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# Focus on Annual Reporting for 2014 year end

**Leading Business Advisors**

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# Agenda

| | |
|---|---|
| 1 | IFRS |
| 2 | US GAAP |
| 3 | FRS 102 |
| 4 | AIFMD |

# IFRS

# Most relevant standards for investment funds reporting under IFRS

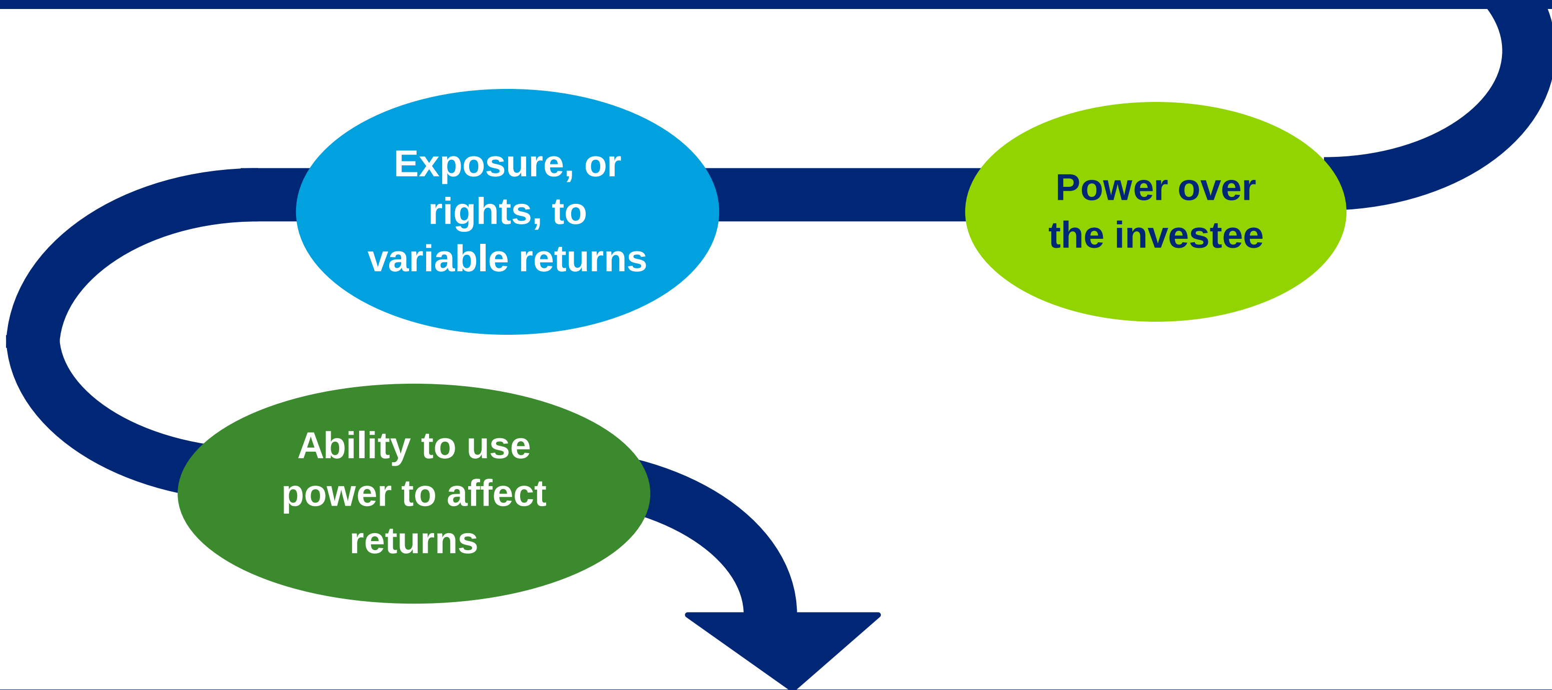
- IAS 1 Presentation of Financial Statements
- IAS 7 Statement of Cash Flows
- IAS 24 Related Party Disclosures
- IAS 27 Separate Financial Statements
- IFRS 10 Consolidated Financial Statements
- IFRS 12 Disclosure of Interests in Other Entities

- IAS 32 Financial Instruments: Presentation
- IAS 39 Financial Instruments: Recognition
- IFRS 7 Financial Instruments: Disclosures
- IFRS 9 Financial Instruments (to replace IAS 39 once effective)
- IFRS 13 Fair Value Measurement
- IFRS 15 Revenue from Contracts with Customers

# IFRS 10
## Consolidated Financial Statements

**Objective:** To establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities

**A single consolidation model based on control, irrespective of the nature of the investee.**
**IFRS 10 deals with what you consolidate, not how**




**Assessment of control is based on all facts and circumstances**
**Conclusion is reassessed if there is an indication of changes in those elements**

# IFRS 10

## Exemption for Investment Entities

**Investment Entity**

Provides Investment management service

For capital appreciation and/or investment income

Measure on a fair value basis

**Typical Features**

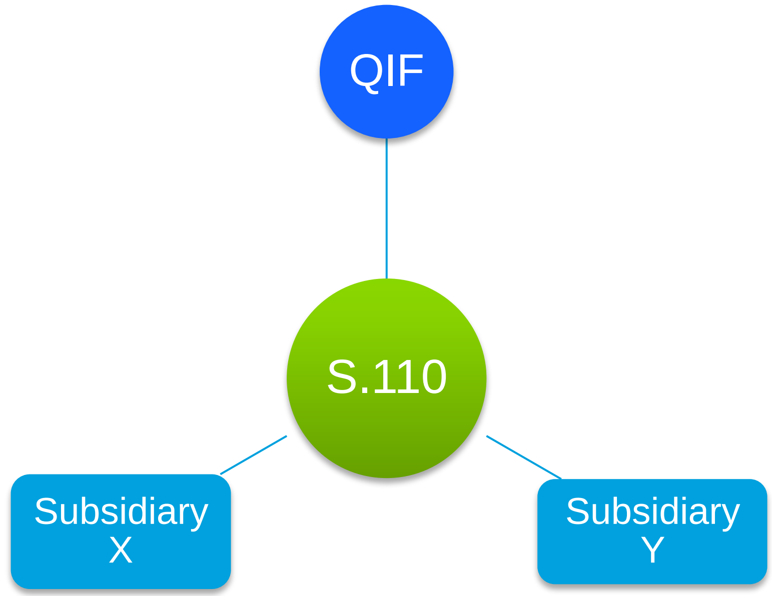
More than one investor

More than one investment

Investors that are not related to the entity

Ownership interest in the form of equity

# IFRS 10
## Consolidation Exemption Example 1




**Investment Entity**

- Provides Investment management service
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- Investors that are not related to the entity
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# Other requirements

1. **Additional disclosures in IFRS 12 Disclosure of Interests in Other Entities**

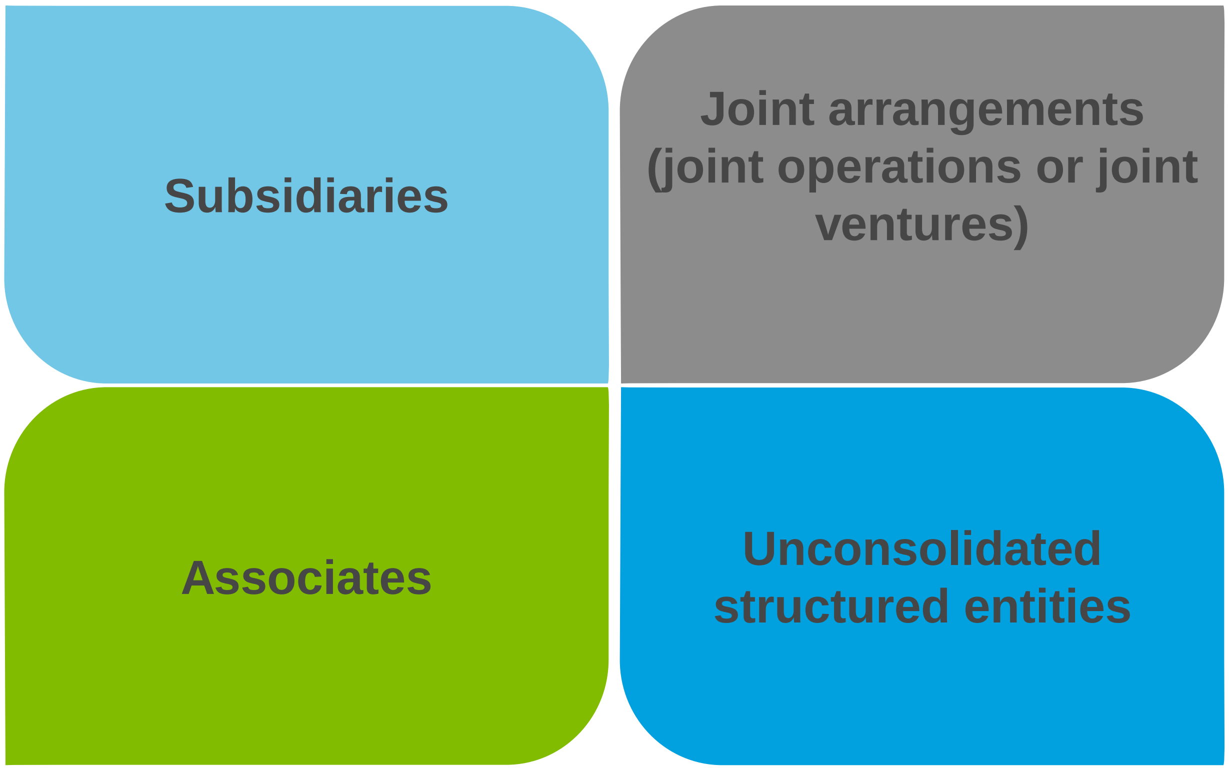
2. **Additional disclosures and separate financial statement requirements in IAS 27 Separate Financial Statements**

3. **Retrospective application with limited transition reliefs (e.g. comparative relief)**

   **Effective date 1 January 2014; early application permitted**

# IFRS 12

IFRS 12 is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in:



# IFRS 12

## Disclosure requirements

### Application

- Any investment entity that is to apply the exemption shall disclose the fact that they have availed of such exemption

### Significant Judgements & Assumptions

- Nature of its interest in another entity/arrangement
- Does it meet the definition of an Investment Entity

### Interests In Subsidiaries

- the composition of the group
- the interest that non-controlling interests have in the group's activities and cash flows
- the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group
- the nature of, and changes in, the risks associated with its interests in consolidated structured entities
- the consequences of changes in its ownership interest in a subsidiary that do not result in a loss of control
- the consequences of losing control of a subsidiary during the reporting period.

### Interests In Unconsolidated Subsidiaries

- Subsidiary's name
- the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary;
- the proportion of ownership interest held by the investment entity and, if different, the proportion of voting rights held.
- Any significant restrictions on use of assets
- Any commitments/intentions to provide financial or other support to an unconsolidated subsidiary

### Interests In Unconsolidated Structured Entities

- An entity shall disclose information that enables users of its financial statements to: [IFRS 12:24]
- understand the nature and extent of its interests in unconsolidated structured entities
- evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities.

# IFRS 10 vs ASU 2013-08

## Conversions

The IFRS 10 Exemption for Investment Entities and ASU 2013-08 is the result of a joint project between the IASB and the FASB. The requirements in the ASU are the similar to the definitions under IFRS 10, however certain difference remain between the two standards, particularly relating to (1) their scope, (2) how an investment company should account for an interest in another investment company and (3) how a non-investment company parent should account for investments held by its investment company subsidiaries in its consolidated financial statements.

# US GAAP

# US GAAP
## Going concern

### Background

- On August 27, 2014 the FASB issued2014-15, Disclosure of Uncertainties About an Entity´s Ability to Continue as a Going Concern
- Provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements.
- The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued.
- An entity must provide certain disclosures if "conditions or events raise substantial doubt about the entity's ability to continue as a going concern."

### Effective date

- The ASU applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted.

### New ASU issued – three key provisions

**Disclosure Thresholds**

**Time Horizons**

**Disclosure Content**

# US GAAP

## Going concern

Start

Are the criteria met for the liquidation basis of accounting? (Subtopic 205-30)

YES

Apply liquidation as according

NO

Are there conditions or events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date the financial statements are issued (or available to be issued)?
(paragraphs 205-40-50-01 through 50-5)

NO

No disclosures required specific to going concern

YES

Consider management's plans intended to mitigate the adverse conditions or events. (paragraphs 205-40-50-6 through 50-11)

Is it probable that management's plans will be effectively implemented? (paragraphs 250-40-50-7 through 50-8)

YES

Is it probable that management's plans will mitigate the relevant conditions or events that raise substantial doubt? (paragraph 205-40-50 10)

YES

An entity shall disclose information to help users understand the following when substantial doubt is alleviated by management's plans:

1. Principal conditions or events that raised substantial doubt, before consideration of management's plans
2. Management's evaluation of the significance of those conditions or events
3. Management's plans that alleviated substantial doubt.

(paragraph 205-40-50-12)

NO

NO

An entity shall disclose information to help users in understand the following when substantial doubt is not alleviated:
1. Principal conditions or events that raise substantial doubt
2. Management's evaluation of the significance of those conditions or events
3. Management's plans that are intended to mitigate the conditions or events that raise substantial doubt.
The entity also should include in the footnotes a statement indicating that there is substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued).

(paragraph 205-40-50-13)

# US GAAP
## Liquidation basis of accounting

| | |
|---|---|
| **Background** | • On April 22, 2013 the FASB issued ASU 2013-07, Liquidation Basis of Accounting<br>• Provides guidance on when and how to apply the liquidation basis of accounting and required disclosures |
| **Scope** | • Applies to all entities (public and non-public), except investment companies regulated under the Investment Company Act of 1940 |
| **Effective date** | • Annual reporting periods beginning after December 15, 2013, and interim reporting periods therein. Adopt prospectively from date liquidation is imminent. Early adoption permitted.<br>• Entity already reporting on liquidation basis upon effective date under another standard, does not apply this guidance |
| **Recognition** | • Adopt the liquidation basis of accounting when liquidation is imminent unless liquidation follows a plan specified in entity's governing documents<br>• Liquidation is imminent when:<br>• A plan of liquidation is approved by those with the power to do so and remote likelihood it will be blocked<br>• Liquidation is imposed by other forces and remote likelihood entity will return from liquidation (e.g. involuntary bankruptcy) |

# US GAAP

## Liquidation basis of accounting

### Initial Recognition/Measurement - Assets & Liabilities

**Assets**

- Recognize assets expected to be sold in liquidation, not previously recognized (e.g., trademarks)
- Measure to reflect actual amount of cash the entity expects to collect during liquidation
- Fair value measurement may be acceptable

**Liabilities**

- Recognize and measure in accordance with respective existing U.S. GAAP
- Adjust inputs used to measure liabilities to reflect liquidation
- Do not adjust amount for anticipated legal release

Remeasure liabilities (if required by relevant U.S. GAAP), assets, and other items expected to be sold in liquidation to actual or estimated carrying amount at each subsequent reporting period

### Initial Recognition/Measurement - Costs

**Estimated costs to dispose**

- Accrue estimated costs to dispose of assets, including other items expects to sell
- Present total estimated costs to dispose in aggregate separately from measurement of assets

**Ongoing income & expense**

- Accrue other costs and income expected to be incurred during liquidation period if and when reasonable basis for estimation exists

Remeasure disposal cost accruals or other ongoing income and expenses at each subsequent reporting period to reflect actual or estimated change in carrying value

# US GAAP
## Liquidation basis of accounting

### Presentation and disclosures

Under the ASU, an entity must present, at a minimum, (1) a statement of net assets in liquidation and a statement of changes in net assets in liquidation. An entity must also present disclosures required under U.S. GAAP that are relevant to a user's understanding of the liquidation basis financial statements. In addition, the entity must include expanded disclosures in its financial statements for the reporting period in which the entity determines that liquidation is imminent. The ASU states that at a minimum, an entity must disclose all of the following:

a) That the financial statements are prepared using the liquidation basis of accounting, including the facts and circumstances surrounding the adoption of the liquidation basis of accounting and the entity's determination that liquidation is imminent.
b) A description of the entity's plan for liquidation, including a description of each of the following:
    1. The manner by which it expects to dispose of its assets and other items it expects to sell that it had not previously recognized as assets (for example, trademarks)
    2. The manner by which it expects to settle its liabilities
    3. The expected date by which the entity expects to complete its liquidation.
c) The methods and significant assumptions used to measure assets and liabilities, including any subsequent changes to those methods and assumptions.
d) The type and amount of costs and income accrued in the statement of net assets in liquidation and the period over which those costs are expected to be paid or income earned.

# US GAAP
## Repurchase Agreements

### Overview

*Repo to maturity*

- The ASU requires repos-to-maturity to be accounted for as secured borrowings

*Repurchase Financings*

- Under current guidance in ASC 860, repurchase agreements entered into as part of a repurchase financing may be required to be accounted for on a "linked" basis.
- The new ASU eliminates this requirement and would require such repurchase agreements to be accounted for separately

### Transition

- Entities (1) are required to record a cumulative-effect adjustment to beginning retained earnings for transactions outstanding as of the period of adoption and (2) are not required to disclose transition information other than that already required by ASC 250.

### Effective date

- For public entities the final standard is effective for annual periods (and interim periods within those annual periods) beginning after December 15, 2014. Early adoption is not permitted.
- For nonpublic entities the final standard is effective for annual periods beginning after December 15, 2014, and interim periods beginning after December 15, 2015. A nonpublic may elect to early adopt the requirements for interim periods beginning after December 15, 2014.

# US GAAP
## Repurchase Agreements

### Disclosures requirements

Certain Transfers Accounted for as Secured Borrowings To enhance the transparency of collateral supporting repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings, ASC 860-30-50-7 (added by the ASU) requires entities to disclose the following:

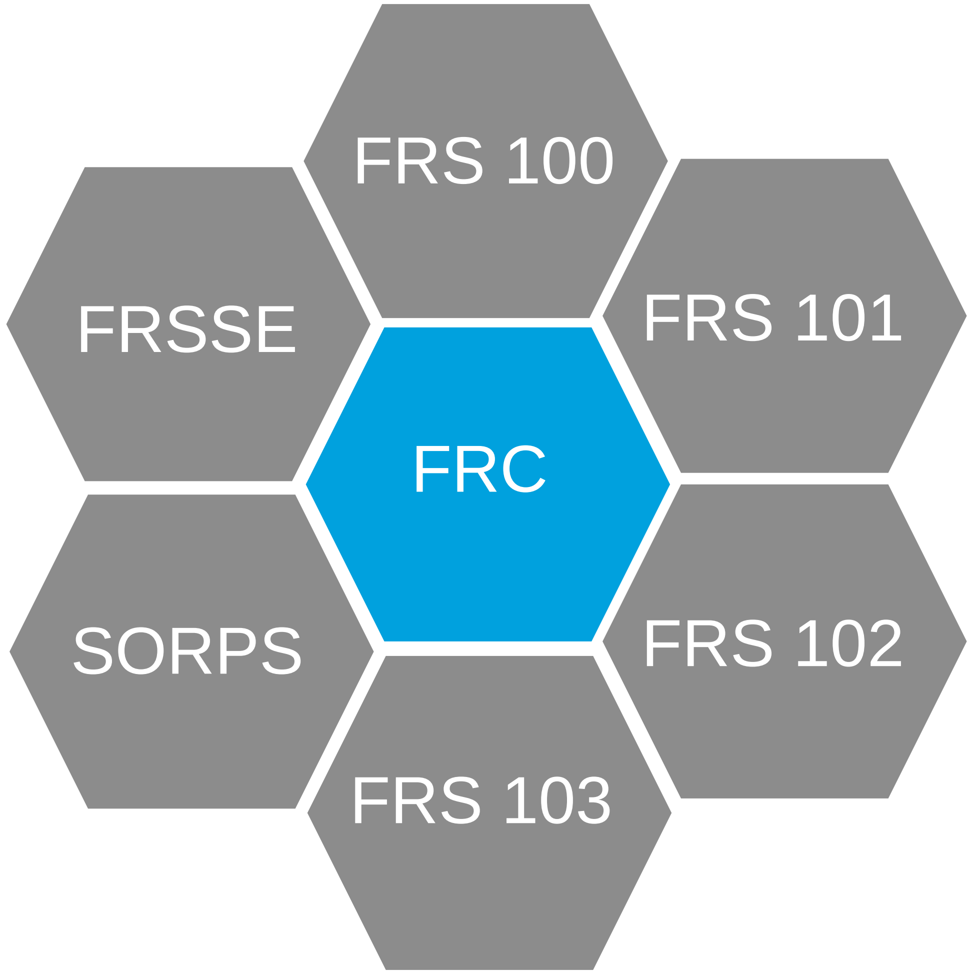
A. A disaggregation of the gross obligation [arising] by the class of collateral pledged. An entity shall determine the appropriate level of disaggregation and classes to be presented on the basis of the nature, characteristics, and risks of the collateral pledged.

B. The remaining contractual maturity of the repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions. . . .

C. A discussion of the potential risks associated with the agreements and related collateral pledged, including obligations arising from a decline in the fair value of the collateral pledged and how those risks are managed.

# FRS 102

# New Financial Reporting Framework



# Why replace current Irish/UK GAAP?

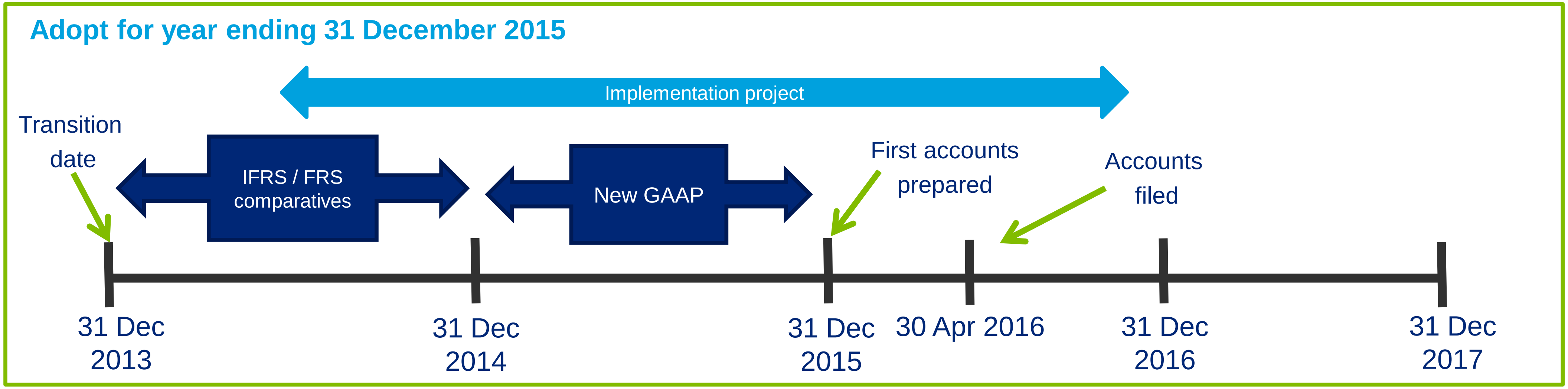
FRC is aiming to provide financial reporting standards that improve financial reporting

Current Irish/UK GAAP is replaced by one standard of 226 A4 pages

Organised by topic – 35 sections

Update every 3 years

# Possible conversion phases for a December year end company

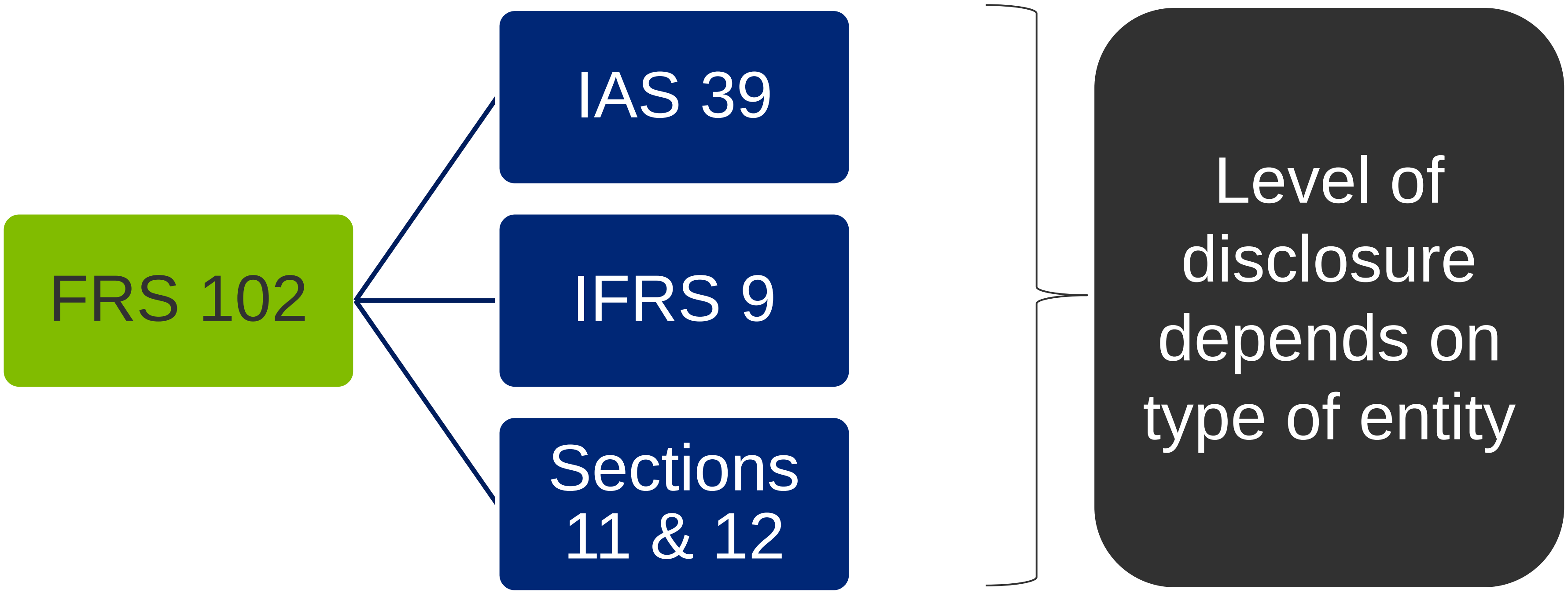


| Theme | IFRS | FRS 102 | Existing Irish/UK GAAP |
|---|---|---|---|
| **Overall effort expected to complete transition** | **Low**<br><br>Irish/UK GAAP and IFRS have been undergoing a convergence and therefore only minor differences currently exist between Irish/UK GAAP and IFRS. The key difference is the requirement to include a Cash Flow Statement. | **Moderate**<br><br>Judgment will be required to determine the necessary changes to your existing accounting policies and disclosure requirements. Any changes required are likely to be simplification rather than requiring enhancement which may be of some on-going benefit to the Fund. | **N/A** |
| **Investor Considerations** | **Internationally Recognised** | **Less Recognised**<br><br>It is necessary to consider whether investors will have any preference for IFRS over FRS 102. In our experience investors have not previously challenged Irish or UK GAAP and so there is no reason to believe that they would raise any concerns over moving to FRS 102. | **N/A**<br><br>Existing Irish/UK GAAP is no longer available for use. |
| **Financial Instrument Disclosures** | **Limited Change Required**<br><br>No changes to the existing recognition and measurement policies or to the disclosures would be required.<br><br>Key difference between Irish/UK GAAP and IFRS is that Irish/UK GAAP did not require ‘Off-setting’ disclosures required under IFRS and US GAAP.<br><br>This will be relevant to the Fund as there are some offsetting arrangements in place (For example Repos). | **Reduced Disclosures**<br><br>FRS 102 introduces simplified disclosure requirements for Financial Instruments.<br><br>A divergence between the ‘Leveling’ of investments may exist between FRS 102 and IFRS whereby certain investments which are valued based on a modelled price may fall into ‘Level 3’ under FRS 102 rather than ‘Level 2’ under IFRS.<br><br>This could be relevant to the Fund if any investments held in the future are based on modelled prices. | **Almost Identical to IFRS**<br><br>Key difference between Irish/UK GAAP and IFRS is that Irish/UK GAAP did not require ‘Off-setting’ Disclosures required under IFRS and US GAAP. |

| Theme | IFRS | FRS 102 | Existing Irish/UK GAAP |
|---|---|---|---|
| **Valuation of Investments** | **Fair Value Pricing**<br><br>Bid / Ask pricing is not strictly required under IFRS 13 although fair value methodology needs to represent exit price. Mid-price may be used as a practical expedient. | **Fair Value Pricing**<br><br>Section 12 of FRS 102 requires Bid / Ask pricing. However, there is an option under FRS 102 to choose to adopt the recognition and measurement principles of IFRS which among other things would eliminate the strict requirement to apply Bid / Ask pricing. | **Fair Value Pricing**<br><br>Under FRS 26 Bid / Ask pricing is required. |
| **Ongoing Frequency of Updates** | **Frequent Updates Possible** | **Limited Updates**<br><br>FRS 102 will only be updated every 3 years and at this point changes under IFRS that occurred during the interim period may then be introduced to FRS 102. | **N/A**<br><br>Existing Irish/UK GAAP was generally updated in line with IFRS. |
| **Complexity of Standards** | **Complex Standards** | **Reduced Complexity**<br><br>FRS 102 comprises only 226 pages. | **Almost Identical to IFRS**<br><br>. |
| **Requirement to include a Cash flow Statement** | **Always Required**<br><br>IFRS requires a cash flow statement to be provided in all cases | **May Not `Be Required**<br><br>Exemption exists for open ended investment funds with liquid investments from providing a cash flow statement. | **May Not Be Required**<br><br>Exemption exists for open ended investment funds with liquid investments from providing a cash flow statement. |
| **Consolidation Exemption** | **Exemption for “Investment Entities”**<br><br>IFRS 10 includes a specific consolidation exemption for subsidiaries where an entity meets the definition of an “Investment Entity” | **Exemption where held for “Subsequent Resale”**<br><br>Exemption exists from consolidating subsidiaries where they are held for subsequent resale. The exemption doesn’t go quite as far as IFRS when you consider Master / Feeder Funds etc. | **Subsidiaries are required to be consolidated** |

# Sections 11 & 12: Financial instruments – Scope

## Financial instruments – accounting policy choice




- Entities reporting under FRS 102 have accounting policy choice over which recognition & measurement requirements to apply for financial instruments
- Disclosure requirements of FRS 102 always apply

# Sections 11 & 12: Financial instruments – Basic Financial instruments

## What is a basic financial instrument?

- Cash (incl. demand and fixed term deposits)
- Debt instruments meeting certain conditions
- Some equity instruments
- A commitment to receive a loan that will be basic that cannot be settled net in cash

### Basic debt instruments

- A zero coupon bond with fixed maturity
- A loan paying EURIBOR + 2% with an option to repay at par plus accrued interest
- A loan paying a fixed rate of interest with a make-whole provision

### Non-basic debt instruments

- All derivatives – other than basic loan commitments
- An investment in convertible debt
- A loan with an option to repay at fair value
- A loan with interest indexed to the FTSE 100

**Basic instruments are within scope of section 11, everything else is within scope of section 12**

# Sections 11 & 12: Financial instruments – Measurement

**Basic debt instruments**
- Generally amortised cost
- Some short term payables/receivables at cost
- Fair value option available, subject to conditions

**Equity instruments**
(and derivatives over equity instruments)
- Fair Value Through Profit or Loss (FVTPL) if fair value is reliably measurable
- Otherwise at cost

**Basic loan commitments**
- Cost less impairment

**Everything else**
- Fair Value Through Profit or Loss (FVTPL)

For items not at FVTPL transaction costs are included in initial carrying amount. Assets not at FVTPL are assessed for impairment at end of each reporting period

# Sections 11 & 12: Financial instruments – Hedge accounting

- Specified criteria must be met – very limited scope for hedge accounting
- Limited instrument types: interest rate swap, foreign currency swap, a cross-currency interest rate swap, commodity or foreign currency forward or future (and foreign currency loans for net investment hedges only)
- Restrictions on the terms of instruments used
- Relationships must be formally designated and tested

**Very different from current Irish practice**

**Potentially a key area of complexity**

# Transition to FRS 102

Restated comparative information required (unless impracticable), but no third balance sheet

Reconciliation of equity to be presented at the date of transition and date of last financial statements under Irish/UK GAAP

Reconciliation of profit or loss in last financial statements from Irish/UK GAAP to FRS 102

Transitional provisions for a number of areas including assets held at valuation

# Practical Insight

1. **Ensure smooth transition**
2. **Ensure a definite decision has been made**
3. **Board approval**
4. **Prepare by creating a transition plan**
5. **Include the auditors early in the review of the accounts**

# AIFMD

# Alternative Investment Fund Managers Directive

## Periodic and regular disclosures

**Overview**

- An audited annual report must be published by the AIFM for each EU AIF and each AIF it markets in the EU.
- The annual report must be published **within six months** of the financial year-end and made available to the home member state of the AIFM and, where applicable, the home member state of the AIF.
- For non-EU AIFMs marketing under the national private placement regimes in the EU, the annual report must be made available to the local EU regulator of each target market.

**Minimum items to include**

- A balance-sheet or a statement of assets and liabilities
- An income and expenditure account for the financial year
- A report on the activities of the financial year
- Any material changes in respect of the AIFMD investor disclosures
- Remuneration disclosures (see below for more detail)

**Remuneration disclosure**

- The AIFM must disclose in its annual report the total amount of remuneration for the financial year, split into fixed and variable remuneration, paid by the AIFM to its staff, indicating the number of beneficiaries and, where relevant, carried interest paid by the AIF. Remuneration for the entire AIFM may be disclosed but there is a requirement to break information down by AIF insofar as this information exists or is readily available. The AIFM should indicate whether the remuneration disclosure relates to any of the following:

1. Total remuneration of the identified staff of the AIFM indicating the number of beneficiaries
2. Total remuneration of those staff of the AIFM who are fully/partly involved in the activities of the AIF indicating the number of beneficiaries
3. The proportion of the total remuneration of the staff of the AIFM attributable to the AIF and the number of beneficiaries (pro rata allocation)

**Note**: ESMA has clarified that the AIFMD regime on variable remuneration applies only to the first full performance period following authorisation.

For example, in the case of an AIFM which was authorised in 2013 and has a 31 December year-end, the disclosure on variable remuneration should apply to the 2014 accounting period.

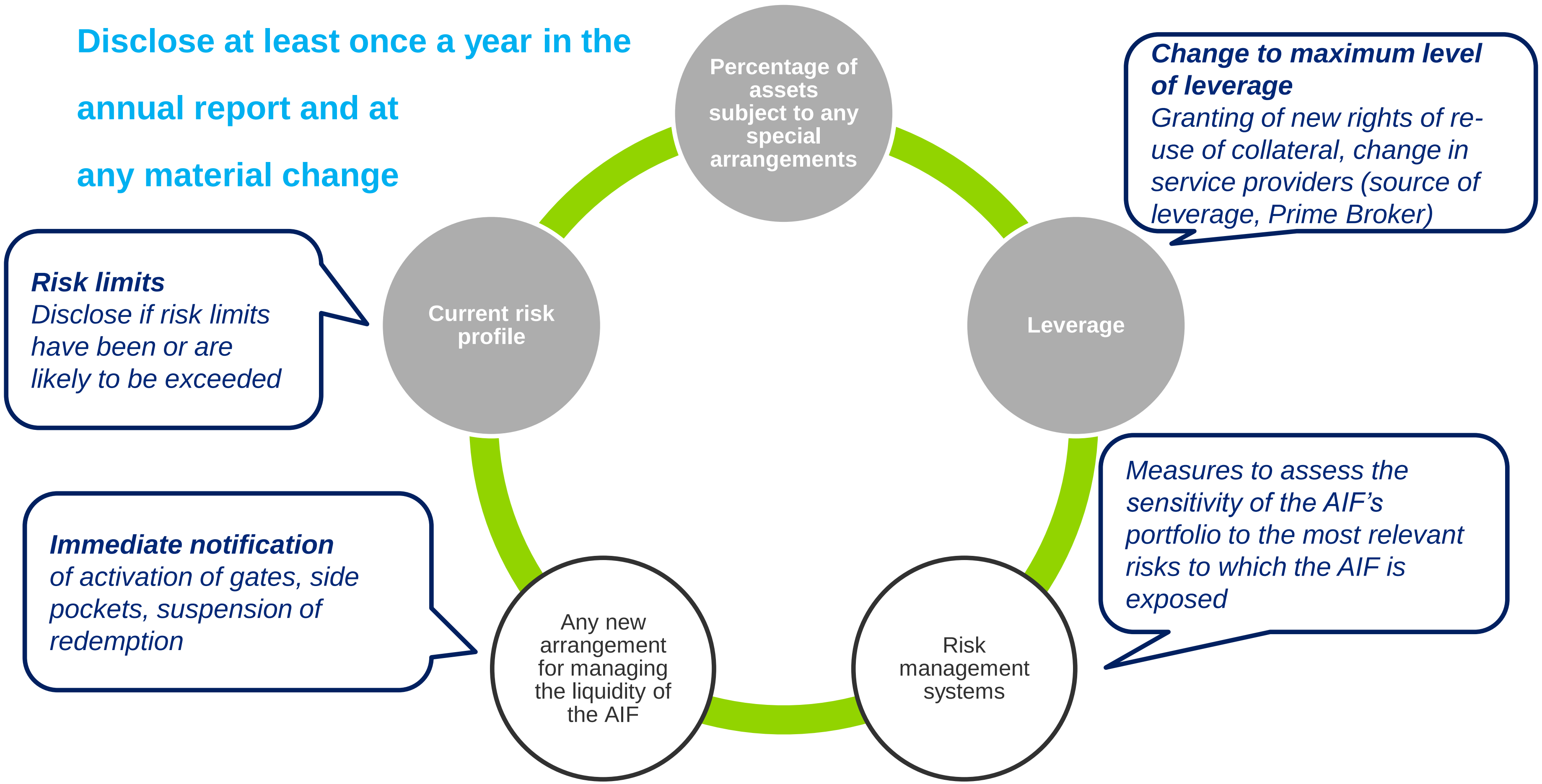
Note: Where an AIF is required to publish an annual report under the Transparency Directive (2004/109/EC),

This report will still need to be published no later than 4 months following the financial year-end.

The annual report produced to meet this obligation will be required to include only the annual report disclosures listed by the Directive and not additional items required by the Central Bank.

# Alternative Investment Fund Managers Directive

## Annual report




= Information also to be provided as part of the regulatory reporting

# Q&A