

## The Far East as a Financial and Offshore Centre

### KEY CONCLUSIONS

#### **An easy procedure for transferring any foreign company to the Russian jurisdiction has been established in the Far East**

“What we have achieved so far is amendments to corporate legislation, creation of a new element known as ‘international companies’, and an opportunity for redomiciliation. We have been working very hard on establishing a procedure that would allow taking a company from one jurisdiction and transfer it to another, while preserving tax conditions for this company unchanged, and getting additional budgetary incomes. This is the first stage of developing special administrative districts,” Maxim Oreshkin, Minister of Economic Development of the Russian Federation.

#### **Further development of legislation on special administrative districts (SADs) is planned**

“We are planning to move on. It means issues of technology regulations and other regulations. We would not like to create ‘holes’ that would suck in money, from the perspective of financial flows, from the perspective of tax flows. It’s crucial, however, to create a convenient environment for business to develop here. It’s about control and supervision and many other issues – this is what we are going to work on now, drawing up a second, a third legislative package,” Maxim Oreshkin, Minister of Economic Development of the Russian Federation.

#### **SADs comply with all international requirements**

“Everything is in full compliance with international requirements. Our goal is not to create some sort of ‘black hole’ to hide money or something like that. All data will be open for the state and for inspection authorities, all financial flows will be accounted for both at the Tax Service and at the Federal Financing Monitoring Service, that are actively engaged with the FATF (Financial Action Task Force). There are absolutely no blind spots here,” Maxim Oreshkin, Minister of Economic Development of the Russian Federation.

#### **Creation of SADs opens great opportunities for foreign investors**

“All new investment projects require trillions of US dollars. From the global infrastructure perspective, between 2019 and 2040, Russia will offer us opportunities worth USD 1.6 trillion. This includes project financing, and financing of environmental projects, so-called ‘green projects’. The Chinese government is not going to be the only source of investment. Multiple forms and models will be implemented: public-private partnership, and other models. <...> From the point of view of financing and financial centres, you have a very good position with other emerging financial centres, such as Kazakhstan and other Central Asian

nations, and I am not only talking about the Far East,” Chow Loletta, EY Global Leader, China Overseas Investment Network.

## PROBLEMS

### **Insufficient development of the financial services market in the Far East**

“For the first time, we saw a serious gap between the development level of business activities in the Far East and that of the financial market. <...> If we take a look at the Far Eastern financial market we will see no competition at all – almost all loan services are provided by three state-run banks, the level of penetration of loan products for entities, for individuals, the level of penetration of insurance products – we are the last in the Russian Federation according to these criteria. At the same time, all those investors, both Russian and foreign, who come to the Far East, need access to high-quality financial services, professional project consulting services, which we don’t have in the Far East,” Alexander Krutikov, Deputy Minister for the Development of the Russian Far East.

“The ability to carry out transactions relies on the services at hand. This abundance of services (like in Hong Kong – *ed.*) is, mildly speaking not available to us here,” Alexei Chekunkov, Chief Executive Officer, Far East and Baikal Region Development Fund.

### **Low awareness of financial market opportunities**

“We have questions to the quality of the completed projects. Poor awareness of the opportunities of the financial market resulting in low activity of both public and corporate issuers. Today, only two regions are present in the public debt market. A range of Far Eastern regions do not have loan quality ratings. Therefore, outcomes of the traditional financial industry are pretty modest, and the potential for growth is quite significant,” Ivan Semagin, Deputy Head of Financial Market Strategy Department, Bank of Russia.

## SOLUTIONS

### **Development of a target-based SAD model on Russky Island, Vladivostok**

The President (of the Russian Federation – *ed.*) has made a decision to provide incentives to attract more financial establishments to the Far East, to develop the financial market, to rise its development level up to requirements of investors that come here. <...> Together with the Bank of Russia we have managed to formulate a ‘target-based model’ of what has to be done in the Far East,” Alexander Krutikov, Deputy Minister for the Development of the Russian Far East.

### **Creating an independent financial regulator for residents of Vladivostok Free Port**

“Facilitating access to nonbank financing for investors and creating an independent financial regulator within the Vladivostok Free Port management that would provide the residents with access to the financial centre and monitor their activities,” Alexander Krutikov, Deputy Minister for the Development of the Russian Far East.

### **Opening the financial market for foreign banks**

“It is the opening of the financial market for foreign credit organizations and creation of opportunities for opening offices of foreign banks here, in the Far East, without the right to attract money from Russian citizens. It is the creation of a multi-currency crowd-funding platform – digital financial assets exchange,” Alexander Krutikov, Deputy Minister for the Development of the Russian Far East.

### **Developing SAD infrastructure on Russky Island**

“Another interesting function that is set out in our legislation is development of SAD infrastructure. It is critical that the investments that the SAD will receive would be applicable and profitable for both Russky Island and the Far East in general, and for the country. To provide the investors, that are going to bring the funds, with tools for funds deployment and, probably, execute these obligations under the agreement within our borders, we are considering an option of granting them or their offices the Free Port Resident status, for them to invest their money into the Russky Island,” Denis Tikhonov, General Director, Corporation for Far East Development.

“To attract more financial institutions, especially foreign financial institutions, banks, to Vladivostok, a financial infrastructure is required. A branch or a substructure of a forex exchange or other similar organizations could be created,” said Gao Yang, President BANK OF CHINA RUSSIA.

### **Creating a dedicated investment court**

"We consider establishing a dedicated state court that would quickly and efficiently settle disputes related to advanced special economic zones, Vladivostok Free Port, and special administrative districts. <...> We suggest creating the court using individuals who have extensive experience and an established name in investment law and in investment technologies. We suggest selecting people who already made their own careers in the financial sector. We suggest attracting those who are professionals in the market. <...> The basis for this court would be electronic justice," Elena Avakyan, Executive Director, Non-Profit Partnership for Advancement of Corporate Law; Counsel, Egorov Puginsky Afanasiev & Partners.

"We can see that attractiveness of jurisdictions from the arbitration point of view relies on the approach of the state courts – how 'pro-arbitration' these courts are. It is very good that amendments, among others concerning arbitration, were made to the first package of laws on SADs and that they now include special provisions that, first, suggest a possibility of reaching arbitration agreement, and referring the disputes to the arbitration court from the agreements signed by the residents with the management company. Any disputes related to such agreements may be considered not only at the state court, but also in arbitration proceedings, if that is more appropriate for the investor. Second, resolutions on such disputes within SADs may be executed at a state court under simplified procedure within 14 days without hearings. This is the most advanced instrument," Andrey Gorlenko, Executive Administrator of the Russian Arbitration Centre at the Russian Institute of Modern Arbitration.