

Russia: Moscow tie-up wins approval from participants

29 October 2012
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<http://www.ft.com/cms/s/0/b16d942e-19da-11e2-a179-00144feabdc0.html#ixzz2DKqoJaE0>

Russia's dream of turning Moscow into an international financial centre is starting to look more realistic thanks to the [tie-up of the country's two main indices, Micex and RTS](#).

Since the exchanges merged last December, Russia has begun pushing through a series of long-awaited reforms investors hope will increase liquidity, make trading more reliable and open up the Russian market to a new class of participant.

Later this year, for instance, Russia will for the first time have a central securities depository, which will cover the entire Russian stock market by the end of 2013, says Alexander Afanasiev, chief executive of the new Moscow Exchange. Other changes include a law on clearing that will come into full force in January, and the establishment of so-called T+1 settlement, which will allow market participants to settle trades within two or three days, according to European and UK standards, as opposed to a policy of same-day settlement.

While some reforms have taken longer to enact than most people would like, market participants are largely positive about what the enlarged platform will mean for making Russia a viable trading centre.

Alexander Branis, director of Prosperity Capital Management, says: "You always have this combination of best intentions and less than perfect implementation. Best intentions are still there and, I think with time, they will get their act together and actually deliver."

Some had worried that linking Micex and RTS would decrease competition. But these concerns appear to have been outweighed by the benefits of having a single liquid exchange.

Mr Branis says: "On the one hand RTS and Micex competed against each other and in some ways it helped innovation because they had to come up with new products, new services all the time in order to compete. At the same time I think concentrating liquidity under one roof, one exchange, is an advantage."

Mr Afanasiev admits the merger has not been easy, given the different backgrounds and cultures of the two. Micex, for instance, historically had a "more conservative culture" and was "more about risk management", he says. RTS, on the other hand, catered primarily to brokers who cared more that the exchange was "flexible and reacted quickly".

"Business culture is not something we can implement artificially top-down," Mr Afanasiev says. The exchange is dealing with reforms step-by-step to ensure it acts as an integrated platform and not simply two distinct indices within one larger holding company, he says.

According to Mr Afanasiev, the Moscow Exchange has survived the recent months of market volatility because of its diverse range of products. While revenues have decreased on the exchange's equity and derivatives markets, this drop has been more than made up for by increased turnover on the foreign exchange and money markets.

As to the future, the main questions revolve around the Moscow Exchange's management, its commitment to wider market reforms and also an initial public offering, planned for 2013.

Mr Afanasiev was promoted to chief executive in June after the board decided the roles of president and chief executive should be divided between two people. [Ruben Aganbegyan](#), who pioneered the Micex-RTS merger and had been filling both of these positions, left the exchange shortly afterwards.

Mr Afanasiev says the management changes made sense as it was better to have one person – the chief executive – to focus on the exchange's day-to-day operations, and a second – the president – to concentrate on the broader agenda of market reforms.

But the abrupt management restructuring left some investors perplexed. "I don't think it was explained very well why that happened," says Roland Nash, chief strategist at Verno Capital, a Moscow hedge fund. "It doesn't undermine the arguments. It just adds another level of unnecessary confusion."

Finding a president will be a key step for the exchange before any IPO.

“The IPO is important to make Moscow Exchange an open and listed company. It is one of the very few big exchanges worldwide that is not listed,” Mr Afanasiev says.

For now, investors hope he and his colleagues will lobby for the planned reforms to be enacted smoothly and quickly.

The creation of the central depository, for instance, will “create the ability for a new class of institutional investors to trade directly in Russia”, Mr Nash says, another step towards greater liquidity.

There are complaints that more could be done, and done more quickly. However, as Mr Nash adds: “The best news is that the merger has taken place ... and a lot of the reforms that were being discussed a couple of years ago have progressed.”