



## **Russian Legislation Update** Accounting, Financial Reporting and Audit

Q4 2016

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# Accounting and Financial Reporting

## Recommendations on Audits of 2016 Financial Statements Issued

### Regulatory framework

*Recommendations to Audit Firms and Auditors on Audits of 2016 Annual Financial Statements* (appendix to the Russian Ministry of Finance Letter dated December 28, 2016 No. 07-04-09/78875).

### Summary

The Russian Ministry of Finance annually issues recommendations for auditors.

This year the document comprises three sections.

- the first discusses practical aspects of performance of certain audit procedures, including those related to ISA adoption in Russia (refer to *Audit* section below);
- the second and the third ones relate to various matters on financial reporting in companies and banks.

The second section specifies accounting for and disclosure of particular transactions in statutory financial statements, including the following:

- in accordance with PBU 8/2010, contingent liabilities are to be recognised once certain criteria are met; in particular, contingent liabilities for probable tax claims should be charged to tax-related expenses in line with their profit or loss classification: contingent liabilities for income taxes are recognised as a reduction of net profits whereas contingent liabilities for other taxes – as a reduction of taxable profits;
- ecological duty levied on manufacturers or exporters of goods subject to recycling at the end of their useful life is to be recognised as selling expenses within the profit or loss statement;
- income taxes on taxable earnings of controlled foreign companies are to be recognised as a tax expense in the profit or loss statement of the controlling company as such earnings are considered to be a permanent taxable difference for the controlling company;
- upon reorganisation of two entities as a result of which one is merged into another, the balance sheet of the survivor is not to be retrospectively restated and financial results and cash flows of both entities are to be combined prospectively from the date of the merger;
- cash and other contributions by the entity owners (either through an increase of the charter capital, or through in-kind contribution of cash or property) should be recognised in equity, not in profit or loss of the recipient.

The third section deals with various financial reporting matters in banks, such as accounting for allowances for assets, hedging, PPE and intangibles, income and expenses, employee benefits, etc.

### **Comments**

The full text of the document is available on the [website](#) of the Russian Ministry of Finance.

## **Russian IFRS Application Practices Summarised**

### **Regulatory framework**

Information of the Russian Ministry of Finance No. OP 9-2016, *Summary of IFRS Application Practices in Russia*.

### **Summary**

The paper clarifies two matters on application of IFRS requirements in Russia:

- the first reporting year for the consolidated financial statements of the newly created company is the period from the date of incorporation to December 31 of the same year if incorporation date is prior to September 30; and to December 31 of the next year if this date is after September 30;
- a parent company is permitted not to consolidate its subsidiaries if they are considered immaterial (both individually and collectively) for the parent's financial statements.

### **Comments**

The full text of the document is available on the [website](#) of the Russian Ministry of Finance.

## IFRS Documents Adopted in Russia

### Regulatory framework

Orders of the Russian Ministry of Finance dated September 14, 2016 No. 156n and dated November 23, 2016 No. 215n, *On Adoption of IFRS Documents in Russia*.

### Summary

*Clarifications to IFRS 15, Revenue from Contracts with Customers, and Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)* as issued by the IASB in April and June 2016, were adopted in Russia.

## New Requirements on Utilisation of Tax Losses Carried Forward

### Regulatory framework

Federal Law dated November 30, 2016 No. 401-FZ, *On Amendments to the Russian Tax Code*.

### Summary

The amendments introduce changes to the requirements on utilisation of tax losses carried forward in par. 283 of the Russian Tax Code. These changes deal with the following tax accounting matters:

- tax losses may now be carried forward for an unlimited period, not for 10 years maximum as was the case previously;
- in 2017-2020, taxable profits of any given year may be reduced by accumulated tax losses carried forward by no more than 50%.

### Comments

The amendments should be considered in deferred tax calculations under RAS and IFRS.

# Audit

## International Standards on Auditing Adopted in Russia

### Regulatory framework

Orders of the Russian Ministry of Finance dated October 24, 2016 No. 192n and November 9, 2016 No. 207n, *On Adoption of ISAs in Russia*.

Information of the Russian Ministry of Finance dated December 21, 2016 No. IS-audit-11.

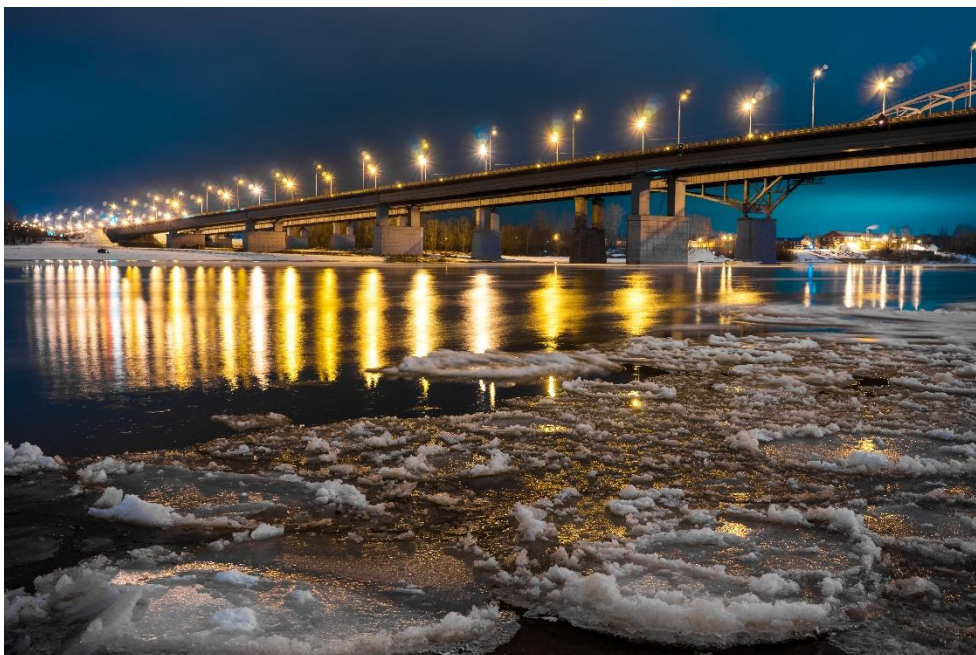
### Summary

On January 1, 2017, International Standards on Auditing ("ISAs") became effective in Russia: these standards were adopted by the International Auditing and Assurance Standards Board ("IAASB") and endorsed in Russia by the Ministry of Finance. ISAs adopted in Russia also include new ISAs 7xx series that cover enhanced requirements for audit reporting such as disclosure of key audit matters in audit opinions on financial statements of listed entities.

ISAs supersede Federal Standards on Auditing ("FSADs") that were effective previously.

### Comments

It is permitted to conduct audits in 2017 under FSADs if the respective agreements were concluded before January 1, 2017.



# Financial Accounting and Reporting in Financial Organisations

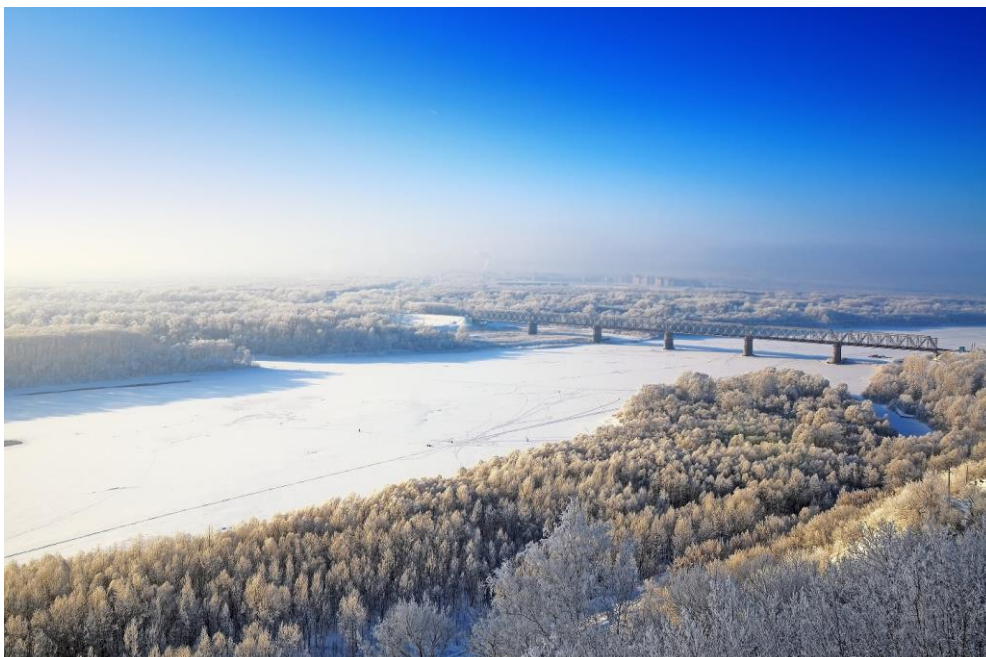
## Accounting Standards for Non-Credit Financial Organisations Became Effective

### Regulatory framework

Bank of Russia's Regulations of 2015-2016, which are available on Bank's [website](#).

### Summary

On January 1, 2017, the accounting standards for non-credit financial organisations (the "Sectoral Standards") became effective. Accounting and disclosure requirements of the Sectoral Standards mostly follow IFRS, but are not identical to IFRS as they neither contain all IFRS provisions, nor allow IFRS priority on controversial matters. Consequently, potential differences may arise on recognition, measurement and disclosure of financial statement elements under the Sectoral Standards and IFRS.



## Requirements for Banks' Accounting for Obligatory Reserves Issued

### Regulatory framework

Bank of Russia's Regulation dated 20.10.2016 No. 554-P, *Sectoral Standard on Accounting for Obligatory Reserves by Credit Institutions*.

### Summary

The Sectoral Standard establishes practical framework and bookkeeping requirements on accounting for obligatory reserves by Russian banks.

### Comments

The full text of the document is available on the [website](#) of the Bank of Russia.





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