



Federal Law No. 99-FZ of 5 May 2014 “On the introduction of amendments to chapter 4, Part I of the Civil Code of the Russian Federation and on the recognition of certain provisions of legislative acts of the Russian Federation as no longer valid” (the Law) introduces significant amendments to the regulation of business entities in the Russian Federation. The Law comes into effect on 1 September 2014, with the exception of certain provisions for which other timeframes are stipulated for their coming into effect.

Joint Stock Companies

The Law establishes a new principle for classifying legal entities: all legal entities are divided into corporate (corporations) and unitary, depending on whether or not the founders have the right to participate in legal entities and are able to form an executive body.

All references to Closed Joint Stock Companies (CJSC) will be excluded from the RF Civil Code. Business entities will be subdivided into “public” and “non-public”. A public business entity is defined as a joint stock company with shares and securities that are publicly-listed (i.e. placed through open subscription) or publicly circulated in accordance with legislation on securities. The rules regarding public entities will also apply to joint stock companies that do not meet the requirements for a public entity, but

whose charter and legal name indicate that the entity is public.

A limited liability company or joint stock company that does not meet the criteria of a public entity will be considered a non-public entity. Furthermore, the provisions of Federal Law No. 208-FZ of 26 December 1995 “On Joint Stock Companies” (FL “On JSCs”) will apply to CJSCs until such time as they make changes to their charters.

In accordance with the provisions of the Law, the founding documents of business entities will be subject to alignment with the Law upon the first change made to them. Joint stock companies formed before 1 September 2014 that satisfy the requirements for public joint stock companies will be considered as such regardless of whether there is an indication in their legal name that the entity is public.

However, from 1 September 2014, a joint stock company will gain the right to list shares through an open subscription only upon entering information on its legal name, indicating that the company is a public entity, into the Unified State Register of Legal Entities.

Therefore, joint stock companies intending to list shares through an open subscription may be required to change their founding documents urgently and to enter the required data into the Unified State Register of Legal Entities.

Preferred shares

The Law introduces a prohibition on the listing by public joint stock companies of preferred shares with a nominal value lower than that of ordinary shares of the entity. The RF Civil Code and FL “On JSCs” did not previously contain such limitations. The Law does not regulate the issue of what should be done regarding preferred shares issued before the date on which the Law comes into effect (conversion, re-issue, etc.)

Corporate contract

The concept of a “corporate contract” (“shareholders’ agreement”) is introduced to the RF Civil Code. Parties to a corporate contract must notify the entity in which they are participants/shareholders and, in certain cases, the Federal Tax Service (to enable the inclusion of relevant information into the Unified State Register of Legal Entities) on its conclusion. Public companies are obliged to disclose the conditions of a corporate contract “to the extent, according to the process and on the conditions stipulated by the FL “On JSCs”. It is assumed that the issue of the need to disclose the conditions of a corporate contract will be developed further in subsequent legislation on joint stock companies.

A corporate contract cannot obligate its parties to vote in accordance with the instructions of the management bodies of an entity or to determine the structure or authority of the management bodies of an entity.

The Law encourages the conclusion of corporate contracts between all participants/shareholders of an entity. In particular, it is stated that violation of a corporate contract may constitute grounds for the recognition of a decision taken by the management body of a business entity as invalid in the event of a claim being made by a party to a corporate contract. This mechanism for defending the rights of participants/shareholders may be applied if the parties to the corporate contract are all participants in a business entity.

Another new addition is the legally-documented right of an entity’s creditors and other third parties to conclude corporate contracts with participants in said entity.

Sole executive body

The Law envisages the possibility of multiple individual executive bodies within an entity. The process of interaction between sole executive bodies acting jointly or independently from one another must be determined by the charter of the entity. Previously, the RF Civil Code did not provide for the existence of multiple individual executive bodies in an entity (CEO, President).

Procedure for participants/shareholders to dispute transactions

The Law changed the procedure for participants/shareholders to dispute transactions conducted by an entity and claims of losses. The participants of the entity, or the entity itself, before appealing to a court with a claim for losses or a claim to recognise a transaction as invalid, must inform the other participants of the entity in advance. It is assumed that courts will refuse to review cases if this requirement has not been met.

Contact details

If you have any questions with regard to the information provided in this review, please feel free to contact our Tax & Legal specialists:

Raisa Alexakhina	Natalia Kosheleva	Andrey Goncharov	Alfia Mukhamatyanova
Partner	Director	Director	Manager
+7 (495) 787 06 00 ext. 2950	+7 (495) 787 06 00 ext. 3206	+7 (495) 787 06 00 ext. 5005	+7 (495) 787 06 00 ext. 2985
ralexakhina@deloitte.ru	nkosheleva@deloitte.ru	agoncharov@deloitte.ru	amukhamatyanova@deloitte.ru

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. Please see www.deloitte.com/ru/about for a detailed description of the legal structure of Deloitte CIS.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's approximately 200,000 professionals are committed to becoming the standard of excellence.

Deloitte's professionals are unified by a collaborative culture that fosters integrity, outstanding value to markets and clients, commitment to each other, and strength from diversity. They enjoy an environment of continuous learning, challenging experience, and enriching career opportunities. Deloitte's professionals are dedicated to strengthening corporate responsibility, building public trust, and making a positive impact in their communities.