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Welcome to the second edition of The Initial Public Offerings Law Review. This publication introduces the reader to the main stock exchanges around the globe and their related IPO regulatory environments, and provides insight into the legal and procedural IPO landscapes in 21 different jurisdictions. Each chapter gives a general overview of the IPO process in the region, addresses regulatory and exchange requirements, and presents key offering considerations.

The global IPO landscape is ever-changing. While several of the oldest stock exchanges, such as the New York Stock Exchange and London Stock Exchange, are still at the forefront of the global IPO market, the world’s major stock exchanges now are scattered around the globe and many are now publicly traded companies themselves. IPOs take place in nearly every corner of the world and involve a wide variety of companies in terms of size, industry and geography. Aside from general globalisation, shifting investor sentiment and economic, political and regulatory factors have also influenced the development and evolution of the global IPO market.

Virtually all markets around the globe have experienced significant volatility in recent years; however, 2017 marked a resurgence for many IPO markets. The number of 2017 IPOs and total proceeds raised were led by the Asia-Pacific exchanges, with many other regions also experiencing improvement over recent years. Despite the increase in available private capital, which has enabled issuers to remain private for longer periods of time, there is continued optimism for 2018 in terms of both global deal count and proceeds. The strong global IPO pipeline includes many well-known companies across a range of industries, and it is anticipated that these companies will seek to list on a variety of stock exchanges around the world.

Every exchange operates with its own set of rules and requirements for conducting an IPO. Country-specific regulatory landscapes are often dramatically different between jurisdictions as well. Whether a company is looking to list in its home country or is exploring listing outside of its own jurisdiction, it is important that the company and its management are aware from the outset of the legal requirements as well as potential pitfalls that may impact the offering. Moreover, once a company is public, there are ongoing jurisdiction-specific disclosure and other requirements with which it must comply. This second edition of The Initial Public Offerings Law Review introduces the intricacies of taking a company public in these jurisdictions and serves as a guide for issuers and their directors and management.

David J Goldschmidt
Skadden, Arps, Slate, Meagher & Flom LLP
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I INTRODUCTION

The history of the modern Russian initial public offering (IPO) market dates back to 1996, when VimpelCom, a major Russian telecommunications company, conducted an IPO on the New York Stock Exchange (NYSE) – the first such transaction for a post-Soviet Russian company. Russian IPOs remained relatively rare throughout the late 1990s and early 2000s: from 1996 to 2004, only 12 Russian issuers went public. The Russian IPO market really took off in 2005 and continued to grow through the end of 2007. By some estimates, a total of 74 Russian companies floated on various exchanges during that three-year period. With the onset of the global recession in 2008, however, the Russian market became sluggish, consistent with the global trends. While there was a minor spike in 2010, IPO activity has been gradually decreasing since then, coming to a near halt in 2014 (which only saw a single offering) owing to the turbulent geopolitical climate. There was some activity in the domestic IPO market in 2015–2016 and an uptick of public offerings and ‘accelerated book-build’ transactions in 2017, with offerings by companies such as Detsky Mir, Polyus Gold and En+ Group (whose November 2017 IPO became the first IPO by a Russian business with a listing on the London Stock Exchange (LSE) since early 2014).

The NYSE was the listing venue of choice for most Russian issuers until the early 2000s, when that role was taken over by the LSE, not least as a result of the enactment of the Sarbanes–Oxley Act in the United States in 2002, which substantially increased the burdens of being a public company in the United States. To this day, the LSE remains the most popular listing venue among foreign exchanges for Russian issuances, with a significant number of companies being dual-listed in London and Moscow. However, the NYSE and Nasdaq continued to attract issuers in the Russian IT and high-technology sector (e.g., Yandex, Qiwi, Luxoft and CTC). Other foreign exchanges where Russian businesses have listed their equity include the Hong Kong Stock Exchange, the Frankfurt Stock Exchange, the Oslo Stock Exchange and several others.

Because of differences between Russian corporate and securities law and the legal and regulatory framework for securities offerings in the United States, United Kingdom and other major financial centres, as well as logistical and settlement issues associated with holding and trading Russian shares, shares of Russia-incorporated issuers have never been offered on foreign exchanges directly, but rather in the form of either American depositary receipts or

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1 Alexey Kiyashko is a partner and Alexander Kovriga is an associate at Skadden, Arps, Slate, Meagher & Flom LLP.
2 As reported by RBC.
global depositary receipts. In this case, a depository bank would hold the underlying Russian shares in custody and issue its own securities (depositary receipts) representing interest in those shares that would be listed on a foreign stock exchange.

The first domestic IPO in Russia was carried out in 2002 by RBC Information Systems, a media and IT company with a dual listing on the Russian Trading System (RTS) Stock Exchange and the Moscow Interbank Currency Exchange (MICEX), both leading Russian exchanges then located in Moscow. Dual listings on RTS and MICEX became a staple for domestic IPOs of Russian issuers going forward until the landmark merger of the two exchanges in 2011, as a result of which the Moscow Exchange (MOEX) was created.

Despite a low number of transactions in recent years, the Russian IPO market is now well developed, with over 100 publicly traded companies (including foreign-domiciled companies with predominantly Russian operations). Each of the bulge-bracket investment banks has a significant presence in Russia, competing against a number of strong local commercial banks with investment banking divisions.

Since 2013, the Russian Central Bank (CBR) has been the principal regulator of financial markets in Russia. The CBR is responsible for, among other things, promulgating and enforcing regulations, licensing and oversight of securities market professionals, registering securities issuances and overseeing the issuers’ compliance with their ongoing obligations.

II GOVERNING RULES

The fundamental legislative framework for IPOs in Russia is comprised of the Securities Markets Law, the Insider Trading and Market Manipulation Law, the Investor Rights Law, the Joint-Stock Companies Law, and numerous rules and regulations promulgated thereunder by the CBR (and its predecessors, the Federal Securities Commission and the Federal Service for Financial Markets). The most important regulations for IPOs include the Securities Issuance Standards, the Disclosure Regulation, the Public Trade Admission Regulation and the Foreign Offerings Regulation. The Listing Rules of MOEX, a leading Russian exchange that is the preferred listing venue for Russian issuers, are also an important part of the regulatory framework for Russian IPOs.

4 Federal Law No. 39-FZ on Securities Market, dated 22 April 1996 (as amended).
5 Federal Law No. 224-FZ on Counteracting the Illegitimate Use of Insider Information and Market Manipulation and on Amendments to Certain Laws of the Russian Federation, dated 27 July 2010 (as amended).
8 CBR Regulation No. 428-P on the Standards of Securities Issuance, the Procedure for the State Registration of an Issue (Additional Issue) of Serial Securities, State Registration of Reports on the Results of an Issue (Additional Issue) of Serial Securities and Registration of Prospectuses, dated 11 August 2014 (as amended).
10 CBR Regulation No. 534-P on Admission of Securities to Organised Trading, dated 24 February 2016 (as amended).
11 CBR Regulation No. 436-P on Procedures for Granting Permission by the CBR for Placement and/or Circulation of Securities of Russian Issuers Outside of the Russian Federation, dated 13 October 2014 (as amended).
Although Russia does not formally recognise judicial precedent as a source of law, as a matter of practice, decisions of upper courts have a significant and often decisive impact on lower courts’ practice. This particularly concerns decisions by the Russian Supreme Court and its predecessor, the Supreme Arbitrazh Court. However, specifically with regard to capital markets legislation, there is a dearth of court precedents that would have particular significance for the overall legal and regulatory framework. Shareholder litigation is not nearly as widespread in Russia as it is in the United States and some other jurisdictions. There are a number of contributing factors, including:

\[a\] a fairly limited number of public companies in Russia with a dispersed shareholder base. It is very typical in Russia for even major large-cap companies to be controlled by one single shareholder or several significant investors;

\[b\] the widespread use of offshore holding structures whereby the ultimate shareholders own stock in a foreign company (typically incorporated in a low-tax jurisdiction such as Cyprus, the British Virgin Islands, the Cayman Islands, Luxembourg and the Netherlands), which in turn wholly owns Russian operating subsidiaries. Accordingly, non-Russian courts would have jurisdiction over shareholder actions with regard to such companies. The popularity of offshore listings discussed above also has a similar effect; and

\[c\] perhaps most importantly, limited availability of class action lawsuits. Although legally available since July 2009, Russian class action litigation is still at a relatively nascent state, and can only be brought in very limited circumstances.\[12\]

In a testament to the lack of securities actions, a search of public court records that we conducted reveals that in the 20 years of existence of the Securities Markets Law, which established the legal framework for listed companies’ disclosure obligations, only eight cases based on a public company’s disclosure have been brought before Russia’s highest court. None of these cases was a shareholder action. Instead, all of them were disputes regarding administrative fines imposed by the securities markets regulator for formal non-compliance with the disclosure requirements. Similarly, there is a very thin body of court precedents relating to insider trading and market manipulation cases, although both concepts are recognised in Russian law.

The Russian legislature and the CBR have been particularly focused over the past several years on promoting domestic listings over the foreign offerings. In 2003, even before the Russian IPO market really took off, foreign public offerings by Russian issuers were made subject to regulatory clearance by the Russian securities market regulator. The number of shares that a Russia-incorporated issuer could offer outside Russia (whether directly or through the issuance of depositary receipts representing shares) was limited to a certain percentage of the share capital. In addition, any such foreign offering was conditioned on obtaining a domestic listing and offering securities in the Russian public market as well. Such limitations have increased over time. In 2009, the Russian securities market regulator lowered the number of

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\[12\] See, for example, Resolution of the Ninth Court of Appeals No. 09JI-22376/2010, dated 29 September 2010 (blocking an attempted bondholder class action based on the fact that each bondholder purportedly had its own independent relationship with the issuer and was not part of one and the same ‘legal relationship’ with its fellow bondholders) and Resolution of the Presidium of the Supreme Arbitrazh Court No. 7628/12, dated 9 October 2012 (blocking an action by a group of investment funds based on similarly formalistic criteria).
shares that a Russian issuer could offer on a foreign exchange in any given offering to 50 per cent of the total number of shares sold in such offering, and the total number of shares that could be floated abroad to 25 per cent, 15 per cent or 5 per cent of the issuer’s share capital depending on the level of listing obtained by the issuer on a Russian stock exchange (or 25 per cent regardless of the level of listing if the issuer of depositary receipts representing the Russian shares was incorporated in a jurisdiction with which the Russian regulator had entered into a cooperation agreement). The number of such jurisdictions was limited, which for a period of time gave certain depositaries a competitive advantage. Additionally, Russian strategic enterprises, licensed to develop certain types of subsoil reserves, were in each case subject to the total cap on the number of shares they could float outside Russia equal to 5 per cent of their share capital regardless of the level of listing in the domestic market, unless special permission has been obtained from the Government Commission for Strategic Investments to increase that cap to 25 per cent for a particular issuer.

In response to these limitations and in view of other considerations (including tax), many Russian businesses went through the pre-IPO restructuring to incorporate foreign holding companies as listing vehicles. Offerings conducted by such foreign companies were not subject to the limitations described above. Although the Russian securities market regulators have always frowned upon such transactions, no regulatory measures were taken to prohibit or restrict such offering structures. It was widely accepted in the marketplace that the clearance regime for foreign public offerings by Russia-incorporated issuers was excessively restrictive and inefficient. Since 2011, there have been talks of relaxing these requirements and, in fact, a draft regulation was made public that would abolish the 25 per cent, 15 per cent or 5 per cent restriction for all Russian companies other than strategic enterprises, with a further limitation of 5 per cent for strategic subsoil users. That draft, however, was never enacted and in April 2015 the new Foreign Offerings Regulation came into effect. Currently, the general cap for the total number of shares that any Russian issuer could offer outside Russia is set at 25 per cent of the aggregate number of outstanding and newly issued shares of the same category.

There has also been a significant effort made to establish an infrastructure for foreign issuers to list their securities in Russia so that foreign holding companies of Russian assets publicly traded on foreign exchanges can easily access the domestic capital markets. There was also an attempt to attract Russian businesses back to the Russian exchanges through the creation of Russian Depositary Receipts, but this has generally failed (only one issuer utilised this instrument in Russia).

In late 2012, the Securities Markets Law was amended with a view to facilitating the process of directly listing foreign securities on a Russian stock exchange as long as such securities have already been listed on a qualifying foreign exchange. These new rules established an issuer-friendly procedure and proved quite popular with the issuers, with numerous Russian issuers adding a secondary Moscow listing to their primary London or New York listings. These amendments afforded a number of Russian businesses listed outside Russia an opportunity to access the Russian retail investor base, with an added advantage of potentially becoming eligible for inclusion in certain Russian trading indices. Qiwi, a Nasdaq-listed, Cyprus-incorporated holding company of a Russian payments services

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13 In each case as established under the Federal Law No. 57-FZ on the Procedure for Making Foreign Investments in Enterprises Having Strategic Importance for State Defence and Security, dated 29 April 2008 (as amended).
business, was the first foreign issuer to make use of the 2012 amendments, and Lenta, an
LSE-listed, British Virgin Islands-incorporated owner of a major Russian retail chain, was
the first to list in Moscow in parallel with an offering on a foreign exchange. These rules were
subsequently fine-tuned and made even more advantageous for the issuers, as the need to
have the disclosure documents translated into Russian for the purposes of the listing (which
used to be the most burdensome of the requirements) was removed. Besides this, the listing
procedure was amended to allow for completely simultaneous listings on Russian and foreign
stock exchanges. Under the current legislation and the MOEX Listing Rules, all it takes for
a foreign issuer with equity listed on an eligible foreign exchange to have the same equity
admitted to trading on MOEX is to file a simple admission package with the exchange itself.
No vetting or other regulatory clearance is required in this case, and there are no requirements
that the issuer needs to comply with beyond those imposed by the jurisdiction of an eligible
foreign exchange. The list of such exchanges is very broad, although only the issuers listed on
certain major exchanges are eligible for Level 1 listing on MOEX.

i  Main exchanges

MOEX is the largest exchange in Russia by a wide margin, and the only one that regularly
hosts IPOs. MOEX ranks among the world’s top 20 exchanges by total capitalisation of shares
traded, and also among the 10 largest exchange platforms for bonds and derivatives trading.
Securities of over 700 issuers were admitted to trading on the equity and bond markets of
MOEX as of the end of 2016. Its RTS and MICEX indices are the major benchmarks for
the Russian stock market, and are widely used by portfolio managers to develop investment
strategies.14 MOEX was created in 2011 through the merger of the Moscow exchanges, RTS
and MICEX. It went public in February 2013 and is traded on its own trading platform
under the stock symbol ‘MOEX’.

MOEX has undergone substantial transformation over the past several years. Until
recently, the Moscow listing was mostly viewed either as secondary to the London listing (as
the latter typically provided more liquidity and trading volumes), or as an option for smaller
companies that were not ready to tap international capital markets. As discussed in more detail
above, the Russian securities market regulator and MOEX (and its predecessors before it was
created in 2011) have undertaken a significant effort to create a new securities settlement
infrastructure and generally increase the attractiveness of the local market for investors and
issuers (both domestic and foreign). That effort has generally paid off, as evidenced by the fact
that all but one of the Russian businesses that went public in 2015–2017 floated exclusively
on MOEX and did not seek a listing outside Russia. This is a notable departure from the
prevailing trends of the previous two decades, although a smaller appetite for Russian equities
from foreign investors as a result of macroeconomic and geopolitical concerns has also played
a role in increasing the attractiveness of the Russian domestic market. Below are some of the
most significant reforms (in addition to the creation of infrastructure for foreign securities
listings described in more detail above):

a  the introduction of a fully functional central securities depository and central
counterparty (the National Securities Depository (NSD) and the National Clearing
Center (NCC), both subsidiaries of MOEX);

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14 As reported by MOEX, http://moex.com/s348.
Russian equities and corporate bonds becoming fully eligible and available for settlement via Euroclear and Clearstream through their direct links to the NSD. According to the NSD, its central securities depositary status makes it compliant with the requirements towards an ‘eligible securities depository’ under Rule 17f-7 of the US Securities and Exchange Commission (SEC) promulgated under the Investment Company Act of 1940, which provides that registered investment companies may maintain their foreign assets with NSD;

c the transfer of the equity market to the T+2 settlement cycle with partial prefunding in accordance with the best practices used by leading foreign exchanges and clearing houses;

d the introduction of a new closing auction process in 2013, with a new price-determining algorithm that corresponds with international best practice for setting closing prices; and

e the introduction of a new methodology for setting tick sizes, which are now determined not only by a stock price, but also by its liquidity, with the aim of narrowing the bid-ask spreads and aggregating liquidity at the best price level.15

MOEX has become the preferred listing venue for Russian issuers. Although it has a modern and robust infrastructure in place for foreign companies to list their equity, almost all foreign issuers listed on MOEX are foreign holding companies of businesses with predominantly Russian assets. As a notable example of a different practice, shares of the Bank of Astana, a Kazakhstan-based commercial bank with no presence in Russia, were admitted to trading on MOEX at the end of 2017.

ii Overview of listing requirements

MOEX offers three listing segments (referred to as Levels 1, 2 and 3).16 Level 3 comprises the ‘off-quotation list’ securities, which are technically considered ‘admitted to public trading’ but not ‘listed’. As a general rule, only Level 1-listed shares are eligible for the portfolios of Russian non-state pension funds that provide mandatory pension insurance, which often account for a sizeable portion of investor demand in Russian IPOs.

The listing requirements of MOEX are generally not onerous compared to other major stock exchanges. Of note are the quantitative requirements regarding free float and corporate existence, which are set forth below (for illustrative purposes, with regard to ordinary shares only):

a corporate existence:

• Level 1 listing: three years; and
• Level 2 listing: one year; and

b free float:

• Level 1 listing: 3 billion roubles, while at the same time comprising at least 10 per cent of the total issued ordinary shares (or a larger percentage, based on a formula, for companies with a market capitalisation equal to or less than 60 billion roubles; and
• Level 2 listing: 1 billion roubles, while at the same time comprising at least 10 per cent of the total issued ordinary shares (other than with regard to certain high-growth tech companies).

15 Id.
16 The latest version of the Listing Rules of MOEX at the time of writing was registered by the CBR on 14 July 2017 and entered into force on 17 July 2017.
There are no income, assets, stockholder equity or similar tests under the Public Trade Admission Regulation or the MOEX Listing Rules, in contrast to the NYSE and Nasdaq. Both Level 1 and Level 2 listings contemplate certain corporate governance requirements, which are in line with those that are typically required or are commonly expected on major international stock exchanges, including:

a. independent non-executive directors (INEDs) on the issuer’s board (it should be noted that independence under the MOEX Listing Rules is determined primarily by bright-line tests rather than the board’s discretion, unlike in the United States, although a board decision may override them if vetted by MOEX):
- Level 1 listing: at least three INEDs (who simultaneously comprise at least 20 per cent of the board); and
- Level 2 listing: at least two INEDs;

b. an audit committee that, as a general rule, should consist entirely of INEDs for both Level 1 and Level 2 listings;

c. for a Level 1 listing, an additional compensation committee that, as a general rule, should consist entirely of INEDs, and a nomination committee with an INED majority;

d. a board-approved formal dividend policy for both Level 1 and Level 2 listings;

e. a formalised corporate secretary function for both Level 1 and Level 2 listings; and

f. a formalised internal audit function and board-approved formal internal audit policy for both Level 1 and Level 2 listings.

Level 3 listing requirements are fairly basic. As long as a Securities Markets Law-compliant prospectus has been registered by the CBR and certain additional technical requirements have been complied with, in general, any security would be eligible. There are no requirements as to the track record, market capitalisation, free float or corporate governance. Nevertheless, Level 3 securities can be offered to the public, including retail investors.

Russian public companies are required to report under the International Financial Reporting Standards (IFRS). Level 1 listing requires disclosure of IFRS financial statements with regard to the past three financial years, while Level 2 listing only requires one year of IFRS financial statements. There is no equivalent requirement for a Level 3 listing. Nevertheless, the Securities Markets Law and the Disclosure Regulations require that a prospectus contain IFRS financial statements covering a three-year period regardless of the listing level (unless the issuer has been in existence for less than three years).

iii. Overview of governmental rules and regulations

The Securities Markets Law regulates, among other things, the status and operations of professional securities market participants, such as brokers and dealers, securities issuance procedures, disclosure requirements and the rights of the securities markets regulator. The Insider Trading and Market Manipulation Law sets forth certain obligations of issuers and market participants with the aim of preventing market disruptions and, perhaps most importantly for IPOs, provides a safe harbour for stabilisation transactions. The Investor Rights Law provides for various investor protections, notably with regard to the marketing of securities and, importantly, prohibits any agreements with investors limiting rights available to them under law, thus making the practice of the ‘big boy letters’ generally unenforceable under Russian law. The Joint-Stock Companies Law governs the corporate affairs of joint-stock companies (the only type of legal entity in Russia that can list its equity), including the powers and procedures of the shareholder meetings and other governing
bodies, mergers and acquisitions, dividends and other corporate matters. The Securities Issuance Standards set forth the procedural aspects of the securities issuance process. The Disclosure Regulations establish the rules governing public disclosure of Russian companies, both as part of the offering process and on an ongoing basis. The Public Trade Admission Regulation establishes the basic listing requirements that stock exchanges build upon and implement in their own listing rules.

III THE OFFERING PROCESS

The Russian IPO market generally follows international best practices, with the LSE in particular serving as a benchmark. Russian offerings, even those exclusively involving a Moscow listing, typically draw substantial demand from foreign investors, including those from the United States. Consequently, a significant portion of market participants on the advisory side, including investment banks, law firms and accounting firms, are local branches or subsidiaries of global firms. Owing to these factors, the offering process generally follows the same basic steps as any IPO in any other mature European market.

A company that has made the decision to go public would typically, as a first step, engage one or more investment banks. In small-cap deals, this can often be independent Russian brokerage houses. However, large- and mid-cap deals would typically be underwritten by one or more of the 'bulge bracket' international investment banks or investment banking divisions of one or more of the major Russian commercial banks.

It is common practice for both the issuer and the banks to be represented by outside legal counsel. Major US and UK firms are well represented in the Russian market and, unlike in certain jurisdictions, typically have full Russian law capabilities. A number of strong local competitors have also emerged, although offerings to international investors continue to be handled by foreign law firms. Each of the ‘big four’ accounting firms also has a strong local presence.

Due diligence is typically carried out to match international standards, and is generally within the same scope as US SEC-registered deals, unless the transaction is purely Moscow-listed and no international investment banks are involved.

IPO documentation typically includes the following:

a in foreign-listed deals, a prospectus prepared in accordance with applicable law of the listing venue, for example, the EU Prospectus Directive or the US Securities Act of 1933. Often, in purely Moscow-listed deals, an international prospectus (typically, a Prospectus Directive lookalike, i.e., an offering memorandum prepared generally to Prospectus Directive standards) is also prepared, although in such cases it is used for marketing purposes and is not a liability document;

b in Moscow-listed deals, a Russian Securities Markets Law-compliant prospectus that is a key admission document from the Russian law standpoint;

c an underwriting agreement governed by foreign law (typically, English law) if the deal involves a foreign listing or a foreign underwriter;

d a brokerage agreement (the Russian equivalent of an underwriting agreement) and a market-making agreement with a licensed Russian brokerage house if the deal involves a Moscow listing; and

e legal and tax opinions, and auditor comfort letters that generally follow the same standards in foreign-listed and major Moscow-listed deals.
General overview of the IPO process

The timeline of a Russian IPO can vary significantly. It is generally recommended to budget for at least three to four months, although it can be less if the deal does not involve a primary share offering (i.e., an offering of newly issued shares as opposed to a secondary offering of existing shares by one or more shareholders) or a foreign listing. The latter process tends to take more time than purely Moscow-listed deals.

In order for a company incorporated in Russia to list its equity, it has to be incorporated in the form of, or transformed into, a public joint-stock company (the other entity types that are commonly used for business entities in Russia are non-public joint-stock companies and limited liability companies). Such transformation requires approval by the company’s equity holders by either a qualified 75 per cent majority (if such company has previously been a non-public joint-stock company) or a unanimous vote (if such company has previously been a limited liability company). Further, the decision to have the company’s shares listed on a stock exchange, as a general rule, requires approval by the company’s board of directors and a majority vote of its shareholders, unless the company’s charter (the main organisational document for a Russian company) vests such power in the board alone. The shareholders who vote against a decision to list or abstain from voting may tender their shares to the company at the market price, which shall be not less than the average-weighted price of the shares for the six months preceding the respective shareholders’ decision.

In the event that the deal involves a primary offering by a Russia-incorporated issuer, it would also include the following steps:

a. approval by the shareholders or by the board of directors of a decision to increase the company's share capital and to issue shares;
b. approval by the board of directors and registration by the CBR of a share issuance decision and, as a general rule, a Russian Securities Markets Law-compliant prospectus (both in the form prescribed by the CBR); and
c. registration of a share issuance report by, or submission of a share issuance notification to, the CBR (both in the form prescribed by the CBR).

In secondary-only transactions, none of these steps is required other than the registration of a prospectus by the CBR. Starting from 2013, amendments to the Securities Markets Law have enabled issuers to pre-clear prospectuses with the CBR. However, unlike in the United States, draft versions of the prospectus or any correspondence between the regulator and the issuer never become public.

Under the Securities Markets Law and the Investor Rights Law, only securities that have been admitted to public circulation can be advertised or marketed to the general public. Such admission entails either registration of a Securities Markets Law-compliant prospectus with regard to such securities by the CBR or the decision of a stock exchange to list the securities in the absence of such prospectus (which is available with regard to securities of foreign issuers listed on a qualifying foreign stock exchange, as described above). Prior to such admission, securities can only be advertised or marketed to persons that are considered ‘qualified investors’ under Russian law.
In November 2017, amendments to the Securities Markets Law and Joint-Stock Companies Law (Draft Amendments) were submitted to the Russian parliament, which is scheduled to consider the draft in 2018. These amendments are intended to simplify the public offering and disclosure process. For example, they intend to:

- Eliminate some of the currently required corporate approval formalities (in particular, approval of a share issuance decision and a share issuance report by the company’s board or shareholders);
- Relieve the issuers from the obligation to submit the share issuance notification to the CBR following completion of the offering (this notification would be filed by the shareholder registrar or the central securities depository);
- Exempt several additional types of offerings from the prospectus registration requirements (in particular, any offering made to existing shareholders, any offering where the proceeds are less than 1 billion roubles and any offering where the minimum contribution by an investor is 1.4 million roubles);
- Permit the CBR to introduce different types of requirements to prospectus disclosure for companies depending on, among others, the types of securities being offered, the type of an issuer’s principal business activities (including for small and medium-sized enterprises) and the number of securities offerings conducted by an issuer for a preceding year;
- Introduce abridged prospectuses in certain instances; and
- Allow electronic submissions of the securities issuance documentation.

**Pitfalls and considerations**

Several years ago, some of the Russian securities law provisions were ill-suited for an IPO process (e.g., prohibition of conditional trading, unavailability of prospectus pre-clearance and shelf registrations, and ability of the regulator to invalidate an offering post closing). Recently, the Russian IPO-related legislation was significantly revamped and brought in line with international best practices. By 2013, the Russian regulators eliminated most of the obstacles, making the IPO process in Russia relatively straightforward and consistent with the settlement process in foreign jurisdictions that are popular as listing venues with Russian issuers. Of all the issues mentioned above, currently only the prohibition of conditional trading remains in place, as shares in a Russian company in a public offering followed by the filing of a share issuance notification can only be transferred upon full payment thereof (i.e., once they have been placed with and paid for by the first purchasers). However, as a result of the MOEX efforts, the Securities Markets Law was amended in 2015 to allow conditional trading of eligible foreign securities (such as global depositary receipts issued in respect of Russian shares) in a similar fashion as is done on the LSE, subject to disclosure of the summary of an international prospectus in respect of such securities on a Russian exchange’s website.

Unlike in the United States (e.g., under Delaware or New York law), pursuant to the Joint Stock Companies Law (the JSC Law) all shareholders of a public joint-stock company have statutory pre-emptive rights to subscribe to the company’s shares proposed to be issued to the general public. Further, unlike in the UK and most other common law jurisdictions, such pre-emptive rights cannot be waived in a company’s constitutional documents. Owing to the fact that most Russian companies are closely held, this has historically had more of an impact on the lead-in time required to prepare a deal rather than on allocations. It is permissible,
however, to launch the pre-emptive rights’ exercise period during the pre-marketing stage of the transaction before the offer price is disclosed, and the period itself was substantially shortened to streamline the process.

Another oft-cited peculiarity of the JSC Law is the requirement to have certain related-party transactions approved by a majority of all disinterested shareholders (but not only those participating in a shareholder meeting). This would often capture underwriting agreements if a majority shareholder is involved as seller in an offering. In a transaction where some or all of the major shareholders would be selling, disinterested shareholders would often exclusively comprise passive holders of minority stakes who would be difficult to even assemble for a meeting. As such, this requirement often presented significant challenges to the IPO timetable or had to be structured around it. Starting from 1 January 2017, transactions entered into in connection with the placement of primary shares (that would presumably include underwriting agreements to which a majority selling shareholder is a party) are exempted from this corporate approval regime. Transactions entered into in connection with the public offering of secondary shares are not exempt.

Further, the JSC Law provides that ‘major’ transactions (e.g., transactions that involve or may potentially involve an acquisition or disposal of property worth over 50 per cent of a company’s asset value under Russian accounting standards) are subject to approval by a 75 per cent majority of all shareholders present at the meeting (it being noted that a meeting is only quorate if holders of more than 50 per cent of voting shares are in attendance). Similarly, this would often capture potential payments by the issuer under a standard indemnity typically provided to the underwriters pursuant to an underwriting agreement. Since major shareholders are not legally prevented from voting, their approval would generally be enough to carry a vote. However, the major transactions approval regime used to present a different challenge as the shareholders who voted against such resolution or did not participate in the voting have a statutory right to tender their shares to the company at the price determined by a company’s board on the basis of the market value. Again, transactions entered into in connection with the placement or offering of shares, or the provision of services related thereto (which would presumably include underwriting agreements), have been exempted from this corporate approval regime starting from 1 January 2017 (with regard to ‘major’ transactions, this exemption relates to offerings of both primary and secondary shares).

iii Considerations for foreign issuers
To the extent that a foreign issuer’s securities have not been listed on an eligible foreign stock exchange, their admission to public trading is generally subject to the same requirements as those applicable to domestic issuers. Further, in the absence of such eligible foreign listing, only issuers incorporated in certain jurisdictions can access the Russian public market. Such jurisdictions include the Member States of the Organisation for Economic Co-operation and Development, the Financial Action Task Force on Money Laundering, the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism, and the Eurasian Economic Space. Securities that have been listed on an eligible foreign exchange benefit from a very lax listing regime, as described in more detail above. Securities of foreign issuers that satisfy neither requirement may generally only be marketed to persons that are considered ‘qualified investors’ under Russian law.

In July 2014, there were a number of changes to the Securities Markets Law and other laws that regulate the procedures for listing in Russia of foreign securities already listed outside Russia. These amendments further relaxed the requirements for the listing of securities by
Russian stock exchanges without the consent of the issuing company. In particular, the July 2014 amendments relieved the issuers from certain Russian reporting and disclosure obligations by shifting the burden of compliance onto the relevant Russian exchange.

IV POST-IPO REQUIREMENTS

Disclosure obligations of public companies are governed by the Securities Markets Law and the Disclosure Regulation. While disclosure made by Russian public companies is extensive, it is also significantly more formalistic than that of companies in the United States and other Western jurisdictions, often based on a ‘form over substance’ approach (another aspect of the Russian securities regulations that the Draft Amendments seek to address). In addition to a prospectus registered in connection with an IPO, Russian issuers’ ongoing mandatory public disclosure includes quarterly reports on a form that is substantially similar to a Securities Markets Law-compliant prospectus, statements of certain material facts, and annual and six-month IFRS consolidated financial statements. Russian public companies are also required to publicly disclose their organisational documents (including charters and internal regulations) and comprehensive lists of their affiliates.

In addition, under the Insider Trading and Market Manipulation Law, an issuer is required to adopt and maintain a list of the types of information pertaining to such issuer that are considered insider information. This list must contain all items classified as insider information set forth in an exhaustive list of the types of insider information adopted under the Insider Trading and Market Manipulation Law. In contrast to insider trading laws in many other jurisdictions, the concept of ‘insider information’ under Russian law is not open-ended and is limited to such exhaustive list. Similarly, whether or not a person is deemed an insider is based on a bright-line test that, notably, does not include persons that became aware of such insider information by mere chance. Listed companies are required to maintain and disclose to the Russian stock exchanges where they are listed the lists of their ‘insiders’ (including, among other things, top management, certain employees, advisers and brokers).

Generally, the burden and cost of being a public company in Russia are significantly lower than in the United States and, to a lesser degree, the United Kingdom.

V OUTLOOK AND CONCLUSION

There has been an uptick in Russian IPO deal activity over the past 12 months (although the number of transactions remains significantly diminished as a result of geopolitical factors). As discussed in more detail above, the Russian regulators and MOEX, as a leading Russian exchange, have made significant progress in substantially revamping outdated regulations to streamline the offering and disclosure process and bring the securities market infrastructure in line with best international practice. A state-of-the-art legal and regulatory framework has been put in place to accommodate and promote IPO transactions in the Russian market. The trend of conducting Russian IPOs exclusively involving a Moscow listing is expected to continue, especially for small and medium-sized companies, and in connection with privatisation transactions. Large-cap Russian companies will continue looking for opportunities to raise capital in international markets. As the market conditions improve, we expect to see more public offerings and ‘accelerated book-build’ transactions by Russian companies in the coming months.
Appendix 1

ABOUT THE AUTHORS

CHRISTOPHER BETTS
Skadden, Arps, Slate, Meagher & Flom

Christopher Betts is a capital markets partner in the Hong Kong office of Skadden, Arps, Slate, Meagher & Flom. Mr Betts has been named a leading lawyer for capital markets work in Hong Kong and China by Chambers Global, Chambers Asia and IFLR1000. He also was named one of Law360’s 2015 ‘rising stars’ under 40 for capital markets. Mr Betts speaks fluent Mandarin. His work has been repeatedly recognised for its innovation, including by the Financial Times in its ‘Asia Pacific Innovative Lawyer’ reports.

ANTONY DAPIRAN
Skadden, Arps, Slate, Meagher & Flom

Antony Dapiran is of counsel at Skadden, Arps, Slate, Meagher & Flom, based in the Hong Kong office. Prior to joining Skadden, Mr Dapiran was a partner at a leading New York-based law firm. Over a 20-year career in Hong Kong and China, Mr Dapiran has advised on many of the largest and most complex Hong Kong capital markets transactions. He has been named as a leading lawyer in numerous legal industry publications including IFLR1000, Chambers and Guide to the World’s Leading Capital Markets Lawyers. Mr Dapiran is qualified to practice law in Hong Kong and England and Wales, and speaks fluent Mandarin.

DAVID J GOLDSCHMIDT
Skadden, Arps, Slate, Meagher & Flom LLP

David J Goldschmidt represents US and international issuers and investment banks in a variety of financing matters, including public offerings and private placements of debt and equity securities, and international securities offerings. He also counsels US and international clients on an ongoing basis, including advising on corporate governance, SEC filings and disclosure issues. He has extensive experience advising issuers and underwriters on offerings by high-technology and communications companies. Mr Goldschmidt also is very active in representing and advising real estate investment trusts in connection with capital market transactions, including many initial public offerings and general corporate matters, as well as representing issuers and investment banks in connection with private and public securities offerings by Israeli companies. He also is involved in developing new financial products. Mr Goldschmidt serves on Skadden’s Policy Committee. He was named Who’s Who Legal 2016 Capital Markets Lawyer of the Year and has repeatedly been selected...
ADAM M HOWARD
Skadden, Arps, Slate, Meagher & Flom (UK) LLP
Adam M Howard focuses on international capital markets and public M&A transactions. He has advised both issuers and underwriters in connection with offerings of equity and debt securities and listings in London and on various international exchanges. In 2016, Mr Howard was named by Financial News as one of their 40 Under 40 Rising Stars in Legal Services. In 2015, Mr Howard received The M&A Advisor’s European Emerging Leaders Award, which recognises industry professionals who have reached a significant level of success and made notable contributions to their industry and community.

STEPHAN HUTTER
Skadden, Arps, Slate, Meagher & Flom
Dr Stephan Hutter is a partner in Skadden’s Frankfurt office, where he focuses on international capital markets transactions, cross-border corporate transactions and bank financings. He has a broad range of experience in initial public offerings, capital increases and high-yield debt financings involving international securities offerings of German, Austrian and Swiss companies, including dual listings and private placements of shares, and debt securities in the United States. For more than a decade, Dr Hutter has been named by industry surveys as a market-leading German and European capital markets practitioner for equity and debt transactions, and has spoken and published on international securities laws transactions and issues.

KATJA KAULAMO
Skadden, Arps, Slate, Meagher & Flom
Dr Katja Kaulamo is a partner in the corporate group in Skadden’s Frankfurt office, where she advises on a wide range of international corporate and capital markets transactions. Dr Kaulamo has extensive experience in capital markets transactions representing issuers, underwriters and selling shareholders in connection with initial public offerings, capital increases, rights offerings, block trades and offerings of convertible and hybrid capital instruments, as well as investment grade and high-yield debt. Her practice also includes capital markets-related regulatory advice, corporate governance and other corporate matters. Dr Kaulamo is cited as a leading capital markets lawyer in Chambers Global, Chambers Europe, The Legal 500, IFLR1000 and JUVE (Germany).

ALEXEY KIYASHKO
Skadden, Arps, Slate, Meagher & Flom
Alexey Kiyashko has practised law in Skadden’s Moscow, New York and Paris offices. Co-head of Skadden’s Moscow office, Mr Kiyashko rejoined the Moscow office in February 2002 after working as counsel at the European Bank for Reconstruction and Development in London. He focuses on international M&A and corporate finance transactions, and has been
repeatedly ranked as a leading individual in *Chambers Global*, *Chambers Europe* and *The Legal 500 ‘EMEA’*. Mr Kiyashko was a member of the Moscow Exchange’s Committee on Primary Equity Markets, a committee advising the Moscow Exchange and the Russian securities market regulator on how to improve the legislative and regulatory framework for the equity capital markets in Russia.

**ALEXANDER KOVRIGA**
*Skadden, Arps, Slate, Meagher & Flom*
Alexander Kovriga is a member of Skadden’s corporate practice and has experience in a variety of corporate finance, M&A and joint venture transactions in Russia. Mr Kovriga’s recent corporate finance experience includes advising Russia-based companies on a wide range of transactions, including IPOs and secondary offerings, public and private placements, as well as offerings of American Depositary Shares and Global Depositary Receipts. Mr Kovriga previously practised in Skadden’s New York office, where he focused on mergers and acquisitions and private equity matters.

**ANTHONY PANG**
*Skadden, Arps, Slate, Meagher & Flom*
Anthony Pang is an Asia Pacific counsel in the Hong Kong office of Skadden, Arps, Slate, Meagher & Flom. Mr Pang advises clients on a wide range of corporate matters, including corporate finance transactions, initial public offerings, mergers and acquisition, private equity investments, compliance and Hong Kong regulatory matters. Mr Pang is qualified in Hong Kong, State of New York and England and Wales. He speaks fluent English, Cantonese and Mandarin.

**DANNY TRICOT**
*Skadden, Arps, Slate, Meagher & Flom (UK) LLP*
Danny Tricot heads Skadden’s European capital markets practice and is based in the London office. His work includes acting for issuers and underwriters on a broad range of equity and debt transactions. Mr Tricot has advised on initial public offerings, rights offerings and private placings. He has been involved in equity listings in London and on various international exchanges. Most of the offerings that he has worked on have included a Rule 144A component. He has worked across several European jurisdictions, and also in growth markets, with extensive experience in the Middle East, Africa and Russia.

*Chambers UK* has described Mr Tricot as ‘an incredibly hard-working lawyer’ who displays ‘a balance of commerciality and technical brilliance’. He also is listed in *Chambers Europe, Chambers Global, The Legal 500* and *IFLR1000*. He was named as one of only three lawyers in *Financial News*’ Top 100 Rising Stars 2007, and in 2016 he was featured in *Financial News*’ Hall of Fame. Mr Tricot’s work has been repeatedly recognised for its quality and innovation in various international awards, including several commendations in the *Financial Times*’ ‘Innovative Lawyers’ reports.
SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP

Taunustor 1
60310 Frankfurt am Main
Germany
Tel: +49 69 74220 0
Fax: +49 69 74220 300
stephan.hutter@skadden.com
katja.kaulamo@skadden.com

42/F, Edinburgh Tower
The Landmark
15 Queen's Road Central, Hong Kong
Hong Kong
Tel: +852 3740 4700
Fax: +852 3740 4727
christopher.betts@skadden.com
antony.dapiran@skadden.com
anthony.pang@skadden.com

Ducat Place III
Gasheka Street 6
Moscow 125047
Russian Federation
Tel: +7 495 797 4600
Fax: +7 495 797 4601
alexey.kiyashko@skadden.com
alexander.kovriga@skadden.com

40 Bank Street
Canary Wharf
London E14 5DS
United Kingdom
Tel: +44 20 7519 7000
Fax: +44 20 7519 7070
danny.tricot@skadden.com
adam.howard@skadden.com

4 Times Square
New York
New York 10036
United States
Tel: +1 212 735 3000
Fax: +1 212 735 2000/1
david.goldschmidt@skadden.com

www.skadden.com