Russia: Corporate Governance System in Russia

Author(s): Teixeira, Bruno; King, Tatiana

Title: Russia: Corporate Governance System in Russia

Year: 2025

Version: Accepted manuscript

Please cite the original version:

Teixeira, B., & King, T. (2025). Russia: Corporate Governance System in Russia. In C. B. Macagnan (Ed.), *Corporate Governance in Capital Markets: Navigating Governance Systems of Publicly Traded Firms* (pp. 125-143). CSR, Sustainability, Ethics & Governance. Springer. https://doi.org/10.1007/978-3-031-94751-3_6

RUSSIA

CORPORATE GOVERNANCE SYSTEM IN RUSSIA

Bruno Teixeira
University of Vale do Taquari, Univates

Tatiana King
University of Vaasa

Introduction

Russia is a non-member country of the Organization for Economic Co-operation and Development (OECD), which, in the year 2023, occupied the position of 11th (eleventh) largest economy in the world, with a gross domestic product (GDP) of USD 2.02 trillion (OECD, 2024; World Bank, 2024). Historically, Russia remained a closed economy for approximately seven and a half decades, a period that began with the Russian Revolution in 1917 and ended in 1991 with the end of the Soviet Union. The transition from a socialist economy to a market economy started in the following years through successive privatization of state-owned companies (Judge & Naoumova, 2004). However, this has resulted in a capital market characterized primarily by insider-controlled and state-controlled companies (Chernykh, 2008; Grosman et al., 2016). This historical perspective has significantly affected Russia's corporate governance structure and practices over the last thirty years.

A systematic literature review was developed based on articles published in relevant journals on Russian corporate governance. Also, the legislation that regulates the Russian capital market, the corporate governance code published by The Central Bank of the Russian Federation, and other information related to the capital market or corporate governance in Russia were analyzed in the following sources: Word Bank (WB), World Federation of Exchanges (WFE), International Monetary Fund (IMF), Moscow Exchange (MOEX), big four audits, and Russian state bodies.

The results indicate that Russia has sought to improve the structure and practices of corporate governance, particularly with the publication of the corporate governance code and the reformulation of the legislation on corporations. Anglo-Saxon and European traditions inspire such enhancements. However, there are still challenges regarding protecting minority shareholders in terms of enforcement and the participation of women in governance bodies. It is important to highlight that, although this chapter includes data and information following the onset of Russia's second invasion of Ukraine on February 24, 2022, the regulatory context and empirical literature describe corporate governance as it was before the conflict. After this introduction, the chapter continues with section 2, which defines corporate governance in Russia. The section is divided into 3 (three) parts. The first part provides an overview of the Russian stock exchange, its main indices, the leading listed companies, the supervisory and regulatory bodies, and the primary legislation. The second part describes the historical perspective of the privatization process in Russia in the 1990s, which resulted in the current ownership structure. The third part exposes Russian companies' existing corporate governance mechanisms. Finally, part 4 concludes.

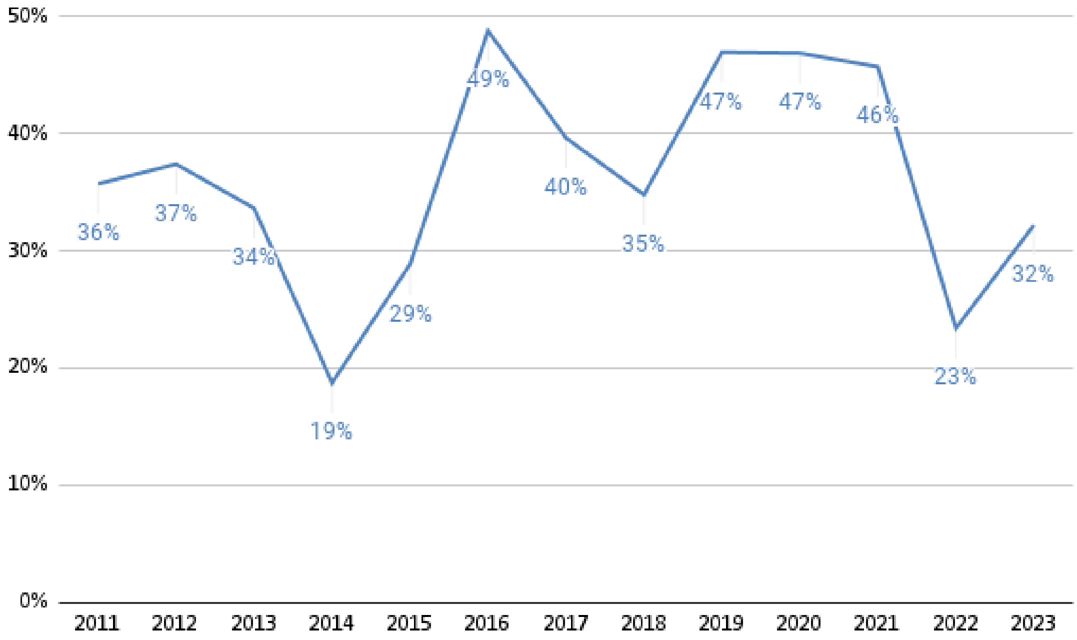
2. Corporate governance

Since the beginning of the 1990s, with the end of the Soviet Union and the gradual insertion of a market economy, Russia has sought to improve its corporate governance mechanisms. However, this movement was more important from the beginning of the 2000s through implementing a governance code and revising the legislation on corporations (Johannesson et al., 2012; Alon, 2013). Therefore, this section addresses the main aspects of corporate governance in Russia based on the sources described in the methodology of this article. Thus, this section comprises topics: a) Capital markets: an overview of the stock exchange and regulatory aspects; b) The ownership structure of Russian companies; and c) Corporate governance structure and practices: issues that affect minority shareholders' rights.

2.1. Capital markets: an overview of the stock exchange and regulatory aspects.

In Russia, trading in shares, bonds, derivatives, currencies, money market instruments, and commodities takes place on its only exchange, the Moscow Exchange (MOEX), founded in 2011 from the union between the Moscow Interbank Currency Exchange (MICEX) and Russian Trading System's (RTS). On February 15, 2013, MOEX carried out its shares' initial public offering (IPO) (MOEX, 2014, 2021). As a result, this exchange is ranked among the thirty leading stock exchanges globally regarding the market value of the shares traded, with the respective sum representing USD 650 billion at the end of 2023 (World Federation of Exchanges, 2023). The historical perspective of MOEX relevance is presented in Graph 1 through the percentage ratio between the market value of the shares traded and the Russian GDP between 2011 and 2023.

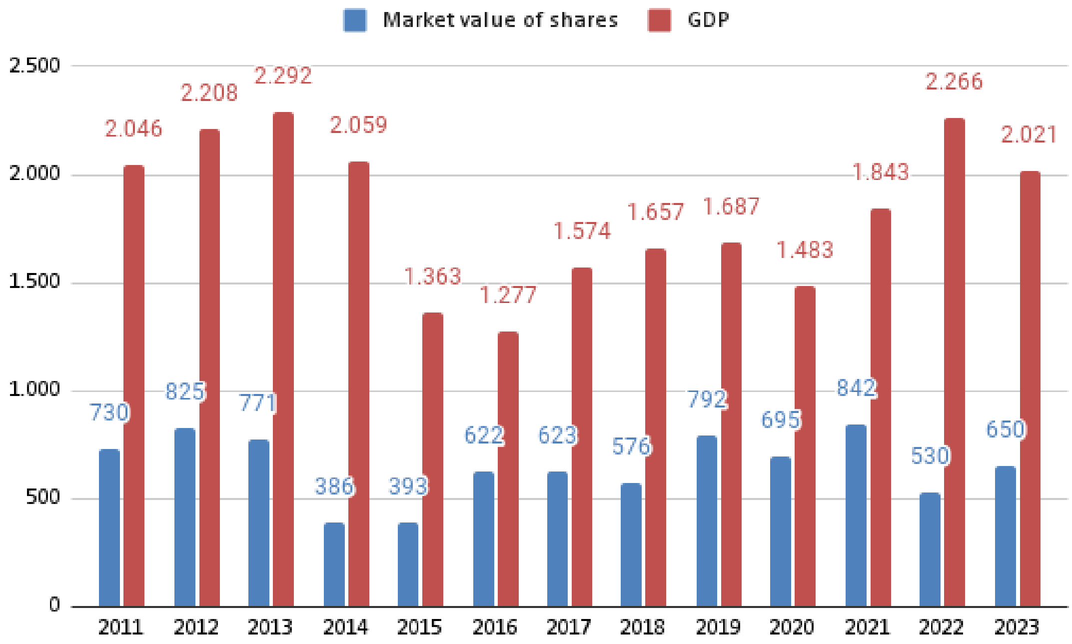
Graph 1 – Percentage relationship between the market value of shares traded on the MOEX and Russian GDP



Source: Values calculated by the authors based on data from the World Federation of Exchanges (2024) and the World Bank (2024).

Graph 1 shows that the market value of shares traded on the MOEX has always represented an amount greater than 25% of the Russian GDP. However, this did not occur in 2014 and 2022 due to the wars between Russia and Ukraine, which resulted in sanctions imposed on Russia by the West. (Stepanyan et al., 2016; Keleş, 2023). After this period, Russia's GDP did not recover to pre-war levels (before 2013), showing a reduction of approximately 12%. Additionally, the market value of stocks decreased by around 16%. These figures can be seen in Graph 2 and support what is shown in Graph 1.

Graph 2 – Market value of stocks traded on the MOEX and the GDP of Russia (In USD billion)

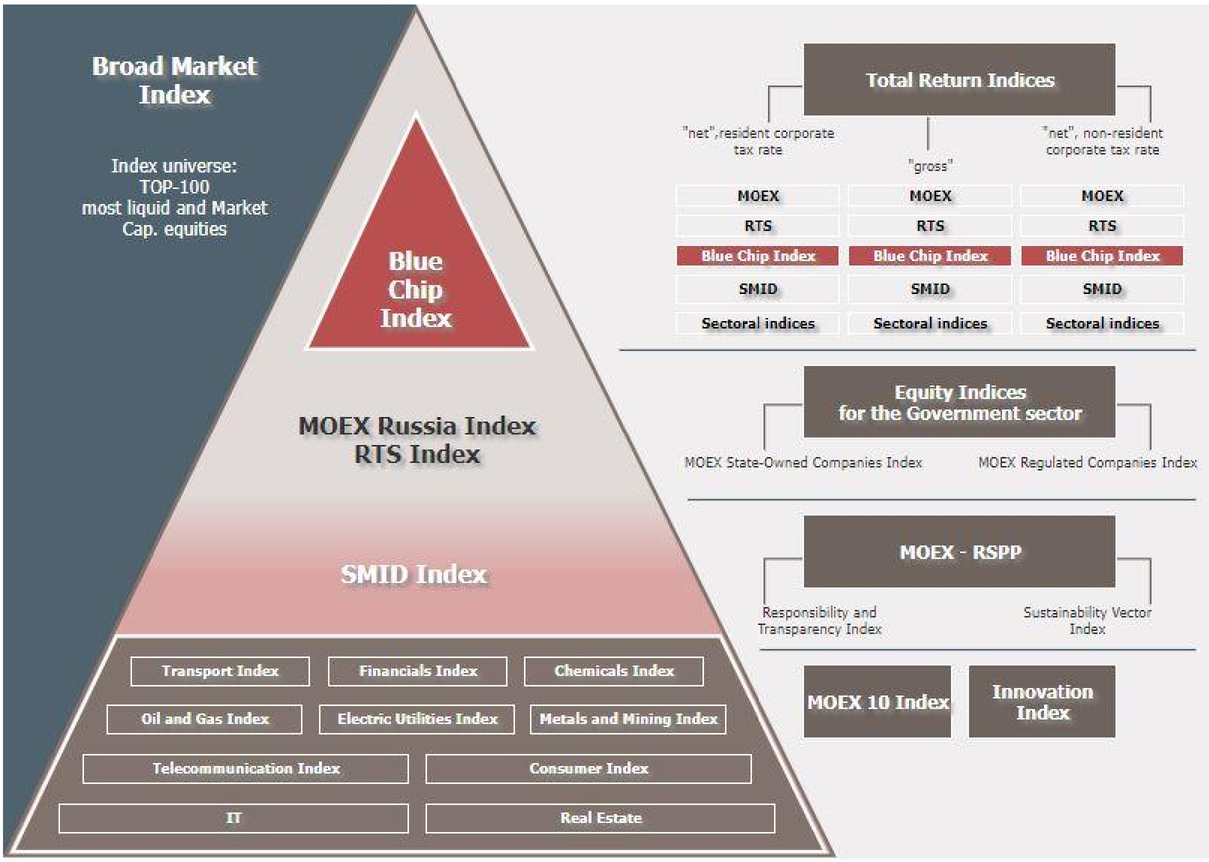


Source: World Federation of Exchanges (2024) and the World Bank (2024).

Finally, Graph 2 shows that although there has been an increase in the value of stocks traded in the Russian capital market after the crisis, this rise has not yet restored the values to the pre-war level of 2013. Russian companies operate in an environment characterized by geopolitical and economic instability. For instance, the sanctions imposed by the United States and the European Union on Russia, arising from geopolitical issues, have limited Russian companies' access to mergers and acquisitions processes, financing, equipment, and technologies (Nurgozhayeva, 2022). Consequently, this diminishes the attractiveness of Russian companies to investors due to the unpredictability of doing business (Ershova, Zavertiaeva & Kirpishchikov, 2023; García-Gomez, Zavertiaeva & Iturriaga, 2023).

In December 2023, the MOEX was composed of 828 (eight hundred and twenty-eight) listed companies. Additionally, as of the mentioned date, the MOEX had 13 (thirteen) stock indices, as shown in Figure 1.

Figure 1 – MOEX Stock Index



Source: MOEX (2024).

MOEX (2024) categorizes the indices into general thematic equity indices. The indices that make up the general equity indices are the RTS Index (RTSI), the MOEX Russia Index (IMOEX), the Blue-Chip Index (MOEXBC), the SMID Index (MCXSM or RTSSM), the Broad Market Index (MOEXBMI or RUBMI), and the Sectoral Indices, considered the most relevant by MOEX. The RTS Index (RTSI) comprises the 50 most liquid shares of the largest companies on the stock exchange. The main assets traded are concentrated in the energy (45.12%), financial (22.67%), and metals and mining (15.72%) sectors. It was created on September 1, 1995, and is denominated in US Dollars. The MOEX Russia Index (IMOEX) was created on September 22, 1997, and has the same composition as the RTS Index (RTSI). However, the MOEX Russia Index (IMOEX) is measured in the Russian Ruble.

Created on April 23, 2009, the Blue-Chip Index (MOEXBC) comprises the shares of the 15 (fifteen) most liquid companies with the highest market capitalization. The stocks in this index are concentrated in the energy (55.8%), financial (23.86%), and metals and mining (18.49%) sectors. It is expressed in the Russian Ruble. Adopted as of December 17, 2012, the SMID Index (MCXSM or RTSSM) comprises all medium-sized company shares on the stock exchange. The assets of this index are distributed mostly in the sectors of transportation (15.12%), information technologies (15.11%), consumer (13.37%), financials (12.86%), and electric utilities (10.39%). The MCXSM code is used to express the index in Russian Rubles, and the RTSSM code is used to express the index in US Dollars. The Broad Market Index (MOEXBMI or RUBMI) comprises the 100 (one hundred) leading stocks on the stock exchange based on liquidity, capitalization, and free float. The assets that stand out are the energy (42.32%), financial (22.44%), and metals and mining (14.93%) sectors. The MOEXBMI code is used to display the Russian Ruble index, and the RUBMI code is used to display the US Dollar index. This index was created on December 30, 2011. The Sectoral Index separates the companies in the Broad Market Index into the following sectoral indices: consumption (MOEXCN), construction (MOEXRE), chemical (MOEXCH), financial (MOEXFN), electric utilities (MOEXEU), metals and mining (MOEXMM), energy (MOEXOG), information technology (MOEXIT), telecommunications (MOEXTL) and transport (MOEXTN). Sector indices are shown in Russian Ruble and US Dollar. This index is calculated since December 30, 2004.

An important aspect to consider is that the most significant stocks in the Russian capital market, which are part of the general equity indices, are concentrated in the following sectors: energy, finance, metals, and mining. These sectors are characterized by state-controlled companies, particularly in the oil and gas segments. Chernykh (2008) reveals that companies in strategic sectors, such as gas, electricity, oil, and telecommunications, were kept mainly under Russian state control during privatization in the 1990s. Also, since 2000, the Russian state has made certain state-owned companies and industry leaders profitable. As a result, it sells minority stakes in these companies to private investors (Grosman et al., 2016). Concurrently, the Russian state resumed expanding its economic participation by acquiring large private companies, leading to a greater concentration of ownership (Nurgozhayeva, 2022). This context can be seen in Table 1, which contains 10 (ten) companies that are part of most of the indices that make up the general equity indices.

Table 1 – Top ten companies listed on the MOEX (On November 18, 2024)

Code	Companies	Capitalization (USD billions)	Free Float	Sector	Ownership
SBER	Sberbank	54.2	48%	Financial	State-owned
ROSN	Rosneft	50.6	11%	Energy	State-owned
LKOH	Lukoil	48.5	55%	Energy	Private
GAZP	Gazprom	30.8	50%	Energy	State-owned
NVTK	Novatek	27.2	21%	Energy	Private
GMKN	Norilsk Nickel	17.5	32%	Metals and mining	Private
YNDX	Yandex NV	13.4	15%	IT	Private
TATN	Tatneft	12.2	32%	Energy	State-owned
CHMF	Severstal	10.1	23%	Metals and mining	Private
SNGS	Surgutneftegas	9.1	25%	Energy	State-owned

Source: MOEX (2024).

Table 1 shows that among the top 10 companies listed on MOEX, 60% (sixty percent) are from the energy sector. Furthermore, 50% (fifty percent) are under state control. Among the energy sector companies, 83% (eighty-three percent) are controlled by the Russian state. In 2010, the share of state-controlled Russian companies in the RTS Index (RTSI) was approximately 54.5% (fifty-four-point five percent), with 89.5% (eighty-nine-point five percent) in the financial sector, 66.5% (sixty-six-point five percent) in the oil and gas sector, and 61% (sixty-one percent) in the energy sector. The Russian state's economic expansion accelerated following economic measures adopted to mitigate the effects of the 2008 crisis and the sanctions imposed by the United States and European Union in the 2014 geopolitical crisis (Nurgozhayeva, 2022).

The indices that are part of the thematic equity indices include the MOEX Russia Total Return Indices (MCFTR), the State-owned Companies Index (MOEX SCI), the Regulated Companies Index (MOEX RCI), the Responsibility and Transparency Index (MRRT), the Sustainability Vector Index (MRSV), the MOEX 10 Index (MOEX10), and the MOEX Innovation Index (MOEXINN). The MOEX Russia Total Return Indices (MCFTR) represent the total return of the stocks that make up each of the following indices: RTS Index (RTSI), MOEX Russia Index (IMOEX), Blue Chip Index (MOEXBC), SMID Index (MCXSM or RTSSM), and Sector Indices. They are calculated by index, separating the results into Russian and non-Russian companies. Their value is expressed in Russian Ruble and began being used on December 30, 2004. Created on December 30, 2011, the State-owned Companies Index (MOEX SCI) comprises companies on the stock exchange whose ownership structure includes the state as a participant. It should be noted that it is shown in the Russian Ruble. The Regulated Companies Index (MOEX RCI) comprises stock exchange companies operating in sectors regulated and supervised by Russian state bodies. It started to be calculated on December 30, 2011, and is expressed in Russian Ruble.

The Responsibility and Transparency Index (MRRT) started to be used on December 30, 2011, comprising equity issuers who fully disclose information on sustainable development and corporate social responsibility. It is expressed in Russian Ruble. Adopted as of December 30, 2011, the Sustainability Vector Index (MRSV) comprises stock company shares that present the best indicators of sustainable development and corporate social responsibility. It is also calculated for Russian issuers only, and its name is the Sustainability Russian Companies Vector Index (MRSVR). In addition, MOEX estimates the return of these indices using the MOEX – RSPP Sustainability Vector Total.

The MOEX 10 Index (MOEX10) comprises the 10 (ten) most liquid stocks on the exchange, including shares of the companies Aeroflot (AFLT), Gazprom (GAZP), Lukoil (LKOH), Novatek (NVTK), Ozon (OZON), Rosneft (ROSN), Sberbank (SBER), Surgutneftegas (SNGSP), TCS Holding (TCSG), and VTB Bank (VTBR). This index began to be calculated on December 30, 1997, and is expressed in Russian Ruble. The MOEX Innovation Index (MOEXINN) includes shares of companies traded in the investment and innovation markets, such as Artgen Biotech (ABIO), Nauka (NAUK), Nauka-Telecom (NSVZ), and United Aircraft Corporation (UNAC). It started to be calculated on December 29, 2009, and is presented in the Russian Ruble (MOEX, 2024).

The Financial Market Infrastructure Department and the Corporate Affairs Department supervised and regulated the Russian capital market linked to the Central Bank of the Russian Federation. The Financial Market Infrastructure Department was created in 2020 and aims to regulate and supervise financial organizations that operate in the financial market's accounting, trading, settlement, and information infrastructure. The

Corporate Affairs Department regulates and oversees issues related to the issuers' compliance with Russian laws and monitors the corporate governance practices of companies listed on the stock exchange (The Central Bank of the Russian Federation, 2021).

Russia is a republic based on civil law (The Constitution of the Russian Federation, 1993; Woodruff, 2004). Therefore, Orazalin et al. (2016) highlight that the performance of supervisory and regulatory bodies in the Russian capital market is based on a set of regulations, mainly those described below:

a) The Civil Code of the Russian Federation Part One No. 51-FZ of November 30, 1994: The Russian civil code provides that organizations can be constituted as a partnership and a company. It also defines that these organizations have civil rights and obligations when formed. In addition, it limits owners' liability to the commitments of their organizations and vice versa. Finally, it establishes rights (access to accounting information and other documents, receipt of dividends, etc.) and obligations (to carry out the investment following the organization's incorporation documents, maintain the confidentiality of confidential information, etc.) on the part of the partners or shareholders.

b) Federal Law of December 26, 1995, No. 208-FZ On joint-stock companies: This law regulates the entire operation of public and private companies. Among the main aspects addressed in this law are the following: business combinations, the process of liquidation of companies, types of shares, shareholders' rights, shareholders' agreements, dividend policies, general and extraordinary shareholders' meetings, the board of directors, the executive board, and the required documents.

c) Federal Law of April 22, 1996, No. 39-FZ On the securities market: The law regulates the relationships established in the issuance and circulation of issued securities, regardless of the type of issuer. It also regulates the activities of professionals participating in the securities market.

d) Federal Law of March 05, 1999, No. 46-FZ On protecting investors' rights and lawful interests in the securities market: This law aims to ensure the rights and interests of investors and define procedures for the payment of compensation to them arising from damages caused by illegal actions by issuers and other participants in the securities market.

In addition to the laws mentioned above, Federal Law No. 208-FZ On Consolidated Financial Statements, approved at the end of 2011, mandates that companies listed on the MOEX present consolidated financial statements in accordance with international accounting standards (IFRS) as of 2012 (IFRS Foundation, 2024). The adoption of IFRS is seen as a mechanism that enhances corporate governance and is expected to bring multiple benefits, including increased transparency (Alon, 2013). However, accounting in Russia continues to rely on Russian Accounting Standards (RAS) for taxation purposes (Chui et al., 2020). Although RAS is based on IFRS, there are still gaps where certain IFRS standards do not have corresponding RAS equivalents, and some RAS have yet to be fully updated to align with IFRS (Generalova, Pyatov & Sokolov, 2024).

As there are two accounting standards Russian companies can hire the same audit for RAS and IFRS or an audit for RAS and another for IFRS. Russian legislation does not provide for restrictions on hiring auditors to carry out audits of financial statements based on RAS or IFRS. The only requirement is that the auditors are chosen through public selection, and auditors rotate every five years in companies with a minimum state participation of 25% (twenty-five percent) (Chui et al., 2020). However, for other companies, there is no mandatory rotation of auditors (Kamarudin et al., 2022). Federal Law 208-FZ on joint-stock companies establishes that the general meeting of shareholders has the prerogative to appoint the company's auditors. On the other hand, the board of directors defines the auditors' fees.

The Federal Law of December 30, 2008, No. 307-FZ On Auditing determines that in Russia, auditing is mandatory for:

- Organizations whose securities are admitted to organized trading.
- Banks, insurance companies, stock exchanges, and investment institutions.
- State and municipal unitary enterprises.
- Companies (except for agricultural cooperatives and unions of these cooperatives) whose annual income for corporate tax purposes for the preceding financial year exceeds RUB 800,000,000 or for which the value of assets on the balance sheet at the end of the year preceding the financial year exceeds RUB 400,000,000;
- Other cases where federal laws require an audit to be conducted.

The Russian Ministry of Finance supervises auditing activities, and quality control and audit certification are the responsibility of the Self-Regulatory Organizations (SROs). In this sense, audit activities are still monitored by the Russian state (Chui et al., 2020).

Since in this section the main aspects of the stock exchange, the supervisory and regulatory bodies, and the legislation governing the Russian capital market were exposed in this section. The following section addresses the predominant role of Russian companies' capital structure on the stock exchange.

2.2. The ownership structure of Russian companies

Russian history is characterized by several wars and crises. In 1905, the first Russian revolution took place, with the failed attempt to overthrow the Tsar and transform the autocratic country into a democratic government. In 1914, in the context of the First World War, the Russian economy was devastated. In 1917, Lenin's Bolsheviks took advantage of the weakening of the government and overthrew the corrupt ruling class, forming the Soviet Union. During the Stalin government, between 1929 and 1953, a centralized economic model was adopted, created by a relationship of exchange of favors between government bureaucrats and Soviet managers of companies, resulting, for example, in the falsification of figures relating to the results of companies, against the goals established by the central government. This situation and the Second World War brought down the Russian economy (Judge & Naoumova, 2004). Therefore, informal rules, the exclusion of outsiders, and the withholding of information have become part of the Russian institutional environment (Judge & Naoumova, 2004; Estrin & Prevezer, 2010; Johannesson et al., 2012; Braguinsky & Mityakov, 2015).

During the 1990s, with the end of the Soviet Union, Russia began a process of privatization of companies that, until then, belonged to the state. However, this process occurred by adopting corrupt practices, resulting in companies controlled by well-connected insiders, directors, or controllers with strong influence on the board of directors. In this context, the auction of shares of state-owned companies in the oil and metallurgy sectors, given a guarantee of unpaid loans by the Russian government, was obtained from certain banks, which led to the formation of monopolies of financial-industrial groups. Another relevant aspect is that there are private companies in Russia whose control is difficult to be identified. That occurs as shares can be issued in the name of owners' representatives who hide their identification through offshores (Filatotchev, 1997; Buck et al., 1998; Chernykh, 2008; Demirbas & Yukhanaev, 2011).

Therefore, western-style foreign ownership of Russian companies could positively affect the dissemination of Corporate Social Responsibility (CSR) practices. However, foreign ownership of Russian companies between 2012 and 2015 was distributed as follows: 26% (twenty-six percent) in Cyprus or the Virgin Islands, 8% (eight percent) in the USA, Europe, and Canada, and 2 % (two percent) in Bermuda, Cayman Islands, Belize, etc. This context denotes a search for fiscal optimization through offshores, given that a negative relationship exists between foreign ownership of Russian companies and the disclosure of CSR practices (Garanina & Aray, 2021). From the 2000s onwards, Russia modified its privatization strategy, strengthening state-owned companies in relevant sectors and selling minority stakes to private investors. In addition, Russia has increased its shareholding in companies through pyramids or golden shares (Grosman et al., 2016). Table 2 presents the historical landmarks of state and private participation in Russian companies.

Table 2 – Historical landmarks of state and private participation in Russian companies

Time course	Event
1990 – 1995	The legislation that allowed the existence of private ownership of companies was established. Thus began the privatization process through free vouchers distributed to all Russian citizens.
1995 – 2000	In these five years, the process of monetary privatization began. The Russian government borrowed from some financial institutions, giving as collateral shares of state-owned companies to extract natural resources. The loans were not repaid, and the shares were auctioned.
2000 – 2005	Vladimir Putin became president, and the state began to regain company control by purchasing private company assets. As a result, in terms of proportion, the market capitalization of state-owned companies increased from 20% in 2003 to 50% in 2010.
2005 – 2010	The initial public offering (IPO) of Rosneft, a state-owned oil sector, and VTB, a state-owned financial industry, was held on the London Stock Exchange (LSE). In addition, state-controlled assets are consolidated in state-owned companies Rosnanotech and Rostekhnologii.

Source: Kuznetsova & Kuznetsov, 1999 and Grosman et al., 2016

Given the above, the state or private insiders control Russian companies, putting minority shareholders in a weak position (Chernykh, 2008; Pöyry & Maury, 2010). La Porta et al. (2000) state that controlling shareholders can adopt measures that benefit themselves and harm minority shareholders, even causing their expropriation. Among the standards above, in Russia, the following stand out: the creation of shell companies, tax evasion onshore and offshore, non-announcement of the shareholders' meeting, lack of transparency on management decisions and the financial statements, exclusion of the name of shareholder records, etc. (Desai et al., 2007; Markus, 2008; Goncharov & Triest 2014; Nizaeva & Uyar, 2017).

Attention is also drawn to what happened during the 1998 Russian financial crisis. Insiders have divested companies' assets and cash flows in various ways, such as through stock dilution. In addition, they disrespected the interests of creditors and employees through insolvency proceedings that expanded their control over assets. The poor quality of information generated by accounting facilitated executing these actions (Jesover, 2001; McCarthy & Puffer, 2008). Shleifer and Vishny (1997) also report that insiders of Russian companies threatened to fire employees who owned shares if they did not vote according to their interests.

The weak enforcement, characteristic of the Russian institutional environment and other developing countries, can contribute to the low protection of minority shareholders (Wright et al., 2003; Johannesson et al., 2012; Oliveira et al., 2016; Garanina & Kaikova, 2016). La Porta et al. (2000) point out that, in general, countries that use civil law have weaker protection of minority shareholders compared to countries that use common law. Insufficient protection of minority shareholders can reduce the liquidity of the capital market. In addition, weak enforcement makes it impossible for such shareholders to seek their rights in court when these are disrespected (Shleifer & Vishny, 1997; Li et al., 2012).

An essential aspect is that the 10 (ten) largest Russian non-financial companies, in terms of direct investment abroad, have about 30% (thirty percent) of the board seats occupied by foreigners (Liuhto, 2017). Furthermore, Garanina and Aray (2021) identified in their study that Russian companies with foreign board members show greater transparency concerning CSR. The authors also emphasize that the international experience of these members, especially from the USA and Europe, helps to create long-term value for shareholders. Besides, the most excellent transparency of CSR is identified in Russian companies listed on stock exchanges in other countries (cross-listing). That may be a way for Russian companies to legitimize themselves in the foreign market.

Given the context, the next section highlights the structure and practices of corporate governance provided for in the regulation’s Russian companies, which aim to mitigate the possible agency problems.

2.3. Corporate governance structure and practices: issues affecting minority shareholders' rights.

The Russian corporate governance model is inspired by the Anglo-Saxon and European models (Johannesson et al., 2012; Garanina & Kaikova, 2016). Evidence of this inspiration is described in its joint-stock company law, which states that the general meeting of shareholders is the highest decision-making body for companies and that the board of directors can be made up of one (Anglo-Saxon) or two levels (European). The board is structured on two levels: the management board and the supervisory board (World Bank, 2013; Garanina & Kaikova, 2016). The management board is responsible for the company's current activities and reports directly to the supervisory board and the company's general meeting. On the other hand, the supervisory board has general management aspects as its scope. It reports directly to the company's public meeting (Federal Law of December 26, 1995, No 208-FZ On joint-stock companies).

Regarding the board size, the number of members must be stated in the company's bylaws. However, the Russian corporation law determines some parameters for defining the size of the board, namely, when the company has up to 1,000 (one thousand) shareholders with voting rights, the board must not have less than 5 (five) members. If the company has between 5,000 (five thousand) and 10,000 (ten thousand) shareholders with voting rights, the board must not have fewer than 7 (seven) members. Finally, if the company is made up of more than 10,000 (ten thousand) shareholders with voting rights, the board must not have fewer than 9 (nine) directors (Berezinets et al., 2017). The authors mention that the Russian corporate governance code does not mention the size of the board.

In terms of the composition of the board, the legislation establishes that the participation of executives must be limited to a quarter of the total members and that the Chief Executive Officer (CEO) cannot simultaneously exercise the activity of the chairman of the board (Chairman), that is, duality is not allowed (Iwasaki, 2007; Berezinets et al., 2017). Furthermore, although there is no legal provision, the Russian corporate governance code recommends that a third of the board members be independent (Berezinets et al., 2017; Okhmatovskiy, 2017). In 2011, the Russian government replaced a significant number of state representatives on the boards of state-owned companies with independent members. However, this did not increase the autonomy of SOEs, as lower-level government officials retained their positions on the board. Therefore, they made decisions and voted according to the guidelines of high-ranking government officials (Grosman et al., 2016). In any case, the participation of government-related advisers is higher in Russia than in other emerging countries, such as India and Turkey (Ararat et al., 2021).

The legislation does not present any requirement related to gender equality on board composition. Female participation in the board of directors of Russian companies is associated with a lower turnover of the Chief Executive Officer (CEO), which increases the value of companies, and with greater diligence, resulting from a more significant number of meetings (Kim et al., 2020). However, the proportion of women on boards of Russian companies is still low (Garanina & Kaikova, 2016). Between 1998 and 2014, the women's representation on boards was approximately 12% (twelve percent). Furthermore, the distribution of this participation was as follows: one director in 33% (thirty-three percent) of the companies, two directors in 17% (seven percent) of the companies, and three directors in 7% (seven percent) of the companies. Companies and four or more counselors in only 3% (three percent) of the companies. Finally, 40% (forty percent) of Russian companies do not have women on their boards of directors (Garanina & Muravyev, 2021).

The corporate governance code recommends the establishment of advisory committees for the board of directors, such as audit, compensation, and appointment committees (The Central Bank of the Russian Federation, 2014). As a result, Russian companies have implemented audit committees. On the other hand, the remuneration and appointment committees have been formed in a single structure, which would not follow the code above's recommendations. Furthermore, an essential feature of the committees formed by Russian companies is the existence of a strategy committee. When implemented, this committee aims to prepare the company's strategy, and the board is responsible for monitoring the defined strategy (Berezinets et al., 2017).

The Russian shareholding system comprises common and preferred shares, with preferences limited to 25% (twenty-five percent) of the company's authorized capital. Common shares allow voting at general shareholders' meetings and participating in company results. On the other hand, preferred shares are usually entitled only to dividends, which can be fixed or on earnings. In addition, certain types of preferred shares may entitle you to vote. The companies' bylaws must provide the rights and types of preferred shares.

Another point to be highlighted about dividends is that the general meeting defines the amount to be paid and cannot be higher than the board of directors recommended. (Federal Law of December 26, 1995, No 208-FZ on joint-stock companies). Therefore, there is no mandatory minimum dividend payment. La Porta et al. (2000) state that the obligation to pay dividends provided by law makes it possible for minority shareholders not to be wholly expropriated and encourages the participation of these shareholders in the capital market. The most members of the board of directors represent the interests of controlling shareholders and do not necessarily decide what is best for the company (World Bank, 2013).

To mitigate the effects of the conflict of interest between controlling and minority shareholders, the Federal Law of December 26, 1995, No. 208-FZ On Joint-Stock Companies, the MOEX, and the Russian Corporate Governance Code have established certain practices to protect minority shareholders. Some of these practices are exemplified below:

- Each share entitles you to one vote.
- Right to participate in general meetings of shareholders in person or remotely (vote on the ballot sent by post or electronic vote).
- Cumulative voting for the election of board members.
- Shareholders who own at least 10% (ten percent) of the shares with voting rights may call an extraordinary general meeting.
- Shareholders with at least 2% (two percent) of the voting shares may add items to the annual general meeting agenda and nominate candidates for the board of directors.
- A qualified quorum of 3/4 (three quarters) of the shares with voting rights is required to approve transactions whose value exceeds 50% (fifty percent) of the company's assets and relevant changes to the bylaws.
- Mandatory approval at the shareholders' meeting of transactions with interested parties whose assets add up to at least 10% (ten percent) of the company's assets.
- Minimum free float of 10% (ten percent).

On average, the level of implementation of minority shareholder rights in the Russian capital market is equivalent to that of emerging East Asian countries. It is higher than that of Latin American countries. Therefore, there are still corporate governance issues that need to be improved, such as manipulation of values in transactions with related parties, violation of shareholders' right to participate in general meetings, violation of shareholders' rights in corporate reorganization processes, lack of disclosure adequate control structure, among others (IMF, 2000; World Bank, 2013).

In any case, Russia has tried to improve corporate governance practices, and one of the main instruments is the corporate governance code, approved in 2002 (Demidenko & McNutt, 2010). This code was revised and published in 2014 by The Central Bank of the

Russian Federation and prepared with support from the Organization for Economic Co-operation and Development (OECD) and the Moscow Exchange (MOEX). Its use is voluntary (Demidenko & McNutt, 2010; Johannesson et al., 2012; Nizaeva & Uyar, 2017). The Russian code is based on the Organization for Economic Co-operation and Development (OECD) governance principles and is divided into 07 (seven) sections, namely: I. Shareholder rights and equality of conditions for shareholders exercising their rights; II. Board of directors of the company; III. Corporate secretary of the company; IV. The remuneration system is due to members of the board of directors, the executive bodies, and other key company managers; V. Risk management and internal control system; VI. Disclosure of information about the company and its information policy, and VII. Material, corporate actions.

The section titled *Shareholder rights and equality of conditions for shareholders exercising their rights* describes that the company must guarantee equal and fair treatment to its shareholders and the right to participate in the management through actions, opinions, provision of informative materials, voting rights, and participation in the company's profits. Because of this, when defining the value of dividends, transparency must be respected, respecting the limits imposed by law. Furthermore, it is up to the company to guarantee shareholders' equity in the same category and, consequently, to prevent any hierarchy between them. Finally, shareholders must have reliable and efficient means of registering their rights to the shares and the opportunity to dispose of them in a non-onerous manner freely.

The second section, which addresses the *Board of directors of the company*, stipulates that the board of directors is responsible for creating the risk management and internal control system, monitoring actions, appointments, and dismissals of members of the executive body, utilizing the company's development strategy and objectives, setting goals, and evaluating and approving performance indicators, strategies, and business plans related to the areas of operations. Additionally, it determines the policy on compensation for reimbursement of expenses for its directors and discloses information to shareholders. The board of directors is also responsible for including members free from the influence of the company's executive bodies or interested parties, thus following the criterion of independence and enabling the prevention of internal conflicts.

The Chair of the board can execute measures that oblige the board to provide information necessary for decision-making. For example, an independent director may be elected as the board's chairperson or coordinate with the other independent directors. Board members must act in ways that benefit the company and shareholders, basing their decisions on information obtained without conflicts and ensuring shareholders' equity. Board meetings and the participation of members are essential to ensure the board's efficiency and that they are held as needed. The board pre-selects essential issues about the company's business. Evaluating the quality of the work of the board of directors and its committees is crucial to verify that the company's needs were duly met and to identify possible improvements.

The section *Corporate Secretary of the Company* outlines that the corporate secretariat aims to facilitate interaction between shareholders, support the work of the board of directors, and coordinate actions to protect the rights of shareholders. To perform functions in the corporate secretariat, experience, knowledge, good conduct, and independence from executive bodies are essential. In case of a conflict of interest, the members of the corporate secretariat must immediately inform the chairperson of the board of directors.

The fourth section, titled *System of Remuneration Due to Members of the Board of Directors, the Executive Bodies, and Other Key Managers of the Company*, states that the remuneration of the Board of Directors, the Executive Body, and other members is carried out by the policy developed by the remuneration committee and approved by the board of directors. Adequate remuneration leads to motivation and efficiency at work and the retention of qualified professionals. The company must pay attention to higher remuneration levels, especially those that differ from other company employees. The compensation system for directors and management must align with the company's and its shareholders' interests. The remuneration of executive bodies and other managers should be based on their performance and contributions. In the event of early dismissal (golden parachute) of an executive body member or another key manager, it must not exceed twice the fixed part of their annual remuneration.

The *Risk management and internal control system*, as detailed in Section 5 (five), must be established to ensure that the company achieves its objectives with reasonable security, uses resources rationally, identifies and manages its risks, preserves its assets, ensures the integrity and accuracy of accounting information, and controls compliance with regulations (both internal and external). The board of directors establishes and maintains the risk management and internal control system. Also, the company must conduct internal audits to independently and regularly assess the reliability and efficiency of the risk management internal control systems and corporate governance practices. These audits must be done by either an audit department or a third-party company.

The section *Disclosure of information about the company and its information policy* reveals that the company and its activities must follow transparent conduct, enabling the exchange of information with its shareholders and other interested parties. In addition, the company must disclose its governance system and report on compliance with the code's principles. The information disclosed must comply with regulations regarding regularity, consistency, and timeliness, as well as the accessibility, reliability, completeness, and comparability of the disclosed data. The annual report must contain information that enables evaluation of the company's performance results. The company also needs to provide information and documents requested by shareholders, following the principle of accessibility. However, when disclosing information, the company must balance the interests of shareholders with the confidentiality of the information.

Finally, the last section of the corporate governance code, *titled Material Corporate Actions*, describes that actions that may affect the company's share capital and financial position must be undertaken on fair terms and conditions to ensure the rights of shareholders and other interested parties are respected. Relevant transactions must be conducted in the interests of shareholders, ensuring that their rights are not violated. The company can facilitate access to material on corporate actions so that shareholders receive complete information, guaranteeing and protecting their rights. The reasons, conditions, and consequences of this act must be explained whenever information about shares is disclosed. In addition, rules and procedures related to relevant corporate actions carried out by the company must be established in its internal documents.

4. Final considerations

This chapter aimed to describe the main features of Russian corporate governance. For this, the results were segregated into 3 (three) parts, namely: a) Capital markets: an overview of the stock exchange and regulatory aspects; b) The ownership structure of Russian companies; and c) Corporate governance structure and practices: issues that affect minority shareholders' rights. Regarding the first part, it is possible to emphasize that the market value of companies listed on the Moscow Exchange (MOEX) is relevant to the Russian economy, just as the leading listed companies belong to the energy sector. In regulatory terms, Russia is based on civil law, and the highlight is the Federal Law of December 26, 1995, No 208-FZ, on joint-stock companies. The country sought to convert its accounting standards to IFRS for consolidated financial statements. However, it did not revoke the RAS, which was used for tax purposes, implying the hiring of an independent auditor for 2 (two) accounting standards.

The second part allows the reflection that minority shareholders still have their rights violated, and the enforcement of laws by judicial means is still insufficient, which makes ex-post mechanisms very fragile. As the World Bank (2013) mentioned, that is a significant challenge that Russian regulators still need to mitigate. Possibly, this fragility stems from the institutional environment arising from the period of the Soviet Union.

Finally, the last part reveals that Russia sought to improve its corporate governance practices, particularly those of an ex-ante nature. However, the corporate governance code, considered one of the milestones in the evolution of Russian corporate governance practices, consists of recommendations that do not have the force of law. Regulating the procedures set out in this document or forcing companies to adopt them could improve the environment for investors. In addition, the code could undergo an update process, including aspects that encourage the participation of women in the companies' governance bodies. Also, it is important to point out that since 2000, there has been an advance in state participation in Russian companies, which, added to the control of private companies, in which it is not possible to identify the real controller, can harm the Russian capital market, considering the deficiencies observed in this article.

It is suggested that other studies be carried out regarding corporate governance in Russia, such as reviews incorporating journals published in different languages, including Russian. Also, it is hoped that this chapter could inspire new empirical research on this topic.

REFERENCES

Alon, A. (2013). Complexity and Dual Institutionality: The Case of IFRS Adoption in Russia. *Corporate Governance: An International Review*, 21(1), 42-57.

Ararat, M., Claessens, S., & Yurtoglu, B. B. (2021). Corporate governance in emerging markets: A selective review and an agenda for future research. *Emerging Markets Review*, 48, 100767.

Berezinets, I., Ilina, Y., & Cherkasskaya, A. (2017). Board structure, board committees, and corporate performance in Russia. *Managerial Finance*.

Braguinsky, S., & Mityakov, S. (2015). Foreign corporations and the culture of transparency: Evidence from Russian administrative data. *Journal of Financial Economics*, 117(1), 139-164.

Buck Filatotchev Wright, T. I. M. (1998). Agents, stakeholders, and corporate governance in Russian firms. *Journal of Management Studies*, 35(1), 81-104.

Chernykh, L. (2008). Ultimate ownership and control in Russia. *Journal of Financial Economics*, 88(1), 169-192.

Chui, L., Kim, O., & Pike, B. J. (2020). The Effect of Audit Duality on Audit Quality. *Journal of International Accounting Research*, 19(2), 65-89.

Demidenko, E., & McNutt, P. (2010). The ethics of enterprise risk management as a key component of corporate governance. *International Journal of Social Economics*.

Demirbas, D., & Yukhanaev, A. (2011). Independence of board of directors, employee relation and harmonization of corporate governance: Empirical evidence from Russian listed companies. *Employee Relations*.

Desai, M. A., Dyck, A., & Zingales, L. (2007). Theft and taxes. *Journal of financial economics*, 84(3), 591-623.

Ernst & Young. (2021). Doing business in Russia. Available at: https://assets.ey.com/content/dam/ey-sites/ey-com/en_ru/topics/attractiveness/ey-doing-business-in-russia-2021.pdf (accessed June 14, 2022).

Ershova, T., Zavertiaeva, M., & Kirpishchikov, D. (2023). The impact of influential shareholders on corporate dividend policy: evidence from Russia. *Journal of Economic Studies*, 50(4), 821-839.

Estrin, S., & Prevezer, M. (2011). The role of informal institutions in corporate governance: Brazil, Russia, India, and China compared. *Asia Pacific Journal of Management*, 28(1), 41-67.

Federal Law of December 26, 1995, No. 208-FZ On joint-stock companies. Available at: https://www.cbr.ru/eng/na/ (accessed December 06, 2021).

Federal Law of April 22, 1996, No. 39-FZ On the securities market. Available at: https://www.cbr.ru/eng/na/ (accessed December 06, 2021).

Federal Law of March 05, 1999, No. 46-FZ On protecting investors' rights and lawful interests in the securities market. Available at: https://www.cbr.ru/eng/na/ (accessed December 06, 2021).

Federal Law of December 30, 2008, No. 307-FZ On Auditing. Available at: https://minfin.gov.ru/en/policy_issues/account/ (accessed December 06, 2021).

Federal Law of December 05, 2011, No. 208-FZ On Consolidated Financial Statements. Available at: https://minfin.gov.ru/en/policy_issues/account/ (accessed December 06, 2021).

Filatotchev, I. (1997). Privatization and Corporate Governance in Transitional Economies. *World Economy*, 20(4), 497-510.

Garanina, T., & Kaikova, E. (2016). Corporate governance mechanisms and agency costs: cross-country analysis. *Corporate Governance*.

Garanina, T., & Aray, Y. (2021). Enhancing CSR disclosure through foreign ownership, foreign board members, and cross-listing: Does it work in Russian? *Emerging Markets Review*, 46, 100754.

Garanina, T., & Muravyev, A. (2021). The gender composition of corporate boards and firm performance: Evidence from Russia. *Emerging Markets Review*, 48, 100772.

García-Gómez, C. D., Zavertiaeva, M., & López Iturriaga, F. J. (2023). Do CEO characteristics matter for corporate risk taking? Evidence from Russia. *Corporate Governance: The International Journal of Business in Society*.

Generalova, N. V., Pyatov, M. L., & Sokolov, B. I. (2024). The History of IFRS in Russia in 1991–2021. *Journal of International Accounting Research*, 1-25.

Goncharov, I., & Van Triest, S. (2014). Unintended consequences of changing accounting standards: the case of fair value accounting and mandatory dividends. *Abacus*, 50(3), 341-367.

Grosman, A., Wright, M., & Okhmatovskiy, I. (2016). State control and corporate governance in transition economies: 25 years from 1989. *Corporate Governance*, 24(3), 200-221.

IFRS Foundation (2024). Available at: https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/view-jurisdiction/russia/ (accessed November 20, 2024).

Iwasaki, I. (2007). Enterprise reform and corporate governance in Russia: A quantitative survey. *Journal of economic surveys*, 21(5), 849-902.

International Monetary Fund (IMF) (2000). Corporate Governance in Russia: Is There Any Chance of Improvement? Available at: https://www.imf.org/external/pubs/ft/seminar/2000/invest/pdf/vasil2.pdf (accessed December 09, 2021).

Jesover, F. (2001). Corporate governance in the Russian Federation: The relevance of the OECD principles on shareholder rights and equitable treatment. *Corporate Governance: An International Review*, 9(2), 79-88.

Johannesson, J., Palona, I., Guillen, J. F. S., & Fock, M. (2012). UK, Russia, Kazakhstan, and Cyprus governance compared. *Corporate Governance: The international journal of business in society*.

Judge, W., & Naoumova, I. (2004). Corporate governance in Russia: what model will it follow?

Kamarudin, K. A., Islam, A., Wan Ismail, W. A., & Jahan, M. A. (2022). The effect of mandatory audit firm rotation and the auditing and reporting standards on the auditor competition and audit fees relationship: Evidence from emerging markets. *International Journal of Auditing*, 26(2), 252-278.

Keleş, E. (2023). Stock market response to the Russia-Ukraine war: Evidence from an emerging market. *Journal of East-West Business*, *29*(3), 307-322.

Kim, O., Kuang, Y. F., & Qin, B. (2020). Female representation on boards and CEO performance-induced turnover: Evidence from Russia. *Corporate Governance: An International Review*, 28(3), 235-260.

Kuznetsov, O., & Kuznetsov, A. (1999). The state as a shareholder: Responsibilities and objectives. *Europe-Asia Studies*, 51(3), 433-445.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (2000). Agency problems and dividend policies around the world. *The journal of finance*, 55(1), 1-33.

Li, W. X., Chen, C. C. S., & French, J. J. (2012). The relationship between liquidity, corporate governance, and firm valuation: Evidence from Russia. *Emerging Markets Review*, 13(4), 465-477.

Liuhto, K. (2017). Foreign nationals on the boards of directors of Russia's ten largest non-financial companies investing overseas. *Baltic Region*, 9(4), 33-52.

Markus, S. (2008). Corporate governance as political insurance: firm-level institutional creation in emerging markets and beyond. *Socio-Economic Review*, 6(1), 69-98.

McCarthy, D. J., & Puffer, S. M. (2008). Corporate governance as a foundation for corporate social responsibility in transitioning economies: The Russian experience. *Thunderbird International Business Review*, 50(4), 231-243.

Moscow Exchange (2014). Annual Report 2014. Available at: http://2014.report-moex.com/en/moex/history/ (accessed November 30, 2021).

Moscow Exchange (2024). Available at: https://www.moex.com/en (accessed November 19, 2024).

Nizaeva, M., & Uyar, A. (2017). Corporate governance codes of Eurasian Economic Union countries: a comparative investigation. Corporate Governance: *The International Journal of Business in Society*.

Nurgozhayeva, R. (2022). Corporate governance in Russian state-owned enterprises: Real or surreal? *Asian Journal of Comparative Law*, 17(1), 24-50.

Okhmatovskiy, I. (2017). Self-regulation of corporate governance in Russian firms: translating the national standard into internal policies. *Journal of Management & Governance*, 21(2), 499-532.

Oliveira, M. C., Ceglia, D., & Antonio Filho, F. (2016). Analysis of corporate governance disclosure: a study through BRICS countries. *Corporate Governance: The International Journal of Business in Society*.

Orazalin, N., Mahmood, M., & Lee, K. J. (2016). Corporate governance, financial crises and bank performance: lessons from top Russian banks. Corporate Governance: *The international journal of business in society*.

Organization for Economic Co-operation and Development (OECD) (2024). Available at: https://www.oecd.org/en.html (accessed November 19, 2024).

Pöyry, S., & Maury, B. (2010). Influential ownership and capital structure. *Managerial and Decision Economics*, 31(5), 311-324.

Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. *The journal of finance*, 52(2), 737-783.

Stepanyan, A., Roitman, A., Minasyan, G., Ostojic, D., & Epstein, N. P. (2016). The Spillover Effects of Russia's Economic Slowdown on Neighboring Countries, *Spillover Notes*, *2016*(003), A001. Retrieved November 30, 2021, from https://www.elibrary.imf.org/view/journals/062/2016/003/article-A001-en.xml

The Central Bank of the Russian Federation (2014). Russian code of corporate governance. Available at: https://www.oecd.org/daf/ca/RussianCodeofCorporateGovernance2014English.pdf (accessed December 09, 2021).

The Central Bank of the Russian Federation (2021). Available at: https://www.cbr.ru/eng/ (accessed December 04, 2021).

The Civil Code of the Russian Federation Part One No 51-FZ of November 30 1994. Available at: https://www.wto.org/english/thewto_e/acc_e/rus_e/wtaccrus58_leg_360.pdf (accessed December 06, 2021).

The Constitution of the Russian Federation (1993). Available at: http://www.constitution.ru/en/10003000-02.htm (accessed December 06 2021).

Woodruff, D. M. (2004). Property rights in context: Privatization's legacy for corporate legality in Poland and Russia. *Studies in Comparative International Development*, 38(4), 82-108.

World Bank (2013). Corporate Governance in Russia: Report on the Observance of Standards and Codes. Available at: https://www.worldbank.org/en/country/russia/publication/rosc (accessed December 08, 2021).

World Bank (2021). Available at: https://databank.worldbank.org/ (accessed November 19 2024).

World Federation of Exchanges (2024). Available at: https://www.world-exchanges.org/ (accessed November 19, 2024).

Wright, M., Filatotchev, I., Buck, T., & Bishop, K. (2003). Is stakeholder corporate governance appropriate in Russia? *Journal of Management and governance*, 7(3), 263-290.