



## Bridging the gap between the UK and Russian venture markets

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**Above:**

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While Moscow-based VC funds actively invest in London start-ups, Russia's own venture markets remain terra incognita to foreign capital in general and British capital in particular.

International venture funds are sceptical about investing in projects in Russia: they are simply unsure there are scalable start-up ideas in the region. In fact, the ideas are plenty: such projects as Telegram and FindFace are known well beyond Russia's borders. Venture conferences and media are slowly but surely filling the information void, soon foreign investors' will be keeping tabs on Russia's promising start-up ideas.

There are concerns though. One is the perceived lack of exit options due to the economic situation in the country. To be fair, IPOs and sales of Russian start-up companies to strategic investors are not happening on a massive scale, yet they have continued over the past few years despite the financial crisis.

But then there are the peculiarities of Russia's legal landscape.



◀ **Left:**

CIS London & Partners have their offices in the City of London, the capital's historic financial district.

Штаб-квартира фирмы CIS London & Partners расположена в Сити, исторический финансовый центр Лондона.



Russian law and practice may eventually catch up with the expectations of foreign venture capitalists

### Translating the deal into Russian

Venture deals have long been known in common law: the legal tools and instruments that investors habitually rely on were formed in English law and continue to evolve. This is why the choice of applicable law is more often than not made in favour of the laws of England and Wales.

But it is not always feasible to have an investment in a Russian start-up governed by foreign law. If a co-investor in the round is a state-financed venture fund, it is not uncommon for them to demand that the deal is made under the laws of Russia.

When negotiating both the economics and control aspects of their venture deals, investors from all over the world juggle such well-established concepts as anti-dilution protection and vesting. The truth about Russian law and practice is that despite the improvements the ongoing civil law reform has brought about, investors still cannot be sure that their mutual understanding can be translated into valid contract terms enforceable under the laws of Russia and in Russian courts.

By way of example, the Russian judiciary is still testing the shareholders' agreement - the all-important instrument of investor protection. Late last year the Commercial court of Moscow ruled that, on formal grounds, shareholders agreements entered into before 1 September 2014 could not have contained put option clauses.

The omnipresent convertible loans and employee share option plans are not specifically governed by Russian law, and to achieve the desired effect using Russian legal tools only lawyers have to create overly complex agreements and hope that these will withstand scrutiny in the courtroom.

### Combine and rule

Russian law and practice may eventually catch up with the expectations of foreign venture capitalists. Huge work is underway to instil venture law as part of the Russian legal system, and it is driven by influential state-backed venture funds, among others. Yet, overall, it is still preferable to apply English law to Russian start-up deals of a size that warrants the extra legal costs.

Being involved in a variety of venture deals with English and Russian capital, both directed at and originating from Russia, at CIS London & Partners LLP we attach great importance to the relationship and constructive dialogue between all of the participants of the round. Even when co-investors insist on a shareholders' agreement that is governed by Russian law, it is still possible to persuade them to put English law indemnities in place that will safeguard the original agreement. Until Russian venture law is fully there, this is one of the viable solutions protecting investors' interests.