

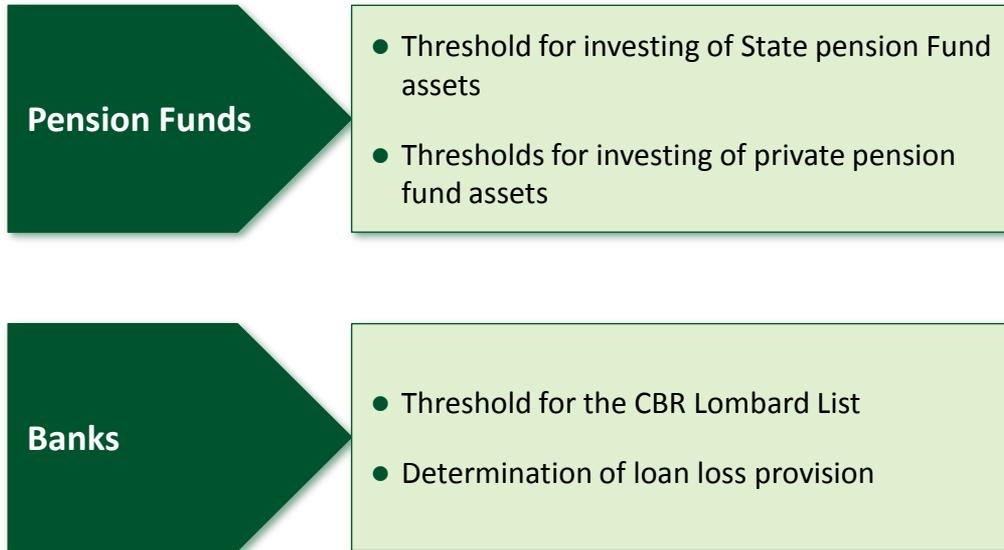
# Rating Industry Reform in Russia

April 2017



# Current Regulatory Framework

- The current regulatory framework uses credit ratings of **international rating agencies** as a primary criterion in the following key regulation requirement:



Moody's	Standard & Poor's	Fitch
<b>Investment grade</b>		
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-
<b>Speculative grade</b>		
Ba1	BB+	BB+
Ba2	BB	BB
Ba3	BB-	BB-
B1	B+	B+
B2	B	B
B3	B-	B-

- Sovereign rating (for S&P – rating in the local currency)
- Threshold for investing of State Pension Fund assets
- Current threshold for a guarantor's rating to be eligible for investing of private pension fund assets (the sovereign rating minus 3 notches)
- Current threshold for the issue (issuer) rating to be eligible for investing of private pension fund assets (the sovereign rating in minus 5 notches)
- Rating threshold for the CBR Lombard List

# Investing of Pension Funds Assets

Investment Restrictions	VEB	Non-state Pension Funds	
		Savings	Reserves
<b>Eurobonds</b>	Not eligible	Not eligible	<b>Min two investment grade</b> ratings from IRA* for Non-resident issuers
<b>Local bonds</b>	<b>BB+/Ba1</b> or higher from IRA	a. Issue/Issuer ratings: <b>RF-5 notches</b> from IRA OR <b>A(I)</b> from RAEX OR <b>BB+(RU)</b> from ACRA b. Guarantor ratings: <b>RF-3 notches</b> from IRA OR <b>A++</b> from RAEX OR <b>BBB+(RU)</b> from ACRA	<b>No rating restrictions</b> on Resident issuers



**Russian issuers with min two investment grade ratings**

- Nornickel (BBB-/Ba1/BBB-)
- Lukoil (BBB-/Ba1/BBB-)
- NLMK (BBB-/Ba1/BBB-)
- NOVATEK (BBB-/Ba1/BBB-)
- Severstal (BBB-/Ba1/BBB-)

\* IRA - International rating agency

## Rating Industry Reform (1/2)

- Federal Law #222-FZ from 13 July 2015 “On the Activities of Credit Rating Agencies in the Russian Federation”:
  - Rating agencies that would like their credit ratings to be applied in the Russian Federation will have to be registered in accordance with the requirements of the Central Bank of Russia
  - International scale ratings can be assigned only by registered branches of foreign agencies
  - **Only national scale ratings of registered rating agencies will be used for regulatory purposes**

### Credit Rating Agencies

Type	Agencies	Status
Registered agencies	Analytical Credit Rating Agency (ACRA)	Entered in the Register on 26 August 2016
	RAEX (Expert RA)	Entered in the Register on 6 December 2016
Registered branches of foreign agencies	Standard & Poor’s	In process
	Moody’s	In process
	Fitch	In process

## Rating Industry Reform (2/2)

- New regulation of rating industry is expected to come into force starting from **13 July 2017**
- International rating agencies have withdrawn (Fitch, Moody's) or are going to withdraw Russian national scale ratings due to requirements of Federal Law #222
- Currently use of national scale ratings assigned by ACRA and RAEX has been incorporated into regulation of pension fund assets investing (threshold set at BB+ (RU) and A(I), respectively)
- However a number of regulatory acts still needs to be amended in order to reflect this shift
- **Still there is no clarity on:**
  - **How outstanding securities will be deemed under new regulation framework**
  - **Whether ACRA and RAEX ratings will be eligible as thresholds for the CBR Lombard List**

### Number of Issuers with outstanding ruble bonds and assigned credit rating\*

International Rating From at Least One Agency	S&P	Moody's	Fitch	ACRA	RAEX
168	80	85	105	10	49

\* - Number of issuers with assigned international scale ratings for S&P, Moody's, Fitch and national scale ratings for ACRA and Expert RA

Source: Cbonds, Sberbank CIB estimates

## Recent Eurobond Placements

Date	Issuer	Ratings (S/M/F)	Volume, mln	Currency	Tenor	Coupon	Share of Russian Investors in Total Allocation
05/10/2016	Eurochem	BB-/-/BB	500	USD	3.5	3.80%	56%
19/10/2016	Polyus	Ba1/BB-/BB-	500	USD	5.5	4.70%	48%
26/10/2016	Lukoil	BBB-/Ba1/BBB-	1,000	USD	10	4.75%	15%
27/10/2016	CBOM	BB-/B1/BB	500	USD	5	5.88%	52%
03/11/2016	Domodedovo	BB+/-/BB+	350	USD	5	5.88%	18%
26/01/2017	Rusal	-/Ba3/B+	600	USD	5	5.13%	19%
31/01/2017	Polyus	BB-/Ba1/BB-	800	USD	6	5.25%	57%
16/02/2017	Severstal	BBB-/Ba1/BBB-	500	USD	4.5	3.85%	9%
22/02/2017	RuRail	BB-/Ba1/BBB-	500	USD	7	4.38%	33%
27/02/2017	RuRail	BBB-/Ba1/BBB-	15,000	RUB	7	8.99%	33%
29/03/2017	CBOM	BB-/B1/BB	600	USD	10.5NC5.5	7.50%	11%
29/03/2017	Gazprom	BB+/Ba1/BBB-	850	GBP	7	4.25%	16%
03/04/2017	Sovcomflot	BB+/Ba1/BB	150	USD	6.3	4.85%	33%
04/04/2017	Borets	B+/B1/BB-	330	USD	5	6.50%	32%
04/04/2017	Nornickel	BBB-/Ba1/BBB-	1,000	USD	6	4.10%	37%
<b>AVERAGE</b>							<b>31%</b>