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NEWSLETTER

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Winding down a subsidiary: a few tips on closing an entity in Russia

Liquidating a company in Russia is a time consuming process (usually lasting from 6 to 9 months and sometimes even longer). Russian law requires the liquidation to be completed within 1 year; therefore, before starting a formal liquidation process it is advisable to assess the assets and debts of the company and anticipate any possible difficulties that may arise during liquidation. It is very important to plan the entire process in advance in order to meet this deadline. Indeed, long-term planning is especially important now in light of the current COVID environment as notarising documents can now take several months if the company's shareholders are located outside of Russia.

The liquidation process requires many steps and formalities to be observed. It is advisable to prepare a detailed, step-by-step plan including all stages and actions, required documents, responsible persons and deadlines for the completion of each action.

While planning a liquidation, it is necessary to perform an inventory of assets, debts and receivables and review the existing contracts in order to take into account their termination provisions.

The liquidation process largely depends on the specifics of the company's assets and business. For example, if a company has production facilities, liquidating such a company requires careful planning from the perspective of environmental and licensing requirements. It may take months to close an entity operating hazardous production facilities.

The company's employees need to be dismissed at an early stage in the liquidation process. This is due to the need to stop payments to employees and payments of taxes and social contributions. Otherwise, if the company continues making such payments, it will be impossible to reach a final settlement with the state budget on time. In the liquidation process, employees are dismissed with two months prior notice, but in practice it is possible to terminate employee contracts earlier if a mutual separation agreement can be signed.

To carry out a liquidation, it is also necessary to appoint a liquidation commission or liquidator. The liquidator is responsible for ensuring the property is sold, the collection of debts, termination of contracts and settlements with the state budget. Sometimes, accountants or local managers serve as the liquidator. There are also service providers that offer such services.

It is important to perform all settlements with the state authorities as early as possible because in practice, due to technical issues, the process is often quite lengthy.

The registration authority will refuse to acknowledge the completion of the liquidation process if there are any outstanding debts in the budget.

It is also important to accurately predict and calculate all payments that will be made in the final liquidation stage. These include state fees, payments to shareholders, currency exchange rates, notary fees and bank commissions. This is due to the requirement that the liquidation balance sheet must be 'zero', and that the bank accounts of the company must be closed.

In view of the above requirements and the intricacies of the liquidation process, we recommend consulting your local counsel before initiating this complex process.

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