

“Know-How Paper”

Availability of Financial Statements and Risks Minimization on Account Receivables in Ukraine

As a supplier to a Ukrainian company there are many risk factors to consider, of which the most obvious is the client’s willingness and ability to pay. While willingness to pay is subjective the ability to pay is indeed measurable on short run commitments.

In most Western countries it is a simple standard operational procedure to download the potential client’s Financial Statements and use the embedded information to make conclusions about financial health of the company like solidity, debt and receivable structure, profit generation and the resulting ability to pay for the goods or services to be delivered. Examples of such approaches in Denmark are www.cvr.dk, www.kob.dk, www.greens.dk.

In Ukraine this approach is often not realistic as far from all companies are publishing their Financial Statements and because the ones publishing their Financial Statements are using various sources for this.

Only companies registered as Opened or Closed Joint Stock Companies – *BAT/3AT*¹ – are obliged to publish their Financial Statements and to report to the State Commission on Securities (www.ssmc.gov.ua). None of those actions are mandatory for Limited Liability Companies² - *TOB*³. The large amount of individuals and small companies working on the basis of “Private Entrepreneurship” or within the framework of “Unified Tax” are not publishing their Financial Statements, if they at all are preparing such.

There is no unified and public accessible system for publishing Financial Statements. JSCs may choose to fulfil their public reporting obligations by publishing their Financial Statements in one of the printed papers issued or approved for this by the Parliament of Ukraine, it may use the web based system SMIDA (www.smida.gov.ua) or one of the 21 approved Financial Information Agencies. The fact that many companies are searchable only by the “Unified Register of Enterprises and Organizations of Ukraine” or the “ЄДРПОУ” code further complicates the situation.

Of the approximately 1.110.000 companies, enterprises, unions and organizations registered in Ukraine approximately 375.000 are JSC or LLC (Approximately 33.600 are JSCs and 340.000 are LLCs) while almost 255.000 are registered as “Private Entrepreneurs”.

In practice this means that only 5% of enterprises involved in business activities with the aim to create profit have published their Financial Statements; that there are 22 online resources and a number of printed media where the Financial Statements potentially can be published; and

¹ In Russian “ОАО”/”ЗАО”

² LLC is comparable to “LTD” in UK or “GmbH” in Germany and A/S ApS in Denmark

³ In Russian “ООО”

furthermore, that you probably should know the “ЄДРПОУ” code of the company to find the Financial Statements in any of the sources.

Trough leaks in the various governmental bodies you can purchase many tax reporting statements through various agencies, but the price for this is often high and usually does not correspond with the validity and usefulness of the information. In any case the information received will be in Ukrainian that can make the information hard to understand, not even considering the fact that Ukrainian bookkeeping standards (Ukrainian NAS) have a few deviations from IFRS.

So, how can one minimize risks anyhow?

As a result, searching for Financial Statements is not a viable approach when minimising risks taken on Ukrainian customers. Suppliers to Ukrainian customers therefore use the following simple rules:

- Cash-Flow: Always pre payment or Bank guarantee/Letter of Credit - even after relation has proven to be lasting
- References: Asking for references or checking up by asking other suppliers
- Contacts: Personal relations with the top-decision maker in the company
- Contracts: Checking formal decision power within the company
- Direct: Asking the potential buyer/client for a copy of the Financial Statements