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Setback for Firms Listing Abroad

By Howard Amos

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Federal Financial Markets Service head Dmitry Pankin said Thursday that restrictions on Russian companies that want to list equity on foreign exchanges will not be lifted until 2013.

Market players had expected that the 25 percent restriction on listings abroad would be canceled significantly earlier. President Dmitry Medvedev ordered in July that the government, headed by Prime Minister Vladimir Putin, ensure that the barrier be lifted by Sept. 1.

Speaking at a Deutsche Bank forum Thursday, Pankin said the restrictions on foreign listings could only be removed after a long-anticipated central securities depositary had been fully established, Vedomosti reported.

"After the implementation of the central depositary, we will remove the 25 percent limitations," Pankin said.

Long sought by foreign investors and players on the Russian financial market, legislation creating a central securities depositary has been repeatedly delayed by squabbles between different government agencies. First introduced into the State Duma in 2007, the legislation passed its second reading on Nov. 2 this year and will enter force on Jan. 1, 2012.

But Pankin, a former deputy finance minister who has headed the Federal Financial Markets Service, or FFSM, since April, said the law provides for a one-year transition period during which the central depositary will open nominal holding accounts. Only after this year has expired — on Jan. 1, 2013 — will the restrictions on foreign listings be eased.

Any Russian company seeking to raise capital abroad must currently seek permission from the watchdog.

The limitations are cited by foreign investors and experts as a key market inefficiency and a stumbling block to Medvedev's aspirations to make Moscow an international financial center.

"A lot of local shares are traded at a big discount to their American Depositary Receipts because of these listing restrictions," said Roland Nash, chief investment strategist at Verno Capital. "If you get rid of the restrictions you will see more liquidity in the stocks and a narrowing of the gap between the local and the international listings."

Many investors are wary of operating in Russia because it is perceived as riskier than other locations, exacerbating the effect of the restrictions, said Alexei Devyatov, chief economist at UralSib Capital. The current conditions, he said, mean that some companies "are neither able to list abroad ... nor [in Russia] because they aren't able to attract enough investors."

But others fear that abolishing the 25 percent threshold would cripple Russian stock exchanges that are already powerless to prevent large chunks of business relocating to London, Hong Kong, New York and Frankfurt.

Experts maintain that the use of offshore holding companies allows many Russian companies to list abroad, circumventing the existing 25 percent restriction.

Addressing the Federation Council on Wednesday, Pankin said there was a real risk that Russia could eventually lose its domestic stock exchanges.

"It's unpleasant for us that the foreign listings of nonresidents with Russian assets has increased. In 2010-11, this tendency has gained strength," he said, RIA-Novosti reported. "It means that the market is leaving the Russian Federation."

The FFSM head added that the ratio of the stock market capitalization to GDP in Russia was the lowest of the BRIC countries at 66 percent. That compares with 70 percent in China, 74 percent in Brazil, 106 percent in India, 122 percent in the United States, and 171 percent in Britain.

Anatoly Gavrilenko, president of the Russian Exchanges Union, told The Moscow Times that the country's stock exchanges needed protection.

"I am for free competition and free choice, but we have a developing market, a market that is just starting out," he said. "First of all, we must create the market and then remove all the restrictions."

Gavrilenko added that those foreign advisers who praised Medvedev's efforts and said Moscow was more than halfway to becoming a financial center were talking "nonsense."

Pankin identified four major steps Wednesday that need to be taken to save domestic equity markets: increased transparency and the cultivation of long-term investors, improved regulation of stock market participants, support for an effective market infrastructure and the perfection of corporate management.

He had a particularly stark warning for companies that do not disclose their ultimate beneficial owners. "It will be implemented that [for companies that do not] reveal their beneficial shareholders, [those shareholders] will not vote."

Major companies that hide their ultimate owners behind complex holding structures include oil giant Surgutneftegaz, independent gas producer Novatek and Russia's biggest airport, Domodedovo.

Vedomosti reported Thursday that some State Duma deputies believe that legislation forcing companies to reveal ownership structures would not have enough support to be passed.

Pankin conceded that the success would require significant political will. "Many market participants will resist the introduction of these rules," he said.