

Contributions to the Assets of Joint-Stock Companies

Newsletter

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From July 15, 2016, the law allows to make contributions to the assets of joint-stock companies without increasing their charter capital. Previously, this opportunity was available only to limited liability companies.

Due to this novelty, the shareholders, in particular, are now able to **provide financial assistance to the joint-stock company in a crisis** when the net assets drop below the statutory threshold.

See details in the Mosgo & Partners newsletter.

The general rule on contributions to the assets of business partnerships and companies had existed in the Russian Civil Code for many years, even before Art. 66.1, directly addressing this question, was introduced into the Code in 2014 (the article entered into force on September 1, 2014). However, the lack of a special rule in the Federal Law “On Joint-Stock Companies” (the **JSC Law**) was hindering the implementation of the norm, in particular, due to the risk that the contracts with JSCs on contributions to their assets could be qualified as donation, which is prohibited in the relations between commercial entities. In such a situation, the shareholders were only able to provide financial assistance to the company by issuing additional shares or by providing a loan to the company, none of which, however, could solve the issue of low net assets.

From now on, the JSC Law has been supplemented¹ with Art. 32.2 (*Contributions to the Company’s Assets Not Increasing the Charter Capital*). The article provides that:

- ▶ Shareholders can make contributions to the company’s assets under a **contract** with it, which – notably – **shall not be subject to the rules on donation agreements**;
- ▶ Such a contract requires **preliminary approval of the board of directors** (supervisory board), except where the contribution is mandated by the resolution of the general shareholders’ meeting of a private JSC. The rules on **related-party transactions are not applicable to the contract**: all members of the board of directors can vote on the matter of the contribution (para. 9 part 2 Art. 81 of the JSC Law);
- ▶ The purpose of the contributions is to finance and support the company’s business;
- ▶ Contributions can be made at any time;
- ▶ Contributions are gratuitous;

- ▶ Contributions can be made in monetary or other form;
- ▶ Contributions do not increase the charter capital or change the nominal value of shares;
- ▶ Charters of private JSCs may contain a provision on **mandatory** contributions to the company's assets that may be introduced by a resolution of the general shareholders' meeting.

As a result, a contribution to the assets now allows the company's shareholders to easily transfer money or other assets to the company to help it stay afloat and solve the issue of low net assets.

¹ The amendments were introduced by Federal Law No. 339-FZ dated 3 July 2016 "On Amendments to the Federal Law 'On Joint-Stock Companies'".



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