



Federal Law No. 99-FZ of 5 May 2014 “On amending Chapter 4, Part I of the RF Civil Code and on recognising certain provisions of Russian legislation as invalid” (“the Law”) will come into effect on 1 September 2014.

The Law introduces a series of amendments to corporate law, the most significant of which affect the various forms of incorporation of legal entities, as well as certain issues of corporate governance and liability.

Changes with regard to the incorporation of legal entities

The key result of these reforms in corporate law is the **exclusion of closed joint stock companies and superadded liability companies** from the list of forms of incorporation.

OAO and ZAO will be replaced by **public** and **non-public** companies. Public companies will be those whose shares and securities converted into shares are publicly listed or circulated, and those whose charter and name contain reference to their status as public companies. We draw your attention to the fact that if a company’s non-convertible bonds are traded, that company will not be considered public.

In addition, all legal entities (commercial and non-commercial) will be divided into corporate and unitary, depending on whether their shareholders have the right to participate in a legal entity. Therefore, unitary entities will include not only state and municipal unitary enterprises, but also funds, institutions, religious organisations, etc.

The idea behind the new classifications (public and non-public companies, unitary and corporate legal entities) is to harmonise the general provisions of corporate governance with regard to those legal entities, refine the rights and responsibilities of their participants, shareholders and owners, and clarify the specifics of their management structures, etc.

Reregistration not necessary

The Law separately states that previously-established legal entities will not be required to reregister. Their names and constituent documents will need to be brought into line with the new standards **when they are next amended**.

From the time when the Law comes into effect, the standards for limited liability companies will apply to existing superadded liability companies, whereas closed joint stock companies (until their charters are amended) will be subject to the relevant provisions of Federal Law No. 208-FZ of 26 December 1995 “On joint stock companies”.

Existing joint stock companies that meet the requirements of public companies will be considered as such regardless of whether their names contain reference to that status.

New opportunities in corporate governance

In addition to the aforementioned amendments, the Law also provides for a more flexible system of corporate governance.

The powers of the **sole executive body** of a corporation may be transferred to **multiple parties**, which are obliged to act jointly. The Law also allows for **multiple independent sole executive bodies**. The relevant provisions must be added to the charter of the organisation and introduced to the USRLE. It should be noted both individuals and legal entities may perform this role.

In addition, non-public companies are no longer prohibited from **extending the competencies** of the general meeting of shareholders, as all joint stock companies had previously been. The relevant decision is subject to the unanimous approval of the general meeting.

Reinforced corporate liability

The Law introduces the requirement for sole and collective executive bodies of a legal entity to reimburse losses arising from **dishonest** and **careless actions** to the legal entity. An exception is made for members of collective executive bodies who voted against those actions or, acting in all honesty, refused to participate in the vote.

A similar obligation is placed before parties with the opportunity to determine the actions of a legal entity (we assume that a specific definition of this concept will be provided in specially-introduced legislation).

The liability of executive bodies may be limited or negated entirely only in relation to careless actions, and only for non-public legal entities. The liability of parties with the opportunity to determine the actions

of a legal entity cannot be limited or negated, and any agreements to the contrary are considered void.

This standard was accepted within the development of emerging court practice with regard to the reimbursement of losses to a legal entity by its executive bodies (see RF Supreme Arbitration Court Plenum Resolution No. 62 of 30 July 2013).

We hope you find the information in this issue both interesting and useful. Our specialists are prepared to answer any questions you may have with regard to the contents of this issue.

Contacts

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