

# Asset Management conference 2016

## *The changing face of Asset Management*

27 September 2016



# Financial Reporting for Funds

27 September 2016

**David Lynch**  
Director  
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# Agenda



## Agenda

UCITS

Investor Money Regulations (IMR)

Securities Financing Transactions Regulations (SFTR)

IFRS

US GAAP

FRS 102

Companies Act, 2014

# UCITS

## Central Bank UCITS Regulations (S1 420 of 2015)



### Purpose

- consolidate existing UCITS guidance
- supplement EU UCITS regulations.

### Impact

- new requirements for annual and semi annual reports
- second set of interim accounts for UCITS management companies and depositaries.

### Amendments

- limited amendments made in June 2016
- CP 105.

# UCITS

## Central Bank UCITS Regulations (SI 420 of 2015)

### Impact on annual and semi-annual reports



Balance sheet heading – Investment Funds

Description of FDI's and EPM techniques

OTC derivatives and counterparty disclosed in same location

Leverage disclosures for absolute VaR no longer required

Connected party terminology amended to connected person

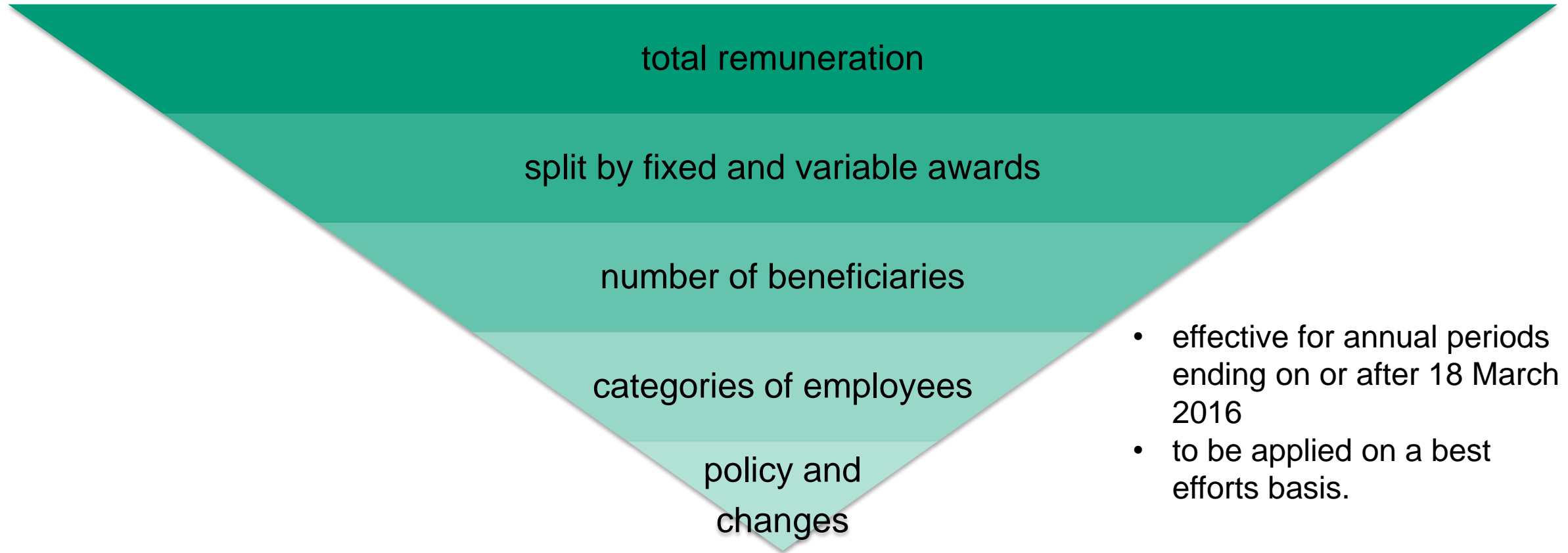
Distributions out of capital

All sub-managers to be identified

# UCITS

## UCITS V (SI 143 of 2016)

### Remuneration disclosures



# Client Assets and Investor Money Regulations

## Who's impacted?



### Client Assets Requirements

- MiFID investment firm
- investment business firm authorised under the Investment Intermediaries Act 1995
- UCITS management company (where providing discretionary portfolio management)
- AIF management company (where providing discretionary portfolio management)

# Client Assets and Investor Money Regulations

## Who's impacted?



### Investor Money Requirements

- UCITS management company;
- AIF management company
- FSP authorised under S.10 of the Investment Intermediaries Act 1995
- management company authorised under the Unit Trust Act 1990
- management company referred to in Part 24 of the Companies Act 2014
- General Partner referred to under the Investment Limited Partnership Acts
- credit institution acting as depositary for investment funds/providing funds administration.



# Investor money regulations

## Six core principles



### Segregation

- investor money segregated from monies owned by the FSP

### Designation

- investor money clearly identified in the records of the FSP

### Reconciliation

- FSP to keep adequate records so that investor money can be ascertained at all times
- daily reconciliation to third parties

### Daily calculation

- daily calculation performed to ensure balance per collection accounts are equal to the amount of investor money per the FSP's records
- any shortfall to be made up by monies of the FSP

### Risk management

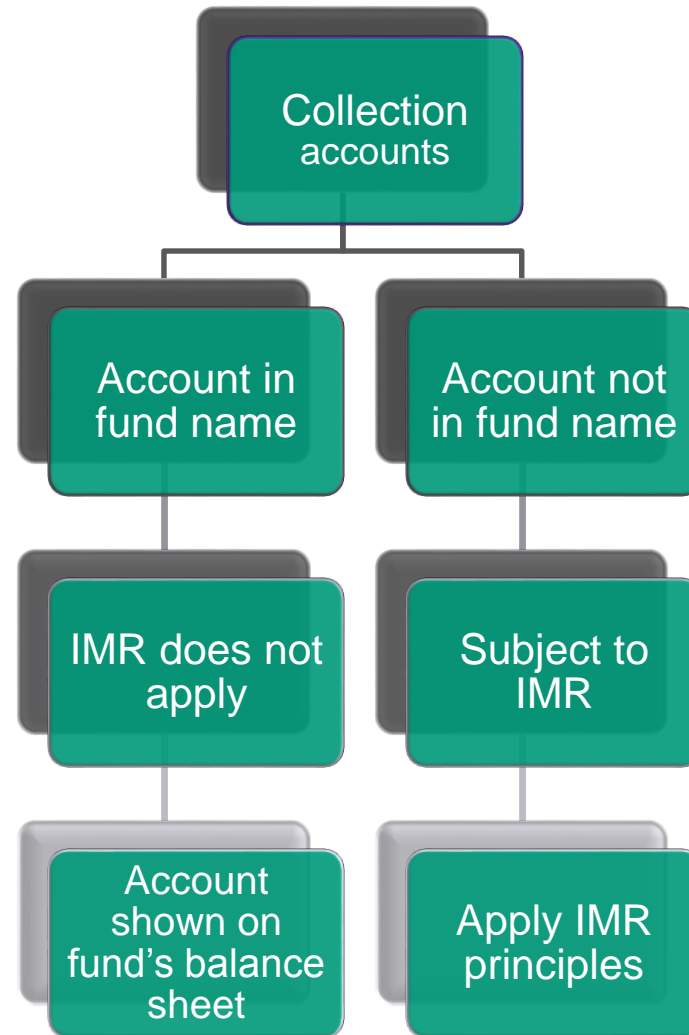
- appropriate systems and controls in place
- appoint a Head of Investor Money Oversight and maintain an Investor Money Management Plan

### Examination

- external auditor to report at least annually on the FSP's compliance with IMR

# Investor money regulations

## Collection accounts



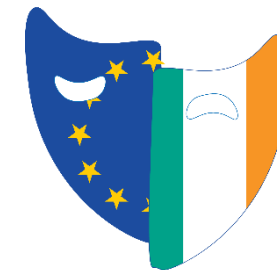


# Investor money regulations Collection accounts

- Fund assets regime - impact on the annual report

Statement of financial position	US\$'000
<b>Assets</b>	
Cash held in investor money collection accounts	1,000
<b>Total assets</b>	<b>1,000</b>
<b>Liabilities</b>	
Due to shareholder	(1,000)
<b>Total liabilities</b>	<b>(1,000)</b>

# Securities Financing Transactions Regulation (SFTR) Overview



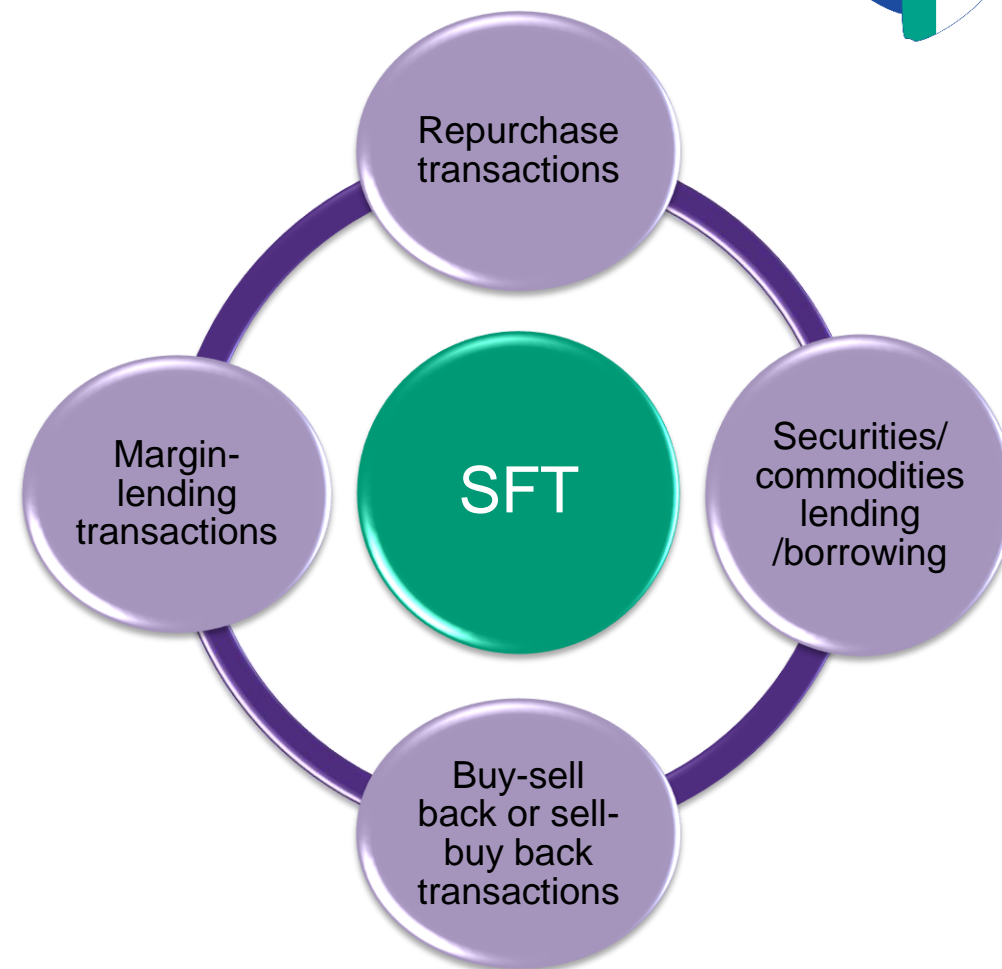
## Overview

Improve transparency of Securities Financing Transactions (SFTs) in the shadow banking sector

- applies to counterparties whom engagement in SFT and TRS transactions and the re-use of collateral;
- not just confined to EU counterparties; and
- UCITS managers and AIFMs required to supplement existing periodic reports with detailed information on SFTs and Total Return Swaps (TRS).

## Key requirements

- reporting of certain details to trade repositories within one working day of conclusion;
- use of SFTs and TRS to be included in annual and semi annual reports of UCITS and AIFs;
- prospectus and offering documents updates; and
- details of collateral re-use



# SFTR transitional arrangements



Year	Requirement	Effective date
2016	UCITS / AIFs constituted after 12 January 2016 to make disclosures in offering documents	12 January 2016
	Disclosure on collateral re-use	13 July 2016
2017	UCITS / AIFs to make disclosures in the financial statements	13 January 2017
	UCITS / AIFs constituted before 12 January 2016 to make disclosures in offering documents	13 July 2017
2018	Mandatory daily reporting of SFTs to trade repositories (similar to EMIR)	2018/2019

# SFTR statement disclosures



## Global data

- securities/commodities on loan as proportion of lendable assets
- amount of assets engaged in each SFT or TRS as a portion of AUM

## Data on collateral reuse

- share of collateral received that is reused compared to maximum amount per prospectus / investor disclosures
- cash collateral reinvestment returns to the fund

## Concentration data

- 10 largest collateral issuers across all SFTs and TRS showing volumes of collateral securities and commodities received
- 10 largest counterparties of each SFT and TRS

## Safekeeping of collateral received

- number and names of custodians and amount of collateral held in safekeeping

# STFR financial statement disclosures



## Transaction data

- type/quality of collateral;
- maturity tenor of collateral split into the following maturity buckets - < 1 day, one day to one week, one week to one month, one month to 3 months, three months to one year, > 1 year, open maturity;
- currency of collateral;
- maturity tenor of SFT and TRS split into the above mentioned maturity buckets;
- country of counterparty; and
- settlement and clearing e.g. tri-party, central clearing etc.

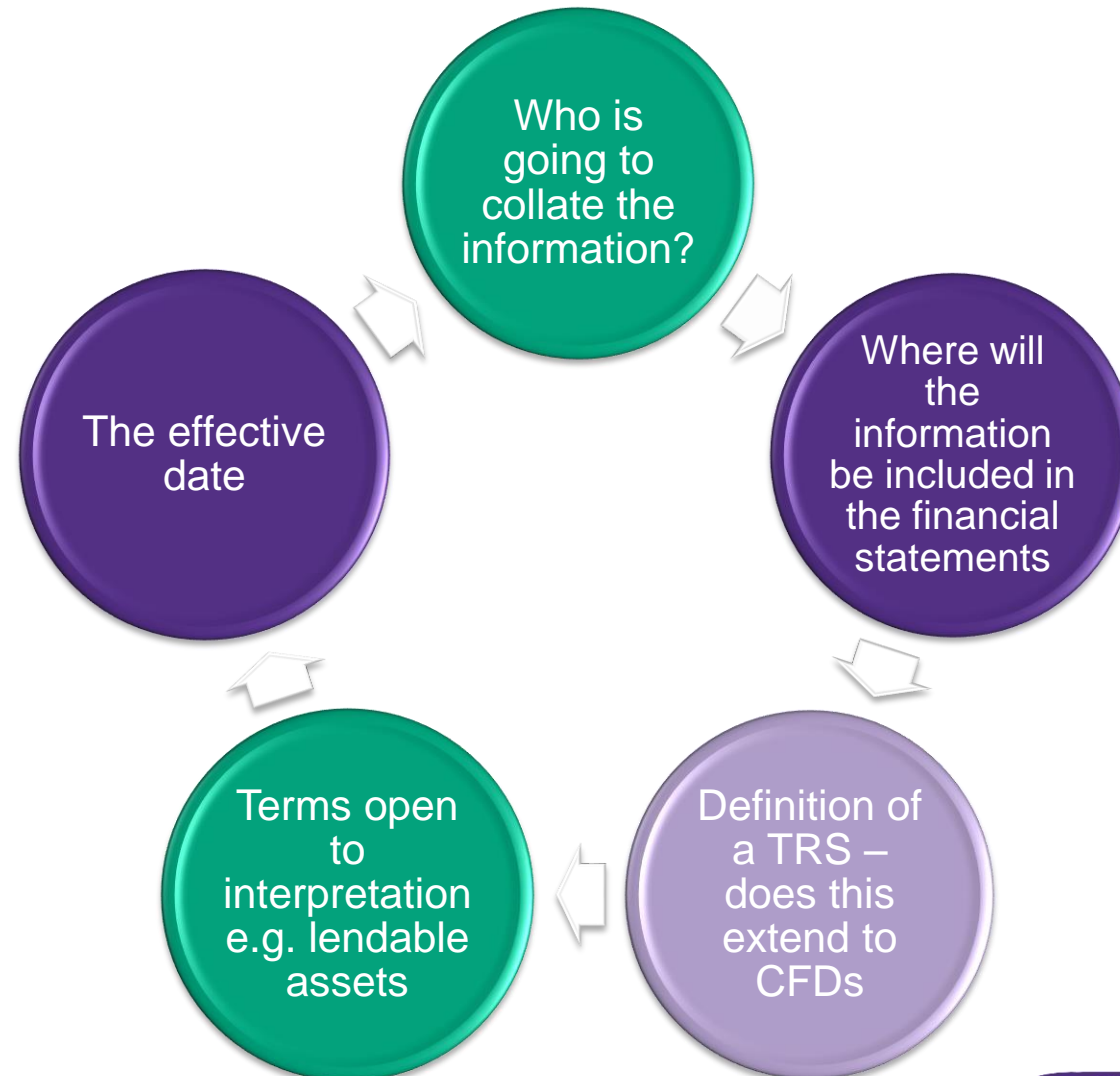
## Collateral granted

- proportion of collateral held in segregated, pooled or other accounts.

## Return and cost

- return/cost of each SFT and TRS split between the CIS, the manager of the CIS and third parties as a % of overall returns generated by that type of SFT or TRS.

# SFTR issues





# Financial reporting for funds

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# Amendments to IAS 7 Statement of Cash Flows



The IASB has published 'Disclosure Initiative – Amendments to IAS 7 Statement of Cash Flows' ('the Amendments').

## The Amendments:

- a) require disclosures that enable users to evaluate changes in liabilities arising from financing activities
- b) suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including:
  - i) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses
  - ii) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position is suggested (although not required- this is a departure from the ED)

The Amendments are effective for annual periods beginning on or after 1 January 2017.

Earlier application is permitted.

# IFRS 9 – key points for implementing IFRS 9



## Hedge Accounting

- major overhaul of hedge accounting
- significant improvements by aligning accounting with risk management
- improves investors' understanding of the business & risk management activities

## Impairment – expected credit loss

- applies to all debt-type assets that are not measured at fair value through profit or loss.
- uses more forward-looking information to recognise expected credit losses for all debt-type financial assets that are not measured at fair value through profit or loss.

## Classification of financial assets and liabilities

- Includes:
- amortised cost
- fair value through other comprehensive income
- fair value through profit or loss.

# ED/2015/8 IFRS Practice Statement - application of materiality to financial statements



- feedback received by the IASB in two areas:
  - uncertainty regarding the concept of materiality should be applied, resulting in a perhaps overly cautious approach to disclosure the drafting of some standards can be read to suggest the specific requirements of those standards overrides the general statement in IAS 1 that an entity need not provide information that is not material
- the project will focus on the application and understanding of materiality to the financial statements
- not expected to be issued as a standard (and therefore mandatory application)
- timeline for completion unclear

# US GAAP: changes to fair value disclosures



- existing guidance permits entities to estimate fair value for certain investments using NAV as a practical expedient
  - **ASU 2015-07**: Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent): 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
  - cash flow statement not required if substantially all of the assets are classified as Level 1 or Level 2
  - effective date is for periods beginning after 15 December 2016.

# US GAAP: changes to fair value disclosures



- **proposed ASU issued in December 2015 (private companies only):**
  - reconciliation of level 3 investment would not longer be required
  - the amounts and reasons for transfers between level 1 and level 2
  - policy and timing of transfers between levels and;
  - the valuation policies for level 3 investments

# 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

# ASU 2016-15 - statement of cash flows



- ASU issued in August 2016 to provide guidance on varying practice, in particular:
  - debt prepayment or debt extinguishment costs- financing activities
  - settlement of zero coupon debt instruments-
    - interest- operating activities
    - principal- financing activities
  - distributions from equity method investments:
    - Cumulative earnings approach
    - Nature of distribution approach
  - beneficial interests in securitisation transactions
    - disclose as non-cash activity
  - predominance Principle
- effective for fiscal periods beginning after December 15, 2018- early adoption is permitted.



# Proposed ASU, notes to financial statement (Topic 235): assessing whether disclosures are material



# SEC releases



## Release No. 33-9922:

- proposed additional disclosures about fund liquidity and redemption practices
  - would apply to ETFs and open-ended mutual funds
- proposal to allow these funds to utilise swing pricing

## Investment company reporting modernisation (Release No. 33-9776)

- enhanced reporting for registered funds including
  - monthly portfolio report
  - enhanced disclosures about derivatives
  - delivering reports by making them accessible via the internet.

# Amendments to FRS 102 The Financial Reporting Standard in the UK and Republic of Ireland – Fair value hierarchy disclosures



- levels A, B and C abolished by this amendment
- levels 1, 2 and 3 introduced which is consistent with IFRS and US GAAP
- amendments apply for accounting periods beginning on or after 1 January 2017
- early adoption is permitted

# Section 225 – UCITS Compliance Statement



## Companies Act 2014: Directors Compliance Statements

- requirement under Section 225 to include a Directors' Compliance Statement (DCS) in the annual report
- UCITS investment companies set up as PLCs are in scope for the DCS;
- non-UCITS investment companies are not in scope
- applies for financial years beginning on or after 1 June 2015
- i.e. UCITS PLCs with a 30 June 2016 financial year end will be required to include a DCS
- compliance statement must outline the company's policies which are, in the opinion of the directors, appropriate to the company meeting certain obligations while also recognising the legal obligations of the company
- failure to fulfil their obligation can result in a fine of up to €5,000 or imprisonment not exceeding six months, or both

# Section 225 – UCITS Compliance Statement



1. a statement acknowledging directors responsibility

2. confirmation that drawing up of the Company compliance policy statement has been completed

The Compliance Statement in the Directors' Report must contain:

3. confirmation that structures are in place that ensure compliance with the company's relevant obligations

4. confirmation that review of those arrangements or structures is in place to secure compliance

# Contact Us



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# Tax for Funds

27 September 2016

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# The story of 2016 in the Irish funds industry



Year End	Net Asset Value (Euro Million)	No. of Funds	No. of Funds (incl. Sub-Funds)
Jan -15	1,768,820	1,181	5,848
Feb-15	1,825,385	1,181	5,865
Mar-15	1,895,935	1,174	5,897
Apr-15	1,865,796	1,170	5,929
May-15	1,892,643	1,177	5,962
June-15	1,857,941	1,180	6,007
July-15	1,895,853	1,179	5,999
Aug-15	1,811,342	1,180	6,014
Sep-15	1,780,224	1,188	6,080
Oct-15	1,880,794	1,196	6,130
Nov-15	1,960,740	1,188	6,104
Dec-15	1,898,823	1,198	6,201
Jan-16	1,826,488	1,198	6,227
Feb-16	1,816,250	1,203	6,257

- from 2008 to 2016, the number of fund and net asset value witness a sustainable growth, and Irish UCITS are distributed in over 70 countries all around the world.

Source: Central Bank of Ireland

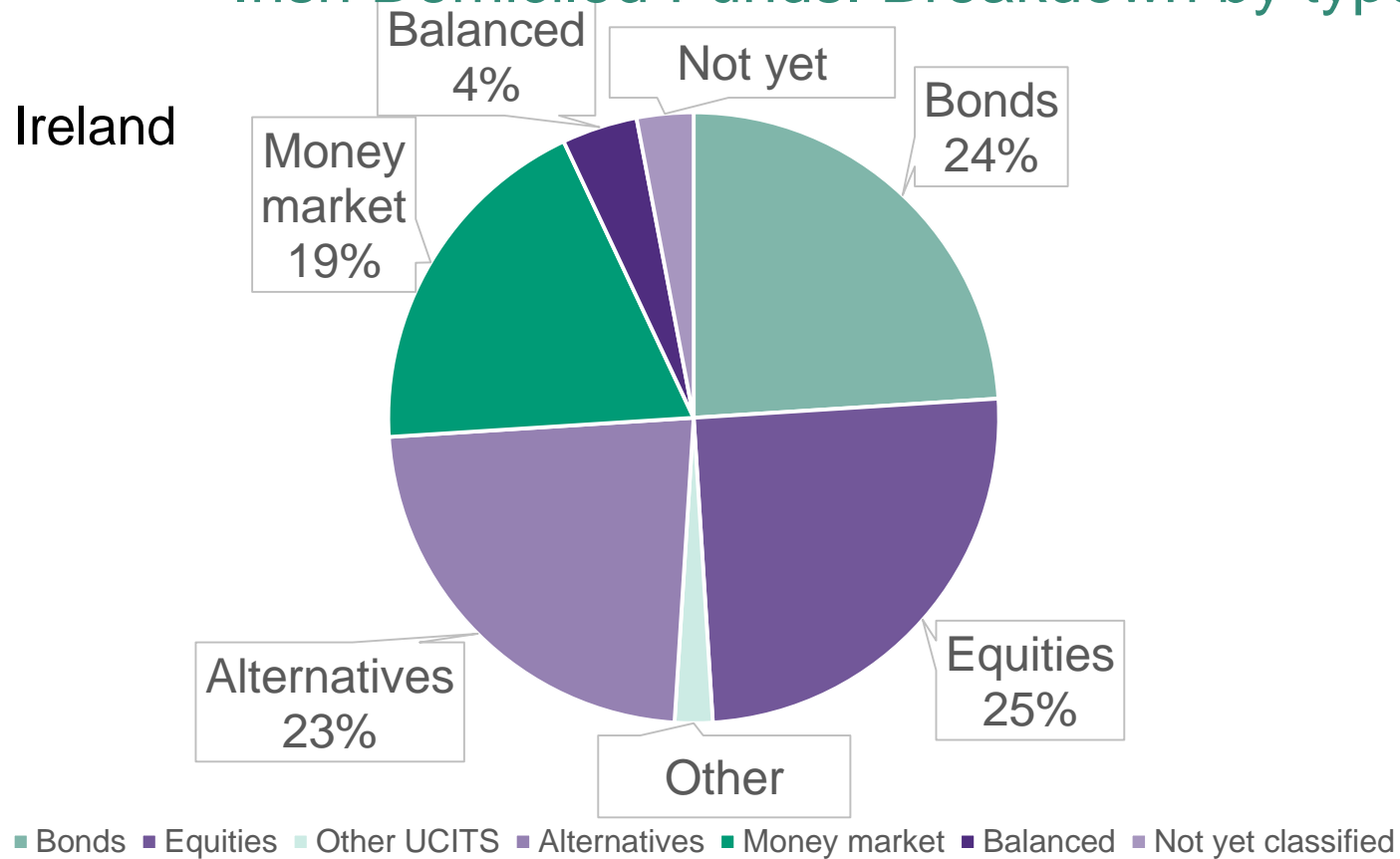


# Irish Funds Industry-Key facts and figures



Source  
Central Bank of Ireland  
Q1 2015

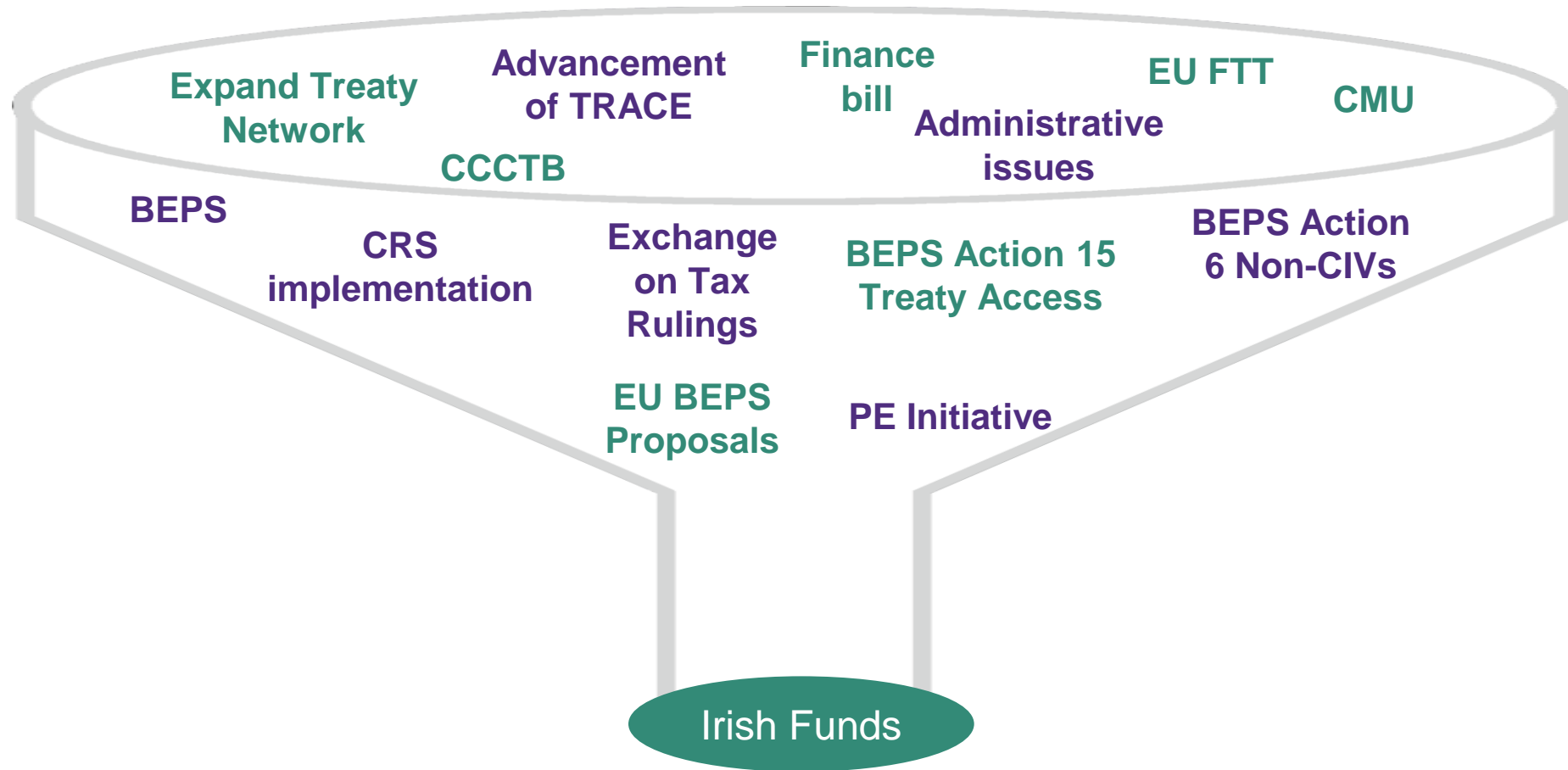
## Irish Domiciled Funds. Breakdown by type



# Which regions attract the greatest number of UCITS funds?



# Initiatives/issues for asset management



# International issues



Issue	Outcome/status
Base Erosion and Profit Shifting (BEPS)	2017
Country by Country Reporting	2017
Transfer Pricing Guidelines	2017
OECD Multilateral instrument	2017
EU Anti-Avoidance Package	2017
Common Reporting Standard	2016
Irish Collective Asset-management Vehicles (ICAVs) and 'check the box'	2015
Withholding tax reclaim issues	Ongoing

# The German Investment Tax Act

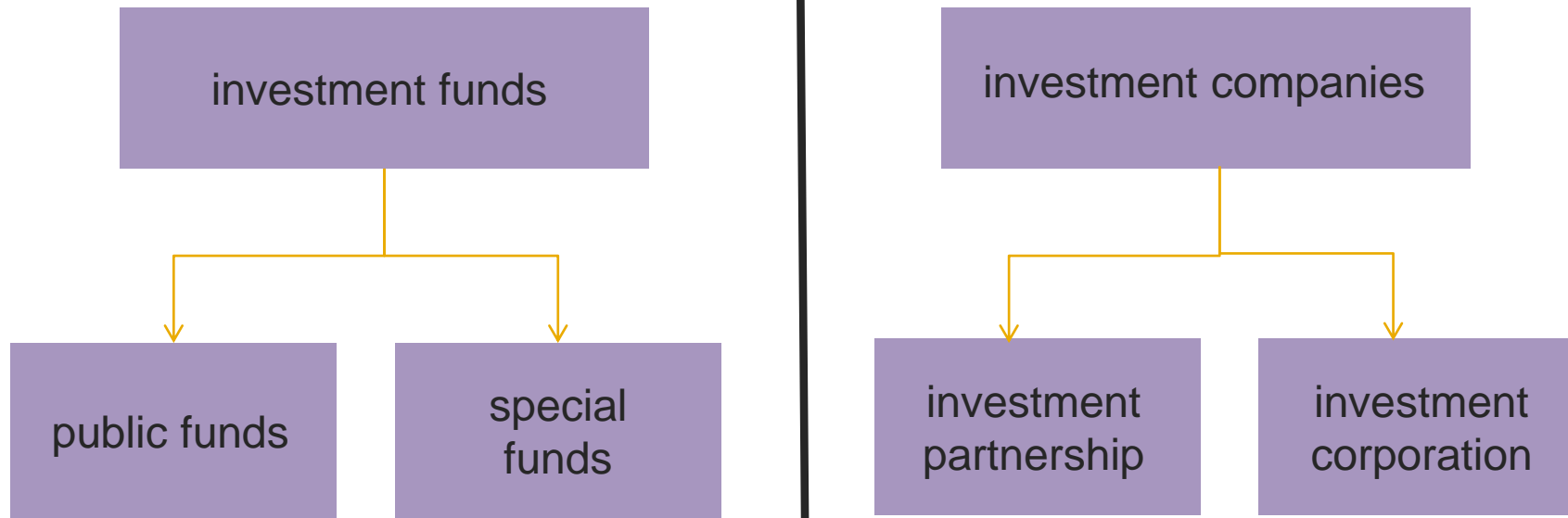
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**Juliette Gill, LL.M. (Taxation), Lawyer**  
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# The current German Investment Tax Act

# Scope of application



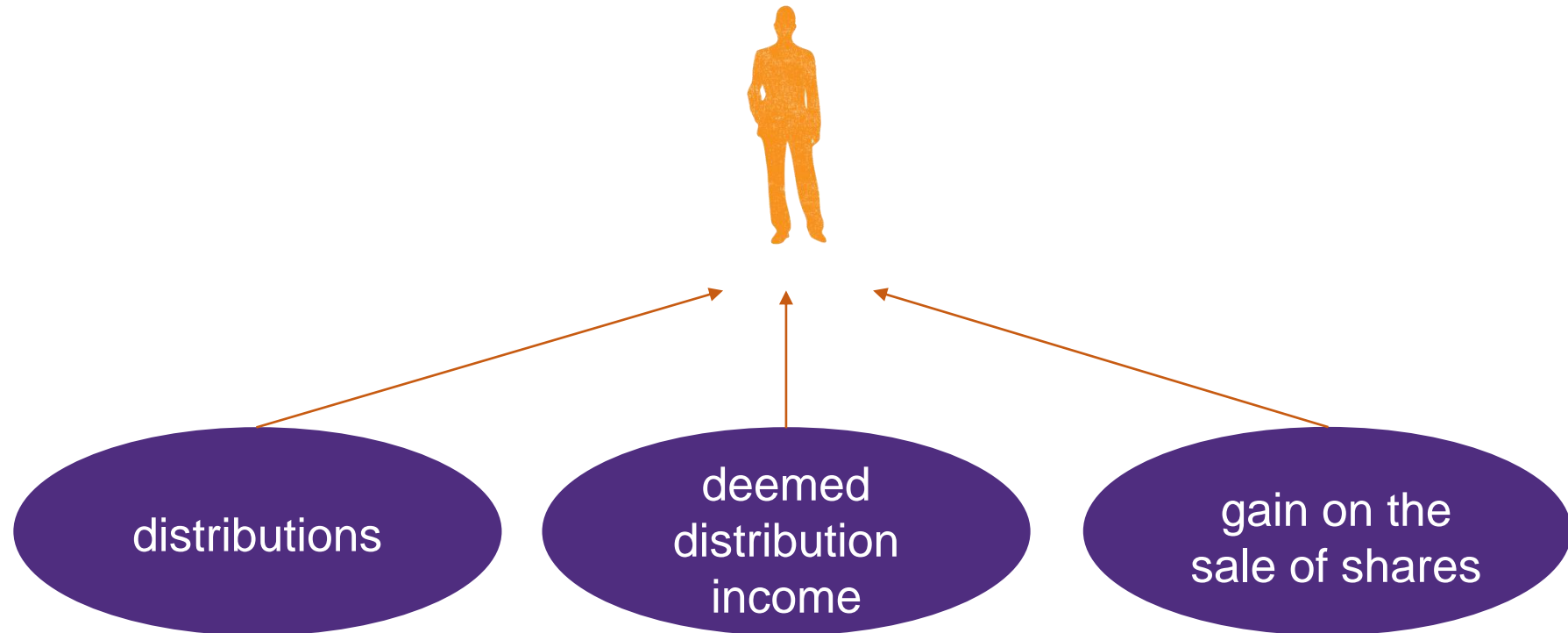
# Taxation on the level of the investment funds



- tax transparency for domestic and foreign funds in Germany
- independent of the origin and the classification of the income received by the fund the German tax authorities will not levy any taxes
- the taxation is only carried out on the level of the investor



# Taxation on the level of the investors



# Taxation on the level of the investors



- generally only on the level of the German investors (exception: nonresident tax liabilities)
- distributing funds: taxation of the distributions in its full amount less the deemed distribution income of the previous years and capital distributions
- accumulating funds: taxation of the current income of the fund less the earnings, which underlie the so-called accumulation privilege (in particular capital gains).

# Taxation on the level of the investors



- requirement: disclosure of the basis of taxation within the German Federal Gazette
  - publication within four months after the end of the financial year of the fund
  - certification by a German tax consultant or chartered accountant
- otherwise: lump-sum taxation on the level of the German investor
  - at least 6 % of the last determined redemption price will be attributed to the investor
  - opportunity of exculpation

# The reformed German Investment Tax Act

# Taxation on the level of the funds



- mutual funds as non-transparent vehicles subject to corporate income tax

income from  
domestic  
equity holdings

- dividends
- but not capital gain on the sale of these holdings

income from  
domestic  
real estate

- current income
- gains realized by sale
- 10 year holding period abolished

other domestic  
income

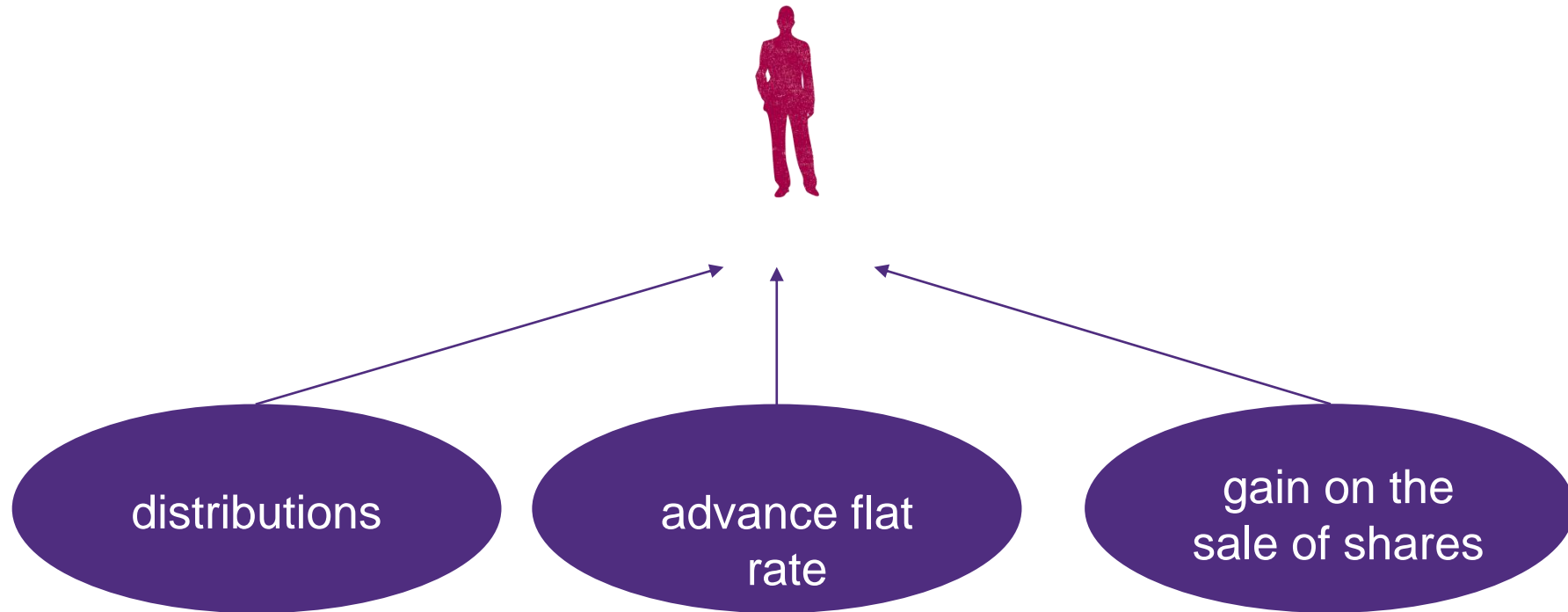
- essentially business income

# Taxation on the level of the funds



- applicable tax rate: 15 %
- the funds will need a confirmation concerning their qualification as investment fund to reduce the withholding tax (generally 25 %)
- due to the limited tax liability the filing of a German tax return will be obligatory for domestic real estate income.

# Taxation on the level of the investors



no tax reporting required – neither annually nor daily

# Taxation on the level of the investors



- the **advance flat rate** (lump sum taxation) will replace the present deemed distribution income.

- **calculation of the advance flat rate:**

redemption price of the fund share at the beginning of the calendar year  
x  
70% of the so-called base rate (yield of public-sector bonds)

- the base rate is determined by the German Central Bank at the beginning of each calendar year (1,1 % in 2016).



# Taxation on the level of the investors



## Partial tax exemption

- to avoid or rather mitigate a double taxation on the level of the fund as well as on the level of the investor, the reformed German Investment Tax Act foresees a partial tax exemption for the investors.
- the amount of the partial tax exemption depends on the
  - type of investment fund and
  - on the type of investor (private investor, business investor, corporation).
- the partial tax exemption is applicable to all earnings resulting from the fund: distributions, advance flat rate as well as the gains on the sales of shares.

# Taxation on the level of the investors



## Partial tax exemption

	Amount of the partial tax exemption		
	private investor	business investor	corporations
Equity funds (at least 51% equity holdings)	30%	60%	80%
Mixed funds (at least 25% equity holdings)	15%	30%	40%
Real estate funds (at least 51% real estate)	60%	60%	60%
Real estate funds (at least 51% foreign real estate)	80%	80%	80%

The classification of the fund has to be determined within the statutes of the fund.

# What does the new German Investment Tax Act mean for ...



	private investor
Equity funds	(+)
Fixed income funds	(+)
Mixed funds	(-)
Real estate funds	(+) / (-)
Private Equity funds*	n/a

\*partnership-like

# What does the new German Investment Tax Act mean for ...



Equity Fund

NAV: 10,000

Domestic  
Dividends  
5%

Capital  
Gains 5%

Corporate  
Tax rate  
15%

	Current GITA	Reformed GITA		
		Base Rate		
		5,50%	3,50%	1,10%
	<b>I. Fund Level</b>			
Corporate Tax	0,00	75,00	75,00	75,00
	<b>II. Level of Private Investor</b>			
	1. Accumulating Fund			
Income Tax	131,89	71,08	45,23	14,22
	2. Distributing Fund			
Income Tax	263,77	170,97	170,79	170,97
	<b>Sum</b>			
<b>Accumulating Classes</b>	<b>131,89</b>	<b>146,09</b>	<b>120,23</b>	<b>89,22</b>
<b>Distributing Classes</b>	<b>263,77</b>	<b>245,80</b>	<b>245,80</b>	<b>245,80</b>

# Contact Persons



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