

17:10 12Jul10 RTRS-INTERVIEW-Russia needs better laws, convertible rouble-ACI

- * ACI says convertible rouble needed to attract foreigners
- * Default laws need improvement to deal with foreign banks
- * Rouble's outlook is fine, attracts risk-lovers

By Andrey Ostroukh

MOSCOW, July 12 (Reuters) - Russia needs better bankruptcy laws and a more convertible rouble if it wants to further develop the foreign exchange market and attract international players, the local head of a major industry organization said. Developed from scratch after the fall of the Soviet Union, the Russian forex market has become a steady operating system with several hundred banks in less than 20 years. However, to open the door for international deals and trade, Russia needs to adopt global experience and standards, particularly in transactions settlement, the head of Russia's division of major FX industry association ACI, Sergei Romanchuk, told Reuters in an interview.

"A system of real-time payments is the obligatory element to make the currency freely convertible", he said.

"If it happens, international settlements will become safer and more standardized which may increase the investment appeal of Russia from a convenience of transactions point of view".

Russia's gross settlement system is still in its infancy and is so far mainly used between Russia's MICEX exchange and the central bank, while most commercial players rely on bilateral agreements -- making the system clunky and increasing risk.

The central bank is on the case, and plans to implement a real-time settlement system -- similar to the CLS bank clearing used in many developed markets -- to every bank by the year-end.

Another constraining factor is inadequate banking law lacking appropriate and clear directions in cases of bankruptcy, defaults, and close-out netting. Close-out netting is a liquidation procedure permitting one party to claim compensation from another at market value or at the value equal to the loss suffered by the non-defaulting party.

Russian banks use a local equivalent of the global standards of the International Swaps and Derivatives Association (ISDA) master agreement, launched one year ago.

But few foreign banks are ready to do netting with Russian players as the absence of an international settlement mechanism threatens the non-residents' ability to defend its rights in Russian courts in case one of the parties defaults.

"Every year we hope that the close-out netting law will be passed and every year it is delayed. The majority of foreign banks consider cross-cancellation of debts with Russian banks as risky as they may eventually appear helpless in Russia's courts," Romanchuk said. "This hinders Russian banks' prospects in international business."

The law on close-out netting was passed by the Duma lower house of parliament at its first reading one year ago and the government says it is still under revision. Delays are partly attributed to staff changes in the market watchdog and to the recent global crisis, which shifted the Duma's focus towards helping the economy out of recession.

Such changes and legislation are essential if Moscow is to achieve the status of a major global financial centre by 2020 -- a key ambition of Russian President Dmitry Medvedev.

ROUBLE AND ROBOTS

Romanchuk, who also works as the chief dealer in Russia's Metallinvestbank, believes that the rouble <RUB=> looks strong in the medium term due to strong surpluses.

The still relatively undeveloped derivatives market and the corresponding legislation makes hedging operations in Russia more expensive and less effective. But many foreign banks take risks and unhedged forex positions in Russia as they provide more profit, Romanchuk said.

Alongside derivatives, another growth field in Russia's forex market is algorithmic trading. "The Russian forex market is in the beginning of the road to algorithmic trading and it is likely to continue," Romanchuk said.

While algorithmic trade is widely used on Russian stock and derivative markets, in forex it accounts for only around 15 percent of transactions in the most liquid dollar/rouble section on the MICEX exchange with a daily turnover of around \$3-4 billion.

(Editing by Stephen Nisbet)

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