

*Value Accounts
Investment
Funds 2017*

*AMIT implementation
supplement*

Disclaimer

This publication has been prepared for general reference only and does not constitute professional advice. It is not intended to be and is not comprehensive in relation to its subject matter. This publication is not intended to cover all aspects of Australian Accounting Standards, or to be used as a substitute for reading any relevant accounting standard, professional pronouncement or guidance, the Corporations Act 2001 (Cth) or any other relevant material. Specific entity structure, facts and circumstances will have a material impact on the preparation and content of financial reports. No person should undertake or refrain from any action based on this publication or otherwise rely on this publication. This publication should not be used as a substitute for consultation with a professional adviser with knowledge of information relevant to your particular circumstances. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication. To the extent permitted by law PwC, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any use of or reliance on this publication. Any references in this publication to PwC providing, or agreeing to provide, any services to any entity are illustrative only and are not intended to reflect or summarise the terms of actual arrangements in respect of the provision of services. Accordingly, users of this publication should not rely on such references as reflecting or summarising actual terms. Legal advice should be obtained as to whether any such arrangements are required to be disclosed, and as to the form of any disclosure.

© 2017 PricewaterhouseCoopers. All rights reserved. PricewaterhouseCoopers (“PwC”) refers to the Australian member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

Supplement – Funds with puttable instruments reclassified from liabilities to equity due to AMIT implementation

The Value Accounts Investment Funds illustrative financial statements are based on an open-ended fund which issues puttable instruments that are classified as financial liabilities under AASB 132 *Financial instruments: Presentation*. Funds that have opted into the new Attribution Managed Investment Trust (AMIT) tax regime, may be required to reclassify their units as equity. The disclosures below show how a Fund might disclose the reclassification of its puttable shares from liabilities to equity in the financial statements and the associated notes.

The Fund in this example has amended its constitution effective 1 July 2017 as part of a process to become eligible to elect into the new AMIT tax regime. The Fund's previous constitution provided each unitholder with a present entitlement to trust income and contained an obligation to distribute income each year. This obligation has been removed from the constitution and now the allocation of taxable incomes to unitholders is based on "attribution on a fair and reasonable basis".

As an exception to the financial liability definition, AASB 132 requires certain puttable instruments to be classified as equity (see paragraph 16A). Previously the Fund's units did not qualify for this exception because, in addition to a unitholder's right to put the unit back to the Fund, the constitution had provided each unitholder with a present entitlement to trust income and the Fund was obligated to distribute their income. As a result unitholders' funds were previously classified as a financial liability.

As a consequence of changing the constitution to remove the obligation to distribute trust income and the fund meeting the other conditions to adopt the AMIT tax regime, the criteria for the AASB 132.16A exception are now met and the Fund's units will be reclassified from financial liability to equity on 1 July 2017.

This Supplement should be read in conjunction with Value Accounts Investment Funds - March 2017.

Statement of comprehensive income

		Year ended	
		30 June 2018	30 June 2017
		\$'000	\$'000
		Notes	
AASB101(82)(a)	Investment income		
AASB7(20)(b)	Interest income from financial assets not held at fair value through profit or loss		947
AASB118(30)	Dividend income		2,922
AASB118(30)	Distribution income		681
AASB7(20)(a) AASB101(35)	Net gains/(losses) on financial instruments held at fair value through profit or loss	6	8,158
	Other operating income		75
AASB101(85)	Total net investment income/(loss)		12,783
			(2,621)
AASB101(99)	Expenses		
	Responsible entity fees	17	803
AASB101(85)	Custody fees		18
AASB1054(10)	Remuneration of auditors	15	55
AASB139(43)	Transaction costs		438
	Registry fees		131
	Other operating expenses	16	103
	Total operating expenses		1,548
			1,154
	Operating profit/(loss)		11,235
			(3,775)
AASB101(82)(b)	Finance costs attributable to unitholders		
AASB132(35)	Distributions to unitholders	12	-
AASB132(35)	(Increase)/decrease in net assets attributable to unitholders	11	-
AASB101(81A)(a)	Profit/(loss) for the year		11,235
			-
AASB101(81A)(b)	Other comprehensive income		-
AASB101(81A)(c)	Total comprehensive income for the year		11,235
			-

Not mandatory

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Balance sheet

		As at	
		30 June 2018	30 June 2017
		\$'000	\$'000
	Notes		
Assets			
AASB101(54)(i)			
Cash and cash equivalents	13	3,620	1,325
Margin accounts		1,420	2,223
Due from brokers - receivable for securities sold		1,962	984
AASB101(54)(h)			
Receivables		251	128
Other assets		246	320
AASB101(54)(d)			
Financial assets held at fair value through profit or loss	7	117,520	90,716
Total assets		125,019	95,696
Liabilities			
AASB101(54)(k)			
Payables		76	68
Due to brokers - payable for securities purchased		817	2,597
Other liabilities		256	144
AASB101(54)(m)			
Financial liabilities held at fair value through profit or loss	8	12,215	9,738
Total liabilities (30 June 2017: excluding net assets attributable to unitholders)		13,364	12,547
Net assets attributable to unitholders – Equity*	11	111,655	-
Net assets attributable to unitholders – Liability*	11	-	83,149

* Net assets attributable to unitholders are classified as equity at 30 June 2018 and as a financial liability at 30 June 2017. Refer to note 1 for further detail.

Not mandatory

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity¹⁻²

		Year ended	
		30 June 2018	30 June 2017
		\$'000	\$'000
	Total equity at the beginning of the financial year		
		Notes	
AASB101(80)(A)	Reclassification due to AMIT tax regime implementation*	11	83,149
			-
	Comprehensive income for the year		
AASB101(106)(a)	Profit/(loss) for the year		11,235
AASB101(106)(d)(i)	Other comprehensive income		-
AASB101(106)(d)(ii)			-
AASB101(106)(a)	Total comprehensive income for the year		11,235
			-
	Transactions with unitholders		
AASB101(106)(d)(iii)	Applications		26,991
AASB101(106)(d)(iii)	Redemptions		(9,670)
AASB101(106)(d)(iii)	Return of capital		-
AASB101(106)(d)(iii)	Units issued upon reinvestment of distributions		-
AASB101(106)(d)(iii)	Distributions paid and payable		(50)
AASB101(106)(d)(iii)	Total transactions with unitholders		17,271
			-
	Total equity at the end of the financial year*		111,655
			-

* Effective from 1 July 2017, the Fund's units have been reclassified from financial liability to equity. Refer note 1 for further detail. As a result, equity transactions, including distributions have been disclosed in the above statement for the year ended 30 June 2018.

Not mandatory

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of changes in equity

AASB101(80)(A)

1. Where the Fund changed its constitution and the other conditions to adopt the AMIT tax regime have been met during the year (rather than from 1 July 2017), the amount reclassified to equity equals the net assets attributable to unitholders on the day before the change become effective. As a consequence, application, redemptions, return of capital, units issued upon reinvestment of distributions and distributions paid and payable presented in the statement of changes in equity will only include transactions that occurred on or after the reclassification of units to equity.

AASB101(106)

2. An entity shall present a statement of changes in equity showing:
 - (a) total comprehensive income for the period showing separately the total amounts attributable to owners of the parent and to non-controlling interest
 - (b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with AASB 108 *Accounting Policies, changes in Accounting Estimates and Errors*
 - (c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes from:
 - (i) profit or loss
 - (ii) other comprehensive income, and
 - (iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in the loss of control.

The Fund does not distinguish between different components of equity and hence only one column is presented in the statement of changes in equity.

Notes to the financial statements (extracts)

1 General information (extract)

AASB101(112)(c)

Reclassification of units from financial liability to equity

On 5 May 2016, a new tax regime applying to Managed Investment Trusts ("MITs") was established under the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016*. The Attribution Managed Investment Trust ("AMIT") regime allows MITs that meet certain requirements to make an irrevocable choice to be an AMIT. In order to allow the Fund to elect into the AMIT tax regime, the Fund's constitution has been amended and the other conditions to adopt the AMIT tax regime have been met effective 1 July 2017. The Responsible Entity is therefore no longer contractually obligated to pay distributions. Consequently the units in the Fund have been reclassified from a financial liability to equity on 1 July 2017, see note 11 for further information.

2 Summary of significant accounting policies (extract)

AASB101(119)

(c) Net assets attributable to unitholders

AASB132(16)(A)

Units are redeemable at the unitholders' option, however, applications and redemptions may be suspended by the responsible entity if it is in the best interests of the unitholders.

The units can be put back to the Fund at any time for cash based on the redemption price, which is equal to a proportionate share of the Fund's net asset value attributable to the unitholders.

AASB101(136A)(c),(d)

The units are carried at the redemption amount that is payable at balance sheet date if the holder exercises the right to put the unit back to the Fund. This amount represents the expected cash flows on redemption of these units.

AASB101(80)(A)

Units are classified as equity when they satisfy the following criteria under AASB 132 *Financial instruments: Presentation*:

- the puttable financial instrument entitles the holder to a pro-rata share of net assets in the event of the Fund's liquidation
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical
- the puttable financial instrument does not include any contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavorable conditions to the Fund, and it is not a contract settled in the Fund's own equity instruments; and
- the total expected cash flows attributable to the puttable financial instrument over the life are based substantially on the profit or loss.

AASB132(16)(E)

As at 30 June 2017, net assets attributable to unitholders are classified as a financial liability. Effective from 1 July 2017, the Fund's units have been reclassified from financial liability to equity as they satisfied all the above criteria.

Notes to the financial statements (extracts)

AASB101(112)(c) 11 Net assets attributable to unitholders ¹ (extract)

AASB132(16E) Under AASB 132 *Financial instruments: Presentation*, puttable financial instruments meet the definition of a financial liability to be classified as equity where certain strict criteria are met. The Fund shall classify a financial instrument as an equity instrument from the date when the instrument has all the features and meets the conditions.

AASB101(80)(A) Prior to 1 July 2017 the fund classified its net assets attributable to unitholders as liabilities in accordance with AASB 132. On 1 July 2017, the Fund has elected into the AMIT tax regime. The Fund's constitution has been amended on the same date and it no longer has a contractual obligation to pay distributions to unitholders. Therefore the net assets attributable to unitholders of the Fund meet the criteria set out under AASB 132 and are classified as equity from 1 July 2017 onwards.

As a result of the reclassification of net assets attributable to unitholders from liabilities to equity, the Fund's distributions are no longer classified as finance cost in the statement of comprehensive income, but rather as dividends paid in the statement of changes in equity.

AASB101(136A)(a) Movements in the number of units and net assets attributable to unitholders during the year were as follows:

	30 June 2018		30 June 2017	
	Number	\$'000	Number	\$'000
Balance as at 1 July*	7,866,012	83,149	6,888,200	77,187
Applications	2,335,279	26,991	1,183,103	12,902
Redemptions	(1,024,095)	(9,670)	(205,291)	(2,165)
Units issued upon reinvestment of distributions	-	-	-	-
Distributions paid and payable	-	(50)	-	-
Profit/(loss) for the year	-	11,235	-	(4,775)
Closing balance as at 30 June*	<u>9,177,196</u>	<u>111,655</u>	<u>7,866,012</u>	<u>83,149</u>

***Net assets attributable to unitholders are classified as equity at 30 June 2018 and as a financial liability at 30 June 2017. Refer to note 1 for further details.**

As stipulated within the Fund Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

Units are redeemed on demand at the unitholder's option. However, holders of these instruments typically retain them for the medium to long term. As such, the amount expected to be settled within twelve months after the end of the reporting period cannot be reliably determined.

AASB101(134-136)

Capital risk management

AASB101(136A)(a), (b)

The Fund considers its net assets attributable to unitholders as capital. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the responsible entity. Under the terms of the Fund's constitution, the responsible entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

AASB101(80)(A)

Net assets attributable to unitholders

1. Where the Fund has changed its constitution and AMIT conditions were met during the year units were consequently reclassified from liability to equity during the year. The statement of changes in equity will therefore only show applications, redemptions etc. from the date of the reclassification. In this case, it may be helpful for readers if the table of movements in units and net assets attributable to unitholders discloses separately the movements while units were classified as liabilities and the movements from the date they were classified as equity.