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In June 2013 the Financial Accounting Standards Board issued Accounting Standards Update No. 2013-08, Financial Services – Investment Companies – Topic 946 – Amendments to the Scope, Measurement, and Disclosure Requirements (ASU 2013-08). This follows the guidance issued by the International Accounting Standards Board – Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27 (IFRS 10 – Consolidated Financial Statements, IFRS 12 – Disclosure of Interests in Other Entities, IAS 27 – Separate Financial Statements), issued in October 2012 (the Amendment).

Both ASU 2013-08 and the Amendment provide that all the above requirements do not have to be met to be classified as an investment company/entity. As can be seen the clear difference in the definition characteristics is point (c).

In assessing whether it meets the definition described above, an entity shall consider whether it has the following typical characteristics:

U.S. GAAP – ASU 2013-08	IFRS – The Amendment
1. It has more than one investment.	1. It has more than one investor.
2. It has more than one investor.	2. It has more than one investor.
3. It has investors that are not related parties of the parent (if there is a parent) or the investment manager.	3. It has investors that are not related parties of the entity; and
4. It has ownership interests in the form of equity or partnership interests.	4. It has ownership interests in the form of equity or similar interests
5. It manages substantially all of its investments on a fair value basis.	5. See (c) above

The clear difference from the above is point 5 which was included as a fundamental characteristic under the Amendment. The absence of one or more of the typical characteristics does not necessarily preclude an entity from being an investment company. If an entity does not possess one or more of the typical characteristics, it shall apply judgment and determine, considering all facts and circumstances, how its activities continue to be consistent (or are not consistent) with those of an investment company.

Is my fund an investment entity/company?

This is a follow up on a previous article detailing the requirements of the Amendment. In this article we do a summary comparison of the requirements of ASU 2013-08 to the Amendment and conclude on whether there is some form of convergence between International Financial Reporting Standards and U.S. Generally Accepted Accounting Principles as it relates to an investment entity/company.

Definition

U.S. GAAP – ASU 2013-08	IFRS – The Amendment
(a) It is an entity that does both of the following: 1. Obtains funds from one or more investors and provides the investor(s) with investment management services 2. Commits to its investor(s) that its business purpose and only substantive activities are investing the funds solely for returns from capital appreciation, investment income, or both.	(a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services; (b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
(b) The entity or its affiliates do not obtain or have the objective of obtaining returns or benefits from an investee or its affiliates that are not normally attributable to ownership interests or that are other than capital appreciation or investment income.	(c) measures and evaluates the performance of substantially all of its investments on a fair value basis.
(c) An entity regulated under the Investment Company Act of 1940 is an investment company under ASU 2013-08, without regard to (a) and (b) above.	NOTE; Under the Amendment, entities regulated under the Investment Company Act of 1940 or other regulatory laws are not automatically an investment entity.





Disclosure

U.S. GAAP – ASU 2013-08	IFRS – The Amendment
1. An investment company shall disclose that it is an investment company following accounting and reporting guidance.	1. An entity shall disclose that it meets the definition of an investment entity and the significant judgments and assumptions it has made in determining it is an investment entity.
2. An entity with a change in status shall disclose that a change in status occurred and the reasons for that change.	2. When an entity becomes, or ceases to be, an investment entity, it shall disclose the change of investment entity status and the reasons for the change.
3. An entity that previously was not an investment company under this topic and becomes an investment company under this topic shall disclose the effect of the change in status on the reported amounts of investments as of the date of the change in status.	3. For each unconsolidated subsidiary, an investment entity shall disclose: <ol style="list-style-type: none"> the subsidiary's name the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary; and the proportion of ownership interest held by the investment entity and, if different, the proportion of voting rights held.
4. If, during the periods presented, an investment company provides financial support to an investee, it shall disclose information about both of the following items, disaggregated by financial support that it was contractually required to provide and financial support that it was not previously contractually required to provide: <ol style="list-style-type: none"> The type and amount of financial support provided, including situations in which the investment company assisted the investee in obtaining financial support The primary reasons for providing the financial support. 	4. The nature and extent of any significant restrictions (e.g. resulting from borrowing arrangements, regulatory requirements or contractual arrangements) on the ability of an unconsolidated subsidiary to transfer funds to the investment entity in the form of cash dividends or to repay loans or advances made to the unconsolidated subsidiary by the investment entity; and
5. An investment company also shall separately disclose both of the following items about financial support that it is contractually required to provide to any of its investees but has not yet provided: <ol style="list-style-type: none"> The type and amount of financial support to be provided, including situations in which the investment company must assist the investee in obtaining financial support The primary reasons for the contractual requirement to provide the financial support. 	5. Any current commitments or intentions to provide financial or other support to an unconsolidated subsidiary, including commitments or intentions to assist the subsidiary in obtaining financial support.
	6. An investment entity shall disclose the terms of any contractual arrangements that could require the entity or its unconsolidated subsidiaries to provide financial support to an unconsolidated, controlled, structured entity, including events or circumstances that could expose the reporting entity to a loss (e.g. liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or to provide financial support).

As can be seen from the above the disclosure requirements are primarily the same.

Master/feeder structures

U.S. GAAP – ASU 2013-08	IFRS – The Amendment
The financial statements of the master are attached to the financial statements of the feeder fund.	The Amendment says the required disclosure may be provided by including, in the financial statements of the feeder, the financial statements of the master that contains the information, however this is not a requirement. Therefore if a feeder's financial statements contain all the required disclosures it does not have to attach the master's, however attaching the master's may be the easiest option.

Effective date

U.S. GAAP – ASU 2013-08	IFRS – The Amendment
Effective for an entity's interim and annual reporting periods in fiscal years that begin after December 15, 2013. Earlier application is prohibited.	The IASB decided on a January 1, 2014 effective date for the requirements for investment entities. Early application is permitted, however, this would also mean consideration of the other requirements of IFRS 10 and the requirements of IFRS 11 and IFRS 12.

Key differences

- U.S. GAAP provides comprehensive accounting and reporting guidance for investment companies within the scope of Topic 946. IFRS is new to the game of industry specific accounting guidance and rather than providing comprehensive accounting and reporting guidance, IFRS only provides an exception from consolidation requirements for entities that are investment entities.
- Under the amendments in ASU 2013-08, an entity that is regulated as an investment company under the Investment Company Act of 1940 is automatically an investment company for accounting purposes. Because regulatory and legal requirements may differ depending on a particular jurisdiction, the IASB decided not to link its definition of an investment entity to whether the entity is an investment entity under local regulations or laws.
- Not to be forgotten under U.S. GAAP, the fund is an investment company and under IFRS an investment entity.

Conclusion

In the investment company/entity world this is a huge step forward towards a global set of accounting rules, while there are differences, a set of financial statements for a fund prepared under U.S. GAAP and IFRS are now much more comparable than ever before.

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