
The EU Accounting Directive repealed Council Directives 78/660/EC (the “Fourth Council Directive”) and 83/349/EEC (the “Seventh Council Directive”), which were at times considered to be burdensome for small and medium-sized companies. The EU Accounting Directive attempts to strike an appropriate balance between the interests of the users of financial statements and the interests of undertakings that have to comply with the reporting requirements in that Directive.

GAPSME supersedes the Accountancy Profession (General Accounting Principles for Smaller Entities) Regulations, 2009 and the Schedule accompanying and forming an integral part of those Regulations (“GAPSE”).

GAPSME and the amendments to the Act identified herein are applicable for financial periods beginning on or after 1 January 2016.

This publication identifies the main changes resulting from the amendments to the Act and the main simplifications provided by GAPSME and provides various practical examples and tables that seek to explain the manner and extent to which companies are expected to be affected by these changes.
Recent amendments to financial reporting obligations present company directors with a number of possible different scenarios that include:
- which accounting rules to apply,
- which financial statements components to prepare and / or file with the Registrar of Companies,
- which consolidation exemptions remain available and on what conditions,
- whether to prepare a directors’ report and what new requirements are to be included therein when applicable,
- which disclosures are still required to be made in the financial statements.

IFRS as adopted by the EU (or EU-IFRS) is no longer the default set of accounting rules for Maltese small and medium-sized companies that are not Public Interest Entities, and in order to continue applying EU-IFRS such companies need to specifically resolve to do so. Otherwise compliance with General Accounting Principles for SMEs (“GAPSME”) would be required.

There is also now the demise of:
- the concept of abridged accounts,
- the consolidation exemption for financial holding parent companies,
- the filing exemption of profit and loss account disclosures for small private exempt companies, and
- the extension of the period allowed for laying accounts before the general meeting for companies with business interests outside Malta.

This new reality, which applies for accounting periods commencing on or after 1 January 2016, results from an EU-inspired simplification exercise aimed at reducing reporting requirements for small and medium-sized entities. Nonetheless, until the changes become well understood, they can present a challenging maze of new rules and regulations.

Our assessment of these changes during the past year and the feedback received during the various training sessions delivered and the discussions held with different engagement teams have helped us identify those areas which are likely to require the need for more guidance and assistance.

Accordingly we are pleased to issue the attached publication to assist company directors and accountants in the preparation of company financial statements. The publication provides practical examples and tables that seek to explain the manner and extent to which companies are expected to be affected by these changes. It also includes a number of interesting observations that should assist in answering the many questions which may arise in practice.

We trust that this publication will provide useful and practical guidance, and we look forward to be of further assistance in this regard.
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The amendments to the Act and GAPSME resulted from the transposition into Maltese law of the EU Accounting Directive. The EU Accounting Directive repealed the Fourth and the Seventh Council Directives and attempts to strike an appropriate balance between the interests of the users of financial statements and the interests of undertakings that have to comply with the reporting requirements in that Directive. GAPSME and the amendments to the Act highlighted herein are applicable for financial periods beginning on or after 1 January 2016.

Size thresholds
The amendments to the Act revise the size thresholds for small companies and introduce thresholds for medium-sized companies and large companies. As shown in Table 1, the Act defines and distinguishes companies by reference to the following three criteria – the balance sheet total, turnover and the average number of employees. The thresholds affect the designation of a company as small, medium-sized or large by reference to two consecutive accounting periods.

Public-interest entities ('PIEs')
In terms of the EU Accounting Directive, a PIE shall be treated as large, regardless of its size. For the purpose of the Act, a PIE shall have the meaning in the Accountancy Profession Act ("APA") (see Appendix I).

Default generally accepted accounting principles and practice ("GAAP")
For financial reporting periods commencing on or after 1 January 2016, a small or a medium-sized company other than a PIE is required to apply GAPSME. The directors of a small or a medium-sized company other than a PIE may still elect to apply IFRS as adopted by the EU ("EU-IFRS") in 2016 or after if they so resolve. Large companies and PIEs are not eligible to apply GAPSME; the default GAAP for such companies is EU-IFRS, as shown in Table 2. Small and medium-sized companies should be aware that certain laws or regulations regulating specific entities may specify certain financial reporting requirements (including the applicable GAAP to be applied) which such companies need to comply with.

Complete set of financial statements
The financial statements of small companies (and to a lesser extent, medium-sized companies) that are not PIEs depend on the GAAP that is applied by them (see Table 3). A small company that applies GAPSME is not required to draw up a statement of changes in equity and a statement of cash flows. However, these statements are required to be prepared by a small company that elects to apply EU-IFRS. Furthermore, it should be noted that GAPSME does not include the concept of ‘other comprehensive income’ that is present in EU-IFRS.
The directors' report
Small companies that are not PIEs are exempted from the requirement to prepare and to deliver to the Registrar of Companies ("the Registrar") a directors' report. Where the directors take advantage of the exemption from delivering the directors' report to the Registrar, they shall deliver to the Registrar, together with the annual accounts, a declaration on the prescribed form in lieu of the directors' report. This declaration will need to be signed by the same directors who signed the balance sheet and it will need to confirm that the company qualifies for the exemption. The directors' report of medium-sized and large companies and PIEs shall include certain additional disclosures, as explained in Table 4. However, medium-sized companies other than PIEs are exempted from the obligation to include non-financial key performance indicators in their directors' report.

Exemptions
The Act eliminates the option that was previously available to small companies for the drawing up and filing of abridged annual accounts. However, small companies other than PIEs may now still benefit from a number of exemptions.

Tables 5 and 6 identify those exemptions which come out of the Act and those exemptions which come out of GAPSME respectively. This distinction is important because those exemptions which come out of the Act are applicable to an entity regardless of the GAAP that is applied whereas the exemptions which come out of GAPSME are not applicable to those entities that elect to apply EU-IFRS.

A small company that is private exempt is exempted from the requirement to deliver the profit and loss account to the Registrar, regardless of the GAAP applied by it; for the sake of clarity, this statement still needs to be prepared. If this exemption is applied, a declaration on the prescribed form signed by the same directors who signed the balance sheet shall, together with the annual accounts, be delivered to the Registrar confirming that the company qualifies for the exemption.

A company which is exempted from the requirement to deliver to the Registrar the profit and loss account is still required to include notes to the accounts relevant for the purposes of that profit and loss account to the extent that such disclosures are required in terms of the applicable GAAP or the Act. Consequently, unlike the situation under the previous version of the Act, the notes to the financial statements of small private exempt companies will not necessarily include solely those notes relevant for the purposes of the balance sheet.

Group thresholds
The amendments to the Act revise the size thresholds for small groups and introduce thresholds for medium-sized groups and large groups (see Table 7). The thresholds affect the designation of the group as small, medium-sized or large by reference to two consecutive accounting periods.

Group exemptions
Parent companies may no longer avail themselves of the financial holding company exemption which was previously included in Article 172 of the Act since this is no longer available. The size exemption in Article 173 of the Act and the intermediate parent company exemption in Article 174 of the Act continue to be applicable (see Table 8). In terms of the amendments, a parent company is not eligible for the size exemption in Article 173 of the Act if any of the group companies is a PIE.

Group exclusions
Article 170 (4) of the Act identifies instances where a subsidiary may be excluded from consolidation. The amendments to the Act introduce a further exclusion in this regard. The EU's Accounting Regulatory Committee draws out a distinction between those 'exemptions' in the Section entitled "Group exemptions" and those 'exclusions' identified in this Section. Guidance issued by the EU's Accounting Regulatory Committee explains that when financial statements are prepared in accordance with EU-IFRS, the scope of consolidation is dictated by those IFRS and accordingly the exclusions in national law identified in this Section are not considered to be relevant for the purpose of those financial statements since those exclusions are not permitted by IFRS 10.
Additional disclosures
Part I of the amended Third Schedule contains additional disclosures that need to be included in the notes to the individual financial statements and Part II of that Schedule contains additional disclosures that need to be included in the notes to the consolidated financial statements. These additional disclosures need to be made by all companies regardless of the GAAP applied; however certain disclosures depend on the company’s designation as small, medium-sized or large or whether the entity is a PIE.

In accordance with the EU Accounting Directive, all companies, regardless of their size, need to disclose in the notes to the financial statements the amount and nature of individual items of income or expenditure which are of exceptional size or incidence. It should be noted in this respect that small private exempt companies that will be exempted from the requirement to deliver to the Registrar their profit and loss account will still need to disclose in the notes to the financial statements information about individual items of income or expenditure which fall within the scope of this requirement.

GAPSME applicability
The objective of GAPSME is to prescribe the general accounting principles for small and medium-sized entities. Large entities and PIEs are not eligible to apply GAPSME. The applicable size thresholds in GAPSME are identical to those in the Act. When compared to GAPSE, GAPSME widens the applicability thresholds. Accordingly, more entities are expected to be eligible to apply GAPSME.

First-time adoption of GAPSME
An entity that is a ‘first-time adopter of GAPSME’ will need to prepare an opening GAPSME balance sheet at the date of the transition to GAPSME. This is the starting point for its accounting under GAPSME. If an entity is a first-time adopter of GAPSME in its 2016 financial statements and the accounting year is a calendar year, then the date of transition to GAPSME is 1 January 2015.

GAPSME simplifications
GAPSME is tailored for the needs of small and medium-sized entities. GAPSME simplifies some of the principles in EU-IFRS for recognition and measurement and significantly reduces the extent of the required disclosures. For such entities, GAPSME further reduces the reporting burden resulting from the continuous revisions and amendments that are made to EU-IFRS. Table 10 provides a list of the main simplifications to the principles in EU-IFRS.

GAPSME also makes a distinction between those disclosures that are applicable to all entities and those disclosures that are only applicable to medium-sized entities.

Other main amendments
The other main changes which come out of the amendments to the Act are in relation to the period allowed by oversea companies to deliver their accounts to the Registrar; the period allowed by a company that carries on business or has business interests to the extent of more than 90 per cent outside Malta for laying accounts before the general meeting and the definition of undistributable profits.
1. Individual accounts

Size thresholds

The amendments to the Act revise the size thresholds for small companies and introduce thresholds for medium-sized companies and large companies.

Observations:
- The EU Accounting Directive includes accounting provisions for a fourth category of undertakings, referred to as the ‘micro-entity regime’, which regime is not incorporated in the Act.
- According to the EU Accounting Directive, PIEs are treated as large, regardless of their size (see the Section entitled “PIEs”).
- In terms of the Act, companies are defined and distinguished by reference to the following three criteria – the balance sheet total, turnover and the average number of employees.
- The determination of turnover for the purpose of applying these thresholds may require the application of judgement in certain instances.

Table 1 – Size thresholds

<table>
<thead>
<tr>
<th></th>
<th>Small companies</th>
<th>Medium-sized companies</th>
<th>Large companies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance sheet total</strong>&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>&lt; 4 m</td>
<td>4 m ≤ x ≤ 20 m</td>
<td>&gt; 20 m</td>
</tr>
<tr>
<td><strong>Turnover</strong>&lt;sup&gt;(2)&lt;/sup&gt;</td>
<td>&lt; 8 m</td>
<td>8 m ≤ x ≤ 40 m</td>
<td>&gt; 40 m</td>
</tr>
<tr>
<td><strong>Average number of employees</strong>&lt;sup&gt;(3)&lt;/sup&gt;</td>
<td>&lt; 50</td>
<td>50 ≤ x ≤ 250</td>
<td>&gt; 250</td>
</tr>
</tbody>
</table>

1. Calculated by taking the amount of total assets shown in the balance sheet drawn up in accordance with generally accepted accounting principles and practice.
2. For the purpose of these thresholds, turnover is defined in the EU Accounting Directive as the amounts derived from the sale of products and the provision of services after deducting sales rebates and value added tax and other taxes directly linked to turnover. Companies for which “turnover” is not relevant shall include income from other sources.
3. In determining the average number of employees during the accounting period:
   a) in relation to whole-time employees, the average number of employees shall be that established on the basis of the following formula: the aggregate number of full weeks worked during the accounting period by all the whole-time employees of the company divided by the number of full weeks comprised in that period, rounded off to the nearest number; and
   b) in relation to part-time employees, the average number of employees shall be that established on the basis of the following formula: the aggregate number of hours worked during the accounting period by all the part-time employees of the company divided by the number of full weeks comprised in that period and again divided by forty, rounded off to the nearest number.
Changes in financial reporting

The thresholds affect the designation of a company as small, medium-sized or large by reference to two consecutive accounting periods.

A newly incorporated company qualifies as small, medium-sized or large in its first financial year by reference to the criteria in Table 1 in that year.

The following examples illustrate the application of the above to companies that do not meet the definition of a parent.

### Company A

<table>
<thead>
<tr>
<th>Year</th>
<th>Size criteria</th>
<th>Permitted to prepare and file accounts as:</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>Small</td>
<td>Small</td>
</tr>
<tr>
<td>2015</td>
<td>Small</td>
<td></td>
</tr>
</tbody>
</table>

Company A is considered to be small in 2016 because it has met the small criteria for two consecutive years.

### Company B

<table>
<thead>
<tr>
<th>Year</th>
<th>Size criteria</th>
<th>Permitted to prepare and file accounts as:</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>Small</td>
<td>Medium</td>
</tr>
<tr>
<td>2015</td>
<td>Medium</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>Medium</td>
<td></td>
</tr>
</tbody>
</table>

Having qualified as medium-sized in 2015 because it had met the medium-sized criteria for two consecutive years, Company B must now meet the criteria for another two consecutive years to be considered as a small company; it is therefore considered to be medium-sized in 2016.

### Company C

<table>
<thead>
<tr>
<th>Year</th>
<th>Size criteria</th>
<th>Permitted to prepare and file accounts as:</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>Medium</td>
<td>Small</td>
</tr>
<tr>
<td>2015</td>
<td>Small</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>Small</td>
<td></td>
</tr>
</tbody>
</table>

Having qualified as small in 2015 because it had met the small criteria for two consecutive years, Company C must now meet the criteria for another two consecutive years to be considered as a medium-sized company; it is therefore considered to be small in 2016.

### Company D

<table>
<thead>
<tr>
<th>Year</th>
<th>Size criteria</th>
<th>Permitted to prepare and file accounts as:</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>Small</td>
<td>Small</td>
</tr>
<tr>
<td>2015</td>
<td>Medium</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>Small</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>Small</td>
<td></td>
</tr>
</tbody>
</table>

Having qualified as small in 2014 because it had met the small criteria for two consecutive years, Company D was still considered as a small company in 2015; it continues to be designated as a small company in 2016.
A parent company shall not be treated as qualifying as a small company in relation to an accounting period unless the group of which it is parent qualifies as a small group (see the section entitled “Consolidated accounts”). This shall not apply to a parent company which is exempted from the requirement to prepare consolidated financial statements in accordance with article 174 of the Act (the intermediate parent company exemption) (see the section entitled “Group exemptions”).

The following examples illustrate the application of the above to companies that meet the definition of a parent.

**Company E**

<table>
<thead>
<tr>
<th>Year</th>
<th>Size criteria</th>
<th>Permitted to prepare and file accounts as:</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>Small</td>
<td>Medium</td>
</tr>
<tr>
<td>2015</td>
<td>Small</td>
<td></td>
</tr>
</tbody>
</table>

Company E has met the small criteria for two consecutive years. However, the group of which Company E is the parent is a medium-sized group. Company E is not exempted from the requirement to prepare consolidated financial statements in terms of article 174 since all its shares are held directly by individuals. Since the group of which Company E is the parent does not qualify as a small group, Company E shall not be treated as a small company in 2016.

**Company F**

<table>
<thead>
<tr>
<th>Year</th>
<th>Size criteria</th>
<th>Permitted to prepare and file accounts as:</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>Small</td>
<td>Small</td>
</tr>
<tr>
<td>2015</td>
<td>Small</td>
<td></td>
</tr>
</tbody>
</table>

Company F has met the small criteria for two consecutive years. However, the group of which Company F is the parent is a medium-sized group. Company F satisfies the criteria in Article 174 of the Act and is therefore exempted in terms of that Article from the requirement to prepare consolidated financial statements. Company F is considered to be small in 2016, regardless of the size of the group of which it is parent.
PIEs

The determination of whether a company meets the definition of a PIE is a determining factor, as further explained herein. In terms of the EU Accounting Directive, a PIE shall be treated as large, regardless of its balance sheet total, turnover and number of employees.

For the purpose of the Act, a PIE shall have the meaning in the APA, included in Appendix I.

Default GAAP

The default GAAP that is applicable to a company depends on whether that company is considered to be small, medium-sized or large.

For financial reporting periods commencing on or after 1 January 2016, a small or a medium-sized company other than a PIE is required to apply GAPSME. The Board of Directors of such a company may however resolve to apply EU-IFRS for that period instead.

Large companies and PIEs are not eligible to apply GAPSME; the default GAAP for such companies is EU-IFRS.

Observations:

• A small or a medium-sized company other than a PIE that wishes to apply EU-IFRS in 2016 or after requires a directors’ resolution to that effect.
• Prior to the 2015 amendments to the Act, the default GAAP in Malta was EU-IFRS, regardless of the company’s size, and a company that was eligible to and that wished to apply GAPSE required a directors’ resolution to that effect.
• Small and medium-sized companies should be aware that certain laws or regulations regulating specific entities may specify certain financial reporting requirements (including the applicable GAAP to be applied) which such companies need to comply with.

Table 2 – Default GAAP

<table>
<thead>
<tr>
<th>Default GAAP for financial periods commencing on or after 1 January 2016</th>
<th>Non-PIE small companies</th>
<th>Non-PIE medium-sized companies</th>
<th>Non-PIE large companies</th>
<th>PIEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAPSME unless the directors resolve to apply EU-IFRS</td>
<td>GAPSME unless the directors resolve to apply EU-IFRS</td>
<td>EU-IFRS</td>
<td>EU-IFRS</td>
<td></td>
</tr>
</tbody>
</table>
Complete set of financial statements

The financial statements that need to be prepared by small, medium-sized and large companies and PIEs are included in Table 3 below. As illustrated in that table, the financial statements of small companies (and to a lesser extent, medium-sized companies) that are not PIEs depend on the GAAP that is applied by them.

Observations:
• A small company that applies GAPSME is not required to draw up a statement of changes in equity and a statement of cash flows. However, these statements are required to be prepared by a small company that elects to apply EU-IFRS.
• GAPSME does not include the concept of ‘other comprehensive income’ that is present in EU-IFRS.

Table 3 – Financial statements

<table>
<thead>
<tr>
<th></th>
<th>Non-PIE small companies</th>
<th>Non-PIE medium-sized companies</th>
<th>Non-PIE large companies</th>
<th>PIEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>A balance sheet</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>A statement of profit or loss</td>
<td>Y (6)</td>
<td>Y (3) (6)</td>
<td>Y</td>
<td>Y (3)</td>
</tr>
<tr>
<td>A statement of comprehensive income</td>
<td>n/a (1)</td>
<td>Y (3) (5)</td>
<td>Y (3) (5)</td>
<td>Y (3) (5)</td>
</tr>
<tr>
<td>A statement of changes in equity</td>
<td>N (2)</td>
<td>Y (2)</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>A statement of cash flows</td>
<td>N (2)</td>
<td>Y (2)</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Notes to the financial statements</td>
<td>Y (7)</td>
<td>Y</td>
<td>Y (7)</td>
<td>Y</td>
</tr>
</tbody>
</table>

1. GAPSME does not include the concept of ‘other comprehensive income’ that is present in EU-IFRS.
2. A small company that applies GAPSME is not required to draw up a statement of changes in equity and a statement of cash flows. However, these statements are required to be prepared by a small company that elects to apply EU-IFRS.
3. In terms of IAS 1.10A, an entity may apply any one of these two approaches:
   a) a single statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections.
   b) two statements by presenting the profit or loss section in a separate statement of profit or loss which shall immediately precede the statement presenting comprehensive income, which shall begin with profit or loss.
4. In terms of IAS 1.10, a complete set of financial statements also includes the following:
   a) comparative information in respect of the preceding period; this is also required by GAPSME.
   b) a third balance sheet when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements. This third balance sheet is not required by GAPSME.
5. The statement of comprehensive income (or if the single statement approach in 3a) above is applied, the other comprehensive income section) is included only to the extent that it is applicable.
6. A small company that is private exempt is exempted from the requirement to deliver the profit and loss account to the Registrar, regardless of the GAAP applied by it (see the Section entitled “Exemptions”); for the sake of clarity, this statement still needs to be prepared. If the exemption is applied, a declaration signed by the directors shall, together with the annual accounts, be delivered to the Registrar confirming that the company qualifies for this exemption.
7. There are substantially fewer disclosures in GAPSME, when compared to EU-IFRS, as further explained in the Section entitled “GAPSME simplifications”. In addition, the disclosures for small companies in GAPSME are less than those applicable to medium-sized companies.
The directors’ report

Small companies that are not PIEs are exempted from the requirement to prepare and to deliver to the Registrar a directors’ report. Where the directors take advantage of the exemption from delivering the directors’ report to the Registrar, they shall deliver to the Registrar, together with the annual accounts, a declaration on the prescribed form in lieu of the directors’ report. This declaration will need to be signed by the same directors who signed the balance sheet and it will need to confirm that the company qualifies for the exemption.

The directors’ report of medium-sized and large companies and PIEs shall include the additional disclosures in Table 4 below.

Table 4 – Additional disclosures in the directors’ report

<table>
<thead>
<tr>
<th>Non-PIE small companies</th>
<th>Non-PIE medium-sized companies</th>
<th>Non-PIE large companies</th>
<th>PIEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>A description of the principal risks and uncertainties</td>
<td>n/a (1)</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Financial key performance indicators*</td>
<td>n/a (1)</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Non-financial key performance indicators*</td>
<td>n/a (1)</td>
<td>N (2)</td>
<td>Y</td>
</tr>
<tr>
<td>Financial risk management and exposures**</td>
<td>n/a (1)</td>
<td>Y</td>
<td>Y</td>
</tr>
</tbody>
</table>

* To the extent necessary for an understanding of the undertaking’s development, performance or position, the directors’ report shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters. In providing the analysis, the directors’ report shall, where appropriate, include references to, and additional explanations of, amounts reported in the annual financial statements.

** The directors’ report shall include an indication of the following in relation to the company’s use of financial instruments and where material for the assessment of its assets, liabilities, financial position and profit or loss: (i) the undertaking’s financial risk management objectives and policies, including its policy for hedging each major type of forecasted transaction for which hedge accounting is used; and (ii) the undertaking’s exposure to price risk, credit risk, liquidity risk and cash flow risk.

1. Small companies other than PIEs are exempted from the requirement to prepare and to deliver to the Registrar a directors’ report. Where the directors take advantage of the exemption from delivering the directors’ report to the Registrar, they shall deliver to the Registrar, together with the annual accounts, a declaration signed by the directors confirming that the company qualifies for the exemption. Small companies that apply this exemption need to make certain disclosures in the notes to the financial statements if they acquire their own shares.

2. Medium-sized companies other than PIEs are exempted from the obligation to include non-financial key performance indicators in their directors’ report.

Observations:

- The amendments to the Act make the following clarifications:
  - the review of the development of the business of the company and its subsidiaries during the accounting period, and of their position at the end of that period shall be a balanced and comprehensive analysis of the development and performance of the undertaking’s business and of its position, consistent with the size and complexity of the business.
  - The consolidated directors’ report shall take account of the essential adjustments resulting from the particular characteristics of a consolidated directors’ report as compared to a directors’ report in a way which facilitates the assessment of the position of the undertakings included in the consolidation taken as a whole.
  - Where a consolidated directors’ report is required in addition to the directors’ report, the two reports may be presented as a single report.
Exemptions

The Act eliminates the option that was previously available to small companies for the drawing up and filing of abridged annual accounts. However, small companies other than PIEs may now still benefit from a number of exemptions, as further explained in Tables 5 and 6 below.

**Observations:**
- A distinction needs to be made between those exemptions which come out of the amendments to the Act, which are included in Table 5 and those exemptions which come out of GAPSME, which are included in Table 6. This distinction is important because those exemptions which come out of the Act are applicable to an entity regardless of the GAAP that is applied whereas the exemptions which come out of GAPSME are not applicable to those entities that elect to apply EU-IFRS.
- A company that is exempted from the requirement to deliver to the Registrar the profit and loss account is still required to draw up that statement.
- A company which is exempted from the requirement to deliver to the Registrar the profit and loss account is still required to include notes to the accounts relevant for the purposes of that profit and loss account to the extent that such disclosures are required in terms of the applicable GAAP or the Act. Consequently, unlike the situation under the previous version of the Act, the notes to the financial statements of small private exempt companies will not necessarily include solely those notes relevant for the purposes of the balance sheet.

Table 5 – Exemptions in the Act

<table>
<thead>
<tr>
<th>Directors’ report preparation exemption</th>
<th>Non-PIE small companies</th>
<th>Non-PIE medium-sized companies</th>
<th>Non-PIE large companies</th>
<th>PIEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Y (1)</td>
<td>N (2)</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
</tbody>
</table>

Profit and loss account filing exemption*

Y but only if private exempt (3) N N N

* To the extent that it is applicable, this exemption is only in relation to the delivery of the profit and loss account to the Registrar and not in relation to the preparation of this statement, which needs to be prepared by all companies, regardless of their size, as further explained in the Section entitled “Complete set of financial statements”.

1. Small companies other than PIEs are exempted from the requirement to prepare and to deliver to the Registrar a directors’ report. Where the directors take advantage of the exemption from delivering the directors’ report to the Registrar, they shall deliver to the Registrar, together with the annual accounts, a declaration signed by the directors confirming that the company qualifies for the exemption. Small companies that apply this exemption need to make certain disclosures in the notes to the financial statements if they acquire their own shares.
2. Although medium-sized companies other than PIEs are not exempted from the requirement to prepare and to deliver to the Registrar a directors’ report, they are exempted from the obligation to include non-financial key performance indicators in their directors’ report as further explained in the Section entitled “The directors’ report”.
3. A small company that is private exempt is exempted from the requirement to deliver the profit and loss account to the Registrar, regardless of the GAAP applied by it; for the sake of clarity, this statement still needs to be prepared. If the exemption is applied, a declaration on the prescribed form signed by the same directors who signed the balance sheet shall, together with the annual accounts, be delivered to the Registrar confirming that the company qualifies for the exemption.
The Act retains the exemption applicable to parent companies in terms of Article 183. In terms of that article, where a parent company prepares consolidated financial statements in accordance with the Act, it is exempted from delivering a copy of its profit and loss account to the Registrar to the extent that (a) the application of this exemption is disclosed in the notes of the accounts of the parent company and in the notes to the consolidated accounts and (b) the profit or loss of the parent company is shown separately either on the face of the parent company’s balance sheet or in the notes to the accounts of the parent company.

The Act retains the exemption from the audit requirements for private companies which on their balance sheet dates do not exceed the limits of two of the three criteria in Appendix II. Such companies still need to prepare audited accounts for the purpose of their tax return.

Table 6 – Exemptions in GAPSME

<table>
<thead>
<tr>
<th>Statement of changes in equity exemption</th>
<th>Non-PIE small companies</th>
<th>Non-PIE medium-sized companies</th>
<th>Non-PIE large companies</th>
<th>PIEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes but only if GAPSME is applied (1)</td>
<td>N (2)</td>
<td>n/a (3)</td>
<td>n/a (3)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Statement of cash flows exemption</th>
<th>Non-PIE small companies</th>
<th>Non-PIE medium-sized companies</th>
<th>Non-PIE large companies</th>
<th>PIEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes but only if GAPSME is applied (1)</td>
<td>N (2)</td>
<td>n/a (3)</td>
<td>n/a (3)</td>
<td></td>
</tr>
</tbody>
</table>

1. A small company that applies GAPSME is not required to draw up a statement of changes in equity and a statement of cash flows. However, these statements are required to be prepared by a small company that elects to apply EU-IFRS.
2. The exemption from the requirement to prepare a Statement of changes in equity and a Statement of cash flows is not extended to medium-sized entities even if their financial statements are drawn up in terms of GAPSME.
3. Since this exemption is provided by GAPSME, this is not applicable to large companies and PIEs.
2. Consolidated accounts

Size thresholds

The amendments to the Act revise the size thresholds for small groups and introduce thresholds for medium-sized groups and large groups.

Table 7 – Group thresholds

<table>
<thead>
<tr>
<th></th>
<th>Small groups</th>
<th>Medium-sized groups</th>
<th>Large groups</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance sheet total</strong></td>
<td>&lt; 4 m net / 4.8 m gross</td>
<td>4 m net / 4.8 m gross ≤ x ≤ 20 m net / 24m</td>
<td>&gt; 20 m net / 24m gross</td>
</tr>
<tr>
<td><strong>Turnover</strong></td>
<td>&lt; 8 m net / 9.6 m gross</td>
<td>8 m net / 9.6 m gross ≤ x ≤ 40 m net / 48m gross</td>
<td>&gt; 40 m net / 48m gross</td>
</tr>
<tr>
<td><strong>Average number of employees</strong></td>
<td>&lt; 50</td>
<td>50 ≤ x ≤ 250</td>
<td>&gt; 250</td>
</tr>
</tbody>
</table>

1. In relation to the aggregate figures for turnover and balance sheet total, “net” means with the set-offs and other adjustments required for the preparation of consolidated accounts and “gross” means without those set-offs and other adjustments; and a company may satisfy the relevant requirements on the basis of either the net or the gross figure.

According to the EU Accounting Directive, the thresholds affect the designation of the group as small, medium-sized or large by reference to two consecutive accounting periods.
Group exemptions

The amendments to the Act also resulted in changes to the exemptions that are applicable in the context of the preparation of consolidated financial statements.

Parent companies may no longer avail themselves of the financial holding company exemption which was previously included in Article 172 of the Act since this is no longer available.

The following two exemptions from the preparation of consolidated financial statements continue to be available for parent companies:

a) the size exemption in Article 173 of the Act; and
b) the intermediate parent company exemption in Article 174 of the Act.

### Table 8 – Group exemptions

<table>
<thead>
<tr>
<th>Financial holding company exemption (article 172)</th>
<th>Small group where the parent of that group is a non-PIE</th>
<th>Medium-sized group where the parent of that group is a non-PIE</th>
<th>Large group where the parent of that group is a non-PIE</th>
<th>Parent is a PIE</th>
</tr>
</thead>
<tbody>
<tr>
<td>No longer allowed</td>
<td>No longer allowed</td>
<td>No longer allowed</td>
<td>No longer allowed</td>
<td>No longer allowed</td>
</tr>
<tr>
<td>Size exemption (article 173)</td>
<td>It depends &lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>n/a &lt;sup&gt;(2)&lt;/sup&gt;</td>
<td>n/a &lt;sup&gt;(3)&lt;/sup&gt;</td>
<td>n/a &lt;sup&gt;(3)&lt;/sup&gt;</td>
</tr>
<tr>
<td>Intermediate parent company exemption (article 174)</td>
<td>It depends &lt;sup&gt;(2)&lt;/sup&gt;</td>
<td>It depends &lt;sup&gt;(2)&lt;/sup&gt;</td>
<td>It depends &lt;sup&gt;(2)&lt;/sup&gt;</td>
<td>It depends &lt;sup&gt;(2)&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

1. The exemption shall not apply if any of the undertakings to be consolidated is a company the securities of which have been admitted to trading on a regulated market or on an equivalent market in a non-Member State or non-EEA State. Furthermore, the exemption shall not apply if any of the group companies is a PIE.
2. This exemption applies to the extent that the criteria in Article 174 of the Act are satisfied. However, the exemption shall not apply to a parent company any of whose transferable securities have been admitted to trading on a regulated market or on an equivalent market in a non-Member State or non-EEA State.
3. Consolidated financial statements are required to be prepared unless the intermediate parent company exemption is applicable.

**Observations:**
- The EU’s Accounting Regulatory Committee has made it clear that where a parent company is exempted from preparing consolidated financial statements in terms of national law transposed from the Seventh Council Directive (which, together with the Fourth Council Directive, are the predecessors of the EU Accounting Directive), those provisions in IFRS setting out the requirement to prepare consolidated financial statements do not apply in terms of EU-IFRS. Accordingly, such financial statements are described as having been prepared in accordance with EU-IFRS. Consequently, a parent company which is exempted from preparing consolidated financial statements in terms of articles 173 or 174 of the Act can nevertheless claim compliance with EU-IFRS (but not “full” IFRS as issued by the International Accounting Standards Board) even if that parent would not otherwise be exempted from the requirement to prepare consolidated financial statements under IFRS 10.
- The amended Article 173 of the Act introduces an additional proviso which disqualifies a parent company from making use of the size exemption therein if any of the group companies is a PIE.
- Not all PIEs within the meaning of the APA are disqualified from applying the exemption in Article 174 of the Act.
- Companies which do not meet the definition of a PIE within the meaning of the APA are nonetheless disqualified from applying the exemption in Article 174 of the Act if their transferable securities are admitted to trading on “an equivalent market” in a non-Member State or non-EEA State, regardless of their size.
- Other special rules may apply in the case of investment entities as defined in IFRS 10.
The following examples illustrate the application of the above.

**Application of the exemption in Article 174**

Company A is a Maltese parent undertaking with transferable securities admitted to trading on the regulated market of the Malta Stock Exchange. Consequently, it meets the definition of a PIE. Since its transferable securities are admitted to trading on a regulated market, it is not entitled to apply the exemption in Article 174.

Company B is a Maltese parent undertaking with transferable securities admitted to trading on an "equivalent market" in a non-Member State or non-EEA State. Company B does not meet the definition of a PIE within the meaning of the APA. Since its transferable securities are admitted to trading on an "equivalent market" in a non-Member State or non-EEA State, it is not entitled to apply the exemption in Article 174, regardless of its size.

Company C, a Maltese parent undertaking, is a credit institution and meets the definition of a PIE. Its securities are not admitted to trading on a regulated market or on an equivalent market in a non-Member State or non-EEA State. To the extent that Company C satisfies the criteria in Article 174, it will be entitled to the exemption in that article.

**Application of the exemption in Article 173**

Company D, a Maltese parent undertaking, does not meet the definition of a PIE within the meaning of the APA and its securities are not admitted to trading on an "equivalent market" in a non-Member State or non-EEA State. The group of which Company D is the parent is a small group. One of Company D’s subsidiaries is a credit institution and meets the definition of a PIE. In terms of the amendments to Article 173 of the Act, Company D is not entitled to apply the size exemption in that article.
Group exclusions

Article 170 (4) of the Act identifies instances where a subsidiary may be excluded from consolidation. The amendments to the Act introduce a further exclusion in this regard.

Guidance issued by the EU’s Accounting Regulatory Committee explains that when financial statements are prepared in accordance with EU-IFRS, the scope of consolidation is dictated by those IFRS and accordingly the exclusions in national law identified in this Section are not considered to be relevant for the purpose of those financial statements since those exclusions are not permitted by IFRS 10.

Observations:
- The EU’s Accounting Regulatory Committee draws out a distinction between those ‘exemptions’ in the Section entitled “Group exemptions” and those ‘exclusions’ identified in this Section.
- The following are examples of subsidiaries that may not be excluded from consolidation in terms of IFRS 10: (a) a subsidiary is not excluded from consolidation on the basis that control is temporary; (b) a subsidiary is not excluded from consolidation on the basis that there are severe long-term restrictions; and (c) a subsidiary is not excluded from consolidation on the grounds that its activities are substantially different from those of the rest of the group.
3. Additional disclosures

The Third Schedule to the Act includes provisions applicable to individual and consolidated financial statements.

Following the amendments to the Act, the Third Schedule is now divided into two parts. Part I addresses individual financial statements and contains additional disclosures that need to be included in the notes to those financial statements whereas Part II addresses consolidated financial statements and contains additional disclosures that need to be included in the notes to those financial statements.

These additional disclosures need to be made by all companies regardless of the GAAP applied; however certain disclosures depend on the company’s designation as small, medium-sized or large or whether the entity is a PIE.

The disclosures in the Third Schedule are being included in Appendix III.

**Observations:**

- Besides the disclosures which come out of the Third Schedule, there are certain other additional disclosures which come out of specific articles of the Act, such as the requirement to disclose the following in the financial statements:
  - the registration number;
  - the registered office (in addition to the name) of the undertaking which draws up the consolidated accounts referred to in Article 174 to the extent that the parent claims the exemption in that article.
- The EU Accounting Directive specifies that all entities (including small companies) need to disclose the average number of employees during the year. The requirement to also disclose the number of employees by category is only applicable to medium and large companies and PIEs.
- The EU Accounting Directive specifies that medium and large companies and PIEs need to disclose the total directors’ emoluments and does not specifically extend that requirement to small companies. However, small (and other) companies that prepare their financial statements in terms of IFRS need to also make the applicable disclosures in IAS 24 for key management personnel and small and medium-sized companies that prepare their financial statements in terms of GAPSME need to also make the applicable disclosures in Section 20 for related party transactions, including transactions with directors or key management personnel, as applicable.
- In accordance with the EU Accounting Directive, all companies, regardless of their size, need to disclose in the notes to the financial statements the amount and nature of individual items of income or expenditure which are of exceptional size or incidence. It should be noted in this respect that small private exempt companies that will be exempted from the requirement to deliver to the Registrar their profit and loss account will still need to disclose in the notes to the financial statements information about individual items of income or expenditure which fall within the scope of this requirement.
4. GAPSME

GAPSME applicability

The objective of GAPSME is to prescribe the general accounting principles for small and medium-sized entities.

Large entities are not eligible to apply GAPSME in their individual financial statements. Similarly, the parent of a large group is also not eligible to apply GAPSME in its consolidated financial statements.

A PIE within the meaning of the APA is not eligible to apply GAPSME in its financial statements.

Observations:
- The applicable size thresholds in GAPSME are identical to those in the Act.
- When compared to GAPSE, GAPSME widens the applicability thresholds. Accordingly, more entities are expected to be eligible to apply GAPSME.
- An entity was eligible to apply GAPSE if none of the three applicable criteria in Table 9 was exceeded within the stipulated period; in terms of GAPSME, an entity that exceeds only one of the three criteria in Table 9 within the stipulated period is still eligible to apply GAPSME to the extent that the limits of the other two criteria are not exceeded.
- The only qualitative eligibility criteria in GAPSME is that a PIE is not eligible in terms thereof; on the other hand, GAPSE included various qualitative criteria which prohibited entities from applying GAPSE; as an example, GAPSE could not be applied by a public company or an entity in possession of a licence or other authorisation issued by the Malta Financial Services Authority acting as the competent authority in terms of the relevant legislation.
- Small and medium-sized companies should be aware that certain laws or regulations regulating specific entities may specify certain financial reporting requirements (including the applicable GAAP to be applied) which such companies need to comply with.
Changes in financial reporting

Table 9 – Difference in thresholds

<table>
<thead>
<tr>
<th></th>
<th>GAPSE Individual (in Euros)</th>
<th>GAPSME Individual (in Euros) (maximum)</th>
<th>GAPSE Group (in Euros)</th>
<th>GAPSME Group (in Euros) (maximum)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance sheet total</strong></td>
<td>≤ 17.5 m</td>
<td>≤ 20 m</td>
<td>≤ 17.5 m net / 21m gross</td>
<td>≤ 20 m net / 24m gross</td>
</tr>
<tr>
<td><strong>Turnover (1)</strong></td>
<td>≤ 35 m</td>
<td>≤ 40 m</td>
<td>≤ 35 m net / 42m gross</td>
<td>≤ 40 m net / 48m gross</td>
</tr>
<tr>
<td><strong>Average number of employees</strong></td>
<td>≤ 250</td>
<td>≤ 250</td>
<td>≤ 250</td>
<td>≤ 250</td>
</tr>
</tbody>
</table>

1. GAPSE referred to total revenue, which was defined as the amounts derived, in the ordinary course of business, from: (i) the sale of products; (ii) the rendering of services; and (iii) the use by third parties of assets held by the entity, which yield income, including but not limited to interest, royalties, rent and dividends; after deducting any sales rebates, value added tax and other taxes directly linked to an entity’s revenue.

A subsidiary that is prohibited from applying GAPSME in the preparation of its own individual financial statements does not necessarily disqualify its parent from applying GAPSME in the parent’s consolidated financial statements.

The following examples illustrate the application of the above.

**Company A**, a non-PIE, is the parent of a medium-sized group. Company A is not exempted from the requirement to prepare consolidated financial statements in terms of article 174 since all its shares are held directly by individuals. One of Company A’s subsidiaries meets the definition of a PIE and is therefore not eligible to apply GAPSME in its own individual financial statements. Company A is not disqualified from applying GAPSME in its own consolidated financial statements.

**Company B**, a non-PIE, is the parent of a small group. One of Company B’s subsidiaries meets the definition of a PIE and is therefore not eligible to apply GAPSME in its own individual financial statements. Company B is not exempted from the requirement to prepare consolidated financial statements in terms of article 174 since all its shares are held directly by individuals. The fact that one of Company B’s subsidiaries is a PIE disqualifies Company B from making use of the size exemption in article 173 of the Act. Consequently, Company B is required to prepare consolidated financial statements. Company B is not disqualified from applying GAPSME in its own consolidated financial statements.
First-time adoption of GAPSME

An entity that prepared its previous financial statements in conformity with GAPSE or EU-IFRS and which prepares its 2016 financial statements in accordance with GAPSME is required to apply Section 24 of GAPSME. Such an entity is referred to as a ‘first-time adopter of GAPSME’.

The entity will need to prepare an opening GAPSME balance sheet at the date of the transition to GAPSME. This is the starting point for its accounting under GAPSME.

The accounting policies that an entity uses in its opening balance sheet under GAPSME may differ from those that it used for the same date using its previous financial reporting framework. An entity shall recognise the resulting adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition.

Observations:
- If an entity is a first-time adopter of GAPSME in its 2016 financial statements and the accounting year is a calendar year, then the date of transition to GAPSME is 1 January 2015.
- GAPSME provides further guidance in instances where it is impracticable for an entity to restate the opening balance sheet at the date of transition.

A first-time adopter of GAPSME shall disclose the following:
- the date of the transition to GAPSME;
- the fact that it is a first-time adopter;
- an explanation of how the transition affected the entity’s reported financial position and financial performance. In particular, the financial statements shall include:
  a) reconciliations of its equity reported under its previous financial reporting framework to its equity under GAPSME for both of the following dates:
     i. the date of transition; and
     ii. the end of the latest period presented in the entity’s most recent annual financial statements under its previous financial reporting framework; and
  b) a reconciliation of the profit or loss reported under its previous financial reporting framework for the latest period in the entity’s most recent annual financial statements to its profit or loss under GAPSME for the same period.
GAPSME simplifications

GAPSME is tailored for the needs of small and medium-sized entities. GAPSME simplifies some of the principles in EU-IFRS for recognition and measurement and significantly reduces the extent of the required disclosures in the notes to the financial statements. For such entities, GAPSME further reduces the reporting burden resulting from the continuous revisions and amendments that are made to EU-IFRS.

Observations:
• In addition, small entities that apply GAPSME will be required to provide less disclosures than medium-sized entities. GAPSME makes a distinction between those disclosures that are applicable to all entities and those disclosures that are only applicable to medium-sized entities.

Table 10 provides a list of the main simplifications to the principles in EU-IFRS:

Table 10 – Main GAPSME simplifications

- Substantially fewer disclosures, such as:
  - Non-disclosure of ultimate controlling party that is an individual
  - Non-disclosure of the fair value of investment property if the cost model is applied
  - Less disclosures on financial risk management
  - Less fair value related disclosures
  - Certain related party balances and transactions generally disclosed in aggregate
  - Exemption from disclosing related party transactions between members of a group
  - Goodwill – always amortised over a period not exceeding 20 years (10 years if useful life cannot be estimated reliably) and tested for impairment if indication exists
  - Intangible assets - always amortised over their useful life (10 years for development costs if useful life cannot be estimated reliably)
  - Investments in associates and jointly controlled entities – can be measured at cost in the non-consolidated financial statements
  - Financial statements:
    - Statement of change in equity and Statement of cash flows not required for small entities
    - Third balance sheet not required (mandated by IAS 1 when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements)
    - Concept of ‘other comprehensive income’ not applicable
5. Other main amendments

Article 387 (1) of the Act has been amended, thus requiring overseas companies to deliver their accounts to the Registrar within 12 months from the end of the respective accounting period.

The amendments to the Act delete the sub-article previously allowing a company that carried on business or had business interests to the extent of more than 90 per cent outside Malta, to extend the period allowed for laying accounts before the general meeting to 18 months after the end of the relevant period.

The amendments to the Act also amend the marginal note of Article 193 clarifying that the said Article applies to all companies. In terms of the amended Article 193 (3), a company’s undistributable profits also include (a) the difference by which the profit attributable to the participating interest and recognised in the profit and loss account exceeds the amount of dividends already received or the payment of which can be claimed and (b) the amount of development costs included under ‘assets’ which have not been completely written off.

The amended Fourth Schedule, entitled ‘Report on Payments to Governments’ and the related Article 213A of the Act are applicable to large undertakings and PIEs active in the extractive industry or the logging of primary forests.
Changes in financial reporting

Appendices
Appendix I:  
Definition of a PIE in the APA

A PIE is defined in Article 2(1) of the APA as follows:
1. an entity governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC;
2. a credit institution as defined in point 1 of Article 3(1) of Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, other than those referred to in Article 2 of that Directive;
3. an insurance undertaking within the meaning of Article 2(1) of Directive 91/674/EEC; and
4. such other entities as may be prescribed by the Minister responsible for finance.
## Appendix II:
Exemptions from audit requirements

<table>
<thead>
<tr>
<th></th>
<th>In Euros:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance sheet total</td>
<td>&lt; 46,600</td>
</tr>
<tr>
<td>Turnover</td>
<td>&lt; 93,000</td>
</tr>
<tr>
<td>Average number of employees</td>
<td>&lt; 2</td>
</tr>
</tbody>
</table>
Appendix III:
Disclosures in the Third Schedule

PART I (an extract)

Additional disclosures for medium-sized and large undertakings and public-interest entities

3. In the notes to the financial statements public-interest entities, large undertakings and medium-sized undertakings shall, in addition to the information required under other provisions of this Act and generally accepted accounting principles and practice, disclose information in respect of:

(i) the amount and nature of individual items of income or expenditure which are of exceptional size or incidence;
(ii) the average number of employees during the financial year broken down by categories and, if they are not disclosed separately in the profit and loss account, the staff costs relating to the accounting period broken down between wages and salaries, social security costs and pension costs.

4. In the notes to the financial statements, medium-sized and large undertakings and public-interest entities shall, in addition to the information required under this Schedule and any other provisions of this Act, disclose information in respect of the following matters:

(a) the existence of any participation certificates, convertible debentures, warrants, options or similar securities or rights, with an indication of their number and the rights they confer;

(b) the name and registered office of each of the undertakings in which the undertaking, either itself or through a person acting in his own name but on the undertaking's behalf, holds a participating interest, showing the proportion of the capital held, the amount of capital and reserves, and the profit or loss for the latest financial year of the undertaking concerned for which financial statements have been adopted; the information concerning capital and reserve and the profit or loss may be omitted where the undertaking concerned does not publish its balance sheet and is not controlled by the undertaking;

(c) the name, the head or registered office and the legal form of each of the undertakings of which the undertaking is a member having unlimited liability;

(d) the name and registered office of the undertaking which draws up the consolidated financial statements of the largest body of undertakings of which the undertaking forms part as a subsidiary undertaking;

(e) the name and registered office of the undertaking which draws up the consolidated statements of the smallest body of undertakings of which the undertaking forms part as a subsidiary undertaking and which is also included in the body of undertakings referred to in sub-paragraph (d);

(f) the place where copies of the consolidated financial statements referred to in sub-paragraphs (c) and (d) may be obtained, provided that they are available;
(g) the nature and business purpose of the undertaking's arrangements that are not included in the balance sheet and the financial impact on the undertaking of those arrangements, provided that the risks or benefits arising from such arrangements are material and in so far as the disclosure of such risks or benefits is necessary for the purposes of assessing the financial position of the undertaking.

Additional disclosures applicable to large undertakings and public-interest entities

5. In the notes to the financial statements, large undertakings and public-interest entities shall, in addition to the information required under this Schedule and any other provisions of this Act, disclose information in respect of the total fees for the financial year charged by each auditor or audit firm for the statutory audit of the annual financial statements, and the total fees charged by each auditor or audit firm for other assurance services, for tax advisory services and for other non-audit services:

Provided that this requirement shall not apply to the annual financial statements of an undertaking where that undertaking is included within the consolidated financial statements required to be drawn up under article 170, provided, however, that such information shall be given in the notes to the consolidated financial statements.

PART II (an extract)

Additional provisions applicable to consolidated accounts

The preparation of consolidated financial statements

1. An undertaking which draws up consolidated financial statements shall apply the same measurement bases as are applied in its annual financial statements. However, other measurement bases in accordance with generally accepted accounting principles and practice may be used in consolidated financial statements. Where an undertaking uses such other measurement bases, that fact shall be disclosed in the notes to the consolidated financial statements and reasons given.

The notes to the consolidated financial statements

2. The notes to the consolidated financial statements of large groups and medium-sized groups shall set out the information required by Part 1 of this Third Schedule, in addition to any other information required under other provisions of this Act, in a way which facilitates the assessment of the financial position of the undertakings included in the consolidation taken as a whole, taking account of the essential adjustments resulting from the particular characteristics of consolidated statements as compared to annual financial statements, including the following:

in disclosing the amounts of emoluments and advances and credits granted to members of the administrative, managerial and supervisory bodies, only amounts granted by the parent undertakings to members of the administrative, managerial and supervisory bodies of the parent undertaking shall be disclosed.

3. The notes to the consolidated financial statements shall, in addition to the information required under this Act, set out the following information:

(a) in relation to undertakings included in the consolidation:

(i) the names and registered offices of those undertakings;

(ii) the proportion of the capital held in those undertakings, other than the parent undertaking, by the undertakings included in the consolidation or by persons acting in their own names but on behalf of those undertakings, and
(iii) information as to which of the conditions referred to in sub-articles (2), (3) and (8) of article 2 of this Act following the application of sub-articles (4), (5) and (6) of the said article 2 has formed the basis on which the consolidation has been carried out. This disclosure may, however, be omitted where consolidation has been carried out on the basis of paragraph (a) of sub-article (2)(a)(i) of article 2 of this Act and where the proportion of the capital and the proportion of the voting rights held are the same.

(b) The information set out in sub-paragraph (a) of this paragraph shall be given in so far as it is applicable in respect of undertakings excluded from a consolidation on the basis that the effect of their inclusion in the consolidation would be immaterial pursuant to the provisions of sub-article (3) of article 170, and an explanation must be given for the exclusion of the undertakings referred to in sub-article (4) of that article.

(c) the names and registered offices of associated undertakings included in the consolidation and the proportion of their capital held by undertakings included in the consolidation or by persons acting in their own names but on behalf of those undertakings; and

(d) in relation to each of the undertakings, other than those referred to in sub-paragraphs (a) and (b), in which undertakings included in the consolidation, either themselves or through persons acting in their own names but on behalf of those undertakings, hold a participating interest:

(i) the name and registered offices of those undertakings;
(ii) the proportion of the capital held;
(iii) the amount of the capital and reserves, and the profit or loss for the latest financial year of the undertaking concerned for which financial statements have been adopted.

The information concerning capital and reserves and the profit or loss may also be omitted where the undertaking concerned does not publish its balance sheet.

4. The information required by paragraph 3(a) to (d) may take the form of a statement filed with the Registrar. The filing of such a statement shall be disclosed in the notes to the consolidated financial statements. Such information may be omitted when its nature is such that its disclosure would be seriously prejudicial to any of the undertakings to which it relates and the Registrar agrees that the information need not be disclosed. Any such omission shall be disclosed in the notes to the consolidated financial statements.
Changes in financial reporting

About the authors

Giselle Cini
Giselle graduated from the University of Malta with first class honours and joined Deloitte in 1999. She joined the firm's Technical Department in 2005 and today leads the IFRS division of the Malta firm. In July 2015, Giselle was appointed to the position of Principal within the firm.

Giselle is involved in providing technical assistance and advice on complex IFRS-related matters to engagement teams and clients, in monitoring developments on IFRS, in delivering internal and external IFRS training sessions and in participating in technical IFRS activities organised by the Deloitte network.

Giselle is also involved in the application of local accounting-related laws and was also actively involved in the drafting of GAPSE and GAPSMOE and provides assistance to engagement teams and clients in this regard.

Between 1999 and 2005 Giselle was involved in the audit of a wide range of clients operating in various industries and was also regularly seconded to the audit departments of Deloitte Luxembourg and Deloitte London.

Bernard Scicluna
Bernard is the firm's National Professional Practice Director and is responsible for coordinating all the firm's consultations relating to accounting and auditing matters. Ben is also responsible for handling a portfolio of audit engagements.

Bernard was a member of the Accountancy Board, the official regulator of the accountancy profession in Malta, between 1997 and 2016. He served as President of the Malta Institute of Accountants during the 2009-2011 term, served as an elected Council member between 1991 and 2014, and is an active member of several of its technical sub-committees.

Bernard was a founder partner of the firm Curmi, Paris, Scicluna & Co. which merged with Deloitte Malta on 1 January 2005.
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