Russia

Reserve Fund and National Wealth Fund
**Market Value**

**The Reserve Fund**
$61.4 billion

**The National Wealth Fund**
$87.5 billion

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**Fund Highlights**

- Russia has two natural resource funds:
  - The Reserve Fund, which is a stabilization and sterilization fund.
  - The National Wealth Fund, often called the National Welfare Fund, which is a future generations pension fund.

- The Funds’ regulatory structures have been suspended from 2010 to 2014. This profile focuses on the Funds’ current regulatory structures.

- Deposits into the Reserve Fund are given priority over National Wealth Fund deposits.

- While certain accountability structures are in place, such as an internal audit requirement and official Federal Assembly oversight, the lack of legislative independence and lack of external monitoring hamper oversight efforts.

- The National Wealth Fund may invest in Russian assets while the Reserve Fund may not.

- Russia is planning to create a new fund soon.
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**Timeline and Fund Objectives**

**Fund Inception**
- **Federal Law No. 63-FZ** amended the Russian Federation’s Budget Code to create the Reserve Fund and the National Wealth Fund by splitting the now defunct Oil Stabilization Fund, originally established in 2004.¹
- Under Order No. 37 of the Ministry of Finance, $56.4 billion was transferred from the former Oil Stabilization Fund into the Reserve Fund while $10.4 billion was transferred to the National Wealth Fund.²,³
- The Russian Government has plans to create a new fund in 2013 by transferring the existing capital from the Reserve Fund and the National Wealth Fund into a single fund that will be managed by a new agency called the Federal Financial Agency.⁴

**Fund Objectives**
- The Reserve Fund is a **stabilization and fiscal sterilization fund** that helps to maintain a balanced federal budget despite volatile oil and natural gas revenues while also helping to reduce inflationary pressure that may arise from large oil revenue inflows.⁵
- The National Wealth Fund is a **future generations pension fund** that supports the long-term viability of federal budget contributions to the Russian pension system. The Fund is designed to co-finance voluntary pension savings of Russian citizens and balance the budget of the Pension Fund of the Russian Federation.⁶

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¹ Federal Law No. 63-FZ Article 5 calls for the transfer of funds from the Oil Stabilization Fund to the new Reserve Fund and National Wealth Fund no later than February 1, 2008.
² Federal Law No. 184 establishes the Oil Stabilization Fund to accumulate revenue from oil production and exports.
³ Federal Law No. 63-FZ Article 5 calls for the transfer of funds from the Oil Stabilization Fund to the new Reserve Fund and National Wealth Fund no later than February 1, 2008.
⁵ Deposit regulations for the Funds are suspended.
⁶ Revenues, including any income from the Funds’ investments, are now redirected to finance federal budget expenditures.
⁷ Withdrawal regulations and spending procedures for the Funds are suspended.

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**TIMELINE**

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<tr>
<td>2004</td>
<td>Federal Law No. 184 establishes the Oil Stabilization Fund to accumulate revenue from oil production and exports.</td>
</tr>
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<td>2007</td>
<td>The Reserve Fund and the National Wealth Fund begin operating, replacing the former Oil Stabilization Fund. Unlike the Oil Stabilization Fund, the Reserve Fund also receives revenue from the production and export of gas and oil products in addition to crude oil sales.</td>
</tr>
<tr>
<td>2010</td>
<td>Deposit regulations for the Funds are suspended. Revenues, including any income from the Funds’ investments, are now redirected to finance federal budget expenditures. Withdrawal regulations and spending procedures for the Funds are suspended.</td>
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Each box represents a regulatory standard essential for promoting consistent use of and safeguarding resource revenues. White boxes highlight regulatory gaps in fund governance.

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<td>Public Disclosure of Independent External Audits</td>
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<td>Rule for How Much Can be Withdrawn in Any Given Year</td>
<td>Domestic Investment is Explicitly Prohibited</td>
<td>Ethical &amp; Conflict of Interests Standards for Managers &amp; Staff</td>
<td>Public Disclosure of Internal Audit Results</td>
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<tr>
<td>Rule for Which Revenues Must be Deposited and When</td>
<td>Investment Risk Limitations</td>
<td>The Detailed Responsibilities of Fund Managers &amp; Staff</td>
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Good Governance Standards Met
Russia’s fund deposit and withdrawal rules have been suspended through 2014.

### Operational Laws, Rules and Policies

The below fund deposit and withdrawal regulations for the Reserve Fund and the National Wealth Fund are suspended until 2014 by Federal Law 245-FZ.\(^7\)

#### Fund Deposit Rules\(^8\)

- Oil and gas revenue consists of taxes on oil and gas production as well as export customs duties on crude oil, natural gas and oil products. Any income from Fund investments is also deposited.

- Deposits into the Reserve Fund and the National Wealth Fund are only made after an amount equal to 3.7 percent of annual GDP is first directly transferred to the federal budget.

- After the direct transfer to the federal budget, revenue is deposited into the Reserve Fund. However, the size of the Fund is capped at 10 percent of GDP in any given year.

- If the Reserve Fund has already reached the 10 percent cap, any remaining revenue is then deposited into the National Wealth Fund.

#### Fund Withdrawal Rules

**Reserve Fund**

- Funds can be withdrawn from the Reserve Fund in order to balance the federal budget and repay any foreign national debt.

- The amount that is withdrawn is approved by the Russian Federal Assembly on a yearly basis, as part of the annual budget process.

**National Wealth Fund**

- The National Wealth Fund’s assets are withdrawn to finance the Pension Fund of the Russian Federation and to co-finance the pension savings of Russian citizens. However, exceptions have been made to finance extra-budgetary spending, but no regulations exist regarding such exceptions.\(^10\)

- Withdrawal amount is determined annually by the Russian Federal Assembly as part of the annual budget process. There are no numerical limits on withdrawals.
Natural Resource Funds

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Operational Laws, Rules and Policies

Flow of Funds*

Oil and Gas Revenues

Amount equal to 3.7% of GDP in a given year

Remaining revenue until Reserve Fund reaches cap of 10% of GDP in a given year

All remaining revenue after the Reserve Fund reaches its cap for the year

Direct Transfers to the Federal Budget

Reserved Fund

Used for balancing budget and debt repayment

National Wealth Fund

Used for financing pension payments

* Currently suspended until 2014 by Federal Law 245-FZ with all funds now currently directly going to finance federal budget expenditures.
Investment Authority
The Ministry of Finance manages both the Reserve Fund and the National Wealth Fund. The funds are held at the Central Bank of Russia.\(^\text{12}\)

Investment Strategy
Investments by the Reserve Fund and the National Wealth Fund are restricted to:\(^\text{13}\)

1. Foreign currency deposits (U.S. Dollars, Euros and British Pounds) in the Federal Treasury’s account at the Bank of Russia.
2. Financial assets denominated in foreign currencies. Eligible assets for investment include:
   - Debt securities of foreign governments, government agencies, central banks and international financial institutions with a long-term credit rating of at least AA- or Aa3 from Standard & Poor’s, Fitch or Moody’s.
   - Deposits at foreign banks and institutions with long-term credit ratings of at least AA- or Aa3 from Standard & Poor’s, Fitch or Moody’s.

In addition to the above, the National Wealth Fund is also permitted to invest in the following:\(^\text{14}\)

- Debt securities denominated in Russian Rubles with a long-term credit rating of at least BBB- or Baa3 from Standard & Poor’s, Fitch or Moody’s.

- Foreign and Russian equities and shares of investment funds as long as the equity is listed on at least one exchange and is included in major stock indices.
- Foreign and Russian corporate debt securities with a long-term credit rating of at least AA- or Aa3 from Standard & Poor’s, Fitch or Moody’s for foreign issuers and BBB- or Baa3 for Russian issuers.
- Deposits at the Vnesheconombank (Russia’s State Bank of Development and Foreign Economic Activity) to earn interest.

In practice, exceptions can be made by the government.\(^\text{15}\)

Regulations regarding such exceptions are unknown.
Investment Laws, Rules and Policies

**Investment Allocation**

**Reserve Fund**

The asset allocation range approved by the Government of the Russian Federation is as follows:
- 50-100% debt of foreign governments
- 0-30% debt of foreign government agencies and central banks
- 0-15% debt of international financial institutions
- 0-30% deposits in foreign banks and credit institutions

Reserve Fund investments are restricted to assets denominated in the following foreign currency ratio:
- 45% U.S. dollars
- 45% euros
- 10% British pounds

**National Wealth Fund**

The asset allocation range approved by the Government of the Russian Federation is as follows:
- 0-100% debt of foreign governments
- 0-30% debt of foreign government agencies and central banks
- 0-15% debt of international financial institutions
- 0-40% deposits in foreign banks, institutions and the Vnesheconombank
- 0-100% deposits in the Bank of Russia
- 0-30% corporate debt
- 0-50% equities and shares of investment funds

National Wealth Fund investments are restricted to assets denominated in the following ratio of currencies:
- Maximum of 50% in Russian Rubles
- Maximum of 100% in foreign currency broken down into 45% U.S. dollars, 45% euros and 10% British pounds

**Policy on in-State investments:**

The National Wealth Fund may invest in Russia while the Reserve Fund may not.
Reserve Fund

Allocation by Asset Class

As of January 2011

- Debt Securities of Foreign Governments: 100%

National Wealth Fund

Allocation by Asset Class

As of December 2010

- Debt Securities of Foreign Governments: 90%
- Deposits in Banks, Institutions and the Vnesheconombank: 10%
Management and Accountability

Management and internal accountability

The President appoints the Prime Minister.

Under Russia's Budget Code, the government sets management and investment policy that is then carried out by the Minister of Finance. Through government decree, the Prime Minister sets limits on target allocation of the Funds.

The Ministry of Finance manages the Funds and publishes limited information on oil revenue receipts and Fund activities each month.

External accountability

The government submits quarterly and annual budget reports to the Federal Assembly. These include details on Fund finances.

The Accounts Chamber monitors and audits the Funds' activities. It submits its findings to the Federal Assembly each quarter as part of its regular budget-related reporting requirements.

The Pension Reserve Fund and the National Wealth Fund (held at the Central Bank of the Russian Federation)
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Oversight and Safeguards

Oversight Mechanisms

• Finances are subject to regular and comprehensive internal audits.

• The Accounts Chamber of the Russian Federation is an organ of the parliament empowered by law to monitor Fund activity. However, weak parliamentary oversight limits the impact of Accounts Chamber reports.

• Although spending from petroleum revenues is approved by parliament through the annual Federal Budget Law, in practice, the government has significant discretion regarding the use of petroleum revenues.

Common Oversight Mechanisms or Safeguards Not Present in Russia

• A domestic periodic review process of investment methodology does not exist to improve management of investments.

• International oversight institutions, such as the World Bank or the International Monetary Fund, do not routinely monitor Fund management.

• Fund finances are not subject to a regular and independent external audit.

• Funds are not managed separately from the country’s international reserves.

• There is no regular monitoring by citizens or civil society organizations.
## Transparency Laws, Rules and Policies

**There is public disclosure of the following:**

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Yes/No</th>
</tr>
</thead>
<tbody>
<tr>
<td>When or how often Fund reports are published and made publicly available**</td>
<td>No</td>
</tr>
<tr>
<td>Which individuals or organizations are responsible for publishing Fund reports***</td>
<td>No</td>
</tr>
<tr>
<td>Size of the Fund(s)</td>
<td>Yes</td>
</tr>
<tr>
<td>Deposit and withdrawal amounts</td>
<td>Yes</td>
</tr>
<tr>
<td>Returns on investments</td>
<td>No</td>
</tr>
<tr>
<td>Detailed asset allocation – geographic location</td>
<td>No</td>
</tr>
<tr>
<td>Detailed asset allocation – asset class</td>
<td>No</td>
</tr>
<tr>
<td>Detailed asset allocation – specific assets</td>
<td>No</td>
</tr>
<tr>
<td>Natural resource prices and other fiscal assumptions used to calculate deposit and withdrawal amounts allowed under fiscal rules</td>
<td>No</td>
</tr>
</tbody>
</table>

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* Publishing of reports has been suspended from January 1, 2010 until January 1, 2014.

** Frequency of reporting is disclosed but quarterly and annual reports to the Government and the Federal Assembly are not made available to the public.

*** Although the Minister of Finance submits reports to the Prime Minister, who in turn submits them to the Federal Assembly, these reports are not made public.
Annex:
List of Applicable Laws

Decree of the Russian Federation No. 955 (December 29, 2007)
On the management of the Reserve Fund

Decree of the Russian Federation No. 892 (December 17, 2007)
The settlements and the transfer of funds in connection with the formation and use of oil revenues to the federal budget, and gas transfer, to the Reserve Fund and the National Wealth Fund

Decree of the Russian Federation No. 805 (November 6, 2008)
On amendments to the requirements for financial assets that can be placed in the Reserve Fund

Decree of the Russian Federation No. 267 (April 21, 2010)
The suspension of the acts of the Government of the Russian Federation on the formation and use for oil and gas revenues of the federal budget revenues from the management of the Reserve Fund and the National Wealth Fund

Decree of the Russian Federation No. 1 (January 19, 2012)
On the order of enrollment in the Reserve Fund oil and gas revenues received during the execution of the Federal Budget in 2011

Federal Law No. 205-FZ (September 30, 2010)
On Amendments to the Budget Code and other legislative acts

Federal Law No. 205-FZ (November 24, 2008)

Federal Law No. 63-FZ (April 26, 2007)
Amendments to the Budget Code of the Russian Federation to the regulation of the budget process and aligning the budget legislation of the Russian Federation

Budget Code of the Russian Federation Chapter 13
The use of oil and gas revenues to the federal budget

Orders of the Russian Finance Ministry Numbers 3, 4, 5, 11, 12, 25, 116, 204 and 507

Government Resolutions Orders Numbers, 271-p, 974-p, 23-p, 1495-p, 2328-r and 2329-r

* All of the above can be found in Russian at: http://www1.minfin.ru/ru/reservefund/legalframework, and, http://www1.minfin.ru/ru/nationalwealthfund/legalframework/
Endnotes

18. Order of the Ministry of Finance of Russia No. 204, June 1, 2011. Available at: http://www1.minfin.ru/ru/reservefund/legalframework/prikaz/