this analysis are to be published in order to inform market participants. The further development of automated investment advice services – that is, robo adviser programmes, – will continue coupled with the improvement of respective supervision procedures to be applied by the Bank of Russia.

Thus, in the next three years, the key elements of protecting financial consumers and investors will be the introduction of rules for providing information, the creation of behaviour patterns among investors and countering unfair practices on the part of financial organisations when selling products and services. At the same time, on the horizon of 5–10 years, the offer by financial intermediaries of the very products and tools that will best suit the needs of retail customers will be key for ensuring their protection in the capital market. All this will require a transformation of the culture and values of financial organisations.

Objective 2. Creating incentives for financial service providers to build long-term strategies to increase customer satisfaction and loyalty

The fundamental basis of a bona fide attitude towards clients and respect for their rights on the part of financial organisations can only be their focus on long-term sustainable development and building trust-based relationships with consumers of financial products and services. When the objective of improving customer satisfaction and loyalty becomes part of the strategy and

² The website Financial Culture (fincult.info) – the Bank of Russia's financial literacy website.

³ Currently in Russia, the use of brokerage services prevails over trust management. At the end of 2020, clients' funds in brokerage services accounted for about 90% of the total portfolio volume in brokerage accounts and in trust management. In advanced economies, including the USA, the situation is reversed.

corporate culture of a financial organisation at all levels, this objective will not conflict with the goal of making a profit, including over a short-term horizon. Therefore, the Bank of Russia will create incentives to increase the customer centricity of financial service providers as well as assist in the formation of approaches and dissemination of best practices in this area.

For these purposes, the Bank of Russia will continue to **develop conduct regulation and supervision** as the main tool for setting up behavioural models of market participants, the focus of which is the process of interaction between suppliers and financial consumers. At the same time, priority will be given to preventive supervision aimed at identifying, assessing and preventing potential risks to consumers in the activities of financial organisations. In the future, it is planned to gradually implement the use of artificial intelligence in conduct supervision to identify anomalies and areas of concentration of behavioural risks in the activities of financial organisations.

In addition to the regulatory consolidation of rules for financial institutions on interaction with customers, the Bank of Russia plans to develop a **consultative approach in conduct supervision**. Such approach also includes informing market participants about the best practices for solving problems in the behavioural sphere and building communication with financial consumers and draws attention to the importance of assessing consumer risks of new financial products before they are introduced and offered to citizens (the Product Governance concept). In terms of improving the supervisory component, it is planned to change the **procedure for handling consumer complaints** and, at the legislative level, establish a uniform obligation for financial organisations to consider complaints in order to enable them to independently and promptly settle customer claims under the regulator control.

The Bank of Russia is also adapting conduct supervision approaches with due regard to the spread of digital technologies in the financial sector. The focus will be on the requirements for interacting with consumers through remote (digital) sales channels, including informing them about risks and disclosing other information about financial products.

In addition, within the framework of conduct supervision, the Bank of Russia will pay attention to cases where financial organisations establish requirements for consumers to provide excessive information to obtain the relevant financial services as well as cases of coercion to provide such information and send information on the identified instances to the authorised bodies for response measures.

There are also plans to develop and apply tools aimed at assessing the compliance by financial organisations with cyber security and countering social engineering when they use their websites and mobile applications to interact with consumers.

With the development of promising instruments for the protection of consumer and investor rights in terms of regulation and supervision, the Bank of Russia will continue to cooperate with international organisations in this area (primarily with FinCoNet⁴ and IOSCO⁵).

An important area will be to encourage financial organisations to motivate staff to improve the quality of sales of financial instruments and services, including through agency channels. The Bank of Russia will continue to form a responsible attitude towards bona fide sales among financial organisations. The regulator considers as the best practices personal responsibility of the management and employees of financial organisations, whose performance indicators and remuneration should directly depend on the quality of sales of financial products and services and not only on the company's profit generated as a result of such sales, and other financial indicators.

It is necessary to consistently **formalise the principle of fiduciary responsibility of the intermediary to the client in the course of financial consulting and trust management** as well as to continue the development of this principle for NPFs⁶. This will make it possible to increase the

⁴ *International Financial Consumer Protection Organisation.*

⁵ *International Organization of Securities Commissions.*

⁶ *For details, see Subsection 3.8 [Development of the financial market sectors regulation.](#)*

responsibility of such organisations to retail investors and their other customers. The Bank of Russia will work in this direction.

The introduction of ethical standards in financial organisations will contribute to building long-term relationships between suppliers of financial products and services and customers. The Bank of Russia will promote the integration of the basic principles of bona fide conduct into the codes of conduct of financial market participants.

With regard to the development of corporate governance, the Bank of Russia plans to define and embed in legislation approaches to the organisation of individual corporate governance practices and the system of labour remuneration and compensation, as well as to harmonise requirements for risk management, internal control and internal audit in financial organisations, including those combining their activities with the activities of professional securities market participants. Moreover, the Bank of Russia will continue improving the corporate governance systems of credit institutions through taking previously planned measures. Among other things, the regulator will seek to create incentives for the development of internal control systems and detecting unfair and illegal behaviour within credit institutions and to implement ethics standards related to their activities.

The Bank of Russia also plans to unify and improve qualification and business reputation requirements for executives and specialists working in the financial market (including the executives, officials and owners of financial institutions). This is necessary for increasing the quality of financial institutions' governance and operation at all levels.

Objective 3. Improving the effectiveness of measures to counter unfair practices and illegal activities

With the development of the financial market, the emergence of new instruments, the introduction of digital and online technologies, the strengthening of the cross-border nature of financial transactions, the perimeter of the objective of protecting financial consumers from unfair practices, illegal activities and cyber fraud is expanding. To meet this objective, the regulator and financial intermediaries need to intensively develop adequate measures aimed at countering ever-changing forms of illegal activities and actively cooperate with law enforcement authorities.

With regard to **combating illegal practices** in the course of on-exchange trading, the Bank of Russia will continue developing its system for countering the illegal use of insider information and securities market manipulation. Moreover, measures will be taken to ensure the inevitability of punishment for the respective offences. The Bank of Russia strives to accelerate detection of violations and reduce the number of cases left unconsidered by the regulator by developing a robotised approach to trading analysis. By arming itself with a so-called 'deal with the regulator' mechanism, the Bank of Russia will be able to reduce its labour costs and the timeframes of inspections aimed at detecting unlawful use of insider information and market manipulation.

At the same time, the Bank of Russia will continue paying attention to the development of the insider information management culture and increasing financial market participants' involvement in the respective processes.

In order to counter unfair assessment by financial institutions of the fair value of assets, it is planned to establish a public mechanism that will monitor operations with financial instruments in organised markets. The monitoring mechanism will be created as a platform containing updatable information regarding the status of financial instrument market activities. This product will make it possible to obtain information on the activity status of exchange-traded financial instruments as of any date⁷ and assess the representativeness of financial instrument prices based on the results of exchange trading. The robotisation of market activity rate assessment will enable the creation of conditions that will allow financial market participants to make informed decisions with regard to asset valuation and revaluation. This will in turn improve the transparency of transactions and of the

⁷ With due regard to technological limitations on the stored volume of information.

contents of investment portfolios, thereby forming a positive business reputation for the Russian financial market⁸.

To counter illegal activities, the Bank of Russia and the Prosecutor General's Office of the Russian Federation will cooperate to take prompt measures aimed at blocking dissemination of information prohibited by the effective laws. From 1 December 2021 the Bank of Russia has the right to initiate pre-trial blocking of websites of illegal participants of financial market, while the work aimed at promptly informing citizens about illegal entities activities and reducing the period of their activity will continue. There are plans to ensure the display of a list of companies and persons having signs of illegal activities (published on the Bank of Russia website) in search engines. The list is already available at the CB Online mobile application.

The Bank of Russia will also participate in the development of a procedure for cooperation with messengers and social media. Such cooperation will be aimed at suppressing the operation of illegal providers carried out through messengers and social media. It will also help bring the lists of companies and persons carrying out illegal activities in the financial market to the attention of their audiences.

Moreover, there are plans to use self-regulation mechanisms to more actively involve financial market participants in countering illegal practices. The role of financial consumers in countering illegal activities and fraud, in particular, their prudence level, should be taken into account. To increase this parameter, it is important to promptly inform consumers of possible illegal providers of financial services and increase the degree of cooperation with consumers.

The Bank of Russia **ensures cyber security** in the financial sector by developing measures aimed at increasing the quality and protection level of services provided by financial institutions. A complex approach will be applied, from improving the methodology for analysing the protection level of services and their testing to implementation of security procedures when putting the services into operation or during their modernisation.

The Bank of Russia and the Government of the Russian Federation will cooperate to develop informational and educational materials as well as financial cyber literacy training courses for the population. It is planned to continue practice-focused training in information security for various categories of students. Additionally, the Bank of Russia will carry out a set of organisational, legal and technical activities aimed at countering social engineering in the financial market.

Prompt detection, suppression and prevention of crimes in the financial market require further improvement of cooperation between the Bank of Russia and law enforcement authorities with regard to the formats in which information regarding offences in the financial market is provided by the regulator. Carrying out joint topic-specific training activities, experience sharing and continuous work-related contact with law enforcement authorities will contribute to the achievement of the said goals, which is especially important given the growing number of types of fraud and cyber crime.

Development of remote service channels results in illegal activities and fraudulent practices in the financial market becoming increasingly cross-border by nature. This creates the need for a transition to a new level of interaction with foreign regulators of financial markets. The Bank of Russia will take steps to ensure that the Russian Federation accedes to the Enhanced Multilateral Memorandum of Understanding of the International Organization of Securities Commissions (IOSCO EMMoU⁹), which will provide additional opportunities to combat illegal activities in the financial market and will increase the inevitability of punishment for mala fide participants.

⁸ It should be noted that the market test ratio is a trigger for determination of the method for evaluating an asset's fair value (as per IFRS 13). If according to the monitoring mechanism the market is active, a financial market participant may use the exchange price as the best fair value estimate without performing any calculations. If according to the monitoring mechanism the market is inactive, an exchange quotation may be taken into account when determining fair value.

⁹ International Organization of Securities Commissions. Enhanced Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information.

3.2. SUPPORT OF DIGITALISATION

Creation of an environment conducive to the implementation of new technologies and support of innovations in the financial market are among the strategic activity areas of the Bank of Russia.

Digitalisation contributes to the creation of new business models, increases financial inclusion and labour efficiency in the financial sector, has a positive impact on the competitive environment and strengthens the role of the capital market, as it encourages mass retail investors with small investment amounts to participate in securitised asset transactions. The use of digital technologies changes market boundaries: ecosystems emerge around financial institutions, the role of non-financial entities increases, and the significance of BigTech companies with an enormous customer base grows.

As a regulator, the Bank of Russia intends to participate in the further digitalisation of the financial market by creating legal conditions and a legal environment favourable for testing innovations and by developing digital financial infrastructure that is equidistant from all market participants and allows them to create innovative high-tech digital services for citizens and businesses, while simultaneously ensuring financial stability and high standards of information security and cyber resilience of the system as a whole. At the same time, increasing the flexibility of regulation is becoming increasingly important for accelerating the implementation of innovations in the market.

The Bank of Russia together with the Government of the Russian Federation has performed the activities provided for in the [Guidelines for Financial Technologies Development for 2018–2020](#); among other things, the Unified Biometric System, the Digital Profile, the Faster Payment System, the Marketplace system and the Masterchain system have been launched.

[The Financial Market Digitalisation Guidelines for 2022–2024¹⁰](#) have determined the following financial market digitalisation objectives until 2024:

1. regulation development;
2. execution of infrastructural projects;
3. implementation of SupTech and RegTech solutions;
4. development of experimental legal regimes;
5. ensuring information security.

Objective 1. Regulation development

In cooperation with the Government of the Russian Federation, the Bank of Russia will pay considerable attention to the timely adaptation and creation of the legal regulation system for implementing state-of-the-art technologies in the financial market and for releasing innovative financial products and services to the market. Considering the rapid development of digital financial technologies, the regulatory framework should develop at a faster pace than before. The regulation system shall ensure, on the one hand, appropriate conditions for implementing digital innovations and, on the other hand, consumer protection and financial stability.

With the participation of the Bank of Russia, **legislative changes will be introduced for the purpose of the further development of the Digital Profile infrastructure** as a ‘single point of contact’ for the exchange of data required for the digital provision of financial products and services between citizens, the state and businesses, subject to the requirements and principles of the personal data laws of the Russian Federation. There are plans to introduce a regulation system aimed at expanding the list of information and organisations using the Digital Profile of a citizen. A legal basis for launching the Digital Profile of a legal entity and for the provision of data contained therein will be created as well.

To develop the payment industry, it is necessary to continue elaboration and implementation of **regulation aimed at the development of payment services** while protecting citizens’ and businesses’

¹⁰ The draft *Financial Market Digitalisation Guidelines for 2022–2024* were published on the Bank of Russia website on 10 December 2021.

data and ensuring the cyber resilience of the Russian national payment system elements. The respective guidelines and activities are provided for in the [National Payment System Development Strategy for 2021–2023](#) approved by the Board of Directors of the Bank of Russia. Moreover, the legal framework for introducing the institution of non-bank payment service providers will be formed, including determination of criteria and procedures for the respective organisations' entry into the market and their operating procedures.

In order to further develop **the regulation system under the Marketplace project**, the product and service range will be expanded to cover, among other things, credit and pension products as well as individual investment accounts. Financial platforms will become available to individual entrepreneurs and legal entities, including small- and medium-sized entities.

The Bank of Russia also plans to develop, in cooperation with public stakeholders and market participants, approaches **to regulation of open interfaces** (open APIs¹¹). Upon completion of comprehensive analysis, a decision will be made regarding the list of open APIs recommended or compulsory for implementation, among other places, in the financial market. Regulation of open APIs will be aimed at granting equal access to data to the providers of financial and other services and at the standardisation of information exchange between them.

Presently, a mobile phone can be used to perform a number of legally significant actions (payments, money transfers, transaction confirmation). Moreover, data regarding a user's mobile phone are actively used in anti-fraud procedures. The use of data on subscriber numbers entails the risks that they may be compromised, that malefactors may gain access thereto or that other fraudulent acts may be committed.

To this end, work on introducing a regulation framework aimed at **creating a Unified Information System for Subscriber Data Verification** will continue; this will make it possible to materially reduce the said risks and enable organisations using customer phone numbers in rendering services to make sure that a number actually belongs to a specific customer.

To ensure the piloting of digital financial innovation in the financial market, with the option to change or exclude the effect of specific provisions of federal laws, the Bank of Russia jointly with the Government of the Russian Federation will develop **regulation for the implementation of experimental legal regimes in the financial market**. Creation of conditions for the introduction of this mechanism will allow piloting innovative solutions in real conditions with the involvement of customers. In particular, there are plans to provide for the possibility to change or exclude the effect of specific provisions of federal laws regulating the financial market under the experimental legal regime programme.

To reduce the costs of financial institutions for storing and processing of hard copies of documents, it is planned to adopt a law that would create **legal conditions for storing documents in electronic form**. The law will provide for an opportunity to create electronic duplicates of documents with the same legal effect as the original documents and establish the procedure for converting electronic documents.

Presently, both banks and BigTech companies are actively developing their ecosystems by offering their customer various financial and non-financial services. While ecosystems can provide better and more personalised services, they also pose risks to competition, information security and financial stability. To mitigate the negative consequences of ecosystem development, the Bank of Russia, together with the Government of the Russian Federation, plans to develop **an ecosystem regulation framework** aimed at maintaining fair competition, including with regard to granting non-discriminatory access to ecosystem services and innovative technologies.

The Bank of Russia will also continue working on **the formation of a comprehensive regulation of data circulation in the financial market**, among other things, the establishment at the level of federal laws of the specifics of financial institutions' processing of personal data of personal data

¹¹ Application Programming Interface.

owners, including data received in depersonalised form. Moreover, to ensure the possibility of using sets of data accumulated by institutions, including financial institutions, for the development and implementation of new technologies and products, including artificial intelligence technologies, the Bank of Russia will continue to participate in the creation of the legal conditions for circulation of depersonalised personal data and depersonalised credit histories.

In order to develop the use of innovative financial instruments in the financial market, there are plans to adopt a number of federal laws aimed at creating **an integral system for the legal regulation of digital financial assets and utility digital rights**. In particular, at the legislative level, the procedure for the taxation of transactions with utility digital rights (UDR) and digital financial assets will be implemented, and liability for illegal DFA circulation will be introduced.

The Bank of Russia is currently working on the launch of a digital ruble that will become the third form of money issued by the Bank of Russia and constituting an obligation thereof. **To lay down legal conditions for launching the digital ruble**, it will be necessary to amend several legislative acts.

To reduce the operating expenses of credit institutions related to the implementation of anti-money-laundering procedures and increasing their efficiency as well as to protect the interests of the bona fide customers of credit institutions, amendments will be introduced into the laws of the Russian Federation establishing the **legal basis for the creation and functioning of the Bank of Russia's Know Your Customer platform**. Using this platform, the Bank of Russia can provide credit institutions with information regarding the compliance risk levels of customers and their counterparties. The possibility of expanding the composition of financial market participants to whom the services of the Know Your Customer platform of the Bank of Russia are available will be considered by the Bank of Russia at further stages of the platform's functioning.

The Bank of Russia will also act towards **removing legal barriers to digitalisation of debt enforcement proceedings**. Mandatory specification of a debtor's identifiers in enforcement documents will enable the mitigation of the risk of erroneous write-offs. Moreover, all credit institutions will be able to use the Interdepartmental Electronic Interaction System (IEIS) to exchange information with the FBS of Russia, including on issues of account tracing, seizure and collection.

Objective 2. Execution of infrastructural projects

The Bank of Russia acts to promote the development of national digital financial infrastructure that is equally accessible to all participants under the same standards and rules and on the same tariff conditions. The development of such infrastructure serves as the basis for expanding the financial inclusion of citizens and businesses, reducing their expenses, and making interaction with financial institutions faster and more convenient as well as for the development of competition in the financial market.

The Bank of Russia continues **the development of the remote identification mechanism** based on the Unified Biometric System (UBS) that enables the full digitalisation of all financial services, increasing the financial inclusion of consumers, including people with disabilities, physically challenged and elderly people. It will also contribute to the development of competition in the financial market. The development potential of the remote identification system has significantly increased due to the adoption of legislative amendments providing for the possibility of using the UBS for remote provision of any financial, non-financial and state services to individuals, legal entities and individual entrepreneurs. The UBS development process ensures compliance with the principle of voluntary submission of personal data to the UBS by citizens, as well as the possibility of using data in the UBS subject to their consent. In the long run, there are plans to ensure integration of the UBS with a platform for commercial consent of citizens (as the platform is created).

Biometric data registration mechanisms will be developed in order to make the system more convenient. Collection of biometric data is expected to be carried out by banks and also multipurpose centres providing state and municipal services. There are also plans to conduct an experiment under which the possibility of independent registration of biometric data using a secure mobile

application will be tested. In addition, work will be done to look into the possibility of using the video identification mechanism and to analyse the possibility of using cross-identification between all entities operating under the provisions of the AML/CFT Law.

Furthermore, the Bank of Russia in cooperation with the Government of the Russian Federation will study the issue of extending the ‘biometric’ method of identification of non-resident individuals, when they do not have to visit the Russian Federation.

As part of the **development of the Digital Profile infrastructure**, plans are underway to ensure its wide use by banks, insurance and microfinance companies, and financial platform operators, as well as other financial market participants further on, for the provision of financial services.

It is also planned to create the Digital Profile of a legal entity; this will ensure a fast and convenient exchange of information between public information systems and organisations for the purpose of providing services to individual entrepreneurs, small- and medium-sized enterprises and other legal entities.

The list of information types will be expanded and the data available in the Digital Profile of an individual or a legal entity, that are required for the remote provision of services to individuals or legal entities, will be updated on an ongoing basis.

The Bank of Russia will continue **the development of Faster Payment System services**. There are plans to enable citizens to make online payments to the budget of the Russian Federation (C2G service), including payment of taxes, fines, fees and duties, through the FPS. There are also plans to implement the service of online payments by the government to citizens (G2C service) in the FPS, which will make receipt of payments from the budget faster. The Bank of Russia will ensure the further expansion of the use of C2B and B2C services, including for small- and medium-sized enterprises, which will allow companies to materially reduce their expenses.

As part of the **National Payment Card System (NPCS) and the Mir payment system**, further development of products and services based on innovative digital solutions will continue in order to provide citizens with the opportunity to make convenient and secure payments, improve transparency of payments for the state, and efficiently solve business problems of partners. The development will be carried out platform-based NPCS services available to all participants in the payment market both in Russia and within the framework of the international promotion of Mir cards. Moreover, special attention will be paid to development of non-financial services that will ensure interaction between the state and the population.

Further **development of the Marketplace project** will include increasing citizens’ awareness about launched products and services, as well as expanding the list of financial products and services offered to individuals through financial platforms. In addition, it will be possible to use financial platforms to provide services to legal entities and individual entrepreneurs.

For the purpose of **developing open APIs**, there are plans to determine the list and stages of their implementation and whether the use of different types of open APIs will be mandatory or advisory. Based on the findings of market study, proposals received from financial institutions and results of pilot projects, new standards will be developed, previously published ones will be updated, and uniform rules for joining the trusted open API environment will be formulated, taking into account regulatory provisions to be adopted.

Large-scale implementation of open APIs will contribute to the development of innovations and competition in the Russian financial market, as well as to increasing the quality of financial services and the financial inclusion of citizens and businesses.

In order to streamline the process of data provision from various commercial sources with the consent of customers, the issue of creating a platform of commercial consents will be elaborated together with market participants.

Development of services based on the Masterchain platform, including a decentralised depository system, digital bank guarantees, digital mortgages, online factoring etc., will be continued in cooperation with market participants.

To expand the range of services aimed at raising funds for legal entities and to reduce the cost of receiving financial services, it is planned to support platform-based online factoring solutions, which will ensure the possibility of concluding contracts and carrying out document follow-up on a single point of contact basis. This solution will help simplify fundraising procedures, primarily for SMEs.

Among the key innovative projects of the Bank of Russia, **development of a digital ruble platform should be noted**. Implementation of the digital ruble will contribute to the further development of payment infrastructure, provide citizens and businesses with additional benefits and accelerate the spread of new financial technologies.

Pursuant to the Bank of Russia's [Digital Ruble Concept](#), there are plans to create a prototype digital ruble platform for its further testing with the involvement of financial market participants. Based on the results of such testing, a roadmap for the implementation of the target digital ruble platform will be created. The platform will be developed on a stage-by-stage basis, with gradual expansion of the list of connected participants and available transaction types.

To execute the necessary AML/CFT procedures, credit institutions analyse a large volume of data received from various sources. In order to optimise this process, the Bank of Russia intends to **set up a Know Your Customer (KYC) platform** that will continuously provide credit institutions with up-to-date assessments of the ML/FT risks of their customers (legal entities and individual entrepreneurs). The KYC platform will alleviate the burden of bona fide businesses, reduce the volume of doubtful transactions in the economy, and raise the efficiency of the Russian anti-money-laundering system.

To develop competition and **digitalise the system of charges and payments for housing and utility services**, the Bank of Russia will facilitate the development of the State Information System of Housing and Utility Services as an infrastructure that is equidistant from all market participants. In addition, there are plans to ensure the connection of all financial market participants to the State Information System of Housing and Utility Services and the provision of accrual data from the system.

These initiatives will make it possible to ensure the highest possible convenience for payers and increase the collection rate of payments for utility providers as all charges will be aggregated using a single digital identifier.

As part of facilitating the **digitalisation of enforcement proceedings**, banks will be provided with an opportunity to inform their customers of the progress of the respective proceedings through banks' own mobile applications; this will make the process more convenient for citizens and legal entities and increase the parties' awareness.

To fully switch to electronic document workflow between the FBS of Russia, banks, citizens and businesses, credit institutions will be connected to the IEIS so that they can interact with the FBS of Russia in electronic form with regard to all types of enforcement documents, and legal entities that are parties to enforcement proceedings will also have the possibility to connect to the IEIS/API of the UPSS for the purpose of interaction with credit institutions in electronic form.

To ensure the digitalisation of insurance medicine, the Bank of Russia will help organise the transfer of medical data by state-funded and commercial healthcare institutions to the Digital Profile of a citizen, **subject to the citizen's consent**, and taking into account restrictions established by effective laws, **including restrictions with regard to storage and processing of such information**, as well as standardisation of digital formats of documents for the interaction between medical and insurance companies.

Objective 3. Implementation of SupTech and RegTech solutions

In fulfilment of the [SupTech¹² and RegTech¹³ Development Guidelines for 2021–2023](#), the Bank of Russia will gradually digitalise the regulation and supervision systems.

The application of regulation and supervision technologies will optimise current processes, increase the efficiency of supervisory and regulatory activities, and reduce the costs of, and the burden on, both supervised entities and the Bank of Russia.

There are plans to implement SupTech and RegTech solutions in the following areas of the Bank of Russia's and financial market participants' activities:

- risk analysis and management;
- improving financial market admission procedures;
- detection of unlawful activities in the financial market;
- improvement of information interaction with financial institutions and other parties, including implementation of the Unified Register of Financial Market Participants (URFMP)¹⁴;
- implementation of elements of the data-centric approach;
- development of approaches to the implementation of machine-readable regulation;
- automation of certain elements of financial market participant supervision;
- streamline the handling of appeals received by the Bank of Russia;
- ensuring information security;
- development of solutions in the financial market to meet regulatory and supervisory requirements;
- countering money laundering and the financing of terrorism;
- improvement of identification procedures using biometric technologies.

Carrying out SupTech and RegTech activities will improve the efficiency and digitalisation of the activities of the Bank of Russia and financial market participants.

Objective 4. Development of experimental legal regimes

To ensure the possibility of establishing experimental legal regimes (ELRs) in the financial market and piloting innovative solutions with the involvement of real customers, the Bank of Russia will develop the required internal processes, as well as new processes of interaction with public authorities and organisations representing the interests of business community.

Based on the results of pilot projects, the Bank of Russia and public authorities will decide whether it is practical to introduce changes to the regulation system for the purpose of releasing new services and products to the market. The experience received in the course of conducting the experiment will make it possible even at the initial stage to obtain efficient mechanisms to reduce financial risks, ensure consumer protection and mitigate ML/FT risks.

At the same time, the Bank of Russia's regulatory 'sandbox' will continue to operate, thereby implying modelling the processes of applying innovative financial services, products and technologies in a test environment for the purpose of testing hypotheses about the positive effects of their implementation and assessment of possible risk.

Objective 5. Ensuring information security

To further develop the digital provision of services, it is important to ensure that financial institutions' customers (individuals and legal entities) can use enhanced qualified electronic signatures (EQES) and enhanced non-qualified electronic signatures of the Unified System for

¹² *SupTech (Supervisory Technology) is a technology used by regulators to enhance the efficiency of their regulation and supervision of the activities of financial market participants.*

¹³ *RegTech (Regulatory Technology) is a technology used by financial institutions to increase the efficiency of compliance with regulatory requirements.*

¹⁴ *The Unified Register of Financial Market Participants will replace state registration records and financial institutions' registers that contain duplicate information. Thus, it will be possible to obtain an electronic extract from a register using the Bank of Russia website or the Unified Portal for State and Municipal Services.*

Identification and Authentication (ENES USIA). To provide all financial market institutions with EQES key certificates, the Bank of Russia has established a Certification Centre.

The Bank of Russia will continue to implement measures aimed at forming a ‘trust-based environment’ for the remote provision of various financial services, by creating a legal, technological and methodological basis for financial institutions to improve the quality of customer authentication.

Moreover, the Bank of Russia will continue to promote the development of other types of electronic signatures, including simple and enhanced electronic signatures of the USIA, and the UBS.

A set of legal, organisational and outreach activities will be carried out for the purpose of reducing the volume of unauthorised transactions based on social engineering methods, forming positive customer experience and ensuring financial consumers’ confidence in financial services to be provided.

The Bank of Russia also plans to create a cyber training ground that will be used to assess the protection level and the capability of financial institutions to counter attacks. Thereafter, to improve the risk-based supervision system, it will be necessary to ensure integration of a cyber-training process as part of the Bank of Russia’s test activities.

An important component of combating fraudulent activities is the improvement of the mechanisms of information interaction between credit and financial institutions and the Bank of Russia using FinCERT infrastructure, including automated collection and immediate dissemination of information about incidents and communication of rules for responding.

Moreover, when developing information security and operational soundness requirements and standards, the Bank of Russia takes into account the practices of international organisations (ITU, ISO) and foreign regulators, including international standards and recommendations.

The Bank of Russia will continue to interact extensively with public authorities with regard to developing and implementing technologies as well as executing projects and fulfilling legislative initiatives that facilitate the digitalisation of the financial market while ensuring information security, competition and financial stability.

3.3. ENHANCEMENT OF FINANCIAL INCLUSION FOR HOUSEHOLDS AND BUSINESSES

In the age of digital transformation of the financial market, one of the key areas of the Bank of Russia’s activities will be to ensure a progressive increase in the financial inclusion of households and businesses. With wide use of online service channels that do not provide for person-to-person communication, the quality of financial services provided should increase as well. In certain cases, the possibility of in-person or remote communication with financial institution employees should remain. The convenience and speed of remote interaction channels in the financial market should go hand in hand with a reliable protection of personal data, assurance of cyber security, and respect for consumer rights, including the right to information. Development of ecosystems and financial platforms, wider opportunities to apply a custom-tailored approach to a consumer, and customisation of financial product offers should not prejudice the right of an individual to make a free informed choice or to barrier-free migration from one financial service provider to another. When providing a comprehensive customer service, it is important to make tariffs for specific financial services clear to consumers in order for the consumers to compare offers of different providers and to eliminate the risk of mispricing, that is a sale of goods and services at a knowingly overstated price concealed from a customer, including by misrepresenting the characteristics of a product or service to the customer.

It should be taken into account that the **enhancement of financial inclusion may have different specifics in different regions of Russia**. Also, it is necessary to consider the country’s unique geographical and territorial features, the penetration rate of mobile devices and remote services, the mental preparedness of the population to work in a digital environment and other factors.

In addition to its usual focus on the financial inclusion of citizens, the Bank of Russia will continue paying significant attention to the accessibility of financial services to individual entrepreneurs and small and medium-sized businesses. Despite a positive trend in this area, there remains a certain potential to improve pricing affordability in the field of non-cash transactions and to widen the range of equity and debt financing products available to the said market participants.

Under these circumstances, the Bank of Russia has set the following key objectives with regard to enhancing financial inclusion:

1. increasing the physical availability and the available range of financial services through development of online service channels for households and businesses while decreasing the risk of digital inequality and strengthening the cyber security system;
2. expanding the options for raising debt and equity financing for businesses.

In order to create **favourable conditions for increasing financial inclusion, the Bank of Russia is currently finalising preparation of the respective action plan** – Financial Inclusion Priorities for Russia in 2022–2024¹⁵. Alongside the aforesaid objectives, the document will be dedicated to matters of high social importance. Such matters include ensuring access to financial services in remote and sparsely populated territories; creation of a barrier-free financial environment for people with disabilities, elderly and mobility-impaired people; enhancing financial inclusion of the low-income population; the availability of various financial instruments to individual entrepreneurs and small and medium-sized businesses; reducing the cost of non-cash settlements among households and businesses by using the Faster Payment System.

Objective 1. Increasing the physical availability and the available range of financial services through development of online service channels for households and businesses while decreasing the risk of digital inequality and strengthening the cyber security system

In the years to come, in its activities, the Bank of Russia will place emphasis on increasing the availability of digital financial products and services and creating the conditions required therefor by developing financial market infrastructure, raising financial literacy, adjusting the regulation system, ensuring cyber security and protecting consumer rights. Taken as a whole, these measures are supposed to contribute to an improvement in the quality of products and services, extension of their range, and security of their using.

The Bank of Russia will continuously **analyse barriers impeding the wide use by households and businesses of remote service mechanisms** to receive financial services – this will help the regulator take measures to lift such barriers. In particular, the regulator will analyse the seamlessness of financial service supply chains in order to assess whether consumers can receive financial service through fully remote mechanisms.

The Bank of Russia will take into account the fact that, when switching to online channels, it is necessary to protect the interests of those who, for different reasons, are unable or not ready to use this form of interaction with providers. It is important to control the risk of digital inequality and to avoid digital discrimination – that is, the risk of a situation when both households and businesses lose access to financial services because such services become unavailable through conventional channels (including due to the gradual narrowing of their range) and the lack of remote access to services as a result of different factors. The Bank of Russia will **monitor those groups of households and businesses that may be exposed to the risk of digital inequality**, especially taking into account the fact that the internet has not yet covered all settled territories of Russia, and that online services need to be adapted for use by certain groups of consumers. Such monitoring will be supported by the launch in late 2021 of a map of financial services access points powered by one of Russia's leading map services.

¹⁵ [The draft Financial Inclusion Priorities for Russia in 2022–2024](#) were published on the Bank of Russia's website on 29 September 2021.

Given the rapid digitalisation of the financial market and the growing number of individuals entering the capital market, **raising investment, digital and cyber literacy** becomes an increasingly important factor for the mental, range and pricing accessibility of financial products and services and their convenient and secure use. The Bank of Russia in cooperation with the Government of the Russian Federation will pay special attention to carrying out necessary activities in the said priority areas aimed at increasing financial literacy¹⁶. There are also plans to develop financial literacy materials adapted to users with special needs.

The development of voice interfaces and the launch of assistance robots that replace routine face-to-face interactions with employees of financial institutions are key elements of overcoming the mental barriers in the course of switching to digital interaction channels. The Bank of Russia will support the development in these areas of financial inclusion enhancement effort.

The comprehensive development of remote identification mechanisms using the UBS¹⁷ in combination with outreach activities aimed at forming the system operation skills and building confidence in the system, will contribute to the growth of its popularity among citizens, which, in its turn, will enhance financial inclusion through remote service channels.

The Bank of Russia will also focus on **development of platform-based solutions and ecosystems**. The use of platforms and ecosystems can widen the range of financial services and enhance financial inclusion, though, at the same time, they create the risk of ‘ecosystem slavery’. To create the conditions required for well-balanced development of ecosystems and to eliminate the risk of consumer right violation, the Bank of Russia in cooperation with the Government of the Russian Federation will expand the capability of financial platforms to provide services to legal entities and will also develop an **ecosystem regulation framework**¹⁸.

In close cooperation with the Government of the Russian Federation, regional authorities, credit institutions and communication operators, the Bank of Russia will take measures aimed at **enhancing financial inclusion in rural localities and remote, sparsely populated and hard-to-reach areas**. In the years to come, it is necessary to **maintain the adequate infrastructure of physical service points** in these territories as there remain material limitations affecting the use of online services. Given that, on the one hand, market participants seek to cut their costs and, on the other hand, financial consumers need channels to access financial services, a special attention will be paid to ‘simplified’ forms of financial institutions’ presence, including:

- increasing the quality and security of services provided by post offices and widening the range of such services;
- improving the accessibility of specific types of services provided by retail and service outlets (transfers through the FPS, cash withdrawals and acceptance under payment card transactions, payment acceptance, certain payment operations without opening an account or an e-wallet, sale of packaged insurance products);
- developing the network of stationary and non-stationary points of service in remote areas, involving employees, agents and partners of credit institutions.

Moreover, there are plans to use the best practices of financial inclusion projects successfully implemented in the Far East, Southern and North Caucasian Federal Districts (see Box 2) in other territories of Russia.

Consumer credit and agricultural cooperatives will continue playing an important role in ensuring financial inclusion.

¹⁶ See the [Strategy for the Improvement of Financial Literacy in the Russian Federation for 2017–2023](#) (approved by the Order of the Government of the Russian Federation No. 2039-r, dated 25 September 2017, ‘On Approval of the Strategy for the Improvement of Financial Literacy in the Russian Federation in 2017–2023’).

¹⁷ For details, see Subsection 3.2. [Support of digitalisation](#).

¹⁸ For details on ecosystem regulation, see Subsection 3.4. [Promotion of competition in the financial market](#).

Box 2**Projects for enhancing financial inclusion in the Far East, Southern and North Caucasian Federal Districts**

Enhancing financial inclusion in remote, sparsely populated and hard-to-reach areas is a complex objective. To efficiently achieve it, there should be a close cooperation between a wide range of participants. Therefore, the regional projects in the said territories included establishment of specialised working groups; these groups consist of representatives of the Bank of Russia, public authorities of constituent entities of the Russian Federation, administrations of municipalities, credit institutions, communication operators and other stakeholders. Members of these working groups have developed and implemented sets of targeted measures aimed at enhancing financial inclusion which were adapted to the needs of people living in the particular territories, with due regard to the specifics of such territories.

As a result, certain financial inclusion parameters turned out to be better in these territories than Russian average (including the pace of payment infrastructure growth and the rate of reduction in the number of credit institutions' branches).

Switching to remote services sets new objectives with regard to creation of conditions required for **ensuring secure access to high-quality financial products and services for people with special needs**, including disabled, elderly people and other mobility-impaired groups. The Bank of Russia will continue developing recommendations for financial institutions aimed at increasing the quality of the financial institutions' interaction with the aforesaid consumer groups; among other things, these recommendations will relate to adaptation of access channels to remote financial services as well as online application and service interfaces.

To improve financial inclusion and expand the coverage of financial products and services, including for low-income groups of people, the Bank of Russia jointly with the Government of the Russian Federation and the legislative authorities of the Russian Federation plans to elaborate legislative amendments to launch special financial products and services in the market that would help reduce money transfer fees and provide opportunities to deposit funds on the best possible terms. Within certain amounts (set limits) stipulated for such products and services, banks will be required to pay interest linked to the key rate or the inflation rate on deposits and account balances, including for Mir card accounts, and ensure for fee-free cash withdrawals, fee-free money transfers and payments, and funds protection against garnishment. Furthermore, the Bank of Russia plans to prohibit the differentiation of interest rates on deposits within the same credit institution depending on their amounts (within a certain limit), the way of depositing, and the depositor's decision to purchase or reject additional financial products.

Objective 2. Expanding the options for raising debt and equity financing for businesses

The Bank of Russia will continue enhancing the financial inclusion of individual entrepreneurs and small- and medium-sized businesses by participating in the implementation of 'Small- and Medium-sized Enterprises and Support of Entrepreneurs' Initiatives' national project. The key measures are described in the [Bank of Russia's Roadmap for the Development of Funding for Small- and Medium-sized Enterprises \(SMEs\) in 2021–2022](#)¹⁹.

The Bank of Russia and the Government of the Russian Federation will focus their attention on **the development of non-banking financing tools for small- and medium-sized businesses**, including equity market tools, utility digital rights, digital financial assets, investment (crowdfunding) platforms, factoring, leasing, and microfinance mechanisms. The substantial potential of using these channels of raising equity and debt financing stems from the fact that large e-commerce companies possessing information regarding entities' activities have entered the financial market; such information may be used for the creation of systems for assessment (ranking) of the investment and debt attractiveness of entities. The Bank of Russia will render organisational and regulatory assistance in creating such systems and using them in the financial market.

¹⁹ Upon the expiry of the said roadmap, a roadmap for the subsequent period will be developed.

The Bank of Russia will also continue developing the **risk-based regulation framework** aimed at more precise risk assessment to make SME lending more attractive for banks and improve the efficiency of using the state support measures for SME financing²⁰.

An important role in enhancing financial inclusion of SMEs should be played by the **implementation of infrastructural solutions**, including within the Marketplace project, a digital online factoring. Development of such solutions will widen the range of offers to SMEs, increase pricing affordability, and eliminate territorial limitations. Wider use of the Faster Payment System by citizens to pay for goods and services provided by SMEs, including using QR codes, will enable businesses to materially reduce their expenses related to payment services. Implementation by the Bank of Russia of such projects as the Digital Profile, UBS and Know Your Customer platform is also supposed to contribute to the reduction of SMEs' expenses²¹.

3.4. PROMOTING OF COMPETITION IN THE FINANCIAL MARKET

Over a medium-term horizon, the financial market competition policy will be based mainly on the National Competition Development Plan for 2021–2025 prepared by the Government of the Russian Federation²² with the active participation of the Bank of Russia. The following objectives will be crucial for ensuring fair competition in the financial market:

1. developing and implementing ecosystem regulation;
2. creating conditions for consumers' informed choice and decreasing barriers for financial service providers;
3. maintaining the state competitive neutrality in the financial market.

Objective 1. Developing and implementing ecosystem regulation

Although ecosystem regulation is largely aimed at ensuring free consumer choice and competitive environment for financial service providers, the development of this regulation is distinguished as an independent priority task considering its complex nature and fundamental importance in the context of a large-scale trend towards the creation of ecosystems both in Russia and at the global level.

The rapid development of ecosystems, the range of opportunities and risks associated with this process and the need to develop new regulatory approaches are a challenge for regulators around the world. In Russia, the financial sector plays an active role in the formation of ecosystems and the national technology companies beginning to provide financial services that seriously compete with financial intermediaries with a traditional business model. Foreign ecosystems from the United States and China also have a significant impact on the competitive environment.

Ecosystems open up new opportunities for households and businesses; however, unregulated development of ecosystems can have significant negative effects, primarily, on the competitive environment, creating risks of monopolisation, discrimination of ecosystem participants and restriction of access to technologies and data for other financial market participants. Ecosystems, especially global ones, are also often subject to tax and regulatory arbitrage.

The uncontrolled development of ecosystems with the participation of banks can lead to the realisation of risks for creditors and depositors and for financial stability in general as well as to an increase in the volume of banks' assets with limited liquidity and no repayment claims. Moreover, these assets may be exposed to a higher risk of impairment since not all growing companies, in which banks also invest, are destined to become successful and profitable.

²⁰ For details, see [Roadmap for the Development of Funding for Small- and Medium-sized Enterprises \(SMEs\) in 2021–2022](#) (published on the website of the Bank of Russia on 1 February 2021 and updated in April 2021).

²¹ For more information on the digital projects of the Bank of Russia, see Subsection 3.2. [Support of Digitalisation](#).

²² Order of the Government of the Russian Federation No. 2424-r, dated 2 September 2021, 'On Approval of the National Competition Development Plan (Roadmap) for 2021–2025'.

Taking this into account, the Bank of Russia and the Government of the Russian Federation will extensively develop approaches to regulation and supervision of ecosystems. Regulatory alignment is needed to minimise risks and potential negative effects and preserve the potential opportunities ecosystems can provide to consumers and suppliers, as well as to eliminate the existing regulatory arbitrage. Given that ecosystems cover various spheres of activity and their development leads to blurring the boundaries of markets, it appears necessary to revise the definitions, the perimeter and the assessment of the antitrust legislation subjects' impact. It is important to define market segments (products), their boundaries and the portions of dominant ecosystem and/or its elements in individual market segments. Regulatory instruments should also be formed taking into account the peculiarities of the ecosystems' economics. Special attention is planned to be paid to ensure competitive access to of financial service providers to data and customers to services as well as improve online advertising regulation and M&A control.

As evidenced by global practice, delay in taking measures has a painful effect on business and society as a whole. However, premature overregulation can also have a negative impact on the development of national players and national suppliers of goods and services. Therefore, it is important to maintain the correct regulatory balance between requirements and restrictions, on the one hand, and freedom of enterprise and freedom of choice of individuals and businesses, on the other, and to adjust this balance in a timely manner.

In 2021, the Bank of Russia published two consultation papers²³ on ecosystem regulation and the risks of banks' participation in ecosystems. The papers are aimed at discussing with the business community, experts and all stakeholders the main consequences and risks of the development of platform and ecosystem solutions both in banks and in the financial market as well as in the economy as a whole, and at proposing regulatory measures to eliminate the regulatory arbitrage and mitigate negative consequences and risks, including in the medium term. Regulation should take into account not only the risks of the ecosystem participants but also their social responsibility for the business continuity of important ecosystems.

When developing the said regulation, the Bank of Russia proceeds from the following optimal target structure of the Russian market: there should be, at least, several large national ecosystems competing with each other and foreign players, niche suppliers and smaller platforms that meet customer demand outside ecosystems and challenge the ecosystem leaders.

As for the regulation of the risks of banks' participation in ecosystems, the Bank of Russia believes that the key approach should be to give credit institutions the opportunity to develop ecosystems subject to the adequate capital coverage of risks so that possible losses are borne by shareholders rather than creditors and depositors.

The Bank of Russia and the Government of the Russian Federation will develop approaches to ecosystem regulation²⁴, including based on the results of public consultation. There are plans to introduce regulation in 2022/2023. A key role in the regulation of ecosystems should be played by competition laws as well as prudential standards of the Bank of Russia in terms of limiting the risks associated with the involvement of credit institutions in the ecosystem business. An important element of the regulatory system should be modernisation of laws on the access to and use of data obtained by ecosystems in the course of their business.

²³ The Consultation Paper [Ecosystems: Regulatory Approaches](#) was posted for public discussion on the Bank of Russia website on 29 April 2021. The Consultation Paper [Regulation of Risks of Banks' Participation in Ecosystems and Investment in Immobilised Assets](#) was published on the Bank of Russia website on 23 June 2021, [the report on the outcomes of the public discussion](#) was published on 24 November 2021.

²⁴ [The Concept of General Regulation of the Activities of Groups of Companies Developing Various Digital Services Based on One Ecosystem](#) was published on the website of the Ministry of Economic Development of Russia in May 2021.

Objective 2. Creating conditions for consumers' informed choice and decreasing barriers for financial service providers

The Bank of Russia takes into account the growing **role of digital transformation** as a factor contributing to tougher competition in the financial sector. The proliferation of digital financial products and services and remote service formats, the development of platform solutions, and the emergence of marketplaces and ecosystems are removing geographic and time constraints for suppliers and consumers. The range of financial products and services available and convenient for consumers is expanding through online channels, and financial institutions, in turn, are able to reach an even wider audience of customers.

The development of ecosystems and the arrival of BigTechs on the financial market can also intensify the competition for clients, especially in the credit and payment segments of the financial market as well as in terms of settlement and cash services for legal entities.

The increasingly extensive use of digital technologies and the development of infrastructure increases the mobility of individuals' cash, which can partly offset the effect of factors limiting the competitive environment in the financial market. For example, the emergence of the FPS and the reduction in the time and cost of transfers between accounts in different banks decreases the barriers hindering an individual to switch from one financial service provider to another.

In order to expand the opportunity for individuals and businesses to manage their funds without barriers, the Bank of Russia plans to implement 'A Digital Ruble' project, which will allow transferring money outside the systems of the banks serving individuals and businesses²⁵.

The creation of marketplaces that will expand opportunities for financial consumers to access the offers of a wide range of suppliers and for financial intermediaries to reach customers regardless of their location will also contribute to increased competition.

At the same time, the digitalisation of the financial sector and the arrival of new players put pressure on the existing traditional business models of financial intermediaries and challenge their viability considering that access to data and the willingness to innovate and use big data technologies are becoming key success factors. This is usually economically feasible and possible when a certain scale of business is reached. Many financial intermediaries will have either to respond to these challenges somehow or decide to exit the market.

In order to create a sound competitive environment, it is important to ensure **equal access to the state information systems for all financial intermediaries**. For this purpose, the Digital Profile project for individuals was launched as a single window for exchanging data among individuals, businesses and the state. Currently, the project team is creating the Digital Profile infrastructure for legal entities.

To provide a wide range of financial products and services as well as to ensure better convenience for individuals and businesses, there are plans to develop and implement open APIs for financial services. This work is supposed to be done simultaneously with regulating the data circulation while ensuring their proper protection.

The implementation of the above measures will contribute to competitive access to data and the expansion of the supply of financial products and services to consumers. The state should not only provide conditions for equal access to data but also counteract violations in this area, which is important for the public interest.

Objective 3. Maintaining the state competitive neutrality in the financial market

Another important factor in the development of the Russian financial market is still the significant share of the state in the capital of financial institutions dominating the market, primarily in the banking sector. For the majority of customers, especially retail ones, this already leads to distortions in prices for the services provided, primarily services for attracting funds to current accounts and

²⁵ For details, see Subsection 3.2. [Support of Digitalisation](#).

deposits as well as for funds transfer. From a strategic outlook, the **implementation of the principle of competitive neutrality** is important for the competitive development of the financial market.

Competitive neutrality is a principle of competition policy which involves creating a level playing field for all market participants. If the state participation in the equity of commercial entities is caused by the implementation of certain state policy goals, then in order to comply with the principle of competitive neutrality, it is necessary to separate out the socio-economic (non-competitive) area from the commercial components of business. It is important to create conditions for these organisations to compete on equal terms with the other market participants within the commercial component of business, without any preferences. If the activity of an entity is not of a commercial nature and is aimed only at accomplishing social and economic objectives, such entity should not become a participant in the competitive environment.

The implementation of the principle of competitive neutrality requires, first of all, assurance of the financial institutions' competitive access to participation in the piloting of government projects as well as in the accomplishment of social and economic objectives, including those related to the implementation of government support programmes. Second, it implies either the state is to withdraw from the equity of financial institutions, unless such participation is based on the state policy goals, or to comply with the principles of competitive neutrality, if privatisation seems impractical.

As the owner of a number of financial institutions and the financial sector regulator, the Bank of Russia intends to consistently adhere to the principle of competitive neutrality, including by implementing a strategy for withdrawing from the equity of financial institutions whose resolution is completed. However, the Bank of Russia will retain control over a number of infrastructure institutions given their systemic importance for the financial market and the national economy.

As part of the competitive neutrality policy, it is important not only to minimise the competitive advantages of commercial institutions associated with the participation of the state in their equity but also to build corporate governance in such a way as to rule out any exclusivity of such commercial institutions in terms of their access to the exercise of the powers of ministries and agencies as well as in obtaining exclusive business opportunities. It is important that the responsibility of board members and executives of partially state-owned entities for the results of doing business in its competitive part be regulated and implemented in the same way as in fully private companies. Advertising of such companies' business should exclude any direct and indirect references to the benefits associated with state participation in their equity.

3.5. ENSURING FINANCIAL STABILITY

To ensure financial stability, the Bank of Russia will take into account a number of trends and factors that are significant in the medium term. For example, in Russia, one can observe an increasing interconnection and interdependence between various sectors of the financial system, financial market infrastructure and non-financial institutions. The importance of the role of NFIs and the capital market in ensuring systemic stability is growing, taking into account the massive investment of individuals' funds in investment instruments, including the growth of their interest in buying foreign securities. This requires further adjustment of approaches to both systemic risk monitoring and macroprudential regulation.

Having ensured financial stability during the acute period of the pandemic, including by supporting lending, in the future, it is important to prevent the formation of 'bubbles' in the credit market, an excessive increase in the debt burden of individuals, the transfer of interest rate and currency risks by financial intermediaries onto the people. By limiting interest rate risks for individuals, it is necessary to expand the practice of managing interest rate risk in financial and non-financial institutions and develop the market for risk hedging instruments. It is also important to continue reducing the share of foreign currency loans in the portfolios of Russian banks.

In these conditions, in order to ensure financial stability, the Bank of Russia identifies the following mid-term priority objectives:

1. developing macroprudential regulation;
2. improving monitoring of systemic risks of the stock market and non-bank financial institutions;
3. creating conditions and incentives for market risk management by market participants;
4. assessing the impact of digital technologies on financial stability.

Along with meeting these objectives, the Bank of Russia will assess the scale of the potential impact of climate risks on financial stability and develop appropriate regulation²⁶.

Objective 1. Developing macroprudential regulation

Currently, as part of macroprudential regulation, the Bank of Russia applies add-ons to risk ratios, which help to increase the stability of the banking sector by creating a capital reserve in credit institutions. In the event of a stress scenario, this reserve can be used to cover losses as well as to preserve the ability of banks to continue lending to the economy. However, if a bank has a capital reserve, the effect of the application of the above add-ons on the growth of risky lending decreases. Credit institutions with relatively high capital adequacy ratios can continue to issue higher risk loans to borrowers.

The key challenge for the Bank of Russia within the three-year horizon is the growth of the households' debt burden. If risks materialise, a high debt burden can lead to increased losses in the banking sector, create risks for the real sector of the economy and have negative social consequences. As lending becomes more widespread, macroeconomic risks may increase even if the financial sector is protected by capital buffers. The negative consequences for the economy can, in turn, create spillover effects for the financial sector as well.

In this setting, in order to effectively limit systemic risks and increase the effectiveness of macroprudential policy, starting from 1 January 2022, the Bank of Russia is legally empowered **to establish direct quantitative restrictions on unsecured consumer loans**²⁷. Quantitative restrictions will make it possible to influence the standards and the growth rate of risky lending without introducing higher requirements for banks' capital. By directly impacting the issuance of loans with risky characteristics, quantitative restrictions will reduce the risks of an increase in the debt burden of citizens. Direct quantitative restrictions are extensively used in international practice as tools for direct control of the dynamics of high-risk lending²⁸.

In order to promptly assess the risks of elevated debt burden of individual borrowers and improve the transparency of decision-making, the Bank of Russia also plans to publish information on the risks of consumer lending.

The Bank of Russia will continue **to improve the procedure for calculating the debt-to-income (DTI) indicator**, implementing the measures provided for by the corresponding roadmap²⁹. The DTI value makes it clear to the borrowers what part of their income they should use in repayment of the existing loans.

In particular, there are plans to expand the access of financial institutions to reliable and up-to-date borrower data (subject to the borrower's consent), including data from qualified credit history bureaus and from government services, making the mechanism for obtaining such data more transparent and reducing the costs of financial institutions. Prompt access to high-quality data will ensure the correctness of the estimated debt burden and income of a potential borrower.

²⁶ For details, see Subsection 3.6 [Expanding the contribution of the financial market to the achievement of sustainable development goals and ESG transformation of Russian business](#).

²⁷ Federal Law No. 398-FZ, dated 6 December 2021, 'On Amending the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and Articles 9 and 14 of Federal Law 'On Microfinance Activities and Microfinance Organisations'.

²⁸ As a rule, the use of direct quantitative restrictions involves a direct prohibition on issuing risky types of loans or a restriction on the share of loans with certain characteristics in the total volume of loans.

²⁹ [Bank of Russia Action Plan \(Roadmap\) for 2021–2022 for Refining the Calculation of Debt-to-income Ratios and for Organising the Regulation of the Application by Financial Institutions of an Individual Borrower's DTI Ratio](#) was published on the Bank of Russia website on 20 January 2021.

The obligation of credit institutions and microfinance institutions to calculate DTI in cases established by law will be enshrined in legislation³⁰. There are plans to introduce into practice the mandatory periodic recalculation of DTI during the term of the loan agreement.

Upon reaching a certain level of DTI, financial institutions will be obliged to notify the borrower about the risk of default on loan obligations as well as about additional risks of high debt burden.

Objective 2. Improving monitoring of systemic risks of the stock market and non-bank financial institutions

An important element of an effective macroprudential policy is the timely identification and assessment of systemic risks. Since the banking sector has traditionally dominated in Russia, the analysis was mainly aimed at the systemic risks of banks. Currently, the importance of NFIs and the stock market for systemic financial stability is growing. Individuals tend to prefer stock market instruments to bank deposits increasingly more often and directly approach brokers, asset managers and insurance companies. The development of the stock market and growing role of NFIs in the financial sector, on the one hand, contributes to the growth of long-term money in the economy. On the other hand, this trend may be accompanied by the accumulation of systemic risks. They can be associated with a possible higher market volatility resulting from the active participation of retail investors, more pronounced effect of the stock market on the welfare of people or an increase in interconnections between various sectors of the financial system.

In this regard, the Bank of Russia will **develop monitoring of the systemic risks of the stock market and non-bank financial institutions**. In particular, there are plans to introduce a system of risk metrics and improve data for the analysis of investments in NFI instruments, including the introduction of reporting forms. Accounting for the risks of NFIs and banks, including those associated with an increase in the volume of customer funds in NFIs, will be included in stress testing, with network analysis being part of it.

Another potential source of systemic risks is the growth in the volume of individuals' investments in foreign securities. Long-term persistence of such a trend can lead to a bigger share of individuals' savings in foreign currency, more sizable capital outflow and higher dependence of the balance of payments and the exchange rate on foreign markets.

The Bank of Russia will **continuously monitor cross-border transactions** and assess the risks associated with investments of individual residents of the Russian Federation in foreign assets through Russian and foreign financial institutions.

The development of approaches to monitoring systemic risks will make it possible to promptly identify both the risks of individual sectors of the financial system and the potential impact of these risks on the financial system as a whole, quickly respond to possible vulnerabilities of NFIs and take the necessary measures to prevent them.

In the future, to improve the quality of assessment of systemic risks of the financial sector, the Bank of Russia plans to continue improving the macroprudential stress testing (MST) methodology. The development of the MST toolkit is also aimed at strengthening its role in shaping the financial stability policy. In particular, there are plans to use the results of MST when calibrating the values of macroprudential add-ons and the countercyclical buffer as well as in planning anti-crisis policy measures in order to reduce the adverse effects of macroeconomic stress.

Furthermore, the Bank of Russia will cooperate with market participants to ensure the readiness of their information systems and business processes to effective implementation of a mechanism to reduce the volatility of the securities market under stress as a temporary limitation of so-called 'short sales'.

³⁰ When making a decision to grant a consumer loan in the amount (with a limit) of 10,000 rubles or more or in an equivalent amount in foreign currency as well as when deciding to change the conditions of a consumer loan (in particular, to increase the credit limit, to extend the term of the consumer loan agreement with a credit limit, to increase the average monthly payment or to change the currency of the consumer loan).

Objective 3. Creating conditions and incentives for market risk management by market participants

The Russian market of interest rate derivatives, which are the main instrument for hedging interest rate risk, is currently represented mainly by credit institutions that tend to hedge long-term assets (issued loans) with a fixed interest rate. The small capacity of the Russian interest rate derivatives market is associated with a number of factors, including the lack of a wide range of participants with opposite interests, insufficient expertise of companies in the real sector in the management of interest rate risk and the use of interest rate derivatives, regulatory restrictions.

In accordance with the effective laws, OTC derivatives concluded by non-financial institutions are included in the general tax base only if their hedging nature is proven. The current tax legislation does not exclude the risk of re-qualification by tax authorities of hedging derivative transactions into speculative ones, which entails recognition of such transactions in a separate tax base and potential recalculation of tax amounts to the detriment of the taxpayer. Often, when this scenario is implemented, non-financial institutions agree to additional tax accruals but stop further hedging. In this regard, it seems expedient to introduce appropriate amendments to the Tax Code, which will remove tax risks and lead to a more active hedging of market risk and better stability of the Russian economy as a whole.

The Ministry of Finance of Russia issues OFZs both at a floating rate and a fixed interest rate. This practice will help reduce the interest rate risk on the balance sheets of credit institutions.

In order to limit the transfer of interest rate risk by banks to individual borrowers, the Bank of Russia will develop **regulation of household lending at floating rates**. There are plans to enshrine these changes in legislation. For example, restrictions will be introduced on the amount of the rate increase as well as on the extension of the loan term. In addition, to reduce the risks of misselling, additional requirements will be established for financial institutions to inform borrowers about the conditions for changing the interest rate under a consumer loan agreement prior to its conclusion.

It is proposed that the Bank of Russia be empowered to limit the share of loans issued by credit institutions or microfinance organisations to households at a floating rate in the total volume of loans.

Moreover, the Bank of Russia is considering the possibility of allowing the placement of savings certificates with a fixed maturity through financial platforms using simplified identification. This will increase the maturity of bank liabilities and, accordingly, reduce the interest rate risk of the banking sector.

Objective 4. Assessing the impact of digital technologies on financial stability

The Bank of Russia will pay special attention **to assessing risks to financial stability arising from using technologies in the financial market**.

With increasing computing power and the complication of statistical methods for its processing, the use of artificial intelligence and machine learning technologies, it is important to minimise the risks arising from this, in particular, model risks of losses associated with errors in the development or use of models. Cloud computing technology³¹ provided by third-party service providers brings both significant business efficiency benefits and increased operational risks. The widespread use of personal and other data increases the demand for their protection. It is necessary to ensure the information security and cyber resilience both of individual procedures, processes and services and of the financial system as a whole.

The Bank of Russia will monitor the market concentration following the emergence of new business models and participants, and analyse potential systemic effects and risks. In particular, the Bank of Russia will assess potential risks associated with the emergence of new systemically important players capable of affecting financial stability in general, such as Big Techs. The introduction of new technologies and services and improvements in the quality and speed of customer service should be associated with the implementation of appropriate safety standards and timely adaptation of the regulatory perimeter to avoid grey areas.

³¹ Storage and processing of data in cloud applications.

Furthermore, the Bank of Russia will monitor potential systemic risks associated with the proliferation of private digital assets around the world, including risks for investors and traditional financial institutions.

3.6. EXPANDING THE CONTRIBUTION OF THE FINANCIAL MARKET TO THE ACHIEVEMENT OF SUSTAINABLE DEVELOPMENT GOALS AND ESG TRANSFORMATION OF RUSSIAN BUSINESS

The issues of taking into account ESG factors and associated risks and opportunities as well as the agenda for sustainable development and combating negative climate change are becoming a global trend that will remain relevant in the medium and long term. [The UN General Assembly Resolution on the 2030 Agenda for Sustainable Development](#) and [The Paris Agreement](#) adopted in 2015 provided the ideological and legal basis for a new global reallocation of capital flows in favour of economies and markets that advance sustainable development goals. Currently, these processes are developing ever more rapidly. In the future, the further strengthening of these trends may lead to the situation when companies and countries that ignore the provisions of the Paris Agreement and do not take the sustainable development goals into account will not only bear reputational risks but also face restrictions on the ability to attract financing and sell (export) their own products.

In this context, the speed of integration of the sustainable development agenda into state economic policy and the financial market regulation policy will directly affect Russia's participation in these global processes and the development of the national economy and financial market.

The transition from a reactive, evolutionary model of development of the domestic market for financing sustainable development projects to a proactive model that ensures the possibility of prompt and balanced integration of Russia into the global market for sustainable development financing instruments requires both the creation of the necessary conditions and incentives from the state and the motivation of the Russian market participants to consider ESG factors in their activities and increase their responsibility in doing business that meets the needs of all stakeholders. Financial markets are to play an important role in the implementation of the target (intensive) scenario of the Strategy for the Social and Economic Development of the Russian Federation with Low Greenhouse Gas Emissions Until 2050³².

To expand the financial market's contribution to achieving the goals of sustainable development and ESG transformation of Russian business, the Bank of Russia prioritises the following objectives:

1. development of instruments and infrastructure of the sustainable development finance market and creation of conditions and opportunities for companies for ESG business transformation in response to the requests of investors, personnel or other stakeholders and in response to external challenges;
2. consideration of ESG factors in the financial market regulation to adapt the market to new types of risks.

The meeting of these objectives by the Bank of Russia in cooperation with the Government of the Russian Federation will help create conditions for channelling capital flows into projects that contribute to the achievement of sustainable development goals, including the climate goals set by the Paris Agreement. The envisaged measures will also create preconditions for the adaptation of financial market participants, including companies in the real sector, to changing conditions and new types of risks emerging during the transition to a sustainable development economy. All this will form the basis for ensuring systemic financial stability in a swiftly changing reality as well as for maintaining the access of Russian companies to the international capital market.

³² Approved by the Order of the Government of the Russian Federation No. 3052-r, dated 29 October 2021.

Objective 1. Development of instruments and infrastructure of the sustainable development finance market and creation of conditions and opportunities for companies for ESG business transformation in response to the requests of investors, personnel or other stakeholders and in response to external challenges

Joint measures by the Bank of Russia and the Government of the Russian Federation will be aimed primarily at creating the necessary infrastructure and sustainable development tools to provide investors with the opportunity to fulfil their investment needs and recipients of funds with the opportunity to finance their own transformation, including in the area of reducing negative effect on the environment.

An important step in the development of sustainable financing was **the approval of the goals and main areas of sustainable (including green) development in the Russian Federation**³³ as well as the adoption of the taxonomy of sustainable development projects and the requirements for the system of their verification³⁴, a basic methodological document that determines the areas of activity and criteria for assigning projects to the category of green, and adaptation projects. These documents are fundamental in the creation of a national infrastructure for a sustainable financing market and the development of a regulatory environment for the issuance of sustainable development financing instruments. In the future, there are plans to develop a taxonomy of sustainable development projects and a system for their verification in terms of social projects.

Based on the taxonomy, **standards will be developed for the verification and identification of financial instruments** to finance activities and projects that contribute to the achievement of the sustainable development goals and the climate goals. In particular, there are plans to improve the standards of green and social bonds as well as the creation of transitional climate instruments and instruments linked to sustainable development goals, green project finance and green mortgages.

The solution of this problem will facilitate the formation of a pool of assets that contribute to sustainable development as well as to increasing the interest of ESG-oriented investors in the Russian capital market.

Transparency of information is important for the efficient functioning of the sustainable development market. The Bank of Russia together with the Government of the Russian Federation will work on determining the rules for disclosing information on issued instruments and requirements for such instruments and **create an infrastructure for channelling funds into sustainable assets**, first of all, to create a system of independent external evaluation (verification) of sustainable development financing instruments.

There are plans to promote the assignment of ratings for ESG management and sustainable development, the development of specialised sectors and segments by exchanges, information support of trading, the creation of market indicators for sustainable development instruments and other steps aimed at supporting the placement and circulation of the relevant financial instruments.

The Bank of Russia expects the integration of **ESG factors into investment decision-making of institutional and retail investors**. This will be facilitated by the promotion of recommendations for institutional investors on ESG management and disclosure of compliance with the principles of responsible investment based on the ‘comply or explain’ approach. There are also plans to develop recommendations on how to cover ESG factors and sustainable development issues in the provision of investment consulting services and how to raise the awareness of financial market participants about the importance of considering ESG factors when making investment decisions.

The development of responsible investment trends, which is based on taking into account the risks associated with sustainable development factors and ESG factors, and the need for measures to prevent climate change imply the active participation of individuals in the process of creating the necessary conditions for this. In this regard, measures to **raise public awareness of sustainable development financing** and the use of financial products and services developed

³³ Order of the Government of the Russian Federation No. 1912-r, dated 14 July 2021.

³⁴ Resolution of the Government of the Russian Federation No. 1587, dated 21 September 2021.

to achieve the sustainable development goals and ensure the ESG transformation of the Russian economy, complement the list of objectives of the Bank of Russia with regard to retail investors' communications and improving financial literacy.

The Bank of Russia will take measures aimed at incorporating **ESG factors and sustainable development issues into the corporate governance** of financial and non-bank financial institutions. This work will be carried out based on global practice in this area. There are plans to formulate methods for assessing and managing ESG risks and to develop issue standards for specialised financial instruments that ensure the targeted allocation of funds and the allocation of funds for general corporate goals, with key performance indicators related to sustainable development goals.

An important step will also be the preparation and development of recommendations with the prospect of **introducing in future the requirements for ESG and sustainable development disclosure by corporate companies and the impact of such companies' activities on society and environment, including economic, environmental and social components**. This will ensure the comparability of the disclosed data, enable investors and counterparties to adequately assess ESG risks at micro and macro levels and choose the best investment solutions.

Furthermore, it is planned to consider the issue of **stimulating the sustainable finance market and boosting the interest of its participants at the stage of its launch**. Relevant proposals on support measures, including tax incentives both for the issuers of and investors in sustainable financial instruments and mechanisms for subsidies and state guarantees, are planned to be worked out jointly with the Government of the Russian Federation with the participation of companies operating in the real sector and financial market.

The Bank of Russia will also develop and apply its own corporate sustainable development policy and introduce elements of such policy in its subsidiaries. This will contribute to the more efficient use of resources and ensure the Bank of Russia's contribution to the achievement of sustainable development goals and the climate agenda. The example and experience of the regulator should attract closer attention of financial market participants to sustainable development issues.

Russia has vast territories and unique biodiversity of ecosystems and thus has significant potential for the implementation of climate projects to reduce and absorb greenhouse gases. The speed of ESG transformation and Russia's transition to a sustainable development economy depend on the involvement of Russian organisations in the implementation of climate projects. **The creation of a national carbon credit trading system** can help to increase the economic attractiveness of climate projects for Russian organisations. The Government of the Russian Federation together with the Bank of Russia will work on this matter. The creation of a national carbon credit trading system will help Russian organisations to effectively integrate into the emerging new technological and business chains, which are based on the idea of reducing the carbon footprint or even the carbon neutrality of production, shaping both in the national and international markets.

Objective 2. Consideration of ESG factors in the financial market regulation to adapt the market to new types of risks

The Bank of Russia plans to develop approaches to **climate risk stress testing and inclusion of ESG risks into regulation and supervision**.

Over the past few years, the trend towards a transition to a low-carbon economy (decarbonisation) in global financial markets and at the level of national governments has become a key one in shaping short-term and long-term development strategies. The departure from investments in 'brown' assets on the part of global investors as well as a radical revision of the economic structure and the development of ambitious climate plans that involve achieving carbon neutrality by the middle of the century poses risks for Russian financial and non-financial institutions and for the economy as a whole.

Despite the lack of a holistic and internationally agreed-upon approach to climate risk assessment, international organisations and national regulators, including the Bank of Russia, are extensively studying the impact of climate risks on the financial sector and the economy as a whole and

developing **stress testing approaches** and requirements for climate risk disclosure by companies. Taking into account the specifics of the Russian economy, the Bank of Russia pays special attention to the analysis of transitional climate risks, including the possible consequences of the introduction of carbon taxes. Improvements in stress testing for climate risks will continue, and there are plans to consider physical risks in the future.

The consequences of global decarbonisation can spread far beyond carbon-intensive sectors, having a negative impact on both the financial sector (in particular, banks and insurers) and the economy of entire regions; therefore, it is important to ensure the **integration of ESG factors into business strategies and risk management of financial and non-financial institutions**. The development of a taxonomy of sustainable development projects and requirements for climate reporting and ESG risk consideration for financial and non-financial institutions will allow investors to assess the risk premium more accurately. As international approaches are developed, the Bank of Russia will also consider the possibility of applying measures in the financial regulation and supervision practice to guide market participants towards pursuing a sustainable financing policy, taking into account the impact of this policy on the level of credit and other risks, both in the short and long term.

3.7. DEVELOPMENT OF LONG MONEY (LONG-TERM FINANCING)

For the development of long-term financing, joint efforts of the Bank of Russia and the Government of the Russian Federation are critical. The formation of long-term savings and their transformation into long-term investments are fundamentally important for achieving the national development goals of Russia, expanding its economic and innovative potential and increasing the welfare of citizens.

Ensuring financial and price stability is a key contribution of the Bank of Russia to creating a favourable environment for lengthening the financial planning horizon of households and businesses. Consistently low inflation and the stability of the financial system are integral elements of predictable macroeconomic conditions, which are necessary for the inflow of long-term financial resources into the economy. Along with stable macroeconomic conditions, an equally important role is played by a favourable business and investment climate and the predictability and transparency of the rules of the game at all levels. As these conditions are created, the effectiveness of a wide range of measures aimed at the formation of long money increases.

At the present stage, it is important to form a legal framework, regulatory and other incentives to expand the range of long-term savings and investment instruments and make them more attractive for individuals, businesses and financial intermediaries. It is necessary to expand the opportunities of using modern financial technologies and platform-based solutions to make the long-term financing more available. It is important that borrowers, issuers and investors have the necessary competencies allowing them to use the proposed instruments. The attractiveness of companies for long-term investments will also largely depend on their own development strategies, the planning horizon, transparency of their operations for investors and quality of management.

In these conditions, along with ensuring price and financial stability, the Bank of Russia and the Government of the Russian Federation will contribute to the development of long-term financing in the economy by pursuing the following objectives:

1. encouraging investments in long-term financing instruments;
2. developing innovative tools for raising capital;
3. expanding the range of financial instruments for financing investment projects;
4. developing unit investment funds;
5. developing corporate relations and corporate governance.

The implementation of most of the measures aimed at the development of long-term financing requires close cooperation between the Government of the Russian Federation and the Bank of Russia, which is reflected in the joint roadmap for allocating available funds for investment projects³⁵.

Objective 1. Encouraging investments in long-term financing instruments

The Bank of Russia together with the Government of the Russian Federation will apply measures aimed at increasing the attractiveness of long-term investments for various groups of investors.

The **mechanism of individual investment accounts (IIAs)**³⁶ will continue improving. There are plans to increase the limit of annual contributions and permit partial withdrawals without closing an account and losing tax incentives or to open several accounts with different intermediaries. In addition, IIAs of type III will be introduced with an investment horizon of 10 years. A combination of the tax incentives provided for IIAs of type I³⁷ and type II³⁸ will also apply to IIAs of type III. The limit of the preferential annual replenishment of type III IIAs will be 6% of salary.

The Bank of Russia does not consider it expedient to stimulate investments of Russian citizens in foreign assets at the expense of budgetary funds. In this regard, the tax base for income on IIAs of type III will be considered separately for Russian and foreign assets. The share of Russian assets on IIAs of type III must be no less than the amount established by the Tax Code.

Furthermore, there are plans to expand the list of financial intermediaries and platforms where IIAs can be opened. In particular, this list may include NPFs, management companies of unit investment funds (UIF), and financial platforms.

The expansion of the IIA range and wider opportunities of their opening and use will meet the needs of different users better, encourage longer investment maturities and boost development of competition in the financial market.

The Bank of Russia will adopt a set of measures to **develop non-governmental pension provision (NPO)** as an important source of long-term investment resources in the economy³⁹. In particular, regulatory changes are planned to stimulate long-term investments of NPFs. A system of guaranteeing the rights of NPF participants in the NPO system will be created. The Government of the Russian Federation with the participation of the Bank of Russia will develop tax incentives to encourage citizens and employers to join voluntary pension schemes.

In order to attract long-term investments in the economy through the insurance market, conditions will be created for the launch of a new instrument: **a unit-linked insurance plan**. This instrument is a comprehensive life insurance product with an investment component⁴⁰.

Steps are also planned to **improve corporate governance in non-governmental pension funds and insurance companies**, which should improve the quality of their investment activities. In particular, the participation of NPFs' boards of directors in investment decision-making can be expanded due to the mandatory presence of risk committees on the boards of directors.

The implementation of a project **to create a housing savings system in Russia** will continue, which will provide citizens with the opportunity to accumulate a down payment on a special housing savings account and subsequently obtain a mortgage loan on the conditions that were fixed when the account was opened. As part of this system, regional programmes are envisaged to subsidise housing savings, which are designed to accelerate the accumulation of the down payment and make mortgage lending more available for individuals. Furthermore, the housing savings system will expand the long-term funding base of credit institutions and will help them manage their mortgage portfolio more effectively.

³⁵ Roadmap for Allocating Available Funds for Investment Projects was approved by the Government of the Russian Federation and the Bank of Russia on 13 May 2020.

³⁶ IIAs are special brokerage and trust management accounts intended for individuals that are subject to tax incentives provided that the IIA account has been held for, at least, three years.

³⁷ IIAs with tax refunds on top-ups.

³⁸ IIAs with personal income tax refunds on financial result of transactions performed on the IIA.

³⁹ For details, see Subsection 3.8. [Development of the financial market sectors regulation](#).

⁴⁰ For details, see Subsection 3.8. [Development of the financial market sectors regulation](#).

Russian organisations, unlike foreign ones, so far make little use of the potential of the initial public offering (IPO) market to attract funding. However, the recovery of the Russian economy after the acute period of the pandemic and a significant increase in the number of private investors can create a ‘window of opportunity’ for those companies that are planning public offerings. To **increase the attractiveness of equity financing**, the Bank of Russia will assist in organising an efficient IPO market transparent for companies and investors. The Bank of Russia plans to monitor offerings and stock trading activity after IPOs to prevent unfair practices related to price manipulation during the initial offering.

The IPO development factor itself will have an impact on the entire investment pipeline, from a startup to going public. The Russian economy is more interested than ever in the operation of such a pipeline as the development of a business built solely on lending has a number of vulnerabilities, so Russian companies need equity financing no less than debt financing.

To **further develop the debt financing market**, the Bank of Russia plans to continue expanding opportunities for bond issuers to complete transactions faster and more conveniently and to improve mechanisms aimed at protecting the rights of bondholders. One of the steps in this direction was the expansion of the powers of exchanges to admit bonds to the financial market – the ability to register issues of exchange-traded bonds intended for qualified investors. There are also plans to improve the procedure for restructuring debt on corporate bonds and the procedure for holding meetings of bondholders, to enhance the responsibility of members of the management bodies of bond issuers for decisions affecting the interests of bondholders, and to strengthen the institution of representatives of bondholders.

It seems appropriate to improve the procedure for taxing income in the form of interest (coupons) on bonds given that changes in the taxation of income in the form of interest on bank deposits (accounts) and the abolition of tax preferences for income in the form of interest (coupons) on bonds⁴¹ give rise to tax arbitrage. This may negatively affect the investment attractiveness of state, municipal and corporate bonds and lead to an outflow of investments from the financial market.

Moreover, it is necessary to study the possibility of converging the taxation of non-residents’ income received from transactions in Russian financial instruments in the Russian financial market with the taxation of similar income paid to residents of the Russian Federation.

An important area for the development of the debt financing market is the improvement of the mechanism of the VEB.RF Project Finance Factory. This mechanism was created to facilitate the implementation of large projects in priority sectors of the economy. The mechanism of the Project Finance Factory assumes that funds for the implementation of projects are attracted, among other things, by a special project finance company SOPF FPF LLC, which is 100% owned by VEB.RF. The main source of funding for the operations of SOPF FPF LLC is the issue of bonds.

In order to reduce the cost of financing and ensure the reliability of the Project Finance Factory mechanism, a number of support measures were envisaged for SOPF FPF LLC, including a mechanism for VEB.RF to buy out defaulted monetary claims (from the collateral pool). With this mechanism, the yield on SOPF bonds exceeds the yield on bonds of VEB.RF itself, which in general makes the market funding scheme inefficient. In order to reduce the yield of SOPF bonds, it is advisable to consider the use of irrevocable unconditional state guarantees that cover investors’ principal and accumulated coupon exposure. This involves the introduction of appropriate amendments to the Budget Code of the Russian Federation. In this regard, over the next three-year period, an important area of the Government of the Russian Federation activity may be the provision of unconditional and irrevocable government guarantees for bonds issued by SOPF FPF LLC as part of the Project Finance Factory mechanism.

⁴¹ Federal Law No. 102-FZ, dated 1 April 2020, ‘On Amending Parts One and Two of the Tax Code of the Russian Federation and Certain Laws of the Russian Federation’.

Objective 2. Developing innovative tools for raising capital

The Bank of Russia together with the Government of the Russian Federation will create conditions for expanding innovative instruments for raising long money and increasing its availability and ease of use, including through the use of digital technologies. For this, an appropriate legal framework should be formed.

The Government of the Russian Federation has also planned activities to **stimulate demand for innovation, including from public corporations and state-owned companies**. In particular, it is planned to study such issues as the allocation of funds by them for direct and venture capital investments, the purchase of products of Russian high tech companies, and the creation of a risk coverage system when introducing innovative solutions (including venture companies). Furthermore, criteria will be set for high tech and fast-growing high tech companies ('high tech gazelle companies') in order to provide them with state support on certain conditions.

It is equally important to **develop partnerships between businesses and the state to attract investment in projects** through the use of concession agreements and agreements on public-private and municipal-private partnerships. The Government of the Russian Federation plans to take steps to create favourable conditions for these forms of cooperation.

To attract private investment to the Russian market through investment platforms (crowdfunding), measures will be taken to create an environment of trust and improve the transparency of this market. In particular, there are plans to expand the range of information disclosed on projects.

The Government of the Russian Federation together with the Bank of Russia will make efforts to resolve certain issues of **taxation of utility digital rights (UDR) and digital financial assets (DFA)**. This will contribute to the expansion of the use of UDR and DFA as instruments of borrowing on investment platforms, including by small- and medium-sized enterprises.

It is important to ensure cooperation between various financial market participants who have extensive information about enterprises that can be used to **build the development rankings**. Investors can consider these rankings as a benchmark for assessing the investment potential of enterprises when purchasing shares and UDR, including on crowdfunding platforms. In order to protect investors and maintain the necessary level of confidence in new forms of raising equity capital, it is important to ensure the correct use of data and their confidentiality as well as the transparency and comparability of such rankings.

Objective 3. Expanding the range of financial instruments for financing investment projects

The Government of the Russian Federation and the Bank of Russia will improve the legal environment for the **development of hybrid finance instruments**, which will expand the opportunities for their use and strengthen the protection of user rights.

Russian legislation has already established the status of **convertible loan and convertible bond contracts**. Under a convertible loan the lender is entitled to receive shares of a certain type or a stake in equity of a borrower which is a non-public business company instead of repayment of the loan in whole or in part. Also, the ability to transfer a stake in equity to the lender will increase the financial stability of young companies when implementing their own business models (before obtaining a stake in equity, the lender's ability to influence corporate decisions is limited). Convertible bonds can be converted into securities of the same issuer. The possibility of converting these instruments is intended to expand the financial capabilities of Russian business.

Furthermore, it is planned to take measures to **develop the preferred stock instrument**. In particular, non-public joint-stock companies will be able to issue multiple voting preference shares (super preference shares), which will give their holders the right to vote disproportionately to the par value of such shares and will be converted into common shares (ordinary or preferred) if disposed. There are also plans to abolish the restrictions on the share of preferred stock in the capital of a joint-stock company⁴² at the expense of preferred shares which do not give their owners the right

⁴² Currently, there is a legal limitation of 25% on the share of preferred stock in the authorised capital of a joint-stock company.

to vote on issues covered by the competence of the general meeting of shareholders (with the exception of issues of liquidation of the company).

The Bank of Russia will create **additional incentives for bank lending to investment projects implemented under investment protection and promotion agreements (IPPAs)**. For this, special conditions will be established for the formation of provisions for such loans during the entire investment phase of the project (up to five years). In order to receive preferential terms, the project implementation plan will have to meet certain criteria.

For the development of long-term financing, apart from the instruments, it is important to **form a market infrastructure** supporting the following functions: assess and monitor the risks of the targeted use of funds as well as the progress of the investment project; transfer and hedge all or part of the risks; fund investment positions.

Objective 4. Developing unit investment funds

The Bank of Russia will continue its efforts to increase the investment attractiveness of unit investment funds (UIFs) as a priority instrument for retail investors to start investing in the financial market and as a convenient mechanism for structuring long-term investments by institutional investors.

For example, investors will be able to **receive current income without redeeming their investment units first** because now, such income may be paid on units of all types of UIFs.

The Bank of Russia will also **expand the investment opportunities of management companies of UIFs that implement passive asset management strategies** while maintaining risk-based requirements aimed at protecting the rights of unqualified investors who hold units of such UIFs.

In order to ensure the protection of the rights of holders of units of UIFs, the Bank of Russia will also work out a mechanism for formalising the principle of fiduciary responsibility of the management companies of UIFs in the legislation⁴³.

Objective 5. Developing corporate relations and corporate governance

An improvement in the investment attractiveness of companies is facilitated not only by their reliable operation, viability of their businesses or willingness to master new technologies but also by the quality of governance, the responsibility of the company's management for the decisions made, the transparency of operations and shareholder and investor relations. Therefore, the Bank of Russia will continue to take measures aimed at developing corporate relations and corporate governance.

With the participation of the Bank of Russia, there are plans to legislate for mechanisms that ensure a **balance of interests of all participants in corporate relations**. This will be instrumental in improving investor confidence in Russian companies and the attractiveness of equity financing instruments.

In particular, there are plans to improve the procedures for acquiring large equity stakes in public companies, which should increase their flexibility and cut costs of majority shareholders, and, at the same time, ensure stronger protection of minority shareholders' rights in the event of a change of controlling shareholder.

The Bank of Russia will also continue its efforts to **introduce the best corporate governance standards into the practice of Russian public companies**. These standards are reflected in the [Corporate Governance Code](#) (the 'Code')⁴⁴. Informed implementation of the Code's recommendations should increase the sustainability of companies' businesses and help them to quickly adapt to rapidly changing business conditions and take advantage of new opportunities. This should help increase their attractiveness to investors.

⁴³ For details, see Subsection 3.8. [Development of the financial market sectors regulation](#).

⁴⁴ Bank of Russia Letter No. 06-52/2463, dated 10 April 2014, '[On the Corporate Governance Code](#)' was officially published on 18 April 2014 and recommended for use by the Bank of Russia.

The Bank of Russia will also develop recommendations aimed **at improving corporate governance practices in holding companies and groups of companies**, taking into account the specifics of their business.

The development of an audit framework for the market participants' reporting will promote better quality (accuracy) of information in the financial market. According to the [Audit Development Concept until 2024](#) approved by the Government of the Russian Federation⁴⁵, along with other measures, there are plans to clarify the subject and scope of activities of audit firms, improve the competitive procedures for their selection and increase the requirements for auditors providing services to socially important institutions, including those operating in the financial market⁴⁶. The whole range of measures will be aimed at ensuring a qualified, independent and proper audit. As the Bank of Russia has been vested with a number of powers to regulate and supervise audits in the financial market⁴⁷, it will take part in the development of the audit framework, including as part of the implementation of measures provided for in the [Audit Development Concept until 2024](#). The Bank of Russia will also intensify cooperation with the audit community and those responsible for overseeing reporting in the corporate governance system.

3.8. DEVELOPMENT OF THE FINANCIAL MARKET SECTORS REGULATION

Creating conditions for the development of the financial market and ensuring financial stability at the systemic level, the Bank of Russia takes into account both the trends that are common to all sectors of the financial market and ones specific to each of them. This determines the peculiarities in the regulation of the activities of various financial intermediaries, on the one hand, and a higher commonality of regulatory approaches and objectives, on the other hand, in particular the proportionality of regulatory burden to the scale of financial institutions' operation, the implementation of guarantee systems, reduction in market participants' costs, and the creation of legislative and legal conditions for remote service formats and the penetration of digital products and services. A gradual blurring of the boundaries between the sectors of the financial market and e-commerce, the increasingly cross-sectoral nature of financial intermediaries' activities, and the development of ecosystems require an additional adjustment of the regulation of both the financial market as a whole and individual activity types (products).

Furthermore, in the future, the Bank of Russia plans to expand opportunities for combining various types of activities in the financial market and shift towards regulation by activity type, which will allow financial institutions to work in new areas without establishing a separate legal entity. This issue is covered in the Bank of Russia's consultation paper⁴⁸ issued to discuss the approaches to regulation by activity type with market participants and experts. These approaches should open up additional opportunities for improving the quality and availability of financial services, on the one hand, and provide controls for various risk groups, on the other hand. The Bank of Russia estimates that it will take several years to implement the initiatives, given that they will require significant changes in regulation. Therefore, the proposals will be implemented stage by stage as they are scrutinised and coordinated with the professional community.

⁴⁵ Order of the Government of the Russian Federation No. 3709-r, dated 31 December 2020, 'On Approval of the Concept for the Audit Development in the Russian Federation until 2024.'

⁴⁶ The Bank of Russia will make efforts to implement the provisions of Federal Law No. 359-FZ, dated 2 July 2021, 'On Amending Certain Laws of the Russian Federation and Invalidating Certain Provisions of Laws of the Russian Federation' vesting the Bank of Russia with a number of powers to regulate and supervise the provision of audit services in the financial market.

⁴⁷ Federal Law No. 359-FZ, dated 2 July 2021, 'On Amending Certain Laws of the Russian Federation and Invalidating Certain Provisions of Laws of the Russian Federation.'

⁴⁸ The approaches of the Bank of Russia are presented in the consultation paper [Combining Activity Types in the Financial Market](#).

The Bank of Russia in cooperation with market participants will continue to elaborate approaches to the role and powers of SROs in the financial market, extending the practice of self-regulation to uncovered segments and the mandatory inclusion of sales agents in SROs. It is also necessary to continue expanding the list of financial market participants with leasing companies.

Another important objective is to assess the impact of cyber risks on the financial stability and operational reliability of systemically important financial institutions, financial associations, and financial ecosystems, as well as to monitor and identify these cyber risks. Work will continue to reduce the risk of technological dependence of financial institutions and the financial market infrastructure on foreign software and hardware providers and to introduce a mechanism for insuring against cyber risks, including the risks of individuals receiving financial services.

Banks

The key areas in banking regulation are determined by the objectives of ensuring the financial stability of the sector and promoting economic development, the introduction of international approaches to the regulation of credit institutions, and the optimisation of regulatory burden by eliminating excessive regulation.

Objective 1. Development of proportional and risk-based regulation

The Bank of Russia will continue to **implement a proportional approach to banking regulation** in order to ensure the balance of regulatory burden for banks depending on the scale of their activity and the nature and complexity of their operations. This should also help to balance the competitive environment, creating the prerequisites for the development of a variety of business models, including those capable of generating sufficient return on capital even when there is no scale effect. The Bank of Russia will also apply the proportional approach to the regulation of credit institutions' cyber risks.

The Bank of Russia will continue to pay special attention to the regulation of systemically important credit institutions (SICIs). Considering their importance for the stability of the banking sector and the financial sector as a whole, SICIs are subject to special and, generally, more stringent requirements.

Taking into account the fast development of the financial services market and the changing conditions of the functioning of the banking sector, the Bank of Russia is adjusting its approaches to the regulation and supervision of SICIs. In particular, as part of this process, the Bank of Russia plans to introduce **differentiated systemic importance buffers to capital adequacy ratios**. A more sensitive differentiated rate scale will take into account the size of banks and their impact on the financial system.

As part of the implementation of the standards of the Basel Committee on Banking Supervision (BCBS), the Bank of Russia plans to establish a consolidated limit on major credit risk concentration (N30) for SICIs⁴⁹. This will limit maximum possible losses of a banking group and its credit institutions in the event of sudden insolvency of one borrower or a group of related borrowers⁵⁰.

In addition, in the next few years, the Bank of Russia plans to implement the new BCBS standard for market risk⁵¹, which will increase the sensitivity of capital requirements for covering market risk to various market factors. To increase the quality of the interest rate risk management systems for the banking portfolio, including to establish standard methods⁵² for measuring this risk, and to prevent deterioration of a credit institution's financial standing in the event of a change in interest

⁴⁹ Due to the entry into force of the [BCBS standard](#) on 1 January 2019 (published on the website of the Bank for International Settlements in April 2014).

⁵⁰ Losses are limited to the level that does not jeopardise the solvency of the banking group or its individual credit institutions.

⁵¹ BCBS standard [Minimum capital requirements for market risk](#) (published on the website of the Bank for International Settlements in January 2019).

⁵² Currently implemented in the form of Bank of Russia Methodological Recommendations No. 8MR, dated 9 July 2020, 'On Calculating Interest Rate Risk on Assets (Claims) and Liabilities of a Credit Institution (Banking Group)'.

rates, the approaches to interest rate risk management based on the BCBS standard⁵³ will continue to be improved. In both cases, the Bank of Russia will proceed from the principle of proportional regulation in implementing the standards.

The Bank of Russia will consider the issue of establishing a legal mechanism for the mandatory **transfer of all SICIs to the assessment of credit risk based on IRB approaches**. The main advantage of IRB approaches is that banks use their own credit risk assessments based on the analysis of the statistics of borrowers' defaults and the quality of the loan portfolio. The transition to IRB approaches will allow SICIs not only to more accurately calculate the amount of capital needed to cover credit risk, but also to build a risk management system that is more sensitive to changes in operating conditions.

The Bank of Russia will also develop regulation aimed **at ensuring a more accurate assessment of credit risks by banks**, including in lending to small and medium-sized enterprises⁵⁴ and in housing mortgage lending. This will facilitate prudent lending practices, including more affordable loans for low-risk borrowers.

The **reform of collateral** planned in the medium term and other instruments reducing credit risk used to assess banks' capital adequacy in accordance with Basel III may have a stimulating effect on bank lending.

As credit institutions in Russia are active participants and often architects of ecosystems, the planned development of ecosystem regulation will be a particularly significant factor for the evolution of the banking sector. The Bank of Russia will take this into account when designing and implementing related regulatory approaches⁵⁵.

Objective 2. Development of the deposit insurance system

The Bank of Russia plans to **expand the deposit insurance system in credit institutions**. Insurance coverage will be extended to funds of most legal entities. However, the latter will not include institutions providing financial services and entities for which the total limit of insurance payments will be insignificant given the scale of their activities, as well as accounts for federal budget funds, budget funds of the constituent territories of the Russian Federation and government extra-budgetary funds. To ensure equal conditions for clients of all credit institutions, credit institutions that work only with the funds of legal entities will also need to join the deposit insurance system.

The Bank of Russia will also assess the feasibility of expanding the scale of differentiated rates of insurance premiums and modifying the assessment of the financial stability of banks participating in the deposit insurance system in order to ensure the balance of banks' burden and risks they accept.

The expected growth of the deposit base and the planned completion in 2024 of settlements of the State Corporation Deposit Insurance Agency (DIA) with the Bank of Russia for the repayment of funds provided to cover the fund deficit will allow the DIA to consider the possibility for adjusting the system of banks' insurance premiums. In addition, the DIA jointly with the Bank of Russia will review the issue of establishing a legal procedure for determining the target size of the compulsory deposit insurance fund.

Objective 3. Development of supervisory stress testing of banks as part of the risk-based approach to banking supervision

The Bank of Russia plans to develop supervisory stress testing (SST) of credit institutions as a preventive instrument of banking supervision. SST is meant to identify in advance vulnerabilities of individual banks and the sector as a whole to various internal and external shocks, which enables

⁵³ BCBS standard [Interest rate risk in the banking book](#) (published on the website of the Bank for International Settlements in April 2016).

⁵⁴ For details, see the Bank of Russia's Roadmap to Develop Funding for Small and Medium-sized Enterprises in 2021–2022 (published on the website of the Bank of Russia on 1 February 2021).

⁵⁵ For details, see Subsection 3.4. [Promotion of competition in the financial market](#).

timely implementation of supervisory measures and more effective planning of modifications to banking regulation.

Further on, as the SST practice develops, the Bank of Russia will consider the feasibility of using SST results in establishing capital requirements. In the near future, the Bank of Russia may start to take into account SST results when calibrating systemic importance buffers.

Microfinance institutions

In the microfinance market, the Bank of Russia will focus on strengthening consumer protection, improving conditions for the provision of remote services by microfinance organisations, and eliminating unnecessary regulatory burden on organisations and reducing their costs.

Objective 1. Improving transparency of the microfinance sector and protection of the rights of consumers of microfinance services

The Bank of Russia will take additional measures to strengthen consumer protection in the microfinance market, which will help improve transparency in this segment.

The Bank of Russia will introduce a **new model for admitting credit cooperatives to the market and establish requirements for business reputation of their executives**. These measures will improve the security of people's personal savings in credit cooperatives and minimise the risks of the appearance of financial pyramid schemes disguised as credit cooperatives. In addition, the Bank of Russia will assess the possibility of introducing a mechanism for protecting people's personal savings and establishing requirements for credit cooperatives to disclose their terms and conditions for attracting funds⁵⁶.

Establishment of legal mechanisms for **stricter administrative liability and introduction of criminal liability against illegal creditors** contribute to the elimination of unfair practices in the microfinance market. In addition, the Bank of Russia will assess the feasibility of introducing criminal liability for illegal activities in the collection of overdue debts.

The Bank of Russia will also analyse the possibility **for creating a legal environment enabling microfinance organisations to verify subscriber information through a single point of contact with the use of mobile operators' databases**. This will help microfinance institutions to improve their anti-fraud systems.

Microfinance organisations will also be subject to additional amendments introduced into the TCL laws aimed at restricting the sale of extra services to borrowers, the value of which for the client is not comparable with their cost, and at preventing circumvention of regulatory requirements.

Objective 2. Creating the environment for developing remote channels for microfinance services

The Bank of Russia will continue to create conditions promoting the development of remote channels for providing microfinance services, which should improve their affordability and accessibility. In particular, this will be facilitated by **microfinance organisations' connection to platforms developed by the Bank of Russia** that simplify interaction and data exchange in the course of provision of financial products and services (Digital Profile, Marketplace).

To develop remote interaction between credit cooperatives and their members and remote channels for issuing loans, the Bank of Russia will consider the possibility of **establishing legal mechanisms for electronic document workflow in credit cooperatives' corporate procedures**.

Objective 3. Improving regulation and reducing costs of microfinance institutions

Analysing the current regulation and supervision of the microfinance sector for the purpose of its development, the Bank of Russia will continue to adhere to proportional approaches depending on

⁵⁶ To further develop the Program in relation to the promotion of credit cooperation, the Bank of Russia coordinated the [Roadmap for Amending Laws on Credit Cooperatives for 2021–2024](#) detailing the areas for improving the regulation of the sector.

risks generated by microfinance organisations, including the types and volumes of their activities, and will also continue its efforts to eliminate excess regulatory and other burden.

To avoid regulatory arbitrage with credit institutions and reduce microfinance institutions' costs, the Bank of Russia will analyse the possibilities for authorising microfinance institutions to carry out uncontested debt recovery under notaries' enforcement orders, and other measures.

Insurance companies

The main goals of the development of regulation in the insurance sector will include the further implementation of a risk-based approach (Solvency II)⁵⁷, increasing the value of insurance products for customers, protecting consumer rights, creating an environment enabling consumers to make an informed choice of insurance services, and improving information accessibility for insurance market participants.

Objective 1. General development of the insurance industry

The Bank of Russia will continue to **implement a risk-based approach to regulation of the insurance sector** by enhancing the requirements for calculating insurance reserves and assessing insurance risks. This approach should contribute to improving the financial stability, competitiveness and investment appeal of the insurance market. Requirements for insurers' corporate governance systems will also be expanded, which includes the clarification of requirements for the risk management system.

There are plans **to create a guarantee system in the life insurance market**⁵⁸. This will ensure the safety of individuals' long-term investments and should help increase their confidence in voluntary life insurance products. The guarantee system for life insurance contracts will be based on the same principles as the deposit insurance system and the pension savings guarantee system. In the event of bankruptcy of an insurance company, its obligations to customers within the limits established by law will be fulfilled using the guarantee fund formed from contributions made by insurance companies participating in the guarantee system⁵⁹. The guarantee system will cover life insurance contracts, including those combining life insurance with other types of personal insurance.

The Bank of Russia will **develop a centralised system for collecting, analysing and storing information in the insurance market**. To promote competition and improve the information transparency and affordability of insurance products and services, the Bank of Russia plans to create a centralised system for storing and using information in the insurance market, which will be operated by a subsidiary of the Bank of Russia. Access to such a system will provide insurance companies with high-quality information for reliable risk management regardless of the size of their business, enable them to fine-tune pricing taking into account individual customer risks, and facilitate the development of new insurance products.

In order to **create opportunities for developing instruments for quantitative assessment of climate risks**, the Bank of Russia plans to organise the collection of statistical and topographic data. Among others, Russian National Reinsurance Company will serve as the base for this process. An accurate assessment of the risks of extreme natural phenomena and natural disasters is critical for adequate pricing of insurance products and correct accounting of climate risks in the operation of organisations exposed to the consequences of climate change.

⁵⁷ [Concept for the Implementation of a Risk-based Approach to Insurance Regulation](#) in the Russian Federation published on the Bank of Russia website on 4 June 2018.

⁵⁸ Unlike in the banking sector where all deposits and accounts of individuals are insured, the obligations of an insurance company to a customer in the event of bankruptcy are not guaranteed by the state, which is one of the reasons for customers' low confidence in life insurance contracts in Russia.

⁵⁹ It is assumed that an insurer's obligations to an individual under a life insurance contract will be guaranteed within the limits of ₱1.4 million, and payments in the case of death of the insured person will be guaranteed within the limits of ₱10 million. Investment income, if it is provided for by the life insurance contract, will not be guaranteed by the system.

Objective 2. Development of certain types of insurance

The Bank of Russia plans a **comprehensive reassessment of approaches to the regulation of prescribed insurance**. This work will be carried out based on the findings of the 2020 survey of the current situation in this insurance segment⁶⁰. Among other things, the Bank of Russia will determine the social value of and the demand for each of the imputed types of insurance relying on statistics and the analysis of the scale of consequences of an insured event. Based on the results of the reassessment, the Bank of Russia will develop proposals for improving the regulation in this segment and will determine whether it is reasonable to preserve some imputed types of insurance.

Insurers will be able to offer **new combined insurance products – equity life insurance policies** to customers. To provide this opportunity, the Bank of Russia plans to allow life insurance companies to obtain management company licences for managing investment funds, unit investment funds and non-governmental pension funds and to allow management companies to obtain voluntary life insurance licences⁶¹. In addition to the long-term life insurance programme, a holder of such equity life insurance policy will receive flexible investment opportunities (the investment strategy will depend on the policyholder's intentions and risk appetite) combined with additional protection as an investor. Such combined insurance products should increase individuals' interest in long-term endowment life insurance and contribute to the development of the voluntary insurance market.

The Bank of Russia will also clarify the **requirements for insurers to disclose the most important information on insurance products** to customers in various types of life insurance. Insurers will be liable for violating these requirements.

Non-governmental pension funds

The Bank of Russia will take efforts to increase the appeal of non-governmental pension schemes for individuals, which will expand people's opportunities to form extra pension savings in addition to mandatory pension insurance programmes. The Bank of Russia will create incentives and conditions for NPFs to use long-term investment strategies, taking into account their important role as institutional investors. Together, these measures should also facilitate the formation of sources for long-term investments in the economy.

Objective 1. Creating conditions and incentives for the development of non-governmental pension schemes

The Bank of Russia plans to **create a system for guaranteeing the rights of NPF participants in the non-governmental pension system**. For this, the Bank of Russia will participate in implementing relevant legislative changes. This system will operate similarly to the existing pension savings guarantee system. The state guarantee should ensure the safety of voluntary contributions made by individuals and employers under non-governmental pension agreements and provide for the payment of non-governmental pensions even if the NPF loses its financial stability. This will improve consumers' confidence in the pension sector and contribute to the growth of pension savings.

The Government of the Russian Federation and the Bank of Russia will continue to develop **tax incentives that will increase the appeal of voluntary pension programmes for individuals and employers**. These programmes enable individuals to save money on their own in order to ensure a decent level of pension payments after retirement. More active participation of individuals and employers in such programmes is an important area for the development of non-governmental pension schemes. In particular, there are plans to provide personal income tax exemptions for payments of non-governmental pensions formed from the funds of close relatives. In addition, the

⁶⁰ The Bank of Russia report [Current Situation in the Prescribed Insurance Segment of the Russian Insurance Market](#) was published on the Bank of Russia website on 19 February 2021.

⁶¹ This approach to the regulation of equity life insurance differs from the one used in Europe where separate regulations are usually developed for each product, but it will require much lower costs for the development and implementation of new regulation and make it possible to avoid regulatory arbitrage with collective investment schemes.

Government of the Russian Federation with the engagement of the Bank of Russia will harmonise tax incentives for long-term savings.

Objective 2. Creating incentives for long-term investments of non-governmental pension funds

The Bank of Russia will continue a comprehensive discussion of market participants' proposals regarding possible approaches to clarifying NPFs' investment declaration in order to enhance the role of NPFs' long-term investments.

The Bank of Russia will **develop regulation in order to create incentives for NPFs' long-term investments in shares, bonds, and other financial instruments**. In particular, there are plans to explore additional opportunities for investing pension reserves in investment partnerships, bonds collateralised by claims on loans to SMEs, and other long-term investment products. By creating conditions for expanding investment opportunities of NPFs, the Bank of Russia will simultaneously limit their risks and ensure protection of the rights of insured persons, depositors and members of NPFs.

The investment of NPF funds in long-term projects will also be facilitated by **modernisation of the NPF remuneration system as regards non-governmental pension schemes and formation of required reserves**. This will also help improve the quality of provided services, create opportunities for increasing return on pension savings, and reduce the risks of loss of NPFs' financial stability.

It is necessary to **expand NPFs' fiduciary liability for the state of their investment portfolios**. Currently, the principle of fiduciary liability is legally stipulated only in relation to how NPFs purchase financial instruments. However, further on, it is equally important how NPFs make decisions on keeping certain assets in their investment portfolios.

The Bank of Russia will consider possible options for improving the regulation of these aspects. After that, it will develop proposals regarding necessary amendments to laws, if needed.

Professional securities market participants and management companies of unit investment funds

The Bank of Russia will improve regulation and supervision of management companies, trust managers, brokers, and investment advisors. Its measures will be mainly aimed at improving the quality of services provided by these financial institutions and protecting consumer rights. This is especially important amid the growing interest of retail investors in capital market instruments and the increasing role of financial intermediaries providing investment services to retail customers.

Furthermore, in order to reduce regulatory burden and costs for financial intermediaries, the Bank of Russia plans to improve the procedure for the admission to the financial market and, in certain cases, replace required permits with notifications.

Objective 1. Increasing customer confidence and protection

The Bank of Russia will **improve regulation and supervision of investment advisors**. The adjustment of regulatory conditions is necessary given that financial consulting is becoming increasingly more widespread amid the inflow of retail customers into the securities market. In addition, the range of offered services similar to investment consulting is expanding, yet they are beyond the effective legal framework. Considering the above, the Bank of Russia plans to determine possible approaches to the regulation of services that are similar or close to investment consulting but are not currently recognised as such due to a number of formal characteristics.

The Bank of Russia will also assess the possibilities for **enhancing supervision over the use of robo-advisor apps** – software used by investment advisors to provide automatic investment advice to customers. Particular attention will be paid to programmes based on machine learning technologies.

To improve customer protection, the Bank of Russia will develop a mechanism to legally stipulate the **principle of fiduciary liability of investment advisors, trust managers and management companies of investment funds**. Market participants should ensure that, making investment

decisions and providing investment advice, they act in good faith and do their best to protect the interests of their customers. The **implementation of additional SRO standards** and the tightening of supervision over compliance with these standards will also improve communication between financial intermediaries and customers.

To make it possible for individuals with small investments to use various passive investment strategies, including index-based ones, the Bank of Russia proposed to create a **mechanism for ‘splitting’ expensive securities into depositary receipts** certifying the right to 1/1,000 of such securities on the basis of a central (settlement) depository. Such receipts will be issued and redeemed in real time at the request of financial intermediaries acting on behalf of retail investors. They will guarantee that their holders receive the corresponding part of dividends on securities and can be exchanged for underlying assets (if the required amount is available). Receipts will be always backed by underlying assets.

Objective 2. Ensuring financial intermediaries’ stability in changing conditions

Having mostly completed the work to remove unfair participants from the financial market, the Bank of Russia will continue to take measures aimed at increasing the stability of operating professional securities market participants and management companies. Establishing financial stability requirements, the Bank of Russia will take into account the increasing operational risks of major companies.

The Bank of Russia also plans to develop additional forms of reporting on customer portfolios to assess risks accepted by customers, as well as their behaviour patterns and preferences. The new reporting forms will complement the existing ones as the latter are rather focused on assessing intermediaries’ financial standing.

Infrastructure

The Bank of Russia will promote the conditions for protecting the rights of financial market participants that use accounting and trade and settlement infrastructure in their operations. It will focus on the adaptation of the legal framework for infrastructures’ operation to technological developments in the financial market. The Bank of Russia will also focus on ensuring highly stable operation of the financial market infrastructure.

To further develop the infrastructure and ensure its competitiveness for foreign counterparties, the Bank of Russia will continue to cooperate with foreign regulators to facilitate mutual recognition of regulation equivalence for Russian infrastructures.

Objective 1. Protecting property rights of financial market participants and developing infrastructure functionality

The Bank of Russia will explore possible areas for **optimising the system of accounting investors’ rights** to securities and will discuss them with market participants. As part of this objective, the Bank of Russia also plans to assess the feasibility of using investor depository accounts opened with the central depository to conduct transactions on financial platforms, exchange and over-the-counter markets.

The Bank of Russia will also study **the issues of protecting investors’ property rights on investment (crowdfunding) platforms and in information systems where digital financial assets are issued**.

The Bank of Russia plans to further adjust the legal framework to **enhance depositories’ engagement in servicing digital assets and digital rights**, including through the issuance of appropriate receipts by depositories. As regards the central depository, it is proposed to make the issuance of such receipts under corresponding requests from the holders of digital assets and digital rights mandatory.

The Bank of Russia will develop depository accounting mechanisms and **adjust the requirements for depository activities to technological developments in the financial market** to expand the

capabilities of the accounting infrastructure and its customers. Improved regulation in this area will ensure the synchronisation of information exchange between information system operators and accounting infrastructures and will provide necessary tools to the accounting infrastructure.

Objective 2. Improving infrastructure resilience

The Bank of Russia plans to develop requirements for the operational risk management system of the financial market infrastructure. This risk is the most significant one in the operation of infrastructures. The introduction of special regulation will contribute to the creation of an appropriate environment for the smooth operation of infrastructures.

Consolidated regulation and supervision of financial institutions

With the emergence of cross-sectoral associations of financial institutions in the Russian financial market, it becomes necessary to develop consolidated regulation and supervision of their activities in addition to regulation and supervision on an individual basis. This will help improve the quality of control over financial institutions' risks and ensure more reliable customer protection. Such regulation will be in line with both Russian and global⁶² experience in the regulation of associations of credit institutions (banking groups and bank holding companies).

The Bank of Russia will initiate the implementation of **regulation of financial associations**, including both bank and non-bank financial institutions (insurance companies, NPFs, brokers, exchanges, etc.). The unified cross-functional approach will make it possible to establish harmonised and proportionate requirements for financial associations' operation depending on the scale of their activities and the nature and size of the risks they accept.

⁶² For example, the US, the European Union, Australia, China.

SECTION 4. RISKS FOR THE DEVELOPMENT OF THE RUSSIAN FINANCIAL MARKET

When preparing and implementing the Program, the Bank of Russia takes into account internal and external factors that can have a significant impact on the financial market, the pace and scale of the currently observed changes and the prospects of its development in general. The Bank of Russia constantly monitors and assesses risks that might hinder the implementation of measures planned by the Bank of Russia and the Government of the Russian Federation or limit their effectiveness. The Bank of Russia and the Government of the Russian Federation take measures aimed at preventing the materialisation of risks; in the event of the materialisation of risks, they take measures to mitigate negative effects. However, some risks are predominantly exogenous, that is, they do not depend on the regulator's actions, but should be taken into account when implementing policy.

Epidemic situation

The uncertainty around the further development of the pandemic situation in the world is a significant source of risks for various spheres of society, changes in which can have a considerable and not always predictable impact on the development of the financial market. The pandemic and related restrictions are becoming an important factor affecting the development of the world economy, the formats of interaction between economic agents, the time horizons and the type of planning of their activities, strategies of businesses and investors, and consumer preferences. Such trends require continuous analysis to assess their potential impact on the development of the financial market and determine whether it is needed to adjust plans for its development.

Global macroeconomic and geopolitical factors

Trends in the world economy and economic policy involve significant macroeconomic risks. They are associated with a possible increase in inflationary pressure and effects of earlier monetary policy normalisation, aggravation of debt problems, especially in emerging market economies, high uncertainty about the prospects for global economic growth, as well as consequences of the tapering of anti-crisis measures by the governments and central banks of many countries. In case of materialisation, certain global macroeconomic risks can have a dramatic impact on the dynamics and development of the world economy and capital flows between countries, as well as the exchange rate given the openness of the Russian economy.

Due to the absence of global regulation limiting the use of modern monetary surrogates, such as bitcoins and stablecoins, in calculations, the risks of their further significant spread in the world might increase. Measures taken by individual countries might be insufficient to limit such risks within national economies due to the cross-border, extraterritorial nature of modern monetary surrogates.

Furthermore, geopolitical factors are exerting increasingly stronger pressure on international relations, which might complicate the implementation of a number of measures requiring close international cooperation, as well as create risks of changes in foreign investors' preferences and a higher volatility of capital flows.

Intensification of the ESG agenda in the world

Due to the accelerated implementation of ESG regulation in the world, the refocusing of global economic policy and financial markets towards sustainable development factors and Russia's lagging behind these global trends, the risks of lower competitiveness and investment attractiveness of the Russian economy and the financial market in the international arena might grow drastically. If this happens, it might become necessary to promptly adjust the development plans of the domestic

financial market towards an additional shift in priorities in favour of the accelerated implementation of the ESG agenda, with a potential cancellation or change in the timing of other measures, taking into account objective time and resource limits.

Deterioration of the competitive environment and growing technological inequality

Increasing concentration of businesses in the financial market, non-compliance with the principles of competitive neutrality, further nationalisation of the banking sector, as well as a potential decline in interest in the Russian financial market, and the exit of representatives of the world's largest financial groups from it might worsen the state of the competitive environment, which will create barriers to the impact of market forces on the development of the financial market.

Significant risks can be induced by delays in the development of new antimonopoly regulation meeting the new realities amid the rapid development of ecosystems, the entry of technology companies to the financial market, and the blurring of boundaries between the financial and non-financial markets. The lack of legal frameworks regulating new forms of doing business can affect the competitive environment and entail costs for consumers and providers of financial services, on the one hand, and hinder the development of innovative formats of activities in the financial market and the economy as a whole, on the other hand.

Furthermore, there are risks of an insufficient pace and ability to adapt the business models of certain groups of financial intermediaries to rapid changes in the financial market, influenced by economic, technological and social trends, and consumers' behaviour patterns and preferences. Their forced exit from the market may have a negative impact on trust in the financial market as a whole.

Interdepartmental cooperation

The Russian Financial Market Development Program is comprehensive and interconnected. Therefore, it is only possible to achieve the maximum effect if all parties concerned are engaged in the complex implementation of these measures. Any delays in drafting, consideration and adoption of legislative amendments, as well as in the implementation of other necessary multilateral measures might reduce the efficiency and pace of the implementation of plans for the development of the financial market, as well as decrease confidence of the market in the declared intentions.

Resources provided

Insufficient financing of the activities provided for by the Program, as well as market participants' deficit of resources to respond to the measures being implemented might slow down or hinder the implementation of the plans and the achievement of the expected results. In particular, insufficient financial support from the state for creating economic incentives aimed at developing long-term savings, including pension programmes, may significantly limit the potential for capital market development.

APPENDICES

APPENDIX 1. FINANCIAL MARKET DEVELOPMENT INDICATORS

The goals and areas for financial market development stipulated in Sections 1 and 3 hereof are set with account of the relevant objectives of social and economic development of the country, as well as current trends and challenges in the financial market. Simultaneous work in several areas of the development helps achieve each of the three goals. Table 2 schematically shows the interconnection between the goals and development areas. A set of complex aggregate indicators shown in Table 1 was developed to monitor progress towards the three goals of financial market development.

AGGREGATED INDICATORS FOR MONITORING OF THE STATE AND DEVELOPMENT OF THE FINANCIAL MARKET

Table 1

	Indicators	Current value	Expected dynamics
1	Composite index of public satisfaction with financial institutions' work, financial products (services) and financial service channels, points*	49.7 May 2021	Indicator growth
2	Digitalisation of financial services provided to individuals, %	70.5 2021 H1	Indicator growth
3	Digitalisation of financial services provided to legal entities, %	64.9 2021 H1	Indicator growth
4	Financial institutions' assets to GDP, %	126.6 As of 30 June 2021	Indicator growth
5	Assessment of the financial sector's stability presented in the regular Financial Stability Review of the Bank of Russia.		

* The survey will be carried out every three years.

Public satisfaction with financial institutions' work, financial products (services) and financial service channels, as estimated based on the survey (Indicator 1), reflects people's perception of the operation of the financial market and its institutions, and the level of confidence in them, which is influenced by financial results obtained by people when using capital market instruments, the quality of consumer protection, the level of financial literacy, and the accessibility of financial products and services, including via remote channels.

INTERCONNECTION OF GOALS (HORIZONTAL) AND AREAS OF FINANCIAL MARKET DEVELOPMENT (VERTICAL)

Table 2

	Goal 1. Strengthening the trust of retail consumers and investors in the financial market by improving its security, increasing financial literacy and enhancing the availability of financial services	Goal 2. Developing a modern financial market to satisfy the needs of the Russian economy for investments and efficient payment services	Goal 3. Ensuring financial stability, that is the smooth functioning of the financial market, including in conditions of stress
1. Improving the security of financial consumers and investors and increasing financial literacy			
2. Support of digitalisation			
3. Enhancement of financial inclusion for households and businesses			
4. Promotion of competition in the financial market			
5. Ensuring financial stability			
6. Expanding the contribution of the financial market to the achievement of sustainable development goals and ESG transformation of Russian business			
7. Development of long money (long-term financing)			
8. Development of the financial market sectors regulation			

– the area significantly contributes to goal achievement

– the area contributes to goal achievement

In turn, amid the digital transformation of the economy and all spheres of society, an important aspect of the development of the modern financial market is the digitalisation of financial and payment products and services for people and businesses, as reflected by Indicators 2 and 3, respectively. Digitalisation of the financial market is also important for the deployment of innovation in the real economy and for the use of new digital tools in business turnover.

The capability of the financial market to meet the needs of the economy also depends on its size, depth and financial services coverage of various areas of economic activity, which is frequently measured using the aggregate ratio of financial institutions' assets to GDP (Indicator 4). It is essential to take into account the assets of both credit and non-bank financial institutions, considering that the full range of basic financial services is important for the development of the economy and the satisfaction of people's and businesses' everyday needs.

The stability of financial institutions, infrastructure, and the financial market as a whole, as well as their ability to perform their functions smoothly, including under stress, are critical for systemic financial stability. The Bank of Russia assesses the financial sector's stability (the banking sector and the sector of non-bank financial institutions) on a regular basis and publishes the findings in the [Financial Stability Review](#) (Indicator 5) every six months.

This way, the Bank of Russia uses aggregate Indicators 1–4 to monitor changes in the financial market, specifically consumers' perception of financial services, the development of digital products and services, the depth of the financial market relative to the scale of the economy. An increase in Indicators 1–4 will reflect positive changes. The Bank of Russia carries out continuous monitoring of the financial sector's stability (Indicator 5). The Bank of Russia will analyse the factors influencing the dynamics of the indicators, explaining the reasons behind these changes.

The Bank of Russia considers these indicators as indicative and, therefore, does not set any quantitative targets for them. The financial market is a complicated and multifaceted system dynamically changing under the influence of both financial market participants' actions and a wide range of economic, technological and other factors that are beyond the direct control of the Bank of Russia and the Government of the Russian Federation. As the pace of changes is increasingly growing, the establishment of precise quantitative targets for particular indicators can adversely affect market development mechanisms, reducing the flexibility and adaptability of the regulator's policy and the responsiveness to new challenges or causing overheating and bubbles in the market. In this regard, the achievement of specific targets set for indicators without taking into account a wide range of fast-changing factors that significantly influence financial market development trends cannot be a criterion for the effectiveness of financial market development policy.

International experience also shows that even when quantitative indicators of financial market development are considered in medium-term and strategic documents, most financial market regulators do not usually set exact targets for these indicators and primarily use them for monitoring. Some regulators use qualitative indicators. Table 3 provides information on the regulators that publish strategic documents on financial market development (20 regulators)¹. All 20 strategic documents either set no quantitative indicators or do not consider them as mandatory key performance indicators. In the European Union, the regulator declares that key performance indicators are only applied for monitoring purposes. The US and Norwegian regulators' strategic documents do not disclose indicator targets, although their reports provide ex-post analysis of the dynamics of indicators around the targets.

Regulators do not consider a country's position in international development rankings as an indicator of national financial market development. Experts frequently use these indices to quickly assess the state of financial market development without looking deeper into their calculation procedure or the factors that may influence their dynamics. However, it is critical to take into account periodic changes in the index calculation methodology, the presence of subjective factors in the methodology, and the degree of its openness. Cross-country indices are universal, so they may take into account country factors and the development specifics of local financial markets not to the fullest extent. Furthermore, indices are released with a considerably time lag and might partly overlook rapid changes in the economy and financial markets, especially if they are exacerbated by macroeconomic shocks or drastic structural shifts. Therefore, the Bank of Russia takes into account the existence of such cross-country indices, but does not consider them as key indicators or the indicators of financial market development.

It is important to note that, along with Indicators 1–5 presented in Table 1, the Bank of Russia analyses a wide range of quantitative and qualitative indicators in order to monitor financial market development. Section 2 of the Program describing the current state of the financial market refers only to some of them. The Bank of Russia website publishes regular reviews that detail development trends in the financial market as a whole and its individual segments².

¹ A sample of 50 countries was analysed, including both developed and emerging market economies.

² [Banking Regulation \(information bulletin\)](#), [Review of the Non-governmental Pension Funds Market](#), [Review of the Russian Financial Sector and Financial Instruments](#), [Review of Key Indicators of Non-governmental Pension Funds](#), [Review of Key Indicators of Unit Investment Funds and Joint-stock Investment Funds](#), [Review of Key Indicators of Insurers](#), [Review of Key Indicators of Professional Securities Market Participants](#), [Review of Key Indicators of Microfinance Organisations](#), [Banking Sector \(analytical review\)](#), and [Financial Market Risks Review](#).

APPROACHES TO ASSESSING FINANCIAL MARKET DEVELOPMENT IN INTERNATIONAL PRACTICE*

Table 3

Country	Regulator's approach
Brazil, China, Estonia, France, Germany, Italy, Japan, the Netherlands, Portugal, Qatar, South Africa, Spain, Switzerland, UAE	Publish annual reports and thematic papers describing implemented measures and statistics.
United Kingdom	Carries out preliminary assessment of the regulatory impact of measures: expert analysis/field trials/surveys, as well as assessment of the results of implemented measures as part of specific publications on the website.
Australia	Does not refer to any indicators in strategic documents.** Published various reports and thematic papers describing implemented measures and statistics.
India	Monitors the quantitative indicator without setting a target value.
Norway, USA	Do not refer to any indicators in strategic documents. Reports describe measures and results on quantitative indicators broken down by objective and specifying target values.
European Union***	Specifies key performance indicators in the strategy that are treated as monitoring indicators. Sets no target values for 27 of 30 indicators, but specifies the desired dynamics of the indicators; determines target values only for 3 of 30 indicators.

* Only in 20 of the 50 countries mentioned in the table above, the regulators' strategic or medium-term documents on financial market development issues.

** Previously, Australia's Strategy specified qualitative key performance indicators for reference purposes as additional measures of the regulator's performance within the Australian Government's Regulator Performance Framework.

*** The Directorate-General for Financial Stability, Financial Services and Capital Markets Union (FISMA) is a department of the European Commission responsible for initiating, preparing and unifying changes in the regulation of financial markets in the European Union at the supranational level but not directly performing the regulator's functions.

INDICATOR CALCULATION METHODOLOGY

Table 4

	Indicator, measurement unit	Brief calculation methodology
1	Composite index of public satisfaction with financial institutions' work, financial products (services) and financial service channels, points	Calculated based on the findings of a survey commissioned by the Bank of Russia using statistical data analysis method. Index values range from 0 to 100 points, where 100 is the best value.
2	Digitalisation of financial services provided to individuals, %	The level of digitalisation of financial services provided to individuals is determined by surveying credit institutions, insurers, microfinance organisations, non-governmental pension funds, asset management companies, trust managers, and brokers. To calculate the indicator, a list of the services most frequently used by individuals was formed for each type of organisation.
3	Digitalisation of financial services provided to legal entities, %	The level of digitalisation of financial services provided to legal entities is determined by surveying credit institutions, insurers, microfinance organisations, non-governmental pension funds, asset management companies, trust managers, and brokers. To calculate the indicator, a list of the services most frequently used by legal entities was formed for each type of organisation.
4	Financial institutions' assets to GDP, %	The indicator is calculated as the ratio of the total of the banking sector's assets, insurers' assets, NPFs' and the PFR's investment portfolios, UIFs' net asset value, assets of professional participants – NFIs, assets serviced by brokers, assets in trust management, and microfinance organisations' core assets to annual GDP.
5	Assessment of the financial sector's stability will be regularly published by the Bank of Russia in its Financial Stability Review.	

APPENDIX 2. ON THE IMPLEMENTATION OF THE RUSSIAN FINANCIAL MARKET DEVELOPMENT PROGRAM FOR 2019–2021

The key measures planned in the Russian Financial Market Development Program for 2019–2021 are generally being implemented according to the schedule, although the Government of the Russian Federation and the Bank of Russia jointly with the legislative bodies need to develop and approve a broad package of anti-crisis measures due to the coronavirus pandemic.

The Russian Financial Market Development program for 2019–2021 comprise four areas of financial market development: (1) promotion of competition; (2) formation of an environment of trust; (3) maintaining financial stability; and (4) ensuring financial inclusion and access to capital. The most important steps for each of the areas are listed below. The implemented measures usually have an impact on more than one area of financial market development. Some measures are still in progress and will be completed in 2021. Conditions and trends, as well as quantitative and qualitative characteristics of financial market development in 2019–2021 are presented in Section 2 hereof and are not detailed in this Appendix.

Promotion of competition

- Work in this area was mainly based on the measures outlined in Section XIV ‘Financial Markets’ of the [Competition Development Roadmap of the Government of the Russian Federation for 2018–2020](#), in the framework of which:
 - the decision was made and implemented to switch to the use of credit ratings as the only criterion for selecting banks for depositing funds of the federal budget, state corporations, and government extra-budgetary funds and issuing certain types of bank guarantees;
 - federal laws on financial platforms were adopted¹;
 - a legal ban was imposed on bank roaming² – an increased fee for cross-regional transfers within one;
 - a restriction was established for referring to the relations between a financial company and the state as a factor of higher reliability for advertising purposes.
- A legislative framework was developed, and a new infrastructure project was launched: the financial Marketplace, which provides users with equal access to a wide range of financial services on a 24/7 basis regardless of their location, on the one hand, and expands the possibilities for attracting new customers for medium and small financial intermediaries, on the other hand.
- The Faster Payments System was launched enabling instant money transfers based on the telephone number on a 24/7 basis, as well as money transfers between individuals and payments for goods or works (services) to trade and service enterprises, including those using QR codes, and business-to-consumer transfers. FPS fees significantly reduced barriers for individuals wishing to change financial service providers.
- The Russian financial market became less dependent on the SWIFT system: the connection of foreign banks and legal entities to the Bank of Russia’s Financial Messaging System (FMS) (including using the developed method of connection via service bureaus) was ensured, provides its users with a safe and secure financial information exchange environment.

¹ Federal Law No. 211-FZ, dated 20 July 2020, ‘On Performing Financial Transactions Using a Financial Platform’ and Federal Law No. 212-FZ, dated 20 July 2020, ‘On Amending Certain Laws of the Russian Federation Regarding Financial Transactions Performed Using a Financial Platform’.

² Federal Law No. 434-FZ, dated 16 December 2019, ‘On Amending Article 29 of the Federal Law ‘On Banks and Banking Activities’.

- The Mir payment system continued to be improved. The issue of the national payment instrument – the Mir card – exceeded 32%, which proves its high competitiveness. The functionality of these cards also expanded due to the development of payment and non-financial services (Mir Pay payment application, loyalty programme (cashback service), resident cards based on the Mir payment system), as well as promotion abroad – Mir cards are accepted in 14 countries.
- In order to decrease the scale effect as a competitive advantage of large financial institutions, as well as to reduce barriers (costs) for financial intermediaries to attract new customers, a pilot project was launched to create and use the Digital Profile infrastructure. This enables financial institutions to receive 38 types of data on individuals necessary for providing financial services from state information systems.
- In order to reduce barriers for individuals choosing an optimal set of financial services in the financial market, a wide range of financial institutions now have the opportunity to receive all financial, state and other services remotely via the Unified Identification and Authentication System and the Unified Biometric System.
- Six recommendatory standards for open banking interfaces were published (general principles, information on accounts, payment initiation, obtaining public information on banks and their products, and two standards on information security) aimed at promoting conditions for equal access of financial service and platform providers to data available at financial institutions.
- The pricing system in CMTPL³ was improved to increase its value for customers: insurance rates are customised depending on drivers' specifics, and CMTPL policies may be purchased via remote channels. Furthermore, it became possible to terminate or amend CMTPL contracts remotely, including the return of part of the insurance premium.
- The following significant measures were implemented in 2021:
 - preparation, together with the FAS of Russia, of the new National Competition Development Plan⁴ and the related Competition Development Roadmap;
 - development of the approaches to regulating multi-service platforms – ecosystems and enhancing laws on data to reduce barriers hindering data circulation in the financial market;
 - adoption of a legal framework for creating and using the Digital Profile infrastructure;
 - ensuring access of foreign insurers' branches to the Russian market.

Formation of an environment of trust

A special contribution to the growth of confidence in the financial market was made by consumer protection measures, including improvement of legal regulation in the area of financial consumer protection, measures to enhance financial literacy among people and their readiness to use financial services, including remotely.

- Together with the Government of the Russian Federation and financial market participants, the [Strategy for the Improvement of Financial Literacy in the Russian Federation for 2017–2023](#) is being implemented. Such priority areas of work as digital, investment and cyber literacy, as well as the development of remote formats of interaction with target audiences are becoming increasingly important. Financial literacy was included in federal state educational standards for some levels of general and vocational education.
- The Financial Literacy Development Association began its work, the main objectives of which are the selection, support and scaling of private and public initiatives on financial literacy, as well as the development of the volunteer movement aimed at raising financial literacy.
- Work on standardisation and improvement of the quality of services provided by non-bank financial institutions was continued (since 2019, basic standards on the protection of

³ Federal Law No. 161-FZ, dated 25 May 2020, 'On Amending the Federal Law 'On Compulsory Third Party Liability Insurance of Vehicle Owners'.

⁴ Order of the Government of the Russian Federation No. 2424-r, dated 2 September 2021, 'On Approving the National Competition Development Plan (Roadmap) for 2021–2025'.

- financial consumers receiving services of forex dealers, insurance brokers, registrars, brokers, asset managers, as well as joint-stock investment funds and the management companies of investment funds, unit investment funds and non-governmental pension funds were approved).
- In order to protect retail investors, legislative authorities adopted the law and related SRO standards on mandatory testing (from 1 October 2021) for non-qualified investors before they purchasing complex financial products.
 - The use of capital market instruments by individuals expanded: currently, more than 13 million retail accounts are registered on the Moscow Exchange; during the period under review, the number of active accounts surged.
 - Individual investment accounts became a popular product; currently, there are about 4.4 million such accounts.
 - The Corporate Governance Code for public companies put on the first and second quotation lists of the Moscow Exchange was largely implemented; the Code is being implemented by the companies whose shares were admitted to on-exchange trading (were listed) at the Moscow Exchange without their inclusion in quotation lists (companies on the third-level list), which had a positive effect on the quality of corporate governance in public companies and increased their efficiency and attractiveness for investors.
 - Financial resolution in the Russian financial sector continued, promoting the reliability of operating institutions, clients' confidence in them, and prerequisites for shifting towards the regulation of the market of high-quality financial services provided by bona fide participants.
 - Removal of unfair participants from the financial market contributes to the formation of an environment of trust. For example, from the beginning of 2019 to 1 October 2021, about 5,800 entities having signs of illegal activity were detected in the financial market, including more than 880 with signs of financial pyramids, in relation to which the relevant materials were submitted to law enforcement agencies⁵. In order to prevent consumers' losses, the Bank of Russia began to publish the [list of detected companies having signs of illicit activity in the financial market](#) on its website.
 - To form an environment of trust in the financial market, the Bank of Russia applied and improved tools of conduct supervision, including both the analysis of financial institutions' internal processes and the system for their relations with consumers. Furthermore, the focus is increasingly shifting towards the expansion of the preventive component of supervision aimed at preventing fraudulent actions and promoting the improvement of the quality of interaction between financial service providers and their customers. In particular, in 2021:
 - The Bank of Russia issued recommendations on the procedure for informing individuals when selling complex financial instruments. It was legally stipulated that financial institutions are obliged to inform clients about the conditions for purchasing financial products and services and their inherent risks. These measures are aimed against unfair sales practices – that is, misselling and hard selling of extra services reducing consumers' confidence in individual instruments and the financial market as a whole;
 - core standards for protecting NPF customers' rights were approved;
 - The Bank of Russia created extensive content on the Financial Culture website ([fincult.info](#))⁶ regarding the use of financial instruments and the choice of financial intermediaries, and also started to provide extensive and easy-to-understand information online about the work of the financial market.

⁵ Information on detected signs of illegal activity is submitted by the Bank of Russia to the authorities authorised to suppress illegal activity. Based on the results of consideration of the Bank of Russia's materials, competent authorities initiate and implement appropriate measures against the entities having signs of illegal activity, including those aimed at removing such entities from the market.

⁶ The website Financial Culture ([fincult.info](#)) – the Bank of Russia's financial literacy website.

- The Bank of Russia especially focuses on handling financial consumers' complaints. During the 2020 economic crisis induced by the pandemic, people more often applied to the Bank of Russia for clarifications, including on issues related to anti-crisis support measures. As a result of extensive supervisory work, as well as the initiatives aimed at regulating the work of the financial sector, the number of complaints received by the Bank of Russia in 2021 decreased to the pre-pandemic level. During the first ten months of 2021, the Bank of Russia received about 205,000 complaints, which is 12.4% less than over the same period in 2020, when there was a surge in complaints, and 0.6% less than over the same period in 2019, despite the active growth of the financial sector over 2021 Q1–Q3.

Maintaining financial stability

The Russian financial system demonstrated its resilience during the crisis caused by the pandemic and provided support to the economy and households in challenging conditions.

- The system of stress testing models for banks' individual stress tests and the banking sector's comprehensive stress test was improved.
- Regulatory approaches were introduced that are compliant with the documents of the Basel Committee on Banking Supervision, including the Basel III standard.
- A new approach was developed and implemented to assess insurers' financial stability and solvency that takes into account the risk of changes in the value of assets when capital adequacy is determined.

Work to implement the following important measures was carried out in 2021:

- harmonisation of legislative requirements for the organisation of risk management, internal control and audit in non-bank financial institutions;
- approval of the requirement⁷ for banks with a universal licence to calculate a counterparty's credit risk for derivatives in accordance with the standardised approach of the Basel Committee on Banking Supervision;
- development of the methodology and conducting cyber trainings in organisations supervised by the Bank of Russia, taking into account the risk-based approach in the supervision of information security;
- instruments of macroprudential regulation of the financial sector are used to ensure financial stability, taking into account the impact of the pandemic on the economy.

Ensuring financial inclusion and access to capital

Physical and territorial barriers to the provision of financial services were significantly reduced. The volume of non-cash payments surged, which was promoted by, among other things, an increase in online sales of non-financial products and services and the expanded coverage of trade and service organisations with electronic terminals (POS terminals). Remote channels for receiving financial services became widespread, including not only payment services, but also services in lending (including mortgage), insurance, investment, and others⁸.

- During the first wave of the pandemic, the Government of the Russian Federation and the Bank of Russia used a number of financial and regulatory measures encouraging the financial sector to restructure loans and expand lending to SMEs.
- A system of incentive measures was developed and implemented to enable SMEs to enter the stock market.
- The securities issue procedure was simplified. It became possible to register securities issues of securities in electronic form. The questions of issuing perpetual bonds, convertible securities, green, social and infrastructure bonds were settled. In addition to the previously implemented

⁷ Bank of Russia Regulation No. 754-P, effective from 1 October 2021.

⁸ Financial inclusion is greatly promoted by measures detailed in the Competition section of this Appendix.

measures for the development of the bond market, its operation was efficient despite the pandemic, and issuers were able to increase borrowing – over 2020 alone, the bond market expanded by nearly a quarter. According to the amendments to the Securities Issue Standards, effective from 23 November 2021, green bonds may be labelled as green in accordance with not only international principles, but also the Russian taxonomy.

- It became possible to receive the entire range of insurance services in a digital format, including to conclude voluntary insurance contracts in electronic form and use mobile applications for this purpose.

Implementation of the following significant measures is underway in 2021:

- implementation of the [Roadmap for the Development of Funding for Small- and Medium-sized Enterprises \(SMEs\) in 2021–2022](#) (the roadmap for 2019–2020 was implemented);
- implementation of the Action Plan (Roadmap) for 2021 to Enhance Financial Inclusion in Rural Localities and Remote, Sparsely Populated and Hard-to-reach Areas;
- implementation of the [Action Plan \(Roadmap\) to Enhance Financial Inclusion for People with Disabilities, Physically Challenged and Elderly People in 2020–2021](#) (after the implementation of the 2017–2019 roadmap is accomplished).

The Russian Financial Market Development Program for 2019–2021 provide for 17 indicators assessing the progress and effectiveness of the measures aimed at developing the financial market. The dynamics of these indicators will be analysed based on the results of the period under review. Considering that a number of indicators are calculated on an annual basis and released with a significant time lag, it would be unreasonable to include the interim analysis of these indicators in this Appendix.

Due to considerable changes in the conditions of the functioning of the financial market and the economy as a whole in 2020 and 2021 caused by the pandemic, the actual values of the indicators may significantly deviate from the targets whether upwards or downwards. For example, due to the restrictions, there was a surge in the number of individuals' applications to the Bank of Russia, and their nature changed; moreover, customers' attitude towards financial institutions also changed. Considering the significant influence of exogenous factors, the indicators formed in 2019 can reflect the financial market development results in the period under review not to the fullest extent. When summing up the results of the implementation of the Russian Financial Market Development Program for 2019–2021 and calculating the final values of the target indicators, the Bank of Russia will present the analysis of the dynamics of the values of the target indicators over the period under review and the factors that impacted them.

APPENDIX 3. DOCUMENTS ON THE FINANCIAL MARKET DEVELOPMENT REFERRED TO IN THE TEXT

Strategic and medium-term documents

1. [Strategy for the Improvement of Financial Literacy in the Russian Federation for 2017–2023](#) (2017)
2. [Audit Development Concept until 2024](#) (2020)
3. [National Payment System Development Strategy for 2021–2023](#) (2021)
4. [SupTech and RegTech Development Guidelines for 2021–2023](#) (2021)
5. [Financial Inclusion Priorities for Russia in 2022–2024 \(draft\)](#) (2021)
6. National Competition Development Plan and Competition Development Roadmap (2021)
7. [Financial Market Digitalisation Guidelines for 2022–2024 \(draft\)](#) (2021)
8. Roadmap for Allocating Available Funds for Investment Projects (approved by the Government of the Russian Federation and the Bank of Russia) (2020)
9. [Competition Development Roadmap of the Government of the Russian Federation for 2018–2020](#) (2018)
10. [Bank of Russia Action Plan \(Roadmap\) for 2021–2022 for Refining the Calculation of Debt-to-income Ratios and for Organising the Regulation of the Application by Financial Institutions of an Individual Borrower’s DTI Ratio](#) (2021)
11. [Roadmap for Amending Laws on Credit Cooperatives for 2021–2024](#) (2021)
12. [Roadmap for the Development of Funding for Small- and Medium-sized Enterprises \(SMEs\) in 2021–2022](#) (2021)
13. Action Plan (Roadmap) for 2021 to Enhance Financial Inclusion in Rural Localities and Remote, Sparsely Populated and Hard-to-reach Areas (2020)
14. [Action Plan \(Roadmap\) to Enhance Financial Inclusion for People with Disabilities, Physically Challenged and Elderly People in 2020–2021](#) (2020)

Consultation papers

15. [Concept for the Implementation of a Risk-based Approach to Insurance Regulation in the Russian Federation](#) (2017)
16. [A Digital Ruble](#) (2020)
17. [Digital Ruble Concept](#) (2021)
18. [Combining Activity Types in the Financial Market](#) (2021)
19. [Regulation of Risks of Banks’ Participation in Ecosystems and Investment in Immobilised Assets](#) (2021)
20. [The Concept of General Regulation of the Activities of Groups of Companies Developing Various Digital Services Based on One Ecosystem](#) (2021)
21. [Ecosystems: Regulatory Approaches](#) (2021)
22. [Current Situation in the Prescribed Insurance Segment of the Russian Insurance Market](#) (2021)
23. [Regulation of Risks Related to a Potential Wide Use of Variable Interest Rates in Mortgage Lending](#) (2021)

International documents

24. [The Paris Agreement](#) (2015)
25. [UN General Assembly Resolution on the 2030 Agenda for Sustainable Development](#) (2015)

GLOSSARY

CLIMATE RISKS

Risks associated with the impact of climate change, as well as measures aimed at preventing humans' negative impact on climate (taken by the governments and the regulators of the countries that have signed the Paris Agreement) which may adversely influence society's activities. They include physical and climate transition risks.

CLIMATE TRANSITION RISKS

Risks associated with the transition to a low-carbon economy, including measures taken by the governments and regulators of the countries who signed the Paris Agreement to prevent climate change, which are grouped into political, legal, technological, market and reputational risks.

CLOSED PLATFORM

A platform that is accessible to participants based on non-public criteria.

COMPETITIVE NEUTRALITY

The principle of competition policy which involves creating equal conditions for doing business for state-owned (primarily federal-level) companies and their private competitors.

CONDUCT SUPERVISION

The Bank of Russia's activities aimed at preventing, detecting and eliminating violations of financial consumers' rights.

The perimeter of conduct supervision (the sphere of control over compliance with the standards governing the relations between a financial institution and its clients or establishing requirements for financial product parameters) is formed considering the key issues raised by financial consumers in complaints received by the Bank of Russia and is constantly expanding as new problems in the financial market arise involving the risks of violations of financial consumers' rights, including taking into account international best practices in this area.

The goals of the Bank of Russia's conduct supervision are as follows:

- ensuring that financial consumers' rights and legitimate interests are respected;
- better accessibility and quality of financial services;
- increasing financial consumers' confidence in financial market participants, financial products and services offered by them;
- mitigating the risks of violations of financial consumers' rights, and effective risk management, including by strengthening the preventive component of supervision.

CORPORATE GOVERNANCE

A concept covering the system of relationships between the executive bodies of a joint-stock company, its board of directors, shareholders, and other stakeholders. Corporate governance is a tool for determining the company's goals and means for achieving these goals, as well as for ensuring effective control over the company's activities by its shareholders and other stakeholders.

CROWDFUNDING

A type of alternative investment when investors provide small amounts of funding to early-stage projects via investment platforms.

CYBER RANGE

An environment emulating a financial institution's structure where professional can learn how to detect and respond to cyber attacks.

CYBERSECURITY TRAININGS

An element of stress testing in the course of supervision intended to assess the reliability of operational risk management indicators with regard to information security and operational reliability risks and potential maximum possible losses (financial, temporary) when participants in cybersecurity trainings learn to counteract cyberattacks in the simulation mode.

DIGITAL FINANCIAL ASSETS

Digital rights, including monetary claims, the ability to exercise rights related to issue-grade securities, the right to hold stakes in a non-public joint-stock company's equity, the right to demand the transfer of issue-grade securities which are provided for by the decision on the issue of digital financial assets, the issue, accounting and circulation of which are possible only by making (changing) entries in an information system based on a distributed ledger, as well as in other information systems.

DIGITAL PROFILE

Infrastructure based of the Unified System of Identification and Authentication and designed for organisations to obtain reliable information from state databases upon citizens' consent that organisations need to provide services.

DIGITAL RUBLE

A digital form of the Russian national currency that the Bank of Russia plans to issue in addition to the existing forms of money.

ECOSYSTEM (DIGITAL ECOSYSTEM)

A set of services, including platform solutions, of one group of companies or a company and its partners enabling users to receive a wide range of products and services within a single seamless integrated process. An ecosystem can comprise open and closed platforms. The range of services offered by the ecosystem meets the major part of clients' everyday needs or is built around one or more of clients' basic needs (ecosystems at the initial stage of their development or niche ecosystems).

ENHANCED UNQUALIFIED ELECTRONIC SIGNATURE

An enhanced unqualified electronic signature the verification key certificate of which was created and is used in the infrastructure ensuring information and technological communication between information systems used to provide state and municipal services in electronic form in accordance with the procedure established by the Government of the Russian Federation.

EXPERIMENTAL LEGAL REGIMES

Application of special regulations in the development, testing and implementation of digital innovations in relation to participants in the experimental legal regime during a certain period.

ESG FACTORS

Environmental, social and corporate governance factors that companies and institutions of all types of ownership observe in their operation, and that institutional investors and financing organisations take into account in their investment strategies and lending policies.

FASTER PAYMENTS SYSTEM

The Bank of Russia's system enabling instant transfers on a 24/7/365 basis using simple and convenient identifiers of the payee (e.g. the payee's phone number) when money is transferred to an individual.

FIDUCIARY LIABILITY

A financial institution's fiduciary liability is liability for its failure to fulfil or improper fulfilment of its obligation to act reasonably and in good faith in clients' best interests, taking all necessary and sufficient measures to fulfil its obligations to clients in the best possible manner.

FINANCIAL MARKET

The system of economic and legal relations associated with the use of money as a store of value and a means of payment, and the circulation of financial instruments; it also denotes the cultural and business environment in which financial market participants operate.

MACROPRUDENTIAL POLICY

Economic policies of central banks (or macroprudential regulators in some countries) aimed at ensuring financial stability.

MASTERCHAIN PLATFORM

A peer-to-peer network with managed access whose nodes interact based on a modification of the Ethereum protocol. Masterchain provides for safe record information in a distributed ledger, with copies in every node of the network.

MISCONDUCT

Improper conduct of financial institutions, which in each particular case may involve several types of unfair practices at once.

MISPRICING

Non-transparent pricing. Misleading about the amount of fees / value / fair value of a financial product / service.

MISSELLING

The sale of a financial product service through its misrepresentation. Offering one financial product / service under the guise of another financial product / service.

OPEN API

Publicly available application programming interfaces (APIs) that provide developers with programmatic access to financial data in financial services.

OPEN BANKING

A concept that involves the use of open APIs to enable third parties, upon a client's consent, to request, receive and analyse the client's banking data and integrate various applications and platforms, thereby improving the quality of services provided to clients and expanding the range of products and services offered to individuals and businesses.

OPEN PLATFORM (MARKETPLACE)

A platform that is accessible to participants based on public criteria disclosed by the platform.

PARIS AGREEMENT

The international agreement adopted on 12 December 2015 the main goal of which is to keep the global average temperature increase under control; this involves the economic and social transformation of the countries that joined the agreement.

PASSIVE INVESTMENT STRATEGY

An investment strategy where a portfolio of securities and other investment instruments tracks the underlying index.

PAYMENT-TO-INCOME RATIO

The ratio of the total amount of average monthly payments on all loans of a borrower, including the possible loan under the lender's consideration, to the borrower's average monthly income calculated in accordance with Bank of Russia regulations.

PHYSICAL CLIMATE RISKS

Risks associated with natural phenomena occurring as a result of climate change. Physical climate risks are grouped into emergency risks associated with sudden events and systemic risks related to long-term changes in climatic characteristics and conditions.

PLATFORM (DIGITAL PLATFORM)

An online information system enabling the platform participants to communicate, create and share values.

SMART CONTRACT

A digital contract providing for automation of execution, control and accounting of legally significant actions and events within IT systems.

SOCIAL ENGINEERING

Obtaining unauthorised access to information or electronic payment instruments or persuading owners to transfer funds on their own in order to steal the money by deceit or abuse of trust.

STAKEHOLDERS

State authorities, local authorities, public law institutions, legal entities and individuals who may be interested in a company's performance and value creation, and/or may have a significant influence on the company's operation, products and services, or whose decisions or actions may influence the company's ability to create value, successfully implement its strategies and achieve its goals, as well as individuals and legal entities who are influenced by the company.

STRESS TESTING

Investigation of changes in the properties of a system or object under non-standard (stress) conditions. In the case of a financial institution, stress testing is the evaluation of its financial position under a severe but plausible scenario.

SUSTAINABLE DEVELOPMENT

Development meeting the needs of the present without jeopardising future generations' ability to meet their own needs. A conceptual three-dimensional development model that ensures the world system's simultaneous progress in three key areas: economic, social and environmental.

SUSTAINABLE DEVELOPMENT GOALS

The list of goals set forth in the 2030 Agenda for Sustainable Development approved by the relevant resolution of the United Nations General Assembly on 25 September 2015.

UNIFIED BIOMETRIC SYSTEM

A unified information system of personal data that ensures the processing of biometric personal data, including their collection, storage and verification, as well as the transmission of information on the degree of matching with the biometric personal data provided by an individual for identification and authentication purposes.

UTILITY DIGITAL RIGHTS

Digital rights to demand the transfer of things, exclusive rights to the results of intellectual activity, the rights to use intellectual property, performance of work and provision of services that can be purchased, sold and exercised on an investment platform.

LIST OF ABBREVIATIONS

- AML/CFT** – anti-money laundering and countering the financing of terrorism
- API** – Application Programming Interface
- BCBS** – Basel Committee on Banking Supervision
- CCC** – consumer credit cooperative
- CCP** – central counterparty
- CMTPLI** – compulsory motor third-party liability insurance
- DFA** – digital financial assets
- DIA** – State Corporation Deposit Insurance Agency
- DTI** – debt-to-income ratio
- ELR** – experimental legal regimes
- ENES** – enhanced non-qualified electronic signature
- EQES** – enhanced qualified electronic signature
- ESG** – environmental, social and governance (environmental, social and corporate governance factors)
- FAS** – Federal Antimonopoly Service of Russia
- FBS of Russia** – Federal Bailiffs Service of the Russian Federation
- FinCoNet** – International Financial Consumer Protection Organisation
- FPS** – Faster Payments System
- IEIS** – interdepartmental electronic interaction system
- IIA** – individual investment account
- IOSCO** – International Organization of Securities Commissions
- IOSCO EMMoU** – International Organisation of Securities Commissions Enhanced Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information
- IPO** – initial public offering
- IPPA** – investment protection and promotion agreement
- IRB** – internal ratings-based approach
- KID** – key information document
- KYC** – Know Your Customer
- MFO** – microfinance organisation
- ML/FT** – money laundering and the financing of terrorism
- MPI** – mandatory pension insurance
- MST** – macroprudential stress testing
- NFI** – non-bank financial institution
- NPCS** – National Payment Card System
- NPF** – non-governmental pension fund

- NPO** – non-governmental pension provision
- OECD** – Organisation for Economic Cooperation and Development
- OFZ** – federal government bonds
- PFR** – Pension Fund of Russia
- RegTech** – regulatory technology
- SICI** – systemically important credit institution
- SIS HUS** – State Information System of Housing and Utility Services
- SME** – small- and medium-sized enterprise
- SPO** – secondary public offering
- SRO** – self-regulatory organisation
- SST** – supervisory stress testing
- SupTech** – supervisory technology
- TCC** – total cost of credit (consumer loan)
- UBS** – Unified Biometric System
- UDR** – utility digital rights
- UIF** – unit investment fund
- UPPS** – Unified Portal of Public and Municipal Services (Functions)
- USIA** – Unified System of Identification and Authentication

