

**ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM  
JUNE 16–18, 2011**

**ESTABLISHING AN INTERNATIONAL FINANCE CENTRE. INTERACTION  
AMONG THE CIS, EURASEC AND THE CUSTOMS UNION WITHIN  
EURASEC**

**Building Russia's Creative Capital**

**JUNE 17, 2011 — 17:30–18:45, Pavilion 8, Conference Hall 8.3**

**St. Petersburg, Russia**

**2011**

Building upon regional framework agreements such as the Common Economic Space and regulations pertaining to the CIS and EurAsEC, Moscow is taking steps to establish a regional finance centre to service Russia and neighbouring countries.

**Moderator:**

**Yuri Solovyov**, First Deputy President and Chairman of the Management Board, JSC VTB Bank

**Panelists:**

**Ruben Aganbegyan**, President, MICEX

**Daniyar Akishev**, Deputy Chairman, National Bank of Kazakhstan

**Igor Shuvalov**, First Deputy Prime Minister of the Russian Federation

**Karen Zakaryan**, Acting Chief Executive Officer, NASDAQ OMX Armenia

**Front row participants:**

**Timothy C. Draper**, Founder, Managing Director Draper Fisher Jurvetson

**Igor Finogenov**, CEO, Eurasian Development Bank

**Dmitry Pankin**, Head, Federal Financial Markets Service

**Andrei Sharonov**, Deputy Mayor for the Economic Affairs of the City of Moscow

**James Turley**, Chairman and Chief Executive, Ernst & Young

**Tatiana Valovaya**, Head of the Department of the International Cooperation of the Government of the Russian Federation

**Y. Solovyov:**

Good evening, ladies and gentlemen. I am pleased to welcome you to the session dedicated to the creation of an International Finance Centre (IFC), under the aegis of the CIS, the EurAsEC and the Customs Union within the EurAsEC. Allow me to present our honoured speakers. Please welcome the First Deputy Prime Minister of the Russian Federation, Igor Shuvalov; the President of MICEX, Ruben Aganbegyan; the Acting General Director of NASDAQ OMX Armenia, Karen Zakaryan; and Daniyar Akishev, Deputy Chairman of the National Bank of Kazakhstan.

A panel of experts is also joining us, and they are sitting in the first row. They are Mr. Dmitry Pankin, Head of the Federal Financial Markets Service of the Russian Federation; Tatiana Valovaya, Head of the Department for International Cooperation of the Government of the Russian Federation; Mr. James Turley, Chairman of Ernst & Young; Mr. Timothy Draper, Founder and Managing Director of DFJ; and Mr. Igor Finogenov, Chairman of the Eurasian Development Bank.

I would like to divide our discussion into four sections: the first section will be dedicated to the issues and goals concerning the establishment of an International Finance Centre; I would like to dedicate the second section to the means and processes involved in its establishment; the third to processes of integration and the final goals of the establishment of the International Finance Centre and a unified economic area within the CIS and EurAsEC; and in the fourth I would like to open the floor to questions, which we will try to answer. Questions can be addressed to our panelists, as well as to our honoured experts in the first row.

Allow me to begin with a question to Igor Shuvalov: why is it necessary for the government to develop the concept of an International Finance Centre, and what do you see as its benefits and the shortcomings, both economic and social? Is it

just a prestigious project, or what the government should be doing? You have the floor.

### **I. Shuvalov:**

The idea to create the IFC in Moscow came about before the crisis. But when the crisis became serious, many of our experts who had worked with the government came to us in government meetings and said: well, that is it, the idea of the IFC will die, what kind of International Finance Centre can there be now? We had to sort out all of the problems that were suddenly thrust upon us, and this was such an ambitious project!

And, nevertheless, beginning in the first months of 2009, President Medvedev more than once stated that an International Finance Centre would be created in Moscow, and, furthermore, took certain practical steps towards setting this project in motion. He met with a large number of bankers from investment and commercial banks, representing the largest financial establishments of Europe, the USA, and Asia, and carried out consultations. At first, these consultations were private and closed to the public. The aim was to understand if Russia had the assets that would allow it to attract the best specialists from the foremost financial establishments, so that they would move to Moscow and support a certain level of competence here, on the Russian market. I took part in some of these meetings, along with other members of the government, and the bankers always asked the same question: why is this necessary for Russia? The answer was very simple: Russia is formulating for itself an agenda of modernization, or of accelerated transformation. Those plans we had established for ourselves already in 2003, when President Putin announced the programme for promoting competitiveness, and that Russia should be competitive; and later, in 2008, when, leaving his post, Putin designated strategic aims for a new Russia by

2020. Then there is Medvedev's programme of modernization – all events which can be attributed to the concept of a new Russia. All of this demands considerable capital.

We can attract capital using instruments that exist in Russia. They are, it is true, undeveloped and insignificant, and their power is not so great that they could ensure such large-scale transformations. We can use the traditional Asian markets, as well as the markets in Frankfurt, London, New York – many entrepreneurs in Russia use these platforms. When we talk about the formation of an International Finance Centre in Moscow, we are really talking about the transformation of the existing financial system into something which will allow the movement of capital from markets where there is surplus, for the realization of projects not only in Russia, but in our partner countries.

Primarily, this means countries like Kazakhstan and Belarus – those who, along with us, make up the unified customs area, the Customs Union; it means the countries of EurAsEC, meaning Kyrgyzstan and Tajikistan in addition to the participants of the Customs Union. In the EurAsEC there are onlookers—Armenia, Ukraine, and Moldova—and we are thinking on the scale of the entire CIS. This means countries that are also able to attract capital (for some this is easier, for others more difficult), and they have their own programmes for transformation and modernization. But from our discussions with specialists, it became perfectly obvious that the best way to ensure the influx of capital, not only into Russia, but into these partner countries, is the creation of an intermediary link that could provide the best information about the business projects appearing in these countries, and about the political processes going on there, as they are all now independent. At times these processes are very complicated, and foreign partners in Asia, Europe and the USA need to understand exactly where their money is going.

We need partners, and we need infrastructure instruments to move this capital. How can we answer the question, "why do we need the IFC?" The IFC is necessary for us to ensure the centralization and possible use of capital at such an amount that would support our agenda for modernization, in other words significant transformations. Call it what you will – modernization, large-scale transformation in the economy, and in social and political spheres. To do all of this, you need to have money. We do not have such internal resources in Russia, despite all our accumulated wealth, and despite all our reserves: we are talking about a completely different scale of capital investment. But capital can be raised only using the most modern technologies and by possessing competence, by which I mean people who are able to do this. This means we must attract the best specialists from other financial capitals for this work; we must ensure that we have a process for training specialists here in Russia, so that they can receive their education and work in Moscow.

Together with this, we understand that it is necessary to create an environment that offers a quality of life no worse than in London, for example, where, as you know, it is possible to live relatively comfortably. In Moscow, it is very complicated to do this, and Moscow must possess its own advantages in order to be compared with other finance centres. We understand precisely what needs to be done for the establishment of an IFC, but our aim is not only an IFC as an ambitious project, so we can say that we have a finance centre in Moscow, that we have a large quantity of financial establishments, and that high-powered bankers work here. We need these bankers and this finance centre so that capital can be obtained under completely different conditions, so that its circulation happens at a completely different velocity, so that we can provide a platform for the transfer of this capital to our partner governments. Only then

will there be a chance at success. Without money, modernization will not take place.

**Y. Solovyov:**

Thank you. This is the first attempt to create in Russia itself, or within the CIS, an international or regional finance centre. As you understand, until the crisis of 2008–2009, the Regional Finance Centre in Almaty was widely advertised, and it drew the attention of the government of the Republic of Kazakhstan. After the crisis—perhaps because the banking system in Kazakhstan, as in many other countries of the region, encountered serious difficulties—we hear less about the attempt to create a regional finance centre. I would like to ask Daniyar what he thinks, whether this is a successful project or not, and ask him to share his experience concerning the given question.

**D. Akishev:**

Thank you, Yuri. I do not want to take up too much time, because the story behind this question is rather complicated. The decision to confer such status on Almaty came into being quite slowly: just as in discussions now being conducted in Russia, this project gradually became a prominent issue in contemporary life. And, naturally, there was a rather different environment. It has been correctly noted that this was the period before the crisis, and Kazakhstan was enjoying a high rate of economic growth, and the financial sector was rapidly developing. Under these conditions, it was the natural competitive properties of Kazakhstan that needed to be strengthened. For this reason, I think that the experience of Kazakhstan can be used in Russia, including both the positive aspects that were demonstrated, as well as the lessons we learned.

This is what I would like to point out: the concept of developing the financial sector can mean anything. It can mean looking at the city, part of the city, part of the country, and so on. All of this is already being decided by the government. In Kazakhstan this idea was realized in the following way: a relevant law was adopted, and a relevant agency was created to directly deal with the issues involved in developing Almaty as a financial centre. Unfortunately, the crisis of 2008 necessitated the adjustment of these plans, and this agency was combined with the National Bank two months ago. We fulfil these functions as before, but I think we will now adjust them and adapt them to current circumstances.

The most important thing to remember when making a decision about the International Finance Centre is that the majority of finance centres in the world are not created artificially, which means their governments did not frame the issue in this way. The majority of them were created through historical processes: gradually through time, functions, financial resources, population, and so on were concentrated in one place. Correspondingly, the creation of this kind of centre with the help of administrative tools will always encounter problems. But, nevertheless, it is possible to take such steps. We have studied the experience of countries that have done so, studied the experience of the United Arab Emirates, and saw that, in principle, success is possible only if the government works out a concrete programme and takes concrete steps. We made it clear what benefits investors and issuers would have, we created the relevant conditions and simplified their operating practices as much as possible, specifically in Almaty. This was dealt with directly by our agency.

It will be absolutely necessary to solve a very important question when establishing this centre in Russia: what tax benefits will it have? I think for the majority of participants this could be the key question. However, there are hidden perils here, because any exemptions could also have a negative effect, as

it could cause it to be recognized as an offshore zone, and so on. At the same time, Kazakhstan had a unique historical moment: in 1997, the capital was moved from Almaty to Astana. Astana became the main city of Kazakhstan, the administrative centre, and because of this, it was imperative to clearly understand the role of the largest city in our country, Almaty. All financial institutions were concentrated in this city, all financial services were carried out there, all mediators and foreign investors were concentrated there, and the decision to create the centre there seemed logical. It was imperative to solve the problems in the transportation infrastructure and living conditions, as Igor Shuvalov was saying. We are really far from completely solving these problems, because creating a separate legal framework for a specific city is complicated, and I think that these details will be taken into account.

I will return to the question of whether it is necessary: I think it is. Firstly, we have gained a large amount of experience in understanding how it should be undertaken; we have worked out the necessary regulatory framework, and probably, even by these measures we have a few competitive advantages. I am not talking about scale, but about approaches and about how this needs to be done – and this experience can be applied. Thank you.

**Y. Solovyov:**

Thank you. Igor Shuvalov, are you not afraid of those competitive advantages Daniyar was talking about? Let me put it more broadly: which countries of the former Soviet Union do you think we need to prioritise for co-operation, and who do we need to work with in establishing the International Finance Centre?

**I. Shuvalov:**

Do you mean, are we afraid of competition? Since we set up the common customs space, we are constantly being asked questions. And from January 1, 2013 we will have a common economic area. As you know, three presidents have taken the decision to create a Eurasian Economic Community. For us, life is becoming significantly more complicated, because we are now part of a common economic area, but although the area is unified, the states are separate, the budgets are different as before, and financial capabilities are different. We do not have a common budget, and each state has its fiscal system and obligations to its population. And specialists say that competition will increase. Over the past few years, Kazakhstan has completed a huge amount of work, it has modernized its tax system, which at the moment is significantly more attractive than the Russian tax system, and is now undertaking the large task of reducing bureaucracy and striving to eliminate administrative barriers. Generally speaking, people know how to work in Kazakhstan. I am being entirely honest here, and on a professional level I even envy them a little, because decisions that are sometimes discussed for a rather long time in Russia are adopted quickly in Kazakhstan on the legislative level, and thus implemented in reality.

We are taking a more complicated path, but we are doing the same thing. When Herman Gref was still the Minister of Economic Development, and I was working in the administration, we travelled to Kazakhstan together. And if we take as an example many of the legislative initiatives that were then being discussed in the Russian government, our Kazakh colleagues openly said that they had already looked at what we were discussing, and were making the same decision. While we were discussing, they had already made laws, and those laws were functioning. So this competition will grow stronger every day, and this is very good. This will affect the possibility for developing businesses, and each government can put the Customs Union at the disposal of these businesses.

Understandably, the rules and possibilities for setting up and running a business in Russia, Belarus and Kazakhstan differ, and we need to look at each other. It is more convenient to work in some places than others, and of course, investors will not listen to their governments; they will decide according to where it is most convenient, and how they can best earn capital.

The competition factor forces us to constantly keep in shape. And I therefore think that the creation of the Customs Union was a great blessing for Russia. We will not just be thinking about whether or not we are making the right decisions: now we will be looking at how the same question is resolved in Kazakhstan, in Belarus, throughout the whole of the former Soviet Union, what decisions are being made in neighbouring countries – in Ukraine, for example. Maybe business will move there. So, if Almaty becomes an International Finance Centre, we will be happy about this, and if their work is more successful, we will look at the experience of our Kazakh colleagues.

But at the same time, we are no less ambitious. Let us have a look at the role played by Moscow before the revolution, during the Soviet era, and in the present. Perhaps it is immodest, but I will nevertheless say that if you look at all of the financial possibilities of Moscow, the capital which circulates through it, all that is connected with the capital market here, then not a single capital city of the former Republics of the Soviet Union can compare, either in terms of the volume of capital, nor in terms of financial strength. The potential strength of Moscow as a capital market is on a completely different level than that of different cities. Of course, Moscow has never been an international finance centre, but capital has become concentrated here to such a degree, that it has ensured development over a massive territory. This included the Russian Empire, then the Soviet Union and other governments that were connected during the Soviet era, the socialist camp, the countries of the Council for Mutual Economic

Assistance, the countries of the Warsaw Pact, the countries of the Caribbean basin and Africa, and many others. And all this was ensured—acting, incidentally, under different principles and rules—by the financial system of the Soviet Union. And Moscow was then a city that could supply capital in such volumes. It is true, this is not the example we now wish to emulate. But the power of the capital circulating through Moscow has always existed.

Now, about the future. Russia has huge natural potential. We have a massive territory, everyone talks about our innumerable natural riches, but the most important of these riches is the 142,000,000 highly-qualified, and, as I see it, very talented citizens. And the combination of these advantages in Russia should doubtless manifest itself in value and in capital. And this capital must circulate through something, through some kinds of instruments or institutions. It is these institutions that we can build in Moscow. All of this is very simple, I think, if we use our heads, work hard, and invest money, and undertake this without creating complicated exercises for ourselves. It is a completely manageable goal. Again, I shall say something about our closest competitors. If they are our competitors, this is very good, we will catch up with them. And if we can at the same time, through complementing each other, create a unified project that will be useful to all of us, then this is our real goal, it is not imaginary. We are not looking to overtake anyone, but to create a combination that will be attractive to investors. By the way, I know that the group now working under the leadership of Voloshin is conducting serious discussions and a large amount of work with the Frankfurt Stock Exchange, for example. They have also visited Hong Kong, Singapore, and so on. And they have a certain vision of how our partner relationships should develop and how the exchange market and the group of companies should complement each other. For this reason, if the Almaty financial

system will work in partnership with Moscow, it could give both systems added value.

However, there are no answers to these questions as yet, and we are now working on amendments to the Civil Code and other legislation. We are now in the process of formulating a legislative framework that could become the foundation for establishing the IFC. The Mayor of Moscow is working in parallel with the government, working on the infrastructure and quality of life. I think we will move slowly for a while, but then we will suddenly begin to make changes. I believe Moscow has natural assets and the potential to achieve a positive result for this project. It is interesting, necessary, and it is not artificial.

**Y. Solovyov:**

There is a very interesting aspect to the work surrounding financial regulators and the mega-regulator represented here by our honoured guest, Dmitry Pankin. What should be prioritised: questions of the competitiveness of financial markets in the EurAsEC, or their cooperation, or questions of the cooperation of these financial markets with the mega-regulator? Could you comment on this?

**D. Pankin:**

Thank you. As regards questions about the alignment of common regulatory standards, which for us are of primary importance; about the reform of national regulatory standards; about compliance with international regulatory standards, the answer, it would seem, is the same each time: yes, we must reform our national regulation, at the same time as moving together with our partners in the EurAsEC and the CIS, and comply with international standards in these reforms. But I would like to point out a certain detail: we are returning to the topic of competition. There is competition, not only between countries, not only between

bureaucracies, over where taxes are lower, where conditions are more beneficial to investors, but also competition between regulators: over how a regulatory framework is defined, and in which country. This competition between regulators has always existed, exists now, and will always exist, despite all measures towards standardization, towards working out common recommendations, towards international regulation.

Let us look at the current situation: exactly two days ago Timothy Geithner's accusations against Hong Kong and Singapore made the front pages; accusations of artificially creating beneficial conditions for working with derivatives, and at the same time trying to attract derivatives trading from the markets in the United States to their own, breaking the agreement made at the G20 by the financial stability board. Only last month, a conference of stabilization funds and national welfare funds took place. Representatives of many of these commented that they would no longer be investing in American stocks. Demands for legislation on insider trading are such that in America, they could only meet with the press secretary of the company. They cannot even talk to the general director, with the person answering for the strategy of the company, because this contradicts the law on insider trading. Now they will invest in European markets, where there are no such strict demands.

What does this say? It says that competition exists. Without a doubt, we are in a competitive field. What conclusions can we draw? Yes, we must follow international standards. If we do not comply with standards worked out at the G20, with those general requirements for regulation that are now being worked out by the financial stability board, then we will simply be excluded from the international capital flow market. We will be blacklisted and, practically, no participant in the market will work with us. Naturally, these requirements must be fulfilled, and we must strive to reflect them in our legislation.

However, at the same time, a different question arises, a very subtle question: how can we, while adhering to general requirements and standards, create conditions that would attract investors, that would create correspondingly beneficial conditions for work on the national market? This is not a black and white question. We cannot create very beneficial conditions for investors by abandoning the requirements of prudential supervision, abandoning the requirement to set a minimum for capital, abandoning the requirements for insider trading and saying, "Everyone who wants to trade, come to us, we will create the most beneficial conditions for you". No, that would not work. We need, I repeat, to find a fine balance. We need to observe international regulatory standards, standards of approach to prudential supervision, and insider trading, but within these standards, we must try to find the individual solution that would be the most beneficial. Thank you.

**Y. Solovyov:**

Thank you very much. I have a question for Ruben Aganbegyan. On the one hand, he, as the President of an exchange market, is a consumer, or, in other words – as a business unit, he is the result of the processes establishing the International Finance Centre. On the other hand, he is a direct participant in integration, as the man who supplies the platform and services to market participants. How do you see this, as a business project of the government, or as a government project in business?

**R. Aganbegyan:**

I think it is rather difficult to define the boundary between the two. It is one of those infrastructure projects that is impossible to realize without the government, simply by applying the willpower of participants. But it is a project

that will never work if participants are not drawn into it, because it is being made for them, and they will play the most important role after the government reaches some kind of agreement and sets up the infrastructure. The participants will move this project further ahead. I think it is difficult to define this boundary. Without a doubt, in the IFC project, the significance of participants, their investment, their willpower, is massive, because the barriers we are trying to raise, the questions we are trying to resolve are defined precisely by these participants. On the basis of their opinions, priorities are formed, and at the same time, reforms are carried out and laws are set in motion by their direct participation. Where integration is concerned, I think a similar approach is very important, because we are observing, and have observed before the crisis, an active presence of financial institutions and businessmen from the CIS in the Russian economy, on the Russian market. We also saw the opposite trend, the development of our financial institutions and their activity in other countries; Ukraine and Kazakhstan were especially popular in this respect.

Correspondingly, I think the question of integration is due to be addressed. And our approach, or my approach, is based on the fact that there are always two paths to cooperation and integration. The first is when you have a relatively strong market and invite either issuers or participants into it. The other path is complete integration and the creation of a common market. I think the second option is more correct, because it does not allow the influencing of markets thanks to a dominant position, but, on the contrary, allows all participants in the process to realize their assets and try to resolve the problems they have.

**Y. Solovyov:**

Thank you. I would like to ask a question to Timothy Draper, the founder of one of the largest venture capital funds in the world. They have invested in over 20

countries, and created such remarkable things as Hotmail, Skype and Tesla. From the perspective of private venture capital, which you have invested in many regions, how important to you is the integration of a financial area and the unification of financial legislation in our region?

**T. Draper:**

Well, I think I will answer that in rather a unique way. You may need your ear pieces.

Since the advent of Hotmail and Skype and all of these internet companies, we have all grown closer together. The geographic borders have fallen, and as a result, we financial people, and also entrepreneurs and businessmen, can move fairly freely throughout the world. And we will go to those countries that are the most competitive, to the ones that are the most active, the most understanding of business, and the freest: the ones that allow the freedom to invest, the freedom for an entrepreneur to thrive.

And so I think, and actually, historically, that has happened. Hong Kong was a very free market, and people were naturally attracted to Hong Kong. Singapore has been very aggressive. They have taken another approach: being very aggressive to recruit people to Singapore so that they become a centre.

So: putting a centre in Moscow. I did think that maybe putting a centre in St. Petersburg may be more attractive. It is a beautiful city and it is further away from the capital. And being further away from the capital means that the regulations may still be the same regulations, but you do not feel them quite as much. So I think that those are some of the thoughts I have.

And the things that attract me to a country are a combination of entrepreneurial spirit—which you are really bringing into Russia, and I really appreciate that—combined with a number of things that I think could be very effective here.

When there is a very—I do not know whether you would call it a liberal bankruptcy law, or a good bankruptcy law, so that somebody who starts a business can make a lot of stupid mistakes, fail a couple of times, be in great debt and then start again and not feel it too badly. And so, I think bankruptcy protection is one of the things that I think is sort of subtle that people kind of miss.

And then, of course, the corruption thing, I think you guys are going after it in a good way, and I like that. I think you should continue because that will send us... I think people are slowly are getting more and more confident about Russia from the outside. I think this is a great time for Russia. It feels really good; it feels like if you can limit the corruption, if you can put in something like a good solid bankruptcy protection... you know, lower taxes: that is nice, but it is not a critical item. It makes you competitive but it is not a critical item.

And the rest of it, I think you are going in the right direction. But I would seriously consider St. Petersburg. This is a really beautiful place. Thank you.

**From the audience:**

And now maybe the government will move out of the city.

**T. Draper:**

Right.

**Y. Solovyov:**

OK, thank you, Timothy. Would you please comment on the road map of the integration processes for our international finance centre?

**T. Draper:**

Well, I did not answer that question. Well, one more thing, the integration, I think, does sort of give a little bit more credibility. I think integrating the European countries has been very good for those European countries, because we can travel freely amongst those countries without customs, and in most cases, the same currency. So it does make it a little easier. So that is a nice thing. So I think I would encourage it. More cooperation is better.

**Y. Solovyov:**

Thank you. I would like to repeat the question on the subject of the roadmap and the process of cooperation and integration to Igor Shuvalov. If possible, please comment on Ukraine's participation in these processes. As you have noted, it is a relatively large country, the largest in the Commonwealth after Russia. What do you think about it?

**I. Shuvalov:**

To begin with, I would like to say what was said to Mr. Draper: all the same, Moscow would be better. The President announced today that the government will probably leave Moscow and set up in a new administrative region, which will be assigned to us. Something will be built for us, and the government, with all its institutions, will move, so as not to get in the way of the city – that is how I have understood the idea. I, by the way, like the idea that Moscow should broaden its administrative boundaries. And in order to work more effectively and not disturb the citizens, the entire government can move and set up more compactly in nearby regions. Thus, we will not disturb Moscow, let Moscow remain the capital, although, I agree, Petersburg is a more beautiful city.

Now, I will say something of our concrete plans, about the most important things we must do. We, in fact, discussed privatization today, at the previous event. We

need to combine our ambitious plans for privatization with the establishment of the International Finance Centre. And all of our legislative regulations—those which regulator Dmitry Pankin will prepare, and the regulations prepared by the government, if necessary—need to be combined with the fact that these institutions will be developing themselves at the same time, and we can, with the help of these institutions, attract capital, attract financial resources, sell shares, but already using Moscow as a platform.

It is entirely unnecessary that the stock exchange in Moscow should serve as the only instrument. We can do this in partnership with different exchange markets, through exchange markets in Frankfurt, in Almaty – as our consultants and vendors see fit. But we have a list of the 23 largest financial institutions, which, according to a decision by the President and the government, will be drawn into the privatization process, either as consultants, or as vendors. They must, if they want to earn their commission, advise us how best to do this, and sell stocks with us, prepare them for sale, but at the same time create the institutions of the International Finance Centre.

This is the first stage of work, and, of course, it is a huge responsibility for Moscow's government. Financial resources and support in realizing infrastructural projects are imperative. The federal centre will help Moscow, but in order for everything to work, Moscow must become a first-class city in terms of quality of life and quality of business management. It needs to be not just the place where the banks are concentrated, but a place where they can make transactions with the help of decent, competitive regulations. No, it should be a place where even small businesses can work freely and comfortably. If it is easy in Moscow for small companies to set up and develop businesses, if innovative business at Skolkovo develops, if both large and medium-sized companies have enough freedom for development, for creation, and if there is capital for this, all of this

will allow for the formation of a finance centre. Without one of these elements, we will not be successful.

For this reason, I think that the first stage is to create a regulatory framework, together with carrying out privatization in such a way that the International Finance Centre begins to be established in Moscow. We will do this in partnership with those who wish to create this centre with us. They will become our strategic partners, like, for example, the Frankfurt Stock Exchange. A huge amount of work is necessary, which will, most importantly, change the investment climate in Moscow and change the infrastructure and lifestyle. This is what can be done over the next two or three years, and then the Centre will already develop by itself.

As far as Ukraine is concerned, the question is very complicated. Of course, Ukraine is now unique in the sense that it is a very large, developed country, with a developed education system, industry and agriculture; it is a country with a large population, where very complicated political processes have been going on in recent years. It is a matter for the Ukrainian people to choose what decisions to take, who to vote for, but because of the decisions made by the Ukrainian people, our relations with the Ukrainian government have become very difficult. Everything has been complicated, and very many shared possibilities have been neglected. You know that, traditionally, Russian and Ukrainian companies have complemented each other, and there used to be close co-operation, in both the civil sector and the defence industry. But the agricultural market of Kazakhstan, Russia and Ukraine holds such potential that there is hardly anywhere else in the world that could compare, in the export of grain, for example, and other types of production.

Generally speaking, there is so much arable land in Russia. Try and find a country with such varied climatic conditions and so many different possibilities

for agriculture. I think that Russia is unique in this respect. People who do not know much about the country just think that it is cold – Siberia and all of that. But really, if you study it seriously, it becomes clear that on the global market, food production in Russia occupies a unique position. For this reason, whatever project is chosen could give the Customs Union and our whole integration a new dimension.

The Customs Union is indeed a very important organization, as it is a market of 170 or so million people. In Russia, we have a huge territory. In Kazakhstan, there are talented people. In recent years, President Nazarbayev personally paid great attention to training young people at the best universities worldwide, in scientific and educational centres. In Belarus, despite all the difficulties it is currently undergoing, the foundations of the electronic industry and much else have been preserved, and collaborative links exist as before. In Russia, we have what we have, with all of our pluses and minuses. And all together, as a trio, we already represent a serious power, almost equal to the European Union, it seems to me. Perhaps we are behind where development is concerned, but in terms of power we are equal, and we can come to an agreement about a free trade zone in the future. It is a powerful foundation, which is capable of expanding processes of integration into the West.

Ukraine has such qualities that, if it became a member of the Customs Union, it would transform our Eurasian Economic Community into an association on an entirely different level, significantly more powerful. We understand that competition rules the world: perhaps such a powerful foundation with Ukraine's participation would mean that people would not need to go to Europe, or anywhere else. Geopolitical processes are going on here, although we are always repeating the same theory: The Eurasian Union is not a political union, but an economic one. The path to integration with Europe is fixed in the constitution, in

the basic laws of Ukraine, and political parties are putting forward European integration as their primary slogans.

On our part, we also confirm that we will integrate with Europe. Our goal is to reach an agreement with the EU on a free trade zone and the creation of a common economic space. Now this looks like a given, but very recently, it seemed that such words would only provoke amused smiles. And now they already see it as completely normal: it is a reality that we will establish. A common economic area from the Atlantic to the Pacific – this is a reality of the next decade. Soon, we will already be thinking about signing documents, agreements. And of course, we have been constantly repeating, and still constantly repeat to our Ukrainian partners: if they wish to achieve a sufficient level of integration with Europe and significantly increase their economic power, then it would be wise for them to do so through the Customs Union and the Eurasian Economic Community.

If they do not, we would survive it, and they would survive it, but I speak openly when I say that it would be a loss both for the Ukrainian economy and for the economy of the Eurasian Community. If they were to participate directly in integration, in the establishment of financial institutions, in the formation of the International Finance Centre, I think everyone would win. Aside from this, as I have already said, we intend to do this in partnership with other territories, including European ones, and Ukraine's integration into Europe would be confirmed. I will speak openly, and say that at the moment we do not have a level of co-operation with the Ukrainian government that would allow us even to hope that we could begin doing all this together with Ukraine. They say all the time that they wish to create formats for cooperation with Russia, but in actual fact no such formats are being created. There have only been slogans,

declarations of intent about what we will do together, about certain projects for integration. Meanwhile, no practical work is going on.

And if, sooner or later Ukraine decides that it is necessary to integrate with Russia, Kazakhstan, and Belarus, I think this will significantly strengthen our Union, and the IFC, of course, will develop at a completely different rate. If this does not happen, if we lose this potential, then unfortunately we must undertake these tasks separately. They will do so according to the principles acceptable for their government, and we will do so together with Kazakhstan and Belarus.

**Y. Solovyov:**

Thank you. You mentioned the European Economic Community, which, as you know, began as a union through steel and coal and ended with full integration and a single currency. Daniyar Akishev, how quickly do you think we could move to a single currency? What is your opinion on this question, as a representative of Kazakhstan's monetary authority? Please, go ahead.

**D. Akishev:**

I do not have a direct answer. I think the answer is as follows: the implementation of a single currency, a symbol of very strong integration, will depend on the speed of this integration. And this speed is very fast. You mentioned a union through coal and steel. More than 40 years have passed, and questions of a currency corridor in the European Union were being discussed over 30 years ago. The path which Europe has taken, the path to create a regulatory framework for a common economic space, we undertook around two years ago. Practically speaking, we have now come to agreements on all positions, I think that these agreements, which have now been made and are

being ratified by our parliaments, have laid the foundations for the development of further collaboration.

For this reason I would like to say something now not about a common currency, but about the integration which is necessary at this stage. We are interested in this, and our presidents have recently signed an agreement about the agreed principles of monetary policy. In Kazakhstan it is ratified, and as far as I know, in Russia ratification is going on right now. This agreement involves plans for a coordinated monetary credit policy between our countries – Belarus, the Russian Federation and Kazakhstan. We are now interested in the creation of a mechanism that would allow us not to react, let us say to events in exchange rate policy, in the rate of the rouble to the dollar, or to the euro, or the rate of the Kazakh tenge to the dollar. Take what is happening at the moment in Belarus: we are witnessing certain changes, negative events, but now we somehow or other share each other's fates, because there is a certain mechanism for mutual assistance, such as the anti-crisis fund.

So, in order to come to an agreement about the principles according to which we can act in the economy and build market relationships, we need a coordinated monetary credit policy. This means that it must be unified: it must be coordinated because the economies of Russia and Kazakhstan are relatively alike in terms of structure, and the circumstances that affect exchange rate policy are similar for Kazakhstan and Russia. Under these conditions, I think, our coordination could be closer. Right now, over these days, experts from our central banks are meeting and are coming to agreements about these principles. I would like to ask for support on these issues from the Russian government, so that the understandings and principles in documents which are now being signed by heads of state are not diluted.

I will now answer the question of whether a common currency is possible. Probably it is possible if we achieve a high level of integration and interpenetration of our economies. You know that there is also an agreement about the trade of services and investment, which proposes a significant harmonization of our financial markets, and if all of these circumstances are realized, I think it will already be possible to talk about a unified currency. We, of course, think that all of this must depend on negotiation processes, and on the position of each country. But, all in all, I think we are already moving in that direction.

**Y. Solovyov:**

Thank you. Karen Zakaryan represents the NASDAQ stock exchange, the stock market group NASDAQ, which is the largest stock market group in the world and operates in all continents. Would you be able to share your experience of international cooperation and integration in the stock exchange? Thank you.

**K. Zakaryan:**

Thank you. It is really true that at the NASDAQ OMX we have gathered rather a lot of experience of integration, and on various levels – at a global level and at a local, or regional, level. But after all of these speeches, I think it will be much more interesting for me to look at our experience of preparing for integration, because integration does not come about by itself: it is necessary to undertake a massive amount of sometimes painstaking work. You need to just get on with it, but in a logical manner.

What have we done in this respect? Integration implies a common stock exchange, depository, and clearings area on an international or a regional scale, but for this it is necessary to begin with the establishment of a common stock

exchange and depository within the country. Until 2000, we had four stock exchanges, since 2000, we have one. But we are gradually and logically occupying an ever-greater part of the financial market in America, so that the stock exchange became a common point of access for participants in the market, so that they could connect at a terminal and use all the services offered by the stock exchange. The same applies to the depository: we have centralized our depository system, and we plan in the coming year to completely and irreversibly consolidate the role of the central depository. It is an interesting idea: there will be a single piece of software, and participants in the market will be offered the status of account managers. It will allow us to make depository services accessible across the whole territory of the country, with minimal losses on investment. By the way, integration processes in the Russian stock market are the first step in the right direction, in our experience.

The next step, once you have successfully created a common stock market and depository area within the country, is to make this area fully effective. These two organizations, these two institutional infrastructures, must work as a single mechanism, as a unified company. After the stock exchange became the proprietor of the depository, we implemented a vertical, integrated management. Effectiveness rose dramatically, which was reflected on the market. We are talking here about the full automation of the transaction chain. And a lot of work must also be done in this respect.

The third aspect I would like to talk about, as Mr. Shuvalov has said, is the creation of convenient conditions for international market participants. All local specifications must exist only for local participants. If we are talking about integration into the international arena, then conditions must be convenient, by which I mean standard. For international market participants, expanding their activity into a new country must ideally mean an increase in scale only, and not a

long process of getting used to new conditions. It perhaps seems to us that in our country the status of certain regulations is somewhat better than in large international centres. But if we want to attract major market participants, we must create convenient conditions for them. If we have all of these components, then the country is ready for processes of integration, and ready to gain the greatest possible benefits from them. Then, global possibilities will appear in the local market.

By the way, in October we will be organizing a conference on this topic in Yerevan. I have noticed that we are not discussing all aspects of this interesting theme today, and I invite you to participate in this conference. It is dedicated to an interesting topic: the global possibilities of local markets. Infrastructure and regulation. Why infrastructure and regulation? There are issuers, there are participants in the market, there are analysts, but it is fundamentally infrastructure and regulation that determine the boundaries of possible integration. Without these it is, generally speaking, impossible to think about integration.

What exactly can be applied in the CIS? In our experience, the first level is so-called 'chaotic collaboration' between brokers; when clients from one country order stocks listed in other countries from their brokers, the broker hires another broker from that other country and a transaction takes place. The next level is collaboration through the depository, when two central depositories, or simply two depositories, open cross-accounts of nominal share-holders with each other, and a service is carried out through the national depository. A citizen from a specific country gains access through the infrastructure to instruments through which trade is conducted in other countries. I think this could become the next stage for extending integration in the CIS, after which it will be possible to think about integration of the stock markets. Thank you.

**Y. Solovyov:**

Thank you very much. Unfortunately our time is coming to an end, so I suggest we open the floor to questions. If possible, please introduce yourselves and say who your question is addressed to. Go ahead.

**R. Michekov:**

Hello. Robert Michekov from Oliver Wyman. I have a question for Mr. Shuvalov and, and Mr. Solovyov, in fact. Going into the privatization question in more depth, there's a limited local investor base in Russia. It seems like privatization is a great opportunity to activate it, and you mentioned a bit about this.

But it requires a number of things. First, well, the decision to list in Moscow and not in London or Hong Kong; the decision to have a price which is attractive so that people can make 10% or more, ideally; quite a bit of education, because people are not used to investing, quite a lot of activation of the brokers and their clients.

So the question to Mr. Shuvalov is, has the government changed the way it thinks about privatization along those lines, given the momentum of the financial centre efforts?

And the question to Mr. Solovyov: is it realistic to attract enough capital through Moscow for the current privatization, to make the privatizations successful?

**I. Shuvalov:**

I simply wish to say that we intend, while realizing privatization, to build all of these instruments and learn how to do this. We understand that our market is limited, and we therefore need partners and opportunities. How can we make it so that we do not blindly follow goals for the improvement of local possibilities,

while losing value? We need to gather together all elements of these transactions and gather together the energy to develop our own Moscow market. When we discuss this with our investment bankers, including with Mr. Solovyov and Mr. Aganbegyan, they say that we are not only capable of doing this, but we must do it. Let them say something about this.

**Y. Solovyov:**

Thank you. I would like to underline that this is absolutely realistic. Not long ago at a road show, we met together with people who were in charge of a few trillion dollars of investment capital, and absolutely all of them were prepared to invest in local stocks and to trade on local markets. They are not afraid, for example, of the rouble as an investment currency, and so on. As far as local investors are concerned, if you look at the volume of trade on the exchange markets, you will see—Ruben can confirm this—that the primary liquidity on the market at the moment is supported precisely by institutional and retail investors in Russia. For this reason, I am a huge supporter of the International Finance Centre, and am absolutely sure that it is a realistic project. Thank you very much. Next question.

**A. Gavrilenko:**

Anatoly Gavrilenko, non-bank financial market. All of my questions arose from the President's speech today, and I would like to make one remark: when Mr. Shuvalov said that in Kazakhstan they know how to work, he probably meant civil servants, because we also know how to work in Russia, and not at all badly. And, in my opinion, we are seeing examples of this excellent work at this Forum. My first question is to Mr. Pankin. Today the President said that he really likes the various social initiatives of interested parties on the market. Would Mr. Pankin be prepared to support such a social initiative from the manager of the

Forex market, who is now intending to write a concept for the development of this market? There are around 400 people currently on this market, and its participants have come to the conclusion that it is necessary to move into a normal legal environment and try to work there.

The second question is to Mr. Shuvalov. We have heard that our honoured President has discussed this IFC with practically everyone, for which we are very grateful. Would it be possible to extend an invitation to him from the non-bank financial market, so that he also discussed the International Finance Centre with us? As with a leading company, we manage around USD 100,000,000,000, our circulation on the stock exchange reaches the tens of billions, and so on. It would be very good if we could meet and discuss this topic, and also discuss the results of the realization of our 48-point plan for the IFC. I am under the impression that it has not been carried out. And the deadline for this plan has already passed.

**Y. Solovyov:**

Anatoly Gavrilenko, thank you very much.

**A. Gavrilenko:**

I have another two questions for different people.

**Y. Solovyov:**

I understand. We have a lot of people here. Unfortunately, we are drawing to a close. If possible, could we limit ourselves to two questions. Thank you very much.

**A. Gavrilenko:**

Well, as you say, you are leading this session.

**D. Pankin:**

Forex is, of course, a possibility. A huge volume of operations occurs on this market, and the market is absolutely unregulated, many regulations are being violated, and there are plenty of crooks. I think that all of this must be organized, and standard rules of play must be established so that there are standards for this market. I welcome the idea of regulating this market and I think that it would be correct if the concept for regulation were prepared by participants in the market. This does not mean that it must necessarily be taken in that form, but the approach must be thus: suggest a concept, and civil servants and bureaucrats will look at it, cut out some things, add others, and we will begin to regulate. Thank you.

**I. Shuvalov:**

I would like to answer the question about a possible invitation from President Medvedev. But first I would like to say that praising others and recognizing the qualities of others does not mean the recognition of one's own inferiority. I am indeed able to confirm the quality of everything Russians are doing, but I am happy for our Kazakh colleagues, who have learned to work in this way, and we often should be learning from them. As far as an invitation for the President is concerned, I will, of course pass on the message this evening to Dmitry Medvedev. But I must also say that all consultations that he has conducted with foreign investors or potential experts were accompanied by consultations with major Russian institutions. Troika, Renaissance – they all participated in these discussions.

Therefore, if we did not call on some people, please forgive us. But I will tell the administration and Dmitry Medvedev today that it is perhaps necessary to conduct further consultations so that you, and others who have not been drawn into this process, know that we can conduct a collaborative discussion of this topic.

**Y. Solovyov:**

Thank you very much. Unfortunately, we have run out of time, and we all have very full schedules. I would like to thank all of our honoured panelists. Thank you very much, and I wish you a successful evening!