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'Accident of History' Fixed by Bourse Merger

By Irina Filatova

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By combining its two leading financial bourses, analysts say the country becomes more attractive for local IPOs. **Maxim Stulov**

The merger of Moscow's MICEX and RTS stock exchanges will attract investment and encourage companies to list in Russia, investors and business leaders told The Moscow Times on Wednesday.

Five RTS shareholders — Renaissance Capital, Aton, Alfa Bank, Troika Dialog and Da Vinci Capital — announced Tuesday that they agreed to sell stakes amounting to 53.7 percent of the bourse. The deal values MICEX at $3.4 billion and the RTS at $1.15 billion.

“Is it fair? I think it's fair on all sides,” said MICEX president Ruben Aganbegyan, who was appointed a year ago with a mandate to make the deal a reality.

Market veterans said the merging of the two bourses will finally resolve an “accident of history” that resulted in their creation during the chaotic, demand-driven evolution of Russia’s financial system in the 1990s.

“There were no exchanges — people wanted exchanges, and so they went out and set up their own ones,” recalled Roland Nash, chief strategist at Verno Capital. “There was no plan to it ... and therefore two exchanges were set up rather than one.”

The dollar-denominated RTS, which first began trading in 1995 and is owned by Russian and foreign investment banks, evolved to become the favored venue for derivatives trading.

The ruble-denominated MICEX, started in 1992 as the center for currency trading, added debt transactions to its portfolio and now claims to be the largest stock exchange in the entire CIS and much of Eastern and Central Europe.

Investors visiting the Troika investment forum on Wednesday reacted positively to the merger.

Petropavlovsk gold mining chairman Peter Hambro said that Russia needs a strong stock exchange, but one trading floor will be enough for the still developing country.

He said creating a joint company was a “very good sign” for Russia, because it would result in more companies willing to list locally.

London-listed Petropavlovsk would like to be listed in Russia, Hambro said, adding that the miner was considering the option “very seriously.”

Sberbank chairman German Gref, whose bank owns a stake in MICEX, told reporters on the sidelines of the forum that he was feeling very positive about the merger, adding that “this is the first step toward creating a joint modern infrastructure.”

RTS chief executive Roman Goryunov said he was optimistic about the upcoming deal, which may be closed in the next six months.

Goryunov said a number of steps need to be taken, including getting approval of the Federal Anti-Monopoly Service, before the joint company is created.

RTS suspended all activities related to its own planned initial public offering, Goryunov said. If the deal is closed, shares of the joint company will be listed, he said, adding, however, that RTS will resume its efforts to go public if the merger fails.

The government expressed support of the deal, but didn’t influence the negotiations process, Goryunov said.

Central Bank Deputy Chairman Alexei Ulyukayev said Tuesday that his institution’s 36 percent stake in MICEX will be cut to 30 percent after the merger, with the remainder being divested over the next two to three years.

MICEX has agreed to pay 35 percent in cash and the remaining 65 percent in MICEX shares for RTS, valued at a ratio of 1:3.

RTS shareholders can take payment entirely in cash, based on an estimated company value of $840 million, or exercise an option to get equity in the united bourse and receive a $200,000 dollar premium for each percentage point that they own.

A fail safe clause will oblige MICEX to buy back shares from current RTS shareholders at a 12 percent annual premium if the state blocks an IPO of the combined exchange.

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