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Analytical assessment of the progress in implementing the recommendations of the White Paper on Corporate Governance in Russia

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The Russian Corporate Governance Roundtable[1] released a White Paper on Corporate Governance in Russia in April 2002. This contains 40 recommendations for Russia to improve corporate governance standards and practices. Standard & Poor's has carried out an independent assessment of the practical implementation of these recommendations.

Our analysis reveals little progress has been made since 2002 to improve corporate governance in Russia. Of the 40 specific recommendations in the report, no progress was observed on 17, little progress on 14, some progress on 8 and major progress on only 1, as detailed below.

- Most progress in the past two years has been made on increasing transparency, as evidenced by the Transparency & Disclosure 2004 study, released by Standard & Poor's on October 13, 2004.

- Some improvements have been made regarding the gradual adoption of International Financial Reporting Standards (IFRS) by the larger companies, stimulated by the respective requirements of major exchanges and certain regulatory rulings. 37 out of 50 largest Russian firms produced financial statements for 2003 in compliance with either IFRS or US GAAP; only 26 published these reports within a reasonable time frame (by August 13).

- Most large firms have established specialized board committees, designed to contribute to the quality of board decision-making, although the balance of interest between different groups of shareholders on the boards of directors remains one of the weakest elements of governance mechanisms in Russia.

[1] The Russian Corporate Governance Roundtable is organised by the OECD in co-operation with the World Bank Group and Russian partners. The work also enjoys financial support from the European Union under its TACIS programme and the OECD/World Bank Global Corporate Governance Forum.

However

- The role of the legislators, the judiciary system, the regulatory bodies and professional associations in advancing the global standards of corporate governance remains weak.

- The legal and regulatory infrastructure shows only some minor improvements, including the introduction of the Code of Corporate Conduct, some legislative changes regarding the principles for dividend calculation, bankruptcy procedures, procedures for dispute resolutions and shareholder meetings, and also recent institutional changes at the Russian securities regulator, FSFM.

- Several legal loopholes remain that interfere with the regulator's ability to effectively enforce disclosure of beneficial ownership and monitor related party transactions.

- The judicial system continues to suffer from a chronic lack of resources and independence and is therefore not able to address corporate disputes effectively.

To conclude, our analysis suggests that only moderate progress has been made in the past couple of years, and these improvements are mostly due to positive initiatives by internationally oriented companies. The legal and regulatory environment has not changed substantially and remains a major obstacle to the improvement of corporate governance standards in Russia. This has been particularly aggravated by the recent Yukos affair that has severely undermined the stability of ownership rights and the nascent trust that had been developing between businesses and the state.

Summary of the assessments

	No progress	**Little progress**	**Some progress**	**Big progress**
Shareholder Rights & Equitable Treatment of Shareholders	7	3	1	
Role of Stakeholders	4	1	1	
Disclosure and Transparency	4	1	4	
Responsibilities of the Board	2	2	2	1
Implementation and Enforcement		7		
TOTAL	**17**	**14**	**8**	**1**

ANALYSIS AND COMMENTS

Chapter 1: Shareholder Rights and Equitable Treatment of Shareholders

1. Regulation and monitoring of registrars should be strengthened and the responsibility for this regulation and monitoring clarified.

No progress. FSFM, as the regulator for securities markets, sets requirements for the register maintenance procedures and issues licenses for registrars. No change in regulation during last two years has been made. Some initiatives by the self-regulatory organization (SRO) of registrars and depositories (PARTAD) intended to minimize the gaps in the current regulation, limit possibilities for the manipulations with the registrar and set more adequate licensing requirements were not pursued by the regulator. The change to JSC Law introduced since January 1, 2002 requiring companies with over 50 shareholders to keep the registrar with a separate legal entity – professional registrar, although positive, does not address the issue of registrar's independence. As there is no requirement for the registrar to be independent from the issuer and in many cases the share registers of large companies are kept by affiliated registrar, in this situation the major shareholder is in a privileged position to distribute votes.

2. Notification procedures for general shareholders meetings should provide shareholders with the necessary information of the required quality on a timely basis.

Little progress. Required notification period is still 20 days prior to the meeting. The FCSM regulation on the implementation of the Code of corporate conduct dated April 4, 2002 recommends that the notice period be extended up to 30 days, but few companies comply with this. FCSM regulation dated December 26, 2003 makes 30 days notification period compulsory since January 1, 2005, for listed companies, which may help to solve the current problem with timely notification of ADR holders (the current period is not enough for them to get information). The contents of the information provided is the biggest issue – only RAS financials are provided (IFRS are not required under the law – not provided, even when they are produced, with very few exceptions), and normally there are no detailed biographies of the candidates to the board of directors.

3. To increase shareholder participation in general meetings, companies should improve the procedures for proxy voting and, when possible, make use of new information and communication technology for absentee voting.

Some progress. By law, voting is allowed by proxy and by ballots (for companies with more than 100 owners of voting shares ballots are compulsory). Company management is no longer allowed to use discretionary proxy for newly issued ADRs. Electronic communications in voting has not been introduced yet.

It is also worth mentioning that the FCSM ruling dated May 31, 2002 suggests that the meetings are held in the city where the company is registered, which should be the same place as the location of the company headquarters. Registration of shareholders

at the meeting is not closed before the last issue on the agenda is voted. As we can see it, most companies comply.

In response to one of the outstanding issues regarding voting, FCSM adopted a regulation on February 2, 2003 providing for vote split for the ADR depositories – so that ADR holders can now vote too. However, the JSC Law still regards depositary bank as a single registered user and does not allow for vote split, so the results can be easily disputed in court. Some companies (e.g. MTS) still choose a conservative approach and do not provide multiple ballots to ADR holders.

4. Companies should pay dividends agreed upon at the general meeting within a reasonable time frame.

No progress. Single payout dates, where the declared dividend is paid out to all shareholders in full on the same day, are almost nonexistent among Russian companies. Common practice is to set a payout period of up to six months. The law requiring the 2-month period only refers to cases when the term is not specified at the AGM, or fixed in the Corporate Charter, while fixing a longer term is a more common practice in Russia.

5. The law should make clear that it is the responsibility of significant shareholders, domestic as well as foreign, to report changes in ownership to the company, the stock exchange and the public at large. The legal framework needs to have a single and coherent approach and enable the identification of beneficial owners.

No progress. The company is obliged to report in its quarterly filings on shareholders that own over 5%. Shareholders are not obliged to report unless they buy 20% and every 5% further. But this does not assume reporting of beneficiary ownership, so there is no validity of this regulation at all.

6. In order for companies to fulfill the legal reporting requirements concerning their ownership structure, they should work closely with the registrars to monitor changes in ownership.

No progress. Nominees are recognized as registered owners of shares, and changes in the real ownership cannot be captured via working with registrars.

7. The responsibility and liability of managers and board members for disclosing their personal interests in any corporate transaction should be clarified.

No progress. Firstly, managers can hold shares in the name of shell companies or nominees. Managers and directors are only obliged to inform the company on a quarterly basis of their direct share ownership, equity positions in other companies and any changes occurred. The company cannot verify this information and relies on that provided by the directors and management, for instance, in the cases when conflicts of interests should be reported with regard to transactions. There are few companies who establish disclosure procedures close to best practices requiring full of direct and indirect interests of managers and directors (Wimm-Bill-Dann).

8. Compliance with approval procedures regarding major transactions need to be improved.

No progress. In the most conventional cases companies typically comply with the law in this regard – but in cases where they are seeking to evade compliance, they manage to circumvent it by splitting the transactions into a series of smaller deals. Investigations are hampered by the involvement of the intermediary entities in the transactions. No legislative changes have been implemented to strengthen the enforcement.

9. Major transactions and changes in capital structures should be performed at a fair price that ensures equitable treatment of all shareholders.

Little progress. In cases of majority owned companies, it is difficult to make the case for the fair price, particularly in the absence of the liquid market for the shares, as there is no fair-price setting procedures provision in the Russian law, except the provision on independent appraisal. However, the "independent" appraiser is effectively chosen by the major shareholder. Major danger here these days is the proposed squeeze-out provisions that have been drafted by a group of Duma deputies and were approved in their first reading in July 2004. This will be a significant step back, particularly after the share squeeze-outs in cases of reverse splits have been blocked by the introduction of fractional shares.

At the same time, pre-emptive rights for new share issues have been compulsory since mid-2002.

10. The role of shareholder associations in developing better corporate governance should be fully recognized.

No progress. IPA, the only independent association of shareholders, has not substantially increased the scope of its activity over the past three years. IPA has managed to place 50 member directors on the boards of about two dozen firms in 2004. However, these are still in minority, and the visibility of the association's activity has decreased over the recent years.

11. Stock options and other stock-based compensation plans should be prepared with great care, be fully transparent and approved by shareholders.

Little progress. Only a handful of firms have implemented executive options programs, including MTS, OMZ, Lukoil, Tatneft, RAO UES. Approval is mostly by the board, not by shareholders. No violations have been reported in the latter cases, though.

Chapter 2: The Role of Stakeholders in Corporate Governance

12. The board of directors should ensure that adequate mechanisms are in place to provide familiarity and compliance with legislation related to the rights of stakeholders.

No progress. No move in this direction in most companies, where boards are dominated by the representatives of majority owners who rely on the company's (or major shareholder's) legal resources in this respect.

13. Employees should be granted the right to obtain effective legal redress.

No progress. This does not seem to be a major problem, though, as the Labor Code provides a sufficient degree of protection to employees.

14. Companies should consult and communicate with employees and other stakeholders.

No progress. The situation is however relatively stable, particularly at state-owned and privatized firms. These firms have traditionally carried a substantial social burden and typically adhere to these social commitments.

15. Companies should follow agreed international instruments on corporate social responsibility such as International Labor Organisation (ILO), Tripartite Declaration of Principles concerning Multinational Enteprises and Social Policy as well as OECD Guidelines for Multinational Enterprises.

No visible progress in terms of format of reporting, although the actual social responsibilities are often recognized and carried (personnel training, considerable social duties, etc.). In fact, Russian firms often fail to take the credit for the social role that they have been playing for historical reasons.

16. Corporate governance abuses by regional and local authorities should be prevented.

No progress, potential deterioration. The relationships between businesses and regional administrations always involve mutual dependence and bilateral commitments. In most cases they follow a constructive vein. The agreements between businesses and administrations, either formalized, or informal, prescribe that businesses should offer financial assistance or provide services to the local community (e.g, offer donations to the public medical institutions, such as in the case of Surgutnevtegaz which effectively finances the public ambulance service in St. Petersburg, or Alrosa diamond producer, directly subsidizing the regional budget of Yakutia). As a return favour, the authorities typically minimize the administrative burden for the company, sometimes going as far as shielding local companies from competition and lobbying the interests of these companies at the regional and federal levels. This distorts economic motivations at companies and puts disproportional emphasis on catering to social and political ambitions of the regional governors. A negative trend of recent years is budgetary centralization, which causes the

redistribution of tax proceeds to the federal budget. This decreases the motivation of regional authorities to aid the development of businesses, and creates incentives to engage in non-official and non-transparent forms of subsidies to regional budgets and public services.

17. Abuses of the bankruptcy process should be effectively addressed.

Some progress. Bankruptcy Law adopted in 2002 sets hurdles for initiating bankruptcy and shareholders also may be allowed to prevent bankruptcy by providing their financial assistance to the company. Certain guarantees against the transfer of assets to friendly parties are also put in place, since the sale of assets is to be executed through public auctions. Still, in a corrupt environment, the possibility remains that a corporate raider could use its administrative leverage to appoint a loyal administrator and gain control of a company's most valuable assets or cash flows over the course of a bankruptcy (an administrator, for example, is in a position to initiate "bankruptcy-related" expenditures, such as hiring consultants).

Chapter 3: Disclosure and Transparency

18. Russia should adopt in full and as quickly as possible International Financial Reporting Standards (IFRS) for publicly listed and non-private companies.

Some progress. With respect to the listed companies, there are improvements, primarily driven by the adoption of the instruction of the FCSM in December 2003 requiring the first-tier listed companies to provide the exchanges with IFRS or US GAAP financial statements beginning January 1, 2005 (i.e. financials for 2004). Major Russian exchanges have already changed their listing rules to follow the FCSM's instruction. Before that, only the Russian Trading System (RTS) had required obligatory IFRS or US GAAP reporting from their first-tier listed companies. As of today, 37 of 50 Russian major companies prepare IAS or US GAAP financials but only 26 of them had published them by August 13, 2004. With respect to non-listed companies, no progress has been observed. Russian banks have already begun obligatory preparation of such financial statements since October 1, 2004 and will provide Central Bank with IAS financials for 9 months of 2004. As of mid-2004, approximately 120 out of 1,300 banks reported under IFRS.

19. Companies should expand disclosure to include non-financial disclosures of all information material to investment and voting decisions.

Some progress as evidenced by the Transparency and Disclosure 2004 Russia study by Standard & Poor's (non-financial disclosure of operational information grew from 52% to 61% of maximum).

20. Management and the board of directors need to be fully aware of their responsibility for all financial and non-financial disclosures.

Some progress with regard to managers, no progress with regard to directors, with some unique exceptions (companies with foreign listings, most telecoms). The massive situation is that managers are very cautious about statutory disclosure, but

much less companies are equally caring about IFRS and other non-obligatory reports. Boards are rarely concerned about disclosure issues, even the statutory ones. Since there are no significant sanctions for the violation of disclosure rules under the current laws, they are not fully motivated to properly monitor disclosure policies.

21. Professional audit associations need to raise professional standards and monitor the quality of their members' performance.

No progress. There is very slow progress in raising the professional standards, compared to what would be required by the expected adoption of IFRS by a larger number of companies. The understanding exists among audit professionals that mechanisms for setting and monitoring the professional standards are needed, however, the scarcity of qualified personnel and the lack of motivation does not allow the profession to keep up these standards outside Moscow and St. Petersburg. There is some progress in the quality monitoring process, though. The process of obtaining the statutory audit certificate has been recently reviewed and now it requires greater expertise from the applicants. There exists a self-regulatory organization (such as Institute of Professional Auditors of Russia) as well as an official body (Ministry of Finance) in charge of monitoring the quality of audit services; the effectiveness of these organizations is questionable, however.

22. The FCSM and stock exchanges should require publicly listed companies to disclose any change of auditors as well as the level of fees paid to auditors for non-audit services.

No progress. Although currently, all companies providing quarterly reports to FSFM (former FCSM) disclose the current auditors of RAS reports, and most disclose the names of auditors of IFRS and US GAAP statements, very few reports address the history of the changes of auditors, so it can only be assessed by comparing quarterly filings for different periods. There is no requirement to provide the information on the audit fees, and the voluntary disclosures are exceptional.

23. The government should have the ability to impose broader sanctions on compliance violations by the auditor.

No progress. The government can impose sanctions on auditors operating in Russia and providing opinions on statutory financial statements. Certainly, the government does not have that such power in case of IFRS or US GAAP audits.

24. To improve the fairness of disclosure, the FCSM and stock exchanges should prohibit asymmetrical disclosure to certain privileged parties and trading on material, non-public information.

No progress regarding the regulation of asymmetrical disclosure, except for the fact that major exchanges have introduced the requirement for their first-tier listed companies to publish IAS and US GAAP financials if such reports are produced. This measure was aimed at hampering the practice of selective disclosure of annual financials. With respect to trading on material non-public information, the Law on Securities Markets prohibits such transactions. In their quarterly reports to the FSFM, companies must disclose the equity interests owned by their directors and managers.

Thus it is possible to monitor the changes on a quarterly basis, but only theoretically, as this disclosure can be easily circumvented through nominee shareholdings. The draft of new law "On insider information" has been reviewed by the State Duma since 2001. It is supposed to better define the term "insider" information, prohibit trading based on the insider information and set stricter penalties for violations. The last discussion of that draft occurred in June 2004; the draft was not approved again and was returned for further revision.

25. Companies and the FCSM need to improve information dissemination procedures by making information available to investors and the public through various channels, such as press releases, filings with the authorities, and posting information on their website.

Some progress, mainly on the part of companies. Many of the larger firms have established PR and IR services that issue media-releases, financial reports and other relevant information to wide audience (mass-media, investors and analysts). The quality of disclosure on web sites is growing. Regarding the regulators, there is no progress, rather there is a deterioration. The electronic resources where the regulators publish the filings are poorly monitored and sporadically updated. “Authorised agencies” (Interfax and AK&M) have been partly filling the gap within the last year, but with regard to information on corporate actions only.

26. Major training and education programs should be developed for companies, accountants and auditors, universities and the government.

Little progress. Some large and a few mid-size companies train their accounting and internal audit personnel at major IFRS educational programs provided by international organizations (CBSD, ACCA or “B4” companies) mostly represented in Moscow, St Petersburg and a few other large cities. Statutory accountants and auditors rarely have access to such trainings due to their high cost. There is some progress in the university education as there is more cooperation with international educational centres to create new programs for students. There is no progress on the government level.

Chapter 4: The Responsibilities of the Board

27. Company law should clearly stipulate that it is the board of directors’ duty of each board member, to act in the best interests of the company and to treat all shareholders in a fair and equitable manner.

No progress. Although a director is considered to be personally responsible and expected to act independently of the shareholder that nominated him or her, in practice directors commonly act in the interests of particular shareholders whom they represent. It is particularly the case for majority shareholder representatives. There is no change in legislation on defining the fiduciary responsibility. There have been cases where “false” independent directors were appointed by the majority shareholders (*de jure* – not affiliated with the shareholders, but *de facto* signing up to represent their interests).

28. Board members should be provided with practical guidance on the meaning of the legal requirement to act "reasonably and in good faith", in order to assist in determining what can be considered as "sound business judgement".

No progress. Very few companies may be following this recommendation. Guidelines are provided in law and the Russian Code (e.g. board members are expected to act in the interests of all stakeholders, to the best of their knowledge and in good will), but the notion of fiduciary duty is not sufficiently explained and the associated legal responsibility is not articulated. The awareness of such a responsibility is also lacking, partly because no single Russian director has ever been tried in court over breach of fiduciary duties. Accountability of directors is largely undermined by the weakness of the court system, which does not stimulate investors to protect their rights in courts. In the absence of the professional community of directors (and therefore, the established professional ethic) -- and effective legal framework -- this is unlikely to change in the near future. Another part of the problem is the practice of nomination of candidates to the board by shareholders (rather than by the board itself), combined with short terms of office (one year) under the Russian laws. In these circumstances, directors typically depend on a particular group of shareholders to be (annually) nominated and re-elected, which compromises their ability to act in the interests of a company as a whole. These issues, however, are being addressed by several professional associations. The Independent Directors' Association (IDA) was established in February. 2002, and has been actively assisting Russian companies in adopting internationally accepted standards for the performance of independent directors.

29. Listing requirements should require companies to have a sufficient number of independent board members and apply a broader definition of independence than the current legal definition

Some progress. The definition of independent board members -- and recommendation to have a sufficient number (no less than 25%) of such directors on the board is presented in the Russian Corporate Governance Code, but this document does not have a binding force so far. Although MICEX and RTS, the two leading Russian exchanges, urged by the Russian securities regulator, have announced they would introduce rigid governance requirements for their first-tier listed companies based on the Russian Code, the exact compliance control procedures have not been articulated. It is not clear, for example, which specific bodies (regulators or the exchanges themselves) would be placed in charge of enforcing compliance with Code requirements. Additionally, given relatively limited domestic investment potential, most companies lack the necessary motivation for listing or upgrading their listing status.

30. Companies should clearly recognize that in addition to strategic guidance, a key function of the board of directors is the duty to monitor management.

Some progress. The Russian situation moves focus away from a traditional "shareholder-management" angle towards a more "majority versus minority" aspect of monitoring. The relatively high concentration of ownership in the Russian economy in the overwhelming majority of cases results in the presence of blockholders who are, on the one hand, very well motivated and positioned to closely monitor the management. Therefore, management of Russian firms is typically highly

accountable before these shareholders. A more salient issue, on the other hand, is the reconciliation of interests of various groups of shareholders and other stakeholders – for which an effective board oversight is needed, particularly for effectively monitoring the blockholders' conflicts of interest. Board process remains one of the weakest elements of corporate governance in Russia because the majority shareholder representatives dominate most boards. Only a small number of large companies – such as Wimm-Bill-Dann and MTS have managed to develop effective board processes so far.

31. Companies should strengthen the functioning of the board of directors through use of specialized committees, in particular to improve oversight of the audit, nomination and remuneration functions.

Considerable progress. Encouraged by the Russian Code of Corporate governance, and in some cases, bound by requirements of foreign regulators, a majority of large companies have established specialized committees that contribute to the effectiveness of board decision-making. At the same time, low share of independent directors and -- commonly incomplete understanding of fiduciary duty by directors -- typically prevents the committees from providing effective oversight of succession policies, audit process and other issues.

32. Board members should be proactive in seeking relevant, accurate and timely information; they should be provided with adequate resources to inform themselves of significant issues.

Little progress. The creation of board committees facilitates this process, as does the work of professional associations. Very few boards and committees, though, have budgets that would allow them to perform independent enquiries and seek external opinion.

33. Companies, professional associations and international partners should support and cooperate in the development of training programs for board members.

Little progress. The Russian Institute of Directors (RID) is one of the few institutions working to improve the professional level of directors and corporate secretaries through various training programs. The general outcome of the numerous public initiatives is the improved understanding and awareness of governance issues among the corporate community.

Chapter 5: Implementation and Enforcement

34. The capacity of the judicial system must be strengthened to effectively deal with commercial disputes.

Little progress. Insufficient experience and low independence of judges in commercial courts ("arbitrage courts") remain the biggest problems, although an attempt to make the 1st appeal level courts more independent was made (according to Federal Constitutional Law dated July 7, 2003, appeal courts are being separated from

first level courts). The court system is also being made more transparent (for example, information on arbitration courts is available on the internet to inform the public of most significant initiatives and decisions taken (www.vestnik-vas.ru).

35. Private dispute settlement mechanisms should be improved and include the use of professional independent arbitration.

Little progress. Independent arbitration tribunals can be formed in accordance with the law dated July 24, 2002, however, these courts are rarely fully independent since they are usually influenced by certain industrial groups. Alternative mechanisms such as the Corporate Ethics Commission at the RSPP (co-founded by OPORA and "Business Russia" Associations and AmCham), are quite functional, although the profile of RSPP itself as a lobbyist organization is not necessarily the best fit for an arbitrational tribunal. Also, the activities and results of their work are either not numerous or not widely presented to public (there are no news on the Ethics Commission's web-site since mid 2003). There are no specific courts to settle disputes between shareholders except NAUFOR independent tertiary court for the resolution of disputes between its member organizations (broker-dealers). The profile of such dispute resolution is not quite high either.

36. The FCSM should be provided with the necessary resources to fulfill its mandate, including the supervision of self-regulatory organizations.

Little progress, although certain technical assistance projects have been implemented in getting the necessary expertise and recognition for the regulator. The role of consultants financed by the multilateral organizations (The Center for Stock Market Development, for instance) has always been crucial. Still the lack of qualified resources is a problem. The recent appointment of respected professionals, Mr. Vyugin as the head of the FSFM, and Mr. Streltsov as the deputy head, was viewed as positive for the reputation and capabilities of the regulator. Most of the staff remains unchanged, however, and overall productivity (in terms of initiatives, open dialogue with market participants and responsiveness to market needs) remains limited. Part of the problem is an extremely long coordination process needed for every legislative proposal to get approved by the government.

37. The first priority of the FCSM should be to ensure integrity and fairness in the securities market through the enforcement of existing rules and the development of specific regulations to this effect.

Little progress, as most of the structural problems remain unresolved. The regulator's effectiveness has been limited. The lack of political will and openness to suggestions to get changes completed, and highly bureaucratic legislative process, are the most obvious reasons. As a result loopholes remain in corporate legislation and slow adoption of IFRS reporting. The performance of the regulator is particularly bleak with respect to insider trading, ownership disclosure and related party transactions. The most significant achievement has been the introduction of the Code of Corporate Conduct, which played an important educational role, although its practical implementation is questionable.

38. The existing professional associations of broker-dealers, registrars and depositories must intensify their focus on developing solid professional standards.

Little progress. Developing guidelines for registrars and depositories has been one of the major areas of the two largest SROs (NAUFOR and PARTAD) who have historically been instrumental in setting standards, and providing legal assistance to their members. However, their effectiveness is limited as the legislative framework does not seem to be favourable (there are numerous legal loopholes opening possibilities for distortions and manipulations on the securities markets); these loopholes are not addressed by the regulator. The regulator appears not to be interested in a dialogue with SROs. The effectiveness of these organizations has been hampered by the reduced collegiality of decision-making in the legislative and regulatory process: the Expert Council at the FCSM has been dismissed; NAUFOR has been deprived by the FCSM of its role to certify broker-dealers applying for licenses. Consequently, there is no mechanism by which the organization can be influencing compliance with the professional standards it sets. Additionally, due to high management turnover at NAUFOR its role has become less visible.

39. In order to facilitate implementation, enforcement and compliance, the government and the legislature should rapidly identify and remove remaining inconsistencies and contradictions in rules and laws affecting corporate governance and fill in existing gaps in legislation.

Little progress, particularly in the area of enforcement. Legal gaps remain, primarily related to disclosure of beneficial ownership, takeover procedures and related party transactions. (see Component 2 – Legal Infrastructure and Component 3 – Regulatory Framework of the S&P report "Corporate Governance Infrastructure: The Lack of Rule of Law is the major Obstacle to Improvement). Further aggravation may be expected as a result of the recent legislative initiative by a group of deputies – so called "Sqeeze-out" provisions, seriously threatening fairness at the market.

40. The corporate Governance Code is conceived and should be used as an important voluntary instrument for improving corporate governance behaviour.

Little progress. The two leading exchanges were made to enforce the compliance with the provisions of the code by first-tier companies, but specific enforcement mechanisms are missing. On the other hand, most companies now present a report on compliance with the Code as a part of their quarterly filings to FCSM – which serves as a source of information on governance practices at these firms.

41. The roundtable should continue its work and establish a core group of Russian and international experts to review and support progress in the area of corporate governance and other corporate sector issues.

Progress*

*Not included into the count of scores