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"Global Challenges and Prospects of the Modern Economic Development"**TRANSPARENCY OF RUSSIAN COMPANIES AND THEIR**
ACTIVITY DECREASE IN THE FINANCIAL MARKETS

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Abstract

The authors consider the impact of economic sanctions, turbulence in stock markets on the willingness of companies to disclose information about their economic activities. There is a decrease in the number of new shares placements by Russian companies (IPO) in 2018-2019 on the Russian and foreign stock exchanges. The authors analyze the concepts of "delisting" and "buyback", systematize types and causes of these phenomena while specifying the legislative norms regulating these transactions. The authors provide a list of Russian companies that have delisted and repurchased shares from foreign stock markets and PJSC Moscow Exchange MICEX-RTS, point to differences in the objectives of companies conducting transactions on buyback, consider the example of PJSC LUKOIL, which conducted buyback to maintain the value of shares, and PJSC MegaFon, which conducted buyback for delisting. It is concluded that in a greater number of cases delisting is associated with a decrease in the investor activity and the threat of sanctions against companies and major shareholders. The authors emphasize the issue of information protection in the new economic conditions. The government of the Russian Federation adopted resolution No. 400 of April 4, 2019, allowing Russian companies not to disclose information that may entail sanctions. A large number of Russian companies have used this right. The impact of repurchase and delisting on corporate governance is considered in this article too. Under the sanctions of Western countries, the transparency of the corporate governance in Russian companies will not have any drivers for further growth and increase.

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Keywords: Economic sanctions, corporate governance, financial market, delisting, buyback, transparency.

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1. Introduction

Recently, there has been a growing debate about limits of the companies' transparency. On the one hand, the international practice is developing in the direction of increasing requirements and recommendations for improving transparency of business. Environmental, social and governance (ESG) criteria are in demand among an increasing number of investors (Bataeva, 2015). In 2018, 86% of companies from the List S&P 500 published non-financial reports ("ESG reports"). Whereas in 2011, the number of companies publishing such reports was only 20% of the companies included in the index. On the other hand, in the context of trade wars and sanctions by the United States and the European Union, there has been a tendency for companies to withdraw from foreign stock exchanges, and the issues of the information protection have become acute.

2. Problem Statement

Sanctions against Russia were imposed after the annexation of Crimea in 2014 by 37 countries, including the United States, Japan and all EU countries. The sanctions include restrictions on debt financing, against companies in the defense and energy industries, as well as a number of Russian officials. These sanctions have had a negative impact on the investment climate in Russia. In the face of political risks, many Western investors left the country.

The impact of sanctions on the economy was considered in foreign and Russian studies by Hoffmann and Neuenkirch (2017), Neuenkirch and Neumeier (2015), Kholodilin and Netsunaev (2016), Gurvich and Prilepskiy (2015), Domańska and Kardaś (2016), Nureev and Busygin (2016), Omel'chenko and Khrustalev (2016), Bitkov and Manuilov (2018), Petrov (2018), etc.

Hoffmann and Neuenkirch, (2017) assessed the impact of the Ukrainian conflict on the share prices of Russian and Ukrainian companies in 2013-2014. The analysis revealed a negative impact on the share prices of companies in both countries, and that Russian shares are more responsive to the international information than to the information related to the situation in Russia.

Neuenkirch and Neumeier (2015) considered the influence of economic sanctions imposed by the UNO on the economic growth of target countries. After examining a sample of 68 countries, they estimated the impact by an average of 2.3-3.5 percentage points and in special cases – up to 5% or more. According to the authors, in many countries, sanctions have had an effect in the form of increasing poverty, reducing the availability of medical services, but increasing the child mortality, etc.

Kholodilin and Netsunaev (2016) analyzed the effect of Western sanctions on the Russian economy by assessing the GDP. According to their findings, the economy is losing up to 2% of the quarterly GDP growth. According to the estimates of the Russian Minister of Finance A.G. Siluanov, the losses from sanctions as a result of the outflow of Western capital in 2014 amounted to \$ 40 billion (2.1% of GDP) (Kholodilin & Netsunaev, 2016).

Gurvich and Prilepskiy (2015), Domańska and Kardaś (2016) investigated the impact of Western sanctions on the share prices of organizations in the Russian oil and gas industry. They analyzed oil exports, production volumes, and the long-term effects of technological sanctions on the Russian oil industry.

Omel'chenko and Khrustalev (2016) assessed the impact of sanctions on the cost of financing enterprises in Russia. Nureev and Busygin (2016) noted such consequences from sanctions as: reduction of investments in Russian projects, growth of number of bankruptcies of companies, deterioration of borrowing conditions in foreign markets, growth of interest rates in banks, profitability decrease of the Russian companies connected with the economy stagnation.

Bitkov and Manuilov (2018) revealed that the IPO market of Russian companies has changed greatly in terms of its geographical structure and significantly decreased in its volume. With the overall decline in IPOs, there have been isolated examples of successful placements. An example of a successful placement of shares is the IPO of En+ Group on the London stock exchange in 2017 for more than \$1 billion.

Petrov (2018) studied financing ways of Russian companies in terms of the inflow reduction of the foreign capital. This researcher argues that the main financing sources in the current situation are bank lending to the economy, the expansion of public private partnership (PPP) practice in the financial and banking sector. In the above mentioned studies, the issue of the impact of the stock market stagnation on the transparency of Russian companies and the corporate governance was not considered.

3. Research Questions

In the context of high political risks, the issues of the information protection and security become topical, some companies have to make a choice between the transparency and the opacity. Nowadays, the number of companies that have chosen a non-public status is growing. This paper deals with the following main questions:

- Is there a trend of Russian companies to leave the Western stock markets?
- What are the reasons for the repurchase of shares and delisting from foreign and Moscow stock exchanges, the transition of companies to the non-public status?
- How did the instability of financial markets affect the transparency of companies?

In this study, the authors concentrate their attention in the aspect of shares repurchase, because it is the repurchase of shares that entails changes in the corporate governance of the company.

4. Purpose of the Study

Under the conditions of political sanctions, the number of IPOs is decreasing, the activity of mergers and acquisitions has decreased. At the same time, there is a growing number of companies conducting buybacks in order to improve their financial performance and get rid of the excess liquidity. The number of delisting companies from stock exchanges is increasing too. The aim of this study is to assess the decrease in the investment activity in the financial markets on public offerings, corporate governance and information disclosure.

5. Research Methods

On the basis of open sources, companies' websites, stock exchange news, the authors conducted a search for Russian companies that had repurchased securities and delisted from foreign stock exchanges and the Moscow stock exchange.

The analysis of companies' delisting was carried out on the basis of data from the website of the Moscow Exchange. The listing of securities on MICEX-RTS means the inclusion of securities in the quotation list. The authors analyzed the composition of traded instruments on MICEX-RTS for 2014-2019. MICEX-RTS exchange assigns the listing level to a company depending on the compliance level with listing requirements for shares and bonds. In this study, we analyzed the shares of companies included in the first and second levels (in the quotation part of the list) (Moscow Exchange, 2019). The number of companies delisting on MICEX-RTS for 2014-2019 was established. Thus, in 2014, 25 companies delisted shares, in 2015 – 21 companies; in 2016 – 14 companies; in 2017 – 21 companies; in 2018 – 12 companies; in 2019 (as of 01.10.19) – 9 companies.

The reasons for repurchase and delisting were established by generalizing and systematizing the experts' opinions presented in the open sources. The authors use a conceptual framework based on Russian legislation.

Delisting is the exclusion of a security from the list of instruments admitted to trading on the stock exchange for concluding purchase and sale agreements, including its exclusion from the quotation list (The Federal law No. 39-FZ "On the securities market", 1996). Delisting is possible in connection with the downgrade of the listing level (from the first or second level to the third) because of the non-compliance with the listing criteria, or with the termination of trading in this security. There are delisting types: on the initiative of the exchange and on the initiative of the issuer.

Repurchase (buyback) is a procedure for the company to repurchase its previously placed shares from the free circulation. The buyback procedure (decision-making by the shareholders' meeting, setting the repurchase price, the cost of repurchase) is governed by the provisions of Article 75 of The Federal law No. 208-FZ "On joint stock companies (1995). The consequence of buyback for companies is an improvement in earnings per share. A decrease in shares outstanding results in an increase in earnings per share, even if there is no increase in earnings. In addition, the purchase of own shares is perceived positively by investors. As the real business practice shows, buyback announcements keep stocks from falling significantly and can even lead to their growth.

6. Findings

According to statistic data, the largest number of foreign placements of Russian companies took place in 2006-2007 and 2011. With the crisis in 2014, the situation changed. In 2017, 10 IPOs and SPOs were held by the following Russian companies: En+ Group, Polyus, Norilsk Nickel, Detsky Mir, Mvideo, ONEXIM, PhosAgro, MMK, TMK, Aeroflot-Finance. The largest placement belongs to En+ Group placement on the London stock exchange that was realized after the sanctions. The company sold 18.8% of shares worth 1.5 billion pounds. However, in 2018, no Russian company held an IPO.

At the same time, cases of delisting of Russian companies from foreign stock exchanges have become more frequent. Examples of delisting of Russian companies from London and Paris exchanges and their main reasons are given in table 01.

Table 01. Examples of Russian companies that delisted shares from London and Paris stock exchanges on their own initiative in 2016-2018.

Company name	Exchange, the year of delisting	Reasons
«Uralkali»	leaving the London stock exchange (LSE) in 2015	Low demand from foreign investors.
«RusPetro»	leaving the London stock exchange (LSE) in 2016	High listing costs of \$5 million per year.
«Polus Gold»	leaving the London stock exchange (LSE) in 2016	The main shareholder Suleiman Kerimov is in the sanctions list.
«Pharmstandard»	leaving the London stock exchange (LSE) in 2016	Decrease in capitalization of the company; the need to reduce costs and simplify the corporate structure.
«PIK» Group	leaving the London stock exchange (LSE) in 2017	Decrease in the volume of transactions on the London stock exchange, a significant difference in price between Global Depository Receipts (GDRs) on the London stock exchange and ordinary shares of the company on the Moscow stock exchange.
«NordGold»	leaving the London stock exchange (LSE) in 2017	Low liquidity of receipts traded on the London stock exchange + Fears of sanctions against the major shareholder Alexei Mordashov.
«UC Rusal»	leaving Euronext (Paris) in 2018	The main shareholder Oleg Deripaska is in the sanctions list.
«MegaFon»	leaving the London stock exchange (LSE) in 2018	The threat of sanctions against the major shareholder Alisher Usmanov; the decrease in the activity of foreign investors; the decrease in the possibility of paying dividends with the adoption of a new strategy for the development of 5G.
«Cherkizovo Group»	leaving the London stock exchange (LSE) in 2018	The reduction of administrative costs and "limited liquidity" of receipts on the LSE. The possible reason is the threat of sanctions against the main shareholder Igor Babayev.
«Chelyabinsk Zinc Plant»	leaving the London stock exchange (LSE) in 2018	Decrease in the volume of transactions on the London stock exchange. The possible reason is the threat of sanctions against Iskandar Makhmudov, Andrei Bokarev, Andrei Kozitsyn and partners who own the Ural mining and metallurgical company (UMMC) - the main shareholder of the Chelyabinsk zinc plant (CZP).

As can be seen from table 01, the reasons for leaving the market are explained both by economic factors (a decrease in the volume of transactions on these exchanges and high costs associated with

maintaining the liquidity of securities in these markets) and political risks associated with the threat of sanctions on major shareholders. Some investors moved to the Moscow stock exchange (MICEX-RTS) in these years, according to some experts, up to 47% of investors in the MICEX-RTS stock market are non-residents today.

The number of share repurchase transactions on the Russian market is growing in the context of the activity decrease in the financial markets. In 2018, major share repurchase programs were carried out by LUKOIL (\$3 billion), Rosneft (\$2 billion), MegaFon ((\$1.1 billion), MTS (30 billion rubles), Magnit (16.5 billion rubles), etc. (Gaydayev, 2018). Some companies carried out a repurchase up to delisting from MICEX-RTS. These are such major Russian companies as a retail chain "Dixie" and telecommunication company "MegaFon". The reasons for leaving are associated with reduced costs and simplification of the corporate structure, with their plans reorganization, the inability for political reasons to meet transparency requirements of the exchange.

Delisting shares of Russian companies from stock exchanges has implications for the overall development of the corporate governance. According to the Interfax – Corporate Information Disclosure Center, 65 companies became non-public in 2018; 33 companies were transformed into LLC, 61 companies repaid all bond issues (Interfax – Corporate Information Disclosure Center, 2019). This means that companies are moving away from the transparency for investors.

In the context of the undervaluation of Russian companies caused by sanctions and the withdrawal of companies from the market, shareholders do not receive a signal their agents are effectively managing the joint-stock property (Romanova & Tkachenko, 2001). In the developed stock market (not distorted by sanctions), such a signal about the effectiveness of the corporate governance was the growth of the corporate value. This means reduction of the corporate governance importance and ensuring companies' transparency (Veselovsky, Izmailova, Bogoviz, Ragulina, & Lobova, 2018). At the same time, and in the conditions of sanctions, it is necessary to improve the efficiency of managing relations with investors. And despite political and economic difficulties, a number of companies are trying to maintain the shareholder value. Such companies increase dividend payments with increasing profits, which indicates their desire to satisfy the interests of shareholders and improve the corporate reputation (Vavilina, Levanova, & Tkachenko, 2019).

7. Conclusion

The research results confirm that foreign placements are losing their attractiveness because of the decrease in the interest of foreign investors in Russian securities, as well as sanctions pressure and fear of personal sanctions on the owners and managers of Russian companies.

This conclusion corresponds with the estimates of experts of the National rating Agency (NRA), who note the increase in the number of transactions on shares and bonds repurchase in the Russian market and foreign markets (National Rating Agency, 2018).

In some cases, the repurchase is conducted as a part of the delisting process. After approval by the general meeting of shareholders, the companies send a delisting application to the Moscow exchange and the Bank of Russia to release them from the obligation to disclose information. In the current economic conditions, the number of companies that have significantly reduced the amount of disclosed information

is growing. These companies use the opportunity provided by the Government decree No. 400 (Government of the Russian Federation, 2019).

The considered facts confirm the assumption of Petrov M.V. (2018) that in the current conditions the main financial resources for Russian companies are bank loans, and not public offerings of shares and bonds. This, in turn, means that increasing transparency by Russian companies loses relevance in the face of political risks and, until they are resolved, it will not become a priority task in the field of the corporate governance.

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