



# GIFA Accounting Update

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*Quality In Everything We Do*



# The new reporting fund regime and related developments

Accounting Implications

3 December 2009

# Offshore Funds (Tax) Regulations 2009

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- ▶ The new reporting fund regime is now in final form
  - ▶ The Offshore Funds (Tax) Regulations 2009 passed 12 November
  - ▶ Took effect from 1 December 2009
- ▶ This affects everyone, now
  - ▶ Investors
  - ▶ Fund managers
  - ▶ Administrators
  - ▶ Product developers
  - ▶ Sales teams

# Offshore Funds (Tax) Regulations 2009

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## Entry into the reporting fund regime

- ▶ The fund manager or other designated person must apply to HMRC within three months of the first day of the period of account for which it is to be a reporting fund. The application must state:
  - ▶ The first period of account for which it is proposed that the fund should be a reporting fund
  - ▶ Whether the Financial Statements are prepared in accordance with international accounting standards (IAS) or the alternative generally accepted accounting practice it intends to use
  - ▶ Funds currently certified as a distributing fund will need to transition into the new reporting regime. Funds straddling 1 December 2009 may continue to apply for distributor status. If application is successful, it will also be able to apply for distributor status for the succeeding period. This means that existing offshore funds with 31 December year ends may be able to apply for distributor status up to the period ended 31 December 2010.

# Offshore Funds (Tax) Regulations 2009

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- ▶ In a case in which the fund does not intend to prepare its accounts in accordance with IAS
  - ▶ A statement specifying the entries in the fund's accounts that are considered to equate to 'total comprehensive income for the period' as that expression is used in IAS
  - ▶ A statement of how the fund intends to comply with the requirement to report interest income on a basis similar to effective interest or calculate the effective interest adjustment

# Offshore Funds (Tax) Regulations 2009

## Calculation of reportable income – pro forma example

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<b>Total comprehensive income for the period or equivalent</b>	X
Adjustments	
▶ Net gains on investments in the period (but not trading profits)	(X)
▶ Expenses on acquisition or disposal of investments	X
▶ Set-up costs	X
▶ Effective interest adjustment	X
▶ Reportable Income from underlying reporting fund or underlying notional reporting fund	X
▶ Adjustment for investment in non reporting funds	X
▶ Equalisation adjustments	X
<b>▶ Reportable income</b>	<b>XXX</b>

# Offshore Funds (Tax) Regulations 2009

## Computation of reportable income (Cont.)

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- ▶ Fund must identify any “Net capital gains/losses” in accounts prepared under the IMA SORP
- ▶ The starting figure must be adjusted by deducting gains and adding losses
- ▶ Figure must also be adjusted by adding
  - ▶ Expenses which are directly related to the acquisition or disposal of investments
  - ▶ Costs relating to the set-up, merger or dissolution of the fund
- ▶ Unless these costs have already been deducted from capital gains before these were taken into account
- ▶ No trading income or profits may be deducted from starting point even if classified as capital under the IMA SORP

# Offshore Funds (Tax) Regulations 2009

## Adjustments for special classes of income –Effective Interest Method

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- ▶ If the fund does not use the effective interest method for calculating interest income under IAS 39, then it must use another method
- ▶ The method used must be applied so that expected gains/losses in the value of an interest bearing asset over the course of its life are accounted for as interest income
- ▶ If this is not the case, then an adjustment must be made to the increase in reportable income over the life of an asset by any expected increase in value
- ▶ Adjustments can be made by any reasonable method provided the method accounts for full expected gain/loss on the asset and is comparable to the effective interest method
- ▶ A simpler method can be used if appropriate and meets the above criteria e.g. straight line amortisation so long as it does not consistently reduce the figure reached for reportable income when compared with the effective interest method

# Offshore Funds (Tax) Regulations 2009

## Changes in accounting policy

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- ▶ Where there is a change of accounting policy in drawing up a funds accounts from one period to the next which results in a difference in the accounting value for assets
- ▶ A corresponding debit or credit must be brought into the accounts in the current period to account for the change in value



# IFRS 8 Operating Segments

3 December 2009

# IFRS 8 Operating Segments

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- ▶ Replaces IAS 14 Segment Reporting
- ▶ Applies for annual periods beginning on or after 1 January 2009
- ▶ Broader than the scope of the previous IAS 14
- ▶ Disclosures required also for entities with one reportable segment

# IFRS 8 – Scope

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- ▶ IAS 14 applied to entities:
  - ▶ whose equity or debt securities are publicly traded and by entities that are in the process of issuing equity or debt securities in public securities markets
- ▶ IFRS 8 applies to entities:
  - ▶ whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or
  - ▶ that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market

# IFRS 8 – Scope

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- ▶ Funds in scope will include:
  - ▶ Funds listed on a stock exchange
  - ▶ Funds whose financial statements are filed with a regulator for the purpose of issuing in a public market. i.e., regulated and register funds, even if the units can only be put back to the fund
  - ▶ Funds in the process of filing financial statements with a regulator for the purpose of issuing in a public market

# IFRS 8 – Definition of operating segments

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- ▶ An operating segment is a component of an entity:
  - ▶ (a) that engages in business activities from which it may earn revenues and incur expenses,
  - ▶ (b) whose operating results are regularly reviewed by the entity's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and
  - ▶ (c) for which discrete financial information is available.

# IFRS 8 – CODM in a fund

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- ▶ An operating segment is a component of an entity:
  - ▶ IFRS 8.7 - CODM identifies a function, not necessarily a manager with a specific title. That function is to allocate resources to and assess the performance of the operating segments of an entity. The CODM of an entity is generally its chief executive officer or chief operating officer, but it may alternatively be a group of executive directors or others
- ▶ CODM could be:
  - ▶ The fund manager
  - ▶ The board
  - ▶ An investment committee
  - ▶ Or other

# IFRS 8 – An operating segment

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- ▶ Generally, an operating segment has a segment manager who is directly accountable to and maintains regular contact with the CODM to discuss operating activities, financial results, forecasts, or plans for the segment. The term 'segment manager' identifies a function, not necessarily a manager with a specific title. The CODM also may be the segment manager for some operating segments. A single manager may be the segment manager for more than one operating segment.
- ▶ Indicators of more than one segment in a fund could include:
  - ▶ Assets are allocated to separate investment strategies in a single fund
  - ▶ Multiple investment portfolios managed by either an individual or separate managers
  - ▶ Sub portfolio performance is measured separately
- ▶ **Judgement is required and always remember to assess segments based on information presented to the CODM**

# IFRS 8 – Reportable Segments (1)

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- ▶ An entity shall report separately information about each operating segment that:
  - ▶ has been identified in accordance as an operating segment (or results from aggregating two or more of those segments)
  - ▶ Two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principle of IFRS 8, the segments have similar economic characteristics, and the segments are similar in each of the following respects:
    - ▶ the nature of the products and services;
    - ▶ the nature of the production processes;
    - ▶ the type or class of customer for their products and services;
    - ▶ the methods used to distribute their products or provide their services; and
    - ▶ if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.

And....

# IFRS 8 – Reportable Segments (2)

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- ▶ exceeds the quantitative thresholds
  - ▶ Its reported revenue is 10 per cent or more of the combined revenue, internal and external, of all operating segments.
  - ▶ The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss.
  - ▶ Its assets are 10 per cent or more of the combined assets of all operating segments.
- ▶ Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to users of the financial statements.

## In addition

- ▶ An entity may combine information that do not meet the quantitative thresholds with information about other operating segments that do not meet the quantitative thresholds to produce a reportable segment only if the operating segments have similar economic characteristics and share a majority of the aggregation criteria
- ▶ If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments shall be identified as reportable segments until at least 75 per cent of the entity's revenue is included in reportable segments.
- ▶ Its not anticipated that there would be more than a practical limit of 10 segments.

# IFRS 8 – Disclosures

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- ▶ General disclosure requirements
  - ▶ Entities shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environment in which it operates
  - ▶ Disclosure of the factors used to identify the entity's reportable segments, including the basis of organisation
  - ▶ Disclosure of the types of services from which each reportable segment derives its revenues

# IFRS 8 – Entity wide disclosures

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- ▶ Entity-wide disclosure requirements apply to all entities subject to IFRS 8
- ▶ Applies to all funds, even single segment funds
- ▶ Entity wide information is only provided if it is not included as part of the reportable segment information
- ▶ Segment information to be disclosed unless the necessary information is not available and the cost to develop it would be excessive
  - ▶ Information on services
    - ▶ Report revenues from external customers for each service, or each group of similar services
    - ▶ Revenues reported shall be based on the financial information used to produce the entity's financial statements

# IFRS 8 – Entity wide disclosures - example

“The table below analyses the Fund’s operating income per investment type.”

	<b>2009</b> <b>€000</b>	<b>2008</b> <b>€000</b>
Equity securities	1,200	1,350
Debt instruments	900	1,110
Derivative financial instruments	15	22
Foreign exchange gains on financial instruments not at fair value through profit or loss	5	3
<b>Total</b>	<b>2,120</b>	<b>2,475</b>

# IFRS 8 – Entity wide disclosures

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## ▶ Geographical areas

- ▶ Revenues from external customers
  - ▶ (i) attributed to the entity's country of domicile and
  - ▶ (ii) attributed to all foreign countries in total from which the entity derives revenues
  - ▶ Disclose the basis for attributing revenues from external customers to individual countries.
- ▶ Non-current assets (**other than financial instruments**, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts)
  - ▶ (i) located in the entity's country of domicile and
  - ▶ (ii) located in all foreign countries in total in which the entity holds assets.
- ▶ Material external revenues and non current assets attributed to an individual country are disclosed separately.

# IFRS 8 – Entity wide disclosures - example

“The table below analyses the Fund’s operating income per geographical location. The basis for attributing the operating income is the place of incorporation of the instrument’s counterparty.

	<b>2009</b> <b>€000</b>	<b>2008</b> <b>€000</b>
United Kingdom	1,200	1,350
United States of America	900	1,110
Rest of Europe	15	22
Rest of world	5	3
<b>Total</b>	<b>2,120</b>	<b>2,475</b>

All of the funds non current assets consist of financial instruments, as such no geographical disclosures are required.”

# IFRS 8 – Entity wide disclosures

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## ▶ Major Customers

- ▶ Disclose the extent of its reliance on its major customers.
- ▶ If revenues from a single external customer amount to 10 per cent or more of an entity's revenues, the entity shall disclose:
  - ▶ that fact;
  - ▶ the total amount of revenues from each such customer, and;
  - ▶ the identity of the segment or segments reporting the revenues.
- ▶ No need to disclose the identity of a major customer or the amount of revenues that each segment reports from that customer.
- ▶ For IFRS, a group of entities known to a reporting entity to be under common control shall be considered a single customer.

## Example disclosure

- ▶ Operating income from one counterparty (including its group entities) amounted to €1,750,000 (2008: loss €115,000), and arose from derivative financial instruments.

# IFRS 8 – Disclosures in multi segment funds

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- ▶ Information about profit or loss
  - ▶ Report a measure of profit or loss and total assets for each reportable segment.
  - ▶ Report a measure of liabilities for each reportable segment if such an amount is regularly provided to the CODM.
  - ▶ Disclose each of the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the CODM, or are otherwise regularly provided to the CODM, even if not included in that measure of segment profit or loss:
    - ▶ revenues from external customers and from other operating segments of the same entity

# IFRS 8 – Disclosures in multi segment funds

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- ▶ Information about profit or loss (continued)
  - ▶ interest revenue and expense
    - ▶ Interest revenue separately from interest expense unless a majority of the segment's revenues are from interest and the CODM relies primarily on net interest revenue to assess the performance of the segment and make decisions about resources to be allocated to the segment.
    - ▶ When reported net disclosure should be made of that fact
  - ▶ depreciation and amortisation
  - ▶ material items of income and expense disclosed in accordance with IAS 1
  - ▶ interest in the profit or loss of associates and joint ventures accounted for by the equity method
  - ▶ income tax expense or income
  - ▶ material non-cash items other than depreciation and amortisation.

# IFRS 8 – Information about profit or loss - example

“The segment information provided is presented to the Investment Committee (CODM) of the Fund

During the year there were no revenues from transactions with other operating segments.”

	Equity portfolio	Debt portfolio	Total	Equity portfolio	Debt portfolio	Total
	2009	2009	2009	2008	2008	2008
	€000	€000	€000	€000	€000	€000
Interest revenue	–	1,167	1,167	–	961	961
Dividend revenue	1,293	–	1,293	875	–	875
Net gain/(loss) on financial assets and liabilities at FVTPL	8,790	5,083	13,873	(625)	(695)	(1,320)
Dividend expense on equity securities sold short	(301)	–	(301)	(265)	–	(265)
Interest expense on cash collateral on securities lent and repurchase transactions	(99)	–	(99)	(87)	–	(87)
Brokerage fees and other transaction costs	(132)	(83)	(215)	(97)	(93)	(190)
Withholding taxes	(194)	–	(194)	(131)	–	(131)
<b>Total segment operating profit/ (loss)</b>	<b><u>9,357</u></b>	<b><u>6,167</u></b>	<b><u>15,524</u></b>	<b><u>(330)</u></b>	<b><u>173</u></b>	<b><u>(157)</u></b>

# IFRS 8 – Disclosures in multi segment funds

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## ▶ Information about assets

- ▶ Disclosure should be made of the following about each reportable segment if the specified amounts are included in the measure of segment assets reviewed by the CODM or are otherwise regularly provided to the chief operating decision maker, even if not included in the measure of segment assets
  - ▶ the amount of investment in associates and joint ventures accounted for by the equity method, and
  - ▶ the amounts of additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

# IFRS 8 – Measurement

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- ▶ Information about asset and liabilities
  - ▶ Disclosures of the amount reported to the CODM
  - ▶ Adjustments and eliminations made in preparing an entity's financial statements and allocations of revenues, expenses, and gains or losses are included in segment profit or loss only if they are included in the measure of the segment's profit or loss if used by CODM
  - ▶ Only report assets and liabilities included in the measures of the segment's assets and segment's liabilities used by the CODM
  - ▶ Reasonable basis used for allocating reported segment profit or loss, assets or liabilities
- ▶ Where CODM uses only one measure, the information shall be reported at those measures.
- ▶ If the CODM uses more than one measure, the reported measures are those most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

# IFRS 8 – Measurement

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- ▶ Disclose an explanation of the measurements of segment information which at a minimum, shall disclose the following:
  - ▶ the basis of accounting for any transactions between reportable segments
  - ▶ the nature of any differences between the measurements of the reportable segments' profits or losses and the entity's profit or loss before income tax expense or income and discontinued operations
  - ▶ the nature of any differences between the measurements of the reportable segments' assets and the entity's assets
  - ▶ the nature of any differences between the measurements of the reportable segments' liabilities and the entity's
  - ▶ the nature of any changes from prior periods in the measurement methods used to determine reported segment profit or loss and the effect, if any, of those changes on the measure of segment profit or loss
  - ▶ the nature and effect of any asymmetrical allocations to reportable segments

# IFRS 8 – Information about assets and liabilities- example

The segment information provided is presented to the Investment Committee (CODM) of the Fund

	Equity portfolio	Debt portfolio	Total	Equity portfolio	Debt portfolio	Total
	2009	2009	2009	2008	2008	2008
	€000	€000	€000	€000	€000	€000
Financial assets held for trading	40,786	16,613	57,399	26,551	10,871	37,422
Financial assets designated at fair value through profit or loss	45,463	13,888	59,351	31,824	13,100	44,924
Other	<u>645</u>	<u>3,693</u>	<u>4,338</u>	<u>926</u>	<u>2,098</u>	<u>3,024</u>
<b>Total segment assets</b>	<b><u>86,894</u></b>	<b><u>34,194</u></b>	<b><u>121,088</u></b>	<b><u>59,301</u></b>	<b><u>26,069</u></b>	<b><u>85,370</u></b>
Financial liabilities at fair value through profit or loss	25,106	4,486	29,592	22,087	3,984	26,071
Other	<u>556</u>	<u>2,036</u>	<u>2,592</u>	<u>549</u>	<u>1,726</u>	<u>2,275</u>
<b>Total segment liabilities</b>	<b><u>25,662</u></b>	<b><u>6,522</u></b>	<b><u>32,184</u></b>	<b><u>22,636</u></b>	<b><u>5,710</u></b>	<b><u>28,346</u></b>

# IFRS 8 – Measurement – example

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## ▶ Typical disclosures that may be expected could include:

“The Investment Committee measures the performance of the two portfolios based on mid market prices of the investments. This is inconsistent with IFRS which requires the use of bid/offer values.”

“Certain income and expenditure is not considered part of the performance of an individual segment. This includes net foreign exchange gains, interest on certain borrowings, management and performance fees, custodian and administration fees, directors’ fees and other general expenses.”

# IFRS 8 – Reconciliations

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- ▶ Reconciliations should be provided for the following:
  - ▶ the total reportable segments' revenues to the entity's revenue
  - ▶ the total reportable segments' measures of profit or loss to the entity's profit or loss before tax expense /income and discontinued operations (if allocated to reportable segments items such as tax expense, you may reconcile the total of the segments' measures of profit or loss to the entity's profit or loss after those items)
  - ▶ the total of the reportable segments' assets to the entity's assets
  - ▶ the total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are regularly reported as a measure to the CODM
  - ▶ the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity
- ▶ Material items separately identified and described

# IFRS 8 – Reconciliations – example profit/loss

“The table below provides a reconciliation between net reportable segment income and operating profits (Assuming revenues are generated from the fund’s reportable segments. If a fund generates any further revenue which was not part of a reportable segment a reconciliation should be provided between the total reportable segments’ revenues and the fund’s revenues)

The funds revenues are derived from Interest and dividend income, all of which are generated from the reported segments.”

	<b>2009</b> <b>€000</b>	<b>2008</b> <b>€000</b>
<b>Net reportable segment income</b>	15,524	(157)
Adjustment from mid-market prices to bid/offer prices	(59)	(38)
Net foreign exchange gains	101	23
Other expenses	(1,518)	(986)
Withholding taxes	194	131
<b>Operating profit/ (loss)</b>	<b><u>14,242</u></b>	<b><u>(1,027)</u></b>
Distributions to shareholders*	(3,675)	(7,732)
<b>Profit/(loss) before taxes</b>	<b><u>10,567</u></b>	<b><u>(8,759)</u></b>
Withholding taxes	(194)	(131)
<b>Profit/(loss) for the year</b>	<b><u>14,048</u></b>	<b><u>(1,158)</u></b>

\* Where classified as debt

# IFRS 8 – Reconciliations – example assets/liabilities

The table below provides a reconciliation between net total segment assets and liabilities and total assets and liabilities.

	2009 €000	2008 €000
<b>Total segment assets</b>	121,088	85,370
Adjustment from mid-market prices to bid prices	(51)	(25)
Net foreign exchange gains	15	9
<b>Total assets</b>	<b><u>121,052</u></b>	<b><u>85,354</u></b>
<b>Total segment liabilities</b>	32,184	28,346
Adjustment from mid-market prices to offer prices	8	13
Other payables and accrued expenses	155	106
<b>Total liabilities</b>	<b><u>32,347</u></b>	<b><u>28,465</u></b>

# IFRS 8 – Reconciliations – example assets/liabilities continued

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Narrative notes to accompany the table may include:

“The Investment Committee is provided with information regarding the total assets and total liabilities of the two portfolios based on mid-market prices of the investments. This is inconsistent with IFRS which require the use of bid/offer values.

In addition, Other receivables and prepayments are not considered to be part of individual segment assets.

Certain liabilities are not considered to be part of the net assets of an individual segment, these include management and performance fees payable, custodian and administration fees payable, directors’ fees payable and Other payables and accrued expenses.”

# IFRS 8 – Summary

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- ▶ Establish if the fund is in scope of the standard
- ▶ Determine who assumes the role CODM
- ▶ What information does the CODM receive/use and is there evidence of more than one segment?
  - ▶ Are resources allocated in a specified manner to separate investment strategies?
  - ▶ How does the investment manager report to the board, on the performance of the fund a whole or on separate parts of the fund?
- ▶ Segment information may be measured differently to IFRS i.e., mid versus bid/offer
- ▶ If the fund is in a single segment don't forget the entity wide disclosure requirements



# Thank you

3 December 2009

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