

Asia No Answer to Russian Companies' Capital Crisis

By [The Moscow Times](#)

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The skyline of Singapore, Asia's private banking hub.

SINGAPORE/LONDON — Russian banks and companies shut out of Western funding markets are unlikely to be greeted with open arms and ready wallets in Asia, international bankers and industry experts say.

New sanctions imposed by Washington and Europe over the Ukraine crisis have prompted firms such as VTB — Russia's second-largest bank by assets — and Gazprombank to look east for new sources of funding.

Banks and investors in Asia, however, are reluctant to get involved. This leaves the Russian Central Bank as the only obvious alternative, apart from Chinese currency bonds where borrowing costs are rising and the market is too small to plug the gap left by Western capital markets.

The Islamic bond market is also problematic.

The European Union and United States announced sweeping sanctions against Russia on Tuesday, targeting its energy, banking and defense sectors in the strongest international action yet over Moscow's support for rebels in eastern Ukraine.

Wealthy Russians looking to park their money outside Europe and the United States also face a cautious welcome in Singapore, Asia's private banking hub, where wealth managers are increasingly picky about whose cash they handle.

"A lot of Russian money wants to come to Singapore but a lot of it is not clean, so banks have tightened up all their rules," said Satish Bakhda, chief operating officer for Singapore at Rikvin, which helps people and businesses set up companies.

"A lot have tried to incorporate companies, but when they open the bank account it becomes very difficult because the bank wants them to be resident in Singapore or know where the source of funds comes from – and that's where they get stuck," Bakhda said.

On the corporate side, the possibility of blacklisted firms raising loans in any currency from syndicates of banks is close to zero, even in Asia, because lenders with U.S. branches and subsidiaries will not want to upset Washington.

The United States is already lobbying Asian governments to join the sanctions regime. Banks around the globe have also been cowed by a \$9 billion fine imposed by a New York court on France's BNP Paribas for doing business in Sudan, Iran and Cuba – countries which are also subject to U.S. sanctions.

Lenders are now taking a uniform stand, regardless of their base, on Russia. "Right now, all banks are acting the same, no group is any more or less cautious or sanctions-aware. It's all too important — Asian banks are the same as European or U.S. banks in this respect," said a London-based banker at an Asian lender.

Even Russian firms that have not been sanctioned are suffering as lenders reduce their exposure to the country. Chinese banks might be willing to consider a syndicated loan to such companies, bankers said, but only on a case-by-case basis.

Dim Sum

Russian banks on the U.S. and EU blacklists do not have much debt maturing this year and the Central Bank, which has international reserves of \$472.5 billion, has said it will support any domestic bank hit by sanctions.

However, Russian banks and companies are looking at issuing debt in the "dim sum" market from bonds denominated in yuan that are sold outside China.

JSC Bank Rosinterbank, a small Russian bank, is looking at issuing a 500 million (\$81 million) dim sum bond and its executives have already met investors in Singapore, Hong Kong and Macau.

ICDI, a corporate finance house which has been advising JSC Bank Rosinterbank on the bond,

said the bank expected good demand despite the new sanctions because it is privately-owned.

"Rosinterbank deposit income grew three times after the first wave of sanctions because clients choose private banks instead of state-owned ones," said Elena Trofimova, CEO of ICDI.

Trofimova said investors from Hong Kong, Mainland China and even London were interested in the deal and, after due diligence, ready to take part. "They said that politics is politics and business is business," she said.

But the fresh sanctions are spooking sentiment, making it more expensive for Russian companies to access such funding. Yields on Russian companies' outstanding yuan bonds jumped on Wednesday with those on one Gazprombank issue soaring 100 basis points since July 16, when it was hit with an earlier round of U.S. sanctions.

Executives from Gazprombank were in Seoul last week to meet fixed income investors in a so-called non-deal roadshow.

The dim sum market is also too small to replace Russians' external financing needs. The entire market is worth around \$110 billion, less than half of what Russian companies have borrowed in euro- and dollar bond markets in the past decade.

The Islamic bond market, around the same size as the dim sum market, is in theory an alternative option for Russian banks and companies but in practice its use would be limited.

Around two thirds of the Islamic bond market comes from ringgit deals out of Malaysia, a country that could be reluctant to do business with Russian firms.

The latest round of sanctions was prompted by Western suspicions that the pro-Moscow rebels shot down a Malaysian airliner over eastern Ukraine with a Russian-supplied missile. Moscow denied responsibility, blaming the Ukrainian military for the disaster in which 298 people died earlier this month.

The remaining third of the Islamic bond market is in dollars.

A Neutral Line

EU and U.S. sanctions on individuals have been restricted to a narrow group linked to President Vladimir Putin.

Notwithstanding the difficulties in opening accounts in Singapore, private bankers there say that inflows from wealthy Russians are up this year, attracted by the island's political stability, low taxes and its tendency to keep its head down when international conflict flares.

"Singapore treads a neutral line," said Sean Coughlan, managing director of wealth planner Asiatic Trust Singapore. "That's attractive to clients who come from that part of the world [Russia] — what they don't want is to park their assets in a jurisdiction where tomorrow they find all their assets are confiscated or frozen, or they can't get access to them."

There is no official data pointing to a rise in flows from Russia but the latest available Central

Bank figures show a 17 percent increase in assets under management from Europe in 2013. Cyprus, the former destination of choice for Russian cash, imposed capital controls and losses on large depositors last year to save itself from bankruptcy.

Russians wishing to move their cash to Singapore have to go to great lengths to prove that they are tax compliant. Singapore, anxious to avoid U.S. tax inquiries that have hit other financial hubs such as Switzerland, has brought in tougher rules around vetting new clients.

Bankers in Singapore say Russians looking for a new Cyprus have come to the wrong place.

"It takes around one to two months to open an account for a client from, say, Russia, especially if they're using a complicated structure," said the head of the Eastern Europe team at a private bank in Europe. "By comparison, for a client from a developed country opening a straightforward individual account it takes around one to two weeks."

See also:

[Investors Rush to Sell Russian Corporate Bonds Before EU Sanctions](#)

[EU Sanctions to Squeeze Russian Banks, Consumers](#)

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