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The review "Russian economy. Trends and outlooks" has been published by the Gaidar Institute since 1991. This is the 45th issue. This publication provides a detailed analysis of main trends in Russian economy, global trends in social and economic development. The paper contains 5 big sections that highlight different aspects of Russia's economic development, which allow to monitor all angles of ongoing events over a prolonged period: the monetary and budget spheres; financial markets and institutions; the real sector; social sphere; institutional changes. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

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5.2. Corporate governance 2023: regulatory perspectives, anti-sanctions and national ESG1 agenda²

Decisions in the area of corporate governance regulation in 2023 were related to the need to find a balance between the demand to ensure the efficient functioning of the financial market and increase the inflow of domestic investors, who require greater transparency and predictability, and the implementation of anti-sanctions measures, which implies, among other things, an increase in the level of transparency of public information about the activities of major Russian companies. The result was, on the one hand, the definition of benchmarks in the development of corporate governance for 2024–2026, and, on the other hand, the extension of sanctions-related measures in the area of corporate legislation for 2024. In connection with the sanctions, the ESG agenda has also undergone changes.

1. Corporate governance 2024–2026: main directions in the development of regulation

At the end of 2023, The Russian Financial Market Development Program 2024–2026 was approved, which, in addition to returning to the previous volume of information disclosure on the financial market, provide for a number of measures in the field of corporate governance:

- 1) legislative provision of the possibility to hold shareholders' meetings in a mixed mode (in person and remotely);
- 2) creation of a legal mechanism to enable the accumulation of minority shareholders' votes for nominating candidates to the boards of directors of public companies;
- 3) improving the procedure for acquiring large blocks of shares in public companies in order to expand their flexibility and reduce costs for majority shareholders, while at the same time strengthening the protection of minority shareholders' rights in the event of a change of controlling owner;
- 4) defining requirements to the content of the dividend policy of a public company; fixing the obligation to approve it, disclose it and explain to shareholders the reasons for deviating from the approved dividend policy;
- 5) improvement of mechanisms for protection of bondholders' rights and expansion of opportunities for bond issuers to quickly and conveniently process transactions;
- 6) development of recommendations on corporate governance in holdings and groups of companies;
- 7) ongoing development of corporate governance in credit and financial organizations;
- 8) development of the institute of reporting audit in the financial market.

1 ESG – Environmental, Social, Corporate Governance.

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Some of the proposed measures are designed to solve long-standing areas of concern of corporate governance that have not been regulated by legislation. This primarily concerns predictability of decisions and transparency of dividend policy of companies, as well as corporate governance in holdings and groups of companies.

Data disclosure and transparency of decision-making in the sphere of dividend policy of Russian companies have always been one of the weak points of corporate governance. Thus, according to the Bank of Russia's data for 2022,¹ solely 54% of public companies admitted to trading without inclusion in stock exchange quotation lists have developed and disclosed a regulation on dividend policy (in case of public joint-stock companies (PJSCs) from quotation lists, this figure reaches 98%).

This being said, in reality there are not only "developed for the sake of appearances" provisions of the dividend policy of companies (duplicating provisions of the law and the charter), but also the use by companies of other ways of profit distribution in favor of controlling entities, lack of sufficient information about the recommendations of the board of directors on profit distribution submitted to the general meeting of shareholders (GMS), lack of understanding of the reasons for making decisions on non-payment of dividends on shares of this or that category, including in the presence of a dividend policy.²

Another principle of the Corporate Governance Code, concerning dividend policy, the need to inform shareholders in a timely manner about changes in the company's approach to profit distribution due to changes in indicators, debt load, etc., according to the findings of the Bank of Russia, "has not been widely applied".³

All this significantly reduces the predictability and transparency for shareholders of the profitability of investing in the company's shares and, accordingly, their interest in acquiring them. Since this factor is significant for investment and only a part of companies complies with the recommendations of the Code and the Bank of Russia in this part, the introduction of such requirements into the legislation seems to be perfectly justified.

With regard to corporate governance in holding companies and groups of companies, this problem was identified as a topical issue that needed to be addressed back in the early 2000s in the "Concept for the Development of Corporate Legislation until 2008" due to the prevalence of cross-shareholdings and non-transparency of their activities. Despite the solution of some specific issues related to groups of companies, such as taxation of a group of companies and the first steps towards the development of regulation of groups of companies developing digital services on the basis of one ecosystem, the basic issues of their existence remain unresolved. Among them are the lack of a unified concept and

1 Review of corporate governance practices in Russian public companies as of year-end 2022. Moscow. Bank of Russia, 2023. URL: https://cbr.ru/Collection/Collection/File/46627/Review_corp_2022.pdf, p. 18–19.

2 See: *Apevalova E.A., Polezhaeva N.A.* Coronavirus crisis and companies bankruptcies // Russian Economy in 2020. Trends and Outlooks. Issue 42. Moscow. Gaidar Institute Press, 2021. P. 515–533.

3 2023. URL: https://cbr.ru/Collection/Collection/File/46627/Review_corp_2022.pdf, p. 19.

criteria of a group of companies, the unresolved nature of many problems related to bankruptcy, and others.¹

Improvement of mechanisms for acquiring large blocks of shares is also essential, as its legal regulation raises issues related to practical aspects of determining the value of shares to be bought out, as well as protection of minority shareholders' rights in case of mandatory buyout.²

The proposal of novations on flexible meetings and development of the institute of audit of financial statements is a response to the events of recent years (COVID-19 epidemic and sanctions) due to which a large audit quartet left Russia and businesses lost the opportunity to receive audit services provided by a number of foreign companies. The regulator now faces the challenge of developing an audit institute that would work at the level of the best world practices, which is very important for shareholders when making managerial decisions, etc.

Remote shareholders' meetings were initially associated with declared epidemic. In general, this practice has proved to be a positive one, and the costs of holding such meetings are significantly reduced, which is especially important for large companies with a large number of shareholders. Therefore, the creation of an intermediate option of holding general shareholders' meetings between in-person and remote ones can be regarded as an optimal option in the context of respecting the interests of shareholders and the efficiency of restoring their violated rights in court.

Currently, remote meetings of shareholders reduce to a certain extent the communication opportunities of shareholders with the Boards of Directors and top management, as well as significantly complicate the election of independent directors by minority shareholders, since the latter have no opportunity to see preliminary voting results in absentia and adjust the distribution of votes among independent candidates in order to maximize the number of elected independent candidates.³ In addition, there are still contradictions and inconsistencies in the regulation of such meetings that require attention of the legislator.⁴

With regard to the possibility of accumulating minority shareholders' votes, the question arises: would their presence be formal amid the presence of controlling shareholder in the majority of large companies, whose interests are represented by the majority on the board of directors?

The topic of *improving bankruptcy procedures for companies is also back on the agenda, aimed at expanding the use of procedures to restore the debtor's solvency* (rehabilitation, settlement agreement, etc.). The practice has confirmed the demand for "peaceful" settlement of non-payment issues. The declaration

1 Shinyakova E. Urgent issues of the notion of groups of companies in the system of Intersectoral regulation. URL: https://zakon.ru/blog/2023/1/30/aktualnye_problemy_ponyatiya_grupp_kompanij_v_sisteme_mezhotraslevogo_regulirovaniya?ysclid=ltr60k2v2m870409770

2 In detail see: Internal mechanisms of corporate governance: some applied issues. Edit. By A.D. Radygin. Moscow. Delo, 2009. P. 98–101.

3 Shevchuk A. Corporate governance: Return to normality // Joint stock company: Issues of corporate governance. 2023. No. 7.

4 In detail see: Shitkina I.S., Seveeva K.V. Remote general meetings of participants of business companies: Effectiveness of novelties of the Russian legislation // Arbitration Practice Bulletin. 2022. No. 3. P. 3–16.

of a moratorium on bankruptcies in April 2022, as well as the increase in the problems of companies due to sanctions and the increase of the key rate by the Bank of Russia resulted in the creation in September 2022 of platforms for the settlement of disputes between creditors, debtors and other interested parties.

One was created by the Federal Tax Service (FTS) and the Russian Finance Ministry in April 2022, the other by the Chamber of Commerce and Industry (CCI) of the Russian Federation as the Debt Restructuring Assistance Fund. The debts of 3,000 debtors worth Rb198 bn were restructured on the debt restructuring platform of the Federal Tax Service between April 2022 and December 2023. The creditors and debtors signed composition agreements or granted installments for 3 years. For comparison: in 2020-2021 the debts of 1,200 debtors for the amount of Rb111.9 bn were restructured.¹ In less than a year (from September 2022 to July 2023), the Debt Restructuring Assistance Fund under the Chamber of Commerce and Industry settled debts worth Rb11 bn.²

The current draft law, unlike the 2022 version, can be adopted in parts, which simplifies its consideration by the State Duma. The Ministry of Economic Development of Russia plans to adopt the draft law by the end of 2024. The new version of the draft law provides for:

- the possibility of entering into a rehabilitation agreement between a debtor and creditors, which can be concluded both pre-trial or in court. A necessary condition of a judicial rehabilitation agreement is the consent to rehabilitation of creditors with at least 75% of the monetary claims;
- deferral of obligations;
- possibility of the debtor to make deals that will not be challenged by a creditor in bankruptcy.

The draft law is undoubtedly necessary and the measures envisaged by it will be in demand in bankruptcy practice, since the use of rehabilitation procedures under the current legal regulation does not exceed 2%. It can also increase the level of protection of creditors' rights, since after a debtor is declared bankrupt, they receive no more than 2-5% of debts.³

Another measure that returned to the economic block's attention from the Concept for the Development of Corporate Legislation up to 2008, apparently mainly due to the difficulties in forming board of directors in the context of a decreasing number of foreigners, is *the reinforcement in the law of a more flexible mechanism for forming the board of directors*.

Today, any change in the membership of the board of directors requires its complete re-election at a general meeting of shareholders, which is quite time-consuming and expensive. In this regard, the Ministry of Economic Development of Russia proposes to change the procedure for electing board members so that it would allow for timely replacement not only of board members, but also of candidates for membership in the process of preparation for the GMS. If the

1 Restructuring is promised rehabilitation procedures // Kommersant. 12.02.2024.

2 URL: <https://fondsrdr.ru/company/>

3 Apevalova E.A., Polezhaeva N.A. Coronavirus crisis and companies bankruptcies // Russian Economy in 2020. Trends and Outlooks. Issue 42. Moscow. Gaidar Institute Press, 2021. P. 515–533.

relevant draft law is approved,¹ situations when incomplete boards of directors are elected or operate will be minimized. The reserve list will make it possible to quickly replace retired directors by decision of the GMS (or by decision of the entire board in a non-public company). It is envisaged that a second vote or meeting of the GMS will be possible if the board of directors is not elected at the first meeting.

Such an improvement will be in demand regardless of sanctions, as the issue of board incapacity has always existed. However, experts have a number of comments.² For example, two more meetings of the GMS will be required to make the relevant amendments to the Articles of Association and to form a reserve list. There is a possibility that minority shareholders, who lacked enough votes to be elected to the board but were included in the reserve list, may gain a majority on the board.

In general, the creation of a clear and operative mechanism for the formation of the board of directors will reduce time and financial costs for companies and increase their efficiency.

2. Corporate legislation: extension of anti-crisis measures

The 2023 and early 2024 corporate regulatory changes are, for the most part, extensions of the 2022 anti-crisis corporate measures.

1. *Extension of the option to hold general meeting of shareholders in absentia.* Prior to 2025, the rules prohibiting holding of GMSs in the form of absentee voting on the election of the board of directors and the audit commission, approval of the auditor, approval of the annual report and annual accounting (financial) statements are suspended.³ Such meetings may be held in absentia by decision of the board of directors.
2. *Extending the validity of the raised equity holding threshold for legal recourse and access to information.* Until July 1, 2024, the increased threshold of voting shares held by shareholders from 1 to 5% will remain in effect for the right to apply to the court for compensation for losses caused to the company and other issues, as well as the right to access certain information (e.g., the list of persons entitled to participate in the AGM, unapproved related-party transactions).

Some experts justify this measure as a way to combat the abuse of minority shareholders' right of going to court, which has a particularly negative impact on the company's performance in the context of the crisis.⁴ At the same time,

1 Draft "On Amending the Federal Law "On Joint-Stock Companies" and the Federal Law "On Limited Liability Companies". URL: <https://regulation.gov.ru/Regulation/Npa/PublicView?npaID=139327>

2 They prepared replacement for board of directors. URL: <https://www.kommersant.ru/doc/6056035>

3 Hereinafter: Article 12, 14, 19 of the Federal Law of 25.12.2023 No. 625-FZ "On Amending Article 98 of the Federal Law 'On State Control (Supervision) and Municipal Control in the Russian Federation' and Certain Legislative Acts of the Russian Federation". URL: <http://pravo.gov.ru, 25.12.2023>

4 Shuvalova M. Anti-crisis corporate legislation – 2022. URL: <https://www.garant.ru/article/1570526/>

shareholders are deprived of a tool to protect themselves from unlawful actions of the company's management.¹

3. *Extension of the option to prolong the powers of the board of directors.* The provision allowing the GMS to decide on the election of board members for a period of three years has been extended until 2025. Not all experts consider this to be a justified measure, especially for companies with formal board of directors and see it as a reduction in opportunities for minority shareholders to nominate independent candidates. Annual re-election of directors disciplines them, increases their commitment and accountability.²
4. *Extension of the possibility for a company to operate with a truncated board of directors or without a Board.* Until July 1, 2024, the rule according to which the board of directors retains its powers until a decision is made by the General Meeting of Shareholders (GMS) to elect a new composition of the board of directors, if its number of members becomes less than the number stipulated by law, the Articles of Association or a decision of the GMS, but not less than three members.

The GMS can also decide not to establish a board of directors in companies in respect of which restrictive measures have been imposed by foreign states or international organizations. In such cases, the functions of the Board of Directors are performed by the executive body, which may not decide on issues related to determining the priority areas of the company's activities, increasing the charter capital, establishing an executive body, approving the annual report and other issues. Decisions on these issues are made by the GMS.

These measures were justified by the early departure of many directors from Russian companies as a result of sanctions (the share of foreign members on boards of directors decreased from 30% in 2021 to 11.7% in 2023³), the impossibility of their quick replacement due to legal procedural requirements and the limited number of professional directors in the country. In addition, the Bank of Russia recommended that boards of directors should be formed from representatives of Russian business communities and communities of friendly foreign jurisdictions.⁴ Also, the authorization for boards of directors (and other bodies) of certain companies *to make decisions without taking into account votes of members from unfriendly countries*⁵ has been extended for 2024 to avoid suspension

1 Polezheva N.A. Main changes in corporate governance in Russia caused by sanctions // Economy and Law. 2023. No. 1. P. 46–53.

2 Shevchuk A. Corporate governance: return to normality. // Joint-Stock company: Issues of corporate governance. 2023. No. 7 (230). P. 5–12.

3 The number of foreigners on the boards of directors of Russian companies has decreased by 3-fold. URL: <https://www.kommersant.ru/doc/6454308>

4 Information letter of the bank of Russia of 17.01.2023 No. IN-02-28/5 "On the Formation of Boards of Directors (Supervisory Boards) of Public Joint-Stock Companies" // Bulletin of the Bank of Russia. 26.01.2023. No. 3.

5 Executive Order of the President of RF of 17.01.2023 No. 16 "On the Temporary Procedure for Adoption of Decisions by the Bodies of Certain Russian Business Companies" // Rossiyskaya Gazeta. 18.01.2023. No. 9.

of their activities, as sometimes foreign directors cannot vote due to anti-Russian requirements in their jurisdictions.

It is important that these new opportunities are not used to reduce the independence of the board of directors. In 2021, the share of independent directors in Russian companies stood at 44%; now it has decreased to 39%.

5. *Possibility to exclude foreigners from the chain of ownership of economically important organizations* (hereinafter – EIO) (possibility of exemption of a restrictive nature for foreign holding companies when they exercise corporate rights in respect of EIO).¹ A new anti-crisis measure is the possibility to exclude foreigners from the chain of ownership of an EIO with a foreign ownership structure and transfer direct control over it to the Russian beneficiaries of this company in order to restore operational control, in order to prevent the loss of business manageability and its ability to pay dividends as a result of blocking decisions of the real owners by unfriendly governing bodies. It is also established that *EIO does not disclose information subject to disclosure based on legal requirements*.² Since March 2024, the list of EIOs comprises six companies, including AB Holding JSC, which controls Alfa-Bank, and UNS-Holding LLC, which is a beneficiary of AlfaStrakhovanie.³
6. *A ban for Russian issuers to completely refuse to disclose information and to extend the possibility of limited disclosure*. Russian public companies, in order to protect them from sanctions measures, were given the right not to disclose information required by law or to do so partially without any explanation or authorization (as it was not always possible to determine whether there was a credible sanction threat) until July 2023.⁴ At that time, a number of major issuers, including Sberbank and PIK, took advantage of this option.

From July 2023, the option of full refusal to disclose information has been excluded. At the same time, the issuer has the right to restrict access to information included in the closed list (on persons who are members of the issuer's management bodies, bodies controlling its financial and economic activities; on transactions of the issuer and its controlling persons; on the context of the issuer's reorganization, etc.) if its disclosure may lead to sanctions being

1 Federal Law of 04.08.2023 No. 470-FZ "On Peculiarities of Regulation of Corporate Relations in Business Companies that are Economically Significant Organizations" // Rossiyskaya Gazeta. 09.08.2023. No. 175.

2 Executive Order of the President of Russia of 27.01.2024 № 73 // Rossiyskaya Gazeta. 29.01.2024. No. 18.

3 The RF Government Edict of 01.03.2024 No. 491-r "On Approval of the List of Economically Important Organizations" // Collection of Legislation of the Russian Federation. 04.03.2024. No. 10. Article 1475.

4 The RF Government Decree of 12.03.2022 No. 351 "On specifics of disclosure and provision of information subject to disclosure and provision in accordance with the requirements of the Federal Law 'On Joint Stock Companies' and the Federal Law 'On the Securities Market', and specifics of disclosure of insider information in accordance with the requirements of the Federal Law 'On Combating Illegal Use of Insider Information and Market Manipulation and on Amendments to Certain Legislative Acts of the Russian Federation'". URL: <http://pravo.gov.ru> (утратило силу).

imposed on the company.¹ In case of restricted access to information, issuers of securities are obliged to send a notice to the Bank of Russia containing information that is not disclosed by the issuer.

Furthermore, from 2023, due to sanctions, *certain companies may conceal a number of provisions of the corporate agreement* (on the scope of the powers of shareholders, founders, etc.).²

From April 1, 2023, *the Bank of Russia has adjusted certain norms regulating the disclosure of information* in the form of a securities prospectus, issuer's report, statements of material facts, and mandatory disclosure of information by joint-stock companies.³

7. *The Bank of Russia's moratorium on the application by trade operators of the consequences of non-compliance with the listing requirements to the corporate governance of listed companies.* Until the end of 2023, the Bank of Russia established a moratorium on the application by trade operators of the consequences of non-compliance with listing requirements to the corporate governance of public companies whose shares are included in quotation lists (downgrade of the quotation list, delisting)⁴ in respect of issuers whose securities and members of boards of directors have been subject to restrictive measures imposed by foreign countries and foreign issuers operating predominantly in Russia (quasi-Russian companies). However, it is still unclear whether the moratorium will be extended, as the legislative norms allowing companies to partially non-disclose information and work with a truncated board of directors are still in force.

The Bank of Russia also plans to extend until 2025 a special procedure for the payment of dividends on shares of Russian joint stock companies to shareholders and holders of depositary receipts for shares without the involvement of foreign accounting institutions.⁵

3. Promotion of the national sustainability agenda by the Bank of Russia in 2023

By 2022, sustainable development had become a financially tangible area of activity for Russian business. Unified ESG strategies began to emerge from fragmented initiatives.

1 The RF Government Decree of 04.07.2023 No. 1102 "On specifics of disclosure and (or) provision of information subject to disclosure and (or) provision in accordance with the requirements of the Federal Law 'On Joint-Stock Companies' and the Federal Law 'On the Securities Market' // Collection of Legislation of the Russian Federation. 10.07.2023. No. 28. Article 5221.

2 The RF Government Decree of 16.09.2022 № 1625 // Collection of Legislation of the Russian Federation. 26.09.2022. No. 39. Article 6607.

3 Instruction of the Bank of Russia of 30.09.2022 No. 6283-Y "On Amendments to the Regulation of the Bank of Russia of 27.03. 2020 No. 714-P "On disclosure of information by issuers of issue-grade securities" // Bulletin of the Bank of Russia. 09.03.2023. No. 16.

4 Decision of the Board of Directors of the Bank of Russia of 23.12.2022 "On Establishing Temporary Requirements for the Activity of Trade Operators". URL: https://cbr.ru/about_br/dir/rsd_2022-12-23_28_01/

5 Support measures for financial market infrastructural organizations in 2024: Completion and temporary extension. URL: <https://cbr.ru/press/pr/?file=638360838918754454INFR.htm>

The agenda was primarily driven by public companies, companies with western markets and foreign funding, as well as companies with an accumulated body of social practices (e.g., in metallurgical engineering). A landmark event was the creation in January 2022 of the National ESG Alliance, which now unites 25 companies that are leaders in sustainable transition in their industries, including En+, Sberbank, X5 Group, AFK Sistema and Nor Nickel. Alliance members see great financial and reputational prospects in the long-term development of the ESG agenda.

By February 2022, major companies established organizational structures, strategies, documentation and new projects in the area of sustainable development. Individual companies have achieved specific financial results: preferential financing for the construction of production facilities; attracted foreign system investors for whom ESG criteria were prioritized; and placed green bonds, etc.¹ Nevertheless, despite the positive dynamics, the implementation of ESG continues to cause mistrust in Russian society.

Firstly, companies often engaged in greenwashing,² equating to ESG-initiatives and practices projects initiated by legislation that have social and environmental effects, while ESG is marked by activism and actions beyond the mandatory norm.

Secondly, in their reporting, companies focused mainly on investors and foreign consumers, creating the impression that the needs of government and local communities (local issues) stay in the sidelines.

Thirdly, in 2021, the ESG topic turned out to be information overloaded and difficult to grasp. Companies focused on organizational forms, documentation and projects, while specific results of sustainable development policy understandable for society remained uncovered (reduction of atmospheric emissions, poverty reduction, etc.).

The sanctions situation, which cut off Russian business from the Western ESG infrastructure, has challenged the transition of ESG-leading companies to a new qualitative level related to the operational implementation of sustainability principles. Incentives for pursuing sustainability policies have changed. Less attention is paid to the climate agenda, carbon regulation (the eco-logical component of the "E" ESG). The importance of information disclosure has temporarily decreased (management component "G"). At the same time, traditional social practices (care of the territory, ownership responsibility) and creation of a favorable environment for employees were strengthened, i.e. the social component "S" of sustainable development was strengthened.

In 2022, the Bank of Russia defined the legal framework for the issuance of new types of bonds (adaptation bonds; bonds related to sustainable development goals; climate transition bonds),³ established requirements for disclosure of

1 Hereinafter see: Preserving Sustainability: ESG Agenda Perspectives in Russia (research by Platforma CSP commissioned by ESG Alliance). URL: https://drive.google.com/file/d/1U_2F8S3CFWs7LM3GjQ5jR4W4W3xTJqIO/view

2 Greenwashing (or green camouflage) – a form of environmental marketing used by unscrupulous companies to create the appearance of an environmentally friendly organization.

3 Instruction of the Bank of Russia of 04.07.2022 No. 6195-U "On Amendments to the Regulation of the Bank of Russia of 19.12.2019 No. 706-P "On Standards of Securities Issuance" // Bulletin of

information by issuers of these types of bonds and specified requirements for disclosure of information by issuers of green, social, and infrastructure bonds. The Bank of Russia established requirements for information disclosure by issuers of these types of bonds and clarified requirements for information disclosure by issuers of green, social and infrastructure bonds.¹ At the end of the year, recommendations were adopted for financial organizations to take ESG factors and sustainable development issues into account when organizing corporate governance.²

In 2023, among the regulatory initiatives in the area of sustainability are the following.

1. *Assessment of climate risks by financial organizations.* Recommendations on accounting for climate risks in financial organizations³ in order to improve the quality of their management have been developed primarily for systemically important credit organizations.

Climate risks are subdivided into physical (probability of losses associated with natural hazards arising from climate change) and transitional (losses from the transition of foreign counterparties to a low greenhouse gas emission economy).

Experts point out that assessment of climate risks today is complicated by a lack of data, as mankind has either not yet faced many of the possible consequences of climate change or has not collected and stored the necessary indicators to assess such risks. As a result, the Bank of Russia recommends using scenario analysis, i.e. modeling climate change and virtually dealing with scenario risks. This approach and the recommendations themselves can be called formal to a certain extent.⁴

To implement the recommendations, a separate structure could be created within the company to monitor a wide range of climate issues, which is not practical at this stage. Alternatively, to declare compliance with the regulator's recommendations, an annual climate risk report for submission to the board of directors could be assigned to an ESG-aware analyst.

2. *Disclosure by financial organizations of ESG information* in general and information on sustainable development financial products in particular. In order to increase transparency of financial organizations' activities in the field of sustainable development, the Bank of Russia issued recommendations on disclosure of relevant information⁵ and also recommended implementing practices to provide clients with information

the Bank of Russia. 24.11.2022. № 57.

1 Instruction of the Bank of Russia of 30.09.2022 No. 6283-U "On Amendments to the Regulation of the Bank of Russia of 27.03. 2020 No. 714-P "On the disclosure of information by issuers of equity securities" // Bulletin of the Bank of Russia. 09.03.2023. No. 16.

2 Information letter of the Bank of Russia of 28.12.2022 No. IN0228/145 // Bulletin of the Bank of Russia. 30.12.2022. № 64.

3 Information Letter of the Bank of Russia of 04.12.2023 No. IN-018-35/60 "On Recommendations on Accounting for Climate Risks for Financial Organizations". URL: <https://cbr.ru/Crosscut/LawActs/File/6556>

4 *Buylov M.* The bank is like a weather station. URL: <https://www.kommersant.ru/doc/6379531>

5 Information Letter of the Bank of Russia dated 13.06.2023 No. IN-02-28/44 "On Recommendations on Disclosure of Sustainable Development Information by Financial Institutions" // Bulletin of the Bank of Russia. 21.06.2023. No. 45.

on sustainable development financial products (shares, bonds, services and other financial products that directly or indirectly contribute to the achievement of sustainable development goals).¹

Amid the lack of regulatory requirements for disclosure of information in the field of sustainable development, unified terminology and classification, plus specific metrics and indicators to measure ESG factors, there are risks of offering to customers under the guise of financial products of sustainable development products that do not meet ESG criteria, which may cause distrust in financial products of sustainable development. Therefore, the regulator's measures in this field seem to be particularly relevant. Despite the advisory nature of the Bank of Russia's letters, the entities for which these letters are issued try to follow such recommendations as much as possible. It is extremely important that financial organizations provide a clear description of the characteristics of the products they offer, and that any claims that a product has relevant features are reasonable and substantiated.

3. *Sustainable development and climate transition strategies.* The Bank of Russia has issued a methodology for developing sustainability and climate transition strategies² for PJSCs and other issuers. The strategies are designed to more effectively take into account ESG factors and sustainable development issues in the organization of corporate governance, which should help maintain the competitiveness of Russian companies in domestic and foreign markets. They will also allow companies to issue sustainable development bonds and climate transition bonds.³

When forming strategies, the companies are recommended to prioritize sustainable development goals and key indicators and develop projects aimed at achieving them. Issuers that have a high potential for transforming their ESG activities and have a serious role in the national economy are recommended to set more ambitious goals.

To motivate the implementation of strategies, the regulator recommends linking the amount of remuneration of company executives to progress in achieving them. The Bank of Russia also recommends that strategies should be made available to the general public.⁴

4. *Methodologies and ESG rating.* The benchmarking tool is a significant incentive for ESG policies. The goals of rating are: (a) verification of successes, the ability to appeal to the external evaluation of their results; (b) comparison, which gives owners an understanding of their place in

1 Information Letter of the Bank of Russia of 24.05.2023 No. IN-02-28/38 "On Recommendations on Provision (Disclosure) by Financial Organizations of Information to Clients on Financial Products of Sustainable Development" // Bulletin of the Bank of Russia. 29.05.2023. No. 39.
2 Information letter of the Bank of Russia of 29.12.2023 No. IN-02-28/76 "On Recommendations to Public Stock Companies and Issuers of Equity Securities on the Development of Sustainable Development Strategy and Climate Transition Strategy" // Bulletin of the Bank of Russia. 16.01.2024. No. 2.
3 The Central Bank will issue recommendations for shaping a climate transition strategy. URL: <https://1prime.ru/20230518/840630345.html>
4 The Central Bank has developed recommendations for issuers to create sustainable development strategies. URL: <https://www.interfax.ru/business/940433>

the market and stimulus for development, benchmarks, indicates growth areas; (c) dialog with the regulator through demonstration of dynamics, leadership.

Many sustainability stakeholders are skeptical of Russian ratings, which lack general trust, transparency in methodology, impartiality, financial independence, and real ESG-activity of business rather than its imitation. Not all companies understand who is an applied user of Russian ESG ratings.

The current situation has forced Russian companies to reconsider their attitude to domestic rating, and three quarters of the National ESG Alliance participants were in favor of developing such a product.

In 2023, the Bank of Russia issued recommendations on the development of methodology and assignment of ESG-ratings,¹ the purpose of which is to harmonize ratings, which is supposed to ensure visibility of ESG-ratings, their transparency and comparability among themselves. The recommendations define what is meant by ESG-rating and outline possible approaches to the evaluation of ESG-rating elements.

To increase the level of confidence in Russian rating, the regulator recommends following the most important principles of rating activities in the field of sustainable development, including transparency, development of competencies, minimization of conflicts of interest and communication with users and rated entities. It is necessary that adherence to these principles should not be a mere formality and should be monitored by regulators and users.

Today, there are several entities rating under these recommendations.² There is no unanimous opinion on the required number of ESG ratings. On the one hand, there is a need for competition and risks of centralization. On the other hand, most experts are inclined to a single universal rating, as the presence of several ratings does not allow to understand the degree of their real impact on the market and the objectivity of the assessment.

Another debatable issue concerns the methodology of Russian ESG-rating: should it be original or maximally unified with international products? Some experts³ point out that a number of parameters in international ratings are irrelevant for Russia. However, the majority of experts say that Russian ratings have a narrow applied value and possible difficulties in further integration into international ratings, as well as the impossibility of international comparison of companies.

In 2023, the Alliance approved the ESG rating methodologies of three agencies in the Russian market: National Rating Agency, Analytical Credit Rating Agency and Expert RA. The methodologies of rating agencies and the regulator are

1 Information Letter of the Bank of Russia of 30.06.2023 No. IN-02-05/46 "On Recommendations on the Development of Methodology and Assignment of ESG Ratings (Sustainability Ratings)" // Bulletin of the Bank of Russia 12.07.2023. No. 50.

2 List of verifiers of financial instruments for sustainable development. URL: <https://бэб.рф/ustojchivoe-razvitie/zeljonoe-finansirovanie/perechen-verifikatorov/>

3 Hereinafter: ESG Alliance approved the updated Expert RA ESG rating methodology. URL: <https://esg-a.ru/tpost/2zx7u8xuf1-esg-alyans-odobril-obnovlennuyu-metodolo>

classified as approved by the Alliance if they take into account the comments and recommendations of large businesses to the maximum extent possible.

Thus, on the one hand, the legislator is taking measures aimed at maintaining the current status quo (preserving mechanisms for countering sanctions pressure and adapting to the new situation), and on the other hand, the issues and problems requiring systemic solutions are beginning to return to the agenda. The most important of them are the development of legal regulation in the sphere of dividend policy of companies, corporate governance in holdings and groups of companies and expansion of rehabilitation procedures in the framework of bankruptcy. The problem of abuse of the right not to disclose information about oneself by public companies that are not sanctioned as violating investors' rights and requiring the regulator's attention should be noted separately.