

# Client Alert

Latham & Watkins  
Corporate Department

## Russian IPO's

**A discussion of whether or not to use an offshore listing vehicle, an introduction to which exchanges are available for listing, and the potential impact of proposed regulatory changes in both Moscow and London.**

**([Click here](#) for a detailed comparison of London listing options)**

"[A]s a result of the potential liberalization of the Russian regulations and potentially more stringent regulations from the UKLA, many Russian issuers are once again considering: (i) whether or not to use an offshore issuer to list and (ii) where to list their equity."

### Introduction

From 2005 through 2008, the investment advisor community consistently advised Russian issuers to choose between one of three listing alternatives: (i) list on the local Russian exchanges (RTS/MICEX); (ii) list on the RTS/MICEX and list global depositary receipts (GDRs) on the London Stock Exchange (the LSE) or (iii) re-domicile offshore and list GDRs in London, with a few issuers choosing to list shares on the Alternative Investment Market (AIM). Subsequent to 2008, due to unfavourable market conditions for domestic offerings, and to even more unfavourable Russian regulatory changes in 2009, the listing options further crystallized into a significant preference to re-domicile offshore and list GDRs on the LSE for those who can, and for those who cannot re-domicile offshore, to list shares on the RTS/MICEX with a simultaneous listing of GDRs on the LSE. The common theme being — list GDRs on the LSE — with a minimal number of outliers who have listed, or attempted to list, in the United States (Yandex) or on the Hong Kong Stock Exchange (RUSAL) (the HKSE).

As varied as each of the foregoing listing options may appear, they each have a negative reputation amongst the investor community for poor corporate governance and minority protections as well as poor liquidity with a limited investor base. As a consequence, and as a result of the potential liberalization of Russian regulations coupled with potentially more stringent regulations from the UKLA (each as described below), many potential Russian issuers are once again considering: (i) whether or not to use an offshore issuer to list and (ii) where to list their equity.

### Executive Summary of Conclusions

Although this client alert is primarily intended as a primer for potential Russian equity issuers, we do consider two potentially important developments in the applicable regulatory regimes. In the first instance, we consider whether or not the Federal Service for Financial Markets of the Russian Federation's (the FSFM) draft amendments to the Regulation on the placement and

circulation of securities abroad, which would potentially permit Russian open joint stock companies to list up to 100 percent of their equity on a foreign exchange, will encourage Russian issuers to utilize an OJSC in lieu of an offshore listing structure.

We certainly welcome the FSFM's proposed regulatory changes to what was an otherwise overly punitive and artificial regime, and although the proposed rule changes are of significant benefit to Russian strategic issuers, banks, privatization candidates and already public OJSC's, we conclude that all other issuers should continue to re-domicile to an offshore listing vehicle when possible. Our conclusion is largely based on the inadequacies, and resulting inefficiencies, associated with the Russian corporate code, and the complexities that arise with respect to follow-on offerings, rights offerings and other relatively standard corporate actions.

Additionally, we consider whether potential changes by the UK listing authority (the UKLA) to the GDR block listing regime will influence offshore issuer behaviour away from a "standard" listing of GDRs, and towards either a "standard" listing of shares or a premium listing of shares on the LSE. Our views on this topic remain formative as they largely depend on the ultimate scope of the changes to be instituted by the UKLA and the quantum of additional burden on GDR issuers. However, it is foreseeable to us that a significant additional burden on offshore GDR issuers could tip the balance towards a "standard" listing of shares on the LSE in lieu of GDRs. In any event, we are of the view that a listing on the LSE will continue to be the dominant preference for Russian issuers, and to that end a detailed analysis of all LSE listing options is set forth herein.

### **Offshore Listing Vehicle or Onshore Listing Vehicle?**

A Russian issuer's decision whether or not to list via an offshore (Cyprus, British Virgin Islands, Luxembourg, to name a

few) listing vehicle or an onshore listing vehicle (an open joint stock company, or OJSC) depends on a number of factors, including: (i) what listing venues are available to each, (ii) the advantages and disadvantages of each, and perhaps most importantly, (iii) proposed Russian regulatory changes.

### **Listing options available:**

As a result of the absence of a suitable centralised securities clearing and settlement system in the Russian Federation capable of holding the shares of Russian companies and facilitating and settling trades, a Russian company seeking to list shares on the LSE, AIM or elsewhere must first introduce an offshore holding company into its group corporate structure, and then list the shares of such offshore parent entity (rather than the Russian company itself). These listed shares shall be held by and traded through an eligible central securities depository located in the jurisdiction of incorporation of the offshore listing vehicle. (This issue is resolved in the context of a listing of GDRs or American Depositary Receipts (ADRs) as depository receipts that are issued by a depository bank located outside of the Russian Federation and are typically held and traded through Euroclear, Clearstream and/or DTC.)

Russian companies which are unable or unwilling (Russian banks, strategic entities and privatization candidates, for example) to use an offshore vehicle to effect a listing of shares on a foreign exchange are left with the option to list shares on RTS/MICEX and simultaneously list depository receipts on a foreign exchange. Most foreign exchanges will accept a listing of depository receipts by a Russian OJSC, although it should be noted that for those Russian issuers who are seeking a more prestigious listing than a "standard" listing of GDRs on the LSE or an equivalent on a European stock exchange, the options will be narrowed to either listing ADRs in the United States or to listing depository receipts on the HKSE,<sup>1</sup> as a "premium" listing on the LSE is only available for offshore issuers who may list shares.

"[A]lthough the proposed rule changes are of significant benefit to Russian strategic issuers, banks, privatization candidates and already public OJSCs, we conclude that all other issuers should continue to re-domicile to an offshore listing vehicle when possible."

Therefore, and subject to the Russian regulatory concerns discussed below, unless an issuer wishes to conclude a “premium” listing of shares on the LSE or a listing of shares on AIM or another exchange, one may conclude that both an offshore vehicle and a Russian OJSC broadly offer the same scope of listing options to a potential issuer.

### Advantages and disadvantages:

However, in order to determine whether or not an offshore listing vehicle is preferable for a Russian OJSC, multiple other advantages and disadvantages to both structures should be considered. We set forth certain of those factors in the following table:

	Certain Advantages	Certain Disadvantages
<b>OJSC Issuer</b>	<ul style="list-style-type: none"> <li>• Management and the board are able to operate in Russia under Russian law in the Russian language.</li> <li>• None of the tax risks that are associated with offshore structures.</li> <li>• Simplified operating structure.</li> <li>• No political risk of an offshore structure being found to be illegal or otherwise unworkable.</li> <li>• For certain industries (banks, strategics, etcetera), the only viable option.</li> </ul>	<ul style="list-style-type: none"> <li>• OJSC’s who wish to list on the LSE have no choice but to pursue a “standard” listing of GDRs.</li> <li>• Russian corporate law is not well-suited to a publicly traded company (interested party transactions, mandatory tender offers, procedures for issuing new shares, etc. all regularly frustrate an OJSC’s attempts to complete relatively basic corporate functions such as secondary public offerings, issuances of public debt, rights offerings etc.).</li> <li>• Subsequent offerings by Russian OJSC’s which include a rights offering component may require registration in the US or other jurisdictions that is unavoidable.</li> <li>• Structuring an offering by an OJSC on a foreign exchange is very complicated, and in certain instances, may not be possible.</li> <li>• Poor reputation in the international capital markets for investor protection and minority rights.</li> </ul>
<b>Offshore Issuer</b>	<ul style="list-style-type: none"> <li>• All listing options are available.</li> <li>• Flexible and easy to work with corporate codes.</li> <li>• Very easy to implement secondary public offerings, rights offerings, employee stock option plans, etc.</li> <li>• More attractive takeover target.</li> <li>• Better reputation than an OJSC.</li> <li>• Typically very tax efficient.</li> </ul>	<ul style="list-style-type: none"> <li>• Not a viable option for all Russian issuers due to either legal or political constraints.</li> <li>• Forces Russian management to be comfortable with offshore counsel, a foreign legal regime and a foreign language.</li> <li>• Tax structures tend to be more risky.</li> <li>• Higher cost of organization and on-going maintenance than an OJSC.</li> </ul>

### **Proposed Russian regulatory changes:**

In addition to the foregoing factors, a key factor driving many Russian issuers to use an offshore listing structure are certain regulatory changes implemented by the Russian securities regulator, the FSFM, in 2009. In particular, Russian law currently limits the maximum percentage of each class of an OJSC's shares that may be circulated abroad (including in the form of GDRs or ADRs) to 25 percent in respect of all Russian companies (subject to certain further requirements) that are not designated under Russian law as being of "strategic importance" for the defence and security of the Russian Federation. Furthermore, the ability of all OJSCs to have a GDR or ADR program that is larger than 30 percent of its common equity is *de facto* limited by Russian mandatory tender offer rules (MTO), which the FSFM currently interprets as limiting a depositary's ability to acquire OJSC shares to 30 percent lest it be required to offer to purchase the entire company.

However, pursuant to the draft regulation of the FSFM entitled "*On Amending the Regulation on Granting Permits for Offering and Circulation of Russian Issuers' Securities Abroad*" (the Draft Regulation), which is expected to come into force later this year, the 25 percent FSFM restriction may be removed completely in respect of all Russian companies that are not designated under Russian law as being of "strategic importance" for the defence and security of the Russian Federation. If the Draft Regulation were to be enacted in its current form, and if the *de facto* MTO limitation of 30 percent could be resolved or structured around, it should become possible to trade 100 percent of such "non-strategic" Russian companies' issued share capital outside of the Russian Federation in the form of GDRs<sup>2</sup>. Unfortunately, the 25 percent restriction would continue to apply with respect to trading in the share capital of "strategic" Russian companies with a further limitation of 5 percent for strategic subsoil companies.

### **Conclusion**

The regulatory changes proposed by the FSFM which could permit a Russian OJSC to list up to 100 percent of its shares on a foreign exchange via a depositary receipts facility are certainly a welcome improvement to what was an otherwise excessively punitive regulation. In particular, these changes will be key to ensuring that issuers who must use a Russian OJSC to conclude an offering will have the flexibility required to raise equity capital financing without artificial limitation.

However, our view is that because of the other significant disadvantages associated with using a Russian OJSC as an issuer, (including, in particular, difficulties associated with secondary public offerings, rights offerings, employee stock option plans and other relatively standard corporate actions), those who are eligible to do so would continue to be well-advised to re-domicile to an offshore jurisdiction prior to listing whenever possible.

### **A Brief Introduction to Various Listing Options**

Ultimately, the correct listing location and structure for a particular issuer will largely be driven by (i) the amount of time, energy and finances it is prepared to invest in its IPO to achieve the highest valuation possible, including by taking steps to adopt market-leading corporate governance standards, (ii) an issuer's industry and target investor audience, and (iii) the extent to which the current owner(s) of the issuer are willing to cede certain amounts of control over the issuer.

#### **Listing GDRs in London**

Historically, Russian issuers that successfully obtain the requisite "standard" listing for their GDRs from the United Kingdom Listing Authority (UKLA) and have their GDRs admitted to trading on the LSE have been able to diversify their shareholder base, attract significant new capital and benefit from the recognition and prestige that comes from an LSE listing. Equally, GDR investors have consistently preferred

to diversify their portfolios and gain exposure to Russian companies by investing in LSE listed GDRs, thereby minimizing the perceived risks inherent in holding Russian securities traded on a Russian exchange.

Moreover, listing GDRs has proven to be particularly attractive to Russian issuers because the regulatory requirements associated with a GDR listing are significantly less demanding than for a “premium” (or even a “standard”) listing of shares on the LSE or a listing of ADRs or shares in the United States. Both the initial listing eligibility criteria and the ongoing post-listing continuing obligations are less exacting — for example, a company seeking a GDR listing need not provide a working capital statement covering the sufficiency and anticipated sources of its short-term working capital, and an issuer with a GDR listing is not required to produce half-yearly financial reports or interim management statements<sup>3</sup>, is not subject to a major shareholding notification regime and is not subject to corporate governance standards other than those imposed by its home-country jurisdiction. This reduced regulatory burden, combined with the lower level of disclosure and verification required in connection with the publication of the prospectus accompanying the listing of the GDRs, typically makes a GDR listing simpler, quicker and cheaper than a listing of shares. Unfortunately, it is this same reduced regulatory burden which contributes, at least in part, to the poor performance of GDRs in the market and has contributed to the cessation of more than one attempted Russian issuer IPO of late.

### **Alternative Listing Options**

Despite the valuation and liquidity concerns currently associated with an LSE GDR listing, it is reasonable to expect that a GDR listing on the LSE will continue to be the correct choice for the majority of Russian issuers. However, alternative listing options may be more suitable for certain Russian issuers and, therefore, should be considered.

For example, an issuer may elect to list GDRs in Warsaw or in Frankfurt if it considers that, owing to the nature or geographical location(s) of its business operations, a listing on either such exchange would attract more investment than on the LSE.

Alternatively, issuers that are able and willing to offer and list shares may elect to obtain a “standard” listing of shares on the LSE or list shares on AIM in order to simplify their equity structure and to access investors who may otherwise be precluded from investing in GDRs.

Finally, issuers who are willing to invest significantly into an IPO, and more importantly, are willing to change the nature of their company such that minority investors have strong protections, should consider pursuing a “premium” listing of shares on the LSE, a listing of ADRs or shares on the New York Stock Exchange (the NYSE) or NASDAQ, or even a listing of shares or depositary receipts on the HKSE. The goal, of course, being that such a listing, when coupled with reasonable market conditions and a quality underlying business, will significantly increase the prospects of closing a successful IPO and maintaining strong post-IPO valuations thereafter.

In sum, the listing options available to a Russian issuer may be divided between those options that are available to an offshore issuer or to a Russian OJSC, each of which may be further subdivided between those listing options that require a minimum amount of self-investment and provide minimum investor protections and those that require a significant amount of self-investment and provide enhanced investor protections. These options are set forth in the following table:



	Offshore issuer	OJSC Issuer
<b>Minimal self-investment and investor protection listing options</b>	<ul style="list-style-type: none"> <li>• AIM listing on the LSE</li> <li>• GDR or share listing on the: <ul style="list-style-type: none"> <li>• LSE</li> <li>• Frankfurt</li> <li>• Warsaw</li> <li>• Other European stock exchanges</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• RTS/MICEX share listing</li> <li>• RTS/MICEX listing combined with a GDR listing on the: <ul style="list-style-type: none"> <li>• LSE</li> <li>• Frankfurt</li> <li>• Warsaw</li> <li>• Other European stock exchanges</li> </ul> </li> </ul>
<b>Significant self-investment and minority protection listing options</b>	<ul style="list-style-type: none"> <li>• Premium share listing on the LSE</li> <li>• A DR or share listing on the: <ul style="list-style-type: none"> <li>• NYSE</li> <li>• NASDAQ</li> <li>• HKSE</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• RTS/MICEX share listing combined with</li> <li>• A DR listing on the: <ul style="list-style-type: none"> <li>• NYSE</li> <li>• NASDAQ</li> <li>• HKSE</li> </ul> </li> </ul>

## Most Roads Still Lead to London

As set forth above, there are a number of listing options available to both offshore and OJSC Russian issuers, from the NYSE to the LSE to Warsaw to the RTS/MICEX to the Hong Kong Exchange — effectively putting the entire Northern Hemisphere at a Russian issuer's disposal.

However, in our view, the vast majority of Russian issuers will find that after taking into account (i) the above stated potential Russian regulatory changes; (ii) the global markets and demand for better quality IPO candidates, and (iii) their own appetite to self-invest in being a public company — most will continue to select an offshore listing structure and to pursue a listing of either shares or GDRs on the LSE.

As a result, the listing option discussion which we expect to generate the most interest in the near term is the choice between LSE listing options available to offshore Russian issuers. As this class of issuers grow to understand that listing GDRs on the LSE may achieve a less than satisfactory result, and in particular if the UKLA alters its regulations in a manner that creates significant new burdens for GDR issuers conducting secondary public offerings, we expect

that serious consideration will be given to whether or not a “standard” listing of shares will achieve better results, and if not, whether a “premium” listing of shares is “worth it.”

Therefore, we set forth below a more detailed discussion of the various LSE listing options followed by a table that provides a comprehensive comparison of the listing eligibility requirements, listing document content requirements and continuing obligations that distinguish a (i) “premium” listing of shares on the LSE, (ii) a “standard” listing of shares on the LSE, (iii) a “standard” listing of GDRs on the LSE, and (iv) a listing of shares on AIM.

### Premium Listing of Shares

A “premium” listing of shares on the Main Market of the LSE is the most prestigious listing available. In order to obtain and maintain a “premium” listing, an issuer must comply with “super-equivalent” listing eligibility requirements and continuing obligations — for example, an issuer must (i) appoint a sponsor in connection with its listing application, (ii) demonstrate that it controls, and has controlled, the majority of its assets for the three previous financial years and that it carries on an independent business, (iii) demonstrate that at least 75 percent

of its business has been supported by a historic earning record over the three previous financial years, and (iv) comply with the Model Code for share dealing, the UK Corporate Governance Code and certain restrictions and obligations imposed on significant transactions, related party transactions, rights issues and dealings in its own shares. Although onerous, this increased level of regulation, disclosure and scrutiny is generally very well received by the market and normally results in an issuer achieving a higher valuation than for a “standard” listing of shares or GDRs. Only an issuer with a “premium” listing is eligible for inclusion on the FTSE Share Indices — entry to the FTSE Indices can substantially increase an issuer’s institutional shareholder base and the trading volume and liquidity of an issuer’s securities, and can create valuable opportunities for issuers to use their “premium” listed shares as consideration for future acquisitions.

Prior to mid-2008, while investor confidence in Russia was sufficiently strong that Russian companies could generally achieve high valuations by offering and listing GDRs, there seemed to be no particular need to embark on a relatively more costly, time consuming and onerous “premium” listing. Consequently, only a limited number of Russian companies obtained “premium” listings. However, more recently, GDR offerings by Russian companies have suffered from poor macro-economic conditions and weaker investor confidence. Already in 2011 seven LSE Russian GDR deals have been cancelled, and of the six deals that have closed, most priced at the lower end of the initial pricing range. Despite the increased regulatory burdens and scrutiny, at a time when capital is relatively scarce and investor appetite limited, more Russian companies may feel inclined to follow the example set by AFI Development and Nord Gold and seek to obtain a “premium” listing of shares in order to maximise shareholder value on listing.

### **Standard Listing of Shares**

A “standard” listing enables an issuer to avoid the more onerous requirements of a “premium” listing and still list its securities on the LSE. The listing eligibility requirements and continuing obligations for a “standard” listing are based on EU minimum standards for floating a company on a public market. Although not eligible to join the FTSE Share Indices, unlike a “premium” listed company, an issuer with a “standard” listing will not be required to appoint a sponsor, demonstrate its trading record or control of its assets or comply with the Combined Code or the Model Code, nor will it have to seek shareholder approval for significant and related party transactions. Indeed, ongoing reporting and disclosure requirements for “standard” listed issuers are frequently lighter even than for AIM listed companies.

### **Global Depositary Receipts**

Traditionally, Russian issuers have preferred to list GDRs (as opposed to shares) under a “standard” listing because of the lighter regulation and disclosure obligations — for example, there is no requirement to produce a working capital statement or publish half-yearly financial reports or interim management statements. However, despite the additional regulatory requirements, if the UKLA implements the below-described block listing proposals, it may prove to be more advantageous for a Russian issuer to seek a “standard” listing of shares than of GDRs. An issuer of shares would still be able to list additional shares up to a total aggregate amount equal to 10 percent of its issued share capital each year without being obliged to produce a prospectus, and certain institutional investors prevented from holding its GDRs would be able to hold its “standard” listed shares.

### **Anticipated UKLA Changes to the GDR Block Listing Regimes**

A unique feature of the current UKLA GDR listing regime is that an applicant seeking to list GDRs on the LSE will apply for a “block listing” which enables

GDRs to be issued and listed over the life of the relevant GDR Program up to the limit set out in the block listing. Provided that the “headroom” afforded under the block listing is not exceeded, an issuer need not produce a new listing prospectus each time shares are deposited in the GDR Program and new GDRs are issued and listed (unless such GDRs are also “offered to the public” for the purposes of the Prospectus Rules). By contrast, a listing prospectus is required in respect of any new issue of shares by an issuer with a “premium” or “standard” listing of shares, except if such issue of shares aggregated with all other issuances in the previous 12 months, represents less than 10 percent of the issued share capital of the issuer, or if certain other limited exceptions apply. The publication of a listing prospectus is a time consuming and costly exercise and the document must be vetted and approved by the UKLA. As a consequence, the GDR block listing regime is considered to provide GDR issuers with a significant advantage as compared with issuers with shares listed on the LSE.

The precise size of a GDR block listing can be tailored on a deal-by-deal basis — it is possible to apply for a block listing of 100 percent of an issuer’s issued share capital (*i.e.* thereby enabling all of the issuer’s shares to be deposited in the GDR Program), or indeed for any lower percentage. For a Russian issuer, the size of the block listing requested will be limited by the percentage of its shares that can be traded outside of the Russian Federation pursuant to a permit issued by the FSFM. Currently such percentage may not exceed 25 percent of the Russian company’s issued share capital, as prescribed by FSFM regulations (as set forth in more detail above).

However, we understand that in order to address certain concerns relating to the level of disclosure made available for the benefit of investors upon the deposit of shares and issuance of new GDRs listed on the LSE, the UKLA may change the regulatory requirements associated with block listings of GDRs. There is little clarity as to how the UKLA will ultimately change these regulatory

requirements with a range of options including the most severe measures which would require that GDRs issued upon the deposit of shares issued **subsequent to a block listing date** will have to be accompanied by a new listing prospectus to a less restrictive approach of requiring that a minimalistic form of update document be issued by either the issuer or the depositary upon the deposit of shares issued subsequent to a block listing date.

Under either scenario, or any other that the UKLA may be considering, because (i) it is not possible in practice to distinguish between new and existing shares after issuance, and (ii) a GDR issuer does not control the deposit of shares into a GDR Program — shareholders are entitled to deposit shares into a GDR Program and receive newly issued GDRs at any time — it is likely that as a result of the UKLA’s anticipated proposals a GDR issuer or the depositary, as the case may be, would have to produce whatever documentation is required by the UKLA (including, potentially, a new prospectus) each time it issues **any** new shares (whether or not it intends for such shares to be deposited into the GDR Program) before **any** shares (new or existing) will be eligible for conversion into a GDR.

For Russian issuers who either must or strongly prefer to conclude an IPO on the LSE via a Russian OJSC, this potential regulatory change does not impact available listing options in any way because the only option for an OJSC to list on the LSE is a “standard” listing of GDRs.

However, for Russian issuers who intend to conclude an IPO on the LSE via an offshore company, any changes in the regulatory regime by the UKLA that would significantly increase the cost and time burden of completing a secondary public offering (for example, by requiring that a new prospectus be prepared), may further encourage such an issuer to consider a “standard” listing of shares instead of a “standard” listing of GDRs, particularly if the issuer believes that a listing of shares will result in a better valuation.



## **AIM Listing**

An AIM listing offers an issuer the opportunity to raise a moderate amount of capital, but circumvent some of the more onerous requirements of a “premium” or “standard” listing — for example, there are no minimum capitalisation, free float or trading record requirements, a more relaxed corporate governance standards applies and an issuer has longer to prepare and publish annual accounts and half-yearly accounts (six and three months from the end of the relevant financial period, respectively). Importantly, an AIM listing does not require the publication of a prospectus approved by the UKLA (unless securities are “offered to the public” within the meaning of the Prospectus Rules). Instead, the AIM admission document is prepared in conjunction with an applicant’s nominated advisor, but is not approved by AIM itself. An Issuer may obtain a block listing for its AIM securities which will enable it to issue new AIM listed securities up to the relevant headroom prescribed under the block listing without being obligated to prepare a new listing admission document. These factors generally make the AIM listing application process, and the subsequent issuance of AIM securities, faster and simpler, and, therefore, less expensive than for a Main Market LSE listing.

AIM primarily caters to small and medium sized companies with strong growth stories and is typically considered suitable for capital raisings of £100 million or less. Further, although AIM generally benefits from lower levels of regulation than the Main Market, certain AIM disclosure and approval requirements are more demanding than for a “Secondary” listing — for example, an AIM issuer must obtain shareholder approval for reverse takeover transactions, transactions resulting in a fundamental change of business and the cancellation of its AIM listing.

Numerous Russian and CIS companies have sought and obtained admission to trading on AIM, particularly prior to 2008, and some, such as Raven Russia in 2010, have subsequently moved from AIM to a “premium” listing as

their business and capital requirements expanded.

### **Endnotes**

- <sup>1</sup> We should note that while a listing of depositary receipts on the HKSE is at least theoretically possible, it remains largely untested and the commercial viability of such an approach by a Russian company is very questionable for a number of regulatory reasons. Therefore, we would expect a listing in the United States to be the next most logical listing venue for a Russian OJSC after the LSE.
- <sup>2</sup> We note that the Draft Regulation, among other things, would introduce a requirement for a Russian company to obtain listing “A” (level 1 or 2) or “B” on the RTS/MICEX before it may receive permission to place/circulate shares abroad. The current Regulation permits a Russian company with any type of listing to place/circulate shares abroad. If implemented as drafted, the proposed listing requirement may mean that simultaneous dual-listings will no longer be possible because privately held Russian companies would first be required to obtain an “A” or a “B” listing which requires certain trade volumes and market capitalization. It is unclear whether the Draft Regulation will be approved in the current version, but if the “A” or “B” listing requirement remains it may have a very negative effect on the Russian securities market as it will impede or introduce significant time delays for the initial public offerings of all Russian OJSC’s that are not already listed on the RTS/MICEX.
- <sup>3</sup> Although, the majority of Russian issuers voluntarily prepare and release half-yearly financial reports, and many prepare interim quarterly updates.

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