

Central Bank of Russia Proposes to Cancel Limits on the Issue of Depositary Receipts by Russian Companies

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On July 13, 2021, the Central Bank of Russia (“CBR”) published for consultation a draft of amendments¹ providing for the cancellation of the limits on the size of depositary receipt programs of Russian issuers.

History of Limits on the Size of Depositary Programs. Since early 2000s, Russian legislation has provided for limits on the number of shares that a Russian issuer may offer outside Russia in the form of depositary receipts:

- **General Limit on the Size of Depositary Programs.** The limit was initially set in 2001 at 75% of the total number of shares of the relevant class. However, driven by concerns that liquidity might flow to foreign exchanges, the limit was lowered to 40% in 2003, 35% in 2006, 30% in 2008 and 25% in 2010, which is in effect to date.
- **Limit on the Number of Depositary Receipts That May Be Issued in a Particular Share Offering (IPO/SPO).** The limit was set in 2006 at 70% of the number of shares being offered and was lowered to 50% in 2010. Apparently, because of this limit, the latest permits for the issue of depositary receipts which were granted in the early 2010s tended to be for a lower number of shares than the maximum number permitted under the general limit described above.

Background for Cancellation of the Limits. The last decade has seen a dynamic development of the Russian capital market accompanied by improvements in the regulatory regime and market technology infrastructure. The successful development of the capital markets has significantly increased liquidity on the Russian exchanges, eliminating the need for restrictions on the offering or trading of depositary receipts of Russian companies.

¹ Draft Direction on the Amendments to Regulation of the Central Bank of Russia No. 708-P on the Admission by the Central Bank of Russia of Securities Issued by Issuers Registered in the Russian Federation to Offering and Trading Outside the Russian Federation dated December 12, 2019, available as of the date of this Debrief at <https://www.cbr.ru/StaticHtml/File/41186/210713-28-1.pdf>.

Significance of the Cancellation of Limits for Capital Markets

- The implementation of the CBR's initiative will make Russia a more attractive domicile for companies looking to access capital markets.
- The draft amendments propose a full cancellation of the limits on the number of depositary receipts. However, each new issuer will still be required to obtain a CBR permit to launch a depositary program.
- The CBR's initiative does not provide for an automatic cancellation of limits in respect of depositary programs operating pursuant to permits granted earlier.
- The CBR expects that the amendments will become effective in the second half of 2021.

This initiative is expected to substantially facilitate initial access of Russian issuers to international capital markets and provide additional opportunities for follow-on offerings without need to obtain a new CBR permit.



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