TECHNICAL CIRCULAR	**2/2016 (TC 2_2016)**
TO:	**All the Members of the Institute**
FROM:	**Accounting Standards Committee**
DATE:	**21 October 2016**
SUBJECT:	**Recent changes in the Companies' Law**

The Companies' Law was ("Basic Law") was amended by the Law 97 (I) of 2016, as published in the official gazette of the Republic on 23 September 2016 (the "Amending Law"). The provisions of the Amending Law are the result of the transposition of the EU Accounting Directive (2013/34/EU) into domestic law.

The purpose of this Technical Circular is to provide guidance on the principal changes emanating fom the aforesaid revised Law. It is noted that the circular does not serve as comprehensive listing of all pertinent requirements and, accordingly, should be read in conjunction with the underlying Law.

It is hereby pointed out that small/dormant companies are from now on subject to statutory audit, as the exception that existed in the Law has been abolished.

The Institute monitors developments in respect of Companies' Law issues and shall provide additional guidance to Members when necessary.

Main changes in the Law

I) Categories of Companies and Groups

A. Categories of Companies

Categories of companies have been established as set out in the table below.

Table 1

Category	Criteria			Condition
	Total Gross Assets	*Net Turnover(1)*	*Average No of employees during the financial year*	
Small Companies	Less than €4.000.000	Less than €8.000.000	Less than 50	As at their balance sheet dates do not exceed the limits of at least two of the three criteria.
Medium-sized Companies	Less than €20.000.000	Less than €40.000.000	Less than 250	Are not small companies and which as at their balance sheet dates do not exceed the limits of at least two of the three criteria.
Large Companies	More than €20.000.000	More than €40.000.000	More than 250	As at their balance sheet dates exceed at least two of the three criteria.

[1]'Net turnover' means 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

B. *Categories of Groups*

Table 2

Category		**Criteria**		**Condition**
	Total Gross Assets[2]	*Net Turnover* *(1),(3)*	*Average No of employees during the year*	
Small Groups(2)	Less than €4.000.000	Less than €8.000.000	Less than 50	On a consolidated basis, do not exceed the limits of at least two of the three criteria as at the balance sheet date of the parent company
Medium-Sized Groups(2)	Less than €20.000.000	Less than €40.000.000	Less than 250	Groups which are not small groups, and which, on a consolidated basis, do not exceed the limits of at least two of the three criteria as at the balance sheet date of the parent company
Large Groups(2)	More than €20.000.000	More than €40.000.000	More than 250	Groups which on a consolidated basis, exceed the limits of at least two of the criteria as at the balance sheet date of the parent company

[1]‘Net turnover’ means 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.

[2]As groups shall be considered any groups consisting of parent and subsidiary companies to be included in a consolidation.

[3] For the purpose of calculation of the limits presented in Table 2 above, it is permissible **not to apply** the following:

- Carrying value of the share capital of the group entities and the percentage of the share capital of the subsidiaries participating in the group can be netted-off against the percentage of their Net Assets;
- Offset the following intercompany balances and transactions:
    - Intercompany assets and liabilities,
    - Intercompany revenues and expenses,
    - Unrealised profits/losses on intercompany transactions.

In such cases, when the above are not applied, the limits for the Total Gross Assets and Net Turnover criteria **shall be increased by 20%.** (Article 141.A)

II) Exemptions from consolidation

- The exemption of the Law to prepare consolidated financial statements which applied to small groups has been extended to apply to **Small and Medium-size groups (as these are defined in section I above)** except where any affiliated[1] company is a public-interest entity or where the obligation to draw up consolidated financial statement is required by other legislations. (Article 142(1)(ε))

- The provisions of the Law exempting group of companies from preparing consolidated financial statements if the ultimate parent or parent companies publish consolidated financial statements on the basis of Generally Recognized Accounting Principles continue to apply

- The provisions for consolidation exemption in the cases of (i) severe and long-term restrictions, (ii) disproportionate cost or undue delay and (iii) held exclusively with the view to subsequent sell, as these were provided by the Article 142.A.(5) of the Law have been abolished. **Hence, ICPAC's Technical Circular No. 51 is hereby superseded**. (Article 142(A))

III) Management Report

The revised Law introduced the term 'Management Report' to replace the term 'Directors Report'. Most of the provisions relating to the content of this report remain the same, however some new ones were introduced and a few others were amended.

The following paragraphs provide a brief summary of the key requirements emanating by the revised law which mandate the content of the Management Report. This shall not serve as a comprehensive list of all relevant provisions and disclosure requirements, thus shall not be considered as exhaustive. In terms of disclosures required in particular the disclosure checklist (technical circular 19) will be updated and issued in due course.

a. Small companies the shares of which are not listed in the regulated markets of any EU member state, and which are exempt in accordance with this revised law from the obligation to prepare consolidated financial statements, are exempt from the obligation to prepare management report, provided that the requirements concerning the acquisition of their own shares, set out in the subparagraph (vii) of paragraph (g) below, are provided in the notes to the financial statements (Article 151.1.η).

b. Separate financial statements and consolidated financial statements should be accompanied by a management report or a consolidated management report accordingly, in regards to the position and the expected developments of the affairs of the company or the group (Article 151.1.a).

[1] 'affiliated companies' means any two or more companies within a group

c. Small and medium-size groups shall be exempted from the obligation to draw up a consolidated management report as set out in paragraph (b), except where any affiliated[1] company is a public-interest entity (Article 151.1.β).

d. The management report shall include a fair review of the development and performance of the company's business and of its position, together with a description of the principal risks and uncertainties that it faces (Article 151.1.γ).

e. The review referred to in paragraph (d) above, shall be a balanced and comprehensive analysis of the development and performance of the company's business and of its position, consistent with the size and complexity of the business (Article 151.1.δ).

f. (i) To the extent necessary for an understanding of the company's development, performance or position, the analysis 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.

(ii) In providing the analysis, the management report shall, where appropriate, include references to, and additional explanations of, amounts reported in the annual financial statements (Article 151.1.ε).

g. The management report shall also give an indication of:

(i) any change during the financial year in the nature of the business of the company or in its subsidiaries or in the classes of business in which the company has an interest, whether as a member of another company or otherwise, and especially in any takeover or merger which has been realized or intended, whether active or passive; (Article 151.1.στ.i)

(ii) the company's likely future development; (Article 151.1.στ.ii)

(iii) activities in the field of research and development; (Article 151.1.στ.iii)

(iv) the existence of branches of the company; and (Article 151.1.στ.iv)

(v) 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:

1. the company'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

2. the company's exposure to price risk, credit risk, liquidity risk and cash flow risk. (Article 151.1.στ.v.)

(vi) changes in the company's share capital (Article 151.1.στ.vi)

(vii) In case of acquisition of own shares, the following information:

1. The reasons for which own shares were acquired during the year

2. The number and the nominal value or in the absence of nominal value, the carrying value of own shares acquired and transferred during the year, as well as the part of the issued share capital which they represent

3. In the case of acquisition or transfer for a price, the relevant consideration

4. The number and the nominal value or in the absence of nominal value, the carrying value of all the shares purchased and held by the company, and the part of the issued share capital which they represent (Article 151.1.στ.vii).

(viii) Significant changes in the composition, distribution of responsibilities or compensation of the Board of Directors (Article 151.1.στ.viii)

(ix) Any important event for the company that has occurred after the end of the financial year (Article 151.1.στ.ix)

h. Explanatory recommendation in connection with the distribution of profits, absorption of losses and creation of reserves (Article 151.1.ζ)

i. Medium-sized companies, the shares of which are not listed in the stock exchange of any EU member state, and which are exempt in accordance with this revised law from the obligation to prepare consolidated financial statements, are exempt from the obligation set out in subparagraph (i) of paragraph (f) in so far as it relates to non-financial information (Article 151.1.θ).

j. Consolidated management report should include as a minimum information required from paragraph (a) and paragraphs (c) to (i) above, taking into consideration the required adjustments as these derives from the particularities of the consolidated management report in relation with the management report, in a manner that enable the evaluation of the position of all companies included in the consolidation. (Article 151.1.ι)

k. In reporting details of own shares acquired, the consolidated management report shall indicate the number and the nominal value, or in the absence of nominal value, the carrying amount of all the parent company's shares held by that parent company, by subsidiary companies of that parent company or by a person acting in his own name but on behalf of any of those companies. Those particulars can be disclosed in the notes to the consolidated financial statements. (Article 151.1.κ)

IV) Additional Disclosures in the Financial Statements as required by the amendments to Article 142 of the Cyprus Companies Law

- Medium-sized companies, Large companies and Public Interest Entities (PIEs) should provide additional disclosures in their Separate and Consolidated Financial Statements in regards with the below:

  (i) If they are not disclosed separately in the income statement, the staff costs relating to the financial year, broken down between wages and salaries, social security costs and pension costs.

  (ii) Name and registered office of the company which prepares Consolidated Financial Statements for the **largest** group of companies which the company participate as a subsidiary and the location from which users can obtain the Consolidated Financial Statements assuming such information is available.

  (iii) Name and the registered office of the company which prepares Consolidated Financial Statements for the **smaller** sub-group of companies in which the Company participates as a subsidiary and which is also included in the largest group of companies as described in the point (ii) above (Article 142.1.δ.γA).

- The requirement for disclosing the total fees for the financial year charged by each statutory auditor or audit firm for the statutory audit of the annual financial statements, and the total fees charged by each statutory auditor or audit firm for other assurance services, for tax advisory services and for other non-audit services is limited only to the case of Large size companies and PIEs (i.e no longer applicable for small and medium-sized companies) (Article 142.1.δ.γB)

- The notes to the separate financial statements and consolidated financial statements shall disclose the average number of employees employed during the financial year (Article 142.1.γ.ii).
  In terms of the required disclosures, the disclosure checklist for companies (technical circular 19) will be updated and issued in due course.

V) Other provisions arising from Amendments to the Cyprus Companies Law No 97 (I)

- The provisions of the revised Law have additional impact to the corporate governance statement that is required to be included in the management report of companies whose shares are listed in the stock exchange of any EU member state. The revised Law contains a comprehensive list of the relevant provisions.

- The provisions of the revised Law entail reference to a specific distribution condition as delineated in Article 142.3.α.βA: ‘Where costs of development and formation costs are included under 'Assets' in the balance sheet and these costs have not been completely written off, no distribution of profits take place unless the amount of the reserves available for distribution and profits brought forward is at least equal to that of the costs not written off.’

- The revised Law delineates provisions in relation to reporting of payments to governments, for specific types of entities, which are effective for periods beginning on or after 1 January 2016. The revised Law contains a comprehensive list of the relevant provisions.