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IFRS/US GAAP/Luxembourg GAAP:

A comparison for investment funds

Investment management

Foreword

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

The Investment Management industry faces an ever-increasing demand for transparency by stakeholders, further amplified in times of uncertainties. As investment managers seek opportunities to enter global markets, any strategy and product reporting to stakeholders, including financial statements, must be clearly understood, meet local requirements, and allow for comparison between the many investment products offered.

While one globally accepted financial reporting standard that acknowledges stakeholders' needs and the industry's unique nature remains the ideal, different accounting standards are still used to prepare the financial statements of investment funds worldwide.

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

This summary does not attempt to capture all the differences that exist or may be material to a particular fund's financial statements. Our focus is on differences often encountered in practice. Further, the significance of these differences—and others not included in this analysis—will vary between individual entities, depending on factors like 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 to understanding the specific differences.

Although great care has been taken in drafting this publication, Deloitte and the authors will take no responsibility for any omissions or inaccuracies.

We hope that you find this comparison helpful. If you need any additional information or support, please get in touch.

Best,

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International updates

We have created this synthesis 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

A glimpse into new IFRS 18 *General Presentation and Disclosures*

On 9 April 2024 the IASB published a new accounting standard IFRS 18 *General Presentation and Disclosures* to replace IAS 1 *Presentation of Financial Statements*.

Main changes under IFRS 18:

- Introduction of 3 categories for classifying income and expenses – operating, investing and financing and requirement to provide 2 subtotals – operating profit and profit before financing and income taxes, to increase the comparability between companies.
- Introduction of a definition of "management performance measures" ("MPM") and a requirement to disclose explanations of why the MPM is reported and how it is calculated, including a reconciliation.
- Enhanced requirement for grouping of information (aggregation and disaggregation) and further guidance what should be in the primary financial statements or in the notes.

All companies will follow the same classification requirements for income and expenses, with some modifications for companies that invest in assets as a main business activity (such as investment entities, investment property companies and insurers) and companies that provide financing to customers as a main business activity (such as banks).

Some limited changes were made to the statement of cash flows and the statement of financial position.

Once endorsed by EFRAG, IFRS 18 will be effective for annual reporting periods beginning on or after **1 January 2027**, but companies will be able to apply it earlier.

International Tax Reform — Pillar Two Model Rules (Amendments to IAS 12)

On 23 May 2023, the International Accounting Standards Board (IASB) published International Tax Reform — Pillar Two Model Rules (Amendments to IAS 12), responding to stakeholders' concerns about the Organization for Economic Co-operation and Development's (OECD) Pillar Two model rules on income tax accounting.

The amendments introduce a temporary exception for entities from recognizing deferred tax assets and liabilities related to OECD Pillar Two income taxes, and from disclosing any information about these deferred tax assets and liabilities.

The amendments also introduce targeted disclosure requirements for entities. When Pillar Two legislation is enacted or substantively enacted but not yet in effect, entities must disclose known or reasonably estimable information that helps financial statements' users understand the entities' exposure to Pillar Two income taxes arising from that legislation.

The amendments require entities to apply the exception immediately and retrospectively in accordance with IAS 8. While the remaining disclosure requirements are effective for reporting periods beginning on or after 1 January 2023.

Amendments to IAS 21: Lack of Exchangeability

On 15 August 2023, the IASB published Lack of Exchangeability (Amendments to IAS 21), providing guidance on when a currency is exchangeable and how to determine the exchange rate when it is not.

According to the amendments, a currency is exchangeable when an entity can exchange it for another through mechanisms that create enforceable rights and obligations without undue delay at the measurement date and for a specified purpose. However, a currency cannot be exchanged for another if an entity can only obtain an insignificant amount of the other currency at the measurement date for the specified purpose.

When a currency is not exchangeable at the measurement date, an entity must estimate the spot exchange rate. This is the rate that would have applied to an orderly exchange transaction at the measurement date between market participants under prevailing economic conditions. In this case, an entity must disclose information that enables its financial statements' users to evaluate how the currency's lack of exchangeability affects, or is expected to affect, the entity's financial performance, financial position and cash flows.

Entities must apply the amendments for annual reporting periods beginning on or after 1 January 2025, with earlier application permitted. In the EU, it is pending endorsement as of today.

IFRS Sustainability Disclosure Standards

The International Sustainability Standards Board (ISSB) issued its first sets of IFRS Sustainability Disclosure Standards in June 2023:

- IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*
- IFRS S2 *Climate-related Disclosures*

IFRS S1 sets the core content requirements for a complete set of sustainability-related financial disclosures. It requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect its prospects.

IFRS S2*,* the ISSB's first topic-based standard, requires an entity to provide information about its exposure to climate-related risks and opportunities and make various disclosures about its greenhouse gas (GHG) emissions.

These two standards provide a global baseline of sustainability reporting, setting out the minimum disclosure requirements that can be mandated and combined with jurisdiction-specific requirements.

In the EU, on 31 July 2023, the European Commission, the European Financial Reporting Advisory Group (EFRAG) and ISSB confirmed the high level of interoperability between the European Sustainability Reporting Standards (ESRS) and the ISSB standards, avoiding undue complexity for ESRS reporting entities.[1]

In addition, IFRS S1 and S2 are "GAAP-agnostic", meaning they are compatible with entities applying any accounting standards. Therefore, an entity applying IFRS Accounting Standards for financial reporting is not required to also apply IFRS Sustainability Disclosure Standards, and vice versa.

An entity must provide disclosures per the IFRS Sustainability Disclosure Standards as part of its general-purpose financial reports. The sustainability-related disclosures can be included in an entity's management commentary or a similar report if they form part of an entity's general-purpose financial reports, as long as they are reported with the same frequency and cover the same reporting period as the related financial statements.

Depending on each jurisdiction's endorsement or regulatory processes (e.g., EU endorsement), these standards has become effective on or after 1 January 2024.

[1] IFRS, "European Commission, EFRAG and ISSB confirm high degree of climate-disclosure alignment," press release, 31 July 2023.

Macroeconomic environment and climate-related risks

Entities continue to face significant uncertainty in the current macroeconomic and geopolitical environment. Global supply-chain disruptions, energy price rises and labor shortages have elevated many product and employment costs. At the same time, global central banks are raising interest rates to mitigate the impact of historically high inflation rates and potentially dampen demand.

Entities must be transparent in how they are dealing with this challenging landscape, while responding to growing investor demand for consistent, comparable, and timely sustainability and climate information.

In this respect, the European Securities and Markets Authority (ESMA) and the Commission de Surveillance du Secteur Financier (CSSF) expect that the current macroeconomic conditions and climate-related risks are reflected in the fair value measurements, in impairment of assets, and in the disclosures provided.

The ESMA's public statement on enforcement priorities and the CSSF's publication related to Luxembourg provide more background on these focus areas.

Current IASB projects relevant to investment funds

The IASB's current work plan lists several projects relevant to the fund industry, some of which will result in an Exposure Draft or a new Standard issued in the coming years. These include:

- Financial Instruments with Characteristics of Equity (Amendments to IAS 32)
- Equity Method (Amendments to IAS 28)
- Dynamic Risk Management
- Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)
- Annual Improvements to IFRS Accounting Standards—Credit Risk Disclosures (Amendments to Illustrative Examples accompanying IFRS 7)
- Annual Improvements to IFRS Accounting Standards—Disclosure of Deferred Difference between Fair Value and Transaction Price (Amendments to Illustrative Guidance accompanying IFRS 7)
- Annual Improvements to IFRS Accounting Standards—Gain or Loss on Derecognition (Amendments to IFRS 7)
- Annual Improvements to IFRS Accounting Standards—Hedge Accounting by a First-time Adopter (Amendments to IFRS 1)
- Annual Improvements to IFRS Accounting Standards—Transaction Price (Amendments to IFRS 9)
- Annual Improvements to IFRS Accounting Standards—Determination of a 'De Facto Agent' (Amendments to IFRS 10)
- Annual Improvements to IFRS Accounting Standards—Cost Method (Amendments to IAS 7)
- Business Combinations—Disclosures, Goodwill and Impairment (Amendments to IFRS 3)

Connectivity between accounting and sustainability disclosures

To complement the ISSB's Sustainability Disclosure Standards (see previous page), the IASB is conducting a narrow-scope maintenance project on Climate- related Risks in the Financial Statements. This project aims to address users concerns regarding:

- Insufficient information about how climate-related risks affect the estimates, assumptions and judgments made in the financial statements; and
- Inconsistent information on recognition, measurement and disclosures in the financial statements compared with associated climate-related disclosures.

US GAAP UPDATES

On 30 June 2022, the Financial Accounting Standards Board (FASB) issued ASU 2022-03, clarifying the guidance in ASC 820 on the fair value measurement of an equity security subject to a contractual sale restriction. It also requires specific disclosures related to such an equity security.

Based on the existing guidance and the current illustrative example in ASC 820-10-55-52, some entities use a discount for contractual sale restrictions to measure fair value. However, other entities believe this discount to be inconsistent with the principles of ASC 820. ASU 2022-03 attempts to clarify this guidance.

ASU 2022-03 clarifies that a "contractual sale restriction prohibiting the sale of an equity security is a characteristic of the reporting entity holding the equity security" and is not included in the equity security's unit of account. Additionally, an entity should not consider the contractual sale restriction when measuring the equity security's fair value. The ASU also prohibits an entity from recognizing a contractual sale restriction as a separate unit of account.

For private entities, the effective date is fiscal years beginning after 15 December 2024 and interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements not yet issued or made available for issuance.

Further updates

Further US GAAP updates can be found on the FASB's website.

UPDATES WITH IMPLICATIONS FOR LUX GAAP

On 28 July 2023, the Bill of Law no. 8286 (hereafter "New Law") was introduced, addressing topics regarding accounting, annual financial statements, consolidated financial statements (and related undertakings' reports), and abolishing the "commissaire" function.

The New Law aims to modernize the current Luxembourg Accounting Law by:

- Incorporating Q&As released by the Commission des normes comptables (CNC) and regrouping general accounting provisions currently spread over different texts into one single law;
- Revising certain definitions, including control and the length of accounting year;
- Providing new audit requirements for some entities, especially large holdings;
- Introducing new accounting options, such as deferred taxes and impairment tests on assets with indefinite useful life, and new requirements for entities dissolved and under liquidation; and
- Extending the scope of undertakings under this New Law.

It is expected that the sectorial law (i.e., the existing laws specific to certain entities, such as investment funds) remain excluded from the New Law, which will only regroup the common provisions that apply to all financial vehicles.

The New Law is expected to come into effect in 2025. The text published on 28 July 2023 may not be the final version, as it is currently under discussion with the relevant stakeholders.

For more information on the project, including comments shared by the relevant stakeholders, please refer to the Chambre des Députés website.

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 21 July 2023 on modernization of Luxembourg fund laws;
- The Law of 17 December 2010 on Undertakings for Collective Investment (UCI), as amended (incl. Schedule B);
- The Law of 13 February 2007 on Specialized Investment Funds (SIF), as amended;
- The Law of 12 July 2013 on reserved alternative investment funds (RAIF), as amended;
- Alternative Investment Fund Managers (AIFM), as amended;
- The Law of 23 July 2016 on reserved alternative investment funds (RAIF), as amended;
- The law of 15 June 2004 on Investment Company in Risk Capital (SICAR), as amended;
- Circulars issued by the CSSF.

(ii) The requirements of the following European Directives:

- The UCITS Directive (Directive 85/611/EEC replaced by Directive 2009/65/EC);
- The AIFM Directive (2011/61/EU);
- ELTIF (European long-term investment fund) Regulation (Regulation (EU) 2015/760);
- Guidelines issued by the Association of the Luxembourg Fund Industry (ALFI).

(iii) Guidelines and Q&As issued by ESMA.

(iv) 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.

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

Financial statements presentation and disclosure differences for

investment funds

Components of financial statements[2]

IFRS

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

US GAAP/SEC

1. Statement of assets and liabilities with a schedule of investments or a statement of net assets, which includes a schedule of investments therein.
2. Statement of operations.
3. Statement of changes in net assets or statement of changes in partners'/members' capital/equity (depending on structure).
4. Statement of cash flows (unless exempted under US GAAP).

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.

5. SEC registered funds should also disclose the portfolio turnover.
6. Notes to the financial statements.

LUX GAAP

1. 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).
2. Statements of operations.
3. Statement of changes in net assets.
4. A comparative table with period-end net asset value data for the last three years and number of shares/units in circulation.
5. Notes to the financial statements.
6. Report on the activities of the financial year.
7. The regulation supplementing the AIFMD stipulates the disclosure required for AIFs.
8. See the ALFI Code of Conduct for guidance on Board Reports.
9. For non-AIFs, a similar management report is required under the amended law of 19 December 2002.

[2] These components are required for an Annual Report; the list may differ for a semi-annual report.

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. If an entity presents by function, then additional information by nature must be disclosed in the notes.

Keep a close eye on the introduction of IFRS 18, as described on page 3, as it leads to changes to the presentation of the Statement of profit and loss and other comprehensive income and includes certain requirements specific to investment funds

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 requirements.

LUX GAAP

Certain line items are required to be presented on the face of the statement of operations and changes in net assets.

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.

For fair value measurements within Level 3 of the fair value hierarchy, additional disclosure may include:

1. A reconciliation between the opening and closing balances,
2. A description of the valuation processes, and
3. 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:

1. 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).
2. Country or geographic region, except for derivative instruments for which the underlying is not a security.
3. Industry, except for derivative instruments for which the underlying is not a security.
4. 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:

1. 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.
2. 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.

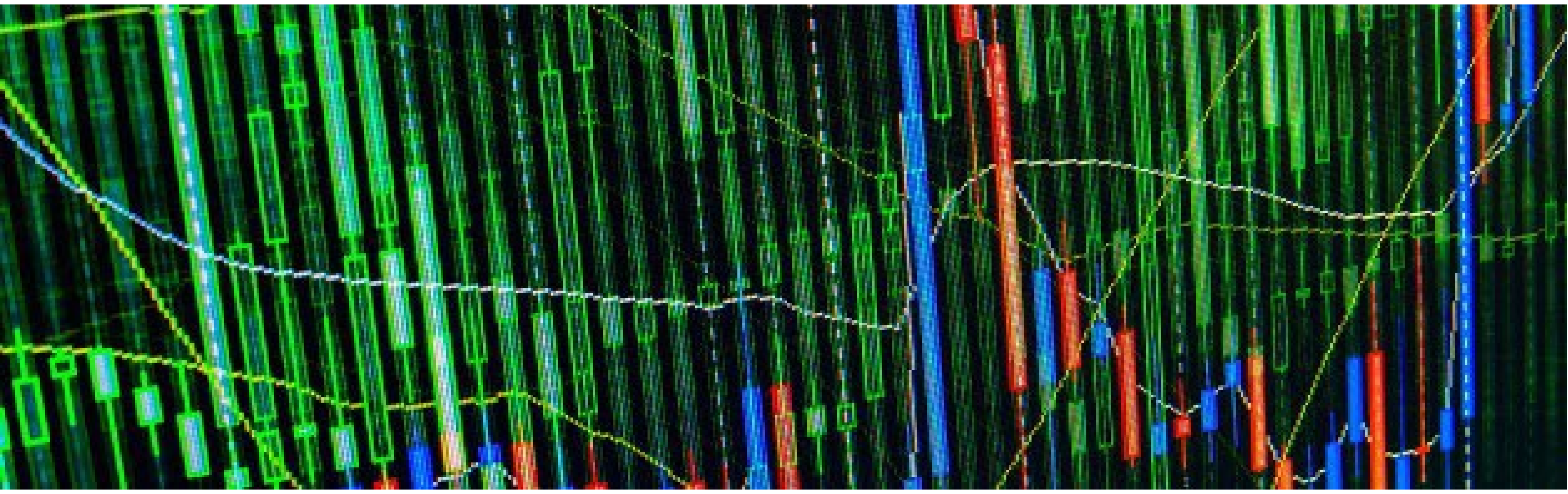
E. Disclose the number of contracts, range of expiration dates, and cumulative appreciation (depreciation) for open futures contracts of a particular underlying (such as wheat, cotton, specified equity index, or US Treasury Bonds), regardless of exchange, delivery location, or delivery date, if cumulative 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:

1. The investment objective; and
2. 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).

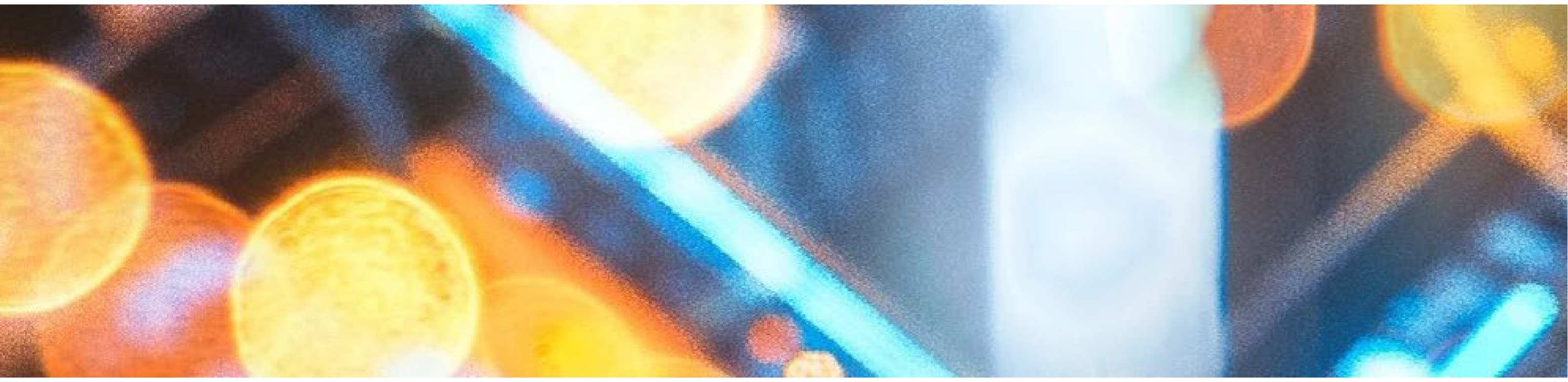
The schedule of investments must distinguish between transferable securities and money market instruments that are:

- 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). The open-ended investment funds are disclosed in a dedicated category just after the other ones mentioned here.

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, are also required.



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

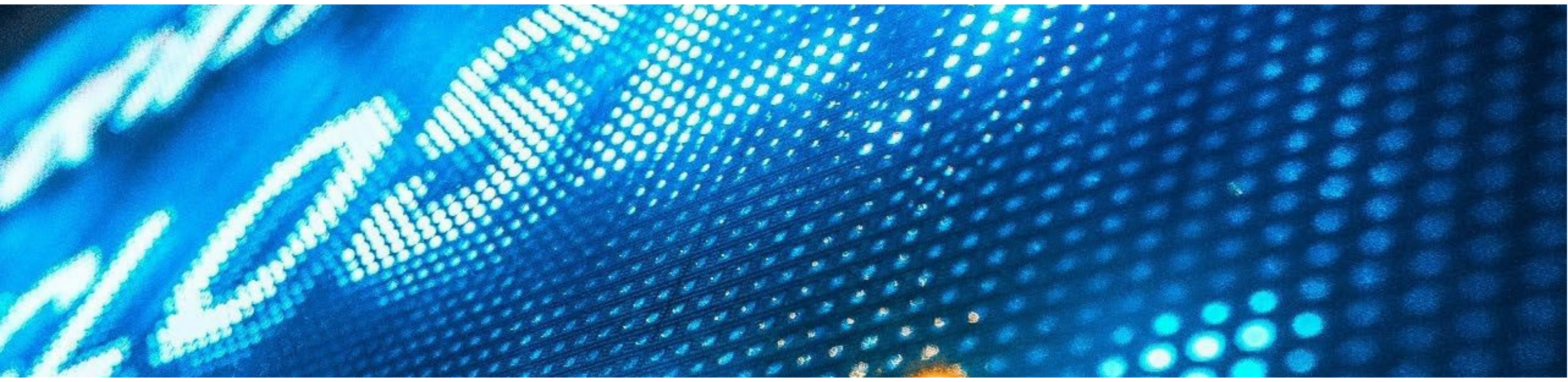
An investment company may be exempted from presenting a statement of cash flows if certain conditions are met. The conditions, in accordance with Topic 230, are:

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;
- The number of shares/units in circulation at year-end.

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 disclosures of an entity's financial instruments, either by category or by class, taking into consideration the nature, characteristics, and risks of these financial instruments. These disclosures also relate to items measured at fair value as outlined in the "Schedule of investments" section on page 15.

A derivative is defined in IFRS 9 as a contract whose value changes in response to a financial variable, such as the interest rate, or a non-financial variable that is not specific to a party to the contract. These contracts also require no or insignificant initial net investment and are settled at a future date.

Derivatives based on environmental, social and governance (ESG) factors, which are non-financial variables specific to either party to the contract, may seem to fail the definition of a derivative under IFRS 9. Therefore, they require cautious analysis of the appropriate accounting ruleset.

Further attention should be given to these ESG-based derivatives, as the definition of a derivative could differ in other frameworks, such as US GAAP, which could lead to different accounting rulesets for similar instruments.

In addition, IFRS require disclosure of quantitative and qualitative information regarding exposure to risks arising from financial instruments (see risk disclosure on page 28).

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. This includes tabular disclosure of gross fair value amounts in the statement of assets and liabilities, and the location by line item of the gains and losses amounts 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 the 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 from the general groupings for derivative instruments within the schedule of investments.

For derivative financial instruments in private funds, if the derivative exceeds 5% of the net assets, the number of contracts, range of expiration dates, and cumulative appreciation/depreciation must be disclosed in the schedule of investments. Disclosure is also required of the range of expiration dates and fair values for all other derivatives of a particular underlying (such as foreign currency, wheat, equity index, or US Treasury Bonds) that exceed 5% of the net assets.

For registered funds, all details of each derivative contract must be disclosed separately.

LUX GAAP

Details must be disclosed by category of financial derivative instruments. A UCITS' annual report 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.

For more guidance on financial derivative instruments and other requirements, see ESMA's Guidelines for competent authorities and UCITS management companies.

In the half-yearly reports and annual reports of AIFs and UCITS, the following disclosures are required:

- The proportion of lendable assets;
- Data on collateral concentration;
- Aggregate transaction data for each type of securities financing transaction (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, please refer to the Securities Financing Transactions Regulation (SFTR) and additional guidance on ESMA's SFTR reporting webpage.

Balance sheet—offsetting disclosure

IFRS

Under IFRS, entities are not permitted to offset assets and liabilities or income and expenses, unless required or permitted by a specific IFRS. If offsetting is required or permitted, the following information must be disclosed 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 as per 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 must 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.

Offsetting is only permitted, for example, by IAS 32 for financial assets and financial liabilities, if:

- The entity currently has a legally enforceable right to set off the recognized amounts; and
- The entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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. Also included are 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. The possibility of offsetting under the general accounting law is generally stricter than in US GAAP and IFRS.

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 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 should 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 in the statement of operations or in the notes.

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

A UCITS 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.

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 provided to 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. Non-authoritative 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 (Limited Partner) to the NAV attributable to the GP (General Partner); or
- Expense recognition: carried interest is charged to the profit and loss in the same way as performance 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, FVTPL, or fair value through other comprehensive income (FVOCI), depending on their contractual cash flows and the entity's business model.

An entity may irrevocably designate a financial asset as measured at FVTPL (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.

Under IFRS 7, the carrying amount of the following categories is specifically required to be disclosed (for a comprehensive list, please refer to IFRS 7):

- Financial assets at FVTPL, showing separately:
  - Those designated as such upon initial recognition; and
  - Those that meet the definition of held for trading in IFRS 9;
- Financial liabilities at FVTPL, showing separately:
  - Those designated as such upon initial recognition; and
  - Those that meet the definition of held for trading under IFRS 9;
- Financial assets measured at amortized cost;
- Financial liabilities measured at amortized cost; and
- Financial assets measured at FVOCI, showing separately:
  - Those measured at FVOCI based on the entity's business model; and
  - Investments in equity instruments designated as such upon initial recognition under IFRS 9.

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 fund, 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 by the management of the fund.

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 financial instruments recorded at FVTPL are recognized in the income statement.

Financial instruments not at FVTPL 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 opting to expense transaction costs.

UCIs that apply an accounting policy to recognize transaction costs as part of an investment's cost must separately disclose the year's total transaction costs, either in a specific caption in the statement of operations or in the notes to the financial statements.

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 5 years.

Interest income

IFRS

Interest income is recognized using the effective interest method. IAS 1 requires that interest income calculated using this method shall be presented separately on the face of the income statement.

IFRS do not specify the method to calculate interest income for financial assets at FVTPL. However, it is important to note that:

To achieve consistency with the requirements for other categories of financial assets and financial liabilities, the effective interest method should also be applied for interest-bearing financial assets and financial liabilities at FVTPL.

If interest income on financial assets measured at FVTPL is presented separately, this should not be included within the interest revenue line item that IAS 1 requires to be separately presented.

US GAAP/SEC

Interest income is recognized under ASC 310-20-35-18 and ASC 310-20-35-26 by applying the effective interest method based on the security’s contractual cash flows.

However, there are several exceptions to this method of recognizing interest income.

LUX GAAP

Interest income is recognized on an accrual 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

It is worth noting that Luxembourgish law dictates whether an entity should prepare consolidated financial statements in Luxembourg. Then, the relevant accounting standards, be it IFRS or US GAAP, dictate how to consolidate.

Under IFRS, if an entity qualifies as an investment entity, it shall not 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 are generally 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).

For further details, please see our "Consolidated Financial Statements" article.

Classification of investor ownership

IFRS

Issuing entities must identify whether shareholders' interests are financial liabilities or equity in nature under IAS 32. If the shareholder interest is a puttable instrument to the entity at fair value, it is classified as equity if it meets all the criteria in IAS 32:16A and B, including:

- It entitles the shareholder to a share of the entity's net assets in the event of the entity's liquidation;
- It is subordinate to all other classes of instruments having identical features;
- It has no exchange rights; and
- Its expected cash flows are based substantially on the entity's profit and loss.

If a puttable instrument does not meet one or more of the criteria in IAS 32:16A and B, it is classified as a liability.

In addition, shareholder interest is classified as equity if the issuing entity has limited life or the duration is in the hands of the unitholders, and if the instrument meets all the requirements in IAS 32:16C and D, including:

- It entitles the shareholder to a share of the entity's net assets in the event of the entity's liquidation; and
- It is subordinate to all other classes of instruments having identical contractual obligations to deliver a pro-rata share of its net assets on liquidation.

Generally, regardless of its classification, the common practice is to present shareholder interest under the "Net assets attributable to partners" caption. This is applicable to entities applying US GAAP and LUX GAAP as well.

US GAAP/SEC

Shareholder interest is generally classified as equity.

LUX GAAP

Shareholder interest is classified as equity.

Combined reporting for 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 statements should disclose information for the users of the financial statements such as:

- The fact that the financial statements 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 in the primary statements as well as combined information corresponding to the sum of all sub-funds translated to the umbrella’s currency. This is typically presented in a columnar format. For calculating the combined information in the statement of net assets, the year-end closing rate is used. For calculating the combined information in the statement of operations and changes in net assets, the exchange rate prevailing at year-end or the average exchange rate for the year may be used (if the latter is used, a caption “exchange difference” should be inserted in the combined statements).

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.

The RAIF law does not foresee the inclusion of separate financial information for each sub-fund in annual report. It should be prepared only at the combined level. However, relevant information at sub-fund level must be disclosed in the notes. Multiple sub-funds may provide financial statements for each sub-fund, but this is not mandatory.

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 can be in the form of dividend or interest depending on the nature of the transaction and the instruments.

Distributions flow through the income statement as finance costs, or through the statement of changes in net assets attributable to partners/statement of changes in equity if the related instruments are recognized as equity.

Other distributions are recognized as transactions in equity and shown either in the statement of changes in equity or in the statement of changes in net assets attributable to partners.

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.

In addition, an IFRIC discussion (see page 42) confirmed that for a non-going concern entity, it cannot prepare financial statements for prior periods on a going concern basis even if it was a going concern in those periods.

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:

- A plan for liquidation is approved, and the likelihood that the execution of the plan will be blocked is remote; or
- 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 FVTPL

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

In the EU, sustainability reporting is governed by the Corporate Sustainability Reporting Directive (CSRD) and, specifically for financial entities and financial products, the Sustainable Finance Disclosure Regulation (SFDR). These regulatory requirements should be applied independently of the accounting standards.

IFRS

The ISSB has issued its first set of IFRS Sustainability Disclosure Standards, IFRS S1 and IFRS S2 (detailed on page 4 of this publication). They form a comprehensive global baseline of sustainability disclosures designed to meet investors' information needs. While IFRS S1 and IFRS S2 are effective on or after 1 January 2024, their application is not mandatory and depends on each jurisdiction.

In the EU, EFRAG has issued its own set of sustainability standards, the ESRS, under the direction of the CSRD. These were developed jointly with the IFRS S1 and S2 to ensure a high level of alignment and interoperability between the two frameworks.

US GAAP/SEC

In recent years, the number of US public companies disclosing policies and performance regarding sustainability, including ESG issues, has increased. While there is a clear trend toward more reporting, the FASB has yet to issue any accounting or disclosure standards governing sustainability.

While reporting and disclosure on this topic are 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 aiming to establish industry-specific standards for ESG reporting and disclosure for US-based public companies. The standards, which have no legal effect, aim to identify the sustainability and ESG information that may be material to investors.

LUX GAAP

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

The SFDR is part of the EU's 2018 Action Plan to reorient capital flows towards sustainable investments and achieve inclusive growth. This plan sets the scene for a more stringent regulatory environment, introducing new regulations and adding amendments to existing directives.

In Luxembourg, the CSSF:

- Expects adequate disclosure of non-financial information in financial statements, as indicated in the CSSF's enforcement priorities for the 2023 financial year; and
- Is focused on SFDR requirements, as indicated by the [CSSF Thematic Review on the implementation of sustainability-related provisions in the investment fund industry in 2023.]

On 14 September 2023, the European Commission launched a consultation regarding the SFDR's implementation, focusing on:

- The SFDR's current requirements;
- Its interaction with other sustainable finance legislation;
- The potential changes to the disclosure requirements of financial market participants; and
- The potential establishment of a categorization system for financial products.

The consultation's summary report was published in May 2024. It confirmed that stakeholders widely supported the SFDR's objectives during the first years of its implementation.

On 18 June 2024, the European Supervisory Authorities (ESAs[3]) published a joint opinion on the assessment of the SFDR, emphasizing the need for more user-friendly disclosures. The current disclosures are perceived as overly complex, which hinders investors, especially retail investors, from making informed decisions.

On 25 July 2024, ESAs updated the consolidated Q&As on the SFDR and the Commission Delegated Regulation (EU) 2022/1288.

At the time of writing, legislators have not yet shared a timeline for an update of the SFDR's Regulatory Technical Standards (RTS) stemming from the consultations.

[3] The ESAs are the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and ESMA.

How Deloitte can help

We can support you in understanding, assessing and implementing these topics related to your accounting and financial reporting requirements. Our services include:

Awareness training

Facilitate awareness training sessions and interactive workshops to:

- Explore the implications of these topics; and
- Enhance your teams' capabilities and prepare them for future accounting challenges.

Annual accounts and complex accounting

- Prepare, compile or review your annual accounts;
- Provide accounting guidance and assist with or review the preparation of the annual accounts;
- Offer commentary letters, whitepapers and accounting opinions for non-attest clients; and
- Provide guidance on IFRS-LUXGAAP-US GAAP matters.

Audit

- Readiness Assessment to ensure your accounting positions, controls and systems are robust enough to be audited, and
- Have your annual accounts certified by a "réviseur d'entreprises agréé".

Gap analysis, conversion and impact assessment

- Transition your financial statements to a new accounting standard;
- Conduct a thorough assessment of the current reporting framework to identify gaps between existing practices and the new or updated accounting standards; and
- Assess the transition's potential financial and operational impact on your financial statements.

Liquidation and dissolution

- Assist with or review your compliance with liquidation and/or dissolution requirements.

Accounting hotline

- Provide on demand technical accounting and reporting advice and consultation.

System and controls

- Collaborate with you to adjust financial systems, processes and controls, ensuring they comply with the new reporting standard and ensure ongoing compliance; and
- Assist with or review the setup of new processes and controls for your financial reporting.

Foreign distribution

- Ensure your reports comply with all disclosure requirements that apply where your funds are distributed.

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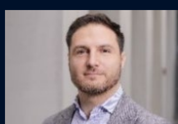

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