

The Federal Commission for Securities Market (FCSM of Russia)
The Institute for Stock Market and Management (ISMM)
The Russian Institute of Directors (RID)

CORPORATE GOVERNANCE IMPROVEMENT IN RUSSIA
PROGRAM

Moscow
June 2001

CORPORATE GOVERNANCE IMPROVEMENT IN RUSSIA

In the view of the Federal Commission on Securities Market (FCSM), corporate governance has become a key issue in Russia's development of a law-based market economy. The abuse of corporate power by managers, owners and controlling shareholders has harmed both domestic and foreign investors and other stakeholders. The lack of sound corporate practices has damaged Russia's investment climate and is a contributing factor in Russia's inability to attract the investment necessary for sustainable economic development. It is also considered as a most crucial obstacle to transforming Russia's businesses into successful market-driven and globally competitive enterprises.

The improvement of corporate governance practices in Russia may produce a multi-facet positive effect.

First, it contributes to the search of an adjustable balance of interests of major social groups and institutions (government, business, shareholders, personnel, regional authorities and local communities) and thus provides all the involved agents with a new perception and a new focus in their activities.

Second, efforts for better corporate governance focuses on internal effectiveness of processes and a quantitative dimension. While fostering higher efficiency at a company level, they act as an effective and visible factor of increasing effectiveness of capital use nationwide. As many experts point out, post-communist Russia has suffered not only from a lack of capital, but equally from its inefficient use.

Third, transparency and disclosure which make the basis of good corporate governance are especially important for Russia, since it has suffered from both opaque business and opaque public sector practices. The public administration and the business community have involved in endless mutual accusations of acting in twilight or complete darkness. Good corporate governance gives Russian business understandable economic rationale for making its activities more transparent and at the same time boosts it in its claims for greater transparency and predictability of the public administration.

Fourth, in the Russian context, good corporate governance can become the best, if not the only, efficient tool in fighting corruption which has been repeatedly referred to as a very important factor behind Russia's low international competitiveness.

Fifth, good corporate governance boosts intensity of Russian investors and strengthens their potential not only as economic agents but as social and consciously pro-reform political agents.

As a result of the nudging by foreign investors, international financial institutions and the business community, the increased awareness of Russian regulatory authorities and a small number of most advanced Russian companies, the corporate governance topic is now high on the agenda in the context of economic reforms in Russia.

The Federal Commission on Securities Market, the chief regulatory authority, has put forward the Program for improving corporate governance practices. Its main components are improvement of legal and regulatory framework (of which drafting the corporate governance code is considered as the core); information, public awareness building and dissemination of basic knowledge; development of qualification and professional standards, training and certification; and institutionalization of good corporate governance modes.

The Russian cabinet meeting held November 28, 2000, adopted a resolution which authorized the Federal Commission on Securities Market, the Ministry of Economic Development, the State Property Ministry, the Justice Ministry, the Russian Fund of Federal Property, in cooperation with the Central Bank of Russia, to develop an action program aimed at improving corporate governance in Russia. This policy orientation has been confirmed in recent declarations by the Russian Prime Minister and the economic reform program.

In implementing the program of corporate governance improvement, the Federal Commission has focused its activities on the following major fronts:

I. Making legal framework for good corporate governance

1. Drafting the Russian corporate governance code

The FCSM has arranged an EBRD grant to finance writing a draft code. As the result of the tender, the consultant firm has been selected which will develop the draft. According to the schedule given in the project TOR, we expect the draft code to be completed by November.

To fuel the discussions on the code and corporate governance issues in general, the FCSM has set up the Coordination Council on corporate governance, a forum embracing representatives of issuer companies, investors (primarily institutional ones, both Russian and foreign), business associations, securities market participants and prominent experts. We believe that the Coordination Council will be able to encourage a coalition of both business and government organizations in support of the development of good corporate governance principles and their putting into practice.

To provide analytical support for the code drafting, the FCSM, in cooperation with the Institute for Stock Market and Management (ISMM), an NGO acting as the FCSM key partner, has set up three expert groups. Their objective is to initiate discussions on the conceptual approaches and structure of the would-be code and to encourage contribution from the business, expert and public communities. These groups have produced a series of papers which are not under discussion (some of them will be presented at the second session of the Coordination Council). To make the materials on corporate governance available for the broad public and professional communities, the FCSM and the ISMM have launched a specialized website www.ricd.ru. In late March, the material on shareholders general meetings was placed on this website for discussion.

In pursuing the policy of drawing on expertise and practical experience of other countries, especially those with well-established and deep-rooted traditions of good corporate governance, the FCSM has been taking part in the corporate governance projects initiated by the international organizations. For instance, it took an active part in and contributed to the roundtables on corporate governance in Russia, held in 2000 and 2001 in Moscow jointly by the OECD, the World Bank and the CIPE. The FCSM will encourage Russian experts to contribute to the White Book on corporate governance in Russia. It should be published by the OECD as a result of these discussions, and the FCSM believes it will help to bring better corporate governance practices to Russian companies. The FCSM is involved in talks on cooperation with the IFC, the Financial Services Voluntary Corps, the International Center for Accounting Reform, the DFID (UK), the Prince of Wales International Business Leaders Forum, Russell 20:20 and other organizations.

2. Law-making

While drafting the code, the FCSM also works on drafting new laws and bylaws, as well as amendments to the effective laws to improve corporate governance practices and to ensure more effective protection of investors through courts and enforcement. The law-making plan includes about 20 legal acts to be developed in the next two years. Specifically, it includes amendments to the Federal Law *On Joint Stock Companies*, the Administrative Code, the Criminal Code, the Federal Law *On the Securities Market* and drafting the law *On Affiliated Persons* and the law *On Insider Dealings*.

The FCSM seeks to coordinate activities and initiatives of other government authorities on this front and to establish working relations with the State Duma, the law-making house of the Russian parliament. We believe that the drafting of the code will help to identify loopholes in the effective laws and to bring adequate improvements to it.

II. Public awareness and information campaign

The objective of this component is to build high awareness of sound corporate governance for high performance and investment attractiveness of Russian companies and for economic development and civil society advance in Russia in broader sense among the main stakeholder groups and corporate governance process participants (shareholders, federal and regional lawmakers, regional governments, local communities, business association officers) and encourage their constructive communication with management. Specifically, these activities include the following: a series of studies to identify the level of understanding and vision of corporate governance by the above target groups and their relations with company management; brief awareness seminars for the above groups; development of information and reference materials and handouts; a series of seminars for the above groups, primarily in regions of Russia.

We expect the following results to be achieved:

- Increased awareness of the above groups in corporate governance.
- Stronger incentives for federal and regional lawmakers and regional government officers involved in corporate governance issues to build their expertise in these issues through specialized professional training and to develop communication with the business on corporate governance issues.
- A new agenda for shareholders associations (better preparation for shareholder general meetings; selection and nomination of independent corporate directors; pressure for management compensation disclosure and a stronger connection between compensation and company performance; more intensive communication with regional authorities on corporate governance issues).
- A new agenda for business associations (transparency of federal and regional budgets and civil servants' compensations to match business transparency; improvements in performance of government representatives in joint stock companies; better management of public property).

Local communities' better understanding of businesses operating in their regions and of interconnection between successful business performance and contribution by business to social development.

To attract greater attention of various professional communities to corporate governance issues, the FCSM organized a special parliamentary hearing on these issues on March, 16, 2001.

So far, in carrying out the above activities, the seminars and roundtables have been held in 10 Russian regions – St.Petersburg, Novosibirsk, Omsk, Irkutsk, Krasnoyarsk, Penza, Ryazan,

Rostov-on-Don, Voronezh, Kazan. Within the next 3 months, seminars and conferences will be held in Murmansk, Samara, Nizhni Novgorod, Republic of Komi and Republic of Chuvashia.

January 16, March 29 and June 5 2001, the Federal Commission held introductory roundtable discussions on corporate governance and related enforcement for officers of the Interior Ministry, Tax Police, General Attorney Office, Federal Security Service, judges and the officials of the government agencies involved in managing the government-owned assets and in corporate governance relations.

The program of holding joint seminars in about 12 Russian regions (Novosibirsk, Omsk, Krasnoyarsk, Irkutsk, Vladivostok, Rostov, Krasnodar, Belgorod, Voronezh, Murmansk, Komi reopublic, Arkhangelsk) has been signed off with the Financial Services Voluntary Corps (FSVC). Negotiations with the IFC corporate governance project, the Soros Foundation are under way. Cooperation agreements have been achieved with a number of Russian economic periodicals to cover these activities.

So far, the FCSM has held a series of briefings for journalists and press conferences to cover its activities on improving corporate governance in Russia.

III. Professional training on corporate governance

The FCSM focuses on two main subcomponents of this component:

1. Development and introduction of professional and qualification standards for corporate directors and regulators.

The FCSM seeks to develop high professional standards for managers, corporate directors and regulators and to introduce them in their routine practices through qualification training and certification procedures and multi-facet continuous professional development courses. This work could be most effectively done by the Russian Institute of Directors (see section IV).

The FCSM, through its partner ISMM, will work to encourage the introduction of corporate governance courses in Russian universities, business schools and professional training centers.

2. Corporate governance enforcement support

The FCSM believes that the key factor for introduction of sound corporate governance in corporate practices is compliance with the laws and bylaws is monitored and enforced in any instances of serious non-compliance and violation of law. So, the objective of this subcomponent is to raise understanding of corporate governance issues among judges, law protection and enforcement officers and improve the practices of corporate governance dispute-resolution. Specifically, the project aims to foster professional skills in corporate governance disputes of the above groups through incorporating appropriate knowledge and skill components into their professional training.

In pursuing the above objective, the FCSM envisages the following main activities:

- To make a series of studies to identify the main problems in judicial and enforcement practices related to corporate governance and loopholes in skills and knowledge in corporate governance of judges, law protection and enforcement officers, and trainers of their professional qualification improvement institutions: the Academy of Justice (co-founded by

the Supreme Arbitration Court and the Supreme Court), General Attorney Office institute, Tax Police Academy, and Interior Ministry institutes.

- To develop corporate governance curricula and syllabi for judges of arbitration and general courts, Tax Police and Interior Ministry officers and Audit Chamber inspectors.
- To develop training materials and manuals for training courses.
- To hold pilot training of groups of the above categories of trainees (both in Moscow and in the regions).
- To hold pilot training of trainers of the Academy of Justice, General Attorney Office institute, Tax Police Academy, and Interior Ministry institutes and to help introducing training courses into training programs of these institutions and to facilitate updating and improvement of training courses.

The focus groups for the above activities are judges of federal and regional offices of the Supreme Arbitration Court and the Supreme Court, Tax Police officers, Interior Ministry and Attorney General Office officers who specialize in stock market and corporate governance disputes; the Audit Chamber inspectors; trainers of the Academy of Justice, General Attorney Office institute, Tax Police Academy, and Interior Ministry institutes.

IV. Establishment of institutional infrastructure for good corporate governance

In the view of the FCSM, to ensure that good corporate governance principles and practices take roots in Russia, the above and other related activities should be coordinated by a single center. In our judgment, the Russian Institute of Directors (RID) is the best institution to act in such capacity. The reason for establishing such organization is that in Russia's economic context, the boards of directors have a particularly important role to play in improving corporate governance in Russian companies. With a very low liquidity securities market, investors have actually no option but to rely on the board as the main tool in ensuring that companies work efficiently and in the interests of shareholders. Many Western and Russian experts agree that general improvement of corporate governance practices in Russian companies primarily depends upon the introduction of the corporate directors institution in Russian business. Institutions of this kind have proven their effectiveness in other countries. Over the recent years such institutes were established in a number of emerging market economies. We believe that the above model should be used in Russia as well.

Corporate director is a new phenomenon for Russia. It emerged in the period less than the last ten years. At present, there is great shortage of information and instruction on corporate directors practices in Russia. There are neither qualification standards for corporate directors, nor ethic code, nor association or entity which embraces corporate directors as a professional community. None of Russian universities or business schools runs a regular course made specifically for corporate directors.

In our view, the RID's main activities could be as follows below:

- ◆ To develop high qualification and professional standards for corporate directors and introduce them into corporate practice through a comprehensive system of training, certification and continuous professional development.
- ◆ To develop and introduce in corporate practice high ethic rules for corporate directors (the code of professional ethics).
- ◆ To facilitate organizational consolidation of Russian corporate directors, to represent and promote their professional interests with the government authorities, social communities and encourage their cooperation with main parties of corporate governance process (shareholders and their associations, institutional investors, stakeholders, etc.).

- ◆ To carry out programs (research, information, consulting and publishing) aimed at raising business community and public awareness about importance of good corporate practices, strengthening the Russian corporate directors institution, raising its effectiveness and encouraging its contribution to development of the effective Russian model of corporate governance.

In February 2001, the Russian Institute of Directors (RID) website (www.rid.ru) was launched by the Institute for Stock Market and Management (ISMM) in cooperation with the Federal Commission on Securities Market to create a virtual form of initiating discussions on corporate governance practices in the context of corporate directors activities. “Russian corporate directors training” project will be launched from April 1, 2001 with a small grant issued by the CIPE to develop pilot training and examination of a group of Russian corporate directors.

The FCSM views the would-be RID as the main coordinating center in implementing the corporate governance improvement program and is interested in finding partners to jointly work on the RID development project.

COORDINATION COUNCIL FOR CORPORATE GOVERNANCE

While taking different measures related to a discussion and analysis of the corporate governance situation in Russia, seeking for efficient ways of its improvement and drafting the Corporate Governance Code, the Federal Securities Commission strives to recruit all the key interested groups to this process (issuer companies, investors, federal executive authorities, federal legislature, professional stock market participants, consulting companies, information and rating agencies and companies, expert centers, professional associations). FCSM is also helping them to have an chance to motion their proposals and give their judgment on approaches that are being shaped and on draft documents. To this end, FCSM set up the Coordination Council for Corporate Governance in the fall of 2000. This is a forum which embraces all the above groups whose interests are to some or other extent linked to the corporate governance practices and, therefore, to efforts at changing them.

Two Coordination Council meetings were held to date, one in St. Petersburg (November 2000), the other in Moscow (April 2001). The first meeting discussed the key principles and approaches to be heeded in drafting the Corporate Management Code, improving the legislative framework and measures targeted at perfecting different aspects of corporate management practices. The second meeting reviewed a set of issues related to two fundamental components of the corporate management process: (i) preparation and holding general meetings of shareholders and (ii) efforts to ensure efficient work of the Board of Directors. The meeting also reviewed expert groups’ materials on these issues. FSCM officials briefed the meetings on the status of work on implementing the corporate governance improvement program (events that have been and are scheduled to be held, and work on the Code drafting). The meeting participants could offer their proposals on the issues discussed; the proposals were then summed up and sent to experts who are closely involved in drafting the Code. The meetings proved that the Coordination Council had become an efficient communication channel for regulatory authorities and the key concerned groups in their joint efforts to seek ways and means for improving corporate governance practices in Russia. The results of the Coordination Council meetings were broadly covered by the business press and discussed at a special parliamentary hearing in the State Duma (March 2001).

The Council meetings will be held as documents are drafted, in particular, the Code, and to discuss the most important measures to be taken in this field. In particular, at least two Council meetings are expected before end-2001.

Blueprints, analysis and summing up of the meeting participants' proposals are done by expert groups set up at the Coordination Council (these groups themselves are coordinated by the Institute for Stock Market and Management/ISMM). Drafted materials are distributed among the participants and posted for discussion at the ISMM web site (www.ismm.ru) and at the web site of the Russian Institute of Directors (www.rid.ru).

The list of participants of the Coordination Council's sessions

№	Organization	Surname of the participant
1	State Duma of the Russian Federation	Alexander Shohin, Head of committee of State Duma of the Russian Federation on the credit organizations and the financial markets.
2	State Duma of the Russian Federation	Sergey Generalov, Head of committee on protection of rights of investors
3	State Duma of the Russian Federation Committee for the credit organizations and financial markets	Vladimir Tarachev, Deputy chairman of Committee on the credit organizations and the financial markets
4	Committee for the property of State Duma	Vladimir Pehtin, Head of committee on the property of State Duma Anatoly Artemiev, Deputy chairman of committee on the property of State Duma
5	State Duma	Anatoly Aksakov, Head of committee on economic policy
6	Supreme Arbitration court	Veniamin Jakovlev, Head of Supreme Arbitration court
7	The ministry of property relations	Alexander Braverman, Stats- secretary 1-st deputy minister of property relations of the Russian Federation
8	RFFP	Vladimir Malin - Head of RFFP
9	Ministry of tax collection	Aristarhova N, Head of department of a tax policy and perfection of the tax laws
10	FAGLI	Yury Shankin, Stats-secretary assistant of general director FAGLI
11	FCSM of the Russian Federation	Yury Sizov, Head of Moscow regional office of FCSM
12	Administration of the President of the Russian Federation	Anton Danilov-Daniljan, Head of economic management of the President of the Russian Federation

	Federation	
13	Moscow Commercial and industrial Chamber	Anatoly Gavrilenko, Chairman of Committee of stock market, derivative financial instruments and electronic commerce.
14	NAUFOR	Tyryshkin Ivan, the Chairman of board
15	Expert institute	Neshchadin Andrey, Executive Director
16	European business club	Sepo Remes, President
17	Brunswick Warburg	Jeffrey Costello, CEO
18	JP Morgan	Mark Jarvis, Managing Director
19	Baker &McKenzie	Max Gutbrot, Managing partner
20	IFC	Edward A.Nassim, Head of Moscow office
21	“Vypelcom”	Dmitry Zimin, General Director
22	OECD	Nestor Stilpon , Head of the Corporate Affairs Division
23	USAID (Moscow)	Elaine Grigsby, Economic Policy Reform Program Director
24	Financial Services Volunteer Corps	Adam A. Blanco, Country Director FSVC
25	World Bank	Julian Schweiczer, Country Director for Russia Resident Representative in Moscow
26	Sberbank	Andrey Kazmin, President, Deputy chairman of the board of directors Alexander Altunin, Deputy Director of Exchequer
27	Moscow Interbank Stock Exchanges	Alexander Zaharov, General director
28	Information AgencyAK&M	Zoya Larkina, General director
29	JSC “Rubin”	A.Lashkevich, General director
30	JSC “Aeroflot”	Alexander Zurabov, Deputy general director of Aeroflot Kirill Budaev, Director of corporate property department
31	American Chamber of Commerce	Igor Runov, Vise-president
32	Institute of financial researches	Andrey Vavilov, Head of the Institute of financial research

33	US SEC	Bob Strahota , Emerging Market Specialist International Affairs Office
34	Embassy of the United States of America	Brian Cox, Financial Attaché
35	Embassy of Germany	Ortvin Hinnig, Plenipotentiary minister, Counsellor, Head of Department of economy and a science
36	The European Commission	Carlo Natale, Economic Counsellor
37	Hermitage Capital Management	William F. Browder, Managing Director
38	UNIFUND Manager Portfolio	Florian Fenner, Investment manager
39	JP Morgan Fleming Asset Management	Oleg Biryulyov, Director
40	United Financial Group	Dmitry Hilov, Executive director
41	Prosperity Capital Management	Mattis Westman, Director
42	Baring Asset Management	Martin Taylor, Director
43	Pioneer First	Maria Churaeva, General director
44	The U.S. Russia Investment Fund (investment group “Delta – capital”)	Paul Price, Vice-president
45	Vostok Nafta Investment Ltd.	Michael Damrin, General director Torbjorn Ranta, Genenal director
46	Brunswick Capital Management	George Kjallgren, Chairman David Hern, Fund Manager
47	Standard and Poor's	Cynthia Stone, Moscow Office Director Julia Kochetygova, Business development Director
48	Higher school of economy	Andrey Kuznezov, Vice rector
49	JSC “Rostelecom”	Sergey Kuznezov, Alternate General director
50	JSC “Mosenergo”	Alexander Remezov, General director
51	United Machine Building	Kaha Bendukidze, President

	Plants	
52	Consumers Protection Confederation	Alexander Auzan, President
53	PricewaterhouseCoopers	Arthur Haigh, Territory Senior Partner Leonid Schneidman, partner
54	Publishing house “Economika I zhizn”	Andrey Glushetskij , General director
55	RTS	Konstantin Korishchenko, President of noncommercial partnership stock exchange RTS
56	Chamber of commerce and industry of the Russian Federation	Sergey Bidnov, Vice-president
57	Oil company “Surgutneftegaz”	Vladimir Bogdanov, General director Alexander Sinenko, Director of Law department General director counsellor
58	Oil company “UKOS”	Mihail Hodorkovsky, President Alekssei Golubovich, Vice-president
59	Tyumen Oil Company (TNK)	Oleg Surkov, Vice-president Igor Mirovsky, Head of department
60	Oil company “GAZPROM”	Sergei Dubinin, vice president Alexander Semenyaka, Board member Yury Nosov, Head of department Peter Rodionov, Board member
61	Corporation “Akron”	Oskar Valters, Head of the Board of directors

EXPERT GROUPS

To provide expert support to the FCSM and Coordination Council efforts on corporate governance improvement, work out recommendations on the key aspects of corporate governance practices, collect and analyze proposals from the key groups involved in corporate relations, three expert groups were set up at the Institute for Stock Market and Management (ISMM) in late October 2000: the concept group, the law group and the group on auditing and disclosure. Besides ISMM specialists, these groups include specialists who represent several largest issuer companies, investment companies, professional stock market participants, consulting and audit firms. Experts of the State Duma and professional associations also gave their input. As the Coordination Council, expert groups are working on a gratis basis which proves the key corporate relations groups’ great interest in seeking for ways to improve corporate governance practices.

Expert groups’ work from November 2000 through May 2001 was related to the discussion of the conceptual problems of corporate relations development in Russia, the structure and principles that should be underlying the Corporate Governance Code. After a tender was completed in May 2001 for an EBRD grant to finance the drafting of the Corporate Governance

Code and a law firm was chosen for this work, expert group meetings will now review the draft Code sections written by this firm, and proposals will be made for the Coordination Council meetings. The latter will discuss the key draft Code sections. Whenever specific problems related to corporate government process need to be discussed, new expert groups will be set up. In particular, the feasibility of making a group for analyzing Russian companies' dividend policy is considered.

After the Russian Institute of Directors is established, expert groups are expected to work under its aegis.

The concept expert group

Head of the Group Igor Belikov, General Director of ISMM

Representatives of following companies and organizations have participated in group's sessions: JSC "Aeroflot", Oil company "Gazprom", Moscow Interbank Stock Exchanges, Oil company "Sibneft", "Profconsult", group of companies "Quatrum", Publishing house "Ekonomika I zizn", Information agency AK&M, Международный центр реформы системы бухгалтерского учета, «Standard&Poors», Межреспубликанская коллегия адвокатов, International Financial Corporation, International Fund Association, «Chase Manhattan», «Baker & McKenzie».

The expert group on auditing and disclosure

Head of the Group Natalya Annikova, Financial Director of ISMM

Representatives of following companies and organizations have participated in group's sessions: "Unicon", "Rusaudit", "Petro-Balt-Audit", "PriceWaterhouseCoopers", Oil company "Gazprom", Financial Services Volunteer Corps, International Financial Corporation, MGTS, Oil company "Sibneft".

The law expert group

Head of the Group Igor Loginov, ISMM

Representatives of following companies and organizations have participated in group's sessions: Publishing house "Ekonomika I zizn", Oil company "Surgutneftegaz", Oil company "Gazprom", Oil company "Sibneft", «Baker & McKenzie», Financial Services Volunteer Corps, "Profconsult", "Liniya prava", Consulting company "Agency of investments and development", Landwell CIS.

DRAFT STRUCTURE OF THE RUSSIAN CODE OF CORPORATE GOVERNANCE

This material has been developed by the conceptual expert group with the contributions by members of other expert groups and some outside experts.

<p>Chapter I. INTRODUCTION</p> <p>⇒ Substance, objectives, and participants of the corporate governance process</p> <p>⇒ Subject matter of the Code</p> <p>⇒ Status of the Code and its guidance implementation mechanism</p> <p>⇒ Correlation with the current legislation</p>	<p>The recommendations of the Code shall apply to all joint-stock companies irrespective of their type (public or private) and size. The control will primarily be exercised through investor and business community analysis of company disclosures about compliance/non-compliance with the Code.</p> <p>Initially, there will be few disclosures like that (since most recommendations of the Code will not be compulsory). The major driving force for increased disclosure of compliance with the Code should be efforts of the business community such as investment companies (e.g. corporate governance risk ratings issued by Standard & Poors, Troika-Dialog, Brunswick), investor associations, stock exchanges, economic mass media (e.g. this indicator shall be taken into account in contests “Best Annual Report”, company ratings such as “Rating-200” issued by the Expert magazine, etc.).</p> <p>Recommendations that are expected to become compulsory through regulatory agency’s disclosure requirements, listing and trading rules and regulations must apply to publicly traded joint-stock companies.</p> <p>The discussion suggested a minimum annual turnover of US \$-10 million.</p> <p>According to the majority of the expert group members the Code shall not be a legislative act.</p> <p>The current law regulating joint-stock companies contains a significant number of disposition norms allowing to introduce recommendations in the Code without changing it. At the same time to improve the Russian corporate governance practice and to bring it closer to the best international practices recommended by investors requires changes to be made to the law “On Joint-Stock Companies” and a number of other legislative acts and statutes. Recommendations on improving corporate governance practices contradicting the current legislation and requiring specific changes shall be prepared as a separate document and made available for broad and detailed discussion by the stakeholders’ representatives (issuer companies, investors, regulatory agencies, legislative authorities etc).</p>
---	--

Chapter II. SHAREHOLDERS RIGHTS

1. Ownership registration, alienation and transfer of shares

- ⇒ Shareholder right to secure methods of ownership registration
- ⇒ Shareholder right to obtain securities information in the register
- ⇒ Issuer's responsibility for register maintenance

2. Obtaining relevant information on the company

- ⇒ Information's contents and scope
- ⇒ Forms of obtaining information
- ⇒ Cost of obtaining information

3. Participation and voting in General Shareholder Meetings

4. Participation in the election of the Board of Directors

5. Equal treatment of shareholders

6. Share in the profits of the corporation

The discussion suggested that the Code should recommend that the Board of Directors should attest the independence of the company's registrar in the annual report by providing relevant evidence (e.g. findings of the inspection), and that the company's internal documents should describe the selection procedure and criteria, procedure and criteria for changing the register holder and for handing over the register to the register holder.

It is recommended that the company should have a statement on its dividend policy. The said statement should be prepared for every annual shareholders' meeting. Its contents shall comprise the company's strategy of dividend payment for medium term (2-3 years).

The draft Code should include recommendations on the annual shareholders' meeting preparation and holding procedure. Probably it is expedient to develop a standard sample "Provisions on preparation and holding general shareholders' meeting". A special attention should be drawn to specifying the procedures ensuring sufficient and timely information on the data and the place of the shareholders' meeting and the agenda thereof, which will enable to pose questions to the company's management and propose issues for the agenda within the reasonable limits.

The Code should recommend that the company's internal documents should provide for the opportunity to hold combined forms of shareholders' meetings and voting.

Some members of the group proposed to develop recommendations to introduce changes to the effective legislation to limit the voting right of preferred shareholders in respect of voting on specific issues.

Chapter III. DISCLOSURE AND TRASPARENCY

1. Substance of material information to be disclosed (stating specific features of listed and non-listed companies):

Recommended content of the “substantial information” to be disclosed for shareholders:

- ⇒ Company’s strategy
- ⇒ Majority shareholdings and voting right distribution
- ⇒ Members of the board and key executives, their remuneration
- ⇒ Material foreseeable risk factors
- ⇒ Material issues regarding employees and other stakeholders
- ⇒ Governance structures and policies
- ⇒ List of affiliated parties
- ⇒ Additional information
- ⇒ Principal corporate events scheduled for the next year

2. Procedures for preparing and disclosing financial and non-financial information on the company’s operations and ensuring its high quality

All publicly traded companies shall publish the timeline for the move to IAS or GAAP. It is recommended that the consolidated group accounts rather than individual financial statements issued by each company within a group should comply with IAS or GAAP.

It is recommended that the audit committee or the financial statements committee shall take part in preparation of semi-annual and annual company’s report with participation of independent directors.

3. Responsibility of the company’s executives for accurate, complete and timely disclosures.

The Code should recommend that a company have a provision on insider information usage rules as a compulsory internal document describing effective control over internal information distribution inside the company purposed to avoid its misuse and establish disclosure procedure and disclosure period.

4. Rules of using insider information

The Code should recommend that a company have a provision on annual/quarter report intervals, issue term, delays and information on significant company events.

5. Types of information disclosure

The annual report must provide material information:

6. Frequency of and deadlines for disclosures

1. Chief Executive’s address to shareholders which provides information about company’s performance for the year with its review.
2. Analysis of the industry with conclusions and forecasts for the next year.
3. Analysis of the company’s current position in the industry and its change over the year with the analysis of reasons for this change.

7. Confidentiality and commercial know-how related issues.

8. Contents of the company’s annual report (standard format).

4. Description of the company's operating activities for the period.
5. Major project implementation for the period.
6. Company plans for the next year with their reasoning and estimates of projected financial performance
7. Financial analysis of company operations (based on IAS, if any)
8. The report should, at least, contain the balance sheet, income statement, cash flow statement and statement of changes in equity with explanatory notes.
9. The company's investment policy should be shown separately.
10. Company securities market with notes re company's strategy in the market and its plans for the next year.
11. Auditor's opinion
12. Reference data.

According to some group members the annual report, primarily its content, should be subject to certain requirements. The annual report should have the following sections for the previous year: Chief Executive's performance report; Board of Directors' performance report; list of Board members; company's performance for the previous year: economic indicators, financial indicators (with a balance sheet), social indicators, environmental indicators; securities report – composition of shareholders, movement of shares for the year, changes of share price over time, data on other securities; business plan indicators for the next year; report on company's fund utilization for the year, material transactions, etc.

<p>Chapter IV. INTERNAL DOCUMENTS</p> <p>1. Company’s Charter</p> <ul style="list-style-type: none"> • Relationships governed by the Charter • Procedures for making changes and amendments <p>2. Other internal documents</p>	<p>It is recommended that the companies should have the following minimum set of internal documents: Internal Disclosure Rules and Control over its Utilization; Provision on Collective (Management Board) and Individual (CEO) Executive Body; Provision on Board of Directors; Provision on BD’s Committees; Provision on Inspection Panel; Provision on Shareholders’ Meeting; Statement on Dividend Policy; Provision on External Auditor; Provision On Control over Affiliated Parties; Provision on Remuneration and Sanctions Imposed on Management Bodies; Provision on Company’s Activities Related Information Preparation and Disclosure; Corporate Calendar (for publicly traded issuer companies).</p> <p>A standard provision may be attached to the draft Code containing a list of internal documents , and the procedure for documents development, approval, changes introduction, cancellation, enactment and maintenance</p>
<p>Chapter V. GENERAL SHAREHOLDER MEETING</p> <p>1. List of issues within the sole competence of General Shareholder Meeting</p> <p>2. Procedures for preparing and holding a routing General Shareholder Meeting</p> <ul style="list-style-type: none"> • Quorum establishment procedures • Voting procedures for holders of different classes of shares • Procedures for placing items on the agenda • Nomination procedures for the Board of Directors and Inspection Panel <p>3. Extraordinary General Shareholder Meeting procedures</p> <p>4. Voting procedure</p>	<p>The discussion agreed upon the following recommendation: “When drafting an agenda of the general meeting, it is recommended that the paragraph “Miscellaneous” should not be placed on the agenda. Each point of the agenda must refer to a specific issue to be discussed”.</p> <p>Legal expert group shall develop an issue relating to the status of voting via Internet to include the recommendations in the Code and use the specified voting means on a broader scale.</p>

Chapter VI. BOARD OF DIRECTORS

1. Mission of the Board of Directors and Operating Principles

The discussion suggested that a fundamental principle of Board operations should be stated at the outset of the Chapter, i.e. representing interests of all shareholder groups and other stakeholders.

2. Functions and Objectives of the Board of Directors

The discussion recommended describing the following major functions:

3. Rights and authority of the Board of Directors.

- strategic management of the company;
- ensure that the company has necessary controls over operational management of the company, including a risk management system, supervision of these systems and their evaluation;
- provision of shareholders (and other stakeholders) with complete, accurate and adequate information about company operations (i.e. ensure transparency)

The attachments to the Code should provide more detailed recommendations that elaborate on the content of these functions.

4. Requirements for nominees to the Board of Directors.

It is suggested that a job description of Board members included in their civil law contracts should include a duty to “comply with the Code in the course of their functions”. This duty should also be included in their employment contracts.

5. Procedures for bringing Board members up to date.

6. Holding more than one Board membership (restrictions related to the need for sufficient time to fulfill the duties, potential for conflict of interest).

The discussion suggested that every company should develop a set of professional and qualification requirements for its Board members. These requirements should serve as a benchmark both when nominating candidates to the Board of Directors and, especially, after the election of candidates to the Board by organizing their training in order to achieve compliance with such requirements.

7. Frequency of Board meetings and agenda

“Board meetings should be held at least on a quarterly basis”. “The level of Board member personal presence in Board meetings should be no less than 75% of all meetings”

8. Number of Board members. Independent Board member.

In our view, special guidelines for the term “**independent director**” should be developed in respect of the Russian environment. The current legislation (Joint-Stock Company Law, Section 83, p.2) has the following definition:

9. Ratio of executive and independent members in the Board of Directors.

“Independent director is a member of the Board of Directors (Supervisory Board) other than a CEO or member of the executive management body (directorate) whose spouse, parents, children, brothers and sisters are not executives of the company”. The difference between this definition and Western-style definitions of the independent director lies in a limited interpretation of the term by the Russian Company Law (in addition to being an executive, there are many other

<p>10. Board committees.</p> <p>11. Evaluation of the performance of the Board and senior management members.</p> <p>12. Board and senior management member remuneration.</p> <p>13. Transactions with affiliated and interested parties and conflicts of interest related to the Board members (criteria of such transactions, procedures for detecting and disclosing relevant information).</p>	<p>options of connections with the company such as obtaining contracts, grants, positions in subsidiaries and associates, etc.)</p> <p>The “Line of Law” company suggested the following definition to be included in Chapter 5 of the Code: “Independent director is an individual who is properly elected to the Board of Directors and who is not/has not been the company’s executive (for the past five years), does not have binding contractual commitments to the company or its affiliates in respect of transactions (that are regarded as material under the Russian Company Law”) and does not receive any remuneration from the company/company’s affiliates (other than a board membership remuneration).</p> <p>“The number of independent directors in the Board should be sufficient to ensure that a decision is made on issues that require a majority of independent directors: selecting external auditors, determining remuneration of the CEO and other senior managers, etc.”. This recommendation should be finalized in terms of a list of issues and correlation with current legislation.</p> <p>Board committees shall pursue the following objectives:</p> <ol style="list-style-type: none"> 1. assist the Board in performing its functions; 2. exercise the Board’s on-going control over the company through its committees; 3. provide an opportunity of better relationships with an executive body; 4. facilitate the resolution of conflicts of interest. <p>The following restrictions should be established in respect of committee authority:.</p> <p>Committees should not be entitled to:</p> <ol style="list-style-type: none"> 1. act on behalf of the Board unless official authority is granted to perform ad hoc and certain tasks; 2. make decisions that are within the competence of the Board of Directors and are not delegated to committees; 3. assist employees in their job performance; 4. manage human resources. <p>Operating procedures of committees: Each committee shall have a list of duties and authority approved by the Board as well as know how and when it must submit its report to the Board. A committee shall be set up at a Board meeting and include both Board members and others. Committee members shall be changed upon expiration of certain term of office. However, the term of office does not need to be specified because the term of office of each specific member might have to be extended in some cases. The agenda shall be developed by a committee chairman upon consultations with relevant managers and staff members. At the beginning of the year, each committee shall publish a</p>
--	--

list of issues to be placed on the agenda for the coming year. The agenda shall be agreed upon with the Board.

Board members shall not participate in the decision-making process re their own performance evaluation and remuneration.

The expert group members proposed the following options of the detailed disclosure of the information on the remuneration payable to the Board members and senior management 1) the remuneration of board members in the aggregate; 2) the remuneration of board members in the aggregate plus remuneration of the Chairman; 3) the remuneration of board members in the aggregate plus remuneration of the Chairman plus remuneration of two (three, four) most high-paid directors).

The “Line of Law” company suggested that the following definition of a “**stakeholder**” be included in the draft Code: “A stakeholder shall be a board member, executive, shareholder who (together with his or her affiliates) holds at least a 20% interest in the company’s voting power in case if the individual in question, his or her spouses, parents, children, brothers, sisters as well as their affiliates (i) are either a party to the transaction, or (ii) act as agents or intermediaries, or (iii) hold at least a 20% interest in the voting power of the legal entity that is either a party to the transaction or acts as an agent or intermediary, or (iv) serve as executives of the legal entity that is either a party to the transaction or acts as an agent or intermediary”.

Guidelines are criteria for acts in good faith and in a reasonable manner provided in the paragraph that deals with the accountability of board members for their decisions.

- a Board member shall comply with current legislation, Charter and internal documents of the company and adhere to recommendations of the Corporate Governance Code;
- a Board member shall understand clearly his or her scope of authority and duties;
- a Board member shall perform his or her duties with due care and apply his or her skills to a full extent. If a Board member does not have professional skills in an area, a reasonable approach would be the recognition of a lack of relevant qualifications and seeking advice of competent consultants;
- a Board member shall act in the best interests of the company and prevent cases when his or her interests are in conflict with those of the company.

*Chapter VII. EXECUTIVE BODY
(BOARD, GENERAL DIRECTOR)*

1. Duties and responsibility of the executive body.
2. Performance evaluation of the senior manager and other executives (principles, procedures, information disclosure forms, eligibility for top management).
3. Remuneration of the senior manager and other executives (size, forms, principles and information disclosure forms).

Most conceptual expert group members concluded that issues related to the work of the executive body should be treated in the chapter “Board of Directors” and only to an extent in which they are related to the Board of Directors’ work targeted at preventing violation of shareholders’ rights by managers.

Some experts believe it necessary to cover the issues given in the left column in a separate chapter.

Several experts suggested that obligation to comply with the Code should be added to a list of executives’ duties. There is a proposal to include this obligation in their labor contracts. See the proposed definition of an “interested party” in chapter VI.

Experts are debating on the prospect of the following chapters to be added to the draft code: “Merges and acquisitions”, “External auditor”, “Making of substantial corporate decisions”, “Pre-judicial settlement of corporate conflicts”.