

GIBRALTAR FINANCIAL REPORTING STANDARD No. 4 INTERPRETATIVE NOTE

(Issued June 1995; revised December 2001)

This interpretative note should be read in conjunction with the Explanatory Foreword to Gibraltar Accounting Standards.

REFERENCE

Financial Reporting Standard No.4 – “Capital Instruments” together with this interpretative note will be referred to collectively as Gibraltar Financial Reporting Standard No.7 – “Capital Instruments” (“GFRS 4”).

LEGAL REQUIREMENTS IN GIBRALTAR

FRS 4, Appendix I paragraph 5 makes reference to Paragraph 24 of Schedule 4 to the Companies Act 1985. The equivalent reference in local legislation is Schedule 6 paragraph 9 of the Companies (Accounts) Ordinance 1999 which is consistent with the approach in the Companies Act 1985.

Paragraph 116 (2) (b) Companies Ordinance 1930, permits the capitalisation of “any expenses incurred in connection with the issue of share capital or debentures.” As this treatment is not however mandatory, this GFRS, which in accordance with its principles requires a different treatment, is not in conflict with the Ordinance.

There are certain legal requirements in Gibraltar relating to disclosures of the financial costs of raising capital that will need to be made in addition to the disclosures stated in this GFRS:

Commissions and discounts on the issue of shares or debentures

Section 44 (1) – “Where a company has paid any sums by way of commission in respect of any shares or debentures, or allowed any sums by way of discount in respect of any debentures, the total amount so paid or allowed, or so much thereof as has not been written off, shall be stated in every balance sheet of the company until the whole amount thereof has been written off.”

Preference shares

Section 46 (2) – “There shall be included in every balance sheet of a company which has issued redeemable preference shares a statement specifying what part of the issued share capital of the company consists of such shares and the date on or before which those shares are, or are to be liable, to be redeemed.”

Discount on share issues

Section 47 (3) – “...every balance sheet issued by the company subsequently to the issue of the shares must contain particulars of the discount allowed on the issue of the shares or so much of that discount as has not been written off at the date of the issue of the balance sheet.”

Interest paid on share capital

Section 54 (1) (g) – “...the accounts of the company shall show the share capital on which, and the rate at which, interest has been paid out of capital during the period to which the accounts relate.”

APPLICATION TO SMALLER ENTITIES

Reporting entities applying the Gibraltar Financial Reporting Standard for Smaller Entities currently applicable are exempt from this accounting standard.

However, reference should be made to the legal requirements section of this GFRS to establish whether application of the FRSSE (or part thereof) would constitute a departure from any Gibraltar legal accounting requirements.

DATE FROM WHICH EFFECTIVE

The accounting and disclosure requirements set out in this GFRS should be adopted as soon as possible and regarded as recommended practice in respect of the later of (i) accounting periods ending on or after 31 December 2001 and (ii) the effective date as stipulated in the UK standard.
