

EQUITY AND BOND MARKET

The Equity and Bond Market is a liquidity center for operations with Russian securities and the main platform for Russian companies to raise capital. MOEX is the venue for placements and trading of shares and depositary receipts; government, regional and corporate bonds; bonds of the Bank of Russia; sovereign and corporate Eurobonds; shares of mutual funds (PIF) and exchange-traded fund shares of mutual funds (BPIF); mortgage participation certificates; and shares of exchange-traded funds (ETF).

Equity Market

	2016	2017	2018	Change 2018/2017
Equity Market trading volumes, RUB billion	9,277	9,185	10,830	17.9%

Bond Market

	2016	2017	2018	Change 2018/2017
Bond Market trading volumes, RUB billion	14,616	26,228	29,841	13.8%
Secondary trading, RUB billion	9,589	10,979	10,219	-6.9%
Sovereign bonds (OFZ)	4,961	6,470	6,538	1.1%
Bank of Russia bonds (OBR)		101	537	434.2%
Municipal bonds	398	337	274	-18.6%
Corporate bonds	4,135	3,928	2,767	-29.6%
Other	95	143	102	-28.7%
Primary market and bond redemptions, RUB billion	5,027	15,250	19,622	28.7%
Sovereign bonds (OFZ)	1,123	1,715	1,034	-39.7%
Bank of Russia bonds (OBR)		502	7,017	1298.1%
Municipal bonds	159	214	86	-59.8%
Corporate bonds	2,342	3,148	2,850	-9.5%
One-day bonds	1,401	9,665	8,625	-10.8%
Other	2	6	10	68.3%

	December 2016	December 2017	December 2018	Change 2018/2017
Number of private investors with brokerage accounts	1,102,966	1,310,296	1,955,118	49.2%

Trading Results

In 2018, total trading volumes on the Equity and Bond Market increased by 14.8% to RUB 40.7 trln. Trading volumes on the Equities Market increased by 17.9% to RUB 10.8 trln, surpassing the RUB 10 trln mark for the first time since 2014. On the Bond Market, total trading volumes amounted to RUB 29.84 trln, a 13.8% decrease versus 2017.

In 2018, the volume of bond placements increased by 28.7% to RUB 19.6 trln. Of this, RUB 8.1 trln was accounted for by quasi-sovereign bonds and bonds of the Bank of Russia, RUB 2.85 trln by corporate bonds, and RUB 8.6 trln by one-day corporate bonds.

In 2018, 38 new corporate bond issuers entered the Equity and Bond Market, placing 50 issues for a total of RUB 62 bln.

Attracting Retail Investors

2018 saw an active inflow of retail investors to the Equity and Bond Market. At the end of 2018, the number of unique individual clients stood at just shy of 2 mln, an increase of 50% from the end of 2017.

Increased interest in investment services among Russian retail investors is being driven by tax incentives, as well as the development of digital technologies and remote identification services that allow individuals to open a brokerage account from home. The online client registration technology implemented by MOEX allows users to start trading in just a few minutes after opening an account on the broker's or bank's website.

Individual investment accounts (IIA), which offer tax incentives designed to stimulate investments in the Russian Equity and Bond market, constitute a significant share of accounts held by individuals at MOEX. At the end of 2018, MOEX registered almost 600,000 IIAs, with more than 55% being opened by new private investors who had never previously had brokerage accounts.

Expanding the Range of Instruments

Development of the product line and the launch of specialist instruments aimed at retail investors supported an active inflow of private investors to the Russian on-exchange market.

In 2018, infrastructure and regulatory framework were put in place for the launch of trading in exchange-traded investment funds (BPIF) – the equivalent of ETFs under Russian law. The market maker control system was also significantly improved to meet regulatory requirements. Exchange-traded funds are designed primarily for individual investors; they greatly facilitate portfolio investment by strictly following the structure of stock indices, allowing investors to purchase the whole market or individual sectors with “just one click” and at minimal cost. As of the end of 2018, total trading volumes of exchange-traded funds (BPIFs and ETFs) increased 2.5 times and amounted to RUB 23.5 bln.

In 2018, shares of the first two mutual funds (BPIF) – on the MOEX total return index and shares of global technology companies, respectively – were placed on MOEX. The range of foreign exchange-traded funds was also expanded, with trading launched in ETF shares on the RTS index, Russian Eurobonds, and the Kazakhstan companies share index of the Kazakhstan Stock Exchange (KASE). At the end of 2018, shares of 15 ETFs and fund shares of two exchange-traded funds issued under Russian law were traded on MOEX. The underlying assets of the funds are stock indices, shares, bonds and commodities.

Technological Development

MOEX is constantly working to improve technologies and provide modern and convenient services to its participants and clients. In 2018, online registration of clients on the Equity and Bond Market was introduced, giving private investors access to trading almost instantly after opening a brokerage account. In April 2018, trading members were provided with an online registration service through file exchange within the Electronic Document Interchange system (EDI system); in October, a project for registering new clients via API connection of trading members to MOEX systems was implemented.

In 2018, the Sponsored Market Access (SMA) service, available since the end of 2017, was improved. SMA enables clients of trading members to participate directly in trading on MOEX's Equity and Bond Market. As part of the improved SMA functionality, clients are given the ability to act as market makers. At the end of 2018, more than 50 clients from 10 brokerage companies used this service.

The methodology for determining tick sizes for shares, depositary receipts and exchange funds was developed and implemented in line with global best practice. The new methodology ensures compatibility of European and Russian regulations on tick sizes, reduces possible regulatory barriers for European companies when working in the Russian market due to the introduction of MiFID II requirements, and draws on best international practices to improve the quality of the stock market.

In the debt market, income transfer in Eurobond sales from sellers to the buyers after the date of ownership listing was implemented; and admission of bonds for redemption on the offer dates was automated, which accelerated admission of securities for redemption.

In addition, labeling of bonds with inaccurate parameters was launched to give investors better information about and draw attention to the parameters of such securities.

To increase transparency of bond data, MOEX continued to develop the debt portal on its website. New pages were added with interactive content including a list of suspensions on bond trading and key facts, with the ability to search for bonds and select time intervals, and a search widget with advanced filtering and display of bond information. It also became possible to build an interactive curve of zero-coupon yield, which is a key indicator for the bond market; and a new calculator was added to identify yield value by duration.

Liquidity

MOEX actively works with the professional community under a number of market-maker programs to boost liquidity in the Equity and Bond Market. At the end of 2018, more than 100 contracts with 35 market makers were in force on the Bond Market with about 60 contracts concluded in 2018. At the end of 2018, 75 contracts with 26 market makers were in force on the Equities Market. During the year, 39 new market-maker contracts were signed, and some of them began to be executed in 2019.

Due to increasing requirements for the liquidity of shares in the first and second level quotation lists effective 1 January 2019, MOEX worked to expand the number of issuers that attract market makers to maintain quotations of securities. As a result, 13 new market-maker agreements on shares were concluded in January 2019.

Attracting SMEs

In 2018, 24 new issuers of small-cap bonds with issue sizes of less than RUB 500 mln – representing industries including IT, finance (leasing companies, micro-finance institutions, pawnshops) and construction and development – made their debuts on MOEX. The number of regional issuers with high growth potential increased (from seven to 22).

To encourage SMEs to tap the public markets, the Growth Sector has been functioning since 2017 on MOEX. The Growth Sector is intended to attract additional funds to high potential companies in the real sector of the economy, to expand the range of traded instruments on the financial market and to diversify investments.

MOEX's regional subsidiaries in St. Petersburg, Rostov-on-Don, Nizhny Novgorod, Novosibirsk, Ekaterinburg and Samara work with prospective issuers and investors. In 2018, 36 regional companies were given direct access to the MOEX FX and Money Markets and 18 regional issuers placed bonds.

Information cooperation agreements were signed with financial market participants and noncommercial organizations from Samara, Saratov and Ulyanovsk regions and Tatarstan, as well as with the Novosibirsk-based Interregional Association of Enterprise Leaders, to help businesses enter the debt market.

The agreements aim to support our joint efforts to inform potential issuers and investors about capital-raising opportunities including borrowing through corporate bond issuance, as well as to arrange forums, workshops and thematic events to highlight and promote the financial market.

The Growth Sector is supported by the SME Corporation, Industry Development Fund (IDF), Russian Direct Investment Fund (RDIF), Russian Export Centre (REC), the Ministry of Economic Development and the Ministry of Industry and Trade. The main partner in this project is the Bank of Russia. The requirements relating to free float were relaxed for the Sector's issuers: for the second level of listing, RUB 500 mln instead of RUB 1 bln for ordinary shares, and RUB 250 mln instead of RUB 500 mln for preferred shares. At the end of 2018, 15 securities – three stocks and 12 bonds – were traded in the Growth Sector. Total securities trading volumes amounted to RUB 11.57 bln.

Development of the infrastructure of the Growth Sector, primarily in terms of support tools, continued throughout 2018. In April, legislative changes came into force giving bond issuers in the Growth Sector the right to receive subsidies from the government for paying coupon income (up to 70% of the basic indicator) from the Ministry of Industry and Trade.

Together with the SME Corporation, draft rules were developed to establish the procedure for granting guarantees by the Corporation for bond issues by SMEs, which will help reduce the rate on bonds placed and improve their credit quality from the point of view of potential investors.

Implementation of the national SME project began. One of the most important goals of the project, which is planned to run through 2024, is to expand access of SMEs to financial resources, including by encouraging SMEs to enter the on-exchange market. The project includes measures to support Growth Sector issuers including:

- ▶ subsidizing the coupon rate on bonds;
- ▶ subsidizing the costs of companies' entry to the Equity and Bond Market;
- ▶ participation of development institutions in facilitating SMEs' access to the Equity and Bond Market, including the provision of anchor investments and guarantees;
- ▶ providing tax incentives to investors;
- ▶ involvement of regional infrastructure in the process of searching for companies to enter the Equity and Bond Market and informing potential issuers.

In the future, it is planned to expand the range of support tools for issuers of bonds of the Growth Sector.

In 2018, bonds of three SMEs totaling RUB 730 mln were placed in the Growth Sector; and exchange-registered bonds of a number of issuers were traded. For example, an SME bank's pilot trade involving securitization of a RUB 7 bln portfolio of loans granted to SMEs was executed.

The Innovation and Investment Market (IIM) has successfully operated on MOEX since 2009. The IIM was created in conjunction with RUSNANO to promote investment in the innovation sector of the Russian economy. One of the support measures for the sector is tax incentives for investors: investment income from securities of issuers with a market capitalization of up to RUB 10 bln (RUB 25 bln from 1 January 2019) is not taxable, provided that the investor holds them for at least one year.

In 2018, total securities trading volumes in the IIM Sector increased by 90% YoY to RUB 48.2 bln. At the end of 2018, 24 securities were traded in the Sector. In particular, RUSNANO placed a total of RUB 10 bln worth of bonds. At the end of 2018, the capitalization of the Sector stood at RUB 379.2 bln.

To support growing technology companies, MOEX and the Ministry of Economic Development held a competition in 2018 with 14 innovative companies being selected for subsequent public market entry in the IIM Sector. The companies may receive advisory support, including access to pre-IPO financing from funds, and access to a pool of "anchor" investors. They are also provided with information support, including support in interaction with public authorities and development institutions.

Listing of Securities

MOEX is constantly working to increase the quality of securities included in its quotation lists by improving issuing procedures and encouraging issuers to follow best practices of corporate governance. This work is aimed at increasing the transparency and attractiveness of the Russian Equity and Bond Market and protecting the interests of private and institutional investors.

In 2018, a new version of the listing rules came into force that introduces additional requirements for securities and issuers whose shares are included in MOEX's quotation lists. In particular, it establishes requirements for information disclosure, including five years of dividend payments, dividend policy and contact information for investors. In addition, MOEX developed recommendations on disclosure of the annual report and IFRS statements, material facts, and the investor's schedule of planned events. When holding General Meetings of Shareholders, MOEX recommends that issuers use electronic voting, to broadcast the General Meeting of Shareholders on the website, and to give shareholders the opportunity to send questions on the agenda in advance.

To improve corporate governance at public companies, MOEX updated methodological recommendations for assessing the compliance of Directors with independence criteria and for recognizing Directors as independent despite not meeting all of the formal requirements. If a candidate for or a member of the Board of Directors is recognized as independent for listing purposes, the issuer is also recommended to ensure that the candidate or Board member signs the Independent Director Declaration, and that information about the signing is published on the issuer's website.

To improve the quality of traded securities in the quotation lists, MOEX introduced requirements for the minimum daily median volume for shares included in the second level listing, and increased the requirements from RUB 1 mln to RUB 3 mln for shares included in the first level listing.

As part of its work to improve the dividend policies of public companies, MOEX developed a checklist that allows issuers to evaluate whether or not their dividend policy or draft dividend policy complies with the Exchange's Methodological Recommendations. The Methodological Recommendations were developed by MOEX in 2017 to assist Russian issuers in complying with the Listing Rules, and to provide issuers with the tools they need to set out a clear and understandable approach to determining dividend payments in their dividend policies.

MOEX continued to implement its strategy to digitalize listing services for issuers. In 2018, MOEX switched to electronic interaction with issuers, including through electronic digital signatures, and introduced electronic document management during the registration of issue documents of exchange-registered bonds. The use of electronic signatures reduces costs for issues by eliminating paper document management, increases the speed of interaction with MOEX and improves the reliability of document management. At the end of 2018, 167 issuers (26%) used electronic signatures for listing purposes, while 33 issuers submitted 347 issue documents for registration using an electronic signature.

New tariffs for listing services were introduced, almost halving the burden on MOEX infrastructure for small bond loans in Q4 2018 alone.

In October 2018, the listing course (an educational project for issuers, organizers and consultants) was launched to improve the level of listing knowledge of MOEX's clients and to familiarize new clients with the public debt market. The course is held in the form of face-to-face lectures and webinars with internal and external speakers. During the course, issuers can learn about how to enter the public market, listing procedures and corporate governance requirements.

At the end of 2018, 1,872 securities of 642 issuers, including 278 shares of 225 issuers and 1,460 bonds of 408 issuers, were admitted to on-exchange trading. MOEX's quotation lists included 802 securities of 248 issuers.

Basic requirements for inclusion of ordinary shares in quotation lists

Criteria	First level listing	Second level listing
Free float	≥ 10% of the issuer's capitalization > RUB 60 bln and market value of the free float ≥ RUB 3 bln determined by the formula with capitalization < RUB 60 bln and market value of the free float ≥ RUB 3 bln	≥ 10% of shares Market value of the free float ≥ RUB 1 bln
Length of issuer's existence	≥ 3 years	≥ 1 year
Preparation and disclosure of IFRS statements	3 years	1 year
Corporate governance	<ul style="list-style-type: none"> ▶ At least 1/5 of members of the Board of Directors, but not less than three independent directors ▶ Audit, Remuneration, and HR Committees ▶ Corporate Secretary and approved Regulations on the Corporate Secretary. 	<ul style="list-style-type: none"> ▶ At least two independent members of the Board of Directors ▶ Audit Committee ▶ Corporate Secretary
	<ul style="list-style-type: none"> ▶ Approved dividend policy ▶ Internal Audit Unit and approved internal audit policy 	