

**Reforming corporate governance
structure of a potential
Belarusian issuer in the light of
the Warsaw Stock Exchange
requirements**

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19 April 2017

Minsk



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Warsaw Stock Exchange: standards of corporate governance

- The Warsaw Stock Exchange Rules(2006)
- Best Practices for GPW Listed Companies (2016) – advisory character
- The “comply or explain” approach: companies publish a statement on the company's compliance with Best Practice for GPW Listed Companies 2016 together with annual reports. In case the established corporate governance rules are violated, a company should place on its official website a report containing information about reasons for incompliance and about steps to eliminate them or to mitigate the risk.



Belarus: sources

- Law of the Republic of Belarus dated 9 December 1992 No. 2020-XII “On business companies”
- Ruling of the Ministry on Economy of the Republic of Belarus and of the State Committee on Property of the Republic of Belarus dated 5 July 2016 No. 45/14 “On approval of the Methodical recommendations on organisation of corporate governance in joint stock companies with participation of the state”
- Ruling of the State Committee on Property of the Republic of Belarus dated 9 July 2015 No. 29 “On approval of exemplary forms of a corporate code and of regulations on committees attached to the Board of Directors (Supervisory Board) of an open joint stock company”



Who may comprise a collegial management board (CMB) in a Belarusian business entity?

- **Any natural persons, including shareholders.** A limitation is only established in regard to a CEO and a head of the CMB: their duties cannot be performed by the members of the Board of Directors.
- As a rule, the CMB comprises of **the key officials** of the company: the CEO (=the Head), his deputies, heads of main departments.
- In holdings CEOs of subsidiaries and of dependant companies may be included in the CMB of the parent company.
- The members of the CMB have not to be specialists in the sphere of the company's activities, but it is desirable if they have special knowledge in particular aspects of the company's activities.



Independent member of the CMB

- The Methodical recommendations, the Law: *an independent member of the Board of Directors*
- An “independent” member of the CMB is a member, who, in the opinion of the shareholders electing him/her, is independent from the company’s officials, their affiliates, large counterparties of the company and who does not have any other relationships with the company, which may affect independence of his/her decisions.

Reason?

- Professional skills and personal qualities of an “outsider”
- Independent control over the most significant issues of the company’s activities
- Objective assessment of the management’s work



The main role of the CMB

CMB in practice: execution vs control

1. Execution – responsibility for fulfilment of tasks and for achievement of goals set by the general meeting of shareholders. Typical for companies with a high degree of shareholder's involvement.
2. Control – strategy development, supervision and control over the CEO's and management's activities. Condition – strong and independent team, high degree of trust of the owner. CMB decides “WHAT?” and management “HOW?”



Functions of the CMB

- To develop strategy, to determine goals for the company and ways to achieve them
- To decide, create and ensure realisation of competitive advantages
- To ensure strategy implementation
- To ensure proper organisation of activities and of control system (inside/outside), compliance with legislation and other mandatory requirements
- To decide the most challenging issue of current activities management, which:
 - ✓ are beyond the ordinary scope of business activities
 - ✓ influence significantly on the company
 - ✓ comprise the high-risk group
 - ✓ require thorough analyses and collegial discussion



Formation of the CMB: recommendations according to Best Practice of GPW

- The members have high qualification and experience
- Diversified composition (on grounds of gender, education level , age and professional experience)
- The CMB membership should be the main professional activity, other occupations shall not hinder. To avoid membership in the governing bodies of other companies, which may lead to deterioration of own duties performance in this public company.



The CMB: detailed principles in accordance with Best Practice of GPW

- Concise and clear duties distribution between the members of the CMB.
An organisational chart should be published on the issuer's website.
- Members of the CMB may participate in the CMB or in the Supervisory Board of other companies only with consent of the initial company's Supervisory Board.
- To provide the Supervisory Board with access to information about the company's affairs, which is necessary to perform its functions.



How to create an effective CMB: general approach

- Specific **persons** and not recruitment by positions
- Orientation to creating a **team** inside of the CMB
- Minimal term – **2 years** (maximum?)
- Decent level of **remuneration** + bonuses for achieving indicators (not only financial!)
- Ensuring smooth retirement



How to create an effective CMB : members motivation

- Exchange of managing know-how, dive into a new business
- New connections, networking
- Prestige, new step in the career
- Strengthening relationships with client, counteragent
- Additional (sometimes main) income



What working procedure should be established?

- Regular and ad hoc meetings – plan the meetings in the beginning of a year
- Communications between meetings (the Head of the CMB).
- The Head of the CMB shall be available 365/24; open and clear communication
- Guest speakers (employees, consultants, clients, counteragents)
- Separation of the issues under consideration into 3 categories: 1) which must be decided 2) for information 3) for discussion
- Regular reports to the general meeting of shareholders (apart from information for an annual meeting)



The Supervisory Board (SB), Best Practice of GPW: recommendations

- Main functions: opinions on the company's strategy, verifies the work of the CMB in pursuit of defined strategic objectives, monitor the company's performance
- More "liberal" requirements in regard to the members of the SB: "must be able to devote the time necessary to perform their duties"
- Effective replacement of resigned CMB and SB members should be ensured
- The SB should have possibility to hire professional consultants, but not to pay too much for them 😊



The Supervisory Board, Best Practice of GPW : detailed principles

- The SB should comprise a sufficient number of independent directors as it is provided by Recommendation of the Commission of the European Communities dated 15 February 2005

Unconditionally, the following persons cannot be deemed to meet the independence criteria: employees of the company or its subsidiaries or affiliates, as well as persons, who entered into a similar agreement with any of them, and also persons having “significant relations” with shareholders owning more than 5% of the shares.

Independent members of the SB shall confirm their status before other members of the SB and the CMB with a special statement.

- Special requirements on reporting to the shareholders



Thank you for attention!

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