



Official transition to IFRS in Russia

in accordance with the Law
on Consolidated Financial Statements



Federal Law No. 208-FZ *On Consolidated Financial Statements* was adopted on 27 July 2010 (hereinafter, Law No. 208-FZ). Thus, Russia introduced a legislative requirement on mandatory application of International Financial Reporting Standards (IFRSs) by all public interest entities for the preparation of consolidated financial statements.

Organizations for which publication of IFRS consolidated financial statements is mandatory

According to Law No. 208-FZ, the following entities must publish their consolidated financial statements prepared in accordance with IFRS:

- ▶ Credit institutions
- ▶ Insurance companies
- ▶ Other companies whose securities are listed with stock exchanges and/or other trade organizers in the securities market.

Law No. 208-FZ states that IFRSs and Interpretations of IFRSs issued by the IFRS Foundation and endorsed by the Government of the Russian Federation in consultation with the Central Bank of the Russian Federation shall be applied in Russia.

Procedure of endorsement of IFRSs in Russia

According to Law No. 208-FZ, IFRSs will be applied in Russia based on Russian translation. Regulation No. 107 of the Government of the Russian Federation, On approval of the Regulation on the Endorsement of International Financial Reporting Standards and Interpretations of International Financial Reporting Standards to be Applied in the Russian Federation, adopted 25 February 2011, set out the requirements of the Law in greater detail and established the procedure for the endorsement of IFRS in Russia.

On 26 April 2011, the Ministry of Finance signed an agreement with the IFRS Foundation, according to which the IFRS Foundation will assign to the Russian Federation the right to use the Russian translation of the IFRS in the Russian Federation. Although the Russian Federation reserves the right to “carve-out” certain provisions of the IFRS prior to their approval for the application in its jurisdiction, it is expected that the IFRS will be applied in Russia in the wording approved by the IASB.

On 7 July 2011, the Commission in charge of identifying an expert body to examine the applicability of IFRSs and Interpretations of IFRSs for the Russian Federation identified a not-for-profit organization, the Foundation National Organization for Financial Accounting and Reporting Standards (NOFA Foundation), as the expert body for providing endorsement advice to the Ministry of Finance.

In July 2011, the Minfin of Russia and the NOFA Foundation signed an agreement setting out the procedure of how they work together. The respective IFRS and Interpretations of IFRS in Russian were sent to the Foundation for expert examination. The Foundation completed examination of the IFRSs received and issued endorsement advice on 10 October 2011. This advice recommends that the Ministry of Finance endorse all IFRSs submitted for examination “as is”, i.e. without any “carve-outs”. On 12 October the Ministry of Finance published for public consultation on its official web-site a draft endorsement decision on adoption of Russian text of these IFRSs as issued by IASB. Comment period is open until 24 October 2011.

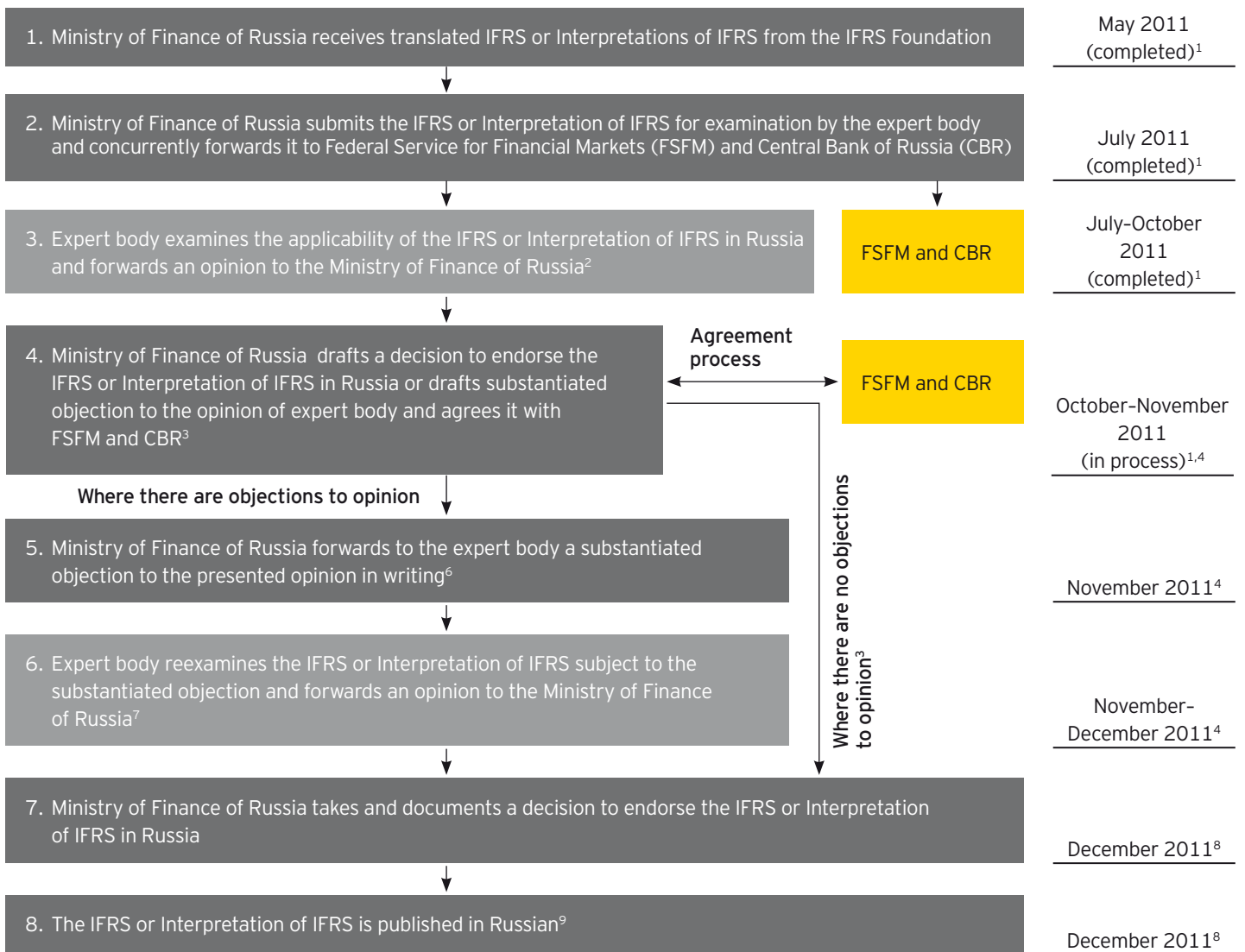
Endorsement of IFRS in the Russian Federation

A decision to endorse an individual IFRS or Interpretation of an IFRS in the Russian Federation is made with regard to such a standard or interpretation as a whole. If certain provisions of a standard or interpretation are recognized to be inapplicable in the Russian Federation, such standard or interpretation will be adopted in the Russian Federation with such provisions “carved out”.

An endorsed IFRS or Interpretation of IFRS becomes effective in the Russian Federation in stages, unless otherwise provided by such standard or interpretation.



Procedure of IFRS endorsement in the Russian Federation



1. Presented on the basis of Update on the Progress of Recognition of IFRS and Interpretations thereof for the Application in the Russian Federation, as placed on the web site of the Ministry of Finance of Russia.

2. Examination by expert body takes up to 40 business days from the date of receipt of the document. This period may be extended by not more than 40 business days, subject to approval of the Ministry of Finance of Russia. This stage was completed on October 10, 2011.

3. Within 15 business days of receipt of the expert body's opinion, the Ministry of Finance of Russia forwards, together with the expert body's opinion, a draft decision to adopt an IFRS or an Interpretation of IFRS in Russia, or a draft substantiated objection to the said opinion to FSFM and CBR. FSFM and CBR, within 15 business days of receipt of the draft decision (draft substantiated objection), issue their consent with thereof or provide a substantiated decline to consent. On October 12, 2011 the Ministry of Finance published a draft decision on its official web-site.

4. Expected timing is based on the maximum allowed duration of procedures set out in Decree No. 107 of the Government of Russian Federation.

5. Within 15 business days of receipt of a draft decision to adopt an IFRS or an Interpretation of IFRS in Russia, agreed by FSFM and CBR.

6. Within 15 business days of receipt of a draft substantiated objection to the expert body's opinion, agreed by FSFM and CBR.

7. Within 20 business days of receipt of such objections.

8. Instruction by Dmitry Medvedev, President of the Russian Federation, to the Government of Russia and the CBR to ensure recognition of International Financial Reporting Standards (IFRS) in Russia by 30 December 2011, given at the meeting of 4 March 2011 on creating an international financial center in Russia.

9. The individual IFRS or Interpretation of IFRS is printed by an official media outlet, selected at the discretion of the Ministry of Finance of Russia, and placed on the web site of the Ministry of Finance of Russia.



Procedure of IFRS and Interpretations of IFRS becoming effective in the Russian Federation

Stage 1 An endorsed IFRS or Interpretation of IFRS becomes effective in the Russian Federation for *voluntary* application by entities on the date provided by such standard or interpretation, but no earlier than its official publication.

Stage 2 An endorsed IFRS or Interpretation of IFRS becomes effective in the Russian Federation for *mandatory* application by entities on the date provided by such standard or interpretation.

If an endorsed IFRS or Interpretation of IFRS does not state the date and/or the procedure for becoming effective, or if it is recognized for application in the Russian Federation after the date stated therein, such standard or interpretation shall become effective in the Russian Federation as of the date of its official publication.

Timeframe for the requirement to prepare consolidated financial statements under IFRS

According to Law No. 208-FZ, the entities subject to the requirements of this law shall prepare, file and publish the IFRS consolidated financial statements beginning with the calendar annual periods following the year in which the IFRS have been endorsed for application in the Russian Federation.

If the procedure of IFRS endorsement is complete in 2011, the entities shall file their IFRS consolidated financial statements beginning with the financial year 2012 (except for entities for which a special timeframe has been set).

In practice, the effect of official adoption of IFRS in the Russian Federation will differ from company to company. Those companies which have been preparing and publishing their IFRS financial statements on a voluntary basis will now only have to publish such financial statements in Russian and submit them to their shareholders and file them with appropriate government authorities on a mandatory basis. Other companies, which also fall under the scope of Law No. 208-FZ but which have not published their IFRS consolidated financial statements in the past, will have to apply IFRS 1 and prepare their first financial statements in accordance with IFRS, presenting the appropriate reconciliation of equity items with the most recent financial statements prepared in accordance with Russian GAAP. It also pertains to those subsidiaries, associates and joint ventures of large holding companies which may have been preparing IFRS-compliant reporting packages for consolidation purposes, but never published IFRS consolidated financial statements.

Special timeframe for presenting IFRS consolidated financial statements set for certain categories of entities

The entities listed below shall present and publish their IFRS consolidated financial statements no later than calendar year 2015:

- ▶ Entities whose securities are listed with stock exchanges and/or other trade organizers in the securities market, and which prepare their consolidated financial statements under internationally recognized standards other than IFRS¹⁰
- ▶ Entities whose bonds are listed with stock exchanges and/or other trade organizers in the securities market.

10. Traditionally, US GAAP are regarded as internationally recognized accounting standards. It should also be noted that in 2008 the European Commission recognized US GAAP and Japan GAAP as equivalents to IFRS (as adopted in the EU). In addition, third country issuers are not subject to a requirement to restate historical financial information, included in a prospectus and relevant for the financial years prior to financial years starting on or after 1 January 2012, or to a requirement to provide a narrative description of the differences between IFRS (as adopted in the EU) and the accounting principles in accordance with which such information is drawn up relating to the financial years prior to financial years starting on or after 1 January 2012, provided that the historical financial information is prepared in accordance with the Generally Accepted Accounting Principles of the People's Republic of China, Canada, the Republic of Korea or the Republic of India. [Commission Regulation (EC) No 1289/2008 of 12 December 2008, OJ L 340, 19.12.2008, p. 17]. It is not clear at the moment whether a similar list of internationally recognized accounting regulations will be legally established in Russia



Presenting annual IFRS consolidated financial statements: deadlines and addressees

Annual consolidated financial statements in Russian shall be presented to the entity's participants (including shareholders) prior to a general meeting, but no later than 120 days from the end of the year for which these financial statements have been prepared.

Annual consolidated financial statements shall also be filed:

- 1) By entities other than credit institutions with a federal executive authority entitled with responsibility to file such financial statements¹¹
- 2) By credit institutions with the Central Bank of the Russian Federation.

Audit of consolidated financial statements

Annual consolidated financial statements are subject to mandatory audit. Audit opinion shall be presented and published together with the consolidated financial statements.

Publication of consolidated financial statements

An entity must publish its annual consolidated financial statements within 30 days of the date when they were presented.

Consolidated financial statements are considered published if:

- ▶ They have been placed in information networks available to general public (e.g. the Internet), and/or
- ▶ They have been published in the mass media available to those interested in such financial statements, and/or
- ▶ Other actions have been performed with regard to such financial statements which make them available to any interested party.

Interim consolidated financial statements

Interim consolidated financial statements shall be presented to the entity's participants, including shareholders, if their presentation is required under its constituent documents.

In the cases established by the Central Bank of the Russian Federation, credit institutions shall also file interim consolidated financial statements with the Central Bank of the Russian Federation.

Potential differences between the Russian and the English texts of IFRS and the procedure for eliminating them

Where in the course of application of an IFRS or an Interpretation of IFRS in the Russian Federation a difference is identified between the Russian and the English versions of the text of such document, any party concerned may apply to the NOFA Foundation. The NOFA Foundation, within 40 business days from the receipt of such application, will examine the identified difference to ascertain whether of the Russian text conforms to the English text.

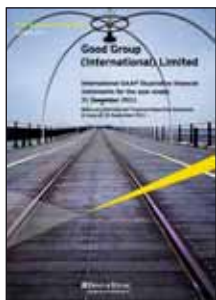
If such a difference is confirmed or identified, the NOFA Foundation forwards an opinion to the Ministry of Finance of the Russian Federation in order to introduce the respective clarification in the Russian text of the IFRS or Interpretation of IFRS, following the procedure set by the Ministry of Finance of the Russian Federation in agreement with the IFRS Foundation.

11. At the time of writing this publication no appropriate decision has been made regarding determination of such executive authority. In some countries, there are specialized organizations, with which certain categories of companies file a copy of their annual financial statements which store such financial statements and provide access to them for any parties concerned (e.g. Companies House in the UK).





IFRS Core Tools



Good Group (International) Limited illustrative financial statements

Our set of illustrative interim and annual financial statements incorporates the applicable presentation and disclosure requirements, which are referenced throughout. Good First-time Adopter addresses the specific situation of converting to IFRS.

We also provide a range of industry specific illustrative financial statements: Good Bank, Good Insurance, Good Investment Fund (Equity and Liabilities), Good Mining, Good Petroleum, Good Real Estate and Good Construction.

By referring to the illustrative financial statements and comparing them to your own financial statements, you can quickly identify the areas you want to examine, expand or change with the help of Ernst & Young.

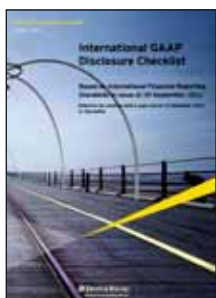


IFRS Update

This comprehensive publication is updated twice each year (on 31 March and 30 September) and captures new standards and interpretations that apply to current reporting periods, as well as issued standards that are effective in future periods. *IFRS Update* helps financial reporting professionals to quickly identify the standards that are applicable to June

and December year-ends, as well as the current topical accounting and reporting issues that the audit committee and finance department need to consider for planning purposes.

IFRS Update provides insights on the extent to which any new standard, interpretation or amendment may impact your business. This publication contains references to more detailed publications that can assist in your understanding of the applicable standards.



International GAAP® Disclosure Checklist

Updated on the same schedule as *IFRS Update*, our *International GAAP®* Disclosure Checklist captures the current disclosure requirements, as well as those that are permitted to be adopted early, to help you comply with IFRS in your interim and year-end IFRS financial statements.

It is available in the following formats:

Interactive on-line version: You can get access to Ernst & Young's web-based version of the checklist, free of charge, by registering on www.ey.com/checklist. This version allows you to easily identify the questions that relate to your company's needs. You can also share this version with your Ernst & Young audit team. An enhanced on-line version, available by subscription, contains additional features including links to the applicable standards.

Desktop version: If connectivity is an issue, you can download and install our desktop checklist tool, which features functionality similar to our on-line checklist. The desktop tool contains scoping questions similar to the online version, and it allows you to save and/or print the final checklist. Unlike the enhanced on-line tool does not include links to the standards.

Just like the on-line version, the desktop checklist is available at www.ey.com/checklist.

Word and PDF versions: All of the required disclosures for financial statements are included in a single document that you can print and review manually. Additional tools and reference materials



Ernst & Young publications and thought leadership

Ernst & Young also offers a wide range of publications and newsletters: *IFRS Outlook*, *IFRS Developments*, *Applying IFRS*, webcasts and many more. The latest versions of all IFRS publications are available on www.ey.com/ifrs.



International GAAP®

Ernst & Young's *International GAAP®* is a comprehensive guide to interpreting and implementing IFRS. *International GAAP®* is issued in January each year. Whether you are already using IFRS or preparing to convert to IFRS, *International GAAP®* is an essential tool for understanding and resolving complex technical accounting issues. It is available to subscribers on www.ey.com/gaait and in hardcopy on www.igaap.info.

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