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„IFRS 12 for asset management”
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In depth
A look at current financial reporting issues

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IFRS 12 for Asset Management

Introduction

The objective of IFRS 12 is to require an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. To accomplish that objective, the standard requires disclosures about the entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities and significant judgements made in determining the accounting for interests in other entities and the determination that the entity is an investment entity, if applicable. IFRS 12 is applicable for annual financial periods beginning on or after 1 January 2013. Within the EU, IFRS 12 is mandatory for annual financial periods beginning on or after 1 January 2014 (earlier application permitted).

This publication supplements our 'Practical guide – Understanding the disclosure requirements in IFRS 12' and highlights some of the disclosure requirements of IFRS 12 as they relate to the asset management industry. The questions and answers presented in this publication do not cover all possible questions or alternative fact patterns that might arise in practice. This publication is not a substitute for reading the standards and interpretations themselves or for professional judgement as to fairness of presentation, and it does not cover all possible disclosures that IFRS 12 requires, nor does it take account of any specific legal or regulatory frameworks and requirements which might apply. Further specific information might be required in order to ensure fair presentation under IFRS.

For additional information about IFRS 12, please also refer to the following PwC publications:

- IFRS Manual of Accounting 2014
- IFRS Disclosure Checklist 2013
- Practical guide – Understanding the disclosure requirements in IFRS 12
- A practical guide to IFRSs 10 and 12 – Questions and answers
- IFRS Illustrative financial statements 2013 - Investment funds
- Illustrative IFRS consolidated financial statements 2013 - Private equity
- Illustrative IFRS consolidated financial statements 2013 - Investment property

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Overview of the requirements

IFRS 12, *Disclosure of Interests in Other Entities*, aims to provide the users of financial statements with sufficient disclosures that might help to assess the nature of, and the risks and financial effects associated with, the entity's interests in:

- subsidiaries;
- joint arrangements;
- associates; and
- structured entities (both consolidated and unconsolidated). [IFRS 12 paras 1 and 2].

This overall objective needs to be considered in determining the level of detail to be provided, the amount of emphasis to place on each of the requirements, and the appropriateness and extent of aggregation. [IFRS 12 para 4].

Significant judgements and assumptions

Determinations about the extent of influence or control that an entity has over an investee often require an entity to make significant judgements and assumptions. As a result, IFRS 12 requires disclosures about these significant judgements and assumptions, including when changes in circumstances lead to changes in the conclusions about whether the entity has control, joint control or significant influence. [IFRS 12 paras 7–8].

For asset managers, this might require disclosure of the judgements made in determining whether they are acting as agent or principal with respect to funds that they manage. It might also include disclosures for 'investment entities' to provide information about significant judgements and assumptions that were made in assessing whether they met the 'investment entity' definition, including where the entity lacks one or more of the typical characteristics. [IFRS 12 para 9A].

Comparative disclosures in the year of adoption

IFRS 12 provides transition relief for disclosures related to unconsolidated structured entities, such that comparative information in the year of adoption is not required. [IFRS 12 para C2B].

Application to investment funds

Investment funds will need to consider how the IFRS 12 disclosures apply to investments that they hold. For example, private equity funds, funds of funds and others might have interests in subsidiaries, associates or joint arrangements for which disclosures are required. Additionally, funds might find that their investments are 'structured entities', including funds that hold interests in underlying funds, and require additional disclosures.

IFRS 12 provides an exemption for 'investment entities' (as defined by IFRS 10) from having to provide summarised financial information about investments in associates and joint ventures which are measured at fair value, as would otherwise be required by paragraph 21(b)-(c) of IFRS 12. [IFRS 12 para 21A]. Similarly, investment entities are not required to provide all disclosures required by paragraph 24 of IFRS 12 about unconsolidated structured entities that they control and which would be required for non-investment entities. [IFRS 12 para 25A]. This is because some of the information required for non-investment entities (for example, summarised financial information and information about non-controlling interests) is not applicable to investment entities and is inconsistent with the assertion that fair value information is the most relevant information for them. [IFRS 12 para BC61F]. However, investment entities must provide specific disclosures about unconsolidated subsidiaries, including structured entities, and information about the entity's status as an investment entity and judgements made in determining that status.

Application to investment managers

In some cases, investment managers might determine that they control funds that they manage (for example, because they are acting as principal rather than agent), in which case IFRS will require disclosures about the funds as subsidiaries. In many cases, investment managers might not control the funds that they manage. However, investment managers usually have the power to participate in the financial and operating decisions of the investment funds that they manage, by virtue of the investment management or other agreements. As a result, investment managers might have significant influence over some or all the funds that they manage and, if so, will need to determine whether the interests in their funds are individually material or individually immaterial interests in associates and provide applicable disclosures (such as including summarised financial information).

In many cases, the investment manager's funds are also likely to be structured entities and therefore require additional disclosures as unconsolidated structured entities, consolidated structured entities or sponsored structured entities, even where the investment manager has no interest at the measurement date.

This publication aims to illustrate the common issues for investment funds and investment managers in applying IFRS 12.

Investment funds as structured entities

Definition of a 'structured entity'

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights related to administrative tasks only and the relevant activities are directed by means of contractual arrangements. [IFRS 12 para B21].

A structured entity often has some or all of the following features or attributes:

(a) Restricted activities.
(b) A narrow and well-defined objective.
(c) Insufficient equity to permit the structured entity to finance its activities without subordinated financial support.
(d) Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit risk or other risks (tranches). [IFRS 12 para B22].

Examples of entities that are regarded as structured entities include, but are not limited to, securitisation vehicles, asset-backed financings and some investment funds. [IFRS 12 para B23].

PwC observation:

The phrase 'some investment funds' suggests that not all funds are subject to the disclosures in IFRS 12. However, the definition of a structured entity is broad, and this determination will require significant judgement. In many cases, the structure of an investment fund (for example, including decision-making rights conveyed through investment management or other agreements, or by non-participating voting shares, rather than through voting rights held by investors) might lead to a judgement that the fund is a structured entity.

Q1 *Fund A is an open-ended investment fund that issues unit certificates with no voting rights attached. The relationship between the investment fund and the investors is defined by a contract. The investment manager can only be removed by the regulator in the case of fraud or insolvency in accordance with the laws applicable to the fund. The fund is able to invest in high-quality global equity and debt instruments. Is Fund A a structured entity?*

Yes. Fund A is a structured entity, as the relevant activities are directed by means of the investment management contract. This conclusion is not impacted by the fact that a wide investment mandate exists, as the entity does not need to have all of the features in paragraph B22 of IFRS 12 in order to be a structured entity.

PwC observation:

The definition of a structured entity in IFRS 12 is not the same as the definition of 'special purpose entity' in SIC-12. While the typical features might be similar to those of a special purpose entity, the 'structured entity' definition is focused on voting rights and the means by which control is conveyed. Consequently, a structured entity might, but is not required to, have any of the typical features described in paragraph B22 of IFRS 12.

Q2 *Fund B is a private equity fund, whose limited partners are not permitted by law to vote or have any other involvement in the management of the fund. The investment manager manages Fund B through the investment management agreement and its status as general partner of the limited partnership. The limited partners cannot remove the investment manager other than for cause. Is Fund B a structured entity?*

Yes. The investment manager manages the fund through the investment management agreement and its participation as general partner through the limited partnership agreement. The limited partners cannot remove the investment manager; nor can they vote to direct the investment decisions. Fund B is a structured entity, because the limited partners have no means of control.

Q3 *Fund C is an open-ended investment fund that issues unit certificates. The investors meet periodically in unitholder meetings, during which they decide on major proposals of the investment manager, such as plans to merge the fund with others or to wind up. Ongoing decisions about the investing activities are made by the investment manager through the investment management agreement and are not subject to input by investors. Is Fund C a structured entity?*

Yes. Fund C is a structured entity, because the relevant activities are directed by means of the investment management contract. The investors' voting rights give them decision rights only in extraordinary situations. Therefore, the rights are protective in nature and do not give the investors power over the relevant activities of the fund.

Q4 *Fund D is an open-ended investment fund that issues unit certificates. The investors meet frequently in unitholder meetings, during which they decide on the investment strategy of the fund and the appointment of the members of the management committee which approves the investment decisions of the investment manager. Is Fund D a structured entity?*

No. The units give the investors a substantive right to vote on the principal management strategy of the fund and the ability to decide on the members of the investment committee, which oversees and approves the investment decisions of the investment manager. Consequently, the investors have voting rights which give them power to direct the relevant activities of the fund (that is, to control the fund), evidencing that it is not a structured entity.

Q5 *Fund E is a large mutual fund whose unitholders have a vote; however, Fund E's units are widely held and no annual general meeting is held. Decisions about the investing activities of the fund are made by the investment manager pursuant to an investment management agreement between it and the fund. Unitholders with a combined 75% of the units can table a motion to hold a meeting and vote to remove the investment manager at any time, but this has never happened in the past, and the right is not considered substantive under IFRS 10, because the large number of unitholders required is a significant barrier to exercise.*

Unitholders can redeem their units at any time. Is Fund E a structured entity?

Yes. Even though Fund E's unitholders have votes, the fact that they are not substantive indicates that the votes are not the dominant factor in deciding who controls the fund. Fund E's relevant activities are directed by means of contractual arrangements (that is, the investment management agreement), so the fund is considered a structured entity.

PwC observation:

A starting point to assess whether or not an investment fund is a structured entity might be to consider whether decisions about the relevant activities (such as the investing activities of the fund) are made through the investment management or other agreements rather than the units. Where the decisions are made through the investment management agreement, an assessment must be made as to whether or not the investors have substantive rights that give them the ultimate discretion over decisions being made about the relevant activities. If the unitholders do have power to approve or override the decisions of the asset manager, the fund is less likely to be a structured entity.

Q6 *Fund F has only five limited partners, and they can remove the investment manager without cause by simple majority vote at any time. The investment manager has determined that the limited partners' kick-out rights are substantive when it assessed whether or not it has power for the purpose of applying IFRS 10.*

Can the kick-out rights be considered 'similar rights' to voting rights that are the 'dominant factor' in deciding who controls the entity, for the purposes of assessing whether Fund F is a structured entity?

Yes. It is possible for kick-out rights to be 'similar rights' to voting rights that are the 'dominant factor' in deciding who controls the entity; however, this will not always be the case, and significant judgement might be required.

PwC observation:

Not all kick-out rights are the same, and they can be more or less substantive depending on their terms and the specific facts and circumstances that apply. Judgement will be required as to whether or not they are the dominant factor in assessing who controls an investment fund. This might be difficult because, in the principal–agent analysis, the judgement will often be based on a combination of economic interest and power. This means that some investment funds might be structured entities and others might not, and the presence or absence of substantive kick-out rights could be a key determining factor in some cases.

Q7 *Fund G's investment manager can be removed at any time through a majority vote of the independent board of directors. In addition, the board of directors can override investment decisions made by the investment manager at any time and without cause. The board of directors consists of five members who are appointed by the shareholders.*

Can the rights of the independent board of directors be considered 'similar rights' to voting rights that are the 'dominant factor' in deciding who controls the entity?

Yes. In Example 14 of IFRS 10, the rights of the board of directors are considered substantive, and thus could be considered as 'similar rights' that could be the 'dominant factor' in deciding who controls an entity. If so, Fund G might not be a structured entity in accordance with IFRS 12.

Q8 *Same fact pattern as Fund G in Q7, but the board of directors is appointed by the asset manager. The manager has the right to remove any of the board members at any time and without cause.*

Can the rights of the board of directors be considered 'similar rights' to voting rights that are the 'dominant factor' in deciding who controls the entity?

No. The rights of the board of directors are not substantive, because the investment manager has discretion to appoint and remove its members, so the fund is a structured entity.

Q9 *Fund H issues non-participating voting shares which are held by the investment manager and non-voting participating shares which are subscribed to by investors. The investors are not able to remove the investment manager or to vote on any investment decisions. Is Fund H a structured entity?*

Yes. The voting shares convey power over the entity, but they do not provide any exposure to the variable returns thereof (that is, they not participating). As a result, the voting shares alone will not be the dominant factor in assessing who controls the fund, and consequently Fund H is a structured entity.

Q10 *Limited Partnership I was set up by J Ltd (general partner) to buy and lease out a property. J Ltd holds 85% of the voting rights, and the remaining 15% are held by a limited partner. J Ltd is solely responsible for the management of Limited Partnership I. Limited Partnership I leases out the property to a lessee, who is not related to any of the partners, through a lease contract with a term of 15 years. The lessee has the option to purchase the property at the end of the lease term for CU6 million, and the expected fair value of the property at that date is CU8 million.*

The relevant activity which most significantly affects the returns of Limited Partnership I is the management of the residual value of the property (that is, determining what to do with the property at the end of the lease term), over which the lessee is considered to have power through its purchase option. Is Limited Partnership I a structured entity?

Yes. Limited Partnership I is a structured entity, because it has been designed in a way that voting rights are not the dominant factor in deciding who controls the relevant activities. Despite the fact that Limited Partnership I could be set up using voting rights, the definition in paragraph B21 of IFRS 12 requires consideration of whether voting rights are the dominant factor when directing the relevant activities of the entity. The relevant activity of Limited Partnership I is the management of the residual value of the property, and the purchase option gives the lessee the power to direct this activity.

The meaning of 'interest in another entity'

IFRS 12 applies to interests in other entities, including subsidiaries, associates and joint arrangements and unconsolidated and consolidated structured entities. An interest refers to involvement that exposes the entity to variability of returns from the performance of another entity; it includes the means by which an entity has control, joint control or significant influence over another entity, and it could include the holding of equity or debt instruments. An interest might also include other items such as funding, liquidity support, credit enhancements or guarantees. On the other hand, an entity does not necessary have an interest in another entity solely because of a typical customer–supplier relationship. [IFRS 12 App A]. In each of the examples below, it is presumed that the investment funds are structured entities.

Q11 *Do all asset management fees expose the asset manager to variability from the performance of the fund and thus constitute an interest in the related fund?*

Generally, yes. All fees expose the manager to variability; however, in some cases the potential variability might be trivial, such that the investment manager is able to justify less disclosure on materiality grounds.

Q12 *Fund K is a structured entity and its investment manager receives a management fee that is 1% of the net asset value and a performance fee of 15% of the returns in excess of a hurdle rate. Are the fees an 'interest' in a structured entity?*

Yes. An interest in another entity is defined as a 'contractual or non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity'. [IFRS 12 App A].

Q13 *Fund L is a fund of funds whose strategy is to invest in other investment funds. Fund L buys and sells investments on a short-term basis and usually holds only non-controlling interests in underlying funds, all of which it has determined are structured entities.*

Is Fund L required to provide the unconsolidated structured entity disclosures in paragraphs 24 to 31 of IFRS 12 for the units in underlying funds that it holds for trading purposes?

Yes. There is no exception for interests held for trading. Accordingly, the disclosures are required to the extent that any interest in a structured entity is material to the fund. In some cases, the disclosures required by IFRS 12 might be satisfied by existing disclosures required by IFRS 7.

Sponsored structured entities

The disclosures required by paragraph 24(b) of IFRS 12 include information about an entity's exposure to risks from involvement that it had with unconsolidated structured entities in previous periods (such as sponsored structured entities), even if the entity no longer has any contractual involvement with the structured entity at the reporting date. [IFRS 12 para 25]. If an entity has sponsored an unconsolidated structured entity for which it does not provide information in accordance with paragraph 29 of IFRS 12 (for example, because it does not have an interest in the entity at the reporting date), the entity should disclose:

(a) how it has determined which structured entities it has sponsored;
(b) income from those structured entities during the reporting period, including a description of the types of income presented; and
(c) the carrying amount (at the time of transfer) of all assets transferred to those structured entities during the period. [IFRS 12 para 27].

The standard does not define the term 'sponsored'. In paragraph B72 of IFRS 10, Example 16 refers to the 'sponsor' as being the party that made the decision to establish the structured entity, established the terms under which it operates and that can service the entity for a market-based fee. Accordingly, to assess whether a fund is considered a sponsored structured entity, all facts and circumstances need to be considered. Indicators that might be used to establish whether a fund has been sponsored include, but are not limited to, the investment manager:

- being involved in establishing the investment fund and setting up the legal structure;
- having an ongoing responsibility to ensure that the fund operates as intended;
- having been involved in defining the investment strategy and objectives of the entity; or
- having a special interest in the investment fund if it transferred a significant portion of the fund's assets to the fund.

In order to make the assessment, the entity should consider all documents, publications, representations made online and in the prospectus and other documents, including whether and how the investment manager's name appears on them.

Q14 *Investment Manager M launches funds that are managed by third party managers. The contracts with the third party managers provide that Investment Manager M receives a portion of the management fee of 1% and a performance fee of 15% which are based on the net asset value and returns of the funds.*

Does Investment Manager M need to disclose information about sponsored unconsolidated structured entities that it helped to establish?

No. The additional disclosures on sponsored unconsolidated structured entities are only required if the entity does not have an interest in the fund. Because Investment Manager M has interests in the funds (that is, through the management and performance fees that it receives), it is required to make the unconsolidated structured entity disclosures in paragraph 29 of IFRS 12, and is not required to provide the information required by paragraph 27 of IFRS 12.

PwC observation:

In principle, the definition of 'interest' includes all management fees, so investment managers are likely to be required to provide the unconsolidated structured entity disclosures required by paragraph 29 of IFRS 12, and the specific disclosures required by paragraph 27 of IFRS 12 will not apply.

Complying with the disclosure requirements

In response to the financial crisis, additional risk disclosures were requested about 'structured entities', because it is expected that being involved with them inherently exposes an entity to more risk than with traditional operating entities. [IFRS 12 para BC84]. IFRS 12 addresses these objectives and introduces new disclosures. The following are examples of application issues specific to investment funds and investment managers that might arise in adopting the new requirements.

Q15 *Investment Manager N controls Fund O and consolidates it in its financial statements. The dominant factor in assessing who controls Fund O is the investment management agreement, and so Fund O is considered to be a structured entity.*

Is it sufficient if Investment Manager N discloses only the information required for subsidiaries?

No. Paragraphs 14 to 17 of IFRS 12 require additional disclosures relating to the nature of risks associated with an entity's interest in consolidated structured entities.

Q16 *Same as Q15, except that Investment Manager N does not control Fund O, but continues to own a portion of the fund's units and has significant influence over Fund O. Is Investment Manager N required to make disclosures about its interest in Fund O?*

Yes. Investment Manager N, which has significant influence over Fund O, is required to provide the disclosures applicable to interests in associates (which might include summarised financial information, depending on whether or not the interest is considered a 'material associate' to Investment Manager N). Additionally, Fund O will need to be assessed to determine whether it is an unconsolidated structured entity, in which case additional disclosures might be required.

PwC observation:

While less onerous than for unconsolidated structured entities, IFRS 12 also requires additional disclosures for consolidated structured entities. In many cases, the investment manager will not control the fund that it manages, but will have power to participate in the financial and operating decisions thereof, as a result of its investment management and other agreements with the fund. Consequently, in cases where the fund is not controlled by the manager, it is likely that disclosures about interests in associates and unconsolidated structured entities will be required.

Q17 Fund P is a fund of funds that invests in various types of underlying investment funds. Some of the underlying funds might be structured entities, whereas others might not.

Can Fund P voluntarily make the IFRS 12 disclosures for all underlying investment funds in aggregate, rather than determining which ones are, and which ones are not, structured entities?

It depends. IFRS 12 requires that the information provided should enable financial statement users to understand the nature and extent of the risks associated with the entity's interests in unconsolidated structured entities. [IFRS 12 para 24(b)]. As a result, it is possible to provide additional information as long as it does not obscure the understandability (for example, due to volume or other factors) of the nature and extent of risks associated with the entity's interests in structured entities.

Q18 Some of the investments held by Fund P (see Q17) are investments in funds managed by independent asset managers, over which Fund P has no influence or control. The underlying funds are considered to be structured entities.

Is Fund P required by IFRS 12 to make disclosures about these investments if they are accounted for as financial instruments in accordance with IAS 39?

Yes. Despite the fact that these investments are not subsidiaries, associates or joint arrangements, they represent interests in unconsolidated structured entities for which IFRS 12 requires disclosures.

Q19 Investment Manager Q manages several investment funds that are structured entities. The management fees that Investment Manager Q receives are based on the net asset values of the underlying funds and thus represent interests in unconsolidated structured entities. To comply with the disclosure requirements in paragraph 29 of IFRS 12, Investment Manager Q discloses:

- *the balance of receivables due from the funds that it manages (and, potentially, other receivable or payable balances which might relate to unit issuance or redemption activities), and*
- *the line item containing those balances.*

Investment Manager Q discloses its maximum exposure to credit loss as a result of the credit risk disclosures required by IFRS 7.

Can Investment Manager Q simply refer to the IFRS 7 disclosures, rather than reproducing the disclosures related to the maximum exposure to loss from its interest in the funds that it manages?

Yes. The maximum exposure to loss (for example, the receivable balance and any support that the manager has offered to the fund, such as liquidity support or guaranteed returns) might already be covered by IFRS 7 credit risk disclosures. However, Investment Manager Q might need to break out the amounts which relate to unconsolidated structured entities within its IFRS 7 disclosures and include a comparison of them to the carrying amounts of the company's assets and liabilities relating to its interests in unconsolidated structured entities. Furthermore, additional disclosures might be required (see Q20).

Q20 *What additional disclosures are required for an investment manager?*

To comply with paragraphs 30 to 31 of IFRS 12, an investment manager needs to disclose any support that it has provided to the funds and the reasons for such support, including liquidity support, guarantees of returns and potentially waived or deferred fees, plus any intention to give such support. In addition, paragraph B25 of IFRS 12 gives examples of other information that might be needed to comply with paragraph 24(b) of IFRS 12, which is to allow users to 'evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities'. In most cases, this will require disclosure about the main terms of the fee arrangements (including fixed fees and those based on net asset value). The investment manager might also disclose how its fees rank in comparison to other obligations of the funds. Information regarding funding of the entity is unlikely to be necessary, since most funds are funded by their investors, but funding received from other third parties would require disclosure.

Aggregation and materiality

In many cases, entities can aggregate disclosures about interests in multiple entities, provided that the interest are presented based on the reporting entity's pro-rata share. [IFRS 12 paras B16, BC49, BC50]. Where financial information is presented only for a single entity, it is presented on a full '100%' basis. [IFRS 12 paras BC50, B12]. An entity should decide, in the light of its circumstances, how much detail it provides to satisfy the information needs of users, how much emphasis it places on different aspects of the requirements, and how it aggregates the information. [IFRS 12 para B2]. The standard permits disclosures to be aggregated for interests in other entities if:

(a) information is presented separately for associates, subsidiaries, joint ventures, joint operations and unconsolidated structured entities,
(b) the entities for which information is being aggregated are 'similar entities',
(c) aggregation is consistent with the disclosure objectives, and
(d) the aggregation does not obscure the information provided. [IFRS 12 paras B3 to B4].

An entity discloses how it has aggregated its interests in similar entities. [IFRS 12 para B3]. In addition, some disclosures in IFRS 12 are only required for material interests, such as non-controlling interests in subsidiaries, or financial information about interests in associates and joint ventures.

Q21 How should the disclosure principles in IFRS 12 be applied to an asset manager's interests in the funds that it manages? More specifically, if all investment funds are 'investment entities' as defined in IFRS 10, are they automatically considered 'similar entities' for the purpose of aggregation as considered in paragraph B3 of IFRS 12? If not, would disclosures have to be disaggregated for funds which hold different types of investments (for example, fixed income versus equity, or domestic versus foreign)?

It depends. An investment manager can disclose information in aggregate for funds in which it invests and manages in certain circumstances, including if:

- *The holdings are individually immaterial*
  Paragraph 21(c)(ii) of IFRS 12 specifically requires only aggregated summarised financial information for immaterial interests in other entities. If each of the investment manager's holdings is immaterial, financial information can be provided in aggregate for all holdings.
- *The funds are individually material but have similar risks and characteristics*
  Information on underlying investment funds with similar risks and characteristics can be presented in aggregate because they would be considered 'similar entities' and would meet the disclosure objective to all the users of understanding the nature and risks relating to those investments. Determining whether funds have similar risks and characteristics is a matter of judgement. For example, one investment manager might determine that all large-cap domestic equity funds are similar, while another might consider that all equity funds are similar. If all of the funds held and managed by the investment manager have similar risks and characteristics, financial information can be provided in aggregate for all holdings.
- *Sufficiently detailed information regarding the nature and risks relating to the holdings has been disclosed elsewhere in the financial*

statements
For example, an investment manager might measure its investments in funds that it manages at fair value through profit or loss, and thus provide disclosures on various risks relating to those investments as required by IFRS 7 and IFRS 13 (including fair value information, liquidity risk, credit risk, and market risks). The user might be more interested in the levels of each risk than the specific sources of each risk, and thus these disclosures, in combination with aggregated disclosures required by IFRS 12, might provide sufficient information about the risks relating to the investment manager's holdings to meet the disclosure objectives in IFRS 12. The investment manager might determine that aggregating information relating to all investment funds is appropriate. If all of the funds held and managed by the manager are measured at fair value, financial information can be provided in aggregate for all holdings. Other situations where sufficiently detailed information is already disclosed might be possible.

Q22 How should the concept of 'material' be applied in determining whether an investment is 'individually material' for the purpose of assessing disclosures required by IFRS 12?

IFRS 12 does not provide definitive guidance on determining whether or not an investment is material in the context of these disclosures. As a result, significant judgement might be necessary, and could include consideration of factors such as the magnitude of the investment relative to other investments, to total assets or net assets, or to the returns from the investment relative to the entity's income or net income overall.

Investment entity disclosures and exemptions

IFRS 12 provides an exemption for investment entities from having to provide summarised financial information about investments in associates and joint ventures and certain information about unconsolidated structured entities that they control (see the 'Application to investment funds' section in the 'Overview of requirements'). However, investment entities must also provide specific disclosures about unconsolidated subsidiaries, including structured entities, and information about the entity's status as an investment entity, neither of which are required for non-investment entities.

In the following examples, it is presumed that each of the funds meet the 'investment entity' definition in IFRS 10.

Q23 *Fund R is a fund of funds and holds an investment in a single underlying investment fund, which it controls. Fund R has determined that it is an 'investment entity' in accordance with IFRS 10.*

Is Fund R required to disclose information about judgements that it made in reaching that conclusion?

Yes. Where a parent determines that it is an investment entity in accordance with paragraph 27 of IFRS 10, the investment entity should disclose information about significant judgements and assumptions that it has made in determining that it is an investment entity. If the investment entity does not have one or more of the typical characteristics of an investment entity (for example, Fund R does not have multiple investments), it should disclose its reasons for concluding that it is nevertheless an investment entity. [IFRS 12 para 9A].

Q24 *Fund S is an investment entity that invests in private debt and equity instruments and has determined that all of its investees are associates (that is, it does not have any controlled subsidiaries).*

Is Fund S required to disclose summarised financial information about its interests in associates, as required by paragraph 21(b) of IFRS 12?

No. An investment entity need not provide the disclosures required by paragraphs 21(b) and (c). [IFRS 12 para 21A]. The definition of 'investment entity' in paragraph 27 of IFRS 10 does not require the entity to have controlled investments and thus, despite the fact that the fund does not have any controlled investments, the disclosure exception in paragraph 21A of IFRS 12 can be applied.

Non-controlling interests

IFRS 12 requires disclosures about subsidiaries that have non-controlling interests that are material, including:

(a) the name of the subsidiary;
(b) the principal place of business (and country of incorporation, if different from the principal place of business) of the subsidiary;
(c) the proportion of ownership interests held by non-controlling interests;
(d) the proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held;
(e) the profit or loss allocated to non-controlling interests of the subsidiary during the reporting period;
(f) accumulated non-controlling interests of the subsidiary at the end of the reporting period; and
(g) summarised financial information about the subsidiary (see para B10).

In some cases, investment managers might be required to consolidate the funds that they manage (for example, if they are considered a 'principal' rather than an 'agent' and thus control the funds). As a result, the disclosures above might apply in some cases, to the extent that non-controlling interests arise on consolidation.

Q26 *Investment Manager U consolidates one of the funds that it manages, which issues redeemable participating shares held by several third party investors. On consolidation, the amounts attributable to the third party investors are recognised as a financial liability in Investment Manager U's consolidated financial statements in accordance with paragraph AG29 of IAS 32.*

Is Investment Manager U required to provide the disclosures about non-controlling interests in paragraph 12 of IFRS 12 for the consolidated fund?

No. A non-controlling interest relates to equity in a subsidiary that is not attributable, directly or indirectly, to a parent. [IFRS 10 App A]. Investment Manager U presents the amounts attributable to the third party investors as a financial liability in accordance with paragraph AG29 of IAS 32 (that is, rather than equity), so there is no non-controlling interest to which the disclosure requirements would apply.

Appendix

Example disclosures for funds that invest in other investment funds

This illustrative disclosure demonstrates the requirements of IFRS 12 for a Fund that holds investments in underlying funds which meet the definition of 'unconsolidated structured entities' under IFRS 12. It is assumed that the Fund has no interests in any other entities, as defined by IFRS 12, that require disclosure, including interests in subsidiaries, joint ventures and associates.

The objective of IFRS 12, *Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2013), is to require an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. Any entity that has an interest in subsidiaries, joint arrangements, associates or unconsolidated structured entities is caught in the scope of this standard. As such, funds that invest in other funds might be caught in the scope of this standard if the investee funds are consolidated subsidiaries (whether structured entities or not) or unconsolidated structured entities as defined in IFRS 12.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. [IFRS 12 para B21].

A structured entity often has some or all of the following features or attributes:

(a) restricted activities;
(b) a narrow and well-defined objective, such as to effect a tax-efficient lease, carry out research and development activities, provide a source of capital or funding to an entity or provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors;
(c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and
(d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches). [IFRS 12 para B22].

Commentary – Investment entities amendments

This appendix does not include early adoption of the Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27), which are effective for periods beginning on or after 1 January 2014. See Appendix III for guidance on the impact of these amendments.

Structured entities

IFRS 12 para B21	**Structured entities** A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).
IFRS 12 para 26	The Fund considers all of its investments in other funds ('Investee Funds') to be investments in unconsolidated structured entities. The Fund invests in Investee Funds whose objectives range from achieving medium- to long-term capital growth and whose investment strategy does not include the use of leverage. The Investee Funds are managed by unrelated asset managers and apply various investment strategies to accomplish their respective investment objectives. The Investee Funds finance their operations by issuing redeemable shares which are puttable at the holder's option and entitle the holder to a proportional stake in the respective fund's net assets. The Fund holds redeemable shares in each of its Investee Funds.
IFRS 12 para B26(c)	The change in fair value of each Investee Fund is included in the statement of comprehensive income in 'Other net changes in fair value on financial assets and financial liabilities at fair value through profit or loss'.

Commentary – Sponsored structured entities

For the purpose of this illustrative disclosure, it is also assumed that the Fund has not sponsored any structured entities; if it had sponsored a structured entity, the Fund would need to meet the additional disclosure requirements of paragraph 27 of IFRS 12.

Notes – financial risk management (extracts)

IFRS 12 para 26	The Fund's investments in Investee Funds are subject to the terms and conditions of the respective Investee Fund's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those Investee Funds. The investment manager makes investment decisions after extensive due diligence of the underlying fund, its strategy and the overall quality of the underlying fund's manager. All of the Investee Funds in the investment portfolio are managed by portfolio managers who are compensated by the respective Investee Funds for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee and is reflected in the valuation of the Fund's investment in each of the Investee Funds.

IFRS 12 para B26(e) The right of the Fund to request redemption of its investments in Investee Funds ranges in frequency from weekly to semi-annually.

IFRS 12 para 29 The exposure to investments in Investee Funds at fair value by strategy employed is disclosed in the following table. These investments are included in financial assets at fair value through profit or loss in the statement of financial position.[1]

IFRS 12 paras 24, 26 & 29

31 Dec 2013

Strategy	Number of Investee Funds	Net Asset Value of Investee Fund (range and weighted avg) CU millions	Investment fair value CU 000s	% of net assets attributable to holders of redeemable shares
Equity long/short	12	25-60/(45)	55,548	49.8
Event driven	10	75-107/(82	41,531	37.2
Directional trading	6	100-225(175)	9,668	8.7
Multi-strategy	2	37-45/(41)	5,752	5.2
Fund of Funds	2	21-25/(23)	5,565	5
Relative value	5	25-100/(66)	1,456	1.3
			119,520	107.2

[1] The line item in the statement of financial position in which the structured entities are included should be disclosed. [IFRS 12 para 29(b)].

Commentary – Comparative information

Paragraph 26 of IFRS 12 requires disclosure of qualitative and quantitative information about an entity's interests in unconsolidated structured entities, including, but not limited to, the nature, purpose, size and activities of the structured entity and how the structured entity is financed.
Paragraph C2B of IFRS 12 states that the disclosure requirements of paragraphs 24–31 of IFRS 12 and the corresponding guidance in paragraphs B21–B26 of IFRS 12 need not be applied for any period presented that begins before the first annual period for which IFRS 12 is applied. As such, no comparative disclosure has been included above.

IFRS 12 para 29(c), (d)	The Fund's maximum exposure to loss from its interests in Investee Funds is equal to the total fair value of its investments in Investee Funds.
IFRS 12 para 25	Once the Fund has disposed of its shares in an Investee Fund, it ceases to be exposed to any risk from that Investee Fund.
IFRS 12 para 30	The Fund's investment strategy entails trading in other funds on a regular basis. Total purchases in Investee Funds during the year ended 31 December 2013 was CU35,345,000. The Fund intends to continue opportunistic trading in other funds. As at 31 December 2013 and 31 December 2012, there were no capital commitment obligations and no amounts due to Investee Funds for unsettled purchases.
IFRS 12 para B27(b)	During the year ended 31 December 2013, total net losses incurred on investments in Investee Funds were CU17,381,000.

Commentary – IFRS 7

The disclosure requirements of IFRS 7 and IFRS 12 might overlap to some extent. However, the intention is that both standards complement each other. [IFRS 12 paras BC72-BC74]. Therefore, in situations where a fund invests in other funds which fall within the definition of a structured entity, additional disclosure requirements will result from the application of IFRS 12.

Example disclosures for investment managers with sponsored structured entities (no interests at year-end)

The example below illustrates the disclosures about sponsored structured entities that an investment manager might be required to include if it determines that the funds that it manages are structured entities that it has sponsored, but for which it does not have any 'interests' at the measurement date.

Sponsored structured entities[2]

The company establishes, markets and manages investment funds under its brand as Global Management Co, which it considers to be sponsored structured entities. During the year, the company received the following management fees (CU 000s) from these entities:

Fund type	2013	2012[3]
Money market	18,274	16,899
Fund of funds	7,195	7,324
Total	**25,469**	**24,223**

The aggregate net asset values (CU millions) of the funds managed by the company were as follows at 31 December:

Fund type	2013	2012
Money market	1,218	1,127
Fund of funds	480	488
Total	**1,698**	**1,615**

The company did not transfer any assets to these entities during the year ended 31 December 2013 (2012 – CU nil).

[2] If details of fee arrangements (such as management, incentive, performance, administration or other fees) have not been provided elsewhere, they should be provided here.

[3] Disclosures have been provided on a comparative basis for illustrative purposes. IFRS 12 is effective for entities that are the focus of this publication for annual periods beginning on or after 1 January 2013. In the year of adoption, the disclosure requirements apply to comparative information for the immediately preceding year, except for disclosures for unconsolidated structured entities, which need not be provided for the comparative period. [IFRS 12 paras C1 and C2B].

Example disclosures for investment managers with interests in funds managed

The examples below illustrate how an investment manager might provide the disclosures required by IFRS 12 for interests that it has in funds that it manages. The examples distinguish between circumstances where the interests in the underlying funds are determined to be individually materially, and those where they are not. In applying the standard, investment managers will need to make this assessment and form judgements about the significance and materiality of their interests in the funds that they manage, in order to determine the appropriate level of disclosures to provide. In both of the cases below, it is presumed that the underlying funds are structured entities and that the investment manager does not control the funds, but that it has significant influence over them. It is also presumed that disclosures related to existing IFRS requirements for items such as financial instrument risks (IFRS 7), fair value measurement (IFRS 13) and the terms of management and performance fee arrangements (IAS 18) have already been provided separately.

Interests in funds individually immaterial

Notes – Summary of accounting policies (extracts)

Investments in funds managed by the Company

The Company has determined that investment funds that it manages are associates where it has interests in them, as a result of the Company's power conveyed through its investment management and other agreements with the funds which permit the Company to participate in their investing and operating decisions. The Company's interests in these funds include the management and performance fees that it earns from them, together with ownership interests that it holds. Investments in the funds have been designated at fair value through profit or loss (FVTPL).

Structured entities

Structured entities include entities that are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when the relevant activities are directed by means of a contractual relationship. As the Company directs the investing activities of the funds through its investment management and other agreements with them, it considers them to be structured entities.

Notes – Significant judgements and estimates (extracts)

The most significant judgement made in preparing the Company's consolidated financial statements is the determination that the Company exercises its power as agent, rather than principal, in respect of funds that it manages and therefore does not have control over them. A parent controls another entity when it has power over the investee, exposure to variable returns from it, and is able to use its power to affect the level of returns. The Company typically has power over the funds that it manages through its investment management and other agreements with them. Additionally, the Company invests in units of the funds and therefore must determine whether it is acting primarily as a principal (that is, on its own behalf) or as an agent (that is, on behalf of the other investors) in exercising its power over the funds. Because agents exercise power on behalf of principals from whom the power has been delegated, they do not have power themselves and therefore do not have control. In assessing whether it is agent or principal, the Company considers a number of factors, including the scope of its decision-making over the funds' relevant activities, rights held by investors and others, remuneration that it earns from the funds, and the Company's exposure to variable returns from all sources (including fees and units held) for each fund.

Notes –Associates (extracts)

Interests in funds managed by the Company

The Company's interests in the funds (CU 000s) as at 31 December are as follows:

Funds managed by the Company	2013	2012
Investment in fund units[4]*	5,243	4,754
Amounts due from funds[5]	1,027	1,563
Total	**6,270**	**6,317**

Each of these funds is a mutual fund trust that has been legally established and conducts its trading activities in Lagartos, which might include the trading of foreign securities. The funds invest for the purpose of long-term capital growth and do not employ significant leverage. None of the funds are quoted in active markets and they finance their operations by issuing units to qualified high-net-worth and institutional investors. The aggregate net asset value (NAV) of all of the funds managed by the Company at 31 December 2013 is CU 1.9 billion (31 December 2012 – CU 1.4 billion).

Lagartos securities laws require the Company to maintain a minimum level of investment of CU 1,500 in each of the funds that it manages, which cannot be redeemed prior to their termination and dissolution. Amounts in excess of the minimum can be redeemed in frequencies that range from weekly to semi-annually. The Company's maximum exposure to losses related to the funds is represented by the total of its investment in fund units and amounts due from funds, as shown above.

During the year ended 31 December 2013, the Company reimbursed expenses incurred by certain of the funds totalling CU 1.2 million (2012 – CU 0.4 million). The Company had no contractual obligation to reimburse the expenses; however, its objective in doing so was to align the affected funds' management expense ratios with those targeted by the Company in promoting and marketing them. Similarly, the Company does not have any contractual obligation to reimburse expenses of the funds, but could do so in the future in order to enhance their marketability.

[4] Recorded in 'Investments' on the statement of financial position.

[5] Recorded in 'Accounts receivable' on the statement of financial position.

Interests in funds individually material

Notes – Summary of accounting policies (extracts)

Investments in funds managed by the Company

The Company has determined that any interests that it holds in the investment funds that it manages are associates, as a result of the Company's power conveyed through its investment management and other agreements with the funds which permit the Company to participate in their investing and operating decisions. The Company's interests in these funds include the management and performance fees that it earns from them, together with ownership interests that it holds. Investments in the funds have been designated at fair value through profit or loss (FVTPL).

Structured entities

Structured entities include entities that are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when the relevant activities are directed by means of a contractual relationship. As the Company directs the investing activities of the funds through its investment management and other agreements with them, it considers them to be structured entities.

Notes – Significant judgements and estimates (extracts)

The most significant judgement made in preparing the Company's consolidated financial statements is the determination that the Company exercises its power as agent, rather than principal, in respect of funds that it manages and therefore does not have control over them. A parent controls another entity when it has power over the investee, exposure to variable returns from it, and is able to use its power to affect the level of returns. The Company typically has power over the funds that it manages through its investment management and other agreements with them. Additionally, the Company invests in units of the funds and therefore must determine whether it is acting primarily as a principal (that is, on its own behalf) or as an agent (that is, on behalf of the other investors) in exercising its power over the funds. Because agents exercise power on behalf of principals from whom the power has been delegated, they do not have power themselves and therefore do not have control. In assessing whether it is agent or principal, the Company considers a number of factors, including the scope of its decision-making over the funds' relevant activities, rights held by investors and others, remuneration that it earns from the funds, and the Company's exposure to variable returns from all sources (including fees and units held) for each fund.

Notes –Associates (extracts)

Interests in funds managed by the Company

The Company's interests in the funds (CU 000s) as at 31 December are as follows:

Funds managed by the Company	2013	2012
Investment in fund units[6]*	5,243	4,754
Amounts due from funds[7]	1,027	1,563

[6] Recorded in 'Investments' on the statement of financial position.
[7] Recorded in 'Accounts receivable' on the statement of financial position.

Total	**6,270**	**6,317**

Each of these funds is a mutual fund trust that has been legally established and conducts its trading activities in Lagartos, which might include the trading of foreign securities. The funds invest for the purpose of long-term capital growth and do not employ significant leverage. None of the funds are quoted in active markets and they finance their operations by issuing units to qualified high-net-worth and institutional investors. The aggregate net asset value (NAV) of all of the funds managed by the Company at 31 December 2013 is CU1.9 billion (31 December 2012 - CU1.4 billion).

Lagartos securities laws require the Company to maintain a minimum level of investment of CU1,500 in each of the funds that it manages, which cannot be redeemed prior to their termination and dissolution. Amounts in excess of the minimum can be redeemed in frequencies that range from weekly to semi-annually. The Company's maximum exposure to losses related to the funds is represented by the total of its investment in fund units and amounts due from funds, as shown above.

During the year ended 31 December 2013, the Company reimbursed expenses incurred by certain of the funds totalling CU1.2 million (2012 - CU0.4 million). The Company had no contractual obligation to reimburse the expenses; however, its objective in doing so was to align the affected funds' management expense ratios with those targeted by the Company in promoting and marketing them. Similarly, the Company does not have any contractual obligation to reimburse expenses of the funds, but could do so in the future in order to enhance their marketability.

Summarised financial information, related to the Company's material interests in certain funds that it manages, is as follows:

As at or for the year ended 31 December 2013 and 2012 (CU millions)	**XYZ Lagartos Long Short Fund**	**XYZ Global Equity Hedge Fund**	**XYZ High Yield Hedge Fund**
% held by the Company	11%	5%	14%
Distributions received from the fund	12	18	36
Cash and cash equivalents	14	33	81
Current assets	2,741	4,115	3,424
Current liabilities	450	256	110
Net gain (loss) on investments at fair value	233	501	363
Interest income	-	-	123
Interest expense	40	23	-
Increase (decrease) in net assets from operations	186	399	276

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Publications

In depth – IFRS 7 and
IFRS 13 disclosures
Feb 2014, 52 pages

Illustratives IFRS consolidated
financial statements 2013
Private equity funds
Jan 2014, 97 pages

Illustratives IFRS financial
statements 2013
Investment property
Dec 2013, 66 pages

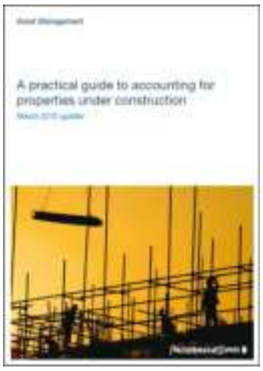
Illustratives IFRS financial
statements 2013
Investment funds
Oct 2013, 81 pages

A practical guide to IAS 32
for investment funds
Dec 2013, 21 pages

Practical guide to IFRS 10
Dec 2012, 29 pages

Practical guide to IFRS
IFRS 10 for asset managers
June 2012, 19 pages

A practical guide to IFRS 8
for investment funds
June 2009, 20 pages



A practical guide to
accounting for properties
under construction
May 2010, 20 pages