



Hong Kong

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HKEX AMENDS RUSSIA COUNTRY GUIDE FOR 'INTERNATIONAL COMPANIES'

The Hong Kong Stock Exchange (**HKEx**) amended its country guide for Russia in March 2019 to provide for Russian listing applicants which are “international companies” under Russian law. The crucial difference between Russian “international companies” and Russian joint stock companies, for which the HKEx’s Russia country guide previously catered, is that “international companies” can issue shares in certificated form, whereas joint stock companies seeking to list, can only list uncertificated shares. Thus while Russian joint stock companies are restricted to listing depository receipts on HKEx’s Main Board, Russian international companies can list shares. The updated version of HKEx’s Country Guide for Russia can be accessed here.¹

Russian Federal Law on International Companies

Federal Law No. 290-FZ on International Companies took effect on 3 August, 2018, and was amended on 25 December 2018 (the **International Companies Law**). The law allows companies which are incorporated outside Russia and operate businesses (including through controlled companies) in several countries, including Russia, to redomicile as Russian international companies registered in Russia’s Unified State Register of Legal Entities. An international company can register as either a limited liability company or a joint stock company. Redomiciliation is subject to certain conditions, including:

1. Redomiciliation restricted to two special administrative regions

Foreign companies are permitted to register only in two special administrative regions of Russia - Russky Island in the Primorsky region and Oktyabrsky Island in the Kaliningrad region.

2. Minimum investment amount in Russia

The company must agree to invest a minimum of 50 million Rubles (approximately US\$770,000) in Russia, within six months of the company’s registration as an international company. Investment can be made anywhere in Russia and is not restricted to the special administrative region in which the international company is registered. A group of companies will be treated as one entity in applying for registration as an international company. The 50 million Rubles investment requirement can either be shared among the group members or assumed by a single member.

3. Jurisdiction of incorporation

The foreign company must be incorporated in a jurisdiction which is a member or observer of the Financial Action Task Force and/or a member of the Council of Europe’s Committee of Experts on the Evaluation of Anti-Money Laundering measures and the Financing of Terrorism.

¹ https://www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Other-Resources/Listing-of-Overseas-Companies/A-List-of-Acceptable-Overseas-Jurisdictions/cg_russia.pdf?la=en

However, whether a foreign company is able to register in Russia as an international company will also depend on whether this is permitted under the laws of its jurisdiction of incorporation.

The shareholders of foreign companies which reregister as Russian international companies retain essentially the same rights and obligations they held prior to their redomiciliation. Thus redomiciliation does not result in the termination of the company's existing liabilities.

Benefits of registration in special administrative regions

Registration in a Russian special administrative region additionally provides the following tax benefits:

1. An international holding company is not taxed on the dividends it receives from foreign companies it controls.
2. Dividends paid by an international company that is a public company to foreign entities are subject to income tax at the rate of 5%.
3. A zero tax rate applies to an international holding company's income from sales or disposals (including redemption) of shares of Russian and/or foreign organisations provided that the international holding company has held the shares for a minimum of 365 calendar days.

Foreign companies which reregister as international companies in the special administrative regions are additionally deemed to be non-resident for the purposes of currency controls and regulation. Accordingly, currency transactions entered into by international companies with Russian residents are not subject to currency restrictions, except that sales and purchases of foreign currency can only be carried out with authorised banks and the state 'Bank for Development and Foreign Economic Affairs (Vnesheconombank)'.

HKEx Country Guides

Country Guides published by HKEx set out how companies incorporated in relevant jurisdictions can satisfy the Listing Rules' requirement that the listing applicants' jurisdiction of incorporation provides standards of shareholder protection equivalent to those provided by Hong Kong law.

HKEx's Country Guide for Russia previously reflected the Russian legal requirement that companies seeking to list (whether domestically or offshore) had to be incorporated as public joint stock companies, the shares of which could exist only in uncertificated form. Hence a Russian company seeking to list in Hong Kong was only able to list depositary receipts on Hong Kong's Main Board. The International Companies Law enables an international company registered in Russia to issue certificated shares provided that it has issued shares in certificated form previously. This opens the way for Russian international companies to list on HKEx in the form of shares, as opposed to depositary receipts.

Russia Guidance Letter Amendment

The Russia Country Guide has thus been amended to extend its application to Russian international companies. A paragraph has been added to the "Summary of our Approach" stating that listing applicants which are registered as Russian international companies must also meet the requirements of the Country Guide and should consult the Listing Department of HKEx in the event of any inconsistency between the Country Guide and the International Companies Law.

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