

# Russia: Setting-up Corporate Governance and Compliance Management Systems

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# Agenda

- Legal forms for set-up in Russia
- Russian corporate law essentials
- Compliance management system implementation

# Legal forms for set-up in Russia

- Branch / Representative office
- Limited Liability Company
- Joint Stock Company

# Branch / representative office

## PROS

- HQ policies and governance bodies may be applicable when adopted in compliance with Russian law
- Funds of a branch can be transferred to the parent company's accounts and vice versa without limitations and legal justification
- Employees can keep their employment agreements with the parent company

## CONS

- Complicated long-term costly process
- Liabilities of a branch / rep. office in Russia are liabilities of its parent company
- Rep. office cannot conduct commercial activities
- Payments to be made between a branch and its clients / subcontractors in Russia are subject to currency control procedures

# Limited Liability Company

## PROS

- Minimum size of charter capital – 10 000 ₺
- Short-term and inexpensive registration process
- LLC bears its own liabilities which as a general rule cannot be transferred to a shareholder
- HQ policies and governance bodies may be mirrored if adopted in compliance with Russian law

## CONS

- Information about participants (shareholders) is publicly available
- funds deposited in accounts of an LLC cannot be transferred to the parent company's accounts without legal justification

# Joint Stock Company

## PROS

- Minimum size of charter capital – 10 000 ₰ for non-public JSC
- Information about shareholders is closed for third parties
- JSC bears it's own liabilities which as a general rule cannot be transferred to a shareholder

## CONS

- Minimum size of charter capital – 100 000 ₰ for public JSC
- Complicated registration procedures, emission of the shares is required
- Obligatory annual audit

# Other options for market entry

- Acquisition of an existing company
- Joint venture
- Contract manufacturing

# Russian corporate law essentials

## Governing bodies

General meeting of participants/shareholders

Board of Directors (obligatory for public JSC)

Plural executive body (obligatory for public JSC)

Sole executive body – GD(s), MC



# Corporate approvals

- Major transactions\* are subject to approval
- Interested party transactions need further notification
- Additional criteria provided by the Charter

Transactions within ordinary course of business are not subject to approval, unless they might lead to:

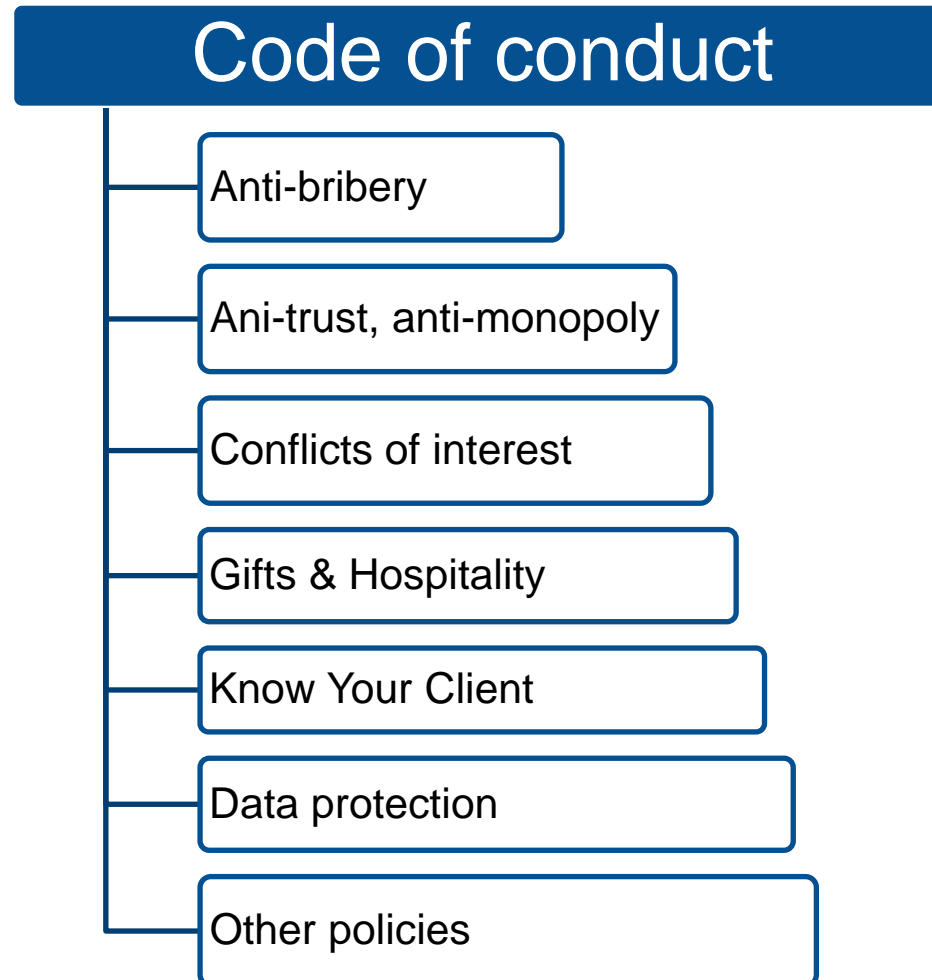
- Termination of company`s activity
- Change of activity type
- Otherwise substantially changing the scale of activity

\* 25% of the balance sheet value of property

# Implementing compliance

1. Appoint compliance officer
2. Adopt code of conduct and relevant policies
3. Conduct ongoing team training
4. Ensure effective control and investigations
5. Audit regularly, both internally and externally
6. Exercise due diligence

# Compliance Management System



# Auditing compliance

Q. How often?

A. At least once every two years

Q. Which areas should be covered?

A. Vendors, contracts, licenses, labour relations, standards, charity, personal data

Q. Who will audit?

A. Compliance officer of HQ / consultants

A. What will be the result and why do I need this?

Q. Auditor's report, based on which you will plan your further steps towards compliance integrity

# Business Partner Due Diligence

- Background check on business partners should be performed regularly and substantially
- Policy/procedure describing the process should be adopted
- Typical red flags and “no go”s should be determined

Specific attention should be paid to the cases when

- "consulting agreements" include vaguely described services
- BP is in line of business different than engagement
- BP is related to or closely associated with a an official or became involved at the request of an official
- BP requests payment to the bank account of third party or cash payments



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