

# Russian Federation

## Corporate Governance Institutions, Practices and Developments

### 1. Key Institutional Features of Corporate Governance and Company Profile in the Russian Federation

#### 1.1 Background

##### *Historical overview*

Corporate governance and the regulation of corporate relations in Russia have a short history.

On 19 June 1990, the USSR Council of Ministers approved the regulations on joint-stock companies and limited liability companies, as well as Regulations on securities. Six months after the adoption of the said regulations the Council of Ministers of the Russian Soviet Federal Socialist Republic (RSFSR) adopted similar regulations that extended only to the territory of the RSFSR. In line with the general trend of denationalization of the economy, the further development of the legislation on joint-stock companies was managed through the adoption of laws and regulations governing the transformation of state enterprises into joint-stock companies.

By the end of 1990s, the basic laws of the Russian Federation were adopted, replacing the USSR legislation in the area of corporate governance (Law on the Joint-Stock Companies, Law on the Limited Liability Companies), securities market regulation (Law on Securities Market) and protection of investor rights. The stock market in the conventional sense of the term began to develop. The 2000s saw continued efforts to improve the institutions and the infrastructure of the stock market as well as corporate governance.

After the 1998 crisis, the stock market took until 2003 to fully recover. Mechanisms for collective investment (mutual funds) became fully operational and sustained growth in net asset value lasted until the global financial crisis of 2008. The role of the financial market in the economy increased markedly in the period 2006-07.

The strengthening role of financial markets was accompanied by increased trading volumes, rising liquidity, as well as greater recourse of Russian companies to the stock market as a source of long-term investment. The ratio of stock market capitalization to GDP had not exceeded 20% (1997-2004). But by 2007, stock market capitalization already amounted to 32.3 trillion rubles versus the GDP of almost 33 trillion rubles. By the end of 2009 the value of corporate bonds reached 2,387 billion rubles.

##### *Existing regulatory framework*

The system of legislative regulation of corporate relationships includes:

- the Civil Code of the Russian Federation,

- the Federal Law dated 26 December 1995 No. 208-FZ “On Joint-Stock Companies” (hereinafter—JSC Law),
- the Federal Law dated 8 February 1998 No. 14-FZ “On Limited Liability Companies),
- the Federal Law dated 22 April 1996 No. 39-FZ “On Securities Market”,
- the Federal Law dated 4 October 2002 “On Insolvency (Bankruptcy)”,
- the Federal Law dated 21 December 2001 No. 178-FZ “On Privatization of State and Municipal Property”,
- the Federal Law dated 14 November 2002 No. 161-FZ “On State and Municipal Unitary Enterprises”,
- federal laws on state corporations,
- Regulations on the register of holders of registered securities, approved by the Federal Securities Commission on 2 October 1997 No. 27,
- Regulations on information disclosure, approved by the order of the Federal Service for Financial Markets on 10 October 2006 No. 06-117/pz-n,
- Regulations on depository activities, approved by the order of the Federal Service for Financial Markets dated 16 October 1997 No. 36,
- Additional Requirements for procedure of preparing, convening and holding general shareholders’ meeting approved by the decision of the Federal Service for Financial Markets No. 17 dated 31 May 2002.

Federal Service for Financial Markets also approved the Code of Corporate Conduct on 4 April 2002 No. 421/r. Although not mandatory, most of its provisions are included in the listing requirements of Russia’s major bourses, RTS and MICEX. In Russia there are more than 10 industry codes of corporate conduct, (voluntary), the best known of which are the codes developed by the Association of Independent Directors and the Russian Institute of Directors.

## 1.2 Trends

It should be noted that the number of listed companies is on the rise, more often involving debt securities rather than equity securities. As of 15 March 2010 on the RTS stock exchange (Russian Trading System) there were 85 joint-stock companies in the quotation lists, including five joint-stock companies in the A1 list, 17 companies in the A2 list, and 63 companies in the B list. The number of joint-stock companies according to the Uniform State Register of Legal Entities as of 1 February 2010 was 195,697. Thus, the proportion of companies whose shares are traded on the stock exchange constitutes 0.043% of the total number of joint -stock companies. The average median value of a controlling stake reaches 69% among companies in the RTSI. RTS equity market capitalization is US\$811 billion, including US\$683.0 billion of companies whose shares are included in the RTS Index, and US\$534.2 billion in the companies whose shares are included in the quotation lists.

## 1.3. Key Corporate Governance Rules and Practices

For key corporate governance rules, see Key Corporate Governance Rules and Practices in the Russian Federation, p. 196.

# 2. Development, Enforcement and Assessment of Implementation of Corporate Governance Rules

## 2.1 Development of Corporate Governance Rules

The legislative body of the Russian Federation is the Federal Assembly of the Russian Federation, consisting of two chambers, the State Duma and Federation Council. The

government of the Russian Federation has the right of legislative initiative. Among the bodies of the Executive, subordinate to the government of the Russian Federation, the Ministry of Economic Development of the Russian Federation and the Federal Service for Financial Markets are responsible for setting the policy in the area of corporate governance and securities market. These bodies of the Executive have expert and advisory councils whose members are representatives of the academic community, business, public organizations and managerial associations. These councils organize the work to examine the draft regulations on corporate governance and securities market developed by the bodies of the Executive and other experts.

## **2.2 Enforcement of Corporate Governance Rules**

In accordance with the Russian law, a company can be subject to civil and administrative liability while an official of the company can also be subject to criminal responsibility. The main federal bodies of the Executive authorized to conduct administrative investigations in the area of corporate governance and securities market are the Federal Service for Financial Markets and the Federal Tax Service. Criminal cases with respect to the crimes that can be attributed to the field of corporate relations may be initiated by investigators of the Ministry of Internal Affairs. Claims of shareholders against the company are still fairly rare, due to the fact that prior to October 2009 the procedure for filing such suits was not legally regulated.

## **2.3 Assessment of Corporate Governance Practices**

Work on preparing a self-assessment report according to the OECD Corporate Governance Principles has just begun. There is a tentative understanding that the Russian law on joint-stock companies and trends of its change are consistent with these principles.

# **3. Awareness and Advocacy for Good Corporate Governance**

## **3.1 Company Directors**

In Russia there are several managerial associations. The Association of Independent Directors and the Russian Institute of Directors are among the biggest. The Association of Independent Directors has 515 members, all of whom are professional directors. Membership of the Russian Institute of Directors comprises Russian and international companies. In addition to Russia's managerial associations there are associations of lawyers specializing in corporate law. The largest of these are Corporate Lawyer Association and the Russian Association of Lawyers. All aforementioned associations hold round table discussions, seminars, conferences and classes designed to enhance the professional skills of managers and lawyers in the field of corporate governance law.

In the absence of mandatory requirements for directors (except for certain occupational areas subject to licensing), there is a high demand for the services provided by various organizations offering workshops to enhance skills in the field of corporate governance.

## **3.2 The Media**

Among the measures designed to develop Russia as an International Finance Center, the government of the Russian Federation has been considering the improvement of financial literacy among the general public, which would involve the dissemination of information through the media. This information would include issues of corporate governance and corporate finance.

There is a wide range of professional periodicals in printed and electronic form in the Russian Federation, some of which are wholly or partially dedicated to issues of corporate finance, corporate governance and law. Such publications include the following magazines: “Joint-Stock Bulletin”, “Joint-Stock Review”, “Business Online”, “Money”, “Director”, “Corporate Lawyer”, “Profile”, “RBC Daily”, “Mergers and Acquisitions”, “Finance” and “Economy and Law”.

### **3.3 Educational System**

The curriculum of economic faculties and departments of higher and secondary specialized educational institutions includes courses on general management and corporate finance. In the law faculties and departments of higher and secondary specialized institutions educational programs include courses on civil and administrative law, with lectures on civil law on legal entities and securities, legislation on the securities market, the administrative responsibility for offenses in the securities market.

### **3.4 The Stock Exchange**

MICEX Group (including “MICEX Stock Exchange”, “Moscow Interbank Currency Exchange”) provides various training courses and workshops for directors, including some in cooperation with the Association of Independent Directors.

## **4. Corporate Governance of State-Owned and Family-Controlled Enterprises**

### **4.1 State-Owned Enterprises**

The Federal Agency for Management of State Property (Rosimushchestvo) exercises the rights of shareholder on behalf of the Russian Federation in the state-owned enterprises.

The strategic functions of public policy making in individual sectors and of management of state property in the Russian Federation are split among various federal bodies of the Executive. Thus, the function of public policy making in individual sectors of the economy is carried out by sectoral ministries (Ministry of Economic Development, Ministry of Finance, Ministry of Health and Social Development, Ministry of Transport, Ministry of Industry and Trade, Ministry of Communications, and others). Public policy making in the management of federal property is the responsibility of the Ministry of Economic Development of the Russian Federation, while the immediate state property management is the function of Rosimushchestvo.

The functions of state property management are performed by *ad hoc* bodies, with the distinction based on both territorial (federal/regional level) and sectoral principle.

#### ***The territorial principle***

In accordance with the Article 8 of the Constitution of the Russian Federation there are private, state, municipal and other forms of property in the Russian Federation.

Under paragraph 1 of Article 214 of the Civil Code of the Russian Federation state property comprises the property of the Russian Federation (federal property) and property of the subjects (regions) of the Russian Federation.

As a general rule, according to paragraph one of the Resolution of the government of the Russian Federation No. 738, the Federal Agency for Management of State Property (Rosimushchestvo) exercises shareholder rights on behalf of the Russian Federation of public

companies whose shares are owned by the Russian Federation (hereinafter joint-stock companies).

The property of the subjects (regions) of the Russian Federation is run by the executive authorities of those subjects.

### ***Sectoral principle***

In the cases specified by law, Rosimuschestvo exercises the rights of shareholder in agreement with the relevant ministries and agencies. In addition, the law may provide for the delegation of authority of the owner (shareholder) directly to the sectoral ministry.

For example, paragraph 5.11 of the Regulations “On the Ministry of Communications and Mass Media of the Russian Federation”, approved by government of the Russian Federation on 2 June 2008 No. 418 entrusts the Ministry of Communications and Mass Media (Minkomsvyaz of Russia) to exercise the authority of owner in respect of federal property transferred to federal state unitary enterprises and the federal public institutions subordinated to this Ministry.

Under paragraph seven of the Order of the Rosimuschestvo dated 11 October 2007, No. 3254-r “On Joint-Stock Company Russian Investment Fund for Information and Communication Technologies” Minkomsvyaz of Russia on behalf of the Russian Federation exercises the rights of shareholder of the Public Joint-stock Company “Rosinfocominvest” in accordance with the Decree of the government of the Russian Federation dated 9 August 2006, No. 476 “On Establishment of a Public Joint-stock Company Russian Investment Fund for Information and Communication Technologies”.

With regard to the specific requirements for corporate governance it should be noted that the requirements for corporate governance in these companies do not differ from those applicable to private companies.

The structure of corporate governance in the state-owned enterprises usually does not differ from the structure of corporate governance in private companies. However, there are some distinctive features related to the fact that “representatives of the state” are appointed simultaneously by several sectoral ministries.

At the same time it is worth noting that the state is currently moving away from direct involvement (through directives issued to public servants in the governing bodies) in the management of the state-owned enterprises. Hence, nowadays following international trends the state is moving towards the practice of election of independent directors and professional attorneys to the management bodies of the state-owned enterprises.

Professional Attorney is a representative of the Russian Federation who is not a public servant and who acts on the basis of directives similar to the directives issued to government officials representing the Russian Federation in general meeting of shareholders and board of directors of joint-stock companies.

The difference between independent director and Professional Attorney is that an independent director shall vote on the meeting agenda guided by his/her own judgments, while the Professional Attorney shall request directives from Rosimushchestvo on certain issues. The list of issues on which the professional attorney requests directive from Rosimushchestvo is set in paragraph 17 of the Resolution of the government of the Russian Federation No. 738. Based on paragraph 17 of the Resolution No. 738, the body responsible for management of state property

is obliged to issue directives on issues referred to in sub-paragraphs 1, 3, 5, 6, 7, 9, 11 and 15 of paragraph one of Article 65 of the JSC Law:

- adoption of the agenda of the general meeting of shareholders;
- increase in the authorized capital by placing additional shares within the number and categories (types) of declared shares if it falls within the competence of the company as referred to in the company's charter in accordance with this Federal Law;
- establishment of an executive body of the company and early termination of its powers, if it falls within the competence of the company as referred to in the company's charter;
- recommendations on the size of dividend on shares and the procedure of its payment.

Compared with the previous (pre-2008) edition of Resolution No. 738, the list of the "directive-based" issues has been substantially reduced, and now mainly involves issues directly related to the risk of losing corporate control.

In order to improve the efficiency and effectiveness of joint-stock companies it was considered appropriate to set up three specialized committees within companies' boards of directors whose shares are owned by the Russian Federation:

- A committee on strategic planning;
- An audit committee;
- A committee on personnel and remuneration.

It was proposed that the chairpersons of the committees be elected from among those members of the company's board of directors who are not civil servants (independent directors and professional attorneys).

The following are examples of such functioning committees: Public Joint-stock Companies Transneft, RZhD, SG-Trans, Modern commercial fleet (Sovkomflot), Sheremetyevo International airport, Agency for Home Mortgage Lending.

## **4.2 Family-Controlled Enterprises**

Private companies in the Russian Federation have traditionally existed in the form of limited liability companies or private joint-stock companies. Requirements for corporate governance among the private companies are stricter than in the case of limited liability companies. However, the requirements for corporate governance in private and public companies do not differ in general. The Ministry of Economic Development of the Russian Federation is currently drafting amendments to laws to provide differential regulation of corporate relationships in the private and public companies (more permissive regulation for the former and higher standards of corporate governance for the latter).

Companies that are preparing to list are obliged to take measures to ensure that their corporate governance complies with the listing requirements. In this regard, private companies will upgrade their corporate governance when planning to list.

## **5. The Role of Professional Service Providers in Corporate Governance**

As a rule, experts in securities publicize in their reports and inform the companies that they ensure the compliance of the company's performance to the highest standards of corporate governance.

Auditors' reports on public companies, state-owned unitary enterprises, the majority of state corporations are subject to mandatory publication.

## 6. Recent Developments in Corporate Governance

### 6.1 Corporate Governance Developments

To date, in accordance with the concept of corporate law development approved in 2006 by the government of the Russian Federation and the anti-crisis action plan of the government of the Russian Federation amendments were introduced to:

- The Civil Code of the Russian Federation and the legislation on limited liability companies (Federal Law dated 30 December 2009 No. 312-FZ),
- Bankruptcy legislation (Federal Law dated 28 April 2009 No. 73-FZ),
- Legislation on joint-stock companies and the securities market (Federal Laws dated 3 June 2009 No. 115-FZ, 27 December 2009 No. 352-FZ),
- Arbitration legislation and legislation on legal entities (Federal Law dated 19 July 2009 No. 205-FZ).

#### **A) “Anti-raider Act” (Federal Law dated 19 July 2009 No. 205-FZ)**

The rationale behind the adoption of this law was to ensure consistency among judicial decisions on corporate disputes, is addressed by the following measures:

- Introducing the notion of “corporate dispute” and a clear distinction between judicial jurisdiction by referring such disputes to the jurisdiction of arbitration courts;
- Exclusive jurisdiction of the cases of corporate disputes based on the location of the entity in respect of which the dispute emerged;
- Introducing the mechanisms for the consolidation of inter-related claims of corporate disputes;
- Specification of rules for the adoption of enforcing measures by the court, ensuring the efficiency of their adoption on the one hand, and precluding the possibility of “paralyzing” the business activity of the legal entity on the other;
- Introducing indirect actions, ensuring shareholders' opportunities to file claims for damages to the company's directors;
- Introducing the concept of class action which is new to the Russian legislation, allowing new plaintiffs to “engage” in an existing legal proceeding.

The law increases the transparency of the legal proceedings.

#### **B) Law No. 312-FZ (amendments to the legislation on limited liability companies)**

One of the main reasons of amending the law on limited liability companies was to better protect the owners' rights.

According to the amended law:

- Information about the transition of shares is only reflected in the Unified State Register of legal entities;

- Transactions to transfer shares are subject to notarization, while the liability of notaries and requirements for its compulsory insurance became stricter;
- The Concept of agreements between shareholders was introduced; and
- Shareholders were given the right to sue for the return of stolen shares in the company.

**C) Federal Law dated 3 June 2009 No. 115-FZ “On Amending the Federal Law “On Joint-stock Companies” and article 30 of the Federal Law “On Securities Market”**

This law introduced the concept of shareholders’ agreement into the legislation on joint-stock companies. Thus the law solves the problem of providing greater freedom to shareholders in the formation of convenient models of corporate governance while preserving the basic mechanisms for the protection of property rights of minority shareholders, creditors and the public interest.

**D) Protection of the rights of creditors in bankruptcy**

Until recently, the bankruptcy legislation did not provide effective ways to return the assets that were deliberately alienated by the debtor to the detriment of creditors. In order to ensure uniform approaches to address the issues of challenging the transactions on grounds provided by the Law on Bankruptcy, the Plenum of the Supreme Arbitration Court of the Russian Federation issued a ruling on 30 April 2009 No. 32. Amendments to the general Law on Bankruptcy and the Law on Bankruptcy of Credit Institutions came into effect in early June 2009 (Federal Law dated 28 April 2009 No. 78-FZ).

Amendments to the bankruptcy legislation provide for:

- Simplification of procedures for cancellation of a transaction in bankruptcy that was intended to harm the property rights of creditors (suspicious transactions) and preferential transaction (with preference satisfaction). This sets the conditions under which a transaction can be recognized as invalid. Then it is possible to challenge a suspicious transaction on the basis of both objective criterion which is the disparity of counter-performance and subjective criterion which is the intention to cause harm to the debtor’s creditors in their ability to obtain satisfaction of their claims at the expense of the debtor’s property;
- Simplification of the proof of claims to call to account directors and “shadow directors” of the debtor recognized as a bankrupt;
- Lowering the cost of administering the bankruptcy procedures by considering the claims aimed at increasing the competitive estate within a single case (cancellation of suspicious transactions and prosecution of directors and “shadow directors”).

**6.2 Enforcement of Corporate Governance Rules**

In 2010 the Constitutional Court of the Russian Federation put an end to decades of dispute about who should be responsible for the unlawful cancellation of shares if the register of securities is the registrar. The history of court rulings on this issue was controversial: in some cases the registrar and the issuer were brought to justice, in others the issuer was so and a registrar additionally or registrar exclusively. In 2009 the law was amended. Article 44 of the JSC Law then provided for the right of the shareholder to sue for violations of his rights on the shares for the damages to the issuer and the registrar of society. These persons are jointly and severally liable. In addition, such a requirement by law may be charged with the directors of a joint-stock company under the second para of paragraph 2 of Article 71 of the JSC Law in case of violation of shareholder rights granted by the Chapter 11.1 of the JSC Law (which governs



the procedure for a mandatory offer by the person acquiring corporate control, and the procedure for redemption of shares by an owner of 95% of shares of authorized capital of a joint-stock company). The Constitutional Court of the Russian Federation upheld the compliance of this rule with the Constitution of the Russian Federation In January 2010 by ruling No. 2-P. In particular, Gazprom, Sberbank, Orenburgneft and Gazpromneft joint-stock companies filed a complaint, which noted that the claim for damages must be charged not with the issuer and the registrar, but with the direct tortfeasor, for example, the thief who stole the shares. The Constitutional Court of the Russian Federation stressed in its resolution that the work to keep the register of shareholders is directly related to the emission of shares, so the issuer must maintain proper records of shareholders' rights and be liable in case of violation of the rights of shareholders as a result of unreliable data. In the case of transfer of responsibility for keeping share records to the registrar, the issuer is not exempt from the said liability to the shareholder.

In April 2010, the Supreme Arbitration Court of the Russian Federation applied the doctrine of "disclosure of corporate cover" in the Edimax Ltd against Sh.Chigirinsky, who was recognized as the controlling shareholder of the company being the debtor in default on a loan agreement. Due to the fact that a causal relationship was found between the default on the obligations of the company and the instructions of its beneficiaries, Sh.Chigirinsky was brought to vicarious liability for the debts of the company. At the same time in May 2010, Russian Constitutional Court dismissed the complaint of a Cypriot company Lankrennan Investments Ltd on misinterpretation due to the judicial practice of certain legal provisions preventing prosecution of the controlling shareholders (in particular, with respect to the cases of liability for damages of "Eurocement" caused by its subsidiary joint-stock company "Ulyanovsktsement").

By early 2010, a uniform judicial practice had emerged with respect to the invalidation of transactions with conflict of interests committed in violation of the order of their approval (ruling of the Supreme Arbitration Court of the Russian Federation No. 40), the application of provisions on acquisitions and the oustings (a number of rulings of the Supreme Arbitration Court of the Russian Federation, the Constitutional Court of the Russian Federation), the implementation of the shareholders' preferential rights in the private companies and a number of issues of the law on bankruptcy, etc.

## **6.3 Current Issues and Challenges for Corporate Governance**

### **6.3.1 Challenges**

Currently there are corporate governance issues in the Russian companies, both typical to the issues affecting companies in other economies and ones specific to companies operating in the Russian Federation.

CG difficulties are caused, on the one hand, by the current stage of evolution of the Russian market (excessive concentration of equity in the hands of a few owners, little separation of ownership from management); and on the other hand, some issues are caused by deficiencies of legal regulation such as corporate governance in joint-stock companies being focused on public companies with dispersed share capital (this is rare in Russia, where the greatest number of shares in free float is 49%, and the average size of a controlling stake is equal to 69%).

In this regard, the main task facing the regulator is the alignment of corporate law with the current economic situation. In particular, the number of constraints associated with the use of redistribution mechanisms of corporate control (joint-stock agreement, multi-vote shares, etc.) by non-public companies' shareholders is expected to be reduced.

Investors in Russian companies also face the same problems that exist in foreign corporations including the high costs of participation in running the company, opportunistic behavior of directors and “shadow directors” and disclosure of information about the real owners of the company. Thus in order to enhance the protection of minority shareholders it is proposed to clarify the grounds for bringing controlling shareholders and directors to account, to change the regulation of the securities record-keeping system and to increase disclosure requirements for the beneficial owners of public companies. To reduce the cost of shareholders to exercise their rights it is proposed to extend the application of new communication technologies.

Regulators also confront the goal of improving the protection of the rights of other beneficiaries—the state, creditors and society. Debate is active on the introduction of requirements for the disclosure of non-financial (social) reporting of public companies. In order to protect the rights of creditors the legislation on bankruptcy and liquidation of companies has been significantly adjusted in recent years. At the same time, to ensure a balance between state and corporate interests a package of laws on financial improvement is now under consideration.

### **6.3.2 Priorities for Reform**

The priorities for reform of the corporate law are as follows.

1. In the area of start-up and establishment of companies:
  - simplify start-up procedures through the use of modern communication technologies and reduce time required for start-up;
  - establish model charters for the registration of small companies; and
  - increase the reliability of information contained in the Uniform State Register of legal entities.
2. In the area of reduction of shareholders’ costs of participation in the management of a legal entity:
  - increase the use of modern communication technologies for notifications to the shareholders, absentee voting and other corporate procedures;
  - reduce restrictions for non-public companies’ use of redistribution mechanisms of corporate control.
3. In the area of protection of the rights of shareholders and investors:
  - improve the grounds and the order for calling directors and controlling persons to account;
  - work out detailed rules on disclosure of information by public companies;
  - work out detailed rules on disclosure of information by officials of public companies;
  - improved regulation of the dividend policy of companies;
  - create a specialized financial court to resolve disputes between investors; and
  - improve the rules of approval of extraordinary transactions (large deals and transactions with conflict of interest).
4. In the area of protection of creditor rights:
  - improve the legislation on the procedure for recovery of the mortgaged property;
  - improve the rules of bankruptcy of groups and cross-border insolvency.
5. In the area of protection of public interests:

- raise the efficiency of reorganization bankruptcy proceedings;
- regulate responsibilities for disclosure of information about the socially useful activities of public companies (non-financial reports).

### **6.3.3 Financial Crisis**

During financial crisis the government of the Russian Federation developed an Action Plan aimed at improving the situation in the financial sector and selected industries. The Action Plan pursued the improvement of corporate law and bankruptcy law. Legislative initiatives were aimed at protecting property rights and the interests of creditors.

Pursuant to the Plan, the following federal laws, among others, have been developed and adopted:

#### **Federal Law dated 28 April 2009 No. 73-FZ**

**Federal Law dated 30 December 2008 No. 315-FZ** “On Amending the Federal Law”, “On Banks and Banking Activities” and some “other legislative acts of the Russian Federation” (in terms of improving the procedures for the reorganization of credit institutions and non-banking sector organizations).

The Law is aimed at creating conditions for business consolidation and cross-sectoral mobility of capital.

This is achieved through mechanisms that facilitate the reorganization procedure for credit institutions, as well as public companies in the forms of merger, affiliation and transformation by removing the absolute right of creditors for early repayment in case of reorganization and ensuring a balance of interests between the reorganized company and its creditors.

Simultaneously, the law specifies the rules regarding disclosure of information about the reorganization of legal entities (including credit institutions).

The Law facilitates the processes of reorganization of Russian companies, including banks, ensures conditions for accelerating inter-sectoral mobility of capital, optimizes the procedure of reorganization in the form of mergers and acquisitions. In a financial crisis environment this will allow Russian companies to quickly reconfigure their businesses and adapt to new external conditions.

**Federal law dated 18 July 2009 No. 182-FZ** “On Amending the Federal Law”, “On Non-state Pension Funds” and the Federal Law “On Investments to Finance the Funded Part of Labor Pensions in the Russian Federation”.

The Law is aimed at providing broader opportunities for investing pension savings of the insured persons who are not utilizing the right to choose the investment portfolio (management company) or non-state pension fund.

Implementation of this Federal Law will ensure more effective use of long-term investment resources generated within the system of investment of pension savings, through their deployment in the real economy. In addition, a higher profitability of investment will be ensured in the long run which will enhance the protection of the insured persons’ rights.

Besides, amendments were introduced to the corporate law to simplify the procedure of exchange of debt for capital stock and the issuance of bonds (**Federal Law dated 29 December 2009 No. 352-FZ**).

At the same time, the State ensured an increase in the liquidity of the stock market, restored solvency of credit institutions, as well as provided lending to the real sector of the economy through the issuance of subordinated loans through authorized banks.

## Key Corporate Governance Rules and Practices in the Russian Federation

Element	Yes	No	Source(s) of Rule <sup>a</sup>	Comments
<b>RIGHTS OF SHAREHOLDERS</b>				
1. Do shareholders add items to the agenda for shareholders' meetings?	X		Federal Law "On Joint-Stock Companies" (Article 53)	Shareholder(s) who jointly hold not less than 2% of the voting shares is (are) entitled to raise issues in the agenda of the annual general meeting of shareholders.
2. Do shareholders ask questions of directors at shareholders' meetings and do they receive answers?	X		Code of Corporate Conduct (Para 1, Section 2.1.2 of Chapter 2, Section 2.1 of Chapter 2)	<p>Recommends that a society:</p> <ul style="list-style-type: none"> <li>• Ensures the presence of the director general (CEO), members of the governing board, and members of the board of directors at the general meeting so that shareholders have the opportunity to ask them questions. Accountability of the members of the board of directors, director general (CEO), members of the governing board to the shareholders of the society implies the right of shareholders to request written reports and answers to questions relating to various aspects of society activities;</li> <li>• Establishes a procedure for conducting the general meeting of the society ensuring a reasonable equal opportunity to all persons present at the meeting to express their views and ask questions.</li> </ul>
3. Must company transactions with its insiders be on a non-preferential basis?	X		Federal Law "On Joint-Stock Companies" (Article 83)	Provides a special procedure for approval of transactions in which there is an interest—such transactions are approved either by independent directors or shareholders who are not interested in the transaction.
4. Is a super majority vote required for major company acts affecting shareholder rights?			Federal Law "On Joint-Stock Companies" (section 4 of Article 49, Article 79)	<p>General meeting of shareholders (3/4 votes):</p> <ul style="list-style-type: none"> <li>• Changes and amendments to the company's charter or approval of the new edition of the charter;</li> <li>• Reorganization of the society;</li> <li>• Liquidation of the society, the appointment of the liquidation committee and approval of interim and final liquidation balance sheets;</li> <li>• Identification of the number, nominal value, category (type) of declared shares and rights granted by these shares;</li> <li>• Acquisition by the society of shares in cases stipulated by this Federal Law;</li> <li>• Approval of a big deal (if the transaction involved property of a value more than 50% of the book value of assets).</li> </ul>
<b>COMPOSITION AND ROLE OF BOARDS OF DIRECTORS</b>				
5. Must boards have independent directors? What percentage?	X		Federal Law "On Joint-Stock Companies" (Section 3 of Article 83) Code of Corporate Conduct (Section 2.2 of Chapter 3)	In a society where the number of shareholders owners of the voting shares exceeds 1,000, the decision to approve a transaction, in which there is an interest, is taken by the board of directors (supervisory board) and by a majority of independent directors' votes who are not interested in the

Element	Yes	No	Source(s) of Rule <sup>a</sup>	Comments
			Guidelines for the organizers of trading on the securities market to monitor joint-stock companies' adherence to the Code of Corporate Conduct (order of the Federal Securities Commission, FCSM)  Resolution of the government of the Russian Federation No. 738 on the management of federally owned shares of public companies (Section 16)	transaction.  • Recommends that independent directors be elected on the board of directors.  • Establishes that the board of directors of a company whose securities are included in the quotation lists "A" of first level must include at least three independent directors who meet the requirements of the Code.  • Encourages the increasing use and development of the institution of independent directors in companies with state participation.
6. Do independent directors have significant influence over (a) internal and external audit and (b) executive compensation?		X	Federal Law "On Joint-Stock Companies" (Article 12)	The fees to the company's auditor are determined by the board of directors, and the payment of remuneration to members of the audit commission is set by the decision of the general meeting of shareholders.
7. Do independent directors decide what information the board receives from management?		X		If independent directors are endowed with these powers by the company's charter.
8. Are the chairman of the board and chief executive officer different persons in the majority of listed companies?	X		Federal Law "On Joint-Stock Companies" (Article 66)	The person performing the functions of the sole executive body (chief executive) cannot simultaneously be chair of the board of directors.
9. Are all board members elected annually?	X		Federal Law "On Joint-Stock Companies" (Article 66)	Members of the board of directors are elected by the general meeting of shareholders for a term until the next annual general meeting of shareholders.
10. Does the board oversee enforcement of a company code of conduct?	X		Guidelines for the organizers of trading on the securities market to monitor joint-stock companies' adherence to the Code of Corporate Conduct (order of the Federal Securities Commission, FCSM)	Joint-stock companies disclose the information on their adherence to the Code of Corporate Conduct to the organizers of trading at least once a month, and as result of significant events in the company.
<b>TRANSPARENCY AND DISCLOSURE OF INFORMATION</b>				
11. Do financial statements comply with (International Financial Reporting Standards) IFRS?				
12. Are the identities of the five largest shareholders disclosed?	X		Federal Law "On Securities Market" (Article 30)	In the case of registration of the securities prospectus issuer is obliged to disclose information about such basic facts as the inclusion in the register of shareholders of the issuer of the shareholder who owns at least 5% of ordinary shares of the issuer, as well as any change that resulted in the share belonging to the shareholders of such shares becoming more or less than 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of placed ordinary shares.
13. Is compensation of company executive officers disclosed?	X		Federal Law "On Securities Market" (Article 30)  Regulations on information disclosure by issuers of securities (order of the Federal Service for Financial Markets dated 10 October 2006)	In the case of registration of the securities prospectus issuer is obliged to disclose information. On each of the bodies of the issuer (other than a natural person performing the role of the sole executive body of the issuer) the following data are described:  • All types of compensation with the indication of the size, including salary, bonuses, commissions,

Element	Yes	No	Source(s) of Rule <sup>a</sup>	Comments
			No. 06-117/pz-n) (Section 5.3 of Annex 10)	benefits and/or reimbursement of expenses; <ul style="list-style-type: none"> <li>• Other property transactions, which were paid by the issuer for the last completed fiscal year;</li> <li>• Information on the existing agreements concerning such payments in the current fiscal year.</li> </ul>
14. Are extraordinary corporate events disclosed?	X		Federal Law “On Securities Market” (Article 30)	In the case of registration of the securities prospectus issuer is obliged to disclose information in the form of reports of substantial facts (events, actions) relating to financial and business activities of the issuer.
15. Are risk factors disclosed in securities offering materials?	X		Federal Law “On Securities Market” (Article 22)	Prospect of securities must contain basic information about the financial and economic status of the issuer and the risk factors, including the risks arising from the acquisition of the securities which are currently being placed.
16. Are transactions of a company with its insiders disclosed?	X		Federal Law “On Joint-Stock Companies” (Article 82) Regulations on information disclosure by issuers of securities (order of the Federal Service for Financial Markets dated 10 October 2006 No. 06-117/pz-n) (Section 8.2)	The persons concerned are obliged to inform the board of directors, the audit commission (auditor) of the company on committed or anticipated transactions which became known to them and in which they can be recognized as interested persons. Joint-stock companies are required to disclose information in the form of annual report, including the list of current financial year’s transactions recognized in accordance with the Federal Law on Joint-Stock Companies as transactions where interest existed in concluding those. For each transaction it’s necessary to indicate the interested person(s), essential conditions and governing body of the company which adopted the decision on approval of the transaction.

Note: CL – company law; SL – securities law; CGC – corporate governance code; SLR – stock exchange listing requirement, GP – general practice but not obligatory