

## Russia's Share Registry Market: New Developments on the Way

An interview with Mrs. Natalia Agafonova, the Chairman of the Management Board of Moscow Central Depository

Moscow Central Depository (MCD) is the largest player on the Russian stock market, and, according to the Professional Association of Registrars, Transfer-Agents and Depositories, it tops the list of companies that provide share registry services. Today, the total value of securities on the MCD register exceeds RUB2.3 bln. Russia's leading companies listed on the local and international stock exchanges are among the clients of MCD. Mrs. Natalia Agafonova, the Chairman of the Management Board of MCD, discusses with World Finance Review development prospects of the Russian stock market infrastructure.

**W**hat primary objectives will the participants of the stock market infrastructure have to achieve in 2010?

In terms of the top priority objectives, first of all, I would name the task of working out a unified approach to organisation of a centralised infrastructure. For a number of years already, various organisations have tried to solve this task: the President issued an executive order to create a centre for information storage and processing, the State Duma worked out and the Government passed the Law on the Central Depository; but none of these is completed yet. There is no use in discussing the failures, however – we should look ahead. The Law on the Central Depository is of the paramount importance for the Russian stock market. Today, all participants are to find the way to centralise the record-keeping system, which will meet today's requirements of the market and serve as a base for the creation of a modern and advanced infrastructure. The next, but not the least important task is the automation the record-keeping system and improving its technological effectiveness, which, in particular, involves the implementation of the Electronic Data Interchange System (EDI). The aim of the EDI system is to reduce expenses of investors and the stock market participants. This task is closely interconnected with the process of centralising the system, but now we should at least work out a common approach to the infrastructure automation and make it mandatory with unified standards. This will help to unify the existing technological solutions instead of reinventing or upgrading the wheel.

**In your view, what legislative modifications are needed to facilitate more efficient operations of the market participants?**

I will answer briefly... Amendments to the legislative acts that regulate the registrar's activities are needed in order to make the sector investment-friendly and to facilitate technological upgrading of registrar's services. It is also important to work out new standards, which will help to minimize fraud on the securities market. Close attention must also be given to the enhancement of investor protection from participants' errors. Here, it is important to analyse registrars' experience and failures and to introduce compulsory insurance of activities on the securities market. The existing optional insurance of professional activities is not effective in terms of investor interests' protection and does not guarantee compensation of damages.

So far, Russian registrars have to cover investors' losses from their own pocket; although in most cases the errors are not the registrars' fault. The practice of insuring risks related to the share register maintenance not only by registrars but also by issuers is widely used on the developed stock markets and must be implemented on the Russian stock market as well.



**How can you describe the development of the post-trading infrastructure of the Russian stock market?**

In current crisis times, the infrastructure proved itself to be sound and stable. However, it does not fully meet the requirements of the market, thus, further improvement is very important. The modernisation process should be smooth and gradual. The main aim of the reforms should not be to catch up with London or Frankfurt, but to introduce something even more modern and innovative. In the establishment of an international financial centre we are not supposed to create a copy of the existing markets, but to consider future developments and to be a step ahead.

**What services, to your opinion, will be most demanded in the current year?**

Speaking of the registrar's services, first of all, we expect growth in demand for services related to the convocation and conduct of General Shareholder Meetings and performance of other corporate actions. The reason for this higher demand is the changes in the companies' ownership structure as a result of the crisis in 2008 – 2009. These changes will lead to an increase in necessity of conducting Extraordinary General Meetings of Shareholders and of performing corporate actions that involve optional and mandatory securities buy-back.

Secondly, a drop in demand for the dividend payment services is expected. This is the adverse effect of the crisis on the registrar's business. Negative influence of the general economic factors on the financial health of the majority of Russian companies, most probably, will result in the natural decrease in the number of dividend payments.

Thirdly, we reasonably wait for an increase in the number of clients who use the share register maintenance service. Today, the regulatory body is consistently tightening the penalties policy for the capital market participants, so the issuers have started to pay closer attention to the amount of penalties to be paid. For example, the fee charged for a single violation of the share register maintenance procedure is enough to cover the several years' service of a professional market participant. As a consequence, those issuers, who used to maintain share registers independently, now prefer to be serviced by professional registrars.

Considering the collective investments market, it is evident that the economic crisis prompted management companies to reduce infrastructure expenses. As a result, a new integrated service for management companies emerged: the special registration and special depository servicing, including transfer-agent services involving sale, cancellation and exchange of investment units. Today, optimism prevails on the market, and the task of cost cutting remains urgent, thus, we anticipate a strong demand for this service throughout the current year.

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