



Financial Reporting Decisions

11 July 2017

Issuer	BrokerCreditService Structured Products plc
Report type	Annual financial statements
Reporting period	Year ended 31 December 2015
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	<ul style="list-style-type: none"> ▪ IFRS 13 <i>Fair Value Measurement</i> and IAS 1 <i>Presentation of Financial Statements</i>; ▪ IFRS 7 <i>Financial Instruments: Disclosures</i>: <ul style="list-style-type: none"> - credit risk - market price risk - liquidity risk - sensitivity analysis ▪ IAS 27 <i>Separate Financial Statements</i>: disclosure of interests in subsidiaries and associates; ▪ IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>: restatement of amounts in the Statement of Cash Flows; ▪ IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>: disclosure of new financial reporting standards that have been issued but are not yet effective; ▪ IAS 24 <i>Related Party Disclosures</i>; and ▪ IFRS 8 <i>Operating Segments</i>.
Other Regulations	<ul style="list-style-type: none"> ▪ Article 142A(5)(b) of the Cyprus Companies Law, Cap.113: preparation of consolidated financial statements for the year ended 31 December 2015; and ▪ Regulation 5(4)(c)(ii) of the Transparency (Directive 2004/109EC) Regulations (S.I. No.277 of 2007) (as amended) ('the Regulations') – Management Reports – fair review.
Summary	<p>BrokerCreditService Structured Products plc ('the issuer') is an entity whose principal activity is to provide brokerage, retail and investment banking, depository and asset management services to individuals and corporate customers in the Russian Federation and in other jurisdictions. The issuer has 5 wholly owned subsidiaries and has debt securities admitted to trading on the Main Market of the Irish Stock Exchange.</p> <p>IAASA performed an unlimited scope examination of the issuer's annual financial statements for the year ended 31 December 2015.</p> <p>IAASA concluded that the issuer had not complied, in full, with the disclosure requirements of a number of financial reporting standards', Article 142A(5)(b) of Cyprus Companies Law and Regulation 5(4)(c)(ii) of the Regulations. The issuer provided IAASA with undertakings to provide additional disclosures in future financial statements regarding:</p> <p>(a) preparation of consolidated financial statements (for the year ended 31 December 2015);</p> <p>(b) IFRS 13 fair value disclosures related to:</p> <ul style="list-style-type: none"> (i) disclosure of the fair value hierarchy (Level 1, 2 and 3); (ii) a description of the principal valuation techniques and inputs; and

- (iii) sub-classification of the fair value of derivatives;
- (c) IFRS 7 fair value disclosures related to:
 - (i) offsetting of financial assets and financial liabilities – including derivatives;
 - (ii) the credit risk of financial assets;
 - (iii) the market price risk of financial assets; and
 - (iv) a sensitivity analysis of: market price risk, currency risk and interest rate risk;
- (d) the restatement of amounts in the Statement of Cash Flows (IAS 8 refers);
- (e) IAS 8.30 disclosures relating to new financial reporting standards issued but not yet effective;
- (f) IAS 24 *Related Party Disclosures*;
- (g) Management Report – fair review – Regulation 5(4)(c)(ii) of the Regulations; and
- (h) IFRS 8 *Operating Segments* disclosures.

Background

The issuer is a Company incorporated in Cyprus initially as a private limited company under the provisions of Cyprus Companies Law Cap. 113 and later converted to a public limited company.

Outline of financial reporting treatment applied by the issuer and outline of decisions made by IAASA

Set out below is an outline of the financial reporting treatment applied by the issuer, the financial reporting decisions made by IAASA, and the corrective actions to be undertaken by the issuer.

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
1. Article 142A(5)(b) of the Cyprus Companies Law, Cap.113: preparation of consolidated financial statements for the year ended 31 December 2015;	
<p>The issuer prepared separate financial statements as opposed to consolidated financial statements for the Group.</p> <p>The issuer's rationale for preparing separate financial statements was based on its view that all its subsidiaries would be excluded from the consolidated financial statements because the necessary information for inclusion of the subsidiaries in the consolidated financial statements could not be obtained without disproportionate expense or undue delay in accordance with Article 142A(5)(b) of the Cyprus Companies Law, Cap.113. The issuer stated that this Article was widely used by directors and auditors for the exclusion of the subsidiaries from consolidation in accordance with the guidance received by the Institute of Certified and Public Accountants of Cyprus.</p>	<p>IAASA concluded that:</p> <ul style="list-style-type: none"> (a) the reasons for all its subsidiaries being excluded from the consolidated financial statements did not appear to meet, in full, the requirement of disproportionate costs or inexcusable delays contained in Article 142A (5)(b) of Cyprus Companies Law; and (b) the issuer's statement of compliance with IFRS appears inconsistent with the exclusion of all its subsidiaries from consolidation. <p>It was noted that the provisions for consolidation that were permitted by Article 142A(5) of Cyprus Companies Law Cap. 113 have now been repealed.</p>

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
<p>The issuer stated that information could not be obtained for all the subsidiaries without undue delay for the following reasons:</p> <ul style="list-style-type: none"> (a) the financial statements for the year ended 31 December 2015 for all 5 subsidiaries were not prepared prior to the publication of the issuer's financial statements; and (b) auditors were not engaged to perform the statutory audit of each subsidiaries financial statements. 	<p>The issuer subsequently prepared and published audited consolidated financial statements for the year ended 31 December 2016 which included the consolidated comparative amounts for 2015.</p>
2. IFRS 13 Fair Value Measurement and IAS 1 Presentation of Financial Statements	
<p>The Notes to the financial statements stated that the issuer traded in a range of financial instruments including:</p> <ul style="list-style-type: none"> (a) repurchase and reverse-repurchase agreements; (b) a range of derivatives; (c) bonds, (d) equities; and (e) unlisted securities. 	<p>IAASA concluded that the issuer's financial statements had not adequately disclosed or had omitted the following information required by IFRS 13 (and IFRS 7):</p> <ul style="list-style-type: none"> (a) the fair value hierarchy as required by IFRS 13 paragraphs 70 to 90 (Level 1, Level 2 and Level 3); (b) a description of the valuation technique(s) and the input(s) used in the fair value measurement of selected financial instruments as required by IFRS 13.93(d);
<p>The issuer also disclosed that for derivative financial instruments fair values are determined by reference to third party market values and has been included within the line item 'trade payables'.</p>	<ul style="list-style-type: none"> (c) sub-classifications of the line items (in this instance by class of derivatives which includes forward contracts and futures) either in the Statement of Financial Position or in the Notes (IAS 1.77 and IFRS 13.94 refer); and (d) gross and net assets and liabilities (offset) as required by IFRS 7.13C (including but not limited to derivatives). <p>The issuer gave undertakings to IAASA to provide the following disclosures in future financial statements:</p> <ul style="list-style-type: none"> (a) the disclosures required by IFRS 13.93(b), IFRS 13.93 (d), IFRS 13.94 and related IAS 1.77; and (b) the disclosures required by IFRS 7.13.C whether for derivatives or other financial instruments within the scope of IFRS 7.13C.

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
3. IFRS 7 Credit risk disclosure	
<p>The issuer had an exposure to credit risk arising from holding investments in bonds, derivatives, repurchase agreements and reverse-repurchase agreements, loans and cash and cash equivalents. However, there were limited disclosures provided in the financial statements of the specific credit risk policies (qualitative information) applied by the issuer and the financial statements did not appear to disclose the credit quality of selected financial assets.</p>	<p>IAASA concluded that the disclosures in the issuer's financial statements did not comply, in full, with the disclosure requirements of IFRS 7.33, IFRS 7.34 (credit risk) and IFRS 7.36 (b) – collateral and IFRS 7.36(c) – credit quality.</p> <p>The issuer gave undertakings to IAASA that future financial statements would comply, in full, with the qualitative and quantitative disclosure requirements of IFRS 7.33, IFRS 7.34, IFRS 7.36 (b) and IFRS 7.36(c).</p>
4. IFRS 7 Market price risk disclosures	
<p>The issuer's financial statements stated that, to manage its price risk arising from investments in equity securities, the issuer had diversified its portfolio. Diversification of the portfolio was done in accordance with limits set by the Company's Board of Directors.</p>	<p>IAASA concluded that the market price risk disclosures in the issuer's financial statements lacked sufficient detail and did not comply, in full, with the qualitative and quantitative disclosure requirements of IFRS 7.33 and IFRS 7.34(c) (concentrations of risk) related to market price risk.</p> <p>The issuer gave undertakings to IAASA that future annual financial statements will comply, in full, with the qualitative and quantitative disclosure requirements of IFRS 7.33 and IFRS 7.34(c).</p>
5. IFRS 7 Liquidity risk disclosures	
<p>The liquidity risk table in the Notes to the financial statements disclosed a significant amount of liabilities maturing within 12 months. Accordingly, it appeared that the issuer was exposed to a significant amount of liquidity risk.</p> <p>It was not readily apparent as to whether or not the following information had been provided in full in the financial statements:</p> <ul style="list-style-type: none"> (a) how liquidity risk was managed, including what were the leverage limits and what were the restrictions on illiquid investments; (b) who was responsible for monitoring liquidity risk; (c) what type of assets were available to manage liquidity risk; and (d) what were the credit facilities available in order to manage the liquidity risk and limits thereon. 	<p>IAASA concluded that:</p> <ul style="list-style-type: none"> (a) the issuer's reference to procedures with the objective of minimising losses was not sufficient to meet the qualitative disclosure requirements of IFRS 7.33; and (b) the issuer had not disclosed a maturity analysis that identified separately the non-derivative and derivative financial liabilities. <p>The issuer gave undertakings to IAASA that future annual financial statements will comply, in full, with the disclosures required by IFRS 7.39(a) to (c).</p>

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
<p>It was not readily apparent as to whether or not, the disclosure of the issuer's exposure to liquidity risk complied in full with the requirements of IFRS 7.39 (a) to (c).</p>	
<p>6. IFRS 7 Sensitivity analysis</p>	
<p>The issuer did not appear to disclose a sensitivity analysis for:</p> <p>(a) currency risk; and</p> <p>(b) interest rate risk on interest bearing assets in accordance with the requirements of IFRS 7.40.</p>	<p>IAASA concluded that the issuer had not disclosed a sensitivity analysis for currency and interest rate risk in accordance with IFRS 7.40.</p> <p>The issuer gave undertakings to IAASA that future annual financial statements will comply, in full, with the disclosure requirements of IFRS 7.40.</p>
<p>7. IAS 27 Separate Financial Statements: Disclosure of interests in subsidiaries and associates</p>	
<p>IAS 27.17 states that when a parent (other than a parent covered by paragraphs IAS 27.16 – 16A) prepares separate financial statements, it is required to disclose a list of significant investments in subsidiaries, joint ventures and associates including the name of those investees, their principal place of business and its proportion of the ownership interest in its separate financial statements.</p> <p>The financial statements did not disclose the following information:</p> <p>(a) the name of the parent and ultimate parent of the issuer; and</p> <p>(b) the identity of the issuer's five subsidiaries.</p>	<p>IAASA concluded that the issuer had not complied in full with the disclosure requirements of IAS 27.17.</p> <p>The issuer gave undertakings to IAASA that future annual financial statements will comply, in full, with the disclosure requirements of IAS 27.17 (where IAS 27 applies).</p>
<p>8. IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Restatement of amounts in the Statement of Cash Flows</p>	
<p>The Statement of Cash Flows appeared to contain a number of errors including the following:</p> <p>(a) the inaccurate labelling of exchange differences arising on financial assets through profit or loss in the Statement of Cash Flows;</p> <p>(b) the inclusion of a non-cash adjustments in the Statement of Cash Flows for the change in the fair value of derivative instruments which amounted to €58.5m;</p>	<p>IAASA concluded that the issuer had not complied, in full, with the disclosure requirements of IAS 8.42 and IAS 8.49.</p> <p>The issuer gave undertakings to IAASA that future restatements of the amounts in the financial statements will comply, in full, with the disclosure requirements of IAS 8.42 and IAS 8.49.</p>

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
<p>(c) the restatement in the Statement of Cash Flows of non-cash adjustments for interest income or interest expense on repurchase agreements and bonds; and</p> <p>(d) a material restatement of the cash generated from:</p> <ul style="list-style-type: none"> (i) operating activities; and (ii) financing activities <p>without sufficient explanation in accordance with the requirements of IAS 8.42 and IAS 8.49 (the correction of prior period errors).</p>	
<p>9. IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: The disclosure of new financial reporting standards that has been issued but are not yet effective.</p>	
<p>IAS 8.30 requires that where an entity has not applied a new IFRS that has been issued but is not yet effective, it shall disclose:</p> <ul style="list-style-type: none"> (a) this fact; and (b) known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application. <p>The issuer's financial statements did not appear to refer to a number of new IFRSs' that have been issued but are not yet effective including the following:</p> <ul style="list-style-type: none"> (a) IFRS 15 <i>Revenue from Contracts with Customers</i>; (b) amendments to IAS 1 <i>Presentation of Financial Statements</i> (part of the IASB's disclosure initiative); (c) narrow scope amendments to IAS 7 <i>Statement of Cash Flows</i>; and (d) narrow scope amendments to IAS 12 <i>Income Taxes</i>. 	<p>IAASA concluded that the issuer had not complied, in full, with the disclosure requirements of IAS 8.30.</p> <p>The issuer gave an undertaking to IAASA that future financial statements will comply, in full, with the disclosure requirements of IAS 8.30.</p>

10. IAS 24 *Related Party Disclosures*

IAS 24.18(b) requires disclosure of the amount of outstanding balances including commitments to related parties. In addition, IAS 24.19 specifies that the disclosures required by IAS 24.18 shall be made separately for separate categories of related parties.

The issuer did not appear to have disclosed the following information:

- (a) the name of its parent and the ultimate controlling party;
- (b) other related parties including the issuer's subsidiaries and other group companies;
- (c) identification of the issuer's key management personnel;
- (d) key management personnel compensation, by category;
- (e) transactions, if any, with related parties that may be within the Group; and
- (f) the amount of the transactions between each related party.

IAASA concluded the issuer had not complied, in full, with the disclosure requirements of IAS 24.

The issuer gave undertakings to IAASA that future annual financial statements will comply, in full, with the disclosure requirements of IAS 24.

11. IFRS 8 *Operating Segments*

The issuer's financial statements did not contain operating segment disclosures (IFRS 8 refers).

The financial statements referred to trading on a proprietary basis and on behalf of external investors. In addition, the Directors' Report referred to the operating environment of the Republic of Cyprus and the Russian Federation.

IAASA concluded the issuer had not complied, in full, with the disclosure requirements of IFRS 8 and the minimum entity-wide disclosures contained therein.

The issuer gave undertakings to IAASA that:

- (a) future financial statements will comply, in full, with the disclosure requirements of IFRS 8.22; and
- (b) where the minimum entity-wide disclosures required by IFRS 8.31 to IFRS 8.34 are not available and the cost to develop it would be excessive, the financial statement will state that fact.

12. Management Report – fair review – Regulation 5(4)(c)(ii) of the Regulations

The following matters did not appear to have been referenced in the Management Report:

- (a) operating profit amounting to €21.8m (2014: -€29.8m);
- (b) gain on derivatives of €58.5m (2014: €nil);

IAASA concluded the Management Report had not provided a balanced and comprehensive analysis of the development and performance of the issuer's business during the year in accordance with the disclosure requirements of Regulation

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| <p>(c) net finance income amounting to €19.3m (2014: €29.9m);</p> | <p>5(4)(c)(ii) of the Regulations and Rule 6.1 of the Transparency Rules.</p> |
| <p>(d) re-stated net cash generated from operating activities amounting to €35.9m (2014: (€78.9m)); and</p> | <p>The issuer gave undertakings to IAASA that that future annual financial statements would comply, in full, with the disclosure requirements of Regulation 5(4)(c)(ii) of the Regulations and Rule 6.1 of the Transparency Rules.</p> |
| <p>(e) amount of liabilities maturing within 12 months increasing to €581.5m (2014: €436.9m).</p> | |

The Directors' Report referred to the operating environment in the economies of the Republic of Cyprus and the Russian Federation. However, the Directors' Report did not appear to include details as to how the operating environment in both these economies had impacted the issuer, together with details of the principal risks and uncertainties that were specific to the issuer and undertakings under its control.