

Recent developments in BRIC's Corporate Governance with a focus on Russia – Innovation or imitation?



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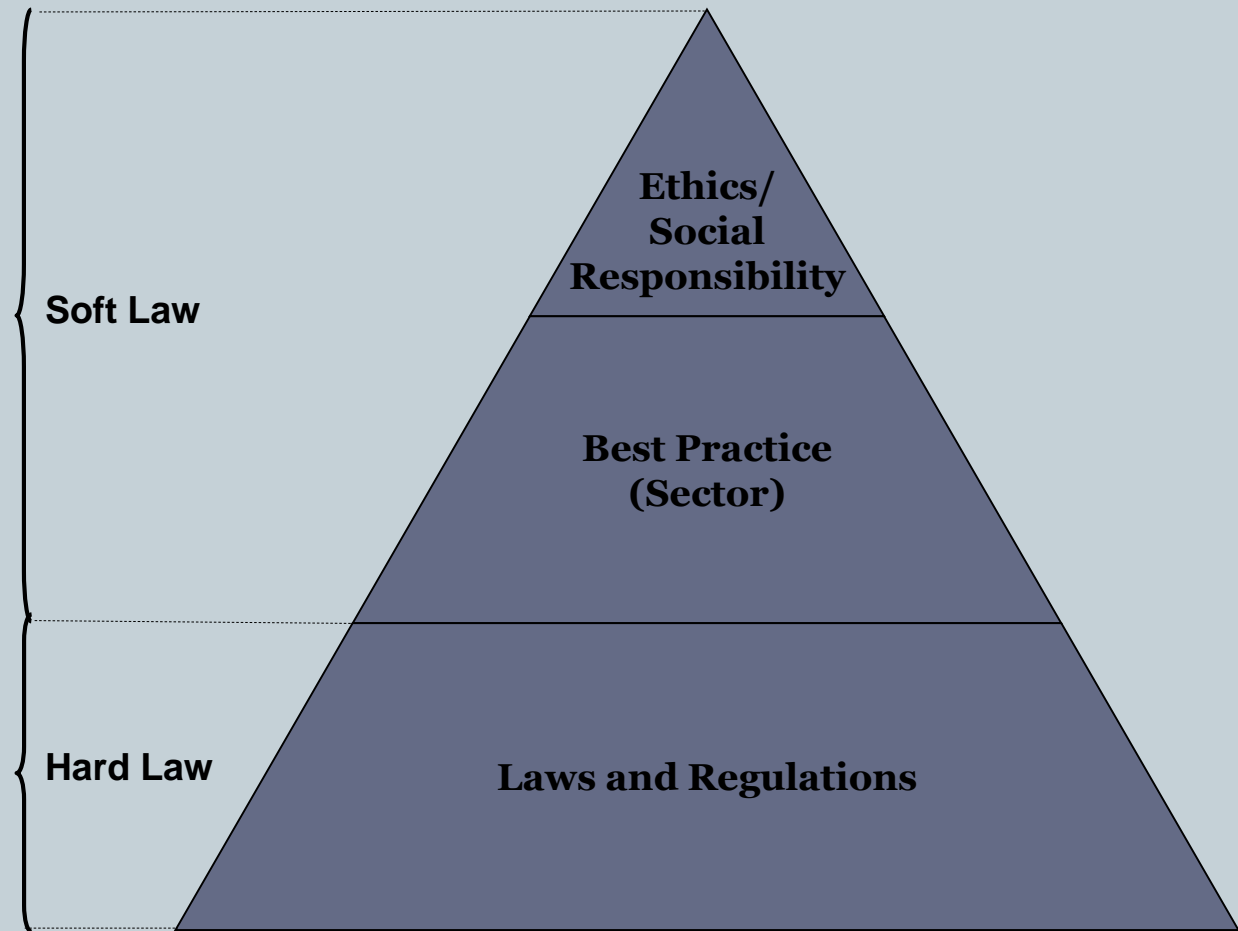
**International conference:
"Corporate Governance: a
Search for Advanced
Standards in the Wake of
Crisis"**

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Motivation for BRIC countries

What to achieve with CG?

- Effective corporate governance is of interest to nations as it reflects societal standards:
 - Effective governance can lead to competitive advantage
 - How nations choose to govern their corporations affects firms' investment decisions; firms seek to invest in nations with national governance standards that are acceptable



What is new in Russian Corporate Governance?

Legal Aspects



Stage (years)	Characteristics
1991 - 1994	Start of privatization, formation of corporations as the primary basis of corporate relations.
1995 - 1998	Formation of the national legislation and shift of emphasis in the regulatory framework from privatization to corporate laws.
1998 - 2004	Completion of legislation formation, redistribution of property transactions, violations of law, growth and real influence of the stock market on corporate relations.
2004 – present time	Transition to state capitalism, intensification of the role of the state and its representatives in the corporate governance bodies, partial monopolization of the most profitable sectors in the national economy by state.

● Outcomes:

- Federal Law "On the Central Depository" (07.12.2011)
- Amendments to the Law "On the Securities Market" (29.12.2012)
- Amendments to the Law "On Joint Stock Companies" (19.04.2013)
- FFMS Order "On the approval of the Regime of the securities admission to organized trading" (30.07.2013)

What is new in Russian Corporate Governance?

New Corporate Governance Code



Main Issues	Code Edition	
	2002	2013
General Shareholders Meeting (Shareholder rights and equality, 2013)	Shareholders have a right to participate in General Meeting	Participation in General Meeting as a <u>fundamental right</u> of shareholders
	Information about General Meeting min 20 days before	+ electronic notification and information availability (via internet)
		Right to gather a meeting with <= 2% of voting shares
		Prohibition of voting for "treasury" and "quasi-treasury" shares
	List of voting modes	+ electronic voting
	Warrant of Repeated Meeting in big companies (min 500 000 shareholders) with participants owing 20% voting shares (joint)	
		Clear dividend policy

Main Issues	Code Edition	
	2002	2013
Board of Directors of the company	Functions, duties and responsibilities of the board	Clear definition of jurisdiction and functions of the board of directors in the articles of association and differentiation of the powers of the Board of Directors, executive bodies and the General Meeting of shareholders
	Recommendation for independent directors and its definition	More detailed and advanced criteria of independent director definition
	Description of possible committees	Creation of committees is a <u>must</u> for effective functioning of the Board
	Equal Remuneration for all directors	Different approaches to remuneration
		Consideration of interests of such stakeholders as environment
		Establishment of long term oriented goals and perspectives
		Definition of approach for organization of risk management and external audit

What is new in Russian Corporate Governance?

New Corporate Governance Code



Main Issues	Code Edition	
	2002	2013
Executive Bodies of the company	No directorship in other companies except for subsidiaries	No record of directorship prohibition in other companies
		New issues: delegation of powers of the sole executive body to the managing organization
Corporate Secretary of the company	Recommendation of Corporate Secretary position introduction	Corporate Secretary position as a necessity
	Duties of Corporate Secretary	Definition of Corporate Secretary status
		Detailed description of Corporate Secretary functions
Major Corporate Actions	Major (big) transactions, reorganization, liquidation	Listing and delisting of shares, company takeover, increase in the authorized capital of the company
New Chapters		System of remuneration of directors, the executive bodies and other key management employees of the company (different approaches to remuneration)
		System of risk management and internal control.

Topics addressed and Problems covered in the 2013 code



- Problem of reporting about compliance with the Code
- Disclosure of information for general shareholder's meetings
- Problems concerning activities of the board of directors
- Control over financial and economic activity
- Effectiveness and potential of Audit Committee
- Structure and operation principles of Board of Directors
- Transparency
- Effective mechanisms of minority shareholders rights protection
- Reporting on compliance with the Code

BRIC and Corporate Governance



Index	Country				
	Russia	Brazil	China	India	
Population (million), 2012, World Bank	143,5	198,7	1 350,7	1 236,7	
Number of listed domestic companies, 2012, World Bank	276	353	2 494	5 191	
GDP-PER CAPITA (PPP), 2012, World Bank	23 549	11 909	9 233	3 876	
GDP average growth rate (5 years, 2008-2012), World Bank	1,9	3,2	9,3	6,5	
Corruption perception index (scale 0-100; 0-highly corrupt, 176 countries sample), 2012, Transparency International	Score	28	43	39	36
	Rank	133	69	80	94
Sovereign Credit Rating, 2012, Standard & Poor's	Rating	BBB	BBB	AA-	BBB-
	Outlook	Stable	Negative	Stable	Negative

Innovation or imitation?



- The Draft Code covers all JSC
- Nomination committee discusses potential board members with all shareholders irrespective of number of shares own
- Detailed definition of board's independency
- All committees should be chaired by independent directors, whereas audit committee should be fully independent
- The board has to “consider the interests of stakeholders, including employees, creditors, suppliers of the company and people living in the territory in which the company operates” Russian Draft Code of Corporate Governance 2013, 14)
- Companies have to provide additional information to board members when requested, which is considered to be a part of their formal written duties
- Annual evaluation of board's effectiveness, which is to be carried out by an external party at least every 3 years. Disclosure of individual board members meeting attendance for measurement of their effectiveness
- The Code motivates companies (including affiliated ones) to disclose all material information even if not required by law
- The Code requires disclosure of pay policies for executives and other managers and recommends majority-independent remuneration committee
- The Code sets out a substantial number of recommendations that seek to allay serious and longstanding investor concerns
- Explicit disapproval of multiple share structures, support for one share – one vote system, demand for new placements not to violate dividend rights

Innovation or imitation?



- The minimum proportion of independent directors should be raised from 33% to 50%
- Audit committee must be composed of financially literate independent directors, whose function has to be explicitly separated from the function of revision commission
- Code's definition of financial literacy falls short of that normally regarded as necessary
- The role of whistleblower protection is underappreciated
- Appointment of the audit firm for IFRS financial statements should be approved by shareholders
- The code neglects clear guidance regarding the balance between audit and non-audit services
- No information about on-going board training and development in the Code
- Disclosure policy should be fair to all shareholders and continuous to all material developments
- The Code could issue a set of best-practice investor relations guidelines against which the companies could be benchmarked
- Disclosure of pay policy should apply beyond the board level and cover highest –paid executives; Say-on-Pay provision could be introduced.
- The Code should stimulate companies to introduce takeover regulations, especially mandatory tender offers and squeeze-outs, owing to the absence of these amendments in the JSC law
- Application of the Code on Comply or Explain basis is recommended

Research agenda – Where to go from here



- **Directives vs. Standards**
 - what suits BRIC countries better in their Corporate Governance implementation?
- **CSR in BRIC**
 - The concept of CSR in BRIC is being discussed
 - Development of codes of corporate ethics under development (e.g. Russia)
 - Reporting standards
 - Barriers

THANK YOU!



• Questions?