

Chapter XX

RUSSIA

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I INTRODUCTION

The labour relationship between employees and employers of all types (including legal entities, individual entrepreneurs and natural persons) in Russia is governed by the Constitution, the Labour Code, federal laws and other statutory acts containing norms of labour law. The parties to a labour relationship cannot contract out of requirements imposed by Russian labour law.

The Labour Code is the main codified act that regulates labour relations based on constitutional principles. Additionally, there are federal laws regulating various important aspects of labour relations.

In Russia, cases related to employment issues are to be presented before a court of general jurisdiction. The terms and procedures of the trial are specified in the Civil Procedure Code.

Along with the judicial opportunity to protect labour rights, there are also other options set forth in the Labour Code. An employee may alternatively pursue self-protection of labour rights, protection of labour rights and legitimate interests by labour unions, state authorities' supervision, and control of labour law observance. For instance, the employee may apply to a commission on labour disputes convened on a parity basis by the employer's and employee's representatives and settle a labour dispute out of court, if the dispute is not exclusively subject to the consideration of the court of general jurisdiction.

In different areas of the employment law and employment relations, certain government agencies are competent. General issues related to state supervision and control of labour are the responsibility of the Federal Service for Labour and Employment. Migration is monitored and regulated by the federal migration service; personal data

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processing is the responsibility of the Federal Supervision Agency for Communication, Information Technology and Mass Communication; and sanitary and epidemiological control is covered by the Federal Supervision Agency for Customer Protection and Human Welfare. Authorities of the constituent states of the Russian Federation, municipal bodies and the Public Prosecutor's Office also oversee the observance of employment law.

II YEAR IN REVIEW

During 2014 a number of new articles and amendments were introduced into the Labour Code, the Code of Administrative Offences and other regulations. These include the following.

i Prohibition of sham commercial contracts

Article 19.1 of the Labour Code came into force on 1 January 2014, establishing a particular procedure for acknowledging relations arising on the basis of commercial contracts as employment relations. Article 19.1 contributes to the statutory prohibition on the use of 'sham' commercial contracts to regulate employment relations instead of employment agreements.

The employment relation between the parties of commercial contract may be considered by the actual 'employer', either at the request of the individual working for that employer under a sham commercial contract or by a court.

In addition, amendments have been introduced to the Code of Administrative Offences, which introduce administrative liability for entities that conclude sham commercial contracts with individuals instead of employment agreements. The fines for such violations are up to 100,000 roubles. These amendments entered into force on 1 January 2015.

ii Recognition of employment by unauthorised representatives

A new Article 67.1, which was introduced to the Labour Code in 2014, addresses situations where an employee was admitted to work by an unauthorised representative of the employer and the latter refuses to acknowledge his or her employment relations with the employee.

In that situation the employer is obliged to pay the employee for work actually performed by him or her in the employer's favour.

iii Restrictions on severance payments

A new Article 181.1, which also appeared in the Labour Code in 2014, introduced a prohibition on employers stipulating in collective agreements, local policies, employment agreements and any other documents, additional compensations to an employee in the event of his or her dismissal on disciplinary grounds.

Article 349.3 introduced in 2014 to the Labour Code contains certain restriction on the amount of severance payments and compensations to the employees in the event of their dismissal. Such restrictions concern mainly the employees of state-owned corporations.

iv Evaluation of workplace conditions

As of 1 January 2014, the procedure of assessing workplaces with respect to their working conditions was replaced by the procedure of special evaluation of working conditions. The amendments contain a number of novelties aimed at encouraging employers to implement measures that improve working conditions and work safety at the workplaces as well as at increasing liability for violation of work safety laws. In addition, the Code of Administrative Offences was supplemented with the Article 5.27.1 setting out, *inter alia*, liability for failure to carry out special evaluation of working conditions as well as violation of the procedure of special evaluation of working conditions in the form of warning or an administrative fine, which can be up to 200,000 roubles. The amendments to the Code of Administrative Offences entered into force on 1 January 2015.

v Risk-based compensation for employees of credit organisations

The Central Bank of Russia approved the Instruction ‘on evaluation of labor remuneration system in a credit organisation and the manner of sending to credit organisations of notification on elimination of violations of the labour remuneration system’ No. 154-I of 17 April 2014. The Instruction entered in to force on 1 January 2015.

In particular, the Instruction provides that remuneration of employees of credit organisations should be set depending on the risk level to which a credit organisation may or may have been exposed (as a result of employees’ actions) and introduces a requirement to establish a portion of the remuneration of certain categories of employees that can be varied, deferred or adjusted depending on the results of the organisation. The remuneration depends on the category of risk takers and other employees covered by the Instruction. Also the instruction sets forth the obligation of a credit organisation to disclose information on its labour remuneration system on a regular basis and not less than once in a calendar year.

III SIGNIFICANT CASES

On 28 January 2014, a mandatory legal opinion of the Russian Supreme Court was issued to provide clarifications as well as to unify court practice regarding employment rights and guarantees of certain categories of employees who are considered to be protected categories of employees under Russian law. These categories include pregnant women, single mothers, employees with family obligations and minors. Special attention shall be paid to the following statements of the Supreme Court:

Since under Russian law the dismissal of pregnant women is prohibited, the fact the employer was not informed about pregnancy of the employee does not have any legal effect and cannot preclude the court from reinstating the employee.

The Supreme Court set out the following rule with regard to a fixed-term agreement concluded with a pregnant woman: in the event of the child’s birth, the dismissal of the employee due to expiration of her employment contract is possible only on the last day of her maternity leave.

The Supreme Court also clarified the notion of a single mother. Namely, it clarified that a single mother is a person actually performing parental obligations in terms of education and development of a child in accordance with family legislation

and other applicable laws, such as a woman bringing up her child without a father (i.e., because the father has died or cannot personally bring up a child due to the state of his health, serving a criminal sentence).

IV BASICS OF ENTERING AN EMPLOYMENT RELATIONSHIP

i Employment relationship

A written employment contract setting forth the basic terms of the employment relationship and employment duties must be concluded with every employee working in Russia. The conclusion of the employment contract is the employer's obligation. If the employee actually starts working before the conclusion of a written contract, the employment contract with that employee is deemed concluded and the employee cannot be deprived of the rights provided for by law.

Employment contracts may be executed either for an indefinite period or for a fixed period, but not for more than five years (fixed-term employment contract).

A fixed-term employment contract can only be concluded on the grounds provided by law. These circumstances are divided into two groups: where a fixed term is required and where a fixed term can be decided upon between the parties. In all other cases, the contract should be for an indefinite period.

A fixed-term employment contract is required when the employee is hired, in particular, under the following circumstances: to perform the duties of an employee who is on a leave of absence but who retains his or her job; to perform temporary (up to two months') work or seasonal work; to be sent to work abroad; to perform work that goes beyond the framework of an employer's ordinary activity; to work for organisations that are intentionally formed for a fixed period of time or for the purpose of completing a certain task; to carry out a defined task, the term of whose completion cannot be determined by a specific date; and in some other cases provided by law.

Upon agreement of the parties, a fixed-term employment contract may be executed under, *inter alia*, the following circumstances: with persons hired by small businesses (including individual entrepreneurs) having up to 35 employees, or 20 employees in case of businesses (individual entrepreneurs) operating in retail or consumer service sectors; with pensioners (who obtain this status due to their retirement age); with persons who are only allowed to perform temporary work, pursuant to a properly issued medical certificate; for the purpose of carrying out emergency work aimed at preventing catastrophes, disasters, accidents, epidemics, epizootics and for the elimination of the aftermath of these and other emergencies; with creative employees of the mass media, cinematographic organisations, theatres, theatrical and concert organisations and circuses, etc; with the heads, deputy heads and chief accountants of organisations; and in some other cases provided by law.

In all other cases, an employment contract should be for an indefinite period. An employment contract concluded for a fixed term in the absence of sufficient reasons, as established by the court, is deemed to be concluded for an indefinite period of time. Moreover, in cases where several fixed-term employment contracts have been executed to perform the same type of work, the court may decide, taking into account details of the case, that the employment contracts last for an indefinite period.

The employment contract should contain information on the parties, place and date of conclusion. It must specify the place of work, its commencement date, the position of the employee according to the staff schedule of the company, the rights and duties of the parties, remuneration, conditions of the working place (these are mandatory provisions of the contract) and other provisions. It is forbidden to stipulate directly or indirectly any limitations or privileges depending on the age, nationality, religion, sex or political views of an employee.

It is the employer's obligation to conclude the employment contract with the employee in writing no later than within three working days from the day the employee was actually admitted to work.

Substantial provisions of an employment contract can only be modified at the mutual consent of the parties thereto, for instance, by addenda or attachments to the employment contract. In the event of changes to the organisational or technological conditions in the company, the employment contract can be amended without the consent of the employee provided that his or her function will not be changed. Such changes are subject to two months' prior notice.

ii Probationary periods

An employer has the right to establish a three-month probation for a newly hired employee. As an exception to this rule, an employer may establish a six-month probation for employees hired for certain top executive positions (e.g., head of a company, chief accountant and their deputies or the head of a branch or representative office of an enterprise).

There are some categories of employees for whom the probation period should not be stated at all, such as pregnant women or women with children under one-and-a-half years old, or employees that are starting a job within one year of graduation from an educational institution.

The probation period should be specifically provided for by the employment contract. In the absence of such provision in the employment contract, no probation period is considered to be established for the employee. During the probation period, if the employer determines that the employee does not meet the criteria established for the job position for which he or she was hired, an employee can be dismissed by the employer without a severance payment by giving three days' written notice specifying the reasons for dismissal. An employee is entitled to resign during the probation period without any reason with three days' written notice to the employer.

iii Establishing a presence

Generally, a foreign company can hire employees without being officially registered to carry on business in Russia; however, if it employs (or intends to employ) an individual to work in Russia for more than 30 calendar days (continuously or cumulatively) in a year, it is obliged to obtain Russian tax registration.

A foreign company is not prohibited from hiring employees through a specialised agency or another third party, for example under an outsourcing agreement. Since such employees conclude employment contracts with the specialised agency or another third

party, a foreign company has no obligation to pay remuneration to the hired employees or withhold or pay corresponding taxes.

Nevertheless, foreign companies should bear in mind certain new regulations with regard to agency labour (see Section XIV.iv, *infra*).

Under certain conditions, tax registration issues and permanent establishment (PE) risks for a foreign company may arise.

A foreign company may engage an independent contractor under a service agreement (i.e., a civil law contract) without tax registration in Russia. In this situation, under certain conditions these relationships can lead to the creation of a PE of a foreign company in Russia. Pursuant to the Tax Code, a PE is a branch, representation, department, bureau, agency or any other separate subdivision or other place of activity of the company or a 'dependent agent' through which this foreign company regularly conducts commercial activities in Russia.

A dependent agent of the foreign company for tax purposes is a Russian company (or individual or individual entrepreneur) who acts based on an intercompany agreement, exclusively represents this foreign company in Russia and conducts regular business activities (i.e., negotiates and concludes agreements) on behalf of this foreign company.

Therefore, if the activity of a foreign company through an independent contractor creates a PE in Russia, such foreign company may be subject to full taxation in Russia.

Among the statutory payments that are required to be paid to employees are salary, sick leave allowance, annual holiday pay and other additional payments stipulated for certain categories of employees.

Foreign employees are entitled to some of the local benefits provided to Russian employees (e.g., payment for annual holiday).

Some statutory benefits are not subject to personal income tax. Income that is not taxable includes:

- a* state allowances, including maternity leave and unemployment benefits; and
- b* all types of compensations payable in accordance with effective laws within established limits (e.g., reimbursement of harm caused by injury or other damage to health, dismissal of employees, including compensation for unused holiday and the expenses involved in the improvement of professional skills of employees).

The employer paying statutory benefits in favour of employees is obliged to declare them and withhold personal income tax at source.

V RESTRICTIVE COVENANTS

Pursuant to Russian law, non-compete clauses in employment contracts are not enforceable, since one of the main labour principles protected by law is that each employee has freedom of labour, including the right to work, and any person is free to choose his or her profession or type of activity.

Following these principles, the law does not allow a company to restrict an employee from working for another employer (a competitor). If a non-competition clause is included in an employment contract, it cannot be legally applied and will not be enforceable in Russian courts. The only statutory possibility allowing companies to

restrict or control work for third parties relates to heads of companies: pursuant to the Labour Code, a general director (CEO) can work for another employer only upon the consent of the authorised body of his or her employer.

Also an employee of a state company or corporation should inform his employer on any potential conflicts of interest. Failure to report a conflict of interest could form grounds to dismiss an employee.

VI WAGES

i Working time

Employers are required to keep a record of the working hours of every employee, including any overtime. The regular working week is 40 hours, or less for certain categories of employees and working conditions.

An employee may be expressly engaged for night work according to the working conditions or production necessity with obligatory consent of the employee. In this case, the statutory requirements for payment shall be that each hour of work during the night shall be compensated at a higher amount than work during the normal working day. Such rate of pay must be at least 20 per cent greater than the normal hourly payment for a day's work.

ii Overtime

Any time worked over 40 hours per week is classified as overtime (unless an employee has an open-ended working day regime pursuant to his or her employment contract) and may only be required by employers with the employee's prior written consent. Without the employee's consent, overtime work may be required only in emergency situations (fire, accident, disasters, etc.).

Pursuant to the labour laws, overtime should be compensated as follows:

- a* for the first two hours of overtime, the compensation should be no less than one-and-a-half times the usual hourly rate;
- b* for subsequent hours of overtime, the compensation should be no less than double the usual hourly rate; or
- c* in accordance with an employee's wishes, overtime work may alternatively be compensated by the provision of additional rest periods or time off work. However, this period may not be for less time than the overtime actually worked.

An employee's overtime work cannot exceed four hours within two consecutive days or 120 hours per year.

VII FOREIGN WORKERS

The law does not stipulate a requirement for employers to keep a register of foreign employees. Generally there is no limit on the number of foreign employees that may be engaged by Russian-registered corporations. Representative or branch offices of foreign companies may initially hire up to five foreign employees. Despite the general rule, the company may not be allowed to hire as many foreign employees as it wishes: in the year

preceding the prospective employment of foreign workers, the company needs to apply for a quota. The company submits a special form, indicating how many employees it expects to employ next year, their professions, job titles and countries of origin. Filling in and submitting the form does not guarantee that the company will be allowed to hire foreign employees or employees from certain professions or with certain qualifications. The decision is made by state bodies based on the current economic situation and the company's legal record (i.e., any violation of law by the company may negatively affect the decision).

The Ministry of Labour and Social Protection of Russia is entitled to adopt a list of those professions, positions and qualifications that are given a quota exemption in a given year. However, these professions, positions and qualifications may vary from year to year or may not be adopted at all.

The simplified procedure for obtaining a work permit has been adopted for employees from France, South Korea and Mongolia. Currently, employers do not have to obtain a decision of the State Employment Centre regarding permission to engage and use foreign workers with respect to such categories of employees.

Companies may also engage foreign nationals as highly qualified specialists. The main condition for engaging a foreign worker as a highly qualified specialist is that he or she has experience, skills and achievements in the sphere in which he or she is to be employed and that the company will pay him or her more than 2 million roubles a year, or for teachers and scientists invited by state-accredited institutions, more than 1 million roubles a year, or for foreign nationals engaged in Project Skolkovo (Russia's technical innovation project), a salary of any amount. For these specialists, quotas for obtaining work permits are not applicable. Employers also do not have to obtain a decision of the State Employment Centre and permission to engage and use foreign workers in order to legally hire a highly qualified specialist.

The period of employment of a foreign national in Russia is limited by the duration of his or her work permit. Generally, the work permit is issued for up to one year and the work permit for highly qualified specialists can be issued for up to three years. If the employee continues working when his work permit expires, both the company and the foreign employee will be subject to administrative fines (quite considerable for the former).

Foreign nationals who will work in Russia, rather than travel to Russia on business, need to have work permits and should be staying under a work visa (except in the case of visa-free entry).

Remuneration received by a foreign employee from a source in Russia is generally subject to Russian personal income tax. It may also be subject to social insurance contributions. The employer should also provide the highly qualified specialist and his or her accompanying family members with medical insurance.

A company paying remuneration to a foreign employee is deemed a tax agent and, therefore, must withhold personal income tax from the remuneration payable to employees and remit it to the tax authorities. If the personal income tax was not withheld by a tax agent, the employee should file a tax return and pay the tax independently.

The personal income tax rate is 13 per cent for Russian tax residents (individuals staying in Russia for more than 183 days in 12 consecutive months and more than

183 days in the calendar year in whole) and 30 per cent for non-Russian tax residents (individuals staying in Russia for less than 183 days in 12 consecutive months).

For those foreign employees who have the status of highly qualified specialists (see above), the personal income tax rate is 13 per cent, irrespective of their tax residency status.

Employers (both Russian companies and Russian subdivisions of foreign companies) shall pay social insurance contributions with respect to those foreign employees who have a long-term or temporary residence permit in Russia. Employers are obliged to remit contributions to the Pension Fund of the Russian Federation from compensations paid to foreign citizens temporarily resident in Russia.

The base for calculating insurance contributions may be defined as the remuneration payable to the foreign employee under the labour and civil contracts, including salaries, bonuses and other monetary payments and in-kind benefits. The maximum annual base (the threshold) for the payment of social contributions in respect of one employee is 624,000 roubles for 2014 (the limit may be further revised by the state authorities). All payments to an employee exceeding this limit are now subject to a 10 per cent insurance contribution.

There is also obligatory accident insurance in Russia. All individuals (including foreign nationals) working under employment agreements are subject to this insurance irrespective of their immigration status. The insurance covers cases of temporary or permanent injury to the health of employees (including death) that occurs within the course of performing employment duties (as a result of a professional illness or work-related accident).

The applicable rate of obligatory accident insurance depends on the degree of professional risk that an employer's activity entails and may vary from 0.2 per cent to 8.5 per cent. The base for calculating obligatory accident contributions is generally the same as the base for calculating social insurance contributions.

Foreign employees have the same rights and obligations as Russian employees and are granted the same level of protection under the Russian law.

VIII GLOBAL POLICIES

The main disciplinary principles are contained in the Labour Code. Internal disciplinary rules can be adopted by the employer in the form of by-laws and regulations on discipline. As a general rule, however, such rules are incorporated into the rules of the internal labour regulations of the company.

The internal labour regulations are a local standard governing the hiring and dismissal of employees and the basic rights, obligations and accountability of the parties to a labour contract, the work regime, the rest periods, incentives and punitive measures applied toward employees and other regulations concerning labour relations, including the disciplinary rules.

The internal labour regulations do not need to be filed with or approved by government authorities.

The Labour Code establishes some mandatory rules prohibiting discrimination on various grounds. Everyone shall have equal opportunities to implement their labour rights under the labour laws.

Nobody may be subject to restrictions in labour rights and liberties or gain any advantages based upon sex, race, skin colour, nationality, language, ethnic origin, property, family, social status and occupational position, age, place of residence, attitude to religion, political views, affiliation or failure to affiliate with public associations, or any other circumstances not pertaining to the employee's ability to perform his or her work.

Sanctions for sexual harassment are regulated by the Criminal Code.

The internal labour regulations of the company have to be executed in Russian, as Russian is the official language and must be used by all companies regardless of their ownership structure for their employment contracts, by-laws and records management.

When the employee is hired (before a labour contract is signed) he or she should be provided with the internal labour regulations and other internal regulations relating to his or her work as a hard copy that he or she must sign. If the internal labour regulations are altered the employee shall be provided with a revised copy.

The rules of the internal labour regulations shall be approved by an employer, taking into account the opinion of the representative body of the organisation's employees, if there is one in the company.

Generally, if there is a collective contract in the company, the rules of the internal labour regulations shall be supplementary to it.

The internal labour regulations shall be freely accessible. They can be located on the company's intranet, but in any case the company must have them as a hard copy.

The disciplinary rules can be incorporated into the employment contract by reference to them.

IX TRANSLATION

Russian is the official language of the Russian Federation and must be used by all companies – regardless of their ownership structure – for all HR documentation (including employment contracts) and records management. There are no formalities such as notarial certification of translation or use of certified translator.

In the republics and other constituent territories of the Russian Federation, employment contracts can be executed in two languages: Russian and the language of the republic, or any other language used by the population of the subject. The exact rules and obligations on the use of languages are established by the relevant legislation of the Russian Federation.

As for foreign employees who know neither Russian nor the language of the constituent territory of the Russian Federation, Russian legislation contains no general requirement that the employment contract be presented in a language familiar to the individual.

However, in practice, an employment contract with a foreign employee is usually signed both in Russian and in the language in which the foreign employee is fluent, to guarantee that he or she has a clear understanding of rights and responsibilities under the agreement.

If the employment documents are not translated into language familiar to the employee, the foreign employee could challenge the implication of any disciplinary sanctions upon him or her for breach of the obligations stipulated in the document on the grounds that he or she did not understand the contents of the document.

X EMPLOYEE REPRESENTATION

The employees are permitted to form representative bodies to protect their rights. As such, there are no works councils as a form of representation in Russia. Under the Russian Labour Code, the representatives of employees shall be trade unions and other representatives. Russian law, however, does not define the 'other representatives' and the rules governing their activity. Therefore, all information regarding employee representation in this section concerns trade unions.

Once created at the company level, a trade union represents all workers engaged by the specific employer who have become members of the trade union, or who have authorised the trade union to represent their interests.

The trade unions shall have the right to exert trade union control over the employers and the official persons observing the legislation on labour, including on the issues of the labour agreement (contract), working hours and rest periods, remuneration for labour, guarantees and compensations, privileges and advantages, and other social and labour issues in the organisations, in which the members of the given trade union work. They shall also have the right to demand that the disclosed violations are eliminated. Employers and official persons shall be obliged, within a week of receiving a request to eliminate the exposed violations, to inform the trade union about the results of its consideration and about the measures effected.

For the trade unions to exert their control over the observation of the legislation on labour, the trade unions shall have the right to set up their own labour inspection service, which shall be vested with the powers stipulated by the legislative provisions and approved by the trade unions.

If the employees of a given employer are not united in any primary trade union organisation, or if fewer than half of the employees of the given employer are members of the existing primary trade union organisation or if no existing trade union has the power to represent the interests of all the employees in a social partnership at the local level, then another representative (or representative body) may be elected by secret ballot from the ranks of the employees at a general meeting (conference) of the employees for the purpose of exercising said powers.

The existence of this other representative shall not be deemed an obstacle to the primary trade union organisations exercising their powers.

Trade union organisations shall represent the interests of employees in collective negotiations, the conclusion or alteration of a collective contract, control over execution thereof, and in the implementation of the right to participate in the management of an organisation, consideration of labour disputes of employees with an employer.

The trade unions shall independently formulate and approve their rules. Such rules should define the length of a representative's term, how frequently representatives must meet, terms and procedures for setting up the trade union, the rules for joining

the trade union's membership and leaving it, the rights and the duties of the trade union members, the authority of the trade union bodies and the term of their powers. Trade unions also determine provisions related to the structure of the union and shall hold meetings, conferences, congresses and other events.

The employer shall give the trade unions functioning in its organisation the equipment, premises and means of transportation and communication necessary for their activity in conformity with the collective agreement or with the agreement.

XI DATA PROTECTION

i Requirements for registration

As a general rule, before processing personal data, an operator is obliged to notify the Federal Service for Supervision in the Sphere of Communication, Information Technologies and Mass Communications of its intention to process personal data. The notification should contain information required by the respective laws in Russia.

The 'operator' is defined as a legal entity, individual, state authority or municipal authority that individually or collectively organises or carries out the processing of personal data, and determines the purpose and content of processing that personal data or the operations to be performed with that data.

Employers have the right to process the personal data of their employees without notifying the above-mentioned authorised state body. However, if the purposes of personal data processing fall beyond the scope of labour law and employment relations, the employer is obliged to notify authorised state authorities of its intention to carry out the processing of employees' personal data.

According to the general rule, obtaining consent for the processing of employee personal data is required. If personal data may only be obtained from the third party, then the employer is obliged to notify the employee in advance and obtain his or her written consent. The employer shall inform the employee of the purposes, probable sources and methods of obtaining the personal data, as well as of the nature of the personal data to be obtained and the consequences of an employee's refusal to provide written consent for the use of the data.

The general rule is that a subject of personal data shall make a decision to supply his or her personal data and give his or her consent to the data being processed of his or her own free will and in his or her own interest. As mentioned above, the employer is entitled to request personal data that is necessary for performance of the labour agreement with the employee. The consent of the employee will be required if the employer intends to transfer the personal data of its employee to third parties. Consent may be withdrawn by the personal data subject at any time.

To ensure the rights and liberties of the employee, the employer and his representatives must permit only specially authorised persons to access employee personal data. Moreover, the mentioned persons shall be permitted to obtain only the employee personal data which is necessary to fulfil particular functions. It shall be also noted that employers shall adopt an internal policy covering the procedure of processing the personal data of employees. Such a policy shall be adopted in Russian (or in a bilingual

form) by the order of the CEO of the legal entity (or other authorised person) and all employees shall acknowledge familiarisation with their signatures.

The company is obliged to take the required organisational and technical measures, in processing the personal data, including using ciphering facilities (where applicable), to protect personal data against any illegal or accidental access, destruction, alteration, blocking, copying and dissemination and other illegal actions.

The Federal Law dated 21 July 2014 introducing amendments to the Federal Law on Personal Data sets out the obligation on operators of personal data to ensure that certain types of processing of personal data belonging to Russian nationals is carried out with the use of databases located in the territory of Russia at the moment of collection of personal data of Russian nationals, including collection via the internet. This localisation requirement will enter into force on 1 September 2016.

The localisation requirement does not imply all possible types of processing in Russia. Only the following types of processing must be performed with the use of databases located in Russia: collection, recording, systematisation, accumulation, storage, adaptation or alteration, retrieval and extraction (the target types of processing).

This requirement has raised numerous discussions on how it will be actually implemented due to its vague and ambiguous wording. Its practical implementation will depend on which of these two interpretations are followed. Under the first interpretation the localisation requirement constitutes an absolute ban on any of the target types of processing of personal data of Russian nationals anywhere beyond the territory of Russia.

The second interpretation is more flexible. It implies that the localisation requirement does not prevent operators from transferring personal data for any further processing outside Russia.

ii Cross-border data transfers

Russian law does not require registration for the purposes of the cross-border transfer of personal data.

The general rule is that for the cross-border transfer of personal data, the employer should ensure that the receiving states are parties to the Council of Europe Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data or provide adequate protection of the rights of the subject of the personal data. If the employer performs a cross-border transfer of personal data to states that do not ensure an adequate protection of the rights of the subject of the personal data, the Russian company must obtain written consent from the subject of the personal data (i.e., the employee).

Russian law does not directly stipulate, however, what is considered to be the adequate level protection of the rights of the subject of personal data. Therefore, it cannot be said for sure whether, for example, Safe Harbor registration in the US will be sufficient or not.

Taking into account that employers are obliged to gain the consent of their employees when intending to transfer their personal data to third parties (regardless of the location of the receiving third party) and to avoid any possible claims from the employees regarding the processing of personal data by the company without consent, it is recommended in all cases of cross-border transfer that the employer obtains the

written consent of the subject of the personal data, stating the scope of the personal data to be transferred cross-border, the purpose of the processing and the recipients of personal data.

The employers should require the recipients of personal data to treat such data as confidential information. If the transfer is made on the ground of an agreement, the agreement should provide for an obligation of the recipient to treat the personal data as confidential.

Additional transfers of the personal data are allowed if the employee's consent covers such transfers.

iii Sensitive data

Information relating to an employee concerning race or ethnic origin, political views, religious or philosophical convictions, state of health or private life is considered as sensitive data.

As a general rule, the employer may not request and process sensitive data. In cases directly associated with the issues of labour relations, the employer may obtain and process information on the private life of the employee only with his or her personal consent.

For a cross-border transfer of sensitive data the Russian company must obtain the written consent of the employee.

iv Background checks

Russian law limits the amount and type of data that can be obtained on a candidate or an employee.

The main principle is that the volume and character of personal data to be obtained on a candidate should be justified by a lawful reason. The Russian Labour Code gives a full list of such reasons:

- a* to observe laws and regulations, for example if a certain check is prescribed by law the employer can demand this information, or if a certain job is prohibited to a specific category (e.g., employees under 18), the employer can also request personal data;
- b* to assist in employment, training, and promotion (this may imply any information that this reasonably and lawfully requires to efficiently hire, train and promote);
- c* to ensure the personal safety of employees (this might seem to allow a rather broad interpretation, however, the general principle of non-excessiveness is to be observed);
- d* to control performance (quality and volume of work done); and
- e* to ensure the safety of assets (the general principle of non-excessiveness is to be observed).

As mentioned above, Russian law gives a full list of documents the candidate must present, and prohibits the employer from requiring extra certifications. Thus, bank statements, credit repayment records and the like cannot be demanded from the candidate. Moreover, even if the candidate voluntarily agrees to provide them, such requests can be interpreted as an invasion of privacy and discrimination on grounds

of property. Additional documents can be required only if this is explicitly provided for in the legislation (e.g., public servants should present information on their income, property and material liabilities).

Criminal record checks may be required for certain jobs. For example, applicants for teaching positions may be subject to such checks since educational work is prohibited to those with a criminal record. In other instances, inquiring about an applicant's criminal background can be considered excessive. However, there is no relevant court practice so far.

There is a statutory minimum of information an employer is entitled to learn about a potential employee. Demanding further information or documents is illegal, and requesting them might be risky, as it may imply that the candidate was not hired for a protected reason or that an invasion of privacy took place.

An employer should also avoid receiving any information about, for instance, an applicant or employee's political, religious or other views or membership of social organisations.

Obtaining information about an applicant or employee's private life is permitted only to the extent it is relevant to the job. For example, obtaining information about dependants is relevant to determining whether an applicant or employee is entitled to certain guarantees.

XII DISCONTINUING EMPLOYMENT

i Dismissal

Pursuant to the law, employment may be terminated only on the grounds provided for by the laws. The Labour Code stipulates the list of principal grounds for termination of employment, however, it is not exhaustive; it can be extended by grounds stipulated in other federal laws.

As a general rule, the company does not have to notify the state bodies of a dismissal. Among the exceptions are dismissals due to a company being wound up and redundancies (please see more detailed information below). If dismissing a foreign employee the company has to notify labour inspectorate or federal migration service in case of dismissing a foreign employee who comes from the visa-exempt country.

Notification of the elected body of the trade union is to take place in case the employer initiates dismissal of a trade union member for the reasons of staff reduction, insufficient qualification of the employee or numerous failures of the employee to fulfil his labour duties provided he has had a disciplinary punishment. The opinion of the trade union is not binding for the employer. The employer could dismiss the employee who is a member of the trade union elected body for the reasons of staff reduction or insufficient qualification of the employee, provided the elected body of the higher level trade union give its consent.

The dismissal can take place within one month after the trade union provides its reasoned opinion.

If the employer decides on a staff reduction, it should submit a written notification to the elected body of the trade union organisation not later than two months before

the planned action, and in three months if such staff reduction may lead to collective dismissal.

It is not common practice for employers to provide a social plan containing measures that are additional to those required by law or contained in industry or territorial agreements. However, measures aimed at reducing the number of employees subject to collective redundancy or providing re-employment may be contained in the company's collective bargaining agreement and may be implemented by the employer.

Offers of suitable alternative employment have to be made in the event of redundancy.

There are various notice periods for different types of dismissals. A notice of dismissal must be made in writing. Furthermore, it should be signed by the employee, proving that he or she received that notice. A notice period does not depend on the length of employment.

An employee who is not coping during the probation period can be dismissed by giving three days' notice.

A fixed-term contract is terminated upon expiration of its term. An employer has to notify an employee of the contract's termination three days beforehand.

In the case of redundancy or reduction of personnel, an employer has to notify employees two months before dismissal. Seasonal workers are to be given seven days' notice in such circumstances and three days' notice applies for temporary employees (working under an employment contract with the term of up to two months).

In all other cases of dismissal, the notification period is not defined in the law.

If a company is being wound up or there is a reduction of staff the employer can with the written consent of the employee terminate the employment contract before expiry of the two months' notice period provided he pays additional compensation to the employee in the amount of the employee's average earnings calculated *pro rata* to the time remaining until the expiry of the notice period.

The general principle is that protection is granted to all employees. Special protection against dismissal at the initiative of the employer applies, *inter alia*, to the following groups of employees:

- a* pregnant employees (can be dismissed at the employer's initiative only if a company is being wound up; a fixed-term labour contract should be prolonged until the end of the pregnancy);
- b* employees under 18 (can be dismissed at the employer's initiative only upon consent of the appropriate state labour inspectorate and commission for juvenile affairs and protection of their rights (unless the company is wound up)); or
- c* employees with two or more dependants.

A severance payment shall be paid to employees in the case of (1) termination of employment due to the company being wound up, as well as in case of redundancy (as described below), and (2) severance pay equal to two weeks' average wages is made to an employee in the following cases of dismissal:

- a* the employee's refusal to be transferred to another job as might be required according to his or her medical certificate² prohibiting him or her from remaining in the current job, or if the employer does not have an appropriate job;
- b* the employee being called to military service (or alternative civil service);
- c* the reinstatement of an employee who previously occupied that position;
- d* the employee's refusal to be transferred to a job in another location;
- e* the employee is recognised as being fully incapable of working in accordance with a properly issued medical certificate; or
- f* the employee refuses to continue working following a change in employment contract terms.

An employment contract or a collective contract may stipulate other cases of severance pay, as well as the amount of severance pay to be paid.

If the employment is terminated at the mutual agreement of the parties, then a respective agreement specifying the terms of such termination shall be concluded.

ii Redundancies

If the company decides to apply the redundancy procedure it should first of all select the employees that can be subject to redundancy, considering the protected categories.

Each employee must be individually notified in writing at least two months before the dismissal, and each employee should confirm notification in writing. Seasonal workers will be given seven days' notice in such circumstances and temporary employees (i.e., those with an employment contract of up to two months) are entitled to three days' notice.

The company further offers the employees all suitable vacancies the company has (including those requiring fewer qualifications or with a lower salary).

Each offer should be made in writing; the employee's refusal or consent should also be in writing. If there are no vacancies in the company, the employee should be served the appropriate notices and confirm the receipt thereof.

Under Russian legislation there is no difference between collective dismissal or reduction in the workforce. Mass lay offs are not directly regulated by Russian legislation. However, provisions in the Russian labour legislation related to 'downtime', however, indirectly regulate lay offs.

Under these provisions, in case of temporary suspension of work due to economic, technological, technical or organisational causes, an employee may be transferred without his or her consent for up to one month to a job with the same employer that is not stipulated by the employment contract.

In this case, transfer to a job that requires fewer qualifications is permitted only with the employee's written consent. If transferred, the employee is paid for the work he or she performs and at a rate not below the average earnings in his or her previous job.

2 A medical certificate must be issued according to the procedure established by federal laws and other normative legal acts of the Russian Federation.

A period of downtime due to an employer's fault shall be remunerated in the amount of not less than two-thirds of the employee's average salary. A period of downtime due to reasons dependent neither on the employer nor on the employee shall be remunerated by not less than two-thirds of the tariff scale and salary, which are calculated *pro rata* for the duration of the downtime.

In case of collective dismissal³ the employer must provide notifications to the State Employment Agency of certain information in the following two stages.

In the first stage, (three months before the dismissals):

- a* details of the employer and employees;
- b* a list of all the organisation's employees at the date of the notice;
- c* the reasons for the collective redundancy;
- d* the number of employees to be made redundant;
- e* the commencement date of the collective redundancy;
- f* the final date of the collective redundancy; and
- g* information about the employees to be made redundant (the profession, number of persons, date of dismissal).

In the second stage (two months before the dismissals) the employer must again provide details concerning itself and also information about each employee to be made redundant (full name, education, profession, qualifications and average salary).

The following categories of employees cannot be made redundant:

- a* pregnant women;
- b* women with children under three years old;
- c* single mothers with children under 14 years old (or disabled children under 18 years old);
- d* individuals bringing up a child under 14 years old (or a disabled child under 18 years old) without a mother; and
- e* a parent who is a sole breadwinner of a child under three years old in a large family bringing up minors where another parent is not employed and takes care of their children.

Among other employees, protection should first be given to employees with higher qualifications and labour productivity. To evaluate the labour productivity a performance review can be used; however, there is no statutory procedure on how this performance is evaluated.

Among employees with equal qualifications and productivity, the following categories should be given preference:

- a* employees with dependant family members;
- b* employees who have suffered from workplace injury or work-related disease while working for the company;

3 Dismissal may be considered to be collective depending on the number of employees that are planned to be dismissed by the company. The exact thresholds for collective dismissal are provided in agreements relevant to a specific industry sector or territory.

- c* employees doing professional training at the employer's instruction; and
- d* disabled veterans.

Protection may be given to additional categories by regional or industrial agreements, collective bargaining agreements, company policies, employment contracts, etc.

Actual termination of the employment contract cannot take place while the employee is on holiday or on sick leave (unless in cases of termination of employment due to the winding up of a company).

If the employment is terminated due to a company winding up, as well as in the case of redundancy, a dismissed employee is to be paid severance pay equal to his or her average monthly wage. Furthermore, an employee is entitled to payment of average monthly wages while searching for a new job. These payments are limited to a two-month period upon termination of employment (including the severance pay). If the employee obtains the agreement of the State Employment Service, he or she may be entitled to severance for the third month as well, provided he or she registered in employment service within two weeks from the date of dismissal.

If the employment is terminated on the ground of mutual agreement of the parties, then an agreement specifying the terms of such termination shall be concluded.

XIII TRANSFER OF BUSINESS

In the case of a sale of shares of the employing company to another owner the employment contracts are not subject to termination since the employing company remains the same.

Thus, any changes in the terms and conditions of employment can be made only in accordance with the general procedures prescribed by the Labour Code. The Labour Code provides that the employer should notify the employee of any change to material terms and conditions of employment at least two months before such a change. The change to material terms and conditions can take place only in the case of a change in organisational or technological conditions of employment and only with prior written notice to the employee.

According to Russian law, a change of the owner of property (assets) of an organisation is not a ground for termination of employment contracts with employees except for its general director, deputies of the general director and chief accountant. The Supreme Court of Russia has clarified that this applies to cases of sale of all property (assets) of an organisation. It also commented that this rule applies, for example, to the privatisation of state-owned companies, enterprises or assets of state-owned companies or enterprises. This rule may also apply to the sale of an enterprise as a property complex (which is considered and registered as a real estate object).

The new owner has the right to dismiss the general director, deputies of the general director and chief accountant within three months after it has obtained the ownership title to the property (assets). In this situation, these employees, if dismissed, are entitled to compensation in the amount of not less than three months' salary.

Reorganisation (merger, accession, division, split-off or transformation) of the company is also not a ground to terminate employment with a company and thus the transfer of employment agreements will be required.

An employee may refuse to continue work in connection with the change of the owner of the assets of an organisation or in connection with the reorganisation of the company.

In the case of such refusal the employment will be terminated, respectively, due to a refusal to continue work in connection with the change of the owner of assets or, due to a refusal to continue work in connection with the reorganisation (merger, accession, division, split-off or transformation) of the company.

XIV OUTLOOK

i Agency labour

From 1 January 2016, the use of temporary agency labour will be generally prohibited. According to the adopted amendments, employees will be assigned to another legal entity exclusively under a 'contract of provision of personnel'. Staff providers under such contracts can only be private employment agencies and other legal entities in certain cases (provision of personnel between affiliated entities or between the entities being the parties of shareholders' agreement).

The number of cases where it will be possible to engage employees through employment agencies is rather restricted. These cover, *inter alia*, certain categories of employees (like students, single parents and individuals with spent convictions). The use of employment agencies is also possible in the event of a temporary expansion of production or volume of rendered services, or – for up to nine months – in the case of the replacement of temporarily absent employees whose job should be kept for them in accordance with employment legislation.

In addition, the law expressly indicates the cases where the use of agency labour will be strictly prohibited (for example, for the replacement of employees on strike).

Employment agencies will be subject to certain requirements with regard to their accreditation. These requirements concern share capital, qualification of the head of the agency and so on.

As for social guarantees of assigned employees, the law states the following:

- a* the remuneration of assigned workers may not be worse than of host company employees;
- b* the host company will be subject to subsidiary liability for the obligations arising out of employment relations between the staff provider and assigned employee;
- c* the social insurance rates will be determined on the basis of economic activity of the host company as well as compensation for work in dangerous and hazardous working conditions will be determined on the basis of working conditions of the host company;
- d* the work of assigned employees should strictly comply with their job description; and
- e* the host company will be under a general obligation to observe the requirements set out in labour law and the staff provider will be entitled to supervise that.

As for the use of temporary agency labour by legal entities (i.e., secondment) this is still not regulated in the recently adopted amendments, which imply the adoption of a special

federal law covering specifically this issue. Apparently, if such a law is not elaborated and adopted secondment in Russia will be prohibited.

ii Possibility to hire foreign nationals as highly qualified specialists

According to the changes introduced in the Federal Law on the Legal Status of Foreign Nationals in the Russian Federation, which came into force on 1 January 2015, the representative offices of foreign legal entities duly accredited in the territory of the Russian Federation are eligible to hire foreign nationals as highly qualified specialists. Previously, only Russian commercial companies, scientific organisations, branches of foreign companies and some other categories of legal entities were able to engage foreign nationals as highly qualified specialists.

iii Confirmation of knowledge of Russian language, history and basics of legislation

As of 1 January 2015, the new migration requirements relating to foreign nationals applying for a temporary residence permit, residence permit, work permit or patent came into force.

In accordance with the respective amendments, these categories of foreign nationals will be obliged to confirm their knowledge of the Russian language, history of Russia and basics of Russian legislation. The following documents will be accepted as confirmation of the relevant knowledge:

- a* an official document on education issued by an educational organisation operating in the territory of the USSR before 1 September 1991 or in the territory of the Russian Federation after 1 September 1991; and
- b* a certificate on knowledge of Russian language, history of Russia and basics of Russian legislation.

Such certificates will be issued by educational organisations operating both in Russia and abroad and included in a special register. The activity of such educational organisations, the procedure for holding the relevant exams, requirements for the minimum level of knowledge and other issues will be governed by special regulation.

Foreign nationals requiring visas will be obliged to submit to Federal Migration Service the confirmation within 30 business days upon obtaining the work permit. Otherwise, their work permits must be annulled. Certain categories of foreign nationals are exempted from this requirement, including, *inter alia*, highly qualified specialists.

iv Amendments to the Labour Code regulating specifics of employment relations with foreigners

The amendments to the Labour Code regulating specific aspects of the employment activity of foreign nationals were adopted by the Russian Parliament (approval by the President is pending) and are expected to come into force in 2015. The amendments in question introduce the obligation for foreign employees to have medical insurance. Currently this obligation is applicable only to the highly qualified specialists and their accompanying family members. These amendments also require an employment contract with a foreign national to detail his or her work permit (as well as patent, residence

permit or temporary residence permit). The amendments set forth specific grounds for termination of the employment contract with a foreign national, in particular, suspension, expiration of a work permit of the foreign employee as well as its annulation.

v Change of social insurance contributions

Changes in Russian law concerning social insurance contributions also entered into force as of 1 January 2015. According to these changes the threshold (the maximum annual base for the payment of social contributions in respect of one employee) will be different for the various funds: for the Pension fund, 711,000 roubles; for the Social Security fund, 670,000 roubles. The threshold for contributions to the Federal Compulsory Medical Insurance fund will be repealed. As a result, the system of contributions will be the following:

- a* Pension Fund – 22 per cent of pay up to 711,000 roubles threshold and 10 per cent of pay above the threshold;
- b* Social Insurance Fund – 2.9 per cent of pay up to the 670,000 roubles threshold; and
- c* Federal Compulsory Medical Insurance Fund – 5.1 per cent of all the remunerations of an employee

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