Report on the Observance of Standards and Codes (ROSC)

CORPORATE GOVERNANCE
COUNTRY ASSESSMENT

Russian Federation

June 2013
Материал подготовлен по заказу Международной финансовой корпорации (IFC, группа Всемирного Банка) Susanne BERGER (Berliner Energieagentur GmbH).

В сотрудничестве с
Klemens LEUTGOEB, Márton VARGA (e7 Energie Marktanalyse GmbH); Christophe MILIN (ICE - Groupe BURGEAP); Dr. Petra OPITZ (DIW econ GmbH).

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- Алексею Туликову, Руководителю департамента развития законодательства в области энергетики, ФГУ «РЭА» Министерства Энергетики РФ

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Соединенные Штаты Америки
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CORPORATE GOVERNANCE
COUNTRY ASSESSMENT

Russian Federation

June 2013
ACKNOWLEDGEMENTS

This assessment of corporate governance in Russia has been prepared by Alexander Berg of the World Bank Global Capital Markets and Corporate Governance Practice, as part of the Reports on Observance of Standards and Codes Program. The report is based in part on a template / questionnaire completed by a consulting team led by the Independent Directors Association. The findings of the ROSC are based on the Detailed Country Assessment (DCA), which is presented as a separate document. Comments on the report have been received from Sebastian Molineus, Marina Frolova, Tatiana Ivanova, Gary Fine, John Pollner, and Sylvie Bossoutrot. Hector Lehuede (OECD), and Gian Piero Cigna and Anastasia Rodina (EBRD) also provided comments.

The assessment reflects technical discussions with the Ministry of Economic Development of the Russian Federation, the Federal Financial Markets Service (FFMS), the Moscow Exchange and representatives of companies, banks, and market participants. The assessment draws heavily on several surveys on corporate governance carried out by several organizations, including PWC (2012 Board Survey), Russian Institute of Directors (Corporate Governance Practices in Russia, various years), and Standard and Poor’s (Transparency and Disclosure Survey).
What is corporate governance?

Corporate governance refers to the structures and processes for the direction and control of companies. Corporate governance concerns the relationships among the management, board of directors, controlling shareholders, minority shareholders and other stakeholders. Good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital.

The OECD Principles of Corporate Governance provide the framework for the work of the World Bank Group in this area, identifying the key practical issues: the rights and equitable treatment of shareholders and other financial stakeholders, the role of non-financial stakeholders, disclosure and transparency, and the responsibilities of the board.

Why is corporate governance important?

For emerging market countries, improving corporate governance can serve a number of important public policy objectives. Good corporate governance reduces emerging market vulnerability to financial crises, reinforces property rights, reduces transaction costs and the cost of capital, and leads to capital market development. Weak corporate governance frameworks reduce investor confidence, and can discourage outside investment. Also, as pension funds continue to invest more in equity markets, good corporate governance is crucial for preserving retirement savings. Over the past several years, the importance of corporate governance has been highlighted by an increasing body of academic research. Studies have shown that good corporate governance practices have led to significant increases in economic value added (EVA) of firms, higher productivity, and lower risk of systemic financial failures for countries.

The Corporate Governance ROSC

Corporate governance has been adopted as one of twelve core best-practice standards by the international financial community. The World Bank is the assessor for the application of the OECD Principles of Corporate Governance. Its assessments are part of the World Bank and International Monetary Fund (IMF) program on Reports on the Observance of Standards and Codes (ROSC).

The goal of the ROSC initiative is to identify weaknesses that may contribute to a country’s economic and financial vulnerability. Each Corporate Governance ROSC assessment benchmarks a country’s legal and regulatory framework, practices and compliance of listed firms, and enforcement capacity vis-à-vis the OECD Principles.

• The assessments are standardized and systematic, and include policy recommendations and a model country action plan. In response, many countries have initiated legal, regulatory, and institutional corporate governance reforms.

• The assessments focus on the corporate governance of companies listed on stock exchanges. At the request of policymakers, the World Bank can also carry-out special policy reviews that focus on specific sectors, in particular for banks and state-owned enterprises.

• Assessments can be updated to measure progress over time.

• Country participation in the assessment process, and the publication of the final report, are voluntary.

By the end of June 2013, 85 assessments had been completed or were underway in 58 countries around the world.
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<td>DCA:</td>
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<td>EGM:</td>
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<td>ISA:</td>
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<td>RPT:</td>
<td>Related Party Transaction</td>
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<td>State Owned Enterprise</td>
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<td>SRO:</td>
<td>Self-Regulatory Organization</td>
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Cumulative voting: Cumulative voting allows minority shareholders to cast all their votes for one candidate. Suppose that a publicly traded company has two shareholders, one holding 80 percent of the votes and another with 20 percent. Five directors need to be elected. Without a cumulative voting rule, each shareholder must vote separately for each director. The majority shareholder will get all five seats, as s/he will always outvote the minority shareholder by 80:20. Cumulative voting would allow the minority shareholder to cast all his/her votes (five times 20 percent) for one board member, thereby allowing his/her chosen candidate to win that seat.

Pre-emptive rights: Pre-emptive rights give existing shareholders a chance to purchase shares of a new issue before it is offered to others. These rights protect shareholders from dilution of value and control when new shares are issued.

Proportional representation: Proportional representation gives shareholders with a certain fixed percentage of shares the right to appoint a board member.

Pyramid structures: Pyramid structures are structures of holdings and sub holdings by which ownership and control are built up in layers. They enable certain shareholders to maintain control through multiple layers of ownership, while at the same time they share the investment and the risk with other shareholders at each intermediate ownership tier.

Shareholder agreement: An agreement between shareholders on the administration of the company. Shareholder agreements typically cover rights of first refusal and other restrictions on share transfers, approval of related-party transactions, and director nominations.

Squeeze-out right: The squeeze-out right (sometimes called a “freeze-out”) is the right of a majority shareholder in a company to compel the minority shareholders to sell their shares to him. The sell-out right is the mirror image of the squeeze-out right: a minority shareholder may compel the majority shareholder to purchase his shares.

Withdrawal rights: Withdrawal rights (referred to in some jurisdictions as the “oppressed minority,” “appraisal” or “buy-out” remedy) give shareholders the right to have the company buy their shares upon the occurrence of certain fundamental changes in the company.
Corporate Governance Country Assessment

Russian Federation

June 2013

EXECUTIVE SUMMARY

This report assesses Russia’s corporate governance policy framework. It highlights recent improvements in corporate governance regulation, makes policy recommendations, and provides investors with a benchmark against which to measure corporate governance in Russia.

Corporate governance has been a major policy issue in Russia since the beginning of its transition to a market economy. The privatization process of the early 1990s was put in place before most elements of the corporate governance and investor protection framework, and there were many widely publicized abuses, leading to very low asset prices. Most observers agree that the corporate governance environment has improved in recent years as the government has enhanced the legal and policy framework, and key institutions have grown in sophistication and maturity. Many major Russian companies have also voluntarily improved their financial and ownership transparency. A number of reform initiatives are currently underway.

The findings of the ROSC are based on the Detailed Country Assessment (DCA) of the OECD Principles of Corporate Governance, which is presented as a separate document. The Detailed Country Assessment is summarized in the tables at the end of the report, and compared with results from selected countries in Latin America and Asia. According to the World Bank methodology used to assess compliance with the 64 OECD Principles, 8 Principles were fully observed, 8 were broadly observed, 45 principles were partially observed, and 3 were not observed.

The report (and this summary) is organized into four sections:

- The commitment of the public and private sectors to reform
- Shareholder rights
- Disclosure and transparency
- Boards of directors

Policy recommendations are developed in detail at the end of each section. The report also includes a special annex that details the reform agenda focusing on related party transaction approval and disclosure, based on the approach of the Protecting Investors indicator developed in the World Bank’s Doing Business Report.
Commitment of the public and private sectors to reform

The past few years have seen a new burst of enthusiasm for corporate governance reform in Russia, as the financial crisis and the resulting market declines revealed the dangers of inaction. At the same time, many companies continued to list overseas, exposing them to international standards. The new goals of building an international financial center and improving the overall investment climate have also contributed to a new push for reform. Many market participants see major changes in awareness and behavior over the past 10 years.

The authorities have made a significant attempt to upgrade the legal framework over time. The Law on Joint Stock Companies has been modified many times over the years. The Securities Law has also been updated, and a many regulations have been improved. However, some basic problems remain. The classification of companies under company law (into “open” and “closed”) and the definitions under securities law are not always clear and distinct. To outsiders, the process of shaping new laws and regulations can appear to be somewhat unpredictable, with several public and private stakeholder groups providing advice on similar issues. However, consultation on the development of new laws has been improving.

Russia’s corporate governance code, the Code of Corporate Conduct, was adopted in 2002. Compliance with the Code is recommended for all JSC; issuers must disclose compliance, and listed companies must disclose their reasons for non-compliance. However, in practice, this requirement is not enforced, and some market participants argue that the disclosure is treated as voluntary. Some listed companies disclose their compliance with the Code, but very explain areas of non-compliance. Any disclosure is usually very formalistic in nature.

The Federal Financial Markets Service (FFMS) oversees issuers, markets, market intermediaries and non-bank financial institutions, including insurance companies and private pension funds. FFMS also has responsibilities over tender offers and mergers. The Central Bank of Russia oversees banks. The Ministry of Finance (MoF) is responsible for establishing accounting and auditing standards. In late 2012 it was announced that the FFMS would be merged into the Central Bank to create a financial sector “mega-regulator”. The process was completed in September 2013. The merger will create its own implementation challenges.

Requirement to disclose such information was first introduced by FCSM Resolution No. 17/ps of 31 May 2002 approving Regulations on Additional Requirements on Preparation, Convening and Holding of a General Shareholders’ Meeting. Currently, this requirement is contained within Regulation on Issuers’ Disclosure approved by FFMS Resolution No. 11-46/pz-n of 4 October 2011. Chapter 8 “Obligatory disclosure by all joint-stock companies”, p. 8.2.3. In 2003, the regulator issued the methodological guidelines for listed companies’ reporting (FCSM Instruction No. 03-849/r of 30.04.2003) that contains a detailed template for disclosure.
The number of open joint stock companies is unclear but is very large (and probably greater than 100,000), causing a significant problem for the FFMS. Keeping track of the large number of companies dilutes the FFMS’s focus on its core mission — the oversight of the securities market and the companies traded on the stock exchange.

Many reform efforts are underway. The Ministry of Economic Development has drafted amendments to the Civil Code that will have a fundamental impact on the corporate governance framework, by redefining basic company forms, the concepts of affiliation and control, and board duties. The President’s Financial Council on the creation of an international financial center has developed recommendations on various aspects of corporate governance reform. The FFMS is drafting a replacement for the Code of Corporate Conduct. In April 2013 a new draft Code was released, and on May 15, 2013 formally presented by FFMS for comments. It is expected that the new Code will be adopted in 2013.

To accelerate reform, the authorities should enact crucial amendments to the Civil Code, and implement those amendments through changes to the Law on Joint Stock Companies and securities regulation. The FFMS should anchor the new Code of Corporate Conduct with a clear comply-or-explain requirement. The Moscow Exchange should consider creating a “corporate governance listing segment” to allow companies to differentiate themselves. The agencies responsible for executing the government’s ownership rights in companies owned by the State should support these initiatives by encouraging compliance. All of these activities would be facilitated and coordinated by the development of a high-level corporate governance action plan.

Shareholder rights

Many shareholder rights are in place. Shareholders have full rights to participate at the general meeting of shareholders (GMS), and meeting practices have improved significantly over time. Shareholders can add items to the agenda of the GMS, nominate candidates for election to the board and access the shareholder register. In practice, some shareholder rights may not be available because of issues related to court procedures and lack of experience. Accessing accounting documents and board minutes is difficult by international standards.

The Law on Joint Stock Companies protects shareholders during many corporate events. Three-quarters of the shares participating in the GMS must approve certain fundamental changes in the company charter. Shareholders have pre-emptive rights in the event of a capital increase. Tender offer and mandatory bid rules are in place, but their implementation is hampered by the poor definition of “affiliates” and “beneficial owners”. In practice, a number of mandatory takeover bids and tender offers have been initiated, and the rules appear to have been followed. Shareholders have the right to approve large transactions. Related party transaction approval and disclosure rules are in place, but are hampered by problems in the definition of “affiliates”, poor disclosure of beneficial ownership, and complex group structures.
The GMS must approve related party transactions if the asset value is more than 2 percent of the balance sheet value of the company’s assets. However, loopholes allow companies to bypass these requirements, in the name of reducing operational costs.

According to the Detailed Country Assessment (summarized in the charts on pages 57 and 58) shareholder rights show high levels of implementation. On average, Russia’s score is comparable to emerging markets in East Asia and higher than those in Latin America. However, this average masks significant issues in several key principles, including related party transactions, shareholder meetings, disclosure of control structures, oversight of the market for corporate control, and the rules governing engagement by institutional investors (stewardship).

The detailed review of the OECD Principles suggests that once the amendments to the Civil Code have been adopted, the LJSC should also be updated with input from various stakeholders. Key targets for the update would include a review of director duties (in line with new concepts in the Civil Code), director conflict of interest rules, a review of the materials to be sent to shareholders before and after a shareholder meeting, and a review of the approval process of related-party transactions (in line with the recommendations in the annex).

**Disclosure and Transparency**

Listed companies must prepare annual and quarterly reports. A1 or A2-listed companies must prepare annual financial statements in accordance with International Financial Reporting Standards (IFRS) and/or US Generally Accepted Accounting Principles (US GAAP). Other listed companies will have to prepare financial statements in accordance with IFRS starting with statements for 2012.

The Ministry of Finance is responsible for the licensing and supervision of auditors. Federal Audit Standards are issued by the Audit Council (reporting to the MOF) and are reported to be in compliance with international audit standards. The frontline regulators are one of six audit self-regulatory organizations (SROs). Auditor oversight remains somewhat limited, and the use of multiple SROs may raise issues about consistency about audit standards.

In addition to financial statements, companies must make a variety of non-financial disclosures. Many disclosures required by the OECD Principles are in place, although compliance varies.

The disclosure of ownership (and especially significant ultimate or beneficial ownership) has traditionally been a major weakness of the disclosure and ultimately the corporate governance framework in the Russian Federation. These rules have been improved upon over time — amendments to the Securities Markets Law in
April 2011 required that shareholders take into account their direct and indirect shareholdings when disclosing their ownership positions. However, the definition of “indirect ownership” remains problematic.

According to many market participants (including S&P in its Transparency and Disclosure Survey), ownership transparency has improved over the past five years as many significant private owners have disclosed their ultimate ownership positions. However, a significant gap remains with what is required by international standards – and with improvements that are being made in other BRIC2 countries. Some blockholdings remain nontransparent and smaller consolidated stakes (such as 5% or 10%) held indirectly are often opaque.

The Detailed Country Assessment (summarized in chart on page 59) indicates that many relevant rules are in place; scores reflect issues with compliance. The most serious issues are around the disclosure of beneficial ownership (although improved), related party transactions, and a lack of enforcement of the rule to explain non-compliance with the Code of Corporate Conduct.

The first step in improving the disclosure of beneficial ownership and control is the enactment of the proposed amendments to the Civil Code, which will for the first time clearly define the legal concepts of affiliation and control. This would be followed by an update of the disclosure regulations that build upon the new definitions. The ROSC also notes that the adoption of IFRS and creation of the new mega-regulator make this an important time to review the evolution of the current audit oversight framework, through an Accounting and Auditing ROSC.

**Boards of directors**

The Law on Joint Stock Companies provides for a board of directors and a management board or executive body (which might only be a single person). There is also a “revision commission”3 elected by shareholders to oversee the company’s finances and in some cases a Company Secretary that reports on operations of the Board. Majority owners are typically extensively represented in company boards and executive bodies. The legal framework establishing the fiduciary-type duties of boards of directors is inadequate. In practice, boards appear to fulfill many of the roles set by the OECD Principles (including their main role of providing strategic guidance to management). However, most board members are representatives of major shareholders, and they vote as directed. As a result of this conflict of interest, these directors are sometimes unable to vote in the company’s best interests on all issues on the agenda.

Good practice for boards is laid out in the Code of Corporate Conduct and the Listing Rules. The Code encourages the board to be composed of an appropriate percentage of independent board members, but recommends a minimum of three. In practice, According to a 2012 survey carried out by PWC and the Independent

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2 Brazil, Russia, India, China.
3 Sometimes translated as "audit commission".
Directors Association, 75% of the top 50 companies have three or more independent directors on their boards (using the company’s own definition). The Listing Rules require an audit committee for quotation lists A, B, V, and a nomination and remuneration committee for quotation lists A1 and A2. Companies have put in place a variety of committee structures.

The Detailed Country Assessment indicates that, as in many countries, many of the provisions that encourage good practice in boards of directors are contained in the Code of Corporate Conduct. However, because the Code is essentially voluntary, many of those provisions have not been fully implemented.

The ROSC notes that an update of the Code of Corporate Conduct will modernize the corporate governance framework. However, the major weaknesses of the current Code are its length and complexity (which makes understanding and compliance more difficult) and the unclear requirements to “comply or explain”. The FFMS or its successor agency should introduce a clear comply-or-explain disclosure requirement – probably as part of the listing rules of the Moscow Exchange. Companies wishing to list on the special corporate governance segment of the exchange should be required to implement a few key provisions of the Code.
The purposes of this CG ROSC are to: (i) benchmark Russia’s legal and regulatory framework, practices, and enforcement framework against the OECD Principles of Corporate Governance (OECD Principles), the international reference point for good corporate governance; and (ii) develop a series of recommendations to reduce or close potential gaps. The report is intended to be used as a starting point for the development of an action plan for corporate governance development. It focuses on companies formally listed on the Moscow Exchange.

All references to FFMS are relevant for the units of the future unified regulator that will carry out the same functions in the future.

**Listed Companies and the Equity Market in Russia**

Russia’s economy has looked strong in recent years. In 2012, economic expansion was faster than in Brazil, South Korea or Turkey. Capital outflows declined. Unemployment has dropped to record lows, wages grew at a solid pace, and annual inflation reached its lowest level in two decades.

However, a recent World Bank analysis also notes key weaknesses. High oil prices accounted for a fair share of the recent achievements. Economic growth has dropped to half the level of the decade up to the 2008 crisis.

In order to revive and modernize the economy and reduce its dependence on natural resources, policymakers face the challenge of stepping up structural reforms in order to lift the growth potential. Reviving growth requires, among others, reducing the state’s footprint on the economy and improving the investment climate; confronting the challenges of the aging and shrinking of the population; and strengthening governance through more transparency, better regulations and more effective control of corruption.

International comparisons indicate that Russia’s equity markets are comparable to those in many BRIC countries (see table on page 13) at the end of 2011. Russia’s market capitalization as a percentage of GDP of 42.9 percent compares with Brazil (49.6 percent), China (46.3 percent), and India (54.9 percent), while remaining significantly smaller than South Africa and the average for OECD countries.

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4 This Corporate Governance ROSC is based on a revised assessment methodology. In response to the revised OECD Principles of 2004, as well as the 2008-2009 global financial crises, the World Bank has updated its methodology and developed a new set of some 650 data points to more objectively benchmark a country’s corporate governance framework against the OECD Principles of Corporate Governance. The data is complemented by qualitative findings made during a series of meetings with key stakeholders in Russia in December 2011.


6 Source: S&P Emerging Markets Database as published in World Bank World Development Indicators.
Total market capitalization of listed companies grew rapidly from US$ 124 billion equivalent (36 percent of GDP) in 2002 to peak at US$ 1,503 billion (107 percent of GDP) at the end of 2007. It then plummeted in 2008 as a result of the financial crisis and subsequently recovered to about US$ 796 billion (42.9 percent of GDP) at the end of 2011 (see Charts 1 and 2 on page 19).

The market has been more volatile than in many countries over the last five years, reflecting the inflow and outflow of money and the crisis. This volatility is continuing, and is reflected in the changes in market capitalization in relation to GDP (see Chart 2). Evidence has suggested that concerns about corporate governance can contribute to market volatility.7

FFMS regulation sets the framework for listing standards, which are in turn adopted by the Exchange. There are five listing tiers (A1, A2, B, V and I) – see the table on page 18 below. There is also a sixth listing tier that to which minimal requirements are applied, but are still treated as “listed” according to the recently updated definition in the Law on Securities.8 The listing regulation sets higher corporate governance standards, drawn from the Code of Corporate Conduct. A1 and A2 listing rules require audit, nomination, and remuneration committees, and companies must prepare their financial statements in accordance with IFRS.9 In case of non-compliance with the listing rules, the stock exchange can move issuers to a lower tier, or delist them.

The Moscow Exchange is planning to issue revised listing requirements that will simplify the current listing structure.

While the overall size of the market is comparable to its BRIC country peers, the number of listed companies is smaller. Brazil has 366 listed companies, China 2,392, India 5,112, and South Africa 355. China has added many more listed companies to its exchanges over recent years. Russia’s figure has increased since 2000 (see Chart 3) but to a lesser degree — the number of listed companies has increased from 249 to 327 from 2003 to 2012.10 The number of truly listed issuers (entities that have signed agreements with the Stock Exchange) was 103 companies at the end of June 2012.

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8 Traditionally, many issuers were able to trade their securities “off listing” and ignoring the corporate governance listing requirements that would be required for quoting their shares in the upper tiers. Until 2011, more than 2/3 of the companies treated as “listed” and reported as listed by the Moscow exchange were in fact “admitted to trading”. There are also two tiers on the “IGC market” for smaller companies.
9 A2 companies do not have to comply with these requirements at the time of admission to A2, but are obliged to do so within 1 year of the date of admission.
10 This data is based on internationally comparable data from S&P.
The difference between these two measures of market size can be explained by the large proportion of market capitalization that comes from a few firms. In Russia, 62.1 percent of market capitalization comes from the largest 10 companies. This is very large but is perhaps not surprising, given the many companies in the extractive industries and with a high degree of state involvement.

The large companies in the market have tended to float new issues on the global market rather than domestically, to the extent allowed by the law. In practice, Russian shares must be listed in London and other global financial centers in the form of American Depository Receipts (ADRs), global depository receipts (GDRs). The few domestic offerings, mostly by smaller companies, are usually placed privately rather than being marketed to the public by underwriters. Foreign offerings resulted in a response to a shift in trading volume from the domestic exchanges to the global exchanges: the share of the former fell from some 60 percent in 2003 to 30 percent in 2004.

More recently, restrictions were placed on listing Russian shares abroad.11 In general, a maximum of 25 percent of shares can be listed or placed outside of Russia, and any foreign listing requires the permission of the FFMS.12 If the issuer is a “Strategic Company” that in the mining sector (as are many of the largest companies), the limitation is reduced to 5 percent. The limitation is also 5 percent in the case of an initial public offering (“IPO”). In addition, no more than 50 percent of a new issue can be placed abroad. These rules are significant constraints for a Russian issuer contemplating an IPO overseas, and have forced some issuers to reorganize as non-Russian holding companies with Russian assets.

**Ownership Structure of Listed Companies**

As in most countries, the ownership of listed shares is concentrated, and a controlling shareholder exists in virtually every listed company. However, ownership concentration is difficult to estimate with any precision because of inadequate beneficial ownership reporting.13 Ownership transparency does appear to be improving (see Disclosure section, below).

Despite the lack of consistent information, there are several stylized facts that can be drawn from various analyses of ownership of corporate shares.

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11 FSFM Decree of June 10, 2009, No. 09-21/pz-n.
12 Under the regulations, a Russian issuer can place outside Russia up to 25 percent of total shares for quotation list A1 and A2, 15 percent for quotation list B, and 5 percent for quotation lists V and I. However, if the regulator of the foreign exchange has entered into a memorandum on exchange of information with the FFMS, then the requirements for the lower listing tiers are also 25 percent.
13 According to one estimate, only around one-third of companies surveyed reported on beneficial (ultimate) ownership in 2009. In addition, government and private-sector organizations have not taken on the task of sifting through available information to try and systematically describe the ownership of the listed sector, perhaps because of the sensitivity of the information. All ownership information in Russia should carry the caveat that many of the ownership positions of affiliates or parties related to the controlling owners may not be properly disclosed, and thus the controlling positions may be underestimated and free float overestimated.
As the result of privatization, most companies had a highly dispersed ownership structure in the early years of transition. Over time, ownership and control have become concentrated. For example, according to one survey, the largest shareholder held more than 50 percent of shares in 48 percent of surveyed large companies in 2004.\textsuperscript{14} By 2009 approximately 65 percent of listed companies were controlled by a single shareholder or a shareholder group.\textsuperscript{15}

Despite the consolidation of control, the overall number of reported shareholder accounts does not appear to have significantly declined.

The State is the single largest owner of shares. Its role is concentrated in a few large companies, especially in the oil and gas sector (average 36\% of capital), utilities (58\%) and the financial sector (61\%).\textsuperscript{16} Key blue-chip companies under state control include Rosneft (75\%), Mosenergo (85\%), VTB (75\%), InterRAO UES (60\%), Aeroflot (55\%), Rostelecom (53\%), Sberbank (60\%), and Gazprom (53\%). Overall, the value of the State position at the end of July 2012 was estimated to be worth $223 billion, or about 30\% of the total market capitalization.

The State has announced plans for a privatization program that could result in as much as $100 billion in additional share sales over the next several years.\textsuperscript{17} The plan reflects a promise by the President to exit non-strategic companies by 2016. However, the program has been delayed in the past, reportedly due to disagreements within the government over how the program should proceed.

The corporate sector is to a large extent controlled by a few business groups, which are in turn controlled by a number of “oligarchs”. According to the last systematic study (based on World Bank data collected in 2003) about 40\% of Russian industry belonged to the 22 largest business groups.\textsuperscript{18} More recent estimates (using different definitions and approaches) indicate that oligarchs owned about 29\% of shares in mid-2012.\textsuperscript{19}

The free float owned by both institutional and private investors is low – less than 20\% in many issuers.\textsuperscript{20} The number of individuals trading equities directly is growing, but is also small: the number registered at MICEX was just under 800,000 in October 2011 – almost double the number in 2007.

\textsuperscript{14} IFC 2005.
\textsuperscript{15} S&P 2009. This survey used a different methodology and data are not directly comparable.
\textsuperscript{18} Guriev and Rachinsky 2004.
\textsuperscript{19} Troika Dialog. August 8. 2012. This definition of “oligarch” includes Troika’s definition of both “Oligarchs” and “Businessmen” – thus anyone on the Forbes 200 list of the wealthiest Russians.
\textsuperscript{20} Inadequate beneficial ownership disclosure may mean that the actual free float is smaller than what is generally reported.
It has been estimated that the shares of Russian companies sell at a discount of approximately 30 percent relative to the prices in more developed markets.\(^{21}\) While this is an improvement from previous years, it shows that additional corporate governance reforms can be expected to continue to contribute to long-term capital market growth and development.

### Moscow Exchange: Number of Listed Companies by Listing Category
June 30, 2012

<table>
<thead>
<tr>
<th>Issuers</th>
<th>Share issues</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Common only</td>
</tr>
<tr>
<td>Quotation lists</td>
<td></td>
</tr>
<tr>
<td>A1</td>
<td>24</td>
</tr>
<tr>
<td>A2</td>
<td>9</td>
</tr>
<tr>
<td>B</td>
<td>57</td>
</tr>
<tr>
<td>V</td>
<td>2</td>
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<tr>
<td>Other listed companies</td>
<td>140</td>
</tr>
<tr>
<td><strong>Total from Quotation Lists</strong></td>
<td><strong>232</strong></td>
</tr>
<tr>
<td>IGC Market</td>
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</tr>
<tr>
<td>A1 IGC</td>
<td>0</td>
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<tr>
<td>B IGC</td>
<td>1</td>
</tr>
<tr>
<td>Other listed companies (IGC)</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total Listed IGC</strong></td>
<td><strong>15</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>247</strong></td>
</tr>
</tbody>
</table>

*Source: Moscow Exchange. IGC = Innovation and Growth Company special tier.*  
*Note that data do not all foot properly.*

\(^{21}\) *Economist Intelligence Unit, Country Finance: Russia, Economist Intelligence Unit, 2011.*
Russian Federation: Key Equity Market Data

**Chart 1: Market Index 2000-2012**

Source: Moscow Exchange (Micex index).

**Chart 2: Market Capitalization – % of GDP**

Source: S&P Emerging Markets Database / World Development Indicators.

**Chart 3: Number of Listed Companies 2000-2012**

Source: S&P Emerging Markets Database / World Development Indicators.

**Chart 4: Net Portfolio Equity Inflows (2008)**

Source: IMF, Balance of Payments database, and World Bank, Global Development Finance. Data are normalized by market size (as measured by 2008 market capitalization).

Source: S&P Emerging Markets Database, World Bank World Development Indicators. See notes on capital markets data in Russia in text.
## Russia and other BRIC Countries  
**Key Financial Indicators**

<table>
<thead>
<tr>
<th></th>
<th>Russian Federation</th>
<th>Brazil</th>
<th>China</th>
<th>India</th>
<th>South Africa</th>
<th>High Income OECD Median</th>
<th>Year</th>
</tr>
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<tbody>
<tr>
<td><strong>BANKING</strong></td>
<td></td>
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<td><strong>Access</strong></td>
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<tr>
<td>Accounts Per Thousand Adults, Commercial Banks</td>
<td>-</td>
<td>635</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,187</td>
<td>2011</td>
</tr>
<tr>
<td>Number of Branches Per 100,000 Adults, Commercial Banks</td>
<td>37</td>
<td>46</td>
<td>-</td>
<td>11</td>
<td>11</td>
<td>33</td>
<td>2011</td>
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<tr>
<td>Percent of Firms With Line of Credit, All Firms (%)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2010</td>
</tr>
<tr>
<td>Percent of Firms With Line of Credit, Small Firms (%)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2010</td>
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<tr>
<td><strong>Depth/Size</strong></td>
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<td></td>
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<td></td>
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</tr>
<tr>
<td>Domestic Bank Deposits / GDP (%)</td>
<td>40.8</td>
<td>66.5</td>
<td>164.4</td>
<td>67</td>
<td>63</td>
<td>89.8</td>
<td>2011</td>
</tr>
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<td>Private Credit / GDP (%)</td>
<td>45.0</td>
<td>58.0</td>
<td>127.4</td>
<td>50.6</td>
<td>68.9</td>
<td>105.3</td>
<td>2011</td>
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<td><strong>Stability</strong></td>
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<tr>
<td>Private Credit to Deposits (%)</td>
<td>110.2</td>
<td>87.2</td>
<td>77.5</td>
<td>75.8</td>
<td>110.1</td>
<td>125.1</td>
<td>2011</td>
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<tr>
<td>Liquid Assets / Deposits &amp; Short Term Funding (%)</td>
<td>48.0</td>
<td>54.3</td>
<td>31.8</td>
<td>6.7</td>
<td>21.1</td>
<td>31.7</td>
<td>2011</td>
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<td>Bank Capital to Assets (%)</td>
<td>12.6</td>
<td>10.3</td>
<td>6.4</td>
<td>7.1</td>
<td>7.3</td>
<td>6.1</td>
<td>2011</td>
</tr>
<tr>
<td>NPLs to Total Gross Loans (%)</td>
<td>6.6</td>
<td>3.5</td>
<td>1.0</td>
<td>2.3</td>
<td>4.7</td>
<td>3.9</td>
<td>2011</td>
</tr>
<tr>
<td>Provisions to NPLs (%)</td>
<td>104.5</td>
<td>155.0</td>
<td>278.3</td>
<td>55.2</td>
<td>34.9</td>
<td>46.2</td>
<td>2011</td>
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<tr>
<td>Regulatory Capital to Risk-Weighted Assets (%)</td>
<td>14.7</td>
<td>17.3</td>
<td>12.7</td>
<td>14.2</td>
<td>14.9</td>
<td>14.1</td>
<td>2011</td>
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<tr>
<td><strong>STOCK MARKETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent Market Capitalization of Top 10 Largest Companies (%)</td>
<td>62.1</td>
<td>53.1</td>
<td>25.3</td>
<td>31.1</td>
<td>25.2</td>
<td>53.9</td>
<td>2011</td>
</tr>
<tr>
<td>Percent Value Traded of Top 10 Traded Companies (%)</td>
<td>96.0</td>
<td>47.7</td>
<td>8.3</td>
<td>23.8</td>
<td>12.1</td>
<td>67.9</td>
<td>2011</td>
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<tr>
<td>Number of Listed Companies</td>
<td>327.0</td>
<td>366.0</td>
<td>2342.0</td>
<td>5112.0</td>
<td>355.0</td>
<td>192.0</td>
<td>2011</td>
</tr>
<tr>
<td>Stock Market Capitalization / GDP (%)</td>
<td>42.9</td>
<td>49.6</td>
<td>46.3</td>
<td>54.9</td>
<td>203.6</td>
<td>47.3</td>
<td>2011</td>
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<tr>
<td>Stock Market Turnover Ratio (%)</td>
<td>127.3</td>
<td>69.3</td>
<td>188.2</td>
<td>56.3</td>
<td>39.8</td>
<td>74.8</td>
<td>2011</td>
</tr>
<tr>
<td>Gross Portfolio Equity Assets / GDP (%)</td>
<td>0.3</td>
<td>0.7</td>
<td>0.8</td>
<td>-</td>
<td>30.3</td>
<td>17.8</td>
<td>2011</td>
</tr>
<tr>
<td>Gross Portfolio Equity Liabilities / GDP (%)</td>
<td>9.4</td>
<td>14.2</td>
<td>2.9</td>
<td>-</td>
<td>25.5</td>
<td>14.4</td>
<td>2011</td>
</tr>
<tr>
<td><strong>DEBT MARKETS</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Outstanding Domestic Private Debt Securities / GDP (%)</td>
<td>-</td>
<td>21.5</td>
<td>25.1</td>
<td>4.6</td>
<td>17.3</td>
<td>36.3</td>
<td>2011</td>
</tr>
<tr>
<td>Outstanding Domestic Public Debt Securities / GDP (%)</td>
<td>4.7</td>
<td>38.6</td>
<td>20.6</td>
<td>27.7</td>
<td>30.6</td>
<td>41.3</td>
<td>2011</td>
</tr>
<tr>
<td>Outstanding International Private Debt Securities / GDP (%)</td>
<td>7.2</td>
<td>6.3</td>
<td>1.7</td>
<td>-</td>
<td>9.8</td>
<td>49.4</td>
<td>2011</td>
</tr>
<tr>
<td>Outstanding International Public Debt Securities / GDP (%)</td>
<td>1.7</td>
<td>2.1</td>
<td>0.1</td>
<td>-</td>
<td>2.7</td>
<td>7.9</td>
<td>2011</td>
</tr>
<tr>
<td>Gross Portfolio Debt Assets / GDP (%)</td>
<td>2.0</td>
<td>0.5</td>
<td>2.7</td>
<td>-</td>
<td>2.8</td>
<td>28.3</td>
<td>2011</td>
</tr>
<tr>
<td>Gross Portfolio Debt Liabilities / GDP (%)</td>
<td>2.6</td>
<td>9.7</td>
<td>0.5</td>
<td>-</td>
<td>12.5</td>
<td>55.4</td>
<td>2011</td>
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<tr>
<td><strong>NON-BANK FINANCIAL INSTITUTIONS</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance Premiums (Life) / GDP (%)</td>
<td>0.1</td>
<td>1.4</td>
<td>2.1</td>
<td>3.1</td>
<td>9.6</td>
<td>2.8</td>
<td>2011</td>
</tr>
<tr>
<td>Insurance Premiums (Non-Life) / GDP (%)</td>
<td>0.9</td>
<td>1.0</td>
<td>1.0</td>
<td>0.4</td>
<td>1.5</td>
<td>1.9</td>
<td>2011</td>
</tr>
<tr>
<td>Insurance Company Assets / GDP (%)</td>
<td>1.7</td>
<td>9.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>29.7</td>
<td>2011</td>
</tr>
<tr>
<td>Mutual Fund Assets / GDP (%)</td>
<td>0.2</td>
<td>46.5</td>
<td>4.6</td>
<td>4.6</td>
<td>30.6</td>
<td>16.2</td>
<td>2011</td>
</tr>
<tr>
<td>Pension Fund Assets / GDP (%)</td>
<td>-</td>
<td>13.9</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>7.4</td>
<td>2011</td>
</tr>
</tbody>
</table>

**Note:** 2010 used for inter-country comparisons.  
**Source:** World Bank Finstats Database 2013.
COMMITMENT AND ENFORCEMENT

The following sections highlight the principle-by-principle assessment of Russia’s compliance with the OECD Principles of Corporate Governance.

KEY FINDINGS

Corporate governance has been a major policy issue in Russia since the beginning of its transition to a market economy. The privatization process of the early 1990s was put in place before most elements of the corporate governance and investor protection framework, and there were many widely publicized abuses, leading to very low asset prices. Most observers agree that the corporate governance environment has improved in recent years as the government has enhanced the legal and policy framework, and key institutions have grown in sophistication and maturity. Many major Russian companies have also voluntarily improved their financial and ownership transparency. A number of reform initiatives are currently underway.

Legal Framework

The Russian legal framework has been influenced by German, British and American law. The legal framework is rooted in the Civil Code, introduced in 1994. The Civil Code establishes the basic corporate forms, including limited liability companies (LLC) and open and closed joint stock companies (JSC). Most Russian companies are registered as LLCs. Closed JSCs are similar to LLCs, but require more transparency. Most of Russia’s largest companies traded on the public markets are registered as open JSCs.

The Law on Joint Stock Companies (LJSC) Law was introduced in 1996, and establishes the key governance arrangements for open and closed JSCs. A JSC may issue shares, bonds, and options. A JSC may issue both common and preferred shares; preferred shares may not exceed 25% of its charter capital. “One-share-one-vote” applies to all common shares. The shareholders of an open JSC can transfer their shares freely. Only open joint stock companies may offer their shares through an open subscription (public offering) and have shares listed and traded on a stock exchange or OTC.

The LJSC has been modified many times over the years. Key revisions included reinforced preemptive rights during capital increase, extensions to the cumulative voting rules, improvements to ownership disclosure requirements, changes to the rules for related party transaction approval, and amendments to the squeeze out rules.

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22 Federal Law No. 208-FZ on Joint Stock Companies. A closed JSC may have a maximum of 50 shareholders; an open JSC may have an unlimited number of shareholders. Once the number of shareholders exceeds 50, the share registry must be maintained by a licensed third-party registrar.
JSCs are allowed to issue shares, bonds and options that must be registered with the Federal Financial Markets Service (FFMS). The Federal Law on the Securities Market (SML) was adopted by the State Duma in 1996 and amended every year since. The SML regulates the disclosure of information required for publicly traded securities, governs the functioning of self-regulatory organizations and lays out operational rules for all industry members and market practitioners. Disclosure requirements are further defined in regulation.23

The classification of companies under company law (into “open” and “closed”) and the definitions under securities law (“companies that have a registered prospectus”) are not always clear and distinct. There is no definition of a “public” company under the law. Amendments to the Civil Code are being prepared for the second reading in the Duma which foresee a clearer differentiation between public and non-public companies (depending upon whether securities are circulated at the organized market as well as upon the fact whether a company recognizes itself a public company).

Russia has a Code of Corporate Conduct, adopted in 2002 by the predecessor body of the FFMS. The Code addresses principles of governance, the GMS, the constitution of the board, management bodies, the company secretary, corporate actions, disclosures, supervision, dividends, and resolutions.

Issuers with a registered prospectus must disclose compliance with the Code in the annual report.24 However, in practice, this requirement is not enforced, and some market participants argue that the disclosure is treated as voluntary. Some companies disclose their compliance with the Code, but very few explain areas of non-compliance. Any disclosure is usually very formalistic in nature.

Since 2012, a group working under the auspices of the FFMS has worked to issue a revised version of the Code. In May 2013 a draft was formally presented by FFMS to stakeholders for comments. It is expected that the new Code will be adopted in 2013.

Over time, the government has provided more opportunities to consult on draft corporate governance laws and regulations.

Market participants and their associations (including the Russian Union of Industrialists and Entrepreneurs (RSPP) note that they are more involved in consultation today than in previous years, that more regulatory actions are exposed to comment, and that the process is a more open process than in the past. Basic corporate governance related laws and codes are clearly written and understood by market participants.

23 FFMS Order No. 11-46/Pz-N Of October 4, 2011 “On Endorsing the Regulations on Disclosure of Information by the Issuers of Serial Securities”.

24 Regulations on Disclosure of Information by Issuers (Art. 8.2.1) and “Methodological Recommendations on the Submission of Information about the Observance of the Code of Corporate Conduct”.

Consultation on the development of new laws has been improving
However, there is room for improvement in this area. According to market participants, the authorities do not always follow the procedures that have been laid out for the development of legislation, and sometimes take ad hoc decisions. The large number of changes to the legal framework (combined with a large number of draft changes to laws) does not always lead to a high level of transparency. To outsiders, the process of shaping new laws and regulations can appear to be somewhat unpredictable, with several groups providing advice on similar issues.

A wide number of reform efforts are underway. These include:

- A number of amendments to the Civil Code have been drafted that will have a fundamental impact on the corporate governance framework, including a new classification of public and private companies, a unified form of joint stock company (and the eventual elimination of the “closed” form), the introduction of the concept of a shareholders agreement, and the introduction of improved definitions of affiliation and control, and of controlled and controlling legal persons.\(^{25}\)

- The Moscow International Financial Center (MIFC) Taskforce.\(^{26}\) The goal of the Taskforce is to improve the overall architecture of financial regulation and market infrastructure. The hope is to create “a more open, predictable, and improved investment climate,” including appropriate judicial protection and protection of property rights. Many prominent players from within the financial sector participated in various working groups. One committee is focused on the corporate governance framework.

- The FFMS, which is updating the Code of Corporate Conduct.

- The Moscow Exchange / OECD Roundtable on Corporate Governance, which is hosting a number of meetings and workshops on corporate governance.

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\(^{25}\) Introduced to the State Duma by the President on April 2, 2012, and prepared jointly by representatives of both the legal and business communities.

Institutional Framework and Public Enforcement

The Federal Service for the Financial Markets (FFMS) oversees issuers, markets, market intermediaries and non-bank financial institutions, including insurance companies and private pension funds. FFMS also has responsibilities over tender offers and mergers. The Central Bank of Russia oversees banks. Ministry of Finance (MoF) is responsible for establishing accounting and auditing standards.

In late 2012 it was announced that the FFMS would be merged within the Central Bank to create a financial sector “mega-regulator”. This process was completed in September 2013.

The FFMS was created in 2004 as an “independent” federal agency. The head of the FFMS is appointed at the discretion of the Prime Minister. The law establishes neither a fixed term of office, nor criteria for the appointment or removal of the executive director.

FFMS is funded by the Federal budget, which may impinge on its independence. Individual FFMS employees are not subject to civil liability for damages for their actions as civil servants in the ordinary course of their performance of their duties.

Until recently, FFMS issued its own secondary regulation. Under the new rules introduced in 2012, some regulations must be issued by the Ministry of Finance. The list of such regulations is brief and is specified by the Government. In practice, the regulations are drafted by the FFMS, and the Ministry of Finance passes the regulations upon agreement with the FFMS. FFMS retains its administrative enforcement powers, including its inspection, investigation and sanctioning functions.

All decisions taken by the FFMS, including decisions taken by regional departments may be appealed to a court. These cases can be heard in any judicial court or through the Arbitrazh system of commercial courts. FFMS has voluntarily published an Annual Report since at least 2006 through 2010 containing relevant operational statistics.

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27 FFMS is the sole regulator of: securities market professionals (brokers, dealers, portfolio managers, and other intermediaries); issuers; collective investments (CIS); CIS management companies and special custodians; and exchanges and market infrastructure, such as clearing and settlement arrangements, depositories, and registrars.

28 Fees and fines collected go directly to the Treasury (tax authorities) and do not fund the agency. The FFMS submits a budget proposal to the Ministry of Finance; budgets are approved for a rolling three year period.

29 There is no protection from civil suit for FFMS as an agency. FFMS has unsuccessfully tried to enact legislation that would provide protection for bona fide actions in fulfillment of the agency’s mandate. Such protections are available (to some extent) in other jurisdictions.
The FFMS has powers to impose administrative sanctions on unlicensed third parties, and can investigate “commercial and noncommercial organizations and their officials, independent entrepreneurs, and natural persons who are located within the territory of the Russian Federation.”\textsuperscript{30} The FFMS is explicitly entitled to appear in court to protect investors. Criminal offenses such as fraud must be pursued through the criminal justice system.

Inspections of issuers represent 70 percent of the inspections performed. The emphasis is on disclosure requirements, annual meeting requirements appropriate notices to shareholders, voting records, and compliance with the requirements on related party transactions.

The FFMS has grown over the last decade, but this growth may have not kept pace with required capacity. Market participants have expressed concern that the regulator needs to increase its level of expertise in order to keep pace with the growth of the market, especially given the goal of becoming an international financial center. As in many countries, IT resources are a particular concern. The FFMS is well aware of the challenge of managing the growth of the market.

The forthcoming merger and creation of the new integrated regulator will create its own implementation challenges.

The number of registered companies is unclear. By one estimate, there are approximately 14,000 open JSC, about 30,000 closed JSC, and about 800,000 LLCs.\textsuperscript{31} The large number of companies, combined with the large number of shareholders that are considered to remain from the voucher privatization program, pose fundamental problems for the FFMS:

- The mandate of the FFMS covers a broad spectrum of companies, from large, listed companies with many shareholders, to smaller open or closed JSC.

- Keeping track of this large number of companies dilutes the FFMS’s focus on its core mission — the oversight of the securities market and publically traded companies.

- The large number of companies has required the creation of regional offices, with the accompanying administrative burdens. In particular — the oversight of the disclosure obligations is greatly complicated, and the FFMS is driven towards a “tick-box” approach to cope with the workload.

\textsuperscript{30} Article 11 of Federal Law 46-FZ "On Investor Protection".

\textsuperscript{31} Corporate Governance Issues In Russian “Quasi-Public” Non-Listed Companies, presentation by Dr. Igor Belikov, CEO, Russian Institute of Directors, available at http://www.oecd.org/daf/ca/corporategovernanceprinciples/35639280.pdf.
A key institutional weakness has been the ability of the judicial system to enforce corporate governance rules. The court system in Russia is considered to lack independence and objectivity, and is not seen as a good source of shareholder redress. Court actions are considered to be expensive and slow.

The Russian judicial system consists of the Constitutional Court, Military Courts, Courts of General Jurisdiction and Arbitrazh Courts. The latter were established as specialized economic courts to reduce the burden on general jurisdiction courts, and to raise the level of technical expertise. In general, stakeholders report that decisions have improved at higher levels of the court system, but that lower levels have lower levels of reliability and transparency.

A number of reforms have been aimed at improving the integrity of the justice system, which remains a considerable challenge. Until recently, judges could rarely be called to account for their decisions. The Arbitrazh Procedure Code was updated to restrict the previous practice of corporate raiders obtaining court rulings from courts in other regions (the cases must now be taken to a court where the target company is located).

In June 2013 the government announced an initiative to combine the Supreme Court and the Supreme Arbitration Court into a single body. This move is controversial; some observers believe that it could damage the progress that has been made within the Arbitrazh courts.

Institutional Investors and Shareholder Engagement

Institutional investors engage on corporate governance concerns. The Investor Protection Association (IPA) is the best-known association of institutional investors, with about 25 members, including several large international investors. The association has worked to pool the resources of its members, in order to appoint more independent directors, take action during corporate events, and generally improve corporate governance in large Russian companies. The Association argues that through its efforts, more than 450 independent directors have been elected to the boards of over 160 Russian public companies.

Institutional investors also engage with companies, and the average attendance rate of institutional investors is much higher than that of individual investors. The legal and regulatory framework does not require institutional investors to vote, disclose a voting policy, or a policy on conflicts of interests related to voting.
OECD PRINCIPLES ASSESSMENT: COMMITMENT AND ENFORCEMENT

The Detailed Country Assessment of the OECD Principles of Corporate Governance is summarized in the chart on page 56, and compared with average results from selected countries in Latin America and Asia. Using the World Bank methodology to assess compliance with Chapter 1 of the OECD Principles, 4 principles were partially observed.

RECOMMENDATIONS: COMMITMENT AND ENFORCEMENT

The past few years have seen a new burst of enthusiasm for corporate governance reform in Russia, as the financial crisis and the resulting market declines revealed the dangers of inaction. At the same time, many companies continued to list and trade overseas, exposing them to international standards. The new goals of building an international financial center and improving the overall investment climate have also contributed to a new push for reform. Many market participants see major changes in awareness and behavior over the past 10 years.

However, to achieve the various targets that have been set by policymakers, legal protection of minority investors must be strengthened.

As noted above, many different groups are working on corporate governance reform—and their efforts are not perfectly coordinated. The process results in competing streams of legislative proposals, which must be difficult for the legislature to interpret. In addition, many reforms have been slowed by legislative debate and lobbying by affected parties.

The process would benefit from all parties coming together, compromising, and developing a corporate governance action plan or blueprint. One successful model is the Corporate Governance Blueprint of Malaysia, adopted in 2011. In Malaysia the blueprint will be implemented over a five year period. The recommendations will be applied through changes to the corporate governance code and changes to listing rules, as well as through further work within private sector working groups in collaboration with the Malaysian Securities Commission.

The process should ideally include all relevant stakeholders, and should receive the high levels of support from various branches of government.

The Russian legal framework is rooted in the Civil Code, which establishes basic legal concepts. The government has drafted amendments to the Civil Code that will have a fundamental impact on the corporate governance framework, including a new classification of public and private companies, a unified form of joint stock
company (and the eventual elimination of the “closed” form), the introduction of the concept of a shareholders agreement, and the introduction of improved definitions of affiliation and control, and of controlled and controlling legal persons.

These amendments are crucial to removing obstacles for future reform, and should be enacted as soon as possible. International investor groups and organizations should clarify their support for the amendments, and their importance.

The FFMS has played a crucial role in pushing forward corporate governance regulation and its enforcement. Several steps could be taken by FFMS and the government to improve FFMS (and its successor) enforcement capabilities.

As a securities regulator, FFMS’s primary goal should be to push the disclosure practices of listed companies to international standards—as the Exchange works to boost the number of premium-listed companies.

As noted above, a legacy of privatization is the structure of companies and company forms. There is a very large number of open companies and of “public” companies (i.e. companies that have issued prospectuses). The large number of companies, combined with the large number of shareholders that are considered to remain from the voucher privatization program, pose fundamental problems for the FFMS:

- The mandate of the FFMS covers a broad spectrum of companies, from large, listed companies with many shareholders, to smaller open or closed JSC.
- Keeping track of this large number of companies dilutes the FFMS’s focus on its core mission — the oversight of the securities market and publically traded companies.
- The large number of companies has required the creation of regional offices, with the accompanying administrative burdens. In particular — the oversight of the disclosure obligations is greatly complicated.

The new definition of a “unified” joint stock company that is included in the draft amendments to the Civil Code presents an opportunity to sort companies into more efficient categories. Companies that no longer wish to access the public markets and wish to migrate to smaller company forms should be allowed to do so, subject to protections for minority shareholders.

FFMS should create a unit to push the process of sorting companies into their appropriate company form. This includes:

- Work with local company registration authorities to improve the data and scrub the lists of inactive companies.
- Outreach to companies and others that (as part of the Civil Code reform) to assist them in the process of buyouts /squeeze-outs.
Registrars report that many large companies have tens of thousands of shareholders who cannot be identified. Their presence is a significant hindrance to those companies that no longer wish or need to be “public”.

The government should commission a review of legal options. In other jurisdictions these rules are termed escheatment, or abandoned property.

The FFMS should continue its focus on enforcement of disclosure, and invest in the use of automated systems to monitor the timeliness of filings and the quality of shareholder notices relative to annual meetings and voting decisions.

FFMS understands the need for technical skills and capacity to keep pace with the markets. In this regard, the budget should provide adequate financing for training and capacity building.

Given the importance in other countries of the regulation and oversight of complex financial transactions (including takeovers, use of appraisal rights, etc.) FFMS staff would benefit from a high-level training program in this area.

The structure of the listed sector remains somewhat unusual by international standards. 218 of the 321 companies that are traded on the exchange do not face any additional exchange rules. In addition, for the 103 companies on the quotation lists, the listing structure is complex and confusing, with many categories and uncertain distinctions among them. Many observers attributed this situation to the former duopoly of MICEX and RTS – companies were able to resist listing standards by claiming that they would move to an alternative trading platform. The merger of the two exchanges represents an opportunity to improve the brand of the “Russian listed company.”

There are many possible arrangements. One proposal is a simple model with two basic segments:

- **A special premium segment** with special corporate governance requirements. These would include IFRS financial reporting, beneficial ownership disclosure, board independence, audit committee, investor relations function, board appointment of the CEO, enhanced RPT rules that clarify shareholder pre-approval of large transactions, external auditor and internal auditor reporting to audit committee, and improved access to company documents at lower thresholds. The Exchange would monitor compliance with these requirements, by requiring companies to adopt the relevant provisions in their articles of association.

- **A main market/standard segment** with no mandatory corporate governance requirements in the listing agreement — except for a requirement to “comply or explain non-compliance” with the revised corporate governance code (see below).
International experience can help to identify key success factors behind the creation of a special premium segment. Because the “Novo Mercado” listing segment in Brazil is the best-known example, it is crucial to fully understand the key success factors behind the Brazilian model:

- **Clear differentiation.** It is important to have a clear differentiation between the premium tier and the rest of the market. The corporate governance framework in Russia in 2013 is probably stronger than the framework in Brazil was in 2000, making it more difficult to create a set of requirements that clearly differentiates and brands the listing segments.

- **Broad market support.** In Brazil, the entire market supported the “Novo Mercado”, and established a self-regulatory requirement that all new share issues had to be done through the market, ensuring its success.

- **Patience.** Finally, it is important to be patient – the “Novo Mercado” took five years to really take off.

Given the importance of State ownership, it would be important for the success of the new tier to have State support for the new requirements, for at least some of the larger companies.

Last but not least, the government has a special stewardship role to play in the oversight and governance of the Federally-controlled companies that are also listed. The government should take the lead in putting strong corporate governance in place. It should establish explicit areas where it will take decisions, and delegate as much as possible to a strong and empowered board of directors. The government should also appoint strong independent members to the board.

To reflect this commitment to good corporate governance, the government should also move to fully support the Moscow Exchange’s work to improve corporate governance, by fulfilling the requirements to meet a new premium segment.
SHAREHOLDER RIGHTS

KEY FINDINGS

Shareholder Meetings

The ability of shareholders to exercise their rights at shareholder meetings has improved over the past 10 years. Each common share carries one vote at the General Meeting of Shareholders (GMS) and most decisions require a simple majority. Certain actions require a 75% majority.

Meeting notice provisions are appropriate. Shareholders must be notified not later than 20 days before the meeting (30 days if agenda includes company’s reorganization). The notice should include the agenda of the GMS. Shareholders should also be provided with annual financial statements including the auditor’s report.

Shareholders are able by law to introduce items onto the agenda. Shareholders who in aggregate own at least two percent of the company’s voting shares have the right to introduce items to the agenda of the GMS. Shareholders who possess at least 1 percent of company shares must have access to the list of persons allowed to participate.

There are no legal provisions that provide shareholders with the ability to pose questions at the meeting. The Code recommends that GMSs should provide a reasonably equal opportunity to shareholders to express their opinion and ask questions. In practice, many companies do facilitate shareholders freely asking questions during the GMS, albeit during a limited time period.

Appointing board members

Russian legislation provides for a general principle “one voting share — one vote”. According to amendments enacted on 2004, cumulative voting for the election of board members is now obligatory for all Russian joint stock companies, irrespective of the number of shareholders. This is an example of the incorporation of code provisions into the LJSC.

Voting shareholders holding at least 2 percent of shares can nominate candidates for election to the board. For shareholders that cannot reach the 2 percent threshold, influencing board elections is generally considered to be difficult and not transparent.

Shareholders have full rights to participate at the GMS

The legal framework provides for mandatory cumulative voting and rights to board appointment

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32 Law on JSC, Art. 66(4).
33 Law on JSC, Art. 53 ($2).
Significant corporate information is publically available (see chapter on disclosure, below). However, some accounting documents are available only to shareholders owning in aggregate at least 25 percent of the company’s voting shares, which is somewhat high for listed companies.

It is a common practice for shareholders to request corporate documents from the management of the company. However, in some cases, management has refused to provide these documents for a variety of reasons, including “lack of a clear business justification for the disclosure of the documents.” In these cases, minority investors have had to file a suit against the management of the company to obtain copies of corporate documents. Their case has been helped by an interpretation of the Supreme Arbitrazh Court, which stated that a shareholder who has at least one share is not limited in principle in his right to request any information he needs.

**Major transactions and corporate events**

Three-quarters of the shares participating in the GMS must approve certain fundamental decisions, including changes to the company charter, and decisions to close or liquidate the company. Some important decisions can be taken by a simple majority of the shares participating in the shareholders’ meeting.

Shareholders have improved rights of first refusal in the subscription of an increase in capital, in proportion to the number of shares they own, within 45 days.\(^{34}\)

An acquirer and its affiliates who acquire more than 30 percent of control over a target company is obliged to make a tender offer (public offer) for all outstanding shares of the target company within 35 days after acquisition.\(^{35}\) “The board of the target company is required to inform all shareholders within 15 days. FFMS has the ability to review the pricing and independence of the appraiser, and to suspend or prevent tender offers. New rules require that for illiquid securities, a professional evaluator’s opinion on price is required.

However, the recent takeover of TNK-BP by Rosneft has highlighted a significant weakness in the takeover rules – if the control of a holding company changes hands, there is no requirement to buy out the minority shareholders of the subsidiary company at the terms and conditions.\(^{36}\)

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\(^{34}\) Law on JSC (Chapter IV, Art. 36, 40).

\(^{35}\) The price may not be lower than 6-month average market price or the acquisition price.

\(^{36}\) TNK-BP Holdings, a major oil producer, was 95% owned by TNK-BP International. The two major shareholders of TNK-BP International agreed in 2012 to sell their shares to Rosneft for USD 55 billion. However, Rosneft was not required to offer the same terms to the 5% shareholders of TNK-BP. The new owners have also canceled plans to pay a dividend. According to Bloomberg (June 20, 2013), shares in Rosneft (ROSN) are down 18 percent in 2013, “widening the valuation gap between Rosneft and the global oil producers it wants to emulate.”
There have also been serious issues around the implementation of the rules. For example, international investors claimed in 2008 that a group that took over a power generation company was able to cancel a mandatory offer to other minority shareholders when the share price fell during the financial crisis.\textsuperscript{37}

Minority shareholders may require the majority owner to purchase their shares (a “sell-out right”) when the majority owner controls more than 95 percent of shares. Likewise, outstanding shareholders can be “squeezed out” by the majority owner when he controls more than 95 percent of the shares.\textsuperscript{38} The FFMS must review the price and disclosure of information and specify what notices must be provided to remaining shareholders.

In practice, a number of mandatory takeover bids and tender offers have been initiated, and the rules appear to have been followed. There has been very little application of the squeeze out provisions, probably because controlling shareholders do not find it necessary to buy out small positions.

The Law on JSCs provides complex and detailed provisions governing the approval of sales of assets of more than 25 percent of the balance sheet value of the company assets. Decisions on transactions between 25 and 50 percent of the company’s assets must be adopted by a unanimous decision of the board of directors, excluding the votes of “interested” members. If the decision of the board of directors is not unanimous then the decision on approval of a large transaction is made by the general shareholders meeting by the majority of votes of voting shareholders. If the value of the transaction exceeds 50 percent of the company’s assets, the decision must be taken by 75 percent of participating shareholders.

Ten years ago, a major corporate governance concern was the apparent wave of “hostile takeovers.” While this process is complex and has many different aspects, “bidders” used some combination of the machinery of minority shareholder rights, the share registrar, and the court system to subvert and expropriate majority shareholders. One tactic was to forge the target company’s documents – the new shareholders appointed new management, sold the company several times, and registered the changes at the target’s registrar.

Although difficult to measure, most observers believe that this problem has diminished in recent years, although remains a concern. In 2010 a new law increased the penalties on the forging of company documents and registering fake

\textsuperscript{37} Onexim Group bought a majority stake in a power generation company, TGK-4, in May. By law, as a majority shareholder, Onexim had to offer to buy out the minority investors. But after share prices fell by 50% Onexim said it was no longer obligated to buy out the minority shareholders who had tendered their stakes to Onexim, since it had somehow its holding in TGK-4, eliminating its obligation to buy the remainder of the shares. TGK-4 was also added to a list of state “natural” monopolies, which exempts the company from the takeover rules. “Bad-Boy Prokhorov Stirs Up Trouble In Russia”, Forbes.com, 5/23/2008.

\textsuperscript{38} Law on JSC, Article 84.8.
information about a company. Amendments to the LJSC and the civil procedure code, as well as improved internal control within law enforcement and judicial community, have made it easier to prosecute the crime.

Related Party Transactions

Doing Business measures the strength of minority shareholder protections against directors’ misuse of corporate assets for personal gain. On an index range of 0–10, the Russian Federation scores 4.7, below the regional average. This overall index of investor protections is an average of three sub-indices, including disclosure index (score of 6 out of 10), director liability index (score of 2 out of 10) and shareholder suits index (score of 6 out of 10).

The reasons for this ranking (and policy recommendations) are included throughout the ROSC report and are addressed in the special annex on related party transaction recommendations.

The LJSC provides important protection for shareholders from abusive related party transactions. The GMS must approve the transaction if the asset value is more than 2 percent of the balance sheet value of the company’s assets. The approval decision must indicate the related parties, the price, the subject of the transaction and other significant conditions of the transaction. Interested directors are not allowed to vote.

A related party is defined by the LJSC as a supervisory board or management board member, a 20 percent shareholder, a “person who has the right to give a company instructions which are binding”, and their affiliates, who either directly participate in the transaction, hold board or management positions, or are 20 percent shareholders in the company on the other side of the transaction.40

Weaknesses in the definition of “affiliates”, poor disclosure of beneficial ownership, and complex group structures are the main obstacles to the identification of conflict of interest situations. Market participants report that at least some related-party transactions are approved as regular transactions because the final beneficiaries of the deal cannot be identified.

Companies are in compliance if they obtain:

- Ex ante approval: during the GMS — shareholders approve all potential related-party transactions in advance for the year (without any substantive information on the terms of the transaction); or

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39 Large related party transactions (more than 2 percent of total assets) must be approved by a majority of board members (for companies with less than 1000 shareholders), and by a majority of independent directors (for companies with more than 1000 shareholders).

40 Law on JSC, Articles 81-84.
• Ex post approval: the board of directors approves related-party transactions which then are validated by shareholders during the subsequent general meeting.

In addition, shareholders complain that they are not always provided with substantive information on the terms of the transaction to be able to take an informed decision.

Protecting shareholders from illegal insider trading

Illegal insider trading had been regulated in Russia since the mid-1990s. However, the framework has been considered to be insufficient, and enforcement inadequate.

A new law was introduced in 2010 to address the gaps in regulatory framework and give a boost to enforcement. Law 224-FZ defines insiders, requires the maintenance of insider lists, and restricts trading by corporate insiders, professionals (like auditors with inside information), and others who obtain information from trading at the expense of a third person and the general public. Any person that has used insider information illegally or has engaged in manipulations can be prosecuted administratively, and eventually, criminally under the law. The definition of insider information includes most elements seen in other jurisdictions, including confidentiality and materiality. However, the information must conform to one of the types mentioned in the laws list of specific material events.

Administrative sanctions for insider trading violations remain relatively low – up to RUB 5,000 (USD163) for individuals, up to RUB 50,000 (USD 1630) for those in a position of authority, and up to RUB 700,000 (USD 22,809) for legal persons.

There are no closed or restricted periods during which company board members and managers are restricted or not entitled to deal in company shares. Board members and managers must disclose share trading in the annual report.

FFMS has acquired systems to improve its real time surveillance of the markets for transactions that may indicate insider trading or market manipulation. Each market operator also must be able to monitor trading in real time and reconstruct trading activity.

42 Article 4 defines insiders to include issuers and management companies, companies included in the register provided for by the Law on Competition and who have a predominant share of the market, trade organizers and clearing organizations, professional market participants and other persons executing deals with securities, currencies, and financial instruments in the interest of their clients and who have received from such clients. Insiders also include personnel of governmental authorities who obtain non-public information subject to confidentiality/privacy requirements. Separate lists are presented for specific entities (e.g. issuers, exchanges, rating agencies). Significant shareholders with stakes over 25% are treated as insiders regardless of actual access to information.
43 The Law came into effect in January 2011, but the sections of the Law that that impose criminal penalties enter into effect on 31 July 2013.
Enforcement under the law remains limited but FFMS reports that it has already used its new powers. The license of the broker was revoked and two issuers were delisted.

Shareholder Recordkeeping

Shareholder registries were traditionally seen as a weakness in the corporate governance framework, but the institutions and the supporting law have continued to improve over time.

Companies are responsible for maintaining the shareholder register. Companies may keep the register themselves or use a specialized registrar; companies with more than 50 shareholders must use a specialized registrar. Over time, the FFMS has been successful in reducing the number of share registrars from about 1,000 in 1994 (the period of “pocket” registrars with a significant lack of independence) to about 45 share registrars in June 2012, a number that can be effectively supervised. The creation of the new central depository will put pressure on the registrar industry and lead to further consolidation in the future.

Registrars and custodians are liable for any damages and lost profit caused by failure to show due care while holding shares on behalf and for the interest of shareholder. The liability framework became significantly more rigorous in 2009.

The number of registrars is expected to decline further with the recent creation of a single central depository in Russia. The National Settlement Depository (NSD) forms part of the new Moscow Exchange (resulting from the merger of MICEX and RTS).

For blue-chip companies and most large companies with traded shares, the shareholder recordkeeping system functioned reasonably well. Increased professionalism, better regulation, and increased use of central depository-type services lessened the risks posed to shareholders. The past trend in “forcible hostile takeovers”, in which in the past registrars have been manipulated (through the use of the court system) as tools during hostile takeover attempts, seems to have improved in recent years (but has not disappeared). Identify fraud remains a major problem and concern for registrars.

Shareholder Redress

Shareholders have a number of possible options for redress after the fact, with generally reasonable thresholds. However, relatively few of these legal actions are applied in practice.

Shareholder(s) possessing in aggregate at least one percent of common shares have the right to apply to a court with a suit against a member of the board of directors, the manager, or the members of the management board, concerning compensation of losses caused to the company who have failed to act in the interests of the
company or reasonably or in good faith. While derivative suits against directors are envisaged under the law, class action suits are not permitted. However, there have been no shareholder lawsuits brought against its directors on the basis of the relevant provisions of the JSC Law. FFMS can intervene on behalf of shareholders but it cannot institute its own action.

Shareholders have other powers. 10 percent shareholders can request a verification (or audit) of “financial and economic activity” of a company by the audit commission of the company (or external auditor). The law also provides an appraisal right to shareholders dissenting from certain corporate resolutions. According to the S&P Corporate Governance Infrastructure Report (2011), many minority investors in recent years “found themselves unable to exercise their ownership rights.” Many of these violations were made possible by weaknesses in law, especially those related to the definition of affiliated entities.

Shareholders with at least 10 percent of the voting shares can call a shareholder meeting.

**OECD PRINCIPLES ASSESSMENT: SHAREHOLDER RIGHTS**

The Detailed Country Assessment of the OECD Principles of Corporate Governance is summarized in the charts on pages 57 and 58, and compared with average results from selected countries in Latin America and Asia. Using the World Bank methodology to assess compliance with Chapters 2 and 3 of the OECD Principles, 5 Principles were fully observed, 5 were broadly observed, 7 principles were partially observed, and 2 were not observed.

Basic shareholder rights show high levels of implementation. On average, Russia’s score is comparable to emerging markets in East Asia and higher than those in Latin America. However, this average masks significant issues in several key principles, including shareholder meetings, disclosure of control structures, oversight of the market for corporate control, and the rules governing engagement by institutional investors.

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44 These include the reorganization of the company, the conclusion of a large-scale transaction, and amendments to the charter of the company which limit their rights. Shareholders must have voted against the adoption of the respective decision, or not take part in the voting. The price of the shares must be at least the average weighted price determined by transactions on the securities market, or not less than the market value, determined by an independent appraiser.

45 In the most publicized case, several bidders reneged on mandatory buyout obligations after acquiring control of auctioned power utilities. For more detail see the National Report on Corporate Governance, p.p. 110-111 (RAO-UES case).

46 Law on JSC, Art. 55.

47 All comparisons of scoring with the previous ROSCs should be interpreted with care, due to the use of different methodologies, averaging systems, new principles assessed, etc.
RECOMMENDATIONS: SHAREHOLDER RIGHTS

Once amendments to the Civil Code have been adopted, the LJSC should also be updated (in line with the overall action plan, and with input from various stakeholders). Based on the assessment above, a number of issues could be included in the LJSC review:

- Review and update the duties of directors in line with new concepts in the Civil Code.

- Require directors to recuse themselves from participating in the deliberations on a particular agenda item when they have a conflict of interest.

- Require companies to provide shareholders with details (qualifications, curriculum vitae) of the candidates to the board along with announcement of the GMS.

- Explicitly provide shareholders with the right to have a reasonable equal opportunity to express their opinion and ask questions during the GMS.

- Make the “revision commission” optional rather than mandatory.

Doing Business measures the strength of minority shareholder protections against directors’ misuse of corporate assets for personal gain. On an index range of 0-10, the Russian Federation scores 4.7, below the regional average. The annex at the end of the report reviews issues addressed by the protecting investors index in detail. The annex includes additional detail on the following recommendations for the update of the LJSC:

- Review the approval process of related-party transactions.

- Require independent review of large related-party transactions (representing 5% or more of the company assets) prior to their approval by the shareholders meeting.

- Require periodic update of conflict of interest related information.

- Require detailed disclosure of the conflict of interest to the board of directors.

- Improve the quality and the content of disclosure of related-party transactions in the company’s annual reports.

48 See www.doingbusiness.org.
• State clearly in the law the directors’ duties to act appropriately when operating the company.

• Reduce the threshold to allow shareholders to inspect accounting documents from 25% to 5% of the company’s voting shares.

• Consider allowing shareholders with 5% of shares to request the appointment of a government inspector in case the company’s management fails to provide shareholders with corporate information.

• Allow parties to a trial to request categories of documents rather than specific documents.

The self-regulatory bodies / associations of institutional investors (NAUFOR, Investor Protection Association, etc.) should come together to produce a code of good practice or a “stewardship code” for institutional investors. The goal should be to establish a baseline for behavior in the institutional investor community. Elements of the code could include a commitment to:

• Follow good governance practices.

• Engage with companies to encourage good governance practices.

• Make all new offerings on the “corporate governance tier” of the Exchange (a concession that was crucial to the success of the “Novo Mercado” in Brazil).

• Vote shares under their control at shareholder meetings.

• Define and disclose voting policies.

• Develop policies for dealing with their conflicts of interest.
DISCLOSURE AND TRANSPARENCY

KEY FINDINGS

Disclosure requirements can be divided into two categories:

- Obligatory disclosure requirements for joint stock companies, as required by the LJSC and FFMS regulation. All open and closed joint-stock companies with publicly offered securities are required to disclose an annual report, annual financial statements, its articles of association, a list of affiliated parties, a registered decision on securities’ issuance, and the AGM notice.49

- Information that issuers must disclose once a prospectus is registered, including quarterly reports, consolidated financial statements, and “material events”.50

Material event disclosure must be made through designated vendors on line and must be made within one day. For all companies required to have a prospectus, this information must also be posted on the company website. Quarterly reports must be filed within 45 days of the end of a calendar quarter and posted on the company’s website. The annual audited report is due within 120 days from the end of the calendar year. The reports must be in a prescribed format and are filed with FFMS electronically.

The issuer’s board must approve the prospectus and the Chief Executive/Manager and the accountant must sign and are responsible for the accuracy of the disclosures.

The FFMS reviews disclosure for completeness and consistency. It can ask for clarifications or revisions, and can take action against issuers for failure to follow its requirements. FFMS uses an electronic review methodology that is currently being enhanced.

Financial Reporting and Auditing

According to FFMS Regulation on the Organization of Trade on the Securities Market (which sets the listing rules), an A1 or A2-listed must prepare annual financial statements in accordance with International Financial Reporting Standards (IFRS).49

The FFMS enforces its disclosure requirements

Financial reporting for top-tier listed companies must now be prepared according to IFRS

49 Law on JSC, Article 92, Sec. 8 of the Disclosure Regulation.
50 Any “information that would be viewed as material to the investment decisions of an investor,” be disclosed in the Prospectus and as a material event (SML, Article 30). The law contains a long list of “material event,” disclosures, such as the change in an accountant or a chief financial officer, and disclosure of large shareholdings, including those through connected and controlling parties (which were recently enhanced and augmented by amendments that went into effect in March 2011), changes in control or ownership above a specific threshold, related party transactions, other losses, such as the loss of rights relative to the business.
Standards (IFRS) and/or US Generally Accepted Accounting Principles (US GAAP). Other listed companies, banks and insurance companies must prepare financial statements in accordance with IFRS starting with statements for 2012.51

Under the Law on Auditing Activity the financial statements of all open JSCs and all annual consolidated financial statements are subject to a compulsory audit. The auditor’s report shall be submitted and published together with the consolidated financial statements. Under the LJSC the appointment of the auditor is the responsibility of the GMS. Audit fees are set by the board. In practice, the auditor normally reports to the company’s board of directors or its audit committee.

The S&P Corporate Governance Infrastructure Report states that “…most large companies employ major international audit firms, which strengthens the audit process.”

The Ministry of Finance is responsible for the licensing and supervision of auditors (approximately 37,000) and audit firms (approximately 15,000). Requirements governing the procedure for carrying out audit activity are set by the compulsory Federal Audit Standards, issued by the Audit Council (reporting to the Ministry of Finance). The Federal Audit Standards are “elaborated in compliance with international audit standards.” Auditors involved in auditing banks are not required to obtain a special certification from the CBR.

The Federal Audit Standards are supplemented by an additional set of audit standards established by one of several audit self-regulatory organizations (SROs). Auditors must belong to one of six SROs. Each SRO is required to adopt and impose a code of ethics for its members. These codes of ethics are reportedly based on the IFAC Code of Ethics (although this was not specifically reviewed for this report). Under the law, auditors must follow each SRO’s independence rules. However, independence is reportedly compromised in practice in various ways. According to S&P because of “…a chronic shortage of qualified in-house finance staff… many companies hire their external auditors to consult on preparation of IFRS/US GAAP accounts, which represents a conflict of interest for the auditors. Most companies do not disclose the volume of consulting services. Federal law establishes that the SROs are responsible for qualification education and exams, including continuing education.

Auditor oversight is also provided by the Federal Service of Fiscal Supervision, an independent body under the Ministry. Shareholders when harmed by inadequate auditing practices can complain to the audit firm’s SRO, which may impose a variety of penalties, including warnings, fines, suspension of membership, or expulsion. The Federal Service of Fiscal Supervision may order the SRO to do the same, but does not appear to have the power to impose more serious penalties. Shareholders

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can file a legal claim to an arbitration (commercial) court to be compensated for actual losses incurred, but these actions appear to be very rare. A claim against audit partners can only be filed in a civil court.

The corporate governance framework does not explicitly require or encourage the board of directors or its audit committee to report to shareholders that the external auditor was independent, qualified, and acted with care.

In general, the oversight of auditing standards has not progressed to the same extent as financial reporting standards, and the use of multiple SROs may raise issues about consistent oversight.

The Federal Audit Standards require that an audit firm implement periodic (at least once every seven years) rotation of the employees engaged in managing an audit of a “socially important economic agent”.

**Non-Financial Disclosure**

In addition to financial statements, companies must make a variety of non-financial disclosures. In general they are specified the FFMS Regulations on Disclosure of Information by Issuers.\(^{52}\)

The disclosure of ownership (and especially ultimate or beneficial ownership) has traditionally been a major weakness of the disclosure and ultimately the corporate governance framework in the Russian Federation. According to many market participants (including S&P in its Transparency and Disclosure Survey), ownership transparency has improved over the past five years as many significant private owners have disclosed their ultimate ownership positions. However, a significant gap remains with what is required by international standards – and with improvements that are being made in other BRIC countries.

It should be noted that all recent surveys of compliance with disclosure requirements tend to focus on the largest 50-100 companies in the market. It is more difficult to make judgments about the other companies traded in the market.

Companies are required to provide a written discussion of the company’s financial statements and trends that may affect the company’s future performance in the quarterly report. The completeness of these disclosures is unclear; according to S&P, only 28 percent of Russia’s 90 largest publicly traded companies disclose basic earnings forecasts and 49 percent disclose their output forecast.

Amendments to the Securities Law in April 2011 required that large shareholdings be computed taking into consideration indirect and direct linkages of 5 percent.

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\(^{52}\) *FFMS Regulation on issuers’ disclosure was approved by the FFMS Order N 11-46/pz-n of 04.10.2011. Last amended in 2012.*
Ownership must be disclosed by the issuer after crossing the thresholds of 5, 10, 15, 20, 25, 30, 50, 75, or 95 percent of shares or votes, or a similar size decrease, either by acquisition or by changes in shares outstanding. Disclosure must be made in the prospectus, the annual report, on the issuer’s website within two days, to relevant information vendors within one day, and (in the case of listed companies) to the exchange. Companies are also required to publicly disclose their ownership structure in the quarterly report. According to revisions to the LJSC (which took effect on January 1, 2013), companies may not pay dividends on shares if the final beneficiary remains undisclosed.

In practice, companies appear to publicly disclose their direct ownership structure – that is, to the level of large nominee owners. According to the RID, 100 percent of 72 large listed Russian companies disclose their ownership structure, changes in shareholdings, control rights, control and corresponding equity stake. However, the controlling shareholders that are reported in the ownership structure are not necessarily a company's ultimate owners (81 percent of companies disclose their control structure). According to the 2010 Transparency & Disclosure Survey by S&P, 47 out of 54 controlled companies (87 percent) disclose their beneficial controlling shareholders, and ownership of 67 out of 78 blocking stakes (86 percent) is transparent. Yet even today, some blockholdings remain non-transparent and smaller consolidated stakes (such as 5 percent or 10 percent) are often opaque.

Companies are not required to disclose group structures, cross shareholdings, or intra-group relations.

The impact of the recent legal changes is unclear. S&P has argued that these strengthened disclosure regulations might be difficult to enforce. First, there is no history of enforcement in this area and FFMS may not have the resources to cope with the large number of violations. Second, current regulations limit penalties for noncompliance to a relatively modest RUB 1 million (35,000 USD).

Companies are required to disclose in the annual and quarterly reports the remuneration of the CEO or management board, and each member of the board of directors on either an individual or an aggregate basis. The Code recommends that management compensation be linked to corporate performance, stock price variation and their individual contribution, and that companies disclose their remuneration policy in the annual report (“the criteria for determining remuneration”).

According to the 2012 RID survey of corporate governance disclosure, companies typically disclose aggregate remuneration in their annual reports. Very few companies disclose individual remuneration paid to each member of the board. According to the S&P survey, only 20 percent of Russia’s 90 largest and most liquid publicly traded companies split out and disclose board members’ remuneration individually, and only 6 percent disclosed this level of detail for executives.

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53 Regulations on Disclosure of Information by Issuers (Annex III, Section Б, Chapter VI, Art. 6.2, 6.5; Chapter VII, Art. 7.1).
According to the S&P survey, 50 percent of Russia’s 90 largest and most liquid publicly traded companies disclose the decision-making process for directors’ pay and 54 percent disclose the decision-making process for managers’ pay.

Information on related party transactions (as defined by the LJSC) must be disclosed in the annual report and quarterly reports, and in the form of reports on significant facts. Disclosure must include a list of the interested party (parties), significant terms and conditions thereof, and the company body of the joint-stock company that has decided on its approval.

When IFRS is fully implemented in 2015, IAS 24 will require more complete disclosures. However, the large number of state-owned companies means that IAS 24’s importance will be reduced, since transactions between two state-owned companies are exempted from the reporting requirements.

In practice, large listed companies appear to disclose information on related party transactions as required by regulation. According to the RID, 93 percent of 72 large listed Russian companies disclose the nature, type and elements of related party transactions. However, only 67 percent disclose the decision making process for approving related party transactions. Companies often simply make references to the federal law (which provides detailed rules about the process of such transactions) without disclosing how the company complies with these provisions or what company specific process has been put in place.

The larger concern is that the definition of a related party in the law is limited to direct affiliations. More complex individual conflicts of interest are not addressed by the law. There is no company group perspective as the transactions include only those with the core legal entity. The definition does not appear to include related party transactions performed via subsidiaries, leaving them at the discretion of management. Market participants report that there are problems in the definition of “affiliates” and related parties, which makes the rules difficult to enforce.

These problems will be mitigated by passage of the amendments to the Civil Code that are currently before Parliament.

Issuers are required to disclose (in the quarterly report) the company’s policies on risk management; the organization of the internal control system (including information on the “internal audit service”); material foreseeable risk factors, including risks that are specific to the industry in which the company operates; risks that are specific to the geographical areas in which the company operates; financial market risk including interest rate risk and currency risk; legal risk; risks associated with the issuer’s activity.\(^5\)

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\(^5\) Regulations on Disclosure of Information by Issuers (Chapter VI, Art. 6.2; Chapter XIII, Art. 8.2; Annex III, Section 5, Chapter VII, Art. 7.6).

\(^5\) Regulations, Section 5, Chapter II, Art. 2.4, 5.4).
According to the RID, only 57 percent of 72 large listed Russian companies disclose information about risk management objectives, system and activities. The main risks are usually described in their annual reports.

Issuers are required to disclose (in the quarterly report) information about the number and structure of employees, deductions to salaries and social insurance, changes in the number of employees, information about the labor union (if any), and information on the issuer’s liabilities to its employees concerning their potential equity participation in the issuer’s authorized capital (equity options). Issuers are also required to disclose information about each of its creditors accounting for at least ten percent of the total amount of the company's liabilities including information on such creditor's affiliation with the company.

There are no legal requirements for companies to disclose information about corporate social responsibility or compliance. The Code of Corporate Conduct recommends that the annual report discuss issues on health and safety at work, employee training and education, and environmental protection.56

In practice, many large companies disclose material issues regarding their employees. In some cases corporate social responsibility reports are prepared on a voluntary basis. The Russian Union of Industrialists and Entrepreneurs (RSPP) published on its Internet page over 50 non-financial reports (CSR, sustainability or integrated reports) for 2010 by major Russian companies of different industries. There is somewhat conflicting evidence on company disclosures in this area. According to S&P, only 8 percent of Russia’s 90 largest and most liquid publicly traded companies disclose their social reporting. According to the RID, 90 percent of 72 large listed Russian companies disclose policy and performance in connection with environmental and social responsibility.

Issuers with registered prospectus must disclose (in the quarterly report) a description of the company’s governing bodies structure and the distribution of authority; the organization of its internal control system (including information on the internal audit service); and information about compliance with a corporate governance code. Issuers must disclose their internal documents on their websites.

In practice, public companies appear to disclose the contents of its internal documents regulating the activities of the joint-stock company’s bodies with all the amendments and/or additions made thereto. According to the RID, 100 percent of 72 large listed Russian companies disclose the composition and function of governance structures. Many companies also disclose in-house governance policies and procedures, e.g. on risk management, internal audit and control, board and executive remuneration, etc.

56 Regulations on Disclosure of Information by Issuers (Annex III, Section Б, Chapter II, Art. 5.1, 5.4).
Open and closed JSCs with publicly offered securities are also required to disclose their compliance with the Code of Corporate Conduct in the annual report, and listed companies are required to disclose reasons for non-compliance. Market participants report that this rule is not enforced and is interpreted as being voluntary. Some (but not all) companies disclose their compliance with the Code, and the disclosures are not always in accordance with the regulations. Listed issuers are required to disclose compliance with corporate governance provisions in the Listing Rules (using a specific form) and submit documents confirming compliance.

**OECD PRINCIPLES ASSESSMENT: DISCLOSURE AND TRANSPARENCY**

The Detailed Country Assessment of the OECD Principles of Corporate Governance is summarized on page 60, and compared with average results from selected countries in Latin America and Asia. Using the World Bank methodology to assess compliance with Chapter 5 of the OECD Principles, 1 principle was fully observed, 1 was broadly observed, 10 principles were partially observed, and 1 was not observed.58

Most rules are in place; scores reflect issues with compliance. The most serious issues are around the disclosure of beneficial ownership (although improved) and the lack of compliance with disclosure requirements for the Code of Corporate Conduct.

**RECOMMENDATIONS: DISCLOSURE AND TRANSPARENCY**

**Update Disclosure Regulation**

The ROSC review of disclosure requirements indicates that some additional requirements will increase the compliance with the OECD Principles.

Regulations governing the disclosure of ownership will be (and especially ultimate or beneficial ownership) has traditionally been a major weakness of the disclosure and ultimately the corporate governance framework in the Russian Federation. According to many market participants (including S&P in its Transparency and Disclosure Survey), ownership transparency has improved over the past five years as many significant private owners have disclosed their ultimate ownership positions. However, a significant gap remains with what is required by international standards — and with improvements that are being made in other BRIC countries.

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58 All comparisons of scoring with the previous ROSC should be interpreted with care, due to the use of different methodologies, averaging systems, new principles assessed, etc.
Disclosure of voting caps, cross shareholding and other “control mechanisms” on a continuous basis.

- Membership in a company group and the structure of the group.
- Disclosure of direct and indirect (e.g. through family members) shareholding.
- Improve the quality and the content of disclosure of related-party transactions in the company’s annual reports.
- Attendance record in board and committee meetings.
- Basic information about primary employment of board members.
- Other board seats held by its board members.
- Transactions in the company’s securities on a timely basis by associates of board members.
- How the company defines “independent director”.
- Each director’s length of service as a board member and tenure on various board committees.

The quantity of information that is already required under law and regulation is large, and will grow as the size of the market increases. This makes processing the river of information difficult for investors.

One approach followed elsewhere is to structure the information in a special form, and update that form online when any of the information on the form changes. In Brazil, the adoption of this “Reference Form” is the latest step in a series of measures designed to improve financial and non-financial disclosure. Companies are required to complete a comprehensive list of disclosure items. These are maintained as a separate document on CVM’s website, and a new document is added as conditions change and the information is updated. The overall amount of information is equivalent in many respects to what is required by a securities prospectus.

The creation of the new “mega-regulator” and the past several years reform have made this an important time to review the evolution of the current audit oversight framework. In addition, listed companies, financial sector regulators, and the audit profession are transitioning to meet IFRS reporting requirements. It is therefore a propitious time to conduct an accounting and auditing ROSC. The ROSC can provide an independent view of the current model and provide suggestions for improvement based on international experience.
KEY FINDINGS

The Role of the Board

The LJSC provides for a board of directors (supervisory board) and a management board or executive body (which might only be a single person). The corporate governance framework identifies three types of directors: executive, non-executive and independent. There is also a “revision commission” elected by shareholders to oversee the company’s finances and in some cases a company secretary that supports the board.

Any JSC may, and an open JSC with more than 50 shareholders must, have a board of directors. The charter must set forth the powers granted to the board.

Majority owners typically dominate company boards and executive bodies. According to the PWC 2012 Board Survey, only a quarter of 42 Russia’s largest public companies (mainly with flotation on foreign stock exchanges) have an independent chairman of the board.

Boards must have at least five members; companies with more shareholders must have at least seven (1,000 shareholders) or nine members (more than 10,000). According to the PWC 2012 Board Survey the boards of the largest 42 companies have an average of 9 members. All board members are subject to annual re-election, for an unlimited number of times. Only an individual (natural person) can serve as a board member.

There is no single definition of the duties of the board of directors in the legal and regulatory framework. Under Article 71 of the LJSC, “Board members are required to act in the interest of the company and shareholders” and “exercise their rights and perform duties with respect to the company reasonably and in good faith.” However, these duties are scattered throughout the legal framework – largely in provisions relating to the disclosure of conflicts of interest. According to most stakeholders (directors, shareholders and legal practitioners, and judges,) current duties are too general. The courts have not issued case law to clarify the scope of the directors’ obligations towards the company. The Code attempts to clearly define the duty of loyalty. As a result, there is uncertainty over what types of situations can trigger the liability of company directors.

In practice, most members of boards of directors are representatives of major shareholders who vote as directed. (This includes companies with state participation). As a result of a conflict of interests, these directors are unable to vote in the company’s best interests on all issues on the agenda. 76 percent of 42
Russia’s largest public companies have a formal code of conduct and/or corporate governance code which normally define the duty of care. This figure is considered to be less in other (public) companies.

The Code provides a detailed description of board good practices, including board responsibility. In practice, there is a large variation in board practices across the listed sector.

The corporate governance framework recognizes that the board’s main role is to provide strategic guidance to and oversight over management. Under the Code, the board sets the strategy of the company and approves its annual financial and business plan. The law mandates the board to “approve large scale deals”.

In practice, boards appear to fulfill their main role of providing strategic guidance management. In the PwC Board Survey, 2012, 81 percent of boards provide strategic guidance at least once per year. It is common practice for boards to monitor management’s performance, review and approve the budgets and business plans, and review and approve major capital projects.

Boards are encouraged by the Code to take responsibility for the corporate governance practices in their company. According to the RID 2011 CG survey, 80 percent of surveyed companies (150 companies) had a corporate governance code.

There is an indirect requirement for the board to ensure that the company complies with the country Code of Corporate Conduct. The Regulations on Disclosure of Information by Issuers (Chapter VIII, Art. 8.4) requires that an annual report of a joint-stock company contains the data on the observance of the Code of Corporate Conduct, and, according to the LJSC, the annual report is subject to a preliminary endorsement by the company’s board. As noted above, the Code was conceived to be implemented on “comply or explain” basis, but is currently implemented on a voluntary basis. The Code recommends the companies establish the position of company secretary to support the board. According to the RID 2011 CG Survey, 52 percent of surveyed companies created this position.

The Code also recommends an annual evaluation of board performance, and that the results of the evaluation be reflected in the annual report. The Code does not recommend that the results of such an assessment be linked to the remuneration of non-executive board members. According to the PWC 2012 CG Survey, 65 percent of boards undertake an annual assessment of their operations. In practice, as a rule, the results of assessment are not linked to the remuneration of non-executive board members

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59 Law on JSC, Chapter 8, Article 65.1. “The scope of reference of the board of directors (supervisory board ) includes resolving issues of general management of the company's operations... [and] …the determination of priority areas of the company's operations.”

60 Code of Corporate Conduct, Chapter 3.1.1.
According to the LJSC, forming the company’s management board, (or terminating its powers) can be the responsibility of either the GMS or the board, depending on the company charter. In practice, in most companies, the board is not involved in process of selecting and appointing a new CEO, which depends on the controlling shareholder.

Under the Code (Chapter 1, 3.4), the board “… should define eligibility criteria applicable to candidates for the position of director general and members of the company’s management board,» and should “… approve the terms and conditions of contracts between the company and the director general (managing organization, manager) and the members of the management board, including their remuneration and other fees.”

Boards are not required or encouraged to develop a succession policy.

In practice, there is a wide variety of practice. According to the PWC 2012 Board Survey, 52 percent of non-executive directors say that it is hard for the board to control the CEO’s remuneration.

In practice, boards develop remuneration policies for managers. The Code recommends that boards should develop a remuneration policy for executive remuneration, through the Human Resources and Nominations Committee of the board, that the policy should be included in the board charter and that remuneration for all board members should be equal. The Code recommends that the remuneration of the CEO or management board be linked to their contribution to corporate performance and changes in share price.

Guidelines (policy) on board remuneration must be approved by shareholders.

See “Remuneration policy for board and key executives” in the Disclosure and Transparency section above for more information.

The board’s role in nominating board members (and establishing a transparent process) appears to be modest but growing.

Most (94 percent) of top 50 Russian public companies have a nomination committee (or equivalent body). In 25 percent of surveyed companies, only shareholders were involved in the board candidate search and selection; in 63 percent of companies, the board and/or its nomination committee participate in carrying out the director search and selection as well. The survey indicates that in large companies, respondents view procedures for board elections as “formalized” in about two thirds of companies, with 21 percent of those being regarded as “properly formalized” as well as “overall transparent”, and 42 percent of them regarded as “formalized and quite transparent”.

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61 As quoted in Board Formation: Nomination and Election In OECD Countries and Russia, Valentina Kostyleva and Héctor Lehuedé, 1 September 2012, page 23.
There are no general requirements for boards to oversee insider conflicts of interests. Directors are not required or encouraged to recuse themselves from participating in the deliberations on a particular agenda item when they have a conflict of interest. However, they are not allowed to vote when they have a conflict. The Code recommends that conflicted board members promptly notify the board of the conflict and the grounds for being deemed interested.

In a company having over 1,000 shareholders owning voting shares the decision to approve an interested party deal shall be adopted by the board by a majority vote of independent and disinterested directors. A large transaction (more than 2 percent of assets) must be approved by disinterested shareholders.

In practice, board members appear to abstain from voting on a particular agenda item when they are conflicted, as required by law. According to the RID CG Survey, 2012, 67 percent of 72 large listed Russian companies disclose decision making process for approving related party transactions. Companies often simply make references to the federal law (which provides detailed rules about the process of such transactions) without disclosing how the company complies with these provisions or what company specific process has been put in place.

Anecdotal evidence suggests that there is great heterogeneity in the adherence to good board practices among listed firms; many (if not most) boards do not actively and systematically oversee the system of internal controls designed to mitigate conflicts of interests.

There is no explicit requirement or recommendation for the board to ensure for the integrity of the financial reporting process. Instead, according to the LJSC, the reliability of the information contained in the annual report of the company, annual financial statements shall be confirmed by the in-house audit (revision) commission of the company.

The Code requires boards to establish an internal control system to ensure the integrity of the financial reporting system. It also recommends the establishment of an independent internal audit department (control and audit service) and gives a definition of independence of this function. The Code also requires the board to manage the overall relationship with and ensure the independence of the external auditor, through an audit committee.

In practice, 92 percent of listed companies from RID 2011 survey have an internal audit department, and in 75 percent of those companies the internal audit department reports directly to the audit committee. According to PwC, over 60 percent of the respondents believe that their companies fall short of directors with financial expertise. 23 percent of the companies have encountered difficulties in finding candidates with proper expertise in finance.

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62 Law on JSC, Art. 83.
63 Code of Corporate Conduct, Chapter 8, 1.1.1.
64 Code of Corporate Conduct, Chapter 8, 1.3.5.
In practice, management is responsible for overseeing disclosure. The Code of Corporate Conduct encourages boards to approve an information policy. According to the RID 2011 CG Survey, 87 percent of listed companies have an information disclosure policy. Companies are neither required nor encouraged to establish an investor relations function (and they are rare).

**Board Independence and Objectivity**

The LJSC requires the board to be at least 75 percent non-executive. The Listing Rules and the Code each establish provisions for board independence. The Code encourages the board to be composed of an appropriate percentage of independent board members, but recommends a minimum of three. The Listing Rules mirror (to a large extent) the independence rules in the Code; A-listed companies should have at least three independent board members. Many observers complain that the definitions of independence are weak and allow board members connected to controlling shareholders to serve on boards.

The LJSC also requires a separation between the roles of Chair and CEO – “a person exercising the functions of a sole executive body shall not be at the same time chairman of the board of directors (supervisory board) of the company.”

The Code recommends that independent directors play a role on several board committees (see below). Related party transactions approved by the board must be approved by a majority of votes of independent directors (in companies with more than 1000 shareholders).

In practice, boards of the largest Russian companies do have independent members. According to the PWC / IDA 2012 survey, 75 percent of the top 50 companies have three or more independent directors on their boards (using the company’s own definition). In two companies, a majority is independent. On average, 39 percent of board members are independent directors. 10 percent of the respondents reported there were no independent directors at all on their boards. In all companies surveyed the position of CEO was separate from the position of chairman of the board.

Although the concept of independent directors has been formally adopted, many observers complain that in fact many of these directors continue to represent the interests of a controlling shareholder.

There is no legal or regulatory requirement for board committees. The Listing Rules require an audit committee for quotation lists A, B, V, and a nomination and remuneration committee for quotation list A. The Code recommends the establishment of board committees, including a strategic planning committee, an audit committee, a human resources and remuneration committee, and a corporate conflicts resolution committee. A risk management committee, ethics committee, strategic planning committee and corporate conflicts resolution committee are optional.
Companies have put in place a variety of committee structures. According to the RID CG Survey 2011 99 percent of listed companies have audit committees, and 94 percent have nomination and remuneration committees.

The Code encourages independent board members to play a lead role in audit committee.

- According to the RID CG Survey (2011), in 19 percent of Russia’s largest public companies, the remuneration and nomination committee consists solely of independent directors. In 48 percent of companies, independent directors constitute 50 percent or more of the remuneration and nomination committee.

- Independent directors constitute 57 percent of the audit committee in Russia’s largest public companies. In a quarter of companies, the audit committee consists solely of independent directors. In 60 percent of companies, independent directors constitute 50 percent or more of the audit committee.

The Code calls for the board to develop transparent board nomination and election processes, although in practice, companies generally do not publicly disclose their nomination and election processes for the board of directors. The Code also recommends that independent directors play a leading role in the nomination process through the remuneration committees. Remuneration committees (or nomination and remuneration committees, where these functions are combined) exist in 90% of companies.

The LJSC requires that any proposal for putting issues on the agenda of a GMS concerning nominees states the name of each nominee and data of the document certifying his identity, the name of the body to which he/she is proposed for election and also other information on him/her as stipulated by the charter or in-house documents of the company. Further, the Code encourages shareholders to be provided with detailed information on board candidate experience and expertise. According to S&P GAMMA and CGS reports, in practice, companies do not generally disclose sufficient relevant information of candidates to the board in advance of the GMS.

The Code of Corporate Conduct recommends that the data on independent directors are disclosed in the annual reports. According to the RID Survey 2011, 94 percent of 72 large listed Russian companies from Survey disclose information about independence of the board of directors.

Board members and managers must inform the board of any companies which they (or their affiliates) own more than 20 percent of voting shares, of legal entities where they serve on the board or management, and any transactions in which they may be deemed to be interested persons. In practice, board members appear to regularly inform the board about their business, financial, and other interests. The quality of these disclosures is unclear.

65 Code of Corporate Conduct 3.2.2.5.
The Code recommends that the competences concerning the settlement of conflicts of interest are clearly defined. Interested parties must recuse themselves from voting on issues in which they may have personal interest and promptly notify the board of directors on the fact of being interested and the grounds for being deemed interested. In practice, board members appear to abstain from voting on a particular agenda item when they are conflicted.

Russian Institute of Directors (RID) was established in 2001, and works with the largest Russian companies to develop, implement and monitor standards of corporate governance in Russia. RID provides training programs for directors and companies. It also provides research and consulting. Since 2004 it has carried out an annual survey of corporate governance practices.

The Independent Directors Association (IDA) was established in 2002 to assist Russian public companies in improving their performance by implementing the best practices of corporate directors. IDA provides training / professional development of directors, including seminars for companies to improve corporate governance practices, and has recently launched a Chartered Director program in conjunction with the IOD in the UK. IDA also organizes conferences and events, and carries out basic research and surveys in the area of corporate governance.

**OECD PRINCIPLES ASSESSMENT: BOARD OF DIRECTORS**

The Detailed Country Assessment of the OECD Principles of Corporate Governance is summarized on page 61, and compared with average results from selected countries in Latin America and Asia. Using the World Bank methodology to assess compliance with Chapter 6 of the OECD Principles 1 principle was fully observed, and 14 were broadly observed.

As in most countries, many of the provisions that encourage good practice in boards of directors are contained in the Code of Corporate Conduct. However, because the Code is essentially voluntary, according to the scoring methodology, those provisions are treated as partially implemented.

**RECOMMENDATIONS: BOARD OF DIRECTORS**

The Code of Corporate Conduct is now more than 10 years old, and could be usefully updated. However, in many respects the Code has held up reasonably well over time. The Detailed Country Assessment indicates that it covers many of the areas required by the OECD Principles. It suffers from two main weaknesses: its length and complexity (which makes understanding and compliance more difficult) and its unclear link to the regulatory framework. Although regulation is in place that requires some companies to “comply or explain non-compliance” with the Code, disclosure has been treated by the market as voluntary.
The way forward is clear:

- **Update the Code** using international experience and the experience of the last 10 years as a guide. The ROSC review indicated several areas where additional rules could be included (see paragraph below).

- **Make the Code leaner and more efficient.** Work to reduce the length of the Code, remove duplication with other elements of the legal and regulatory framework, and remove disclosure requirements and obligations that are better applied in securities regulation.

- **Clarify the “comply or explain” requirement.** The most efficient approach is probably to make Code compliance part of the listing rules of the Moscow Exchange — so that only listed companies would be required to disclose. This would allow the regulator to transfer the (not-insignificant) costs of compliance to the private sector. The comply-or-explain requirement could be introduced through a provision in the company’s founding documents.

- **Consider introducing a questionnaire to be used to disclose compliance with the Code.** Integral to the Code should be a structured data template that companies would have to complete to meet the “comply or explain” requirement. The questionnaire should be limited to key and objective criteria, to aid compliance. The Exchange should also publish an annual report on Code compliance. The Exchange could also consider partnering with media organizations or corporate governance institutes to assist in the publication of the annual report.

- **Consider using the data on Code compliance to establish a scorecard for corporate governance.** Several countries (Germany, East Asia, Brazil) have had success in building scorecards that rank corporate governance based on objective indicators and data that would be similar to the data provided from a disclosure of Code compliance. Scorecards and rankings provide another form of pressure on companies to boost compliance.

Several items could be added to the Code to improve compliance with the OECD Principles. These include recommendations that:

- Companies provide induction and ongoing training to board members, and encourage board members to complete certification programs.

- Companies establish an investor relations function.

- The board is responsible for appointing either the CEO or the management board. This will significantly strengthen the board and improve the accountability of management.
• The board should develop a succession policy.

• The board has the explicit responsibility of ensuring that appropriate disclosure of internal controls is made to the public.

• The internal and external auditors should report to board through the audit committee.

• Boards have access to professional advice at the expense of the company.
## SUMMARY OF THE DETAILED COUNTRY ASSESSMENT

### Russia Country Assessment vs. Regional Averages

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Selected Latin America (Chile, Colombia, Mexico, Peru)
Selected Asia (Indonesia, India, Malaysia, Thailand, Philippines, Vietnam)
**Summary of the Detailed Country Assessment**

Source: Detailed Country Assessment. Figures represent the percent implementation of each OECD Principle. 95% = Fully implemented, 75-95 = Broadly Implemented, 35-75 = Partially implemented, and less than 35% = not implemented.

**OECD Principle Assessment: Corporate Governance Framework**

**Russian Federation**

- Overall corporate governance framework: 45%
- Legal framework enforceable/transparent: 54%
- Clear division of regulatory responsibilities: 75%
- Regulatory authority, integrity, resources: 65%

**International Comparisons**

- Russia: 60%
- Brazil (2012): 79%
- Chile (2003): N/A
- Colombia (2012): N/A
- India (2004): N/A
- Indonesia (2009): 72%
- Kenya (2008): 53%
- Malaysia (2012): 83%
- Thailand (2012): 83%

Source: Figures for other countries represent weight-averaging of scores from previous ROSCs. Averages should be interpreted with caution due to changing methodologies over time. Data from previous ROSCs are not directly comparable because reports were completed in prior years (year of ROSC publication in parenthesis).
## OECD Principle Assessment: Shareholder Rights

**Russian Federation**

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<th>Share in profits of the corporation</th>
<th>Rights to part in fundamental decisions</th>
<th>Amendments to statutes, or articles of incorporation</th>
<th>Authorization of additional shares</th>
<th>Extraordinary transactions, including sales of major...</th>
<th>Shareholders GMS rights</th>
<th>Sufficient and timely information at the general...</th>
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<th>Availability to vote both in person or in absentia</th>
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<th>Exercise of ownership rights facilitated</th>
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Source: Detailed Country Assessment. Figures represent the percent implementation of each OECD Principle. 95% = Fully implemented, 75-95 = Broadly Implemented, 35-75 = Partially implemented, and less than 35% = not implemented.

### International Comparisons

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Source: Figures for other countries represent weight-averaging of scores from previous ROSCs. Averages should be interpreted with caution due to changing methodologies over time. Data from previous ROSCs are not directly comparable because reports were completed in prior years (year of ROSC publication in parenthesis).
OECD Principle Assessment: Equitable Treatment of Shareholders

- All shareholders should be treated equally: 83%
- Equality, fairness and disclosure of rights within and between share classes: 100%
- Minority protection from controlling shareholder abuse; minority redress: 68%
- Custodian voting by instruction from beneficial owners: 50%
- Obstacles to cross border voting should be eliminated: 95%
- Equitable treatment of all shareholders at GMs: 100%
- Prohibit insider trading: 51%
- Board/Mgrs. disclose interests: 54%

Source: Detailed Country Assessment. Figures represent the percent implementation of each OECD Principle. 95% = Fully implemented, 75-95 = Broadly Implemented, 35-75 = Partially implemented, and less than 35% = not implemented.

International Comparisons


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OECD Principle Assessment: Equitable Treatment of Stakeholders

### Russian Federation

- **Legal rights of stakeholders respected**: 67%
- **Redress for violation of rights**: 64%
- **Performance-enhancing mechanisms**: 72%
- **Access to information**: 58%
- **“Whistleblower” protection**: 38%
- **Creditor rights law and enforcement**: 46%

**Source**: Detailed Country Assessment. Figures represent the percent implementation of each OECD Principle. 95% = Fully implemented, 75-95 = Broadly Implemented, 55-75 = Partially implemented, and less than 35% = not implemented.

### International Comparisons

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**Source**: Figures for other countries represent weight-averaging of scores from previous ROSCs. Averages should be interpreted with caution due to changing methodologies over time. Data from previous ROSCs are not directly comparable because reports were completed in prior years (year of ROSC publication in parenthesis).
### OECD Principle Assessment: Disclosure and Transparency

**Russian Federation**

- **VA: Disclosure standards**
  - VA 1: Financial and operating results of the company
  - VA 2: Company objectives
  - VA 3: Major share ownership and voting rights
  - VA 4: Remuneration policy for board and key...
  - VA 5: Related party transactions
  - VA 6: Foreseeable risk factors
  - VA 7: Issues regarding employees and other...
  - VA 8: Governance structures and policies
  - VB: Standards of accounting & audit
  - VC: Independent audit annually
  - VD: External auditors should be accountable
  - VE: Fair & timely dissemination
  - VF: Research conflicts of interests

Source: Detailed Country Assessment. Figures represent the percent implementation of each OECD Principle. 95% = Fully implemented, 75-95 = Broadly Implemented, 35-75 = Partially implemented, and less than 35% = not implemented.

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### OECD Principle Assessment: Responsibilities of the Board

<table>
<thead>
<tr>
<th>Principle Description</th>
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<tbody>
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<td>VIA: Acts with due diligence, care</td>
<td>40</td>
</tr>
<tr>
<td>VIB: Treat all shareholders fairly</td>
<td>50</td>
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<tr>
<td>VIC: Apply high ethical standards</td>
<td>45</td>
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<tr>
<td>VID: The board should fulfill certain key functions</td>
<td>51</td>
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<tr>
<td>VID 1: Board oversight of general corporate strategy...</td>
<td>81</td>
</tr>
<tr>
<td>VID 2: Monitoring effectiveness of company...</td>
<td>46</td>
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<tr>
<td>VID 3: Selecting/compensating/monitoring/replacing...</td>
<td>40</td>
</tr>
<tr>
<td>VID 4: Aligning executive and board pay</td>
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<tr>
<td>VID 5: Transparent board nomination/election process</td>
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<td>VID 6: Oversight of insider conflicts of interest</td>
<td>52</td>
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<tr>
<td>VID 7: Oversight of accounting and financial...</td>
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<tr>
<td>VID 8: Overseeing disclosure and communications...</td>
<td>42</td>
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<td>VIE: Exercise objective judgment</td>
<td>61</td>
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<tr>
<td>VIE 1: Independent judgment</td>
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<tr>
<td>VIE 2: Clear and transparent rules on board...</td>
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<tr>
<td>VIE 3: Board commitment to responsibilities</td>
<td>42</td>
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<tr>
<td>VIF: Access to information</td>
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</table>

Source: Detailed Country Assessment. Figures represent the percent implementation of each OECD Principle. 95% = Fully implemented, 75-95 = Broadly Implemented, 35-75 = Partially implemented, and less than 35% = not implemented.

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Summary of Observance of OECD Corporate Governance Principles

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<th>FI</th>
<th>BI</th>
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<tr>
<td>I. Ensuring the Basis for an Effective Corporate Governance Framework</td>
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<td>Overall corporate governance framework</td>
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<tr>
<td>IB</td>
<td>Legal framework enforceable / transparent</td>
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<td></td>
</tr>
<tr>
<td>IC</td>
<td>Clear division of regulatory responsibilities</td>
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<td>X</td>
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<tr>
<td>ID</td>
<td>Regulatory authority, integrity, resources</td>
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<td>II. The Rights of Shareholders and Key Ownership Functions</td>
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<td>Basic shareholder rights</td>
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<td>IIA 1</td>
<td>Secure methods of ownership registration</td>
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<tr>
<td>IIA 2</td>
<td>Convey or transfer shares</td>
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<tr>
<td>IIA 3</td>
<td>Obtain relevant and material company information</td>
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<tr>
<td>IIA 4</td>
<td>Participate and vote in general shareholder meetings</td>
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<td>IIA 5</td>
<td>Elect and remove board members of the board</td>
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<td>Rights to part in fundamental decisions</td>
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<td>Authorization of additional shares</td>
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<td>Extraordinary transactions, including sales of major corporate assets</td>
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<td>Opportunity to ask the board questions at the general meeting</td>
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<td>Effective shareholder participation in key governance decisions</td>
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<td>IIC 4</td>
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<td>Transparent and fair rules governing acquisition of corporate control</td>
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<td>Disclosure of management of material conflicts of interest by inst. investors</td>
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### IV. Role of Stakeholders in Corporate Governance

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<td>X</td>
<td></td>
</tr>
</tbody>
</table>

Note: FI=Fully Implemented; BI=Broadly Implemented; PI=Partially Implemented; NI=Not Implemented; NA=Not Applicable
ANNEX

Doing Business Indicator – Protecting Investors in the Russian Federation

The World Bank Group Doing Business study measures the strength of minority shareholder protections against directors’ misuse of corporate assets for personal gain. On an index range of 0-10, the Russian Federation scores 4.7, below the regional average (Doing Business 2013). This overall index of investor protections is an average of three sub-indices, including disclosure index (score of 6 out of 10), director liability index (score of 2 out of 10) and shareholder suits index (score of 6 out of 10). The Russian Federation ranks 117th globally on the strength of investor protection and 20th out of 24 countries in the Eastern Europe and Central Asia region.

The following recommendations address the specific issues relevant to the Protecting Investor indicator in Russia.

**Review the definition of related-party transactions to take into consideration the existing complex corporate ownership structure of Russian corporations**

The existing definition of related-party transactions proposed by Article 81 of the Federal Law No. 208-FZ on Joint Stock Companies does not reflect the current reality of corporate ownership in Russia. In addition, group structures and ultimate owners are one of the main obstacles to the identification of conflict of interest situations. In many instances, related-party transactions are approved as regular transactions because the final beneficiaries of the deal cannot be identified.

For that reason, a clear definition of beneficial owner in addition to a comprehensive definition of affiliated parties as defined by the International Financial Reporting Standards (IFRS) could be introduced in the law.

The Government of the Russian Federation is currently reviewing amendments to Civil Code to update the current definition of “affiliated parties”. The Government could take this opportunity to ensure that the reviewed definition is consistent with the above-mentioned recommendation. In addition, Federal Law No. 208-FZ on Joint Stock Companies will have to be updated to be consistent with the new definition.
Review the approval process of related-party transactions

According to Article 83 point 4 of the Federal Law No. 208-FZ on Joint Stock Companies, related-party transactions representing 2% or more of the assets of the company, have to be approved by the shareholders meeting. Transactions below 2% have to be approved by the board of directors. In both scenarios, the interested parties are not allowed to vote.

This approval model has created important operational problems for listed corporations in Russia. Every time that a related-party transaction exceeds the 2% threshold, company managers have to organize an extraordinary shareholders meeting to obtain the approval of the transaction. This legal requirement represents an important operational cost for Russian corporations. As a result, company managers have found legal loopholes in the legislation to bypass this obligation:

i) ex ante approval: during the general meeting, shareholders approve in advance all potential related-party transactions of the year (without any substantive information on the terms of the transaction); or

ii) ex post approval: the board of directors approves related-party transactions which then are validated by shareholders during the general meeting.

Therefore, the regulation is not meeting its original objective to protect the interests of the shareholders from abusive related-party transactions anymore.

In order to improve protections for minority shareholders and, at the same time, provide the right amount of flexibility to ensure the smooth operations of the company, the government could review the approval process of related-party transactions. For example, the government could amend the Law on Joint Stock Companies to require shareholders' approval of related-party transactions representing 5% or more of the assets of the company. Transactions representing less than 5% of the assets of the company could be approved by the board of directors. In both situations, the interested parties should be excluded from the approval process. Countries such as Sweden or the United Kingdom have successfully implemented these models (see Table 1).
Table 1: Approval of Related Party Transactions in Selected Economies

<table>
<thead>
<tr>
<th>Country</th>
<th>Threshold (e.g., transaction amount)</th>
<th>Approving body</th>
</tr>
</thead>
</table>
| United Kingdom | 10% (of the assets of the company) | 10% < Board of directors approval  
10%> Board of Directors and Extraordinary shareholders meeting.  
+ Interested party is not allowed to vote |
| Singapore   | 5% (of the assets of the company)    | 5% < Board of directors approval  
5%> Extraordinary shareholders meeting  
+ Interested party is not allowed to vote |
| France      | All related-party transactions       | Board of Directors and Extraordinary shareholders meeting approval  
+ Interested party is not allowed to vote |
| Sweden      | All related-party transactions       | Extraordinary shareholders meeting approval  
+ Interested party is not allowed to vote |
| Malaysia    | All related-party transactions       | Board of Directors and Extraordinary shareholders meeting approval  
+ Interested party is not allowed to vote |

Source: Doing Business database.

Require independent review of large related-party transactions (representing 5% or more of the company assets) prior to their approval by the shareholders meeting

According to Article 83 point 4 of the Federal Law No. 208-FZ on Joint Stock Companies, related-party transactions representing 2% or more of the assets of the company have to be approved by the shareholders meeting. Under Article 77, the board must determine the value of each transaction “based on the market terms”. However, shareholders of Russian corporations complain that they are not provided with substantive information on the terms of the transaction to be able to take an informed decision.

As soon as the board of directors is aware of a potential related-party transaction, it should request the appointment of an external independent auditor in order to produce a report about the transaction. The auditor’s report should evaluate the main terms of the transaction and present an opinion on whether the transaction is being concluded on market terms. This report should be presented to the shareholders of the company before they vote on the transaction (at least 15 days in
advance). This measure would increase shareholder protections from self-dealing and would allow them to take well-informed decisions when voting on these deals. In addition, a liability regime should be incorporated in the law in case the independent auditor presents false or misleading information on the transaction. Independent review of related-party transactions is required in Norway, France or Singapore, amongst others.

**Require periodic update of conflict of interest related information**

According to the Federal Law No. 208-FZ on Joint Stock Companies, when company directors are appointed, they must disclose all their business interests. However, the law is silent on the number of times that this information must be updated per year. Therefore, in many instances, the director interests’ forms contain inaccurate information. As a result, directors or shareholders do not have reliable information to identify conflict of interests in situations when interested parties do not disclose their conflict of interests.

In order to promote better corporate transparency, the law could require monthly or quarterly updates of the interests’ forms. In order to ensure consistency of the information, a “conflict of interests form” requiring the disclosure of all the interests of company directors (e.g. board memberships, share ownership, family members, etc.) will have to be created.

**Require detailed disclosure of the conflict of interest to the board of directors**

According to Article 82 of Federal Law No. 208-FZ on Joint Stock Companies, directors have to disclose their conflict of interests if they have an interest in a particular transaction prior to its approval by the board of directors or the shareholders meeting. In both scenarios, the interested director has to recuse himself from the approval process. However, the law is silent on the content and procedure of the disclosure of the conflict of interests. As a result, a general disclosure of the conflict of interests without any specifics is sufficient for company directors to comply with the law and eliminate any potential liability in case related-party transactions cause damages to the company.

In order to promote better corporate transparency, the law could require detailed disclosure of the conflict of interest in case of related-party transactions. Management should provide to the board of directors detailed information on the contractual obligation (e.g. assets/services that are going to be purchased/sold; terms of loans to company directors or affiliated companies), the nature and amount of the transaction, detailed description of the conflict of interest (e.g. director position, share ownership) and potential benefits from the transaction. This information has to be recorded in the board minutes. In addition, the conflict of interest information should be provided to the shareholders meeting prior to the approval of the transaction (at least 15 days prior to the approval of the transaction).
Improve the quality and the content of disclosure of related-party transactions in the company’s annual reports

According to Articles 88-92 of the Federal Law No. 208-FZ on Joint Stock Companies, and the Regulation “on the procedure of disclosure of information by issuers of securities” No.11-46/pz-n, companies have to disclose all material related-party transactions in their annual reports. The annual report should contain a special section on related-party transactions and companies have the obligation to provide information on all the related-party transactions that took place over the year. A general disclosure of these transactions is sufficient to comply with the applicable laws and regulations.

In the future, the financial statements of all listed companies must be prepared in compliance with IFRS. If related-party transactions are disclosed in compliance with IFRS, both local and foreign investors will have access to a more reliable and comparable set of information on the financial situation of the company. In addition, the notes to the financial statements will contain more comprehensive and reliable information on related-party transactions.

The Government of the Russian Federation is currently working on the implementation of IRFS standards for public listed corporations.

State clearly in the law the directors’ duties to act appropriately when operating the company

Currently, Article 71 of Federal Law No. 208-FZ on Joint Stock Companies provides obligations for company directors to act in the best interests of the company. However, according to the main stakeholders (judges, directors, shareholders and legal practitioners) these obligations are very general. In addition, courts have not issued case law to clarify the scope of the directors’ obligations towards the company. Therefore, currently, there is an important level of uncertainty as to what the different types of situations that could trigger the liability of company directors are.

For that reason, it is recommended to review the existing legislation to explicitly state the executive officers’ duties to act in a fair manner and in the best interest of the company. The reviewed law should require that company directors exercise appropriate diligence, care and loyalty, and make informed decisions when running the company. They should also avoid conflicts of interest and always put the interest of the corporation before those of officers or other individuals. In addition to the enumeration of general principles and duties, the law could provide a comprehensive catalogue of situations where the liability of company directors could be compromised due to the breach of their duties (e.g. abusive related party transactions or prejudicial major transactions). For example, In case of abusive related-party transactions, executive officers should cover the damages caused to the company and disgorge profit made in violation of their duties to the company even if they did not participate in the approval process.
The laws of Belgium and New Zealand, amongst others, have such provisions.

**Allow shareholders with 5% of shares of the company to inspect corporate documents**

According to Article 90 and 91 of the Federal Law No. 208-FZ on Joint Stock Companies, shareholders can access any corporate information that has been previously disclosed to the public directly. However, some accounting documents are available only to shareholders owning in aggregate at least 25% of the company’s voting shares.

In order to facilitate access to corporate information, shareholders or a group of shareholders owning at least 5% of shares could be entitled to inspect all the corporate documents. This right could be enshrined in the law with certain exceptions, for example, corporate secrets (e.g. formula, practice, process, design, instrument, pattern, or compilation of information which is not generally known or reasonably ascertainable, by which a business can obtain an economic advantage over competitors or customers). The administrative costs associated with the production of these documents (e.g. printing, transportation or storage) will have to be covered by the interested party.

This type of approach would help maintain balance between the needs of managers to operate without overly burdensome intrusion on behalf of shareholders, and the shareholders’ intention to monitor executive actions.

Estonia and Japan offer access to a broad range of corporate documents.

**Table 2: Direct Access to Corporate Documents in Selected Economies**

<table>
<thead>
<tr>
<th>Country</th>
<th>Threshold (e.g. number of shares)</th>
<th>Corporate Documents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonia</td>
<td>1 share</td>
<td>All documents except corporate secrets.</td>
</tr>
<tr>
<td>Greece</td>
<td>5% of the shares</td>
<td>All documents except corporate secrets.</td>
</tr>
<tr>
<td>Japan</td>
<td>3% of the shares</td>
<td>All documents except corporate secrets.</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1 share</td>
<td>All documents except corporate secrets.</td>
</tr>
<tr>
<td>Peru</td>
<td>5% of the shares</td>
<td>All documents except corporate secrets.</td>
</tr>
</tbody>
</table>

Source: Doing Business database.

**Allow shareholders with 5% of shares to request the appointment of a government inspector in case the company’s management fails to provide shareholders with corporate information**

Currently, the Federal Law No. 208-FZ on Joint Stock Companies does not provide this right to minority shareholders. It is a common practice in the Russian Federation that shareholders request corporate documents from the management of the company. However, in many cases, the management refuses to provide these
documents for a variety of reasons, including “lack of a clear business justification for the disclosure of the documents.” Therefore, in many instances, minority shareholders have to file a suit against the management of the company to obtain copies of corporate documents.

In order to facilitate access to corporate information, the law could be reviewed to offer the possibility to minority shareholders owning at least 5% of the shares to request the appointment of a government inspector without filing a suit. Shareholders will have to prove that the management failed to provide them with adequate information about the company, or that they have a legitimate reason to believe that the affairs of the company are carried out in an inappropriate manner.

In countries with such system, including France or Germany, the government inspector is a court officer appointed by the competent commercial judge. The government inspector has the authority to investigate the activities of the company and obtain relevant evidence proving that company affairs are carried out in an inappropriate manner.

Hong Kong SAR (China) and Japan offer access to a broad range of corporate documents.

**Allow parties to a trial to request categories of documents rather than specific documents**

At present, the Arbitrazh Procedure Code is silent on the conditions to request evidence through the judge from the opposing party. As a result, the process to obtain evidence is at the discretion of the judge. Some of them can have a very flexible approach and accept requests that identify categories of documents (i.e. “all purchase agreements”), while other judges may request specific identification of the documentary evidence (i.e. identification of the document date, title, file number, etc.). Private sector practitioners confirmed that in most of the cases, they have to clearly identify the evidence; otherwise, their chances to obtain relevant information are very small.

Therefore, in order to provide more clarity and predictability for the parties to a trial, the Arbitrazh Procedure Code could be reviewed to promote for an easier access to corporate documentation during a trial, to allow the parties to request certain categories without identifying specific documents.
Материал подготовлен по заказу Международной финансовой корпорации (IFC, группа Всемирного банка) Susanne BERGER (Berliner Energieagentur GmbH).

В сотрудничестве с Klemens LEUTGOEB, Márton VARGA (e7 Energie Marktanalyse GmbH); Christophe MILIN (ICE – Groupe BURGEAP); Dr. Petra OPITZ (DW econ GmbH).

Выражаем глубокую благодарность следующим экспертам, которые внесли существенный вклад в успешное завершение работы над отчетом:

• Игорю Башмакову, Исполнительному директору, Центр по эффективному использованию энергии (ЦЭНЕФ)
• Алексею Тулякову, Руководителю департамента развития законодательства в области энергетики, ФГУ «РЭА» Министерства Энергетики РФ

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Соединенные Штаты Америки
Член Группы Всемирного банка