

Market Profile Russia



Global Securities Services

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Banking that matters.



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1. Overview

1.1. GEOPOLITICAL DATA

Time Zone:	GMT + 3
Daylight Saving Time:	NO
Currency:	Ruble (RUB)
Banking Holidays:	Link
EU Membership:	NO
Schengen Zone:	NO



1.2. G30 COMPLIANCE

Trade comparison by T+1 for direct market participants	YES
Trade comparison for indirect participants	YES
Central securities depository	YES
Trade netting system	YES
Delivery vs. payment	YES
Same day funds	YES
Rolling settlement T+2	YES
Securities lending and borrowing	YES
ISIN	YES

1.3. COUNTRY RATINGS

Rating Agency	Issuer Default Rating Foreign Currency, LT	Outlook
Fitch	BBB	Stable
Moody's	Baa3	Stable
Standard & Poor's	BBB-	Stable

2. Regulation and supervision

2.1. REGULATORY/SUPERVISORY BODIES

Supervision of financial markets is carried out by the following institutions:

- Central Bank:
Central Bank of Russia (CBR)
Supervision, regulatory and legislative authority of the banking system and financial market (www.cbr.ru).
- Ministry of Finance:
Regulatory and legislative authority of the financial markets (www.minfin.ru).
- Tax Service:
Federal Tax Service of the Russian Federation (www.nalog.ru).
- Anti-Monopoly Service:
Federal Anti-Monopoly Service of the Russian Federation (FAS) (www.fas.gov.ru).

2.2. KEY MARKET REGULATIONS

Below you will find a list of the key market regulations. For a complete list with up to date information on the acts please refer to the GSS Website (<http://gss.unicreditgroup.eu>) or contact your local GSS Relationship Manager.

Regulation	Main focus
Federal Law on the Securities Market	Securities, trades, stock exchanges, custodians, registrars
Federal Law on the Securities Market	Banks and banking
Federal Law on Protection of the Rights and Legitimate Interests of Investors on the Securities Market	Protection of the final investors' rights and interests
Federal Law on the Central Depository	Central depository activity
Civil Code of the Russian Federation	Securities definition
Federal Law on Joint Stock Companies	Joint Stock Companies
CBR Regulation No.542-P	Depositories, custodians, regulation of depository system
CBR Regulation No.503-P	Depo accounts; Custodian record-keeping system
The Federal Law on Countering the Legalisation of Illegal Earnings (Money Laundering) and the Financing of Terrorism	Anti-money laundering policy
CBR Regulation on Qualified Investors	Qualified Investors

2.3. SELF-REGULATORY ORGANISATIONS

Self-Regulatory Organizations (SRO) should be approved by CBR. SROs are entitled to impose their own requirements onto their members, and each licensed market participant is required to be a member of at least one SRO. The following self-regulatory associations are present in the market and are focused on the following areas of the Russian securities market:

- National Finance Association (NFA) – mainly on the banks and depositories. AO UniCredit Bank is a member of NFA.
- Professional Association of Registrars, Transfer-Agents and Depositories (PARTAD) – on the registrars.
- National Association of Participants of the Securities Market (NAUFOR) – on the brokers.

3. Trading

3.1. COMMONLY TRADED INSTRUMENTS

Equities		Money Market instruments	
<input checked="" type="checkbox"/>	Ordinary shares	<input checked="" type="checkbox"/>	Certificate of deposits
<input checked="" type="checkbox"/>	Preferred shares	<input type="checkbox"/>	Commercial papers
<input type="checkbox"/>	Employee shares	<input checked="" type="checkbox"/>	REPO transactions
<input type="checkbox"/>	Interest bearing shares		
Government debt		Corporate debt	
<input checked="" type="checkbox"/>	Government bonds	<input checked="" type="checkbox"/>	Corporate bonds
<input type="checkbox"/>	Treasury bonds	<input checked="" type="checkbox"/>	Mortgage bonds
<input checked="" type="checkbox"/>	Treasury bills	<input checked="" type="checkbox"/>	Convertible bonds
<input type="checkbox"/>	Treasury notes	<input type="checkbox"/>	Exchangeable bonds
<input checked="" type="checkbox"/>	Municipal bonds		
Derivatives		Other instruments	
<input checked="" type="checkbox"/>	Options	<input checked="" type="checkbox"/>	Exchange traded funds
<input checked="" type="checkbox"/>	Futures	<input checked="" type="checkbox"/>	Investment funds
<input type="checkbox"/>	Warrants	<input checked="" type="checkbox"/>	Eurobonds funds
		<input checked="" type="checkbox"/>	Depository receipts
		<input checked="" type="checkbox"/>	Commodities

3.2. MOSCOW EXCHANGE

Legal name	Moscow Exchange
Website	http://moex.com
Ownership structure	11.779% Central Bank of Russia 10.002% Sberbank 8.404 % Vnesheconombank 6.069% European Bank for Reconstruction and Development
Trading Members	Russian licensed brokers, dealers, trustees, organisation, acting as CCP and Central Bank of Russia. Following types of membership are available: Clearing member.
Traded instruments	Securities, Derivatives, Currencies, Commodities, ETFs.
Trading method	Main market: <ul style="list-style-type: none"> • Systems trade mode, order-driven market, T+0 - 100% prefunding /T+1, T+2 - partial prefunding. • Address trade mode, negotiated deals between market participants, allowing significant flexibility. The prevailing on-exchange trading mechanism T+2 along with pre-existing T+0 trading are available for the market participants within the main trading mode and the CCP negotiated deals mode. T+2 was launched to make Russian assets more accessible for foreign investors, enhance

transaction efficiency for domestic brokers due to lower funding costs, and create opportunities for improving cash management and streamlining their business processes.

Settlement agent	National Settlement Depository (NSD)		
Clearing agent	National Clearing Centre (NCC) Clearing sessions: at 17:00 and 19:00 Moscow time		
Trading hours	Main market	from 09:30	to 19:00 Moscow time
	Derivatives Market	from 10:00	to 23:50 Moscow time
	FX Market	from 10:00	to 23:50 Moscow time
Settlement cycle	T+2: Equities, Depository Receipts (DRs), investment units, mortgage-backed securities, ETF, Eurobonds denominated in USD, ETCs.		
	T+1: OFZ Corporate bonds, Minfin Eurobonds (migration from T+0 to T+1 in progress)		
	T+0: OFZ (Negotiated trades mode), regional bonds, municipal bonds, Eurobonds non-denominated in USD. Corporate bonds, Minfin Eurobonds (migration from T+0 to T+1 in progress)		
	Derivatives market, FX Market: Futures and options, continuous double action.		

3.3 OTC TRADING

Market participants may conclude OTC deals in negotiated trades mode of the Moscow Exchange or off-exchange trading is done directly between the buyer and seller who establish their own delivery and payment conditions.

The transfer of security on the secondary market starts with striking a deal and ends up by settlement, when money is transferred from the buyer and security is transferred from the seller. Money transfers are processed via banks for FOP, via authorised settlement banks for USD DVP and via NSD for RUB or USD versus payment deals. The transfer of securities involves CSDs, custodians and/or registrars. The deal usually passes four stages: conclusion, matching, clearing (understood as computation of mutual obligations) and settlement.

OTC settlement of the equities can be performed with the following place of settlement: registrar, CSD or custodian.

In accordance with the Law on Central Depository the nominee accounts with the registrars for the CSD-eligible securities (equities with Prospectus issued) were opened for the CSD solely.

Russian custodians can hold the nominee accounts with the registrars for the non CSD-eligible securities only. The rest of the securities are safekept at nominee accounts of Russian custodians with the CSD.

All trades within one nominee account of the custodian are not reflected in the books of the CSD or registrar. The settlement of the OTC trades can be executed on a FOP and DVP basis.

The registrar is a professional participant of the securities market who has a special license for such activity. It performs maintenance of securities owners register on the basis of the agreement with an issuer. All Russian registrars are supervised by CBR. At present there are about 30 registrars in Russia.

Generally speaking, there is no standard settlement cycle on the Russian OTC market and the transaction settlement cycles largely depend on the Purchase and Sale Agreement (PSA), signed by the counterparties.

4. Clearing

4.1. NATIONAL CLEARING CENTRE, NCC

Legal name	Non-banking credit institution - Central Counterparty National Clearing Centre (NCC)
Website	www.nkcbank.com
Ownership structure	100% Moscow Exchange
Clearing members	<p>Russian banking organisations, licensed brokers, dealers, trustees, organisation, acting as CCP and Central Bank of Russia.</p> <p>Following types of membership are available: Clearing member, clearing bank.</p>
Scope of services	<p>NCC is a subsidiary of the Moscow Exchange Group, performing functions of a clearing organisation and central counterparty in the financial market. The Central Bank of Russia determined NCC as a systemically important central counterparty.</p> <p>As of 1 November 2015, MOEX implemented a new structure of the central counterparty's (CCP) protection level applicable for all markets of the stock exchange. Limit of liability of CCP on the stock-exchange market and currency market is the same as on the derivatives market. Also MOEX has started contributing to the Guarantee fund equally to the other market participants. CCP NCC's strategic objective is to provide members of various financial market segments with integrated clearing services implying the use of the unified collateral and management of the members' single positions (limits) while providing clearing services in all Group's exchange-based markets and OTC markets.</p>
Risk model	<p>The risk management system consists of the following measures:</p> <ul style="list-style-type: none">• The system limits trading order parameters – when exceeded these are automatically declined;• The value of initial margin depends on the trade regime and settlement code;• A fund created from clearing activity commissions of about RUB 100 million;• Settlement principle – strict DVP;• Defined settlement procedure in the event of insolvency;• Disclosure and fines for the participants not complying with a deal;• Monitoring of the participants actions, the trades and risks arising with price fluctuations.

5. Settlement

5.1. NATIONAL SETTLEMENT DEPOSITORY, NSD

Legal name NCO JSC National Settlement Depository

17f-7 eligibility Yes

Website www.nsd.ru

Ownership structure 99.997% Moscow Exchange

0.003% Others

Scope of services NSD is the central securities depository of the Russian Federation. NSD was established as a result of the merger between the National Depository Centre (NDC) and the MICEX Settlement Chamber in 2010 and bears status of a non-banking credit organisation with a cash transfer license. NSD services Moscow Exchange and thus practically controls the government securities market. All fixed income trades as well as operations with equities are made on Moscow Exchange settled through NSD. In particular, at present NSD as a depository institution handles the following functions on the securities market:

- Central Securities Depository;
- Settlement depository for Moscow Exchange;
- Clearing Centre for OTC DVP trading;
- De-facto central depository for corporate bonds market;
- ANNA authorised agency for assigning ISINs to domestic securities and other financial instruments and CFI code for foreign securities;
- Official source of corporate information of public companies.

CSD activity rules:

- The CSD is allowed to open nominee accounts in public company's registrars exclusively;
- The CSD is entitled to open the nominee account for the following entities: 1) Nominee accounts – for Russian licensed professional market participants; 2) Foreign nominee accounts – for international centralised settlement systems and international CSDs and 3) Foreign nominee accounts - for any foreign legal entity that in compliance with the laws applicable to it is entitled to register and transfer rights to securities;
- The CSD is obliged to perform reconciliation of the records with the registrar upon every transaction or once per day in case there are no transactions. The reconciliation guarantees the finality of settlement on CSD books;

The transfer of securities between the account of CSD with the registrar and owner's account opened directly with the registrar should be done on NCBO basis (with some exception related to mandatory tender offers).

Accounts held

- Owner account;
- Nominee account;
- Foreign nominee account;
- Trustee account;
- Trading account (Trading account should be opened separately for each type of settlement with the indication of the respective clearing organisation):
 - Trading account for on-exchange trading (NCC);
 - Trading account for OTC DVP settlement (NSD).

Eligible instruments Equities, bonds, mutual funds, ADR, Eurobonds.

Level of dematerialisation 100%

Stock Exchange Settlement	Intra-day or end-of-day settlement of netted clearing results received from the NCC.
OTC Settlement	<p>NSD provides FOP and DVP settlement. Settlement is conducted on a T+0 basis if both parties have holdings with NSD. To settle a trade or a NCBO transaction both parties have to provide their settlement depository with counter orders to be pre-matched before settlement. Transaction orders are wired electronically (ISO 15022 and internal SWIFT like message formats via their own software WEB.Cabinet). Swift messages can require additional fields.</p> <p>DVP settlement details:</p> <ul style="list-style-type: none"> • RUB, USD, EUR, CHF, GBP, CNY (through account with NSD), RUB (through account with the Central Bank) and USD (through account with NSD or a USD settlement bank); • Settlement type (DVP-1 – gross settlement, DVP-2 – cash netting, DVP-3 – cash & securities netting); • Clearing sessions: <ul style="list-style-type: none"> • Cash with NSD - 10:00, 12:00, 13:00, 14:00, 15:00, 16:00, 18:00, 18:45, 19:40. • Cash with a foreign bank - 10:00, 13:00, 15:00, 18:00, 18:45. • Maximum tolerance level – USD 25 or RUB 800. <p>Electronic matching is a mandatory process in lifecycle of every FOP or DVP instruction settled via NSD, allowing clients to receive information on the most relevant potential instructions among all sent by the counterparties in real time. “Hold & Release” functionality allows managing the settlement process. Instructions in status «for matching» will not be executed until client’s confirmation on changing the instruction’s status to "for execution". Electronic matching and “Hold & Release” functionality result in a significantly increased STP process on the Russian OTC market.</p> <p>Credit organizations can conduct settlements on transactions with securities on a DVP basis using correspondent accounts opened with the Bank of Russia (CBR).</p>
Settlement Protection	<p>Securities exchange transactions with regional and municipal bonds as well as with the OFZ (Negotiated trades mode) are done on funds/securities pre-deposited basis, i.e. all trade participants must deposit the full amount of its obligations in cash or securities with the exchange before they do the trade. According to this scheme, no guarantee fund is needed because settlement can be done only in case counterparties have enough collateral to fulfil their obligations. During a trading session funds/securities are blocked on the accounts and will be written-off during netting hours after the trading day is closed. Such a settlement method is used for all securities trading (both, equities and government/corporate bonds) on the stock exchange.</p> <p>The National Clearing Centre acts as a central counterparty for trades concluded on the Moscow Exchange, thus mitigating the risk of settlement default of on-exchange trades. On-exchange trades are settled on a DVP basis only.</p> <p>OTC trades can be settled on a DVP basis via NSD acting as clearing house.</p> <p>On 1 February 2018 NSD launched service of automatic securities transfer from on-exchange to off-exchange account authorized by a standing instruction from a clearing participant. The service minimizes transactions processing time and reduces operational risks of off-exchange settlement failure as a result of securities insufficiency on the off-exchange account.</p>
Investor Protection	The investors’ rights protection is regulated by the Federal Law on Protection of The Rights and Legitimate Interests of Investors on The Securities Market (46-FZ dd 05/03/1999) including the condition of the service rendering by the professional market participants to investors, additional requirements to such professional market participants, the responsibility of the issuers and market players for the law violations.
Identified Risk	None

6. Payment System

6.1. GENERAL INFORMATION

Cash settlements in Russia are affected through the CBR payment system. In 2018 new payment system known as the Perspective Payment System was introduced. It consists of two main components: system of urgent payments and system of non-urgent payments.

The main features of the system of urgent payments are the following: transfer of money takes place on “real time basis”; urgent payments system is to be used for all payments exceeding RUB 100 mln; timeframe of processing payments is from 1.00 am to 9.00 pm Moscow time (last hour is dedicated to interbank settlements only).

The main features of the system of non-urgent payments are the following: payments are released in batches/packages processed by the clearing system within 30 min after receipt of the package from the bank; each bank-participant sets its own schedule when to release packages; timeframe of processing payments is from 1.00 am to 8.00 pm Moscow time.

In order to open a RUB account with Russian banks, foreign investors are required to register with the Russian tax authority.

Non-residents may open an unlimited number of RUB accounts in one or several authorised banks in Russia. Following the abolition of currency restrictions, the RUB current account can be used for all types of transactions. These accounts may be interest bearing with terms agreed individually with the local bank. Overdrafts may be offered by means of a separate loan agreement due to the fact that debit positions are treated as a loan under Russian legislation.

6.2. LIMITATIONS, DEADLINES, CUT-OFF TIMES

No currency restrictions exist on the Russian market today. However, currency control does still exist in Russia, therefore all RUB payment orders involving non-residents must include so-called VO codes or currency operation codes, to define the type of transaction undertaken and for regulatory reporting purposes. In 2018 new regulations were introduced permitting Russian banks to correct VO codes in payments of non-residents where it is necessary and possible without additional instructions from the clients. The list of VO codes is available from your account manager.

The remitter is required to provide more detailed information for the routing of a RUB payment via the CBR payment system as compared with global payments. CBR does not operate on a SWIFT basis and all client SWIFT instructions are converted into the CBR-required format by the local bank which includes the following additional requirements:

- Recipient's INN number (tax identification number);
- Recipient's bank and its BIC code (bank identification number, a 9-digit code starting with 04);
- 20-digit account number of the recipient's bank at the CBR clearing centre;
- Reason for payment in English for currency control purposes and VO code.

Market deadline for RUB clearing payments system is 20:00 Moscow time within working hours of the clearing system.

7. Securities Lending

7.1. SECURITIES LENDING

Effective from January 2020 the Federal Law On Securities market was added with the provision that custodians may act as intermediaries in securities lending deals. Further evolvement of the regulation on the securities lending is expected by the market participants. “Repos” are the transactions which are most closely associated with the securities lending; however, the nature and the legal basis of those transactions is completely different, and they constitute two related purchase and sale transactions, rather than a true securities lending arrangement.

7.2. SHORT SELLING

Currently not available on the Russian market. There are no regulatory provisions available.

8. Corporate actions

8.1. COMMON CORPORATE ACTION EVENTS

Mandatory events	Voluntary events
<input type="checkbox"/> Bonus issue	<input type="checkbox"/> Dividend option
<input checked="" type="checkbox"/> Cash dividend	<input type="checkbox"/> Dividend reinvestment
<input checked="" type="checkbox"/> Early redemption	<input checked="" type="checkbox"/> Exchange
<input checked="" type="checkbox"/> Interest payment	<input checked="" type="checkbox"/> Priority issue
<input checked="" type="checkbox"/> Maturity	<input checked="" type="checkbox"/> Repurchase offer
<input checked="" type="checkbox"/> Maturity (final)	<input checked="" type="checkbox"/> Reverse stock split
<input checked="" type="checkbox"/> Merger	<input checked="" type="checkbox"/> Shareholders meeting
<input checked="" type="checkbox"/> Pari-passu	<input checked="" type="checkbox"/> Spin-off
<input checked="" type="checkbox"/> Partial redemption	<input checked="" type="checkbox"/> Stock split
<input type="checkbox"/> Rights issue	
<input type="checkbox"/> Stock dividend	
<input checked="" type="checkbox"/> Tender offer	

8.2. DATING CONVENTIONS

The Russian market is a record date driven market in terms of corporate actions. The list of entitled shareholders is generated based on the settled position as of record date.

The record date of a corporate action is established by the Board of Directors of the issuer or by the prospectus of a particular security. Different types of corporate actions may have different rules for record date determination. The record date is usually prior to the announcement date of a corporate action.

For a corporate action that requires a record date, the issuer acquires the register of shareholders for such a date via its Registrar. Registrars then request nominee holders to disclose their clients to determine the full list of shareholders.

There is no ex-date concept on the Russian market.

In situations where a trade is concluded prior to the record date but is registered after the record date, the seller receives the entitlement. The buyer can only claim the entitlement from the seller if such was agreed by the time the trade was concluded. A claim process is not formalised and settled between counterparties on a case by case basis.

8.3. SOURCES OF C/A INFORMATION

National Settlement Depository (Russia's CSD) acts as the official golden source of corporate action information of public companies. Corporate action information disclosed by the CSD prevails over other sources of information.

The Russian issuers of public companies are obliged to provide the CSD with corporate information and the CSD is liable for misrepresentation of information received from the issuers.

8.4. LOCAL C/A SPECIFICS

The following types of rights attached to the Russian securities held via custodians have to be exercised by account owners only via electronic interaction with their custodians:

- pre-emptive rights to acquire securities;
- buy-backs of securities;
- tender-offers;
- squeeze-outs.

The below listed rights can be exercised by owners of securities held in depositories either as independent interaction with an issuer or via electronic interaction with custodians:

- addition of items to General Meeting agenda;
- nomination to the joint stock company's Boards of Directors and other bodies or representatives' candidates of the bondholders;
- calling of General Meetings;
- participation in General Meeting and exercising voting rights;
- exercising other rights attached to securities.

The custodians are authorized to participate in voluntary corporate actions on behalf of their client based on the client's instruction without provision of Power of Attorney issued by the client

Power of Attorney and a set of legal documents may be required from investors in the case of their participation in corporate /market events that are still out of scope of the corporate actions' process. The requirements for the list of legal documents to be attached are determined by an offer for each particular event.

The clients that hold securities belonging to them on either the beneficial owners or foreign nominee holder accounts may not submit information required for exercising rights on the securities to the Custodian if such non-disclosure was agreed with the parties to the contract (not applicable for mandatory disclosure). At the same time, the clients have no right to demand from the issuer execution of rights on the securities in cases envisaged by the legislation, including repurchase or redemption of the securities and will have no right to dispute decisions of meetings of securities holders.

9. Proxy voting

9.1. GENERAL CHARACTERISTICS

Russian companies are supposed to have at least one Annual General Meeting (AGM) a year, not earlier than two months but not later than six months following the end of the company's business year. They generally occur between March and July. In addition, Extraordinary General Meetings (EGM) may be held at any time during the year.

The list of shareholders who have the right to attend the meeting is determined as of record date for the general meeting (GM), which is set by the Board of Directors of the issuer, and cannot be earlier than 10 days since the date of the decision on conduction of a GM and later than 25 days before the date of a GM. The record date is to be set up more than 55 days prior to the meeting date if the agenda of AGM/EGM contains: i) Board of Directors nomination or ii) Establishment of Sole executive board or his powers termination; more than 35 days prior to the meeting date if the agenda of AGM/EGM contains the question regarding reorganization of the company.

The Board of Directors establishes the record date for an upcoming meeting, and after determining the list of shareholders, the issuer of public companies (or his agent) shall send electronic notification and GM materials via NSD or registrars to the custodians and then to their clients.

9.2. ANNOUNCEMENT

The notification should be sent not later than

- 20 days prior to the meeting;
- 30 days prior to the meeting if the agenda contains the reorganisation of the company;
- 50 days prior to the meeting if the agenda contains the election of the Board of Directors.

9.3. VOTING PROCESS

The shareholders can exercise their voting rights:

- By attending the AGM personally;
- By posting the voting bulletin;
- By proxy – The representative should be authorised by the Power of Attorney in order to participate in the meeting;
- By E-proxy service via the CSD;
- By E-voting

Ordinary shares are the main source of the voting rights. Preferred shares could carry voting rights in exceptional cases as determined by the Russian regulations or by the charter of the issuer: if the announced amount of preferred dividend is not fully paid for one year; such preferred shares retain voting power until the dividend is paid. The notification sent by the issuer clearly states if preferred shareholders can vote. In 2018 new type of preferred shares has been introduced, their voting rights are limited to different matters related to the liquidation of the joint stock company.

The results of the meeting are reported by the CSD and by the registrars to the nominee holder in electronic form. The nominee holder is obliged to deliver this result to their client.

The CSD provides the possibility of an electronic way of communication for the GM voting. Custodians may vote via the CSD online System for E-Proxy Voting in which ISO20022 standards are used. Information on GMs is electronically 'cascaded' throughout the whole chain of corporate actions processing participants and backwards. The electronic document of voting is filled in by the client's custodian in accordance with the client's instructions and passed through the CSD back to the issuers by using an electronic digital signature.

10. Income collection

10.1. DIVIDEND PAYMENTS

The dividends are paid after the approval of the dividend amount at the GM. Dividends can be paid based on the results of the first quarter, six months, nine months of the financial year and/or of the whole financial year. Large companies tend to pay dividends annually, while smaller companies pay dividends several times during the year.

Announcements	The information on the approved dividends is distributed by the CSD and by the registrars to the nominee holder in electronic form along with the information of AGM results.
Dating Conventions	<p>Ex-date and pay date are not applicable for the Russian stock market. To determine the shareholders who are entitled to receive dividends for a defined period, a record date is used. Instead of the pay date the issuer shall establish the last payment date for the dividends; however, the actual payment can be done prior to this date.</p> <p>The record date is established at the GM.</p> <p>The dividend record date cannot be earlier than 10 calendar days and no later than 20 calendar days after the GM.</p>
Payment Execution	<p>Dividends on Russian stocks are to be paid out by the issuer within the payment term which is set out by the Law on the Securities Markets and/or by the issuer's statutory documents. However, the actual payment date is not announced before the payment. The dividends on equities are distributed based upon the cascade principle – the income is paid on a mandatory basis through the whole chain from the issuers to the CSD/Russian custodians until it reaches the entitled investor:</p> <ul style="list-style-type: none">• The issuers shall pay the dividends not later than 10 working days after the record date in favour of the nominee holders and trustees, 25 working days in favour of the other types of shareholders, unless the shorter period is stipulated by the company;• The CSD shall pay the dividends not later than the next working day to the Russian custodians;• Russian custodians should pay the dividends within seven working days to the entitled investors after the withdrawal of taxes. <p>All dividends are received and paid in RUB, even if the dividend rate was announced in another currency. In case the dividends are announced in a foreign currency, the actual amount of dividends in RUB will be determined by the official exchange rate of the Central Bank on the payment date.</p>

10.2. INTEREST & MATURITY PAYMENTS

Announcements	Depending on the type of the bond issue the payment schemes might vary (i.e. the interest rate might be set in the issue documentation prior to the actual distribution of securities or might be set in the process of primary trading session). Anyway, the issuer is obliged to disclose such information to the public.
Dating Conventions	The record dates for interest payments are set by the prospectus of a particular bond. Usually, the record date is the working day prior to the pay date, with the exception of corporate bonds issued prior to 01 January 2012 for which the fifth working date prior to the pay date is generally specified as the record date by the prospectus. Depending on the prospectus of the particular bond, the circulation after the record date can be blocked until the payment date.
Payment Execution	<p>In terms of governmental bonds:</p> <p>CBR pays the principle payment for governmental bonds on behalf of the Ministry of Finance, which is the bonds issuer.</p>

Custodians have the status of tax agents for income proceeds paid on securities with mandatory centralised safekeeping (applicable to all federal and municipal securities with the mandatory centralised safekeeping and corporate bonds, issued after 1 January 2012). The coupon payments for such securities are distributed by the paying agent to the custodians in bulk, afterwards custodians shall calculate and withdraw taxes and distribute the cleared income to their clients within seven working days since actual receipt of income from the CSD.

11. Taxation

11.1. WITHHOLDING TAX

In accordance with the Tax Code of the Russian Federation, local custodians act as tax agents in relation to profit tax and personal income tax when paying income on securities to individuals and legal entities including foreign legal entities who receive income payable on relevant securities held on owner account, foreign nominee account, authorized holder account, DR depository account (hereinafter 'Foreign Nominee Holder' account or FNH). The local custodians do not act as tax agents in respect of income due to Russian bonds paid to the underlying clients of a Foreign Nominee Holder that are the Russian legal entities in case Russian identification number of tax payer is disclosed, otherwise 15/20% tax rate is applied.

The local custodians are responsible for calculating and withholding tax due on the income paid on the following securities issued by the Russian issuers to non-residents: corporate bonds (registered after 1 January 2012); equities. Russian custodians are released from the obligation to calculate and withhold income tax from payments paid on the coupon payments on the government and municipal securities paid in favour of the foreign holders. Such payments de facto mean the exemption from coupon income tax.

Tax Rates (non-resident legal entities)	Type of income	Tax rate
	Dividends on equity shares	15%
	Interest on state and municipal securities	0%
	Any kind of income, including interest on other debt instruments of Russian companies and interest earned on cash balances	15/20%

Relief at source

Preliminary tax exemption or tax reduction according to Double Taxation Treaties (and from 2021, if applicable, the provisions of Multilateral convention to implement tax treaty related measures to prevent base erosion and profit shifting¹) can be also performed by the custodians before the income payment date. In order to obtain a reduced tax rate, foreign investors - owners of the securities should confirm information on an actual recipient of income on securities (in terms of the Russian laws) and provide custodians with the particular set of documents of these Actual recipients:

Foreign beneficial owner accounts

- Legal entity should confirm that the legal entity is the Actual recipient or provide information on Actual recipient(s). The legal entity, confirmed as an Actual recipient, should provide the Beneficial Owner Representation Letter to the tax agent.
 - Document confirming that the Actual recipient was registered in the country eligible for DTT reduced tax rates at the moment of income transfer (legalised and apostilled Certificate of Tax Residency, hereinafter referred as COTR).
 - If the Actual recipient applies for the conditional DTT tax rate the list of additional documents is required based on the conditions of a particular DTT. The documents can include copies of purchase and sale agreements, custody account statements and the related payment documents.
- If the Actual recipient is a Russian tax resident, the income paid is taxed under the Russian Tax Code rules. In the absence of information on actual recipient of income 15% for dividends and 20% or 15% (depending on the date of issue) for interest on corporate bonds should be applied by the tax agent.

Foreign Nominee Holder accounts

- For FNH accounts, local custodians should withhold tax based upon the disclosure of information on the Actual recipients provided by the Foreign Nominee Holder.
- The disclosure of Actual recipients, aggregated by tax domicile and provided by FNH, can be sufficient grounds for the application of a respective tax rate and additional documents are not required (COTRs, etc.). However, such documents can be required by the Russian tax authorities during the tax audit for verification of the correct tax calculation.

¹ Multilateral convention to implement tax treaty related measures to prevent base erosion and profit shifting (signed in Paris on 24.11.2016)

Relief at Source (cont'd)

The disclosure by the FNH for the purposes of income processing and taxation will be done on an aggregate basis for individuals and legal entities and shall include the following data (except corporate bonds issued before 1 January 2012):

- Aggregate number of Russian securities broken down by jurisdiction of the Actual recipients who are due to the receipt of income on Russian securities;
- Tax jurisdiction of the Actual recipients;
- Type of holders: individuals or legal entities / non-legal entities/supranational;
- The basis for tax relief with reference to a particular information as below:
 - To receive benefit from DTT, FNH should refer to the exact articles of DTT applied for the disclosed foreign Actual recipients or, otherwise, the condition of the Tax Code of Russian Federation (i.e. the statutory tax rate) will be applied.
 - If FNH discloses Actual recipients that are Russian residents, FNH should mention references to the exact articles of the Tax Code of Russian Federation.
 - For proceeds on fixed income securities, if FNH discloses a legal entity with permanent location in Russia, FNH should disclose the identification number of the taxpayer (INN). Otherwise 15/20% tax rate is applied.

For income on bonds issued before 1 January 2012 the issuer acts as a tax agent and defines the requirements to the set of documents to be provided to obtain tax relief at source. However, based on the Russian Tax Code the following documents are generally required to be provided by FNH underlying client:

- the confirmation that the legal entity is the Actual recipient;
- COTR.

The disclosure should be provided by FNH to the local custodians:

- for equities - within seven working days since the record date;
- for bonds - within five working days after the information on the distribution of interest income by the CSD to its clients has been disclosed by the CSD;
- for bonds issued before 01 January 2012 – duly notarized and apostilled documents are to be provided to the issuer/tax agent before the pay date.

With regards to dividends, only the unconditional tax rate (e.g. under a particular DTT) will be applicable under such a procedure. At the same time, should the investor wish to benefit from a conditional tax rate under DTT (e.g. with a dependency on term, size of the investment etc.), then such a preference may be obtained via the tax reclaim procedure only. In case the required information of securities holders was not provided by FNH holder in time, in full detail and in correct format a 30% rate should be applied for income on bonds and a 15% statutory rate - for income on equities.

If the aggregated information provided by FNH is supplemented or corrected within 25 calendar days after tax withholding, the adjusted tax amounts will be calculated, and cash funds will be paid/reclaimed based on the updated information.

Tax Reliefs

Tax exemption in Russia is possible in the case of some supra-national organisations, when the international agreements and regulations, which are also applicable in Russia, refer to that. For proving the status (e.g. supra-national organisation) in most cases a kind of Articles of Association (or some official document proving the given organisation's status) is to be presented to the Paying Agent.

There are no generally determined entity types or segments which would be tax exempt regardless of their country of residence.

The following organisations are exempt from taxation:

- European Bank for Reconstruction and Development (EBRD);
- International Finance Corporation (IFC).

11.2. CAPITAL GAINS TAX

Capital gains on the disposal of securities are subject to a profit tax of 20%.

Russian capital gains tax (CGT) is to be calculated and withheld by tax agents - Russian brokers or resident purchasers of securities or issuers (in case of buy-back). The income from the sale of securities on foreign exchanges is not recognised as income from sources in the Russian Federation and therefore is not subject to capital gains tax.

The acquisition expenses of the foreign investor may be taken into account while calculating the base for capital gains tax. If foreign investors provide documents, confirming such expenses, only the difference between the selling and purchasing price will be taxed at the rate of 20%.

Tax rate 20%

Relief at Source If a foreign investor provides documents, confirming acquisition expenses, only the difference between the selling and purchasing price will be taxed at the rate of 20%.

Tax reliefs The following exemptions (tax rate 0%) apply to non-residents:

- If the applicable double tax treaty of the seller provides for 0 per cent rate, for such investor there is no obligation to pay CGT, provided that the seller submitted to the Tax agent Certificate of Tax Residence and other supporting documents (i.e. Beneficial owner confirmation) if required;
- Capital gains from the sale of shares of Russian companies, less than 50% of whose assets consist of immovable property situated within the territory of the Russian Federation, as well as from the sale of the financial instruments derivative from such shares;
- Capital gains from the sale of shares of Russian companies, over 50% of whose assets consist of immovable property situated within the territory of the Russian Federation, as well as from the sale of the financial instruments derivative from such shares, given the shares meet the following criteria:
 - 1) The securities are admitted for trading on at least one organised market, AND
 - 2) Information on the prices and quotes with, respect to such securities, is being published in the mass-media (including electronic mass-media) or can be provided by the organised market or by another authorised entity to any person within three years from the date of a transaction with such securities, AND
 - 3) If the market quote for the securities had been available during the last three months before the transaction took place, if prescribed by applicable legislation.

11.3. STAMP DUTY

No Stamp Duty is applicable.

- Tax Rates N/A
- Tax Reliefs N/A

11.4. OTHER TAXES

N/A

11.5. TAX RECLAIM PROCESS

In order to reclaim withheld tax due, foreign investors have to present the following documents to the tax authority:

- Tax reclaim application in accordance with the form established by the Federal Tax Authority;
- Document, confirming that the foreign investor was registered in the country which was eligible for DTT reduced tax rates at the moment of the income transfer (legalised and apostilled);
- Document confirming that the foreign investor is the Actual recipient of dividends.

The Tax Code has introduced changes to the reclaim tax on income on securities held via FNH. In addition to the above documents FNH account holders must submit the following documents for tax reclaim purpose:

- Document confirming the applicant's right for income entitlement as of the record date;
- Document confirming the amount of income that was actually paid to the applicant;
- Document including data on custodian who distributed income in favour of the Foreign Nominee Holder;
- Document confirming the eligibility of the foreign investor as of the record date for a reduced tax rate in accordance with the requirements of the Russian Tax Code or respective DTT.

Please note that the tax reclaim procedure is extremely time consuming and the success rate in obtaining such a reclaim in a short time period is very low since the tax authorities are reluctant to return money from the state budget once it has been withheld and paid to the tax authority. Tax authorities are not proficient with such inquiries and tend to prolong or postpone the reply or the payment giving any possible reasons as an excuse.

According to Russian tax legislation, tax reclaim is available within three years after the end of the year when the income was received.

11.6. DOUBLE TAXATION TREATIES

Due to the amount of data, for the most up to date DTTs please refer to our website: <http://qss.unicreditgroup.eu>
DTTs are listed in the /DOCUMENTS section.

12. Disclosure requirements

12.1. OBLIGATIONS FOR ISSUERS

The issuer is obliged to disclose the following information in case of the issue prospectus registration:

- Quarter Issuer's Report;
- Consolidated Financial Statement;
- Substantial Facts Notifications (the information which could affect the price of the securities once published – Corporate action information, Issuers' internal documents approval, controlling entity presence etc.).

12.2. OBLIGATIONS FOR INVESTORS

Investors' disclosure obligation to CBR:

- In accordance with Article 30 of the Federal Law on Securities Market, a company/individual which has acquired 5% or more of ordinary shares of one kind issued by the same issuer and also any change of threshold which become more or less than 5%, 10%, 15%, 20%, 25%, 30%, 50%, 75% or 95% of ordinary shares;
- A joint stock company which has acquired more than 20% of voting shares of another joint stock company (except acquisition of shares at the moment of establishment of the company);
- A company/individual or a group of companies/individuals which has acquired 1% or more of the shares of a Russian bank
- In case there are limitations on foreign participation in Russian companies.

Investors' disclosure obligation to FAS:

- Acquisition of 5% or more in the share capital of the strategic company.

The preliminary approval of the Federal Antimonopoly Service shall be received by a company/individual or a group of companies/individuals intending to acquire:

- more than 25%, 50% and 75% of voting shares of a company, if the total balance of the acquirer exceeds RUB 7bn or yearly income exceeds RUB 10bn, and the total balance of the company whose shares are acquired exceeds RUB 400mn or this company is on the list of companies prescribed by FAS.

- more than 25%, 50% or 75% of voting rights of a financial organization in case the total balance value of the company whose shares are acquired exceeds the value set up by the Government of Russian Federation.

Acquisition of more than 10%, 25%, 50% and 75% in the share capital of a Russian bank requires preliminary approval of the Central Bank of Russia. Acquisition of more than 1% in the share capital of a Russian bank requires notification of the Central Bank of Russia.

Acquisition of control in a strategic company is subject to the approval by a special government commission.

12.3 OBLIGATION FOR FNH HOLDERS

- The Russian legislation defines entitled investors under FNH holder as:
 - Entitled investors are securities owners or other individuals, legal entities and non-legal entities exercising rights to Russian securities according to their local laws;
 - Entitled investors can be foreign organizations not having status of legal entity in their countries of residence.

The disclosure requirements for FNH accounts are the following:

- Disclosure of entitled investors is not required in case of non-participation in CA events for which the disclosure is requested.
- Entitled investors are not allowed to participate in CA events in case of its non-disclosure.
- FNH may not disclose information on its entitled investors if such possibility is agreed with its clients.
- Securities owners should be obligatory disclosed by request of the CBR or an issuer in cases prescribed by the Russian legislation (requests not related to corporate events), except for managing companies of the mutual investment funds or collective investment schemes/ joint investment schemes, having the status of a legal entity or not having such status with the number of the participants of more than 50.
- CBR is entitled (i) to issue an injunction requiring the FNH to refrain from the violations of the legal requirements, and (ii) in case of non-fulfilment of the injunction, to block or limit the execution of specific transactions on the account for the period of up to six months.

12.4 VIOLATION CONSEQUENCES

The disclosure requirements violating consequences are regulated by the legislation and could be as follows:

- Issuing a ban;
- Injunctions issued by the CBR etc.

13. Account management

13.1. COMMON ACCOUNT STRUCTURES

According to the Russian legislation, custody accounts may be opened either for the owners of Russian securities or the nominee holders. The foreign nominee account can be opened in the name of the global custodian that is entitled to act in the name and on behalf of its underlying clients and has the right to record and transfer the rights to its clients' securities in accordance with the local legislation of its jurisdiction.

The custodians can open the following types of accounts:

- **Owner:**
Owner trading account (Trading account should be opened separately for each type of settlement with the indication of the respective clearing organisation):
 - Trading account for on-exchange trading (Clearing organisation – NCC);
 - Trading account for DVP settlement (Clearing organisation – NSD).
- **Foreign nominee account:**
Foreign nominee trading account (Trading account should be opened separately for each type of settlement with the indication of the respective clearing organisation):
 - Trading account for on-exchange trading (Clearing organisation – NCC);
 - Trading account for DVP settlement (Clearing organisation – NSD).
- **Foreign trustee account:**
Foreign trustee trading account (Trading account should be opened separately for each type of settlement with the indication of the respective clearing organisation):
 - Trading account for on-exchange trading (Clearing organisation – NCC);
 - Trading account for DVP settlement (Clearing organisation – NSD).
- **Depository program account.**

There are various account structures for foreign clients acting as Global Custodians. Below details are based on AO UniCredit Bank's practice knowledge.

- **Foreign Nominee Holder Accounts**
An FNH account can be opened in the name of the Global Custodian that is entitled to act in the name and on behalf of its underlying clients and has the right to record and transfer the rights to its clients' securities in accordance with the local legislation of its jurisdiction. The activity on such an account is governed by the legislation of the Russian Federation. At time of an FNH account opening, a GC shall provide set of account opening documents. By default, no documents would be immediately required for the underlying clients of the GC.

Each Global Custodian acting as an FNH can choose one of the 2 basic account structures, as follows:

- **Omnibus account structure** is used, when an FNH does not want to or cannot segregate its holdings between underlying clients. The Global Custodian signs a Custody Agreement and opens one 'omnibus' FNH account for all of its clients. The clients of the GC are treated as beneficial owners of a certain amount of Russian securities kept on this FNH account when FNH would disclose them in cases stipulated by the legislation (in order to participate in corporate actions and upon request of the regulators etc.) The constituent documents of the underlying clients and the PoAs would be presented on a case by case basis by those underlying clients of the Global Custodian who intend to participate in corporate events on the market that fall outside the scope of the legislation governing corporate actions (e.g. market offers). The requirements for the specific list of legal documents are determined by the offer or for each particular event.

- **Segregated account structure** is used, when an FNH (Global Custodian) segregates the total holdings between several custody (depo) accounts (sub-accounts) straight away, by opening a separate sub-account for one and only underlying client. The Global Custodian signs a Custody Agreement and opens a FNH master account with UCB with FNH separate sub-accounts of the Global Custodian allocated to each client of the Global Custodian. The clients of the Global Custodian are recognised as beneficial owners of the Russian securities kept on the segregated FNH sub-accounts of the Global Custodian designated to each client, based on the standing instruction provided by the FNH (Global Custodian). In this case the names of the underlying clients for whom the segregated Global Custodian's FNH sub-accounts have been designated would be available straightaway which will enable to avoid disclosures for each case where it would be required (e.g., upon request of the regulators). It shall be noted that for participation in corporate events that fall outside the scope of the legislation governing corporate actions (e.g., market offers), the constituent documents of the underlying clients and the PoAs may be required which shall be presented on a case by case basis by those clients of the Global Custodian who intend to participate in such corporate events.
- **A combination** of both options would be when an FNH would want to segregate its holdings not by individual, but by several clients, grouped by certain attributes/features - e.g., AIF clients, UCITS clients etc. In such case opening of several designated FNH accounts of the Global Custodian for this purpose is possible as well.
- **Owner accounts**
- **'Omnibus' beneficial owner accounts**
 - Global Custodian opens a master account with sub-accounts allocated to each client of the Global Custodian: No documents are submitted for the clients of the Global Custodian. The Global Custodian will be recognised as a beneficial owner of Russian securities kept on sub-accounts of each client. Clients will not be disclosed and thus the sub-accounts can be deemed to be opened only for convenience/reconciliation purposes.
 - Global Custodian opens one omnibus account for all clients and is recognised as a beneficial owner of Russian securities kept on this account.
- **Segregated beneficial owner accounts**

Global Custodian opens an account for each client: The Custody agreement with each client of the Global Custodian is signed by the Global Custodian on the basis of the power of attorney received from each client. In this way each client will be recognised as a beneficial owner of Russian securities and will be disclosed as such. Although submitting a standard set of documents may be deemed as burdensome and inconvenient for the Global Custodian, in this case the Global Custodian is not to be recognised as the beneficial owner according to Russian law.

13.2. KYC/AML REQUIREMENTS

Russian Banks should have a program to detect and prevent money laundering activities strictly in accordance with the requirements of the regulators, legal acts and international requirements.

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Corporate & Investment Banking

AO UniCredit Bank

as of 31 August 2020



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