

To: Financial Market Participants  
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**Information Letter**  
**on Recommendations for the Implementation of the Principles**  
**of Responsible Investment**

For the purpose of developing approaches to responsible investment in the Russian financial markets, the Bank of Russia is circulating the enclosed recommendations for the implementation of the principles of responsible investment.

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## RECOMMENDATIONS ON THE IMPLEMENTATION OF THE PRINCIPLES OF RESPONSIBLE INVESTMENT

### Introduction

As the international community is increasingly focusing on global problems of the humankind and the achievement of the sustainable development goals,<sup>1</sup> responsible business conduct by business companies becomes ever more important.<sup>2</sup> In this context, investors tend to show a growing demand for investments that take into account the sustainable development goals.<sup>3</sup> There is a global trend indicating that institutional investors, while being a major source of capital for companies, help them attain positive results in the field of sustainable development (we refer to this as “institutional investor’s mission in the field of sustainable development”) – an outcome that eventually contributes to the sustainability of those regions where the companies carry out their business and of the entire country. It is recommended that institutional investors perform the institutional investor’s mission in the field of sustainable development by implementing the principles of responsible development in their business practices.

Responsible investment implies that institutional investors should carry out their business for the benefit of their clients and beneficiaries and perform their duties to invest money in good faith and reasonably, and to make investments more reliable and profitable for their clients and beneficiaries. To achieve those goals, institutional investors should take a smart and comprehensive approach to choosing their investments pursuant to the applicable regulations, conduct a thorough analysis of their investments, including efforts to find an optimum balance of the potential risks and investment profitability in line with their preferred investment strategies, and proactively interact with those companies issuing the securities that they invest in with a view to enhancing their stability, ensuring their long-term development and increasing their capitalisation.

Responsible investment also presumes responsible corporate governance, which means that institutional investors should exercise their shareholder rights in good faith and disclose information on their adherence to the principles of responsible investment. Recommendations on how institutional investors should disclose their corporate governance policies, including, in particular, how they should exercise their shareholder rights in the company and resolve any material conflicts of interest related to such exercise of rights,<sup>4</sup> are contained in the G20/OECD Principles of Corporate Governance.<sup>5</sup>

Furthermore, most countries with highly developed corporate governance have recently adopted codes of proper management.<sup>6</sup> Those voluntary codes contain recommendations for the participation of institutional investors in the management of the investee companies. Following those recommendations by proactively and diligently participating in the matters of strategic development and corporate governance of their investee companies, institutional investors will contribute to their stable business, long-term development and increased capitalisation. While institutional investors are

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<sup>1</sup> The Sustainable Development Goals as adopted by the UN in 2015 (UN General Assembly Resolution No. A/RES/70/1 dated 25 September 2015).

<sup>2</sup> Various international organisations are developing recommendations for responsible business conduct; see, e.g., the OECD Guidelines for Multinational Enterprises, and the UN Global Compact.

<sup>3</sup> Hereinafter “corporate securities that are invested in”.

<sup>4</sup> Chapter III of the G20/OECD Principles of Corporate Governance.

<sup>5</sup> The G20/OECD Principles of Corporate Governance as adopted by the Council of the Organisation for Economic Co-operation and Development (OECD) and approved by the G20 summit in 2015.

<sup>6</sup> The so-called “Stewardship Codes”.

not expected to manage the day-to-day activities of their investee companies, they should contribute to their sustainable development by implementing the principles of responsible investment.

That said, to properly manage an investee company, its institutional investor should not only exercise its shareholder rights in such company, but also monitor<sup>7</sup> any and all important aspects of the company's business and proactively work with it, combine efforts with other investors and interested parties to ensure its sustainable development, take a responsible approach to choosing trustees and advisers, and supervise their activities.

Responsible investment requires taking into account material risks related to sustainable development factors (environmental, social and corporate governance-related factors) when choosing and managing securities to invest in. Taking such factors into consideration, not only will institutional investors be able to select companies that are more stable, well-functioning (in terms of risk management) and profitable in the long term, but will also develop a strategy for working with such companies to improve their performance in the area of sustainable development. However, such integration of sustainable development factors into an investment process does not necessarily narrow the range of potential investees, nor does it imply the need for the institutional investor to sacrifice the return on its investments. The key idea behind such integration is reducing the risks and enhancing the long-term ROI.

These Recommendations aim to help institutional investors build effective relations and improve the dialogue with their investee companies, which, in turn, will enhance those companies' performance in terms of sustainable development, thus creating more investment value for the clients and beneficiaries.

These Recommendations are intended to serve as investment guidelines for institutional investors and their trustees. It is recommended that each institutional investor or trustee should select their own approach to implementing these Recommendations subject to any limitations and procedural requirements for investments as may be imposed by Russian law, in line with the preferred investment strategy and method of forming the investment portfolio, based on an analysis of the investment risk/profitability mix, and with due regard for the preferences of their clients and beneficiaries. When implementing the principles of responsible investment, each institutional investor should take into account the importance of each particular investment as part of its portfolio.

The institutional investors and trustees adhering to the principles of responsible investment are advised to publicly declare their commitment to these Recommendations.

Given the fact that the terms and timing of investment, the rights enjoyed by institutional investors and their ability to have an impact on their investee companies will vary depending on a particular company that they invest in, investors are advised to use their resources, rights and capabilities for the purpose of responsible investment and subject to these Recommendations to the extent applicable to a particular investee company.

It is recommended that institutional investors and their trustees do their best to promote the principles of responsible investment in the Russian Federation, in particular, by interacting with government authorities, supporting scientific research, arranging for and participating in training events, creating information resources, drawing attention to the topical issues of responsible investment and sustainable development.

## Glossary

The following capitalised terms used herein shall have the following meanings:

“Investors” - means institutional investors (such as credit institutions, non-governmental pension funds, joint-stock investment funds, or insurance companies) or

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<sup>7</sup> For the purpose of assisting institutional investors in conducting due diligence of their investee companies to avoid any negative impact of their investments on those companies and the environment, the OECD has issued its guidelines: “Responsible Business Conduct for Institutional Investors: Key Considerations for Due Diligence” (2017).

	trustees (such as managers <sup>8</sup> or management companies <sup>9</sup> ) in charge of institutional investors' assets who invest money to derive profits from the ownership and disposal of assets.
"Company"	- means a business company issuing equity securities that are invested in.
"Sustainable Development Factors" <sup>10</sup>	- means factors to be taken into consideration when making responsible investments, such as factors related to environment (environmental factors, including climate-related risks), society (social factors) and corporate governance (corporate governance factors).
"Corporate Actions"	- means any actions that have or may have an impact on the capital structure, or financial condition of, or the situation of the holders of equity securities issued by a Company, including any increase or decrease in its authorised capital, its reorganisation, including a merger and/or takeover, its material transactions, <sup>11</sup> creation of its management bodies, amendment(s) to its charter, or meetings of the holders of the equity securities issued by it.
"Responsible Investment"	- means any investment that is based, <i>inter alia</i> , on an Investor's aspiration for contributing to the sustainable development of a Company for the purpose of making the investments of its clients and beneficiaries more profitable while keeping the risk at an acceptable level by taking into account the Sustainable Development Factors when making, assessing and monitoring its investments, exercising its shareholder rights and interaction with Companies in good faith, and disclosing its approaches to, and its policies of, responsible investment.

### Principles of Responsible Investment

For the purpose of protecting and enhancing the long-term profitability of the investments made by their clients and beneficiaries, it is recommended that Investors should adhere to the following principles:

**Principle 1.** Investors should develop and disclose their approaches to Responsible Investment;

**Principle 2.** Investors should analyse and take into consideration the Sustainable Development Factors when making their investments;

**Principle 3.** Investors should review and assess/monitor, on an on-going basis, the performance of the Companies;

**Principle 4.** Investors should exercise their corporate rights, both independently and in collaboration with other Investors;

**Principle 5.** Investors should interact, on a regular basis, with the Companies on all material aspects of their operations;

**Principle 6.** Investors should manage any conflicts of interest that may arise in their business; and

**Principle 7.** Investors should take into consideration the Sustainable Development Factors when choosing and interacting with a trustee (if any).

<sup>8</sup> A professional securities market player managing securities under Federal Law No. 39-FZ, dated 22 April 1996, "On the Securities Market".

<sup>9</sup> A management company of an investment fund or mutual investment fund that operates under Federal Law No. 156-FZ, dated 29 November 2001, "On Investment Funds", or a management company of a non-governmental pension fund that operates under Federal Law No. 75-FZ, dated 7 May 1998, "On Non-Governmental Pension Funds".

<sup>10</sup> The so-called ESG (Environmental, Social, and Governance) Factors. Each of those factors is described in more detail in sections 2.3 - 2.5 below.

<sup>11</sup> In accordance with the Corporate Governance Code recommended for use by listed joint stock companies by Bank of Russia Letter No. 06-52/2463, dated 10 April 2014, "material transactions" of a company shall be understood to mean any major transactions, material transactions with an interest for the company (the company determines whether a transaction is considered "material") or other transactions considered to be material by the company.

## Recommendations on the Implementation of the Principles of Responsible Investment

### Principle 1. Investors should develop and disclose their approaches to Responsible Investment

1.1. It is recommended that Investors should develop their approaches to investment so that they are aimed at maintaining and enhancing the profitability of the investments made by their clients and beneficiaries and improving the capitalisation of the Companies in the long term, subject to the interests of their clients and beneficiaries as well as the Sustainable Development Factors. When developing such approaches, Investors are advised to follow these Recommendations subject to any limitations and investment and procedural requirements for investments as stipulated by Russian law.<sup>12</sup>

1.2. It is recommended that Investors should disclose up-to-date information on their approaches to Responsible Investment, for instance, by publishing a statement or declaration of Responsible Investment in a separate section of their official websites on the Internet (the “Official Websites”). If Investors adopt any policies related to Responsible Investment (such as a Responsible Investment policy, a voting policy or a policy for interaction with the Company), they are advised to disclose those policies on their Official Websites. It is recommended that Investors grant a free and unimpeded access to that information to their clients and beneficiaries as well as to any other parties concerned.

1.3. It is recommended that Investors should determine their organisational structure, including the determining of functions and responsibilities of their management bodies, the establishment of corporate governance and compensation systems, and the allocation of human, information and material resources, subject to their approaches to Responsible Investment.

1.4. It is recommended that Investors should assess, on a regular basis, the efficiency of their approaches to Responsible Investment to make sure that these approaches help them conduct Responsible Investment effectively. Upon completion of such assessment, it is recommended that Investors revise, if necessary, their policies related to Responsible Investment (such as a Responsible Investment policy, a voting policy, or a policy for interaction with the Company) and the terms (such as the timing, frequency and form of presentation) and content of the disclosures of their Responsible Investment activities. It would be a good practice for the Investors’ internal (such as their internal auditors) and/or external experts to declare and guarantee that their Responsible Investment policies meet their goals and objectives in practice, and are continuously improved.

1.5. When applying for any consultancy services (including, but not limited to, investment planning, investment strategy development or exercise of their investor rights), it is recommended that Investors should pay attention to the adherence to the principles of Responsible Investment by the persons who are going to be engaged to provide such services. It is also recommended that Investors should inform such persons on their expectations and intentions as to taking the Sustainable Development Factors into account.

1.6. It is recommended that Investors should contribute to the promotion of the sustainable development goals in the Russian Federation, including by supporting scientific research activities and training events for interested parties.

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<sup>12</sup> See, e.g., Articles 24.1, 25 and 25.1 of Federal Law No. 75-FZ, dated 7 May 1998, “On Non-Governmental Pension Funds,” Bank of Russia Regulation No. 580-P, dated 1 March 2017, “On the Imposition of Additional Limitations on the Investment of Accumulated Pension Assets of the Non-Governmental Pension Funds Offering Statutory Pension Insurance Services and on those Cases where a Management Company Acting as a Trustee for Accumulated Pension Assets May Enter into Repo Agreements, and the Imposition of Requirements Aimed at Reducing the Risks Subject to which Such Management Company May Enter into Contracts Constituting Financial Derivatives, Additional Requirements for those Credit Institutions Holding Accumulated Pension Assets and Accumulated Military Personnel Housing Funds, and an Additional Requirement to be Met by a Management Company during the Term of a Trust Agreement in Respect of Accumulated Pension Assets for Funding of Funded Pensions”, Resolution of the Russian Government No. 63, dated 1 February 2007, “On the Approval of the Rules for Placement of Pension Reserve Funds of Non-governmental Pension Funds and Supervision over such Placement”, Bank of Russia Instruction No. 4297-U, dated 22 February 2017, “On the Procedure for Investment of Insurance Reserve Funds and the List of the Relevant Permitted Investment Assets”, and Bank of Russia Instruction No. 4298-U dated, 22 February 2017, “On the Procedure for Investment of Insurers’ Equity Funds and the List of the Relevant Permitted Investment Assets”.

## **Principle 2. Investors should analyse and take into consideration the Sustainable Development Factors when making their investments**

2.1. When conducting an analysis of a Company, assessing its investment strategy and performance, and making a decision with regard to it, it is recommended that Investors should take into account the Sustainable Development Factors and the related risks they consider to be material (the “Material Risks”) along with the Company’s financial performance indicators.

2.2. It is recommended that Investors should analyse the Sustainable Development Factors and related risks by using qualitative and quantitative data when conducting an analysis of a Company, assessing its investment strategy and its performance, and making a decision with regard to it. It is recommended that the Sustainable Development Factors be analysed for all of those entities recognised as forming one group with the Company in accordance with the International Financial Reporting Standards.<sup>13</sup> It is also recommended that the Sustainable Development Factors be analysed at least for the investee entity accounting for the largest share of the Investor’s investment portfolio in value terms and other investee entities important for the Investor.<sup>14</sup>

2.3. It is recommended that the environmental Sustainable Development Factors and related risks taken into consideration should include, but not be limited to, the Company’s greenhouse gas emissions,<sup>15</sup> energy consumption, water consumption, waste generation, water consumption management and waste disposal policy, the Company’s environmental protection policy and costs, and other important factors of the Company’s environmental impact and related risks. It is also recommended that the quality of the Company’s management of environmental and climate-related risks and its environmental projects should be assessed.

2.4. It is recommended that the social Sustainable Development Factors and related risks taken into consideration should include, but not be limited to, the Company’s employment conditions, wage costs, average monthly wage, attrition rate, occupational health and safety, work accidents, employee training costs, infringement of employee labour rights, approaches to human capital formation,<sup>16</sup> contribution to regional development, charitable activities, supply chain management, and other social Sustainable Development Factors important for the Company and related risks. It is also recommended that the quality of the Company’s management of those social factors and its social projects should be assessed.

2.5. It is recommended that the governance-related Sustainable Development Factors and related risks to be taken into consideration should include, but not be limited to, the Company’s capital structure, the existence of any shareholder controlling the Company, as well as of any persons controlled by the Company, the Company’s management history, the Company’s role and position in the national economy, the history of the Company’s general shareholders’ meetings (quorums, agendas, holding practice, and the use of progressive technologies to hold meetings), protection of the rights of securities’ holders in the course of Corporate Actions (including the history of material transactions entailing a conflict of interest between interested parties and the Company), implementation by the Company of the recommendations contained in the Corporate Governance Code,<sup>17</sup> effectiveness of its

<sup>13</sup> It is recommended that such group be determined in accordance with the International Financial Reporting Standards brought into force in the Russian Federation by Resolution of the Russian Government No. 107, dated 25 February 2011, “On the Approval of the Regulation Recognising the International Financial Reporting Standards as Applicable in the Russian Federation” (Legislation Bulletin of the Russian Federation, 2011, No. 10, Article 1385; 2013, No. 36, Article 4578).

<sup>14</sup> Each Investor should independently determine the importance of individual investments in its investment portfolio while taking into account the size of the investment portfolio, its investment strategy and other relevant factors.

<sup>15</sup> For example, using any information disclosed by companies on a voluntary basis as part of the Carbon Disclosure Project or pursuant to the Recommendations of the Task Force on Climate-related Financial Disclosures.

<sup>16</sup> “Human capital formation” should be understood to include, but not be limited to, the following actions taken by the Company: formation of a career management system, creation and assessment of competences, system of rewarding for high performance, stress and pressure management, planning of succession of competences and/or functions, skill upgrading arrangements for professionals, and creation of socially comfortable conditions for development and improvement of living standards/quality of life.

<sup>17</sup> The Corporate Governance Code as recommended by Bank of Russia Letter No. 06-52/2463, dated 10 April 2014, for use by listed joint stock companies (the “Corporate Governance Code”).

governance system, including the composition and performance review of its board of directors, its internal controls, risk management and internal audit, procedures used by it to manage conflicts of interest, its approaches to and practices of remuneration payments to its management and key employees, and its approaches to and practices of disclosure of information related to social and environmental responsibilities, including those recommended by the Corporate Governance Code.

2.6. It is recommended that Investors should develop rules for analysing and taking into consideration the Sustainable Development Factors and publish those Rules on their Official Websites. It is also recommended that Investors incorporate such rules into their investment policies.

2.7. Integrating the analysis of the Sustainable Development Factors and related risks into the investment decision-making process as well as assessment of the long-term development prospects of the Company and its future value subject to the factors in question may become decisive factors for Investors by helping them identify the hidden risks that may go unseen if they neglect the Sustainable Development Factors.

2.8. The Companies' periodical public statements, sustainability reports<sup>18</sup> and public information published in mass media may serve as a source of information concerning their management of risks and opportunities related to the Sustainable Development Factors. It is recommended that Investors should review the information concerning the Companies' adoption of (in particular, by introducing the relevant principles of sustainable development into their bylaws and integrating them in their business processes) or accession/adherence to any standards, codes of conduct or international initiatives<sup>19</sup> in the sustainable development domain.

2.9. It is recommended that Investors should interact with the Companies to ensure that they disclose information on their sustainable development, preferably in a standardised form, e.g., in accordance with any internationally recognised standards, and support any initiatives pursued by the Companies' shareholders to implement the best disclosure practices in relation to sustainable development.

### **Principle 3. Investors should review and assess/monitor, on an on-going basis, the performance of the Companies**

3.1. It is recommended that Investors should review and assess/monitor, on an on-going basis, various important aspects of the business of a particular Company, including its development strategy, capital structure, risk management, corporate governance practices, corporate social responsibility, and commitment to the principles of responsible business conduct,<sup>20</sup> practices in the area of Corporate Actions, and the quality of their disclosures (the scope, credibility, relevance and disclosure timeliness of the information and its compliance with Russian law). The "important aspects of a Company's business" are recommended to be understood to mean those aspects that can influence the value of such Company and/or its securities in the long term. It is recommended that the scope and subject matter of such monitoring be determined depending on the type and nature of the Company's business as well as on the Investor's investment strategy and policy and its understanding of those aspects of the Company's sustainable development that the Investor will be able to improve in the long term by interaction with the Company in good faith and reasonably. It is recommended that Investors perform

<sup>18</sup> Companies should voluntarily disclose information on their sustainable development, *inter alia*, in accordance with the GRI Standards, ISO 26000:2010 "Guidance on Social Responsibility", the AA1000SES and AA1000AP Standards as adopted by the Institute of Social and Ethical Accountability, the International Standard of Integrated Reporting (IR), the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), the Standards adopted by the Sustainability Accounting Standards Board (SASB), the Basic Performance Indicators of the Russian Union of Industrialists and Entrepreneurs, and other standards.

<sup>19</sup> For example, the UN Global Compact, the UN Principles for Responsible Investment (UN PRI), the UN Universal Declaration on Human Rights, the UN Declaration on Environment and Development, the OECD Guidelines for Multinational Enterprises, the ILO Declaration on Fundamental Principles and Rights at Work, ILO Convention No. 87 "Freedom of Association and Protection of the Right to Organise", ILO Convention No. 98 "Right to Organise and Collective Bargaining", ILO Convention No. 111 "Discrimination (Employment and Occupation)", etc.

<sup>20</sup> For example, its commitment to the OECD Guidelines for Multinational Enterprises.

such monitoring on a regular basis throughout all phases of their investments, from the moment when they decide to invest to that when they exit.

3.2. It is recommended that the scope of such monitoring should include an analysis of the Company's management of those risks and opportunities related to the Sustainable Development Factors. For the purpose of optimisation of such monitoring, Investors are advised to take a risk-oriented approach, focus on the area/field prone to the most material (in their opinion) risks related to the Sustainable Development Factors, and pre-select the Companies to be assessed. When taking such risk-oriented approach, it is recommended that Investors take into consideration the risks inherent in certain types of business/economic sector(s) where a particular Company carries out its business and the risks related to such Company itself, e.g. poor performance of some of its sustainability aspects.

3.3. It is recommended that Investors should assess, on a periodical basis, the efficiency of their monitoring, including the sufficiency in number and skills of their monitoring staff, adequacy of the sources of information and timeliness of its receipt in terms of assessing risks and making decisions as part of such monitoring, as well as when analysing the effectiveness of the process of interaction with the Companies upon completion of such monitoring.

3.4. It is recommended that Investors should specify the procedures and methods of their monitoring and a list of measures to be taken upon completion of such monitoring, including steps to prevent and minimise the risks related to the Sustainable Development Factors.

#### **Principle 4. Investors should exercise their corporate rights, both independently and in collaboration with other Investors**

4.1. For the purposes of facilitating the sustainable development and increasing the value of the Companies, it is recommended that Investors should exercise their shareholder rights in good faith and reasonably.

4.2. It is recommended that Investors should proactively exercise their right to participate in the management of the Companies, including by:

- participating in and voting at their general shareholders' meetings;
- submitting candidates to their management and, if any, to their control bodies;
- submitting proposals to the agendas of their general shareholders' meetings;
- requesting convocation of their extraordinary general shareholders' meetings; and
- receiving information in accordance with Russian law.

4.3. It is recommended that Investors should develop and, if and to the extent necessary, revise their voting policies. In particular, it is recommended that Investors ensure that the voting option chosen on a voting item is in line with their voting policies when engaging a person to vote by proxy on their behalf. It is recommended that each Investor should publish on its Official Website and, if and to the extent necessary, update:

- its voting policy;<sup>21</sup>
- information on the voting results on each agenda item of each general shareholders' meeting of each Company; and
- the reason why it did not exercise its voting right (if it did not).

4.4. One key factor influencing the performance of a board of directors is its structure and composition.<sup>22</sup> It is therefore recommended that each Investor participate in the nomination of candidates to the Company's board of directors and vote for its candidates, and participate in the voting on the election of the candidates nominated by other Investors or groups of Investors. When doing so,

<sup>21</sup> A uniform document containing detailed instructions on how the Investor should vote on the key matters to be put on the vote by the Company (e.g., election of its board members, appointment of its auditor, approval of its annual report and accounting/financial statements, approval of its interested-party and other transactions, etc.). For each type of matters, the voting policy should usually set criteria to be used by the Investor to decide whether to vote for or against, or to abstain from voting.

<sup>22</sup> For example, Principle 2.4.3 of the Corporate Governance Code recommends that independent directors should account for at least one third of the elected board of directors.



it is recommended that each Investor should assess, in good faith and reasonably, the professional experience, skills, knowledge and business reputation of such nominees, including in terms of compliance with Russian law and the Corporate Governance Code.<sup>23</sup>

4.5. By exercising their right to submit proposals to the agenda of a general shareholders' meeting of the Company, Investors can help such Company improve the organisation of its corporate governance and business, including its compliance with the Corporate Governance Code.<sup>24</sup>

4.6. When exercising their corporate rights, it is recommended that Investors should take into consideration the materiality of the relevant Corporate Actions for them as well as for their beneficiaries and clients. It is recommended that Investors should consider each material Corporate Action on its merits and decide whether they should participate in such Corporate Action with due regard for the interests of other interested parties and the Companies in general, and, if they decide to participate in such Corporate Action, do so on a timely basis.

4.7. When determining the degree of materiality of a Corporate Action, it is recommended that Investors take into consideration, among others, the following factors:

- the importance of the investment in a particular Company for their investment portfolios;
- their ability to influence the outcome of such Corporate Action;
- any potential negative effect of such Corporate Action for their rights and interests and those of their beneficiaries or clients; and
- any potential negative effect of such Corporate Action for the sustainability goals in general (e.g., the creation of a negative precedent in a particular area).

4.8. By cooperating with other Investors as part of Corporate Actions, Investors generally make their participation in such Corporate Actions more effective. As part of such cooperation, Investors are advised to adhere to the principles of responsible investment.

4.9. It is recommended that Investors should exercise their right to seek judicial protection for their violated rights and interests if and to the extent necessary.<sup>25</sup>

4.10. It is recommended that Investors should proactively participate in the development and/or discussion of any regulatory initiatives related to the protection of shareholder and investor rights.

## **Principle 5. Investors should interact, on a regular basis, with the Companies on all material aspects of their operations**

5.1. In addition to exercising their shareholder rights, it is recommended that Investors proactively interact with the Companies and, if and to the extent necessary, the other parties concerned on various material aspects of the Companies' business, including:

- their development strategy;
- their management of risks and potential opportunities;
- matters of their corporate governance, corporate social responsibility and sustainability;
- their practices in the area of Corporate Actions; and
- the quality of their disclosures (the scope, credibility, applicability and disclosure timeliness of the information and disclosures' compliance with Russian law).

5.2. For the purpose of more effective interaction with their Companies, it is recommended that Investors, when necessary and/or at their sole discretion, should join their efforts to discuss with the

<sup>23</sup> Principle 2.3.1 of the Corporate Governance Code.

<sup>24</sup> For example, any change in the number of the board members or in the board decision-making procedures, including for the purpose of ensuring that the most important matters related to the Company's business are decided on by a qualified majority vote of the board members.

<sup>25</sup> For example, where permitted by Russian law, an Investor may challenge any decisions made by the Company's board of directors or shareholders at their general meeting in violation of Russian law or the Company's charter, take action to make sure that the Company's managers or controlling persons are held liable for any damages caused to the Company by their wrongful acts or omissions, or claim to invalidate a major or interested-party transaction (pursuant to Articles 49, 68, 71 and 79 of Federal Law No. 208-FZ dated 26 December 1995 "On Joint Stock Companies").

Companies any matters concerning all Investors and communicate their consolidated position to the Companies.

5.3. It is recommended that Investors should explore the interests of other interested parties such as banks, creditors, clients, suppliers and non-governmental organisations to achieve the goals of interaction with the Companies.

5.4. Given the scope and nature of their business, it is recommended that Investors develop their policies for interaction with the Companies that would be mainly aimed at contributing to the sustainable development of the Companies and increasing their capitalisation in the long term. It is recommended that Investors publish their interaction policies on their Official Websites and disclose their progress in implementing those policies no less frequently than on an annual basis.

5.5. It is recommended that Investors' policies for interaction with the Companies should include:

- their approaches to interaction with those Companies;
- information with regard to which Companies and events will be covered by the mentioned policies;
  - the mechanism and procedure for interaction with those Companies on the Investor level;
  - resources to be used to interact with those Companies;
  - procedures for interaction with those Companies;
  - principles and procedures for escalating unresolved issues (as described in Sections 5.7 and 5.8 below) in case such interaction does not attain the expected outcome; and
  - their reports on their interaction, and on their compliance with their policies for interaction with the Companies, which are to be prepared on a regular basis, *inter alia*, for the purposes of being submitted to the parties concerned.

5.6. If any unresolved issue needs to be escalated, it is recommended that, depending on the nature of such issue, Investors interact with the Companies' employees responsible for dealing with such issue as well as the Companies' management, board members and controlling shareholders or, if there are no controlling shareholders, major shareholders.

5.7. Investors may interact with a Company and subsequently escalate any unresolved issues by, *inter alia*:

- making phone calls or sending letters, including e-mails, to the members of such Company's management bodies, indicating the issues of concern/interest to them;
- meeting with the members of such Company's management bodies or other parties concerned, including its banks, creditors, clients or counterparties, or non-governmental organisations, whether in conjunction with other Investors and shareholders or otherwise; and
- exercising their corporate rights or making certain investment decisions (including a decision to divest as the last extreme escalation measure).

5.8. In the event that the Investor discusses with a Company any matters beyond the scope of the Company's general shareholders' meeting, it is recommended that the Investor disclose, upon request of such Company, the size of its interest in the Company's authorised capital and/or the amount of its investment in the Company.

5.9. Should an Investor's direct communications with a Company turn out to be ineffective, it is recommended that the Investor join efforts with other Investors to improve the process of interaction with such Company.

5.10. If an Investor invests in mutual investment funds, it is advised to make sure that the communications between the management companies of such mutual investment funds and the Companies that they invest in are not incompatible with the Investor's policy of interaction with the Companies.

## **Principle 6. Investors should manage any conflicts of interest that may arise with in their business**

6.1. It is recommended that Investors should endeavour to prevent and identify any conflict of interest that may occur when they exercise their corporate rights, monitor important aspects of the Companies' business and interact with Companies, and to manage any such conflict of interest subject to the statutory requirements<sup>26</sup> for identification, prevention and management of conflicts of interest. It is also recommended that Investors disclose on their Official Websites any occurring conflict of interest or any situation entailing the risk of any conflict of interest occurring in their business.

6.2. It is recommended that Investors should pay attention to any circumstances that may give rise to a conflict of interest, including, but not limited to:

- Investor offering any consultancy/financial services or financial instruments to a Company;
- members of an Investor's management bodies becoming members of the management bodies of a Company;
- members of an Investor's management bodies having business or family ties with members of the management bodies of a Company; or
- investing in Companies that are defined as a group in accordance with the International Financial Reporting Standards.

6.3. It is recommended that Investors should develop their policies for managing conflicts of interest and publish those policies on their Official Websites.

6.4. It is recommended that Investors should set rules and procedures that would ensure accounting for the interests of all of their clients in the Investors' operations.

## **Principle 7. Investors should take into consideration the Sustainable Development Factors when choosing and interacting with a trustee (if any)**

7.1. When choosing a trustee, it is recommended that Institutional Investors should review the approaches to Responsible Investment as adopted by such trustee, including whether they have such procedures and policies. It is also recommended that Institutional Investors assess such trustee's ability to analyse the Sustainable Development Factors.

7.2. It is recommended that those Institutional Investors placing assets in trust should develop a policy for choosing the trustees and monitoring their operations based on these Recommendations and revise such policy no less frequently than on an annual basis. It is also recommended that Institutional Investors publish such policy and related performance reports on their Official Websites.

7.3. It is recommended that those Institutional Investors placing assets in trust should set rules and procedures for monitoring the operations of their trustees, including their compliance with their own investment strategies and approaches to Responsible Investment as well as the Institutional Investors' policies for interaction with the Companies (if any).

7.4. It is recommended that Institutional Investors should develop their approaches to determining the fees payable to the trustees for their trust services and other intermediary services to make sure that they provide those services in due manner and subject to these Recommendations.

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<sup>26</sup> See, e.g., Clause 3.3 of Chapter 6 of Bank of Russia Regulation No. 482-P, dated 3 August 2015, "On Uniform Requirements for the Rules of Carrying out the Securities Management Business and for Disclosures by Managers, and Requirements Aimed at Preventing a Manager from Being Faced with a Conflict of Interest", Clause 3 of Russian Federal Commission for the Securities Market Resolution No. 44, dated 5 November 1998, "On the Prevention of Conflicts of Interest in Professional Operations on Securities Markets", Clause 1.5 of Bank of Russia Instruction No. 4060-U dated 4 July 2016 "On the Requirements for Organising a Risk Management System for a Non-governmental Pension Fund", and Chapters III and IV of the Model Code of Professional Conduct for the Management Companies, Specialised Depositories and Brokers Engaged in the Formation and Investment of Accumulated Pension Assets as approved by Resolution of the Russian Government No. 770, dated 12 December 2004.