Deloitte.

IFRS/US GAAP/Luxembourg GAAP:

A comparison for investment funds

Investment Management

Foreword

We are pleased to present the 4th edition of this publication comparing the application of major generally accepted accounting principles (GAAP) for investment funds—IFRS/US GAAP/Luxembourg GAAP.

The investment management industry faces an ever-increasing demand for transparency by stakeholders. This is further amplified in times of crisis. As investment managers look for opportunities to enter global markets, it is essential that any reporting to their stakeholders on their strategies and products, including through their financial statements, is clearly understood, meets local requirements, and allows for comparison between the many investment products offered.

Although the ambition to move toward a set of globally accepted financial reporting standards, which address the needs of stakeholders and acknowledge the unique nature of the fund accounting industry, remains an ideal, different accounting standards are still used for preparing the financial statements of investment funds globally.

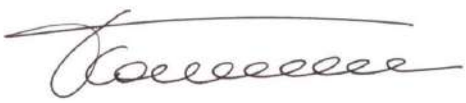
This document highlights selected differences between the major sets of accounting standards (IFRS, US GAAP and Luxembourg GAAP) applied to investment funds. Although there are other significant global investment fund jurisdictions, the accounting standards in those other areas tend to allow or closely follow the tenets of IFRS.

This summary does not attempt to capture all of the differences that exist or that may be material to a particular fund's financial statements. Our focus is on differences that are often encountered in practice. Further, the significance of these differences—and others not included in this analysis—will vary with respect to individual entities, depending on such factors as the nature of the fund's operations, the asset class in which it invests, and the accounting policy it has chosen. As a result, reference to the underlying accounting standards is key in understanding the specific differences. Although great care has been given to the drafting of this publication, Deloitte Audit and the authors will take no responsibility for any omissions or inaccuracies.

We hope that you find this comparison helpful and encourage you to contact us for further discussions or additional information.

Best,

Justin Griffiths
Partner, Investment



Vincent Gouverneur
Partner, Investment Management Leader

International updates

We have created this briefing to provide an overview of the potential accounting differences that exist between International Financial Reporting Standards ("IFRS"), generally accepted accounting principles in the United States ("US GAAP") and Luxembourg generally accepted accounting principles ("LUX GAAP") when applied to investment funds.

While US GAAP and IFRS are well-established and recognized sets of accounting standards, LUX GAAP for investment funds is derived from Luxembourg laws and regulations, and is primarily shaped by the European Union (EU) Undertakings for Collective Investment in Transferable Securities (UCITS) Directive and the Alternative Investment Fund Manager (AIFM) Directive.

Before presenting our analysis of the selected differences, we highlight below certain recent developments affecting investment funds in the sets of accounting standards under consideration.

IFRS UPDATES

IFRS 16 & Covid-19-Related Rent Concessions

IFRS 16 Leases replaced the existing standard IAS 17 Leases becoming effective for reporting periods beginning on or after 1 January 2019.

For lessors, the changes introduced by IFRS 16 are not significant and, except in respect of subleases, a lessor is not required to make any adjustments on transition for leases in which it is a lessor.

For lessees, the picture is fundamentally different. All leases within the scope of IFRS 16 (except for short-term leases, i.e., a lease term of 12 months or less, and leases of low-value assets) are required to be brought on-balance sheet by lessees, recognizing a right-of-use asset and the related lease liability at commencement of the lease, with subsequent accounting generally similar to the finance lease model under IAS 17.

Following the Covid-19 pandemic, the IASB published an amendment entitled Covid-19- Related Rent Concessions, which permits lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the Covid-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The amendment does not affect lessors. This amendment is effective for reporting periods beginning on or after 1 June 2020 with earlier application permitted and was endorsed by the European Union (EU) in October 2020.

IFRS 9/IAS 39 IBOR Reform and its effect on financial reporting

Following the Financial Stability Board's report setting out recommendations to reform some major benchmarks (interbank offer rates [IBORs]), the IASB considered the financial reporting implications of the uncertainties about the future of existing interest rate benchmarks and identified two groups of accounting issues that could have financial reporting implications. These are:

- Phase 1: pre-replacement issues—issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative rate; and
- Phase 2: replacement issues—issues that might affect financial reporting when an existing interest rate benchmark is replaced with an alternative rate.

In respect of Phase 1, on 26 September 2019 the IASB issued the Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7), applicable from 1 January 2020 (early adoption permitted), which amends some of the existing IFRS requirements for hedge accounting.

The amendments apply solely to hedge accounting requirements that are based on forward-looking analysis and are as follows:

- Assume that the interest rate benchmark on which hedged cash flows are based is not altered as a result of the reform in the probability assessment of a forecast transaction;
- Assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform in making the prospective assessment under hedge accounting;
- Grant relief from the IAS 39 (80-125%) retrospective assessment for hedging relationships directly impacted by the reform on certain conditions;
- For hedges of a non-contractually specified benchmark component of interest rate risk, a company shall apply the separately identifiable requirement only at the inception of such hedging relationships; and
- Define the rules in relation to the relief granted under the temporary exemptions from applying specific hedge accounting requirements during the period of uncertainty regarding reform.

The amendments are also designed to support the provision of useful financial information during the period of uncertainty.

The IASB has issued the Interest Rate Benchmark Reform – Phase 2 amendment which amends IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts, and IFRS 16 Leases. The amendment addresses the following areas:

- Practical expedient for particular changes to contractual cash flows;
- Relief from specific hedge accounting requirements;
- Disclosure requirements; and
- Transition and effective date.

This amendment has not yet been endorsed by the EU at the date of publication of this report.

Exposure Draft: Primary Financial Statements

In December 2019, the IASB published an Exposure Draft setting out proposals for a draft IFRS Standard on presentation and disclosures in financial statements that, if finalized, will replace IAS 1 Presentation of Financial Statements. The proposals require:

- Additional subtotals in the statement of profit or loss for transparency, consistency and comparability.
- The disaggregation of: operating expenses either by nature or by function in the statement of profit or loss; large “other” balances; and information regarding unusual income and expenses and additional minimum line items in the statement of financial position.
- Disclosure of some management-defined performance measures—that is, performance measures not specified by IFRS Standards—with reconciliations between these and subtotals specified by IFRS Standards.
- Limited changes to the statement of cash flows.

US GAAP UPDATES

In August 2018, the FASB issued ASU 2018-03, which removes, modifies, and adds disclosure requirements on fair value measurements in Topic 820, Fair Value Measurements. The purpose is to improve the effectiveness of these disclosure requirements.

The amendments to the fair value measurement disclosure requirements include those listed below. The applicability of the changes to a particular entity may depend on whether it is considered a non-public entity.

New disclosure requirements:

- Changes in unrealized gains or losses included in other comprehensive income (OCI) for recurring Level 3 fair value measurements held at the end of the reporting period; and
- Range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements.

The aforementioned new disclosure requirements are not applicable to non-public entities.

Modified disclosure requirements:

- Transfers into and out of Level 3 and purchases and issues of Level 3 assets and liabilities, disclosed in lieu of reconciling the opening balances to the closing balances of recurring Level 3 fair value measurements;
- Clarification that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date; and

Modified disclosure requirements (continued):

- For investments in certain entities that calculate net asset value (NAV), a requirement to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly.

Eliminated disclosure requirements:

- Amount of and reasons for transfers between Level 1 and Level 2;
- Valuation processes for Level 3 fair value measurements;
- Policy for timing of transfers between levels of the fair value hierarchy; and
- Changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period.

This ASU is effective for all entities for fiscal years beginning after 15 December 2019, including interim periods therein.

Further US GAAP updates impacting the investment management industry can be found in the 2018 edition of our annual update highlighting selected accounting and reporting developments, at the link below: https://www2.deloitte.com/us/en/pages/financial-services/articles/us-investment-management-accounting-and-financial-reporting-update-2018.html

UPDATES WITH IMPLICATIONS FOR LUX GAAP

In 2019, the European Securities and Markets Authority (ESMA) published updated questions and answers documents (Q&A) on the application of the Undertakings for the Collective Investment in Transferable Securities Directive (UCITS) and the Alternative Investment Fund Managers Directive (AIFMD).

The UCITS Q&A included new questions and answers on:

- Application of disclosure requirements on the remuneration of delegates; and
- The depositary regime.

The AIFMD Q&A included new questions and answers on:

- Calculation of the leverage of each AIF that the AIFM manages; and
- The depositary regime.

Links to these Q&As can be found here: https://www.esma.europa.eu/questions-and-answers.

In April 2020, ESMA issued guidelines on performance fees for UCITS and certain types of retail AIFs which are applicable two months after publication of the translation into the official EU languages. ESMA published the translations on November 5, 2020.

Link to: https://www.esma.europa.eu/sites/default/files/library/esma_34-39-968_final_report_guidelines_on_performance_fees.pdf

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.

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 IASB however, recognizes the concept of an investment entity (IE) in IFRS 10, which provides an exemption from the requirement to consolidate subsidiaries for eligible investment entities, instead requiring such investments to be measured at fair value.

However, an investment entity is still required to consolidate a subsidiary that provides services that relate to the investment entity's investment activities.

IFRS 10 defines 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 of these 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.

US 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 on certain matters related to investment companies. These questions and answers are non-authoritative. The material is based on selected practice matters related to investment companies that were identified by the staff of the AICPA's Technical Hotline and various other bodies within the AICPA.

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

ASC 946 requires similar characteristics to be evaluated in determining if an entity is considered an investment company under US GAAP as are evaluated under IFRS. However, there are differences related to some of the fundamental and typical characteristics.

This ASC clarifies the criteria for an entity to be considered an investment company and therefore required to measure non-controlling ownership interests in other investment companies at fair value rather than using the equity method of accounting, and to include the following disclosures:

- The fact that the entity is an investment company and is applying the guidance in ASC 946;
- Information regarding any changes in an entity's status as an investment company; and
- Information about financial support provided or contractually required to be provided by an investment company to any of its investees.

LUX GAAP

Specific guidance is available for investment companies.

This guidance is mainly found in:
(i) The following laws and regulations in Luxembourg:

- The Law of 17 December 2010 on Undertakings for Collective Investment (UCI), as amended;
- The Law of 13 February 2007
- on Specialized Investment Funds (SIF), as amended;
- The Law of 12 July 2013 on
- Alternative Investment Fund Managers, as amended;
- Circulars issued by the Luxembourg Commission de Surveillance du Secteur Financier (CSSF); and
- The Law of 23 July 2016 on reserved alternative investment funds (RAIF).

(ii) The requirements of the following European Directives:

- The UCITS Directive (Directive 85/611/EEC replaced by

Directive 2009/65/EC); and

- The AIFM Directive (2011/61/EU).

(iii) Guidelines issued by the Association of the
Luxembourg Fund Industry (ALFI).
(iv) Guidelines and Q&As issued by the European
Securities and Markets Authority (ESMA). The link to these Q&As can be found here:
https://www.esma.europa.eu/questions-and-answers.
(v) Certain opinions of the Luxembourg Commissions des Normes Comptables (CNC):

- CNC Notice 09/002 on the Interpretation of Article 1711-8(3)(c) LSC in the specific case of venture capital/private equity investment companies.

(vi) Guidance provided to members by the Luxembourg Institute of Statutory Auditors (L'Institute des Réviseurs d'Entreprises - IRE).

Financial statement presentation and disclosure differences

for investment funds

Components of financial statements

IFRS

01. Statement of financial position.
02. Statement of profit or loss and other comprehensive income (or two separate statements).
03. Statement of changes in equity (or statement of changes in net assets attributable to holders of redeemable shares if there is no equity).
04. Statement of cash flows.
05. Notes, comprising a summary of accounting policies and other explanatory notes.

US GAAP/SEC

01. Statement of assets and liabilities with a schedule of investments or a statement of net assets, which includes a schedule of investments therein.
02. Statement of operations.
03. Statement of changes in net assets or statement of changes in partners'/members' capital/equity (depending on structure).
04. Statement of cash flows (unless exempted under US GAAP).
05. Financial highlights for the latest period consisting of net investment income and expense ratios, and the total return or internal rate of return. Per share operating performance is also required for all investment companies organized in a manner using unitized net asset value. SEC registered funds should also disclose the portfolio turnover.
06. Notes to the financial statements.

LUX GAAP

01. Statement of assets and liabilities (or net assets), including a schedule of investments (UCI), or qualitative and/or quantitative information regarding the investment portfolio (SIF and RAIF).
02. Statements of operations.
03. Statement of changes in net assets.
04. A comparative table with period-end net asset value data for the last three years.
05. Notes to the financial statements.
06. Report on the activities of the financial year. The regulation supplementing the AIFMD stipulates the disclosure required for AIFs. See the ALFI Code of Conduct for guidance on Board Reports.

Statement of profit and loss and other comprehensive income/ operations

IFRS

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.

Expenses are presented based either on their nature or function within the entity.

US GAAP/SEC

The excess of investment income over total expenses should be shown as net investment income (or loss). The net realized gain or loss from investments and foreign currency transactions should be disclosed. The net increase (decrease) in unrealized appreciation or depreciation on investments and the translation of assets and liabilities in foreign currencies should be disclosed.

Expenses are presented based on their nature. Funds registered with the SEC should review the Investment Company Act of 1940 and Regulation S-X for requirement

LUX GAAP

Certain line items are required to be presented on the face of the statement of operations.

Schedule of investments

IFRS

Disclosure of a schedule (or a condensed schedule) of investments is not required.

IFRS 13 Fair Value Measurement however requires certain disclosures by class for 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 the fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy; and
- For fair value measurements within Level 3 of the fair value hierarchy, additional disclosure may include:
  01. A reconciliation between the opening and closing balances,
  02. A description of the valuation processes, and
  03. A narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs (including the effect of changes to reflect reasonably possible alternative assumptions that would change the fair value significantly)

IFRS 7 requires disclosure of the carrying amount of the financial assets an entity has pledged as collateral for liabilities or contingent liabilities.

IFRS 12 also requires disclosure of the following for each unconsolidated subsidiary:

- The subsidiary's name;
- The principal place of business; and
- The proportion of ownership interest held.

If an investment entity is the parent of another investment entity, the parent is required to disclose the abovementioned information for investments that are controlled by the investment entity subsidiary

US GAAP/SEC

Disclosure of a schedule of investments (required for SEC registered funds) or a condensed schedule of investments is required.

A. Categorize investments by all of the following:

01. Type (such as common stocks, preferred stocks, convertible securities, fixed-income securities, government securities, options purchased, options written, warrants, futures, loan participations, short sales, other investment companies, and so forth).
02. Country or geographic region, except for derivative instruments for which the underlying is not a security.
03. Industry, except for derivative instruments for which the underlying is not a security.
04. For derivative instruments for which the underlying is not a security, by broad category of underlying (for example, grains and feeds, fibers and textiles, foreign currency, or equity indexes) in place of the categories in (A)(02) and (A)(03).

B. Report the percent of net assets that each such category represents and the total fair value and cost for each category in (A)(01) and (A)(02)

C. Disclose the name, number of shares or principal amount, fair value, and type of both of the following:

01. Each investment (including short sales) constituting more than 5% of net assets, except for derivatives instruments (see (E) and (F)). In applying the 5% test, total long and total short positions in any one issuer shall be considered separately.
02. All investments in any one issuer aggregating more than 5% of net assets, except for derivative instruments (see (E) and (F)). In applying the 5% test, total long and total short positions in any one issuer shall be considered separately.

D. Aggregate other investments (each of which is 5% or less of net assets) without specifically identifying the issuers of such investments and categorize them in accordance with the guidance in (A). In applying the 5%, total long and total short positions in any one issuer shall be considered separately.

E. Disclose the number of contracts, range of expiration dates, and cumulative appreciation (depreciation) for open futures contracts of a particular underlying (such as wheat, cotton, specified equity index, or US Treasury Bonds), regardless of exchange, delivery location, or delivery date, if cumulative appreciation (depreciation) on the open contracts exceeds 5% of net assets. In applying the 5% test, total long and total short positions in any one issuer shall be considered separately.

F. Disclose the range of expiration dates and fair value for all other derivative instruments of a particular underlying (such as foreign currency, wheat, specified equity index, or US Treasury Bonds) regardless of counterparty, exchange, or delivery date, if fair value exceeds 5% of net assets. In applying the 5% test, total long and total short positions in any one issuer shall be considered separately.

G. Provide both of the following additional qualitative descriptions for each investment in another nonregistered investment partnership whose fair value constitutes more than 5% of net assets:

01. The investment objective; and
02. Restrictions on redemption (that is, liquidity provisions).

Funds registered with the SEC should review the Investment Company Act of 1940 and Regulation S-X for requirements.

LUX GAAP

Disclosure of a schedule of investments is required (except for a SIF and RAIF, which may present qualitative information on the investment portfolio as an alternative).

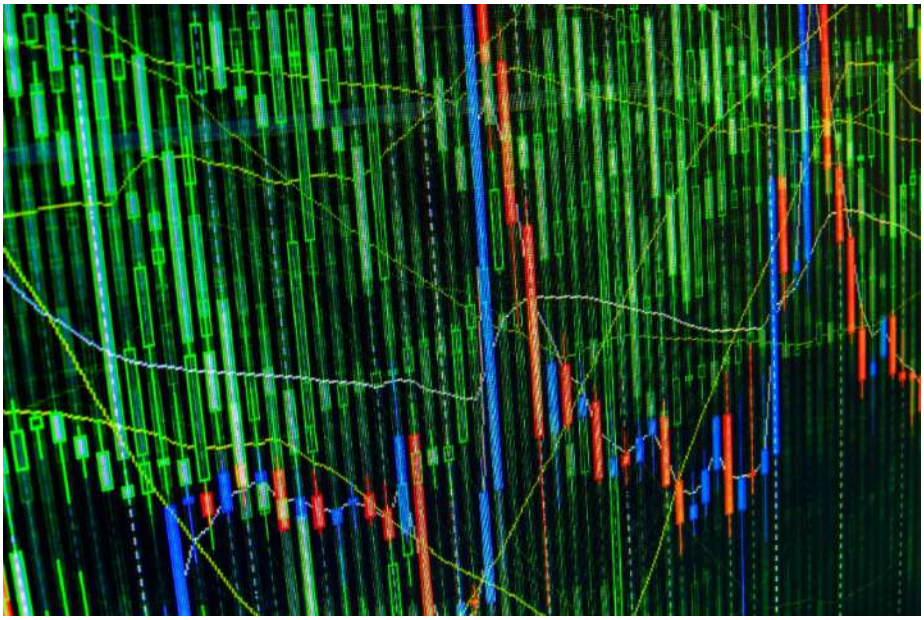
The schedule of investments must distinguish between transferable securities and money market instruments that are:

- Admitted to an official stock exchange listing;
- Dealt in on another regulated market;
- Recently issued; and
- Other transferable securities and money market instruments.

In practice, the first three bullets are merged in the schedule of investments, and may be analyzed in accordance with the most appropriate criteria based on the fund's investment policy (e.g. in accordance with economic, geographic or currency criteria.

A statement of changes in the composition of the portfolio during the reference period is also required (however, in practice a note is added to explain that this information is available upon request at the registered office of the fund).

Details by category of derivative instruments and efficient portfolio management techniques utilized by the UCITS, and the resulting exposure levels.



Statement of cash flows

IFRS

Required for all investment funds.

The cash flows reported during the period are classified by operating, investing, and financing activities. Cash flows from operating activities can be reported using either the direct method or the indirect method.

Interest and dividend income/expenses, interest, and dividends actually received/paid (as opposed to accrued) are shown separately in the statement of cash flows.

Cash flows arising from taxes on income taxes are separately disclosed and are classified as cash flows from operating activities, unless they are specifically identified with financing and investing activities.

The impact of exchange rate movements on cash and cash equivalents held or due in foreign currencies is reported in the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and end of the period.

US GAAP/SEC

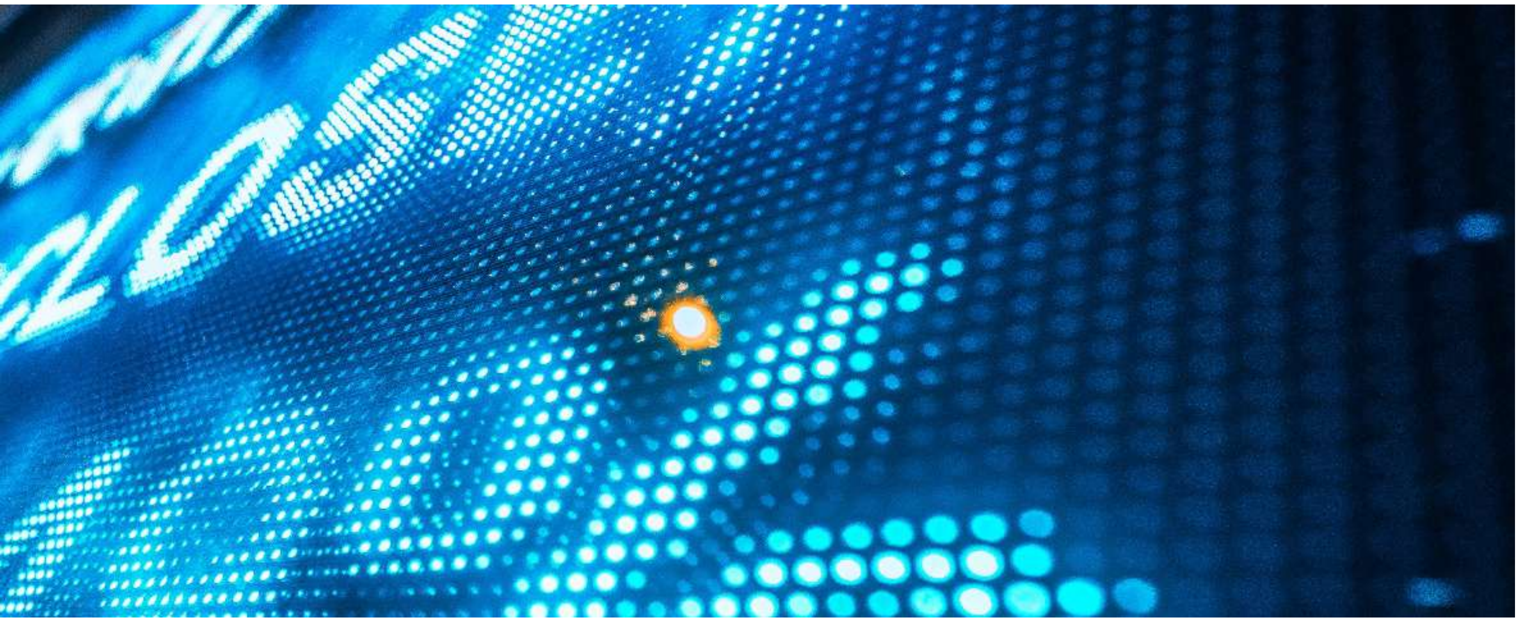
An investment company may be exempted from presenting a statement of cash flows if certain conditions are met. The conditions, in accordance with Topic 230, are:

1. An investment company carries substantially all of its investments at fair value and classifies them in accordance with Topic 820 as Level 1 or Level 2 in the fair value hierarchy table, or measures them using the practical expedient in paragraph 820-10-35-59 to determine their fair values and these are redeemable in the near term at all times;
2. An investment company has little or no debt, based on the average debt outstanding during the period, in relation to the average total assets; 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.

LUX GAAP

No requirement for a statement of cash flows.



Financial highlights

IFRS

IFRS do not require a presentation of financial highlights. Nevertheless, IFRS require additional disclosure when compliance with specific requirements under IFRS is insufficient to enable users to understand the corresponding impact.

US GAAP/SEC

The disclosure of financial highlights is required under US 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.

Unitized and non-unitized funds, limited-life and perpetual life funds have different disclosure requirements.

LUX GAAP

Disclosure is required of the following statistics for each of the last three financial year-ends:

- The total net asset value.
- The net asset value per share for each class of share.

Comparatives

IFRS

IFRS requires comparative information to be presented 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.

US GAAP/SEC

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 for SEC registered funds.

LUX GAAP

Comparatives are not required except for certain statistics discussed above.

Earnings per share (EPS)

IFRS

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.

US GAAP/SEC

Not applicable, as investment funds are excluded from the scope of ASC 260 Earnings per Share.

LUX GAAP

No specific requirement.

NAV per share

IFRS

Not specifically required. Nevertheless, as IFRS require additional disclosures when compliance with specific requirements under 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.

US GAAP/SEC

For unitized funds, NAV per share must be presented in the statement of assets and liabilities, or in the notes to the financial statements, and per share changes in net assets must be disclosed in the financial highlights.

LUX GAAP

The year-end NAV per share/unit and total NAV are required for the last three financial years.

Financial instruments—derivatives disclosures

IFRS

IFRS prescribe disclosure of the 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 also relate to those items measured at fair value as outlined in the "Schedule of investments" section above.

IFRS require disclosure of quantitative and qualitative information regarding exposure to risks arising from financial instruments (see risk disclosure on the following page).

US GAAP/SEC

Disclosure requirements regarding the effects of offsetting financial assets and financial liabilities and related arrangements are consistent with IFRS requirements noted in the IFRS column.

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 must also 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.

This type of aggregation differs to the general groupings for derivative instruments within the 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 5% of net assets. Also, disclosure is required of the range of expiration dates and fair values for all other derivatives of a particular underlying which exceed
5% of net assets. For registered funds, disclosure is required of all details of each derivative contract separately.

LUX GAAP

Details must be disclosed by category of financial derivative instruments, including the resulting exposure (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/counterparties to these financial derivative instruments;
- The type and amount of collateral received by the UCITS to reduce counterparty exposure; and
- The revenues arising from efficient portfolio management techniques for the entire reporting period together with the direct and indirect operational costs and fees incurred.

See the ESMA publication: Guidelines on ETFs and other UCITS issues.

Disclosure is required of the following, in the annual reports of AIFs, and in both the half-yearly and annual reports of UCITS:

- The proportion of lendable assets;
- Data on collateral concentration;
- Aggregate transaction data for each type of SFT/total return swap, including data on collateral;
- Data on the reuse of collateral;
- Details on the safekeeping of collateral; and
- Data on return and cost for each type of SFT and total return swap.

For supplementary disclosure requirements see the Securities Financing Transactions Regulation (SFTR) and additional guidance on the ESMA website: https://www.esma.europa.eu/policy-activities/post-trading/sftr-reporting.

Balance sheet—offsetting disclosure

IFRS

Under IFRS, entities are not permitted to offset assets and liabilities or income and expenses unless this is required or permitted by a specific IFRS. Where offsetting is required or permitted, disclosure of the following information is required regarding the effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position:

A. The gross amounts of financial assets and financial liabilities before offsetting;
B. The amounts offset 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 offset 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).

Entities are required to present this information in 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 offset.

US GAAP/SEC

Disclosure requirements regarding the effects of offsetting financial assets and financial liabilities and related arrangements are consistent with IFRS requirements noted in the IFRS column.

ASC 210-20-50-1 establishes the scope of the offsetting disclosures as 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.

The scope of the FASB's requirements includes fewer financial instruments than the scope of the offsetting requirements under IFRS.

LUX GAAP

No specific requirement.

Cash specifics

IFRS

Overdrafts may be included in cash balances, if they are repayable on demand.

The accounting policy chosen should be disclosed in the notes and must be applied consistently.

Where cash and cash equivalent balances are not available for use, for example due to certain restrictions on the balances, they should be disclosed in the financial statements.

US GAAP/SEC

Overdrafts are generally excluded from cash balances and disclosed separately.

Amounts held in foreign currencies shall be disclosed separately at value, with acquisition cost shown parenthetically.

Regulation S-X requires separate disclosure of cash which is restricted as to withdrawal or usage. The provisions of any restrictions should be described in the notes to the financial statements.

LUX GAAP

Overdrafts are generally excluded from cash balances and disclosed separately.

Realized and unrealized gains / (losses) on investments

IFRS

IFRS require gains and losses to be presented separately for each category of financial instrument, either in the statement of profit or loss and other comprehensive income or in the notes. The gains and losses on financial instruments designated at fair value must be disclosed separately from the gains and losses on financial instruments measured mandatorily at fair value.

IFRS 13 Fair Value Measurement requires entities to separately disclose the change in the fair value attributable to the unrealized appreciation/(depreciation) on investments categorized within Level 3 of the fair value hierarchy.

US GAAP/SEC

Net realized gains/(losses) and net changes in unrealized appreciation/(depreciation) should be disclosed separately.

There is no requirement to break out gains/(losses), appreciation/(depreciation) from investments and from foreign currency transactions.

LUX GAAP

Net realized gains/(losses) and net changes in unrealized appreciation/(depreciation) are commonly disclosed separately for non-AIFs.

The AIFM Directive requires the split between realized gains and realized losses, and unrealized gains and unrealized losses to be disclosed separately for AIFs.

Disclosures on risks arising from financial instruments

IFRS

IFRS 7 Financial Instruments: Disclosures has robust and specific quantitative and qualitative risk disclosure requirements. The standard requires disclosures regarding both the significance of financial instruments, and the nature and extent of risks arising from exposure to financial instruments, including credit risk, liquidity risk, and market risk. The standard requires disclosure of the credit risk management practices and how they relate to the recognition and measurement of expected credit losses. Market risk is further broken down into price risk, interest rate risk, and currency risk. For market risk, a sensitivity analysis must also be disclosed, either for each type of market risk, or in the aggregate if an analysis is prepared that reflects the interdependencies between risk variables. Methods and assumptions used to prepare the sensitivity analysis must also be disclosed. For liquidity risk, a maturity analysis for derivative and non-derivative financial liabilities must be disclosed.

US GAAP/SEC

In accordance with ASC 825 Financial Instruments, certain disclosures are required of 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 may result in a significantly different fair value measurement, and a description of the interrelationships between unobservable inputs, including how such relationships may magnify or mitigate the impact of changes in such inputs on fair value.

LUX GAAP

AUCITS is required to disclose in its annual report:

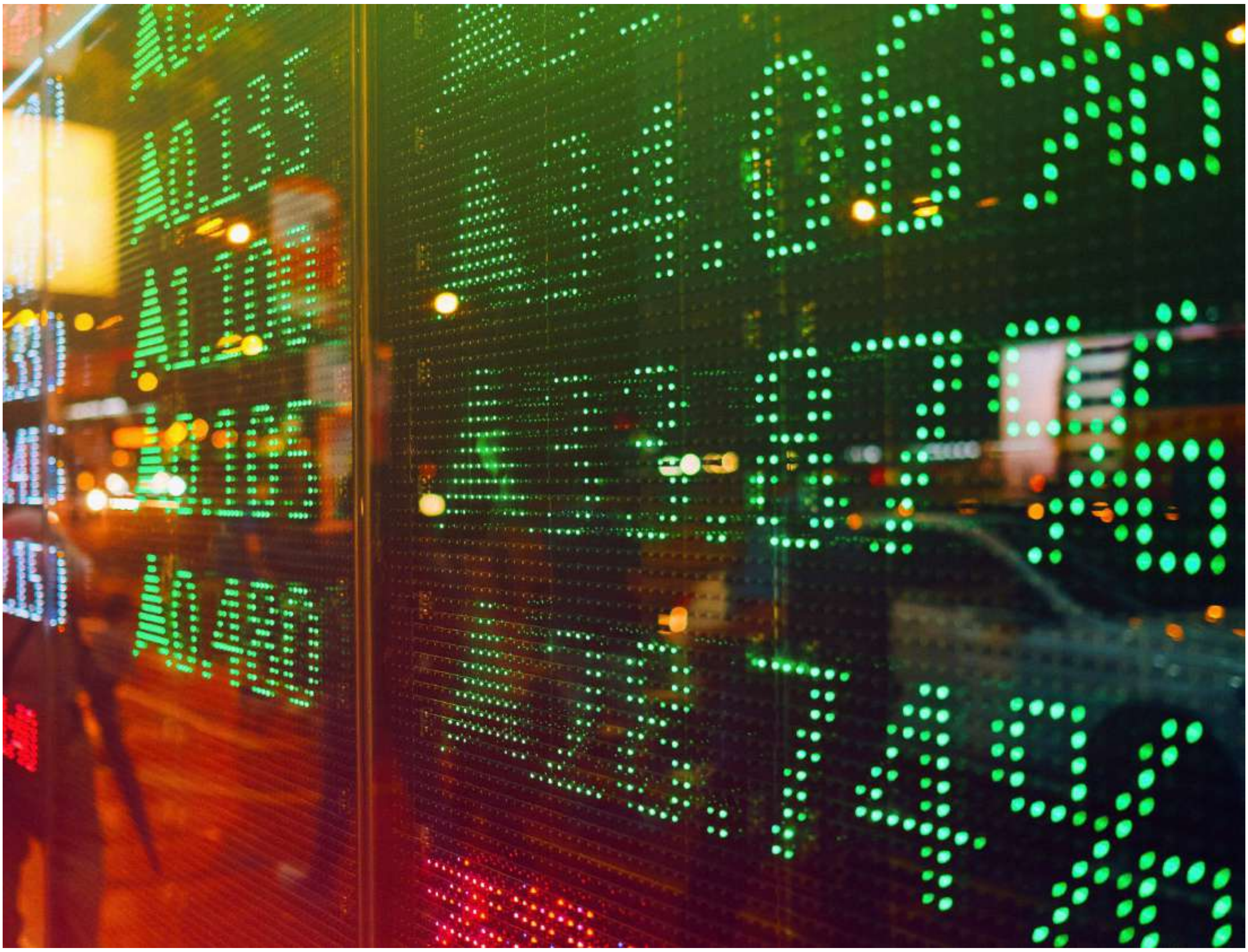
- The method used to calculate global exposure (the commitment approach, or the relative or absolute VaR approach);
- Certain information on VaR if applied; and
- Leverage levels attained.

Under the AIFMD, the following may be presented in the annual report of an EU AIF as part of its required periodic and regular disclosure to investors:

- The percentage of the AIF's assets which are subject to special arrangements arising from their illiquid nature;
- Any new arrangements for managing the liquidity of the AIF; and
- The current risk profile of the AIF and the risk management systems employed by the AIFM to manage those risks.

And for AIFs employing leverage:

- Any changes to the maximum level of leverage which the AIFM may employ on behalf of the AIF as well as any right of re-use of collateral or any guarantee granted under the leveraging arrangement; and
- The total amount of leverage employed. by that AIF.



Remuneration disclosures

IFRS

Disclosure is required of the total compensation paid to key management personnel, 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.

Key management personnel is a related party of the reporting entity (as per IAS 24) and includes any entity providing key management personnel services to the reporting entity or to the parent of the reporting entity.

US GAAP/SEC

In accordance with Topic 946, certain expenses are commonly reported separately on the income statement, 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.

LUX GAAP

A UCITS and an AIF must disclose in their annual report:

- The total amount of remuneration for the financial year, split between fixed and variable remuneration, paid by the AIFM/Management Company to its staff (including the staff of the delegate of a Management Company to whom investment management functions have been delegated), and the number of beneficiaries. For an AIF, if relevant, carried interest paid by the AIF. For a UCITS, if relevant, any amount paid directly by the UCITS itself, including any performance fee.
- The aggregate amount of remuneration broken down by senior management and members of staff of the AIFM/ Management Company (including staff of the delegate of a Management Company to whom investment management functions have been delegated) whose actions have a material impact on the risk profile of the AIF/UCITS.
- Based on recently issued ESMA guidelines, UCITS and certain retail AIFs must disclose any performance fee charged and the fee as a percentage of the NAV of each relevant share class in their annual and half-year reports. For funds with an existing performance fee, there is a transitional period of six months from the application date. The guidelines apply immediately to any performance fee introduced after the application date.

A UCITS must also disclose:

- A description of how the remuneration and the benefits have been calculated;
- The outcome of the required reviews; and
- Any material changes to the adopted remuneration policy.

Carried interest

IFRS

IFRS do not specifically address carried interest. The accounting treatment of carried interest under IFRS depends on the nature of the carried interest, which is typically set out in the entity's offering documents. In practice, there are two possible accounting models applicable to carried interest, depending on their nature:

- Ownership model, where the carried interest represents remuneration for services provided by the general partner acting in its capacity as owner; or
- Service model, where the carried interest represents remuneration for services provided by the general partner acting in its capacity as service provider.

Under the ownership model, carried interest is accounted for as a re-allocation of profits of the partnership between the partners, while under the service model, carried interest is recorded either as a financial liability under IFRS 9/IAS 32, or as a provision or contingent liability, as applicable, under IAS 37.

Adequate disclosures must be included in the financial statements, regardless of the accounting model used, detailing when the performance criteria are met in accordance with the applicable standards.

US GAAP/SEC

Carried interest may be accounted for as:

- NAV allocation: a re-allocation from the limited partners' capital accounts to the general partner's capital account, calculated as if the investment company had realized all assets and settled all liabilities at the reporting date, and presented in the statement of changes in partners' capital.
- Expense recognition if structured as an incentive or performance fee (most commonly for unitized offshore funds)

Under FASB 946-20-25-10, performance fees by an investment adviser under an advisory agreement should be accrued by an investment company at interim dates based on actual performance through the accrual date. AICPA Technical Questions & Answers, section 6910.29, Allocation of Unrealized Gain (Loss), Recognition of Carried Interest, and Clawback Obligations, describes this accounting treatment and notes that the allocation of carried interest is based on the specific methodology defined in the Limited Partnership Agreement or respective governing documents. This methodology will generally be disclosed, along with other relevant accounting policies, in the notes to the financial statements.

LUX GAAP

There is no specific guidance provided by Lux GAAP or the relevant product laws with respect to accounting for carried interest.

From a fund perspective, two possibilities are generally accepted:

- NAV allocation: carried interest is reallocated from the NAV attributable to the LP to the NAV attributable to the GP; or
- Expense recognition: carried interest is charged to the profit and loss in the same way as perform ance fees.

Carried interest is recognized at the moment the performance criteria are met. Disclosure must include a description of the carried interest mechanism in place, and the accounting policy adopted by the entity must be disclosed in the notes to the financial statements, regardless of whether the triggering event has occurred.

Segment reporting

IFRS

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 included in the scope of IFRS 8 **Operating Segments.** Under IFRS 8 Operating Segments, a public market includes domestic and foreign stock exchanges as well as OTC markets and local and regional markets.

Open-ended investment funds that are offered and redeemed solely by way of private transactions between the fund and shareholders are not considered to be traded in a public market.

US GAAP/SEC

In practice, typically not applicable.

LUX GAAP

No specific requirement.

Authorization of financial statements

IFRS

An entity shall disclose the date when the financial statements were authorized for issue and who gave that authorization.

US GAAP/SEC

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.

LUX GAAP

Financial statements must be authorized, but disclosure is not required in the financial statements of this authorization or the date of authorization.

Selected accounting differences that impact investment funds

Financial instruments—recording date

IFRS

Transactions in financial instruments can be settled as part of a regular or non-regular way purchase or sale transaction.

A regular way transaction is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established by regulation or convention in the relevant marketplace. In contrast, a non-regular settlement would have a shorter or longer settlement cycle.

A regular way purchase or 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 for regular way purchases, 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 measured at fair value through profit and loss (FVTPL). A change in the fair value of a financial asset that is sold on a regular way basis is not recorded in the financial statements between the trade date and the settlement date even if the entity applies settlement-date accounting, because the seller's right to changes in fair value ceases on the trade date.

US GAAP/SEC

Securities transactions for investment funds must be recorded on the trade-date basis.

LUX GAAP

Securities transactions for investment funds are generally recorded on the trade-date basis.

Financial instruments—classification

IFRS

Financial assets are classified at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, depending on their contractual cash flows and the business model of the entity.

An entity may irrevocably designate a financial asset as measured at fair value through profit or loss (also called application of the fair value option) if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing gains and losses on them on different bases.

Financial instruments 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.

Changes in subsequent measurements of investments classified at FVTPL are made through profit or loss.

US GAAP/SEC

For funds, all investments are accounted for at fair value pursuant to Topic 946.

Changes in subsequent measurements are recognized in the statement of operations.

LUX GAAP

All investments are accounted for at fair value, except for funds where the management regulations or articles provide otherwise.

Changes in subsequent measurements are recognized in the statement of operations.

Financial instruments—fair value measurements

IFRS

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.

The fair value of a financial instrument on initial recognition is normally the transaction price. For subsequent measurements, fair value is based on observable market prices or observable market data. 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. The fair value measurement for investments quoted in an active market uses the bid price for long positions and the ask price for short positions. IFRS 13 does not preclude the use of mid-market pricing or other pricing conventions used by market participants as a practical expedient for fair value measurements within a bid-ask spread.

A significant decrease in the volume or level of activity versus normal market activity may result in the quoted price for a financial asset being unrepresentative of fair value, e.g., in a crisis situation. However, such a decrease in activity alone does not necessarily indicate that a quoted price is unrepresentative of fair value, or that a transaction in that market is not orderly.

If it is determined that quoted prices do not represent fair value, an adjustment to the quoted prices will be necessary if those prices are to be used as the basis for measuring fair value.

US GAAP/SEC

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 measured at fair value 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 last-traded or mid-market price is commonly used as a practical expedient.

ASC 820-10-35-24A provides detailed guidance on three acceptable valuation approaches for measuring financial instruments at fair value. The three approaches are the market approach, the income approach, and the 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.

LUX GAAP

Unless otherwise provided for in the management regulations or articles of incorporation of the UCI, the valuation of listed securities held by the fund shall be based on the last known stock exchange price, unless such price is not representative.

For unlisted securities or listed securities 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.

Unless otherwise provided for in the management regulations or founding documents of the AIF, the assets of AIFs are valued at fair value. The valuation must be determined in accordance with the rules set out in the founding documents or management regulations.

Financial instruments—transaction costs

IFRS

Transaction costs that relate to investments recorded at FVTPL are recognized in the income statement. Financial instruments that are not at fair value through profit or loss are initially measured at their fair value plus or minus the transaction costs directly attributable to the acquisition or issue of the financial asset or financial liability.

US GAAP/SEC

Transaction costs are recognized as part of an investment's cost.

LUX GAAP

Transaction costs are commonly recognized as part of an investment's cost, except for UCIs/AIFs opting to expense transaction costs. UCITS which apply an accounting policy to recognize transaction costs as part of an investment's cost are required to separately disclose total transaction costs for the year in the notes to the financial statements or in a footnote.

Set-up costs

IFRS

Set-up costs should be expensed when incurred.

US GAAP/SEC

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.

LUX GAAP

Formation expenses can be either expensed, or capitalized and amortized over a maximum period of 60 months.

Interest income

IFRS

Interest income is recognized using the effective interest method.

US GAAP/SEC

Interest income is recognized pursuant to ASC 310-20-35-18 and ASC 310-20-35-26 by applying the effective interest method on the basis of the contractual cash flows of the security. However, there are several exceptions to this method of recognizing interest income.

LUX GAAP

Interest income is recognized on a coupon basis.

Uncertain tax positions

IFRS

IAS 12 Income Taxes does not include explicit guidance regarding the recognition and measurement of income tax when the application of tax law to a particular transaction or circumstance is uncertain.

IFRIC 23 Uncertainty over Income Tax Treatments (effective from 1 January 2019) clarifies the accounting for uncertainty in income tax treatments. In assessing uncertainty in income tax treatment, the entity must use its judgment to determine whether it should consider each uncertain tax treatment separately or collectively, based on the approach that better predicts resolution of the uncertainty. Judgement is used to determine the probability of the tax authority accepting a tax treatment.

The conclusion regarding this probability will affect the method used to measure the tax uncertainty. If the probability of acceptance is low, the uncertainty shall be reflected when determining the taxable profit. The effect of the uncertainty will be determined by using either "the most likely amount" method or the "expected value" method. IFRIC 23 specifically requires disclosure of the judgements, assumptions and estimates made in determining taxable profit.

US GAAP/SEC

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% likely of being realized upon ultimate settlement.

LUX GAAP

No specific requirement. However, provisions for liabilities and charges are recognized for losses or debts of a clearly defined nature, which, at the date of the statement of net assets are either likely to be incurred, or certain to be incurred but uncertain as to their amount or the date on which they will arise.

Consolidation

IFRS

Where an entity qualifies as an investment entity, it is not required to consolidate a subsidiary in accordance with the consolidation provisions of IFRS 10, but must instead measure its investment in the investee at FVTPL in accordance with IFRS 9.

This does not apply to any subsidiaries of the investment entity providing services that relate to the investment entity's investment activities.

US GAAP/SEC

Consolidation of an investee that is not an investment company 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.

Wholly-owned blocker entities should generally be consolidated into the investment fund.

LUX GAAP

Funds subject to the various product laws in Luxembourg and their subsidiaries are exempt from the obligation to consolidate companies owned for investment purposes.

Real estate or private equity funds with subsidiaries often opt to consolidate.

If an investment fund is a feeder fund within a master/feeder structure, the master fund is generally not consolidated by the feeder, but presented in accordance with specific requirements (for further details, refer to the section below: Master-feeder structures).

Classification of investor ownership

IFRS

Shareholder interest is classified as equity if it is puttable to the entity at fair value and if it entitles the shareholder to a 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 its expected cash flows are based substantially on the profit and loss of the entity. If one or more of these criteria are not met for a puttable instrument, the instrument is classified as a liability.

US GAAP/SEC

Shareholder interest is classified as equity.

LUX GAAP

Shareholder interest is classified as equity.

Combined reporting for commonly controlled entities

IFRS

IFRS does not include specific guidance on preparing combined financial statements. Relevant information for preparing combined financial statements can be found in the Conceptual Framework and other IFRS standards.

Combined financial statements may be prepared for a reporting entity that comprises two or more entities that are not all linked by a parent-subsidiary relationship. The combined financial statement should disclose information for the users of the financial statements such as:

- The fact that the financial statement are combined financial statements;
- The reasons for the preparation of combined financial statements;
- The basis for determining which units are included in the combined reporting;
- The basis of preparation of these financial statements; and
- The related party disclosures required by IAS 24.

Combined reporting should not be confused with a business combination, which is addressed by IFRS 3 Business Combinations, or with consolidation which is addressed by IFRS 10 Consolidated Financial Statements.

US GAAP/SEC

ASC 810 Consolidation states that there are circumstances in which combined financial statements (as distinguished from consolidated financial statements) of commonly controlled entities are likely to be more meaningful than their separate financial statements. For example, such instances may include the following:

- If one individual owns a controlling financial interest in several entities that are related in their operations; and
- Entities under common management.

If combined financial statements are prepared, intra-entity transactions and profits or losses shall be eliminated, and non-controlling interests, foreign operations, different fiscal periods, and income taxes should be treated in the same manner as in consolidated financial statements.

For investment funds, combined financial statements are generally presented when the funds are in a series trust or if meeting the criteria described above.

LUX GAAP

The financial statements of funds with multiple sub-funds (commonly referred to as "umbrella funds") present information on each sub-fund, as well as combined information on all sub-funds, typically in a columnar format (i.e. a combined column for the statement of net assets, statement of operations and changes in net assets). The balances of sub-funds presented in non-base currencies should be translated into the investment fund's reporting currency at the year-end exchange rate. For the statement of operations and changes in net assets, the average exchange rate for the year may be used.

Cross sub-fund activity should be eliminated in the combined totals, or a note should be added disclosing the impact of cross investments on the combined total net assets of the investment fund.

For umbrella RAIFs, the information of sub-funds is generally presented on a combined basis in the primary financial statements. The relevant information on each sub-fund regarding the statement of net assets and portfolio of investments, the statement of operations and changes in net assets and NAV/share at year-end is then presented in the notes to the financial statements. If separate financial statements for one or several sub-funds are prepared, these must include not only information on the respective sub-fund(s), but also on the combined data of all sub-funds.

While not common, separate funds under common management or ownership with similar investment objectives may present combined financial statements subject to compliance with any regulatory requirements.

Distributions to fund shareholders

IFRS

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.

US GAAP/SEC

Distributions are recognized as transactions in equity and shown in the statement of changes in net assets.

LUX GAAP

Distributions are recognized as transactions in equity and shown in the statement of changes in net assets.

Liquidation basis of accounting

IFRS

Currently, IFRS do 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. However, even if an entity has ceased trading but wishes to comply with IFRS Standards, its financial statements should be prepared on a basis that is consistent with IFRS Standards but amended to reflect the fact that the going-concern assumption is not appropriate.

Among other things, this requires assets to be written down to their recoverable amounts. It also requires recognition of a liability for contractual commitments that may have become onerous as a consequence of the decision to cease trading.

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 assessing whether the going-concern assumption is appropriate, management must take into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period.

US GAAP/SEC

An investment fund covered by the scope of ASC 205-30 is required to prepare its financial statements using the liquidation basis of accounting when the entity determines that liquidation is imminent.

Liquidation is imminent when the likelihood is remote that the entity will return from liquidation, and either:

01. A plan for liquidation is approved, and the likelihood that the execution of the plan will be blocked is remote; or
02. A plan for liquidation is being imposed by other forces (e.g., involuntary bankruptcy).

An investment fund 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.

ASC 205-30 does not provide specific guidance on whether an entity should present financial statements for the stub period, which is the period from the most recent balance sheet date to the date when liquidation is imminent. Instead, an entity should consider the requirements of its regulator and the needs of the users of the financial statements when determining if financial statements are necessary for the stub period.

If a fund presents stub period financial statements together with its liquidation basis financial statements, the stub period financial statements (under the going-concern basis of accounting) would include (1) a statement of operations; (2) a statement of changes in partners' capital or net assets; (3) a statement of cash flows (when required); and (4) financial highlights, as well as required disclosures.

1940 Act Funds are automatically scoped out, as well as limited life funds, which will follow the plan of liquidation specified at inception (if applicable).

LUX GAAP

Once a fund has been put into liquidation, mention of "in liquidation" is added to the name of the fund as disclosed throughout the financial statements. The accounting principles applied are revised to indicate that the financial statements are prepared on a basis other than going concern. Among other things, such a basis requires writing assets down to their net recoverable amounts, accruing for all liquidation costs, and writing off any unamortized formation expenses. This is applicable from the moment the decision to liquidate is taken.

Master-feeder structures

IFRS

The investment entity consolidation exception is mandatory for the parent of an investment entity that itself meets the definition of an investment entity. This means that the parent of an investment entity is required to account for its investments in controlled investees at FVTPL, even if the investment entity subsidiary was formed for specific regulatory, legal or tax purposes, e.g., in a master-feeder structure. The feeder fund in a master-feeder structure does not itself require a potential exit strategy for its investment in the master fund.

An investment entity should consolidate a subsidiary that is not itself an investment entity and whose main purpose and activities are providing services or activities that relate to the investment entity's investment activities, either to the investment entity or to other parties. If the subsidiary providing the investment-related services or activities is itself an investment entity, the investment entity parent should measure that subsidiary at fair value through profit or loss.

US GAAP/SEC

According to the SEC's Investment Management Guidance Update No. 2014-11, in the circumstances of a feeder fund, generally, the SEC staff has taken the position that the financial presentation that is most meaningful is unconsolidated. Annual and semi-annual reports for SEC registered feeder funds should contain two sets of financial statements: one for the master fund and one for the feeder fund. Non-registered feeder funds generally follow the same presentation.

Notes to the financial statements of each feeder fund should include the following:

- The feeder fund's statement of assets and liabilities will show an investment in the master fund, which is the feeder fund's sole or primary investment. A schedule of investments is not presented by the feeder fund, unless there are other investments aside from the investment in the master fund
- The statement of operations for the feeder fund should disclose the feeder fund's allocated share of income, expenses, and realized gains and losses from the master fund, along with any fund-specific income and expenses.

Notes to the financial statements of a feeder fund should include the following:

- General description of the master and feeder structure;
- The feeder's percentage ownership share of the particular master fund at the reporting date;
- A statement that the feeder invests all of its investable assets in a corresponding investment company having the same investment objectives as the feeder and a reference to the financial statements of the master fund, including the portfolio of investments; and
- Disclosure of, or reference to, the accounting policies of the master fund that may affect the feeder fund.

LUX GAAP

The feeder UCITS financial statements should disclose: The Law of 17 December 2010 on Undertakings for Collective Investment (UCI), as amended;

- A description of the master-feeder structure;
- The investment objective and policy of the master UCITS;
- The percentage ownership of the feeder UCITS in the master UCITS at year-end; and
- The total aggregated expenses of the feeder UCITS and its share of the total expenses of the master UCITS, expressed as a percentage of the average NAV of the master/feeder UCITS.

The annual report of the feeder UCITS should indicate where the financial statements of the master UCITS are available.

Additional considerations apply when the feeder UCITS and the master UCITS have different year-ends.

Sustainability reporting

IFRS

The IASB has not issue a specific standard on sustainability reporting. Nevertheless, on several occasions, it has advocated in favor of an integrated set of sustainability reports that focus on the investor and on the impact of sustainability issues on the future returns of the company.

As part of its endorsement of IFRS, ESMA has consistently promoted and encouraged companies to embrace sustainability reporting in their financial statements as part of good corporate governance practices.

A consultation paper was recently issued on 23 April 2020 by the European Supervisory Authorities (ESA) including ESMA, which emphasizes the fact that sustainability disclosures aim to strengthen protection for end-investors and improve the transparency of information relating to financial products for a wide range of market participants. ESA recommends that companies should provide information focused on how their investment decisions impact various indicators such as the climate, the environment, human rights, social issues, and corruption, amongst an overwhelming plethora of matters.

US GAAP/SEC

In recent years, there has been an increase in the number of US public companies disclosing policies and performance regarding sustainability, including environmental, social and governance (ESG) issues, and similar matters. There is a clear trend toward more reporting, although the Financial Accounting Standards Board (FASB) has not issued any accounting or disclosure standards governing sustainability.

While reporting and disclosure on this topic is largely voluntary, there are ongoing initiatives to create a sustainability disclosure framework.

The Sustainability Accounting Standards Board (SASB) is a US-based non-profit organization with the objective of establishing industry-specific standards for ESG reporting and disclosure for US-based public companies. The standards have no legal effect, but aim to identify the sustainability and ESG information that may be material to investors.

LUX GAAP

The demand for sustainable finance has increased with the adoption of the 2030 UN Agenda for Sustainable Development and its 17 Sustainable Development Goals, and the 2018 EU Action Plan: Financing Sustainable Growth. As such, there is an emphasis on integrating environmental and social considerations into the investment decision-making process to achieve long-term investment goals, and on sustainable activities that address issues such as climate change, labor relations, and inequality.

Public-interest entities and other groups must disclose non-financial information regarding measures implemented in relation to environmental protection, social responsibility and the treatment of employees, respect for human rights, anti-corruption and bribery, and diversity on company boards. (Directive 2014/95/EU - https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en)

In Luxembourg, the CSSF is prioritizing the disclosure of non-financial information in the financial statements of certain issuers as indicated by the results of its recent examination of non-financial information for the 2018 financial year. (https://www.cssf.lu/en/2020/02/examination-of-non-financial-information-published-by-certain-issuers-for-2018-financial-year/)

The focus on sustainability reporting will increase as the priorities of managing environmental and social challenges shift towards providing investors with sustainable investments.

Contacts

Audit

Justin Griffiths
Partner | Investment Management
+352 451 452 692
jugriffiths@deloitte.lu

Nick Tabone
Partner | Private Equity Leader
+352 451 452 264
ntabone@deloitte.lu

Lize Griffiths
Partner | Real Estate Leader
+352 451 452 693
lizgriffiths@deloitte.lu

Nicolas Hennebert
Partner | Investment Management Audit Leader
+352 451 454 911
nhennebert@deloitte.lu

Christiane Chadoeuf
Partner | Audit Leader
+352 45145 2065
cchadoeuf@deloitte.lu

Tax

David Bernard
Partner | Tax Leader
+352 45145 2799
bdavid@deloitte.lu

Eric Centi
Partner | Tax
+352 451 452 162
ecenti@deloitte.lu

Advisory

Vincent Gouverneur
Partner | Investment Management Leader
+352 451 452 451
vgouverneur@deloitte.lu

Martin Flaunet
Partner | Accounting and Reporting Advisory
+352 451 452 334
mflaunet@deloitte.lu

Lou Kiesch
Partner | Regulatory Strategy
+352 451 452 456
lkiesch@deloitte.lu

Xavier Zaegel
Partner | Capital Markets & Financial Risk Leader
+352 451 452 748
xzaegel@deloitte.lu

Global

Cary Stier
Partner | Global Investment Management Leader
+1 212 436 7371
cstier@deloitte.com

We would like to thank the following individuals for their contribution to this publication: Virginie Boulot, Jeff Schmit, Jaime Millan, Adina Rockwell, Shadjiah Mooniaruch, Jeremy Pages, Feriel Fekih and Michelle Coombs.

Designed and produced by MarCom at Deloitte Luxembourg

Deloitte Luxembourg
20 Boulevard de
Kockelscheuer,
1821 Luxembourg

Tel.: +352 451 451
Fax: +352 451 452 401
https://www2.deloitte.com/lu/en.html