

Newsletter:

Amendments to Securities Law with respect to Investment Advisory Activity

December 21, 2018

Dear Ladies and Gentlemen!

On December 21, 2018 Federal Law No. 397-FZ "On Amendments to Federal Law On Securities Market and Article 3 of Federal Law on Self-Regulatory Organizations in the Sphere of Financial Markets" dated December 20, 2017 (the "**Law**"), came into force.

The respective changes introduce a concept of investment advisory activity defined as "*provision of consulting services with respect to securities, transactions with securities and/or entering into derivative contracts by providing individual investment recommendations*" ("**Investment Advisory Activity**") to Federal Law No. 39-FZ "On Securities Market" dated April 22, 1996 (the "**Securities Law**").

Investment Advisory Activity will constitute professional activity on securities market which may only be performed by entities incorporated under Russian law or individual entrepreneurs; provided that they are: (i) members of a self-regulatory organization and (ii) entered in the register kept by the Central Bank of the Russian Federation (the "**CBR**") ("**Investment Advisers**"). Please note that Investment Advisers which are legal entities may also engage in other types of professional activity on securities market or activity of credit organization.

To be entered into the CBR register, Investment Advisers shall (i) comply with the requirements set out by the CBR and the Securities Law and (ii) submit to the CBR an application along with supporting documents in accordance with the form and list prescribed by the CBR.

Under the Law, Investment Advisory Activity shall be carried out on the basis of investment advisory agreements. As regards the interaction with clients, the Law

imposes upon Investment Advisers the duty to act in good faith, reasonably and in the best interests of their clients. In particular, before providing individual investment recommendation Investment Adviser shall identify the client's investment profile, requesting information about (i) the expected profit, (ii) the period for which the respective profit is calculated as well as, (iii) unless the client is a qualified investor, the acceptable risk of losses.

Requirements to the form of individual investment recommendations will be established by the CBR. The Law specifies the information to be included in such recommendations:

- (A) description of securities, transactions with securities and/or derivative contracts, in respect of which the recommendation is provided;
- (B) description of risks connected with the respective securities, derivative contracts, transactions with the respective securities and/or derivative contracts;
- (C) existence / absence of the conflict of interest on behalf of Investment Adviser.

Please be informed that under the Law, Investment Advisers are responsible for failure to perform and/or improper performance of their obligations under the laws of the Russian Federation and the investment advisory agreement, save for losses incurred due to provision of incorrect information by the client.

We hope that the information provided herein will be useful to you. If any of your colleagues would also like to receive our newsletters, please let us know by sending us his/her email address in response to this message. If you would like to learn more about our [Banking and Finance Practice](#), please, click [here](#).

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If you have any questions, please, do not hesitate to contact the Partner of ALRUD Law Firm

Sincerely,
ALRUD Law Firm



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