

**REPORT OF THE VISIT OF
THE RT. HON THE LORD MAYOR OF THE CITY OF LONDON
(ALDERMAN MICHAEL BEAR)
TO THE RUSSIAN FEDERATION**

Monday 27th June – Thursday 30th June 2011

EXECUTIVE SUMMARY

1. The Lord Mayor visited Moscow and St Petersburg - the 5th consecutive Mayoral visit to this important BRIC market. Accompanied by a 30 strong business delegation, the Lord Mayor's visit included calls on the Deputy Prime Minister and Minister of Finance (Alexei Kudrin), the Mayor of Moscow (Sergei Sobyenin) and significant interaction with Alexander Voloshin, the Chairman of the Working Group to create an International Financial Centre in Moscow. Following almost 12 months of planning, the Lord Mayor and Mr. Voloshin jointly Chaired the first session of the *City of London–Moscow International Financial Centre Liaison Group*, established to help assist Moscow's development and heralding a new - and potentially lucrative - relationship between the two cities.
2. The visit also featured a number of keynote events including the Opening Session of English Law Week (which continued for another 2 days), a London Stock Exchange Forum, a Russo-British Chamber of Commerce Forum in St Petersburg and networking receptions in both cities attended by a total of 500+ Russian and British business people. The Mayor of Moscow and the Governor of St Petersburg both met with the Lord Mayor, the former meeting a City delegation for the first time since his appointment in November 2010.
3. In Moscow the Lord Mayor had exchanges with the Governor of the Central Bank and the First Deputy Minister of Justice. He reinforced the message that the City of London remains committed to assisting Moscow's development as a financial centre and was able to brief the Deputy Justice Minister on the development of the "Rolls Building" – London's new Commercial Court which will be the largest specialist centre for the resolution of financial, business and property litigation anywhere in the world.
4. In St Petersburg the Lord Mayor had a very warm and friendly meeting with Governor Valentina Matvienko. During the course of the visit it was revealed that the Governor is to be promoted to Speaker of the 2nd Chamber of the Russian Parliament later in the year. Discussion focused on assisting St Petersburg with its massive infrastructure development objectives, and the opportunities available to UK firms. The delegation was able to see at first-hand how British companies can get involved with a visit to the St Petersburg Flood Protection Barrier which has recently been completed by Halcrow.

MOSCOW

5. The development of Moscow's International Financial Centre (IFC) was the key theme of the visit in that City. Following preparatory work undertaken by TheCityUK, UKTI and Mansion House, the Lord Mayor was able to Co-Chair the first meeting of the *City of London – Moscow International Financial Centre Liaison Group* with Mr. Alexander Voloshin, who has been tasked by President Medvedev with leading the taskforce charged with developing the IFC. Under the structure proposed for the Liaison Group, Alderman David Wootton, the preferred candidate to become the next Lord Mayor, is Deputy Co-Chairman of the group. It is proposed that this arrangement continues so that prospective Lord Mayors gain profile with their Russian counterparts and experience in the issues surrounding the Liaison Group's operation.
6. The Liaison Group meeting produced the following key deliverables which will be taken forward in the months ahead, with Secretariat services being provided by TheCityUK and Mansion House on the UK side and Vnesheconombank London Representative Office on the Russian side.
 - a. A 2nd meeting in the 4th quarter of 2011 at Mansion House with a Russian delegation headed by Mr Voloshin visiting London;
 - b. Work stream Chairmen to begin the work of their streams immediately and produce quarterly reports for the Co-Chairmen, the first such report to be issued by the end of September;
 - c. The Russo British Chamber of Commerce to publicise the work of the Liaison Group to their wider membership through their publications;

- d. The Derivatives stream to hold a meeting later in July 2011 in London to begin framing its areas of work;
 - e. A successful first meeting of the ADR stream during the course of Russia Law Week in Moscow. The group is now moving forward with its detailed work.
7. In his meeting with Deputy Prime Minister and Minister of Finance Alexei Kudrin, the Lord Mayor reinforced the strong links between Moscow and the City of London. The Lord Mayor will welcome Kudrin to London on the 8th July for a high-level City lunch. The Minister praised London as a great example of the financial industry and noted that he had followed The City's development during the financial crisis closely. He flagged that the main challenge for Russia over the forthcoming decade was diversifying the economy and removing the reliance on oil income. He noted that 4% growth was "too slow" for Russia and other industries outside the oil sector needed to grow. Privatisation was identified as a key element of this diversification strategy; the first tranche of sales had been announced but President Medvedev has asked for the list to be expanded. The Lord Mayor reinforced that The City and UK firms were keen to assist with this strategy as it developed.
 8. The new Mayor of Moscow, Sergei Sobyenin, welcomed the Lord Mayor and his delegation to City Hall, the first major UK delegation to meet with him since he took office late last year. He was quick to highlight the many opportunities for British firms in Moscow as he sought to kick-start infrastructure development in the City, particularly in the fields of transportation, healthcare, utilities and infrastructure development. The Mayor highlighted the opportunities to grow the private sector's involvement in providing healthcare and his desire to create a stable and secure working environment for the financial and professional services industry in Moscow. The Lord Mayor spoke about the City of London's pioneering "Ring of Steel" and offered to share details of its development with the Mayor's officials.
 9. Central Bank Governor Sergei Ignatiev warmly praised the strong relationship between his institution and the Bank of England, in particular the training courses offered by the Centre for Central Banking Studies (CCBS). He noted the high inflation Russia currently faces but predicted it should drop to 7% by December. In addition, Ignatiev mentioned the legislative changes he felt necessary to effectively supervise the growing Russian banking sector and indicated that the Central Bank would continue to work with the State Duma to frame these.
 10. In a meeting with Mr Alexander Fedorov, First Deputy Minister of Justice, the Lord Mayor stressed the importance of the UK and Russia working together to develop the Russian legal system, particularly in the fields of commercial arbitration and dispute resolution. Fedorov noted that profound social and economic changes in Russia have meant that new regulations need to be constantly developed. The Lord Mayor explained the background to London's new Commercial Court – the Rolls Building. This meeting followed the opening of a very successful English Law Week held at the British Embassy in Moscow which was oversubscribed and well attended. It was the 2nd in a series of exchanges between Russian and UK lawyers following a successful "Russian Law Week" held in London in November 2010, which the Lord Mayor opened on his first day in office.

ST PETERSBURG

11. Governor of St Petersburg Mrs Valentina Matvienko praised the strong ties between the City and St Petersburg, describing the UK as a "strategic partner" in the fields of financial and professional services. She outlined the opportunities available for UK firms in St Petersburg, especially in the field of infrastructure development. She noted that the use of PPP in St Petersburg had grown, following an examination of the UK system. The concession model had been used to bring about the redevelopment of St Petersburg Airport and was now being further developed for "social" projects such as schools and kindergartens. The Governor described the efforts being made to develop St Petersburg as a centre for the pharmaceutical industry and praised the on-going collaboration with AstraZeneca, which had been very positive.
12. The Lord Mayor's personal strengths in development, infrastructure and regeneration were further exploited during the Russo-British Chamber of Commerce's Property and Construction Forum which looked to promote the UK's expertise in architecture, design and urban regeneration, as well as highlighting the role financial and professional services can play in assisting development schemes. Later, a visit to the St Petersburg Flood Protection Barrier, which has recently been completed by Halcrow, allowed the delegation to see at first hand a UK-based firm working in partnership with Russian developers to complete a major

infrastructure project which will protect the City from its yearly flooding problems. The Lord Mayor also received a briefing from the Directors of “Marine Façade”, the company responsible for developing the new port terminal in St Petersburg, which has included the reclamation of land from the sea. The second phase of this project will begin shortly.

ACTION POINTS

13. During the course of the visit, several action points emerged and are listed below. These are on top of the delivery points raised during the Moscow IFC discussions (see 5&6 above) which will be taken forward by Mansion House and TheCityUK as part of the ongoing work of the Liaison Group.

	Action	Responsible
1	Host Deputy Prime Minister and Finance Minister Kudrin to Lunch at Mansion House on Friday 8 th July. [DONE]	MH, EDO & Russian Embassy
2	Send details of the new Commercial Court (Rolls Building) to Minister of Justice with an offer of a visit to the facility. [DONE]	MH
3	Invite the Mayor of Moscow to visit the City to see the “Ring of Steel” and other transport related projects.	MH

14. The Lord Mayor's visit to Russia generated high profile coverage in both UK and Russian media and trade publications, covering a wide range of outlets from the printed press, online, radio and television. Selected highlights included a column in the Daily Telegraph's Russia supplement, comment articles in RIA Novosti, City A.M. and First Magazine and exclusive interviews with Vedmosti, Expert Magazine, Delvoj Petersburg and the RBCC magazine.

15. The Lord Mayor would like to thank Dame Anne Pringle (HM Ambassador Moscow), Mr. Gareth Ward (HM Consul St Petersburg) and all the staff of the FCO and UKTI who made the visit a success. Additionally, the Lord Mayor wishes to record his thanks to Mr. Danny Corrigan (Russia Sector Champion, UKTI), Mr. Stephen Dalziel (RBCC), Mr. Chris Cummings (CEO, TheCityUK) and all their colleagues for their contribution to the success of this visit, and in particular the launch of the Liaison Group. Further information can be obtained from me at the email address below.

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Annexes

1. Programme
2. Business Delegation
3. Outline of City of London – Moscow IFC Liaison Group membership and remit

Annex 1: Programme

Sunday 26 June - Moscow

TIME	ENGAGEMENT
12:55	Depart LHR on flight BA0874 for Moscow
21.00	Arrive Residence. Private Briefing with HM Ambassador.

Monday 27 June - Moscow

TIME	ENGAGEMENT
08:30	Breakfast Briefing for Delegation at the Residence, 14 Sofiskaya Naberezhnaya
09:45	Private Equity Roundtable <ul style="list-style-type: none"> • To meet with representatives of the Russian private equity industry • To look at the opportunities that stem from investing in SMEs
10:15	Call on Finance Minister Alexei Kudrin <ul style="list-style-type: none"> • To promote the UK as the partner of choice in Russia's development as a

	<p>Financial Centre</p> <ul style="list-style-type: none"> To promote UK financial services as a major source of expertise in Russia's privatisation programme and as an investment destination for Russia's Sovereign Wealth funds To hear Kudrin's views on the development of Russia's economy
11:45	<p>1st Meeting of the City of London - Moscow IFC Liaison Group</p> <ul style="list-style-type: none"> Co-Chaired by Lord Mayor and Alexander Voloshin Chairs of Liaison Group work streams meet Russian counterparts To discuss terms of reference and future working of Liaison Group
12:30	Lunch for members of City of London - Moscow IFC Liaison Group
15:00	Media Interview with Rossiya 24 , federal 24-hours news TV channel
15:30	<p>RenCap 15th Annual Investor Conference</p> <ul style="list-style-type: none"> Theme "A Conversation with the Lord Mayor of London" Moderated by Ben Aris, Editor in Chief, Business News Europe Lord Mayor to make speech and answer questions
16:45	<p>London Stock Exchange Capital Markets Event: "What the City can do for Russian Companies"</p> <ul style="list-style-type: none"> To promote more dual listings of Russian companies To emphasise what London is doing to help Russian businesses and work with capital market participants to further Moscow's ambitions to become a key financial centre in its own right Speakers from [LSE; Barclays; E&Y]
17:45	Media Interviews with Expert and Vedomosti Business Daily
19:00	<p>Ambassador's Reception at Residence</p> <ul style="list-style-type: none"> Premier Embassy networking event this summer in Moscow Brings together financial and legal services and economic/finance Ministries, and leaders of Russian, global and UK companies across other high value sectors (engineering, R&D, energy, infrastructure, creative)

Tuesday 28 June – Moscow / St Petersburg

TIME	ENGAGEMENT
09:00	<p>Opening Session of English Law week</p> <ul style="list-style-type: none"> To promote English law as contract law of choice Follow-up to a successful Russian Law Week in London in November To broaden the understanding amongst Russian and English lawyers and businesses about current trends and developments in each other's legal systems
09.30	Meeting with Deputy Minister of Justice Mr Lubimov
11:30	<p>Call on Central Bank Chairman Sergei Ignatiev</p> <ul style="list-style-type: none"> To hear Mr. Ignatiev's views on the development of Russia's To find out about the Central Banks plans to tackle inflation and capital outflows To strengthen cooperation between the UK and Russia in the financial and banking sectors
13:00	<p>Call on the Mayor of Moscow Mr Sergei Sobyenin</p> <ul style="list-style-type: none"> First Lord Mayoral meeting with new Mayor since he took office Reinforce links with the City of London and Moscow To support Moscow's development as a financial centre
14:30	Private lunch
16:45	Travel to St Petersburg by high-speed train (Sapsan 164)

Wednesday 29 June - St Petersburg

TIME	ENGAGEMENT
08:45	Briefing for Delegation at Astoria Hotel , St Petersburg Angleterre Hotel, St Petersburg, St Isaac's Square/ Ul. Bolshaya Morskaya 39
09:40	Russo-British Chamber of Commerce International Property and Construction Forum , Astoria Hotel

	<ul style="list-style-type: none"> Promote UK expertise in architecture and design, with special emphasis on urban regeneration; sporting venues; and low-carbon / sustainable design Promote UK financial/professional services to Russian real estate developers
11:30	<p>Meeting with Mr. Shavkat Kari-Nyazov, President of Marine Façade St.Petersburg, UI Proletarskoy Diktatury 6,building A</p> <ul style="list-style-type: none"> Company which developed new passenger port in St Petersburg To promote UK engineering and construction expertise To advertise the City as a destination for a possible IPO for NCC
12:30	<p>Lunch with construction and property development companies</p> <ul style="list-style-type: none"> To meet key players in property market in St Petersburg An opportunity to discuss the business climate in St. Petersburg with a particular focus on development opportunities in infrastructure, transport, urban regeneration, hotel / tourism An opportunity to promote UK financial/professional services to potential clients
14:00	<p>Call on Governor of St Petersburg, Mrs Valentina Ivanovna Matvienko</p> <ul style="list-style-type: none"> To reinforce the key role City firms already play in financing and delivering major St Petersburg infrastructure projects, and our determination to continue this trend To advertise the City as a destination for IPOs of St Petersburg based companies
16.00	<p>Visit to Gulf of Finland Flood Barrier</p> <ul style="list-style-type: none"> engineered by Halcrow To learn about the implementation of a major Russian infrastructure project – the biggest construction project in Eastern Europe To highlight British engineering and project management expertise, for use in future Russian infrastructure projects
18:30	Press interview with the business newspaper Delovoy Peterburg
19:00	<p>Consul General's Reception at Residence, PL Proletarskoy Diktatury 5</p> <ul style="list-style-type: none"> For British / Russian business community with Go UK messaging

Annex 2: Business Delegation

Delegate Name	Company
Sergey Grechishkin	Alcantara Asset Management
Aaron Goldstein	NYSE Euronext
Sir Tony Brenton	Lloyds of London
Wayne Evans	TheCityUK
Hamish Rowan-Hamilton	TheCityUK
Danny Corrigan	ICAP
Mickael Laurans	Law Society
Andrey Dubinin	Aviva
Chris Cummings	TheCityUK
Bob Foresman	Barclays Capital Russia
Robert Maciejko	Oliver Wyman
David W B Burnside	New Century Media Ltd
Alexander Nekrassov	New Century Media Ltd
Khawar Qureshi	Bar Council
Axel van Nederveen	EBRD
Alexander Starostin	Willis (Moscow office)
David Ayles	Gowlings
Stuart Lawson	Ernst and Young
Howard Snell	Otkritie Securities Limited
Yuri Botiuk	McGrigors LLP
Michael Pugh	Hogan Lovells
Stephen Dalziel	RBCC

James Tumbridge	Gowlings
Trevor Barton	Shared Value
Ian Mulcahey	Gensler
Robert Barnes	UBS
Richard Parlour	FMLI
Peter Sissons	City of London
Julian Smith	PwC
Jeff Sinclair	UK Trade & Investment
Slav Marin	City Investment group

Annex 3: Outline of City of London – Moscow IFC Liaison Group membership and remit

Summary

President Medvedev wants Moscow to become an International Financial Centre. Efforts will be held back by a poor business climate but the goal helpfully focuses efforts on reform. The extent of opportunities for British firms will depend on how far reforms go. UK-Russia Liaison Group an important step.

Detail

1. President Medvedev first announced plans to turn Moscow into an International Financial Centre (IFC) in late 2008. The global economic crisis intervened, but work has resumed in earnest. The Ministry of Economic Development have published a work programme, and Former Chief of Staff to (then) President Putin, Alexander Voloshin, has been appointed as head of a Presidential task force.
2. To some financiers Moscow is already an international financial centre: money flows from London (and to a lesser extent New York), through Moscow to the wider region. On the main Moscow stock exchange, trading volumes have increased fivefold since 2005, and dealers work internationally. The rouble is fully convertible; there are no capital controls; and inflation is trending in the right direction.
3. But in reality Moscow has a long way to go. It is ranked 68th in global financial centres (22 places behind Glasgow). The Russian economy is small (2-3% of Global GDP); and domestic capital markets are underdeveloped. World Economic Forum data places Russia behind most G20 countries, and last of the BRICs on financial market sophistication, legal rights, regulation, soundness of banks, and ease of access to loans.
4. The barriers to Moscow's aspirations are linked to wider problems in the business climate in Russia. The World Economic Forum's (WEF) Global Competitiveness Report ranked Russia 63rd out of 139 large economies. For ease of doing business the World Bank place Russia in 123rd place, for protecting investors 93rd place. The trend is negative. Corruption is endemic, the rule of law is patchy, and a lack of trust between economic actors undermines the confidence necessary to sustain a strong financial market. Russian investors hedge their bets with much of their capital placed abroad. Moscow also scores poorly on physical infrastructure, from transport to international hotels which average \$415 a night. English is not spoken extensively.

Outside of general improvements needed on investor protection, bureaucracy, corruption and the rule of law, the IMF suggests five requirements for Moscow as an IFC: 1) an Independent Fiscal Authority; 2) transparency, particularly on tax; 3) inflation targeting, rather than controlling the exchange rate; 4) a reduced role for the state and tighter government spending with no budget deficit 5) WTO accession.

5. The state is attempting to tackle these problems, with Voloshin's task force focusing on six areas: Financial Infrastructure and market regulation; Corporate Governance and Tax; Interaction of markets and the government; Cooperation with the CIS and Eurasian Economic Community; Physical infrastructure; Marketing and Promotion. The UK is supporting these efforts and a senior liaison group between Voloshin's committee and UK Financial Services specialists will meet during the upcoming visit of the Lord Mayor of London.
6. The efforts to develop a financial centre will open opportunities for UK firms. The progress made by Voloshin's working will dictate the extent of these opportunities. The work of the

Liaison Group set up between the UK and Moscow will be an important step in shaping Voloshin's programme and so improve conditions on the ground for UK financial services firms.

The Task

The overall task is to assist the development of Moscow as an International Financial Centre and, as part of this, to create a Liaison Group made up of officials and representatives of the UK financial and professional services industry, and their Russian counterparts. This Group will have the overarching objectives of exchanging intelligence and delivering on an agreed list of work-streams within a predetermined timeframe. The Liaison Group will meet regularly, reporting to the Joint-Chairmen (Mr. Alexander Voloshin and the Lord Mayor of London) who will appoint one Secretary from each side. The Liaison Group will agree the work streams and appoint expert members to the work stream groups. The proposed initial work streams are:

1. Alternative Dispute Resolution
2. Equities and Listings
3. Derivatives
4. The Regulatory and Administrative Environment
5. Long Term Market Development, including infrastructure financing (PPP/PFI)
6. Branding and Marketing

Work Stream Details

1. **Alternative Dispute Resolution:** This work stream will review the range of dispute resolution mechanisms available – including litigation, mediation and arbitration – examining the experiences in the UK and Russia; comparing various governing laws and applications; reviewing key issues for Alternative Dispute Resolution clients such as proceedings, enforcement and rules of evidence; and recommending the most efficient “best practice” for ADR centres and practitioners.
2. **Equities: primary listings, dual listings & secondary market trading:** The goal is to build on the successful equities markets in Russia, attract full listings and Initial Public Offerings (IPOs) and secondary market trading of shares and Depository Receipts. This work-stream will encompass the full range of equity and equity indices currently traded, identify potential new products and create the conditions for a migration of primary and secondary market from abroad to Moscow. It will also encompass attendant functions such as regulation, compliance & reporting, legal framework, tax & accounting treatment, liquidity & capital requirements, use of trading platforms and venues and operational issues such as affirmation, matching, messaging and registration, central clearing, settlement and custody. It will cover listing requirements, voting rights & procedures & minority shareholder rights. In its set of recommendations it could consider co-operation, joint ventures or mergers with domestic or foreign institutions in its market or other parts of the related ‘value chain’.
3. **Derivatives: Exchange traded and ‘Over the Counter’:** The goal is to take the comparative advantages of the Russian markets, provide ‘state-of-the-art’ solutions based on best international practice to create a highly competitive domestic, cross-border and international market based in Moscow. This work-stream will encompass the full range of financial and commodity derivatives, currently traded in the Russian and off-shore markets, and identify potential new products. It will also cover attendant functions such as regulation, compliance & reporting, legal framework, tax & accounting treatment, liquidity & capital requirements, use of trading platforms and venues and operational issues such as affirmation, matching, messaging and registration, central clearing, settlement and custody. It should also include issues such as transparency, risk management and mitigation and investor protection.
4. **The Regulatory and Administrative Environment:** This work stream aims to look at the regulatory environment within Russia, and using examples of best practice from around the world and input from international investors, advise on measure that Russia may take to stimulate the development of financial markets. In particular, TheCityUK’s Liberalisation of Trade in Services (LOTIS) will be able to contribute to discussion on providing a freer flow of services. Advice on creating the necessary administrative environment for a successful financial services centre can also be discussed.
5. **Long Term Market Development, including infrastructure financing (PPP/PFI):** The goal of this stream is to identify the priorities for long-term development in the Russian market, including those infrastructure developments which may need financing, and mechanisms to attract long term investors to the market. The stream will examine the whole life-cycle of projects and seek to define what makes an attractive market, in both physical and investor terms.
6. **Branding and Marketing:** This work stream will examine how modern cities like Moscow and

London define their appeal to their "consumers" – the businesses they wish to attract and retain. It will consider the key factors that make for successful financial centres – for example business activity, human capital, information exchange, and political engagement – and how they can be communicated to both domestic and international audiences. It will also look at how "soft" issues can affect a city's 'brand' such as cultural opportunities, lifestyle choices and family friendliness. This is in addition to the "hard" ones like tax rates, regulatory policy and supervisory approach, immigration policy, and openness to foreign ownership. The group will review the different promotional vehicles, from the public sector and the private sector, that exist or could be set up to take forward branding and communications issues and make appropriate recommendations for the UK and Russian stakeholders.

Membership:

Alderman Michael Bear (The Rt. Hon. The Lord Mayor)
Mr. Alexander Voloshin

Co-Chairmen

Deputy Co-Chairmen

Mr. Nikoli Kosov
Alderman David Wootton

United Kingdom

Danny Corrigan,
Chairman of TheCityUK Russia Group

Axel van Nederveen, Treasurer, EBRD
(Chairman of OTC Derivatives work stream)

Howard Snell, Executive Chairman, Otkritie
(Chairman of Securities work stream)

Stephen Harris, Global Infrastructure Group
(Chairman of Market Development and PFI –work stream)

John Cooke, TCUK LOTIS Committee
(Chairman of Regulatory and Administrative Environment work stream) –

David Burnside, Chair, New Century Media,
(Chairman of Public Relations & Marketing work stream)

Khawar Qureshi QC,
TCUK Legal Services & Dispute Resolution Ctte
(Chairman of ADR workstream)

UK Secretariat

James North, Lord Mayor's Office

Richard Normington, TheCityUK International Strategy Team

Russian Federation

Mikhail Margelov, Member of the Federation Council of the Russian Federation

Dmitry Stepanov, Partner, Egorov Puginsky Afanasiev & Partners

Sergey Lykov, Deputy Chairman of the Board of Vnesheconombank

Alexey Timofeev, Chairman of the Board of the National Association of the Participants of the Financial Markets of Russia

Allen A. Vine, Co-Head of the Moscow Infrastructure Sub-Committee of the Working Group on the Creation of Moscow International Financial Centre

Ruben Aganbegyan, President of Moscow Interbank Stock Exchange

Denis Ivanov, Head of London Representative Office, Vnesheconombank

Karen Malayan, Russian Embassy in London