



# **6th Meeting of the Eurasia Corporate Governance Roundtable**

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***Enforcement of Corporate Governance Rules***

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**Session 2: Mechanisms for the Enforcement of Corporate Governance Rules**

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## **PUTTING THE CORPORATE GOVERNANCE CODE INTO PRACTICE: THE EXPERIENCE OF RUSSIA**

The Russian Corporate Governance Code was presented to the Russian business community in April 2002.

Main tools of putting it into business practice have been as following:

1. The securities market regulatory authority (FSFM) mandated that all joint stock companies which have ever registered an issues of equities, must have a section in its annual report dedicated to the company's corporate governance practices and compliance or non-compliance with the Code. In this section the company must disclose whether it complies with the core principles of the Code or, if it does not, explain the reasons for non-compliance. The FSFM has issued its recommendations explaining which points of the Code it considers as "core ones" and against which the companies should disclose compliance or non-compliance. But the companies can choose their own set of "core principles" of the Code and disclose their compliance or non-compliance against them.
2. The FSFM has mandated that all stock exchanges must include into their listing rules compliance of companies with some key recommendations of the Code. Initially, the list of such recommendations was longer but subsequently it was softened. These recommendations covers such areas as composition of the board and its committees, management board, internal control and internal audit, information disclosure policy, insider dealings, significant stake purchase.
3. Adoption by companies of their own codes of good corporate governance based on the Code.
4. Annual contests with awards for best corporate governance practices, best corporate governance disclosure, etc.

The monitoring of the corporate governance practices and of the Code's implementation carried out by the RID and other independent entities show improvement. Yet, this improvement is quite uneven with regard to the core recommendations as well as with regard to the whole community of Russian joint stock companies.

The following main problems can be identified on the way to improve corporate governance practices of Russian companies at large and to implement the Code is particular:

1. The sanctions for violation of corporate law are very weak.
2. Russian stock exchanges are squeezed by the conflict of interest: the issuers are their main customers and the stock exchanges are not happy with the prospect of monitoring their compliance with the section of the listing rules related to the Code and taking sanctions against them in case of non-compliance.
3. The overwhelming majority of portfolio investors on the Russian market are short-term speculators, many of which do not walk the talk of high importance of good corporate governance.
4. The excessive of liquidity on the international financial markets getting portfolio investors' vigilance with regard to corporate governance practices loose.

CG codes can improve enforcement, referring to experience in Russia, reasons for having a CG code, problematic areas, lessons to be learned by Eurasian countries, etc.