



Grant Thornton

An instinct for growth™

Financial reporting for funds

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Maura Cronin

Director

Financial Services Audit

Mark Kinsella

Director

Financial Services Audit



Agenda

- Updates to International Financial Reporting Standards(IFRS)
- FRS 100 to 102
- Companies Act 2014
- ICAV overview
- AIFMD
- UK SORP overview
- Updates to US GAAP

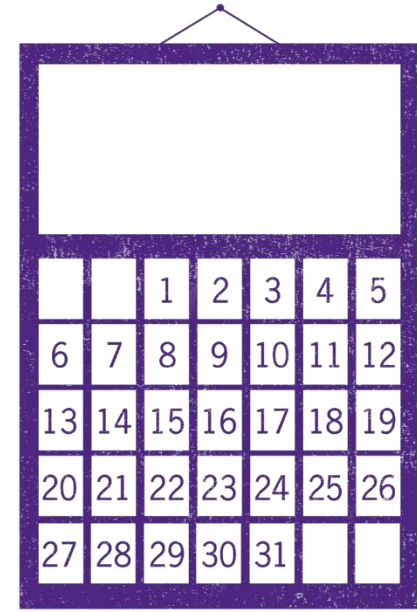


Updates to IFRS

IFRS 9 financial instruments

Effective date

- effective for annual periods beginning on or after 1 January 2018
- early application is permitted for reporting periods beginning after 24 July 2014
- EU endorsement expected H2 2015:
 - European Financial Reporting Advisory Group (EFRAG) advisory letter submitted 15/9/15.



IFRS 9 financial instruments

Classification overview

IAS 39 classification:

- rules-based
- complex and difficult to apply
- multiple impairment models
- own gains and losses recognised in P&L for Fair Value Option (FVO) liabilities
- complicated reclassification rules

IFRS 9 classification:

- principle-based
- classification based on business model and nature of cashflows
- one impairment model
- own gains and losses recognised in OCI for FVO liabilities
- business model-driven reclassification rules



IFRS 9 financial instruments

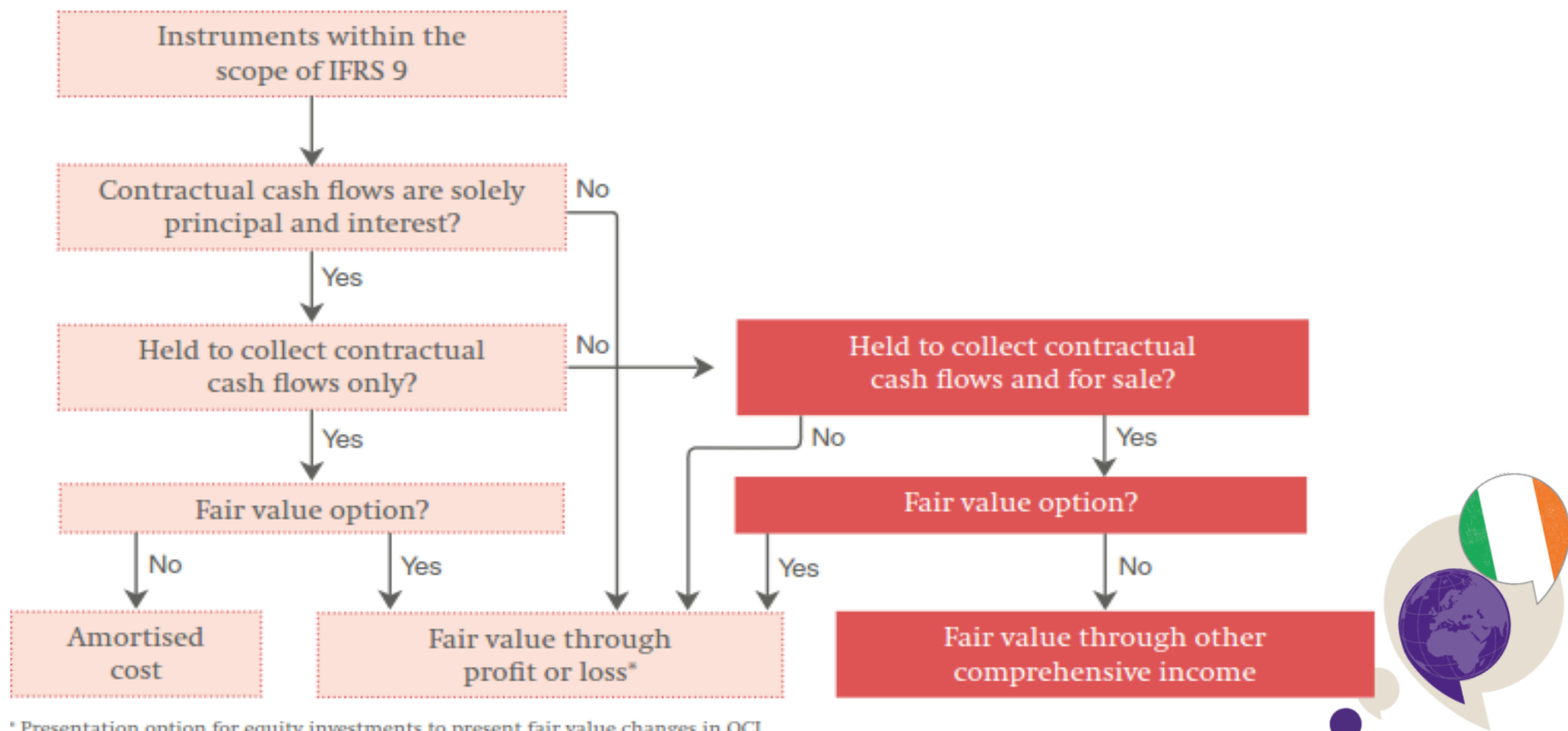
Financial assets

- applies one classification approach for all types of financial assets, including embedded derivatives
- financial assets are therefore classified in their entirety rather than being subject to complex bifurcation requirements
- IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications - those measured at amortised cost and those measured at fair value.



IFRS 9 financial instruments



Process for determining the classification and measurement of financial assets

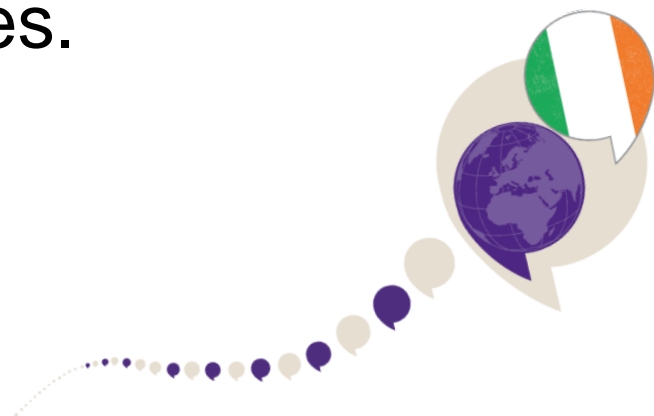


* Presentation option for equity investments to present fair value changes in OCI

IFRS 9 financial instruments

Financial liabilities

- relatively unchanged from IAS 39 - most financial liabilities will continue to be measured at amortised cost
- requires changes in the fair value of an entity's own credit risk to be recognised in OCI rather than in Profit and Loss (P&L)
-  credit rate  value of liabilities.



IFRS 9 financial instruments

Impairment

- Expected Credit Loss (ECL) model versus IAS 39 incurred loss model
- entities are generally required to recognise either 12-months' or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition.



IFRS 9 financial instruments

Impairment

ECL model applies to the following:

Debt
instruments at
amortised cost

Loan
commitments

Financial
guarantee
contracts

Lease
receivables
under IAS 17

Contract assets
under IFRS 15



IFRS 9 financial instruments

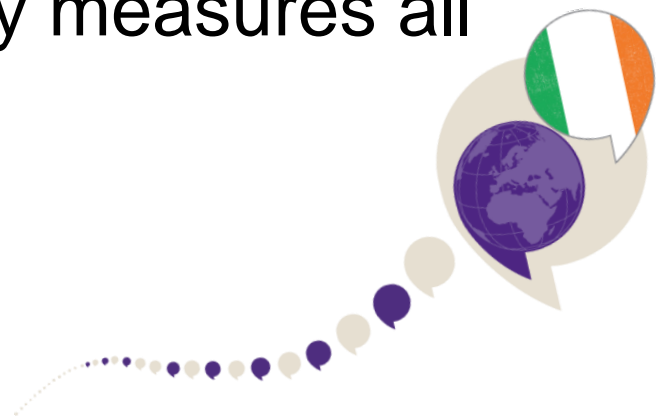
Hedge accounting

- major overhaul of hedge accounting
- introduces significant improvements, principally by aligning the accounting more closely with risk management
- improves ability of investors to understand the business & risk management activities



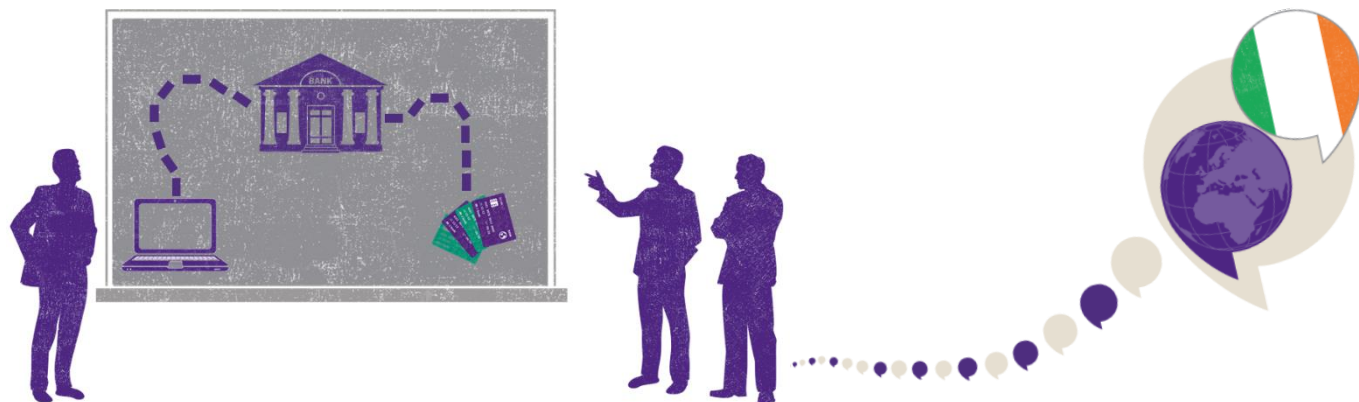
IFRS 10, IFRS 12 and IAS 28 investment entities: *Applying the consolidation exception*

- effective for annual periods beginning on or after 1 January 2016
- the amendments to IFRS 10 clarify that the exemption (in IFRS 10.4) from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.



IFRS 10, IFRS 12 and IAS 28 investment entities: *Applying the consolidation exception*

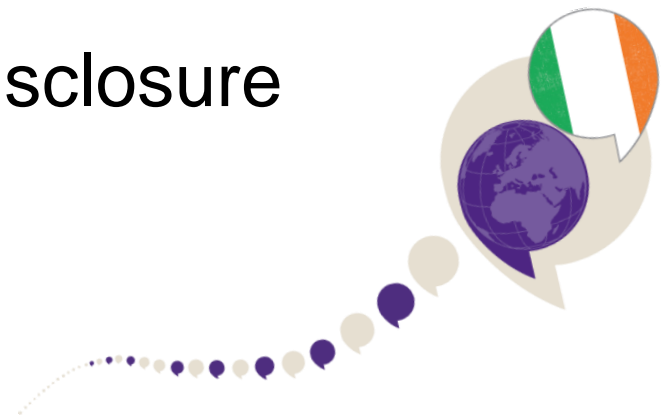
- the amendments to IFRS 10 further clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated.
- all other subsidiaries of an investment entity are measured at fair value.



IAS 1 disclosure initiative – amendments to IAS 1

Overview

- clarification rather than change to IAS 1
- clarifies:
 - materiality requirements
 - specific items that may be disaggregated
 - flexibility in order of disclosure notes presentation.
- early application permitted, no disclosure requirement re amendments.

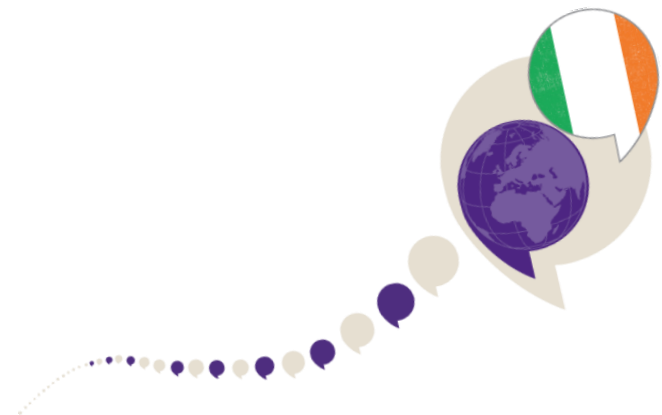
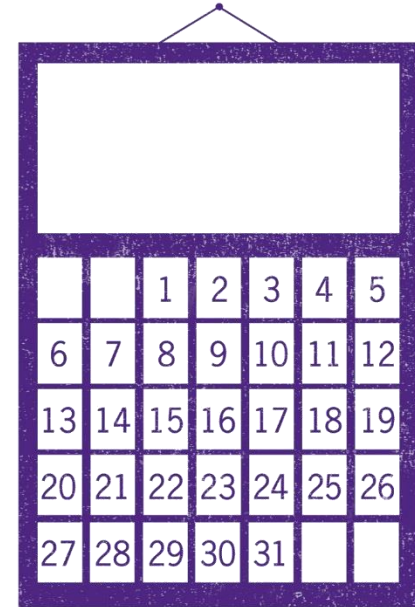


FRS 100 to 102

FRS 100 to 102

Effective date

- effective for periods beginning on or after 1 January 2015
- requirement to restate comparative
- July 2015 amendments – small entities and other minor amendments – effective for periods beginning 1 January 2016.



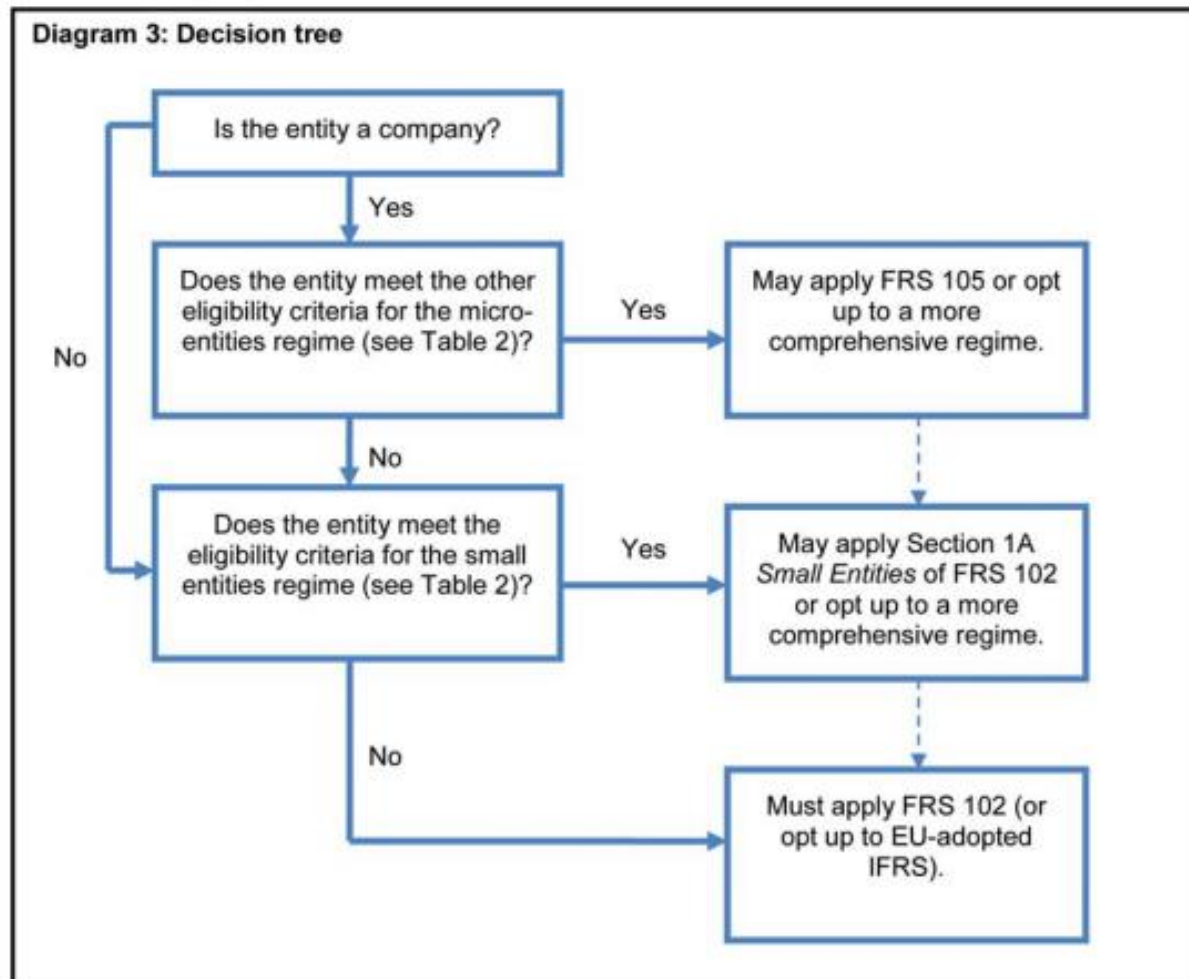
FRS 102 to 105

Complexity FRS 101, FRS 102 and FRS 105



FRS 102 to 105

Decision tree



FRS 101

Small entities

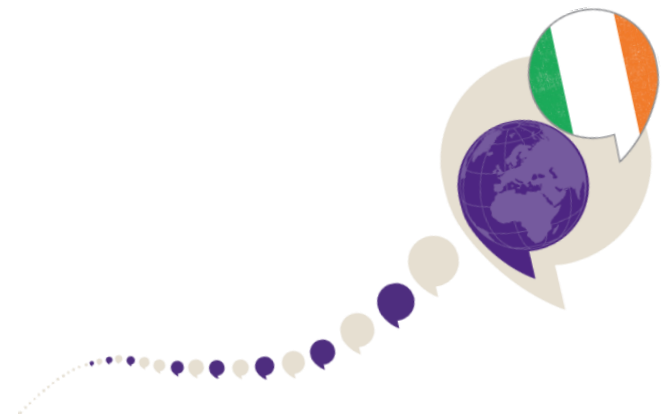
- requirements under Section 1A
 - statement of financial position
 - an income statement
 - notes that include the disclosures required by law
 - any additional disclosure required to give a true and fair view.



FRS 102

Investments - classification

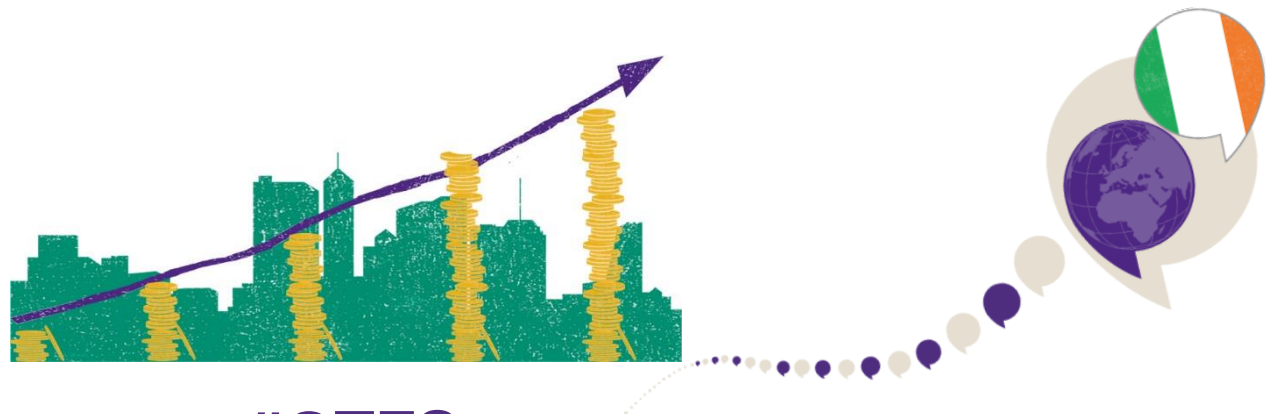
- FRS 102 introduces classification of financial assets into two categories
 - basic (section 11):
 - cash
 - loans/receivables
 - non-basic (section 12):
 - all financial instruments
 - with exceptions.



FRS 102

Investments - measurement

- subsequent measurement depends on classification of asset
 - basic – amortised cost
 - non-basic – fair value through P&L.



FRS 102

Investments - valuation

Definition of fair value (FRS 102 2:34):

- less market based
- quoted price is the bid price (FRS 102 11:27).

Accounting policy choice (section 11 and 12):

- full measurement and recognition principles of IAS 39/IFRS 9.



FRS 102

Investments – fair value hierarchy

- fair value hierarchy (FRS 102 11:27)
 - a. quote price
 - b. price of recent transaction
 - c. valuation technique
- reduced disclosures in comparison to IFRS
- levels a, b and c may differ from Levels 1, 2 and 3 per IFRS.



FRS 102

Investments – fair value hierarchy

IFRS 13	Valuation methodology	FRS 102
Level 1	Quoted price in active market	Classification A
Level 2	Price of recent transaction	Classification B
	Valuation techniques using observable data	Classification C
Level 3	Valuation techniques using unobservable data	



FRS 102

Investments – fair value hierarchy example

Investment	Quote price	Recent price	Valuation technique	
			Observable inputs	Unobservable inputs
Credit default swap			\$125	
Mortgage backed securities				\$100



Companies Act 2014

Companies Act 2014

Overview – key points

- commencement date – 1 June 2015
- main companies:
 - Private Company Limited by Shares (LTD)
 - Designated Activity Company (DAC)
 - Unlimited Companies (UC)
 - Public Limited Companies (PLC)
 - Guarantee Company (CLG).



Companies Act 2014

Overview – key points

- 18 month transition period – consider DAC or LTD
- LTD's can have a single director
- no longer an objects clause
- mergers between companies are made easier
- directors duties are listed in the Act
- audit exemption has been extended to small groups, unlimited entities, dormant companies and companies limited by guarantee.



Companies Act 2014

Funds – key considerations

- directors report
- audit exemption
- accounting records
- statutory auditors report
- financial statements – formats and note disclosures
- financial year
- voluntary revision of defective financial statements.



ICAV overview

ICAV

Overview

- new form of collective investment vehicle for UCITS funds and Alternative Investment Funds (AIFs)
- not subject to rules or requirements designed for other forms of company
- same tax regime as other Irish funds
- ICAV is able to make an election under the US “check the box” rules to be treated as a “pass through” entity



ICAV

Overview

- ICAV legislation is separate from that governing other Irish companies
- investors in an ICAV benefit from limited liability protection
- reduces administrative burden
- no requirement to aim to have spreading of investment risk
- may be established as an umbrella structure
- governing document known as an instrument of incorporation ("IOI")
- board of directors of an open-ended ICAV are permitted to elect to dispense with the holding of an annual general meeting
- permits re-domiciliation by way of continuation or legal migration into Ireland



AIFMD



AIFMD- timeline

- Alternative Investment Fund Managers Directive (AIFMD) issued in 2011
- AIFMD implemented in Irish Law on 22nd July 2013
- transitional period for registration as an AIF concluded on 21 July 2014
- most EU states have implemented AIFMD (Ireland implemented in 2013)
- purpose is to increase investor protection, reduce systematic risk and establish a harmonised EU framework for regulating Alternative Investment Funds (AIFs)



AIFMD scope

- applicable to all EU AIFMs if their AUM is:
 - €100M if leverage is utilised
 - €500M if leverage is not utilised and a five year lock-up redemption period for investors
- all EU and non-EU AIFMs where underlying funds are marketed in the EU.
- non EU AIFMs need to analyse their investment products to view if AIFMD is relevant
- SPVs are scoped out of AIFMD.



Harmonised areas for AIFMs and AIFs

- authorisation
- organisational arrangement
- conduct of business
- **remuneration**
- conflicts of Interest
- risk management
- liquidity management
- **transparency disclosures to investors and regulatory reporting**
- delegation
- appointment of a depositary
- marketing in respect of EU and non EU AIFs



Key reporting requirements

- AIFMD Chapter IV
 - Articles 22-24
- supplemented by Level II Regulations (Articles 103-109) which are directly implemented into law.



Annual reporting requirement

- annual report must be provided to investors on request
- annual report must be made available to the central bank of Ireland
- must be available no later than six months after the year end
- follow the accounting standards of the AIF's home state or where it is established



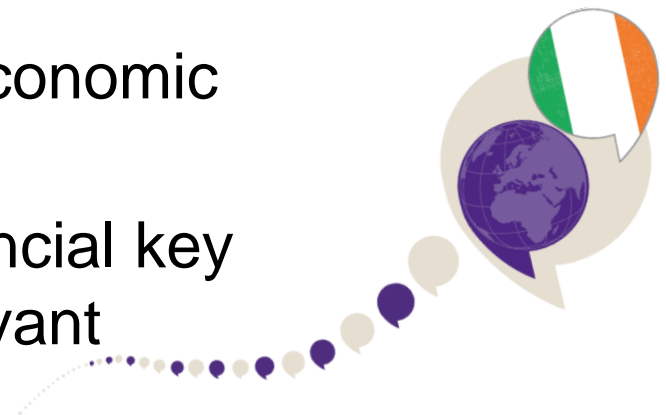
Contents of the annual report

- report on activities for the financial year
- material changes in investor pre-sale information
- balance sheet
- income and expenditure account
- information on remuneration of AIFM staff



Report on activities for the financial year

- include at least (Article 105 of Level II Regulations):
 - overview of investment activities during the year
 - overview of the portfolio at the year end
 - overview of the performance of the fund
- report must (Article 105 of Level II Regulations):
 - give a fair balanced view of the activities and performance of the AIF
 - principal risks and investment or economic uncertainties, and;
 - include both financial and non-financial key performance indicators where relevant



Report on activities for the financial year

- material changes in pre-sale information provided to investors (Article 106)
- while most of the information should already be included in the annual reports, some of the information is included in the director's report- it is important that the information above is included as part of the AIFM's responsibilities.



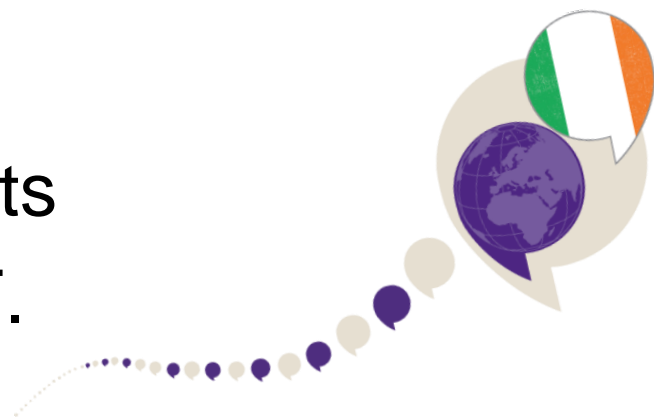
AIFMD - material changes

- investment strategy/objectives
- types of assets
- investment techniques and risks
- investment restrictions
- leverage-use/types/restrictions/max level
- various legal/constitutional information
- AIFM's professional liability requirements.



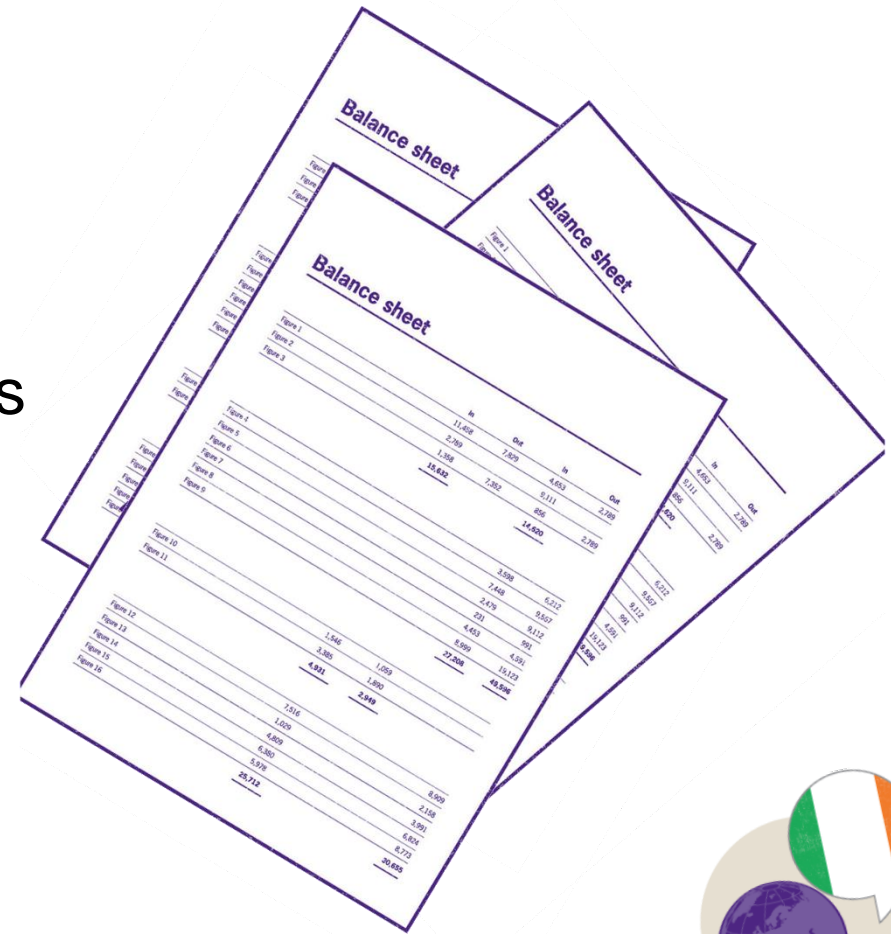
AIFMD - material changes (continued)

- delegated functions (for example the AIFM, the depositary)
- valuation procedures and pricing methodologies
- liquidity risk management/redemption rights
- permitted fees and charges
- terms of issue of units
- fair treatment of investors
- latest NAV or market price of units
- historical performance of the AIF.



Balance sheet

- assets
 - investments
 - cash and cash equivalents
 - receivables
- liabilities
 - payables
 - borrowings
 - other liabilities
- net assets.

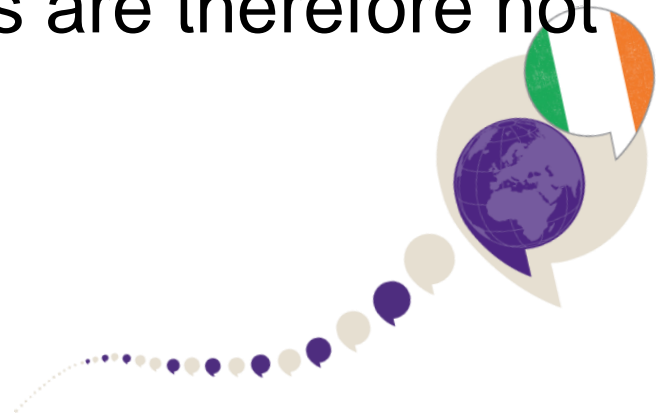


	In	Out
Figure 1	11,408	4,683
Figure 2	2,769	2,809
Figure 3	1,368	6,111
Figure 4	11,822	951
Figure 5	14,590	2,795
Figure 6	3,889	6,212
Figure 7	7,448	9,807
Figure 8	2,479	9,112
Figure 9	231	291
Figure 10	4,463	4,091
Figure 11	8,099	16,173
Figure 12	1,846	1,009
Figure 13	5,385	1,880
Figure 14	4,921	2,819
Figure 15	2,516	8,009
Figure 16	1,420	2,188
Figure 17	4,409	3,981
Figure 18	6,389	6,824
Figure 19	5,978	6,773
Figure 20	25,712	50,885



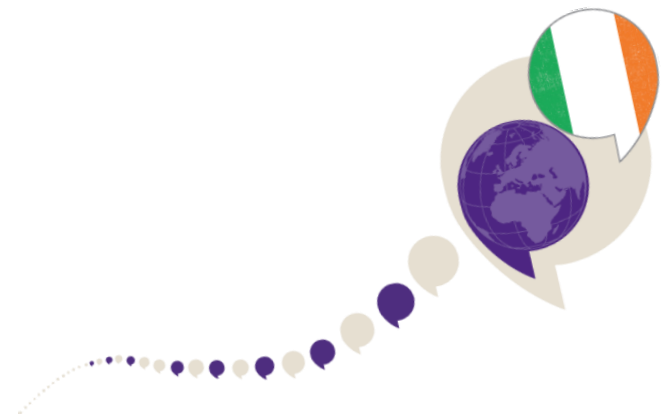
Cash equivalents

- defined as “highly liquid investments **held in the base currency of the AIF**, that are readily convertible to a known amount of cash, are subject to an insignificant risk of change in value and provide **a return no greater than the rate of a three-month high quality government bond**.
- Foreign Currency Liquidity Funds are therefore not considered Cash Equivalents.



Income and expenditure disclosures

- income:
 - investment income
 - realised gains on investment
 - unrealised gains on investment
 - other income
- expenses:
 - investment advisory or management fees
 - other expenses
 - realised loss on investments
 - unrealised loss on investments
- net income or expenditure.



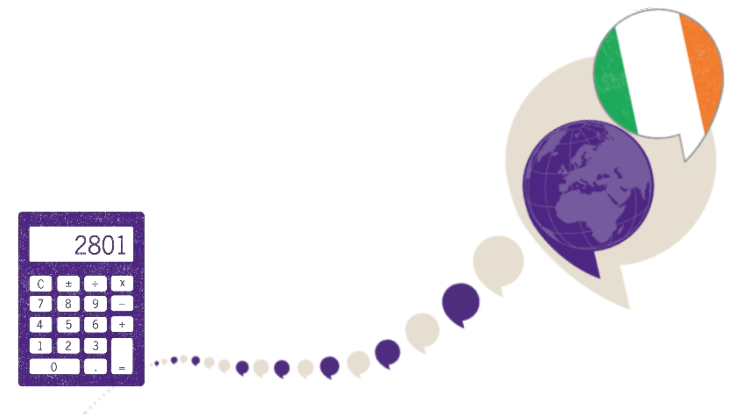
Remuneration disclosures

- total remuneration paid by the AIFM to its staff for the year split by:
 - fixed and variable remuneration
 - number of beneficiaries
 - aggregate amount of AIFM remuneration code staff broken by senior management and members of staff
- where disclosure at AIFM level:
 - breakdown provided in relation to each AIF insofar as this is available
 - description of how breakdown is derived
- general information relating to financial and non-financial criteria of the remuneration policies.



Required disclosures

- disclose immediately:
 - changes in liquidity management system and procedures (e.g. gates, side-pockets, suspensions)
 - changes to the maximum level of leverage calculated in accordance with both the gross and commitment method.



Required disclosures

- periodic disclosures;
 - % of AIF's net assets subject to special arrangements
 - current risk profile of the AIF and its sensitivity to its most relevant risks
 - changes to liquidity arrangements
 - main features of the risk management systems employed by the AIFM to manage current profile risks
 - amount of leverage employed calculated in accordance with both the gross and commitment methods.



Passport developments

Non EU AIFMs and Non EU AIFs

- National Private Placement Regimes (NPPRs) does not allow passporting of funds
- opinion issued by ESMA on 30th July 2015 that passporting provisions for the following countries could proceed (equivalent jurisdictions):
 - Jersey, Guernsey and Switzerland (subject to the enactment of legislation in 2016)
- ESMA currently reviewing 45 other jurisdictions (although not the Cayman Islands)
- it is unclear the timeframe for implementation of this opinion by the EU institutions.



UCITS V

- UCITS V:
 - applies similar depositary requirements as AIFMD (particularly with regards to liability of depositaries)
 - applies similar remuneration disclosures as AIFMD
 - effective date is March 2016
 - Remuneration disclosures likely to apply in for 2017 period-ends.

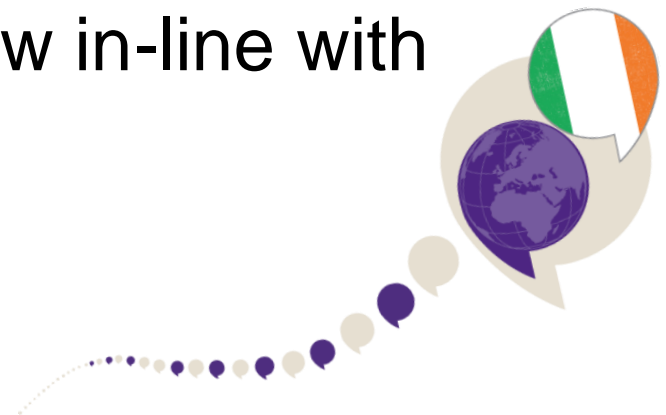


UK SORP 2014 for authorised funds



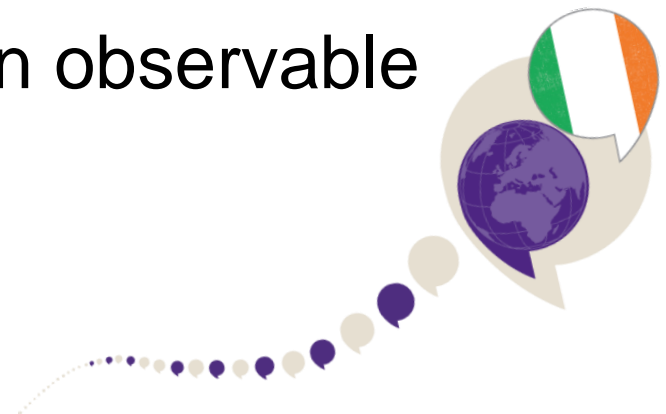
UK 2014 SORP

- effective for periods commencing on or after 1 January 2015
- aggregated financial statements for umbrella funds no longer required
- financial statements closer to the format of FRS 102
- risk management disclosures now in-line with FRS 102



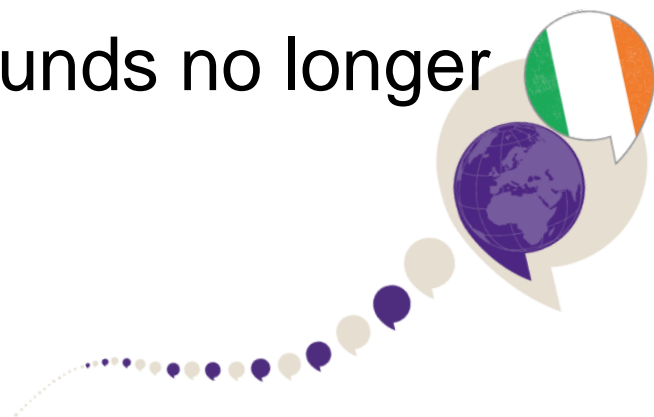
UK SORP 2014 (continued)

- fair value hierarchy - four categories:
 - quoted prices for identical instruments in active markets
 - recent transactions for identical instruments
 - valuation techniques using observable market data
 - valuation techniques using non observable data.



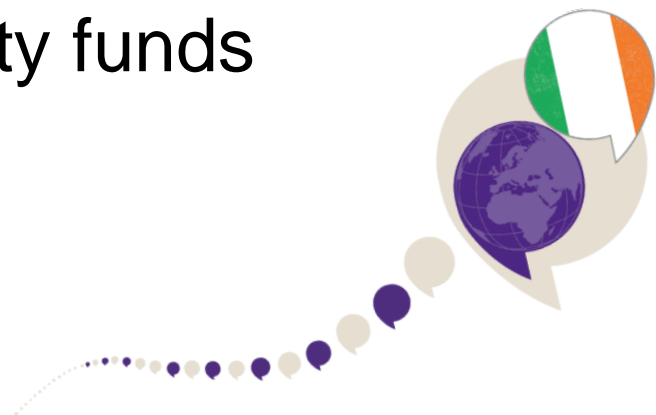
UK SORP 2014 (continued)

- a breakout of realised and unrealised gains/losses
- significant enhancements to the comparative tables (particularly the NAV per share disclosures)
- more disclosure required for transaction costs
- straight line interest method permitted for recording the effective yield
- consolidation for master-feeder funds no longer required



UK SORP 2014 (Continued)

- valuation point can be the last valuation point of the fund (rather than close of business valuation)
 - however, the manager must be satisfied that the valuation point utilised is not materially different from the close of business valuation
- unit/share reconciliation required to be disclosed
- enhanced disclosures for property funds



US GAAP update



Effective Q1 2015

Previously issued guidance

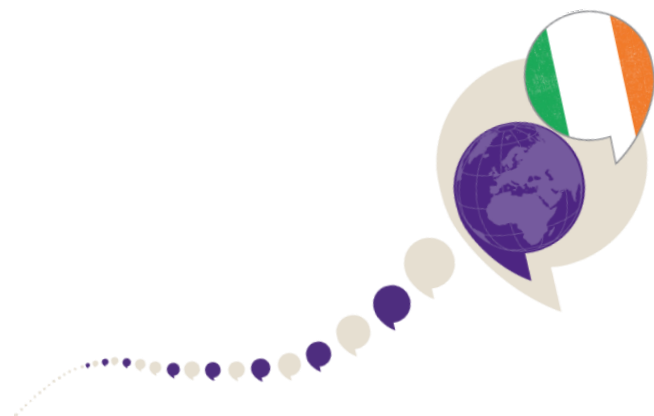
ASU	Title
2014-14	Classification of certain government – guaranteed mortgage loans upon foreclosure
2014-11	Repurchase-to-Maturity transactions, repurchase financings, and disclosures
2014-10	Development Stage Entities: Elimination of certain financial reporting requirements, including an amendment to variable interest entities guidance in Topic 810, consolidation
2014-08	Reporting discontinued operations and disclosures of disposals of components of an entity
2014-05	Service concession arrangements
2014-04	Reclassification of residential real estate collateralised consumer mortgage loans upon foreclosure
2014-01	Accounting for investments in qualified affordable housing projects



Final ASU 2014-11

Repurchase to maturity transactions

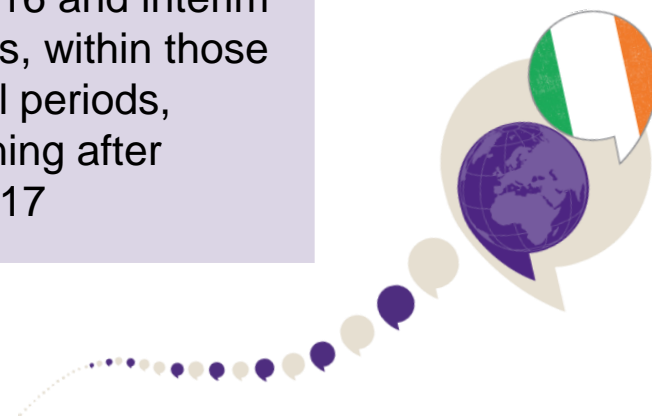
- the previous guidance allowed the transferor of the repurchase agreement to account for the transfer as a sale with a forward purchase agreement
- ASU 2014-11 requires this transfer to be recognised as secured borrowings
- Applicable for annual periods commencing after 15 December 2014



Recently issued guidance

Final ASU's – Q1 2015

		Effective date for calendar year–end entities	
ASU	Title	Public entities	Private entities
2015-01	Income Statement – Extraordinary and Unusual Items (ASC 225-20)	Fiscal years and interim periods beginning after 12/15/15	
2015-02	Consolidation: Amendments to the Consolidation Analysis	Annual and interim periods beginning after 12/15/15	Annual periods beginning after 12/15/16 and interim periods, within those annual periods, beginning after 12/15/17



Recently issued guidance

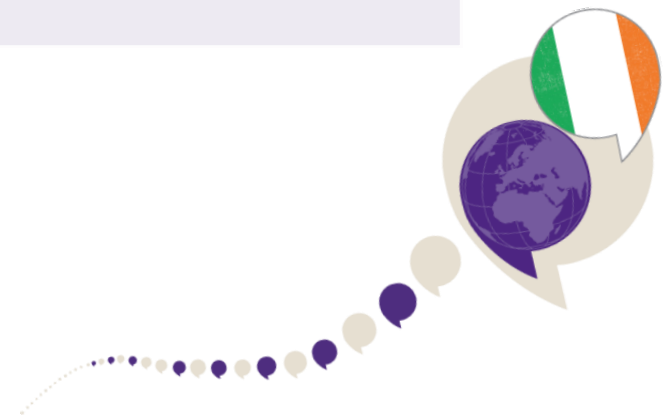
Final ASU's – Q1 2015

Today's guidance

- Separately identify events or transactions that are unusual and infrequent as "extraordinary items"
- Segregate the "extraordinary items" and present net of tax, after income from ordinary operations in the Income Statement
- Disclose income tax and EPS for each extraordinary item

ASU 2015-01

- Removes the concept of "extraordinary items" from U.S. GAAP
- Requires entities to report unusual and/or infrequent items as a separate component of income from continuing operations or separately disclose in the notes
- Simplifies accounting, reduces cost, and removes complexity
- Aligns with IFRS



Final ASU: ASU 2015-01 income statement

Extraordinary and unusual items (ASC 225-20)

Effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after 12/15/15
(early adoption permitted)

Prospective application

Retrospective application

Disclose the nature and amount of any item included in continuing operations that adjusts a previously reported extraordinary item

Provide the change in accounting principle disclosures required under ASC 250

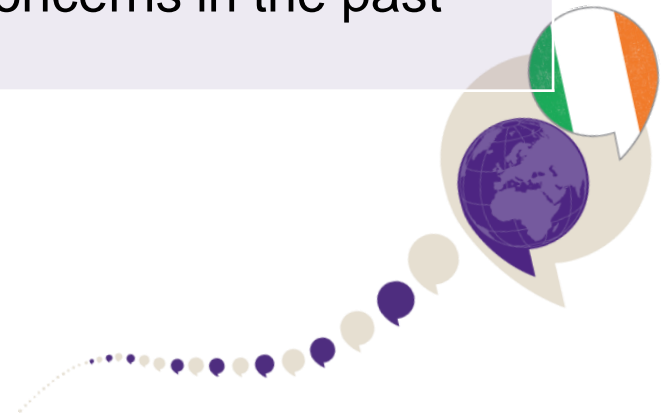


Final ASU

ASU 2015-02, consolidation: amendments to the consolidation analysis

Concerns with today's guidance

- requires an entity to consolidate another legal entity in some situations where the entity appears to be directing the activity of the legal entity on behalf of others
- FASB provided an indefinite deferral of FAS 167 for certain investment funds to partially address these concerns in the past



Final ASU:

ASU 2015-02, consolidation: amendments to the consolidation analysis

ASU 2015-02 impacts

- modifies the evaluation of whether limited partnerships are VIEs or voting interest entities
- eliminates the presumption that a general partner should consolidate a limited partnership
- modifies the consolidation analysis for reporting entities associated with VIEs
- provides a scope exception from the consolidation guidance for reporting entities with interests in legal entities that are registered money market funds or similar to registered money market funds



Final ASU 2015-02

Certain investment funds

ASU 2015-02:

- rescinds the indefinite deferral of FAS 167
- permanently exempts reporting entities from consolidating legal entities that are required to comply with Rule 2a-7 of the Investment Company Act of 1940 (for example, registered money market funds)
- permanently exempts reporting entities from consolidating legal entities that are similar in purpose and design to entities required to comply Rule 2a-7 of the Investment Company Act of 1940 (for example, registered money market funds)



Final ASU 2015-02

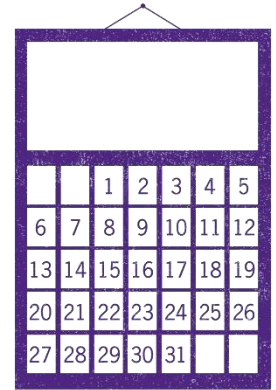
Effective date

Public
business
entities

- annual and interim periods beginning after 12/15/15

All other
entities

- annual periods beginning after 12/15/16, and interim periods within those annual periods, beginning after 12/15/17



Final ASU 2015-02

Transition

Early adoption

- permitted, including in an interim period
- if adopted in an interim period, reflect adjustments as of the beginning of the fiscal year that includes the interim period

Transition options

- modified retrospective transition by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption
- retrospective transition



FASB's recently issued guidance

Final ASUs – Q2 2015

ASU	Title
2015-03	Simplifying the presentation of debt issuance costs
2015-04	Practical Expedient for the measurement date of an employer's defined benefit obligation and plan assets
2015-05	Customer's accounting for fees paid in a cloud computing arrangement
2015-06	Effects on historical earnings per unit of master limited partnership dropdown transactions
2015-07	Disclosures for investments in certain entities that calculate Net Asset Value (NAV) per share (or its equivalent)
2015-08	Pushdown accounting – amendments to SEC paragraphs pursuant to SAB No. 115
2015-09	Disclosures about short-duration insurance contracts
2015-10	Technical corrections and improvements



Final ASU 2015-03

Simplifying the presentation of debt issuance costs

- under the present guidance, debt issuance costs are typically capitalised and amortised over the life of the debt
- debt issuance costs will now be treated as a deduction to the liability amounts
- Credit facility costs can continue to be capitalised and amortised (ASU 2015-15)
- effective for annual periods commencing after 15 December 2016.



Final ASU 2015-07

Current guidance

- existing guidance permits entities to estimate fair value for certain investments using NAV as a practical expedient
 - if redeemable at measurement date, then level 2
 - if never redeemable, level 3
 - If redeemable in the "near term", level 2.
- "near term" not defined causing disparity in practice.



Final ASU 2015-07

New guidance

- investment measures using the NAV practical expedient are exempted from the fair value hierarchy and related disclosures
- required to show carrying amount of these investments as a reconciling items between fair value hierarchy and total investments on face of financial statement
- effective for annual periods commencing after 15 December 2015.



Final ASU 2015-07

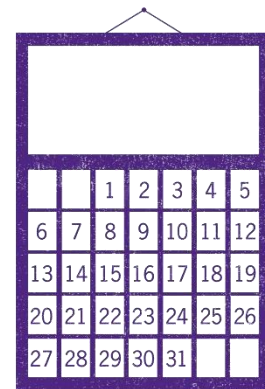
New guidance

- amends ASC 230 (Cash Flows):
 - investment company may be exempted when:
 - substantially all investments are measured at level 1 or 2
 - investments measured at NAV are redeemable in the "near term" at all times
 - "Near term" still not defined.

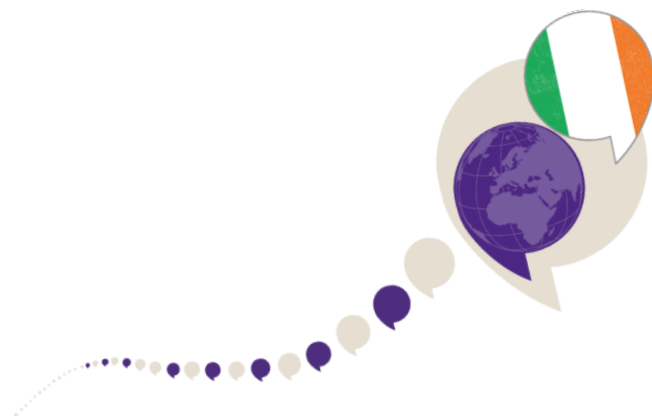


Final ASU 2015-07

Effective date



- public entities:
 - fiscal years, and interim periods within those fiscal years, beginning after 12/15/15
- private entities:
 - fiscal years, and interim periods within those fiscal years beginning after 12/15/16
- early adoption is permitted



Revenue recognition

Performance fees

Current guidance:

- following the end of the contractual performance period upon resolution of all uncertainties and contingencies

OR

- during the contractual performance period, equal to the amount that would be due under the contract at each reporting date as if the contract were terminated on that date.

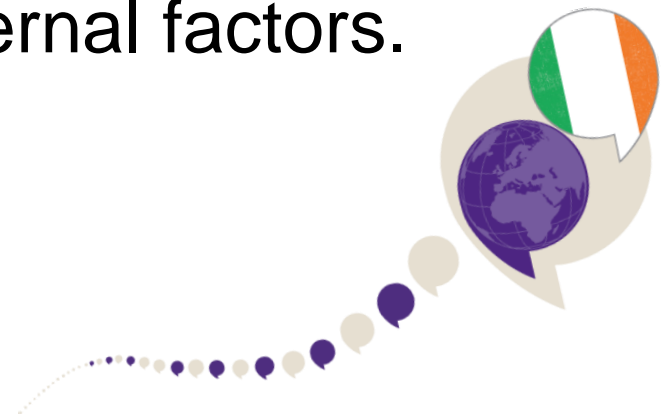


Revenue recognition

Performance fees

Proposed guidance:

- record as fees are crystallised
- it will difficult to recognise incentive or performance fee revenue prior to its crystallisation as it is **probable** that a **significant** amount of incentive or performance fee revenue may be **reversed** based on various external factors.



Revenue recognition

Carried interest

Two opposing views:

- consider the carried interest as revenue:
 - represent consideration for investment management service performance obligation provided to the investors
- consider carried interest as income from equity investments:
 - represent an allocation of profits from the non-managing interest holders based on the overall performance of the underlying portfolio investments.



Revenue recognition

Performance fees

- proposed guidance:
 - record carried interest as revenue and in a manner similar to performance fees.



Questions & feedback

