http://www.financeasia.com/News/262003,moscows-stock-exchanges-to-merge.aspx

Moscow's stock exchanges to merge

The Moscow Interbank Currency Exchange (Micex) and Russian Trading Systems (RTS) are poised to finalise their merger on Monday.

By Lara Wozniak | 30 June 2011

Moscow's two stock exchanges — the Moscow Interbank Currency Exchange (Micex) and Russian Trading Systems (RTS) — are expected to sign a merger agreement early next week.

It is a historic merger considering that for the past 15 years the Micex and RTS have been battling it out for market share.

A memo of understanding announcing the tie-up was issued in February, heralding a marriage that should increase trading volumes and provide deeper liquidity in Moscow's stock market, but like many things in Russia it has taken time to iron out the details. And it is still a work in progress — for example, the name of the unified exchange has yet to be announced.

State-owned Micex is the larger of the two exchanges and has higher trading volumes. However, RTS has always between the preferred platform for foreign investors, with 96% of all Russian derivatives traded on the exchange. Combined, the two exchanges are viewed by specialists as a step forward in developing an international financial centre in Moscow.

It is also an example of the increasing role of private equity in Moscow. "This is a unique PE transaction, where a private company, RTS, is being acquired by a state-owned entity, Micex, on transparent and market conditions," noted a specialist.

The deal was spearheaded by Da Vinci Capital, which is the biggest shareholder in the RTS exchange. It has a 20% stake that it is managing on behalf of a consortium of international investors. The bulk of this stake will be converted into shares of the unified exchange, which is expected to be valued at about $5.5 billion.

The transaction calls for 35% of RTS to be paid for in cash and the other 65% exchanged for Micex shares at a coefficient of three to one. RTS has been valued at 34.5 billion roubles ($1.23 billion)

Da Vinci Capital expects to increase the size of its consortium, offering an opportunity to its current and new investor base to increase the position. It is aiming for two seats on the board.

The consortium made its initial investment in RTS in 2008 and has since been heavily involved with daily operations of the company, transforming it from a non-commercial partnership between local brokers into a large international player.

“Our value-add include the following: focusing on the company’s strategy, developing appropriate corporate structure, adding international experience in product development, driving the co-operation with the global exchanges,” said Oleg Jelezko, managing partner of Da Vinci Capital and vice-chairman of RTS. “We are interested in bringing Asian investors from the markets that have undergone similar transformation.”

The new exchange

Of course, there is still work to be done beyond just coming up with a name for the exchange — such as deciding what range of instruments will be offered and even what currency shares will be traded in, as the Micex trades in roubles while the RTS uses dollars. But it’s a start.

The negotiations took about nine months, since autumn last year, and resulted in the legal agreements expected to be signed on Monday and a schedule of further corporate actions to completed by the end of the year.

“This deal has been worth the effort because the consolidated exchange will present an attractive proposition for both foreign and local investors offering liquidity pools in stocks, bonds, currencies and derivatives on these products, as well as commodities,” said a banker in Moscow close to the negotiations.

“A lot of work will be done together with the regulators and Russian government, who is quite keen on building an international and friendly capital market,” the banker added.

One criticism of the merger is that it removes the incentive to innovate. But Jelezko countered that the combined exchange will be under constant pressure from global competition, so there will still be pressure to outperform. “In fact, the combined management team will have strong incentives linked to the market capitalization and will deliver better products and quality infrastructure, which is very much needed for this region,” he said.