

Development of corporate treasury operations in russian leasing companies

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Abstract. In the context of the digital economy small Russian companies with several settlement accounts, minimal currency risks, and the absence of the need to control credit resources and investments, practically do not create an autonomous treasury department. Treasury functions are performed by an accountant and are controlled and managed by a chief financial officer. With the expansion of the company's activities, in order to create a unified strategy for the policy in the field of cash flow control and the development of financial risk management procedures, a centralized treasury is formed. According to research by the largest international audit companies, due to the strengthening of strategic emphasis in cash management, the role, degree of centralization, and importance of corporate treasury in Russian financial management have been growing significantly over the past 10 years. The study examines the development of the corporate treasury in leasing companies in Russia; the authors propose several ways of managing corporate treasury operations in leasing companies, in particular, development and application of a cash flow management system, and outline a methodology of separate accounting of the results of corporate treasury activities. It is concluded that the use of information support, based on big data analysis and machine learning, contributing to the consolidation of all the company's cash flows in a single database, is required. In this regard, the results obtained can be useful to organizations that use corporate treasury in their activities.

1 Introduction

The main purpose of the corporate treasury is to manage cash flows and associated financial risks, as well as to provide the company with funding to maintain solvency. Treasury plays a key role in determining the financial strategy of an organization.

In world practice a corporate treasury is defined as a division, whose objects of management are the company's cash flow, fundraising, and capital valuation [4]. The advantage of the conceptual apparatus, in contrast to the definitions given in the literature [7], is the allocation of financial risk management in the list of the corporate treasury functionality.

The corporate treasury allows the company's management to:

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- a) monitor current and projected cash flows in order to assess the company's need for additional fundraising or surplus funds placement;
- b) monitor effective interest rates and exchange rates to exclude possible financial losses;
- c) control and assess the internal processes of the company, which cause changes in working capital and profitability;
- d) build relationships with investors and creditors;
- e) determine the permissible limits of the risk of non-return of borrowed funds and their impact on the financial condition of the organization;
- f) forecast the amount of borrowed funds, etc.

The development of the global digital economy creates new challenges in the field of taxation and accounting. At the same time, improvement of information and communication technologies provides companies with new opportunities to create corporate treasuries using the methods of big data analysis and machine learning.

2 Materials and methods

The study of the subject-matter of the corporate treasury allows the authors to conclude that there are three distinct approaches to the interpretation of the purpose of the corporate treasury:

1) the purpose of the corporate treasury is to collaborate with banks [2], [22-24], [13] and others cling to this notion. This notion is also confirmed by the results of surveys by the auditing company KPMG (2014) [11];

2) the main goal of the corporate treasury is liquidity and cash flow management [5], [14], [18], [6], and others cling to this notion.

3) the purpose of the corporate treasury is financial risk management [1], [21], and others cling to this notion.

Based on the analysis of the works of the number of authors [12] it can be concluded that the corporate treasury is a structural autonomous division of the company. It is directly involved in setting the financial strategy of the company and its financial policy. The treasury department of the organization determines the necessary structure of borrowed and own funds to finance the business while obtaining the optimal balance between costs and risks. The Treasury Department ensures that at all times, the company has the necessary liquidity and cash to meet its obligations when due.

The development and improvement of the leasing market in Russia require the elaboration of a transparent system for the implementation of leasing operations.

Based on the study of economic literature [10], [20], [9] and the experience of introducing the treasury into corporate structures, it can be determined that the tasks of the treasurer are cash flow planning, budget execution, allocation of free financial resources, company funding, control over cash gaps, the establishment of relationships with potential investors and communication with banks.

A treasurer's functions can be classified into three levels of cash flow management:

- 1) tactical. Cash flow management, investments, financial risks hedging;
- 2) strategic. It implies control over the ratio of equity and debt capital, long-term funding;
- 3) operating. Settlements, interaction with banks.

The need to develop theoretical and methodological provisions of the corporate treasury in Russia is determined by the following circumstances:

1. Growth of the leasing market, providing an increase in investment in the real sector of the economy (Figure 1).



Fig. 1. Dynamics of volumes of new business in the leasing market in the period from 2013 to 2023 in Russia
 Source: compiled by the author based on data from Expert RA [15 -16].

As can be seen in Figure 1, the volume of new business in the leasing market in 2021 showed a sharp increase of 62%, in 2022 a significant decline in the leasing industry due to sanctions and geopolitical risks, which caused the transformation of the Russian economy. However, in 2023, a small recovery growth (due to a decrease in the investment activity of organizations) is planned after a short recession.

At the moment, the main reasons for the slowdown in the development of the leasing industry are: the complete absence or shortage of leased items due to the sanctions; disruption in supply chains and payments; increase in prices for leased items, and as a result, a drop in demand for them; deterioration of the financial condition of lessee companies.

It is assumed that the growth of new business in 2023 by 10% will be stimulated by the reorientation of the logistics ties of small and medium-sized businesses, as well as their attempts to master and occupy the niches vacated after the departure of foreign companies.

Competent management of the emerging cash flows is a necessary function to achieve the financial security of leasing companies, which includes interaction with a credit institution, first of all, on the operations of raising and returning borrowed funds, as well as on the disposal of free funds that may arise when receiving advance payments from the lessees. The goal and functions of leasing companies, the peculiarity of their cash flow determine that the availability of sufficient working capital for the lessor is a prerequisite for its activities. At the same time, the sources of funding of working capital in leasing companies are their own funds, bank loans, securities, etc. (Figure 2).

In this regard, the corporate treasury proves to be an important instrument for controlling the solvency of leasing companies. Moreover, the need for structural implementation of the corporate treasury in leasing companies is justified by pressure on their financial stability by a number of risks.

2. Leasing regulation reform, consisting of the following:

a) the Central Bank of Russia, together with the Ministry of Finance, launched a reform of the leasing industry in 2016. The result of this reform was the amendments submitted for consideration to the State Duma at the end of 2018, and thus far, the discussion of this bill is still ongoing taking into account modern economic and political realities;

b) it is planned to create self-regulatory organizations as one of the directions of leasing market reforming;

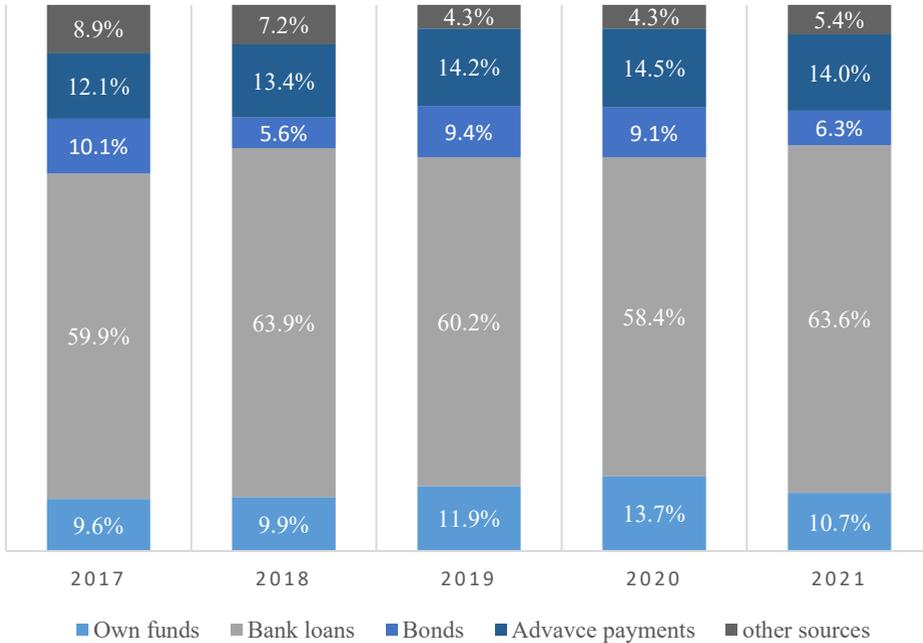


Fig. 2. Funding sources for leasing companies in Russia
Source: Leasing market in 2021: a new frontier (2022, March 21) [15]

c) amendments to the Civil Code of the Russian Federation on the regulation of leasing activities regulation are under discussion, implying the rejection of the “finance hire purchase” notion, instead of which the term “financial leasing” is introduced. Secured funding will be the new model of leasing, in which the lessor provides the lessee with funding for the leased asset, which acts as a security for the fulfillment of payment obligations by the lessee;

d) it is planned to update the provisions on the rights of lessors and lessees, the description and use of the leased property for the duration of the lease agreement;

e) there is a high probability that in the future, the leasing market will become subordinate to the Bank of Russia, while leasing companies will be recognized as financial market participants acting as non-credit financial institutions. Thus, at present, discussions are under way to transfer the regulation of leasing companies with state participation or state support under the control of the Bank of Russia, which, in the authors’ opinion, is the first step towards the introduction of regulation of the entire leasing market by the Bank of Russia. In January 2019, the State Duma adopted in the first reading the previously published bill No. 586986-7, introducing regulation of special leasing entities, to which the legislator classified leasing companies associated with state capital or state support, as well as credit institutions. A prerequisite for the activities of the above-mentioned participants in the leasing market is

the inclusion of special leasing entities controlled by the Central Bank of the Russian Federation in the register, compliance with the criteria for the minimum amount of capital and the value of the company's assets, as well as compliance with mandatory requirements and standards from the Central Bank of the Russian Federation. In particular, such control measures include the mandatory periodic submission of accounting (financial) statements to the Bank of Russia along with an audit report on them and the introduction of unified risk management rules.

In view of the close relationship and similarity with the banking sector of the economy, the activities of the corporate treasury of leasing companies may in many ways become similar to the banking treasury.

The liquidity and capital requirements of banks around the world have become an important factor in the economy, and the treasury plays a significant role in ensuring that the necessary conditions of the banking sector are met. Thus, in order to comply with regulatory norms in the structure of most banks, the treasury has been separated as a specialized and autonomous department for cash management, maintaining the required level of liquid assets, calculating and forecasting capital ratios, complying with mandatory banking ratios, and controlling a number of risks. A bank's treasury department is also responsible for interaction with banking regulators, who set the rules for banks' capital and liquidity ratios.

The reform defining the prospect of creating a leasing market regulator based on the Bank of Russia and the close relationship between the leasing and banking sectors emphasize the need to introduce corporate treasury into the structure of leasing companies, for which it is planned to establish a methodology for determining equity (capital), similar to the requirements for banks;

g) according to the draft reform, the organization of a risk management system associated with the implementation of leasing activities will become an obligatory part of the risk management environment in leasing companies. It is planned to oblige to organize a risk management system related to the implementation of leasing activities in order to ensure the financial stability of the leasing company, which must correspond to the nature of the operations performed by the leasing company and contain a risk monitoring system that ensures timely delivery of the necessary information to the management bodies of the leasing company. The criteria for creating an internal control environment will impose on the leaders of leasing companies the responsibility for the distribution of powers similar to the requirements currently imposed on banks based on the recommendations of the Basel Committee. Thus, the organization of the corporate treasury and the separation of this subdivision into an autonomous structure for managing cash flows and related risks is an integral part of the adaptation of lessors to changes in the regulation of the leasing market.

Based on the studies of the specifics of the activities of leasing companies, the directions of leasing industry reforming, and the purpose of the corporate treasury in banks, the authors have defined the functions, operations, and purpose of the corporate treasury in leasing companies.

The main functions of a leasing company treasurer are: 1) cash management; 2) management of accounts receivable; 3) management of accounts payable; 4) financial risk management; 5) planning of financial resources; 6) operational functions.

Along with the introduction of treasury into a leasing company, entering the international market, and increasing the need for companies to handle more complex transactions such as cash management and financial risks hedging, the need for an appropriate accounting category for corporate treasury operations is increasing.

Autonomous financial management instruments of corporate treasury operations should be considered as the elements of the company's economic life, and their results should be reflected in accounting and reporting.

3 Results and discussion

The practice of accounting for leasing existing in the Russian Federation is regulated by the Order of the Ministry of Finance of the Russian Federation of February 17, 1997 No. 15, the purpose of which is to establish the procedure for the accounting of finance lease. The rules for accounting for leasing transactions vested by the document in many respects contradict the international rules for drawing up financial statements, including the possibility of choosing the balance holder of the leased object. In order to unify the formation of financial results that can provide the foreign investors with information useful for decision-making, the changes were discussed in the field of accounting for leasing operations and its convergence with IFRS. In January 2016, a new IFRS 16 “Leases” was released, which became mandatory from January 2019 and replaced IAS 17 “Leases”. The standard radically changed the accounting for lessees to recognize receivables equal to the net investment in the lease, and further accounting for lessors remained unchanged. Thus, the need to adopt the outdated Draft of the Ministry of Finance of Russia for the regulation of leasing accounting has ceased to be relevant due to the above changes, since in the context of convergence of Russian practice and IFRS, the basis for further reform of Russian leasing accounting should have been IFRS 16 “Leases” [11].

In 2018, steps began to be taken to differentiate the accounting rules for leasing transactions for government agencies and non-government companies. Thus, since January 2018, the Ministry of Finance of Russia has introduced a standard that regulates lease accounting exclusively for public sector organizations. In May 2018, the draft accounting standard FSBU 25/2018 “Accounting for finance hire purchase”, applicable to the non-state companies, was presented for discussion. In April 2019, it was determined by the Order of the Ministry of Finance of Russia, that this standard will enter into force on January 1, 2022, and thereby it will cancel the rules for accounting for leasing transactions, formed in 1997 [19]. Both standards are close to the new IFRS 16 “Leases” [8].

The Bank of Russia also introduced a number of changes in the field of leasing accounting for the companies under its jurisdiction. The focus of the transformations was directed at the relevant standards of non-bank financial institutions, to which it is planned to join leasing companies. At the end of 2015, the Bank of Russia published an industry standard for accounting for leases by non-bank financial institutions, which was later replaced by general lease accounting rules for non-bank financial institutions and for certain non-bank financial institutions.

Currently, the process of forming a system of legal regulation of accounting of leasing operations in Russia is incomplete and can be characterized by a high degree of uncertainty and annual changes. The accounting rules for leasing operations have undergone changes in the past few years, the aim of which is to approximate as closely as possible to the rules of IFRS. As it was noted earlier, the process of discussing the control of the leasing market or its individual subjects by the Bank of Russia, along with the issue of applying industry accounting standards, is in the course of the settlement. The merit of the upcoming changes is the solution of the pending issue of the transition of leasing companies to IFRS, the provisions of which are aimed at improving the quality and transparency of financial reporting.

According to the FSBU 25/2018 “Accounting for finance hire purchase” and the Regulation of the Bank of Russia, effective from January 1, 2022, the accounts receivable in an amount equal to the net investment in the finance hire purchase must be reflected in the balance sheet of the lessor.

Under the new standard, the lessor displays the interest income from financing allocated over the lease term to be equal to the difference between the net investment and the gross

investment to determine the financial result. The interest income must have a constant periodic rate of return on the lessor's net investment in the lease. All risks and benefits from the use of the subject of finance hire purchase are transferred to the lessee, who displays the leased property on its balance sheet. Lease payments received from the lessee are treated by the lessor as repayment of the principal and interest income of the lessor. According to the standard of the Ministry of Finance of Russia and the provisions of the Bank of Russia, when forming the financial result, the leasing company must reflect the interest income as a result of the main activity – funding of the lessee.

At present, the amount remaining after reimbursement of its costs is recognized as income of the lessor. Direct expenses of the leasing company, including depreciation and insurance of the leased assets, are included in the cost of primary production. However, under the new rules, the finance hire purchase object will be depreciated at the lessee, while the other components of the lease payment described earlier will be included in the value of the net investment in the lease, i.e. in receivables. Thus, the lessor's balance sheet will contain three key elements of the leasing company's activities: accounts receivable under finance hire purchase agreements, payables under loan agreements received for leasing activities, and indicators of the company's equity capital. The finance income will need to be matched against the interest expense from external lending received by the lessor. This means that, according to the new rules, the lessor's financial accounting will be aimed at reflecting the cash flow in the implementation of the leasing transaction, and the risks of leasing companies will be associated primarily with cash flow.

These entire complex facts can be taken into consideration by providing information support, based on big data analysis and machine learning, for consolidation of all the company's cash flows in a single database (*Virtual Reality of the Treasury. International Study of the Treasury Function for 2017*). Summing up the results of the research it is possible to formulate some recommendations for the development of corporate treasury in leasing companies in Russia.

1. Despite the further decision to merge leasing companies with the organizations subordinate to the Bank of Russia, the authors believe that interest income reflects the results of the ordinary activities of such companies. The disposal of surplus funds, carried out by placing deposits or issuing loans, first, reflects the financing model, that is, the main activity of the lessor; second, free funds from the lessor may arise due to the transfer of advance payment by the lessee, uneven cash flow for value-added tax, the presence of a surplus obtained for concluding leasing transactions of external lending, that is, the free funds of the lessor in one way or another relate to leasing projects; third, usually such operations are short-term. In the authors' opinion, it is required to legally secure for leasing companies the right to carry out operations on placing bank deposits and issuing loans.

2. The corporate treasury in leasing companies manages the assets and liabilities that participate in the process of financing lessees, which, according to the new rules for accounting for finance hire purchase agreements of the Ministry of Finance of Russia and the Bank of Russia, based on IFRS, is the main activity of leasing companies. In view of the fact that leasing companies need to use the instruments to protect against a set of financial risks and effectively manage the cash flows, the introduction of a corporate treasury in Russian leasing companies is one of the measures to adapt to the requirements of the leasing market reform [19]. The corporate treasury is not the center of additional profit, as it generates income and expenses from activities related to the implementation of leasing transactions.

The authors consider it necessary to legislate for the lessors the right to use corporate treasury instruments with the inclusion of income and expenses from such operations to the results from core activities.

In particular, the right to issue loans should be secured in the list of operations from the core activities of leasing companies, and it is advisable to attribute positive financial results from operations on placing bank deposits to a subspecies of income from the main activities of leasing companies – interest income.

3. The importance of the management of receivables is of particular importance due to the obligation to monitor the performance of leasing agreements and the effective accounting rules for leasing transactions, according to which the key indicator of the lessor's balance sheet is receivables equal to the amount of investment (costs incurred) in the lease agreement. Leasing companies may apply receivables management measures such as penalties, which are part of the lease agreement and therefore are part of the leasing service. Thus, obtaining penalties from a large debtor should be considered as an activity related to leasing.

4. The results from the use of financial instruments not for speculative profit-making purposes, but as measures to ensure the financial stability of leasing companies, also reflect the consequences of a set of measures for the implementation of activities related to leasing. It is proposed to refer to income and expenses related to leasing activities:

- interest receivable under bank deposit agreements and under loan agreements;
- interest payable under external financing agreements (loans granted) for leasing activities;
- the results of receivables management, for example, related to the application of penalties under a leasing agreement in the case of delay in payments by lessees and which are an integral part of the leasing service;
- the results of hedging financial risks arising in the process of implementing a leasing project.

5. The development of a transparent accounting system for treasury operations is a necessary element to ensure the stability of leasing companies, the efficiency of resource use and control over the state of the internal and external business environment. The accounting system for corporate treasury operations in leasing companies should be able to ensure timely provision of the necessary information to the heads of leasing companies and serve as a tool for planning, managing, and controlling cash flows and financial risks. At the same time, the accounting system must provide quantitative and cost indicators relative to the past and current periods and be used to predict future cash flows.

6. A component of the system for organizing the accounting of the results of the corporate treasury is the introduction of internal control into the accounting information system in order to ensure the reliability of the reflection of the operations of the corporate treasury in the financial statements. These procedures include:

a) compliance with the rules for documenting corporate treasury operations. All facts of economic life must be drawn up by primary accounting documents, which are the basis for the expression of these facts in accounting and reporting. Documents are a source for subsequent control over the correctness, expediency, and legality of corporate treasury operations. The forms of documents must be approved by the head of a leasing company, who is responsible for accounting;

b) mandatory control over the reliability of corporate treasury operations at the time they are reflected in the accounting accounts;

c) control over the volume of income and expenses from corporate treasury operations based on the use of accounting registers. Control over the volume of income from corporate treasury operations can be ensured by analyzing and comparing data for the balances of sub-accounts “Interest income under financial lease agreements”, “Interest income under loan agreements and bank deposit agreements”, “Income from other operations related to leasing” of the account “Sales”. A similar analysis should be provided for the data from the sub-

account “Expenses from other operations related to leasing” of the account “Main production”;

d) supervision over the correctness of the operations of the corporate treasury. On a systematic basis, it is necessary to conduct an inventory of the status of mutual settlements for all operations of the corporate treasury;

e) control over the accuracy of drawing up and executing budgets.

7. Automation of data entry using information systems is also an integral part of the organization of autonomous accounting of the results of the corporate treasury. Bellin is one of the oldest suppliers of treasury management systems used in the foreign market [3]. The company was founded in 1998 by a professional treasurer with 10 years of experience in treasury and specializes in the automation of the main treasury instruments, their integration with banks. Bellin is the leader in the market of treasury management systems in German-speaking countries, and recently the company has found success in other European countries (Benelux, Scandinavia, France, and the UK), as well as in North America.

8. Russian providers of information support have developed a subsystem for 1C “Centralized Treasury”. The program helps to consolidate all cash flows of the organization in a single database, facilitate the process of payment approval, and solve the following tasks in the field of cash management: a) prompt receipt of data for cash flows by the system; b) cash flow planning; c) improvement of the processes associated with payments; d) centralized management of company payments; e) accounting of loans, deposits, and loans; f) reporting.

4 Conclusion

Thus, the study performed has shown that corporate treasury operations are not a source of additional profit, on the contrary, they are aimed at ensuring the economic stability of leasing companies. In order to ensure timely information, planning, decision-making, management, and control over cash flows and financial risks, the results of corporate treasury operations should be accounted for separately from income from lease agreements and other activities of the organization. In contrast to the existing ones, the developed methodology of accounting for corporate treasury operations in leasing companies is characterized by a systematic approach and assumes that income and expenses from such operations are classified as part of the results from their core activities. The study proposes and describes a scheme for organizing a separate accounting of the results of the corporate treasury in leasing companies, which includes the following elements: a) the organization of analytical accounting with detailed indicators of synthetic accounting; b) drawing up methodological instructions and regulations; c) ensuring internal control; d) automation of data entry. With the broad inclusion of artificial intelligence technologies in traditional software, developers of solutions based on Bellin or 1C “Centralized Treasury” need to focus on expanding the functionality in terms of big data analysis and creating neural networks for the needs of development of corporate treasury in leasing companies.

The implementation of methodological provisions and practical recommendations can ensure effective separate accounting of corporate treasury operations, control the results obtained from such operations, and increase financial security of leasing companies.

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