

Alternative Investments |
Accounting for Alternative funds: reporting aspects of different GAAPs and NAVs

Getting Started

Here with you today



Adina Rockwell
Audit Director
+352 45145 4955
adrockwell@deloitte.lu



Ana Dondera
Senior Manager
+352 45145 4874
adondera@deloitte.lu



Nicole Pompa
Manager
+352 45145 4719
npompa@deloitte.lu

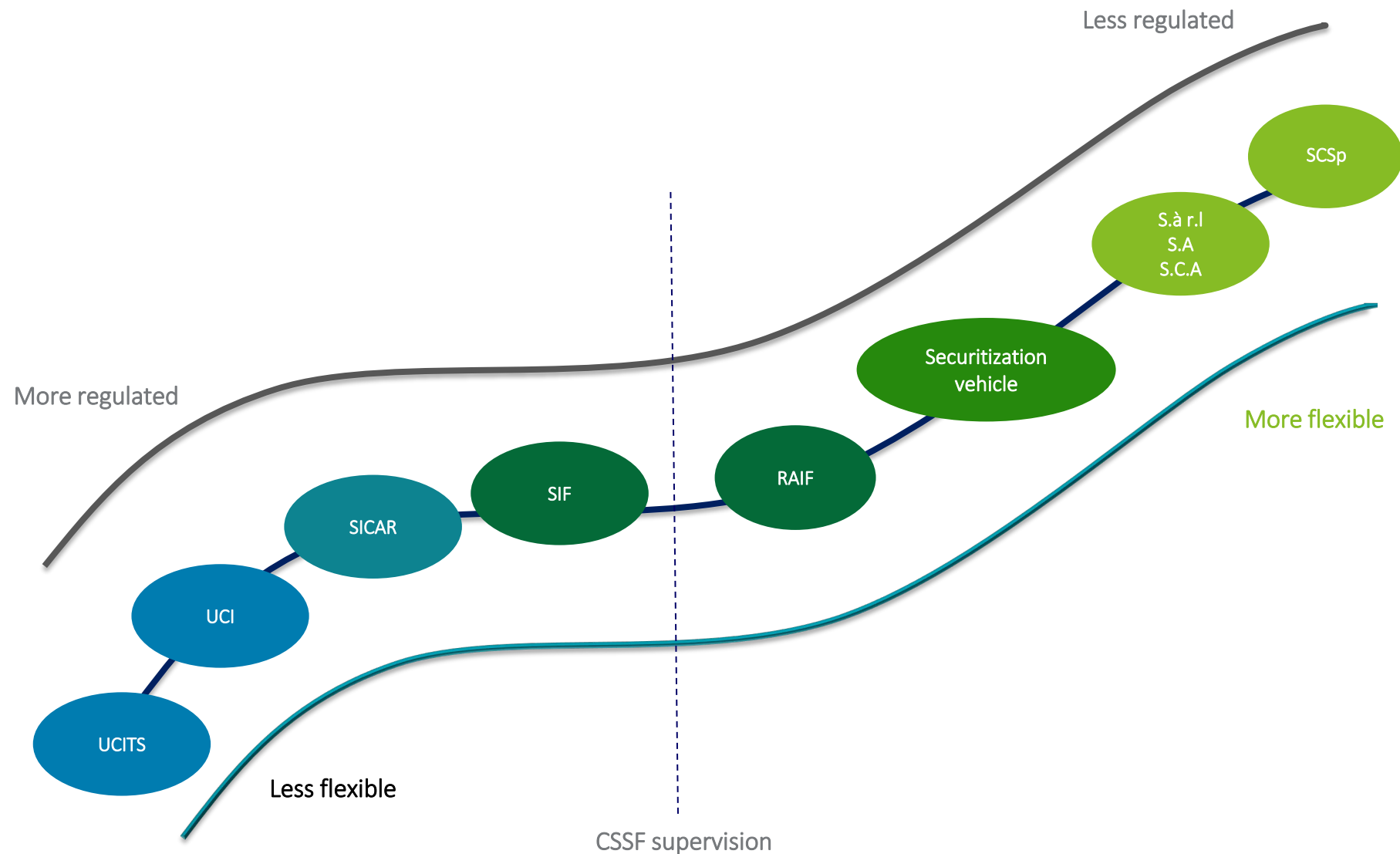
Agenda

- 1 Alternatives landscape in Luxembourg
- 2 Different GAAPs
- 3 INREV NAV: Introduction
- 4 INREV NAV: Adjustments
- 5 Wrap up

Luxembourg Alternatives Landscape

Type of fund vehicles and primary accounting frameworks

Overview of Investment Vehicles in Luxembourg



Financial Reporting Requirements

 **SICAR**



- Luxembourg GAAP
- IFRS (EU)
- Law dated 15 June 2004

 **SIF**



- Luxembourg GAAP
- IFRS (EU)
- Law dated 13 February 2007

 **RAIF**



- Luxembourg GAAP
- IFRS (EU)
- Law dated 15 June 2004

 **S.A./S.à r.l.**



- Luxembourg GAAP
- IFRS (EU)

 **S.C.S**



- Luxembourg GAAP
- IFRS (EU)
- Companies having a turnover less than 100,000 EUR - other, if specified in Limited Partnership Agreement («LPA»)

 **S.C.Sp**



- Luxembourg GAAP
- IFRS (EU)
- Other, if specified in Limited Partnership Agreement («LPA»)

Law of 23 July 2016 on reserved alternative investment funds

Art. 11

Unless otherwise provided for in the management regulations of the fund, the valuation of the assets of the common fund shall be based on the fair value. This value must be determined in accordance with the rules set forth in the management regulations.

Industry Specific Guidance



Three sets of accounting standards typically applied in Luxembourg for investment funds

IFRS – does not provide specific guidance for investment funds

Luxembourg GAAP – derived from Luxembourg laws and regulations + EU directives (AIFMD)

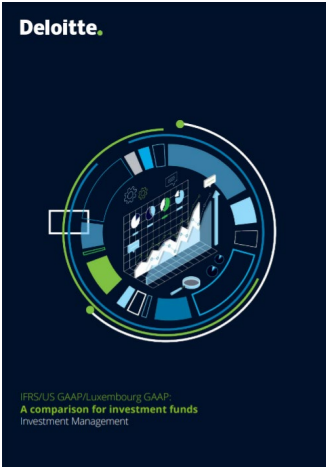
US GAAP – specific guidance is available for investment companies (FASB ASC 946)

Available Deloitte Resources

GAAP comparison for investment funds

This publication provides a summary of the key differences between the most common accounting frameworks for investment management financial reporting. It includes a comparison of IFRS, US GAAP and Luxembourg GAAP as applied to investment funds.

<https://www2.deloitte.com/lu/en/pages/audit/articles/comparison-investment-funds.html>



IFRS versus LUX GAAP

This brochure provides you with a summary and a clear and practical oversight of the key differences between the requirements of IFRS and LUX GAAP.

<https://www2.deloitte.com/lu/en/pages/audit/articles/ifrs-versus-lux-gaap.html>



Illustrative annual accounts in accordance with Lux GAAP

Available template for Annual Accounts giving example of presentation for Balance Sheet, Profit and Loss Account and Notes to the Annual Accounts.

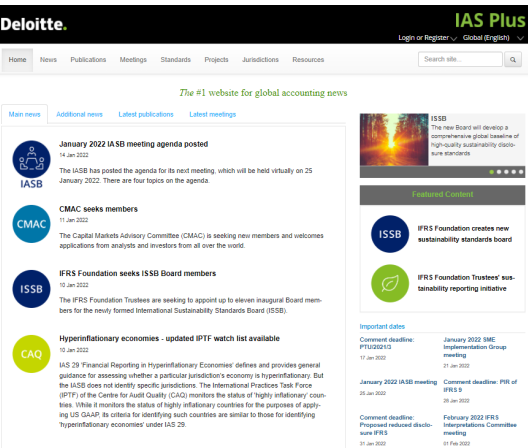
<https://www2.deloitte.com/lu/en/pages/audit/articles/illustrative-annual-accounts.html>



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<https://www.iasplus.com/en>



IFRS, Luxembourg GAAP and U.S. GAAP

GAAP differences

IFRS, Luxembourg GAAP and U.S. GAAP

Financial Statement Presentation & Disclosures Comparison

IFRS, Luxembourg GAAP and U.S. GAAP

Financial Statement Presentation & Disclosures Comparison

XYZ REAL ESTATE ACCOUNT

CONSOLIDATED STATEMENTS OF NET ASSETS AS OF DECEMBER 31, XXCY AND XXPY (in thousands)

	XXCY	XXPY
Assets:		
Real estate investments and improvements	139,650	121,500
Unconsolidated real estate joint ventures	53,200	46,600
Mortgage and other loans receivable	12,100	11,800
Other real estate investments	22,125	15,600
Total real estate investments	227,075	195,500
Cash and cash equivalents	80,635	49,255
Restricted cash	10,000	10,000
Marketable securities	43,100	38,500
Accounts Receivable	18,620	16,200
Prepaid and other assets	42,000	29,200
Total assets	421,430	338,655
Liabilities:		
Mortgage loans and notes payable	77,220	64,870
Accrued real estate expenses and taxes	1,350	1,330
Accrued incentive fees	260	250
Other liabilities	2,900	2,055
Total liabilities	81,730	68,505
Net assets:		
XYZ Real Estate Account net assets	318,162	253,356
Noncontrolling interests	21,538	16,794
Net assets	\$ 339,700	\$ 270,150

XYZ REAL ESTATE ACCOUNT

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, XXCY AND XXPY (in thousands)

	XXCY	XXPY
Investment income:		
Revenue from real estate investments	\$ 32,150	\$ 31,750
Equity in income of unconsolidated real estate joint ventures	21,450	20,500
Interest income on mortgage and other loans receivable	8,300	7,800
Income from other real estate investments	7,100	6,900
Other income	4,600	4,100
Total investment income	73,600	71,050
Expenses:		
Real estate expenses and taxes	12,250	12,100
Interest expense	3,600	3,250
Administrative expenses	5,400	4,410
Financing Costs	-	690
Investment management fees	1,250	1,000
Total expenses	22,500	21,450
Net investment income	51,100	49,600
Net realized and unrealized gain (loss):		
Realized gain from sales of real estate investments	1,100	800
Less: previously recorded unrealized gain on sale of real estate investments	(795)	(500)
Net realized and unrealized gain from the sale of real estate investments	305	300
Unrealized gain (loss) on real estate investments and improvements	14,550	(8,000)
Unrealized gain (loss) on unconsolidated real estate joint ventures	3,250	(1,120)
Unrealized gain on mortgage and other loans receivable	250	100
Unrealized gain on other real estate investments	2,175	1,500
Unrealized gain on interest rate caps and swaps	-	-
Unrealized (loss) gain on mortgage loans and notes payable	(1,880)	1,000
Net realized and unrealized gain (loss)	18,650	(6,220)
Increase in net assets resulting from operations	69,750	43,380
Less: Portion attributable to noncontrolling interests	(4,754)	(4,230)
Increase in net assets resulting from operations attributable to XYZ Real Estate Account	\$ 64,996	\$ 39,150

IFRS, Luxembourg GAAP and U.S. GAAP

Financial Statement Presentation & Disclosures Comparison

XYZ REAL ESTATE FUND, LP

STATEMENTS OF NET ASSETS AS OF DECEMBER 31, XXCY AND XXPY (in thousands)

	XXCY	XXPY
Assets:		
Real estate investments	273,913	229,841
Cash and cash equivalents	40,635	19,255
Other assets	31,120	18,400
Total assets	345,668	267,496
Liabilities:		
Loans payable	10,000	-
Other liabilities	760	805
Total liabilities	10,760	805
Net assets	334,908	266,691

XYZ REAL ESTATE FUND, LP

STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, XXCY AND XXPY (in thousands)

	XXCY	XXPY
Income		
Income distributions from real estate equity investments	\$ 28,060	\$ 41,057
Interest income on real estate debt investments	8,300	1,268
Other	3,170	120
Total income	39,530	42,445
Expenses		
Interest expense	2	-
Administrative expenses	1,183	4,500
Investment management fees	1,250	1,000
Total expenses	2,435	5,500
Net investment income	37,095	36,945
Net realized and unrealized gain (loss):		
Realized gain from sales of real estate investments	-	760
Less: previously recorded unrealized gain on sales of real estate investments	-	(475)
Net realized and unrealized gain from the sale of real estate investments	-	285
Unrealized gain on real estate investments held at year end	31,322	3,981
Unrealized incentive fees	-	-
Net realized and unrealized gain	31,322	4,266
Increase in net assets resulting from operations	\$ 68,417	\$ 41,211

IFRS, Luxembourg GAAP and U.S. GAAP

Financial Statement Presentation & Disclosures Comparison

	IFRS	Luxembourg GAAP	U.S. GAAP
Realized and Unrealized Gains (Losses) on Investments	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.	For AIFs, realized gains and losses and unrealized gains and losses are required to be disclosed separately rather than netting gains and losses into a single line item (i.e., grossed up)	Net realized gains (losses) and net changes in unrealized appreciation (depreciation) should be disclosed separately.

IFRS, Luxembourg GAAP and U.S. GAAP

Financial Statement Presentation & Disclosures Comparison

	IFRS	Luxembourg GAAP	U.S. GAAP
Remuneration Disclosures	<p>Disclosure is required of the total compensation paid to key management personnel, as well as for each of the following categories:</p> <ul style="list-style-type: none"> • Short-term employee benefits; • Post-employment benefits; • Other long-term benefits; • Termination benefits; and • Share-based payment. 	<p>An AIF must disclose in its annual report:</p> <ul style="list-style-type: none"> • The total amount of remuneration for the financial year, split between fixed and variable remuneration, paid by the AIFM/Management Company to its staff, and the number of beneficiaries. For an AIF, 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/ Management Company whose actions have a material impact on the risk profile of the AIF. 	<p>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.</p> <p>Additionally, under Topic 850, amounts paid to affiliates or related parties should be disclosed.</p>

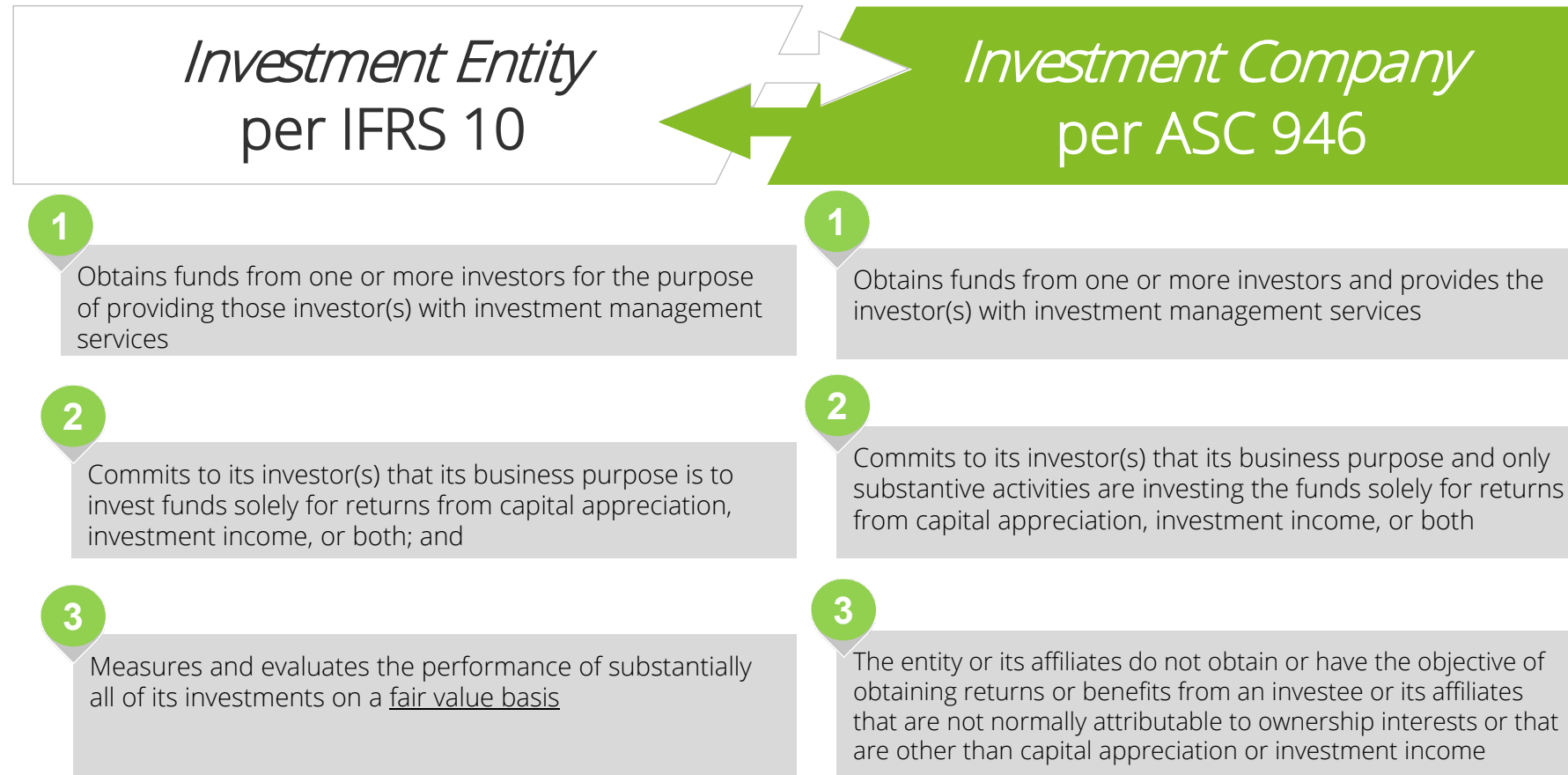
IFRS, Luxembourg GAAP and U.S. GAAP

Accounting Comparison

IFRS, Luxembourg GAAP, and U.S. GAAP

Accounting Comparison

	IFRS	Luxembourg GAAP	U.S. GAAP
Consolidation	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.	Funds subject to the various product laws in Luxembourg and their subsidiaries are exempt from the obligation to consolidate companies owned for investment purposes.	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.
	This does not apply to any subsidiaries of the investment entity providing services that relate to the investment entity's investment activities.	Real estate or private equity funds with subsidiaries often opt to consolidate.	Wholly-owned blocker entities should generally be consolidated into the investment fund.
Master-feeder structures	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.	<p>The feeder financial statements should disclose:</p> <ul style="list-style-type: none"> • A description of the master-feeder structure; • The investment objective and policy of the master fund; • The percentage ownership of the feeder fund in the master fund at year-end; and • The total aggregated expenses of the feeder fund and its share of the total expenses of the master fund, expressed as a percentage of the average NAV of the master/feeder fund. 	<p>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.</p> <p>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.</p>



Luxembourg GAAP consideration of investment company: reference to Avis CNC (Commission des Normes Comptables) n° 2-1 and reference to article 30 of the Law of 19 December 2002 and to the SIF law.

IFRS, Luxembourg GAAP, and U.S. GAAP

Accounting Comparison

	IFRS	Luxembourg GAAP	U.S. GAAP
Carried interest	<p>Accounting treatment 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:</p> <ul style="list-style-type: none"> i) Ownership model: carried interest is accounted as a re-allocation of profits between the partners ii) Service model: carried interest is recorded either as financial liability or a provision/contingent liability. 	<p>Two possibilities are generally accepted:</p> <ul style="list-style-type: none"> i) NAV re-allocation ii) Expense recognition 	<p>Carried interest may be accounted for as:</p> <ul style="list-style-type: none"> i) NAV re-allocation from the limited partners' capital account to the general partners' capital account ii) Expense recognition if structured as an incentive or performance fee
Transaction costs	<p>Transaction costs that relate to investments recorded at fair value through profit and loss 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.</p>	<p>Transaction costs are commonly recognized as part of an investment's cost, except for AIFs opting to expense transaction costs.</p>	<p>Transaction costs are recognized as part of an investment's cost.</p>
Set-up costs	<p>Set-up costs should be expensed when incurred.</p>	<p>Formation expenses can be either expensed or capitalized and amortized over a maximum period of 60 months.</p>	<p>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.</p>

Introduction to INREV NAV

A simple but fixed methodology to facilitate vehicle comparability

Introduction to INREV

Why was it necessary?

Harmonization

Offer guidance, transparency and comparability

Reflect a more accurate economic value of the investment (units)

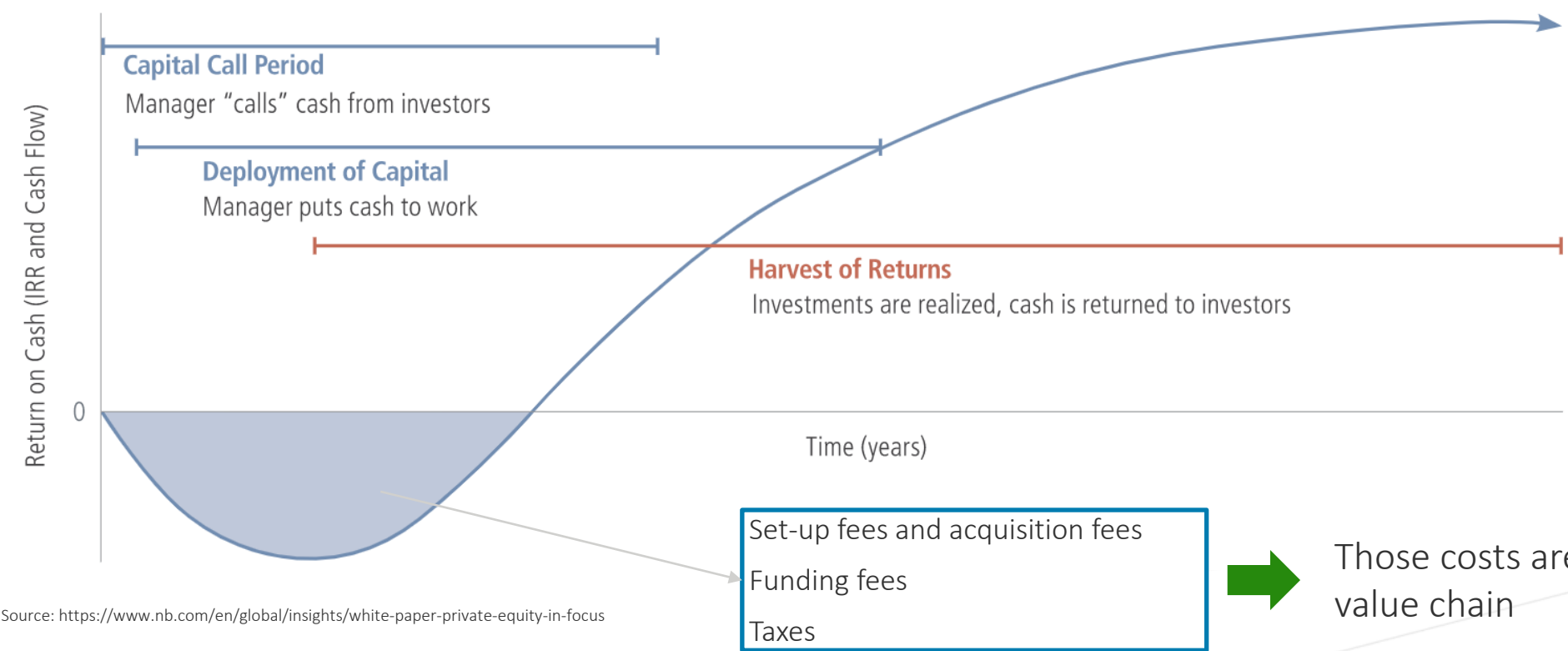
Not for pricing purposes
(not a goal for INREV)

VS

Open End Fund Pricing

Fair value of assets and liabilities

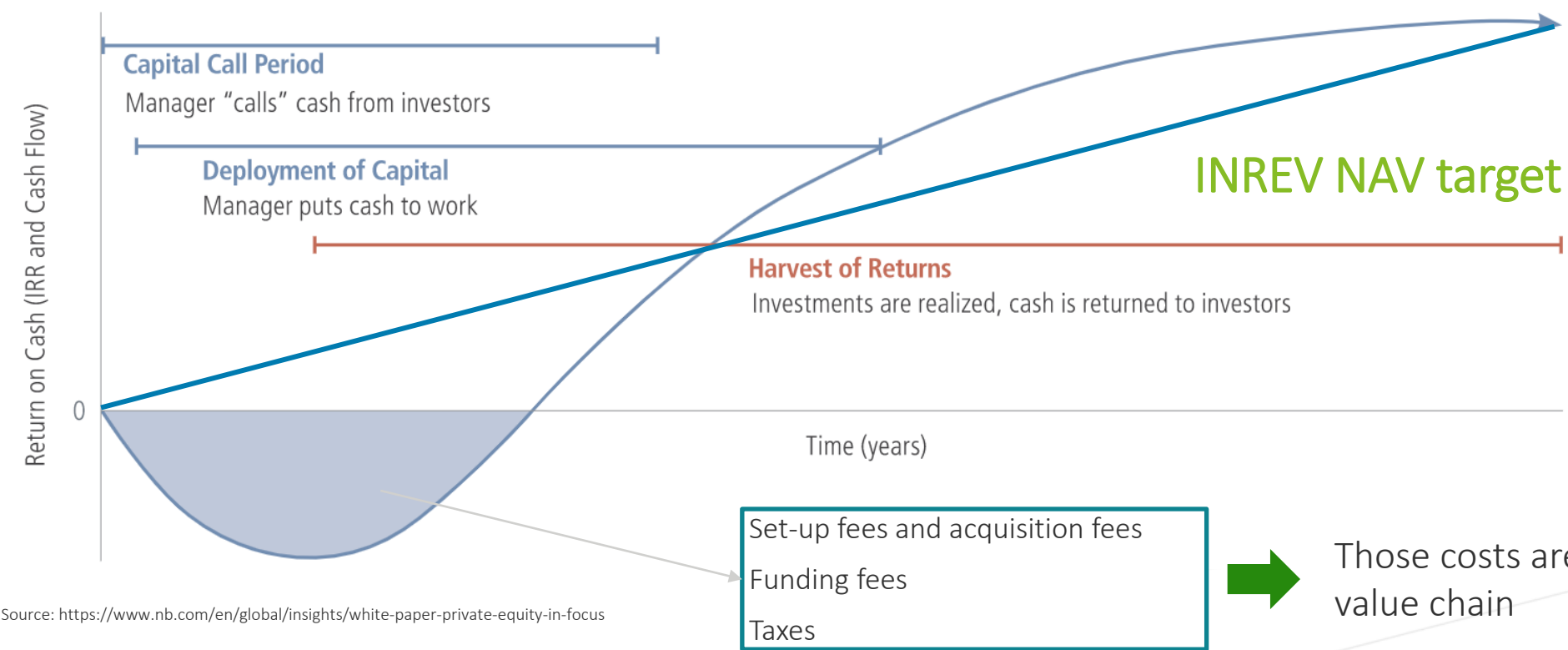
Internal rate of return of a private equity fund.



Source: <https://www.nb.com/en/global/insights/white-paper-private-equity-in-focus>

Fair value of assets and liabilities

Internal rate of return of a private equity fund.



Source: <https://www.nb.com/en/global/insights/white-paper-private-equity-in-focus>

NAV Adjustments

NAV Adjustments

Overview as per INREV Guidelines

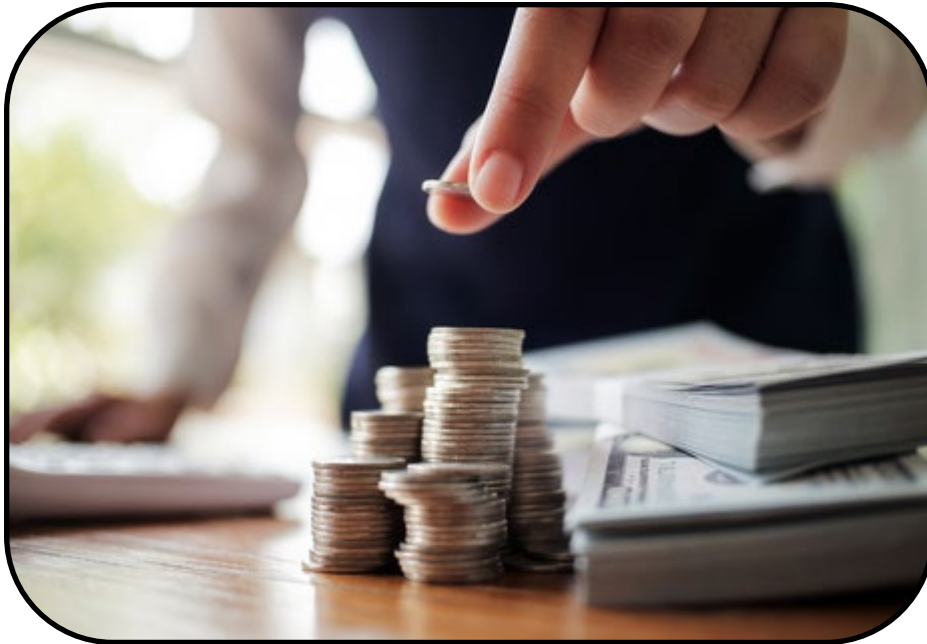
NAV per the IFRS financial statements	x
Reclassification of certain IFRS liabilities as components of equity	
a) Effect of reclassifying shareholder loans and hybrid capital instruments (including convertible bonds) that represent shareholders long term interests in a vehicle	x
b) Effect of dividends recorded as a liability which have not been distributed	x
NAV after reclassification of equity-like interests and dividends not yet distributed	x
Fair value of assets and liabilities	
c) Revaluation to fair value of investment properties	x/(x)
d) Revaluation to fair value of self-constructed or developed investment property	x/(x)
e) Revaluation to fair value of investment property held for sale	x/(x)
f) Revaluation to fair value of property that is leased to tenants under a finance lease	x/(x)
g) Revaluation to fair value of real estate held as inventory	x/(x)
h) Revaluation to fair value of other investments in real assets	x/(x)
i) Revaluation to fair value of indirect investments not consolidated	x/(x)
j) Revaluation to fair value of financial assets and financial liabilities	x/(x)
k) Revaluation to fair value of construction contracts for third parties	x/(x)
l) Set-up costs	x/(x)
m) Acquisition expenses	x/(x)
n) Contractual fees	x/(x)
Effects of the expected manner of settlement of sales/vehicle unwinding	
o) Revaluation to fair value of savings of purchaser's costs such as transfer taxes	x/(x)
p) Revaluation to fair value of deferred taxes and tax effect of INREV NAV adjustments	x/(x)
q) Effect of subsidiaries having a negative equity (non-recourse)	x/(x)
Other adjustments	
r) Goodwill	(x)
s) Non-controlling interest effects of INREV adjustments	x/(x)
INREV NAV	x

Once a Fund is applying INREV NAV, all INREV adjustments needs to be considered.

If only selected adjustments are adopted, the calculated NAV is an “Adjusted NAV” and **not** an “INREV NAV”.

Fair value of assets and liabilities

Transaction/ set up costs



IFRS

- Expensed (IFRS 9/ IFRS 3)



INREV NAV

- Capitalised and amortised over 5 years
- Possible impairment

Fair value of assets and liabilities

Acquisition expenses

Fair value model:



- Conduct impairment test when:
 - market circumstances change and if
 - capitalised acquisition costs can not be recovered

Example:

When a property is sold during the amortization period or is classified as held for sale, the balance of capitalised acquisition expenses of that property should be expensed.

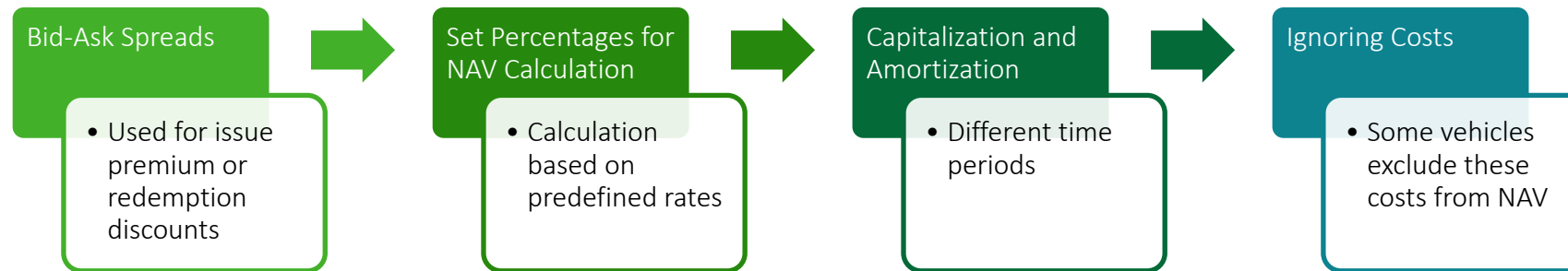
Fair value of assets and liabilities

Acquisition expenses (contd')

Spread one-off costs over a defined period to:

- smooth the effect of the write-off of costs on the vehicle's performance.
- spread costs between different investor groups entering/ leaving the vehicle's equity at different times.

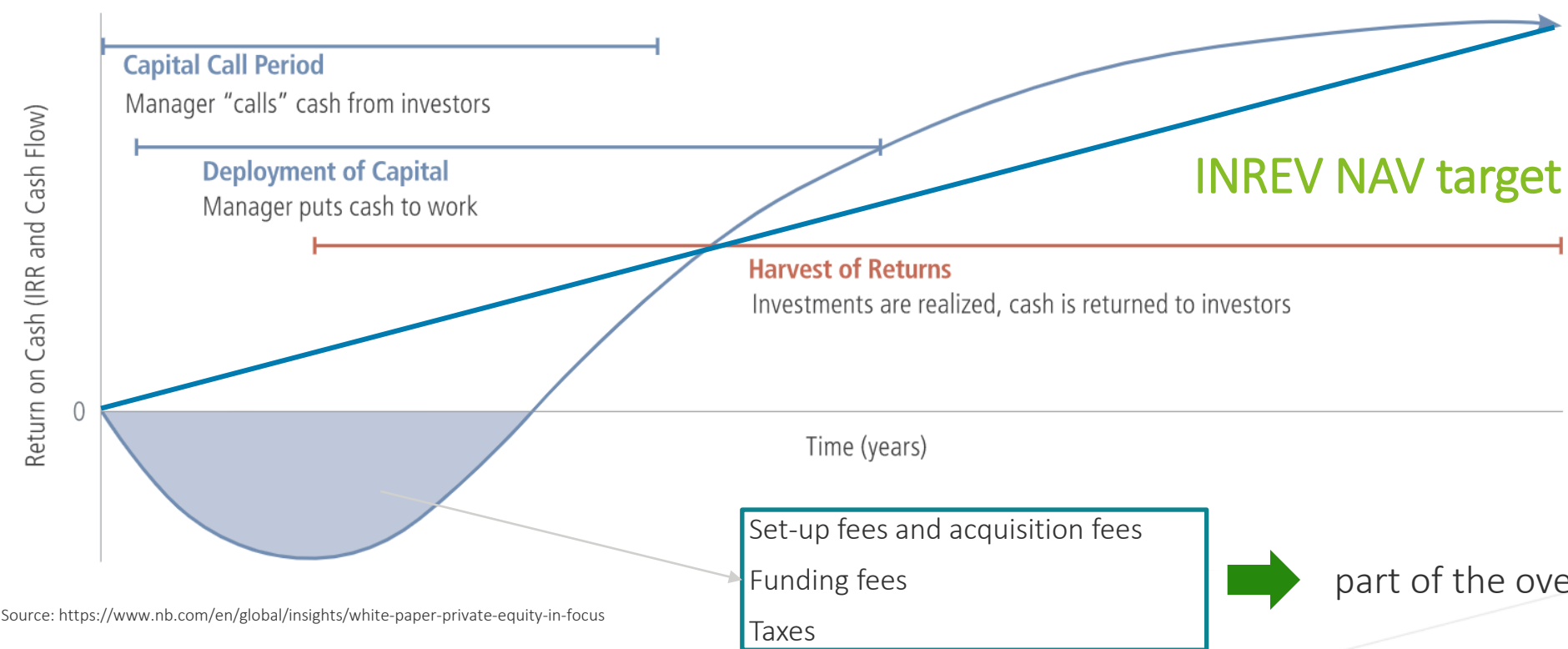
Complexities for pricing, valuation:



INREV NAV - primarily intended to facilitate comparability between different vehicles -> the INREV approach is a **simple but fixed methodology**.

Fair value of assets and liabilities

Internal rate of return of a private equity fund.



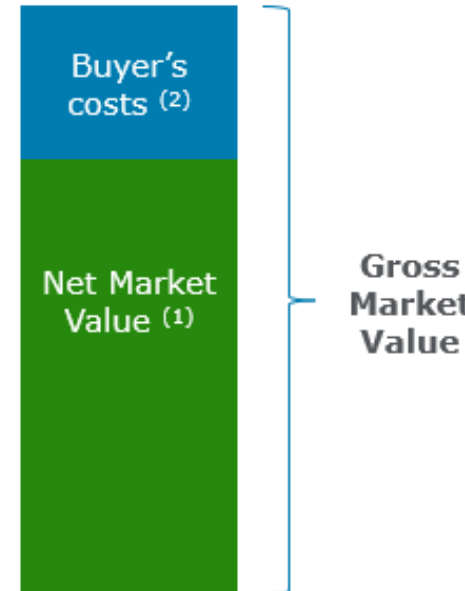
Source: <https://www.nb.com/en/global/insights/white-paper-private-equity-in-focus>

Fair value of assets and liabilities

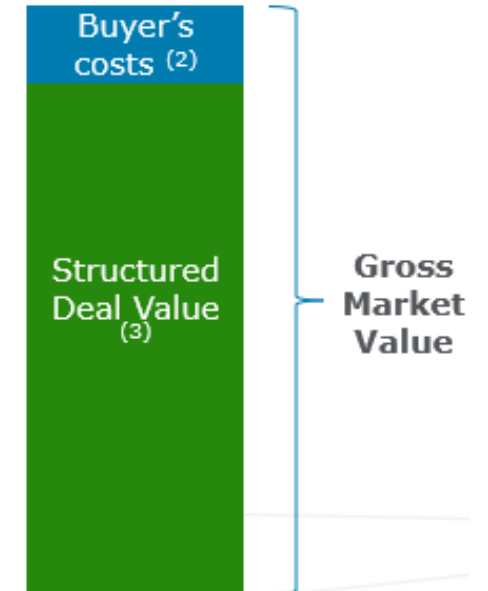
Effects of the expected manner of settlement of sales/fund unwinding

- Revaluation to fair value of savings of purchaser's costs
- Disclose disposal strategy
- Share disposal benefits seller -> positive NAV impact from reduction
- Deduct transfer taxes and costs

Asset Deal Value*



Share Deal / SPV Deal Value



* For certain countries, stamp duty does not apply under an asset deal

Wrap up

Q&A



Wrapping up

The following significantly impact fund reporting. Consider involving auditors and/ or specialists early in the process.

Importance of Accounting Frameworks

- Legal and investor requirements drive reporting requirements.

Financial statements presentation and disclosures

- Be mindful of consolidation exemptions, GAAP differences and disclosure requirements

INREV Adjustments

- INREV adjustments require judgement;
- If only selected adjustments are applied, the NAV is an adjusted NAV.

Contacts



Adina Rockwell

Audit Director

+352 45145 4955

adrockwell@deloitte.lu



Nicole Pompa

Manager

+352 45145 4719

npompa@deloitte.lu

Next Link'n Learn webinar

Date: 05 March 2025

**Topic: Investment Funds |
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