Comparison for investment funds 2013
IFRS/U.S. GAAP/Luxembourg GAAP
Elements for success

Investment Management

Contents

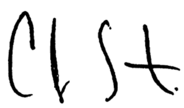
Foreword

There have been continued efforts in moving toward converged standards on several key accounting areas that address the needs of fund investors and acknowledge the unique nature of the fund accounting industry. As the global economy appears to be emerging from the financial crisis, global investment managers look for opportunities and markets for their strategies and products to be successful and where, hence, the accounting standards must be understood.

This document highlights selected differences between current significant accounting standards where investment activity is significant and includes IFRS, U.S. GAAP, and Luxembourg GAAP.

Deloitte's Global Financial Services Industry network strives to provide the latest thinking around this global topic as an element for success.

Regards,



Cary J. Stier
Investment Management Sector Leader
Deloitte Touche Tohmatsu Limited

International updates

In 2013, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) continued to work toward convergence between the International Financial Reporting Standards (IFRS) and accounting principles generally accepted in the United States of America (U.S. GAAP). Through methodically addressing those issues that represent the most significant differences, these Boards continue to issue new standards that are shaping the accounting rules for all types of entities. Hearing the pleas from investment managers and bodies like the Investment Company Institute and the European Fund and Asset Management Association, the convergence continued to more tangibly deal with standards that address the needs of fund shareholders and acknowledge the unique nature of fund financial reporting.

On the investment manager front, the global economy continues to sputter in an attempt to recover from the woes of the financial crisis. However, continued worries about international financial stability, coupled with the downgrade of U.S. and other international government debt in the EU zone, has been challenging for the fund industry. Global investment managers continue to look for active markets for their strategies and products.

As we continue to assist executives in the investment management industry in dealing with changes in the accounting standards convergence projects, we have created this briefing to provide an update on the accounting differences between IFRS, U.S. GAAP, and Luxembourg GAAP (LUX GAAP) that impact investment funds.

This briefing highlights selected differences between current significant accounting standards in place in jurisdictions where investment activity is most significant as well as changes which are dependent on EU endorsement. It includes IFRS, U.S. GAAP, and LUX GAAP. The accounting standards for investment funds under LUX GAAP are derived from Luxembourg laws and regulations and are primarily shaped by the European Union (EU) Undertakings for Collective Investment in Transferable Securities (UCITS) and the Alternative Investment Fund Manager Directives (AIFMD) and diverge from IFRS and U.S. GAAP in several respects. Although there are other significant global investment fund jurisdictions, the accounting standards in those other areas tend to allow or closely follow the tenets of IFRS.

The members of the EU had until 22 July 2013 to transpose the EU AIFMD into local law. The AIFMD has been incorporated into Luxembourg law on 12 July 2013. Additionally, the European Securities and Markets Authority (ESMA) have also issued several guidelines which have an impact on the annual reports of investment funds in Luxembourg.

As part of its consolidation project, the IASB has been considering whether entities that measure and manage their investments on a fair value basis (generally known as "investment entities") should be given relief from the consolidation requirements of IFRS 10 *Consolidated Financial Statements*. The justification for granting such relief has been that for certain entities information on the fair value of their investment in a subsidiary is more relevant than consolidation of its individual assets and liabilities and the difficulty has been to circumscribe those specific "investment entities" where this is the case.

Following comments received on its Exposure Draft (ED), which was issued in August 2011, the IASB issued a series of amendments to IFRS to give effect to new requirements for investment entities. The requirements include some notable differences from those proposed in the ED, particularly to the definition of an "investment entity" and its application. Under the new requirements and apart from the exception noted below, an entity meeting the definition of an "investment entity" is required to measure an investment in a subsidiary at fair value through profit or loss (FVTPL) in accordance with IFRS 9 *Financial Instruments* (or IAS 39 *Financial Instruments: Recognition and Measurement*) instead of consolidating it.

The new requirements in IFRS 10 are principally concerned with establishing whether an entity qualifies as an "investment entity". IFRS 10 emphasizes that the definition does not set a "bright-line" but establishes the typical features of an entity that meets the notion of an investment entity. Accordingly, in applying the definition, judgment will need to be exercised.

The investment entity requirements are to be applied retrospectively (subject to specific transition reliefs) and are effective for reporting periods beginning on or after 1 January 2014. Early application is permitted.

In Europe, the above amendments were endorsed by the European Commission, on 20 November 2013.

Additionally, as part of the joint project, the FASB issued Accounting Standards Update (ASU) 2013-08, *Financial Services — Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*. The requirements under this ASU are similar to the definition of an investment entity under the IASB amendments discussed above. However, differences remain between the FASB's and IASB's models, particularly related to (1) their scope, (2) how an investment company should account for an interest in another investment company, and (3) how a noninvestment company parent should account for investments held by its investment company subsidiaries in its consolidated financial statements. This ASU is effective for interim and annual periods beginning after 15 December 2013. Earlier application is not permitted.

Industry-specific guidance for investment funds

IFRS

IFRS do not provide specific guidance for registered investment companies or private funds. Currently, an investment company must follow the generic IFRS. The IASB however, introduced the concept of an investment entity with the issuance of the "Investment Entities Amendments" to IFRS 10, IFRS 12, and IAS 27.

The Amendments provide an exemption from the requirement to consolidate subsidiaries for eligible investment entities, instead requiring the use of the fair value to measure those investments (except those subsidiaries that provide services relating to the investment entity's investment activities must still be consolidated).

For guidance on industry-specific issues, investment companies following IFRS may look to IFRS guidance dealing with similar issues, the current conceptual framework, standards of other standard-setting bodies and, in certain instances, accepted industry practices.

The "Investment Entities Amendments" to IFRS 10, IFRS 12, and IAS 27 define an "investment entity" (IE) as an entity that:

- Obtains funds from one or more investor for the purpose of providing those investor(s) with investment management services,
- Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and
- Measures and evaluates the performance of substantially all of its investments on a fair value basis.

Additionally, an IE would typically have the following characteristics (although the absence of any would not disqualify it from being classified as an IE):

- More than one investor;
- More than one investment;
- Investors that are not related parties; and
- Ownership interests in the form of equity or similar interests.

The IE requirements are to be applied retrospectively (subject to specific transition reliefs) and are effective for reporting periods beginning on or after 1 January 2014, although early application is permitted. The Investment Entities Amendment was endorsed by the EU on 20 November 2013.

U.S. GAAP/SEC

Specific guidance is available for investment companies, principally through the FASB's Accounting Standards Codification (ASC) 946 *Financial Services—Investment Companies* (Topic 946).

Additionally, the AICPA Audit and Accounting Guide for Investment Companies provides a comprehensive source of information about operating conditions and auditing procedures unique to the investment company industry. Further, the AICPA Technical Practice Aid section 6910 provides questions and answers to certain investment company related matters. These questions and answers are nonauthoritative. The material is based on selected practice matters identified by the staff of the AICPA's Technical Hotline and various other bodies within the AICPA, related to investment companies.

The Investment Company Act of 1940 and Regulations S-X provide specific guidance and regulations for investment companies registered with the Securities and Exchange Commission (SEC).

In June 2013, the FASB issued ASU 2013-08, *Financial Services — Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*. The amendments in ASU 2013-08 result in similar characteristics to be evaluated in determining if an entity is considered an investment company under U.S. GAAP and IFRS. However, there are differences related to certain of the fundamental and typical characteristics.

The amendments in this ASU clarify the criteria for an entity to be considered an investment company under Topic 946, require an investment company to measure noncontrolling ownership interests in other investment companies at fair value rather than using the equity method of accounting, and require investment companies to include the following disclosures: (a) the fact that the entity is an investment company and is applying the guidance in Topic 946, (b) information about changes, if any, in an entity's status as an investment company, and (c) information about financial support provided or contractually required to be provided by an investment company to any of its investees.

This ASU is effective for interim and annual periods beginning after 15 December 2013. Earlier application is not permitted.

LUX GAAP

Specific guidance is available for investment companies, principally through the amended Law of 17 December 2010 on Undertakings for Collective Investment (UCI), the amended Law of 13 February 2007 on Specialized Investment Funds (SIF), the Law of 12 July 2013 on Alternative Investment Fund Managers, and circulars issued by the Commission for the Supervision of the Financial Sector (CSSF).

The amended Law of 17 December 2010 for UCI's incorporates the requirements of the UCITS Directive 85/611/EEC (as recast by Directive 2009/65/EC).

Financial statement presentation and disclosure differences for investment funds

Potential differences	IFRS	U.S. GAAP/SEC	LUX GAAP
Components of financial statements	1. Statement of financial position. 2. Statement of profit or loss and other comprehensive income (or presented as two separate statements). Most investment funds however do not have elements of other comprehensive income. 3. Statement of changes in equity (or statement of changes in net assets attributable to holders of redeemable shares if there is no equity). 4. Statement of cash flows. 5. Notes, comprising a summary of accounting policies and other explanatory notes.	1. Statement of assets and liabilities with a schedule of investments or a statement of net assets, which includes a schedule of investments therein. 2. Statement of operations. 3. Statement of changes in net assets or statement of changes in partners'/ members' capital/equity (depending on structure). 4. Statement of cash flows (may or may not be required under U.S. GAAP). 5. Financial highlights. 6. Notes to the financial statements.	1. Statement of assets and liabilities (or net assets), which includes a schedule of investments (UCI) or qualitative and/or quantitative information on the investment portfolio (SIF). 2. Statements of operations. 3. Statements of changes in net assets. 4. Notes to the financial statements. 5. Report by management on the activities of the financial year.
Statement of profit or loss and other comprehensive income (Statement of comprehensive income)	Certain line items are required to be presented on the face of the statement of comprehensive income. Additional line items should be presented when such presentation is relevant to the understanding of the entity's financial performance. Expenditures are presented based either on their nature or function within the entity.	U.S. GAAP requires presentation of investment income (i.e., dividends and interest) to be separated from gains/losses on investments for investment funds. Expenditures are presented based on their nature. Registered funds should follow SEC regulations.	Certain line items are required to be presented on the face of the statement of operations.

Potential differences	IFRS	U.S. GAAP/SEC	LUX GAAP
Schedule of investments	Disclosure of a schedule (or a condensed schedule) of investments is not required. Similar to U.S. GAAP, IFRS 13 *Fair Value Measurement*, however, requires certain disclosures by class of financial assets and liabilities measured at fair value, including: • The fair value of that class; • The level of the fair value hierarchy within which the fair value measurements are categories in their entirety (Level 1, 2, or 3); • Information regarding transfers between Level 1 and Level 2 of the fair value hierarchy; • A description of the fair valuation techniques and the inputs used in fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy; • For fair value measurements within Level 3 of the fair value hierarchy, additional disclosure may include: – A reconciliation between the opening and closing balances. – A description of the valuation processes. – A narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs (including effect of changes to reflect reasonably possible alternative assumptions that would change fair value significantly). IFRS 12 also requires the following disclosure for each unconsolidated subsidiary: – the subsidiary's name – the principal place of business – the proportion of ownership interest held	Disclosure of a schedule (or a condensed schedule) of investments is required. This schedule is categorized by type of investment, and the related industry, country or geographic region of the investment. A schedule of investments is required for SEC registered funds in accordance with the requirements set forth in Regulation S—X and Topic 946. A condensed schedule of investments, at a minimum, is required for private funds. A condensed schedule of investments must detail all individual positions and investments greater than five percent of net assets and all investments in any one issuer or underlying that is greater than five percent of net assets.	Disclosure of a schedule of investments is required (except for a SIF which requires qualitative and/or quantitative information on the investment portfolio). The schedule of investments must distinguish between transferable securities and money market instruments that are: • Admitted to an official stock exchange listing; • Dealt in on another regulated market; • Recently issued; • Other transferable securities and money market instruments and be analyzed in accordance with the most appropriate criteria in the light of the investment policy of the UCI (e.g., in accordance with economic, geographical or currency criteria). A statement of changes in the composition of the portfolio during the reference period is also required (in practice a note is added to explain that this information is available at the registered office of the fund upon request).

Financial statement presentation and disclosure differences for investment funds (cont.)

Potential differences	IFRS	U.S. GAAP/SEC	LUX GAAP
Statement of cash flows	Required for all funds. The direct or indirect method is permitted.	An investment company may be exempted from presenting a statement of cash flows if certain conditions are met. The conditions, in accordance with Topic 230, are: 1. An investment company carries substantially all of its investments at fair value, and substantially all of its investments are classified as Level 1 or Level 2 in the fair value hierarchy table in accordance with Topic 820, 2. An investment company has little or no debt, and 3. An investment company provides a statement of changes in net assets. Should a cash flow statement be required the direct or indirect method is permitted.	No requirement for a statement of cash flows.
Financial highlights	IFRS do not require presentation of financial highlights. Nevertheless IFRS require the presentation of additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the corresponding impact.	The disclosure of financial highlights is required under U.S. GAAP, for each class of common shares that are not a management class either as a separate schedule or within the notes to the financial statements. For SEC registered funds, the financial highlights should be presented in a schedule for the last five fiscal years.	The only financial highlights disclosure required is the following statistics for each of the last three financial year ends: a) The total net asset value. b) The net asset value per share for each class of share or unit in issue.

Potential differences	IFRS	U.S. GAAP/SEC	LUX GAAP
Comparatives	IFRS requires presentation of comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. When an accounting policy has been applied retrospectively or items in the financial statements have been restated or reclassified and these have a material effect on the information in the statement of financial position at the beginning of the preceding period, a third statement of financial position as at the beginning of the preceding period is required. An entity is also required to include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements.	Comparatives are not required except for the statement of changes in net assets for SEC registered funds or funds subject to other regulatory requirements, and the financial highlights requirements discussed in the section above for SEC registered funds.	Comparatives are not required except for the financial highlights discussed above.
Earnings Per Share (EPS)	Required for publicly traded funds or those in the process of an IPO. The requirement to disclose EPS applies only to those funds whose shares qualify as equity instruments.	Not applicable, as investment funds are excluded from the scope of ASC 260 *Earnings per Share*.	No specific requirement.
NAV per share	Not required. Nevertheless, as IFRS require the presentation of additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the corresponding impact, NAV per share is commonly presented for investment funds preparing financial statements under IFRS.	For unitized funds, NAV per share is required to be presented on the statement of assets and liabilities, or in the notes to the financial statements, and per unit changes in net assets are required to be disclosed in the financial highlights.	The year-end NAV per share/unit and total NAV is required for the last three financial years.

Financial statement presentation and disclosure differences for investment funds (cont.)

Potential differences	IFRS	U.S. GAAP/SEC	LUX GAAP
Financial instruments-derivative disclosures	IFRS prescribes disclosures for financial instruments held by an entity, either by category of financial instrument or by class, taking into consideration the nature, characteristics, and risks of those financial instruments. These disclosures include those mentioned above on fair value measurements in "Schedule of Investments". IFRS requires disclosure of quantitative and qualitative information about exposure to risks arising from financial instruments (see risk disclosure below).	ASC 815 *Derivatives and Hedging* requires qualitative and quantitative disclosure regarding the investment company's objectives for holding and using derivative instruments. Tabular disclosure of gross fair value amounts in the statement of assets and liabilities and the location by line item, of amounts of gains and losses reported in the statement of operations by underlying risk exposure (e.g., interest rate risk, credit risk, foreign exchange risk or overall price risk). The volume of derivative activity during the period also needs to be disclosed. For purposes of the fair value hierarchy table, derivative instruments must be aggregated by underlying risk exposure, on a gross basis, rather than by contract type (such as swaps, options, etc.), in a manner consistent with ASC 815. Aggregating in this manner differs from how derivative instruments are generally grouped within the condensed schedule of investments. For derivative financial instruments in private funds, disclosure in the schedule of investments of the number of contracts, range of expiration dates, and cumulative appreciation/depreciation is required if the derivative exceeds five percent of net assets. Also, disclosure of the range of expiration dates and fair value for all other derivatives of a particular underlying which exceed five percent of net assets is required. For registered funds, disclosure is required of all details of each derivative contract separately.	Details by category of financial derivative instruments including resulting commitments (UCI). The annual report of UCITS using total return swaps or other financial derivative instruments with the same characteristics should disclose the following: • The underlying exposure obtained through financial derivative instruments; • The identity of the counterparty(ies) to these financial derivative instruments; and • The type and amount of collateral received by the UCITS to reduce counterparty exposure. See "Guidelines on ETFs and other UCITS issues" as published by ESMA.

Potential differences	IFRS	U.S. GAAP/SEC	LUX GAAP
Balance sheet offsetting disclosure	Disclosure requirements about the effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position disclosures include the following information: a) The gross amounts of financial assets and financial liabilities before offsetting; b) The amounts set off in accordance with the related offsetting model; c) The net amounts presented in the statement of financial position ((a) less (b)); d) The effect of financial instruments subject to master netting arrangements or similar agreements not already set off in the statement of financial position, including related rights to collateral; and e) The net amount after deducting the amount in (d) from the amounts in (c) above. Entities are required to present this information in a tabular format, separately for financial assets and financial liabilities, unless another format is more appropriate. In addition, entities must disclose qualitative information about the nature of the rights of set-off.	Similar to the IFRS guidance, in December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*, which includes the new disclosure requirements as discussed in the IFRS column. In January 2013, the FASB issued ASU 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. Per the ASU, the scope of the FASB's amended requirements includes fewer financial instruments than the scope of the offsetting requirements under IFRS. The scope of the FASB's amended requirements include recognized derivative instruments accounted for in accordance with Topic 815, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with ASC 210-20-45 or ASC 815-10-45, or that are subject to an enforceable master netting arrangement or similar agreement.	No specific requirement.
Cash	Overdrafts may be included in cash balances, if they are repayable on demand. The accounting policy choice should be disclosed in the notes and must be applied consistently.	Overdrafts are generally excluded from cash balances and disclosed separately.	Overdrafts are generally excluded from cash balances and disclosed separately.

Financial statement presentation and disclosure differences for investment funds (cont.)

Potential differences	IFRS	U.S. GAAP/SEC	LUX GAAP
Realized and unrealized gains/(losses) on investments	IFRS do not require the separate disclosure of net realized gains/(losses) and net change in unrealized appreciation/(depreciation) in the statement of profit or loss and other comprehensive income for investments which are determined to be fair valued through profit and loss. IFRS 13 *Fair Value Measurement*, however, requires entities to separately disclose the change in unrealized appreciation/(depreciation) on investments categorized within Level 3 of the fair value hierarchy.	Net realized gains/(losses) and net change in unrealized appreciation/(depreciation) should be disclosed separately. There is no requirement to separately break out derivatives on the face of the statement of operations (see risk disclosures below).	Net realized gains/(losses) and net change in unrealized appreciation/(depreciation) should be disclosed separately. There is no requirement to separately break out derivatives; however, these are commonly presented separately on the face of the statement of operations.
Disclosures on risks of financial instruments	IFRS 7 *Financial Instruments: Disclosures* has robust and specific quantitative and qualitative risk disclosure requirements. The standard requires disclosures related to both significance of financial instruments and the nature and extent of risk exposure of investments including credit risk, liquidity risk, and market risk. Market risk is further broken down into price risk, interest rate risk, and currency risk. For market risks, a sensitivity analysis must also be disclosed, either for each type of market risk or in the aggregate if such analysis is prepared that reflects the interdependencies between risk variables.	In accordance with ASC 825 *Financial Instruments*, certain disclosure is required for concentrations of credit risk arising from financial instruments. Additional risk disclosures are also required for derivatives as outlined under Topic 815. Additionally, in accordance with Topic 820, public entities are required to disclose a narrative description of the sensitivity of Level 3 fair value measurements to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly different fair value measurement, and a description of the interrelationships between unobservable inputs, including how such relationships might magnify or mitigate the impact of changes in such inputs on fair value.	A UCITS is required to disclose in its annual report: • The method used to calculate global exposure (the commitment approach, the relative or the absolute VaR approach); • Certain information on VaR if applied; and • Leverage levels reached.

Potential differences	IFRS	U.S. GAAP/SEC	LUX GAAP
Remuneration disclosures	The total compensation paid to key management personnel is required to be disclosed as well as for each of the following categories: • Short-term employee benefits; • Post-employment benefits; • Other long-term benefits; • Termination benefits; and • Share-based payment. Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any directors (whether executive or otherwise) of the entity.	In accordance with Topic 946, certain expenses are commonly reported separately on the statement of operations, including the investment management fee, administration fees paid to an affiliate, distribution expenses, and director or trustee fees. Additionally, under Topic 850, amounts paid to affiliates or related parties should be disclosed. Significant provisions of related-party agreements, including the basis for determining management, advisory, administration, or distribution fees, and, also, other amounts paid to affiliates or related parties should be described in a note to the financial statements. Any fee reductions or reimbursements are required to be disclosed separately.	An Alternative Investment Fund (AIF) must disclose in its annual report: • The total amount of remuneration for the financial year, split into fixed and variable, paid by the AIFM to its staff, and number of beneficiaries, and, if relevant, carried interest paid by the AIF. • The aggregate amount of remuneration broken down by senior management and members of staff of the AIFM whose actions have a material impact on the risk profile of the AIF.
Segment reporting	Segment reporting is required for all entities whose debt or equity instruments are traded in a public market or for those in the process of an IPO. Only funds that are traded in a public market are in the scope of IFRS 8 *Operating Segments*. Public market under IFRS 8 *Operating Segments* does not only include domestic and foreign stock exchanges but also OTC markets and local and regional markets. Open-ended investment funds that are offered and redeemed only in private transactions between the fund and the shareholders are not considered to be "traded in a public market".	In practice, typically not applicable.	No specific requirement.

Financial statement presentation and disclosure differences for investment funds (cont.)

Potential differences	IFRS	U.S. GAAP/SEC	LUX GAAP
Authorization of financial statements	An entity shall disclose the date when the financial statements were authorized for issue and who gave that authorization.	In accordance with ASC 855 *Subsequent Events*, for funds not registered with the SEC, management must disclose the date through which subsequent events have been evaluated and whether that is the date on which the financial statements were issued or were available to be issued.	Financial statements must be authorized but no disclosure of this authorization is required in the financial statements.


10 EURO
20
10 EURO

Selected accounting differences that impact investment funds

Potential differences	IFRS	U.S. GAAP/SEC	LUX GAAP
Financial instruments — initial recognition	Purchase and sale of financial assets or liabilities can be recorded either on a trade-date or settlement-date basis, but the entity must apply this consistently within each category of assets. When settlement date accounting is applied, an entity recognizes any change in value between the trade date and the settlement date of the financial instruments through profit or loss for assets classified as FVTPL.	Securities transactions for investment funds must be recorded on the trade-date basis.	Securities transactions for investment funds are recorded on the trade-date basis.
Financial instruments — classification	Investments are generally classified as financial assets and/or financial liabilities measured at FVTPL, presenting separately those designated upon initial recognition and those held for trading in accordance with IFRS 7 *Financial Instruments: Disclosures*. Change in subsequent measurement of investments classified as financial assets and/or financial liabilities measured at FVTPL is recognized through profit or loss.	For funds, all investments are accounted for at fair value pursuant to Topic 946. Change in subsequent measurement is recognized in the statement of operations.	All investments are accounted for at fair value, except for funds where the management regulations or articles provide otherwise. Change in measurement is recognized in the statement of operations.

Potential differences	IFRS	U.S. GAAP/SEC	LUX GAAP
Financial instruments — fair value measurements	IFRS 13 defines fair value on the basis of an 'exit price' notion and uses a 'fair value hierarchy', which results in a market-based, rather than entity-specific, measurement. As fair value is a market-based measurement, observable market transactions or market information is used where available. If observable market transactions or market information is not available, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs. Three widely used valuation techniques are the market approach, the cost approach and the income approach. IFRS 13 specifically indicates that if an investment has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value shall be used. IFRS 13 also does not preclude the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread.	Topic 820 *Fair Value Measurements* establishes the framework for fair value measurement. Fair value is assumed to be the exit price in an orderly transaction between market participants. Investments are fair valued but methods vary if an investment has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value is used, although Topic 820 does not preclude mid-market pricing or other pricing conventions used by market participants. The use of last traded price is common, as is the use of mid-market as a practical expedient. ASC 820-10-55-3A through 55-3G provides detailed guidance on three acceptable valuation approaches for fair valuing financial instruments. The three approaches are the market approach, income approach, and cost approach. Additionally, ASC 820-10-35-59 indicates that a reporting entity is permitted, as a practical expedient, to estimate the fair value of certain investments in other entities using the net asset value per share (or its equivalent) of the investment, if the net asset value per share of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of Topic 946 as of the reporting entity's measurement date.	Unless otherwise provided for in the management regulations or articles of incorporation of the fund, the valuation of the assets of the fund shall be based, in the case of officially listed securities, on the last known stock exchange price, unless such price is not representative. For securities not so listed and for securities which are so listed, but for which the latest price is not representative, the valuation shall be based on the probable realization value, estimated with due care and in good faith.

Selected accounting differences that impact investment funds (cont.)

Potential differences	IFRS	U.S. GAAP/SEC	LUX GAAP
Financial instruments — transaction costs	Transaction costs that relate to investments recorded at FVTPL are expensed.	Transaction costs are recognized as part of an investment's cost.	Transaction costs are commonly recognized as part of an investment's cost except for UCIs where transaction costs are expensed or separately disclosed in the notes to the financial statements.
Set-up costs	Set-up costs should be expensed when incurred.	Organization costs should be charged to expense as they are incurred. Offering costs are treated differently based on the operational nature of the entity, as outlined in Topic 946.	Formation expenses can be either expensed or capitalized and amortized over a maximum period of 60 months.
Uncertain tax positions	IAS 12 *Income Taxes* does not include explicit guidance regarding the recognition and measurement of uncertain tax positions. Nevertheless, IAS 12 states that in general, current tax liabilities for the current and prior periods shall be measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted as of the end of the reporting period. Additionally, IAS 37 may apply as an uncertain tax position may give rise to "a liability of uncertain timing or amount". A provision is made when there is a present obligation, it is probable (more likely than not), and a reliable estimate can be made as to the amount. Under IAS 12, a fund is required to disclose any tax-related contingent liabilities and contingent assets in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.	In accordance with Topic 740, *Income Taxes*, a fund is required to determine whether a tax position within the fund is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.	No specific requirement, however, provisions for liabilities and charges are raised to cover losses or debts the nature of which is clearly defined and which at the date of the statement of the net assets are either likely to be incurred or certain to be incurred but uncertain to their amount or as to the date on which they will arise

Potential differences	IFRS	U.S. GAAP/SEC	LUX GAAP
Consolidation	Where an entity qualifies as an "investment entity", it is exempted from consolidating a subsidiary (except those subsidiaries that provide services relating to the investment entity's investment activities) in accordance with the consolidation provisions of IFRS 10 but instead must measure its investment in the investee at FVTPL (in accordance with IFRS 9 or, where that standard has not yet been adopted, IAS 39).	Consolidation of operating companies is not appropriate for an investment fund except in the case of operating subsidiaries providing services to the investment fund. If an investment fund is a master fund within a master/feeder structure, the master fund is generally not consolidated by the feeder, but shown using specific presentation requirements as described in Topic 946.	Consolidation is not appropriate for an investment fund but may be appropriate for real estate or private equity funds. If an investment fund is a feeder fund within a "master/feeder" structure, the master fund is generally not consolidated by the feeder, but shown using specific presentation requirements.
Classification of investor ownership	Shareholder interest is classified as equity if it is a puttable instrument and entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation, is subordinate to all other classes of instruments having identical features, has no exchange rights, and whose expected cash flows is based substantially on the profit or loss of the entity. If one or more of these criteria are not met, the shareholders interest is classified as a liability if it is puttable.	Shareholder interest is classified as equity.	Shareholder interest is classified as equity.
Distributions to fund shareholders	Distributions flow through the income statement as financing costs if related instruments are recognized as financial liabilities. Other distributions are recognized as transactions in equity and shown in the statement of changes in equity.	Distributions are recognized as transactions in equity and shown in the statement of changes in net assets.	Distributions are recognized as transactions in equity and shown in the statement of changes in net assets.

Selected accounting differences that impact investment funds (cont.)

Potential differences	IFRS	U.S. GAAP/SEC	LUX GAAP
Liquidation basis of accounting	IFRS currently does not provide explicit guidance on when or how to apply the liquidation basis of accounting. According to IAS 1:25, financial statements should be prepared on a going-concern basis unless management intends either to liquidate the entity or to cease trading, or has no realistic alternative but to do so. Accordingly, an entity will depart from the going-concern basis only when it is, in effect, clear that it is not a going concern. If financial statements are not prepared on a going-concern basis, the financial statements should disclose that fact, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.	In April 2013, the FASB issued ASU 2013-07, which provides guidance on when and how to apply the liquidation basis of accounting. The ASU is applicable to both public and nonpublic entities, but excludes investment companies regulated under the Investment Company Act of 1940 from its scope. This ASU requires an entity to prepare its financial statements using the liquidation basis of accounting when the entity determines that liquidation is imminent. The ASU defines when liquidation is imminent as when the likelihood is remote that the entity will return from liquidation and either: 1. A plan for liquidation is approved, and the likelihood that the execution of the plan will be blocked is remote or 2. a plan for liquidation is being imposed by other forces (e.g., involuntary bankruptcy). Further, an entity only applies the liquidation basis of accounting if the approved plan for liquidation differs from the plan that was specified at the entity's inception. Under the ASU, an entity must present, among other items, a statement of net assets in liquidation, a statement of changes in net assets in liquidation, the methods and significant assumptions used to measure assets and liabilities, the type and amount of costs and income accrued, and the expected duration of the liquidation process. This ASU is effective for entities that determine liquidation is imminent during annual periods beginning after 15 December 2013, and interim periods therein. Early adoption is permitted.	Once a fund has been put into liquidation, it is renamed to include "in liquidation" in their name. The accounting policy notes are revised to indicate that the financial statements are prepared on a basis other than a going concern. Among other things, such a basis requires writing assets down to their recoverable amounts, accruing for all estimated costs of liquidation, and writing off any remaining unamortized formation expenses.

Contacts

Global Investment Management Sector Leader
Cary Stier
Deloitte LLP
+1 212 436 7371
cstier@deloitte.com

Bermuda
Mark Baumgartner
Deloitte & Touche Bermuda Ltd
+1 441 299 1322
mark.baumgartner@deloitte.bm

Cayman Islands
Norm McGregor
Deloitte & Touche Cayman Islands
+1 345 814 2246
nmcgregorl@deloitte.com

Chicago
Erica Nelson
Deloitte & Touche LLP
+1 312 486 5975
ericanelson@deloitte.com

Dublin
Mike Hartwell
Deloitte & Touche Ireland
+353 1 4172303
mhartwell@deloitte.ie

London
Mark Ward
Deloitte LLP
+44 20 7007 0670
mward@deloitte.co.uk

Luxembourg
Johnny Yip
Deloitte Luxembourg
+352 45145 2489
jyiplanyan@deloitte.lu

New York
Robert Fabio
Deloitte & Touche LLP
+1 516 918 7285
rfabio@deloitte.com

Shanghai
Jennifer Yi Qin
Deloitte Touche Tohmatsu
+86 21 61411 998
jqin@deloitte.com.cn

Toronto
George Kosmas
Deloitte & Touche LLP
+1 416 601 6084
gkosmas@deloitte.ca

We thank the following Deloitte professionals for their contributions: **Justin Griffiths, Hoolsee Roshan Bullyraz, Dr. Matthias Weimann, Aliza Feuerberg,** and **Rob Moynihan.**