



Project	Consolidation
Topic	Investment Companies- Disclosures

Introduction

1. At the April joint Board meeting, the boards tentatively decided that investment companies should be required to disclose the following:
 - (a) whether the reporting entity has provided financial or other support (explicitly or implicitly) during the periods presented to any of its controlled investees that it was not previously contractually required to provide or whether the reporting entity intends to provide that support, including (1) the type and amount of support and (2) the primary reasons for providing the support.
 - (b) the nature and extent of any significant restrictions on the ability of controlled investees to transfer funds to the reporting entity in the form of cash dividends, or repayment of loans or advances.
 - (c) a schedule of investments that would include information regarding the type of investment held, the related industry, country or geographic region of the investment, the percentage of net assets that each category represents and the total value of the investment.
2. These disclosures would be required in addition to the requirements in *IFRS 7 Financial Instruments: Disclosures*, to disclose information about investments that are measured on a fair value basis.

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

Comments made in relation to the application of IFRSs or U.S. GAAP do not purport to be acceptable or unacceptable application of IFRSs or U.S. GAAP.

The tentative decisions made by the IASB at public meetings are reported in *IASB Update*. Official pronouncements of the IASB are published only after each board has completed its full due process, including appropriate public consultation and formal voting procedures.

Staff paper

3. The Board asked the staff to consider further one other disclosure for investment companies that is currently required by US GAAP: a financial highlights schedule. This schedule presents per share investment income or loss, realised and unrealised gains and losses per share, distributions to shareholders, purchase premiums, redemption fees, payments by affiliates, expense and net investment income ratios, total return and capital commitments.¹

Staff Analysis and Recommendations

4. The staff conducted further research to determine the usefulness of this disclosure. Users told the staff that this information is necessary to evaluate the performance of an investment company and is used to reconcile the changes in the fair values of investments over a period of time.
5. Users stated that the financial highlights schedule allows them to see the components of the per share information of an investment company and the changes in these values. Ratios, especially the expense ratios, help users determine the profitability of investments and understand the amount and type of activity within the fund (ie, the portfolio turnover [the rate of trading activity in a fund's portfolio of investments]). Without these metrics, it would be difficult for users to evaluate the overall performance and financial health of an investment company.
6. Because these metrics are considered helpful to users of these financial statements, investment companies (currently required to report this information) are unlikely to stop reporting this information. Furthermore, the staff understand that the financial highlights schedule is consistent with reports provided internally to an investment company's management, so this information is provided to users at little to no additional cost to the investment company.
7. Therefore, the staff is recommending that the Board include a requirement for an investment company to disclose a financial highlights schedule.

¹ Affiliates of the entity refer to entities that are controlled by the investment company, any parent of the investment company and any entities under common control (eg, fellow subsidiaries of the investment company).

Staff paper

8. The Board also asked staff to review other investment company disclosures currently in US GAAP to determine if it would be useful to include additional investment company disclosures in IFRSs. US GAAP has an extensive list of disclosure and presentation requirements for investment companies because investment companies are not required to apply the other disclosure and presentation requirements in US GAAP. Because investment companies applying IFRS would be required to apply the disclosure and presentation requirements of all other IFRSs, the staff determined that IFRSs do not need to include additional investment company disclosures from US GAAP, other than those tentatively agreed to in April and proposed in this paper.
9. Appendix A to this paper presents all of the proposed disclosure requirements for investment companies reporting in accordance with IFRS, which would be required in addition to the disclosure requirements within other IFRSs.

Question for the Board

Does the Board agree to include a requirement for an investment company to disclose a financial highlights schedule? This schedule presents per share investment income or loss, realised and unrealised gains and losses per share, distributions to shareholders, purchase premiums, redemption fees, payments by affiliates, expense and net investment income ratios, total return and capital commitments (refer to Appendix A for application guidance relating to the financial highlights schedule).

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Appendix A

The investment company exposure draft will include the following proposed disclosure requirements:

- (a) whether the reporting entity has provided financial or other support (explicitly or implicitly) during the periods presented to any of its controlled investees that it was not previously contractually required to provide or whether the reporting entity intends to provide that support, including (1) the type and amount of support and (2) the primary reasons for providing the support.
- (b) the nature and extent of any significant restrictions on the ability of controlled investees to transfer funds to the reporting entity in the form of cash dividends, or repayment of loans or advances.
- (c) a schedule of investments that would include information regarding the type of investment held, the related industry, country or geographic region of the investment and the value of the investment.
- (d) a financial highlights schedule for the investment company, including:
 - (i) per-share information
 - (ii) ratios
 - (iii) total return
 - (iv) capital commitments

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Application guidance*Per-Share Information*

An investment company presents per-share information on the basis of a share outstanding throughout each period presented. An investment company presents the following per-share information:

- Total assets less total liabilities on a fair value basis at the beginning of the period.
- Per-share net investment income or loss. Other methods, such as dividing net investment income by the average or weighted average number of shares outstanding during the period, are acceptable.
- Realised and unrealised gains and losses per share, which are balancing amounts necessary to reconcile the change in fair value per share with the other per-share information presented.
- Total from investment operations, which represents the sum of net investment income or loss and realised and unrealised gain or loss.
- Distributions to shareholders.
- Purchase premiums, redemption fees, or other capital items.
- Payments by affiliates.²
- Total assets less total liabilities on a fair value basis at the end of the period.

Ratios

An investment company presents ratios of expenses and net investment income to average net assets, which are generally annualised for periods less than a year.

Generally, the determination of expenses for computing those ratios follows the presentation of expenses in the investment company's statement of comprehensive income. Accordingly, if the manager's or general partner's incentive is structured as a fee rather than an allocation of profits, the incentive fee would be factored into the computation of an expense ratio. Because an incentive allocation of profits is not presented as an expense, it shall not be considered part of the expense ratio.

² Affiliates of the entity refer to entities that are controlled by the investment company, any parent of the investment company and any entities under common control (eg fellow subsidiaries of the investment company).

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However, to avoid potentially significant inconsistencies in ratio presentations based solely on the structuring of incentives as fees or allocations, all incentives shall be reflected in the disclosure of financial highlights.

Total Return

An investment company presents total return, including the methodology for computing the total return.

If contributions from owners occur during the reporting period, returns are 'linked' based on those contribution dates. In general, 'linking' requires the computation of profit or loss for each discrete period within a year in which invested capital is constant.

Because incentive allocations or fees may vary among owners within a class, an investment company reports total return for each reporting class (subject to an incentive allocation or fee) before and after the incentive allocation or fee.

An investment company discloses the internal rate of return since inception of its investments, net of all incentives. The investment company's internal rate of return since inception shall be based on a consistent assumption, no less frequently than quarterly, as to the timing of cash inflows and outflows (for example, on actual cash flow dates or cash inflows at the beginning of each month or quarter and cash outflows at the end of each month or quarter). An investment company discloses all significant assumptions with respect to the internal rate of return since inception.

Capital Commitments

An investment company that obtains capital commitments from owners and periodically calls capital under those commitments to make investments discloses in its financial highlights schedule the total committed capital of the investment company, the year of formation of the entity, and the ratio of total contributed capital to total committed capital.