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[*]ADOPTION OF THE RUSSIAN CODE OF CORPORATE CONDUCT: ACCOMPLISHMENTS AND PROBLEMS

By Igor Belikov,
Director,Russian Institute of Directors

I. Main Mechanisms and Procedures for Monitoring, Information Disclosure and Ensuring Observance of the Code

1. Work on development of the Corporate Governance Code was launched in the summer of 2000 on the initiative of the Federal Commission for the Securities Market (Russian FCSM). In late November 2001, the Code was approved by the RF Government[1], and after its fine-tuning was presented to the business community at the beginning of April 2002 as a code of best practice recommendations on the main components of corporate governance to be employed by companies in the process of formation of their corporate governance practice.

2. To ensure correct understanding of problems involved in the process of adopting the Code of Corporate Conduct, it is important to have a clear vision of the framework of this process' development. In our opinion, this framework was characterized, among other things, with the following important factors.

3. The Code was the first document of this type in Russia – a set of best practice recommendations. Russia lacked its own experience of development and enforcement of such documents, and the number of specialists familiar with foreign experience was and remains scarce. During the period of preparation of the Code, the foreign experience itself has as never before demonstrated its ambiguous and contradictive nature, although the American corporate governance traditions and approaches continued to dominate the discussion of corporate governance problems at least at the level of international organizations (such as the World Bank, IFC, OECD) and intergovernmental organizations of the leading developed countries, which is confirmed by directives of the European Commission and other documents adopted in the frames of the European Union (for example, the report by the Winters commission)[2]. The uncovered substantial problems started bringing considerable changes to the former ideas concerning the correlation of voluntary and obligatory aspects in the process of introducing corporate governance rules and led to the adoption

[*] The views expressed in this paper are those of the author and do not necessarily represent the opinions of the OECD or its member countries.

[1] The approval of a code of corporate conduct by a national government is not an exclusive Russian phenomenon. In 2002, Germany adopted the first code of best practices approved by the government and supported by the standing committee accountable to the Chancellor. See Leading Corporate Governance Indicators. Davies Global Advisors. 2002. p.4.

[2] Report of High-Level Group of Company Law Experts on a Modern Regulatory Framework for Company Law in Europe. Brussels, November 4, 2002.

of legal acts envisaging mandatory implementation of a number of principles previously considered voluntary. The developers of the Russian Code have encountered the resistance of certain groups. First of all, these included some influential organizations and persons who considered corporate governance and protection of shareholders' rights as their monopoly sphere and therefore regarded work on development of the Code as an encroachment on their positions. Secondly, it was a number of companies, including some major ones, which were either totally uninterested in drawing attention to the subject of corporate governance (due to its low level in those companies), or have implemented certain positive changes in individual aspects of their corporate governance, but were reluctant to change other important aspects, which was required by the Code. These groups tried to portray the Code as an "instrument of administrative interference" in the economy. Inter-departmental frictions played a certain role as well. It is important to mention within this context that the Russian securities market continues to be dominated by short-term speculative investors in the company stock, whereas the share of long-term institutional investors, which according to foreign experience are the principal agents promoting high corporate governance standards, remains insignificant.

4. FCSM outlined the following main spheres of enactment of the Code recommendations: ensuring disclosure of information by companies on their corporate governance practice and its compliance with the Code backed by their reports to the regulators, shareholders, and exchanges; ensuring participation of exchanges in such information disclosure by companies and observance of prescriptions of the Code by companies whose shares are entered in high-grade quotation lists. At the same time, the Federal Securities Commission motioned to include some provisions of the Code as mandatory its own regulatory acts, which have demonstrated their high practical expediency and gained shareholders' support in the process of elaboration of this document.

5. In January 2002, the Russian FCSM approved the Regulation on Requirements for Trade Organizers in the Securities Market[3] that enabled exchanges to enter in their listing rules higher requirements to companies whose stocks are included in high-level quotation lists (A1 and A2), including to their corporate governance practice.

6. On the date of the presentation of the Code to the business community on April 4, 2002, the Federal Commission for the Securities Market issued an instruction On Recommendation to Use the Code of Corporate Conduct[4]. This document recommended to all joint stock companies created at that moment:

- to disclose information on the company's abidance by the provisions of the Code of Corporate Conduct in their annual reports;

- to include in the annual report of a company abiding by provisions of the Code of Corporate Conduct the section "Corporate Governance" containing information on specific principles and recommendations of the Code of Corporate Conduct the joint stock company abides by, including the presence of independent directors on the company's board of directors (supervisory board), committees of the board of directors (supervisory board), the system of monitoring the company's financial and business activity;

- to disclose information on abidance by concrete provisions of the Code of Corporate Conduct among additional significant general information about the issuer disclosed in the issuer's quarterly report for the fourth quarter.

7. Trade organizers in the securities market (exchange) were recommended:

- to include disclosure of information on observance of provisions of the Code of Corporate Conduct by the issuers to the trade organizers in the securities market as one of the conditions for entering the issuers' securities in quotation lists of trade organizers in the securities market, envisaged by the rules of admission of securities to the market and withdrawal of securities from the market via a trade organizer in the securities market;

[3] Resolution of the Federal Commission for the Securities Market No.1-ps of January 4, 2002 "On Approving the Regulation on Requirements for Trade Organizers in the Securities Market" (as amended on June 7 2002).
[4] Instruction of the Federal Commission for the Securities Market No.421/r of 4 April 2002 "On Recommendation to Use the Code of Corporate Conduct."

- to disclose the aforementioned information by its placement on the website of the trade organizer in the securities market, publication in printed media, or otherwise.

8. The RID survey shows that most companies interpret the voluntary nature of the document primarily as non-obligatory.

9. Within the context of the effort to incorporate a number of provisions of the Code that have proven their practical expedience into regulatory acts, FCSM adopted at the end of May 2002 the Regulations on Additional Requirements to the Order of Preparation, Convocation and Holding the General Shareholders' Meeting[5], which, in part, made compulsory the observance of the Code provisions according to which the general shareholders meeting shall be held at the company's location, unless a different place of the meeting is specified by the company's internal documents, and the meeting participants shall be registered on or near the premises where the general meeting is to be held. This document also determines the structure of the company's annual report that the company must present to shareholders for familiarization on the eve of the general meeting. This structure, the compliance with which has also become a regulatory requirement, includes the main information items listed in the Code to be presented to shareholders in the course of preparation for the general shareholders meeting (company's position in the sector, priority lines of activity, report of the board of directors, description of the main risk factors, etc.), CVs of members of the board of directors, the person in position of the sole executive body, members of the collegial executive body, and information on the company stocks in their possession, remuneration accrual criteria and size (individually or collegially), data on the observance of the Code of Corporate Conduct, and the principle of mandatory certification of the annual report by the person occupying the position (exercising the functions) of the sole executive body and the company's chief accountant.

10. On April 30, 2003, FCSM adopted an instruction[6] recommending which particular information on the companies' corporate governance practice and its conformity to provisions of the Code the companies should disclose in their annual reports. Specifically, the recommended methodology suggests providing answers to the 78 questions reflecting the main provisions of the Code with reference to articles of the charter (or another internal document) of the joint stock company stipulating the requirement to observe a relevant provision of the Code of Corporate Conduct and in the event of its nonobservance - describe the reasons behind it.

11. Starting May 2002, FCSM has been actively interacting with exchanges to stimulate them to include in their listing rules requirements relating to the corporate governance practice of companies whose stocks are entered into high level quotation lists.

12. In October 2002, FCSM circulated a letter among exchanges concerning the extension of the rules regulating the inclusion of issuers' securities in top-level quotation lists, and requirements for the issuers to observe the Code or its main provisions. In December 2002, Russia's leading exchanges adopted new listing rules, which entered into force as of February 1, 2003. These rules envisage the observance of recommendations of the Code of Corporate Conduct by companies whose stocks are included in the first-level quotation list "A", and the observance of recommendations of the Code's chapter 7 (information disclosure) by companies whose stocks are entered into the second-level quotation list "A". It should be mentioned, however, that the formulations of these requirements are not always clear and watertight, and the requirements themselves are not always identical.

13. The new listing rules introduced by the RTS exchange contain the following wording: "To have issued securities put… on the "A" quotation list of the 1st level… the issuer shall present a document confirming the observance of the Code of Corporate Conduct recommended by the Russian FCSM… To have securities put… on the "A" quotation list of the 2nd level… the issuer shall present a document confirming the observance of Chapter 7 (Disclosure of Information about a Company) of the Code of Corporate Conduct recommended by the Russian FCSM." The new MICEX listing rules require that to have securities put on the MICEX "A" quotation list of the 1st level, the issuers must observe all provisions of the code of corporate conduct developed on the basis of FCSM recommendations or

[5] Russian FCSM Resolution No. 17/ps of 31 May 2002 "On Approval of Regulations on Additional Requirements to the Order of Preparing, Convening, and Holding a General Shareholders Meeting."

[6] FCSM Instruction No. 03-849/r of 30 April 2003 "On Methodological Recommendations on the Contents and Form of Presenting Information on Observance of the Code of Corporate Conduct in the Joint Stock Companies' Annual Reports."

the Code of Corporate Conduct recommended by the Russian FCSM and present to the exchange documents confirming the observance of the said provisions… To have securities put on the MICEX "A" quotation list of the 2nd level the issuers must observe the provisions of Chapter 7 of the Code of Corporate Conduct recommended by FCSM and present to the exchange documents confirming the observance of the said provisions. Apparently, the MICEX requirements are more specific, as they orient the issuers on taking practical steps towards the observance of the Code.

14. Although the new listing rules have entered into force on February 1, 2003, and have already been used to include several dozen companies in A1 and A2 quotation lists of both stock exchanges, the listing rules do not explain what the exchanges meant by the observance of all provisions of the Code or its Chapter 7.

15. In mid-June 2003, FCSM issued an instruction[7] containing methodological recommendations for exchanges on organizing control of the observance of the Code by joint stock companies whose shares are entered in A1 quotation lists. According to this document, these companies should present to exchanges information on the observance of 23 key provisions of the Code not less frequently than once a month and also directly upon the results of significant events in the activity of those companies. Exchanges are also recommended to consider enhancing this minimal (in the regulator's opinion) list with their own requirements based on the Code provisions. Another source of information on observance or nonobservance of the Code by the relevant companies, in addition to information presented to exchanges by the companies themselves, is mass media. Exchanges should use these methodological recommendations to develop and adopt lists of concrete provisions of the Code, the observance of which by joint stock companies shall be supervised by the trade organizer, and their own control procedures, incorporating them in the listing rules. Exchanges have not completed this work yet.

16. FCSM took steps to use government representatives in the companies' managerial bodies to promote the adoption of recommendations of the Code in these companies' corporate governance practice, considering that the state is a shareholder of many Russian companies. Specifically, the Federal Securities Commission jointly with the Ministry of Property Relations have developed and approved on 17 July 2002 Directives for representatives of the Russian Federation interests on the boards of directors (supervisory boards) of open joint stock companies whose shares are in federal property, in matters relating to implementation (use) of the Code provisions. In accordance with the Directives, representatives of the Russian Federation should initiate the amendment of charters and other internal documents of joint stock companies aiming at the adoption of provisions of the Code of Corporate Conduct.

17. In June 2003, the Russian FCSM together with the Ministry of Economic Development worked out a methodology for assessment of abidance by the Code of Corporate Conduct by companies applying for state credits and state guarantees. This methodology was supposed to be employed for decision-making purposes in the process of issuance of such credits and guarantees. However, this document has still gained no official status and the prospects for its enforcement are rather vague, mainly due to an overtly negative attitude of the Finance Ministry to the idea of issuing this sort of credits and guarantees.

II. The Code and Corporate Governance Practice of the Russian Companies

18. Work on development of the Russian Code of Corporate Conduct (Corporate Governance) was launched in the summer of 2000. Within this frames of this work, in the autumn of 2001 the Russian Institute of Directors and the Managers Association conducted an opinion poll in order to evaluate the opinion of the companies' managers about the urgency of the corporate governance problem in general, the need to develop the Code, its possible contents and enforcement mechanisms. The survey covered top and high-ranking executive officials (general directors, their deputies, board members) of large and partially (about 20%) medium-sized Russian companies[8]. The survey revealed a high level of respondents' interest (at least verbal) in the development of the Code as an instrument for regulating corporate relations, resolving serious problems in that sphere, taking into consideration the interests of all

[7] Instruction of Russia's FCSM of 18 June 2003 "On Approving of Methodological Recommendations for Controlling the Observance of Provisions of the Code of Corporate Conduct by Joint Stock Companies by Trade Organizers in Securities Market"

[8] See website of the Russian Institute of Directors www.rid.ru.

stakeholders[9]. It also showed that the interest in this document was connected with an extremely high level of respondents' dissatisfaction with effective corporate law.

19. Along with revealing a high level of interest in the development of such a document as the Corporate Governance Code (the Code of Corporate Conduct), the survey uncovered a low degree of the polled senior managers' readiness to disclose information on a number of important aspects of corporate governance, above all such as the structure of company property, the size and principles of setting compensation to senior managers and board members, the existing and estimated risk factors and risk management, the company's affiliated persons. At the same time, the overwhelming majority of respondents agreed that information disclosure increases a company's investment appeal.

20. Six months after the presentation of the Code to the public and the business community in September-October 2002 the Russian Institute of Directors jointly with the Managers Association conducted a survey (poll), the main objectives of which consisted in reviewing the Russian companies' attitude towards the problems of corporate governance after the adoption of the Code and the degree of acuteness of the Code in the companies' activities, in their opinion, their attitude towards recommendations of the Code and opinions about the prospects for putting these recommendations into practice[10].

21. The survey prompts the conclusion that the development of the Code of Corporate Conduct was one of the key factors of the growing companies' attention to problems of corporate governance.

22. The survey shows that 85% of respondents are in some or other degree familiar with the text of the Code, and a third of all respondents said they have studied the text of this document in detail. These figures can be regarded as rather high, considering, firstly, that only six months have passed since the moment of presentation of the Code to the business community, and secondly, that the Code is a voluntary document rather than a legal or regulatory act, and the Russian companies usually tend to pay little attention to this sort of documents.

23. The respondents' answers suggest the following priority of recommendations of the Code on the main components of the corporate governance process:

1. Recommendations concerning the activity of the executive body.
2. Recommendations concerning the activity of the Board of Directors and preparation of the general shareholders meeting.
3. Recommendations concerning major corporate actions.
4. Recommendations concerning dividends and resolution of corporate conflicts.
5. Recommendations concerning supervision of financial and business operations of a company.
6. Recommendations concerning information disclosure about a company.
7. Recommendations concerning the activity of the corporate secretary.

24. The respondents named as the most important recommendations of the Code the development of the company's internal documents determining the competence of executive bodies and regulating their activity, as well as documents determining the responsibility of members of the executive body for nondisclosure of confidential information and fixing the dependence of their compensation on the company results. Supposedly, increased attention to the latter two aspects is connected with a considerable growth of competition in Russian business over the past two years. Taking into account that most respondents represented the companies' top management, their answers prompt the conclusion that the leaders of the Russian companies have become more positive about the connection of their

[9] Make reference to the published text of the survey available at the Russian Managers Association.

[10] The Code of Corporate Conduct. Corporate Conduct in Russia. M., Ekonomika, 2003, p.209-230.

incomes to concrete financial and business results of their companies, particularly within the context of positive trends in development of the Russian economy over the past few years.

25. Asked about their opinion of the Code recommendations aimed at the improvement of the work of the boards of directors, the respondents displayed the greatest interest in the following:

- Inclusion in the companies' internal documents of concrete requirements to the competence and professional experience of members of the board of directors.

- Existence of a procedure for evaluating the activity of board of directors' members and senior managers.

- Dependence between the amount of compensation of board of directors' members and their actual contribution in the company output.

26. The poll participants characterized as much less important such aspects of the board of directors' work mentioned in the Code as:

- Ensuring a quorum at the meeting of the board of directors to provide for the participation of non-executive and independent directors.

- Existence of a list of criteria in the company's internal documents for qualifying some or other board members as "independent directors."

- Presence of committees on the company's board of directors.

27. Notoriously, a significant majority of Russian managers (including those who are also their companies' shareholders) are quite skeptical about the role of independent directors in ensuring effective performance of their companies. Such position can, to a certain degree, be explained by the top managers' apprehensions that this category of board members could restrict their freedom of action. At the same time, the managers may hold this view due to the dissatisfaction with the contribution of this category of board members to the company development.

28. The recognition of high importance of recommendations to have concrete requirements set to the competence and professional experience of members of the board of directors and to carry out regular assessment of their performance and set the amount of compensation on the basis of this assessment, along with the skepticism concerning the importance of the "independence" of some categories of board members, suggests that in the respondents' opinion, the priority objective is enhancing professionalism of board members, their more tangible and substantial contribution to the company's success, and greater focus on professional experience and skills of candidates rather than their conformity to formal independence criteria during their nomination for the board of directors. Considering the aforementioned high level of recognition of the importance of the recommendation concerning the interconnection between the compensation of senior managers and members of the board of directors and the results of the company's activity, this opinion of the respondents can be qualified as the desire of Russian managers to resolve conflicts with shareholders mainly through informal "reconciliation of interests" based on ensuring successful development of the company and the interest of members of the company's management in such development, rather than through formal control mechanisms.

29. The answers to other questions relating to the performance of the boards of directors (specifically, underestimating the role of committees) show that, in our opinion, despite a generally high level of recognition of the role of the boards of directors in ensuring successful development of companies and importance of relevant recommendations of the Code, the respondents so far have no clear understanding of specific organizational measures aiming at enhancing the role of the boards of directors.

30. The following contradiction revealed by the survey is a vivid manifestation of this trend: while recognizing the importance of ensuring a high professional level of members of governing bodies (executive bodies, boards of directors), the respondents at the same time ranked rather low the recommendation concerning the disclosure of information about candidates nominated to work there. Meanwhile, it is quite obvious that insufficient information

about the candidates would prevent making an informed judgment about their professional level. It is also necessary to mention that the recommendations of the Code of Corporate Conduct concerning disclosure of information about the company was named as "minimally important" for raising the company's efficiency and investment appeal by an apparent minority of respondents. We regard this as a vivid illustration of contradictions between the increased recognition of the significance of information transparency for raising investment appeal and, ultimately, efficiency and profitability of the business, and a low level of transformation of these recognitions into practical action.

31. Along with a high level of recognition of the importance of internal control systems in a company, the level of recognition of the importance of taking practical steps to form such bodies (internal audit service, audit committee within the board of directors) and ensuring their independence and ability to effectively perform their functions (above all, by providing these bodies with sufficient information) is relatively low.

32. The question about the Code's recommendations concerning the dividend policy caused almost unanimously high appraisals. The overwhelming majority of respondents recognized the extremely high importance of this aspect of the company policy in raising its investment appeal.

33. On the whole, the results of the survey show that the participants of the poll focus group representing mainly large companies were quite positive both about the Code of Corporate Conduct in general and its concrete recommendations. At the same time, the survey has demonstrated that the recognition of the importance and usefulness of the recommendations of the Code of Corporate Conduct often is not related to any actions aiming at enforcement of these recommendations and that a considerable majority of company managers are still reluctant to disclose information on important corporate governance aspects.

34. Over the same period, in September-October 2002, the Interactive Research Group conducted a survey "Review of the Corporate Governance Practice" on request of the International Finance Corporation (World Bank Group) within the frameworks of the IFC project "Corporate Governance in Russia." The survey covered 307 medium-sized companies of St.Petersburg, the Sverdlovsk, Samara and Rostov regions.

35. Slightly less than 50% of respondents are aware about the Code of Corporate Conduct. Only 1/3 of those who are familiar with the Code (17% of the sample) have already enforced the recommendations of the Code of Corporate Conduct in their companies or are planning to do it in 2003. The remaining two thirds of the companies familiar with the Code either consider its recommendations unacceptable or do not plan to introduce them in the near future. Interestingly, the survey revealed a nearly absolute coincidence between the size of the company and the familiarization of its management with the Code of Corporate Conduct: 73% of respondents were familiar with the Code in companies with sales volumes ranging from USD10 million to USD30 million in 2001, while 100% of respondents were aware of it in companies with sales volumes ranging from USD30 million to USD60 million and more.

36. The respondents using or planning to use the recommendations of the Code of Corporate Conduct have selected the following chapters of the Code: Principles of Corporate Governance, Board of Directors of the Company, General Shareholders Meeting, Disclosure of Information about a Company, Corporate Secretary of the Company, Resolution of Corporate Conflicts, Supervision of Financial and Business Operations of a Company, Major Corporate Actions (62%, 53%, 53%, 43%, 38%, 32%, 32%, and 30% of respondents, accordingly).

37. All the polled companies hold annual shareholders meetings, on the whole observing the principal requirements of the Federal Law "On Joint Stock Companies." However, a number of provisions of this law are not observed by all companies. For example, 29% of the respondent companies do not forward the results of the general shareholders meeting to their shareholders after the meeting has been held. In 19% of the companies the decision concerning the choice of an independent auditor is adopted by other governing bodies than the general shareholders meeting (the board of directors, an executive body). Three percent of the companies included additional items in the agendas of general shareholders meetings without notifying shareholders in advance. Only 4% of the companies inform their shareholders with the use of electronic communications, as recommended by the Code.

38. The Code recommends holding the general shareholders meeting at the company's location, and 81% of the polled companies use their companies' offices for this purpose. Another 17% of the companies hold general shareholders meetings in the community/region where the company is located. Only 2% of the polled companies

organized their general shareholders meetings outside the community/region where the company was located; however, this is not always a manifestation of violation of shareholders' rights, as this place of holding shareholders meetings could be stipulated by the company charter. It should be mentioned that holding general shareholders meetings in places inaccessible for ordinary shareholders was in the past a widespread form of violation of shareholders' rights (particularly in the practice of medium-sized companies).

39. The structure and work practice of the polled companies' boards of directors revealed a number of serious problems. For example, only 28% of the respondent companies have independent directors on their boards of directors, and the average ratio of independent directors to the others is approximately 1 to 7.5, whereas the Code recommends maintaining the proportion of independent directors on a 25-percent level to the overall number of the board members, but not less than three people – a recommendation observed by a mere 14% of the respondent companies. Representatives of minority shareholders are included in the boards of directors of 30% of the companies. Only 3.3% of the companies have committees within their boards of directors.

40. The following criteria have been named among those used to select candidates for the boards of directors:

- length of service for the company (63%);
- maturity (47%);
- experience of work in the sector (36%);
- useful connections (24%);
- loyalty to the company (9%).

41. As we can see, independence with respect to the company management or major shareholders is missing from the list of important criteria.

42. The boards of directors of most polled companies in some or other measure participate in their companies' strategic management and the adoption of major decisions, as prescribed by the Code. The functions most frequently performed by the boards of directors are the approval of major transactions (71%), action plans (62%), and the company's annual budgets (53%). In addition, the boards of directors take an active part in election/dismissal from the post of the board chairman, senior management and members of the Board. Interestingly, although effective law qualifies as major transactions subject to mandatory approval by the board those involving from 25% to 50% of the company assets balance value, the charters of over 35% of the polled companies set a much lower margin for transaction approval by the board of directors (starting from 5%), as it is recommended by the Code.

43. Compensations to members of the board of directors recommended by the Code are paid by 70% of the companies, although their amounts are rather modest (USD 550 a year on average), which can be connected with direct interest of board members in their companies' success (as major shareholders or managers), or with the existence of unofficial compensation systems.

44. The lack of clarity in the board members' understanding of their functions is a major problem, as well as the board of directors of many companies performing functions contradicting effective law. For example, the boards of directors of 25% of the companies select independent auditors (which constitutes the function of the general meeting under effective law), and in 18% of the companies the board members form the composition of the boards themselves (which is also a function of the general shareholders meeting under effective law).

45. The Code recommends that the companies form collegial executive bodies. These bodies (the board) exist only in 25% of the surveyed companies, which, however, may be largely connected with the relatively small size of most of these companies. The survey revealed a serious problem that board members of only 7% of the companies completely understand their duties and fully implement them. The boards operate with serious violations of effective law: the boards of 30% of the respondent companies initiate extraordinary audits, 14% - selects independent auditors, 9% - elect and dismiss the company management and board members, 5% - elect and dismiss the board head and the

company general director, 4% - elect and dismiss the chairperson and members of the board of directors, 2% - approve additional company stock issues.

46. The survey has demonstrated that information disclosure by companies – not only public, but even to its own shareholders – remains quite a serious problem. The absolute majority of the surveyed companies do not have a clear-cut information strategy, which is confirmed by the lack in 94% of the companies of by-laws on information policy. The survey showed that the companies are particularly reluctant to disclose information about major shareholders: 7% of the companies do not provide their shareholders with such information. Interestingly, the representatives of companies displayed self-criticism in this issue: 38% of the polled admitted poor information disclosure on the structure of their companies' property and participation in other companies' capital, while every fifth respondent rated his company the lowest in this respect. Three out of four companies deliver financial reports at general shareholders meetings; 60% disclose financial reports on request; 30% publish this information in the press. At the same time, 3% of the polled companies do not present financial reports to their shareholders, despite the fact that it is a mandatory requirement of the law on joint stock companies. The situation with information disclosure about the charter, internal documentation and current results of the company's activity as a whole is much better: a mere 1% of the respondent companies do not disclose this sort of information to their shareholders.

47. According to the survey, 81% of the companies have an internal control system. Moscow companies exercising internal control do it on a quarterly or annual basis (24% and 35%, accordingly).

48. Although 95% of the respondent companies have an audit commission, 19% of the companies do not conduct internal audit, which makes the role of the audit commission in those companies obscure. 5% of the polled companies do not have an audit commission in violation of the Federal Law "On Joint Stock Companies." Therefore, the companies may either be falsely interpreting the function of the audit commission, or this body exists only on paper without playing any significant role. The audit commissions of the respondent companies consist mainly of representatives of shareholders and management. In 3% of the cases the audit commission includes representatives of the board of directors, which also constitutes a violation of effective law.

49. The survey has demonstrated considerable differences in the indexes among companies covered by the poll. The best result was 16 out of 18, and the worst – one out of 18. Only 10 percent of companies qualified for the group that practice efficient corporate governance, i.e. scored over 10 out of the possible 18 points, while the number of companies (as %) characterized by inefficient corporate governance totaled 27% of the sample. These companies scored not more than 7 out of the possible 18 points. The majority of the survey participants (62%) have an average level of corporate governance: they have scored 7-10 points out of the possible 18.

50. Interestingly, the companies evaluated their corporate governance results quite objectively. This conclusion is backed by results of comparison of factual data with the respondents' evaluations of their companies' performance in each aspect of corporate governance.

51. In mid-September 2002, Standard & Poor's published the results of the information openness survey of 42 Russian companies, including 18 entered in the S&P/IFCI stock index and another 24 major Russian enterprises. These companies account for approximately 98% of the Russian stock market capitalization. The survey was based exclusively on public information and analyzed the quality of information disclosure above all from the point of view of an international investor, considering 98 elements relating to the property structure and relations with investors; financial and production related information; structure and work procedures of the board of directors and management.

52. The survey demonstrated a certain improvement in the practice of information disclosure. On the whole, this level in the companies under survey corresponds to that of the Latin American companies. Although the companies' transparency index in countries of that region is lower than in the other regions, until recently Latin American companies were considered to be way ahead of the Russian companies in many aspects of corporate governance, including transparency.

53. The survey revealed serious differences in the information disclosure levels even within this one group of Russian companies. The companies occupying two top positions in the list (MTS and Wimm-Bill-Dann) disclose over 70% of the necessary information, which enabled to put their transparency level in one line with many West

European companies. The companies following them – YUKOS, Vympelcom, Goldern Telecom, and Rostelecom – disclose about 50% of information. The information disclosure indices of the remaining 36 companies were much lower. Specifically, companies occupying three bottom lines disclose slightly more than 10% of information.

54. The most unfavorable component in evaluation of the information disclosure quality is the information on compensation of the company management (average level of 11%). As for disclosing information on production activity, 24 out of the 42 companies disclose information on 50% and more disclosure elements. Telecommunication companies are the most transparent ones in Russia (the average information disclosure level is 59%).

55. In 2002 and the first half of 2003, Standard & Poor's evaluated the status of corporate governance of a number of Russian companies in order to establish their starting score or specify their previous score. The overall results of these studies were quite favorable. For example, the rating of OJSC Aeroflot was increased from 4.6 to 5.2 points, the corporate governance rating of Mobile TeleSystems (MTS) was confirmed on the high level of 7.2 points, and the company was withdrawn from the governance watch list where it had been entered in connection with changes in its ownership structure. In July 2002, the agency conferred 6.2 points to Uralsvyazinform, noting in conclusion that "many standards and the corporate governance practice of OJSC Uralsvyazinform were largely comparable with the standards and practice of the leading international companies,"[11] explaining that the moderate total rating was connected with the existence of a controlling shareholder in the company. In July 2003, the company rated at 5.7 points the corporate governance level of the wire telephone communications operator OJSC Sibirtelecom, noting that "the company was constantly improving its corporate governance practice" and one of the main reasons why it did not receive a higher rating was the existence and considerable influence of the core shareholder[12]. At the same time, in July 2003, another Russian with communications operator, Dalsvyaz, received 5.4 points for its corporate governance level. S&P noted that "the company was introducing a whole set of important corporate governance procedures" and explained that the main reason why it couldn't give the company a higher rating was "a high level of influence of the majority shareholder."[13]

56. The returns of these surveys should be regarded within the context with the other data concerning the changes in the corporate governance practice of some Russian companies.

57. During the survey period, major companies like YUKOS, LUKoil, Wimm-Bill-Damm, AFK Sistema, Norilsk Nickel, Magnitogorsk Metallurgical Plant, and SUAL have disclosed information on their beneficial owners. The number of independent directors on the boards of directors of the Russian companies increased, including such prominent representatives of the foreign business community as M.Mobius, G. De Sallier, M. O'Neil, R. Matske, M. Winer, and S.Remes.

58. In 2002 and 2003 a number of Russian companies paid substantial amounts of dividend to their shareholders (16-24% of net profit). YUKOS was the first Russian company to include a majority of independent directors on its board, and OJSC United Machine-Construction Plants – the first Russian company with a majority of independent foreign directors on its board. LUKoil was the first Russian company to publish its dividend policy by-laws. Norilsk Nickel was the first Russian company that has publicly disclosed the amount of compensation of each individual member of the board of directors. RAO UES was the first Russian company to introduce the rules of transactions involving the stocks of a company whose participants include its senior managers and members of the board of director.

59. At the end of 2002 the Ministry of Property Relations presented data on fulfillment of Directives for enforcement of provisions of the Code by representatives of the Russian Federation in boards of directors of open joint stock companies whose shares constitute federal property. In accordance with these data, the questions of applying the provisions of the Code of Corporate Conduct and preparing relevant amendments and additions to the charters and internal documents were put up for discussion by the boards of directors of 599 joint stock companies whose shares are in federal property, including on the initiative of representatives of the interests of the Russian Federation – of 353 joint stock companies. The boards of directors of 357 joint stock companies whose shares are in federal property have

[11] Standard & Poor's corporate governance rating service. Corporate governance ratings. OJSC Uralsvyazinform, p.1.

[12] OJSC Sibirtelecom was conferred a corporate governance rating by Standard & Poor's on July 3, 2003.

[13] OJSC Dalsvyaz was conferred a corporate governance rating by Standard & Poor's on July 3, 2003.

adopted decisions on employment of individual provisions of the Code of Corporate Conduct upon the results of the discussions by the end of 2002. In keeping with these decisions, 128 joint stock companies conducted work on the preparation of the corresponding amendments and additions to their charters, and 255 companies – to their internal documents.

60. The above report enables to outline the following aspects of the corporate governance practice of joint stock companies with the RF participation, which in some or other degree reflects the recommendations of the Code:

- procedures and methods for informing shareholders about the place, date and time of holding a general shareholders meeting and providing the relevant materials by joint stock companies;
- providing shareholders with information on candidates for positions in collegial executive bodies, persons carrying out the functions of the sole executive body and members of the board of directors;
- preparing and carrying out major corporate actions;
- shareholders' access to information on the joint stock companies' activity;
- schedule of paying dividends and determining their amount.

61. In May-June 2003, the Russian Institute of Directors in cooperation with the Moscow Interbank Currency Exchange (MICEX) and the RTS electronic exchange conducted a poll of a group of major Russian companies whose shares are included in A1 and A2 quotation lists of these exchanges, for the purpose of finding out the way the companies evaluate their observance of the main recommendations of the Code of Corporate Conduct. Companies were offered to make a self-evaluation on 78 aspects included in the Russian FCSM Methodological Recommendations as a basis for preparing their annual report section on their corporate governance practice and observance of the Code. In additional to the questioning, RID experts conducted long interviews on the basis of the said questionnaire with representatives of four other major companies whose shares are also included in the aforementioned quotation lists. The poll revealed the following aspects of corporate governance which, in the companies' opinion, are particularly difficult for them from the viewpoint of abidance by the Code recommendations presently and in the near future[14]:

1. Ensuring the presence of committees on the board of directors. The companies view as the most difficult task composing their committees from non-executive and independent directors only, with exclusively independent directors heading them. The companies regard it particularly difficult to create committees for personnel and remunerations, for the resolution of corporate conflicts, and for risks. They rated as slightly less difficult the creation of audit and strategic planning committees. They also consider it rather difficult to ensure that the company has internal documents determining the order of formation and work of the committees, approved by the board of directors, and granting additional rights to committee members enabling them to request information on the company's activity. Not a single one of the respondent companies observes the recommendations concerning the statutory requirement of determining a board of directors quorum enabling to ensure obligatory participation of independent directors in the board meetings. This recommendation encounters essential objections (it is viewed as a violation of equal rights of board members).

2. Stipulating in a joint stock company's charter or internal documents internal criteria of selecting a management organization (manager). Practically all companies do not consider it possible to introduce formal criteria for this process, assuming that the choice largely depends on a concrete situation.

3. Entering a requirement in a joint stock company's internal documents (specifically, the by-laws on information policy) to disclose information on all transactions with the company assets the value of which

[14] The overall assessments of observance of the recommendations in these aspects were not more than 5 points (14 companies were assessed on the basis of the following scale: full compliance with the relevant recommendation – 1 point; partial compliance – 0.5 points; noncompliance – 0 points).

exceeds 2 percent of the company's non-negotiable instruments and (or) which could effect the joint stock company's stock market value. Companies claim that any transactions have some or other impact on the value of the company stock, which makes the observance of this requirement impracticable.

4. Including in a joint stock company's charter a ban on taking any actions during a takeover for protection of the interests of executive bodies (their members) and members of the board of directors, a ban on the adoption of a decision by the board of directors before the expiration of the anticipated stock purchase period, to issue additional securities, granting a right to purchase the company shares even though the right to adopt such decisions is granted by the charter.

5. Recommendations necessitating to have a board of directors-approved document on dividend policy and regular information disclosure on the dividend policy and its updates.

6. Stipulating in a joint stock company charter the authority of the board of directors to set requirements to the qualifications, experience, and principles of appointing remuneration to general director and board members.

7. Ensuring the availability of a board of directors-approved document on the use of significant information on a joint stock company's operations, shares and other securities and transactions with them, which cannot be public and the disclosure of which could noticeably effect the market value of shares and other securities of the company (insider information).

8. Existence of the order of coordinating unconventional operations with the board of directors in a joint stock company's internal documents.

62. The following recommendations of the Code can be rated as average[15] (by enforcement difficulty), according to the poll results:

1. Existence of a board of directors-approved risk management procedure.

2. Stipulating in the joint stock company charter the authority of the board of directors to suspend the mandate of the general director appointed by the general shareholders meeting. LUKOIL proposed to strike this item, as this provision neglects legal rights and interests of the company shareholders by empowering the board of directors to suspend the mandate of the general director elected by the general shareholders meeting and appoint a "provisional" general director (director) who was not elected by the general shareholders meeting.

3. Requirement set by a joint stock company's internal documents to members of the board of directors to notify the board of directors in writing of their intention to carry out transactions with securities of the joint stock company or its subsidiaries (associated companies) and to disclose information on transactions with such securities carried out by them.

4. Setting up the institution of corporate secretary (company secretary).

5. Presence in a joint stock company's internal documents of information disclosure requirements on the purposes of stock placement, on potential buyers of the placed stocks, including major blocks of shares, and on participation of the company's senior executives in purchasing the company shares.

6. Existence of a board of directors-approved document determining the rules of and approaches to information disclosure (by-laws on information policy).

[15] Overall assessments of the observance of these recommendations ranged from 5.5 to 7.5 points.

7. Presence of a requirement in a joint stock company internal document to disclose information on potential buyers of the placed stocks, including major blocks of shares, and on participation of the company's senior executives in purchasing the company shares.

63. In the opinion of the polled companies, enforcement difficulties of a number of the aforementioned recommendations are connected with the need to introduce amendments to them and adjust them to effective law, and the difficulty of defining certain notions (for example, unconventional transactions).

64. In June-August 2003, the Russian Institute of Directors (RID) conducted a review of annual and quarterly reports and websites of the Russian companies whose shares are included in A1 and A2 quotation lists of MICEX and RTS and whose capitalization during the past several years exceeded 80% of capitalization of the Russian securities market, within the framework of the project "Development of Corporate Governance in Russia" implemented with financial support of the United States Agency for International Development (USAID). The purpose of the review was to analyze which particular information the companies were disclosing through the said channels and in what way this disclosure corresponded to the main recommendations of the Code of Corporate Conduct and the practice of similar disclosure by Western companies enjoying the best corporate governance reputation[16].

65. The analysis suggests that the 2002 annual and quarterly reports contain slightly more information on the corporate governance practice than the corresponding reports for 2001, this practice is more often compared to the relevant recommendations of the Code, and some of its recommendations are already being enforced. However, the scope of changes remains poor both from the point of view of the number of corporate government aspects involved and particularly the number of companies undergoing change.

66. Significant positive shifts were uncovered only in one aspect of information disclosure on observance or nonobservance of the Code recommendations – notification of shareholders of a general shareholders meeting within not less than 30 days prior to its holding, if a longer period is not stipulated by law.

67. Moderate positive trends in information disclosure as to the observance of the Code provisions along with significant positive shifts towards the observance of its recommendations were uncovered in one aspect only – holding the board of directors sessions not less frequently than once every six weeks in the joint stock company reporting year.

68. Moderately positive dynamics in information disclosure on the observance or nonobservance of the Code provisions along with abidance by its recommendations was revealed in the following aspects:

- Presence of not less than three independent directors meeting the requirements of the Code of Corporate Conduct in the company board of directors.

- Presence of a special board of directors committee (audit committee) for working out recommendations for the board of directors concerning the choice of an audit organization (auditor) and interacting with the joint stock company's audit commission and the audit organization (auditor). However, the absolute number of companies that have such a committee among those disclosing this information is still insignificant (6).

- Setting up a committee for personnel and remunerations the function of which is to establish criteria for selecting candidates for the board of directors and working out the joint stock company's remunerations policy regulating the principles and criteria for determining the size of compensation of members of the board of directors, the general director, executive board members, as well as the criteria of their performance evaluation (9 companies in 2002, as against 3 in 2001, have disclosed this information, and 5 companies (compared to 1) said they fulfilled this recommendation).

[16] The evaluation matrix consisted of 37 items, 26 of which were based on recommendations of the FCSM Instruction "On Approval of Methodological Recommendations for Control by Trade Organizers on the Securities Market over the Observance of the Code of Corporate Conduct Provisions by Joint Stock Companies," and nine others evaluated the presence or absence in the companies' charters and other internal documents of principles and procedures regulating the major corporate governance factors (general shareholders meeting, board of directors, etc.).

- An independent director at the head of the committee for personnel and remunerations. The total number of companies disclosing this information and abiding by this recommendation remained low (2 companies).

- Existence of board of directors-approved internal documents establishing the order of formation and functioning of the board of directors committees.

- Existence of board of a directors-approved internal document establishing the information disclosure rules and approaches (by-laws on information policy). However, the number of companies covered by this dynamic is small: 7 companies have disclosed such information in 2002, as compared to 3 in 2001, and 6 companies said they observed this recommendation, compared to 2.

- Existence of board of directors-approved procedures of internal control over financial and business operations of a joint stock company.

- Existence of a special unit within a joint stock company for supervising the observance of internal control procedures (control and audit service).

- Existence of provisions in a company charter or internal documents regulating dividend policy. However, the number of companies displaying positive dynamics in this respect is extremely small: 4 companies in 2002 have disclosed this information, as against 2 in 2001, and 4 companies (compared to 2) said they observed this recommendation.

- Existence of provisions in a company charter or internal documents regulating information policy.

69. Moderately positive dynamics of information disclosure on observance or nonobservance of the Code recommendations together with the absence or insignificance of positive changes in the observance of its recommendations was revealed in the following aspects:

- Statutory requirement of board of directors' approval of a joint stock company's transactions in the amount of 10 percent or more of the company asset value, except for deals concluded in the process of routine business.

- An independent director at the head of the audit committee (the total number of such companies remains very small).

- Composing the committee for personnel and compensations of independent directors only, and in the event of its objective impossibility – exclusively of no-executive and independent directors.

70. No changes have been registered in information disclosure on the observance or nonobservance of the Code recommendations and abidance by its recommendation in the following aspects:

- Composing the committee for personnel and compensations of independent directors only, and in the event of its objective impossibility – exclusively of no-executive and independent directors.

- Stipulating in the company charter the procedure for determining the board of directors quorum enabling to ensure obligatory participation of independent directors in the board sessions.

- Setting up a collegial executive body of a joint stock company.

- Lack of a provision in a joint stock company charter releasing the purchaser from the duty to offer the shareholders to sell their common shares (underwritten securities converted into common shares) during a takeover.

- Existence of board of a directors-approved document regulating the use of significant information about a joint stock company's operations, shares and other securities and transactions therewith, which is not publicly available and the disclosure of which could seriously effect the market value of the shares and other securities (insider information).

- Provision of a joint stock company's internal documents for obligatory reporting by the control and audit service of all established violations to the audit committee, and in the event of its absence – to the board of directors.

- Statutory requirement of the control and audit service preliminary review of the expediency of transactions not envisioned by the financial and business plan (unconventional transactions).

- Stipulating in a joint stock company's internal documents the procedures for clearing the unconventional transactions with the board of directors.

- Regular reports by the head of the control and audit service at the audit committee sessions about the implementation of the financial and business plan and deviations from it.

- Regular reports by the head of the audit committee to the board of directors on the revealed violations in exercising business transactions, presenting exhaustive information about the violations, parties at fault, causes and circumstances.

- Existence of statutory provisions regulating the preparation, convocation and holding of a general shareholders meeting.

- Existence of statutory provisions regulating the formation and activity of the board of directors.

- Existence of statutory provisions regulating the formation and activity of executive bodies.

- Existence of statutory provisions regulating the election (appointment) and activity of a joint stock company corporate secretary.

- Existence of statutory provisions regulating major corporate actions.

- Existence of statutory provisions regulating the order of supervision over financial and business operations.

- Existence of statutory provisions o resolution of corporate conflicts.

Dependence of Information Disclosure on the Company Securities Quotation List Category

71. The Russian Institute of Directors has conducted a comparative analysis of information disclosure on corporate governance aspects, included among the main FCSM recommendations[17], in 2002 annual reports and corporate websites of a group of Russian companies (in the Russian language) and a group of Western companies enjoying the best corporate governance reputation. Two groups of Russian companies were selected: one group comprised six companies evaluated highest in the Russian companies' transparency rating prepared by Standard & Poor's in September 2002 (Wimm-Bill-Dann, YUKOS, Rostelecom, Sibirtelecom, MGTS, and LUKoil), and the second consisted of six companies that have scored the highest points within the frames of this RID survey (YUKOS, Dalenergo, Gazprom, Sibneft, YuTK, and Uralsvyazinform). Following consultation with foreign experts, six Western companies were selected for comparison – British Petroleum, British Telecom, General Electric, General Motors, Intel, and Pfizer.

[17] The evaluation matrix consisted of the same 37 items used in the review of annual and quarterly reports and corporate websites of the Russian companies.

Corporate governance aspects recommended for disclosure by the Code of Corporate Conduct (as per Methodological Recommendations designed by the Russian FCSM)	**Wimm-Bill-Dann, YUKOS, Rostelecom, Sibirtelecom, MGTS, and LUKoil information disclosure practice**	**YUKOS, Dalenergo, Gazprom, Sibneft, YuTK, and Uralsvyazinform information disclosure practice**	**British Petroleum, British Telecom, General Electric, General Motors, Intel, and Pfizer information disclosure practice**
Notifying shareholders about a general shareholders meeting not less than 30 days prior to its holding unless a longer period is stipulated by law	2 companies disclose information and declare observance of the Code	4 companies disclose information, 3 of which declare observance of the Code	2 companies disclose information that meets the recommendation s of the Code
Granting shareholders an opportunity to familiarize themselves with the list of persons entitled to participate in the general shareholders meeting, starting from the day of notification of a general shareholders meeting to be held until the closure of a personal presence general shareholders meeting, and if the general shareholders meeting is held in absentia – until the final date of ballot acceptance	1 company discloses information and declares observance	3 companies disclose information and declare observance	Not a single company discloses relevant information
The shareholders' entitlement to enter an item on the general meetings' agenda or demand the convocation of a general shareholders meeting without presenting any documents if his/her rights to shares are exercised within the register-keeping system, and if his/her rights to shares are accounted on a custody account – with the presentation of a statement of the custody account in order to exercise the aforementioned rights	Not a single company discloses relevant information	Not a single company discloses relevant information	Not a single company discloses relevant information
Presence of not less than 3 independent directors on the joint stock company's board of directors, meeting the requirements of the Code of Corporate Conduct	2 companies disclose information and declare the observance of the Code recommendation	1 company discloses information meeting the Code recommendation	All companies disclose information meeting the Code recommendation
Existence of a clause in a joint stock company's charter on election of the board of directors only by cumulative vote	3 companies disclose information meeting the Code recommendation	All 6 companies disclose such information meeting the Code recommendation	Not a single company discloses such information
Holding sessions of the board of	2 companies	3 companies	5 companies

directors not less frequently than once every six weeks during the reporting year	disclose such information meeting the Code recommendations	disclose such information meeting the Code recommendations	disclose such information, in 4 cases meeting the Code recommendation s
Existence of a provision in a joint stock company's internal documents envisaging the board of directors' approval of the joint stock company's transactions to the sum of 10% and more of the company's asset value, with the exception of transactions carried out in the process of routine business activity	5 companies disclose such information, in 2 cases meeting the Code recommendations	All companies disclose such information, in 4 cases meeting the Code recommendations	Not a single company discloses such information
Presence of an audit committee working out recommendations for the board of directors concerning the choice of an audit organization (auditor), and interacting with the company audit commission and audit organization (auditor)	1 company discloses such information meeting the Code recommendation	3 companies disclose such information meeting the Code recommendation	All companies disclose such information meeting the Code recommendation
Composition of the audit committee entirely of independent directors, and if it is impossible due to objective reasons – only independent and non-executive directors	Not a single company discloses such information	2 companies disclose such information, in 1 case meeting the Code recommendation	All companies disclose such information meeting the Code recommendation
Presence of an independent director at the head of the audit committee	1 company discloses such information meeting the Code recommendation	2 companies disclose such information meeting the Code recommendation	4 companies disclose such information meeting the Code recommendation
Presence of a committee for personnel and remunerations	1 company discloses such information meeting the Code recommendation	3 companies disclose such information meeting the Code recommendation	All companies disclose such information meeting the Code recommendation
Composition of the personnel and remunerations committee entirely of independent directors, and if it is impossible due to objective reasons – only independent and non-executive directors	Not a single company discloses such information	2 companies disclose such information meeting the Code recommendation	All companies disclose such information meeting the Code recommendation
The presence of an independent director at the head of the committee for personnel and remunerations	1 company discloses such information meeting the Code recommendation	2 companies disclose such information meeting the Code recommendation	5 companies disclose such information meeting the Code recommendation
Existence of the board of directors-approved internal documents envisaging the order of formation and operation of the board of directors committees	1 company discloses such information meeting the Code recommendation	2 companies disclose such information meeting the Code recommendation	2 companies disclose such information meeting the Code recommendation
Existence of procedures in the charter or internal documents of a joint stock	Not a single company	1 company discloses such	Not a single company

company for determining the board of directors quorum enabling to ensure obligatory participation of independent directors in the board of directors' sessions	discloses such information	information meeting the Code recommendation	discloses such information
Setting up a collegial executive body of a joint stock company	All companies disclose such information meeting the Code recommendation	All companies disclose such information meeting the Code recommendation	Not a single company discloses such information
Lack of provisions in a joint stock company's charter relieving the purchaser of the duty to propose to the shareholders to sell the common shares (underwritten securities converted into equities) in their possession during a takeover	Not a single company discloses such information	1 company discloses such information meeting the Code recommendation	Not a single company discloses such information
Existence of a board of directors-approved document determining the rules of, and approaches to information disclosure on the joint stock company (by-laws on information policy)	Not a single company discloses such information	5 companies disclose such information meeting the Code recommendation	2 companies disclose such information meeting the Code recommendation
Existence of a board of directors-approved document on the use of significant information on a joint stock company's activity (insider information)	Not a single company discloses such information	1 company discloses such information meeting the Code recommendation	3 companies disclose such information meeting the Code recommendation
Existence of board of directors-approved procedures for internal control of financial and business operations of a joint stock company	2 companies disclose such information meeting the Code recommendation	2 companies disclose such information meeting the Code recommendation	3 companies disclose such information meeting the Code recommendation
Existence of a special unit in a joint stock company ensuring the observance of internal control procedures (control and audit service)	All companies disclose such information meeting the Code recommendation	All companies disclose such information meeting the Code recommendation	Not a single company discloses such information
Existence of provisions in a joint stock company's internal documents obliging the control and audit service to report the revealed violations to the audit committee, and in the event of its absence – to the board of directors	Not a single company discloses such information	Not a single company discloses such information	Not a single company discloses such information
Statutory requirement of the control and audit service preliminary review of the expediency of transactions not envisioned by the financial and business plan (unconventional transactions)	Not a single company discloses such information	2 companies disclose such information meeting the Code recommendation	Not a single company discloses such information
Existence in a joint stock company's internal documents of provisions on the order of clearance of unconventional transactions with the board of directors	Not a single company discloses such information	Not a single company discloses such information	2 companies disclose such information meeting the Code recommendation
Regular reports by the head of the control and audit service at the audit	Not a single company	Not a single company discloses	Not a single company

committee sessions about the implementation of the financial and business plan and deviations from it	discloses such information	such information	discloses such information
Regular reports by the audit committee to the board of directors on the revealed violations in exercising business transactions, presenting exhaustive information about the violations, parties at fault, causes and circumstances	Not a single company discloses such information	Not a single company discloses such information	Not a single company discloses such information
Charter and Other Internal Documents			
Existence in a joint stock company charter or other internal documents of provisions regulating:			
- the preparation, convening and holding general shareholders meetings;	All companies disclose such information meeting the Code recommendation	All companies disclose such information meeting the Code recommendation	1 company discloses such information meeting the Code recommendation
- formation and activity of the board of directors;	All companies disclose such information meeting the Code recommendation	All companies disclose such information meeting the Code recommendation	4 companies disclose such information meeting the Code recommendation
- formation and activity of executive bodies	All companies disclose such information meeting the Code recommendation	All companies disclose such information meeting the Code recommendation	1 company discloses such information meeting the Code recommendation
- election (appointment) of a joint stock company corporate secretary;	Not a single company discloses such information	1 company discloses such information meeting the Code recommendation	Not a single company discloses such information
- major corporate actions;	Not a single company discloses such information	Not a single company discloses such information	Not a single company discloses such information
- the dividend policy;	1 company discloses such information meeting the Code recommendation	3 companies disclose such information meeting the Code recommendation	1 company discloses such information meeting the Code recommendation
- procedures for resolution of corporate conflicts.	Not a single company discloses such information	Not a single company discloses such information	Not a single company discloses such information

72. In our opinion, the returns of the survey are quite interesting from the point of view of conducting further analysis of the format and contents of information on corporate governance to be disclosed, the efficiency of its disclosure channels, and assessment of various companies' transparency in issues relating to corporate governance.

73. In the process of the survey, the RID experts have identified the following important problems:

- A significant majority of the companies, including those whose shares are included in high-grade exchange quotation lists (A1, A2), do not make their annual reports available to exchanges either before or after their general shareholders meetings. A minority of the surveyed companies publicly disclose their annual reports and usually do it with considerable delay. Some companies said the delay in the public disclosure of their annual reports was connected with the need to introduce amendments to them after the general shareholders meetings and that the reports would be made public after the amendments have been made. In our view, this practice is fraught with possible distortions of the initial reports subject to certification by the person occupying the position of the sole executive body and approved by the shareholders.

- Even when companies have an extensive number of internal documents explaining important aspects of their corporate governance practices, they rarely disclose information to this effect. For example, Wimm-Bill-Damm has a package of internal documents covering practically all corporate governance aspects, largely conforming to the FCSM-recommended list of documents, but this fact is not reflected in annual or quarterly reports or the company's website.

- Quite often information disclosed by companies in English is much more extensive and detailed than the information disclosed in Russian. This is characteristic, above all, of companies whose stocks are traded abroad, working to make the listing of foreign exchanges. In our opinion, this problem is worth special consideration.

- Sections of annual reports and websites devoted to corporate governance practices have no distinct structure or single standard of contents. The information placed in these sections by different companies strongly varies both in contents and volume. There is no single informational minimum to be obtained from annual reports and websites of all the companies covered by the survey.

III. Main Results and Problems of Enforcing the Recommendations of the Code of Corporate Conduct

74. There have been obvious positive shifts in the Russian companies' corporate governance practice starting from the summer of 2000. The main driving force of these shifts is the interest of the companies implementing such changes in increasing their capitalization and attracting new investors, primarily foreign ones. Positive changes occurred above all in the following areas of the corporate governance practice:

- the practice of conducting general shareholders meetings (regularity, place, forming the agenda, notifying the shareholders, authority of the meeting, voting procedures, vote count);

- structure of the board of directors (correlation of executive and non-executive directors);

- increasing the number of independent directors and representatives of minority shareholders on the board of directors;

- disclosing information on the main production characteristics and general financial results;

- the range of functions carried out by the board of directors (approval and control over strategy implementation, approval of major transactions and reorganization).

75. Companies implementing measures aimed at the improvement of their corporate governance practice welcomed both the Code of Corporate Conduct in general and its concrete recommendations, considering them as an important benchmark in working out internal documents of companies, regulating relations with the shareholders and other stakeholders.

76. However, these improvements are very unevenly spread among the Russian companies in general. The aforementioned surveys and other research enable to outline two groups of companies strongly differing in their attitude towards the need to improve corporate governance and practical steps in this sphere.

77. The first group consists of a number of major companies whose management and core shareholders (who are often one and the same people) are obviously striving to raise their capitalization and investment appeal in the eyes of investors, first of all foreign ones, and have taken some important steps towards improving their corporate governance. The purpose of these efforts is the possible sale of large blocks of shares (both those owned by the principal shareholders today and shares to be issued in the future), improvement of lending conditions, access to foreign markets, joint projects with the leading foreign companies. The stake for these companies reaches hundreds of millions and even billions of dollars. The managers of these companies mostly view the Code of Corporate Conduct as a very important (albeit not the only) benchmark in forming their corporate governance systems. In the near future these companies can be expected to undertake new steps towards enforcing the recommendations of the Code and disclosure of the relevant information. However, the enforcement of the Code's recommendations and development of the corporate governance practice proceeds quite unevenly even inside this group of companies. As a result, there are a number of companies each one of which has implemented positive changes in individual spheres, but only a few companies have achieved progress in enforcing most of the Code's recommendations. While there are obvious improvements in a number of aspects of the corporate governance practice (those mentioned above and some others) in this group of companies, including the enforcement of recommendations of the Code, progress in other aspects is quite slow or even nil. Such problematic aspects include the following:

- lack of a clear-cut information policy, an internal document clearly defining its principles, classification of different types of information circulating in the company;
- poor information disclosure about candidates for the board of directors during their nomination;
- poor information disclosure about members of the board of directors and senior managers;
- low level of implementation of control functions of the board of directors (forming board committees headed by non-executive directors, adoption of internal documents determining the functions and authority of committees);
- insufficient provision of clear and transparent professional standards and ethical norms in the work of members of the board of directors;
- slow progress in forming internal control systems and ensuring an important role of the board of directors in its functioning;
- lack of criteria, procedures and regular evaluation of performance of the board of directors, its members, and senior management (the results of the evaluation may be confidential);
- lack of criteria and procedures for determining compensation of board members and senior managers and disclosure of information on compensation;
- imperfection of the system of preparation and implementation of related transactions;
- low efficiency of the audit commission's work;
- low level of information disclosure on the main beneficial owners of the company stocks (with a very rare exception)[18];
- lack of a clear-cut dividend policy and its formalization (for example, in by-laws on dividend policy).

[18] It is necessary to mention that foreign institutional investors do not always follow their insistent demand of information disclosure on shareholders in their investment practice in Russia. In the second half of March 2003, Wimm-Bill-Dann told FCSM that its individual shareholder sold 6.95% of the company's shares to the investment company United Burlington Investment. According to this company's general director Alexander Gorbachev, it was set up in 1999 by a European investment fund the name of which he refused to disclose. – Vedomosti. 24.03.2003.

78. The fact that even the aforementioned companies that have improved their corporate governance practice do not allocate sufficient attention to disclosure of information on this practice constitutes quite a serious problem. The importance of disclosing this particular information (for example, in comparison with production or financial information) is obviously underestimated. Moreover, apparently, even in those companies there is a strong opinion that the corporate governance practice is too delicate and sensitive an issue to be disclosed publicly.

79. There have been no significant improvements in the corporate governance practice of the other part of large companies operating in the form of open joint stock companies a considerable number of shares of which are owned by small shareholders. It should be mentioned in this connection that major shareholders of a number of companies of this group are the federal or regional authorities, which raises the question of their participation in improving their corporate governance. The improvement of the corporate governance practice in companies of this group is objectively a very important objective (considering their organizational legal form of open joint stock companies, the existence of many small shareholders and the possibility of new public stock issues), but to all appearances, the enforcement of recommendations of the Code will meet with resistance.

80. Evidently, the overwhelming majority of small and medium-sized companies do not regard the problems of corporate governance with the level of importance envisaged by the Code of Corporate Conduct and other recommendations of portfolio investors and international organizations as a practical step, at least in the nearest future, setting priorities in other spheres. In our opinion, this situation is connected with the fact that these companies are objectively facing tasks relating to corporate governance in a different manner than large companies and medium companies that try to attract investment by the placement of their shares.

81. For example, over 40% of the companies polled within the frames of the survey conducted under the IFC auspices plan to attract less than one million dollars a year during the next three years. Another 30% plan to attract from $1 million to $3 million. The average volume of anticipated investment in companies with the number of shareholders varying from 50 to 1,000 people is $500,000, and in companies with over 1,000 shareholders - $7 million.

82. In the process of the only two original issues of shares on the Russian stock market, its issuers – OJSC RBK and OJSC 36.6 – managed to attract $13.28 million and $14.4 million, accordingly. The state of the market of these shares in the future period has demonstrated that issues of such scope and proportion in the company capital (about 20%) are characterized with small liquidity and do not pose any substantial interest even for Russian investors, not to mention foreign ones[19]. As for the attraction of funds by the issuance of bonds, practice shows that issues in the amount of not less than RUR 500 million (approximately $17 million) are economically expedient, although even such issue volumes usually cannot guarantee a secondary market. Russian practice shows that the state of the issuer's corporate governance does not play a priority role in ensuring successful issuance of bonds.

83. The given examples, as well as the experience of other countries show that the main source of investment in the volumes needed by medium-sized companies, as established by the survey, should be bank credits and direct investors (primarily for companies representing advanced technological sectors) rather than the placement of securities on the stock market, oriented at portfolio investors. The current Russian banking system obviously does not meet the requirements of economic development. The need for a banking reform is evident, and the task of creating a normal banking system cannot and should not be substituted with groundless hopes for the stock market playing the role of the banking system, especially with respect to medium-sized companies. Although all companies covered by the IFC survey are OJSCs, the characteristics of most of them (the number of shareholders, the number of employees, production volumes, growth expectations) and the planned development rates are economically closer to private companies, and the form of OJSC is mainly a consequence of political, rather than economic decisions made at the privatization stage[20]. In this connection, the conclusion of the IFC survey that the priority objective and main

[19] See Ryzhikov S. – First Year After Russia's First IPO. – Mergera and Takeovers. 2003, No.3. It is noteworthy that both these companies represented advanced sectors enjoying enhanced investor interest – information technologies and pharmaceuticals, whereas the companies covered by the IFC survey represent much less investor-attractive sectors – the light industry, mechanical engineering, metal processing, construction and the manufacture of construction materials, the chemical industry, metallurgy and transport. The exception in this list is the food industry, the concentration in which, however, is very high.

[20] This is confirmed by the returns of the survey, specifically, the fact that the overwhelming majority of the surveyed companies have acquired their present OJSC status in the period of 1992-1993, i.e., at the earliest stage of privatization. When the organizational legal form of a privatized

condition for attracting investment for all the companies covered by the survey is the improvement of the corporate governance system "to meet the expectations of shareholders and potential investors" causes serious doubt. Both the IFC survey and research conducted by the Higher School of Economics and the Russian Economic School[21] show that the priority objective of small and medium-sized Russian companies in the sphere of corporate governance is achieving progress in the observance of effective law. The development prospects for most of these companies are connected with the transformation into JSCs or even LLCs, to enable their organizational legal form to correspond to the nature of their business. The creation of a corporate governance system in those companies on the same scale as in major companies, including all the numerous attributes prescribed by the recommendations of the foreign best practices (actually recommended by the survey) is not economically reasonable, involves substantial expenses and even risks.

84. Over the past several years medium-sized companies (which, according to the Russian standards, could be considered as rather large) in a number of leading West European countries have been leaving the stock market, with their major shareholders or managers purchasing the stocks from minority shareholders. For example, there have been 32 original issues on the Milan stock exchange in 2001-2002, and 34 companies were withdrawn from the listing on their own applications; in the first quarter of 2003 this ratio was 1:11. The companies themselves explain their withdrawal from the stock market with strong competition with the stock of large companies, high expenses on observance of information disclosure requirements and apprehensions that excessive information disclosure could harm their business. For example, M.Mantovani, a majority shareholder and manager of the Italian designer company Iteldesign-Guigiaro with a turnover of $155.5 million and profit of $10.77 million in 2002, decided to buy out his company's shares on the market, naming as one of the motives for this step the following: "We had to disclose information on our strategy, enabling our direct competitors to see what we were doing."[22]

85. So far Russia has not developed a system of permanent comprehensive monitoring of the observance of recommendations of the Code of Corporate Conduct by companies. One of the reasons behind such situation is that too little time has passed since the moment of presentation of the Code (April 2002). However, there are a number of other reasons hampering this process.

86. A certain amount of lagging behind the schedule of forming a regulatory framework designated to provide the monitoring instruments is observed: part of the necessary components have been created only in the spring or summer of 2003, and others are still to be developed.

87. Extreme inefficiency of the existing system of sanctions against companies for incomplete or untimely information disclosure, information distortion or refusal to present it. Fines envisaged for such violations are extremely low[23] and do not correspond to the damage that can be inflicted on investors as a result of such offenses by the companies. As far as article 185.1 of the Criminal Code, enforced as of 1 July 2002[24], is concerned, there have been no legal proceedings or indictments under this article.

88. The regulatory and controlling authority – the Federal Commission for the Securities Market – lacks sufficient resources for monitoring information disclosure by the companies regulated by it and carrying out the necessary amount of regular inspections of compliance of the companies' corporate governance practice with their reporting data.

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enterprise was determined in accordance with such factors as the number of employees, social significant, etc., rather than the prospects of its economic growth, need for and ability to attract investment.

[21] Growth in Demand for Legal Regulation of Corporate Governance in the Private Sector. M., Moscow Social Sciences Foundation, 2003; Guriev S., Lazareva O., Rachinsky A., Tsukhlo S. Corporate Governance in the Russian Industry. M., Russian Economic School, 2003.

[22] Vedomosti. 17.06.2003.

[23] In accordance with article 15.19 of the Code of Administrative Offenses, officials violating of legal requirements on presenting and disclosing information on the stock market can be penalized with fines in the amount of RUR 2,000 – RUR 3,000, and legal entities in the amount of RUR 30,000 – RUR 40,000.

[24] This article of the Criminal Code envisages fines or corrective labour for the period from 180 hours to 2 years for persistent evasion of disclosing information on the issuer or presenting intentionally incomplete or false information, if such offenses have led to serious damage.

89. Exchanges have not yet become an effective part of the monitoring and controlling system of the companies' corporate governance practice and its conformity to the recommendations of the Code. This is largely connected with the fact that the Russian companies still do not see any serious advantages in being listed in A1 and A2 quotation lists and thus react quite negatively to the enhanced requirements of such companies' abidance by the Code of Corporate Conduct set by exchanges. The paradox of the situation is that the largest Russian companies and part of medium-sized companies that have made the greatest headway in developing their corporate governance are not interested in the Russian stock market from the point of view of attracting investment through the sale of their shares, as their efforts are aimed at attracting foreign investors via Western exchanges. The presence of Russian exchanges in their listings is mainly a consequence of the need to observe the relevant FCSM requirements and a component of their general reputation. This is why the Russian exchanges, unlike the leading Western exchanges, have a weak position with respect to major companies and have to be very cautious in undertaking steps to tighten the listing rules. Until today, they restricted themselves to receiving written declarations from companies whose shares are entered in A1 and A2 quotation lists of observance of the Code of Corporate Conduct as a whole or its chapter 7, accordingly, without any verification of these declarations. This situation creates the danger that the companies may not take practical steps towards the enforcement of the Code's provisions. The leading exchanges – primarily MICEX and RTS – compete with each other for issuers and tighten their listing rules and requirements for keeping issuers' stocks on their quotation lists facing serious apprehensions that the competing exchanges may take a milder position, thus enticing major issuers. The exchanges' regulatory framework for monitoring and controlling the corporate governance practice of companies included in A1 and A2 quotation lists is still at the stage of development and will be enforced in some or other degree only upon its completion[25].

90. Representatives of the federal and regional authorities in governing bodies of joint stock companies are definitely not doing enough to improve the corporate governance practice of these companies and enforce the recommendations of the Code. There is no centralized monitoring of the activity of representatives of the federal and regional authorities in that area or public disclosure of such information. Data of the Ministry of Property Relations on its representatives' effort aiming at enforcement of the Code's recommendations are irregular and presented along inter-departmental channels. Information on the activity of representatives of other federal agencies in the governing bodies of joint stock companies (the number of which is comparable to the number of representatives of the Ministry of Property Relations) aiming at improvement of their corporate governance practice and implementation of the recommendations of the Code is totally lacking. Alongside positive information on the activity of representatives of the Ministry of Property Relations, a lot of evidence has appeared this year about the federal and regional authorities' activities in joint stock companies' governing bodies, which did not contribute to the improvement of their corporate governance or enforcement of the recommendations of the Code and sometimes even coming into overt contradiction with it. For example, in the spring of 2003 government representatives on the boards of directors of RAO Gazprom and RAO UES voted against the proposals of minority shareholders to set up committees on the boards of directors, which meets the recommendations of the international best practices and the Code, while the Ministry of Economic Development issued negative conclusions on these proposals. According to the results of the 2003 general shareholders meeting, not a single independent director has been elected to RAO Gazprom board of directors. Minority shareholders objected to the conclusion of a contract by OJSC Svyazinvest (the controlling block of shares belongs to the federal authorities) subsidiaries on the purchase of software without holding a tender. The New York Stock Exchange issued a warning to OJSC Tatneft (32.51% of shares belong to the authorities of the Republic of Tatarstan) in connection with the absence of independent directors on its board. Rosneft (100% of shares belong to the Russian Federation) brought an action against Olma investment company in response to its criticism of the former's management policy, creating a dangerous precedent putting in jeopardy the independence of analysts. Bashneft (the controlling block of shares belongs to the government of the Republic of Bashkortostan) did not admit part of minority shareholders to participate in the general shareholders meeting in June 2003. There is no evidence that steps directed at improving corporate governance of companies with major public stakes (for example, the adoption in the spring of 2003 of the rules of carrying out transactions involving the company stocks for members of the board of directors and the board by RAO UES) were taken with active support of government representatives.

91. Banks do not show any noticeable interest in the state of corporate governance during conducting due diligence of major corporate borrowers.

[25] It is necessary to mention that even in the countries with developed markets the stock exchanges' role in the enforcement of high standards of corporate governance is now a subject for serious discussions.

92. Investors and organizations representing their interests have so far taken no substantial effort to monitor the consistency of the companies' corporate governance practice to the recommendations of the Code.

93. It should also be mentioned that considering the accumulated experiences, certain aspects of the Code itself needs adjustment and upgrading. As a matter of fact, certain steps have already been made in this direction.

IV. Main Proposals for Improvement of Corporate Governance and Enforcement of the Code of Corporate Conduct

94. To recognize the objective difference in the level of urgency, practical importance, and scope of tasks of improving corporate governance and enforcing the Code facing various groups of companies, depending on their size and organizational legal form.

95. To focus the main effort to enforce the Code on open joint stock companies, making it a priority to introduce the Code into the practice of the following groups of Russian companies (approximately 200 companies) within the next several years: those with exchange-trader shares; companies crucial for determining the development trends in their sectors; companies planning original public issues of stock. The volume of corporate governance information subject for disclosure by those companies should be *much greater* than that of the other OJSCs, and information about their corporate governance practice and its consistency with the Code should be disclosed not only in reports to the regulator and shareholders (quarterly and annual reports), but also through publicly accessible channels (above all corporate websites and websites of exchanges if the companies' stocks are traded at the stock market). The differences in reporting on the corporate governance practice of different groups of companies should be closely connected with the changes in the overall legal and regulatory framework regulating information disclosure by the companies about their activities for the purpose of lowering responsibilities and costs for companies functioning in the form of private joint stock companies.

96. The main objective in the sphere of corporate governance development for public joint stock companies presently functioning in the form of OJSCs, as well as small and medium-sized companies, is ensuring the observance of effective corporate law. An important task is to facilitate reorganization of companies from OJSCs into JSCs and LLCs.

97. This sort of reorganization carried out by the purchase of stocks from the shareholders by the management or the purchase of stocks from minority shareholders by one or several majority shareholders at a fair price based on assets evaluation by independent valuators, would meet with a favorable reaction of the overwhelming majority of shareholders of such small and medium-sized companies, most of whom have never received dividends or could sell their shares throughout the entire period of owning them due to a lack of a market of these shares or an extremely low price offered by the interested managers or major shareholders.

98. To ensure effective information disclosure by open joint stock companies on their corporate governance practice and its consistency with the Code in accordance with the principle "confirm observance or explain the reasons of nonobservance" the Federal Commission for the Securities Market is recommended to take the following measures:

- Ensure that all joint stock companies observe the requirements set to the contents of their annual report sections dealing with their corporate governance practice and its consistency with the recommendations of the code. Consider the issue of obligatory public disclosure of open joint stock companies' annual reports.

- Enhance the obligatory nature of information disclosure, including public disclosure, on the practice of corporate governance and its consistency or inconsistency with the recommendations of the Code of Corporate Conduct by the following companies: those with exchange-tradable shares; those playing a crucial role in determining the development trends in their sectors; companies planning original public issues of stock.

- Focus reviews of the companies' corporate governance practice and its consistency with information presented in annual reports and reports for the 4th quarter, conducted by the FCSM central office and regional branches, primarily on the said groups of companies.

- Optimize the methodology of information disclosure by various categories of companies, relating it to the overall revision of the companies' information disclosure policies and introducing amendments to the Code. For example, there is a Methodology of information disclosure by companies on their corporate governance practice and its correspondence to the Code in their annual reports, but there is no methodology for such disclosure in the report for the 4th quarter.

- Tighten sanctions for violations by companies connected with information disclosure, including data on their corporate governance practice. Sanctions should be toughened both under administrative law (increasing the amount of fines imposed by FCSM) and under criminal law (cases of violation of shareholders' rights connected with information disclosure ending with indictment on the basis of effective article 185.1 of the RF Criminal Code, or, if this article cannot be applied in its present wording, after its significant amendment).

99. To ensure the observance of the recommendations of the Code by companies whose shares are included in A1 and A2 quotation lists and their pubic disclosure of the relevant information, exchanges are recommended to take the following measures:

- Ensure, jointly with the Russian FCSM, that all exchanges adopt methodologies explaining which particular information relating to corporate governance practice and its consistency with the Code should be disclosed by the companies whose securities are entered in A1 and A2 quotation lists.

- Consider the expedience of setting different requirements to observe the Code for stock issuers and bond issuers. Determine the regularity and format of information disclosure by the issuers to exchanges confirming the latter's abidance by the Code, taking into account the international experience and practical expediency.

- Ensure, jointly with the Russian FCSM, that all exchanges disclose information on their websites confirming the observance of the Code by the issuing companies.

- Specify, on the basis of international experience and practical expediency, the role of exchanges in controlling the reliability of information disclosed by the relevant issuers, confirming their abidance by provisions of the Code, the contents and procedure for interaction of exchanges and the regulators in this issue.

100. There is a considerable potential for enhancing the efficiency of representatives of the federal and regional authorities in the governing bodies of joint stock companies in which these authorities hold blocks of shares, in order to improve these companies' corporate governance practice, in particular, enforcement of provisions of the Code of Corporate Conduct. In our opinion, this can be achieved through the following procedure:

- One of the criteria of evaluating proposals from potential buyers during tenders on the sale of blocks of shares constituting the Russian Federation property should be the obligation to enforce the recommendations of the Code of Corporate Conduct and their formalization in the companies' internal documents. Nonobservance of this obligation should be regarded as non-fulfillment of one of significant privatization conditions.

- It is necessary to include in reports of representatives of the federal and regional authorities in joint stock companies' governing bodies on results of their performance an item dealing with promotion of enforcement of the Code's recommendations, and the overall evaluation of these results and decision on representing the interests for a new term should be made, among other things, with account taken of this report item.

- Regular public information disclosure on promotion of corporate governance improvement and enforcement of the Code by representatives of the federal and regional authorities in joint stock companies' governing bodies. Specifically, the placement of such information once (on results of the year) or twice a

year (on results of the general shareholders meetings and results of the year) on the websites of the Ministry of Property Relations and other federal agencies.

- Contracts with representatives of the federal and regional authorities in joint stock companies' governing bodies should include the requirement of promoting the enforcement of recommendations of the Code in the practice of the corresponding joint stock companies, while the general evaluation of their performance and decision to prolong the contract for a new term should be taken, among other things, with account taken of this reporting item.

- The observance of the Code could be a preliminary condition for concluding contracts and granting financial assistance by the federal or regional authorities to joint stock companies with blocks of shares constituting the property of the Russian Federation or the authorities of the Federation constituent entities.

101. It is expedient for the Federal Securities Commission, jointly with the RF Central Bank, to look into the possibility of participation of banks in developing corporate governance in companies, which are their borrowers, and methods and forms of accounting their corporate governance practice in evaluating the borrower.

102. Large Russian or foreign institutional investors operating in Russia and management companies could publicly proclaim that the adoption and observance of the Code of Corporate Conduct by companies is regarded as a preliminary condition for the purchase of these companies' stocks. It would help if investment institutions and rating agencies enhanced the importance of the recommendations of the Code in their methodology of evaluating the companies' corporate governance practice.

103. It would be expedient for regulators, organizations representing investors' interests, and independent organizations to carry out international comparisons of the observance of national codes by companies of different countries. Considering that the Russian Code of Corporate Conduct is much more detailed and contains much more recommendations than the code of a number of other countries, the comparison should be made on the basis of internationally comparable positions (those used for evaluating the observance of codes in other countries or comparable to them).

104. The activity of the National Council for Corporate Governance – a standing public consultative body created at the end of March 2003 on the initiative of Russia's largest issuers and investors and including leaders of the federal authorities responsible for development of the investment and capital markets – could become an important line of activity aimed at adopting the principles of best corporate governance practices and recommendations of the Code. This public forum could play an important role in making these principles part of the practice of the leading Russian companies. It would be expedient for the National Council, acting in close cooperation with the largest Russian business associations, for example, the Russian Union of Industrialists and Entrepreneurs, would exercise control over the observance of the principles of the best corporate governance practices and the main recommendations of the Code by open joint stock companies. An annual contest for the best annual report of a company, including from the point of view of information disclosure on its corporate governance practice and its conformity with the Code, could become one of the steps in this direction, taken under the NCCG auspices.

105. Finally, the creation of a mechanism of regular upgrading of the Code based on the survey of the practice and taking into account the international experience is of prime importance.