

Unclassified**English - Or. English****25 November 2019****DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
COMPETITION COMMITTEE****Barriers to Exit – Note by the Russian Federation**

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This document reproduces a written contribution from the Russian Federation submitted for Item 8 of the 132nd Competition Committee meeting on 3-4 December 2019.

More documents related to this discussion can be found at
<http://www.oecd.org/daf/competition/barriers-to-exit.htm>

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1. Introduction

1. Barriers to exit are determined as factors that prevent a company from leaving the sector without significant losses. Usually barriers to exit are associated with significant costs in the industry, which make it impossible for a company to leave the industry without losses. Such barriers are mainly connected with structural characteristics of a particular type of economic activity, such as asset liquidity, possibility of manufacture diversification with existing equipment, technologies, sources of raw materials.
2. Barriers to exit play an important role as they increase the risk of economic activity in the industry, and therefore create additional barriers to entry on the market. If a company knows that it is impossible to leave the industry without losses (for example, the production of goods requires highly specialized equipment that would be difficult to implement in case of bankruptcy), this may affect its primary decision to enter this industry.
3. It is considered that the difficult exit of enterprises from the Russian market and high explicit and implicit costs connected with it hinder effective competition. High risk associated with the difficulty of exiting the market is a factor that discourages potential competitors from entering the industry.
4. Barriers to exit create a double effect for competition by restricting free exit from the market they facilitate either the long-term and good faith development of a financial organization by its owner, or unfavorable transfer of the organization with the risk of asset withdrawal.

2. Exit from Russian financial markets

5. Barriers in financial markets are often connected with fundamental conditions for the market functioning (mainly determined by the government) and the structure of the cost function of participants. In accordance with the Procedure for Analyzing the State of Competition in the Commodity Market, approved by the Order of the FAS of Russia of April 28, 2010 No. 220, the definition of barriers to exit is not provided as a separate stage.
6. However, in its activities the FAS Russia had an experience with the exit of financial organizations from the market.
7. For example, in 2008, the FAS Russia revealed a case when a credit organization, M2M Private Bank PJSC, on a unilateral basis increased the amount of the commission for maintaining the settlement accounts of corporate clients, changing the previously existing fixed rate¹. Thus, this credit organization created unfavorable conditions for the services provided to legal entities, therefore they were forced to change the bank.

¹ The FAS Russia clarification on the complaint against the actions of the M2M Private Bank PJSC of July 8, 2008 (Russian version only): <https://br.fas.gov.ru/documents/-c2b963ed-f420-43da-9af2-e4a5405761dc/>

8. According to the explanations of M2M Private Bank PJSC, this tariff increase was introduced in order to leave the banking services market for legal entities and is connected with transfer of M2M Private Bank PJSC to retail banking market in order to provide a full range of banking services to private customers and develop a personal financial service for wealthy clients, Private Banking. At the same time, the FAS Russia did not reveal any violations of antimonopoly legislation in such actions of this bank.

9. Moreover, in 2015 broker activities were reformed to support the business of small regional companies. As a result, a license was introduced to carry out the activities of so-called broker with limited authority.

10. A full brokerage license implies a minimum capital of 35 million rubles. Due to the reduced requirements for the minimum authorized capital of 3 million rubles, companies that received such licenses were called "millionaires".

11. However, despite the liberalization of administrative barriers to entry, in 2019 some client brokers voluntary left the market due to their inability to compete with its large players.