



**Bank of Russia**

The Central Bank of the Russian Federation



# **GUIDELINES FOR THE DEVELOPMENT**

of the Russian Financial Market  
in 2016–2018

Moscow

Approved by the Board of Directors of the Bank of Russia on May, 2016

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## INTRODUCTION

Development of the financial market of the Russian Federation is one of the priorities of the Bank of Russia activities. The efficient functioning of the financial market contributes to national economic growth and higher living standards of the population. A developed financial market ensures the workability of monetary policy transmission mechanism and, consequently, determines the effectiveness of the Bank of Russia measures aimed at achieving inflation targets.

Access to financial market instruments, primarily, debt and equity financing and insurance of risks for enterprises and organisations across all sectors of the economy is indispensable for economic growth. The closure of many external financing sources and decline in commodity prices increasingly re-focus attention on the internal sources of funding. As a result, the task of stimulating domestic investment and creating favourable conditions for investment activity in the financial market comes to the fore.

The Bank of Russia pays special attention to the predictability, clarity, and information transparency of its activities and, specifically, achieves this goal through the publication of the Guidelines for the Development of the Russian Financial Market in 2016–2018. The release of the document once every three years is stipulated by the Federal law 'On the Central Bank of the Russian Federation (Bank of Russia)'.

At present, separate development strategies have been approved and are in effect for several sectors of the Russian financial market. The Government of the Russian Federation has approved the Russian Financial Market Development Strategy until 2020, the Russian Insurance Activity Development Strategy until 2020, and the Russian Pension System Long-term Development Strategy. The Bank of Russia has adopted the National Payment System Development Strategy. Until 2015, the banking sector was guided by the Russian Banking Sector Development Strategy until 2015 adopted by the Government of the Russian Federation and the Bank of Russia. The Guidelines for the Development of the Russian Financial Market in 2016–2018 take into account the vector of development shaped by the listed documents, as adjusted for changes in the external and internal environment that have evolved since the adoption of the above-mentioned documents.

To assess the effectiveness of measures envisaged by the Guidelines for the Development of the Russian Financial Market in 2016–2018, this document contains development targets and methodology to calculate them. However, the global trend suggests the narrowing of a macroeconomic forecasting horizon, as well as the opting for assessing the extent of advance in implementing strategic objectives rather than for quantitative indicators of the financial market development. In 2016–2018, the Bank of Russia will continue working on the qualitative model for forecasting the development of the financial market, as a whole, and its individual segments. In addition, in order to lay the foundations for the long-term sustainable development of the Russian financial market, the Bank of Russia shifts the emphasis to the increase in the degree of satisfaction of financial consumers from the previously used indicators of the total growth of financial services consumption. In the short term, the introduction of such an approach may be accompanied by a decline in demand for existing financial products, which will be progressively replaced by other products with better consumer properties. This approach will eventually ensure the growth of consumer confidence in the financial market and will boost the financial industry.

As the single financial market regulator, the Bank of Russia has for the first time prepared a cross-sectoral document outlining its measures designed for the development of all financial market segments over the mid-term horizon. For this purpose, the document identifies the following key parties concerned about the development of the Russian financial market:

- Russian households who should have access to a wide range of easily understandable financial products and services, capable of improving their living standards;

- the Russian economy whose growth will be supported by a developed financial market satisfying the need for capital and enabling the effective reallocation of financial resources and risk management;
- financial industry as a full-fledged sector of the Russian economy that can outperform average sectoral indicators by generating an attractive return on equity, and supporting the diversification of the Russian economy.

The Bank of Russia singles out three priorities for the development of the Russian financial market over the planned period reflecting the above stockholders' concerns about the financial market progress and taking into account current economic and geopolitical conditions:

**1. Raising the living standards and quality of life of the Russian population through the use of financial market instruments.** The strategic goal of the Russian state authorities is to achieve the level of economic and social development corresponding to the country's status as a leading world economic power, which shall be in the forefront of the global economic competition, being able to ensure national security and protect the constitutional rights of its citizens. The attainment of important socioeconomic objectives necessitates the development of the financial market in order to improve the accessibility and quality of financial services and, consequently, to raise living standards for the population.

**2. Facilitating economic growth through competitive access of Russian economic agents to debt and equity financing and risk hedging instruments.** Supplying the economy with resources implies the creation of competitive conditions for meeting the equity and debt financing needs of companies at various stages of their life cycle—from start-up to their transformation into public companies. The gradual bridging of the gap between the capabilities of the financial market and the needs of the economy shall be achieved by improving access to resources that specifically depends on the quality of competitive environment, inflation level, availability of relevant infrastructure and financial market intermediaries, and the installing of regulatory and legal conditions required for the emergence of special-purpose financial instruments, including risks hedging ones. The cost of financing can be reduced by labour productivity growth in the financial sector both on account of the introduction of cutting-edge information technologies and the outsourcing of certain components of operational activity, that are currently performed by companies on their own, which is partly dictated by regulatory requirements. The elimination of excessive regulatory burden, development of risk assessment infrastructure, which includes higher quality and better accessibility of information to be analysed along with the refinement of dispute resolution mechanisms, will all contribute to reducing the costs of financial intermediaries.

**3. Creating conditions for financial sector growth.** Installing stimulating conditions for the further advancement of the financial sector will help create new jobs, increase tax revenue, boost demand for innovation, and also assist in diversifying the Russian economy and improving the efficient utilisation of available financial resources. The resources utilisation efficiency depends on the maturity of financial intermediation and reflects the financial sector's ability to accumulate funds, channel savings into investment, and secure maximum return on allocated resources in terms of long-term economic growth. Moreover, the goal of creating environment conducive to the financial sector advancement, once achieved, will ensure the financial independence of the Russian economy.

The Russian financial market will be able to reach these development goals only on condition of its own stable operation. The stability of the financial market of the Russian Federation shall mean the smooth performance of its financial functions, and the minimisation of the negative impact of shocks on the economy. Infrastructure, the quality of regulation and supervision over financial intermediaries, and the availability of tools that the Bank of Russia can use to influence market processes in order to prevent and limit the consequences of external and internal shocks—they all produce a significant impact on financial stability. At the same time, the Bank of Russia's efforts to support financial stability mitigate investment risks and financial market transactional risks, which help market participants build up the volume of trade and, as a result, advance financial inclusion and return on equity.

To achieve the above goals, the Bank of Russia has outlined several measures to be implemented in the medium term (in 2016–2018) and, partly, over the longer-term horizon. These measures are grouped into the following ten basic areas of the financial market development:

- Financial consumer protection and financial literacy of the population of the Russian Federation;
- Improving financial inclusion for households and small and medium-sized businesses;
- Discouraging malpractice in the financial market;
- Enhancing investor appeal for the equity financing of public companies via improved corporate governance;
- Development of the bond market and syndicated lending market;
- Improvement of the financial market regulation, including the use of proportional regulation and optimisation of regulatory burden on financial market participants;
- Advanced training for professionals working in the financial market;
- Incentives to electronic interaction mechanisms in the financial market;
- International cooperation for the development and implementation of rules regulating the global financial market;
- Improvement of tools ensuring financial market stability.

In order to implement measures comprising the Guidelines for the Development of the Russian Financial Market in 2016–2018, the Bank of Russia, jointly with the Government of the Russian Federation, will prepare an action plan (road map) for the medium-term development of the Russian financial market. Moreover, to provide more detail on the measures envisioned by this document, the Bank of Russia will develop road maps and publish them on its web-site. These road maps will include detailed activities and objectives of the Bank of Russia for each calendar year.

The implementation of measures foreseen by the said areas of development will, to different degrees, help achieve all and each announced goals. For example, the realisation of measures under a specific development area may significantly influence the achievement of one or several goals and may have an indirect impact on the achievement of others. Besides, this document suggests a certain ranking of the goals corresponding to the order of their enumeration, therefore the first goal is of higher priority compared to the second and third ones, and the second goal ranks higher than the third one. In an effort to disclose the characteristic features of development in various segments of the financial market, the document has a separate section describing characteristic features of the development of each of the segments.

The level of trust among participants is a qualitative indicator of a stable financial market. The confidence in the financial market is also mainly determined by the level of macroeconomic and financial stability. Therefore, a priority task for the Bank of Russia is to maintain this stability. Measures to enhance financial stability primarily require creating conditions for the smooth operation of the financial market as a whole and introducing an effective system for preventing and minimising the consequences of its high volatility. Consequently, for the purpose of ensuring and maintaining stability in the domestic financial market, the Bank of Russia will continue to implement measures aimed at preventing financial threats and minimising the potential emergence of financial instability, as well as elaborating and introducing tools to respond to evolving instability. Besides, measures to foster the internal investor base, attract new foreign investors to the Russian financial market, including from Asian regions, and ensure the presence of investors with differing investment profile and strategy in the Russian financial market are also vital for bringing down fluctuations in the financial market. The latter factor will also help reduce financial market volatility and the probability of one-way bias.

The Bank of Russia believes it necessary to develop an optimal set of requirements for market participants in order to raise the efficiency of the use of capital in the financial sector and at the same time to provide for full-scale assessment and mitigation of risks inherent in the activity of financial institutions, including with account of stress scenarios. The Bank of Russia pays special attention to the issues of smooth and efficient operation of financial market infrastructures and significant payment systems. In this

### Goals and key areas of the Russian financial market development in 2016-2018

Goals  Key areas of development	Raising the living standards and quality of life of the Russian population through the use of financial market instruments	Facilitating economic growth through the competitive access of Russian economic agents to debt and equity financing and risk hedging instruments	Creating conditions for financial sector growth
Financial consumer protection and financial literacy of the population of the Russian Federation	Directly influences implementation of the strategic goal	Slightly influences implementation of the strategic goal	Directly influences implementation of the strategic goal
Improving financial inclusion for households and small and medium-sized businesses	Directly influences implementation of the strategic goal	Directly influences implementation of the strategic goal	Influences implementation of the strategic goal
Discouraging malpractice in the financial market	Influences implementation of the strategic goal	Directly influences implementation of the strategic goal	Influences implementation of the strategic goal
Enhancing investor appeal for the equity financing of public companies via improved corporate governance	Slightly influences implementation of the strategic goal	Directly influences implementation of the strategic goal	Influences implementation of the strategic goal
Development of the bond market and syndicated lending market	Slightly influences implementation of the strategic goal	Directly influences implementation of the strategic goal	Influences implementation of the strategic goal
Improvement of the financial market regulation, including the use of proportional regulation and optimisation of regulatory burden on financial market participants	Slightly influences implementation of the strategic goal	Influences implementation of the strategic goal	Directly influences implementation of the strategic goal
Advanced training for professionals working in the financial market	Slightly influences implementation of the strategic goal	Slightly influences implementation of the strategic goal	Directly influences implementation of the strategic goal
Incentives to electronic interaction mechanisms in the financial market	Influences implementation of the strategic goal	Influences implementation of the strategic goal	Directly influences implementation of the strategic goal
International cooperation for the development and implementation of rules regulating the global financial market	Slightly influences implementation of the strategic goal	Influences implementation of the strategic goal	Directly influences implementation of the strategic goal
Improvement of tools ensuring financial market stability	Directly influences implementation of the strategic goal	Directly influences implementation of the strategic goal	Directly influences implementation of the strategic goal

 Slightly influences implementation of the strategic goal

 Influences implementation of the strategic goal

 Directly influences implementation of the strategic goal

context, efforts will be continued in the planned period to prevent systemic risks and develop the tool kit to minimise their potential negative aftereffects.

To solve the task of raising the financial and operational sustainability of financial intermediaries, the Bank of Russia will carry out comprehensive work in a number of areas, including an early bankruptcy prevention system and a mechanism for the controlled exit of distressed companies from the financial market. The application of internationally accepted principles and standards for regulating the activity of financial intermediaries will give way to a wide range of operations in the international financial market on a non-discriminatory basis. Moreover, the central bank intends to develop various types and instruments of risk hedging.

The Bank of Russia is also planning to implement more measures to refine the principles of corporate governance and to introduce them in the practice of public companies. This will raise the efficiency of enterprises and the attractiveness of the domestic financial market to both internal and external investors. In the mid-term perspective, this will stimulate interest of both investors and issuers in using capital market instruments.

The development of the banking sector during the planned period shall ensure lending and economic development notwithstanding complicated macroeconomic conditions. This will primarily concern the export segments of the economy as well as export-oriented enterprises in the real sector, import-substitution programmes, modern infrastructure, small and medium-sized businesses, housing construction, and mortgage lending. The Bank of Russia will continue pursuing its policy aimed at the protection of the depositors and creditors of credit institutions, among other things, by implementing modern international standards and practices related to financial risk management, internal control systems, and banking regulation and supervision. One important goal is to raise the level of competition in the banking sector and improve the competitiveness of Russian banks from the perspective of risk management, business-model effectiveness, and capital adequacy and quality. Steps taken by the Bank of Russia will increase confidence in the banking system and improve its reliability for depositors and creditors, and also the efficient channelling of funds raised by banks into loans and other banking services using the most advanced information technologies.

A set of measures need to be implemented in the Russian financial market in the medium term to support the development of pension and life insurance segments as sources of long-term financing together with improving processes for the management of interest rate, foreign exchange and liquidity risks. This task may be assisted, *inter alia*, by the advancement of the bond market as a priority segment of financial market whose progress is vital for the performance of the Bank of Russia refinancing system, development of the futures market, stability of the money market, and the investment results of non-governmental pension and life insurance systems. The evolution of this segment in the planned period should resolve the problem of market under-supply in the financial system. Besides, the bond market development will create attractive conditions for the migration of large corporate borrowers to the bond securities market, thus facilitating release of credit institutions' capital. In this way, the banking sector will be able to scale up lending to those borrowers who cannot access the bond market—that is, small and medium-sized enterprises.

During the planned period, the Bank of Russia intends to significantly refine the rules governing the trust management sector by adopting elements of fiduciary liability and professional judgment in the assessment of the activities of company managers and individual managers. The development of this approach will not only help eliminate a significant portion of investment restrictions on the management of pension savings, pension reserves, and insurance sector assets but also strengthen confidence in the mutual funds industry and asset management by individual founders.

Considering the development level and the degree of using information technologies in the modern financial industry, the Bank of Russia believes it extremely important to ensure the access of Russian economic agents to advanced financial market technologies. The introduction of modern IT will make financial services extraterritorial, which will maintain a high level of competition in the industry and will boost the financial inclusion of households and enterprises. The technologies to be introduced should be accessible to financial services consumers in terms of their cost, should be user-friendly and should ensure uninterrupted operation and security. Together with stakeholders at government level, the Bank of Russia intends to pay enhanced attention to the quality of operational systems of financial intermediaries and to countering cybercrime.

The Bank of Russia will continue its participation in measures to raise the level of financial services consumer protection. This will include perfecting supervisory and administrative practice of institutions responsible for the protection of financial services consumers, claims handling and restricting access of certain categories of consumers to complex financial products. Apart from these measures, it is planned

to continue work on standardising financial products as well as on the rules of rendering financial services and improving financial literacy among Russian households.

In the planned period, the Bank of Russia will continue to implement measures aimed at increasing the accessibility and quality of information underlying investment decisions and assessment of risks by financial market participants. Information provided shall comply with the principles of timeliness, comprehensibility, reliability, completeness, easiness for handling, and compatibility.

The Bank of Russia strives to develop the system of financial market regulation based on the principles of promoting bona fide conduct of financial institutions while ensuring effectiveness and proportionality of measures taken in response to instances of malpractice. This approach to regulation is preventive in character and is directed against new acts of misconduct; it will deter from malpractices in the financial market of Russia more effectively than the regulatory system stipulating substantial mechanistic restrictions complicating primarily law abiding business.

In the area of international cooperation and integration, the Bank of Russia will continue fulfilling its international commitments, specifically within the G20, the Financial Stability Board, the Basel Committee on Banking Supervision, the Committee on Payments and Market Infrastructures, and other committees. As regards the work in the framework of the BRICS, the Bank of Russia will focus on harmonising the existing regulatory systems of the member-countries and integrating financial markets in line with applicable international rules. An active and large-scale cooperation will continue with financial market regulators in the Eurasian Economic Union (EAEU) member-countries. This will be directed at the consistent implementation of the goal of a common financial market establishment, as set out in the Treaty on the EAEU.

Despite the relatively young age of the Russian financial market, it has already experienced its ups and downs. Nevertheless, given the consistency of the state policy in the financial market development, it has high potential for growth. The responsibility for its development must be borne not only by the Bank of Russia, the Russian Government and the Federal Assembly of the Russian Federation, but its participants as well. The legislation on self-regulation in some segments of the financial market and the existing mechanisms of involving the professional community in the discussions and implementation of innovations provide financial market participants with a wide range of instruments to take an active part in the process of its development.

# I. CHARACTERISTICS OF THE RUSSIAN FINANCIAL MARKET AND THE RESULTS OF ITS DEVELOPMENT

## I.1. Russian financial market in the global competition context

The development of the Russian financial market over the last decade evolves against the background of globalisation, growing internationalisation of securities markets, increased cross-border investment transactions, and increased competition among global financial centres.

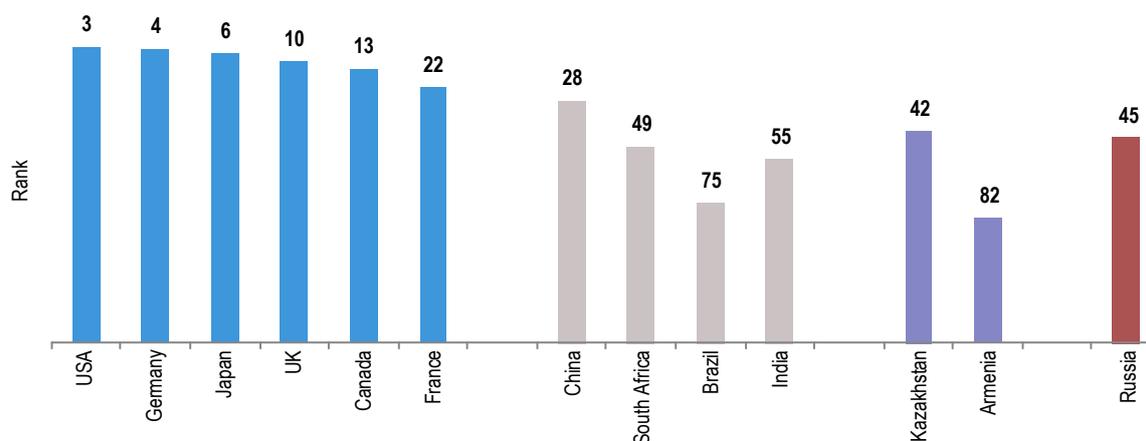
In the process of its formation and development the Russian financial market has managed to achieve certain results, but in view of the global competition it does not hold sufficiently high positions. According to the Global Competitiveness Index<sup>1</sup> calculated annually by the World Economic Forum in the framework of the Global Competitiveness Report 2015–2016, Russia ranks 45<sup>th</sup> out of 140. This situation is comparable to that of the

Group of Twenty (G20) (Chart 1).

Compared to the results of the previous reports, there can be observed a significant improvement in Russia's ranking in the Global Competitiveness Index (64<sup>th</sup> out of 148 countries based on the 2012–2013 data, 67<sup>th</sup> out of 144 countries based on the 2013–2014 data, 53<sup>rd</sup> out of 144 countries according to the 2014–2015 data, and 45<sup>th</sup> position out of 140 countries, according to the 2015–2016 data) and relevant changes of its components (Chart 2).

However, as regards the 'financial market development' component, one of the 12 components the Global Competitiveness Index, Russia ranks 95<sup>th</sup> out of 140, and significantly lags behind the leading G20 countries (according to the Global Competitiveness Report 2015–2016). Low rates are observed for the following elements of this component: sustainability of banks – 115, regula-

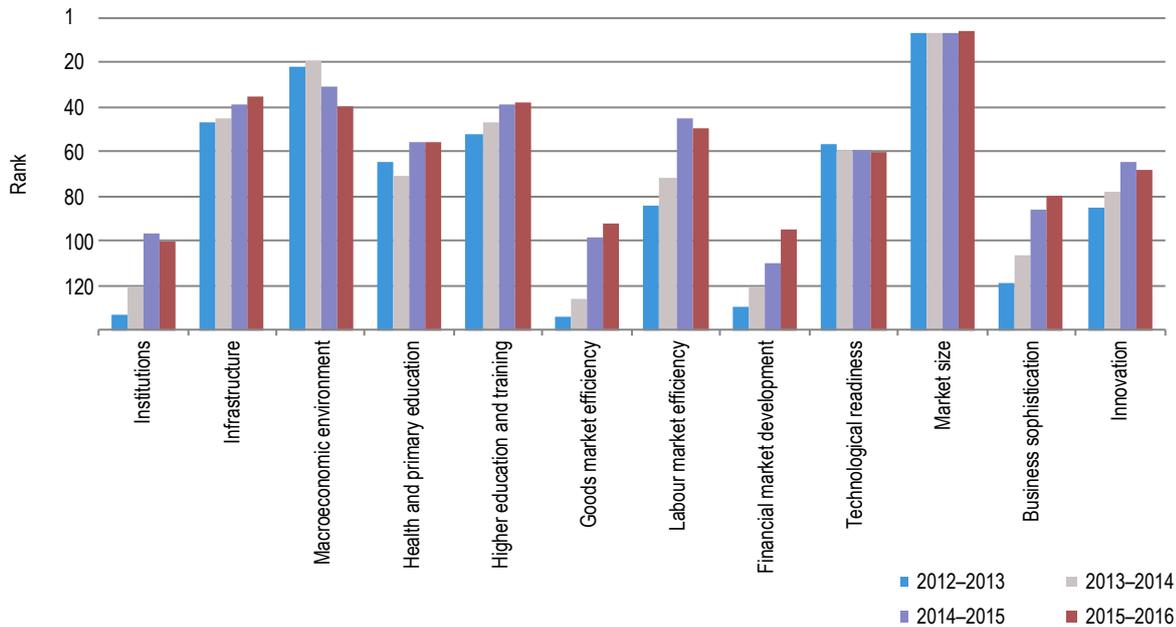
Chart 1. Global Competitiveness Index in 2015–2016 for certain countries



Source: Global Competitiveness Report 2015–2016 of the World Economic Forum.

<sup>1</sup> The Global Competitiveness Index.

Chart 2. Components of the Global Competitiveness Index for Russia

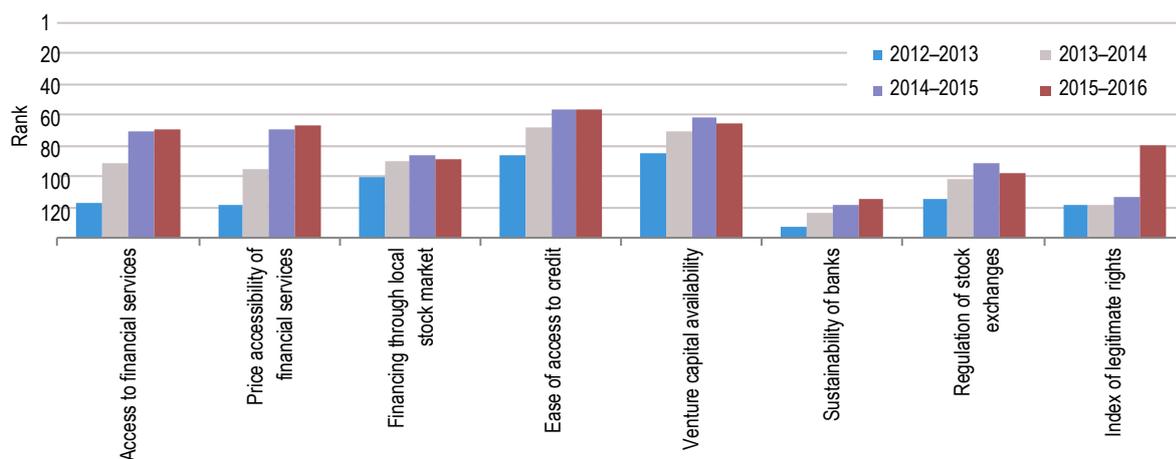


Sources: Global Competitiveness Report 2012–2016 of the World Economic Forum.

tion of stock exchanges – 97, financing through the local stock market – 88, index of legitimate rights – 80, and financial inclusion – 67. However, compared to the results achieved by Russia in the period from 2012 to 2015, the values for the component ‘financial market development’ have improved significantly (Chart 3).

Positive changes are noted with respect to the index ease of doing business<sup>2</sup> in Russia. In the international ranking of doing business, compiled annually by the World Bank, according to the 2013 data, Russia for the first time entered the top hundred of the ranking, occupying the 92<sup>nd</sup> place<sup>3</sup> out of 189. In 2015, Russia ranked 51<sup>st</sup><sup>4</sup>, ahead of Chi-

Chart 3. Values of the component ‘financial market development’ within of the Global Competitiveness Index for Russia

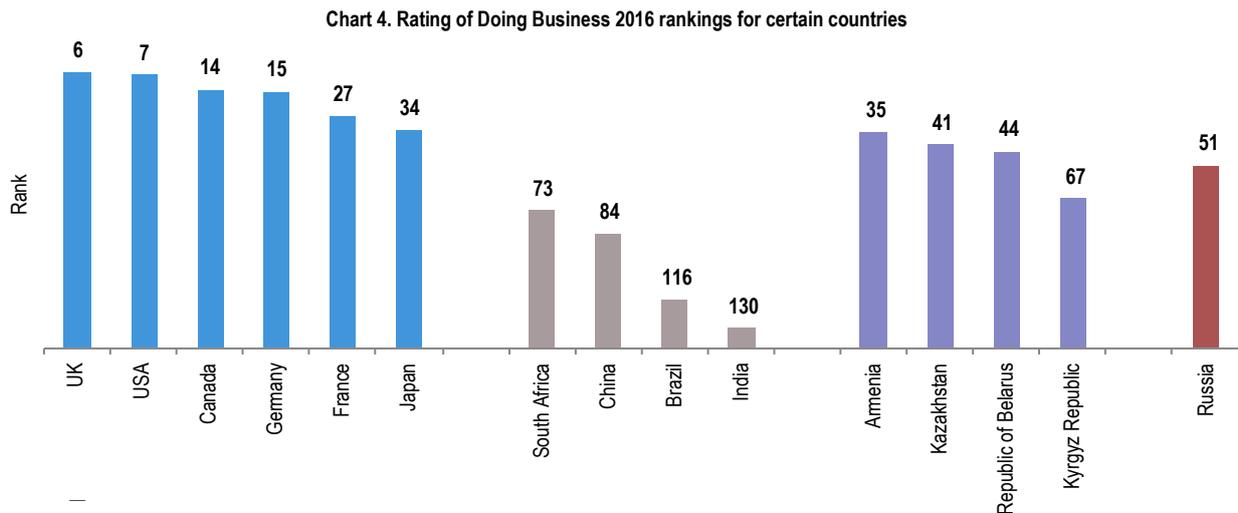


Sources: Global Competitiveness Report 2012–2016 of the World Economic Forum.

<sup>2</sup> Doing Business.

<sup>3</sup> The World Bank report Doing Business 2014: Understanding Regulations for Small and Medium-size Enterprises.

<sup>4</sup> The World Bank report Doing Business 2016: Measuring Regulatory Quality and Efficiency.



Source: World Bank report Doing Business 2016.

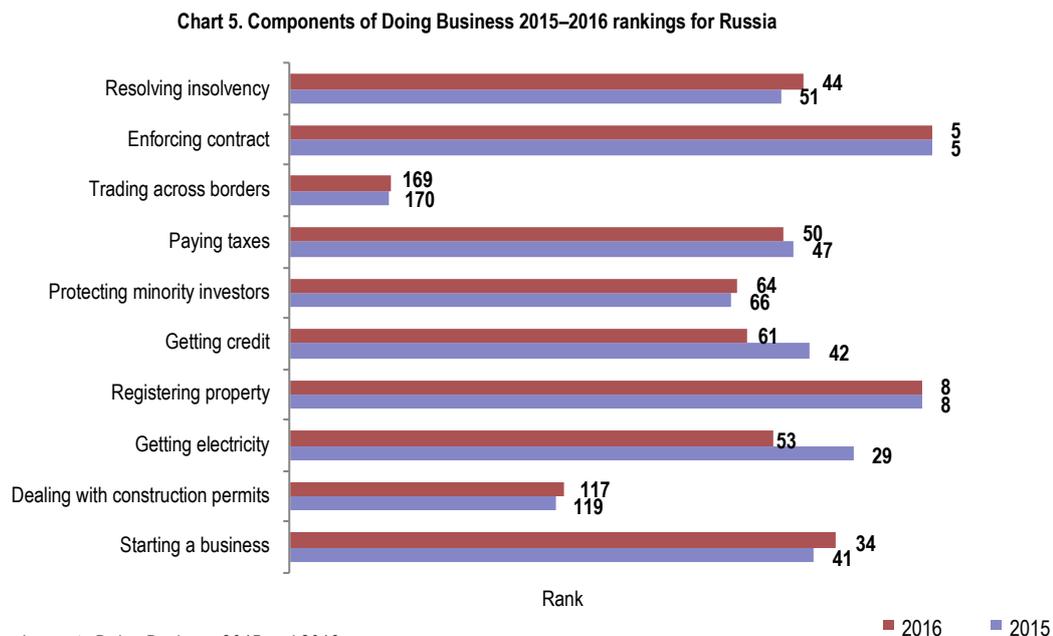
na, Brazil, and India (Chart 4).

As regards the components of the financial market index, protecting minority investors and getting credit, Russia was assigned the 66<sup>th</sup> and 42<sup>nd</sup> positions respectively (Chart 5).

Regarding protecting minority investors component, Russia is far behind the countries of the European Economic Area, as well as the BRICS states. In addition, the average score of the pro-

tecting minority investors index is 5.7 points, with the maximum score being 10 points, which indicates the urgent need for improving the effectiveness of measures aimed at protecting minority investors in Russia (see Chart 6).

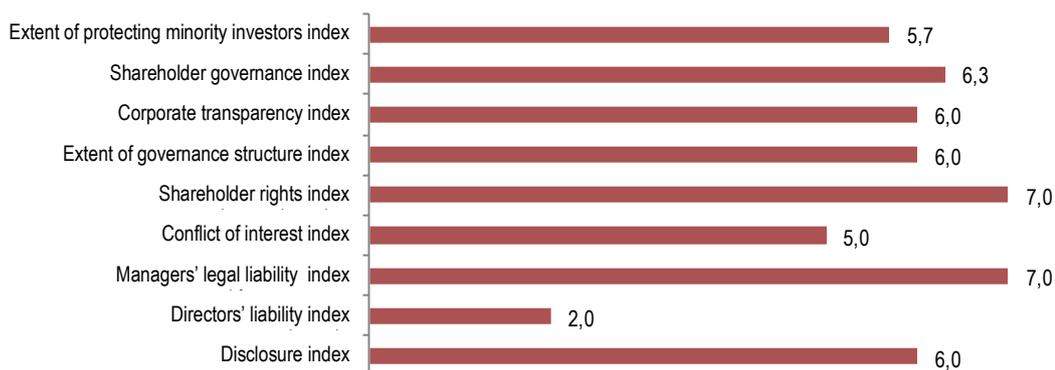
According to the indices, specially developed for the assessment of the financial sector (for example, the Financial Development Index<sup>5</sup> created by the IMF), in terms of financial development,



Source: World Bank reports Doing Business 2015 and 2016.

<sup>5</sup> The Financial Development Index is constructed annually by the IMF. The index measures depth, efficiency, and availability separately for financial markets and financial institutions. The final value of the index is a combination of these six values.

Chart 6. Indicators of the protecting minority investors component within Doing Business 2016 rankings for Russia



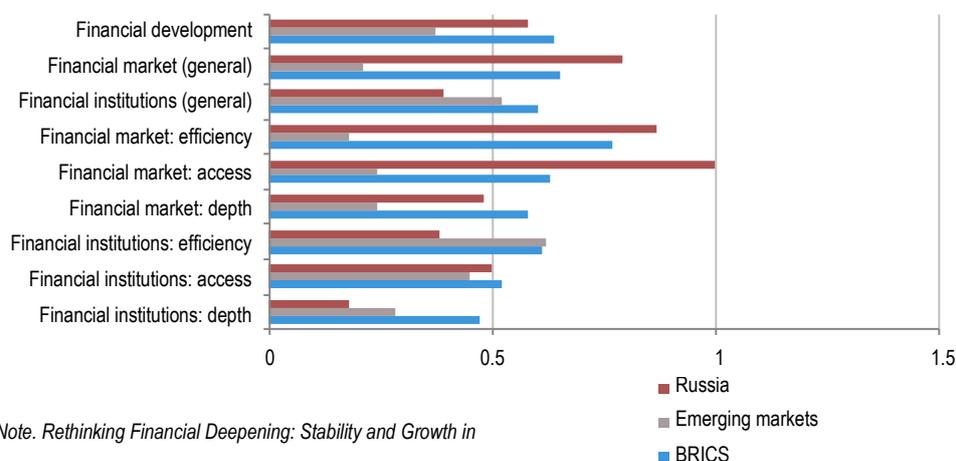
Source: World Bank report Doing Business 2016.

Russia exceeds confidently the average index for the emerging markets, reaching the levels of Brazil, India, South Africa, and China (Chart 7). However, a significant advantage in certain indices (e.g., effectiveness and accessibility of financial markets) is accompanied by an extremely negative situation in others, first of all, the depth of markets and the level of development of financial institutions.

The weakness of the Russian financial market, identified by the authors of the Financial Development Index, is the small share of assets of non-bank financial institutions against the backdrop of the banking system dominance, which cannot provide an adequate level of domestic credit so far.

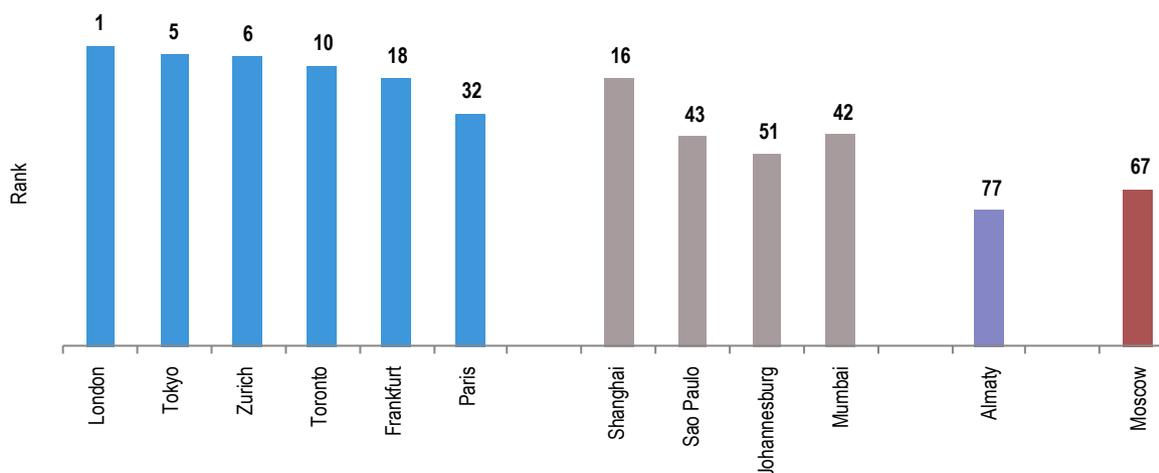
In the context of global competitiveness, an important task of the Russian financial market development remains the formation of the International Financial Centre (hereinafter, the IFC) in the Russian Federation. The need for the creation of the IFC was formulated in 2008, when the global economic and financial crisis revealed the urgent need for the diversification of the Russian economy, including through the development of a competitive financial sector and a market of professional financial services. In this regard, to set up the IFC in the Russian Federation, a Working Group has been formed at the Council for the Financial Market Development under the auspice of the President of the Russian Federation. Currently,

Chart 7. Structure of the Financial Development Index in 2015 by certain countries



Source: IMF Staff Discussion Note. Rethinking Financial Deepening: Stability and Growth in Emerging Markets (2015).

Chart 8. Global Financial Centres Index 19 for several cities



Source: Global Financial Centres Index 19, Z/Yen Group and Qatar Financial Centre Authority.

here is an ongoing implementation of respective action plans.

According to the Global Financial Centres Index, calculated twice a year by the financial consulting firm Z/Yen, in March 2016, Moscow moved to the 67<sup>th</sup> position out of 86, whereas in September 2015, it held the 78<sup>th</sup> position among 84 cities. According to this index, the leading positions are taken by the largest IFCs of countries belonging to the Group of Twenty. The IFCs of the BRICS nations, whose positions are getting closer to the leaders, develop at a sufficiently high pace (Chart 8).

According to the Global Financial Centres Development Index (released annually by news agencies Dow Jones and Xinhua), as of 2014 Moscow held the 33<sup>rd</sup> position out of 45, while during the year the position deteriorated by 5 points (see Chart 9).

However, for such main factors of the specified

index as the 'Financial market' and 'Service level' there have been registered significant positive changes: improvement Russia's position from the 30<sup>th</sup> to the 23<sup>rd</sup> place and from the 37<sup>th</sup> to the 33<sup>rd</sup> place respectively (Chart 10).

<sup>6</sup> The originally developed action plan for the creation of the IFC in the Russian Federation was approved by Russian Federation Government Directive No. 911-r, dated 11 July 2009. Currently, there is an action plan (road-map) 'Creating an international financial centre and improving the investment climate in the Russian Federation', approved by Russian Federation Government Directive No. 1012-r, dated 19 June 2013.

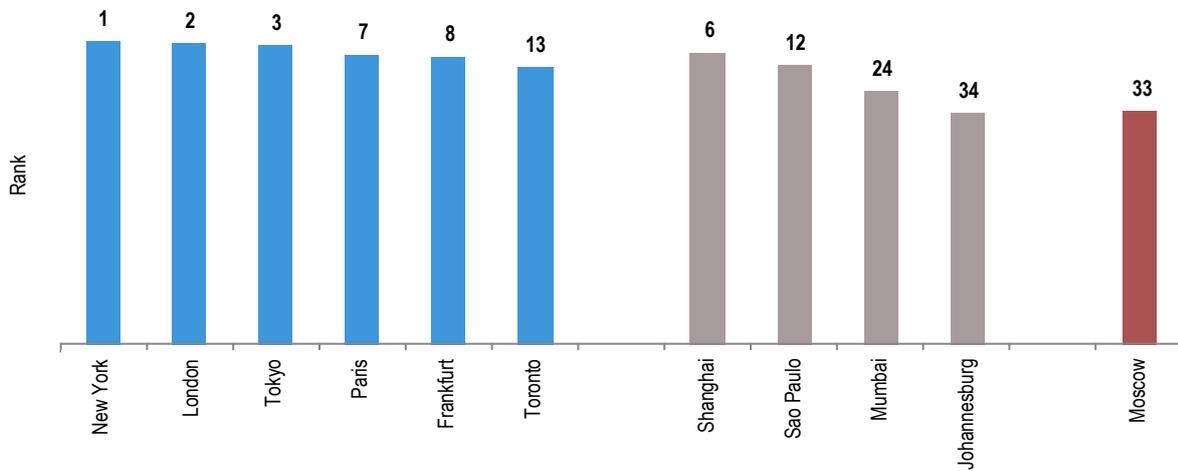
<sup>7</sup> Global Financial Centers Index, GFCI.

<sup>8</sup> The Global Financial Centres Index 19, Z/Yen Group and Qatar Financial Centre Authority, March 2016.

<sup>9</sup> The Global Financial Centres Index 18, Z/Yen Group and Qatar Financial Centre Authority, September 2015.

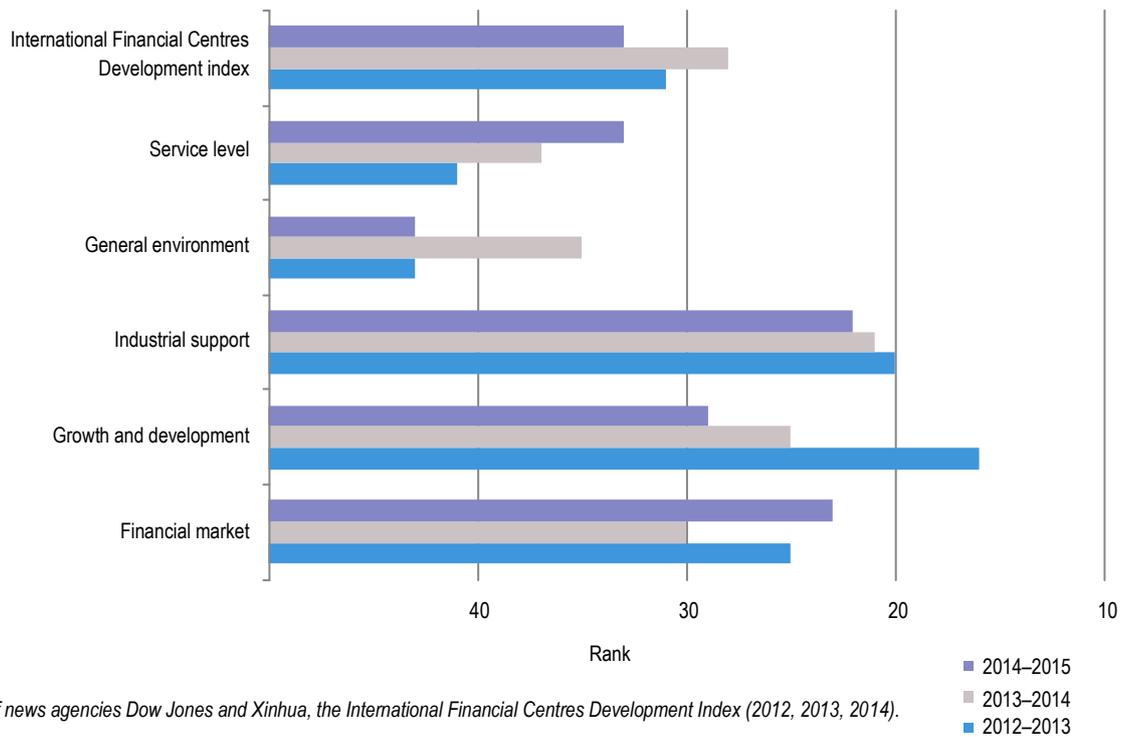
<sup>10</sup> International Financial Centres Development Index, IFCD.

Chart 9. International Financial Centres Development Index 2014 for several cities



Sources: Reports of news agencies Dow Jones and Xinhua, the International Financial Centres Development Index (2014).

Chart 10. Components of the International Financial Centres Development Index for Moscow in 2012–2015



Sources: Reports of news agencies Dow Jones and Xinhua, the International Financial Centres Development Index (2012, 2013, 2014).

## I.2. Current state of the Russian financial market

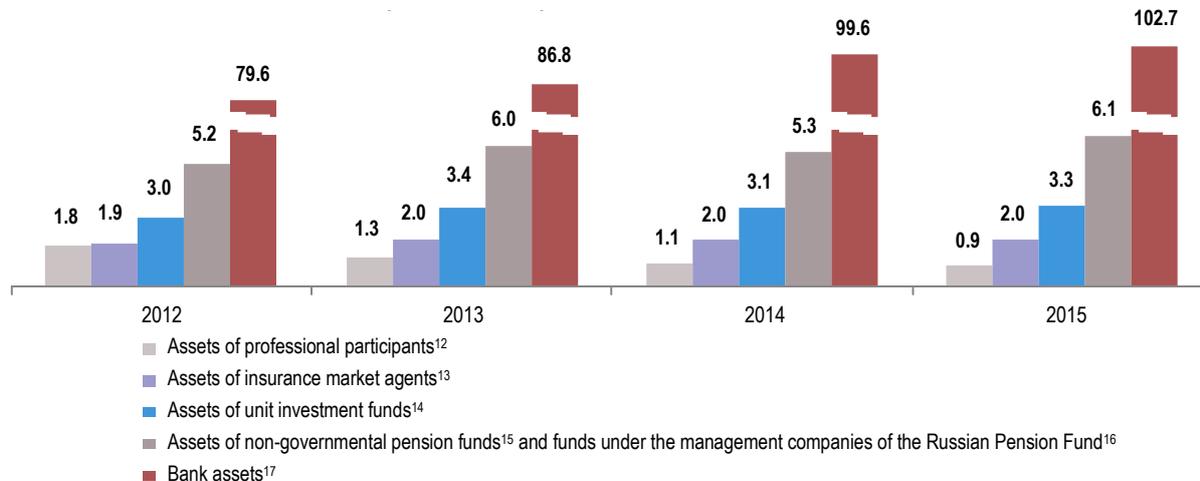
A characteristic feature of the Russian financial system is a significant dominance of credit institutions. This is confirmed by a strong prevalence of credit institutions' assets over the assets of non-bank financial institutions (Chart 11).

In 2012–2015, the Russian financial sector was developing very dynamically. Banking sector assets to GDP ratio was up from 79.6% at end-2012 to 102.7% at end-2015, credit to economy to GDP ratio – from 41.6% to 54.4%, and capital to GDP ratio – from 9.4% to 11.1%. Among the assets of non-bank financial institutions, the largest increase was registered for the assets of pension funds

which were up from 5.3% of GDP in late 2012 to 6.1% of GDP at end-2015<sup>11</sup>.

Specific features of Russia's financial system structure have been shaped by a number of factors, including households' rather low activity in the financial market, the shift of their preferences towards obtaining services from credit institutions that provide not only banking services but also services in the stock market, as well as by the low level of confidence in the non-bank financial institutions because of the high level of abuse in the sector, given the insufficient level of supervision and the lack of framework to deal with dishonest participants. However, the key role is played by the extremely high demand for retail bank deposits, featuring high interest rates, preferential tax regime for interest income and foreign exchange differ-

Chart 11. Assets of credit institutions and some non-bank financial institutions, % of GDP



Sources: Federal State Statistics Service, Bank of Russia.

<sup>11</sup> The 2014–2015 GDP data have been brought in line with changes in the SNA 2008 methodology; as changes shaping the structure and size of GDP exert an upward influence on the indicator, the actual growth rates exceed the indicated ones.

<sup>12</sup> Balance sheet ratio of professional participants in the securities market (brokers, dealers, trustees, registrars).

<sup>13</sup> Total balance sheet ratio. Here and below, insurance market agents comprise only insurance companies and mutual insurance companies.

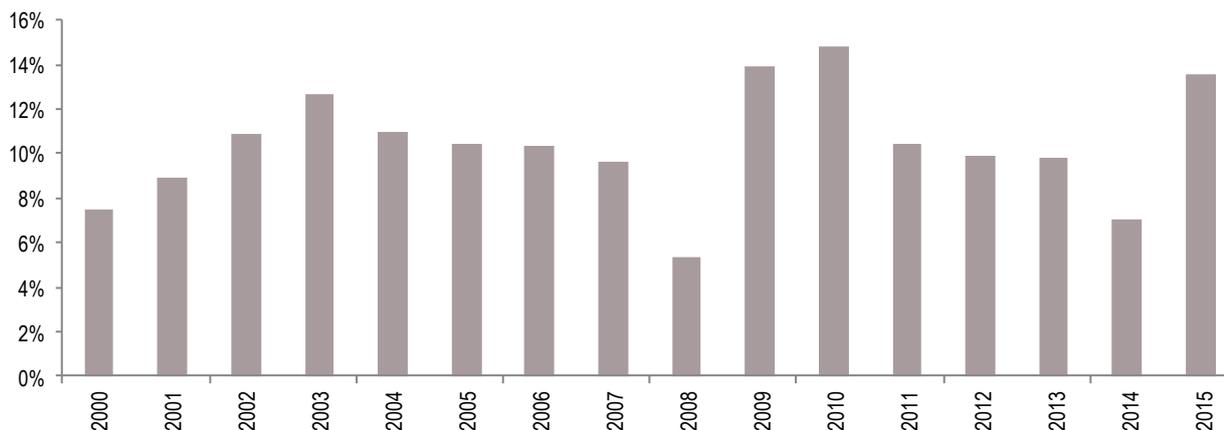
<sup>14</sup> Total balance sheet ratio. For unit investment funds (hereinafter, UIFs), the asset value was taken from the Statement of the net asset value.

<sup>15</sup> Balance sheet ratio (insurance savings, equity, and other liabilities).

<sup>16</sup> The net asset value of management companies according to the statement 'Reporting data of management companies on pension funds investment' submitted to the Pension Fund of the Russian Federation (hereinafter, the PFR).

<sup>17</sup> (Assets (liabilities) are the total value of assets (liabilities) of existing credit institutions (account balances, reflecting the intra-bank operations of credit institutions, are included in the total value of assets (liabilities)).

Chart 12. Savings share in the structure of household disposable income, %



Source: Federal State Statistics Service.

ences (for foreign currency deposits), high level of reliability of deposits due to the deposit insurance system, as well as the simplicity, familiarity, and availability of this product. Russian stock market, which was largely formed as a result of the privatisation of state enterprises, could not become the major source of capital raising, because of the weakness of corporate governance in Russian joint-stock companies. In the bond market, the major role is played by Eurobond borrowings denominated in foreign currency, the demand for which is mainly shown by foreign investors.

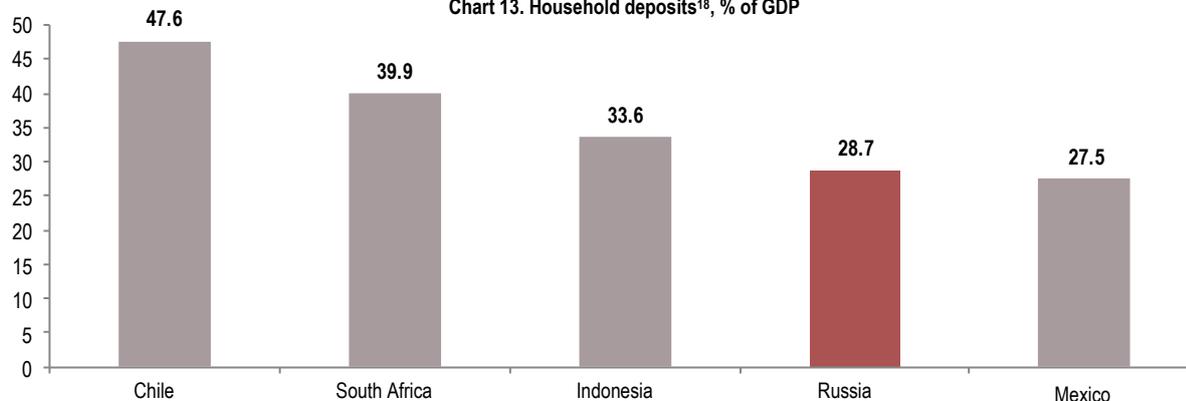
Financial market development is constrained by the low level of accumulated household savings.

The share of savings in the overall structure of

household disposable income remains quite low: despite the rise in the savings rate to 14.1% at end-2015, the average value of this indicator was only 10.0% for the last three years (Chart 12).

In addition to the rather low rate of savings, the structure of household savings is characterised by the dominance of bank deposit products. At end-2015, household deposits to GDP ratio stood at 28.7%, being rather small relative to comparable emerging economies (Chart 13). Nevertheless, household deposits are the second largest item of credit institutions liabilities, surpassed only by the funds of non-financial organisations placed to current and deposit accounts.

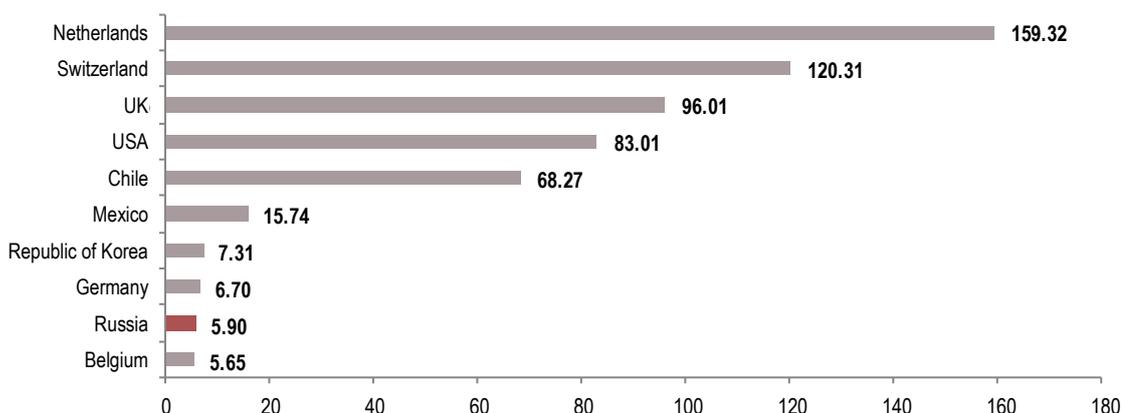
By contrast, non-credit financial products are in

Chart 13. Household deposits<sup>18</sup>, % of GDP

Sources: International Monetary Fund, national central banks.

<sup>18</sup> Unless otherwise stated, data as of end-2015 are used for Russia, and data as of the beginning of 2015 are used for other countries.

Chart 14. Household pension savings in selected countries, % of GDP



Sources: OECD, Bank of Russia.

much less demand with households, and their level of penetration lags considerably behind the comparable values in other emerging economies.

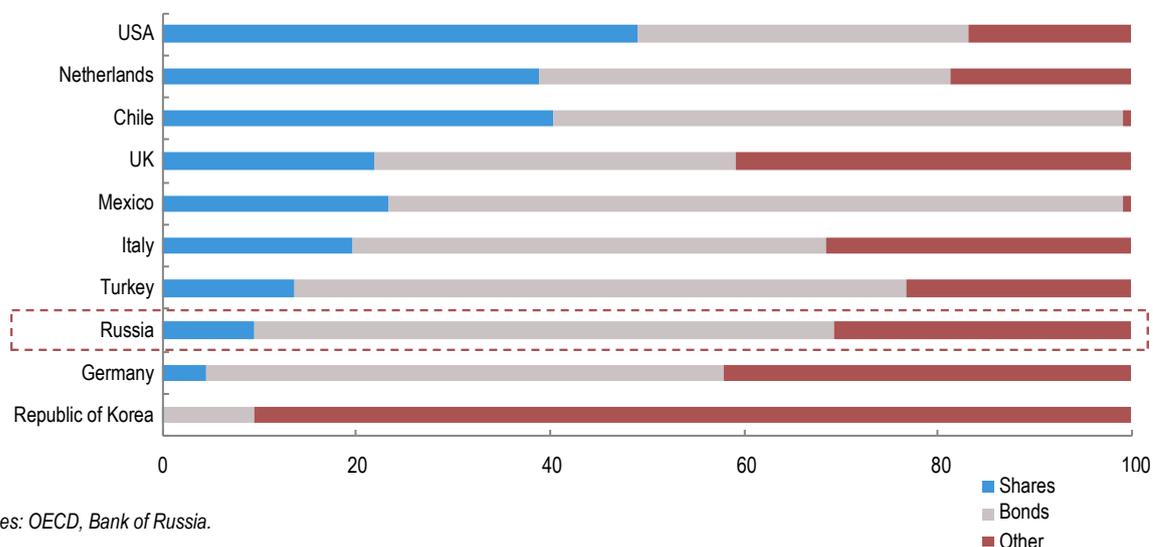
At end-2015, the pension savings of Russian households amounted to 4.8 trillion rubles (5.9% of GDP), which is comparable to the size of the pension funds of many European countries, but is significantly less than the average in the OECD states (Chart 14).

In addition, in most countries the assets of pension funds are predominantly invested in securities market instruments (according to the OECD data, around 20% of global pension savings are invested in shares, and 50% – in bonds), whereas in Russia

in the structure of pension assets investment the largest share is made up by fixed-income instruments, while shares account for a much smaller volume of investment, falling far behind average global values (Chart 15).

Thus, the pension savings of Russians still fail to become a meaningful source of long-term funding for economic agents. The insignificance of the pension assets share in the capital market makes it impossible to expect in the short term that they will become the basis of domestic investment demand, setting grounds for attracting foreign investors and stabilising the financial market in times of volatility.

Chart 15. The structure of assets of Russian and foreign pension funds, %



Sources: OECD, Bank of Russia.

The introduction of a moratorium on the transfer of pension savings in the period of 2014–2015 and its extension for 2016 against the background of the insufficient public understanding of the freezing mechanism creates conditions for the reduction of the public trust in the funded component of the pension system, which entails lower growth rates of long-term investment not only in 2014–2016 but also in subsequent periods.

At the same time, the regulatory changes of several recent years will enable institutional investors to significantly diversify their investment whose yields will eventually exceed the growth rate of consumer prices. Cancellation of the end-year loss -offset rule will help diversify investment of non-governmental pension funds, included in the system of guarantees for pension savings, towards higher yielding stock market instruments. This will ensure a stable domestic investment demand for the shares and bonds of Russian companies. The Bank of Russia's transition to the inflation targeting and the active development of the market of bonds with inflation-linked interest rates will foster investment in long-term assets that generate positive real returns.

In the markets of most countries, life insurance programmes form an important tool of attracting household savings, which can also be a source of

long-term investment.

In Russia, despite the recently observed ahead-of-the-market growth rate of life insurance premiums, the share of this segment in the total insurance premiums remains low at 12.7% in 2015, whereas in many developed economies, this indicator exceeds 50%. In emerging markets, life insurance premiums to GDP ratio ranges from 1 to 15%, but in Russia this figure is close to zero (Chart 16).

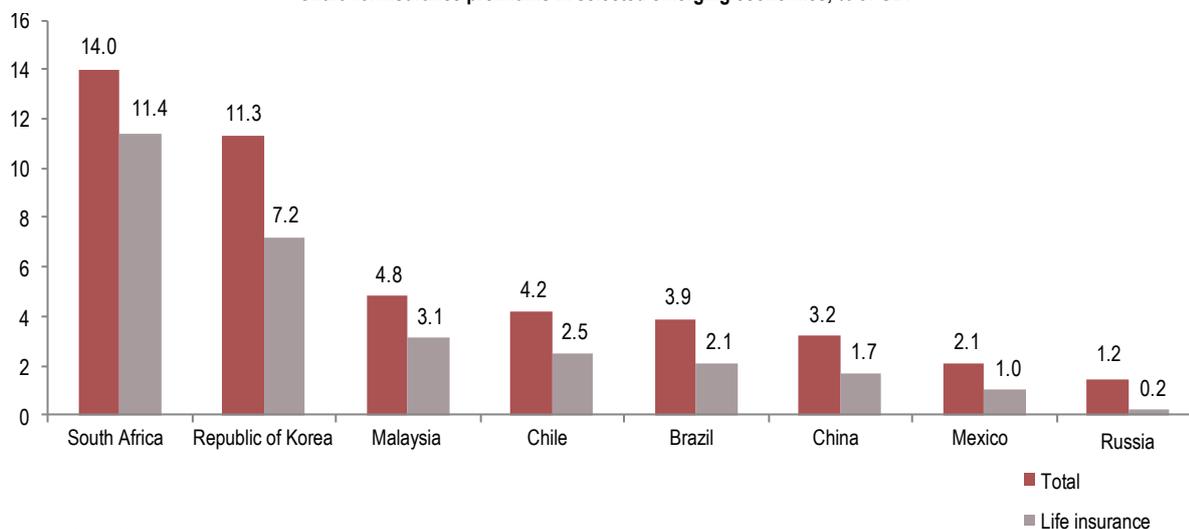
At end-2015, the assets of Russian companies engaged in life insurance slightly exceeded 0.5 trillion rubles (0.6% of GDP), while the assets of the entire insurance industry totalled 1.6 trillion rubles (2.0% of GDP), and were also much smaller than the assets of the Russian banking system and the world average indicator.

The activity of retail investors' operations with investment instruments in the financial market, i.e. unit investment funds (hereinafter, UIFs) and direct stock exchange trades, remains insignificant compared with the activity of households in some countries with a lower level of disposable income.

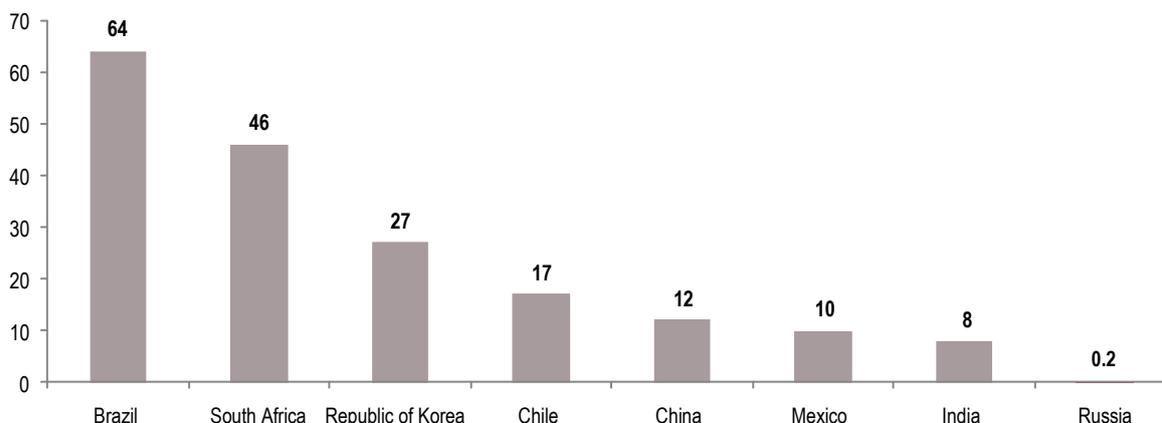
The cost of net assets belonging to open-end UIFs, which are the main investment instrument for retail investors, was 110.1 billion rubles at end-2015.

The total value of net assets of open-end and

Chart 16. Insurance premiums in selected emerging economies, % of GDP



Sources: Swiss Re, Bank of Russia.

Chart 17. Assets of UIFs in selected emerging economies, % of the GDP at end-2015<sup>20</sup>

Sources: International Association of Investment Funds, Bank of Russia.

interval UIFs does not exceed 0.2% of GDP, which is significantly lower than in most developed and emerging economies<sup>19</sup> (Chart 17).

Overall, the structure of the Russian UIF market is dominated by closed-end UIFs intended primarily for qualified investors. A significant share of the funds of this type is made up by real estate funds. The high level of capital inflow into closed-end UIFs is explained by their attractiveness for asset securitisation, tax optimisation, and also for raising equity, project and venture funding.

As of end-2015, total UIFs assets to GDP ratio

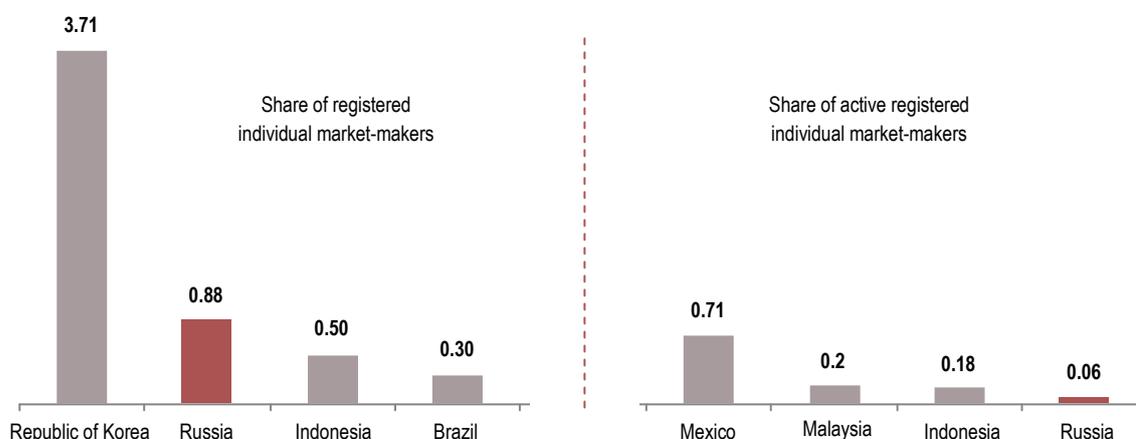
was 3.3%, staying below similar values in emerging economies.

According to the PJSC Moscow Exchange, by the end of 2015, the number of registered individual market-makers in the stock market reached 1.3 million people (0.9% of the total population or 1.7% of the economically active population) (Chart 18).

In 2015, each of the markets saw a significant increase in individual market-makers (Chart 19).

As one of the measures meant to increase the involvement of households in the financial market there can be noted the introduction from January

Chart 18. Share of individuals possessing accounts for operations in the stock market, % of the total number

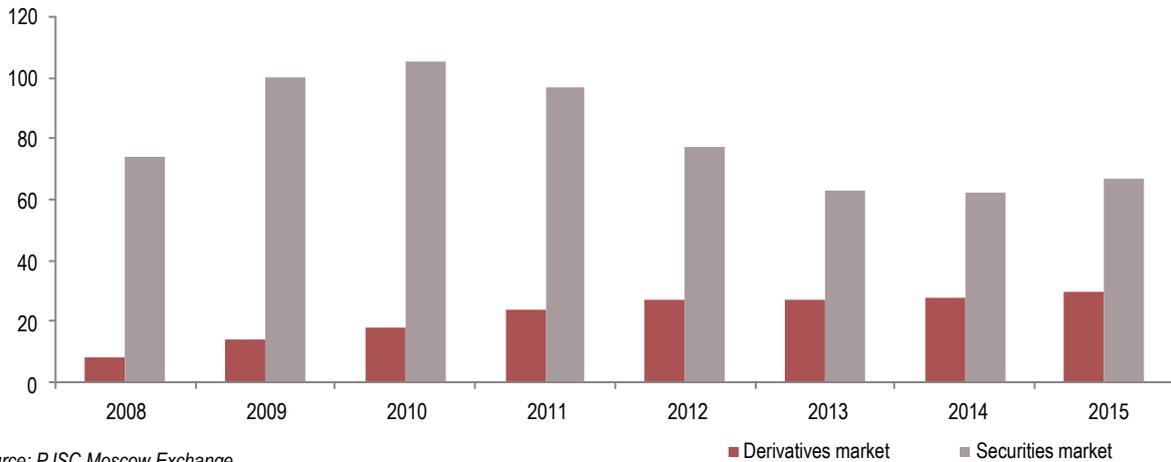


Sources: PJSC Moscow Exchange, foreign exchanges.

<sup>19</sup> Here and below, actual 2015 GDP values are used for China, India, Mexico, Russia and Turkey; and the IMF assessment (World Economic Outlook Database, 2016) is used for other states.

<sup>20</sup> The data are exclusive of closed-end mutual funds.

Chart 19. Monthly average number<sup>21</sup> of active individual market-makers, thousand persons



2015 of a new financial instrument for them, i.e. an individual investment account. This instrument is designed to reduce the tax burden on the operations of individuals in the financial market. At end-2015, 89.6 such accounts were opened, and the trade turnover using these accounts totalled 43.1 billion rubles.

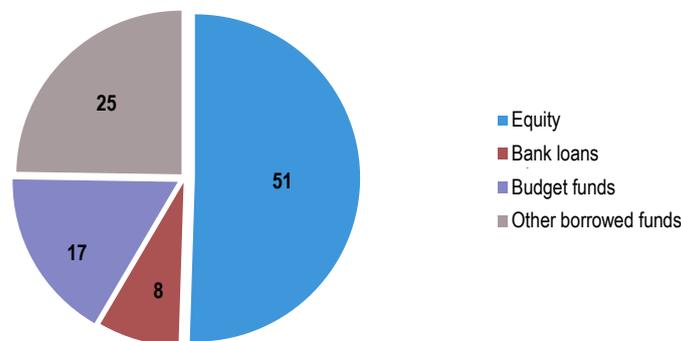
Financial market trends are reflected in the character of borrowings. The deficit of the relatively cheap long-term funding forces Russian businesses, when seeking financing for investment, to resort to such financial sources as the retained earnings of companies, funds of state and municipal budgets, and funding received from controlling en-

tities (Chart 20), as well as foreign borrowings, the availability of which decreased markedly.

Compared to organisations in peer Eastern European and Central Asian countries, as well as to organisations from countries with a comparable average income, Russian businesses, in general, attract by far less external funding, in particular in the form of bank loans.

In the Russian Federation, only 8% of investment in fixed assets is funded through bank loans. In addition, the Russian financial system is characterised by the predominance of loans as the traditional leader among the sources of borrowing for Russian enterprises. In 2015, the corporate credit

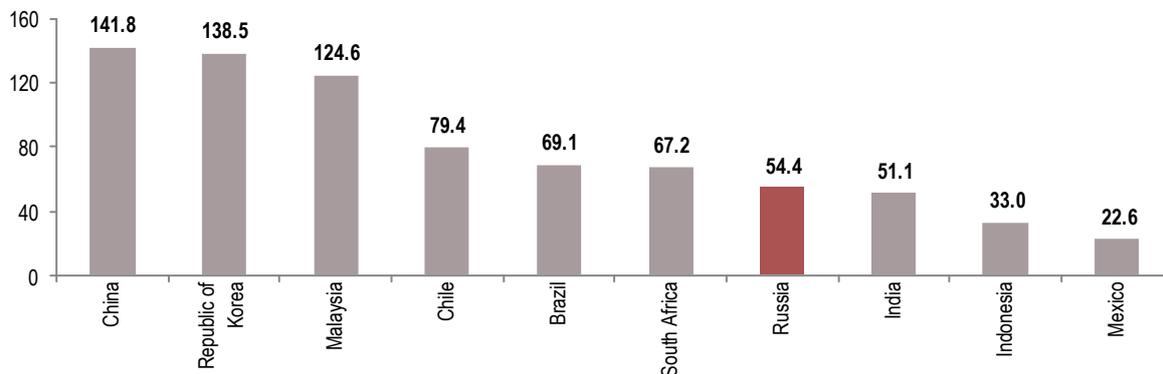
Chart 20. Sources of financing for fixed capital investment, %



Source: Federal State Statistics Service.

<sup>21</sup> The Moscow Exchange defines an individual who performs at least one operation a month as an active market-maker.

Chart 21. Loans to the real sector in selected emerging economies, % of GDP



Sources: World Bank, Bank of Russia.

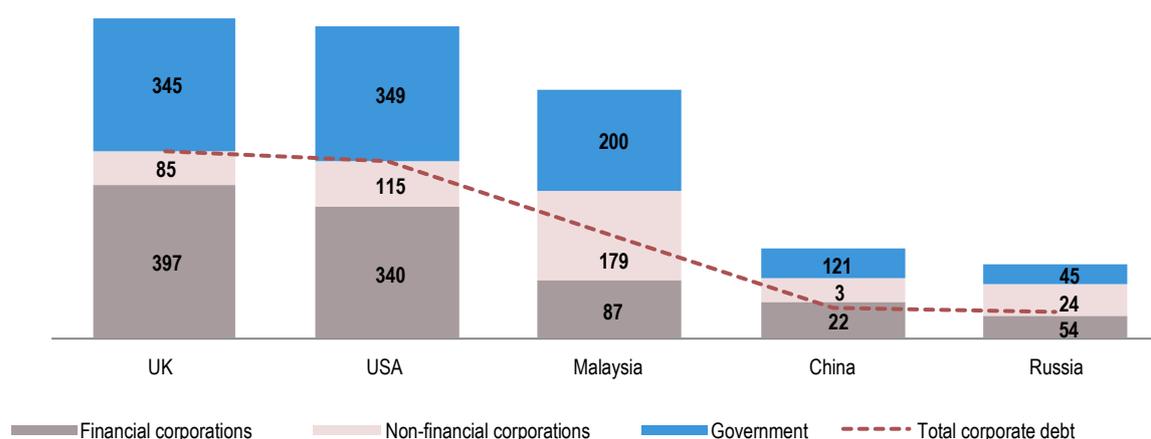
portfolio reached 33.3 trillion rubles (41.2% of GDP). Bank loans to the real sector amount to 54.4% of GDP, which is quite a small value as compared with other emerging economies (Chart 21).

The domestic market of public debt, as an instrument of fund raising, is less in demand among non-financial organisations (Chart 22). As of end-2015, the volume of non-financial organisations' securities traded in the domestic market reached

3.7 trillion rubles, which was slightly above 10% of the credit funds borrowed from the banking sector. The total volume of internal public debt was 13.5 trillion rubles (16.8% of GDP). In 2015 H1, the volume of public borrowings in the foreign corporate debt market<sup>22</sup> amounted to 128.4 billion US dollars (of which 58.4 billion US dollars are borrowings in the non-financial sector).

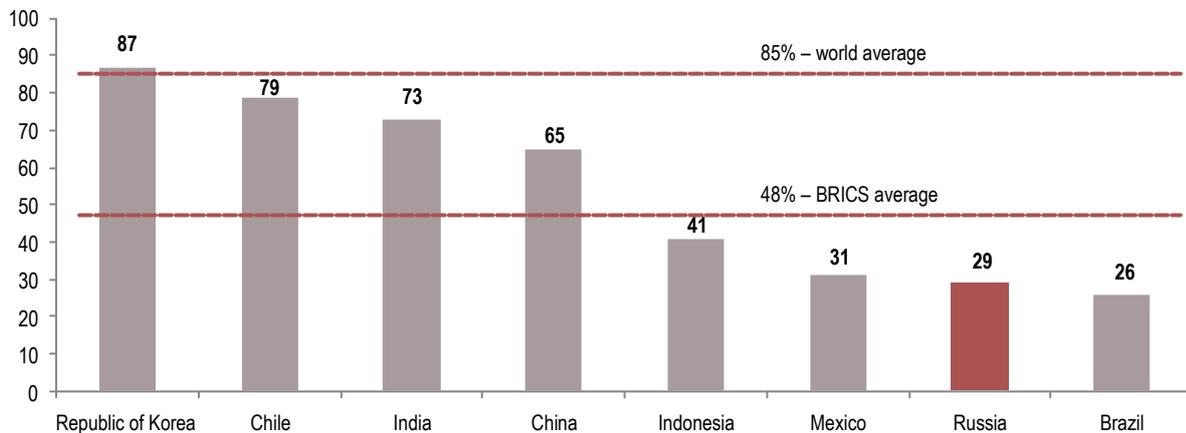
The capitalisation of the Russian securities market reached 28.8 trillion rubles (35.6% of GDP) in

Chart 22. Corporate debt to GDP ratio (internal and external public debt) in selected countries in 2014, % of GDP



Sources: Bank for International Settlements, International Monetary Fund.

<sup>22</sup> As of end-2015 H1, external debt of the Russian corporate sector consisting of loans, credits and deposits attracted as a result of the placement of Eurobonds and other debt securities by non-residents on behalf of Russian residents.

Chart 23. Stock market capitalisation in selected emerging economies<sup>23</sup>, % of GDP

Sources: Bloomberg news agency, PJSC Moscow Exchange.

2015 H1, which is by far less than the world average, totalling 82.3% of the global GDP (Chart 23). The P/E ratio of the Russian securities market is four times lower than that of the US market and twice as low as that of the Chinese market, which is indicative of investors' extremely high requirements to the premium for the Russian risk in the current geopolitical environment, given the suppressed investment climate and low confidence in the corporate governance of public joint-stock companies.

At the moment, the Russian financial market is characterised by a relatively low capitalisation of the stock market and a low corporate debt to GDP ratio. In addition, the placement of shares and bonds lags far behind the bank lending by the volume of attracted funds. Thus, the banking sector is not able to replace the capital market. Due to the specific characteristics of risk regulation in credit institutions, the duration of bank assets in developed and emerging economies is twice as low as the duration of bond markets, which makes banks less attractive for the purpose of project and investment activity financing because of the volume of their resources and their pricing parameters.

Another problem area of the financial intermediation is the relatively low level of its performance

indicators. Despite the fact that the main indicator of the banking system efficiency, i.e. the loan-to-deposit ratio, is close to the average for the emerging markets, most of other indicators, in particular, non-interest income to total income ratio and overhead costs to assets ratio, demonstrate that the banking system is forced to cover high costs by the income that is not related to the core activities of credit institutions.

These problems can be attributed to the system's high fragmentation and a high level of assets concentration in various segments of the financial market. In Russia, all types of financial organisations possess one common feature: the assets of 10%–15% of companies operating in various market segments account for 80% of the total assets. However, despite the large number of financial intermediaries in virtually all the sectors of the Russian financial market, the concentration trend persists: the weight of the five largest banks in the total assets rose from 53.6% to 54.1% in 2015 (from 52.7% to 53.6% in 2014). A similar trend is observed for non-bank financial institutions: 39 insurance companies (11.3% of their total number at end-2015) own 80% of the total assets; 15 non-governmental pension funds (14.7% of their total number in late 2015) concentrate 80% of the total assets in this segment; 219 UIFs (at end-2015, their share in the total number of funds was 14.0%)

<sup>23</sup> Data for all countries are given as of end-2015.

own 80% of the total assets of UIFs. The maximum concentration is observed among the professional participants of the securities market: 80% of the assets are accumulated by 7.6% of the participants (the share is made up by 38 organisations).

At the same time, there is a downward trend in the dynamics of the number of financial intermediaries. During three recent years, the number of credit institutions decreased by 30.4% down to 733 credit institutions as of end- 2015 (956 credit institutions at end-2012). Over the same period, the number of professional participants in the securities market decreased by 347 or 28.4%, the number of insurance companies – by 124 (21.8%), the number of non-governmental pension funds – by 32 (26.5%), and the number of UIFs grew by 137 (9%) over that period.

## II. GUIDELINES FOR THE DEVELOPMENT OF THE RUSSIAN FINANCIAL MARKET IN 2016–2018

### II.1. Financial consumer protection and financial literacy of the population of the Russian Federation

One of the most important conditions for the successful operation of the financial market is financial consumer protection. This protection should function as an integrated system comprising, on the one hand, assistance to financial consumers if their rights are being violated and, on the other hand, an assessment of the need for changes in the current system of regulation and an introduction of such changes, if the violations discovered are of a systematic nature, in order to avoid their repetition. The use of feedback in order to remove dishonest players from the market, improve financial products, and make the procedure of their sale to the population better constitute a powerful mechanism for increasing customer satisfaction with the services of the financial market, which can subsequently increase the penetration of these services.

At the current stage of the Russian financial market development, the Bank of Russia is tasked to determine a feasible and optimal degree of consumer protection by the state. It is necessary to answer the following questions: to what extent and what specific rights of financial consumers the Bank of Russia intends to protect. Other questions are, whether the Bank of Russia should limit itself exclusively to ensuring protection against dishonest behaviour of financial intermediaries in the financial market, or whether it needs to monitor the advisability of using certain products for a specific

advisability of using certain products for a specific category of consumers and the adequateness of understanding by financial consumers of the risks they take. The Bank of Russia believes that the public discussion of this dilemma in the planned period will lay the basis for determining the appropriate boundaries of this regulation. Answers to these questions will also help revise the approach to the regulation of the concept of non-qualified investors, currently existing in the Russian legislation. The solution of the issue will impact the degree of standards strictness for the sale of financial services to the population. These standards shall be developed by self-regulatory organisations in the financial market and put into practice during the planned period.

To raise the level of financial consumer protection, it is necessary to further refine the operations of agencies protecting consumer rights in the course of supervisory activities, as well as to improve the measures applied. To ensure an appropriate level for financial consumer protection, the Bank of Russia plans to create and launch a more effective system for dealing with the complaints of financial consumers. This series of measures involves the introduction of a new model to handle applications which will significantly increase the number of applications on which actual assistance will be provided, will reduce the time of response to consumer claims, will optimise the process of interaction with the authorities and organisations while handling the claims of financial consumers, and will also provide feedback in order to improve the efficiency of regulatory measures and perfect products and services in the financial market. Moreover, the fast and efficient solution of the problems

of financial consumers, the elimination of shortcomings in the operation of financial organisations, the clarification of consumer rights, and the procedure of their implementation will be assisted by the evolution of functionality of the Bank of Russia's website and the improvement of operations in its Contact Centre designated for communication with financial consumers. The protection of consumer rights will be assisted not only by the development of basic standards for the protection of the rights and interests of financial consumers by self-regulatory organisations in the financial market during the planned period, but also by subsequent control over compliance with these standards by the members of self-regulatory organisations.

In order to avoid the use of business models based on dishonest practices in the financial market, during the planned period the Bank of Russia in cooperation with concerned state authorities will complete the creation of general requirements for officers at financial organisations acting as members of management bodies and their responsibility for breaking regulatory requirements. It will also, in collaboration with the Federal Antimonopoly Service, carry out steps to counteract dumping during the sale of financial products and the provision of financial services that undermine a fair and competitive environment.

Matters concerning the disclosure of information and publicity in the financial market require special attention. It is necessary both to ensure free access of the consumers of financial products and services to information on their contents and inherent risks, and to oblige financial organisations to disclose information in a comprehensible form. Among other things, these organisations shall disclose information on the standard and specific properties of products and services. The information thus disclosed shall be complete, reliable, comparable, accessible, understandable, and timely for financial consumers. Moreover, broad publicity of financial products and services, which are not designated for unqualified consumers or which

misinform consumers about the usefulness and riskiness of financial products shall be massively restricted. The Bank of Russia intends to inform the public about the activities of dishonest financial intermediaries and financial pyramid schemes, and to work out proposals on additional requirements for the publicity of financial products and services in order to limit dishonest practices in the financial market.

Currently, the insufficient level of financial literacy among population poses a serious problem that both stunts the advancement of the Russian financial market and hampers the public satisfaction with financial products and services. Consumers are often unaware of both their rights and their responsibilities. When entering into a financial contract, an individual generally signs it, without reading it and without being fully aware of all the consequences. In this regard, it is important to ensure that consumers understand financial products and services they select. It is not always the case that the value proposition, constituting a financial product or service, satisfies the real needs of the individual, which on certain occasions might create a cumulative negative effect from the use of such products along with the subsequent loss of the individual's confidence in the services of the financial market as a whole. As a rule, mistrust is transmitted by individuals and by mass media and reaches a wide range of prospective consumers of financial services much faster than any positive information might be spread, which significantly reduces the overall level of public confidence in the national financial system.

Since ensuring the financial literacy of households is a long-term objective, in the medium run people may be offered easy-for-understanding financial products and services through their standardisation, including within a contractual framework. This will promote both general awareness of the financial market and confidence in financial instruments among the population.

In the long term, the improving financial literacy

of the population will form for them the culture of financial services consumption and also their understanding of the monetary policy pursued by the Bank of Russia. Therefore, enhanced financial literacy combined with other processes and activities will help smooth out fluctuations in the investment and purchasing capacity of the population, which is important for achieving the goals of sustainable economic growth, and a persistently low level of price growth, as well as for the formation of a resource base in the financial sector.

Financial literacy assumes that population will become generally aware of the following:

- basic personal life-long needs and standard means for satisfying these needs through the use of financial market instruments while observing fiscal discipline;
- major products and services offered by the financial market, as well as their inherent risks;
- ways to get information on the suppliers, products, and services of the financial market;
- reasons and implications of Bank of Russia monetary policy decisions;
- available options for the protection of consumers' rights in the financial market.

However, financial literacy assumes not only the acquisition of theoretical knowledge but also the mastering of basic skills regarding the practical use of financial market instruments and being able to evaluate both the domestic economic conditions and the actions of monetary authorities.

Meeting the goal of improved financial literacy requires a complex approach. To begin with, it is necessary to introduce during the planned period mandatory classes devoted to financial literacy in the framework of other disciplines in general education institutions. The first step towards the accomplishment of this objective is the introduction in 2016 of a financial literacy module in the mandatory school programme as a part of Social Studies, initiated by the Ministry of Education and Science

of the Russian Federation. To further the execution of this project, it is also necessary to develop training materials and educational programme standards in accordance with the recommendations of the Ministry of Education and Science of the Russian Federation and provide relevant training to secondary-school teachers, which requires both the creation of advanced training courses for teachers and the introduction of a new major for graduates of teacher training colleges. Moreover, in the medium term, it would be advisable to arrange a process for interactions with Russian higher educational institutions with regard to the creation of departments that focus on financial literacy issues and for the development of relevant training complexes.

One of the Bank of Russia's key projects to improve the financial literacy of the population is the creation of a specialised on-line resource containing information on a wide range of aspects of financial literacy that would be understandable to various target groups. The work on the resource will be completed using the best international practices. According to the Ministry of Communications and Mass Media of the Russian Federation, 62% of the adult population<sup>24</sup> of Russia used the Internet in 2014, and the trend is showing an ever increasing number of users, which confirms the efficiency of this information resource. By using the Internet and other mass media, it is possible to arrange a wide-ranging promotion of topics devoted to financial literacy among the population of Russia. When implementing its communication policy, the Bank of Russia will specifically focus on the importance for financial consumers to observe fiscal discipline.

In order to eliminate major gaps in the financial literacy of the population, during the period under

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<sup>24</sup> According to the report of the Ministry of Communications and Mass Media of Russia 'Key Results of the Ministry of Communications and Mass Media of the Russian Federation in 2014', submitted to the Government of the Russian Federation in March 2015 .

consideration, the Bank of Russia intends to concentrate on bringing to the attention of various groups of the population information on the most suitable types of financial products depending on the individual characteristics of such groups (e.g., age, material well-being, education) and the expectations of financial consumers. Creating customised sets of financial products and services for corresponding population groups and explaining the usage of these products allows accounting for the dissimilarity and specific characteristics of the socioeconomic development of Russian regions in order to maximise the usefulness of interactions between the financial sector and citizens in the interests of the latter. The implementation of this approach brings to the focus of particular attention the most vulnerable segment of financial consumers: those with the lowest income.

Amid the scarcity of financial resources and the ensuing task to optimise their use, it is important to create tools to measure the level of financial literacy and evaluate the effectiveness of various channels for its promotion. For this purpose, the Bank of Russia plans to launch designated information campaigns and record changes in the awareness levels of target audiences before and after respective activities; the frequency of these campaigns will be based on changes introduced in the laws of the Russian Federation concerning the financial market.

The Bank of Russia is going to construct and calculate on an annual basis the composite index of financial literacy comprising the following:

- study of household awareness about financial instruments, services and legitimate means of financial consumer protection;
- study of household competence levels (practical application of available knowledge on financial instruments and services by households);
- study of the diversification spectrum of financial instruments and services used by households.

It is also necessary to expand the role of the Call Centre and the public reception created by the Bank of Russia to ensure interaction with financial consumers. These resources can also be used to improve the financial literacy of the population by providing explanations to consumers regarding matters of interest to them. Moreover, in order to promote financial literacy among representatives of the different generations of Russian citizens taking into account the degree and characteristics of the impact that information technologies have on their lives, the Bank of Russia will be actively using social media as a channel to promote financial literacy.

## II.2. Improving financial inclusion for households and small and medium-sized businesses

In many countries, the access to basic financial services<sup>25</sup> is seen as a fundamental need and an inalienable right of citizens and business entities. International institutions engaged in setting standards in the financial sector believe that financial inclusion is a material factor in raising the living standards of population, and they promote the development of a unified methodological approach in this area. Financial inclusion means a state of the financial market where all legally capable citizens of a country and small and medium-sized businesses have access to full-scale opportunities to receive a basic set of financial services. At the same time, the possibility of receiving financial services is expressed not only in the physical access to financial products (existing infrastructure of financial services), but also in their comprehensibility, quality, and usefulness for consumers.

Therefore, an improved financial inclusion

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<sup>25</sup>Services provided by financial institutions, including insurance, lending, deposits/savings, and payment services .

should be considered from the perspective of a comprehensive increase of its four components: affordability, physical accessibility, product variety, and mental accessibility. To achieve the specific objectives and expected results that can be reached while improving financial inclusion, the Bank of Russia has short-term plans to design a strategy for improving financial inclusion. Besides, ensuring the proper level of accessibility of financial services is only possible if there are full-scale improvements for all components of the financial market in stable financial environment.

Given the vast territory of our country and extremely uneven population density, insufficient geographical coverage in the Russian Federation by financial services providers poses a pressing problem. Currently, providers of financial services are leaving a number of sparsely populated areas of the country where the traditional form of interaction with financial consumers does not provide the required return on capital. Therefore, to improve the accessibility of financial services, it is first and foremost necessary to create conditions for the development of various types of financial service suppliers that, as a matter of fact, are already emerging in the Russian financial market<sup>26</sup>. When employing the services of such financial intermediaries, consumers accept high risks, while the regulation of and supervision over the financial market participants who offer them are currently non-existent. The Bank of Russia has commenced monitoring operations of the said financial intermediaries, and based on the results a decision might be made on the feasibility and probable forms of the regulation of these sectors of the financial market by the Bank of Russia. Moreover, when designing its regulatory policy, the central bank will ensure that a financial organisation is unable to deny another financial organisation access to customers' financial instruments or information on them if custom-

ers have granted their consent to such access.

The ability to provide financial services through the Internet, mobile technologies, and other cutting-edge technologies in all settlements of the Russian Federation also acquires particular importance. In this connection, it is necessary to simplify the interaction between financial organisations and consumers of financial services, among other things, by expanding the range of options for using electronic or remote access to financial services and implementing long-distance methods for the sale of financial products and services using modern information technologies. The Bank of Russia intends to assist the implementation of the access registration system for private individuals to the financial market that would eliminate the need for an additional identification while receiving various financial products and services from a new seller. Growth in remote servicing volumes for the population and small and medium-sized enterprises will make a positive contribution to the quality of competitive environment and will eventually improve the quality of financial products. Furthermore, the Bank of Russia aims to ensure a high level of fair competition in the financial market as an important factor for improving financial inclusion, since the lack of competition leads to a slowing of innovation, non-market pricing, and a limited range of financial services.

However, due to the fact that banknote usage is maintained, it is necessary to support an optimal balance between the needs of the population and the actual availability of sufficient quantities of ATMs and electronic and payment terminals. Therefore, the Bank of Russia's efforts incentivising the cashless circulation of the national currency will be a business priority. At the same time, it is important to ensure the uninterrupted and safe provision of financial services, an increase of public confidence in financial institutions and their services, and an improved product range, pricing, and mental accessibility of financial services for consumers.

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<sup>26</sup> P2P lending, also known as social lending, mobile operators, crowdfunding, and Internet platforms .

The creation of a legal framework for the activities of financial advisors, especially automated consulting systems and the small-scale management industry, will contribute to an increase in the accessibility of investment-related financial services. Their activities will provide access for a wide range of households to more complex products in the financial market (compared to traditional banking and insurance products).

While making improvements to the access system for products and services in the financial market, it is important to simultaneously ensure their relevance and usefulness for consumers. The financial market should contain financial products and services understandable to consumers so that they have the opportunity to assess their positive or negative influence on the satisfaction of their needs and quality of life. These financial products should be in steady demand from both the population and small and medium-sized businesses. This task is closely related to financial literacy and implies the creation of opportunities for financial services consumers to learn the financial market and to increase their knowledge. Moreover, in order to create financial products that are attractive to the public from an investment perspective, the Bank of Russia, together with the legislative and executive authorities, is going to conduct a comprehensive analysis of the feasibility of adjusting tax incentives for individuals in the financial market. It is specifically planned to draft proposals on improving taxation regime for investment schemes using individual investment accounts.

The presence of tax incentives is a significant factor for the population's willingness to invest. Financial products that provide tax incentives are becoming more attractive to investors in comparison with standard alternatives and are characterised by higher accessibility. In order to preserve the balance between the attractiveness of specific and standard tools, it is necessary to further improve and ensure the transparency of pricing procedures for financial products and services, and

explain the reasons behind the costs of financial services. In addition, the feasibility of establishing mechanisms for citizens to reduce risks of investing in the Russian financial market through the professional securities market participants, by analogy with the mechanism of insurance of bank deposits of individuals, will be analysed in the planned period.

In order to increase the level of understanding of financial products characteristics by consumers who for the most part do not possess sufficient financial literacy, work on the standardisation of conducting financial transactions and rendering financial services will continue, including the development of model agreements for the provision of financial services and the standardisation of requirements for the interactions of financial services sellers with consumers during the sale and subsequent performance of contractual obligations. Specifically, the Bank of Russia will continue to actively promote the standardisation process as part of the harmonisation of standards for self-regulatory organisations in the financial market. Currently, in some cases the Bank of Russia is authorised to determine the minimum (standard) requirements for conditions and procedure for implementing certain activities in the financial market and, in other cases, to also comprehensively regulate the provision of the most important financial services in terms of their relevance for the social sphere. It is expected that the standardisation process will be further developed after the establishment of performance standards for financial institutions by self-regulatory organisations. The introduction of uniform standards will ensure the transparency of financial market participant activities and their adherence to the principles of a customer-oriented approach.

The most important factor in the affordability of financial services is the reduction of costs for financial organisations in a sufficiently competitive environment. The use of innovative sales tools will aid the solution to this problem. For example, expand-

ing the remote method of selling financial services will reduce the expenses of financial organisations for maintaining additional offices, which in turn will affect the bottom-line cost of financial services. Financial organisations can reduce expenses by improving risk assessment systems. For this purpose, in the medium term, the Bank of Russia, together with other concerned agencies, plans to continue developing rating agency activities and a variety of databases available to market participants (such as the credit and insurance history bureaus, statistical information on the Bank of Russia website, the aggregate analytics disclosed by repositories, and information from rating repositories). Furthermore, it is necessary to solve the issue of providing access to relevant information on the obligatory payments of potential customers from the databases of government bodies (in particular, the Pension Fund of the Russian Federation, the Federal Tax Service of the Russian Federation). In addition, it is also important to ensure the adequate disclosure of information on the financial condition of financial market participants and proposed financial products that is sufficient for timely risk assessments by investors and customers, and for well-informed choices to be made by consumers.

In the financial sphere, it would be also expedient to eliminate unnecessary barriers to the use of outsourcing. This will enable financial intermediaries to focus on their core business, transferring all auxiliary operations to companies specialising in them, which will in turn reduce the costs of financial intermediaries and, as a consequence, the cost of products and services for consumers. This allocation of functions will be also conducive to a significant increase in labour productivity in the financial sector.

Important changes are required with regard to a further increase in financial inclusion for small and medium-sized businesses. The activities of public institutions, which support small and medium-sized businesses by setting standards for the financing

thereof by credit institutions and infrastructure entities, as well as the simultaneous development of requirements for such creditors, are essential. The role of these institutions is significant in terms of systematic risk mitigation and a streamlined launch of securitisation programmes, including by improving the quality of the underlying asset.

The Bank of Russia considers it appropriate to support business activity at all levels of business development, in particular, by increasing the availability of bond issues and developing tools for financing the projects of medium-sized businesses, that have the potential to become large companies, and providing access to microfinancing for emerging entrepreneurs. An important step in this direction is the development of incentive measures for this new category of microfinance organisations (microfinance institutions for business financing).

Among the measures improving the financial inclusion for small and medium-sized businesses, there are securitisation mechanisms expected to be developed for different asset portfolios (including micro loans for small and medium-sized businesses), and streamlining leasing and factoring payment procedures.

Moreover, from 2016, the Bank of Russia established a reduced risk ratio for loans to small businesses that meet certain criteria: 75% instead of 100%. The next step after establishing a reduced risk ratio for certain loans to small businesses, which increases the attractiveness of small and medium-sized business lending for credit institutions, will be to increase the use of incentive norms by the Bank of Russia in accordance with the recommendations of the Basel Committee on Banking Supervision.

### II.3. Discouraging malpractice in the financial market

Ensuring good practice in the financial market is a multifaceted task to be accomplished by regula-

tory authorities, consumers of financial products and services, and direct participants of the financial market conducting legitimate activities but facing unfair competition. A key success factor in completing this task is the ability of the regulator to identify the facts of unfair behaviour and ensure the effectiveness and proportionality of enforcement measures against dishonest financial market participants. In addition, an important task, along with the implementation of measures for countering unfair practices, is the creation of conditions for attracting to the Russian financial market bona fide participants that will strengthen confidence in the financial market, increase the stability of financial intermediaries, and help ensure fair competition in the financial market and its further stable functioning and development. The continuation of joint efforts of the Bank of Russia and law enforcement and judicial authorities to prevent financial institutions without licences, accreditation, or not included in the register, from entering the market, when it is required that they obtain said documents in order to conduct their activities, will also contribute to increasing confidence in the financial market.

Particular attention should be paid to the cooperation of the Bank of Russia with law enforcement agencies regarding the termination of illegal consumer lending activities by illegal creditors that discredit fair competition and violate the rights of individuals. There are also plans to use an illegal participant automated search model built on Big Data technology that monitors facts of illegal activities in retail lending on an on-going basis for the further transmission of information to law enforcement agencies.

In cooperation with law enforcement agencies, the Bank of Russia will continue to implement measures aimed at restricting malpractice and countering the use of criminal and similar business practices involving violations of the Russian law and the resultant unfair competitive advantages it gives such violators. In the medi-

um term, the Bank of Russia will continue improving the mechanism for detecting malpractices, in particular, by reducing the time needed for their detection and collecting evidence and developing the mechanism of joint work with law enforcement agencies, including the expediting of the transfer and examination of materials.

In collaboration with concerned agencies, further steps will be made to introduce a more flexible regulation of insider information list to the legislation of the Russian Federation. This will expand the application of standards on countering the illegal use of insider information. To prevent market manipulation practices, work is conducted to install a corresponding concept in the Russian legislation.

It is also planned to create conditions where the benefit of unfair behaviour for both organisations and their employees will be fully eliminated through the application of effective and proportionate enforcement measures. This proportionality should be determined not only by the volume of the direct losses of third parties affected by illegal actions but also by taking into account the extent of damage from the offense on the level of trust and fair competition in the financial market.

In addition to the said penalties for committed offenses, the Bank of Russia plans to use the business reputation of the members of management bodies of financial market participants as a way to remove unscrupulous managers and employees from the financial market.

Bank of Russia is also considering the possibility of developing a system in the medium term that provides for the application of measures of responsibility both to the financial organisation, which is a separate legal entity, and to its employees, directors, and controlling owners. Such responsibility measures may be aimed, in particular, at the adjustment of business models and financial institution management systems without the use of the most severe sanction: the revoca-

## Sophistication of the rules and punishment for the violation of principles

The key factor behind the competitiveness of the Russian financial market is the achievement of the optimal balance between industry costs for compliance with mandatory regulatory requirements and the level of freedom for businesses.

The impacts of regulation elements include:

- the level of market confidence as a key component;
- the level of financial market stability;
- the financial stability of financial market institutions;
- the quality of financial market institution operations, including the work of appraisers, auditors, actuaries, arbitration courts, credit and insurance history bureaus, etc.;
- the continuity of infrastructure operations;
- the quality of the competitive environment;
- the extent of losses in cases of bankruptcy.

It should be noted that the regulation costs include:

- the costs for compliance procedures
- the cost of state agents' functions exercising control in the fiscal and monetary sphere and functions related to compliance with the requirements of countering the laundering of criminally obtained incomes and the financing of terrorism;
- the costs of creating and modifying business processes for the preparation of reporting;
- additional costs incurred by information technologies and HR associated with regulatory changes;
- the costs of compliance with other requirements and standards;
- constraints hindering the process of introducing new financial instruments and forms of customer service in the financial market;
- migration of a section of the market into a grey area uncovered by the regulation.

For example, the introduction of new financial reporting requirements as part of the migration to the International Financial Reporting Standards for non-bank financial institutions, on the one hand, is associated with high costs, but, on the other hand, it creates advantages for the users of such reporting and the development of the industry itself. At the same time, there is the risk of this measure's effectiveness plummeting where there is a lack of confidence in the quality and reliability of such reporting. The said lack of confidence may be based on a lack of the management body's responsibility for the distortion of reporting and on unfair audits. There are two possible options for the regulator to mitigate this risk:

- the establishment of enforcement practices implying the strict liability of financial organisation employees for providing unreliable financial reporting and distorting the data presented for audits and the liability of audit companies for the quality of audits. This measure installs the fear of the inevitability of punishment for any violations. The costs for applying this option are minimal for the industry, but it requires a high degree of coordination between the regulator and the law enforcement system.
- countering the distortion of data and the provision of false financial reporting mechanically by means of detailed rules, improved reporting procedures, and an increase in the intensity of supervision and inspection activities of the Bank of Russia in respect to all supervised institutions.

It is obvious that the rules do not insure the system against their violation but rather put an additional burden on all financial market participants, including bona fide ones. Furthermore, when confidence in reporting does emerge, it is still insufficient.

Rules can be violated despite the degree of their detailing. At the same time, the architecture of transactions aimed at the implementation of illegal actions can mask their economic meaning under the existing rules. The regulator's response to an identified offense by changing the rules is always reactive. In addition, the offenders have an advantage because they know the rules in advance. A more effective system to counter malpractice is regulation on the basis of principles and the inevitability of punishment for their violation. This system does not create a large regulatory burden but does provide for a decrease in illegal activities and the creation of an atmosphere of confidence in market operations. This approach may be used in cases where the regulator has the right to use its professional judgment.

tion (cancellation) of licences.

Reliable financial indicators are the basis for the creation of new financial instruments and one of the conditions for the development of the derivatives market. The presence of negative international practices related to the detection of cases of manipulation in the formation of certain financial indicators and enhanced attention of foreign regulators to the process and principles of financial market indicators set forth for the Bank of Russia the task of implementing its own mechanism for the regulation of financial indicators in Russia. This primarily refers to indicators that are the underlying asset for derivatives and other contracts that are of a mass character on the exchange. In this regard, as part of the measures to comply with the principles of reliability and transparency in the formation of financial indicators that are actively used in the financial market, an approach was developed involving the voluntary accreditation with the Bank of Russia of organisations engaged in the formation of financial indicators. The accreditation process assumes compliance with certain minimal requirements set forth by the Bank of Russia. These requirements include the availability of indicator setting rules and their public disclosure, the maintenance of continuity, and the identification of possible conflicts of interest along with their control measures.

Moreover, in order to improve the accuracy of calculating insurer reserve values and the liabilities of non-governmental pension funds in the planned period, the Bank of Russia intends to further develop the actuarial evaluation system. Improving the quality of operations and the qualification level of appraisers and auditors is also an important task as the results of their activities are widely used in making supervisory and regulatory decisions.

At the same time, in order to quickly detect emerging problems and find solutions before they become critical, it is also necessary to im-

plement measures aimed at counteracting fictitious pricing in open markets.

To ensure the sustainability, stability, and continuity of exchange markets, the Bank of Russia is going to create a monitoring centre for the situation in exchange trading. Creating a situation centre is necessary for the accomplishment of the following objectives:

- timely detection and analysis of the reasons underlying significant changes in the dynamics of exchange trading;
- identification of market manipulation instances, timely analysis of such instances, and quick responses with adequate enforcement measures;
- identification of other negative practices, such as submitting by financial market participants of own bids in advance of their customers' bids so as to increase the value of financial instruments and execute customer orders at an inflated price;
- provision for the Bank of Russia management the means to carry out operational analyses of situations on exchange markets necessary for decision-making in crisis environment.

As a result of the founding of such a situation centre, the Bank of Russia plans to significantly increase the degree of its analytical efficiency and decision making in situations that arise in exchange platforms. This will lead to an increase in the stability and predictability of exchange markets, enable a detailed analysis of both individual transactions and complex trading strategies, and will have an overall positive impact on the appeal of the Russian financial market.

## II.4. Enhancing investor appeal for the equity financing of public companies via improved corporate governance

Joint-stock companies are a key element of the modern Russian economy. Further improvements

to the regulation of the formation and operation of joint-stock companies, as well as corporate relations associated with participation in such companies and their management will improve conditions for attracting share capital. Moreover, the development of the equity financing market will be facilitated through the creation of the necessary infrastructure and forms of financial intermediaries in Russia that have the necessary expertise to attract capital for the equity financing of companies during the initial implementation of their business plans and subsequent growth.

Joint-stock company business environments include legislative requirements (strict regulation) as well as business practices, ethical standards, best practices, and recommendations that organisations can follow to obtain additional competitive advantages (soft regulation). Whereas heavy regulation clearly answers the question ‘what should be done?’, if possible, soft regulation is intended to answer the question ‘how should it be done?’ At the same time, unlike law enforcement practice of the strict regulation, the soft regulation implies the presence of a variety of tools and practices to stimulate the application of appropriate practices.

The effective alignment of corporate relation systems that assumes a balanced mix of strict and soft regulation can facilitate the achievement of maximum economic benefits at minimal costs for entities under regulation. Following this approach, the Bank of Russia seeks to improve corporate relations in two mutually complementary areas: the realisation of initiatives for improving legislation on joint-stock companies and the implementation of the best standards of corporate governance in the practices of Russian joint-stock companies. Considering the necessity of following the regulation predictability principle, which is especially relevant for corporate relations, changes should be gradual and should be accompanied by public discussions of initiatives in this area. During the planned period, issues of corporate relations improvement will be largely focused on public joint-stock companies.

In 2014, the Bank of Russia Board of Directors approved the Corporate Governance Code, which provided guidance for Russian public joint-stock companies on the implementation of advanced corporate governance standards. The Corporate Governance Code is actually a manual on building an efficient management system in the company and ensuring proper cooperation between all stakeholders involved in its activities. Depending on the size and nature of its activities, strategy, and life cycle stages, various approaches and corporate governance tools can be employed, including those different from the ones recommended in the Corporate Governance Code.

In this regard, in order to ensure the confidence of shareholders and investors, implementation of the ‘comply or explain’ principle is essential, which implies the qualitative disclosure of complete and reliable information regarding the reasons for non-compliance with the principles and recommendations of the Corporate Governance Code, as well as implementation of the proper control over the disclosure of such information. The Bank of Russia plans to develop standards for the disclosure of information on compliance with the Corporate Governance Code. Recommendations and guidelines for the application of disclosure standards, which will also be developed by the Bank of Russia, will help joint-stock companies avoid a formal approach that many companies previously used when disclosing information on compliance with the Corporate Conduct Code<sup>27</sup>, which is unacceptable.

For the purpose of speeding up the introduction of the best practices of corporate governance in Russian public joint-stock companies, as reflected in the principles and recommendations of the Corporate Governance Code, the Bank of Russia is going to elaborate the necessary tools to assess the quality and completeness of information dis-

<sup>27</sup> The Corporate Conduct Code was approved at the meeting of the Government of the Russian Federation on 28 November 2001 (Minutes No. 49).

closed by joint-stock companies on a regular basis.

In countries with developed authorised capital market, monitoring and coverage of corporate governance practices are carried out on a regular basis by bodies interested in improving corporate governance — the regulators of financial markets, quasi-regulators (structures existing on the contributions of market participants), public organisations consolidating industry and expert community representatives. Thus, the Bank of Russia plans further work towards extensive coverage of the current situation in corporate governance, the application of the Corporate Governance Code recommendations by Russian joint-stock companies, and informing financial market participants on the specifics of implementation and use of corporate governance principles requiring particular attention, including through the publication of corporate governance practice reviews.

In order to create preferences for public joint-stock companies involving the raising of equity and debt financing, the Bank of Russia plans to apply direct quantitative requirements that allow for the utilisation of institutional investor assets, pension funds and insurance companies, for the formation of the portfolios of stocks and bonds of Russian companies.

To improve the level of shareholder interest protection and to ensure appropriate conditions for the exercise of their rights, there are plans to resolve issues related to voting by quasi-treasury shares, large-value transactions and related party transactions, and the acquisition of large blocks of shares in public joint-stock companies at the legislative level.

The most important area for improving the legal regulation of public companies is strengthening the role of boards of directors in strategic management and increasing the responsibility of the members of joint-stock company management bodies for management results. As part of

the specified work, there are plans to amend the legislation so as to remove barriers hampering the transfer of competencies for the formation executive management bodies from the shareholder's meeting to the board of directors of public joint-stock companies. Once introduced, this measure will allow boards of directors to exercise effective control over the activities of executive bodies and to ensure continuity upon their formation.

To improve the effectiveness of boards of directors' work in the most important areas, it is planned to prepare proposals for the formation of boards of directors' committees. In order to ensure the continuity of boards of directors (supervisory boards) and to apply strategic planning over a long-term horizon, and also to improve the quality of company management, it is proposed to consider the issue of vesting boards of directors (supervisory boards) with the right to nominate candidates to be elected for new terms of such boards of directors (supervisory boards). It is also necessary to install the personal responsibility of the members of joint-stock companies' management bodies, boards of directors and executive bodies, for decisions they make in exercising rights and fulfilling assigned responsibilities, including the responsibility for inaction. To ensure the effectiveness of further steps for strengthening the responsibility of members of management bodies and expanding the grounds for enforcing their responsibilities, the meaningful definition of such categories as 'reasonable actions' and 'bona fide actions' is required with respect to the head or members of the management body of companies.

The central bank plans to establish mechanisms to prevent the inclusion in management bodies of persons whose unscrupulous and/or unreasonable company management actions have resulted in the loss or significant reduction of the company's shareholder value or otherwise materially violated the rights and legitimate

interests of shareholders. Developed mechanisms shall be applied to all public joint-stock companies regardless of the industry they operate in.

In order to increase the confidence of investors and shareholders, the Bank of Russia is going to consider introducing additional control mechanisms over the conformity of the actual activities of public companies with declared strategies. Specifically, this mechanism can be implemented through the establishment of requirements for verifying the compliance of company activities with its strategic documents by an external auditor.

To enhance financial market transparency and the availability of information on joint-stock companies, and to balance the interests of joint-stock companies, shareholders and investors, the Bank of Russia, jointly with other stakeholding agencies, will discuss and make appropriate decisions on changing the requirements for information disclosure by issuers, and for the procedure of providing shareholders with access to corporate documents. Considering that, on the one hand, the volume of disclosed information is assessed by issuers and investors as excessive, and, on the other hand, as not sufficient to cover all the essential aspects of company activities that influence investment decisions, it is required to amend the law by setting rules on the disclosure of information in the securities market. As part of these changes, there is a shift from information disclosure on the basis of formal criteria to disclosure based on the materiality principle.

The quality of corporate governance over financial market infrastructure organisations, taking into account their decisive role in the formation and development of the financial market and its separate segments, deserves particular attention. In this regard, the Bank of Russia is going to elaborate and launch requirements for infrastructure organisations that are based on the international standards of corporate govern-

ance.

In order to raise the competitiveness of the Russian financial market, create favourable conditions for investors, enable the exercise of corporate rights with using modern information technologies without direct interaction between securities owners and the joint-stock company, the Bank of Russia will implement a set of measures to regulate the cascade procedure of corporate actions through an accounting system.

## II.5. Development of the bond market and syndicated lending market

The development of the bond market is a priority of the financial market, because its success influences the performance of the Bank of Russia's refinancing system, evolution of the derivatives market, stability of the money market, and investment results of the non-governmental pension provision and life insurance systems.

Development of this segment shall help resolve the issue of potential marketable collateral deficits in the financial system and lift from the banking sector the burden of lending to major Russian corporations. Demand for marketable collateral may increase due to the planned shift of the derivatives market towards a secured basis and the development of the money market through the preferential use of secured lending instruments, including repo operations on the basis of a central counterparty with clearing participation certificates. The banking sector will ensure an additional demand for ruble-denominated bonds following the introduction of Basel III regulatory standards<sup>28</sup>. The expansion of investment portfolios of non-governmental

<sup>28</sup> Basel II, Basel 2.5, and Basel III standards are documents of the Basel Committee on Banking Supervision that outline approaches and methodology in the field of banking regulation and supervision.

funds and insurance companies will also trigger demand for bonds.

The developed public bond market allows for the transformation of relatively short-term resources in the banking system in the form of deposits into long-term sources of capital for Russian issuers. In order to attract new issuers to the bond market and to raise the demand for debt financing the Bank of Russia has plans to implement a set of measures to encourage the best borrowers (large business representatives) to obtain borrowings in the bond market in the medium term. This shift will in turn facilitate the release of the banking capital, enabling credit institutions to expand lending to non-public borrowers, including small and medium-sized businesses.

An important condition for developing the bond market is a cost reduction for issuers involved in securities issues. Together with other agencies concerned, the Bank of Russia will continue to streamline the regulation of securities issue procedure, which includes the simplification of the state registration of securities issues procedure by removing duplicate and redundant information from issuing documentation, and setting the grounds for submitting this documentation for registration in electronic form. In future, attention will be given to the possibility to generate and distribute this information in XBRL format (eXtensible Business Reporting Language), which will reduce the expenses of issuers for its preparation, and those of investors – for its processing and use.

The Bank of Russia also has plans to implement further measures aimed at reducing the period running from the placement date of bonds issued within a bond programme included in the Bank of Russia Lombard List prior to the beginning of a period when they may be used in Bank of Russia refinancing operations and repos.

The inherent limitations of bonds' liquidity calls for the development of price centres that collect and process information about the fair value of

financial instruments, including illiquid ones, and also provide access to such information for interested users. The need for such information is experienced both by financial market participants (for the purpose of accounting and taxation, the valuation of assets and liabilities, and asset portfolio management) and by the Bank of Russia while exercising its supervisory functions to prevent price manipulation, increase financial market transparency, and to evaluate assets provided to the Bank of Russia as collateral under refinancing operations. During the planned period, the Bank of Russia will develop a mechanism for the voluntary accreditation of price centres.

Together with other stakeholding authorities, the Bank of Russia will continue to implement measures for developing the mechanism for simplified bond issuance procedures (within a bond programme) and for its promotion among issuers by advancing the legislation that regulates the issuance of bonds. Moreover, in the planned period the Bank of Russia intends to conduct an analysis of the restrictions holding back the development of the bond market and the subsequent elaboration and implementation of measures for their elimination in order to develop the bond market. This will include work to improve the mechanism for the settlement of default on bonds through the body of collective management and control (general meeting of bondholders) to facilitate the emergence of debt market securities with longer maturities and a reduction of the number of defaults on securities by bond issuers, and also the loss of invested funds by bondholders.

Increase in the investment appeal and progress of the bond market not only in stable economic conditions but also in conditions of turbulence will be assisted by the development of a bond market with a floating rate and the creation of new products that will attract investment resources for long-term projects interesting both to issuers and investors.

One of the key prerequisites of the bond market

development is an adequate assessment of bond credit quality by national rating agencies along with the recognition of such assessments by the regulator and investors. Taking into account the current geopolitical situation in Russia, the national financial market cannot rely solely on major international rating companies, servicing Russian customers from abroad. In this regard, it is necessary to carry out an integrated restart of the Russian rating agency industry. Together with other stakeholding agencies, the Bank of Russia plans to establish effective mechanisms for the regulation, control, and supervision over rating agencies on the basis of new legislative regulations aimed at ensuring the quality of rating information and the elimination of dishonest competition. The regulation of rating activities will be based on the best international practices, which will ensure the recognition of Russian rating agencies by foreign regulators in the medium term.

In order to reduce the expenses of financial market participants on searching and processing information about corporate actions with securities on the basis of a central depository, the Bank of Russia is assisting in setting a single centre for corporate information. During the planned period, work will continue to improve relevant regulatory norms and to finalise all necessary technological upgrades for its effective operation.

In conditions where Russian companies have limited access to the Eurobond market, the regulator will support the issues of Russian bonds denominated in foreign currencies, including the renminbi. Entry into new markets will partly recoup the lost demand for Russian bonds from Western creditors.

In cases where a bond issue for one reason or another is difficult or impossible, a borrower's need for large-value financing can be met by a form of collective lending known as syndicated lending. The use of this mechanism allows borrowers to attract large loans and, as for creditors, it allows credit institutions, including small ones, to get ac-

cess to large customers and contributes to the diversification of loan portfolios. At the same time, in Russia the syndicated lending segment is currently underdeveloped. In this regard, during the planned period the Bank of Russia intends to conduct an analysis of existing limitations hampering the development of this segment and, based on its results, to work out measures for their elimination and for advancing the syndicated lending.

## II.6. Improvement of the financial market regulation, including the use of proportional regulation and optimisation of regulatory burden on financial market participants

Optimising the regulatory burden on financial market participants is a necessary condition for raising competitiveness in this sector. It should be noted that the presence of financial conglomerates in the Russian Federation requires the application of comprehensive approaches to the regulation and supervision of different financial market entities to achieve a convergence between existing principles and methodologies. However, differences in the regulation and supervision of various segments of the financial market are reasonably developed, and not all supervisory principles and rules should be united. Thus, a basic principle the Bank of Russia holds for improving the system of regulation and supervision is to stimulate the development of different financial market segments as a single organism, ensuring the confidence of its participants and future sustainability. Optimisation should focus on a number of areas:

- the proportionality of the regulatory burden according to the systemic importance of a financial intermediary;
- the introduction of modern information tech-

nologies to reduce the expenses of financial intermediaries when preparing various types of reporting;

- the elimination of duplications in the collection of reporting data and information on the operation of individual segments of the financial market;
- the conformity of regulatory burden with achieved results.

In reference to the above, the primary measure to optimise the regulatory burden is the introduction of a selective approach to the regulation and supervision of financial organisations depending on the level of the sector's development (taking into account its specificity), and also the financial transactions conducted and the risks associated with the activities of financial intermediaries. The Bank of Russia will build a system of proportional financial institution regulation that implies their conventional division within a particular sector into three groups: systemically important institutions, small institutions, and other companies. The Bank of Russia intends to establish different requirements for such groups of financial institutions. Thus, enhanced requirements will be applied to systemically important financial institutions, simplified regulation will be used for small companies, and basic regulatory requirements will be used for the rest of the companies depending on the risks of their activities. In addition to such an approach, there will also be different requirements for capital and required ratios, and other regulatory requirements will be used depending on the individual characteristics of certain types of financial institutions and the risks associated with their operation. A similar diversified approach to regulation is implemented by the Bank of Russia in respect to payment systems. In particular, the Russian legislation establishes special requirements for systemically important payment systems and socially important payment systems in accordance with their role in financial markets and the possible impact on its participants.

The creation of an effective supervisory framework involving the integration of information flows in relation to credit and non-bank financial institutions, along with carrying out cross and synchronized inspections, will contribute to the further improvement of financial market transparency. In this regard, the Bank of Russia is primarily tasked with the improvement of financial institution supervision procedures. In the medium term, the central bank plans to carry out a series of measures to ensure the standardisation of supervisory processes in all Russian regions. A unified approach to the supervision of financial institutions can both improve the quality of supervisory activities and reduce the regulatory burden on financial institutions. To implement this task, the Bank of Russia is going to conduct a comprehensive analysis of the adoption of supervisory practices in financial institutions from different regions across the country. According to the results of this analysis, further work will be performed to introduce a standardised approach to the implementation by the central bank of its supervisory mandate with clearly defined functions and the creation of a supervisory system over all financial market segments along with case files on all and each financial market participants. An increase in supervisory process standardisation will facilitate the simplification of interactions between the regulator and financial market participants, the alignment of conditions for financial institution operations throughout the country, and also the reduction of the excessive administrative burden.

One important task for the Bank of Russia is the elimination of unjustified regulatory arbitrage, which has arisen because of differences in the approaches to regulatory and supervisory practices in the single Russian financial market. At the same time, work will be continued to eliminate gaps in the regulation of individual sectors of the financial market.

On the initiative of the Bank of Russia, after it

acquired the functions of a single financial market regulator, in 2013 the Working Group on the establishment of the international financial centre in the Russian Federation at the Council with the President of the Russian Federation on the development of the financial market of the Russian Federation prepared an initial list consisting of 233 proposals of the professional community. These proposals were designed to streamline the regulation of the financial market and were ranked based to the assessment of their priority<sup>29</sup>. Later on, the format of annual meetings became a platform for the discussion of priorities for the coming year by the Bank of Russia with the professional community, which increases transparency and the predictability of the regulator's actions and promotes effective cooperation with financial market participants.

Achieving the optimisation of regulatory burden, enhancing the reliability and quality of reporting data will be also facilitated by the transition of non-bank financial institutions to the International Financial Reporting Standards (IFRS) and the introduction of a single unified reporting format based on XBRL requirements.

As part of transition to the new accounting procedure based on the IFRS, the Bank of Russia will arrange a free of charge training for the heads, chief accountants and other specialists of non-bank financial institutions.

Taking into account the important role of financial groups in the Russian financial market, it is necessary to gradually reduce the administrative costs of such groups during the implementation of different activities. The specified changes can be achieved by the elimination of duplicate and unused information, as well as by supplementing single reporting with data that enables the simultaneous execution of effective remote supervision over

various activities in the financial market. The improvement, optimisation, and standardisation of reporting will help improve its comparability and transparency. Moreover, the Bank of Russia plans to reduce regulatory restrictions in what concerns the possibility for outsourcing by financial institutions, particularly as regards accounting, reporting preparation, and information disclosure.

The implementation of this task will be facilitated by the widespread application of assessment procedures on the impact of Bank of Russia regulations. In this regard, there are plans to streamline the practice of assessing the impact of Bank of Russia regulations during their development and the application of assessment procedures for the actual impact of the regulatory acts of Bank of Russia after a certain period of time they have been in force. According to the results of such an assessment, decisions will be made on the need to adjust the requirements for financial intermediaries and/or the statements obtained by the regulator to assess the risks of their activities.

It should be noted that the use of formal approaches to the supervision of banks and non-bank financial institutions continues to be a significant defect, one reason for which is the limited legal capacity of the Bank of Russia for the implementation of substantive approaches to the risk assessment of banks and non-bank financial institutions and their activities in general. In this respect the Bank of Russia intends to consistently use its professional judgment on certain issues of financial institution activities while increasing control over decision making procedures.

The Bank of Russia also intends to work on approaches to the provision of services for small supervised financial institutions allowing them to keep records of business activities without the obligation to file these reports upon the granting to the Bank of Russia of the right for the direct use of their accounting data, including the use of cloud technologies. These organisations will also be able to use the simplified format for annual reporting.

<sup>29</sup> In autumn 2013, the strategic session Landmarks of the Financial Market Regulation Policy formulated a list of 233 proposals of the professional community to improve the regulation of the financial market (233 KPIs).

The implementation of the data centric approach to cooperation between the regulator and supervised entities for obtaining reporting data will be the basis for the further access of the regulator to databases of financial market participants containing primary data necessary to perform supervisory functions.

With regard to financial intermediaries that simultaneously hold multiple licences allowing them to operate in different sectors of the financial market, the Bank of Russia, with the participation of other stakeholding agencies, plans to complete work to overcome isolated sectoral regulation and, as a consequence, eliminate the excessive burden of reporting and internal control procedures. The need for such changes applies to financial intermediaries that are public companies. In particular, there are plans to improve the internal control system for credit institutions engaged in professional activities in the securities market by assigning all issues to a single structural unit related to the internal control of banking operations and transactions, operations of professional participants, and issues related to countering the legalisation (laundering) of criminally obtained incomes and the financing of terrorism.

In the medium term the Bank of Russia, as the single regulator of the financial market, will pay particular attention to the comprehensive supervision and monitoring of financial conglomerate activities, including because of the fact that risk migration between the different components of financial groups leads to the possibility of their high concentration in certain segments of the market that are currently not sufficiently supervised. Improvements to supervision will boost the quality of risk management in financial and banking groups and holding companies as well as the timely identification of high risk areas.

## II.7. Advanced training for professionals working in the financial market

To create a high-quality basis for the functioning of a financial intermediary institution, it is necessary to

find a solution to the fundamental issues on the preparation of relevant qualified labour resources for the financial industry. Taking into account a sufficient level of the general theoretical training of students in Russia, the Bank of Russia, together with stakeholding authorities, deems it appropriate to focus on obtaining practical knowledge in several areas of the activity by financial market experts during the formation of educational programmes.

First of all, activities aimed at improving the quality of training for teachers of higher professional education will be carried out on the basis of international practice. It is also necessary to improve educational programmes, the methods of training financial market experts, programmes for the improvement of their skills, and retraining taking into account the best international practices that will also contribute to the establishment of a competitive internal labour market for experts in the financial sphere. The graduates of Russian universities after having completed the appropriate coursework and obtained the relevant certificates should be ready to work in the financial industry with no significant additional training costs to be incurred by employers. Special attention will be paid to the training of experts in internal audit, strategic planning, asset management, and financial advising, thus ensuring cyber security and corporate governance. Furthermore, the Bank of Russia will prepare proposals to improve the process of training for auditors, appraisers, and actuaries in the planned period, including the further development of the relevant requirements for these experts.

Another important task is improving the existing system of certification for financial market experts. The Bank of Russia plans to introduce the certification system in all financial market segments (excluding credit institutions) and include the presence of a financial market expert certificate in the list of mandatory requirements for a number of positions in order to guarantee the required level of qualification for all financial market experts involved in key decision making process within their

organisations. The Bank of Russia shall constantly update the list of questions for this new system of qualification examinations, including a set of tasks spanning the entire financial market. It is expected that the questions will be connected with corresponding training programmes. There are also plans to develop a mechanism to recognise the foreign certificates of financial market experts in Russia. Moreover, it is necessary to include a provision for the presence of financial market expert certificates in the list of requirements for a number of positions where special skills are required. This list will be compiled by the Bank of Russia in the planned period. The central bank is going to develop and implement training programmes and topic-based workshops for law enforcement and judicial authority employees in order to promote staff competence and the quality of consideration of issues in the financial sphere. These measures will contribute to the growth of confidence in institutions associated with financial dispute settlement, litigation, and other proceedings on economic crimes and will also improve the efficiency of combating economic crimes.

## II.8. Incentives to electronic interaction mechanisms in the financial market

The application of new information technologies in the financial sector is aimed at the radical reduction of transaction costs of financial market participants and at the expansion of consumer access to various financial products and services. The migration to remote paperless interaction is a task that makes the financial market extraterritorial, i.e. accessible to financial consumers at any time, regardless of their location or the location of financial institutions. A necessary condition for completing this task is the expansion of a remote identification system of financial consumers by financial intermediaries.

In order to improve electronic interactions, the

Bank of Russia, together with financial market participants and relevant ministries and departments along with organisational and analytical support from the Analytical Centre 'Forum', has attempted to identify legal and technological barriers to the use of modern information technologies in the financial market. On the basis of this analysis the action plan (road map) on the development of electronic interactions in the financial market was developed; it represents a set of measures to improve the mechanisms of electronic interaction in the financial market and the migration to the electronic document management of all market participants, their customers, federal executive authorities, and the Bank of Russia. This road map was approved by Arkady Dvorkovich, Deputy Prime Minister of the Government of the Russian Federation on 18 May 2015. In this respect, it is planned to create end-to-end, continuous chains of electronic interactions for all financial market entities that will be built up with a gradual decrease in the share of paper documents in the financial market as well as by preventing and eliminating gaps in them in order to ensure sufficient informational security for all financial market participants.

In addition, the Bank of Russia ensures the transition to informational exchange with all supervised institutions through their own on-line account in the Bank of Russia. At present, the law prescribes non-bank financial institutions to interact electronically with the Bank of Russia. In view of the above, the central bank has elaborated information resources and placed them on its web-site, including by providing access to on-line accounts. Moreover, the right to use the said resources is given to securities issuers, applicants for Bank of Russia licences and certificates, financial market self-regulatory organisations, and also to other agents – according to the legislation of the Russian Federation on non-bank financial institutions, including instances requiring the protection of rights and legitimate interests of shareholders and investors in the financial markets.

There are also plans to transfer part of Bank of Russia services of to an electronic form that uses the electronic government infrastructure (including the unified portal of public and municipal services).

In addition, the Bank of Russia is considering a staged change of automated processes for the collection and analysis of all kinds of reporting for supervised entities based on the new format, which will eliminate the redundancy and duplication of reporting data, enhance credibility and quality of incoming information and unify the format of inter-agency electronic data interchange. In the future, the use of this format will help reduce the burden on supervised institutions as regards the preparation of sets of reporting for different purposes and for different departments. The XBRL standard has been selected by the Bank of Russia as a single electronic reporting format. XBRL is a modern format for exchanging financial, supervisory, and other business reporting based on a data model supplemented with descriptions of reporting forms, manual and classifier libraries, and data reconciliation and validation rules that collectively constitute the XBRL taxonomy. The availability of publicly available, detailed basic XBRL taxonomy should also significantly facilitate the completion of the reporting unification process for supervised institutions by the Bank of Russia on the basis of the International Financial Reporting Standards. The introduction of the obligation to submit reporting in a single XBRL electronic format will be implemented for non-bank financial institutions during the planned period. The decision on the feasibility of introducing specified reporting formats for credit institutions in order to unify regulation and supervision (in particular, to eliminate redundant and duplicate information from reporting) will be made on the basis of an analysis of the results of its use by non-bank financial institutions. To ensure the accuracy of information transmitted via electronic exchange or to avoid duplication, the integrated use of information systems that contain the necessary information for various authorities is required.

In order to provide citizens and financial market participants with equal opportunities for access to financial services regardless of their location, including payment services, it is proposed to further develop electronic means of payment and electronic technologies used in the practice of sales and the provision of financial products and services. One of the main obstacles to the development of electronic interactions is the psychological or behavioural barrier, largely caused by low awareness among citizens or a lack of information about the possibility of using cashless ways to carry out certain financial transactions, as well as distrust in the new forms of interaction. To overcome this barrier, it is necessary to increase the convenience of operations and the level of confidence and psychological comfort of citizens regarding the use of electronic methods of interaction with financial institutions, in particular, through training in the use of electronic financial services and providing consumers with more favourable conditions for the use of electronic forms of interaction.

The implementation of the planned measures shall ensure the information security of financial market participants, transparency, and protection of financial transactions. In this context, the Bank of Russia also intends to continue the elaboration and implementation of measures to counter cyber-crime over the mid-term horizon.

## II.9. International cooperation for the development and implementation of rules regulating the global financial market

The Russian Federation is actively involved in various integration associations to address pressing global issues, including those related to financial markets. The Bank of Russia will work on the development of international cooperation and integration processes in the following areas:

- cooperation with standard-setting bodies and international organisations for the development of international standards for financial market regulation;
- implementation of international standards in the Russian legislation;
- ensuring the recognition of the Russian regulation as consistent with international standards and the equivalent regimes of individual countries; the recognition of the conformity of Russian financial market infrastructure institutions and payment systems with international standards;
- ensuring information exchange with foreign regulators;
- sharing experience in the field of financial market regulation and supervision over the professional participants in the financial market, supervision and surveillance over financial market infrastructure organisations and payment systems, as well as cooperation in the area of international insolvency resolution.

The main interactions will be carried out in the framework of the G20, BRICS, the Eurasian Economic Union (EAEU), the Asia-Pacific Economic Cooperation (APEC), the Financial Stability Board, the Basel Committee on Banking Supervision and the Committee on Payments and Market Infrastructure, the International Association of Insurance Supervisors, the International Organisation of Securities Commissions, the International Organisation of Pension Supervisors, the Alliance for Financial Inclusion, and others.

The BRICS and APEC activities will be aimed at experience sharing and elaborating effective standards for financial market regulation taking into account the specifics of emerging economies, the harmonisation of existing regulation systems, and the integration of financial markets. In particular, a system for coordinating the implementation of corporate governance practic-

es among the BRICS countries shall be established during the planned period.

The Bank of Russia will continue to implement the international standard under the Principles for Financial Market Infrastructures<sup>30</sup> within the Russian jurisdiction and the activities for the assessment of infrastructural organisations of the financial market and important payment systems for the compliance with this standard using the appropriate assessment methodologies. The implementation of the provisions of the said standard in different jurisdictions is essential for the international financial market as a whole and for its individual members. Specifically, the possibility of applying a common approach to the assessment of jurisdictions and the comparability of its results with other jurisdictions of G20 countries allows financial market participants, including foreign investors, to assess potential risks associated with carrying out their activities under the Russian jurisdiction.

Improvement of the regulation, supervision, and monitoring in the Russian financial market occurs in the context of integration processes within the EAEU. The Bank of Russia will be involved in the development and coordination of EAEU member countries regarding plans for the harmonisation of national legislations in the financial sector and the gradual mutual elimination of barriers and restrictions on access to the market, stipulated in the lists of specific commitments annexed to the Treaty on the EAEU. Moreover, there are plans to establish an effective exchange of information between the regulators of the financial markets of EAEU member countries on the basis of the Agreement on Information Exchange, including confidential information, in the financial sector in order to create conditions for the financial markets to ensure the

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<sup>30</sup> Report of the Committee on Payments and Market Infrastructure and the International Organisation of Securities Commissions. Principles for Financial Market Infrastructures, CPSS-IOSCO, April 2012.

free movement of capital. Cooperation between the regulators of EAEU countries will be expanded with regard to individual sectors of the financial market.

An important direction for the further development of international cooperation and integration processes is the continuation of efforts for the removal of access barriers for foreign capital to the Russian financial market and the entry of Russian participants into new debt markets in Asian regions. In order to facilitate access to external financing, the Bank of Russia supports the integration of Russia's infrastructure with the global investment community. The policy of promoting the use of national currencies for mutual payments with market participants from key country partners of the Russian Federation will be continued. Cooperation with China on the issue of assigning the Russian jurisdiction with the status of a settlement centre for the renminbi will be carried out during the planned period.

Taking into account Russia's membership in the G20 and the Financial Stability Board, the Bank of Russia will continue to implement agreements entered with these organisations on the reform of financial sector regulation. In particular, during the period under observation, the migration of the market of standardised OTC derivatives to the central counterparty (CCP) clearing will be substantially completed, and derivatives outside the CCP scope will be covered by the introduced requirements for open positions and margining.

## II.10. Improvement of tools ensuring financial market stability

External shocks, bankruptcy or temporary disruptions in the work of infrastructure organisations of the financial market and its systemically important participants, speculative attacks,

and the transactions of its major participants, generating high volatility and strong movements of interest curves, have a direct impact on both the stability of the financial system and the entire economy of the country in general, as well as a negative impact on the confidence in the financial market. The negative effects of these issues accentuate the need for both the reduction of the probability of their occurrence and the limitation of their negative impact on the financial sector and the economy in general.

Seeking to ensure financial stability, the Bank of Russia will focus on six areas:

- monitoring of financial stability through the development and use of indicators that characterise financial stability;
- regulation, supervision, and monitoring of financial institutions, including financial market infrastructure organisations, and payment systems;
- macro-prudential regulation and supervision;
- risk monitoring in order to identify potential systemic risks, stress testing of individual sectors of the financial market, and analysis of the contagion effect;
- ensuring the uninterrupted and efficient functioning of financial market infrastructure organisations and payment systems;
- implementation of anti-crisis measures in the event of financial instability.

First of all, to ensure the stability of the Russian financial market, the Bank of Russia plans to implement measures aimed at improving its analytical capabilities used to identify threats to financial stability. This concerns the further development of instruments for early problem identification in the activities of financial institutions and in the individual markets of financial assets.

As part of the task to improve the regulation and supervision of financial institutions for the purpose of improving their financial stability, the Bank of Russia will continue to introduce risk-

based regulations, in particular, through the establishment of requirements for the equity of financial institutions taking into account their risk profile (the introduction of these requirements for credit institutions will continue). The further introduction of Basel II and Basel 2.5 standards related to market risk regulation will contribute to improving the financial stability of credit institutions engaged in trading securities and derivatives in the financial market. The Bank of Russia will continue to implement measures to create an effective system of consolidated supervision over financial groups and reduce the concentration risk on the investments of financial institutions.

Besides, in order to promote effective pricing and the transparency of transactions and to eliminate the problems related to the risk management in the OTC futures market, the Bank of Russia, together with other agencies concerned, plans to further improve the legislation with regard to the OTC financial derivatives market. Taking into account international trends, the Bank of Russia considers the feasibility of the institutionalisation of electronic trading system and financial advisory system.

In terms of improving the practice of macroprudential regulation and supervision, the central bank plans to develop and implement additional requirements taking into account international approaches for systemically important financial institutions with financial insolvency that could threaten financial stability or cause disruptions to the provision of certain types of financial services (specifically for systemically important bank, it is planned to introduce new liquidity ratios in accordance with Basel III and specific ratios for non-bank financial institutions (both on an individual and group basis), additional requirements for the disclosure of information, and requirements for the preparation and approval of a financial stability recovery plan by the Bank of Russia). Moreover, as part of the implementation of international recommendations relating to insolvency resolution,

the Bank of Russia will develop proposals to set up special financial recovery regimes and insolvency resolution schemes of systemically important non-bank financial institutions. In the medium term, the Bank of Russia, jointly with relevant authorities, intends to conduct comprehensive work regarding the improvement of the Russian legislation in terms of the development of a resolution mechanism for financial market participants in order to improve the stability of the financial market.

The institute of the central counterparty shall protect against the contagion effect of financial market participants as a result of the bankruptcy of large financial intermediaries. In this regard, the stability of the CCP acquires the utmost importance. The Bank of Russia wants to improve legislative regulation of the CCP institute, in particular, the introduction of risk-based ratios and special permissions for CCP operations. To create conditions that ensure the continuity of financial market operations, the Bank of Russia is going to pay particular attention to the development of transfer mechanisms for the positions and collateral of the customers of clearing participants to another clearing participant in the event of default by the clearing participant or in the event of its bankruptcy. The solution of this task will contribute to the minimisation of market shocks due to the forced closure of customer positions, provide better protection for a clearing participant's customers, and minimise their losses in cases where the clearing participant goes into default. Moreover, to enable the Russian Federation to meet the requirements of the Pittsburgh G20 summit, it is necessary to implement norms in the Russian legislation that establish an effective mechanism for the migration of standardised derivatives to the CCP clearing.

In order to ensure financial market stability, the Bank of Russia also plans to apply to insurance companies, non-governmental pension funds, and professional participants in the securities market the countercyclical policy of using a reserve buffer

mechanism to absorb the various shocks, in particular, credit shocks. Furthermore, the smoothing out of the negative effects of the economic cycle will be facilitated by improvements in the stabilisation reserve mechanism for insurance companies, the determining of floating limits on financial leverage in the money market for brokers, and floating rates of contributions to the guarantee fund depending on the average yield in the compulsory pension insurance system. At the same time, the Bank of Russia aims to establish and comply with the optimal level of requirements for supervised financial institutions contributing to both the maintenance of financial stability and an increase in capital efficiency in the financial sector.

A relevant task for the medium term is also the improvement of work on the identification and monitoring of financial market risks. Further development of the repository institute will allow the Bank of Russia to establish a system to monitor the vulnerability of the OTC market segment to systemic shocks. In addition to information on the repositories, the Bank of Russia is expanding its monitoring of transactions in the money market, which will include not only information about the input parameters of transactions but also information on life cycles, i.e. on changes in relation to counterparties (e.g., the early termination of obligations, the termination of obligations by novation, or on other grounds). This increase in the monitoring of the money market is essential in terms of a timely analysis of the credit quality of financial market participants, the possible effects of the distribution of credit risks across the financial system, and the assessment of the systemic stability of the money market in general. In order to limit the emergence of excessive foreign exchange risks that threaten financial stability, the Bank of Russia plans to restrict the formation of currency positions on the balance sheets of corporate borrowers in the planned period through the regulation of credit and non-bank financial institution operations, including through enforcing the compliance with required

ratios.

The Bank of Russia is going to monitor the credit quality of financial market participants, including through the creation of a rating repository that is responsible for a single publicly available database of rating actions, which will include information posted on the websites of rating agencies. In order to timely identify potential threats to the system; the central bank will consider the implementation of requirements applicable to all financial institutions for mandatory internal stress tests in preparation of the financial stability recovery plan.

For the early detection of systemic risks and maintaining the financial market stability, the Bank of Russia will monitor various financial indicators, by supplementing the following indicators of financial market stability with indicators of financial accessibility.

During the planned period, the Bank of Russia will carry out further improvements for infrastructure organisations of the financial market and payment systems, which contribute to the development of the financial market and are critical to the promotion and maintenance of financial stability. The uninterrupted functioning of infrastructure organisations of the financial market and payment systems also contribute to the efficient allocation of financial resources and the global competitiveness of national financial markets. However, in the absence of effective risk management that corresponds to the level of emerging threats, corporate governance, and balance of interests, they can generate systemic risks for the financial sector, especially in periods of market turbulence. The Bank of Russia's objective in the development of the infrastructure organisations of the financial market and payment systems is to achieve compliance with international standards to ensure accessible, uninterrupted, and efficient operation. Moreover, the results of the assessments of Russia's jurisdiction for compliance with the provisions of the international standard Principles for Financial

## Indicators of Financial Markets Stability

As part of the efforts aimed at identifying systemic risks, the Bank of Russia constantly monitors the stability of the financial markets with the help of the system of leading indicators.

Financial market risks	
Ruble money market risks	<ul style="list-style-type: none"> <li>• Deviation of the RUONIA rate from the Bank of Russia key rate</li> <li>• Mosprime–Roisfix spread (3 months)</li> <li>• Margin calls in the interdealer repo market in rubles</li> </ul>
Foreign exchange money market risks	<ul style="list-style-type: none"> <li>• Spread between RUONIA rate and overnight stock exchange FX swap rate</li> <li>• Spread between plain vanilla swap rate and cross-currency swap rate for 1 year</li> <li>• Spread between interdealer repo rate in US dollars and the Fed's rate</li> </ul>
Foreign exchange market risks	<ul style="list-style-type: none"> <li>• Deviation of the US dollar-to-ruble rate from the equilibrium value</li> <li>• Implied volatility of at-the-money options to US dollar-to-ruble rate (1 month)</li> <li>• Spread between the implied volatility of at-the-money options to US dollar-to-ruble rate and the implied volatility of Brent price adjusted by the sensitivity ratio of US dollar-to-ruble rate to oil price (1 month)</li> <li>• Ratio of the ask-bid spread at the US dollar-to-ruble rate to the closing value of the US dollar-to-ruble rate</li> </ul>
Stock market risk	<ul style="list-style-type: none"> <li>• Implied volatility of the RTS index (1 month)</li> <li>• Margin calls on interdealer repos with shares in rubles</li> <li>• Average value of ask-bid spread for most liquid share prices</li> </ul>
Government debt market risk	<ul style="list-style-type: none"> <li>• Bid-ask spreads of the yields for most liquid OFZs</li> <li>• Spread between the yields of 5- and 10-year OFZs</li> <li>• OFZ yield spread to US Treasury bonds yield</li> <li>• Russia's sovereign CDS premium (5 years)</li> <li>• Share of non-residents in the OFZ market</li> </ul>
Corporate borrowings market risk	<ul style="list-style-type: none"> <li>• Historical volatility of corporate ruble bond yield (IFX Cbonds), 1 month</li> <li>• Spread of corporate ruble bonds yield (IFX Cbonds) to OFZ yield (Cbonds GBI RU)</li> <li>• Spread of corporate investment-grade Eurobonds yield (Euro-Cbonds IF) to sovereign Eurobond yield (Euro-Cbonds Sovereign Russia)</li> <li>• Volume of new issues of marketable ruble bonds</li> </ul>
External markets risk	<ul style="list-style-type: none"> <li>• Implied volatility of Brent options</li> <li>• Volatility index S&amp;P 500 (VIX)</li> <li>• FTSE EM share index</li> <li>• Volatility index of Treasury bonds MOVE (Merill Lynch)</li> <li>• Spread of emerging market sovereign Eurobond yields to US Treasury bonds (JPMorgan EMGI Plus Sovereign Spread)</li> <li>• Average values of sovereign emerging market CDSs</li> <li>• The US dollar index to the key currencies (DXY)</li> <li>• The index of emerging market currencies to the US dollar MSCI EM</li> </ul>
Banking sector risks	
Risk of massive deposit withdrawals	<ul style="list-style-type: none"> <li>• Monthly growth rate of household deposits in rubles and foreign currency</li> <li>• Accumulated drop of household deposits in rubles and foreign currency since the beginning of the decline</li> </ul>
Risk of a mass ruble conversion into foreign currency	<ul style="list-style-type: none"> <li>• Volume of net purchases of cash and cashless FX by households</li> <li>• Difference between the US dollar buying and selling exchange rates</li> <li>• Dollarisation of retail and corporate deposits (adjusted for exchange rate revaluation)</li> </ul>
Risk of collateral deficit	<ul style="list-style-type: none"> <li>• Utilisation ratio of marketable and non-marketable assets (for top state-owned and private banks)</li> </ul>
Risk of funding instability	<ul style="list-style-type: none"> <li>• Loan to deposit ratio</li> <li>• Share of basic liabilities (retail and corporate deposits above one year) in the total liabilities</li> <li>• Up-to-one-year deposits to total deposits (retail and corporate)</li> <li>• Liquidity coverage ratio</li> </ul>
Interest rate risk	<ul style="list-style-type: none"> <li>• Total net interest income on loans and deposits to banking sector capital / assets</li> <li>• Share of interest income in total income</li> <li>• Gap between interest rate-sensitive claims and liabilities to banking sector capital</li> <li>• Net interest income on one-month funds placed and raised to banking sector capital</li> <li>• Difference between rates on new loans and deposits (retail and corporate)</li> </ul>
Credit risk	<ul style="list-style-type: none"> <li>• Share of quality category IV and V loans in corporate loan portfolio (excluding banks)</li> <li>• Share of non-performing consumer retail loans</li> <li>• Share of restructured loans in the total loan portfolio</li> <li>• Provisions created to outstanding loans ratio (corporate loans, consumer (retail) loans)</li> <li>• Growth of provisions over 12 months to the average loan portfolio (corporate loans, unsecured consumer (retail) loans)</li> <li>• Share of capital attributable to N1.0 banks is below 12% in total capital</li> <li>• Share of banks with ROE below 1%</li> </ul>

Market Infrastructures<sup>31</sup> demonstrate progress in its implementation in the Russian Federation. However, the Bank of Russia still has a considerable amount that needs to be done to align the legal framework with the requirements of this international standard in respect to financial market infrastructure organisations (the central depository, central counterparty, repository) and, as a consequence, to improve the respective evaluations.

The Bank of Russia has extensive range of tools to support the stable operation of the financial market in case the negative scenario evolves. In 2014, the central bank significantly increased the possibilities for refinancing credit institutions by introducing new tools and expanding the list of eligible collateral. Wherever appropriate, additional Bank of Russia measures can be used to mitigate liquidity problems in non-bank financial institutions. The Russian legislation assigns to the Bank of Russia the right to enter into agreements with entities exercising the functions of a central counterparty, under which the Bank of Russia is obligated to compensate such entities for part of the losses (costs) arising from transactions with clearing participants, including non-bank financial institutions with revoked (cancelled) licences for a relevant type of activity. In cases where there are market shocks and a deviation of the yield curve level of federal governments bonds (OFZs) from the fundamental level, the Bank of Russia may decide to purchase OFZs in the open market or purchase collateral from the central counterparty. Furthermore, when market pricing mechanisms are failing, the Bank of Russia will use the intervention mechanism in market pricing that does not require a compulsory interruption in trading in order to limit excessive volatility in the individual segments of the financial market and to maintain financial stability. In this regard, the central bank will have to study the above mechanism carefully.

To reduce the volatility of exchange trading in different classes of assets and contracts, the Bank of Russia will encourage the presence of participants with different trading strategies, which will involve, inter alia, a direct admission to the stock market of certain categories of participants that do not currently have appropriate rights. A variety of bidders with different strategies will enhance the depth of the market and its elasticity.

Given the history of the Russian stock market as a place where brokerage companies occupy an important place in the system of mediation in the securities market, a decision on their access to Bank of Russia settlement services may reduce the risks of their operations and enhance the Bank of Russia's ability to provide settlement services in the securities market.

<sup>31</sup> The highest rating of '4' was assigned to the jurisdiction of the Russian Federation with regard to the regulation of payment systems in the course of the last update of assessment results (2015).

## III. DEVELOPMENT SPECIFICS OF FINANCIAL MARKET SECTORS IN THE RUSSIAN FEDERATION IN 2016–2018

### Banking sector development objectives

In the present conditions of banking sector development, increased competition (partly induced by non-bank institutions engaged in financial innovation) brings to the forefront the quality characteristics of the products and services being offered, along with their technological and intellectual depth. The development of the banking sector in the medium term can be assisted by the enhanced complexity of financial services to corporations, developing consumer lending in compliance with the requirements of the Federal Law ‘On Consumer Loans’, installing conditions for syndicated lending, developing financial products for small and medium-sized businesses, improving risk-management in credit institutions, developing modern financial technologies, and active introducing innovative products in the sphere of banking and cross-sectoral services. These processes shall be accompanied by changes in the legal framework to encourage competition in the financial services market.

An important aspect for ensuring the qualitative growth of the Russian financial market is the integration of banking and non-banking financial products in credit institutions and banking groups, as well as the interaction of credit institutions with other financial institutions that can ensure the following:

- an increase in the profitability of financial institutions on account of the development of new products at the junction of banking and

other financial products and services, including the securitisation of bank loan portfolios, and expanding the range of debt market instruments secured with monetary claims;

- an increase in competitiveness, including through the effective use of credit institutions networks with their established sales channels and established culture of customer servicing, as well as an expansion of the product range to meet customer needs in non-banking financial services (e.g., insurance);
- the attraction of additional financial resources;
- improvements in risk management systems.

Thus, the complementarity of bank and non-bank financial product lines could have a high synergistic effect.

As regards banking regulation, the main task of the Bank of Russia is to implement a set of measures aimed at the further improvement of Russian legislation for the purpose of rational limiting risks, ensuring financial stability of the banking sector, and optimising the administrative burden on credit institutions. Banking regulation and supervision will evolve towards the higher role of quality (content) components based on internationally recognised standards and taking into account the operations of the Russian banking sector.

In 2016-2018, the development of banking regulation will be focused on the further implementation of internationally recognised approaches guided by the timeline for the staged introduction set by the Basel Committee on Banking Supervision (hereinafter, the BCBS), as well as the outcomes

of the BCBS programme for assessing the conformity of the Russian banking regulations with the Basel standards<sup>32</sup> and the upcoming (2016) evaluation of the Russian Federation in the framework of the Financial Sector Assessment Programme of the International Monetary Fund and the World Bank<sup>33</sup>.

The Bank of Russia will go on improving the quality of bank capital and assets, and overall risk mitigation for credit institutions. In particular, Basel II advanced approaches to the assessment of banking risks arising from the BCBS review of regulatory approaches will be implemented to assess capital adequacy.

As part of Pillar 1 of Basel II, on 1 October 2015, several Bank of Russia regulations came into force. These were issued to finalise the approach to the calculation of credit risk based on banks' internal ratings (IRB approach) and to enable Russian banks to apply the IRB approach to include the values of credit risk, calculated using the bank's internal models, in the calculation of capital adequacy ratios after the duly receipt of the Bank of Russia's permission. In addition, the implementation of Pillar 2 of Basel II 'Supervisory Review Process' in the Russian banking practice will continue.

In 2016, the Bank of Russia will initiate a comprehensive assessment of internal rating systems and credit risk management processes in the banks, which have submitted the appropriate request, in order to decide on issuing a permit for the application of the IRB approach to calculate the capital adequacy ratios.

In 2015, the Bank of Russia established for credit institutions (banking groups) the requirements for the risk and capital management system, which is created by the credit institution (banking group) through the implementation of the Internal Capital Adequacy Assessment Process (hereinafter, the ICAAP). These procedures are

aimed at the comprehensive assessment of significant and potential risks and at ensuring the adequacy of capital to cover them on a regular basis. Thus, credit institutions whose assets exceed 500 billion rubles shall develop the ICAAP on an individual basis by the end of 2015, and at the level of a banking group, by the end of 2016. The remaining credit institutions will have to develop the ICAAP on an individual basis by the end of 2016, and at the level of a banking group, by the end of 2017. In addition, in 2016 a new Bank of Russia regulation will enter into force. This will determine the procedure for the supervisory assessment of the capital adequacy of credit institutions and banking groups, the quality of their risk and capital management systems, as well as approaches to the establishment for credit institutions of increased limits of required ratios depending on the assessment of the quality and results of the ICAAP. The Bank of Russia plans to carry out the first assessment of the quality and results of the ICAAP in 2017.

Installing legal conditions designed to prevent banks from creating less provisions using overestimated collateral remains a priority task for banking regulation. To this end, work will continue on a draft federal law granting the Bank of Russia a right to examine collateral accepted by credit institutions to secure their loans and to demand that credit institutions be guided by the findings of such examination in their provisioning. In addition, from 2017, during the implementation of banking supervision the Bank of Russia will also have the right to make professional judgments on the facts of interconnectedness of a credit institution with legal entities and individuals. As a result of the establishment of appropriate practices, the need for further expansion of Bank of Russia rights for using professional judgment during banking supervision will be assessed.

The Bank of Russia will continue its efforts to improve transparency requirements for Russian credit institutions as an important tool for ensuring

<sup>32</sup> Regulatory Consistency Assessment Programme (RCAP).

<sup>33</sup> Financial Sector Assessment Program (FSAP).

stability in the financial sector. Specifically, 2016 will see the implementation of the BCBS recommendations Composition of Capital Disclosure Requirements will be implemented in 2016<sup>34</sup>. Thus, in 2016, credit institutions will for the first time disclose to a wide range of users the information on the capital composition and instruments and on the calculation of the liquidity coverage ratio on the standalone and consolidated basis.

As part of the implementation of internationally recognised approaches in the practice of the Russian consolidated supervision, in 2016 the Bank of Russia will establish a procedure revised in accordance with the BCBS standards for the calculation of capital and ratios on a consolidated basis, as well as for the calculation of the numerical value of charges for capital adequacy of the banking group (capital adequacy charge, countercyclical capital charge, and systemic capital charge).

Within the frame of further development for the regulation of credit institutions that are members of bank holding companies; in 2016 the Bank of Russia will strengthen interactions with parent organisations of bank holding companies, including, *inter alia*, the transition to an electronic workflow. In addition, the Bank of Russia will introduce new reporting forms for bank holding companies that significantly increase the amount of disclosed information on their activities.

With the aim of obtaining complete and accurate information on the real financial standing of the credit institution and an adequate assessment of its accepted risks, there are plans to legislatively establish the authority of representatives of the Bank of Russia and the Deposit Insurance Agency to allow for the analysis of the standing of financial institutions participating in the banking group (holding company) to which they belong, along with the analysis of the financial standing of the credit institution. The Bank of Russia also plans to amend the legislation in terms of increasing re-

sponsibility for managers, board of directors (supervisory board) members, and owners of credit institutions to ensure good and balanced business practice, as well as the reliability of information published and submitted to the controlling and supervisory bodies. In order to protect the rights of borrowers while maintaining the balance of creditor interests, the Bank of Russia will continue to work with the banking community to analyse the application of the legislation on consumer loans and, if necessary, develop proposals to improve regulation in this field, including debt recovery work.

In the context of dynamic development in the banking business and an expanding range of banking services, the role of effective supervision as an important element in ensuring financial stability increases. This in turn will boost the importance of both components of banking supervision: the off-site supervision and on-site inspection of credit institutions. The importance of supervision increases, while the Bank of Russia implements its tasks as a mega-regulator.

During the planned period, the Bank of Russia's supervisory policy in the banking sector will retain the following priorities:

- increasing the stability of credit institutions, including stability to macroeconomic shocks;
- further efforts to ensure the transparency of financial reporting;
- limiting the risks assumed by affiliates;
- countering the schematic operations and transactions of banks carried out for the purpose of manipulating accounting/reporting and/or aimed at the withdrawal of assets;
- creating conditions for fair competition;
- developing risk-based approaches to supervision, including in the consolidated supervision segment;
- improving risk management;
- developing differentiated supervisory approaches, in particular, introducing additional supervisory requirements for systemically important banks and banks with a high level

<sup>34</sup> Composition of capital disclosure requirements.

of risk;

- ensuring the application of effective and adequate enforcement measures in response to the dishonest practices of credit institutions and their chief executives.

The Bank of Russia will continue to qualify as the priority objects of supervision the assets of credit institutions exposed to enhanced risks, including those of a non-market nature, implicit encumbrance, loans to businesses belonging to bank owners and to borrowers with the signs of an absence of any real activities. The efforts of banking supervision will be focused on preventing the manipulation of reporting and identifying transactions aimed at concealing information on the real level of accepted risk from the regulator.

The central bank will go on with its policy of strengthening supervision, and priority will be given to enhancing the efficiency of the system of early response to the first signs of problems in the activities of credit institutions. The development of this system is based on strengthening the proactive function of supervision and is ensured by increasing accountability and staff qualifications, along with improvements to supervision techniques and procedures. One of the necessary conditions for the early identification of problems in the banking sector is maximum transparency in credit institution activities. The implementation of risk-based approaches, including professional judgments on the level of risks assumed by banks, will enhance the effectiveness of supervisory response measures.

The Bank of Russia intends to improve approaches to the assessment of the financial standing of major banks and banking groups by taking into account the risks and specifics of their activities and paying special attention to liquidity risk management systems and the formation of additional capital buffers to cope with the excessive volatility of financial markets.

In addition, the Bank of Russia plans to develop market (competitive) decision making principles, involve private capital more actively, and ensure

the transparency of financial resolution procedures for credit institutions. In the medium term, the Bank of Russia is going to consider the prospects of implementing the bail-in mechanism, which involves using the funds of customers and depositors in excess of the established threshold for the recovery of the credit institution's capital.

One measure to eliminate the practice of criminal bankruptcy is to enhance the efficiency of interaction and the content of information shared with law enforcement authorities. Bank of Russia activities aimed at the resolution of the banking sector increase confidence in the financial system and ensure that its financial stability is strengthened. The supervision policy aimed at removing from the market only the banks that are economically unviable and/or flagrantly violating the law and providing false statements, and thus endangering the interests of creditors and depositors, strengthens the financial stability of the banking system.

Changes in banking business conditions objectively determine the general trend towards the consolidation of the banking sector. The consolidation of the Russian banking sector is not an immediate task of banking supervision. As part of banking regulation and bank supervision functions, the Bank of Russia will neither speed up nor slow down this process.

## Payment systems and payment infrastructure development objectives

The smooth functioning of payment systems and the provision of high-quality payment services are prerequisites for effective operations in the Russian economy and the domestic and international members of the financial market.

In order to develop payment systems and payment infrastructure, the Bank of Russia is planning to implement a new payment platform in the Bank of Russia payment system.

The Bank of Russia payment system will con-

sist of mechanisms for the completion of settlements in the national currency for external payments, settlement, and clearing systems and provide access to the payment system of Bank of Russia for legal entities participating in organised trading and/or clearing operations for the completion of settlements on financial market transactions.

The Bank of Russia also plans to analyse market demand for using DVP mechanisms and establishing conditions of interaction between the Bank of Russia payment system and other payment, settlement, and clearing systems, as well as with the legal entities participating in organised trading and/or clearing operations for the completion of settlements on financial market transactions settled by professional securities market participants.

The Bank of Russia envisages measures for the creation of national standards of financial (payment) messages generated based on the methodology of ISO 20022 international standard and for their implementation in the Bank of Russia payment system. The implementation of these standards in the Bank of Russia payment system will contribute to improving efficiency and reducing the costs of electronic interactions within the above mentioned payment system.

In order to ensure the effective and smooth funds transfer, as well as the sovereignty and integrity of the payment area of the Russian Federation, and the development of national payment instruments, the Bank of Russia will contribute to the development of the national payment card system in line with the National Payment Card System Development Strategy.

To strengthen the domestic financial infrastructure, the Bank of Russia also plans to advance the development of the financial messaging system (hereinafter, the FMS) by expanding the range of services and the list of their users. Credit institution use of FMS services will minimise the risk of the termination of domestic financial messaging by foreign service providers.

## Securities market development objectives

During the planned period, it is necessary to ensure further development of the securities market to improve the efficiency of capital reallocation and expand company opportunities for attracting foreign capital. The legal framework regulating the activities of professional securities market participants and infrastructure organisations is generally formed, but it need to review a number of conceptual approaches to the regulation of these agents of the financial market in the medium term.

One of the bottlenecks in the regulation of professional securities market participants is a lack of financial stability requirements. The existing legislative rules for the capital of professional participants do not take into account the actual value of the company's business and the value of accepted risks – they relate to its size only. For professional securities market participants, Bank of Russia plans to introduce requirements for risk coverage based on capital and to set liquidity ratios for financial intermediaries who use customer funds in their operations. This approach also provides for a proportional regulation of the capital size of professional securities market participants depending on the amount of risk they assume.

An important aspect in the activities of professional securities market participants is their operational stability in stress situations. The Bank of Russia intends to establish requirements for organising the risk management system of professional securities market participants and requirements for their operational continuity. The basis of the regulatory approach of these activities will incorporate the recommendations of international risk management standards, some of which have already become national standards of the Russian Federation (for example, those included in ISO 31000 Risk Management). These measures will increase investor confidence in the operating reliability of their designated financial institutions and, consequently,

in the safety of their assets.

The requirements for the organisation of internal control systems of professional securities market participants constitute a significant element in the regulation of their activities. For small companies, the internal control system requirements established during the planned period will provide for the possibility of outsourcing internal control functions or forming a unified system of internal control within the group of companies. For large companies with a diversified and complexly structured business, the requirements for the internal control system will include the existence of an internal audit. The use of this proportional approach to regulating the activities of professional securities market participants will allow the industry to optimise its costs, while maintaining its resistance to regulatory and operational risks. Furthermore, in step with the growing complexity and diversity of investment technologies, the need to improve the rules of internal accounting for customer transactions by professional securities market participants is all too clear. For small organisations, the Bank of Russia, together with other concerned agencies, will create the legal possibility for the outsourcing of information and internal accounting systems. Thereby, on the one hand, the costs of professional securities market participants will be optimised and, on the other hand, the standardisation process of internal accounting systems will be accelerated.

The Bank of Russia also plans to elaborate requirements for the internal audit of the financial market infrastructural organisations, where as of now there are only internal control requirements established. Furthermore, these organisations are the core of the financial market and, hence, their internal control and audit systems shall meet the highest international standards.

Russian legislation contains a kit of instruments limited in its diversity and effectiveness for the protection of property rights and other rights and interests of investors in the event of the cancellation of the licence of a financial institution even though the

investment climate is largely determined by the effectiveness of the property rights protection mechanism, inter alia, during liquidation procedures. The Bank of Russia will solve this problem by improving supervisory procedures applied to financial institutions both before and after the licence cancellation. In this connection, the regulator is also improving the mechanisms for terminating the performance of the nominal holder functions of depositories.

In the medium term, the Bank of Russia will pay special attention to registrar activity in order to improve the quality and availability of the services of the accounting infrastructure. Work on the standardisation of record-keeping for the register of securities holders will continue in terms of document exchange, records storage, and register transfer. The requirements for the exchange of documents will be set by the standards of self-regulatory organisations or regulations of the Bank of Russia with a focus on the implementation of electronic interactions. Given that the gradual evolution of the financial market provides new mechanisms and products that satisfy the different needs of investors; it is important to ensure an absence of competition risks between them. For this purpose the Bank of Russia plans to develop standardised marginal requirements for financial intermediary activities with regard to both spot instruments and derivatives. The comparability of risks within common marginal rules will also allow the investor to better navigate among a variety of complex financial products.

## Insurance sector development objectives

In the current economic situation the role of insurance companies as institutional investors is massively increasing. Given the limited opportunities for using external financing sources, domestic savings are becoming a major source of investment, one of which may be life insurance. In the

medium term, the Bank of Russia, together with other stakeholding agencies, aims at developing of long-term investment-linked life insurance. Reaching this goal requires the enhancement of the attractiveness of life insurance as an investment institution for households and organisations, which will be achieved, *inter alia*, through the expansion of the list of assets eligible for investment that meet the high quality requirements.

Based on an analysis of the situation in the Russian reinsurance market carried out by the Bank of Russia following the introduction of sanctions against the Russian Federation by a number of countries, a conclusion was made on the need for the formation of a Russian reinsurance capacity. To this end, the Bank of Russia plans to support the establishment of a national reinsurance company, whose authorised capital at the time of its incorporation will be wholly owned by the regulator. Depending on the legislative rules, its activities can help support the solvency of Russian insurers and reduce capital outflow. Moreover, the business model of this organisation shall guarantee the required level of its financial sustainability.

In collaboration with the Russian Government, the Bank of Russia will continue to work on the development of an insurance mechanism to assist households in restoring (acquiring) property lost as a result of fires, floods, and other natural disasters. These measures will lead not only to improvements in the security of housing rights for citizens but also to wider insurance coverage of premises belonging to citizens and corresponding budget savings.

Among the priority tasks of insurance sector development, the Bank of Russia highlights the need to improve the quality of insurance agents' assets in the medium term, assure the insurance market's stability, and enhance the protection of insurance consumer rights. Specifically, it is necessary to introduce quantitative standards and qualitative requirements to insurance market agents that comply with the risk-oriented supervision ap-

proaches under Solvency II concept.

For the purpose of enhancing the quality of organisations entering the insurance market and protecting the rights of insurance consumers, the Bank of Russia finds it expedient to amend the Russian legislation in terms of improving the procedures for licensing insurance agents. The establishment of the procedure for registering insurance organisations as legal entities through Bank of Russia is expected.

Significant changes are planned in insurance supervision. The Bank of Russia will continue to introduce the institute for curatorial practice, which requires first and foremost the development of an individual risk map for the insurer to determine the risk group and format of the control and supervisory activities in relation to the insurer. The Bank of Russia has already grouped systemically important insurance companies into a separate category, and in the future there are plans to develop a separate regulatory regime for them in terms of financial stability, solvency, resolutions, and bankruptcy. To ensure early supervisory responses in the insurance market, the Bank of Russia will use software products to automate the processes of comprehensive analyses for insurance companies based on the principles of prudential supervision. To control the availability of real insurance company assets, the Bank of Russia will hold counterchecks of real assets availability on the balance sheets of insurance companies by requesting information from depositories, banks, and trade organisers in the securities market. Upon the detection of the absence of real assets, there will be a prompt application of insurance supervision measures and measures stipulated by the legislation on insolvency (bankruptcy). The Bank of Russia plans to build a monitoring system for insurance companies that will allow overcoming format deficiencies and deadlines for the provision of the scheduled reports of insurance companies; for insurers relegated to the increased risk group it will also introduce the obligation of reporting on a more

frequent basis.

To ensure insurance market stability, it is necessary to improve the Russian legislation by specifying the grounds for the implementation of bankruptcy prevention measures, for the expansion of their list, and for resolving the issues related to the bankruptcy procedures of insurance companies. In addition, the Bank of Russia considers it appropriate to introduce a mechanism for insurer resolutions at the expense of investors and the Deposit Insurance Agency and to determine the resolution criteria depending on the category of insurers and types of insurance.

Protection of the rights of insurance consumers throughout the set of measures planned by the Bank of Russia will contribute to the standardisation of insurance services, which includes both the use of standards for certain types of insurance developed by self-regulatory organisations and other associations of insurers and the establishment by the Bank of Russia of the minimum (standard) requirements for the procedure and the terms of certain types of voluntary insurance. In addition, further improvement is envisaged in the regulation of socially significant types of retail insurance, especially the compulsory motor third-party liability insurance (OSAGO) for the owners of vehicles and the comprehensive vehicle insurance (CASCO), in particular, the creation of prerequisites for the improvement of the system of loss settlements in motor insurance, and the on-going development of the OSAGO contract framework in the form of electronic documents. In future, inter alia, beyond the planned period, the Bank of Russia shall prepare measures for the bilateral expansion of the tariff range in the OSAGO market.

At the same time, the Bank of Russia will continue to implement measures prescribed in the Russian Insurance Activity Development Strategy until 2020 over the planned period.

## Collective investment and trust management sector development objectives

Development of the pension system of the Russian Federation and, subsequently, the improvement of the financial wellbeing of the population over the long-term horizon is considered to be a priority task for the development of collective investment and trust management market. Furthermore, during the planned period the development of this segment is called upon to solve the tasks of increasing the volume of long-term investments, improving the risk management systems of non-governmental pension funds, increasing the appeal of investment funds, and bolstering trust in this method of investing.

As part of the set of measures for improving the regulation of non-governmental pension funds and supporting the management of pension savings of the population, the Bank of Russia plans to establish responsibility for the management of pension savings for the benefit of insured persons. A similar obligation of the trustee to manage the property for the benefit of the trustor or the person indicated by them (the beneficiary) is set forth in the Civil Code of the Russian Federation. At the same time, the Bank of Russia will develop risk management systems for non-governmental pension funds, followed by the removal of some restrictions on the investment of voluntary pension savings (pension reserves) and pension funds.

To eliminate the effects of drastic changes in the prices of long-term assets on the results of a pension savings investment (including the value of scheduled pension pay-outs) and to encourage the placement of pension savings in securities for a long period, the Bank of Russia supports proposals to account securities as held-to-maturity without their daily revaluation.

Changes in the system of remuneration and payment for the services of agents of the compul-

sory pension insurance are designed to encourage non-governmental pension funds to invest in long-term financial assets in order to ensure stable income for the benefit of insured persons over a long-term investment horizon. In the medium term, the Bank of Russia, in cooperation with other stakeholding authorities, plans to determine a fixed part of the remuneration of non-governmental pension funds that does not depend on short-term fluctuations in prices and short-term investment results, and that is paid out from pension savings.

At the same time, the Bank of Russia will implement measures to increase the flexibility and investment attractiveness of investment funds as a form of collective investment. In particular, there are plans to expand the areas of investment and to switch to the free formation of trust management rules to take into account the needs of individual investors. The development of these measures will be guided by the investors' qualification provided that their interests are protected and the violation of their rights is prevented.

Given the importance of ensuring the reasonable approaches to the placement of collective investment funds in real estate and mortgage-backed securities that are acceptable for financial market participants, the Bank of Russia will continue to implement measures aimed at establishing appropriate standards, criteria, and rules for such investments during the planned period. Proposals for regulatory changes in this area will be widely discussed with the professional community.

In addition, for the purpose of increasing the level of trust in both qualified and non-qualified investors, the Bank of Russia, with the participation of concerned agencies, plans to pursue improvements to the disclosure of information about investment fund activities.

At the same time, Bank of Russia will continue to implement activities included in the Russian Pension System Long-term Development Strategy.

## Microfinance sector development objectives

Further development of the microfinance market is a challenge caused primarily by the existence of a rather high demand for microfinancing among small and medium-sized businesses. At the same time, the legal framework of microfinance organisations and the functions of supervision and control over microfinance market agents (including microfinance organisations, pawnshops, credit consumer cooperatives, agricultural credit consumer cooperatives, and housing savings cooperatives) have been already formed in the Russian legislation.

The Bank of Russia sees the introduction of standards for the interactions of microfinance organisations with the consumers of financial products and services, as well as the standards of their operation and corporate governance as priority tasks for the medium term.

In order to reduce the socioeconomic risks for borrowers of microfinance organisations providing consumer lending services, the Bank of Russia proposes to establish the maximum permissible value of a borrower's debt on interest under a consumer loan agreement with a microfinance organisation. The implementation of these measures will reduce the debt of financial consumers and provide additional protection for them. Further developments of digital financial services and new information technologies, along with their integration into the activities of microfinance organisations, including the option of the latter to assign (delegate) a credit institution the task of identifying customers (simplified identification), will contribute to decreasing the costs of the services of microfinance organisations and enhancing the convenience of these services for consumers.

In the medium term, the Bank of Russia plans to establish requirements for the financial stability of microfinance organisations (in particular, capital requirements and the introduction of certain ratios)

and for the risk management system for micro-finance market participants.

A priority task for the Bank of Russia in the development of microfinancing is to ensure the access of small and medium-sized enterprises to financing. In order to comply with the rules of the Federal Law 'On Amending Certain Laws of the Russian Federation on the Development of Small and Medium-sized Enterprises in the Russian Federation', the regulator, together with the Russian Ministry of Economic Development, plans to group microfinance market entities into microfinance organisations supporting small and medium-sized enterprises, and microfinance organisations providing consumer lending.

To ensure the adequate protection of credit cooperative shareholders' rights, the Bank of Russia plans to improve the mechanism of property accountability of self-regulatory organisations of credit consumer cooperatives on their obligations to the members of credit consumer cooperatives (shareholders) in the medium term. To stimulate the development of this sector of the financial market, the Bank of Russia plans to implement measures for transforming the existing system of property liabilities of self-regulatory organisations to shareholders of credit consumer cooperatives into a unified personal savings assurance system in the credit cooperatives market. In addition, alongside the establishment of a single system guaranteeing the safety of personal savings, the central bank is going to improve other mechanisms of property liability insurance in the field of credit cooperation in the mid-term prospect, inter alia, through the development of mutual insurance companies. This includes a revision of the legislative rules of mutual insurance regarding limitations on the maximum number of members in a mutual insurance company.

In addition, credit cooperation also requires further improvements to cooperative governance standards. First and foremost, the Bank of Russia, along with the participation of the professional

community, will develop and establish the principle of generality in the activities of credit consumer cooperatives, which includes the placement of certain requirements for credit cooperative members (unit holders) during the formation of a credit consumer cooperative (such requirements will be based on certain principles, including territorial, professional, social, and others). It is envisaged that the development of the corporate community and the management of credit consumer cooperatives will expand the involvement of members (unity holders) in the operation of credit consumer cooperatives and increase their understanding of responsibility, which will help mitigate risks and spread (promote) credit consumer cooperatives. Furthermore, special attention will be paid to the mechanisms that allow existing credit consumer cooperatives to implement appropriate legislative amendments without excessive costs.

In regard to credit cooperatives, the Bank of Russia plans to consider in the medium term the possibility of expanding the admissible activities of credit consumer cooperatives for the purpose of enhancing their efficiency and better satisfying the needs of their unit holder.

It is also important to implement measures eliminating possibilities of an abuse of power by certain persons in the management bodies of credit consumer cooperatives and to install an understanding among members of the credit consumer cooperative (unit holders) on the fundamental rights and duties associated with their membership in a credit consumer cooperative and a responsible attitude to their performance. For the purpose of excluding the possibility of holding formal general meetings and for involving members of credit consumer cooperatives (unit holders) in the management of the credit consumer cooperative, the Bank of Russia, with the participation other stakeholding agencies, plans to improve the Russian legislation in terms of the procedure for holding general meetings of credit consumer cooperatives in the form of a meeting of authorised representatives and for the

itemisation of requirements for the disclosure of information on the operations of credit cooperatives.

With regard to the development of agricultural credit consumer cooperatives that support agricultural entities, the Bank of Russia is going to establish appropriate financial ratios and apply the principles of proportional regulation and supervision of such organisations in order to ensure their financial stability. In addition, the Bank of Russia will pay additional attention to the specific features of agricultural credit consumer cooperatives associated with the prevailing membership of agricultural manufacturers of goods and their private farm holdings. These features shall be considered during the regulation of agricultural credit consumer cooperatives (inter alia, in the calculation of the effective annual percentage rate of a loan to the members of private farm holdings and the assessment of an inherent risk). This does not rule out a possibility for the Bank of Russia to use the mechanisms that have proven effective in regard to credit cooperatives, taking into account the specifics of agricultural credit consumer cooperatives.

In relation to housing savings cooperatives, the Bank of Russia in the medium term plans to consider ways of improving legal regulations in order to enhance their efficiency and expand the number of potential unit holders.

To increase the transparency of the pawnshop market aimed at protecting the rights of financial consumers, the Bank of Russia intends to establish a special admission procedure for pawnshops where the legality of the pawnshop's operations starts not from the moment of its registration as a legal entity, but from the moment information about it is entered in the State Register of Pawnshops. In the medium term, the Bank of Russia, together with other stakeholding authorities, plans to consider the possibility of extending the list of authorised business activities for pawnshops. In particular, they will consider the possibility of allowing pawnshops (as an additional activity) to lease or

sublease real estate and provide certain services as an agent and to increase the minimum amount of assessment of an unclaimed item whereupon, if it is exceeded, the said item can only be sold at public auction. They also plan to consider the interaction of pawnshops with insurance companies due to the duty of the former to insure pawned items as well as the difficulties of formalising such claims. Further development on the regulation of pawnshop activities shall be aimed towards the satisfaction of demands and the protection of the rights of financial consumers.

## IV. KEY TARGETS FOR MEASURING EFFECTIVENESS IN IMPLEMENTING THE GUIDELINES FOR THE DE- VELOPMENT OF THE RUSSIAN FINANCIAL MARKET IN 2016–2018

The Bank of Russia expects that, in case of the successful implementation of measures set out by the Guidelines for the Development of the Russian Financial Market in 2016–2018, banking sectors assets to GDP ratio will be roughly at 120-125%, credit institutions' equity to GDP ratio – around 11.5%, and loan to economy to GDP ratio will exceed 70%. Speaking about the insurance sector over the same horizon, the Bank of Russia expects insurance industry assets to GDP ratio to increase by 2.2%, and insurance premiums (contributions) under insurance contracts to GDP ratio – by 1.5%. According to Bank of Russia estimates, by end-2018 the pension system will see a growth in pension savings under the compulsory pension insurance to 3.2% of GDP<sup>35</sup>, and also a growth in pension reserves in the framework of the non-

governmental pension provision up to 1.3% of GDP.

To assess effectiveness in implementing the measures set out by the Guidelines for the Development of the Russian Financial Market in 2016–2018, the Bank of Russia has elaborated key targets for measuring the effectiveness of their implementation. To this end, the central bank will employ both quantitative and qualitative targets which will help obtain a comprehensive idea of the Russian financial market development state.

To make a thorough measurement of the implementation effectiveness of the measures set out by the Guidelines for the Development of the Russian Financial Market in 2016–2018, the Bank of Russia proposes a set of key targets by area of development and respective calculation methods.

### Key targets for measuring effectiveness in implementing the guidelines for the Development of the Russian Financial Market in 2016–2018

Key target name	Current value	2017	2018
Financial knowledge	1.97	2.1	2.5
Households' satisfaction with the regulator's responses to their complaints addressed to the Bank of Russia online reception	33%	42%	55%
Price affordability of financial services for business	4.1	4,5	5
Price affordability of financial services for adults	0.82	0.78	0.7
Share of products and services accessible to retail customers via online sales channels	18%	40%	85%
Protecting minority investors	5.67	6.0	6.7
Share of market trades in Russian corporate bonds placed in the Russian Federation in the total corporate borrowings by Russian residents	15%	17%	20%

<sup>35</sup> This value can only be achieved in absence of the moratorium on the transfer of pension savings in 2017-2018.

Key target name	Current value	2017	2018
Introduction of the proportional and differentiated regulation of financial market participants	fragmented elements	-	well-developed system of proportional regulation
Number of qualification certificate types issued to financial market experts	7	7	10
Level of expenses on paper-based workflow in the financial market	100	90	80
Compliance with the requirements to implement international principles by Russian legislation	information disclosure on the implementation progress		
Rank assigned during the update of the assessment of compliance with the Principles for Financial Market Infrastructures by the Russian jurisdiction regarding the regulation of:			
central counterparty	2	4	4
central depository	2	4	4
repository	1	4	4
payment systems	4	4	4
Classes of standardised OTC derivatives subject to mandatory CCP clearing	0	1	2

## Description of the key targets for measuring effectiveness in implementing the Guidelines for the Development of the Russian Financial Market in 2016–2018

**1. Financial knowledge** shall mean an indicator calculated using survey data-based methodology prepared by the World Bank at the request of the Bank of Russia. The indicator equals the sum of correct answers (expressed in numerical values from 0 to 1) provided by respondents to questions on the following basic financial concepts:

- inflation;
- interest rate;
- compound interest;
- money illusion (tendency of people to think of currency in nominal terms);
- risk diversification;
- key objective of insurance.

The values of this indicator range from 0 to 6, 6 being the best.

**2. Households' satisfaction with the regulator's responses to their complaints addressed to the Bank of Russia online reception** shall

mean an indicator derived by the Bank of Russia on the basis of financial consumers' assessments made after getting feedback from the Bank of Russia online reception.

The indicator is calculated using information from questionnaires filled in by financial consumers (including, banking sector customers) upon receiving Bank of Russia replies by e-mail. Financial consumers are asked to answer several questions, including on their satisfaction with the Bank of Russia's replies to questions sent. The final value of the indicator presents the share of satisfied respondents.

The values of this indicator range from 0 to 100%.

**3. Price affordability of financial services for business** shall mean an indicator constructed by the World Economic Forum as part of the Global Competitiveness Index.

The indicator is based on statistical and survey data and demonstrates the richness of financial products and services that business receives from the financial sector.

The values of this indicator range from 1 to 7, 7 being the best.

**4. Price affordability of financial services for adults** shall mean survey-based indicator commis-

sioned by the Bank of Russia. It measures the share of consumers who, in the reference period, have opted out of buying the following financial services: a new account, a new time deposit, a new loan, and a new voluntary insurance agreement, as they were dissatisfied with their high cost.

This indicator is based on population (financial consumer) surveys, measuring the share of respondents who cannot afford financial services because of their high cost. The final indicator is made up of the following indicators' values (expressed in numerical values from 0 to 1):

- the share of positive answers to the question on a refusal to open, during the reference period, a bank account to be used for payments on the basis of a bank account agreement or bank deposit agreement because of the high cost;
- the share of positive answers to the question on a refusal to open, during the reference period, a term deposit with a credit institution because of the low interest rate;
- the share of positive answers to the question on a refusal to apply, during the reference period, for a bank loan because of its high cost (high interest rate and other payments);
- the share of positive answers to the question on a refusal to enter, during the reference period, into a voluntary insurance (life insurance and/or personal insurance and/or property insurance and/or general liability insurance and/or financial risk insurance) agreement because of its high cost.

The values of this indicator range from 0 to 4, 0 being the best.

**5. Share of products and services accessible to retail customers via online sales channels** shall mean an indicator calculated by the Bank of Russia using statistical and survey data. The calculation involves the average weighted share of the number of products and services provided to financial organisations' retail customers

(on their repeated applications) via on-line sales channels to the total range of products and services of such organisations by the following sectors:

- banking sector;
- insurance market;
- microfinance market;
- collective investment and trust management;
- securities market and commodity market.

The values of this indicator range from 0 to 100%.

**6. Protecting minority investors** shall mean an indicator calculated as part of the 'protecting minority investors' ranking of Doing Business released by the World Bank.

The calculation is based on the survey of lawyers in a target jurisdiction, specialising in corporate law and securities transactions, on the analysis of the legislative framework in this jurisdiction and the degree of minority shareholders protection against the conflict of interest.

The values of this indicator range from 1 to 10, 10 being the best.

**7. Share of market trades in Russian corporate bonds placed in the Russian Federation in the total corporate borrowings by Russian residents** shall mean a statistics-based indicator calculated by the Bank of Russia as a ratio of the volume of outstanding Russian corporate bonds placed in the Russian Federation to the sum of outstanding Russian corporate bonds placed in the Russian Federation, bank loans provided to resident non-banks and financial institutions, and Russia's external debt, specifically, the external debt of banks and other sectors (excluding their outstanding bonds), placed in the Russian Federation and acquired by non-residents (included in other items), where

- the volume of outstanding Russian corporate bonds placed in the Russian Federation is calculated as the total of ruble- and for-

eign currency-denominated bonds;

- the volume of bank loans provided to resident non-banks and financial institutions is calculated as the total of loans provided to resident non-banks and financial institutions (excluding interbank loans), less loans and other placed funds provided to individual entrepreneurs, and overdue debt;
- external corporate debt of Russian residents is calculated as the sum of banks and other sectors' external debt, less their outstanding bonds that were acquired by non-residents and placed in the Russian Federation.

The values of this indicator range from 0 to 100%.

**8. Introduction of the proportional and differentiated regulation of financial market participants.** Over the mid-term horizon, the Bank of Russia plans to implement a phased-out proportional and differentiated regulation for all financial institutions with due regard for their risks and scale of business, and with a special emphasis on systemically important institutions.

**9. Number of financial market specialist areas subject to certification** shall mean an indicator calculated by the Bank of Russia as the number of qualification certificates issued to financial market experts.

**10. Level of expenses on paper-based workflow in the financial market** shall mean an indicator calculated by the Bank of Russia using statistical and survey data. The calculation is based on the ratio of average expenses on paper in the reference year to the headcount numbers of organisations forming the Interagency Working Group on the development of electronic interactions in the financial market<sup>36</sup>. The current value (start-value for this indicator when first measured) shall deem its base value (100%).

The values of this indicator range from 0 to

100%, 0 being the best.

**11. Compliance with the requirements to implement international principles by Russian legislation.** In the planned period, in line with obligations assumed, the Bank of Russia will continue to implement international rules and principles regulating credit and non-bank financial institutions in the framework of the Basel Committee on Banking Supervision, the Committee on Payments and Market Infrastructures, the International Association of Insurance Supervisors, the International Organisation of Securities Commissions, and will keep on communicating information on the progress of their implementation on a regular basis.

**12. Rank assigned during the update of the assessment of compliance with the Principles for Financial Market Infrastructures by the Russian jurisdiction regarding the regulation of the central counterparty, central depository, repository, and payment systems.** The Bank of Russia will continue to implement principles outlined in the report Principles for Financial Market Infrastructures prepared by the Committee on Payments and Market Infrastructure and the International Organisation of Securities Commissions, which principles imply, among other things, introducing amendments to the Russian legislation.

**13. Classes of standardised OTC derivatives subject to mandatory CCP clearing** shall mean an indicator calculated by the Bank of Russia as the number of classes of standardised OTC derivatives in the Russian jurisdiction subject to CCP clearing.

<sup>36</sup> Aimed at the implementation of the Action Plan (road map) on the development of electronic interactions in the financial market No. 2984-p-P10, dated 18 May 2015, approved by Arkady Dvorkovich, Deputy Prime Minister of the Government of the Russian Federation, this Working Group consists of the representatives of core ministries and agencies, key players of the financial market, expert community, associations and self-regulatory organisations.

## V. RISKS AND LIMITATIONS EVOLVING IN THE PROCESS OF IMPLEMENTING THE GUIDELINES FOR THE DEVELOPMENT OF THE RUSSIAN FINANCIAL MARKET IN 2016–2018

The Guidelines for the Development of the Russian Financial Market in 2016–2018 are holistic by nature, and the maximum effect from their implementation can be achieved only subject to their implementation in full. The measures outlined in this document affect the activities of Russian financial institutions in terms of the use of a wide range of financial instruments, the procedure for reflecting their financial activity in statements, data reporting formats, capital requirements, characteristics of business models, personnel requirements, approaches to solvency assessments, modernisation of information and technology systems, and other innovations. In the current economic situation and in the current state of Russia's financial sector, as well as due to the complexity and innovative nature of certain reforms, there are several factors that may lead to a delay in the implementation of proposed measures to the extent sufficient for the emergence of a significant positive result based on the outcomes of the planned period. Therefore, the proposed measures will be implemented with due regard to the risks and limitations associated, inter alia, with geopolitical risks and external shocks, the high speed of changes and limited human, financial and organisational resources in the financial industry.



