

Russian Federation: Detailed Assessment of Observance of IOSCO Objectives and Principles of Securities Regulation

This paper was completed in June 2011. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of the Russian Federation or the Executive Board of the IMF.

The policy of publication of staff reports and other documents by the IMF allows for the deletion of market-sensitive information.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: <http://www.imf.org>

**International Monetary Fund
Washington, D.C.**

FINANCIAL SECTOR ASSESSMENT PROGRAM STABILITY MODULE

RUSSIAN FEDERATION

IOSCO OBJECTIVES AND PRINCIPLES OF SECURITIES REGULATION

DETAILED ASSESSMENT OF OBSERVANCE

JUNE 2011

INTERNATIONAL MONETARY FUND
MONETARY AND CAPITAL MARKETS DEPARTMENT

Contents	Page
Glossary	3
I. Summary, Key Findings, and Recommendations	4
A. Introduction	4
B. Institutional and Market Structure—Overview	6
C. Preconditions for Effective Securities Regulation	10
D. Main Findings	10
II. Recommended Action Plan and Authorities’ Response	23
III. Detailed Assessment	31
 Tables	
1. Summary Implementation of the IOSCO Principles—ROSCs	13
2. Recommended Action Plan to Improve Implementation of the IOSCO Principles	23
3. Detailed Assessment of Implementation of the IOSCO Principles	31

GLOSSARY

AML/CFT	Anti-Money Laundering/Countering Terrorist Financing
AUM	Assets Under Management
BCPs	Basel Core Principles
BMMF	Bank Managed Mutual Funds also known as OFBU
CBR	Central Bank of Russia
CCP	Central Counterparty
CIS	Collective Investment Scheme
DCC	Depository Clearing Company
Duma	State <i>Duma</i> (Parliament) of the Russian Federation
FATF	Financial Action Task Force
FFMU	Federal Financial Monitoring Unit or Financial Intelligence Unit
FSAP	Financial Sector Assessment Program
FSFM	Federal Service for Financial Markets
FSIS	Federal Service for Insurance Supervision
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
MICEX	Moscow Interbank Currency Exchange
	Multi-lateral Memorandum of Understanding on Consultation and
MMoU	Cooperation and Exchange of Information
MoF	Ministry of Finance
MoU	Memorandum of Understanding
NAUFOR	National Association of Securities Markets Participants
NFA	National Securities Markets Association (dealers)
NCC	National Clearing Center
NSD	National Settlement Depository
OJSC	Open Joint Stock Companies
PARTAD	Professional Association of Registrars, Transfer Agents, and Depositories
RID	Russian Institute of Directors
ROSC	Report on Observance of Standards and Codes
RTS	Russian Trading System
SRO	Self-Regulatory Organization
UNIDROIT	International Institute for the Unification of Private Law
US\$	US Dollars
USFC	<i>FinPotrebSoyuz</i> Union of Financial Services Consumers, an Inter-regional Non-Governmental Organization

I. SUMMARY, KEY FINDINGS, AND RECOMMENDATIONS

1. **This assessment reviews the regulatory framework in place for the oversight of the capital markets of the Russian Federation as of June 2011.** The assessment concludes that, since the previous assessment, the regulatory authority for the capital markets, which is the Federal Service for Financial Markets (FSFM), has led the adoption of significant reforms in applicable legislation and undertaken ambitious normative (regulatory) initiatives directed to meeting the IOSCO benchmarks for which the process of implementation is ongoing. The assessment also finds that FSFM's ability to come into full compliance would be materially advanced by the adoption of pending legislation related to exchanges, prudential supervision, bank secrecy, and consolidated supervision. The FSFM absorbed the Federal Service on Insurance Supervision (FSIS) as of March 4, 2011. Subsequent changes added certain other non-banking financial institutions to FSFM's remit and will transfer certain of its normative powers with respect to capital requirements for market professionals and the diversification of mutual fund assets to the Ministry of Finance (MoF). Other changes also are expected to be made by Resolution of the Government of the Russian Federation that place more authority within the MoF that may affect the operational exercise by FSFM of those normative (regulatory) powers delegated by law to them that affect the capital markets (except auditor and banking activities that previously were committed to the MoF and the CBR respectively). In consequence, it is important in reading this assessment to understand that, first, it only assesses those aspects of FSFM's operations that relate to capital markets and is not addressing FSFM's responsibilities with respect to insurance or non-banking financial institutions more generally; and second, that this assessment is made as of a specific point in time. Therefore, this assessment does not, and cannot, assess how the new framework, the new alignment of powers and authorities under that framework, and the recently adopted changes and/or pending legislation is working or will work in practice. The findings relative to implementation in this assessment may be improved after a period of experience during which the FSFM operates using its new authorities subject to its new accountability arrangements. This assessment, then, evaluates the regulatory framework in place as of the "as of" date of the report, and the operational activities of FSFM as it was operated and structured prior to the absorption of its new functions.

A. Introduction

2. **This IOSCO assessment was conducted as part of a financial sector assessment led by the IMF under Dimitri Demekas.** The on-site portion was conducted between March 27 and April 13, 2011. Andrea M. Corcoran, an external consultant, with many years of regulatory experience acted as assessor. The assessment is based on information available as of June 2011.

Information and methodology used for assessment

3. **The assessment is based on the Objectives and Principles of Securities Regulation of 1998 (IOSCO Principles) and the related Assessment Methodology adopted in 2003 and reissued in 2008.** It does not assess the nine new IOSCO Principles adopted in June 2010 for which no formal assessment guidance has yet been issued. The detailed portion does however contain some comments on the potential impact of these pending changes. The preceding full assessment published in 2003, was based on field work conducted in 2002. That assessment was not performed in accordance with the IOSCO Assessment Methodology.

4. **This assessment benefitted from a 2008 update of the detailed IOSCO Assessment of 2003, and current comments thereon, submitted by FSFM in lieu of a self-assessment using the Assessment Methodology.** FSFM also provided answers to the questions and statistics on market structure contained in the general financial stability module questionnaire of the IMF. The assessor's contacts with the FSFM were materially assisted by a representative from FSFM's Department of International Affairs who acted as liaison and a consultant who has worked on bringing the Russian regulatory system for financial markets up to international standards. Meetings were held with the then head, Mr. Milovidov, relevant deputies, several senior operating staff, including representatives of the FSIS, and the aforesaid expert advisor. Additional meetings were held with officials from the two exchanges, Moscow Interbank Currency Exchange (MICEX) and the Russian Trading System Stock Exchange (RTS), the head of National Association of Securities Market Participants (NAUFOR), the self-regulatory organization (SRO) for brokerage firms, the Financial Services Consumer Union (a non-governmental association, headed by the head of the agency that preceded the FSFM), market participants, an international law firm doing business in Russia, the Institute of Public Directors (RID) and the American Chamber of Commerce. The mission leader also met with Mr. Pankin, the new head of the combined agency in an exit conference held in April.

5. **The assessor consulted the following laws:**

- “On the Securities Market, FZ-39 (Securities Law),”
- “On Protection of the Rights and Lawful Interests of Investors in the Securities Markets, FZ-46 (Investor Protection Law),”
- “On Countering the Illegal Use of Insider Information and Market Manipulation FZ-224 (Insider Law),”
- “On Joint Stock Companies FZ-208 (Company Law),”
- “On Investment Funds, FZ-156 (CIS Law),”
- “Code of Administrative Offenses, FZ-9 (Admin. Code),”
- “Law on Banks and Banking Activities, (Banking Law),”

- the “Insolvency Law, FZ-127, including relevant amendments concerning receivership and administration of financial institutions in FZ-65, dated April 22, 2010),” and
- “On Clearing and Clearing Activity, FZ-8 (Clearing Law).”

Also considered were Presidential Decrees No. 314 (March 9, 2004), and 207 (March 4, 2011), Resolution of the Government of the Russian Federation, No. 317 (June 30, 2004), as well as numerous pieces of pending legislation and the regulations referred to herein.

6. **The laws, regulations and decrees reviewed were issued in Russian.** In that there has been a plethora of recent legislation and rulemaking in various stages of adoption, it is difficult for the assessor to confirm that the description of the law is in every case totally current. For example the English reporting service indicated on versions of the law provided by the service that there might be subsequent amendments that were not yet reflected. In some cases, there were official translations, others were translated during the mission by IMF translators or the FSFM, some were available on the web in English, some were translated using Google’s facility, or verbally during the course of the mission. The assessment was rendered more difficult by the fact that the English version of the FSFM website was unavailable during the mission. Though portions of the former site could be found through the Internet, the links to laws were not operational. Many meetings were conducted with the assistance of excellent interpreters.

B. Institutional and Market Structure—Overview

7. **FSFM is the sole regulator of: solo securities market professionals (brokers, dealers, portfolio managers, and other intermediaries);** issuers; collective investments (CIS), CIS management companies and special custodians; exchanges and market infrastructure, such as clearing and settlement arrangements, depositories, and registrars, for securities corporate bonds, and other products, including futures. However, the entity within the MICEX Group market complex, which trades foreign currency, is overseen by the Central Bank of Russia (CBR) as is the government bond market. FSFM has certain company law responsibilities, in particular with respect to tender offers, mergers and other combinations. FSFM oversees the public issuance of securities and registers all corporate bonds and equity offers, except for certain short term debt, described as commercial paper. Many securities transactions, however, are conducted within banking structures as opposed to through separate securities broker subsidiaries. FSFM is the regulator for certain of the securities functions performed within banks, such as special custodial functions, brokerage, or asset management. However, FSFM is not the regulator of pooled investment funds offered by banks to their customers (bank managed mutual funds or BMMFs), though it may authorize the management companies. The assets under management in BMMFs are declining and overall, such bank funds are relatively small, about US\$230,000,000 in 2011. The FSFM regulates the contents of disclosures by public companies and nonbank financial

institutions engaged in capital markets transactions (professional market participants). The Ministry of Finance (MoF) is responsible for establishing accounting and auditing standards. As of March 4, 2011, FSFM assumed the functions related to insurance supervision. The alignment of responsibilities, leadership of the combined agency, and initial proposals for the distribution of powers and authorities were announced in April. These announcements would give additional authority to the Ministry of Finance with respect to the issuance of regulations related to prudential matters, such as capital, but preserved the assignment of supervisory and operational functions in that area to the FSFM.

8. **FSFM has full licensing authority with respect to the professional market participants subject to its jurisdiction, and can grant, condition, suspend, revoke, or deny licenses, without approval by any other authority within the government.** FSFM has administrative powers, including the power to issue secondary legislation or normative decrees, as specifically spelled out in primary legislation, the power to provide interpretations and guidance, and the power to impose monetary sanctions and to compel information from any person. FSFM has substantial authority under all of the laws referenced above and other laws that have been adopted and/or are pending such as the draft law, known as “On Amendments to the Securities Law and to Certain Legislative Acts of the Russian Federation (Prudential Supervision Law).

9. **The securities market has grown and become more sophisticated over the years.** As did other markets, there was a decline in volume and value in 2008, with recovery in 2009.¹

RTS INDEX DYNAMICS, 1995-2009



¹ Source: RTS. The graph represents the most active index, which is a dollar based index, representing 85 percent of market capitalization. Source: MICEX. The graph represents the MICEX 10 index to the date of this report.



10. **Although the numbers are volatile, Russia's equity markets are about mid-size among world markets.** As of 2009, OECD reports indicate that Russia's market capitalization as a percentage of GDP was at an approximate par with several developed countries, such as France, the Netherlands, and Japan, and above that of Germany. The numbers, however, appear to change radically, year on year, and market uncertainty, from global events, elections or other matters, can lead to dramatic changes. There is also some significant cross border foreign direct investment; for example, Pepsi Cola recently bought Wimm-Bill-Dann, Russia's largest dairy and beverages company, and Lebedyansky, Russia's largest juice maker.

11. **The number of market participants continues to grow.** Nonetheless, fewer than 1 percent of the economically active population have individual brokerage accounts and less than 2 percent of GDP is invested in pension and other long term investment vehicles. Private pension funds (non-state funds), which are regulated by FSFM declined in number from 290 in 2005 to 150 in 2010 (although the figures on assets under management in such funds are not available.) The collective investment industry is predominantly made up of unit investment trusts. Reports for 2010 disclose about US\$41 billion AUM in 1461 funds distributed among three categories—open end, closed end and interval. The largest number of funds, constituting more than 33 percent of the dollar amount invested, are real estate funds; these are mostly captive closed end funds used to finance commercial property development, that are disappearing due to the recent withdrawal of a tax benefit. Although there has been an attempt to develop a longer term bond market, most activity is in the shorter range (one to two year durations) and during the height of the crisis some issuers experienced debt servicing issues. In 2010, in respect of the corporate bond market, there were 364 issuers and 663 issues, with a total value in circulation of US\$88.6 billion, approximately US\$81 billion was in circulation in government debt. There are 1800 authorized professional market participants (that is, brokers, dealers, asset managers, special custodians and depositories) distributed within the Russian Federation.

12. **The Russian securities markets in particular have been volatile in the last five years, reflecting the inflow and outflow of money and the crisis.** Foreign investment banks, for example, report that US\$20 billion of foreign investment exited the markets in the first quarter of 2011. This volatility is continuing, and is reflected in the changes in market capitalization in relation to GDP. A large percentage of the securities traded by volume and

value are carried out by banks for their own account, as they use equities for collateral, owing to a lack of other alternatives such as long term bonds. The top ten market participants account for almost 50 percent of trading and, in consequence, what impacts banks as large participants directly affects the securities markets and vice versa. RTS, in contrast, noted during interviews that much of its volume, which includes direct access trading, is now retail-oriented.

13. **While overall the markets are growing some have expressed concern that capital formation is moving offshore citing recent planned listings in Hong Kong and London.** For example, Valars Group, one of Russia's largest grain trading companies, was planning an IPO on the Warsaw Stock Exchange in May. Consolidation is also occurring, some of it prompted by purchase of private by government-controlled entities; for example Sberbank, owned 60.25 percent by the CBR, recently purchased 80 percent of Troika Dialog, the oldest and largest private investment bank in Russia. Alfa Bank, a non-government owned commercial bank wanted to acquire AKB Bank of Moscow, however VTB Bank, a government-owned bank ultimately prevailed. At the same time, on November 27, 2010, the Russian Government issued Resolution No. 2101-re-endorsing the Projected Plan/Program for Privatization of Federal Property and Guidelines for Privatization of Federal Property for 2011–2013 (the "Privatization Program"), under which multiple privatizations, including that of a portion of Sberbank are expected to occur. These "reprivatization" actions, coupled with other structural changes and modernizations of the regulatory system, potentially may provide renewed support to the securities markets if they provide fair pricing, and proper disclosure and shareholder protections.

14. **MICEX Group and RTS, the two main Russian exchanges executed a binding merger agreement on June 29, 2011, following an expression of intent in March.** The two entities expect to conclude their combination by year end. The total value of the combined deal is about US\$5 billion, with the majority ownership of 75 percent to be in the shareholders of MICEX. The new exchange will be 50 percent owned by state-controlled institutions, including CBR, Sberbank, VTB and Gazprom, though CBR indicated that it might reduce its stake prior to the deal's conclusion. The total market capitalization for all equities traded on both MICEX and RTS was about US\$1 trillion as of January 2011. MICEX is listed as among the top 20 exchanges per the World Federation of Exchanges. RTS's largest market is FORTS, or Futures and Options RTS, which settles through a central counterparty (CCP). The total number of futures and options contracts traded on FORTS in 2010² were 623,992,623 as reported to the Futures Industry Association.

15. **There are a large number of registered public companies,** but only a tiny (less than one) percent are listed on the exchanges. Of these the 10 largest issues account for

² Value is usually not quoted for futures markets due to the fact that the nominal value can be misleading. Therefore, this is the number of contracts traded unadjusted for contract size.

56.8 percent of market value and over 80 percent of market activity; the 30 largest account for 81.4 percent of market capitalization. Exchanges can admit companies to trading without listing, and also without authorization of the issuer. In 2010, according to FSFM statistics, there were 499 issuers admitted to trading on organized markets.

C. Preconditions for Effective Securities Regulation

16. **Securities exchanges and capital markets are contractual and rules-driven ventures.** Although some of the rules are embedded in exchange trading platforms, the integrity and equity of the application of the rules and of the conduct of public offerings are critical to maintaining market confidence. Similarly, in that securities are a legally created negotiable form of property interest, the integrity of how those interests are created, held and transferred is critical to their intrinsic value as is the governance structure of the issuers. Russia has invested huge efforts, over a lengthy period, to try to improve the legal and operational framework within which its markets operate. Nonetheless, there remains significant uncertainty about the integrity of the legal system that supports contracts and market rules and as to the expertise of the courts in financial matters. Currently a number of initiatives are underway that would help address these “rule of law”-related issues, including: improved accounting standards, provisions for finality of settlement, better rules of administration, initiatives that move toward the creation of a central depository, enhanced ownership and control reporting, provisions for an investor compensation fund, more intensive monitoring of market abuses and improved laws to address these, better means to enforce the proper conduct of business with retail market participants, and exploration of ways to enhance the availability and fairness of alternative dispute resolution regimes. Such improvements should be aggressively pursued.

D. Main Findings

17. **Overall as many improvements are brand new and many changes remain pending,** these findings reflect that many beneficial changes, which overtime may improve the performance of the regulator, are as of the date of this assessment, largely untested in practice.

(i) Principles 1–5, Principles relating to the Regulator: Improvements have been made in certain of the powers and authorities assigned to the regulator and certain regulatory as opposed to supervisory powers and authorities have been reassigned. At the present time, FSFM has the capacity to issue regulations in its remaining areas of competence, subject only to the condition of proper legal structure under the Federal Constitution, in consultation with other governmental entities as appropriate. Prior to the recent changes the FSFM operated substantially on a day-to-day basis, without political interference. Nonetheless, during the transitional period of uncertainty, there was a lack of transparency about ongoing legal initiatives that raised some concerns about whether the impending changes could adversely affect this existing level of regulatory independence. For example, the new alignment, as

projected, will explicitly require MoF approval for certain matters. Although such consultation should not be a factor in day-to-day operations and supervision, the actual operational procedures have yet to be clarified.

(ii) *Principles 6–7, Principles relating to self-regulation:* Although the Russian SROs have the ability to make and enforce binding rules on their members, membership is voluntary and only a third of professional market participants belong. If the FSFM obtains the authority sought under the Prudential Supervision Law, currently in its second reading before the Duma, professional market participants that deal with the retail public will be required to belong to an SRO subject to FSFM oversight. FSFM will be able to use that SRO to improve the development and enforcement of conduct of business and customer fairness requirements and to institute more expeditious dispute resolution and mediation processes. Exchanges and other market operators are required to enforce their rules but are not regarded as self-regulatory organizations under Russian law.

(iii) *Principles 8–10, Principles relating to enforcement of securities regulation.* New rules to define the offenses of market abuse and insider trading, to require the maintenance of insider lists and to improve the ability to investigate violations against third parties as well as licensees are achievements as is the institution of new real-time trade monitoring capability within the FSFM. However, the sufficiency of these changes to detect and deter misconduct should be tested as they are implemented and cases are brought where warranted. Further, the ability to obtain general bank records for natural persons to conduct securities regulation and to investigate any securities law violation remains an issue. To the extent legal changes are needed to remedy this, they should be aggressively pursued.

(iv) *Principles 11–13, Principles for cooperation in regulation:* The powers to obtain information and to share it have been augmented since the prior report. Further improvements are pending in consolidated supervision/banking legislation which will remove certain remaining limitations, facilitating intergovernmental communication for financial market oversight. The FSFM should aggressively pursue becoming a full signatory to the IOSCO Multi-lateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU). It should also seek to document its cooperative and investigative information sharing arrangements with the CBR and other relevant authorities and to keep relevant performance statistics. (See also Principles 24 and 29.)

(v) *Principles 14–16, Principles for Issuers:* New disclosure rules requiring material event reporting and ownership and control reporting, which attempt to improve information on indirect and connected ownership and to guide continuous disclosure have been adopted, as has the requirement for preparers and management to be liable for the accuracy of disclosure. Pending legislation would treat Directors as fiduciaries and a new Presidential Decree requires Ministers to step down from the supervisory boards of government-sponsored enterprises. These are sound improvements, which need some testing in practice. Regulatory

vigilance in enforcing these requirements should determine whether the requirements are increasing sufficiently the transparency of ownership and related transactions.

(vi) *Principles 17–20, Principles for collective investment schemes:* The FSFM has legislation that recognizes that CIS are vehicles for retail investment. In this regard it provides a framework of substantial protections. It is now in the course of adding some modernizations, which include more flexibility for sophisticated investors and broader use of derivatives under EU-like requirements for diversification and leverage. FSFM should take steps to ensure that surveillance programs keep abreast of the growth of products and structures in this market. All marketing of mutual funds should be covered by securities requirements.

(vii) *Principles 21–24, Principles for market intermediaries;* new capital requirements are being phased in albeit planned increases for brokers due in July were cancelled. FSFM is also adding new measures to determine the operational capacity of intermediaries as part of the licensing qualification process and considering an early warning process. These initiatives should be pursued. The legislative ability to appoint an authorized representative from FSFM to operate a professional market participant for which the license has been suspended or withdrawn, or to operate a provisional administration, to manage and/or wind down a distressed firm and to require enhanced risk management and other prudential measures are pending. The FSFM should take into consideration its experience with intermediaries in using these new supervisory powers and should move to update its existing periodic inspections regime/algorithm by adding some risk-based analyses and random checks for records, capital and other compliance requirements. The operation of the new alignment of functions should be kept under review. Prompt steps also should be taken to put into place the authority to create an investor compensation fund and to develop appropriate contingency plans.

(viii) *Principles 25–30, Principles for the Secondary Market.* New technical capacity to undertake real time surveillance of trading was obtained last year. Experience with the alerts generated through this surveillance facility, and the reporting by exchanges of defined non-standard transactions (potential market abuses), should enable the FSFM to better detect and deter market misconduct and to investigate/and or report suspicious transactions. Ongoing processes to revisit the listing, admission to trading and market structure should be continued to improve price reporting. As measures are adopted to provide the legal underpinning for a central counterparty and rationalization of the securities settlement system, the FSFM should ensure that its own regulatory methods and programs are adjusted so as to supervise the new operations in an effective, comprehensive way including back-testing of the extent to which margin/default coverage is achieved. Contingency and cooperative information sharing arrangements (or a crisis management plan, which addresses various types of crises) should be in place to address market disruption or failure of an intermediary.

Table 1. Summary Implementation of the IOSCO Principles—ROSCs

If material changes result from the realignment of powers and authorities to accommodate the transfer of insurance functions and the change in leadership of the FSFM, or otherwise, the rating contained herein may require further assessment.

Principle	Grading	Findings
<p>Principle 1. The responsibilities of the regulator should be clearly and objectively stated</p>	<p>PI</p>	<ul style="list-style-type: none"> • The FSFM's powers and authorities, in so far as they pertain to securities functions and professionals, are set out comprehensively in the law, including relevant Presidential decrees and Resolutions of the Government of the Russian Federation. In combination, these laws grant the FSFM a number of normative authorities within its competence, including as to the securities functions conducted by banks. Not all marketing of bank-managed collective investments is under the direct oversight of the FSFM, however. • The accessibility of the applicable laws would be improved by attempting to provide a consolidated text and by reinstating a publicly available English translation. • There is an informal working arrangement with the CBR for the oversight of commonly supervised entities. This arrangement has not been documented to address the sharing of information to combat securities law violations. • All supervisory functions over insurance were transferred to the FSFM on March 4, 2011 as were such functions with respect to certain other non-banking financial institutions as of June. The alignment of functions between the FSFM and the MoF has not yet been finally agreed.
<p>Principle 2. The regulator should be operationally independent and accountable in the exercise of its functions and powers</p>	<p>PI</p>	<ul style="list-style-type: none"> • FSFM currently has the authority to grant, condition, suspend and revoke licenses without interference. FSFM also has been granted broad inspection and sanctioning powers with respect to capital markets professionals and participants. These powers appear to be unaffected by the recent changes in the overall structure, functions and accountability of the FSFM. • Under the new structure, the FSFM will retain powers to issue secondary legislation (regulation or norms) in its areas of remaining competence, subject in certain matters of importance to approval by the MoF. With respect to capital requirements and the diversification requirements for mutual funds, the MoF will have normative powers in coordination with the FSFM. • It is premature to evaluate how this rearrangement of functions and authorities will operate in practice. The process for making these changes was not transparent. • The head of the agency is not appointed for a fixed term, there are no criteria for removal, and the agency itself does not have legal protection from liability for the performance of its mandates in good faith, all matters of concern to IOSCO and other financial standards setters.
<p>Principle 3. The regulator should have</p>	<p>PI</p>	<ul style="list-style-type: none"> • The FSFM has made a substantial effort since 2008 to obtain all the powers and authorities necessary to be IOSCO-compliant. In this

Principle	Grading	Findings
adequate powers, proper resources and the capacity to perform its functions and exercise its powers		<p>respect, FSFM has undertaken an enormous project to obtain expanded information sharing powers and to make clear its administrative authority with respect to third parties.</p> <ul style="list-style-type: none"> • More authority is currently projected to be provided with respect to access to (i) information regarding the general bank accounts of natural persons and (ii) information necessary for overall prudential supervision of groups, as the residual limitations on interagency sharing of bank records for regulatory and supervisory purposes are currently expected to be removed in pending legislation. • FSFM's ability to obtain bank records apparently does not now extend to natural persons or to enforcement of securities laws generally. • FSFM will need sufficient resources to implement the beneficial new powers it has obtained and to enable it to attract sufficiently expert personnel to oversee the evolving markets appropriately, a matter of concern to the investing public. FSFM's existing budget may not be sufficient to accommodate adequate training to assure that the expertise of FSFM staff matches its expanded mandate.
Principle 4. The regulator should adopt clear and consistent regulatory processes	BI	<ul style="list-style-type: none"> • The FSFM commits its general and specific actions to writing; all of its actions are subject to appeal in the courts; and procedures affecting the FSFM are documented both in a Federal Law, the Administrative Code, and also in an internal general regulation. While there is a means to be heard at least on the papers in individual proceedings in practice, this process could be made more explicit. • FSFM has oversight over the exchanges and organized markets, but disciplinary actions of SROs and exchanges are appealable only to the courts. • New proposals are published on FSFM's website and there is an opportunity for comment. The industry indicates that the opportunity for increased dialogue is welcome. Feedback statements on the handling of comments are not currently part of the consultation process. Interpretations must be given in writing and within a specified time frame. • FSFM removed its English language website and it was not operational during this assessment. A website that is accessible not only in Russian, but also in a language more broadly understood in the financial community, as previously was the case, is a factor in attracting offshore business. • The FSFM supports the use of alternative dispute resolution mechanisms, but does not mandate that financial market professionals w submit to this type of process on request of customers. • Complaints may lead to investigations; more statistics or performance metrics would make clearer how such matters are handled and disposed of.
Principle 5. The staff of the regulator should observe the highest professional standards	BI	<ul style="list-style-type: none"> • FSFM staff is subject to general and specific law on professional conduct and confidentiality. They are not permitted to engage in personal trading. They are also subject to the Insider Law, which makes violations sanctionable.

Principle	Grading	Findings
		<ul style="list-style-type: none"> • FSFM has not consolidated the applicable requirements in a Code of Conduct or as a part of the Internal Code that could be made publicly available. It should also introduce monitoring processes. (See also Principle 2).
<p>Principle 6 The regulatory regime should make appropriate use of self-regulatory organizations (SROs) that exercise some direct oversight responsibility for their respective areas of competence and to the extent appropriate to the size and complexity of the markets</p>	<p>Not Assessed</p>	<ul style="list-style-type: none"> • The Securities Law contemplates the use of SROs that are like industry professional/trade associations. These have the ability to comment on agency action, can make binding rules of conduct for their members and offer dispute resolution services, pursuant to relevant law. • As membership in any such SRO is voluntary, their usefulness in expanding the scope of the regulator's capacity to oversee the market and to enforce protections to retail customers is limited. SROs do provide a mechanism for informed consultation on agency actions. • The Prudential Supervision Law that is pending a second reading in the Duma will make participation in an SRO mandatory for financial intermediaries that deal with retail customers and will create a securities compensation fund through such SRO for retail investors. • Planned initiatives to strengthen retail protections would be welcome by market participants. Over time the scope of these arrangements might be further evaluated, and extended to other types of clients, such as institutional clients representing the interests of retail clients like CIS.
<p>Principle 7. SROs should be subject to the oversight of the regulator and should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities</p>	<p>BI</p>	<ul style="list-style-type: none"> • The FSFM has a program both to oversee SROs—it conducted four reviews in 2010—and to cooperate with them on inspections and in deterring and detecting market abuses and other misconduct. SROs, however, are not subject to a legal obligation of confidentiality as is the FSFM. Membership in SROs also is now voluntary (See Principle 6 above). • Securities exchanges, although they must enforce their rules as a matter of contract and to satisfy FSFM requirements, and are obligated to report specific types of non-standard transactions by their members or subscribers to the FSFM, are not designated as SROs by the law (See Principle 25). • All SRO rules must be approved, and can be deemed effective in 30 days if there is no objection from FSFM. • The FSFM indicates that it intends to provide additional oversight to any SRO designed for protection of retail investors.
<p>Principle 8. The regulator should have comprehensive inspection, investigation and surveillance powers</p>	<p>PI</p>	<ul style="list-style-type: none"> • The FSFM has comprehensive inspection powers, including the capacity to inspect brokers' files and to trace transactions to a broker's bank accounts. • There are plans either to further clarify or to amend relevant banking law to remove limitations on access to general bank accounts of natural persons for all regulatory purposes. Such accounts can currently be reached with respect to entities for manipulation and insider trading actions under the relevant securities laws, but as to natural persons the banking law has not been amended.
<p>Principle 9. The regulator should have</p>	<p>BI</p>	<ul style="list-style-type: none"> • FSFM has investigative and enforcement powers to bring administrative actions against third parties as well as licensees.

Principle	Grading	Findings
comprehensive enforcement powers		<ul style="list-style-type: none"> • FSFM also has received brand new authority to combat market abuses, such as insider trading and manipulation that define the offenses with particularity. In fact, FSFM has already brought a case. • The new provisional administrator powers create the possibility to freeze assets and for FSFM personnel to act as an authorized representative to operate/or oversee the operations of a professional market participant that is revoked or suspended or otherwise put under administration. • The FSFM is continuing to pursue enhancement of its enforcement and sanctioning authorities.
Principle 10. The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance program.	PI	<ul style="list-style-type: none"> • The FSFM conducts an active inspection and investigation program. It has withdrawn and revoked licenses, and undertaken an energetic program of initiatives together with the Government, to get the powers to become IOSCO-compliant in the enforcement area. • The FSFM has also recently obtained new surveillance tools and dedicated staff to identify suspicious transactions that can be modeled to implement its new authority to combat various market abuses. • FSFM also makes all of its sanctions public on its website. • Some period of observation of the use of these new enforcement powers and tools is necessary to determine how effectively they work in practice. • FSFM would benefit from improved performance indicators for its enforcement program.
Principle 11 The regulator should have the authority to share both public and non-public information with domestic and foreign counterparts	BI	<ul style="list-style-type: none"> • FSFM has the ability to share public and non-public information in its files or available to it through inspection of licensees with domestic and foreign authorities, including information with respect to the bank accounts of legal entities (and maintained for business) to the full extent of its ability to obtain such information • There are plans to amend the Banking Law and or otherwise to clarify that FSFM has access to the general bank accounts of natural persons for regulatory purposes. In the interim, the FSFM has full authority to assist with respect to those bank records by going through a court process
Principle 12. Regulators should establish information sharing mechanisms that set out when and how they will share both public and non-public information with their domestic and foreign counterparts	I	<ul style="list-style-type: none"> • The FSFM cooperates with both domestic and international authorities. • Although FSFM is still negotiating a protocol with the CBR, it has understandings with other domestic regulators and it has specific MoUs with 15 foreign authorities and a side letter with a 16th. Additionally it sits on several domestic and international committees where important contacts and informal networks are formed and where information is shared verbally as well as an internal task force of all financial authorities. • FSFM should continue to pursue information sharing arrangements with all jurisdictions that trade Russian equities or deposit receipts.
Principle 13. The regulatory system should allow for assistance to	PI	<ul style="list-style-type: none"> • The FSFM has full power and authority to share information with foreign authorities without dual criminality or an independent interest in the action to the full extent of its powers to obtain and use information

Principle	Grading	Findings
<p>be provided to foreign regulators who need to make inquiries in the discharge of their functions and exercise of their powers</p>		<p>itself, which powers have been expanded recently. FSFM may need to commence an investigation or inspection to do so, but has that power.</p> <ul style="list-style-type: none"> • FSFM should commence a reasoned process to become a signatory to Annex A of the IOSCO MMoU within the deadline. In this regard, FSFM has received substantial additional powers since 2008, can seek to clarify those ambiguities within its power to clarify, and can confirm through IOSCO's process what further legal clarifications, such as, on bank records of natural persons, are expected. • Appropriate clarifications would raise the level of FSFM compliance.
<p>Principle 14. There should be full, timely and accurate disclosure of financial results and other information that is material to investors' decisions</p>	<p>PI</p>	<ul style="list-style-type: none"> • FSFM requires prospectus, financial and non-financial disclosure and reporting. It defines what information must be submitted, conducts prospectus reviews, and the review of periodic and ad hoc statements and filings. • The prospectus and material event disclosure requirements for public companies, defined as companies with more than 500 participants are contained in the Securities Law. The Company Law also has disclosure requirements for public issuers. In addition to specific requirements, the Securities Law has a general provision for those issues it covers that requires that all information material to price be disclosed. • FSFM conducts reviews of issuers and public companies, both in the regions and at headquarters, mostly via review of filed disclosure documents, and periodic financial reports, but in some cases via on-site inspections. Preparers of statements are liable for the accuracy of disclosures, and the FSFM has in fact suspended and required the correction of filings. • FSFM has received important new authorities to look at indirect control of entities, and has added additional material event reporting to its disclosure requirements. Some experience with the application of these enhancements to determine their effectiveness is necessary before FSFM could be found to be fully compliant. FSFM and the industry report that the effects of these changes and other actions have been to increase the overall transparency of public companies (See also Principle 15). • Efforts also are being made to improve accounting standards. The efficacy of disclosure ultimately depends on the application of accounting and auditing, and ownership information reporting. While these matters are actively being improved, more experience is needed with their implementation for FSFM to move to a higher level of compliance. (See also Principle 16)
<p>Principle 15. Holders of securities in a company should be treated in a fair and equitable manner</p>	<p>PI</p>	<ul style="list-style-type: none"> • A Code of Conduct for corporate governance was adopted in 2002. The RTS and the MICEX require compliance with this Code for their top tier companies. • The FSFM also oversees company law, including pricing, relative to take over transactions. The law provides for the protection of minority rights. • More experience with the application of new ownership and control reporting procedures is required, but such reporting, if enforceable and

Principle	Grading	Findings
		<p>enforced, should materially improve the ability to provide the requisite protections .</p> <ul style="list-style-type: none"> • Directors and officers are not required to disclose any interest in shares, only interests that cross a 5 percent or greater threshold. • Required annual “comply or explain” disclosure for public companies as to Code of good governance would improve the information provided to shareholders.
<p>Principle 16. Accounting and auditing standards should be of a high and internationally acceptable quality</p>	<p>PI</p>	<ul style="list-style-type: none"> • IFRS for consolidated financial reports of issuers and financial markets participants is required after 2015. • While financial reports must still be filed in accordance with Russian Accounting standards, IFRS-compliant statements also must be disclosed now if IFRS is used for foreign offers or even for internal reporting. The top tier of listed companies also uses IFRS pursuant to exchange rules. • Accounting and auditing oversight procedures should continue to be strengthened. Additionally, as the requirement for IFRS is phased in, adequate oversight and training of accountants and the regulators will be important and will need to be intensified.
<p>Principle 17. The regulatory system should set standards for the eligibility and the regulation of those who wish to market or operate a collective investment scheme</p>	<p>PI</p>	<ul style="list-style-type: none"> • The FSFM has initial and ongoing licensing standards that involve fit and proper criteria, including competence, lack of disqualifying conduct, adoption of appropriate structures and controls and review. • FSFM also has rules to prevent or require disclosure of related party transactions, subject to certain exceptions comparable t those in other jurisdictions. • Firms that market funds must be licensed, except that banks can place bank customers in bank-managed funds, without a brokerage license. • There are some gaps among the customer protections, such as those related to best execution, although additional customer protection rules could be provided by the relevant SRO for the management company or possibly, otherwise, through the expected ability to mandate the use of an SRO for intermediaries doing retail related business.
<p>Principle 18. The regulatory system should provide for rules governing the legal form and structure of collective investment schemes and the segregation and protection of client assets</p>	<p>BI</p>	<ul style="list-style-type: none"> • FSFM has structural requirements for collective investment schemes (CIS), whether joint stock companies (of which there are only eight), or unit investment trusts, which treat their participants’ interests as securities. • The law and related rules require the assets of the CIS to be maintained at a non-affiliated “specialized” custodian. The custodian is to maintain a register of unit holders, account for the transfer and investment of subscriptions, and monitor investments and activities of the management company relative thereto for compliance generally with the law. • The Investment Fund law recognizes that the portfolio assets of the CIS are not part of the investment management company’s estate, nor are they amenable to the claims of debtors of individual fund participants or of the special custodian. Similarly in the case of fund companies, portfolio and other assets held for investors are available

Principle	Grading	Findings
		<p>only to satisfy such investors' claims.</p> <ul style="list-style-type: none"> • A special administration procedure also is provided by that law in the event of the need to wind down a fund or otherwise. • There is a process whereby auditors confirm that fund money and property are properly maintained, that custodial procedures are observed, and that portfolio structures and net asset value computations are correct. • Acquisition of funds by other funds should be monitored to prevent abuses.
<p>Principle 19. Regulation should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a collective investment scheme for a particular investor and the value of the investor's interest in the scheme</p>	<p>I</p>	<ul style="list-style-type: none"> • Investment by laws and agreements, information on fund composition, price reporting and financial reports for managers and custodians, as well as specific and general qualitative disclosure is required for investment funds. Among other things these relate to the fund governance and management and their qualifications, investment policies, fees and costs, and to the fact that performance gains cannot be guaranteed. A particularly important disclosure is with respect to the volatility of markets where liquidity is not assured. • Risk warnings to retail investors should help to ensure they understand the difference between investment funds and bank accounts and/or bank offered funds to the extent that the protections are not identical. • The Investment Fund law provides specific requirements for SROs to which management companies are now voluntary members. These require such SROs to handle complaints, monitor for compliance with applicable rules, cooperate with the FSFM, and bring disciplinary procedures. • See Principle 4, 6, 7 and 23 with respect to efforts to require mandatory use of an SRO to provide more oversight of retail offerings and education of customers.
<p>Principle 20. Regulation should ensure that there is a proper and disclosed basis for assets valuation and the pricing and the redemption of units in a collective investment scheme</p>	<p>BI</p>	<ul style="list-style-type: none"> • FSFM has specific requirements for the valuation of assets. There are special provisions that apply to illiquid assets to promote the use of fair/accurate valuations. Attentive oversight of the pricing of illiquid assets, and of any related evaluators, is necessary. Clear provisions for errors are needed, for example. • NAV for open-ended funds has to be published daily on the Internet site of the CIS management company and if funds are listed on a stock exchange, the price must also be published through on-line data feeds of authorized vendors. • Closed end funds and interval funds must report on redemption dates (which must be at least once yearly) and in the case of movable assets not less frequently than quarterly. (See Principle 18 for the role of auditors)
<p>Principle 21. Regulation should provide for minimum entry standards for market intermediaries</p>	<p>BI</p>	<ul style="list-style-type: none"> • FSFM has fit and proper licensing requirements that include statutory disqualifications and capital and educational qualifications and professional competence requirements that apply to all intermediaries, including (except for capital) banks undertaking securities functions. • While currently licenses are issued on the documents, coupled with a review of a certification as to no criminal record from the Ministry

Principle	Grading	Findings
		<p>of Interior, there is a pending project to add a due diligence review of operational capacity to conduct the business for which a professional market participant is licensed.</p> <ul style="list-style-type: none"> • See Principle 22. As capital requirements become more complex, it will be important to have appropriately expert staff to conduct these reviews.
<p>Principle 22. There should be initial and ongoing capital and other prudential requirements for market intermediaries that reflect the risks that the intermediaries undertake</p>	<p>PI</p>	<ul style="list-style-type: none"> • Minimum financial requirements for brokers were materially increased to Rub 35 million (US\$1.25 million) in 2010, and were to have been further increased in July, 2011. Special custodians and non-settlement related depositories' capital will be increased to Rub 80 million. as previously planned in July. • More specific risk-based measures and ratios related to credit and other risks are proposed to be added by the Prudential Supervision Law, which is in its second reading. • The development of specific requirements has now been reassigned to the MoF and planned increases due for brokers in July were postponed in May pending the projected adoption of the Prudential Supervision Law. • Existing requirements will be augmented by the ability to undertake appropriate due diligence, a new consolidated financial reports filing requirement when it is applied, by the Consolidated Supervision Banking Law ,if and when adopted, and by the full implementation of IFRS by 2015. • FSFM has no early warning requirements or procedures. • These changes will require adequate expertise to supervise and implement, including new inspection regimes and procedures, which might reasonably focus on identifying and prioritizing risks as well as random inspections to ensure that books and records are current and that the capital rules are being followed properly.
<p>Principle 23. Market intermediaries should be required to comply with standards for internal organization and operational conduct that aim to protect the interests of clients, ensure proper management of risk, and under which management of the intermediary accepts primary responsibility for these matters</p>	<p>PI</p>	<ul style="list-style-type: none"> • The Securities Law and FSFM regulations contain broad duties of good faith, loyalty and fairness to customers. Recent regulations adopted in 2010 permit through new monitoring procedures the ability to better oversee customer first and other customer protection requirements in real time and the new Insider Law makes market operator personnel and professional market participants insiders with respect to information received from their clients. • The adoption, application and enforcement of business conduct standards and other customer protections could be improved with the use of a mandated SRO for intermediaries handling retail business. • Currently the order handling requirements are not very specific, so enforcement and oversight may be complicated---a general issue with using principles, as opposed to rules, of supervision. These issues could be ameliorated through use of an SRO that establishes best practices providing more content to the principles.
<p>Principle 24. There should be a procedure for dealing with the failure of a market intermediary in order to</p>	<p>PI</p>	<ul style="list-style-type: none"> • There are new powers to deal with firm financial distress, including appointment of a temporary/provisional administrator, and, there are additional new rules pending final legislative approval. • FSFM and the exchanges and the other relevant authorities need

Principle	Grading	Findings
minimize damage and loss to investors and to contain systemic risk		<p>contingency arrangements to deal with market and firm disruption, making full use of their administration and information sharing powers, which address several potential scenarios. See Principles 1 and 29. Such arrangements would need to evolve with the market and be kept under continuous review.</p> <ul style="list-style-type: none"> • New authority to create an investor compensation scheme is expected to come on line with pending legislation.
Principle 25. The establishment of trading systems including securities exchanges should be subject to regulatory authorization and oversight	BI	<ul style="list-style-type: none"> • The FSFM has a licensing procedure for regulated exchanges and organized markets, which includes fitness and financial requirements. • A new law known as the Law on Exchanges and Organized Trading is in the process of being adopted which may contain additional improvements. • Disclosure relative to the differential requirements as to each of the specific tiers of trading is important to customer protection and fairness.
Principle 26. There should be ongoing regulatory supervision of exchanges and trading systems, which should aim to ensure that the integrity of trading is maintained through fair and equitable rules that strike an appropriate balance between the demands of different market participants	BI	<ul style="list-style-type: none"> • The FSFM conducts oversight reviews of exchanges. In this regard it visited the RTS in 2010. Inspections result in a report, an exit conference, and follow up. • FSFM also works with the exchange personnel on emerging issues. • The FSFM now has additional authority to do its own monitoring of suspicious transactions and potential violations and new technology to apply these. Additionally regulations adopted in 2010 require all organized markets and exchanges to submit various types of information about non-standard and potentially abusive transactions to the FSFM in a specified format. • The FSFM would benefit from more metrics for evaluating performance by exchanges of their compliance functions.
Principle 27. Regulation should promote transparency of trading	PI	<ul style="list-style-type: none"> • Price and volume is reported by the market to the FSFM. The data feeds are licensed in real time to commercial providers and they are also available with a 15 minute time lag to the general public on line. • Reporting of OTC transactions has been improved, consistently with changes in the process being made globally, which are currently being refined after the crisis. Almost all OTC reports are made through RTS. • How to address the prices of the same product listed or admitted to trading at two exchanges in the same time zone continues to be subject to regulatory scrutiny. • The exchanges and the FSFM would benefit from staying abreast of developments more generally about market structure, transparency and related protections.
Principle 28. Regulation should be designed to detect and deter manipulation and other unfair trading practices	PI	<ul style="list-style-type: none"> • Adoption of the law on market abuses, such as insider trading and manipulation is a step forward and includes the sanction of disgorgement of wrongful profits. • The systems to deter and detect such misconduct are in the process of being developed and tested as the law is being phased in. The FFMS has a new real time surveillance tool, and the exchanges are required also to enforce their rules against misconduct. Specific exception reports on non-standard transactions are required by the

Principle	Grading	Findings
		<p>exchanges to the FSFM to be made in a common format. (See also Principles 7 and 26).</p> <ul style="list-style-type: none"> Some experience is necessary to see how these improved requirements work in practice and whether the penalties are dissuasive and proportionate.
<p>Principle 29. Regulation should aim to ensure the proper management of large exposures, default risk and market disruption</p>	<p>PI</p>	<ul style="list-style-type: none"> The exchanges have some rules with respect to these risks built into their systems. The procedures for defaults are public. The FSFM has power to demand additional information from direct market participants on clients within omnibus accounts. This power is untested. The FSFM should develop approaches that enable it to determine where risks are originating in the market, and to follow up with other regulators in conducting appropriate surveillance. Contingency procedures are not currently documented nor are related cooperative arrangements with other regulators. There should be documented contingency plans to address both general market and firm disruptions (see also Principle 24 Key Q1).
<p>Principle 30. Systems for clearing and settlement of securities transactions should be subject to regulatory oversight, and designed to ensure that they are fair, effective and efficient and that they reduce systemic risk</p>	<p>Not Assessed</p>	<ul style="list-style-type: none"> Adoption of the Clearing Law that provides a legal underpinning for final settlement in a central counterparty system and for close out netting and related risk management parameters is an important step forward. It is important to assure that as implemented the risk management and oversight of the CCP system is sufficient to meet international requirements. Such a system should bring more transparency to exposures, and further facilitate anonymous trading. As it concentrates risk at the CCP, however, the financial resources and margining and variation systems are critical and appropriate and ongoing back testing of the sufficiency of the risk management systems is important. The system still permits the use of multiple registrars or transfer agents though issues relative to liability for custodianship obligations have been clarified and the number of such agents is declining. Use of a Central Security Depository which complies with the CPSS/IOSCO standards for securities settlement systems, and US law for US mutual funds investing offshore would send an important signal to the market as to the integrity of the system for transfer of securities.
<p><i>Aggregate:</i> Fully implemented (FI) 2 broadly implemented (BI)10, partly implemented (PI) 16, not implemented (NI) 0, not assessed (N/A) 2.</p>		

II. RECOMMENDED ACTION PLAN AND AUTHORITIES' RESPONSE

Recommended action plan

Table 2. Recommended Action Plan to Improve Implementation of the IOSCO Principles

While legislative powers and authorities are now in place and more are pending, more experience is needed with how these new powers work in practice before IOSCO expectations can be said to be fully implemented.

Reference Principle	Recommended Action
1. The responsibilities of the regulator should be clear and objectively states.	<ul style="list-style-type: none"> • The CBR and the FSFM should document a protocol for cooperation with respect to the oversight of entities or groups in which they have a common interest. • A consolidated version of law and regulations with linkages should be on the website, ideally in English as the language of finance, as well as in Russian. • The distribution of powers in the new authority should be promptly clarified and made readily accessible together with an explanation of how the arrangements are expected to operate in practice.
2. The regulator should be operationally independent and accountable in the exercise of its functions and powers.	<ul style="list-style-type: none"> • The new structure of the FSFM should be kept under observation to ensure that the new alignment of functions does not lead to day-to-day operational interference by the MoF • Even if it is accepted protocol to resign upon a change of political administration, under existing standards, the executive director of a regulatory agency should be appointed for a fixed term and the criteria for removal should be specified. • Legal protection for good faith performance of the regulatory mandate by FSFM should continue to be pursued.
3. The regulator should have adequate powers and resources.	<ul style="list-style-type: none"> • The skills, technical competences, IT facilities and human and monetary resources of FSFM should keep pace with the complexity and scope of its regulatory mission. • The FSFM should determine if it needs additional types of resources and a different skill mix than it has currently for its resources to be equal to market demands; it should do a needs assessment, prepare an action plan, and use it in constructing the next rolling budget or amending this one. In particular FSFM should retain the ability to hire external experts and should be exempt from the government-wide headcount reduction. • FSFM resources must be sufficient to enable it to attract sufficiently expert personnel to oversee the evolving markets appropriately, a matter of concern to the investing public. The budget should also accommodate training to assure that the expertise of FSFM staff is sufficient to implement more complex and nuanced requirements, to conduct due diligence, and to implement new powers and authorities.

Reference Principle	Recommended Action
	<ul style="list-style-type: none"> • FSFMs ability to obtain bank records should extend to enforcement of securities laws generally and proper oversight of regulated entities. The law should be amended if necessary to provide FSFM sufficient powers to meet the requirements for joining the IOSCO MMoU as a full signatory (see also Principles 8 and 13)
4. The regulator should adopt clear and consistent regulatory processes.	<ul style="list-style-type: none"> • FSFM should maintain logs of complaint dispositions, inspections, investigations and cases, and use them to determine whether penalties are proportionate, consistent and dissuasive. • The practice and procedure for an opportunity to be heard in administrative proceedings should be documented giving content to the Investor Protection Law. • The regulator should continue to assure that to the extent possible its processes are transparent, restore its English website, consider the publication of feedback statements after consultation, and support measures to provide expanded access to mediation and alternate dispute forums.
5. The staff of the regulator should make appropriate use of SROs that exercise some director oversight responsibility for their respective areas of competence and to the extent appropriate to their size.	<ul style="list-style-type: none"> • FSFM should consider having a Code of Conduct for employees specific to the agency and establishing monitoring processes to ensure compliance. -Publication of professional procedures and the internal regulation at the FSFM can help promote confidence in the regulatory process (see also Principle 2 on liability).
6. The regulatory regime should make appropriate use of SROs that exercise some direct oversight responsibility for their respective areas of competence and to the extent appropriate to their size.	<ul style="list-style-type: none"> • The FSFM should continue to actively use what Russian law deems as SROs to provide some oversight of professional qualifications and business conduct standards and serve as a type of conduit or trade association for obtaining comment from more than one perspective on the costs and benefits of rule proposals and other matters. • The FSFM should explore how best to use of its pending authority with respect to a mandatory SRO for market professionals serving retail customers (i) to provide additional resources for customer protection, (ii) to ensure a high level of consistency in the rules relative to retail customer protection, and (iii) to develop a sufficient capital base for a risk-adjusted compensation fund. • FSFM should promptly implement any such authority once obtained.
7. SROs should be subject to the oversight of the regulator and should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities.	<ul style="list-style-type: none"> • SROs have access to sensitive information as the result of their inspection activities. It may be that the information is protected in their hands from improper use by internal rules or membership agreements. • FSFM should adopt an explicit requirement that an SRO must treat non-public information in accordance with professional standards of confidentiality equivalent to those required of FSFM, or of any other authority whose information the SRO may be using if higher.

Reference Principle	Recommended Action
8. The regulator should have comprehensive inspection, investigation and enforcement powers.	<ul style="list-style-type: none"> • The FSFM should seek a declaration or legislative amendment confirming its ability to directly access general bank records for all regulatory purposes. • FSFM might consider exploring whether at headquarters, using a methodology that identifies key risks, coupled with random reviews of the currency of records would increase the efficiency and effectiveness of the inspection process (see also Principle 22).
9. The regulator should have comprehensive enforcement powers.	<ul style="list-style-type: none"> • The FSFM should evaluate the operation of its new enforcement powers relating to insider trading and manipulation during the phase-in period to determine whether they are achieving enhanced deterrence of misconduct. • In this respect FSFM should develop appropriate performance metrics relative to whether the remedies and procedures are dissuasive and proportionate.
10. The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance program.	<ul style="list-style-type: none"> • FSFM should determine how best to measure and present performance objectives and statistics for enforcement and related monitoring activities. • See also the comments under Principles 4, 6, 7, 8, and 9.
11. The regulator should have the authority to share both public and non-public information with domestic and foreign counterparts.	<ul style="list-style-type: none"> • Information sharing among domestic authorities may be improved with the adoption of the Banking Law amendments related to consolidated supervision and completion of a formal protocol with the CBR (See Principle 1). • The regulator can share non-public information (subject to the clarification above and referred to in Principle 8) in its files under a Memorandum of Understanding with appropriate confidentiality protections to the same extent as such information is obtainable by FSFM. • FSFM should take steps promptly to meet requirements to sign the IOSCO MMoU.
12. Regulators should establish information mechanisms that set out when and how they will share both public and non-public information with domestic and foreign counterparts.	<ul style="list-style-type: none"> • FSFM should consider whether the cross listing of securities, through ADRs and GDRs, or as the basis of indexes, such as the MSCI, favors the execution of additional specialist, bilateral MoUs. • See Principle 8, 9, 11, and 13.
13. The regulatory system should allow for assistance to be provided to foreign regulators who need to make inquiries in the discharge of their functions and powers.	<ul style="list-style-type: none"> • The FSFM should document its assistance activities. (See also Principle 4) FSFM should support prompt adoption of changes and/or clarifications that will expand its access to bank records and move forward to become a fully signatory of the IOSCO MMoU. • (See also Principles 8 and 11)

Reference Principle	Recommended Action
14 There should be full, timely and accurate disclosure of financial results and other information that is material to investors' decisions.	<ul style="list-style-type: none"> • FSFM should report on the extent to which ownership and control reporting is in practice improving transparency and protection of investors through disclosure. • Also, FSFM should evaluate the level of continuing disclosure compliance and consider automating more of the process.
15 Holders of securities in a company should be treated in a fair and equitable way.	<ul style="list-style-type: none"> • Useful amendments have been made to seek better ownership and control reporting (See Principle 14). The effect of these amendments should be kept under review. • FSFM now has power to review tender offer prices, and should document how the pricing review methodology works in practice. • Management and Board members of issuers should be required to disclose shareholdings even if they do not cross the 5 percent threshold. • FSFM should consider what qualifications and oversight is needed for independent evaluators, who currently are not required to be licensed. • Required "comply or explain" disclosure for public companies as to the voluntary Code of good corporate governance would improve the information provided to shareholders.
16. Accounting and auditing standards should be of a high and internationally acceptable quality.	<ul style="list-style-type: none"> • FSFM should work with the Ministry of Finance and other relevant authorities to determine the best way to (i) oversee accountants and auditors, (ii) encourage prompt movement of financial market participants and issuers to prepare for the institution of IFRS, (iii) assure appropriate capacity/training among the profession and within the regulator to implement the accounting changes, and to (iv) move concomitantly to prepare a plan to improve audit standards.
17. The regulatory system should set standards for the eligibility and the regulation of those who wish to market or operate a collective investment scheme.	<ul style="list-style-type: none"> • See Principle 21 below.
18. The regulatory system should provide for rules governing the legal form and structure of collective investment schemes and the segregation and protection of customer assets.	<ul style="list-style-type: none"> • FSFM should keep under review the sufficiency of available information to determine whether the custodian of customer funds is in fact unrelated to the management company and otherwise to check on the proper custodianship and protection of customer funds and the proper pricing of units of interest. • FSFM should develop, as necessary, means to review on an ongoing basis whether new models of CIS, such as ETFs, require additional structural protections.

Reference Principle	Recommended Action
19. Regulation should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a collective investment scheme for a particular investor and the value of the investor's interest in the scheme.	<ul style="list-style-type: none"> • If the Prudential Supervision Law, now in its second reading, is adopted, FSFM should commit some responsibilities for providing a complaints forum and overseeing conduct of business affecting retail holders of CIS as well as individual retail investors to the mandatory SRO for market professionals engaging in retail business. • FSFM and the Russian Federation should promptly effectuate the authority to establish an appropriate investor compensation fund. (See also Principle 24 and 29).
20. Regulation should ensure that there is a proper and disclosed basis for assets valuation and the pricing and the redemption of units in a collective investment scheme.	<ul style="list-style-type: none"> • FSFM should assess how well the pricing methodology for illiquid securities functions in practice. (See also Principle 16).
21. Regulation should provide for minimum entry standards for market intermediaries.	<ul style="list-style-type: none"> • FSFM should promptly implement its plans for doing a limited initial operational capacity due diligence on applicants above a certain size. • Once adopted, the Prudential Supervision Law will enhance initial entry criteria, including for capital and internal controls, and ongoing compliance capability. FSFM should assure that it has the appropriate expertise and staffing to apply these new powers and authorities (see Principle 3).
22. There should be initial and ongoing capital and other prudential requirements for market intermediaries that reflect the risks that the intermediaries undertake..	<ul style="list-style-type: none"> • FSFM should institute specific early warning reporting to relevant FSFM personnel by the exchanges and professional market participants to permit prompt corrective actions to be taken as necessary. • FSFM should analyze whether current capital requirements are sufficient to address the various risks set forth in IOSCO standards, including credit, market, and operational risks, in preparation for applying new authorities to be granted by the Prudential Supervision Law. For example, FSFM should develop a means to test the outcomes of market moves above a specified size on capital. • Pending changes to capital requirements will require adequate expertise to supervise and implement, including new inspection regimes and procedures, which might reasonably focus on identifying and prioritizing risks as well as random inspections to ensure that books and records are current and that the capital rules are being followed properly.
23. Market intermediaries should be required to comply with standards for internal organization and operational conduct that aim to protect the interest of clients, ensure proper management of risk, and under which management	<ul style="list-style-type: none"> • The FSFM requires professional market participants authorized by it to have compliance personnel. • More capacity to oversee intermediary risk management will be provided by introduction of the Prudential Supervision Law. FSFM should assure that it has sufficient expertise in place to conduct such assessments. (See also Principles 3 and 22) • Also, FSFM should exercise the power it receives from the Prudential Supervision Law, when adopted, to cause the

Reference Principle	Recommended Action
of the intermediary accepts primary responsibility for these matters.	mandatory SRO for professional market participants dealing with the retail public to develop more guidance on the implementation of conduct of business principles, such as best execution and marketing consistent with customer investment objectives.
24. There should be a procedure for dealing with the failure of a market intermediary in order to minimize damage and loss to investors and to contain systemic risk.	<ul style="list-style-type: none"> • The appointment of an authorized representative in connection with suspension or revocation of a license or as part of a temporary administration proceeding will facilitate the management of a firm in distress. • The adoption of the Prudential Supervision Law should be progressed and implementation guidance for such representation should be considered once the law is finally effective. • The FSFM and the exchanges and other relevant financial authorities should have contingency arrangements to deal with market and firm disruption, making full use of their administrative and information sharing powers. The FSFM should attempt to determine in advance the steps of a wind-down plan. The plan should contain (i) means to communicate with other regulators, (ii) trigger points, such as changes in financial condition outside a specific tolerance and reductions in capital, that are early warnings and lead to initiation of prompt corrective action, and (iii) an analysis of the available measures and tools to minimize customer, counterparty and systemic risk. • Any plan also should include the procedures for non-routine communication with other regulatory authorities, including both domestic and relevant foreign authorities—and for determining whether market misconduct is related to financial issues in that such misconduct sometimes obscures financial distress. • Authority to establish an investor compensation fund should be promptly implemented.
25. The establishment of trading systems, including securities exchanges, should be subject to regulatory authorization and oversight.	<ul style="list-style-type: none"> • The FSFM in authorizing new trading systems, or in determining how to conduct ongoing oversight of merged markets, should update and refine its audit and surveillance programs. • Additionally it should use its new surveillance capability to assess on an ongoing basis the appropriate parameters based on experience with STRs or non-standard transactions (that may indicate insider trading, market manipulation or other abuses) for its own surveillance and for reporting by the exchanges or organized markets. • The different tiers of market structure should be transparent to customers; customers should be informed that the protections or risks relative to different tiers of trading are different. • See Principles 17, 21, and 26.
26. There should be ongoing regulatory supervision of exchanges and trading systems, which should aim to ensure that the integrity of trading is maintained through	<ul style="list-style-type: none"> • The FSFM should develop a metrics for evaluating exchange performance of its compliance role and maintain performance statistics. • See Principle 25.

Reference Principle	Recommended Action
fair and equitable rules that strike an appropriate balance between the demands of different market participants.	
27. Regulation should promote transparency of trading	<ul style="list-style-type: none"> • The FSFM should keep under continuous review how price reporting is conducted and whether there is a need to consolidate pricing information on the market where the same product is listed or admitted to trading in the same time zone. In this regard it should take account of, or ask the exchanges to provide an account of, the completeness and timeliness of information being reported from OTC markets to the exchanges. • The FSFM should also ask the new SRO for retail investors, should the authority be granted, to study whether the number of markets interferes with price formation and informs or confuses investors as to risk and how best to address any such confusion. • The exchanges and FSFM should keep abreast of developments more generally about market structure and protections and make needed adjustments in the related oversight programs.
28. Regulation should be designed to detect and deter manipulation and other unfair trading practices.	<ul style="list-style-type: none"> • The FSFM should develop programs to surveill or otherwise to detect insider trading, manipulation and other market abuses using its new real time information feed and other information such as media reports. • In this regard FSFM should determine whether the definitions used and penalties assigned are achieving their detection and deterrence objectives. • To assist this process, FSFM should develop metrics for measuring the performance of market operators and FSFM surveillance systems in detection and deterrence (see also Principle 25).
29. Regulation should aim to ensure the proper management of large exposures, default risk and market disruption.	<ul style="list-style-type: none"> • The FSFM should develop approaches that enable it (i) to determine where risks are originating in the market, (ii) to back test risk reduction measures and sufficiency of existing risk management at exchanges and financial market professionals, and (iii) to follow up with other regulators in conducting appropriate surveillance. • There should be contingency plans to address both market and firm disruption. • As stated in Principles 1 and 24, the FSFM should refine and document its existing arrangements for cooperation with the CBR with a view to further articulating the actions that can be taken to address the default or failure of a professional market participant or a market disruption through temporary administration, instructions to market operators, or exercise of any other oversight authority and to document how to address market abuse. • Risk management and appropriate cooperation with the exchanges on surveillance also should include understanding the roles of each party in the event of a market disruption or firm

Reference Principle	Recommended Action
	failure before the fact. For example, FSFM should determine in advance how to use any and all additional authorities granted in pending legislation and conclude exemplary contingency arrangements for various scenarios.
30. Systems for clearing and settlement of securities transactions should be subject to regulatory oversight, and designed to ensure that they are fair, effective and efficient and that they reduce systemic risk	<ul style="list-style-type: none"> • FSFM should request an assessment of its clearing infrastructure once contemplated changes are implemented. • Prior thereto, FSFM should design a program for appropriate oversight of any CCP, including back testing, that takes advantage of the new Clearing Law to assure that the risk management regimes in place operate properly and that netting, margining and related collateral and other risk mitigation arrangements provide the level of default coverage required by international standards (see also Principle 29). • FSFM should also take steps to cause any CSD to meet the requirements of the IOSCO/ Committee on Payment and Settlement standards for securities settlement, payment systems, and CCPs, and best practices of G-20 countries for central securities depositories that apply to CIS investing offshore.

Authorities' response to the assessment

18. **The authorities found the detailed report comprehensive and useful and welcomed advice on how to move forward on improvements**, both pending and planned. Most of the FSFM's suggested enhancements and corrections are now incorporated in the text. In particular, the assessor has attempted to suggest how oversight of intermediaries might be strengthened in ways currently already in the planning process by FSFM. These include the enhancement of licensing procedures by adding on-site inspections and interviews to conduct due diligence on operational capacity and the development of contingency planning including appropriate cooperative protocols or memoranda of understandings with other financial authorities to address both financial and firm distress.

19. **To address FSFM concerns as to what should be next steps with respect to clearing improvements**; the assessor further recommended a more detailed assessment of the new clearing and CCP authorities obtained in 2011 after some period of experience with the development by FSFM of an oversight plan and early clarification of the realignment of all new authorities. FSFM has taken this under advisement.

20. **FSFM indicated its belief that the accessibility of the law, rules and legislation** affecting capital markets was sufficient and objected to the discussion of independence. The assessor did not concur, and concluded that an evaluation of the level of independence of the newly combined regulator's capital market oversight operation would require a period of experience with the new alignment of powers and accountability arrangements.

III. DETAILED ASSESSMENT

Table 3. Detailed Assessment of Implementation of the IOSCO Principles

IOSCO requires the assessment of the effectiveness of implementation as well as the existence of a rule. Many new provisions have been adopted for which no period of performance is available. Implementation is then tested under the rules that previously existed to the extent possible.

Principles Relating to the Regulator*	
Principle 1.	The responsibilities of the regulator should be clear and objectively stated.
Description	<p><i>Clear Legal Authority.</i></p> <p>A federal agency for the oversight of the equity and derivatives markets, and the related activities of market professionals, known as the Federal Service on Financial Markets (FSFM), reporting to the Chairman of the Government (Prime Minister) was established by Presidential Decree 314 in 2004. The central powers are spelled out in a Resolution of the Government of the Russian Federation: No. 317, "On The Federal Financial Service," which among other things grants the FSFM powers to draft legislation for submission to the government and to issue its own regulatory decrees, to provide public guidance or interpretations, consistent with administrative law, and to impose administrative sanctions. Through this Decree and subsequent legislation and executive orders, the agency has received specific authority over (i) the commodity exchanges formerly supervised by a sector of the Anti-monopoly Commission; (ii) that portion of company law relating to the disclosures affecting tender offers, mergers, and acquisitions, and (iii) private (non-state) pension funds, clearing organizations, and other market infrastructure.</p> <p>By a new Presidential Decree of March 2011, all functions of the Federal Service on Insurance Supervision (FSIS) were transferred to the FSFM. Although as many as 50 percent of securities markets professional participants are parts of bank groups (including brokers, dealers, special custodians, portfolio management companies, and trustees), over which the CBR has prudential authority, the FSFM retains specific licensing and inspection authority with respect to the securities brokerage and portfolio management activities of banks and bank groups. Under the new alignment of powers of the FSFM, the Ministry of Finance will have enhanced authority to oversee secondary legislation of the FSFM, including the authority to issue capital requirements in coordination with the FSFM and to address the composition of mutual funds or CIS.</p> <p>Additionally, by virtue of a series of new legislation and amendments adopted since 2004, some of which remain pending final adoption in 2011, the FSFM has or is expected to receive enhanced powers with respect to prudential supervision over market professionals. These include temporary/provisional administrator appointment powers, the ability to require consolidated financial reporting, and removal of certain limitations on the sharing of bank information to combat insider trading and manipulation. There remains uncertainty as to whether the limitations will be removed on access to banking information for all regulatory purposes, though legislation is planned. The new legislation includes:</p> <ul style="list-style-type: none"> • July 2010 Federal Law 224-FZ "On Countering the Illegal Use of Insider Information and Market Manipulation and on Amendments to Certain legislative Acts of the Russian Federation" (Insider Law), effective as of the end of January 27, 2011 except as to certain criminal penalties, which come into effect within one to three years after initial publication;

- the “Federal Law on Clearing and Clearing Activities FZ-7” (Clearing Law) adopted February 7, 2011, which permits the creation and oversight of new clearing infrastructures, including central counterparties, which becomes effective January 2012, and related time concessions or amendments permitting consolidation of trading and clearing, some of which do not become effective until 2014; and,

- the draft law, “On Amendments to the Securities Law and to Certain Legislative Acts of the Russian Federation, now in its second reading before the Duma (Prudential Supervision Law).

Also of importance are amendments to the Banking Laws, which would further improve the ability of the competent Russian authorities to cooperate.

Gaps and inequities.

Panoply of laws and regulations

The powers of the FSFM appear to address, or will address when fully in force and implemented, all functional areas of securities regulation: that is, issuers, intermediaries, collective investments, secondary markets, clearing, and inspection, investigation and enforcement. The FSFM appears also to have been active in seeking to refine the design of its system to comport with the various areas addressed by IOSCO. Its core enabling legislation includes:

- On the Securities Market, FZ-39; and more area specific legislation, including:
- On Protection of the Rights and Legitimate Interests of Investors in the Securities Market, FZ-46;
- On Joint Stock Companies, FZ-208;
- On Investment Funds, FZ-156;
- The Code of Administrative Offenses of the Russian Federation, FZ-9;
- On Non-State Pension Funds, FZ-75;
- On Mortgage Securities, FZ 152, and
- On Amendments to the Securities Law, published October 10, 2010, which come into effect between January and March 2011, and
- On Insolvency, FZ-127 and relevant amendments concerning receivership and administration of financial market participants introduced by Law FZ-65 of April 22, 2010.

Addition of Insurance Powers.

As of March 2011, the FSFM has been given responsibility in the insurance sector by On Insurance, FZ-65.

Modernizing and Keeping Abreast of Market Evolutions

One objective of the current ongoing initiative of the President’s Financial Council on creation of an international financial center is to improve the overall architecture of financial regulation and market infra-structure. The hope is to create “a more open, predictable, and improved investment climate,” including appropriate judicial protection and protection of property rights.

Too soon to judge effectiveness

As many of the legal enhancements are brand new, they have yet to be implemented, so while they have improved the overall framework or have the potential to do so, a full consideration of their effectiveness is not possible at this time.

Inconsistent Treatment

Certain investment funds managed by banks (BMMFs), supervised by CBR are operated under different rules from those that apply to investment pools (mutual funds) under the

	<p>FSFM's jurisdiction with respect to disclosure and sales, though portfolio management is within FSFM oversight. There may be potential for customer confusion as to differences in the requirements pertaining to bank and non-bank funds and between pooled bank funds and bank deposits from the perspective of insurance against insolvency loss.</p> <p>Cooperation</p> <p>The FSFM reported it has good relations with the Federal Financial Monitoring Unit or Financial Intelligence Unit (FFMU) and improved relationships with the Bank of Russia (CBR).</p> <p>The CBR and the FSFM may supervise related activities of the same entity or entities within the same group, so that it is important (and an IOSCO norm) that appropriate, documented information sharing arrangements or protocols exist between the two authorities. The CBR advises that a bi-lateral agreement on cooperation between CBR and the FSFM for information sharing with regard to the regulation and oversight (supervision) of Russian credit institutions that are professional participants in the securities market, as well as non-lending institutions that are professional participants belonging to banking/ consolidated groups and bank holding companies is in the process of negotiation.</p> <p>CBR and FSFM have the legal power to work together on inspections of FSFM-regulated entities, cooperate with respect to anti-money laundering obligations, have shared information on credit institution exposures in the securities market, and consult on emerging issues through ongoing dialogue. FSFM advises that in practice informal cooperation between the CBR and the FSFM has materially improved since the 2008 FSAP update and that there have been active discussions about how to address cooperation for the additional purposes of investigating and sanctioning market abuses. Representatives of both the CBR and FSFM sit on an interagency task force for monitoring the financial market headed by the Deputy Minister of Finance and on the Council on Financial Market Development, under the President of the Russian Federation, headed by the Minister of Finance. FSFM notes that CBR and FSFM have actively worked jointly to improve applicable legislation, including legislation to address prudential risks in the over-the-counter market and legal finality of settlement</p> <p>Practice</p> <p>The FSFM indicates that in 2010, it received 130 alerts on illegal payments and suspicious transactions from the CBR and as a result cancelled approximately 90 licenses.</p> <p>Regulatory Consolidation*</p> <p>The issuance of a Presidential Decree, No. 207, March 4, 2011 combining the functions of the Financial Service for Insurance Supervision (FSIS) with the FSFM, with a delineation of functions and related legislation to be concluded soon, has placed some question marks around the current regulatory framework and structure. Some period of experience will be necessary to observe how the realignment of powers within the new framework operates in practice in order for this Principle to be assessed as IOSCO-compliant. See also the matters addressed in the comments below.</p>
Assessment	Partly Implemented
Comments	<p>Transition</p> <p>While the current law clearly sets out the responsibilities of the FSFM, the law is in flux. As of end June 2011 it was not yet clear how the functions of the FSFM would finally be assigned, or reassigned, as the FSFM takes on its new functions with respect to insurance, and possibly other non-banking financial activities, such as micro-finance, though it is expected that the MoF will have expanded authority with respect to the development of applicable</p>

capital requirements. The ultimate realignment of functions and accountability is not yet public and how it will operate in practice will require a period of experience and observation.

Accessibility

Although significant changes have been made to modernize and enhance the legislation affecting the FSFM, granting additional flexibility, providing for new products, addressing gaps, and augmenting powers, with the view to meeting international standards, the updated law should be more accessible to market participants and the general public. For example, efforts should be made on the website of the FSFM to clarify explicitly which portions currently are in effect. Assuring that all relevant laws and external regulations are available on the web site of the FSFM—ideally not only in Russian, but also in a language broadly used by its non-domestic market participants—would improve the overall transparency and comprehensibility of the system (See also Principal 4). Aggregating all the laws into one (perhaps virtually) indexed document would further improve accessibility. Pending reconstruction of the web site, some indication of why the former English site has been withdrawn (although there is an archive of the prior version) might be useful, such as words to the effect that: “the new site which reflects FSFM’s new authorities is under construction.” Although the archived website maintained in Russian currently can be accessed through the use of Google Translate, an official version would be preferable. Additionally, the actual texts of relevant legislation no longer appear to be linked to the Russian site. This creates uncertainty in the general public as to the status of the law. Most developed jurisdictions provide access to current law on a general government as well as a specific regulatory website.

Cooperation with respect to oversight of the same or group entities

Much progress has been made since the prior review in regularizing the cooperative activities of the FSFM and CBR, with respect to bank groups that conduct securities activities. Draft legislation would require that securities functions be carried out through a separate entity and to make bank information expressly accessible to the FSFM with respect to all bank deposits where a securities entity is part of the banking group or holding company. The assessment team has been advised that more concrete cooperative arrangements are in discussion. The FSFM and the CBR should undertake to conclude promptly a protocol or memorandum of understanding that identifies with particularity areas of common concern and sets forth the types of issues, products, and operations /methodologies (custodianship, clearing) relative to the supervision of securities firms and securities functions within, or products offered by, a banking entity and vice versa that should be subjects of collaborative efforts. In addition they should determine how best to share information relative to market abuses, and potential frauds, whether or not criminal authorities might need to also be involved in the case of the latter. Additionally, where not already conformed, pooled investment funds operated by banks should be subjected to the same rules as those under the FSFM’s oversight.

The recent crisis demonstrates that risks can be transmitted from one sector to another. Discussions should be conducted between the FSFM, CBR and the Ministry of Finance, within the new task force or otherwise, to (i) address key risk identifiers/factors, (ii) determine where methods of oversight can be harmonized, (iii) share information on financial distress of firms, (iv) discuss risks that may be transmitted across sectors, (v) develop contingency arrangements, and (vi) further expand mechanisms to share market evolutions and related matters. While flexibility in handling potential firm or market disruptions is desirable, further thinking about potential risks and contingency planning among the authorities, including when and how to conduct joint inspections or further coordinate activities, would enhance the relationships necessary to continue to successfully address market and firm instability and to promote common action and harmonization when warranted (see also Principles 24 and 29).

	<p>More focus on these activities, which could be part of any financial markets-wide undertaking to identify and mitigate potential systemic risks, would be consistent with IOSCO's 2010 amendments to its Principles that require the development of a process to meet the systemic risk objective appropriate to the FSFM's mandate.</p>
Principle 2.	<p>The regulator should be operationally independent and accountable in the exercise of its functions and powers.</p>
Description	<p><i>Independence</i></p> <p>The balance between independence and accountability is a delicate one and is not drawn identically in every jurisdiction. The FSFM was explicitly created under the Prime Minister as an “independent” federal agency, headed by a full time, professional director with four deputies who manage 13 departments and 3 independent units within the current structure, headquartered in Moscow. There are also 13 regional offices and 29 regional departments. The operating offices address: issuance of securities and corporate governance; collective investments and non-state pension funds; professional market participants, including market infrastructure, such as exchanges, clearing and settlement; oversight, monitoring, compliance and administrative actions including sanctions; development and legal operations, including drafting of legislation, court practice, and international cooperation. Additional departments will be added with the accession of the insurance function and any other transferred functions.</p> <p><i>Change in regulatory architecture</i></p> <p>Under the Government Resolution expected to supersede Resolution No. 317, the FSFM will retain all of its administrative enforcement powers, including its inspection, investigation and sanctioning functions. With respect to secondary legislation and the proposal of draft legislation, the Ministry of Finance will have additional powers and authority, particularly in respect of capital requirements and the composition of CIS, where decisions will be made in coordination with the FSFM. Secondary legislation related to most supervisory issues affecting exchange markets and financial professionals (except auditor and banking issues previously within the province of the MoF) will remain with the FSFM as well as the power to license and to undertake day-to-day operational oversight. Nonetheless, in order to confirm that the resulting structure operates free of undue day-to-day operational interference will require a period of observation.</p> <p><i>Consultation</i></p> <p>Typically major changes in regulatory architecture would be prepared in consultation with the affected market participants, academics, experts, and transitioned into effect over time. The industry indicates that they are more involved in consultation today than formerly, that regulatory actions are exposed to comment, and that the process is a more open process than in the past. They also note that there has been a lengthy process of development of a structure for an international financial center (Russian 2020) with many prominent players from within the financial sector participating on working groups. However, there is room for improvement in this area. For example, the worthy objective of consolidating licensing activities and oversight of financial products offered by non-bank financial institutions within one structure might have benefited from a more transparent and deliberate process as to the inception of the change. Abrupt, un-signaled change can be seen as introducing uncertainty with the potential to affect market confidence adversely, even where the underlying objectives are valuable. Although each jurisdiction realistically must take into account its own culture in how best to achieve financial reform objectives in a timely manner, care should be taken to avoid an impression that reform proposals are not premised on careful analysis or amount to interference.</p>

	<p>Terms of Office</p> <p>The head of the FSFM is appointed at the discretion of the Prime Minister. The law establishes neither a fixed term of office, nor criteria for the appointment of the head (executive director) or for such official's removal.</p> <p>Accountability</p> <p>All decisions taken by the FSFM, including decisions taken by regional departments may be appealed to a court. All normative actions by the FSFM are subject to a legal review process for technical conformity with the Constitution and the law within the government by the Ministry of Justice. Actions taken against professional market participants and others with respect to whom the FSFM has administrative jurisdiction are all subject to judicial review, including licensing decisions and refusals of registration of an issue. These decisions can be heard in any judicial court or through the <i>Arbitrazh</i> system of commercial courts. Decisions taken by licensing staff may be contested to the head of the agency and, as a matter of process, the person so contesting may appear and be heard, at least on paper. Decisions are explained in writing and an internal "general regulation," sets forth the processes that must be followed by FSFM in this regard.</p> <p>Legal Protection</p> <p>Individual FSFM employees are not subject to civil liability for damages for their actions as civil servants in the ordinary course of their performance of their duties, but the agency itself may be accountable under the theory of <i>respondeat superior</i> under the applicable Civil Service and Civil Law. There is no protection from civil suit for the agency, including for negligence, and this appears to be the rule throughout the government (see, e.g., Article 15 of the Civil Code). Some legal protection has been requested by FSFM in the past, but attempts to achieve legislation that would provide protection for <i>bona fide</i> actions in fulfillment of the agency's mandate have not been successful to date. Such protections are available (to some extent) in other civil law jurisdictions.</p> <p>Reporting</p> <p>The FSFM has voluntarily published an Annual Report since at least 2006 through 2009 containing relevant operational statistics; its report for 2010 is pending. FSFM's budget is financed through the Federal budget and is accounted for through the operations of the general accounting chamber for the State. It is a rolling three year budget, which was approved at the end of the 2010 calendar year.</p>
Assessment	Partly Implemented
Comments	<p>Preserve normative powers and day to day operational control in new architecture</p> <p>The ultimate alignment of the newly assigned and reassigned functions within the FSFM, and the projected role of the Ministry of Finance in the agency's newly expanded operational functions, remain a work in progress at this point in time. One concern is that the daily operations of the agency could become subject to greater political scrutiny or possible interference. Other issues expressed by the community pertain to whether the new structure can be organized to build in sufficient consumer protection activities, particularly to address all securities type investment products.</p> <p>Terms of office, budget stability</p> <p>The concerns expressed in previous reviews about independence also remain, in that there continue to be no criteria for the appointment and removal of the head of the agency and staff feel threatened by the overall government fiscal tightening that is currently pending. The expressions "from the top," of a desire for greater certainty about predictable outcomes of the regulatory system affecting financial markets and professional market participants ,</p>

	<p>improvement of overall transparency and mechanisms for assuring the integrity of related administrative processes are encouraging. A strategy to develop means to provide more comfort in these areas will be welcome. In this regard it is important that the application of the new structure be clarified publicly as soon as possible.</p> <p>Legal protection of regulatory judgment</p> <p>Although, the instances of suits against the FSFM are almost nil, the clarification of legal protection for its <i>bona fide</i> actions, within the mandate, would avoid the possibility that potential litigation would chill the ability of the FSFM to take significant regulatory actions, such as to act to address issues related to winding down a firm or suspending its operations. Further, to the extent that the regulator is required to make discretionary judgments and adopts more risk-based, qualitative supervisory models, legal protection of the use of discretion (absent a finding of bad faith) may facilitate the ability of the regulator to act, and to prioritize actions, while preserving a mechanism to prevent inappropriate use of regulatory powers.</p> <p>The larger independence concerns though relate to the penumbra of remaining uncertainty around the rearrangement of roles overall.</p>
Principle 3.	The regulator should have adequate powers, proper resources and the capacity to perform its functions and exercise its powers.
Description	<p>Powers and authority</p> <p>FSFM, together with the Government, has made impressive recent progress in obtaining the legislative enhancements to its powers and authority necessary to meet agreed international standards, many of which changes have been under consideration for years. In this regard, FSFM has sought, and appears to have achieved, a publicly stated commitment by the President to take the essential steps to obtain those remaining information sharing and cooperation powers and authorities to meet the standards set by IOSCO, which the G-20 authorities have designated as particularly critical.</p> <p>Recently adopted legislation:</p> <ul style="list-style-type: none"> • provides definitions of insider dealing and manipulation, • expands inspection, investigation and sanctioning powers, • improves the capacity to determine ownership and control and • provides enhanced wind-down and administration authorities and procedures. <p>Pending legislation will introduce further enhancements.</p> <p>Additionally, FSFM has acquired the technical capacity and technology to conduct active, real time surveillance of the markets for money-laundering compliance and the incidence of so-called “non-standard” transactions (that may indicate insider trading or market manipulation) and other securities violations or market abuses.</p> <p>It also appears that additional activities, including some that are not currently regulated or within the scope of the FSFM, will ultimately be integrated within its mandate, including for example, micro-finance, mutual organizations, and additional over-the-counter transactions or platforms.</p> <p>Budget Sufficiency and Control</p> <p>The Russian Web Site, http://www.ffms.ru, includes reports on results and operations, and on budget expenditures and achievement of performance objectives, which would benefit from further use of explanatory notes. FSFM is under the Federal budget and the fees and fines collected go to the Treasury (Tax authorities) and do not directly fund the agency. Prior to the inclusion of transferred FSIS personnel, there were 356 FSFM staff at headquarters and 946 in the regions for a total of 1302; after incorporation of the FSIS staff there will be 476 at</p>

	<p>headquarters and 1116 in the regions, for a total of 1592, which number reflects, based on current projections, a reduction of the staff allotment for FSIS. However, it is currently projected that there will be a government-wide reduction in force by 2013, such that at least 250 people will be lost to the FSFM, absent some budgetary adjustment. If full time staff were reduced per the plan, the staff level for the new combined staff would be below levels reported for the un-augmented FSFM in 2008.</p> <p>The FSFM submits a budget proposal to the Ministry of Finance; the budget is approved for a rolling three year period, the most recent budget having been approved in 2010. The FSFM appears to have discretion in the deployment of its resources to functions and there is no explicit evidence that the allocation of the budget is interfered with on an operational basis or that reallocations are interfered with <i>ex ante</i>.</p> <p>Workload There are approximately 1800 authorized professional capital market participants (including brokers, dealers, asset managers, special custodians, registrars, and depositories), more than 10,000 reporting issuers, 2 exchange groups (with multiple markets), 2 settlement systems, and 2 clearing organizations currently projected to be in the process of merging under a single umbrella by year end 2011. Within the exchange groups, certain markets have the status of organized market. There are also 48 registrars, 150 non-state private pension plans, 1461 unit investment funds, and 8 joint stock investment companies. Most of the large banking organizations also conduct securities functions. In 2010, 234 prospectuses were registered and 584 licenses.</p> <p>Budget Oversight and Process</p> <p>The budget is subject, <i>ex post</i>, to general governmental audit, by the Chamber of Audit, for purposes of audit and accountability.</p>
Assessment	Partly Implemented
Comments	<p>The FSFM states that it views meeting the criteria for becoming a signatory to the Multilateral Memorandum of Understanding and Cooperation and Information Sharing of IOSCO (MMoU) as its top priority. FSFM should take steps to further prompt adoption of remaining needed legislative change with respect to access to banking accounts, and to document by undertaking or by other effective means where legislation is not required, needed clarifications about its existing powers, where some reviewers have found ambiguities. (For greater detail refer to Principles 8 to 13 below). There still remain some areas where, while not required specifically by IOSCO, it might be more efficient if the FSFM had more power to proceed directly and administratively rather than rely on making, and assisting referrals, to the criminal authorities, for example to address securities fraud (which does not have a civil component).</p> <p>The planned creation of a new SRO which will be mandatory for firms doing client-facing business with retail clients is intended to augment the ability of the FSFM to provide broad and efficient protections to the public from conduct of business violations by licensed market professionals. (See discussions under Principle 8, 13, and 23) This change would expand the capacity of the overall regulatory structure to deliver these protections.</p> <p>Structural changes</p> <p>Care should be taken to assure that needed legislative changes continue to progress efficiently, notwithstanding recent changes to the overall architecture of FSFM.</p> <p>Pending system wide staff reduction</p> <p>The prospect that the staff of the FSFM would be reduced under a general government-wide program at the same time that it is being asked to undertake multiple new initiatives both to improve market infrastructure and reliable performance and to augment its monitoring and</p>

	<p>oversight activities would be, as one member commented, “a disaster.” The ability to hire and maintain staff with the requisite expertise, phase in the new functions required to implement newly adopted legislation, maintain the capacity of FSFM’s newly organized group to undertake daily market surveillance in real time, augment the oversight of clearing and settlement, develop adequate IT resources to render oversight of regulatory reporting and markets more efficient, apply the new more nuanced capital requirements pending approval, and integrate the insurance function appropriately while augmenting the oversight, and modernizing the delivery, of insurance activities demands significant technically capable resources. The loss of the ability to hire outside experts, who have provided substantial technical assistance, and/or to accept donated technical assistance from the international financial institutions will leave a huge gap, if provision for such outside support is not extended.</p> <p>The articulated concern of FSFM leadership that an insufficiency of appropriate resources could adversely affect FSFM’s ongoing capacity to absorb new functions, hire experienced staff, and to undertake and implement recent legislation appears warranted. The budget for the combined and new functions, and related salaries, should be assessed to determine the extent to which it can accommodate the correspondingly increased demands for technical skills and capacity on the agency, including the capacity to implement new powers and authorities. A needs assessment should be done and an action plan prepared. Inadequate capacity at the agency, could compromise agency independence as well as effectiveness.</p> <p>Expertise</p> <p>Many within the financial services community expressed the need to ensure that the level of expertise in the financial regulator keeps pace with the market and the risks of various products and services, particularly if these were to be expanded to build the internal market, increase participation, and attract interest in an international financial center. The FSFM is aware of the need for the industry and the regulatory authority to have needed technical skills and capacity to keep pace with the markets. In this regard, the budget should provide adequate financing for training and capacity building. Governmental interest in ensuring the right technical skills and qualifications are applied within the financial markets, is reflected in the law, which gives the FSFM the ability to set proficiency and other qualification standards, including in the new Prudential Supervision Law, which provides for special qualifications for back office operations, risk management and compliance personnel, heads of structural units and Board and management. Similar interest should be reflected in the budget and training program of the regulator.</p> <p>Regional reach</p> <p>The regional structure, which deploys regional resources to conduct on-site activities and to process prospectuses, also puts administrative demands on headquarters management. Consolidation of the markets in Moscow has rendered market oversight more efficient; further consolidation of the settlement/securities registration system would similarly enhance efficiency, certainty about property rights, delivery of regulatory services, and risk management.</p>
Principle 4.	The regulator should adopt clear and consistent regulatory processes.
Description	<p>Clear and equitable procedures.</p> <p>The regulator is subject to administrative procedures, many of which are articulated in a general Administrative Rule, dated July 9, 2009, No.09-26pz.Mr, which sets forth various procedures and processes, the obligation of the FSFM to respond to public inquiries within a set time frame (30 days), instructions for submission of documents, and procedures for investigations, reviews and other internal operations.</p>

Consultations.

Regulatory actions and orders are published on the website and in accordance with the Securities Law in the Official Gazette or Rossiyskaya Gazeta. All proposed rulemaking actions must be published for public notice and comment prior to adoption as a matter of law, and proposal notices must contain the reasons for undertaking the proposed action.

Proposed or draft orders and regulations can be found on the FSFM website, but feedback statements on comments are not provided. The FSFM has the capacity to interpret provisions of the law in response to inquiries and must respond expeditiously. FSFM received 110 requests for interpretations of applicable securities law and regulatory requirements between January and May 2011. The various SROs, discussed in more detail in Principle 6, have been active in commenting on proposed legislation and rules. The new consumer union, a non-governmental agency, and other consumer bureaus may also engage in interactions with the FSFM as well as with the Duma, on various proposals, giving some voice to the retail public's concerns. The industry welcomes the opportunity to participate in comment, would like to see dialogue increase, and would welcome the use of feedback statements.

An examination of the general costs and benefits of regulation is part of the ongoing project launched by the President relative to the development of Russia as a financial center.

Transparency and confidentiality.

The general overarching Securities Law, FZ39 provides certain base-line fit and proper licensing criteria, including that an entity whose license is withdrawn by the CBR cannot be licensed by the FSFM and restrictions on reapplication after revocation or a financial failure for a specified time period. The draft Prudential Supervision Law, will also contain additional competency criteria for licensing. Further specific criteria are contained in regulations related to licensing, including:

- "Order of the Federal Financial Markets Service dated March 6, 2007 № 07-21/pz-n," "On approval of the licensing of professional activities in the securities market";
- Order of the Federal Financial Markets Service dated April 24, 2007 № 07-50/pz-n; "On approval of standards for adequacy of professional securities market participants, as well as management companies of investment funds, mutual funds and pension funds;" and
- Order of the Federal Financial Markets Service dated 21 August 2007 № 07-90/pz-n "On approval of the Administrative Regulations of the Federal Service for Financial Markets of the state function of licensing of professional securities market participants."
- Further detail may be included in the Administrative Rules.

SROs, which currently are voluntary, but will become mandatory for professional market participants dealing with non-qualified (retail) investors upon adoption of the Prudential Law, may apply higher standards.

Publication

Rules, when adopted, by law, must be published in the official gazette, that is, the *Rossiyskaya Gazeta*. By custom they are also published on the FSFM's website, although the links to the text are not currently effective. Again, transparency and understanding would be facilitated by making all regulatory and legislative information more readily accessible (See discussion in Principle 1). Sanctions and licenses also are published on the FSFM website; investigations however are not made public as a matter of due process.

Judicial Review

All actions of the FSFM are appealable to the courts and thus reasons for such actions are provided and required by FSFM's internal regulation. Responses to public inquiries must be furnished in writing within 30 days as a matter of law. Additional rules relating to fairness and confidentiality apply to FSFM staff (see detail under Principle 5).

	<p><i>Investor Education</i></p> <p>The Russian website contains an investor warning to deal only with licensed individuals and to obtain relevant information about investments. This warning might be supplemented by a so-called plain language Investor’s Bill of Rights, that indicates what obligations are owed the retail public by brokers and other authorized market professionals (such as for example, the duty of loyalty and the right to receive specific reports). Such documents are used in many jurisdictions to inform investors of their rights as clients.</p> <p>The FSFM sponsors financial literacy programs in the community through special conferences at its headquarters and in the regions, and also assists with the development of information/syllabi for the school curriculum. The President’s Decrees with respect to the Financial Council have also instructed economists from the New Economic School to provide advice to the Council Working Groups on further development of the marketplace, including investor protections. In this respect, there is a panel that provides advice to the FSFM on developing investor outreach. A non-governmental organization representing consumer interests, with the capacity to bring litigation in their behalf under the Investor Law and to promote broader educational outreach however believes that the current process is developmentally oriented and that consumer protection should be a separate specialist function. The requirement that professional market participants that deal with retail clients belong to a special SRO in the Prudential Services Law may provide an opportunity for the FSFM to further enhance customer protections. Such requirements should be consistent if more than one SRO is formed.</p> <p><i>Consistent Application</i></p> <p>Various procedures, including inspection/investigation procedures (controls) by the FSFM, which provide for exit reviews, and time to take corrective action, are subject to an internally, extensively specified “algorithm.” Among other things this procedural rule provides for the ability of inspected entities to contest the results. All decisions of the FSFM are subject to judicial review. However, concerns have been expressed regarding the speed and expertise of the judicial process; some suggesting that there should be specialist economic courts that address financial markets specifically or that existing SRO alternative dispute resolution procedures should be expanded and participation made mandatory for members.</p>
Assessment	Broadly Implemented
Comments	<p>The consistency of regulatory action should be kept under review. Qualitative judgments are part of the regulatory process; it is important that the regulated community perceive that rules are applied in an equitable manner; such perception is in turn important to market confidence. In this regard, interpretations of general applicability should be public.</p> <p>To the extent the civil court system is overburdened, expansion of specialist alternative dispute resolution forums to resolve securities claims might be explored, with appropriate oversight of the framework by the FSFM and, qualification of properly representative arbitration panels. Consideration could also be given to permitting the FSFM to hear appeals of SRO and exchange disciplinary actions. The FSFM should consider publishing summaries of comments received on proposed regulations and the regulator’s responses to those comments. Restoring ready access to available rules and regulations would also help promote understanding of applicable rules and regulations by the growing investor public especially if international expansion is a goal. Applicants/licensees should have an explicit, transparent right to be heard on license applications</p>
Principle 5.	The staff of the regulator should observe the highest professional standards including appropriate standards of confidentiality.

Description	<p>Professional Standards</p> <p>All staff members of FSFM are subject to the professional standards applied by the general civil servants law to public servants, through FZ79, "On State Civil Service of the Russian Federation and Presidential Decree 885." These include:</p> <ul style="list-style-type: none"> • observing the laws and Constitution of the Russian Federation, • operating under the principles of the FSFM, • protecting the rights and interests of individuals, • avoiding financial and other conflicts of interest, • treating persons equitably with respect for diversity and neutrality as to religion, ethnic persuasion, and • generally performing one's official duties honestly and in good faith in a professional manner. <p>The law on Insider Trading extends to personnel of the FSFM, as well as to that of other authorities, and further protects information in the hands of the FSFM. In general within the FSFM, staff cannot engage in personal trading activities. Financial reports of staff management and their immediate families' on taxable income and certain assets, such as real estate, must be disclosed on the website annually. See President's Decree No. 561 (May 18, 2009). Staff may be disciplined or dismissed for violations in accordance with internal procedures.</p> <p>Privacy and confidential treatment</p> <p>Additionally all staff, are subject to specific confidentiality provisions including:</p> <ul style="list-style-type: none"> • The Securities Law, Article 44.1 • State Official Secrets Law 21 June 193 N. 5485-1; Federal Law about commercial (proprietary) secrets 29 July 2004 No. 98; • President's Decree about promotion of information security while using IT 17 March 2008 No. 351; and • Federal Law about access to information of governmental authorities and local authorities activity, 9 February 2009 No. 8., as well as • any internal requirements as part of the Internal Regulation of the FSFM. <p>Pending amendments to the Banking Law are expected to clarify the application of Banking Secrecy and these amendments to the communication among regulatory agencies.. Bi-lateral MoUs and Article 44 of the Securities Law provide specified confidentiality protections to information received from foreign authorities.</p> <p>Administrative Penalties:</p> <p>Persons who misuse information obtained in the course of their official duties may be subject to a fine on entities of Rub 700,000 to 1 million and on individuals Rub 30–50,000 and a disqualification from operations for from one to two years. The public exposure of the information is intended as a means of monitoring.</p> <p>Personal Trading. Personal trading is not permitted.</p>
Assessment	Broadly Implemented.
Comments	In general, staff is subject to laws and administrative procedures that require professional conduct, maintenance of appropriate confidentiality of sensitive information obtained in the course of regulatory/supervisory duties, and avoidance of conflicts of interest. The law of Insider Trading also makes government personnel subject to the Insider Law (see especially Article 4 (10) and (9)), rendering the misuse of non-public information on professional market

	<p>participants or issuers, with respect to tenders or take-overs, obtained from firm inspections, with respect to licensing, or other information defined by the bodies or organizations normative acts sanctionable. The law, however, is new and implementation regimes are in the process of being designed in many areas.</p> <p>FSFM should consider consolidating the applicable requirements in a Code of Conduct or as a part of the Internal Code that could be made publicly available. It should also introduce monitoring processes (see also Principle 2).</p>
Principles of Self-Regulation	
<p>Principle 6. The regulatory regime should make appropriate use of Self-Regulatory Organizations (SROs) that exercise some direct oversight responsibility for their respective areas of competence, and to the extent appropriate to the size and complexity of the markets.</p>	
Description	<p>The use of SROs is not mandated by IOSCO; however if such SROs are used they must be subject to adequate oversight as set forth under Principle 7.</p> <p>Definitions</p> <p>As defined by IOSCO, SROs are organizations that establish rules which must be satisfied in order for individuals or firms to participate in specific regulated activities, establish and enforce binding rules of conduct for their mandatory membership, and may conduct disciplinary proceedings. In that currently those institutions defined by law as SROs by the Russian Federation are voluntary organizations, they are not, strictly speaking, for purposes of Principle 6 (which post effectuation of the 2010 changes will be subsumed in Principle 7) SROs.</p> <p>Use within the Russian Federation</p> <p>Russia has numerous entities that are authorized to be SROs. These are voluntary associations that may be formed by 10 or more members and may facilitate regional outreach activities; market professionals are not required to be members of any SRO, or any particular SRO, as a matter of law. The existing authorized SROs include:</p> <ul style="list-style-type: none"> • the NAUFOR or National Association of Securities Dealers authorized in 2004, with 14 branches and a scaled membership fee; • the National League of Management Companies or NP-NLU formed in 2002 with 65 members, • the National Securities Market Association (NFA) with 235 members formed in 2003; • the Professional Association of Registrars, Transfer Agents, and Depositories (PARTAD), with four offices formed in 2003, • the non-profit professional market participants association of the Urals or PUFUR, and • the National Association of Private (Non-State) Pension Funds (NANSPF), with 75 full and 35 associate members, formed in 2000. <p>All of these organizations have vested interests in normative actions taken by the FSFM and may actively comment on proposals.</p> <p>The objectives and characteristics of the SROs of the Russian Federation are more in the nature of trade or professional membership associations than independent self-regulating organizations, though they do have the capacity to</p> <ul style="list-style-type: none"> • discipline members, • enforce their rules some of which are explicitly mandated by law, • address complaints, • provide dispute resolution and education,

	<ul style="list-style-type: none"> • interface with the regulator and the markets, and • design the terms and conditions of master agreements for transactions that are not conducted directly on an exchange, subject to FSFM approval. <p>Mandatory Retail Oriented SRO</p> <p>FSFM advises that recent legislative amendments permit the creation of a mandatory SRO, with affirmative responsibilities for professional market participants that engage in retail business in order to augment customer protections.</p> <p>Regulated markets</p> <p>Stock exchanges which have some affirmative enforcement responsibilities are not characterized as SROs in Russia and are discussed under Principles 25 to 30.</p>
Assessment	Not Assessed
Comments	<p>The use of a mandated SRO to expand the capacity of the regulatory system to deliver conduct of business oversight should result in additional customer protections if properly overseen.</p> <p>This seems an appropriate way to augment the resources of the FSFM and to promote dispute resolution and complaint resolution at less cost than through the court system.</p> <p>The use of SROs generally to facilitate comment on regulatory and legislative initiatives and to redress complaints and perform some member oversight has the potential to provide effective feedback to the government from a number of different perspectives, to raise the level of financial market proficiency and to appropriately augment governmental resources.</p> <p>This Principle is rated 'not assessed' because IOSCO has determined no criteria exist for the Principle and it is used for descriptive purposes only.</p>
<p>Principle 7. SROs should be subject to the oversight of the regulator and should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities.</p>	
Description	<p>Initial Authorization and Powers.</p> <p>Self regulatory organizations must apply for permits/authorization under the core Securities Law, FZ 39, and in the case of investment fund management company SROs, under Investment Management Law FZ 156. The criteria for granting a permit are spelled out at Article 50, which includes competency, record-keeping, the obligation to allocate all funds to SRO activities, and other requirements. Under Article 39 SROs must be not-for-profit entities, are entitled to develop binding rules of conduct and standards or best practices for their members, and to undertake inspections, require member reporting, set "own funds" requirements and undertake rule enforcement activities. These powers are further augmented by the new Insider Law. For example, NAUFOR, the SRO for broker dealer firms and that has over 315 members, indicates that it conducted 70 on-site inspections of its members in 2010. Article 17 permits the SRO to articulate rules applicable to its members relating to preventing, detecting and deterring the illegal use of insider information and/or engaging in market manipulation,³ monitor the observance of members for violations of the relevant Federal Law, related normative acts, and the rules of the SRO and establish sanctions, and verify non-standard deals concluded with the participation of its members. SROs have power under Article 12 of the Insider Law to demand information from their members, including trading documents. Under Article 49 of the securities law, SROs also are</p>

³ The FSFM by regulation specifies what information/exception reports exchanges must provide with respect to non-standard transactions.

entitled to receive confidential information on member inspections from FSFM.

An SRO can bar a participant from membership and apply to the FSFM to withdraw the member's license. An SRO can also hear investor claims and recommend that its members compensate claimants without a court proceeding; if an SRO fails to satisfy legitimate investor claims or to enforce the laws, the FSFM can apply sanctions to the SRO. Under Article 15 (2) of the Investor Protection Law, it appears that an SRO may act at its own initiative or be requested on application of the FSFM, other governmental bodies, and investors.

Under Article 50 there is a long list of requirements for granting an SRO charter and for refusing one. The reasons for refusing a charter are specified and do not include a catch all public policy clause. In order to change the charter or authorizing documents or rules of an SRO from those at the time of its authorization, the SRO must submit changes to the FSFM and if they are not refused within 30 days with a written explanation they will be deemed effective.

Dispute resolution function

Complaints by customers or members are heard by an SRO business conduct committee or disciplinary panel and are not appealable to the FSFM. Such appeals must be remitted to the judicial process. NAUFOR indicates that use of its arbitration process, whereby members can choose an arbitrator from a roster of arbitrators appointed by their Board of Directors, has gone from zero to 17 or 18 cases this year, indicating from the point of view of the leadership that the mediation process can be an effective complaint handling mechanism.

Ongoing monitoring by FSFM

SROs are overseen by the FSFM on an ongoing basis to determine, among other things, their continued compliance with the conditions of their authorization. In 2010, FSFM inspection staff undertook inspections of four national SROs. These followed a specified procedure on the conduct of inspections and the rights, methods, and obligations of the regulated entity and of the FSFM. Each inspection resulted in a written report, an exit conference with an opportunity to comment, and a time period to redress "exceptions," or to take other corrective actions. Inspection exceptions that are further investigated often relate to the filing of required documents with the FSFM, governance issues or other matters. FSFM also has the power to sanction an SRO, with the nuclear option of withdrawing its SRO license, although it has not done so.

Cooperative Inspection Efforts

FSFM indicates that it now has the power to conduct joint inspections with an SRO of that SRO's members and that it routinely invites the relevant SRO to participate. The SROs also may report misconduct to the FSFM, though this avenue is not now a major source of referrals to the FSFM. The inspection staff note that often the SRO and the FSFM may take joint or parallel action for misconduct.

Professional conduct of SRO inspectors

To be approved, SRO rules must provide for equitable treatment. Also, SROs, when acting to enforce their own and FSFM rules and standards, are required by their own rules to maintain the confidentiality of information received. IOSCO requires SROs to be subject to equivalent levels of professional conduct and confidentiality as the regulator. SRO confidentiality requirements should be express. In that the SRO, in inspecting its members at the instance of the FSFM, is performing a sort of quasi-governmental function; it may be that the provisions of the civil service code, if not already extended to such personnel, could be extended by rule. Under the Insider Law, while an SRO is not an insider, the confidentiality of information it received from its members should be protected under the Insider Law. See e.g,

	<p>Article 4 (5) of the Insider Law.</p> <p>Governance</p> <p>There do not appear to be governance requirements specific to SROs that are conditions of licensing, but SROs are not at this point mandatory organizations that by denying access deny the opportunity to conduct business.</p>
Assessment	Broadly Implemented.
Comments	<p>Active cooperation</p> <p>The FSFM has been active in developing some combined oversight programs with relevant SROs, undertakes review of SROs within a three year cycle, and cooperates with SROs in exchanging information on misconduct of licensed market professional members and on inspections and actions to respond to the failure of such member participants to meet regulatory requirements. The recommendation in prior reviews that the FSFM develop a more collaborative approach with authorized SROs to expand the resources available to address its regulatory responsibilities has been fulfilled, although the requirement of mandatory membership that is before the Duma now would increase the ability of the SRO process to increase the scope of the FSFM to deliver customer protections. Efforts to increase cooperation with SROs in inspection and enforcement efforts should be continued.</p> <p>Governance</p> <p>The FSFM should consider whether additional requirements are necessary to address the governance of SROS, particularly as membership becomes mandatory.</p> <p>Consideration of a new Mandated SRO and related Oversight</p> <p>The execution of rule enforcement responsibilities of exchanges and even of regulators are being increasingly outsourced through regulatory services agreements. Any redesign, or expansion, of the SRO program might take into account international benchmarks, such as the approach of Europe, the US and Canada, and other models.</p>
Principles for the Enforcement of Securities Regulation	
Principle 8.	The regulator should have comprehensive inspection, investigation and surveillance powers.
Description	<p>Power Over Regulated Entities</p> <p>FSFM has the authority to conduct on-site inspections of regulated entities' business operations, including to inspect and copy such entities' books and records without prior notice and to obtain and store information, including personal data, on persons. Securities Law Article 44 (6) and (6.1). The Investment Fund Law, the Investor Protection Law, and the Insider Law provide additional authority to obtain information. In general for routine reviews that occur on a cycle, FSFM provides advance notice to its regulated entities. Where, however, the inspection is prompted by a complaint, a market event, rumors, or by review of financial filings or other disclosures, FSFM may inspect/investigate without prior notice on a surprise basis. FSFM has full access to its licensed persons' books and records without the need for judicial action. Books and records are required to be maintained for five years, including per recent changes, the books of registrars and custodians. If not specified explicitly, books and records would be required to be maintained under requirements in the general law, such as the laws of taxation (a 10-year requirement).</p> <p>Surveillance</p> <p>FSFM also has the power to supervise its authorized exchanges' trading systems through monitoring and surveillance and has recently constituted a surveillance team of 20 persons to conduct the review of non-standard transactions and other trading information based on alerts that are produced by its new surveillance technology. That system, NICE-Actimize, is a</p>

real time data feed that was installed at FSFM at the end of 2010 to address AML/CTF and market abuse oversight. The staff of FSFM is obtaining experience with this new system and expects to be able to adjust the alert parameters more precisely to provide appropriate deterrence and detection of market abuses as it gains familiarity with the program's capabilities. Some additional types of surveillance routines will be necessary to address insider trading, such as observing the trading before and after IPOs or releases of information that may have an impact on price. The exchanges and other organized markets are also specifically tasked to oversee the market for non-standard transactions, and to file specified reports with the FSFM in addition to provide terminal access. The exchanges and organized markets can demand further information in this respect from their participants and the clients of their participants, including written responses and oral statements. (See Article 12, Insider Law; and Article 11 (1) and (2) of the Investor Protection Law) Professional market participants engaged in trading activities, and investment intermediation activities must also appoint compliance personnel to assist in meeting Federal requirements.

Brokerage accounts and bank records

FSFM has the authority to review broker trading records, including records with respect to individual clients. FSFM also can trace transactions through brokerage accounts to banking or depository accounts maintained by brokers' which must be legal entities, to settlement accounts at depositories, and to legal entity client's general bank accounts directly, in respect of potential, suspected insider trading or market manipulation by virtue of new legislation adopted in July 2010, which became effective January 27, 2011, after a multi-year effort. The FSFM has been given comprehensive authority to demand the provision of information needed to stop breaches of the Insider Law and normative acts adopted thereunder may further refine what information must be provided. If the matter concerns currency transactions, the FSFM must cooperate with the CBR. The ability to obtain natural persons' general banking records without a court order remains in doubt because although there is a general provision permitting the head of the FSFM to demand information from other agencies to address the law (see e.g., Article 14 (3)), there is a discrepancy between the banking authorities' and the securities authorities' view of whether the recently amended banking law language is sufficient to address accounts of natural persons; and banking account access does not appear to be permitted for any securities law violation. There are pending changes to the Banking Laws which are expected to further clarify access to general bank records of natural persons by FSFM and the ability of the CBR to share banking records for oversight of all entities within a banking group or a bank holding company.

Power to refer criminal offenses

Certain offenses that are not administrative Securities Law offenses, such as fraud, must be pursued through the criminal justice system. This is also the case in some other jurisdictions. For this purpose, the FSFM may make a referral to the public prosecutor and may provide assistance. The Investor Protection Law appears to provide the authority for FSFM to suspend operations of a professional market participant if lack of cooperation were to jeopardize the rights and legitimate interests of investors and otherwise to order cessation of all violations of the securities laws.

Client Identification

The regulated exchanges require a specific client ID for transactions. Typically the exchange knows the broker and the broker's direct customer, that is, the exchange, and correspondingly the FSFM, can see the identity of transactions though if the broker's client is a managed account or trust arrangement, then a review of the client's account would be necessary to determine underlying participation. However, in the case of cross border transactions, the ultimate clients are based in another jurisdiction and the net exposure may

	<p>be presented to the exchange in an “omnibus” account, while other transactions are conducted internally in inventory by the foreign broker. A new law has been adopted to permit the FSFM to see certain direct, and indirect, controlling persons behind the accounts of legal entities, (FZ-264, which became effective in March 2011). This information also is relevant to managing disruptions (see Principle 29). From the exchanges' perspective more authority in this area should prevent liquidity from being diverted from the central market and enhance transparency of trading in the market. These changes, with experience over time, should strengthen the FSFM's ability to address misconduct and to see linkages in control.</p> <p>Outsourcing regulation</p> <p>At present the FSFM does not outsource or delegate regulatory processes to unlicensed third parties.</p> <p>Anti-money laundering</p> <p>Regulated entities must comply with anti-money laundering provisions (FZ-115), and the implementation of FSFM compliance programs are assisted by the Financial Intelligence Unit (Federal Financial Monitoring Service) and the FSFM. In 2009 and 2010 this resulted in the revocation of an unprecedented number of licenses (731) of seven different types. Anti-money-laundering is reviewed pursuant to the FATF assessment methodology by FATF assessors.</p> <p>Inspections in Practice</p> <p>In 2009 FSFM's headquarters inspection team conducted 106 inspections; 90 of which were on-site and 16 of which were off-site. 2010's numbers were fairly similar. Most headquarters inspections are of brokers, dealers and investment fund management companies. In the territorial offices 11,195 inspections/ reviews were conducted of which 1368 were on-site and the remainder of which were off-site. Regional oversight is largely directed to issuers. Sanctions and orders/instructions flowing from the conduct of inspections/investigations are posted on the FSFM website (see also Principle 11).</p> <p>The FSFM aims to achieve yearly coverage of brokers.</p>
Assessment	Partly Implemented.
Comments	<p>Tremendous progress has been made by FSFM in securing the capacity to conduct effective oversight of the market and market professionals. It can conduct inspections without notice or judicial intervention. FSFM also has been granted broad authority to demand documents and information from brokers, and by brokers of their clients, and to suspend operations for failure to cooperate—a vigorous and prompt means of halting non-compliance, subject to further investigation. The FSFM's authority with respect to insider information and potentially manipulative conduct, or non-standard transactions, applies not only with respect to shares but also can be obtained with respect to commodities, financial instruments, and currency transactions.</p> <p>The Russian Federation has moved forward to put in place laws and regulatory structures that provide FSFM with a robust ability to mandate maintenance of needed records, prompt access to those records and the ability to compel the production of records necessary to properly enforce its rules against market misconduct from its licensees. FSFM must clarify its ability, and process or gateways, to obtain banking records of natural persons for all regulatory purposes (see also Principle 13). To the extent possible, FSFM should clarify any remaining ambiguity as to the access to natural persons' general bank accounts either through declarative action or by furthering legislative change. For example, it could clarify the scope of Article 26 of the Banking Act, secure the adoption of pending CBR Banking Law amendments, or try to address the issue by executing a protocol with CBR as to the access to information needed for purposes of enforcing securities laws and related cooperative</p>

	<p>sharing as suggested under Principle 1.</p> <p>FSFM should also explain in its procedures how it investigates the ownership of nominee accounts.</p> <p>FSFM's expanded powers are new; therefore some time should be permitted to see how they are implemented in practice as provided in the assessment of Principle 10. The rating could be improved to the extent the power to access such accounts can be demonstrated.</p> <p>Caveat: if further constraints are introduced by the banking laws, then this could adversely affect all the enforcement and information sharing ratings.</p>
<p>Principle 9. The regulator should have comprehensive enforcement powers.</p>	
Description	<p><i>Investigative and Enforcement Powers over Third Parties.</i></p> <p><i>General Authority</i></p> <p>The FSFM has powers to impose administrative sanctions on unlicensed third parties. Article 11 of 46F-Z "On Investor Protection," constitutes the legal platform for FSFM to issue affirmative orders of investigation (control) to the parties enumerated therein, including commercial and noncommercial organizations and their officials, independent entrepreneurs, and natural persons who are located within the territory of the Russian Federation. This section also includes power to mandate or to compel compliance, to obtain information to prevent offenses in the securities markets and otherwise to address issues under the charge of the FSFM.</p> <p><i>Specific Authority with respect to enumerated market abuses</i></p> <p>Further strong support for the ability to compel information from third parties, including to demand documents and information to prevent breaches of the insider trading and manipulation laws are stated in Article 14 (2)-(4) of the Insider Law. The new Insider Law grants the FSFM expanded authority to investigate, demand information including information and explanations in written or oral form, from any person, including information needed for preventing, detecting and deterring a breach of that law and of any normative legal acts adopted pursuant thereto, including information within the competence of the CBR or other governmental authorities.</p> <p>The enforcement powers enumerated in the body of laws regarding securities violations that are administered by the FSFM are very broad, including, among others,:</p> <ul style="list-style-type: none"> • Checking observance of the law by the CRB, legal entities, natural persons and the authorities within the government (Insider Law, Article 4 (9)) based on complaints, rumors, or other activities of the FSFM. • Demanding the provision of documents and information, including from natural persons and on the personnel, including the heads of governmental authorities (Insider Law, Article 4 (10)). • Demanding written or oral submissions. • Demanding records of the exchange of information. • Recommending improvement of processes for preventing violations and the exercise of powers and authorities. • Adopting normative regulations with respect to the process for obtaining information. • Taking part in a court's consideration of cases relating to application of the standards and breach of the law and regulations. • Recommending, based on experience, means of calculating the sum of losses avoided or inflicted by manipulation.

- Suspending or revoking a license; filing a proposal to the CBR or other body in charge of licensing of a non-securities licensed entity to impose sanctions or to revoke or cancel a license.
- Suspending operations for failure to cooperate (e.g., Investor Protection Law).
- Issuing guidance on sanctions.
- Requesting investigative measures, including undercover investigations, telephone and IT records, through application to the Ministry of Internal Affairs.
- Engaging in cooperative enforcement efforts with several governmental authorities, including the CBR.

Market abuse

After decades of trying to pass the necessary legislation, the new Insider Law, and corresponding amendments to the Administrative Code of Offenses is effective as of end January 2011; it defines the market abuses of manipulation and insider trading, and makes them administrative as well as criminal violations. The criminal penalties will be phased in beginning in one and one-half years.

Enforcement more broadly

The FSFM has general powers under each of the several laws pertaining to the securities markets to seek and impose sanctions administratively, to cancel, suspend or condition licenses, to refer matters for criminal prosecution and to suspend trading in securities, cancel transactions and other actions, and to impose administrative fines. Among other new powers, FSFM now has the ability to appoint a temporary/provisional administrator (or receiver) under Section 4.1, Article 44 of the Securities Market Law, FZ-39, which can have in effect the result of freezing assets. Where necessary to collaborate with another domestic authority to address misconduct the FSFM may share information; however, FSFM is able to protect the confidentiality of information received from foreign authorities. Sharing must be in accordance with an MoU as a matter of law. FSFM can state how such information will be handled. It cannot share information received from a foreign authority in connection with such foreign authority's investigation to another person or authority without permission from the providing authority, absent a court order, and absent breach of a local provision. Insider Law (Article 15 (3) and Article 16 (6) and Securities Law Article 44 (12)) Fines have been increased but may still be relatively minor; in comparison to the gains potentially achieved by misconduct some may still see these as a cost of doing business. In the case of manipulation and insider trading there is the remedy of disgorgement of illegal gains as well as monetary fines. Further, creating sanctions materially strengthens the powers of the FSFM and also renders such misconduct subject to new reputational risks. Importantly, fines have been added that can be imposed on professional market participants for impeding an FSFM investigation or failing to produce information on request, including suspension of activities (Section 9, Article 15.29 of Administrative Code.) All securities law sanctions are also subject to compulsory disclosure. (Article 15 (1) Insider Law) (Article 44 (12), Securities Law FZ-39). Moreover, the ability to cause a party to cease operations for up to two years is a serious sanction; indeed some parties view "banning," as more significant than monetary penalties.

Private rights of action

The various laws also confer explicit private rights of action under the laws for injured parties to seek legal redress; and further empower (Investor Protection Law) SROs to file class actions. In the case of certain shareholder actions, the FSFM is explicitly entitled to appear on behalf of investor protection, and otherwise to appear in court to support private claims, thereby potentially increasing the clout of public customers.

Criminal cases

	<p>Criminal penalties under the Insider Law come into effect within three years of the effective date of the law and include fines and imprisonment. The FSFM has clear powers to refer cases to the Public prosecutors for prosecution, and can assist the prosecutor's investigation. (See Principal 10 on matters of implementation of these powers.)</p> <p>Some examples</p> <p>There is sufficient use of these powers to consider the powers to be in place; in fact one case has been commenced for manipulation. FSFM states that between 2009 to 2010, headquarters conducted 79 investigations, including 3 of SROs, and that they issued the following sanctions, resulting in multiple revocations as the result of a single investigation:</p> <table border="1" data-bbox="505 548 1219 1041"> <thead> <tr> <th>LICENSE TYPE</th> <th>REVOKED</th> </tr> </thead> <tbody> <tr> <td>brokerage</td> <td>66</td> </tr> <tr> <td>Dealer activity</td> <td>67</td> </tr> <tr> <td>securities management</td> <td>64</td> </tr> <tr> <td>depository activity</td> <td>24</td> </tr> <tr> <td>registrars</td> <td>2</td> </tr> <tr> <td>private pension fund</td> <td>3</td> </tr> <tr> <td>management company</td> <td>9</td> </tr> <tr> <td>specialized depository*</td> <td>2</td> </tr> </tbody> </table> <p>*investment fund custodian; some of operations may have been within the same entity</p> <p>Publication of sanctions</p> <p>All sanctions are made public.</p>	LICENSE TYPE	REVOKED	brokerage	66	Dealer activity	67	securities management	64	depository activity	24	registrars	2	private pension fund	3	management company	9	specialized depository*	2
LICENSE TYPE	REVOKED																		
brokerage	66																		
Dealer activity	67																		
securities management	64																		
depository activity	24																		
registrars	2																		
private pension fund	3																		
management company	9																		
specialized depository*	2																		
Assessment	Broadly Implemented																		
Comments	<p>The mechanisms are in place to demonstrate that there are a wide range of enforcement powers at FSFM's disposition. These powers are sufficient to permit the conduct of a materially enhanced enforcement program from that possible in 2008. However, the fining powers may not be sufficient to achieve the desired results. Evaluation of actual effectiveness of the enforcement program, including a consideration of all the remedies available, should be deferred pending some period of operation (See Principle 10) and the ability to observe the deterrent effect, including the extent to which penalties are dissuasive and proportionate. In this regard, the FSFM should develop more comprehensive performance metrics and statistics and make these public.</p> <p>FSFM should continue to pursue augmentation of its enforcement authorities. While it works cooperatively and efficiently with the Ministry of Internal Affairs with respect to telephone and other records, FSFM might seek to ensure its specific authorities extend to obtaining any broker tapes and phone records through its brokers as opposed to the ISPs if this is currently in doubt.</p>																		
Principle 10.	The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance program.																		
Description	The FSFM's categories of enforcement power are broad in scope and, under the menu of laws applicable to securities regulation there are a variety of remedies for investors and																		

supervisory powers that cover each of the functions committed to FSFM oversight. For example:

- Principle 14: Signatories of quarterly annual reports are liable for their accuracy and FSFM has the power to refuse to authorize, suspend trading or halt trading in an issue; new pending laws are expected to impose fiduciary responsibilities on Boards of public companies; separately, the FSFM may intervene in a private shareholder action to support shareholders
- Principle 15: FSFM has the ability to review pricing, independence of the appraiser, and to suspend or prevent tender offers
- Principle 17, 19, 21, 25 and 26: FSFM has the powers to grant, deny, condition, suspend, and revoke licenses; Executive Board and Board members must not be subject to statutory disqualifications, such as having a criminal record or having been charged with economic crime within the past three years. These prohibitions also apply to persons that have an ownership interest in excess of 20 percent. The period of these bars might be revisited.
- Principle 17 and 21: FSFM regulations require that professional market participants have a compliance function.
- Principles 8 and 9: FSFM has the power to conduct inspections with and without notice on a routine and an *ad hoc* basis, and related powers to take and copy records, coupled with powers under an investigative/inspection order to demand information from any market participant. Inspection, surveillance and investigative activities are executed in accordance with an internal algorithm, with a flow chart that indicates the scope and process for conducting procedures of full and limited scope and the process for imposing sanctions.
- Principle 26 and 28: FSFM recently purchased and installed new technology to permit more effective and efficient oversight of the securities markets and new legal authority has augmented the FSFM's powers to address misconduct, by providing expanded powers with respect to manipulative practices, which are defined both broadly and specifically, and insider trading.
- Principle 22, 24 and 29: FSFM's new authority to deal with failing intermediaries, including the ability to impose a temporary/provisional administration or receivership on a licensed firm which were just granted in 2010 effectively permit the freezing of assets. Also new technology has been acquired to permit the more efficient processing of alerts, and new alerts are in the course of being designed in conjunction with the FSFM's new corrective/intervention powers. The pending Prudential Supervision Law will also permit an authorized representative from FSFM to approve transactions within an entity whose license has been suspended or withdrawn or while a firm is being wound down.
- Principle 23: Intermediaries are required to have qualified personnel who operate a compliance function, and FSFM has ability to check their activities in the course of on-site inspections. FSFM is expanding the review process for authorizing professional market participants to include on-site due diligence in appropriate cases.

Inspection Coverage

Inspections of issuers represent 70 percent of the inspections performed, some of which are performed by records review. The emphasis in such cases is on disclosure requirements, requirements for an annual meeting, including the timeliness of notice, appropriate notices to shareholders, voting records, and compliance with the requirements on related party transactions. The inspections of professional market participants, such as brokers, dealers, exchanges, SRO's and investment fund managers, for which full scope procedures are performed on an approximate three-year cycle, are usually conducted by headquarters.

	<p>These operations include verifying compliance with minimum capital computations, the existence and proper treatment of assets for capital purposes, safekeeping of customer funds, verification of net asset value calculations, and compliance with requirements for an anti-money laundering compliance program. Inspections also focus on the maintenance of current accounting records. See also Principle 8 discussion.</p> <p><i>Responsiveness to Events and Market Evolution</i></p> <p>Under prior legislation, FSFM can be (and has the incentive to be) responsive to market evolution and the emerging thinking on what are regulatory best practices internationally, in that it can commend legislation to the government and the Duma, through appropriate processes. This power will now be shared more closely with the Ministry of Finance. FSFM also has broad authority, under a variety of laws, to adopt interpretive/operational secondary regulations that can be more immediately responsive than can legislative action, subject to its scope of competence under the new alignment. In this regard, FSFM has made changes in its program based on its participation in international standard setting forums and on its own experience as a supervisor, for example, responses to market timing concerns in the investment fund business. FSFM has contributed its insights and expertise to the Financial Council on Development of the Financial Markets in connection with the ongoing attempt to stimulate discussions and action on improving the overall regulatory architecture and certainty as to the application of the rules, which is essential to maintenance of market confidence and market development.</p> <p><i>Administrative Sanctions and other Penalties</i></p> <p>Only headquarters can revoke licenses (and issues); 731 in the aggregate of all 7 types of professional market participant categories were withdrawn in 2009. In 2009 the central (headquarters) office of the FSFM assessed Rub 17,482, 699 [approximately US\$2.5 million] and Rub 1,254, 958, 634 [approximately US\$44.7 million] for all regions. In 2010, the amount of fines imposed by central office were Rub 141,760,000 [approximately US\$5.05 million]. See Principle 8 for information on inspections.</p> <p><i>Complaints Handling</i></p> <p>Both the FSFM and also relevant SROs can address complaints. For example, the SROs can conduct proceedings intended to provide compensation to complainants, and have augmented arbitration and mediation process. The FSFM also has the ability to assist investors in undertaking a private action. (See for example, Principles 6 and 9). FSFM also can commence an inspection or investigation based on a complaint (Principles 8 and 9).</p> <p>As stated in Principle 9 above, more comprehensive performance statistics on enforcement should be made public.</p>
Assessment	Partly Implemented
Comments	<p>More experience is required with the FSFM's new powers to take administrative enforcement action for insider trading and manipulation.</p> <p>Recent experience in multiple jurisdictions has underscored the importance of testing the safeguarding and existence of assets through records other than those of the licensed firm. The ability to confirm the existence of securities will be materially improved by moving to a central securities depository, whether or not the role of transfer agent/registrars is preserved as in some European systems.</p>
Principles for Cooperation in Regulation	
Principle 11.	The regulator should have authority to share both public and non-public information with domestic and foreign counterparts.

Description	<p><i>Domestic Sharing Powers:</i></p> <p>In general where there is not a specific provision, securities information is confidential. (Article 44.1 (1)) of the Securities Law.</p> <p>FSFM has the power to share public and certain non-public information with domestic regulators, except for information received from foreign regulators or the evidence from investigations which conclude without finding a violation, which is subject to prior consent or a court order. Additional capacity to share information is conferred by the Insider Law. In fact, FSFM actively cooperates with the SROs (for which there are special provisions in Article 49 of the Securities Law, which permit the FSFM to share inspection information) and with various domestic authorities, including: the financial intelligence unit, the Interior Ministry, and police authorities (See also discussion under Principle 12).</p> <p>Information on the good standing of licensees, and sanctions and on listed and registered issuers is public and is posted.</p> <p>Importantly, the FSFM is a full member of the working group (task force) for monitoring macro-prudential conditions in the financial markets that is headed by the Deputy Minister of Finance (See Principle 1). This acknowledgement that the capital markets regulator should be part of the systemic oversight process is key. The potential for risks to be transmitted across sectors, the financing of operations of various players using the equity repo market, which can create opaque funding risks, the potential for speculation on currency differences, and the use of off- balance sheet credit funds and other vehicles that can be sold into the secondary market renders securities sector expertise relevant to the overall process dedicated to identifying interconnections and related vulnerabilities in the marketplace. This is also a matter addressed by the new IOSCO Principles, the methodology for which is currently out for consultation.</p> <p><i>International Sharing Powers:</i></p> <p>In accordance with the discussions in Principle 8 and 13, FSFM can share public and non-public information with foreign authorities (with certain limitations as to banking records), without approval from a Minister and without the conduct for which the request is made breaching domestic securities law (see Article 44 (12) of the Securities Law and Article 14 (9) of the Insider Law). It is possible an investigation might need to be opened in some circumstances. The provision for the sharing of information with foreign authorities, pursuant to an MoU, in each case, is quite broad, subject only to inconsistent treaties and the terms of the MoU provided that the MoU counterparty can provide equivalent confidentiality. The lingering issue related to banking records is treated in Principle 8.</p> <p>In general, fitness information is public and no ministerial approval is required for such information or non-public information to be shared. The one exception would be that there may be special procedures, or gateways, for information obtained through criminal and police methods</p> <p><i>Additional capability to obtain information with respect to bank group which contain a professional market participant</i></p> <p>Changes that are currently before the Duma will provide the CBR additional authority to share information with domestic supervisors of entities within a bank group or part of a bank holding as well as foreign supervisors, including information that would otherwise be considered to be banking secrets.</p> <p><i>Consolidation of insurance functions:</i></p> <p>The powers conferred to FSFM with respect to insurance providers and accounts are not yet known. However, the power of the FSIS to share information with other authorities is less than those powers to share information currently accorded to FSFM with respect to the</p>
-------------	---

	financial market participants and markets and products it regulates and oversees. To the extent any insurance products are similar to collective investments the rules should be the same as for securities more generally.
Assessment	Broadly Implemented
Comments	<p>Additional capacity to receive banking information from the CBR by the FSFM, as contemplated in amendments to the Banking Act (especially Article 26 and 51), before the Duma and with respect to Consolidated Supervision, have the potential to materially enhance the extent to which information can be shared among the authorities for remedial, audit, and enforcement purposes.</p> <p>As discussed in Principles 1 and 12, documenting in writing the arrangements with commonly contacted domestic counter-parties should be progressed. This is especially true in that new IOSCO Principles will require the securities regulator to demonstrate a process for addressing systemic risk appropriate to its mandate.</p> <p>Although there could be some question as to whether Article 16 (6) of the Insider Law could be read to limit the power of Article 4 (9) of that law which gives broad power to the FSFM to share non-public information with foreign authorities in regard to breaches related to manipulation and insider trading, it should be possible to clarify that such a reading is not intended.. The traditional rule of legal construction is that particular language should prevail over general language. Additionally, Article 16 (6) appears directed to requests related to possible insider dealing or manipulation violations by personnel of government authorities as listed in Article 4(9). Such information generally would be protectable from discovery under an arrangement with a foreign authority under a provision relating to exceptions for national interest, executive privilege or other similar claim in many jurisdictions.. FSFM should make explicit by guidance or declaration as to how it interprets the law.</p>
Principle 12.	Regulators should establish information sharing mechanisms that set out when and how they will share both public and non-public information with their domestic and foreign counterparts.
Description	<p>The FSFM indicates that it has in practice shared information internally with domestic authorities, subject to certain confidentiality limitations on its ability to share information received from non-domestic authorities, and that it also has found pragmatic ways to share information internationally to assist foreign authorities, even where all the formal requirements—such as an MoU—were not in place, citing exchanges with the US Securities and Exchange Commission, for example, with whom the previous capital markets authority had an MoU, which ideally would be re-executed.</p> <p><i>Domestic Sharing Arrangements</i></p> <p>Formal arrangements or protocols exist between the FSFM and the Financial Intelligence Unit, and the following other domestic authorities: Ministry of Internal Affairs, Federal Anti-monopoly Service, Federal Service for Financial Monitoring, and Federal Service of Court Bailiffs. The ability to cooperate with the CBR with respect to bank groups is planned to be materially expanded by the pending banking amendments.</p> <p>During the recent crisis, the CBR and the FSFM developed practical operating methodologies for cooperating including working arrangements to share inspection information .These arrangements have not been documented. An MoU between CBR and FSFM has reportedly been in negotiation since the 2003 assessment. In that as much as 50 percent of the participants in the financial markets are credit institutions or part of bank groups, the lack of more particularized protocols could be destabilizing in the event of further market disruption. The engagement that is achieved through the underlying dialogue and networking that necessarily must precede agreement on such a protocol would also enhance the working</p>

relationships between the regulators. Such a protocol could also facilitate enforcement information sharing in that it could contain agreed formats for exchanging information on bank records under article 18(5) of the Insider Law. The execution of such arrangements and accompanying discussions also can result in beneficial informal exchanges relative to identification of the key factors that might cause risks to migrate from one sector to another, and as to what information is critical to either the bank or the FSFM in managing such a situation. See also the discussion under Principles 1, 24, and 29.

International Sharing

The FSFM has the authority to share any information, including personal data, within its files (except that received from foreign authorities, for which consent or a court order is required). (See discussion in Principle 8 and Principle 11). In order to share non-public information with a foreign counterpart, the law requires that FSFM have executed a memorandum of understanding, the information in the hands of the non-domestic authority must be treated with equivalent confidentiality, and that the information is exchanged pursuant thereto. Currently bi-lateral arrangements exist with the following fifteen jurisdictions: Belarus (Ministry of Finance of the Republic of Belarus); Brazil (Securities Commission of Brazil); Venezuela (National Securities Commission of Venezuela); Germany (Federal Financial Regulator—BaFin); India (The Council of the Securities and Exchange Commission of India); Cyprus (Commission of the Securities and Exchange Commission of the Republic of Cyprus); Kyrgyzstan (Supervision and Financial Regulator of Kyrgyz Republic); China (Chinese Securities Regulatory Commission); Korea (Financial Services Commission of Korea); Liechtenstein (Office of Financial Markets, Liechtenstein); UAE (Commission on Securities and Commodities UAE); Sultanate of Oman (Main Committee on the Stock Market (CMA)); Syria (The Commission on Financial Markets and Securities of Syria); Turkey (Financial Markets Commission, Turkey); France (l'Autorité des marchés financiers or AMF). There also is a joint letter with the USCommodity Futures Trading Commission (CFTC). FSFM is presently working on a project with the European Union, through the European Securities Supervisory Markets Authority (ESMA).

FSFM, and the Russian Federation, have as a first priority, execution of Annex A to the IOSCO Multilateral Memorandum of Understanding on Information Sharing and Cooperation (IOSCO MMoU). Russia is currently a signatory to Annex B and is in the process of preparing to reapply, having secured substantial legislative changes to strengthen its bid for full membership.

Some notices from a formality perspective are required to be made to the Ministry of Foreign Affairs with regard to executing MoUs, but these are not inhibitory, and are replicated in many other countries.

Accessibility of public fitness information

Information on sanctions of licensees and other persons is posted on the FSFM website and hence can be consulted easily by foreign regulators with respect to fitness determinations to be made in those other jurisdictions.

General Participation in the International Community:

Russia participates on the Financial Stability Board; is an ordinary member of IOSCO; acts as an observer on several OECD working groups relating to corporate governance and financial markets, and is applying for more formal recognition; FSFM also sits on FATF; participates in the International Institute for the Unification of Private Law (UNIDROIT) which addresses insolvency regimes and indirect securities holding systems, among other international initiatives and committees.

Practice

	<p>The details of the exchange of information with other authorities under an MoU typically are themselves non-public information and as such are confidential. Nonetheless, it is important to note that the FSFM does actively cooperate when requested. For example, FSFM has recently cooperated with the Cyprus Securities and Exchange Commission. FSFM should develop improved performance statistics and logs on requests received and made, issues with implementation encountered, and how these were disposed of.</p>
Assessment	Implemented
Comments	<p>Prompt restarting of the application process for accession to the MMoU is recommended. Even after signing the MMoU is accomplished, the benefits of more specific bi-lateral agreements should be considered for specialist issues, such as cross-listed/traded securities, common financial markets in commodities and so forth. For example if Russian securities are cross-listed or deposit receipts are traded in other jurisdictions, ideally FSFM should have information sharing arrangements with such jurisdictions.</p> <p>Conclusion of more formal arrangements with the CBR is a pressing matter, which has been pending overlong. This is reflected in the rating under Principle 1. Active efforts should be taken to progress this initiative.</p>
Principle 13.	The regulatory system should allow for assistance to be provided to foreign regulators who need to make inquiries in the discharge of their functions and exercise of their powers.
Description	<p><i>Assistance notwithstanding lack of independent interest or dual criminality</i></p> <p>The FSFM can provide assistance to foreign regulators/supervisory authorities whether or not FSFM has an independent interest in the matter for which assistance is requested, and whether or not the violation that is the subject of the request is a violation under Russian law, provided that the matter is within the competence of the financial markets authority, using whatever authorities FSFM would be able to use for its own inspections and investigations. In this regard, the FSFM could share any information, subject to an information sharing agreement that it had in its files. Likewise, it could also share bank records, or assist in obtaining such records, to the extent otherwise permitted by law. See, e.g., Insider Law Article 14 (Section 9) FSFM can also provide any information, public and non-public from its own files. (See Securities Law Article 44 (12)) See the discussions under Principles 8, 9 and 11 relating to the availability of information and access to banking records.</p> <p><i>Ability to assist in obtaining court orders</i></p> <p>While FSFM may have some limitations on the extent to which it can share general bank records of natural persons without a court order, FSFM could nonetheless provide assistance to a foreign regulatory authority in seeking a court order in connection with a fraud, or in providing other assistance, such as freezing assets or obtaining records. In general requests for assistance do require written requests and indeed the IOSCO MMoU process provides a sample template.</p> <p><i>Competence of the FSFM does not extend to currency transactions</i></p> <p>Typically spot market foreign currency transactions are not directly within the ambit of securities regulators unless they are part of a securities product; hence if the information is with respect to a purported foreign currency manipulation, there is a requirement that the FSFM cooperate with the CRB. As discussed in Principle 1, the FSFM and the CRB should execute practical cooperative arrangements for addressing the exposures of entities within the same group, financial fraud or manipulation where the perpetrator is a member of a bank group or the product is under related supervision of the CRB (sovereign debt/forex/bank funds). Although expanded authority to obtain electronic records and to conduct undercover type activities might be desirable, in fact many jurisdictions must work with criminal</p>

	<p>authorities in these types of investigations.</p> <p>Confidentiality</p> <p>As discussed, non-public information provided by a foreign regulator to the FSFM cannot be onward shared without consent of the foreign regulator or a court order. (See, e.g., Insider Law Article 15 (3), and Securities Law Article 44 (12) and 44.1 and the relevant language of specific bi-lateral MoUs. The FSFM has the power to join an agreement with a foreign authority to resist the imposition of a court order, which would be required for it to join the IOSCO MMoU. (The additional processes necessary to obtain bank records for natural persons are noted in Principle 8 above.)</p> <p>Information on financial groups</p> <p>Pending consolidated supervision requirements and planned related amendments to the banking laws should facilitate obtaining general bank information related to the proper supervision of financial conglomerates. Information on securities transactions through to the direct client of the broker can be obtained directly from the market and domestically licensed intermediaries; regulation that requires local intermediaries to obtain specific ownership information within another jurisdiction is pending and the use of information sharing arrangements with other regulators, in whose jurisdictions cross border transactions may be initiated should also facilitate obtaining information as necessary.</p> <p>Some examples</p> <p>FSFM indicates that it has cooperated with the Cyprus authorities and that it has provided informal assistance to the SEC. In fact, it indicates it has more frequently requested information than been requested to provide the same.</p>
Assessment	Partly Implemented
Comments	<p>FSFM should continue to improve the legislative and regulatory underpinning of its ability to provide assistance to its regulatory counterparties and where there are ambiguities of interpretation or perceived ambiguities. FSFM should use whatever authorities it may have to eliminate these by clarification, undertaking, diplomatic note, or interpretation to the extent possible. In this regard, information sharing arrangements with those jurisdictions where most cross-border transactions occur and execution of the MMoU should be pursued actively. Additionally, in view of the broad concern internationally with the ability to promptly address global interconnections that could adversely affect one's home jurisdiction, FSFM should work with all related domestic financial regulators and, as necessary, the FIU, to be sure that it has considered the types of information needed to address various market disruption and intermediary default scenarios and the means to go about obtaining such information. Further FSFM should take steps to determine how to ensure that it will have adequate resources to provide effective and timely assistance when requested (See also Principles 1, 24, and 29).</p>
Principles for Issuers	
Principle 14.	There should be full, accurate and timely disclosure of financial results and other information that is material to investors' decisions.
Description	<p>As of 2009 there were approximately 522,968 public companies in Russia, of which it is estimated that about 10,000 represent offerings to more than 500 investors (which are described as public offers) either through prospectus or through a government privatization, for which continuous disclosure is required. In comparison a substantially smaller number of companies are listed or admitted to trading on MICEX and RTS, respectively. For offerings made only to certain "qualified" (a specified list, including for example professional market participants, governmental entities) of investors, less disclosure is required.</p>

Disclosure Requirements

The FSFM prescribes prospectus and ongoing disclosure requirements for both equity and bond offerings (and investment funds, which are discussed in Principles 17 to 20). FSFM requires both financial and non-financial reporting. The Securities Law (Articles 22 and 30) requires a prospectus, quarterly reports, and “material event” reporting. The Securities Law also contains a general requirement that any “information that would be viewed as material to the investment decisions of an investor,” be disclosed (Article (30)) in the Prospectus and as a material event. The law contains a long list of “material event,” disclosures, such as the change in an accountant or a chief financial officer, and disclosures on large shareholdings, including those through connected and controlling parties (which were recently enhanced and augmented by amendments that went into effect in March 2011), changes in control or ownership above a specific threshold, related party transactions, other losses, such as the loss of rights relative to the business. (See also Principle 15) Prospectus disclosure is considered stale after six months.

The Company Law requires that an annual report, balance sheet, and profit and loss statement be published in a mass media publication (Article 92). Material event disclosure must be made through designated vendors on line and must be made within one day. For all companies required to have a prospectus, this information must also be posted on the company website. Quarterly reports must be filed within 45 days of the end of a calendar quarter and posted on the company’s website. The annual audited report is due within 120 days from the end of the calendar year. The FSFM reports that these filings are becoming more timely, and is the process of considering further automating its review process. The reports must be in a prescribed format and are filed with FSFM electronically. Consideration is being given to moving to an automated review for certain specified matters. The issuer’s Board must approve the prospectus and the Chief Executive/Manager and the accountant must sign and are responsible for the accuracy of the disclosures. See e.g., Securities Law Article 22.1, Article 30 (1).

Contents of Prospectus

All companies with registered prospectuses (which is a precondition to the public circulation of their securities) are obliged by law to comply with periodic and *ad hoc* (material event) disclosure requirements. Prospectus disclosure includes information on essential facts, business risks, business strategy, asset structure, general risk factors, how the issuer will use proceeds of the offering, information on the Executive Board and the board of Directors, including relationships to other persons in management or the board, direct shareholdings as a percentage of capital. Disclosure is also required as to the aggregate remuneration of the Board of Directors and the aggregate remuneration for the Executive Board. All owners of 5 percent or more shares are listed in the prospectus. Additionally an issuer must disclose the owners of substantial blocks of shares that exceed 5, 10, 25, 30, 75, and 95 percent of all issued equities as a material event. The stock exchanges also have listing requirements for those offers that are listed (that is where the issuer applies to the exchange) as opposed to admitted to trading (that must meet other criteria) that provide additional detail. The listing rules, typically pertain to market capitalization and liquidity, and are subject to the review and approval of the FSFM.

Listed Securities

The exchanges may impose higher requirements on their members and listed companies than the FSFM. For example, the RTS imposes special governance requirements on the top two tiers of listings, which include for example the requirement of independent directors and a compensation committee among others. MICEX also has added requirements which are merit based for top tier listings (See also Principle 15).

	<p>Advertizing</p> <p>The Investor Protection Law bans the advertizing of offerings of issuers that is inconsistent with the disclosure requirements or without the filing of a prospectus.</p> <p>Standard of Review</p> <p>The FSFM reviews prospectuses and other filings for completeness and consistency. It has the authority to ask for clarifications and revisions. Corporate bond offerings have additional requirements, see e.g., Securities Law Article 27.5 et seq). Such offerings cannot be made until after three years of operations of the company, unless (i) a third person provides collateral, (ii) the bonds are only issued to qualified entities, (iii) other securities of the company are listed at a stock exchange, and (iv) the issuer or the bonds is rated at a specified level by an authorized rating agency.</p> <p>Off-shore investment products that offer Russian units of participation are also subject to particularized disclosure requirements.</p> <p>Derogations</p> <p>There do not appear to be any derogations from these requirements.</p> <p>Cross-border issues</p> <p>The Prospectus, and financial disclosures, must be reported based on the highest level of disclosure that the issuer is required to give if it is either listing outside of Russia, or if it is, for example, preparing financial reports both using Russian Accounting Standards and internally using IFRS. In other words if a foreign regulatory authority would require specific disclosures that are not required in Russia, those disclosures would also have to be made in its prospectus, financial reports and material event reporting.</p> <p>There also are regulations with respect to offer of Russian depository receipts that have parallel disclosure requirements. See also Federal Law 74-FZ amending the Securities Law and the Investor Protection Law, which specify the provisions relative to the offer of foreign issuers within Russia.</p> <p>Enforcement</p> <p>The FSFM has the power to take action against issuers for failure to follow its requirements and reports that many of the actions taken in the regions relate to such matters, including the notices given with respect to annual meetings among other things.</p>
Assessment	Partly Implemented
Comments	<p>The FSFM should keep the timeliness of disclosures under scrutiny and take enforcement action where warranted to 'encourage' compliance. FSFM should also move toward international best practice among the G-20 countries for timeliness of filing of annual audited reports and for sufficiency of shareholder notices relative to annual meetings and voting decisions. The use of automated systems to help with this is recommended.</p> <p>The enhancement of connected ownership and control reporting is welcome, although experience will have to be obtained with how well it will work within the culture of this marketplace. The exchanges do have the capacity to ask for enhanced disclosures about underlying customers, and the pressure to make underlying ownership more transparent is increasing, especially for companies that wish to list outside of Russia. Nonetheless, active review procedures will be necessary to test the efficacy of the new connected disclosure requirements. Significant study has been undertaken on how to improve reporting requirements so FSFM should be able to take stronger enforcement steps where violations are observed. Further steps might become necessary if the newly designed control reporting requirements do not permit adequate identification of controlling interests. In some</p>

	jurisdictions, the incentive for listed companies has been that if a request to identify controllers is denied, the company will be delisted (see also Principle 15).
Principle 15.	Holders of securities in a company should be treated in a fair and equitable manner.
Description	<p><i>General rules of corporate structure and shareholders rights</i></p> <p>The basic company law in Russia is Joint Stock Company Law, N-Z 208, which applies to both open and closed companies. Professional market participants, exchanges and SROs typically must be organized as joint stock companies.</p> <p>The law prescribes what should be in the company charter, the equitable treatment of shareholders of the same class, pre-emptive rights on the issuance of new shares, limitations on when bonds may be issued, provisions relative to maintenance of a share register and confirmation of the ownership and transfer of shares, the delineation of matters which must be committed to the annual general meeting and related shareholder disclosure, provision of dividends, restrictions on dilutions, provisions concerning combinations, reorganizations, mergers, and liquidations, and, since 2006, liability of directors or executives who cause harm to the company. Pending legislation would confer fiduciary duties on directors and executive management.</p> <p>Shareholders can bring a suit against the company's directors and officers, and the FSFM can intervene on behalf of shareholders but it cannot institute its own action. Shareholders may also require the company to repurchase all or some of their shares if they did not vote for or participate in a company reorganization or a major transaction. Shareholders who in the aggregate own not less than two percent of the company's voting shares have the right to introduce no more than two items to the agenda of the annual general meeting. Shareholders who hold not less than 10 percent of shares in the aggregate can call a special meeting.</p> <p>Investment funds are separately treated under the Investment Fund Law.</p> <p><i>General provisions on governance and accountability</i></p> <p>All issuers required to have a prospectus must make specified disclosures about the governance of the company. See especially Securities Law Article 22 and the discussion in Principle 14.</p> <p>Russia has a board structure which includes two tiers: a supervisory Board of Directors and a management board or executive body (which might only be a single person). The structure recognizes three categories of directors: executive, non-executive and independent. There is also a "revision commission" or audit committee elected by shareholders to oversee the company's finances and in some cases a Company Secretary that reports on operations of the Board. External auditors must be approved by a three-fourths majority of the shareholders. Links between members of this committee and management must be disclosed but the members do not appear to be required to be independent. IOSCO does not take a position on board structures generally, but there need to be appropriate measures to avoid and mitigate conflicts of interest.</p> <p>Russia has a Good Corporate Governance Code, adopted in 2002, which is drafted to meet the standards set by OECD. It addresses principles of governance, the annual meeting, the constitution of the Board, the Executive, the Corporate Secretary, Corporate Actions, Disclosures, Supervision, Dividends, and Resolutions. Adherence to the Code is voluntary except by certain of the largest listed companies under exchange requirements. Reform is pending to require disclosure of how governance issues in the Code are addressed as part of general disclosure requirements for issuers.</p> <p><i>Tender offers, take-overs</i></p> <p>The FSFM has authority to review tender offers and the price of tender offers and can reject</p>

	<p>these under certain circumstances. Under Article 84.1 of the Joint Stock Company Law, the offeror must send to all shareholders an offer providing information on the offeror and any affiliates, the terms of the offer including price and whether it will be paid in cash or in securities. The offer must disclose the bank or other guarantor of funds, and the identity of the actual offerors, and in the case of a legal entity, the identity of any investor owning 20 percent or more of the entity making the offer. Shareholders must be given 70 to 90 days to respond. If 30 percent of shares are acquired, a mandatory tender for 100 percent is required at a price based on an independent appraisal. The appraised price for a tender must be based on, and may not be less than, the trade-weighted average of the price for the preceding six month period. For an illiquid security a professional evaluator's opinion on price would be required. Such evaluators are not necessarily required to be subject to oversight or to be authorized accountants or auditors or otherwise authorized professionals, but they cannot be related to the offeror. Formerly takeover issues were handled within the Federal Anti-monopoly Service. If 95 percent of an issuer is acquired, non-participating shareholders can be squeezed out under Article 84.8 of the Joint Stock Company Law. In such a case, the FSFM must review the price and disclosure of information and specifies what notices must be provided to remaining shareholders.</p> <p>The Joint Stock Company Law also provides shareholders with pre-emptive rights to purchase a proportional interest in new offers of company securities and 45 days to exercise such rights at a discount to the offering price.</p> <p><i>Interests large shareholders, and of changes in shareholdings.</i></p> <p>Article 30 of the Securities Law requires that the following be disclosed in any prospectus, the annual report, and within at least five days of the crossing of the relevant threshold of 5, 10, 15, 20, 25, 30, 50 or 75 percent of shares or votes, and or a similar size decrease either by acquisition or by changes in the shares outstanding by the issuer on its website within 2 days and also to relevant vendors within one day and in the case of listed companies, the exchange. Recent amendments require that these large shareholdings be computed taking into consideration indirect and direct linkages of 5 percent. Insiders also must make these disclosures on the issuer's website if they cross the relevant thresholds.</p> <p><i>Enforcement authority</i></p> <p>Under the Investor Protection Law, the FSFM can issue mandatory rulings to stop and prevent offenses, to legal entities and to natural persons in the territory of Russia. They have among other things the ability to restrict or suspend operations of professional market participants, to suspend issues, to halt trading, and to apply to the court to nullify the issue of securities among other things.</p>
Assessment	Partly Implemented
Comments	<p>Contemplated improvements in the share registry arrangements, may aid the ability to determine underlying ownership. The legal issue as to who is the "owner" of the shares held in street name or through a depository receipt could be further clarified. This would enhance the capacity of non-domestic firms to transact directly in the Russian market.</p> <p>The addition of augmented owner and controller reporting that includes indirect holdings of 5 percent is welcome. FSFM should keep abreast of developments relative to derivatives regulation related to best practices relative to who is the effective owner of the voting interest in equity securities. In that shares may be held in nominee name, how this will operate should be clarified by interpretation.</p> <p>The changes with respect to tender offers, and tender offer pricing since the last review take into account the issue of illiquid shares. How the pricing provisions operate in practice should be kept under continuing review.</p>

	<p>The FSFM should make disclosure of whether an issuer complies with the code of corporate governance or an explanation a matter of disclosure for all public companies on an annual basis.</p> <p>Further the disclosure of all shareholdings of officers and directors in an issuer should be required disclosures.</p> <p>The new IOSCO Principles apply additional requirements to the use of professional evaluators and FSFM should take steps to prepare for the implementation of these requirements.</p>
<p>Principle 16. Accounting and auditing standards should be of a high and internationally acceptable quality.</p>	
<p>Description</p>	<p><i>Accounting policies and standards</i></p> <p>The Ministry of Finance oversees accountants and accounting policy in Russia. General accounting policies established by the Ministry require comprehensiveness, timeliness, consistency, comparability (rationality), prudence, and priority of content over form. Major assumptions include the assumption of continuity and consistent application. Since 1993 many Russian Accounting Standards (RAS) have been developed to enhance alignment of RAS with IFRS. Beginning from 2004, the Ministry of Finance has pursued a strategy/road map to move toward greater implementation of IFRS, which it is in the process of accelerating. New legislation requiring the use of IFRS for consolidated financial reports of issuers and financial markets participants after 2015 was finally passed in 2010. This development will place further demand on the expertise and sufficiency of the resources committed to audit oversight and on the capacity of the local accounting community to meet the new requirements. In moving to IFRS, the Ministry may be able to defer to international arrangements for the oversight of interpretations.</p> <p>In the interim, CBR currently requires the use of IFRS in regulatory filings but not in annual public reports. MICEX listing requirements require companies in the first two tiers to publish IFRS financial statements. Russian companies listed abroad may have to use IFRS or a specified GAAP to comply with host jurisdiction requirements. Companies who compile IFRS reports on a voluntary basis must include such statements in their quarterly reports and annual statements for public access under FSFM regulations, so that all purchasers of the same issue receive access to equivalent accounting reports.</p> <p><i>Presentation of accounts.</i></p> <p>The Joint Stock Company law requires that the company's external accountant be independent of the issuer. Replacements of auditors and also of Chief Financial Officers are required to be disclosed as a material event. Audited financial statements are required for public offers, and annually for companies for which a prospectus is required. Financial statements must include a balance sheet, statement of profits and losses, a cash flow statement, and changes in owner's equity. While the direct ability to require a restatement does not seem to be part of the law, it is possible that the FSFM could require such a restatement under its general authority to issue orders for protection of investors and the public, to require corrections more generally (See Investor Protection Law) or to otherwise enforce the disclosure standards more generally. Few such proceedings related to accounting have been brought and prior reports have noted the lack of a sufficient regime to oversee accountants and auditors. Periodic reports of public companies are reviewed by the FSFM, however, using an electronic methodology. Such methodology is in the process of being enhanced and such reviews sometimes reveal accounting anomalies that lead to suspension of a registration. The Executive and the Chief Financial Officer must sign the financial statements and are liable for the completeness and accuracy of their contents.</p> <p><i>Oversight of accountants and auditors</i></p>

	<p>The Ministry of Finance is not only responsible for accounting policies and standards, it also is responsible for the licensing and supervision of auditors and audit firms, of which there are approximately 37,000 and 15,000 respectively. While the auditors must belong to professional organizations (SROs), the oversight by either the Ministry or the SROs remains limited, and the use of multiple SROs may raise issues about consistent oversight of the standards that do exist that is being combated in other arenas by aggregating interpretations and information on disciplinary actions (See European Securities Supervisory Markets Association and IOSCO projects).</p> <p>Enhancement and oversight of auditing standards has not progressed to the extent of accounting standards.</p>
Assessment	Partly Implemented
Comments	<p>Mechanisms should be in place for oversight of the accounting and auditing profession that are sufficient to be an effective means of discipline on the profession. Mechanisms should be also explored to determine how best to obtain the accounting expertise that will be necessary to phase in the changes as IFRS standards are more broadly required. Some thought must be given to how to treat accounting oversight relative to purely domestic small and medium size enterprises.</p> <p>The requirement to be a member of a professional association, subject to Ministry of Finance oversight is useful especially if some means of assuring consistent interpretations is developed, so that there are not competing standards. Additionally, efforts should be undertaken as part of ongoing cooperation between the financial sector supervisors and the Ministry of Finance to ensure that not only is adequate oversight conducted, but also that emerging lessons learned from the marketplace are transmitted to the accounting profession and that the supervisors have adequate input in the evolution of standards. FSFM should have gained some expertise relevant to the oversight of accountants work through its review of financial reporting more generally. The Ministry of Finance could seek to draw on that expertise as part of ongoing cooperative efforts among the financial sector authorities. The Ministry of Finance and the FSFM may also consider making more active use of the SRO process or other means to involve local accountants in a peer review process.</p>
Principles for Collective Investment Schemes	
Principle 17.	The regulatory system should set standards for the eligibility and the regulation of those who wish to market or operate a collective investment scheme.
Description	<p><i>Licensing requirement (initial and ongoing)</i></p> <p>The Investment Law requires the licensing of Management Companies and Special Custodians of Investment Funds. The Law also requires that such funds can only be sold/marketed by the Management Company, which is licensed, or by its agent, which must be a licensed broker. The procedures for the licensing process are laid out in the regulations. The law applies a fit and proper test that is expanded by regulation. Under the law, specified personnel (e.g., the internal controller) must obtain a qualifications certificate. Management and company owners of more than 5 percent must be free of disqualifying conditions, such as a regulatory violation within three years, and must pass a background check for their criminal record with the Ministry of Internal Affairs. The law specifies other criteria for licensing, which include a due diligence review based on filings of internal control rules and competency qualifications, Management Companies and Custodians must also meet “own funds” requirements. In the case of special custodians these are due to be raised to Rub 80 million in July.</p> <p>There are both monetary penalties and license revocation and receivership proceedings that</p>

can be used as a means to address violations of the applicable law that apply to Investment Funds. FSFM has recently adopted an Order under the Securities Law, which permits FSFM while considering the granting of a license to conduct interviews and/or on-site inspections as a further means of determining the operational capacity of applicants.

These requirements however do not necessarily apply to bank managed investment funds (See Principle 1).

Reporting requirements

Required reports to the FSFM are submitted electronically under electronic signature. The FSFM reviews these reports which include information on certain material changes in the constitution of the Management Company managers or by-laws, and price reporting. The inspection department indicates that they conduct on-site inspections of fund managers on a cycle, which permits observation of the operational capacity of the management companies in practice.

Related party transactions

Related party transactions are restricted. For example, the special custodian used must be independent; that is, it cannot be affiliated or under common control with the fund or management company, nor on the management board of a joint stock company fund. And other restrictions are intended to address the independence of appraisers and auditors. Just as there are a number of prohibitions on related party transactions, certain specific exceptions exist (Article 40 of the Investment Fund Law), which include transactions on a regulated market, or transactions that are addressed by disclosure and other protections such as inspections. Funds can purchase interests in other funds operated by the same operator for example. Disclosure of the exceptions is important. In the future, more attention can be expected to be applied to the regulatory processes and requirements related to the avoidance of conflicts and the full disclosure of such exceptions. FSFM should keep abreast of IOSCO advice and reports. The requirement for the use of independent auditors and appraisers should also be a protection if properly monitored for compliance.

Use of SROs

The Law also provides for the applicable SRO to adopt rules related to a code of ethics, own funds or capital that may be higher than those of the FSFM, advertising, rights of clients, verifications of valuations etc, inspections, and monitoring processes.

The FSFM has full authority to demand information relative to investment funds and can place managers and/or funds into a provisional administration or receivership, though these powers have not been comprehensively tested in practice.

The largest by number and value of assets currently are closed end real estate investment fund trusts. These funds were typically captive funds that were a popular way to fund development of property as a commercial enterprise among developers. These investments are now less attractive because their favorable tax treatment has been withdrawn.

Customer Protections

While there are rules for fair disclosure, related to fees and expenses, and against related party transactions, and certain specified conflicts, there do not appear to be rules on best execution. The FSFM has broad authority under the Investor Protection Law to provide further protections to retail investors based on experience.

Delegation.

Delegations are not permitted.

Monitoring

There is a program for monitoring each of the components of a CIS. The funds themselves

	<p>must provide information to the FSFM and also to all investors in certain circumstances on specified material changes. These changes cannot be immediately made, to permit investors an opportunity to withdraw. The Management Company and the Custodian are each subject to inspections. The FSFM indicates that its inspection cycle for Management Companies is a three year cycle.</p>
Assessment	Partly Implemented
Comments	<p>The transfer of assets among funds or the purchase of one fund by another by the same Manager (as opposed to the unit holder who is a participant in a family of funds) is permitted. These types of transactions should be monitored. To assure that there are not abuses. The new IOSCO Principles will require comprehensive processes at the regulator to avoid or mitigate conflicts of interests.</p>
Principle 18.	The regulatory system should provide for rules governing the legal form and structure of collective investment schemes and the segregation and protection of client assets.
Description	<p>Structure</p> <p>The Investment Law and regulations specify the forms of collective investments authorized by law—which are the unit investment trust (a contractual fund and not in itself a legal entity) and the joint stock company. Funds can be open-end, which require the possibility of daily redemption, and closed-end, and interval funds, which have specified redemption intervals or gates. Funds can be privately placed to qualified investors as well as publicly offered.</p> <p>There are several different categories of funds: equity, money-market, real estate, mortgage, credit, fund of funds, direct investment, annuity or rents, venture, and hedge funds (which must be offered to qualified investors (See Article 51.2 of the Securities Law and related regulations) and are subject to less restrictive requirements). Qualified investors are typically professional market participants, governmental entities, international organizations, such as the World Bank, and natural persons and commercial persons that meet certain requirements as to net worth, assets, and experience.</p> <p>Fund units must be registered with the FSFM as securities and are designated as securities under the Investment Fund Law. The management company that manages the fund and acts as trustee or advises the joint stock company and the custodian that holds fund assets and maintains the unit registry must both be licensed (See Principle 17). The law specifies (i) the provisions/contents that must be in the trust agreement and in the charter and/or rules of a fund for its units to be registered and (ii) criteria for licensing the operator and custodian, which include a due diligence review based on filings of internal control rules, competency qualifications, and lack of disqualifications. Owners of more than 5 percent of fund management company shares also may not have a licensing type disqualification and must be compliant under Anti-money-laundering rules. The Management Company and the Custodian are subject to minimum financial requirements, must keep their own books and records as well as records for each fund, and must file specified financial reports.</p> <p>Internal controls and protection of client assets</p> <p>The Law provides guidance on share issuance, structural requirements from the perspective of management and staffing, use of a special custodian, which must be a separate structural unit from the management company, bank, or broker, and independent of the management company, for the maintenance of assets and which must oversee valuation of the funds and deposits, withdrawals, and investments. The law also requires the use of a single registrar, and various special requirements for various categories of funds, particular to their categorization. For example, There are diversification/liquidity requirements similar to UCITs III, in the European Union for equity funds.</p>

	<p>Funds that are joint stock companies must file quarterly periodic financial reports and be audited annually. Unit investment funds' Management Companies must publish quarterly balance sheets of fund assets and report on the changes in assets as well as other data. The Management Company must also publish its own quarterly financial reports and be audited annually.</p> <p>Separate treatment of assets</p> <p>The Management Company and the Special Custodian must separately account for and treat the portfolio assets and any funds of the collective investment as funds of the unit holders or participants. By law, assets of the fund are not considered assets of the Trustee, Management Company or Custodian for purposes of bankruptcy. The external auditor of fund interests is required to confirm proper observance of custody arrangements for investment funds and the proper calculation of net asset value and observance of investment structural policies.</p> <p>If requests for redemption of 75 percent of the fund are made, the fund must liquidate. Current provisions are in place for a temporary receiver or provisional administrator to address the protection of customer assets and the management of any liquidation.</p> <p>The Law grants authority to the FSFM to expand on these requirements through the issuance of secondary legislation, that is, regulations, in several areas explicitly set forth in the umbrella law.</p> <p>Disclosure of changes in investment policies, constituent documents, and fees must be made to the regulator as well as investors (see discussion in Principle 19).</p>
Assessment	Implemented
Comments	<p>Enforcement of the legal forms of funds should be kept under scrutiny. If new formats such as ETFs are created, the law should be adapted to assure proper oversight and recognition.</p> <p>The new alignment may commit some of this discretion to the Ministry of Finance in cooperation with the FSFM in this area. As stated in the preface to this assessment, how these powers are exercised going forward could affect compliance.</p>
Principle 19.	Regulation should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a collective investment scheme for a particular investor and the value of the investor's interest in the scheme.
Description	<p>Constitution (By-Laws) or Trust Agreement and Trust Policies or Rules</p> <p>Article 11 of the Investment Fund Law sets out what must be in a Trust Agreement or Deed for a unit investment trust and rules set forth a specific template. Article 6 has similar requirements for Joint Stock Companies. Article 17 contains the rules that must be disclosed, these include:</p> <ul style="list-style-type: none"> • the type of fund, • the declaration of trust or deed, • the process of subscription, • the name of the management company, custodian, registrar and auditor and related information, • the rights of participants, • the duration of the trust, • the procedure to include property, and investment policies • the procedures for valuation,

	<ul style="list-style-type: none"> • the procedure for registering shares, • tax treatments, • the fees of the management company, the special custodian, the auditor, and the registrant, and • other expenses. <p>The rules must be registered with the FSFM (Article 9). The application for registration must be addressed in 25 days, and the FSFM has the authority to refuse the offering for failure to provide complete information or for misleading information. Amendments must also be disclosed and some cannot be put into effect until 30 days has expired.</p> <p>General obligation</p> <p>Article 51 of the Investment Law enumerates the disclosures required of investment funds in the prospectus and upon request. The disclosure is required to be fair and not misleading, including qualitative requirements that prohibit falsification and misleading information in general, such as:</p> <p>“provisions stating that the value of shares [in a company]and or investment shares [participations in a trust] may increase or decrease, as well as an indication that the results of investment in the past do not rule future earnings, that the state does not guarantee yield on investments in investment funds/trusts and the warning that one ought to thoroughly read the constitution of the joint-stock investment fund, its investment declaration and the stocks prospectus and the trust administration rules of the unit investment trust before acquiring shares or investment shares.”</p> <p>The disclosure rules explicitly require fair and complete disclosure and prevent statements as to the guarantee of results or as to the approval by the FSFM of the quality of the fund as an investment. Article 52 lists information that is available upon request including, the net worth, net asset value, and other financial figures. The rules call for electronic filing in the FSFM system using a digital signature.</p> <p>Different types of funds</p> <p>Specific disclosures for various types of funds are also required, such as for example bond funds.</p> <p>Non-compliance</p> <p>Article 55 gives the FSFM substantial powers to address non-compliance with the Law, including to join fund participants in a court action, to prescribe regulations that address qualifications, to require management to follow orders issued “without fail,” including the provision of information, to develop means to monitor the activities of fund managers, and to review funds, and how to conduct inspections.</p> <p>The FSFM also has the power to oversee an SRO, which would have the authority to issue binding regulations, set additional conduct standards, conduct inspections, handle complaints and offer an arbitration forum. NLU currently has the power to exercise these functions though it is not as active as NAUFOR.</p> <p>Financial reporting</p> <p>Periodic and annual reporting is required for all licensed entities (see Principle 14). NAV is required to be calculated daily for open-end funds and on specified intervals of other funds and confirmed by the external auditor and the special custodian/depository.</p> <p>See also Principles 19 and 20.</p>
Assessment	Implemented

Comments	<p>It is important that disclosure is readily understandable in plain language. This is often addressed using a by short and long form risk disclosures.</p> <p>Generally it is important that investors understand that investment funds are not the equivalent of bank deposits and are not insured.</p> <p>Most of the real estate funds are captive funds. Therefore the issues that arise with respect to such funds may be more about how those funds are used by their creators and other parties for accounting and not on customer protection for the funds participants.</p>
Principle 20.	Regulation should ensure that there is a proper and disclosed basis for asset valuation and the pricing and the redemption of units in a collective investment scheme.
Description	<p><i>Valuation methodology</i></p> <p>Asset valuation of investment funds is regulated by FSFM Order No.05-21/pz-n of June 2005. Market value is used unless the asset is illiquid and no market price is available. For illiquid equities and traded debt the price is determined based on a weighted average of the last ten reported transactions traded within no greater than a ten day period. Funds may also use professional appraisers that are members of an SRO for assets that do not have a readily determinable market price using the foregoing methodology. Appraisers must be independent of the Management Company. The FSFM has the authority to oversee to determine whether appraisals and valuations more generally are made in conformance with applicable FSFM rules, and to check whether the formalities relative to the appointment and use of an appraiser are followed, including those requirements relative to independence.</p> <p><i>Publication of valuations</i></p> <p>Managers must publish the value of funds as follows: Open-ended fund NAVs must be valued and reported daily by no later than the next day. Closed end funds must be valued monthly, for reporting purposes, except real estate funds are subject to annual pricing. Interval funds must be valued no less frequently than quarterly, and consistently with the investment interval. The fund depository (special custodian) must also value the fund assets and compare its calculation with that of the management company. There does not appear to be a special procedure for addressing pricing errors. However, the external auditor is required to evaluate the structure of the fund, the compliance of the assets with investment policies, the calculation of net asset value, and to provide a statement on whether or not there has been observance of appropriate custody arrangements in its annual report.</p> <p><i>FSFM oversight</i></p> <p>FSFM monitors net asset value through the processing and review of periodic financial statements (required not less frequently than quarterly) and through inspection of management companies. Management companies must have an Internet website where valuations are posted.</p> <p>The rules governing redemption vary by product. Open end funds must be redeemable every working day, closed end and interval funds must be redeemable in accordance with the rules or gates of the fund as specified in fund documents submitted to the FSFM for registration of the fund, subject to FSFM rules. Redemption prices are as of the time of redemption in the case of open-ended funds and in accordance with the rules of other funds, which rules must meet FSFM requirements. Payment must be made no later than 10 days after settlement, which is 3 days. This rule flows in part from the way that illiquid assets are priced. Rules on redemption must be disclosed to investors and accessible. If redemptions are suspended, issuance must be contemporaneously suspended and the FSFM must be notified. The FSFM has the authority to order the redemption, or suspension of redemption, of shares. The Special Custodian is also required to notify the FSFM of any violation that it sees within three</p>

	<p>working days.</p> <p>Practice</p> <p>FSFM conducts inspections on a cycle. It also conducted some inspections relative to the market timing issues experienced by other markets.</p> <p>The general rules for issuers apply to financial reporting by funds, but the auditor must make additional confirmations as to the existence of assets at the custodian (see also Principle 19).</p>
Assessment	Broadly implemented
Comments	<p>Prices are based on actual transactions as opposed to bids, and a weighted average is used. If no market price is available, an appraisal by an independent appraiser is required. There appears to be a standard of general fairness. The FSFM must maintain an active program to review prices, appraisals, and the independence of appraisers, in light of the low level of liquidity in many products to determine compliance with regulatory requirements. As many of the equities traded in Russia are illiquid, the FSFM should be alert to test valuations that are used for redemptions from time to time and as part of the routine inspection process.</p> <p>The FSFM should also monitor the repayment of redemptions which should be accelerated to the fullest extent possible. The pecuniary payment for redemptions should be required to be made as promptly as possible after settlement but no later than a specified time frame.</p> <p>There should be a procedure for handling pricing discrepancies and errors.</p>
Principles for Market Intermediaries	
Principle 21.	Regulation should provide for minimum entry standards for market intermediaries.
Description	<p>License requirement</p> <p>Licenses are required for all professional market participants engaged in securities transactions, including for the securities operations of banks. These participants include: brokers, dealers, investment management companies, investment company special custodians, depositories (both settlement and custodial), and registrars. There is no separate license category for investment advisers. Advice for a fee on securities must be given through a licensed broker, and entities which carry customer funds for investment purposes must all be licensed as brokers. The FSFM has the authority to refuse licensing subject only to judicial review.</p> <p>License process.</p> <p>A fit and proper standard is applied. This includes absence of certain disqualifications, compliance with competency requirements (that may include testing), and capital. Professional market participants must be legal entities.</p> <p>Capital as related to licensing</p> <p>There is an “own funds,” or capital requirement for each category of intermediary, that has been increased over the years (see Principle 22 below)—except that banks can meet bank capital requirements. The minimum capital requirement for brokers was due to be increased substantially in July 2011 to Rub 50 million but that enhancement was postponed by draft order of the FSFM in May. Under the new regulatory structure for FSFM, the development of capital standards has been committed to the Ministry of Finance, in coordination with the FSFM.</p> <p>Bank securities operations, though licensed by the FSFM, may be conducted under the capital rules applicable to the bank, subject to CBR supervisory review. In this regard, it appears that the operation of securities services generally, and not just special custodial services, might in the future have to be conducted in a separate structural entity that is</p>

	<p>licensed and for which capital is separately assessed by the FSFM. This would facilitate the licensing process and simplify the assessment of capital requirements for brokerage activities undertaken by banks, and be consistent with the approach taken by certain other jurisdictions, like Canada.</p> <p>Pending legislation on consolidated supervision also would enhance the capacity to share supervisory information about entities within the same group. The pending Prudential Supervision law is expected to add a more nuanced capital regime, which applies market, credit risk and liquidity ratios. This may require additional supervisory expertise to be brought on board and new methodologies to be in place.</p> <p>The application for a license must be accompanied by an audited financial statement.</p> <p>Competency and structural requirements</p> <p>The licensing process also requires experience and proof of qualifications or competency in the area. Confirmation of the absence of disqualifications, such as a criminal record or having performed these functions for a firm that violated the securities laws or was declared bankrupt within the last three years, must be obtained for members of the Board, management, and whoever is assigned the role of compliance officer. The entity must meet certain structural requirements to be licensed. For example, the Compliance Officer must be at a level of a deputy CEO and must have at least one person who reports on Anti-money-laundering compliance.</p> <p>Information on licensed entities</p> <p>Information on licensing and information on sanctions must be made public by the FSFM. A register of licensed entities and a list of sanctions are available on the FSFM website.</p> <p>The FSFM must complete its licensing review within 30 days. If the applicant is a member of an SRO and has a certificate in good standing from its SRO, which meets certain requirements (see discussion in Principle 7), the process can be swifter. Denials of a license must be appealed to the courts.</p> <p>Internal controls</p> <p>More authority to review internal controls appropriate to the business will be conferred with the adoption of the pending Prudential Supervision Law, including the ability to apply more sensitive capital ratios and risk management measures. In the past, the process was conducted on the documents submitted, coupled with a background check using the assistance of the Ministry of Internal Affairs. In April, the FSFM adopted an Order that would permit a due diligence, on-site review of operational capacity for various categories of market professionals as part of the licensing process. (April 5, 2011). The Prudential Supervision law also will require additional review of internal controls and structure as part of the licensing process and enhanced competencies for back office and other personnel.</p> <p>Record Keeping</p> <p>Licensees are required to maintain all books and records for five years.</p> <p>Inspections and off-site review of filings</p> <p>FSFM has substantial capacity to withdraw licenses, and to appoint a provisional administrator in the event of threatened financial disruptions or fear of stripping of assets. License actions and other administrative enforcement actions are handled out of headquarters. Joint inspections are conducted with SROs. For example, NAUFOR conducted 70 examinations in 2010. See also the discussion in Principle 8.</p>
Assessment	Broadly Implemented
Comments	Some experience is necessary with the adoption of a review of operational controls as part of the licensing process before a fully implemented rating could be obtained. It will also be

	<p>necessary for FSFM to have sufficient expertise and staff to undertake appropriate due diligence and to apply more nuanced capital requirements as required. See Principle 22. Further how the various powers will be realigned and operated in practice could potentially affect this rating.</p>
Principle 22.	<p>There should be initial and ongoing capital and other prudential requirements for market intermediaries that reflect the risks that the intermediaries undertake.</p>
Description	<p>Capital requirement</p> <p>The FSFM has undertaken to materially increase the amount of required capital for professional market participants, since 2009. Dealers previously had required capital of Rub 5 million, brokers 10 million, depositories of investment funds 35 million and 60 million for registrars. Since July 2010, capital for all non-banking institutions was increased to 35 million and special custodians and depositories (which are not involved in the settlement operations of the stock exchanges) to 60 million. As of July 2011, the minimum capital requirement for special custodians and depositories will again be increased to Rub 80 million.</p> <p>Calculation and Reporting</p> <p>Since, 2009, capital has been required to be calculated monthly using a prescribed methodology and format. Both the required minimum, and the monthly calculation by each licensed firm of its capital, is required to be exposed on such non-bank financial institution's web-site. Additional filings may be required by the stock exchanges. The capital calculation includes some limited hair-cuts, mostly assessed on illiquid assets. (These might warrant review following the current crisis). Quarterly reports to the FSFM are also required, as is an annual audited return, in accordance with the timetable for companies more generally.</p> <p>Financial reports are filed electronically and the process for their review is being modified to also provide for the performance of electronic checks. The FSFM has had under consideration an IT project to develop the means to provide a more refined off-site analysis of financial filings, which takes into account, period-on-period changes and other factors, and is preparing to apply it. The analysis being undertaken would constitute the groundwork for developing a formal early warning system. The capital requirement applies at all times; it is only the official calculation that is required monthly. The level of transparency of the calculation is an added discipline on reporting.</p> <p>Further enhancements</p> <p>The Prudential Law, which is in its first reading, will require the calculation of a number of ratios intended to address market, credit, liquidity, operational and other risks, which will be a more sensitive measure and more in line with the prudential objectives, which FSFM believes the G-20 is aiming for. This law will also provide for consolidated supervision and the use of IFRS in consolidated accounts.</p> <p>If more sensitive means are used to calculate capital it will be critical to have the correct expertise within the FSFM to oversee implementation and to appropriately reconfigure oversight to be as sensitive as the new ratios. This would include the expertise to conduct focused inspections of firms to ensure the new requirements are being applied appropriately. With the adoption of consolidated supervision additional information sharing and cooperation with the CBR may facilitate this enhanced implementation process. Attention also will need to continue to be paid by CBR and other interested financial authorities to the extent that capital actually properly supports the securities operations of banks.</p> <p>Control reporting.</p> <p>While the rules call for some reporting of change events, there is no early warning requirement and there is no provision for an internal control report nor for a review by the</p>

	<p>external auditor of the observance of the proper treatment of customer funds by those professional market participants other than management companies and special custodians. The authorized exchanges have some added requirements related to financial integrity. See also the discussion under Principle 24 with respect to the pending legislation on creating a compensation fund for retail investors.</p>
Assessment	Partly Implemented
Comments	<p>Many changes are en train with respect to capital requirements. Pending increases were postponed in May and the development of new rules was removed to the Ministry of Finance coupled with input from the FSFM. Planned changes to enhance the review by FSFM of quarterly financial reports filed by professional market participants, coupled with development of a regime for more sensitive review and automated checks of the monthly calculations (to produce exception reports) would enhance the oversight of capital. An early warning system also should be implemented, which includes a provision related to deterioration in controls and is sensitive to the types of risks and exposures undertaken by each authorized professional market participant.</p> <p>Proposed changes to the overall requirement if properly implemented and supervised should help to increase the sensitivity of capital to risk. The institution of initial due diligence processes (See Principle 21) to consider the operational capacity of firms together with focused inspections of how the controls are working in practice would materially improve the ability of the FSFM to come into further compliance.</p>
Principle 23.	<p>Market intermediaries should be required to comply with standards for internal organization and operational conduct that aim to protect the interests of clients, ensure proper management of risk, and under which management of the intermediary accepts primary responsibility for these matters.</p>
Description	<p><i>Supervisory ,compliance controls requirements</i></p> <p>The Securities Law and FSFM regulations establish broad requirements on internal operations and duties owed to customers. In essence, professional market participants have a duty to execute orders in good faith and to act in the best interests of customers. This establishes a principle of ethical conduct to customers. This principle includes the responsibility to execute transactions promptly, to disclose terms of transactions, to notify clients of conflicts and to execute customer orders before firm transactions. Separate requirements have been imposed to provide for the segregation of funds at a specially designated account. Customer securities must also be held separately from those of the broker.</p> <p>There are also rules on the provision of information to customers and the protection of information received from customers. Article 4 of the new Insider Law also defines personnel of markets, clearing organizations, professional market participants, and other persons executing deals with securities, currencies and financial instruments on behalf of clients who receive information from such clients as insiders who cannot abuse such information., The details of a best execution or trade first rule, however, do not appear to be spelled out in regulations.</p> <p><i>Structural requirements</i></p> <p>As discussed with respect to licensing, firms are required to have a compliance officer, and a person accountable for anti-money laundering compliance, with the attendant know your customer provisions (or customer identity provisions) this entails. See also Principle 21.</p> <p><i>Conduct of business</i></p> <p>The Investor Protection Law also contains some very important additional provisions: it</p>

	<p>prevents brokerage agreements with customers from restricting customer rights, provides that the broker must inform the client that the broker has an obligation to present information on prices achieved in individual securities over a specified time period to customers who are selling or buying securities and prices at which the broker transacted on demand. The broker must also explain the rights and warranties granted to the customer under the Investor Protection Law. Public entities (SRO, non-governmental consumer union associations) are specifically entitled to bring actions on behalf of customers. The FSFM can also intervene in a customer action in civil court on the customer's behalf.</p> <p>Compensation fund</p> <p>The Investor Protection law also contemplates the creation of a special compensation fund, endorsed by the government, to indemnify customers (except qualified customers) for insolvency losses. The fund would have a council to oversee it, consisting of representatives of the Federal Assembly, the FSFM, other federal executive bodies, SROs, and public associations of individual investors.</p> <p>Potential mandatory retail business SRO</p> <p>Those professional market participants that are members of an SRO, such as NAUFOR, are subject to additional requirements. NAUFOR, which is a broker SRO, for example has developed various templates for customer agreements and other matters. It has been in the process of developing a Code of Conduct and other standards in consultation with other SRO members of IOSCO and also with FINRA from the United States. It is not clear whether the NAUFOR Code of Conduct is currently in effect. Currently the SRO inspection regime conducted by NAUFOR seems more directed to the evaluation of risk management, capital and internal controls. NAUFOR does however report that in addition to inspections that it has conducted which do look at customer first issues, they provide arbitration/mediation services for which the demand is growing. However, not all professional market participants are obliged to belong to an SRO, currently only about 1/3 of market professionals do, and the standards for each could potentially be different (see also Principle 7).</p> <p>Inspections</p> <p>FSFM does have an active inspection program and with its new surveillance facilities (see discussion in Principles 8 and 28 for example), the capacity to undertake real-time monitoring of the execution of trades and the prices achieved. The ability to obtain more information on bank accounts as the result of amendments pending to the banking law should also further enhance FSFM's inspection program.</p> <p>Complaint handling</p> <p>Currently complaint handling is largely handled through SROs. However, the FSFM does conduct inspections in response to a customer complaint and has the power to assist a customer in a private civil action. The FSFM should maintain performance metrics and statistics on these activities.</p>
Assessment	Partly Implemented
Comments	<p>The FSFM has just obtained expanded resources and technology to review trading activity for market and customer abuses, which when fully implemented should permit the FSFM to achieve a higher level of compliance.</p> <p>The adoption of pending Prudential Supervision and Banking Law amendments should be expedited. The FSFM should adapt its inspection programs to spot check for segregation and other business conduct compliance, taking account of off-site financial reports. Upon passage of the pending legislation, FSFM should act promptly to implement the provisions to expand its supervisory protections.</p>

	<p>Additional provisions with respect to internal controls, knowing your customer/suitability/investment objectives, capital, and the appointment of a mandated SRO to assist in the oversight of firms that deal with the retail public, would materially augment the FSFM's ability to assure that the proper level of customer protection is delivered by professional market participants.</p> <p>For example, what is required by the standard of fair treatment of customers, conduct of business requirements and the related compliance regimes that should be imposed on intermediaries by the regulator and the regulatory framework is not spelled out in any detail. Among other things a client should be able to obtain a contract (or account opening agreement) evidencing the responsibilities and obligations of both parties and receive prompt information on the status of its account and related transactions once opened. Intermediaries should be required to establish systems and controls intended to assure they comply with regulatory requirements, maintain accurate and current books and records, follow appropriate processes in dealing with customers, including knowing one's customer (investment intentions, bona fides, and creditworthiness), provide complete and accurate information about the customer's transactions and accounts to the customer, handle orders properly and with confidentiality, safeguard assets, have a procedure in place to address complaints , provide risk disclosure appropriate to the client, act professionally and avoid, disclose and prevent/or mitigate conflicts of interest.</p> <p>There should be a periodic independent evaluation of the risk and other controls put into place to accomplish these customer protection objectives.</p> <p>FSFM should maintain performance statistics on these activities.</p>
Principle 24.	There should be a procedure for dealing with the failure of a market intermediary in order to minimize damage and loss to investors and to contain systemic risk.
Description	<p>Although there were no crisis-related intermediary defaults in the 2008 to 2009 period, the FSFM's powers to address financial distress at intermediaries were substantially enhanced. In 2010, the FSFM received additional capacity for an authorized FSFM representative to manage and/or wind down a market intermediary through a new type of proceeding or a temporary administration (like a receivership or resolution proceeding) to marshal assets and prevent their stripping so as to protect investors, and to provide for an orderly exit from the business for a professional market participant. Effectuation of this authority will materially increase the ability of the FSFM to address failing or financially struggling firms, provided that FSFM puts into place appropriate early warning systems to signal when prompt corrective action is warranted (see Principle 22). These pre-formal administration/liquidation procedures potentially will permit more flexibility as to the handling and outcomes of financial distress than the usual insolvency proceeding under general insolvency law. For example, the new law would permit the FSFM's technical staff, appointed as an authorized representative, to assist a qualified administrator in the wind down process, to assure that the temporary administrator would have assistance from specialist financial supervisors and inspectors who are familiar with the context of both the intermediary firm and the markets. Having a process to wind down a professional market participant in an orderly manner can also be a substantial protection to the market from risks that an abrupt failure or disruption of trading and clearing activities could cause.</p> <p>The Law on Insolvency that was in place at the time of the prior assessment provides that customer funds are not part of the bankrupt's estate. The Prudential Supervision Law that is pending its second reading in the Duma contemplates that Insolvency Law protections would be augmented by an investor compensation fund that could be set up within the mandatory SRO for firms doing client facing business with non-qualified investors. Meanwhile as mentioned in Principle 23, segregation of customer funds and assets is required, though</p>

	there may be some issues, relative to the holding of nominee accounts, as to how this is actually executed in practice.
Assessment	Partly Implemented
Comments	<p>Until recently, there were no current procedures in place for winding down firms except perhaps credit institutions that operated in the securities markets. The ability granted to appoint a provisional/temporary administrator is critical to permitting a measured liquidation of a financial firm without loss to customers from insolvency to the extent possible and without causing contagion. The scope and design of a securities compensation scheme is being developed contemporaneously with the provisional receivership powers, in that compensation will provide additional coverage if there are insufficient assets to cover customer claims. However the law implementing such a fund has not yet been adopted. Insolvency law recognizes that properly separated customer assets are not assets of the intermediary. These types of protection are important to confidence in the integrity of capital markets, and have proved to be an important protection to both customers and the market in the recent crises.</p> <p>The Prudential Supervision Law should be promptly adopted and implemented.</p> <p>The FSFM and the exchanges and the relevant authorities should adopt appropriate contingency arrangements for various scenarios to deal with market and firm disruption, making full use of FSFM's existing and any new administration and information sharing powers. In this regard, the FSFM should attempt to determine in advance the steps of a wind-down plan. The plan should contain means to communicate with other regulators, trigger points, such as changes in financial condition outside a specific tolerances that require enhanced risk management, and reductions in capital, or early warning levels that require the initiation of prompt corrective action. This process should involve an analysis of the available measures to minimize customer, counterparty and systemic risk. The plan should include the procedures for non-routine communication with other regulatory authorities, including both domestic and relevant foreign authorities—and for reviewing whether there are financial implications related to market misconduct, as such abuses can sometimes obscure financial distress.</p> <p>Any authority to establish an investor compensation fund should be promptly implemented. In particular the funding, amount of compensation and other matters should be carefully studied, perhaps with reference to the banking scheme, although the purposes are not exactly identical. In this regard, the FSFM might compare notes with the banking authorities on how to institute a prompt remedial action structure, consonant with the new Prudential Supervision Law powers that would be activated well before it was necessary to move to a temporary administration.</p> <p>Consideration also should be given to permitting professional market participants to arrange for risk adjusted insurance for a broader class of investors than just retail investors from the insolvency of the intermediary, in that institutions, with retail clients, such as non-state pension funds or collective investment schemes and their participation in the market, might benefit from added protection from the insolvency of an intermediary. In some developed countries securities compensation schemes that are protections from bankruptcy for a retail size account apply pass through protection for a broker insolvency or default to units of participation in collective investments and pensions or other collective accounts, if appropriate records are maintained.</p>
Principles for the Secondary Market	
Principle 25.	The establishment of trading systems including securities exchanges should be subject to

	regulatory authorization and oversight.																																																	
Description	<p>Legal requirements</p> <p>The Securities Law contains certain standards with respect to the authorization of exchanges and organized markets, including derivatives markets. It is complemented by the recently adopted Law on Clearing and FSFM regulation 10-78/pz-n adopted in 2010. Relevant requirements will be further enhanced by pending legislation, “On Exchanges and Organized Trading (Securities Exchange Law)” relating among other things to organized markets. The laws thus cover trading systems and operators as well as full-fledged exchanges.</p> <p>Market structure</p> <p>There are currently two exchange groups in Russia, the MICEX group and Russia Trading System (RTS), which run fully electronic markets. Each of these groups operates more than one trading system or market. Both are members of the World Federation of Exchanges that maintains membership standards and conducts due diligence before admitting members. Both exchanges report their futures and options statistics to the Futures Industry Association that maintains volume statistics for listed derivatives markets.</p> <p>MICEX exchange statistics, which are located on a comprehensive website: www.micex.com, demonstrate that more than 80 percent of volume is in the ten largest issues. The RTS website: www.rts.ru/en/, also contains exchange activity statistics. Both exchange groups provide information on rules and other matters on their sites in English as well as Russian. FSFM statistics for 2010, provided as part of this exercise, indicates that there were 364 issuers of corporate bonds for 663 issues, with a value in circulation of US\$88.6 billion and a value in circulation of US\$81.1 billion in government bonds. FSFM statistics give the number of companies admitted to trade at all organized markets in 2010 as 499.</p> <p>The following tables give some detail on listed equities (not including mutual funds) and futures contracts traded:</p> <table border="1"> <thead> <tr> <th>MICEX</th> <th>Jan-09</th> <th>Jan-10</th> <th>Jan-11</th> </tr> </thead> <tbody> <tr> <td>Number of Listed Equities</td> <td>235</td> <td>235</td> <td>250</td> </tr> <tr> <td>Market Capitalization, US\$ millions</td> <td>277,725</td> <td>843,697</td> <td>998,625</td> </tr> <tr> <td>Value of Bond Trading, US\$ millions</td> <td>2,061</td> <td>16,946</td> <td>13,989.7</td> </tr> <tr> <td>Share Turnover Velocity*</td> <td>41.13 percent</td> <td>42.15 percent</td> <td>37.26 percent</td> </tr> </tbody> </table> <p>sources: World Federation of Exchanges (http://www.world-exchanges.org/statistics/ytd-monthly) Center for Capital Market Development Foundation, FFMS *Share turnover velocity is defined as EOB domestic trading value as numerator and domestic market cap as denominator</p> <table border="1"> <thead> <tr> <th>RTS</th> <th>2005</th> <th>2006</th> <th>2007</th> <th>2008</th> <th>2009</th> <th>2010</th> </tr> </thead> <tbody> <tr> <td>Number of Listed Companies</td> <td>48</td> <td>63</td> <td>81</td> <td>110</td> <td>81</td> <td>77</td> </tr> </tbody> </table> <p>Source: Center for Capital Market Development Foundation, FFMS</p> <table border="1"> <thead> <tr> <th>Derivatives Exchange</th> <th>Contracts traded 2007</th> <th>Contracts traded 2008</th> <th>Contracts traded 2009</th> <th>Contracts traded 2010</th> </tr> </thead> <tbody> <tr> <td>MICEX</td> <td>85,386,473</td> <td>131,853,843</td> <td>19,259,675</td> <td>31,978,357</td> </tr> <tr> <td>RTS SE</td> <td>144,922,653</td> <td>239,829,668</td> <td>474,440,043</td> <td>617,856,123</td> </tr> </tbody> </table> <p>Source: Futures Industry Association</p>	MICEX	Jan-09	Jan-10	Jan-11	Number of Listed Equities	235	235	250	Market Capitalization, US\$ millions	277,725	843,697	998,625	Value of Bond Trading, US\$ millions	2,061	16,946	13,989.7	Share Turnover Velocity*	41.13 percent	42.15 percent	37.26 percent	RTS	2005	2006	2007	2008	2009	2010	Number of Listed Companies	48	63	81	110	81	77	Derivatives Exchange	Contracts traded 2007	Contracts traded 2008	Contracts traded 2009	Contracts traded 2010	MICEX	85,386,473	131,853,843	19,259,675	31,978,357	RTS SE	144,922,653	239,829,668	474,440,043	617,856,123
MICEX	Jan-09	Jan-10	Jan-11																																															
Number of Listed Equities	235	235	250																																															
Market Capitalization, US\$ millions	277,725	843,697	998,625																																															
Value of Bond Trading, US\$ millions	2,061	16,946	13,989.7																																															
Share Turnover Velocity*	41.13 percent	42.15 percent	37.26 percent																																															
RTS	2005	2006	2007	2008	2009	2010																																												
Number of Listed Companies	48	63	81	110	81	77																																												
Derivatives Exchange	Contracts traded 2007	Contracts traded 2008	Contracts traded 2009	Contracts traded 2010																																														
MICEX	85,386,473	131,853,843	19,259,675	31,978,357																																														
RTS SE	144,922,653	239,829,668	474,440,043	617,856,123																																														
	Both MICEX and RTS operate several markets. For example, the MICEX runs a foreign																																																	

exchange market (since 1992) that is supervised by the CBR and in fact used by the CBR to intervene with respect to ruble/US dollar rates; the federal government bond market (since 1993); derivative financial instruments (1996); the Stock Exchange (SE) for cash equities (1997); corporate and regional government fixed income (1999); the National Mercantile Exchange (NAMEX) (2008); a commodity market, which trades grains among other things; and a market in municipal government securities (2010). MICEX SE is the principal equity market for Russia, which operates on a fully prepaid basis; more than half of the daily volume is equity repos. As part of the exchange group, MICEX also operates a clearing organization and a depository, the National Clearing Depository.

RTS operates several markets in equities, RTS Standard, RTS Classic, which is an interdealer market with pre-established limits and RTS T+0 which is a repo market and which requires 100 percent prepayment. Very few repo trades are accomplished on RTS and RTS Standard is the most active equity market. RTS also operates: START, a mid-cap and small cap market; and a Futures and Options RTS or FORTS, which has a daily volume of US\$6 to 7 billion, and trades 38 futures and 15 options, the most popular of which are indexes. Like MICEX, RTS operates commodity markets, but in energy and some metals. Its clearing operation is known as RTS Clearing House (RTS CH). RTS CH has contingency funds of US\$42 million, a reserve of US\$28 million, equity of US\$63 million, and collateral of US\$855 million. According to RTS, the RTS CH model for a CCP is the model that was used in developing the legislation for the creation of a CCP with close out netting arrangements that were founded in law. RTS also has a depository, DCC. Reportedly almost 100 percent of OTC transactions that are required to be reported are reported to DCC.

Planned consolidation

In March 2011 it was announced that the two Russian exchanges had signed a letter of intent to explore the possible synergies that could be attained through merger. A final merger agreement was signed June 29, 2011 and although views differ as to whether the transaction will occur, details are expected to emerge and currently the transaction is expected to close before the end of calendar year 2011..

Both markets have several tiers of listing as well as securities that are not listed but are admitted to trading. Each offer quote driven as well as order driven markets—to address minimally traded securities among other things. All securities must have a prospectus, and provide continuous disclosures and financial reports (See Principle 14). Shares traded “off the list,” that is that are admitted to trading without a listing, are not required to have the track record, such as three years performance, that would typically be required for a top tier listing, and hence this type of offering is subject to greater risks. A huge percentage of the volume on MICEX is driven by about 10 issues on the main list, with more than 25 percent in Gazprom. Similarly a huge percentage of the volume is done by a small number of brokers.

RTS has some retail prop traders. The free float in most securities traded is relatively low, often under 20 percent, and sometimes substantially less.

The tiering identifies the riskier offerings, which should operate as a customer protection, provided investors understand the differences between the tiers. Information on the exchange websites does provide information on the distinctions among the different types of offerings and listing requirements. In particular, as set forth above, RTS has an English language website containing substantial relevant information including the CCP requirements and the composition of the “clearing waterfall,” or order in which financial resources intended to support the completion of trades following a default are to be accessed.

Participation

Participation directly by individuals in the equity markets in Russia is not high, but is gradually

	<p>growing. The total number of individual securities trading account holders in Russia is about 710,000, which is less than 1 percent of the population of 140 million; NAUFOR reports that there are also many participants through collective investments, though the number of collective investments whose assets are based on traded securities has declined since 2007. Nor have there been many incentives for the type of investment vehicles that promote long term institutional interest. As a consequence underwriters desiring to bring an issue to market may go offshore where there is a broader investor base.</p> <p>Nonetheless, turnover on the Russian exchanges is high. Also, they permit almost round the clock trading and direct market access by clients, which puts a premium on monitoring activities.</p> <p>Authorization</p> <p>Under the Securities Law, the exchanges must be licensed by the FSFM and must enforce their rules, including monitor their members and report non-standard transactions, such as insider trading and manipulation, to the FSFM. The FSFM must be informed of and review exchange rules and amendments, including the terms and conditions of derivatives contracts and requirements for different tiers of listings. FSFM also conducts oversight inspections of the exchanges. In 2010 it performed an on-site review of RTS. Under Article 9 of the Securities Law, as part of licensing, an exchange must submit its rules for trading, concluding and checking transactions, for admission to bidding (negotiated trades) or to auction, and of the admission of securities to listing or to delisting. The exchange also under Article 13 (2) must exercise control over its operations and enforce its rules, including the rules relative to the conclusion of transactions. The licensing criteria for trading systems include requirements related to the financial capacity to conduct operations, skilled personnel, fitness and other qualification, limitations on ownership, reporting to the FSFM, and internal policies and procedures.</p> <p>Monitoring</p> <p>FSFM has a recently designed trade monitoring system, which enables it to define exception reports and look at issues related to customer first requirements and equitable access in real time.</p> <p>Exchange requirements</p> <p>The exchanges may impose higher requirements on their members and listed companies than the FSFM. For example, the RTS imposes special governance requirements on the top two tiers of listings, which include for example the requirement of independent directors and a compensation committee among others. MICEX also has added requirements which are merit based for top tier listings.</p> <p>Listings of collective investments</p> <p>The RTS handles some collective investment schemes, which apply to be on the Official List (as is the case in London, Luxembourg, and Ireland). These securities are capable of being traded but in fact are not very liquid.</p>
Assessment	Broadly Implemented
Comments	<p>Due to multiple categories of products that are admitted to trading or listing with different qualification standards and trading characteristics, it is recommended that steps be taken to assure that these differences are highlighted to customers through disclosure. In this respect the FSFM does state that the negotiated prices are disclosed separately from auction or firm quotation prices.</p> <p>New securities and exchange legislation is pending that will provide additional requirements for all organized markets. The FSFM has significant tools in place to address trading</p>

	<p>oversight and has installed a new team to conduct such oversight. Some experience with these systems is required to determine how well they work in practice (see discussion under Principle 7) so the FSFM should establish and maintain performance metrics on their use.</p> <p>Additionally, the FSFM should undertake either to assure that the exchanges, or any SRO mandated for professional market participants dealing with the retail market, provide information to customers that clarifies the differences among offerings in different listing tiers and addresses account opening requirements that permit the client to specify risks that they are willing to take.</p> <p>Russian markets currently have prophylactic provisions such as individual price limits to prevent or mitigate market disruptions. In that market structure is increasingly an issue among regulatory authorities (and could have systemic consequences if leverage is permitted and proper arrangements are not in place to address price spikes), the exchanges should (whether merged or separate) keep abreast of developments on issues related to the integrity of electronic markets, direct market access, addressing gridlock, price cascades, etc., and take steps to make adaptations as necessary to existing normative rules and guidance.</p>
Principle 26.	<p>There should be ongoing regulatory supervision of exchanges and trading systems, which should aim to ensure that the integrity of trading is maintained through fair and equitable rules that strike an appropriate balance between the demands of different market participants.</p>
Description	<p><i>Ongoing oversight</i></p> <p>The FSFM is in the process of augmenting its overall supervision of exchanges and trading systems to further ensure the integrity of the markets and the fair application of exchange rules. Among other things, FSFM has defined a set of specific exceptions to be directly and immediately reported to the FSFM by market operators. FSFM also has obtained new technology for real time surveillance and the staff to conduct such surveillance. This system's parameters are adjustable and can be tailored to provide reports that address the particularities of the Russian market.</p> <p>The FSFM rules that relate to the establishment and the oversight of an exchange are extensive. The FSFM rules relating to ongoing exchange operations are contained in a new regulation on organized markets adopted in 2010. This regulation, 10-78/pz-n is very detailed and covers various types of exception and price reporting among other things. The exchange must notify the FSFM if it suspends trading, the circumstances, the time frame or the expected time frame and the resumption. The exchange also must have a business conduct committee, which reports actions against members to the FSFM. The FSFM does not, however, have the authority to review exchange membership denials or disciplinary actions; these must go to the courts.</p> <p>The FSFM has instituted a program of exchange inspections and conducted such an inspection, which included all operations, of RTS in 2010. FSFM cooperates with the SROS in the inspection and oversight of exchange members. As FSFM shares the ability to oversee MICEX operations with the CBR, in that the CBR oversees the forex market and uses that market for certain "open market" operations, communication with respect to common members is important. Although FSFM has no responsibility as a matter of law for the foreign exchange market itself, it will have increased capacity to share information affecting market participants and markets subject to its oversight, with CBR as the relevant overseer of that market upon the implementation of changes to the Draft Banking Act.</p> <p>The FSFM also has just received new authority to address market manipulation and insider trading and, as discussed above, has installed a real time surveillance system of alerts to identify STRs (or non-standard transactions) and other exceptions to implement that authority and otherwise combat abuses in practice. New authority of the FSFM to investigate third</p>

	<p>party transactions in connection with insider trading and market manipulation augments pre-existing more general authority and should permit FSFM and the markets to act more aggressively to oversee rules against market abuse and misconduct. The authority will require the development of internal programs at both the exchanges and the FSFM to apply the new authority and some experience with the development of the appropriate parameters for defining non-standard transactions and other exception reports relevant to market oversight. (see Principle 28. The FSFM is working actively in these areas.</p> <p>The general powers of the FSFM appear to include the power to suspend a license, including a license for an authorized organized market.</p>
Assessment	Broadly Implemented
Comments	See also the comments under Principle 25, 27, 28 and 29. FSFM should have a clear medley of interventions that it can make in order to oversee, and enforce its rules relative to the oversight of the activities of licensed markets.
Principle 27. Regulation should promote transparency of trading.	
Description	<p>FSFM supervises matching order driven, quote driven, and bulletin board markets. The exchanges provide both pre-trade and post-trade transparency. FSFM requires that information be provided to the general public on volume and daily settlement prices. On the quotation markets, participants can post anonymous and disclosed bids and offers at which they are willing to transact, depending on the marketplace. While bids may be withdrawn or cancelled, FSFM states that during any period that they are posted they are firm. Some use of indicative bids or dealer polling is possible in the case of bilaterally negotiated contracts or in pre-opening procedures.</p> <p>Professional market participants who are exchange members receive real time information on prices; the exchanges typically distribute the information to the general public electronically for free over the Internet with a 15 minute lag time. Additionally various data vendors license real time information for distribution. RTS for example provides data to Bloomberg, Thompson-Reuters, and 18 other vendors.</p> <p>All market operators are required by regulation to have a separate dedicated unit of personnel and the automated capacity to ensure the uninterrupted tracking and monitoring of prices, volumes, and other features of registered orders and transactions by the market operator throughout the trading day. The operator must provide FSFM with a remote terminal, a contact person for middle and back office operations, and must submit information and exceptions in a specified format.</p> <p>Article 7 of Regulation 10-78/pz-n contains a comprehensive list of types of pricing and other information that must be provided to the FSFM on a real time, daily, monthly and quarterly basis. The reporting for example of up to 20 of various levels of bids and other information may assist the FSFM in further evaluating the equitable pricing of securities in its markets.</p> <p>The FSFM is continuing to work on transparency issues related to multiple trading forums for the same security and for the OTC market. RTS advises that almost 100 percent of OTC transactions that are reportable to an exchange are reported to them through DCC. The law requires reporting within 15 minutes of the OTC trade, which is the standard that is being applied elsewhere and that compliance is substantially improved since 2008. To some extent a merger of the markets may result in a rationalization of the dual/multiple listings as they move to a single trading venue or platform.</p>
Assessment	Partly Implemented
Comments	The question remains from earlier assessments as to whether multiple listings of the same

	<p>security, especially where there is not much liquidity, may create confusion, deleterious pricing discrepancies, or opportunities for customer abuse. The FSFM is currently collecting significantly more information than previously, which could permit more policing by it and discourage abuses by professional market participants.</p> <p>Ideally all information on price would be reported to a single consolidated tape—a matter on the table, for example in the European Union. Currently over –the-counter trades in securities listed on the market are reported to the listing exchange within 15 minutes of the transaction—a requirement added in 2006, but being more actively enforced now. Virtually 100 percent of OTC equity trades are currently reported to DCC, which is operated by RTS.</p> <p>The trading platform of each exchange provides a real time audit trail of trades, though it may not always be possible to trace the transaction to upstairs receipt of an order in the case of matching systems or to the underlying owner if the trade is held in a nominee name, so that identification must be through the books of the broker or the broker’s counterparty. Some jurisdictions have required a unique identifier for underlying customers (see, e.g., the US futures markets, Indonesia, the settlement repository in Finland for domestic shares, Turkey). Others have required that the customer actually have access to the depository by unique, encrypted link to determine if trades are being properly recorded.</p> <p>The pricing of multiple listings of the same security should be monitored and the FSFM should make explicit a duty of best execution. In general it is fairer to retail participants in the market for prices to be made in a central market. In illiquid securities, however, other methodologies (such as a negotiation, call auction, weighted average pricing, or indicative bid pre-trade process) may be essential to provide the ability to transact in and out of a security where the demand is relatively low. Some exchanges require that listed securities have market makers, who have affirmative obligations to buy and sell the securities to ensure some minimum level of liquidity is available. The FSFM should continue to consider whether there are methodologies to provide more liquidity that would strengthen and deepen the securities markets.</p> <p>Market structure is increasingly an issue of interest to the authorities. The emergence of fully electronic markets has meant that new means to assure the proper operation of the system and to prevent gaming the system and improper transactions are being constantly under review. The FSFM and the exchanges and organized markets that it supervises should keep abreast of the ongoing international dialogue on disruptive practices and optimal transparency and determine how to apply such practices within the market.</p> <p>Additionally European and US markets are requiring more prompt disclosure of OTC trades in listed securities except certain very large trades. FSFM should keep its markets in line with best practice.</p>
Principle 28.	Regulation should be designed to detect and deter manipulation and other unfair trading practices.
Description	<p>After a Herculean multi-year effort the FSFM has succeeded in obtaining new legislation, the Insider Law, FZ224, on market abuse, in particular, manipulation and insider trading, that was adopted in 2010 and became effective except for certain criminal provisions at the end of January 2011. The law is intended to ensure the fair pricing of financial instruments, foreign currencies or commodities and the equitable treatment of investors (Article 1 (1)) on organized markets. The FSFM also has installed a real time system for reporting non-standard transactions: ITNICE/Actimize, for which designated FSFM personnel can set parameters to detect unfair trading practices, such as front-running, in general. Each market operator also must be able to (i) monitor trading in real time, (ii) reconstruct trading activity, and (iii) report various types of specified non-standard transactions pursuant to regulation 10-</p>

	<p>78/pz-n. The regulation and the Securities Law more generally require the exchanges and other market operators to enforce their applicable rules against misconduct and to provide for dispute resolution (See discussion in Principles 25 and 26).</p> <p>The language of the new Insider Law defines market manipulation as an intentional act, that transmits false information to the market, pre-agreed transactions to cause a non-bona fide price, bids that give a false impression of transaction prices, repeated defaults, and what seems to be wash-type trading. The Law and the related implementing regulations both include lists of non-standard transactions. Market-making, buy-backs, and certain activities to stabilize prices during an initial offer of securities are not considered manipulation under these. In that the same security can be traded in multiple ways it will take some period of time to assure that the implementation of these rules adequately address cross-market trading.</p> <p>The law also defines insiders, requires the maintenance of insider lists, and restricts trading by corporate insiders, professionals (like auditors with inside information), and others who obtain it from using it trading at the expense of a third person and the general public. Article 4 of the Insider Law defines insiders to also include issuers and management companies, companies included in the register provided for by the Law on Competition and who have a predominant share of the market, trade organizers and clearing organizations, professional market participants and other persons executing deals with securities, currencies, and financial instruments in the interest of their clients and who have received from such clients insider information. Additionally, insiders are defined to include personnel of governmental authorities who obtain non-public information subject to confidentiality/privacy requirements. Any person, not just a licensee that has used insider information illegally or has engaged in manipulations can be prosecuted administratively, and eventually, criminally under the law. FSFM reports that it has used the powers already. There was a collaborative manipulation in the securities of two issuers affecting a number of clients in a small broker. The license of the broker was revoked and the issuers were delisted.</p>
Assessment	Partly Implemented
Comments	<p>The mechanisms are now in place to bring administrative actions against insider dealing and manipulation, including the requirement (which has been adopted under the law) that market operators must have adequate monitoring systems to address these abuses. Nonetheless, the law is brand new and there has been almost no experience with its application.</p> <p>The elements intended to define market abuses with more particularity are set forth, including a list of specific types of transactions as well as a general prohibition. Although these provisions have not been fully tested in practice, it is encouraging that a case already has been undertaken and that there are monitoring systems and other resources already in place to apply the law. It is also an extremely important accomplishment to have achieved this change in the law.</p> <p>The prescribed penalties, while materially increased over past penalties, remain small pending the phasing in of criminal penalties, which include imprisonment. But, in addition to specified monetary penalties, the Insider Law also permits FSFM to impose the remedy of disgorgement of illegal profits; if effectively deployed, this remedy should be a substantial disincentive to such market misconduct. Further FSFM retains the capacity to suspend operations of any person for six months under the Investor Protection Law for violations of the law.</p> <p>In general, many jurisdictions are in the process of tightening the definitions of manipulation and disruptive practices, and insider abuses are everywhere difficult to prosecute without strong evidence. Some experience will be necessary, therefore, to determine whether the existing penalties are sufficiently dissuasive. See for example the discussion under Principle</p>

	10. With such experience, the FSFM should achieve a higher level of compliance on this Principle.
Principle 29.	Regulation should aim to ensure the proper management of large exposures, default risk and market disruption.
Description	<p>Short selling on the exchanges is suspended as a matter of law if an individual share price drops 3 percent from the last trade price for a prescribed limited period. There also are other individual price limits if the price drops 15 percent. How the latter limits are accommodated within indexes should be explored.</p> <p>Margin trading on the RTS in equities is settled currently through a central counterparty, and margins are set at from 30 to 50 percent on the RTS for cash securities. Futures margin is able to be posted on-line, is assigned on a contract-by-contract scale and applied on a portfolio basis, which in some cases may result in offsets which produce very low net amounts. The resources of any defaulting customer, carrying firm, and the clearing organization may be used in accordance with the rules to address a default situation, which specifies the order in which such resources may be drawn upon. All of these default procedures are transparent and recorded on the RTS website.</p> <p>Currently at the MICEX and RTS, many cash securities transactions are pre-paid for in full and securities are deposited before a trade is concluded. This process is intended to virtually eliminate settlement risk.</p> <p>The enactment of the legal framework supporting CCP Clearing potentially will permit more trading to be conducted on margin where the margin will be transparent to the market. The new law establishes a clear legal basis for clearing, finality and close out netting. The law related to CCP clearing also calls for establishment of a risk management program, which takes into account the open exposures in the marketplace and sets certain specific limits regarding leverage. The implementation of that law will require the submission for FSFM approval and publication of rules by the exchanges and the clearing arrangements affecting the clearing contract, clearing operations, liabilities and responsibilities of all relevant parties, and other matters. In that respect, the FSFM will have the opportunity to further assure that the types of information and risk measures that should be available on open positions and concentrations as stated in the Key Issues and Questions listed in Principle 29, taking into consideration the limited number of fails and the amount of margined trades, are in place or enhanced. Some monitoring of margins will also be necessary to back test their effectiveness, especially whether the permitted offsets are not resulting in under-margining of relevant risks.</p> <p>Repeatedly failing to deliver on transactions would potentially constitute a manipulation or market abuse under the new Insider Law.</p> <p>(See also below the discussion of how the ability to use a temporary administration subject to adoption of pending legislation could improve FSFM's ability to address firm and market disruptions.)</p> <p><i>Authorized representative and management of market issues</i></p> <p>The Prudential Supervision Law will permit the appointment of an authorized representative to a professional market participant whose license is suspended or revoked or in the event of institution of a temporary administration for other circumstances, which could include financial uncertainty, undue market exposures, or market abuses. In either case, such authorized representative must be an FSFM employee. Authorized representatives will have broad authority to oversee operations of the participant, including the ability to approve transactions that exceed one percent of assets or limit the activities of executives of the firm that remain in place (like a debtor in possession in a reorganization type structure). These measures are</p>

	<p>proposed to be added to permit the marshalling and preservation of company assets, and the protection of customers and other creditors. Further work will need to be done to determine with more specificity, how such authority would be used; and whether once initiated how best wind downs can be accomplished practicably without loss to customers of a major market participant, or of a major market participant due to the failure of a customers, in the case of futures-style trading.</p> <p>Contingency planning</p> <p>As stated under Principles 24 and 1, planning how best to address major risk factors through protocols with the other financial regulatory/supervisory authorities is essential to designing effective prudential regimes in jurisdictions with multiple authorities. Such planning is important to identifying risk and possible risk transmission factors, and in contingency planning. While FSFM cooperates informally, contingency measures have not yet been spelled out more formally consistently with the need to avoid unnecessary disruption while preserving flexibility to act taking into consideration specific circumstances prevailing in the Russian markets. The FSFM currently has the authority to share information on large exposures with other domestic regulators/supervisors and also potentially with relevant foreign authorities. It should be confirmed that the CBR can also provide mutual assistance to the FSFM to the extent a market disruption or firm failure involves exposures in the markets, or groups supervised by the other authority. The pending Banking Amendments should support that process.</p>
Assessment	Partly Implemented
Comments	<p>As stated in Principles 1 and 24, the FSFM should refine and document its existing arrangements for cooperation with the CBR and the exchanges with a view to further articulating the actions that can be taken to address the default or failure of a professional market participant or a market disruption through temporary administration, instructions to market operators, suspension of trading or exercise of any other oversight authority. In this connection FSFM should consider the following:</p> <ul style="list-style-type: none"> • Reviewing concentrated exposures and developing a menu of approaches to addressing problems before the fact is a good discipline for regulators as it keeps them in touch with the types and levels of risks experienced in the markets. • The nuclear option of shutting down an exchange or clearing organization is likely not to be desirable, so it is important to determine in advance what practical prompt steps may be needed to reduce the possibility that problems at failing firms, or abrupt adjustment of prices in the market, will spread contagion. • The establishment and periodic adjustment of pre-known trigger points (such as early warning capital and concentration levels, price limits, short-selling limits, circuit breakers—of specified duration—what if analysis based on price moves, or other measures) permit a stepped up or stepped down approach to market disruptions and firm failures, tailored interventions, and can avoid the introduction of risk that attaches to ad hoc actions.. <p>The development of normative processes under the authority of the new Prudential Supervision Law, if adopted, and under the Clearing Law that recently became effective, will require the FSFM to work with the operators of markets and clearing arrangements in considering the best means of monitoring the performance of the operative clearing, and related margining, systems over time to measure that these properly mitigate rather than increase risks. FSFM should consider what information it needs about gross exposures in testing the sufficiency of risk management procedures, and should keep abreast of ongoing guidance on the level of coverage of potential defaults and the availability of liquidity arrangements required by international standards.</p>

	The equity repo markets also should be carefully monitored to assure that risks are appropriately and timely addressed in that 90 percent of the market is in overnight repos and the cash is likely used to finance dealing activities.
Principle 30.	Systems for clearing and settlement of securities transactions should be subject to regulatory oversight, and designed to ensure that they are fair, effective and efficient and that they reduce systemic risk.
Description	<p>IOSCO defers to the specialist assessment of the CPSS/IOSCO Recommendations on Securities Settlement and for Central Counterparties, which are usually accomplished by a separate assessor (amendments to these principles and methodologies are currently out for comment). Nonetheless, Principle 30 recognizes that clearing and settlement procedures are vital to the reliable operation of markets and to the avoidance of systemic issues, and makes clear that the securities regulator should have comprehensive powers to license and oversee securities (and derivatives) clearing and settlement systems as well as supporting margins. Both RTS and MICEX have used various structures to protect the settlement mechanisms for the various products they offer. For example, RTS has had in place a CCP-like structure since 2001. These arrangements were implemented through private contract, without the legal/ legislative underpinning that is desirable to assure the priority of such systems to margins and collateral, and protection of customers and the market, against third parties in the event of defaults.</p> <p><i>New clearing law</i></p> <p>A new law on clearing was made effective February 7, 2011, which provides the blueprint for authorized CCP systems, subject to the oversight of the FSFM. It sets out the legal basis for such CCP arrangements and permits close out netting with finality in accordance with clearing rules and related contracts that meet FSFM and the Law's requirements. The Clearing Law is based on a long period of consultations and a consideration of the existing CCP models used by the exchanges. It contains multiple provisions relating to:</p> <ul style="list-style-type: none"> • the financial requirements, • participants, • the clearing collateral pool, • enumeration of categories of accounts, • attachment of guarantees, • operational procedures, • accounting and risk management practices, • governance and • the so-called clearing waterfall of resources to be called upon in the event of default. <p>The law would require minimum "own funds" for such institutions of Rub 100 million or US\$3.5 million.</p> <p>Most importantly the new law provides for legal finality and the protection of the completion of transactions.</p> <p><i>Central depository</i></p> <p>Separately, there is also a law pending (the concept for which has been pending for years) that would permit the creation of a central depository system (or CSD). Market participants hope that the standard established by that law will permit the CSD to be structured in such a way as to meet, at a minimum, the requirements set by the US in Investment Company Act Rule 17f-7 which are the US Security and Exchange Commission's requirements for use of a global depository by a mutual fund. Both exchanges and large swathes of the private sector believe that the move to a single central securities depository system, that would maintain accurate securities records, and handle the disposition of corporate rights among other</p>

	<p>things, would provide additional comfort to users of the market as to the integrity of the property interests that are exchanged, reduce transaction costs, and further clarify the liability for the integrity of share registers. Such a change would also assure an independent registry of dematerialized securities, which may not be offered under the current system, where 48 registrars (down from 100s) operate. As a developmental matter, a change that moves toward such a facility is believed essential to securing broader participation in Russian markets by longer term investors and investors from foreign markets that are not just taking speculative risk. Such a system could be a combination system that does not eliminate transfer agents altogether, as is the case for certain systems that operate in Europe and elsewhere.</p> <p>A primary recommendation of the CPSS/IOSCO Principles, for settlement systems is that the legal context to support the system must be enshrined in the law. This is because it is not clear that settlement finality can be conferred with certainty by contract and because priorities in collateral and how property is encumbered may be subject to mandatory laws which cannot be altered by a clearing contract without enabling legislation. Therefore the adoption of the Clearing Law is a very significant accomplishment.</p> <p>The settlement time frames of T+4 or negotiated settlement that prevail in some circumstances in the markets are curiosities that may be considered to be inconsistent with international best practice as well as standards. Measures should be in place to assure that these do not introduce systemic risks.</p>
Assessment	Not assessed
Comments	<p>The adoption of a law that provides appropriate legal support for settlement finality and close out netting procedures is an accomplishment. The FSFM must ensure that now it has appropriate powers and authorities to address clearing more comprehensively that (i) it puts an appropriate oversight program into place, (ii) that it monitors how netting and margining are applied in practice, and (ii) that it tests the sufficiency of clearing risk management practices in operation against international standards that require coverage of defaults of a specified size and an awareness of likely interconnection risks.</p> <p>In this regard, the FSFM should work with its regulatory counterparts and the community to assure that the development of clearing and settlement arrangements, which now have an appropriate legal basis, comport fully with international standards, taking into consideration that the exchange systems that currently exist functioned well even during the recent crisis. Using the template of the law, the various market participants and the FSFM and the CBR should collaborate on the appropriate risk management structure and the clearing agreements and documentation for participants required for implementing the CCP legislation as of the effective date of January 2012. Similarly work toward a CSD, at least for exchange traded securities, should be progressed with vigor.</p> <p>In each case the authorities should be certain that they put into place with the adoption of these systems, contingency plans to address market and firm and potential IT failures or physical emergencies that might occur as well as market evolutions. History has shown that such systems must evolve to remain effective to address trading and market developments and experience in operation.</p> <p>Continued, monitoring and back-testing of performance is critical because these systems can concentrate risk as well as mitigate it. See also discussion under Principle 29.</p> <p>The settlement time frames of T+4 or negotiated settlement that prevail in some circumstances in the markets are curiosities that may be considered to be inconsistent with international best practice as well as standards. Some explanation should be provided as to how the risks of failures to settle are handled under these circumstances and how those failures are prevented from adversely affecting the overall system.</p>