**FINANCIAL REPORTING COUNCIL**

**Highlights of International Financial Reporting Standards (IFRS) and Interpretations effective for annual periods beginning on or after 1 January 2014**

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#

Introduction

1. Purpose of Highlights

These Highlights provide an overview of amendments to standards and interpretations effective on or after 1st January 2014 (early application is permissible). Extracts from revised and amended Standards and Interpretations published by the IFRS Foundation are reproduced. The objective is to provide snapshots of key aspects of the changes in IFRS and their potential effects on an entity’s financial statements.

FRC recommends that the text of the standards and/or interpretations (IASB Red Book with early application) must be consulted before application of the Standards.

1. Snapshots of Amendments

These provide snapshots of the key requirements of each pronouncement issued by the IASB and the IFRS Interpretations Committee (Interpretations Committee), effective for annual periods beginning on or after 1st January 2014 and takes into consideration the Mauritian context.

They are amendments to:

IFRS 10, Consolidated Financial Statements

IFRS 12, Disclosure of Interests in Other Entities

IFRS 27, Separate Financial Statements

IFRIC 21, Levies

There are also Amendments to IAS 32 Financial Instruments: Presentation; IAS 36 Impairment of Assets; and IAS 39 Financial Instruments: Recognition and measurement, effective for annual periods beginning on or after 1st January 2014.

1. Practical implication on Financial Statements

This overview provides a summary of the potential effect that the changes may have on an entity’s financial statements.

# Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

1. Snapshots of amendments

Prior to the amendments, IFRS 10 required an entity that is a parent to present consolidated financial statements in which it consolidated all of its subsidiaries. Under the amendments, if an entity is an **investment entity**, the entity is exempted from consolidating the underlying investees that it controls.

1. Definition of an investment entity (Paragraph 27 of IFRS 10)

The standard defines an investment entity as “an entity that:

1. obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
2. commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
3. measures and evaluates the performance of substantially all of its investments on a fair value basis.”

An investment entity shall have an **exit strategy.** One feature that differentiates an investment from another entity is that an investment entity does not plan to hold investments indefinitely. It holds them for a limited period The investment entity should document how it plans to realise capital appreciation on substantially all of its equity and non-financial investments. The absence of such a strategy indicates an intention to hold investments indefinitely and is not consistent with a business purpose of investing for capital appreciation and/or income.

1. Typical characteristics of an investment entity

For an entity to qualify as an investment entity the above definition must be met. The following typical characteristics of an investment entity must also be considered:

An entity can be an investment entity in the absence of one or more of these characteristics provided management has assessed why it is appropriate for the entity to qualify as an investment entity and makes appropriate disclosure in the financial statements.

1. Accounting by an investment entity

A parent that is an ‘investment entity is required to account for its subsidiaries at fair value through profit or loss under IFRS 9.

1. Separate financial statements

An entity might be an investment entity having some subsidiaries that are accounted for at fair value through profit or loss, and other subsidiaries that provide investment-related services.

The entity will have to prepare consolidated financial statements in which the subsidiaries providing investment-related services are consolidated. If the entity also prepare separate financial statements, it must account for the subsidiaries that are measured at fair value through profit or loss in its consolidated financial statements in the same way as in its separate financial statements (that is, at fair value through profit or loss) [**IAS 27 para 11A**].

1. Practical implication on Financial Statements

**Disclosures** to be provided by investment entities with controlled subsidiaries are set out in IFRS 12, ‘Disclosure of interests in other entities’. These disclosures are also required by an investment entity parent that prepares separate financial statements as its only financial statements. Refer to **IFRS 12 paragraph 19A to 19G** for the required disclosures.

1. Examples

**A master-feeder structure (based on IFRS 10 para IE12, example 4)**

An entity, master fund ‘MF1’, is formed in 20X1 with a 10-year life. The equity of MF1 is held by two related feeder funds (FFD & FFO) which are established in connection with each other to meet legal, regulatory, tax or similar requirements.

FFD & FFO are capitalised with a 1% investment from the general partner and 99% from equity investors that are unrelated to the general partner (with no party holding a controlling financial interest). The general partner of both FFD (a domestic feeder) and FFO (an offshore feeder) is the manager of MF1, FFD and FFO.

**GP 1%**

**Multiple investors 99%**

**(unrelated)**

**GP 1%**

**Multiple investors 99%**

**(unrelated)**

**MF1 (master fund)**

**Portfolio of investments**

**FFD (Domestic Feeder fund)**

**FFO (off shore Feeder fund)**

***Facts***

The purpose of MF1 is to hold a portfolio of investments in order to generate capital appreciation and investment income (such as dividends, interest or rental income). The investment objective communicated to investors is that the sole purpose of the master-feeder structure is to provide investment opportunities for investors to invest in a large pool of assets. MF1 has identified and documented exit strategies for the equity and non-financial investments that it holds. MF1 measures and evaluates substantially all of its investments on a fair value basis. Are MF1, FFD and FFO investment entities?

***Conclusion***

**MF1, FFD & FFO meet the definition of an investment entity because:**

MF1 and the feeder funds FFD and FFO have obtained funds for the purpose of providing investors with investment management services;

The master-feeder structure’s business purpose (which was communicated directly to investors of the feeder funds) is investing solely for capital appreciation and investment income and MF1 has identified and documented potential exit strategies for its investments;

Although FFD and FFO do not have an exit strategy for their interests in MF1, they can be considered to have an exit strategy for their investments; this is because MF1 was formed in connection with the feeder funds and holds investments on their behalf; and the investments held by MF1 are measured and evaluated on a fair value basis.

**When considered together, MF1, FFD & FFO display the following typical characteristics of an investment entity:**

* Although the feeder funds each hold a single investment in MF1, they could be considered indirectly to hold more than one investment; this is because MF1 holds a portfolio of investments;
* Although MF1 is 100% owned by the two feeder funds, the feeder funds FFD and FFO are funded by many investors who are unrelated to the feeder funds (and also unrelated to the general partner/manager of the funds); and

**Ownership in the feeder funds is represented by units of equity interests**

(An overall picture of IFRS 10 is provided in Appendix 1)

# IFRIC 21 Levies

1. Snapshot of amendments

**IFRIC 21** provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain. The IFRIC does not deal with fines and other penalties that are imposed for breaches of legislation.

The interpretation addresses the diversity in practice with regard to when the liability to pay a levy is recognised.

1. Key provisions
* What is the obligating event that gives rise to a liability to pay a levy?

This is the event identified by the legislation that triggers the obligation to pay the levy.

* When is a liability to pay a levy recognised?

A liability is recognised when the obligating event occurs. This might arise at a point in time or progressively over time.

Additionally, the IFRIC requires that an obligation to pay a levy triggered by a minimum threshold is recognised when the threshold is reached.

1. Practical implication on Financial Statements
* IFRIC 21 will affect entities that are subject to levies that are not income taxes within the scope of IAS 12. In Mauritius, the interpretation captures a number of different obligations imposed by the government. Most of the levies are measured based on financial information relating to a period before the date on which the obligation to pay the levy to the MRA arises. Therefore, a liability is recognised when the obligating event arises and not when payment is made.
* As regard companies publishing interim Financial Statements, mostly listed companies, reporting issuers under the Securities Act inter alia, the same recognition principles apply in interim and annual Financial Statements. Currently, the liability for these levies might not be accounted in interim Financial Statements.
1. Levies in Mauritius

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **The following table provides an overview of the main levies applicable to industries in Mauritius impacted by this IFRIC.Levy** | **Industry**  | **Legislation**  | **Rate of levy** | **Basis of computation** | **Obligating event** |
| ***Training Levy***This is a scheme established for the purpose of developing human skills | All | The Human Resource Development Act 2003 (Sec 18) | 1.5% | On each employee’s basic wage or salary excluding overtime, bonuses and allowances (HRDA Sec 18)The levy is payable monthly together with a return in such form as may be approvedby the Ministry. | When salary is paid |
| ***Levy on messages***Aim at financing the Empowerment Programme | Telecommunication | Value Added Tax Act (Sec 53I - 53M) | 10 cents per message | Total number of messages it sends during a taxable period | When a message is sentAfter the end of every taxable period, the levy shall be paid to the MRA |
| ***Special levy on Banks***A special levy calculated by reference to itsbook profit and its operating income derived during, or its chargeableincome in respect of, the preceding year at the appropriate ratesspecified in subsection  | Banking (as defined under Banking Act) excluding DBM | Income Tax Act (section 50G & 50H) | A range | * 01.01.2013: 3.4% on book profit and 1% on operating income
* 01.01.2014
	+ with regard to its income derived from banking transactions with non-residents and corporations holding a Global Business Licence under the Financial Services Act: 3.4% on book profit and 1.0% on operating income;
	+ with regard to its income derived from sources other than from transactions thereof: 10% on the chargeable income
 | When profit is derivedNote: The levy is paid at the time the Banksubmits its return of income to MRA but a liability shall be recognised when the obligating event arises |
| ***Solidarity levy*** | telephony service providers | Income Tax Act (section 50J) | A range | 5% of the book profit and 1.5% of the turnover in respect of the preceding year | When turnover & profit is derivedNote: same as above |
| ***Corporate Social Responsibility*** | All  | Income Tax Act (section 50K - 50M) | 2% | 2% of chargeable income of the preceding year | When income is generated |

# Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The amendment is not expected to have a significant impact on the presentation of the financial statements

# Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

## Snapshots of amendments

**The major changes arising from this amendment are:**

* Additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal.
* Information about the discount rates that have been used when the recoverable amount is based on fair value less costs of disposal using a present value technique. The amendment harmonises disclosure requirements between value in use and fair value less costs of disposal.

## Practical implication on Financial Statements

Additional disclosures required.

# Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)

## Snapshots of amendments

*IAS 39 Financial Instruments: Recognition and Measurement* is amended to make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

## Practical implication on Financial Statements

Novation is rarely used in the Mauritian context and therefore, no major impact is expected.

Appendix 1

No

Change in Investment entity status?

Parent (non-IE)

Yes

*Yes*

*Cease to consolidate subsidiaries*

*Yes*

Change is accounted for from the date when change in status occurred

No adjustments

IE's Investees with controlling interest

Carries its investees at fair value through profit or loss

Investment entity (IE)

Consolidates IE and its underlying investees under IFRS 10

Have you become an Investment entity?

Have you ceased to be an Investment entity?

*All subsidiaries are consolidated*

For subsidiaries that had been measured at fair value through profit or loss:

1. Apply acquisition method under IFRS 3
2. Date of change in status shall be the deemed acquisition date

3 key elements to meet definition of Investment entity:

1. Obtains funds from one or more investors for providing investment management services;
2. Invests funds solely for capital appreciation and/or investment income and the IE has a documented exit strategy if the intention is to derive income through capital appreciation; and
3. Measures and evaluates its investment performance at fair value.

4 additional characteristics of Investment entity to be considered:

1. Holding more than one Investment
2. Having more than one Investor
3. Having investors that are not the entity’s related parties
4. Having ownership interest in the form of equity or similar interests

*Yes*

1. Change in status is accounted for as deemed disposal of subsidiaries at the date of change in status
2. Derecognise assets and liabilities of the unconsolidated subsidiaries
3. Determine fair value of subsidiaries at the date of change in status and measure the investments at fair value through profit or loss in line with IAS 39/IFRS 9
4. Difference between the previous carrying amount of the subsidiaries and their fair value to be recognised as a gain or loss in profit or loss
5. Disclosure requirement in accordance with IFRS 12 para 19A to 19G