

# Similarities and differences\*

A comparison of International Financial Reporting Standards (IFRS) and local GAAP for investment funds. Territories covered: Australia, Canada, Hong Kong, India, Japan and Singapore.



\*connectedthinking

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# Executive summary

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International Financial Reporting Standards (IFRS) are gaining momentum. The globalisation of business and finance has inevitably led to calls for a common set of high-quality, global accounting standards. IFRS has been successfully adopted in almost 100 places over the last few years. The International Accounting Standards (IAS) Regulation issued by the European Union in 2002 requires that listed companies in Europe adopt IFRS in 2005. Hong Kong and Australia converged with IFRS in 2005. Other places, such as Russia and Japan, are also making significant strides towards using IFRS more widely. With the US Securities and Exchange Commission (SEC) voting unanimously to seek public comments on a release in August 2008 that includes both: 1) a proposed roadmap for the potential mandatory adoption of IFRS by issuers in the US; and 2) a proposed rule that would allow the optional use of IFRS by certain qualifying domestic issuers, the US may eventually join these 100 places in adopting IFRS.

IFRS implementation suggests changes and uncertainty. Whilst the legal and regulatory compliance as well as cost implications are always the top consideration of organisations, investment funds must also be aware of the effects a potential move to IFRS could have on long-term decisions and transactions, and how this impact will be communicated to investors.

In this publication, we have laid out some major areas in which IFRS could have a material impact on an investment fund, and have summarised the key similarities and differences with the accounting frameworks currently adopted in the major investment management centres, including the following:

- Accounting principles generally accepted in Australia (AGAAP)
- Accounting principles generally accepted in Canada (Canadian GAAP)
- Hong Kong Financial Reporting Standards (HKFRS)
- Accounting principles generally accepted in India (INDIAN GAAP)
- Japanese Accounting Standards (JGAAP)
- Singapore RAP 7

In conjunction with reading this publication, users may want to refer to [International Financial Reporting Standards Illustrative Financial Statements 2008](#) – Investment Funds, also published by PricewaterhouseCoopers (PwC).<sup>1</sup>

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<sup>1</sup> PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

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# Australia



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## International Financial Reporting Standards

## Australian Accounting Standards

### 1 Framework

#### 1.1 Accounting Standards/ Industry Practice

The objective of general purpose financial statements for investment funds is to provide information about an entity's financial position, financial performance and cash flows so that users of the financial statements can make informed decisions. Financial statements also show the results of management's stewardship of the resources entrusted to it (IAS 1).

IFRS, as a set of principle-based accounting standards, does not provide accounting standards or guidance specific to investment funds. Accordingly, investment funds follow the same financial reporting standards as general entities.

IFRS embodies not only the International Financial Reporting Standards themselves but also the International Accounting Standards (IAS) and interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or its former Standing Interpretations Committee (SIC) (IAS 1R.7). Investment funds are required to follow all such standards and interpretations in order to be in compliance with IFRS; an explicit and unreserved statement of such compliance also should be made in the notes to the financial statements (IAS 1R.16).

IFRS (IAS 8) articulates a hierarchy of guidance that management would follow in the absence of a standard that specifically applies to a transaction. In such cases, management uses its judgment in developing and applying an accounting policy. In making that judgment, management considers, first the requirement of other IFRS standards dealing with similar issues, and the concepts in the IASB's framework. It also may consider the accounting standards of other standard-setting bodies.

Full application of Australian Accounting Standards ensures compliance with IFRS, however the Australian framework defines concepts of general purpose and special purpose financial statements. General purpose financial statements must apply all aspects of the Australian Accounting Standards. Special purpose financial statements only require certain aspects of the Australian Accounting Standards.

Investment funds that are registered with the Australian regulator as Managed Investment Schemes (this will include all funds that have more than 100 unitholders) are required to prepare general purpose accounts.

Australian Standard AAS 25 applies to financial reports of superannuation plans (the Australian equivalent of a pension fund), meaning that certain aspects of IFRS do not apply to the financial reports of such entities.



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### Framework continued

#### 1.2 First-time Adoption of Accounting Framework

IFRS 1, First-time Adoption of International Financial Reporting Standards, provides specific guidance on applying IFRS for the first time. First-time adoption of IFRS as a primary accounting basis generally requires full retrospective application of the standards, effective at the reporting date for the entity's first IFRS financial statements. However, IFRS 1 establishes optional exceptions (e.g. business combinations, employee benefits) and mandatory exceptions (e.g. hedge accounting, estimates) from retrospective application.

An entity's first IFRS financial statements must present reconciliations of profit or loss in respect of the last period reported under previous GAAP, of equity at the end of the last period reported under previous GAAP and of equity at the start of the earliest period presented in the financial statements. These reconciliations should be presented in sufficient detail to enable users to understand the material adjustments made in the conversion to IFRS.

If the entity presented a statement of cash flows under its previous GAAP, it should explain the material adjustments required for it to comply with IFRS.

For annual periods beginning on or after 1 January 2009, a first-time adopter is required to disclose its opening balance sheet at the date of transition to IFRS.

Not relevant in Australia, where transition to IFRS took place in 2005.

### 2 Financial Statements

#### 2.1 Components of Financial Statements

Comparative financial statements are required (IAS 1R.36) and include (IAS 1R.10):

- |                                      |   |
|--------------------------------------|---|
| 1) A balance sheet.                  | 4) A cash flow statement.   |
| 2) An income statement.              | 5) Notes to the financial statements, comprising a summary of significant |
| 3) A statement of changes in equity. | accounting policies and other explanatory notes.                          |

An investment fund, whose redeemable shares are classified as a financial liability and which does not have any other transaction classified under equity, is not required to present a statement of changes in equity since it does not have equity. For those shares classified as liabilities, a statement of changes in net assets attributable to holders of redeemable shares provides relevant and useful information and it is therefore best practice to provide this statement.

The date of authorisation to issue financial statements, and who authorises them for issue are required under IFRS (IAS 10.17).

Australian law requires presentation of either a Statement of Changes in Equity or a Statement of Recognised Income and Expense, even if the fund has no equity.

Practice varies in this regard. Most present a Statement of Changes in Equity with zero balances and a note to the accounts presenting changes in net assets attributable to unitholders. Some present a Statement of Changes in Net Assets Attributable to Unitholders instead of a Statement of Changes in Equity.

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### Financial Statements continued

#### 2.2 Balance Sheet

IFRS does not prescribe a specific format for an investment fund's balance sheet. At a minimum, the face of the balance sheet shall include line items that present the following amounts (note: only those minimum line items that might apply to an investment fund are identified – please see IAS 1R.54 for the complete list):

- |                                 |  |
|---------------------------------|--|
| 1) Investment property.         | 6) Financial liabilities.                                      |
| 2) Financial assets.            | 7) Provisions.   |
| 3) Trade and other receivables. | 8) Issued capital and other components of shareholders' equity |
| 4) Cash and cash equivalents.   | (unless shares are classified as financial liabilities).       |
| 5) Trade and other payables.    |  |

An entity may present additional line items, headings and subtotals on the face of the statement of financial position when the presentation is relevant to an understanding of its financial position (IAS 1R.55).

Both current and non-current assets and current and non-current liabilities should be reported on the face of the balance sheet except when presentation based on liquidity, in which assets and liabilities are presented in the order of liquidity, provides information that is reliable and more relevant (IAS 1R.60). Whichever method of presentation is adopted, assets and liabilities with maturities greater than 12 months should be identified in the notes.

A typical investment fund whose shares are redeemable at the discretion of its holders or in a limited life entity where the shares are redeemable at liquidation may have no shareholders' equity at all or only a nominal amount representing its voting, non-participating shares (please see "Equity – Classification" for detailed discussion on classification of these shares and the impact of the new IAS 32 amendment on these shares). Although there is no specific format, illustrative examples (IE) 32 and IE 33 of IAS 32, Financial Instruments: Presentation, provide models of presentation for balance sheets and income statements for entities with no equity or some equity but explicitly state that other formats are possible. PwC's publication, IFRS Illustrative Financial Statements – Investment Funds, also provides an example for reference.

No significant differences to IFRS.

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### Financial Statements continued

#### 2.3 Equity – Classification

The definition of a financial liability includes a contractual obligation to deliver cash or another financial asset to another entity (IAS 32.11). A financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset (a “puttable instrument”) is a financial liability regardless of whether the amount of cash or another financial asset is determined based on an index or other item that has the potential to increase or decrease. IAS 32 specifically cites, as examples of puttable instruments, interests issued by open-ended mutual funds, unit trusts, partnerships, etc. (IAS 32.18), that would be classified as liabilities.

However, in February 2008, the IASB issued an amendment to IAS 32 and IAS 1, Puttable Financial Instruments and Obligations Arising on Liquidation (IAS 32 amendment), which is effective for annual periods beginning on or after 1 January 2009 (with earlier adoption permitted). The amendment provides an exception to the definition of a financial liability to permit certain puttable instruments and instruments with obligations that arise upon liquidation to be classified as equity if strict criteria are met. The scope of the amendment is intended to be narrow, and unless all criteria are met, the instrument would continue to be classified as a liability. The specific criteria are as follows:

- 1) The instrument is the most subordinate class of instruments.
- 2) All financial instruments in the class of instruments that is subordinate to all other classes have identical features (e.g. the formula to calculate the redemption price is the same for all instruments in that class).
- 3) The holder is entitled to a pro rata share of net assets (i.e. the assets remaining after deducting all other claims on its assets).
- 4) The total expected cash flows to the holder are substantially based on profit and loss, change in net assets or change in the fair value of the net assets\*.
- 5) There is no other instrument which is tied to the same measures as in #4 above and has the effect of fixing or restricting the residual return to the puttable instrument holder.
- 6) The instrument has no other liability feature apart from the obligation to redeem the instrument\*.

\* A criterion only for puttable instruments.

No significant differences to IFRS.

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### Financial Statements continued

#### Equity – Classification continued

Given the restrictive criteria above, redeemable shares of investment funds will rarely qualify for equity classification under the IAS 32 amendment.

Apart from redeemable shares which may be classified as liabilities, an investment fund may have activity in equity (e.g. shares meeting the definition of equity, or available-for-sale securities in which changes in fair value would be recorded through other comprehensive income). In such cases, the investment fund is required to present a statement of changes in equity.

Changes in the liability, which includes related dividends or distribution of income to holders of redeemable shares and subsequent measurement of the liability, should be recognised in the income statement. (Please refer to the “Net Assets – Measurement” section below.) Subscriptions and redemptions should be recorded directly as a change in the liability and not flow through the income statement.

#### 2.4 Net Assets – Measurement

Net assets attributable to holders of redeemable shares will generally be classified as a liability on the balance sheet, carried at the redemption amount that would be payable at the balance sheet date if the holders exercised the right to put the shares back to the investment fund. Changes in this redemption amount each period should be recorded through the income statement.

If the net asset value for subscriptions and redemptions is different from the net asset value calculated using bid/ask prices (e.g. because NAV as prescribed by the offering memorandum is based on the last traded price), an adjustment to net asset value is recorded so that the net asset value attributable to the holders of redeemable shares represents the redemption amount.

#### 2.5 Schedule of Investments

A condensed schedule of investments is not required to be presented under IFRS. However, IFRS 7 requires an entity to disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance (IFRS 7.7). In particular, IFRS 7 requires quantitative disclosures about concentrations of risk (IFRS 7.34c). As such, an analysis of the investments similar to the one provided through the schedule of investments may be used as part of the IFRS 7 disclosures.

No significant differences to IFRS.

Consistent with IFRS, Australian Accounting Standards do not explicitly require a schedule of investments.

A schedule of investments is typically not presented.



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<p><b>2.6</b> <b>Income Statement</b></p>	<p>IFRS does not prescribe a specific format. Similar to the balance sheet, IAS 1R.82 requires that certain minimum line items be presented on the face of the income statement. Expenses should be classified according to nature or function (IAS 1R.99). If the classification by function is used, additional information on the nature of expenses should be disclosed.</p> <p>The portion of the profit and loss attributable to the minority interest is disclosed separately in the income statement (IAS 1R.83). The minority portion of net income is presented after the “net income” line as an allocation of “net income”.</p> <p>An investment fund may present additional line items, headings and subtotals on the face of the income statement when it is relevant to an understanding of its financial performance (IAS 1R.85).</p> <p>In addition, in an instance in which the entity has little or no equity, IAS 32.IE 32 and 32.IE 33 provide examples of income statements for such entities. PwC’s publication, IFRS Illustrative Financial Statements – Investment Funds, also provides an example for reference.</p>	<p>No significant differences to IFRS.</p>
<p><b>2.7</b> <b>Interest and Dividend Income Recognition</b></p>	<p>Interest should be accrued and recognised using the effective interest method (IAS 18.30) from the date of purchase (IAS 18.32), and dividends should be recognised when the right to receive payment is established (IAS 18.30), typically the ex-dividend date. As such, the discount and premium of fixed income securities should be included in the calculation of interest income under the effective interest method.</p> <p>The effective interest method is based on the estimated future cash flows through the expected life of the instrument without considering future credit losses (IAS 39.9). However, in some cases, investments are acquired at a deep discount that reflect incurred credit losses and such incurred credit losses should be included in the estimated cash flows (IAS 39.AG 5). If the investment fund subsequently revises its estimated future cash flows, it shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows using the original effective interest rate and record this adjustment through the income statement (IAS 39.AG 8).</p> <p>IFRS requires separate presentation of interest income and foreign currency exchange gains and losses except when the financial assets and liabilities are carried at fair value through profit or loss. For example, exchange differences arising on translating an available-for-sale debt security as well as the current period amortisation on the security would need to be presented separately in the income statement.</p>	<p>No significant differences to IFRS.</p>

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<b>2.8 Realised and Unrealised Gains (Losses) on Investments – Presentation</b>	<p>Although not a minimum required item to be presented under IAS 1R, net gains or losses on investments are typically presented on the face of the income statement given their importance to an investment fund's financial performance. There is no requirement to separate realised and unrealised gains or losses.</p> <p>Since interest income and foreign exchange gains/losses do not need to be disclosed separately for financial instruments at fair value through profit or loss, they may be included in the gains or losses on investments.</p>	<p>Before transition to IFRS, market practice was to split gains/losses between realised and unrealised on the face of the income statement, though no requirement to do so existed. The Australian equivalents to IFRS also have no requirement to split between realised and unrealised gains and losses, but this is typically still done generally in the notes to the accounts rather than on the face of the income statement. Preparers are encouraged to include commentary on their basis for arriving at the split, since different approaches exist.</p>
<b>2.9 Withholding Taxes – Presentation</b>	<p>Income received should be included gross in the income statement. The withholding taxes should be presented as a separate component of income tax for the period.</p>	<p>No significant differences to IFRS.</p>
<b>2.10 Statement of Changes in Net Assets/Equity</b>	<p>IFRS does not prescribe a specific format. The general presentation and disclosure requirements are detailed in IAS 1R.106 through 1R.110.</p> <p>For an investment fund with no equity (i.e. all the shares are classified as liability under IAS 32 and the investment fund does not have any other equity reserves), the statement of changes in equity is not required. PwC's publication, IFRS Illustrative Financial Statements – Investment Funds, also provides an example for reference.</p>	<p>Australian law requires presentation of either a Statement of Changes in Equity or a Statement of Recognised Income and Expense, even if the fund has no equity.</p> <p>Practice varies in this regard. Most present a Statement of Changes in Equity with zero balances and a note to the accounts presenting changes in net assets attributable to unitholders. Some present a Statement of Changes in Net Assets Attributable to Unitholders instead of a Statement of Changes in Equity.</p>

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### Financial Statements continued

#### 2.11

#### Statement of Cash Flows

A statement of cash flows is always required.

The statement of cash flows should report cash flows classified by operating, investing and financing activities (IAS 7.10). The cash flows from operating activities can be presented using either the direct or indirect method (IAS 7.18) although IFRS encourages the use of the direct method (IAS 7.19).

Regardless of whether the direct or indirect method is used, cash flows from interest and dividends received and paid should be disclosed separately within the statement of cash flows and classified consistently as either operating, investing or financing activities (IAS 7.31). Cash flows from taxes should also be disclosed separately and classified as operating activities unless specifically identified with financing or investing activities (IAS 7.35).

In accordance with IAS 7.15, purchases and sales of investments for investment funds are generally considered operating activities as they relate to the main revenue-producing activity of the investment fund. In addition, purchases and sales may either be shown on a gross basis or on a net basis (IAS 7.22 and 7.24) if the turnover is rapid, the amounts are large and the maturities are short.

Non-cash transactions should be excluded from the statement of cash flows and should be disclosed in the notes to the financial statements (IAS 7.43).

No significant differences to IFRS.

#### 2.12

#### Definition of Cash and Cash Equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value (IAS 7.6). Usually, an investment qualifies as a cash equivalent when it has a maturity of three months or less from the date of acquisition (IAS 7.7).

Bank overdrafts can be included as a component of cash and cash equivalents if they are repayable on demand and form an integral part of an entity's overall cash management (IAS 7.8).

The effect of exchange rate changes on cash and cash equivalents held or due in foreign currency should be presented on the face of the cash flow statement, although separately from cash flows from operating, investing or financing activities, in order to reconcile the cash and cash equivalents at the beginning and end of the period (IAS 7.28).

Cash and cash equivalents that are not available for use by the investment fund should be disclosed. Cash and cash equivalents subject to withdrawal or use restrictions should be disclosed separately from other cash amounts (IAS 7.48).

No significant differences to IFRS.

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### 3 Consolidation

#### 3.1 Overview of the Consolidation Model

The accounting standards on consolidation are set forth in IAS 27R, Consolidated and Separate Financial Statements, which does not provide a scope exception for an investment fund.

An investment fund should consolidate all its investments in which it has control. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities:

- 1) Control is presumed to exist if an investment fund owns more than half of the voting power of another entity.
- 2) If an investment fund owns half or less than half of voting power, control also exists if it has:
  - a. Power over more than half of voting rights by virtue of an agreement with other investors
  - b. Power to govern the financial and operating policies of the entity under a statute or an agreement
  - c. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body
  - d. Power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

The existence of currently exercisable potential rights, such as warrants, call options or convertible instruments, also should be taken into consideration under the consolidation model.

An investment fund should consolidate any investments which are deemed to be subsidiaries under IAS 27R.

A subsidiary is defined as an entity, including an unincorporated entity such as a partnership that is controlled by another entity (IAS 27R.4). A feeder fund that has the majority of voting shares of the master fund in a master-feeder structure will need to consolidate the master fund. In cases in which the feeder fund owns only non-voting participating shares of a master fund, other criteria should also be considered, including whether the feeder fund has the power to govern by virtue of laws or an agreement such as a control agreement between the feeder fund and the master fund, and whether the master fund is in fact a special purpose entity of the feeder fund.

In some circumstances, in which a feeder fund invests in only one particular master fund, the feeder and master funds may represent an integrated entity. In such cases, the integrated entity could be considered the reporting entity and only one set of financial statements may be prepared for the integrated reporting entity (i.e. by combining the master and feeder financial statements).

No significant differences to IFRS except that AASB 127 adopts the concept of the “reporting entity” in determining whether a parent of a group is required to present consolidated financial statements.

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### Consolidation continued

#### Overview of the Consolidation Model continued

Furthermore, a fund of funds or a private equity fund may need to consolidate the investments in other investment funds or investee companies for which it has control as defined in IAS 27R. However, if the fund of funds holds only non-voting shares and the holders of the voting shares have the ability to direct the financial and operating policies of the investment fund, then the fund of funds should not consolidate the investee company.

A private equity fund typically purchases investments, including controlling interests, in investee companies with a view to resale. However, unless qualified as a disposal group held for sale at acquisition under the criteria in IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations, the investee companies should be consolidated. The criteria include that the assets should be available for immediate sale and that such a sale should be highly probable, including completing the sale within one year (IFRS 5.7 and 5.8).

#### Special purpose entities

An investment fund should consolidate any special purpose entity (“SPE”), defined as an entity created to accomplish a narrow and well-defined objective (SIC 12.1), when the substance of the relationship indicates that the SPE is controlled by the investment fund (SIC 12.8).

To establish control, the criteria under IAS 27R discussed above should be considered. Furthermore, the following circumstances may indicate control (SIC 12):

- 1) The activities of the SPE are being conducted on behalf of an entity according to its business need so that the entity obtains benefits from the SPE’s operations.
- 2) The entity has the decision making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an “autopilot” mechanism, the entity has delegated these decision making powers.
- 3) The entity has the rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE.
- 4) The entity retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

As a result of the provisions under SIC 12, an investment fund should consolidate an investee entity, which is qualified as an SPE in which the substance of the relationship indicates control by the investment fund. All the factors identified in SIC 12 should be evaluated equally in assessing the substance of control.

No significant differences to IFRS.



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<p><b>3.2</b> <b>Equity Method of Accounting for Investments in Common Stock / Investment in Associates</b></p>	<p>An associate is an entity over which an investment fund has significant influence and is neither a subsidiary nor an interest in a joint venture (IAS 28.2). An investment fund is presumed to have significant influence over an entity when it has more than 20% of the voting power of that entity. If it possesses less than 20%, other factors should be taken into consideration to determine the existence of significant influence. IAS 28.7 provides certain examples of such factors.</p> <p>Investments in associates should be accounted for using the equity method of accounting. However, IAS 28 provides an exception when the investment is held by a venture capital organisation, mutual fund, unit trust or similar entity and it is designated as a financial instrument at fair value through profit or loss (the fair value option) or is classified as held for trading (IAS 28.1). The same exception applies to joint venture investments held by an investment fund as defined by IAS 31. In practice, investment funds have used this exception to carry the investment at fair value through profit or loss.</p>	No significant differences to IFRS.
<p><b>3.3</b> <b>Business Combinations and Non-controlling Interests (NCI)</b></p>	<p>Under IFRS, an investment fund needs to first assess whether or not it acquires a business. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for purposes of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants (IFRS 3R.App A – definition of a business). If, as a result of the transaction, an investment fund obtains control over a business, IFRS 3R would apply. As defined in the “Overview of the Consolidation Model” section above, control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefit from activities.</p> <p>At a high level, IFRS 3R requires investment funds to:</p> <ol style="list-style-type: none"> <li>1) Recognise and measure the identifiable assets acquired and the liabilities assumed at their fair value on their acquisition date with limited exceptions.</li> <li>2) Record any non-controlling interest in the acquiree at:             <ol style="list-style-type: none"> <li>a. Its fair value, resulting in the measurement of goodwill relating to the controlling and non-controlling interest, or</li> <li>b. The non-controlling interest’s proportionate share of the acquiree’s identifiable net assets resulting in the measurement of goodwill only for the controlling interest.</li> </ol> </li> </ol>	No significant differences to IFRS.

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### Consolidation continued

#### Business Combinations and Non-controlling Interests (NCI) continued

3) Recognise and measure the goodwill acquired in a business combination or a gain from a bargain purchase. Gains or losses may be recognised in the income statement when control is obtained or lost. Any equity interest that is currently held as a result of a previous transaction is re-measured at fair value and any resulting gain or loss is recognised in the income statement when an acquirer gains control. Any gain or loss on the interest sold and on any retained non-controlling investment (re-measured at fair value) is recognised in the income statement when an acquirer loses control.

Additional acquisitions of ownership interests after control is obtained and disposals of an ownership interest that do not result in an entity losing control are treated as equity transactions.

IFRS 3R and IAS 27R also require disclosure to enable users of the financial statements to evaluate the nature and the financial effects of a business combination and the relationship between the investment fund and its subsidiaries.

IFRS 3R is to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009 (earlier adoption is permitted). IAS 27R should be adopted at the same time.

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### 4 Financial Instruments

#### 4.1 Initial Recognition

Investment funds follow the general recognition principle noted in IAS 39, Financial Instruments: Recognition and Measurement, which states that a financial asset or a financial liability should be recognised only when an entity becomes a party to the contractual provisions of the instrument, subject to the provisions governing regular-way purchases and sales of financial assets (IAS 39.14).

A regular-way purchase or sale is the acquisition of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the relevant market (IAS 39.9). Examples of regular-way purchases and sales include securities traded on an exchange or an over-the-counter market. Regular-way purchases of financial assets should be recognised using either trade date accounting or settlement date accounting (IAS 39.38). The choice of method is an accounting policy decision and should be disclosed. The method used should be applied consistently for purchases and sales of investments that belong to the same category (IAS 39.AG 53). Derivatives that require or permit net settlement do not meet the definition of regular-way trades (IAS 39.AG 54).

No significant differences to IFRS.

#### 4.2 De-Recognition

Regular-way sales of financial assets should be recognised using either trade date accounting or settlement date accounting (IAS 39.38). The method used should be applied consistently for purchases and sales of investments that belong to the same category (IAS 39.AG 53).

A financial asset (or part) should be de-recognised, when (IAS 39.17 through 39.19):

- 1) The cash flows from the financial asset expire.
- 2) The right to the financial asset's cash flows and substantially all risks and rewards of ownership are transferred.
- 3) An obligation to transfer the asset's cash flows is assumed, substantially all risks and rewards are transferred and the following conditions are met:
  - a. No obligation to pay cash flows unless equivalent cash flows from the transferred asset are collected
  - b. Prohibition from selling or pledging the asset other than as security to the eventual recipient for the obligation to pass through cash flow
  - c. Obligation to remit any cash flows without material delay.

No significant differences to IFRS.

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### Financial Instruments continued

#### De-Recognition continued

- 4) The rights to the cash flows are transferred (or an obligation to transfer the cash flows is assumed) and the additional conditions in #3 above are met. However, substantially all the risks and rewards are neither transferred nor retained, but control of the asset is transferred as follows:
- The transferee has the practical ability to sell the asset in its entirety (e.g. the asset is traded in an active market)
  - The transferee is able to exercise this right unilaterally to an unrelated third party
  - There are no further restrictions imposed on the transferee's sale (e.g. no "strings" attached).

A financial liability should be de-recognised when the obligation specified in the contract is discharged or cancelled or expired. A financial liability is also considered extinguished if there is a substantial modification in the terms of the instrument (IAS 39.39 and 39.40). Upon de-recognition, the difference between the carrying amount of the financial instruments and the consideration paid should be recognised as gain or loss in the profit and loss (IAS 39.41).

First-in-first-out (FIFO) and weighted average cost are the methods generally applied for calculating the cost basis of a portfolio of investments under IFRS.

#### 4.3 Financial Assets – Classification

Financial assets are classified as follows:

- Financial instruments at fair value through profit or loss.
- Held to maturity investments.
- Loans and receivables.
- Available-for-sale financial assets.

Financial assets should be classified into the above four categories. Financial assets measured at fair value through profit or loss (i.e. the changes in fair value are recorded as gains or losses in the income statement) are further divided into two sub-categories: financial assets measured at fair value through profit or loss upon initial recognition (i.e. the fair value option, subject to the conditions below) or held for trading.

No significant differences to IFRS.

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### Financial Instruments continued

#### Financial Assets – Classification continued

A financial asset is classified as held for trading if it is:

- 1) Acquired or incurred principally for the purpose of selling or repurchasing in the near term.
- 2) Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.
- 3) A derivative (except for a derivative that is a financial guarantee contract or designated as an effective hedging instrument).

Financial asset at fair value through profit or loss: The standard also allows an entity to designate a financial asset, a financial liability or a group of financial instruments (financial assets, financial liabilities or both) as at fair value through profit and loss provided it meets one of the following criteria (IAS 39.9 and 39.11):

- 1) A contract contains one or more embedded derivatives and, in that case, the entire hybrid can be designated as a financial asset or financial liability at fair value through profit or loss.
- 2) Such use results in more relevant information, because either:
  - a. It eliminates or significantly reduces a measurement or recognition inconsistency that otherwise would arise from measuring assets and liabilities or recognising the gains and losses on them on a different basis; or
  - b. A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

Note that the fair value option applies only to contracts within the scope of IAS 39 or equity method investments qualifying for the fair value option in accordance with IAS 28.1/IAS 31.1. An investment that needs to be consolidated under IAS 27/SIC 12 cannot be designated at fair value through profit or loss in the consolidated financial statements.

Caution should be taken in the classification of financial instruments under the fair value option. Once financial instruments are so designated, an investment fund will not be able to reclassify them into or out of the fair value through profit or loss category (IAS 39.50).



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### Financial Instruments continued

#### Financial Assets – Classification continued

Held-to-maturity investments: Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the investment fund has the positive intention and ability to hold to maturity other than:

- 1) Those that upon initial recognition are designated as at fair value through profit or loss.
- 2) Those that are designated as available-for-sale.
- 3) Those that meet the definition of loans and receivables.

Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- 1) Those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss.
- 2) Those that upon initial recognition are designated as available-for-sale.
- 3) Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale.

Available-for-sale financial assets: Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables; (b) held-to-maturity investments; or (c) financial assets at fair value through profit or loss. However, available-for-sale investments are still required to be measured at fair value unless there is no reliable fair value, in which case an unquoted equity security is valued at cost (only in rare circumstances, since it is presumed that fair value can be reliably determined) and would need to be assessed for impairment which would require an estimate of the present value of the future cash flows (IAS 39.66). Changes in fair value are recognised net of tax effects in equity (i.e. presented in the statement of changes in equity and recycled to the income statement when sold, impaired or collected). (See the “Subsequent Measurement” section below for further discussion of the result of different classification.)

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### Financial Instruments continued

#### 4.4 Financial Liabilities – Classification

IAS 39 has two defined categories of financial liabilities:

- 1) Financial liabilities “at fair value through profit or loss”.
- 2) Other financial liabilities.

A financial liability is at fair value through profit and loss if it is either held for trading, a derivative not designated as a hedging instrument or an instrument that elected the fair value option at initial recognition (provided specific criteria described above for financial assets are met).

Financial liabilities that are not classified as at fair value through profit or loss would automatically fall into the second category of “other financial liabilities” and are measured at amortised cost. Common examples are trade payables and borrowings.

No significant differences to IFRS.

#### 4.5 Initial Measurement

IFRS requires that a financial asset and financial liability be initially measured and recorded at fair value or fair value plus/minus transaction costs where the financial asset or financial liability will not be carried at fair value through profit or loss (IAS 39.43). The fair value is typically the amount paid or received at the time of the transaction.

Transaction costs, including the “bid-ask spread”, directly attributable to the acquisition or issue of financial instruments at fair value through profit or loss should be expensed through profit and loss. On the other hand, as noted above for instruments not carried at fair value through profit and loss, transaction costs should be included in the amount initially measured.

Since investments held by an investment fund are typically financial instruments carried at fair value through profit or loss, the investment fund should follow the IFRS requirement to expense the transaction costs, including the “bid-ask spread” and such spread may be included as part of the change in fair value of the securities in the income statement from a practical standpoint or as a separate expense similar to other transactions costs, such as borrowing costs.

No significant differences to IFRS.

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### Financial Instruments continued

#### 4.6 Subsequent Measurement

Subsequent measurement depends on the initial classification of the financial instrument. The general principles for subsequent measurement:

- 1) Financial instruments carried at fair value through profit or loss subsequently should be measured at fair value without any deduction of transaction costs that may be incurred on disposal (IAS 39.46 and 39.47). Changes in value should be recognised as gains or losses in profit and loss (IAS 39.55).
- 2) Financial assets designated as available-for-sale instruments subsequently should be measured at fair value (IAS 39.46) or at cost for an unquoted equity security if the fair value cannot be reliably determined (IAS 39.46). Changes in value should be recognised directly in equity, through the statement of changes in equity, except for impairment charges and the impact of movements in foreign currency exchange rates on amortised cost of available-for-sale debt instruments. Furthermore, related interest income should be recorded in profit and loss (IAS 39.55).
- 3) Financial assets designated as held-to-maturity and other financial assets (such as loans and receivables) subsequently should be measured at amortised cost.
- 4) Financial liabilities not carried at fair value through profit or loss should be measured at amortised cost which is calculated using the effective interest method. Refer also to the “Net Assets – Measurement” section above for measurement of units or shares classified as financial liabilities.

For all financial assets which are not measured at fair value through profit or loss, any impairment should be assessed at each balance sheet date. Any such impairment, if identified, should be recorded as a loss in the income statement. A financial asset is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset. The standard provides guidance on objective evidence of impairment which varies depending on whether the investment is a debt or equity security. An impairment loss can be reversed for debt instruments if there is objective evidence that the decrease in impairment loss is related to an event that occurred after the impairment charge was recorded.

No significant differences to IFRS.

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### Financial Instruments continued

<p><b>4.7</b> <b>Fair Value</b></p>	<p>Financial instruments quoted in an active market should be valued at bid price for long positions and asking price for short positions.</p> <p>When an investment fund has financial assets and liabilities with offsetting market risks, it may use mid-market prices to determine fair value for the offsetting risk positions and apply bid or asking prices to the net open position, as appropriate.</p> <p>The use of a blockage factor is not appropriate in the determination of fair value for instruments traded in an active market (IAS 39.AG 71). A restriction on the securities that is specific to the asset would generally require a discount to be applied in determination of fair value.</p> <p>For financial instruments without an active market, the fair value should be determined based on a valuation technique. The valuation technique should be based on market transactions of substantially similar securities, discounted cash flow analysis, an option pricing model or another valuation technique commonly used by market participants and proven to be reliable (IAS 39.AG 74).</p>	<p>No significant differences to IFRS.</p>
<p><b>4.8</b> <b>Disclosure</b></p>	<p>Disclosures related to financial instruments are driven primarily by IFRS 7. The objective of IFRS 7 is to provide disclosures “through the eyes of management” and encompass both qualitative narrative descriptions and specific quantitative data such that users are able to evaluate the nature and extent of risks arising from financial instruments to which an investment fund is exposed at the reporting date and how the risks are managed.</p> <p>IFRS 7 requires that certain disclosures be provided by class of financial instruments. Although IFRS 7 does not provide a prescriptive list of classes, it states that a class shall contain financial instruments of the same nature and characteristics. An instrument class is not the same as an instrument category as classes should be determined at a lower level than the categories and reconciled back to the balance sheet (IFRS 7.6). For example, instruments within the category of fair value through profit or loss might be disaggregated into different types of investments held by an investment fund (i.e. different classes).</p>	<p>No significant differences to IFRS.</p>

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### Financial Instruments continued

#### Disclosure continued

#### Balance sheet disclosure

IFRS 7 requires disclosure of the carrying values of each of the following categories either on the face of the balance sheet or in the notes (IFRS 7.8):

- 1) Financial assets at fair value through profit or loss, showing separately those designated upon initial recognition and those classified as held for trading.
- 2) Financial assets designated as available-for-sale.
- 3) Financial assets designated as held-to-maturity.
- 4) Loans and receivables.
- 5) Financial liabilities at fair value through profit or loss, showing separately those designated upon initial recognition and those classified as held for trading.
- 6) Financial liabilities measured at amortised cost.

Fair value of each of the categories of financial assets and liabilities, including the assumptions and estimations used in the determination of fair value, should be disclosed (IFRS 7.30). For an investment fund, since investments generally are carried at fair value and other financial assets and liabilities are short-term in nature, the carrying amounts of other financial assets and liabilities typically approximate the fair value. This should be stated in the notes to the financial statements (IFRS 7.29).

Collateral pledged, including carrying amounts and terms and conditions, should be disclosed (IFRS 7.14).

Collateral held, including the fair value, the fair value of any such collateral sold or re-pledged, whether the entity has an obligation to return it, and terms and conditions should all be disclosed (IFRS 7.15).

#### Income statement disclosure

IFRS 7 requires the disclosure of net gains or losses on each of the categories of financial assets and liabilities.

Total interest income and interest expense should be disclosed for financial assets and financial liabilities that are not at fair value through profit or loss. Any impairment loss for each category also should be disclosed.



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### Financial Instruments continued

#### Disclosure continued

#### Nature and extent of risks arising from financial instruments

To help users understand the nature and extent of risks arising from financial instruments, both qualitative and quantitative disclosures should be made. The risks for an investment fund usually include credit risk, liquidity risk and market risk (including interest rate risk, price risk and currency risk). Disclosures around the nature and extent of risks should be tailored to reflect the financial instruments held by the investment fund; additional risks may be identified and disclosed based on the entity's specific investment objectives and activities.

With regard to qualitative disclosures for each type of risk resulting from financial instruments, the investment fund should disclose exposures to risk and how they arise; the entity's objectives, policies and processes for managing and measuring risk; and any changes during the period related to risk and risk management.

Investment funds are also required to disclose summary quantitative data about their exposure to each type of risk arising from financial instruments based on information provided internally to key management. At a minimum, these disclosures should include:

- 1) Credit risk, including:
  - a. The amount that best represents the maximum exposure to credit risk at the reporting date without consideration of collateral held or other credit enhancements
  - b. Disclosure around collateral held or other credit enhancements for that instrument
  - c. Analysis of financial assets that are either past due or impaired.
- 2) Liquidity risk, including a maturity analysis for financial liabilities that shows the remaining contractual maturities and a description of how the investment fund manages the liquidity risk inherent in the maturity analysis.

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### Financial Instruments continued

#### Disclosure continued

3) Market risk, including a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date. The disclosures for the sensitivity analysis should also include the methods and assumptions used in preparing the sensitivity analysis and any changes from the previous period to these methods and assumptions. This disclosure is one of the most challenging areas for investment funds due to the judgment and analysis involved as well as the need to accumulate data which the investment fund may not immediately have access to. As part of the process, management should identify the relevant risk variables that reflect best the exposure of the entity to market risk. For example, for an investment fund with a long/short debt strategy, the relevant risk variables would be interest and foreign currency rates. When preparing the sensitivity analysis, the quantitative impacts of the interest and foreign currency rate sensitivities of the investment fund need to be determined and disclosed.

The investment fund also should provide information about concentration of risk to the extent that this information is not apparent through the disclosure discussed above. PwC's publication, IFRS Illustrative Financial Statements – Investment Funds, provides examples of disclosure in accordance with IFRS 7.

In addition to IFRS 7, IAS 1 also requires:

- 1) The disclosure of the use of judgment that management has made in the application of accounting policies and that have the most significant effect on the amounts recognised in the financial statements (IAS 1R.122).
- 2) The key assumptions used and sources of estimation of uncertainty also should be disclosed, together with the nature and carrying amounts of the affected assets and liabilities (IAS 1R.125).
- 3) The qualitative and quantitative information about the investment fund's objectives, policies and processes for managing capital (IAS 1R.136).

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### Financial Instruments continued

#### 4.9 Offsetting

A financial asset and a financial liability should be offset and the net amount presented on the balance sheet when an investment fund (IAS 32.42):

- 1) Currently has a legal enforceable right to offset the recognised amounts.
- 2) Intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In order to offset financial assets and liabilities, an investment fund must have a currently enforceable legal right to do so. Conditional rights do not meet this criterion. For instance, an investment fund may have a conditional right to set off recognised amounts, such as in a master netting agreement, but such rights are enforceable only on the occurrence of some future event, usually a default of the counterparty. Consequently, IFRS does not consider such an agreement as meeting the conditions for offset (IAS 32.AG 38). As a result, positive and negative fair value of derivatives under a master netting arrangement should not be offset even if such derivatives have the same counterparty. The amounts should be presented as financial assets and financial liabilities on the balance sheet, respectively.

No significant differences to IFRS.

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### 5 Other Accounting & Reporting Topics

#### 5.1 Functional Currency

Functional currency is the currency of the primary economic environment in which an investment fund operates (IAS 21.9).

An entity considers the following primary indicators in the determination of its functional currency:

- 1) It is the currency:
  - a. That mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled)
  - b. Of the country whose competitive forces and regulations mainly determine the sales prices of the entity's goods and services.
- 2) It is the currency that mainly influences labour, material and other costs of providing goods or services; this will often be the currency in which such costs are denominated and settled.

Secondary indicators include the currency in which funds from financing activities are generated and the currency in which receipts from operating activities are usually retained (IAS 21.10). An example for financing is the currency in which the investment fund's shares are issued and redeemed. As a result, determining the functional currency of an investment fund is not straightforward and depends on multiple factors, including but not limited to:

- 1) The economic environment(s) in which the financial assets are invested.
- 2) The economic environment(s) of the investors.
- 3) The regulatory environment.
- 4) The competitive environment.
- 5) The fee structure.
- 6) The denomination of subscriptions and redemptions.

When the factors are mixed and the functional currency is not obvious, management should use its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions that affect the entity (IAS 21.12).

When the presentation currency is different from the functional currency, disclosure should be made for the investment fund's functional currency and the presentation currency, which is the currency used in the presentation of financial statements. The reason for using a different presentation currency should also be disclosed (IAS 21.53).

No significant differences to IFRS.

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### Other Accounting & Reporting Topics continued

#### 5.2 Foreign Currency Transactions and Translation of Financial Statements

A foreign currency transaction should be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate at the transaction date (IAS 21.21).

When a debt security is classified as available-for-sale, any foreign currency gains and losses are recognised in the income statement and not included as part of other comprehensive income.

At subsequent balance sheet dates, monetary assets and liabilities denominated in a foreign currency are translated using the closing rates (IAS 21.23). Non-monetary balance sheet items that are measured at historical cost in a foreign currency should be translated using the exchange rate at the date of the transaction (IAS 21.23). Non-monetary balance sheet items that are measured at fair value in a foreign currency should be translated at the exchange rate at the date when the fair value is determined (IAS 21.23).

When translating the financial statements from the functional currency into the presentation currency, assets and liabilities shall be translated at the closing rate and income statement items shall be translated at the exchange rates at the dates of the transactions (or an average rate as a practical alternative, provided that the exchange rate does not fluctuate significantly).

No significant differences to IFRS.

#### 5.3 Tax Uncertainties

Although IAS 12 does not specifically address uncertain tax positions, the general measurement guidance in IAS 12.46 should be applied: “Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities using the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date”. The unit of account and measurement method are not specified in IAS 12.

An investment fund may choose to consider uncertain tax positions at the level of the individual uncertainty or group of related uncertainties. It also may choose to consider tax uncertainties at the level of its total tax liability to each taxing authority.

No significant differences to IFRS.

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### Other Accounting & Reporting Topics continued

#### Tax Uncertainties continued

When an investment fund elects to consider uncertain tax positions at the level of each uncertainty, it should first consider whether each position taken in the tax return is probable of being sustained on examination by the taxing authority. A liability should be recognised in connection with each item that is not probable of being sustained. The liability is measured using either an expected value (weighted average probability) approach or a single best estimate of the most likely outcome. The current tax liability would be the aggregate liability in connection with uncertain tax positions.

When an entity elects to consider uncertain tax positions at the level of its relationship with the taxing authority, the key issue is the measurement of the tax liability. It is probable that an investment fund will pay tax, so the recognition threshold has been met. The investment fund should determine the total amount of current tax it expects to pay, taking into account all the tax uncertainties, using either an expected value (weighted average probability) approach or a single best estimate of the most likely outcome.

IAS 37, Provisions, Contingent Liabilities and Contingent Assets, excludes income taxes from its scope and is not used to account for uncertain tax positions.

#### 5.4 Real Estate Investments

IAS 40.32A permits an entity to choose either the fair value model with changes in fair value recognised in earnings or the cost model for all investment property. IAS 40.5 defines an investment property as a land and/or a building, held to earn rentals or for capital appreciation or both. An investment property does not include property held for use in production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business.

No significant differences to IFRS.

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### Other Accounting & Reporting Topics continued

#### 5.5 Share Based Compensation

##### Recognition

The fair value of shares and options awarded to employees is recognised over the period to which the employees' services relate. The award is presumed to be for past services if it is unconditional without any performance criteria.

##### Measurement

For equity-settled share-based payment awards issued to employees, the awards should be measured by reference to the fair value of the equity instruments granted and recognised as compensation expense and a corresponding increase to equity over the requisite service period. For cash-settled share-based payment transactions, the goods or services acquired and the liability incurred are measured at the fair value of the liability which is marked to market at each balance sheet date. Extensive disclosures are also required.

##### Employer's payroll tax payable on exercise of share options by employees

Employers' social security liability arising from share-based payment transactions is recognised over the same period or periods as the share-based payment charge.

No significant differences to IFRS.

#### 5.6 Financial Highlights (including Earnings Per Share)

The disclosure of financial highlights, including the disclosure of the entity's net asset value, is not required under IFRS.

If an investment fund provides an alternative performance measure (such as financial highlights), the entity should ensure that it addresses the four qualitative characteristics that make the information provided in financial statements useful to readers: comprehensibility; relevance; reliability; and comparability. Therefore, investment funds should consider the following guidelines if alternative performance measures are disclosed:

- 1) Define the terminology used and the basis of calculation adopted.
- 2) Where possible, present alternative performance measures only in combination with measures defined under IFRS.
- 3) Alternative performance measures should be presented consistently over time.

No significant differences to IFRS.



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### Other Accounting & Reporting Topics continued

<p><b>Financial Highlights (including Earnings Per Share) continued</b></p>	<p>4) To ensure that investors are not misled, alternative performance measures should not be presented with greater prominence than defined IFRS measures. Where alternative performance measures are derived from audited financial statements and resemble defined performance measures, but do not actually have the characteristics of the defined measures, then the defined measures should be given greater prominence than the alternative performance measures.</p> <p>5) Generally, explain the reason for presenting alternative performance measures to investors (i.e. may be used internally).</p> <p>If an investment fund has equity instruments that are publicly traded, earnings per share should be disclosed in accordance with IAS 33, Earnings Per Share.</p>	
<p><b>5.7 Related Party Transactions</b></p>	<p>The term “related party” is defined in paragraph 9 of IAS 24, Related Party Disclosures.</p> <p>The disclosures required for related party transactions, typically applicable to an investment fund, are as follows (IAS 24.17):</p> <ol style="list-style-type: none"> <li>1) The amount of transactions.</li> <li>2) The amount of outstanding balances and             <ol style="list-style-type: none"> <li>a. Their terms and conditions</li> <li>b. Details of any guarantee received or given.</li> </ol> </li> <li>3) Provisions for doubtful debts related to the amounts of outstanding balances.</li> <li>4) The expense recognised in respect of bad or doubtful debts due from related parties.</li> <li>5) The identity of the controlling party.</li> </ol> <p>Additionally, under IFRS an investment fund is also required to disclose key management personnel compensation in total and for each of the following categories:</p> <ol style="list-style-type: none"> <li>1) Short-term employee benefits.</li> <li>2) Post-employment benefits.</li> <li>3) Other long-term benefits.</li> <li>4) Termination benefits.</li> <li>5) Share-based payment.</li> </ol>	<p>No significant differences to IFRS, except that AASB 24, Related Party Disclosures requires “disclosing entities” to provide certain disclosures additional to those required by IAS 24.</p> <p>Most investment funds in Australia would be regarded as disclosing entities, and as such are required to disclose the following information beyond that required by IFRS:</p> <ol style="list-style-type: none"> <li>1) Name of each member of key management personnel.</li> <li>2) Position held.</li> <li>3) Compensation of each member of key management personnel, split between short term benefits (which in turn must be split between salary and bonuses), post-employment benefits, other long-term employee benefits, termination benefits and share based payments.</li> </ol>

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	International Financial Reporting Standards	Australian Accounting Standards
<b>Other Accounting &amp; Reporting Topics continued</b>		
<b>Related Party Transactions continued</b>		<ul style="list-style-type: none"> <li>4) Principles of compensation (policy aspects around determination of nature and amount of compensation, and in particular nature of performance conditions.</li> <li>5) Details of any modification of terms of share-based payment transactions.</li> <li>6) Details of options and rights provided as compensation to each member of key management personnel.</li> <li>7) Details of equity instruments provided on exercise of options and rights granted as compensation to each member of key management personnel.</li> <li>8) Options and rights holdings of each member of key management personnel.</li> <li>9) Equity holdings and transactions of each member of key management personnel.</li> <li>10) Details of loans made by the disclosing entity to each member of key management personnel.</li> <li>11) Details of any other transactions between the disclosing entity and key management personnel, again set out by individual member of key management personnel.</li> </ul>

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### Other Accounting & Reporting Topics continued

#### 5.8 Segment Reporting

Segment reporting is required for entities whose debt or equity instruments are traded in a public market.

On 30 November 2006, the IASB issued IFRS 8, Operating Segments, which is effective for the year beginning on or after 1 January 2009. IFRS 8 is a convergence standard with FAS 131. Under IFRS 8, a segment is an operating segment, which is identified on the basis of internal reports that are regularly reviewed by an entity's chief operating decision makers in order to allocate resources to the segment and assess its performance. Measurement and disclosure requirements have also been amended. The segment reporting under IFRS 8 is to disclose an entity's segment through the eyes of management.

The scope of the existing segment reporting standard AASB 114 is wider than IAS 14 in that it includes reporting entities and entities whose financial reports are general purpose financial reports.

The scope of AASB 8 (which replaces AASB 114 for years beginning on or after 1 January 2009) is similar to that of IFRS 8.

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▶ 1 Framework

▶ 2 Financial Statements

▶ 3 Consolidation

▶ 4 Financial Instruments

▶ 5 Other Accounting and Reporting Topics

International Financial Reporting Standards	Canadian Accounting Standards
<b>1 Framework</b>	
<p><b>1.1 Accounting Standards/ Industry Practice</b></p>	<p>The objective of general purpose financial statements for investment funds is to provide information about an entity's financial position, financial performance and cash flows so that users of the financial statements can make informed decisions. Financial statements also show the results of management's stewardship of the resources entrusted to it (IAS 1).</p> <p>IFRS, as a set of principle-based accounting standards, does not provide accounting standards or guidance specific to investment funds. Accordingly, investment funds follow the same financial reporting standards as general entities.</p> <p>IFRS embodies not only the International Financial Reporting Standards themselves but also the International Accounting Standards (IAS) and interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or its former Standing Interpretations Committee (SIC) (IAS 1R.7). Investment funds are required to follow all such standards and interpretations in order to be in compliance with IFRS; an explicit and unreserved statement of such compliance also should be made in the notes to the financial statements (IAS 1R.16).</p> <p>IFRS (IAS 8) articulates a hierarchy of guidance that management would follow in the absence of a standard that specifically applies to a transaction. In such cases, management uses its judgment in developing and applying an accounting policy. In making that judgment, management considers, first the requirement of other IFRS standards dealing with similar issues, and the concepts in the IASB's framework. It also may consider the accounting standards of other standard-setting bodies.</p>

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### Framework continued

#### 1.2 First-time Adoption of Accounting Framework

IFRS 1, First-time Adoption of International Financial Reporting Standards, provides specific guidance on applying IFRS for the first time. First-time adoption of IFRS as a primary accounting basis generally requires full retrospective application of the standards, effective at the reporting date for the entity's first IFRS financial statements. However, IFRS 1 establishes optional exceptions (e.g. business combinations, employee benefits) and mandatory exceptions (e.g. hedge accounting, estimates) from retrospective application.

An entity's first IFRS financial statements must present reconciliations of profit or loss in respect of the last period reported under previous GAAP, of equity at the end of the last period reported under previous GAAP and of equity at the start of the earliest period presented in the financial statements. These reconciliations should be presented in sufficient detail to enable users to understand the material adjustments made in the conversion to IFRS.

If the entity presented a statement of cash flows under its previous GAAP, it should explain the material adjustments required for it to comply with IFRS.

For annual periods beginning on or after 1 January 2009, a first-time adopter is required to disclose its opening balance sheet at the date of transition to IFRS.

First-time adoption of the reporting framework is not specifically addressed by Canadian GAAP.

### 2 Financial Statements

#### 2.1 Components of Financial Statements

Comparative financial statements are required (IAS 1R.36) and include (IAS 1R.10):

- |                                      |   |
|--------------------------------------|---|
| 1) A balance sheet.                  | 4) A cash flow statement.   |
| 2) An income statement.              | 5) Notes to the financial statements, comprising a summary of significant |
| 3) A statement of changes in equity. | accounting policies and other explanatory notes.                          |

An investment fund, whose redeemable shares are classified as a financial liability and which does not have any other transaction classified under equity, is not required to present a statement of changes in equity since it does not have equity. For those shares classified as liabilities, a statement of changes in net assets attributable to holders of redeemable shares provides relevant and useful information and it is therefore best practice to provide this statement.

The date of authorisation to issue financial statements, and who authorises them for issue are required under IFRS (IAS 10.17).

In accordance with Section 1400, General Standards of Financial Statement Presentation, financial statements generally include two years' balance sheets, income statements, statements of changes in net assets, cash flow statements (if required), and notes.

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### Financial Statements continued

#### 2.2 Balance Sheet

IFRS does not prescribe a specific format for an investment fund's balance sheet. At a minimum, the face of the balance sheet shall include line items that present the following amounts (note: only those minimum line items that might apply to an investment fund are identified – please see IAS 1R.54 for the complete list):

- |                                 |  |
|---------------------------------|--|
| 1) Investment property.         | 6) Financial liabilities.                                      |
| 2) Financial assets.            | 7) Provisions.   |
| 3) Trade and other receivables. | 8) Issued capital and other components of shareholders' equity |
| 4) Cash and cash equivalents.   | (unless shares are classified as financial liabilities).       |
| 5) Trade and other payables.    |  |

An entity may present additional line items, headings and subtotals on the face of the statement of financial position when the presentation is relevant to an understanding of its financial position (IAS 1R.55).

Both current and non-current assets and current and non-current liabilities should be reported on the face of the balance sheet except when presentation based on liquidity, in which assets and liabilities are presented in the order of liquidity, provides information that is reliable and more relevant (IAS 1R.60). Whichever method of presentation is adopted, assets and liabilities with maturities greater than 12 months should be identified in the notes.

A typical investment fund whose shares are redeemable at the discretion of its holders or in a limited life entity where the shares are redeemable at liquidation may have no shareholders' equity at all or only a nominal amount representing its voting, non-participating shares (please see "Equity – Classification" for detailed discussion on classification of these shares and the impact of the new IAS 32 amendment on these shares). Although there is no specific format, illustrative examples (IE) 32 and IE 33 of IAS 32, Financial Instruments: Presentation, provide models of presentation for balance sheets and income statements for entities with no equity or some equity but explicitly state that other formats are possible. PwC's publication, IFRS Illustrative Financial Statements – Investment Funds, also provides an example for reference.

Does not prescribe a particular format for an investment fund.

*Disclosure of certain items is required by NI81-106 Part 3.1.*



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### Financial Statements continued

#### 2.3 Equity – Classification

The definition of a financial liability includes a contractual obligation to deliver cash or another financial asset to another entity (IAS 32.11). A financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset (a “puttable instrument”) is a financial liability regardless of whether the amount of cash or another financial asset is determined based on an index or other item that has the potential to increase or decrease. IAS 32 specifically cites, as examples of puttable instruments, interests issued by open-ended mutual funds, unit trusts, partnerships, etc. (IAS 32.18), that would be classified as liabilities.

However, in February 2008, the IASB issued an amendment to IAS 32 and IAS 1, Puttable Financial Instruments and Obligations Arising on Liquidation (IAS 32 amendment), which is effective for annual periods beginning on or after 1 January 2009 (with earlier adoption permitted). The amendment provides an exception to the definition of a financial liability to permit certain puttable instruments and instruments with obligations that arise upon liquidation to be classified as equity if strict criteria are met. The scope of the amendment is intended to be narrow, and unless all criteria are met, the instrument would continue to be classified as a liability. The specific criteria are as follows:

- 1) The instrument is the most subordinate class of instruments.
- 2) All financial instruments in the class of instruments that is subordinate to all other classes have identical features (e.g. the formula to calculate the redemption price is the same for all instruments in that class).
- 3) The holder is entitled to a pro rata share of net assets (i.e. the assets remaining after deducting all other claims on its assets).
- 4) The total expected cash flows to the holder are substantially based on profit and loss, change in net assets or change in the fair value of the net assets\*.
- 5) There is no other instrument which is tied to the same measures as in #4 above and has the effect of fixing or restricting the residual return to the puttable instrument holder.
- 6) The instrument has no other liability feature apart from the obligation to redeem the instrument\*.

\* A criterion only for puttable instruments.

Units of a fund that are redeemable at the option of the holder, or at a specified date, would generally meet the definition of a financial liability. Certain instruments may qualify for the exemption in CICA 3863, Financial Instruments – Presentation, paragraph 15, as clarified by EIC 149 – Accounting for Retractable or Mandatorily Redeemable Shares in which case the instruments that would otherwise be classified as financial liabilities are classified as equity.

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### Financial Statements continued

#### Equity – Classification continued

Given the restrictive criteria above, redeemable shares of investment funds will rarely qualify for equity classification under the IAS 32 amendment.

Apart from redeemable shares which may be classified as liabilities, an investment fund may have activity in equity (e.g. shares meeting the definition of equity, or available-for-sale securities in which changes in fair value would be recorded through other comprehensive income). In such cases, the investment fund is required to present a statement of changes in equity.

Changes in the liability, which includes related dividends or distribution of income to holders of redeemable shares and subsequent measurement of the liability, should be recognised in the income statement. (Please refer to the “Net Assets – Measurement” section below.) Subscriptions and redemptions should be recorded directly as a change in the liability and not flow through the income statement.

#### 2.4 Net Assets – Measurement

Net assets attributable to holders of redeemable shares will generally be classified as a liability on the balance sheet, carried at the redemption amount that would be payable at the balance sheet date if the holders exercised the right to put the shares back to the investment fund. Changes in this redemption amount each period should be recorded through the income statement.

If the net asset value for subscriptions and redemptions is different from the net asset value calculated using bid/ask prices (e.g. because NAV as prescribed by the offering memorandum is based on the last traded price), an adjustment to net asset value is recorded so that the net asset value attributable to the holders of redeemable shares represents the redemption amount.

Net assets attributable to holders of redeemable shares will generally be classified as equity on the balance sheet (see “Equity – Classification”). Instruments classified as equity of the entity are carried at cost.

#### 2.5 Schedule of Investments

A condensed schedule of investments is not required to be presented under IFRS. However, IFRS 7 requires an entity to disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance (IFRS 7.7). In particular, IFRS 7 requires quantitative disclosures about concentrations of risk (IFRS 7.34c). As such, an analysis of the investments similar to the one provided through the schedule of investments may be used as part of the IFRS 7 disclosures.

Not required under GAAP.

*National Instrument 81-106 requires that a statement of investment portfolio be presented as at the end of the reporting period. Comparative information from prior years is not presented.*

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### Financial Statements continued

<p><b>2.6</b> <b>Income Statement</b></p>	<p>IFRS does not prescribe a specific format. Similar to the balance sheet, IAS 1R.82 requires that certain minimum line items be presented on the face of the income statement. Expenses should be classified according to nature or function (IAS 1R.99). If the classification by function is used, additional information on the nature of expenses should be disclosed.</p> <p>The portion of the profit and loss attributable to the minority interest is disclosed separately in the income statement (IAS 1R.83). The minority portion of net income is presented after the “net income” line as an allocation of “net income”.</p> <p>An investment fund may present additional line items, headings and subtotals on the face of the income statement when it is relevant to an understanding of its financial performance (IAS 1R.85).</p> <p>In addition, in an instance in which the entity has little or no equity, IAS 32.IE 32 and 32.IE 33 provide examples of income statements for such entities. PwC’s publication, IFRS Illustrative Financial Statements – Investment Funds, also provides an example for reference.</p>	<p>Does not prescribe a particular format for an investment fund.</p> <p><i>Disclosure of certain items is required by NI 81-106 Part 3.2.</i></p>
<p><b>2.7</b> <b>Interest and Dividend Income Recognition</b></p>	<p>Interest should be accrued and recognised using the effective interest method (IAS 18.30) from the date of purchase (IAS 18.32), and dividends should be recognised when the right to receive payment is established (IAS 18.30), typically the ex-dividend date. As such, the discount and premium of fixed income securities should be included in the calculation of interest income under the effective interest method.</p> <p>The effective interest method is based on the estimated future cash flows through the expected life of the instrument without considering future credit losses (IAS 39.9). However, in some cases, investments are acquired at a deep discount that reflect incurred credit losses and such incurred credit losses should be included in the estimated cash flows (IAS 39.AG 5). If the investment fund subsequently revises its estimated future cash flows, it shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows using the original effective interest rate and record this adjustment through the income statement (IAS 39.AG 8).</p> <p>IFRS requires separate presentation of interest income and foreign currency exchange gains and losses except when the financial assets and liabilities are carried at fair value through profit or loss. For example, exchange differences arising on translating an available-for-sale debt security as well as the current period amortisation on the security would need to be presented separately in the income statement.</p>	<p>Similar to IFRS.</p>

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### Financial Statements continued

#### 2.8 Realised and Unrealised Gains (Losses) on Investments – Presentation

Although not a minimum required item to be presented under IAS 1R, net gains or losses on investments are typically presented on the face of the income statement given their importance to an investment fund's financial performance. There is no requirement to separate realised and unrealised gains or losses.

Since interest income and foreign exchange gains/losses do not need to be disclosed separately for financial instruments at fair value through profit or loss, they may be included in the gains or losses on investments.

Similar to IFRS.

*Realised gains (losses) and unrealised gains (losses) are required to be presented by NI 81-106 Part 3.2.*

#### 2.9 Withholding Taxes – Presentation

Income received should be included gross in the income statement. The withholding taxes should be presented as a separate component of income tax for the period.

Similar to IFRS.

#### 2.10 Statement of Changes in Net Assets/Equity

IFRS does not prescribe a specific format. The general presentation and disclosure requirements are detailed in IAS 1R.106 through 1R.110.

For an investment fund with no equity (i.e. all the shares are classified as liability under IAS 32 and the investment fund does not have any other equity reserves), the statement of changes in equity is not required. PwC's publication, IFRS Illustrative Financial Statements – Investment Funds, also provides an example for reference.

Does not prescribe a particular format for an open-end investment fund. Disclosure of certain items is required by CICA 3240, Share Capital and CICA 3251, Equity, for closed-end funds.

*NI 81-106 Part 3.3 requires presentation of certain items.*

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<b>Financial Statements continued</b>		
<p><b>2.11</b> <b>Statement of Cash Flows</b></p>	<p>A statement of cash flows is always required.</p> <p>The statement of cash flows should report cash flows classified by operating, investing and financing activities (IAS 7.10). The cash flows from operating activities can be presented using either the direct or indirect method (IAS 7.18) although IFRS encourages the use of the direct method (IAS 7.19).</p> <p>Regardless of whether the direct or indirect method is used, cash flows from interest and dividends received and paid should be disclosed separately within the statement of cash flows and classified consistently as either operating, investing or financing activities (IAS 7.31). Cash flows from taxes should also be disclosed separately and classified as operating activities unless specifically identified with financing or investing activities (IAS 7.35).</p> <p>In accordance with IAS 7.15, purchases and sales of investments for investment funds are generally considered operating activities as they relate to the main revenue-producing activity of the investment fund. In addition, purchases and sales may either be shown on a gross basis or on a net basis (IAS 7.22 and 7.24) if the turnover is rapid, the amounts are large and the maturities are short.</p> <p>Non-cash transactions should be excluded from the statement of cash flows and should be disclosed in the notes to the financial statements (IAS 7.43).</p>	<p>If certain criteria are met, an investment fund may be exempted from presenting a statement of cash flows as outlined in CICA 1540.02.</p> <p><i>Similar to IFRS, either the direct or indirect method can be used. Specific guidance on presentation is provided in NI 81-106 Part 3.4.</i></p>
<p><b>2.12</b> <b>Definition of Cash and Cash Equivalents</b></p>	<p>Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value (IAS 7.6). Usually, an investment qualifies as a cash equivalent when it has a maturity of three months or less from the date of acquisition (IAS 7.7).</p> <p>Bank overdrafts can be included as a component of cash and cash equivalents if they are repayable on demand and form an integral part of an entity's overall cash management (IAS 7.8).</p> <p>The effect of exchange rate changes on cash and cash equivalents held or due in foreign currency should be presented on the face of the cash flow statement, although separately from cash flows from operating, investing or financing activities, in order to reconcile the cash and cash equivalents at the beginning and end of the period (IAS 7.28).</p> <p>Cash and cash equivalents that are not available for use by the investment fund should be disclosed. Cash and cash equivalents subject to withdrawal or use restrictions should be disclosed separately from other cash amounts (IAS 7.48).</p>	<p>Similar to IFRS.</p>

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### 3 Consolidation

#### 3.1 Overview of the Consolidation Model

The accounting standards on consolidation are set forth in IAS 27R, Consolidated and Separate Financial Statements, which does not provide a scope exception for an investment fund.

An investment fund should consolidate all its investments in which it has control. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities:

- 1) Control is presumed to exist if an investment fund owns more than half of the voting power of another entity.
- 2) If an investment fund owns half or less than half of voting power, control also exists if it has:
  - a. Power over more than half of voting rights by virtue of an agreement with other investors
  - b. Power to govern the financial and operating policies of the entity under a statute or an agreement
  - c. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body
  - d. Power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

The existence of currently exercisable potential rights, such as warrants, call options or convertible instruments, also should be taken into consideration under the consolidation model.

An investment fund should consolidate any investments which are deemed to be subsidiaries under IAS 27R. A subsidiary is defined as an entity, including an unincorporated entity such as a partnership that is controlled by another entity (IAS 27R.4). A feeder fund that has the majority of voting shares of the master fund in a master-feeder structure will need to consolidate the master fund. In cases in which the feeder fund owns only non-voting participating shares of a master fund, other criteria should also be considered, including whether the feeder fund has the power to govern by virtue of laws or an agreement such as a control agreement between the feeder fund and the master fund, and whether the master fund is in fact a special purpose entity of the feeder fund.

In some circumstances, in which a feeder fund invests in only one particular master fund, the feeder and master funds may represent an integrated entity. In such cases, the integrated entity could be considered the reporting entity and only one set of financial statements may be prepared for the integrated reporting entity (i.e. by combining the master and feeder financial statements).

Accounting Guideline 18, Investment Companies, provides that control does not usually preclude fair value measurement. Accordingly, so long as an investment fund meets the definition of an investment company as defined in Accounting Guideline 18, it is usually required to present its investment at fair value irrespective of whether or not it controls the entity. Certain investments in operating enterprises providing services to the investment company may need to be consolidated.

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### Consolidation continued

#### Overview of the Consolidation Model continued

Furthermore, a fund of funds or a private equity fund may need to consolidate the investments in other investment funds or investee companies for which it has control as defined in IAS 27R. However, if the fund of funds holds only non-voting shares and the holders of the voting shares have the ability to direct the financial and operating policies of the investment fund, then the fund of funds should not consolidate the investee company.

A private equity fund typically purchases investments, including controlling interests, in investee companies with a view to resale. However, unless qualified as a disposal group held for sale at acquisition under the criteria in IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations, the investee companies should be consolidated. The criteria include that the assets should be available for immediate sale and that such a sale should be highly probable, including completing the sale within one year (IFRS 5.7 and 5.8).

#### Special purpose entities

An investment fund should consolidate any special purpose entity (“SPE”), defined as an entity created to accomplish a narrow and well-defined objective (SIC 12.1), when the substance of the relationship indicates that the SPE is controlled by the investment fund (SIC 12.8).

To establish control, the criteria under IAS 27R discussed above should be considered. Furthermore, the following circumstances may indicate control (SIC 12):

- 1) The activities of the SPE are being conducted on behalf of an entity according to its business need so that the entity obtains benefits from the SPE’s operations.
- 2) The entity has the decision making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an “autopilot” mechanism, the entity has delegated these decision making powers.
- 3) The entity has the rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE.
- 4) The entity retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

As a result of the provisions under SIC 12, an investment fund should consolidate an investee entity, which is qualified as an SPE in which the substance of the relationship indicates control by the investment fund. All the factors identified in SIC 12 should be evaluated equally in assessing the substance of control.



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<b>Consolidation continued</b>		
<p><b>3.2</b> <b>Equity Method of Accounting for Investments in Common Stock / Investment in Associates</b></p>	<p>An associate is an entity over which an investment fund has significant influence and is neither a subsidiary nor an interest in a joint venture (IAS 28.2). An investment fund is presumed to have significant influence over an entity when it has more than 20% of the voting power of that entity. If it possesses less than 20%, other factors should be taken into consideration to determine the existence of significant influence. IAS 28.7 provides certain examples of such factors.</p> <p>Investments in associates should be accounted for using the equity method of accounting. However, IAS 28 provides an exception when the investment is held by a venture capital organisation, mutual fund, unit trust or similar entity and it is designated as a financial instrument at fair value through profit or loss (the fair value option) or is classified as held for trading (IAS 28.1). The same exception applies to joint venture investments held by an investment fund as defined by IAS 31. In practice, investment funds have used this exception to carry the investment at fair value through profit or loss.</p>	<p>Generally does not apply since investments of an investment company are accounted for at fair value through profit and loss in accordance with Accounting Guideline 18, except in significantly limited circumstances (AcG-18.5).</p>
<p><b>3.3</b> <b>Business Combinations and Non-controlling Interests (NCI)</b></p>	<p>Under IFRS, an investment fund needs to first assess whether or not it acquires a business. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for purposes of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants (IFRS 3R.App A – definition of a business). If, as a result of the transaction, an investment fund obtains control over a business, IFRS 3R would apply. As defined in the “Overview of the Consolidation Model” section above, control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefit from activities.</p> <p>At a high level, IFRS 3R requires investment funds to:</p> <ol style="list-style-type: none"> <li>1) Recognise and measure the identifiable assets acquired and the liabilities assumed at their fair value on their acquisition date with limited exceptions.</li> <li>2) Record any non-controlling interest in the acquiree at:             <ol style="list-style-type: none"> <li>a. Its fair value, resulting in the measurement of goodwill relating to the controlling and non-controlling interest, or</li> <li>b. The non-controlling interest’s proportionate share of the acquiree’s identifiable net assets resulting in the measurement of goodwill only for the controlling interest.</li> </ol> </li> </ol>	<p>Generally does not apply since investments of an investment company are accounted for at fair value through profit and loss in accordance with Accounting Guideline 18, except in significantly limited circumstances (AcG-18.5).</p>

	International Financial Reporting Standards	Canadian Accounting Standards
<b>Consolidation continued</b>		
<p><b>Business Combinations and Non-controlling Interests (NCI) continued</b></p>	<p>3) Recognise and measure the goodwill acquired in a business combination or a gain from a bargain purchase. Gains or losses may be recognised in the income statement when control is obtained or lost. Any equity interest that is currently held as a result of a previous transaction is re-measured at fair value and any resulting gain or loss is recognised in the income statement when an acquirer gains control. Any gain or loss on the interest sold and on any retained non-controlling investment (re-measured at fair value) is recognised in the income statement when an acquirer loses control.</p> <p>Additional acquisitions of ownership interests after control is obtained and disposals of an ownership interest that do not result in an entity losing control are treated as equity transactions.</p> <p>IFRS 3R and IAS 27R also require disclosure to enable users of the financial statements to evaluate the nature and the financial effects of a business combination and the relationship between the investment fund and its subsidiaries.</p> <p>IFRS 3R is to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009 (earlier adoption is permitted). IAS 27R should be adopted at the same time.</p>	

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<b>4 Financial Instruments</b>		
<b>4.1 Initial Recognition</b>	<p>Investment funds follow the general recognition principle noted in IAS 39, Financial Instruments: Recognition and Measurement, which states that a financial asset or a financial liability should be recognised only when an entity becomes a party to the contractual provisions of the instrument, subject to the provisions governing regular-way purchases and sales of financial assets (IAS 39.14).</p> <p>A regular-way purchase or sale is the acquisition of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the relevant market (IAS 39.9). Examples of regular-way purchases and sales include securities traded on an exchange or an over-the-counter market. Regular-way purchases of financial assets should be recognised using either trade date accounting or settlement date accounting (IAS 39.38). The choice of method is an accounting policy decision and should be disclosed. The method used should be applied consistently for purchases and sales of investments that belong to the same category (IAS 39.AG 53). Derivatives that require or permit net settlement do not meet the definition of regular-way trades (IAS 39.AG 54).</p>	Similar to IFRS.
<b>4.2 De-Recognition</b>	<p>Regular-way sales of financial assets should be recognised using either trade date accounting or settlement date accounting (IAS 39.38). The method used should be applied consistently for purchases and sales of investments that belong to the same category (IAS 39.AG 53).</p> <p>A financial asset (or part) should be de-recognised, when (IAS 39.17 through 39.19):</p> <ol style="list-style-type: none"> <li>1) The cash flows from the financial asset expire.</li> <li>2) The right to the financial asset's cash flows and substantially all risks and rewards of ownership are transferred.</li> <li>3) An obligation to transfer the asset's cash flows is assumed, substantially all risks and rewards are transferred and the following conditions are met:               <ol style="list-style-type: none"> <li>a. No obligation to pay cash flows unless equivalent cash flows from the transferred asset are collected</li> <li>b. Prohibition from selling or pledging the asset other than as security to the eventual recipient for the obligation to pass through cash flow</li> <li>c. Obligation to remit any cash flows without material delay.</li> </ol> </li> </ol>	<p>Similar to IFRS for regular-way sales of financial assets and de-recognition of financial liabilities.</p> <p>Generally, de-recognition associated with securitisation activities does not apply to investment companies. In circumstances where assets of a fund are securitised, the model for de-recognition is focused on the transfer of control, and considers:</p> <ol style="list-style-type: none"> <li>1) Legal isolation of the transferred asset from the transferor.</li> <li>2) Ability of the transferee to pledge or exchange the asset.</li> <li>3) Obligation of the transferor to repurchase the asset.</li> </ol>

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<b>Financial Instruments continued</b>		
<b>De-Recognition continued</b>	<p>4) The rights to the cash flows are transferred (or an obligation to transfer the cash flows is assumed) and the additional conditions in #3 above are met. However, substantially all the risks and rewards are neither transferred nor retained, but control of the asset is transferred as follows:</p> <ol style="list-style-type: none"> <li>The transferee has the practical ability to sell the asset in its entirety (e.g. the asset is traded in an active market)</li> <li>The transferee is able to exercise this right unilaterally to an unrelated third party</li> <li>There are no further restrictions imposed on the transferee's sale (e.g. no "strings" attached).</li> </ol> <p>A financial liability should be de-recognised when the obligation specified in the contract is discharged or cancelled or expired. A financial liability is also considered extinguished if there is a substantial modification in the terms of the instrument (IAS 39.39 and 39.40). Upon de-recognition, the difference between the carrying amount of the financial instruments and the consideration paid should be recognised as gain or loss in the profit and loss (IAS 39.41).</p> <p>First-in-first-out (FIFO) and weighted average cost are the methods generally applied for calculating the cost basis of a portfolio of investments under IFRS.</p>	
<b>4.3 Financial Assets – Classification</b>	<p>Financial assets are classified as follows:</p> <ol style="list-style-type: none"> <li>Financial instruments at fair value through profit or loss.</li> <li>Held to maturity investments.</li> <li>Loans and receivables.</li> <li>Available-for-sale financial assets.</li> </ol> <p>Financial assets should be classified into the above four categories. Financial assets measured at fair value through profit or loss (i.e. the changes in fair value are recorded as gains or losses in the income statement) are further divided into two sub-categories: financial assets measured at fair value through profit or loss upon initial recognition (i.e. the fair value option, subject to the conditions below) or held for trading.</p>	<p>Investments are generally accounted for at fair value through profit or loss, as required by Accounting Guideline 18, Investment Companies.</p>

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### Financial Instruments continued

#### Financial Assets – Classification continued

A financial asset is classified as held for trading if it is:

- 1) Acquired or incurred principally for the purpose of selling or repurchasing in the near term.
- 2) Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.
- 3) A derivative (except for a derivative that is a financial guarantee contract or designated as an effective hedging instrument).

Financial asset at fair value through profit or loss: The standard also allows an entity to designate a financial asset, a financial liability or a group of financial instruments (financial assets, financial liabilities or both) as at fair value through profit and loss provided it meets one of the following criteria (IAS 39.9 and 39.11):

- 1) A contract contains one or more embedded derivatives and, in that case, the entire hybrid can be designated as a financial asset or financial liability at fair value through profit or loss.
- 2) Such use results in more relevant information, because either:
  - a. It eliminates or significantly reduces a measurement or recognition inconsistency that otherwise would arise from measuring assets and liabilities or recognising the gains and losses on them on a different basis; or
  - b. A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

Note that the fair value option applies only to contracts within the scope of IAS 39 or equity method investments qualifying for the fair value option in accordance with IAS 28.1/IAS 31.1. An investment that needs to be consolidated under IAS 27/SIC 12 cannot be designated at fair value through profit or loss in the consolidated financial statements.

Caution should be taken in the classification of financial instruments under the fair value option. Once financial instruments are so designated, an investment fund will not be able to reclassify them into or out of the fair value through profit or loss category (IAS 39.50).

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<b>Financial Instruments continued</b>		
<p><b>Financial Assets – Classification continued</b></p>	<p>Held-to-maturity investments: Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the investment fund has the positive intention and ability to hold to maturity other than:</p> <ol style="list-style-type: none"> <li>1) Those that upon initial recognition are designated as at fair value through profit or loss.</li> <li>2) Those that are designated as available-for-sale.</li> <li>3) Those that meet the definition of loans and receivables.</li> </ol> <p>Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:</p> <ol style="list-style-type: none"> <li>1) Those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss.</li> <li>2) Those that upon initial recognition are designated as available-for-sale.</li> <li>3) Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale.</li> </ol> <p>Available-for-sale financial assets: Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables; (b) held-to-maturity investments; or (c) financial assets at fair value through profit or loss. However, available-for-sale investments are still required to be measured at fair value unless there is no reliable fair value, in which case an unquoted equity security is valued at cost (only in rare circumstances, since it is presumed that fair value can be reliably determined) and would need to be assessed for impairment which would require an estimate of the present value of the future cash flows (IAS 39.66). Changes in fair value are recognised net of tax effects in equity (i.e. presented in the statement of changes in equity and recycled to the income statement when sold, impaired or collected). (See the “Subsequent Measurement” section below for further discussion of the result of different classification.)</p>	

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<b>Financial Instruments continued</b>		
<p><b>4.4</b> <b>Financial Liabilities – Classification</b></p>	<p>IAS 39 has two defined categories of financial liabilities:</p> <ol style="list-style-type: none"> <li>1) Financial liabilities “at fair value through profit or loss”.</li> <li>2) Other financial liabilities.</li> </ol> <p>A financial liability is at fair value through profit and loss if it is either held for trading, a derivative not designated as a hedging instrument or an instrument that elected the fair value option at initial recognition (provided specific criteria described above for financial assets are met).</p> <p>Financial liabilities that are not classified as at fair value through profit or loss would automatically fall into the second category of “other financial liabilities” and are measured at amortised cost. Common examples are trade payables and borrowings.</p>	<p>Measurement of financial liabilities is similar to IFRS; however, financial liabilities are classified as either held-for-trading or other financial liabilities.</p>
<p><b>4.5</b> <b>Initial Measurement</b></p>	<p>IFRS requires that a financial asset and financial liability be initially measured and recorded at fair value or fair value plus/minus transaction costs where the financial asset or financial liability will not be carried at fair value through profit or loss (IAS 39.43). The fair value is typically the amount paid or received at the time of the transaction.</p> <p>Transaction costs, including the “bid-ask spread”, directly attributable to the acquisition or issue of financial instruments at fair value through profit or loss should be expensed through profit and loss. On the other hand, as noted above for instruments not carried at fair value through profit and loss, transaction costs should be included in the amount initially measured.</p> <p>Since investments held by an investment fund are typically financial instruments carried at fair value through profit or loss, the investment fund should follow the IFRS requirement to expense the transaction costs, including the “bid-ask spread” and such spread may be included as part of the change in fair value of the securities in the income statement from a practical standpoint or as a separate expense similar to other transactions costs, such as borrowing costs.</p>	<p>Investments are measured at fair value upon initial recognition. Transaction costs are recognised in net income immediately.</p>



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#### 4.6 Subsequent Measurement

Subsequent measurement depends on the initial classification of the financial instrument. The general principles for subsequent measurement:

- 1) Financial instruments carried at fair value through profit or loss subsequently should be measured at fair value without any deduction of transaction costs that may be incurred on disposal (IAS 39.46 and 39.47). Changes in value should be recognised as gains or losses in profit and loss (IAS 39.55).
- 2) Financial assets designated as available-for-sale instruments subsequently should be measured at fair value (IAS 39.46) or at cost for an unquoted equity security if the fair value cannot be reliably determined (IAS 39.46). Changes in value should be recognised directly in equity, through the statement of changes in equity, except for impairment charges and the impact of movements in foreign currency exchange rates on amortised cost of available-for-sale debt instruments. Furthermore, related interest income should be recorded in profit and loss (IAS 39.55).
- 3) Financial assets designated as held-to-maturity and other financial assets (such as loans and receivables) subsequently should be measured at amortised cost.
- 4) Financial liabilities not carried at fair value through profit or loss should be measured at amortised cost which is calculated using the effective interest method. Refer also to the “Net Assets – Measurement” section above for measurement of units or shares classified as financial liabilities.

For all financial assets which are not measured at fair value through profit or loss, any impairment should be assessed at each balance sheet date. Any such impairment, if identified, should be recorded as a loss in the income statement. A financial asset is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset. The standard provides guidance on objective evidence of impairment which varies depending on whether the investment is a debt or equity security. An impairment loss can be reversed for debt instruments if there is objective evidence that the decrease in impairment loss is related to an event that occurred after the impairment charge was recorded.

Investments are valued at fair value under Accounting Guideline 18, Investment Companies. Unrealised gains and losses on investments are recognised in the statement of operations.

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<p><b>4.7</b> <b>Fair Value</b></p>	<p>Financial instruments quoted in an active market should be valued at bid price for long positions and asking price for short positions.</p> <p>When an investment fund has financial assets and liabilities with offsetting market risks, it may use mid-market prices to determine fair value for the offsetting risk positions and apply bid or asking prices to the net open position, as appropriate.</p> <p>The use of a blockage factor is not appropriate in the determination of fair value for instruments traded in an active market (IAS 39.AG 71). A restriction on the securities that is specific to the asset would generally require a discount to be applied in determination of fair value.</p> <p>For financial instruments without an active market, the fair value should be determined based on a valuation technique. The valuation technique should be based on market transactions of substantially similar securities, discounted cash flow analysis, an option pricing model or another valuation technique commonly used by market participants and proven to be reliable (IAS 39.AG 74).</p>	<p>Similar to IFRS.</p>
<p><b>4.8</b> <b>Disclosure</b></p>	<p>Disclosures related to financial instruments are driven primarily by IFRS 7. The objective of IFRS 7 is to provide disclosures “through the eyes of management” and encompass both qualitative narrative descriptions and specific quantitative data such that users are able to evaluate the nature and extent of risks arising from financial instruments to which an investment fund is exposed at the reporting date and how the risks are managed.</p> <p>IFRS 7 requires that certain disclosures be provided by class of financial instruments. Although IFRS 7 does not provide a prescriptive list of classes, it states that a class shall contain financial instruments of the same nature and characteristics. An instrument class is not the same as an instrument category as classes should be determined at a lower level than the categories and reconciled back to the balance sheet (IFRS 7.6). For example, instruments within the category of fair value through profit or loss might be disaggregated into different types of investments held by an investment fund (i.e. different classes).</p>	<p>Similar to IFRS, subsequent to the adoption of CICA 3862 - Financial Instruments Disclosures, and CICA 3863 - Financial Instruments Presentation.</p>

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### Financial Instruments continued

#### Disclosure continued

#### Balance sheet disclosure

IFRS 7 requires disclosure of the carrying values of each of the following categories either on the face of the balance sheet or in the notes (IFRS 7.8):

- 1) Financial assets at fair value through profit or loss, showing separately those designated upon initial recognition and those classified as held for trading.
- 2) Financial assets designated as available-for-sale.
- 3) Financial assets designated as held-to-maturity.
- 4) Loans and receivables.
- 5) Financial liabilities at fair value through profit or loss, showing separately those designated upon initial recognition and those classified as held for trading.
- 6) Financial liabilities measured at amortised cost.

Fair value of each of the categories of financial assets and liabilities, including the assumptions and estimations used in the determination of fair value, should be disclosed (IFRS 7.30). For an investment fund, since investments generally are carried at fair value and other financial assets and liabilities are short-term in nature, the carrying amounts of other financial assets and liabilities typically approximate the fair value. This should be stated in the notes to the financial statements (IFRS 7.29).

Collateral pledged, including carrying amounts and terms and conditions, should be disclosed (IFRS 7.14).

Collateral held, including the fair value, the fair value of any such collateral sold or re-pledged, whether the entity has an obligation to return it, and terms and conditions should all be disclosed (IFRS 7.15).

#### Income statement disclosure

IFRS 7 requires the disclosure of net gains or losses on each of the categories of financial assets and liabilities.

Total interest income and interest expense should be disclosed for financial assets and financial liabilities that are not at fair value through profit or loss. Any impairment loss for each category also should be disclosed.

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### Financial Instruments continued

#### Disclosure continued

#### Nature and extent of risks arising from financial instruments

To help users understand the nature and extent of risks arising from financial instruments, both qualitative and quantitative disclosures should be made. The risks for an investment fund usually include credit risk, liquidity risk and market risk (including interest rate risk, price risk and currency risk). Disclosures around the nature and extent of risks should be tailored to reflect the financial instruments held by the investment fund; additional risks may be identified and disclosed based on the entity's specific investment objectives and activities.

With regard to qualitative disclosures for each type of risk resulting from financial instruments, the investment fund should disclose exposures to risk and how they arise; the entity's objectives, policies and processes for managing and measuring risk; and any changes during the period related to risk and risk management.

Investment funds are also required to disclose summary quantitative data about their exposure to each type of risk arising from financial instruments based on information provided internally to key management. At a minimum, these disclosures should include:

- 1) Credit risk, including:
  - a. The amount that best represents the maximum exposure to credit risk at the reporting date without consideration of collateral held or other credit enhancements
  - b. Disclosure around collateral held or other credit enhancements for that instrument
  - c. Analysis of financial assets that are either past due or impaired.
- 2) Liquidity risk, including a maturity analysis for financial liabilities that shows the remaining contractual maturities and a description of how the investment fund manages the liquidity risk inherent in the maturity analysis.

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#### Disclosure continued

3) Market risk, including a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date. The disclosures for the sensitivity analysis should also include the methods and assumptions used in preparing the sensitivity analysis and any changes from the previous period to these methods and assumptions. This disclosure is one of the most challenging areas for investment funds due to the judgment and analysis involved as well as the need to accumulate data which the investment fund may not immediately have access to. As part of the process, management should identify the relevant risk variables that reflect best the exposure of the entity to market risk. For example, for an investment fund with a long/short debt strategy, the relevant risk variables would be interest and foreign currency rates. When preparing the sensitivity analysis, the quantitative impacts of the interest and foreign currency rate sensitivities of the investment fund need to be determined and disclosed.

The investment fund also should provide information about concentration of risk to the extent that this information is not apparent through the disclosure discussed above. PwC's publication, IFRS Illustrative Financial Statements – Investment Funds, provides examples of disclosure in accordance with IFRS 7.

In addition to IFRS 7, IAS 1 also requires:

- 1) The disclosure of the use of judgment that management has made in the application of accounting policies and that have the most significant effect on the amounts recognised in the financial statements (IAS 1R.122).
- 2) The key assumptions used and sources of estimation of uncertainty also should be disclosed, together with the nature and carrying amounts of the affected assets and liabilities (IAS 1R.125).
- 3) The qualitative and quantitative information about the investment fund's objectives, policies and processes for managing capital (IAS 1R.136).

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<b>Financial Instruments continued</b>		
<b>4.9 Offsetting</b>	<p>A financial asset and a financial liability should be offset and the net amount presented on the balance sheet when an investment fund (IAS 32.42):</p> <ol style="list-style-type: none"> <li>1) Currently has a legal enforceable right to offset the recognised amounts.</li> <li>2) Intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.</li> </ol> <p>In order to offset financial assets and liabilities, an investment fund must have a currently enforceable legal right to do so. Conditional rights do not meet this criterion. For instance, an investment fund may have a conditional right to set off recognised amounts, such as in a master netting agreement, but such rights are enforceable only on the occurrence of some future event, usually a default of the counterparty. Consequently, IFRS does not consider such an agreement as meeting the conditions for offset (IAS 32.AG 38). As a result, positive and negative fair value of derivatives under a master netting arrangement should not be offset even if such derivatives have the same counterparty. The amounts should be presented as financial assets and financial liabilities on the balance sheet, respectively.</p>	Similar to IFRS.

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### 5 Other Accounting & Reporting Topics

<p><b>5.1 Functional Currency</b></p>	<p>Functional currency is the currency of the primary economic environment in which an investment fund operates (IAS 21.9).</p> <p>An entity considers the following primary indicators in the determination of its functional currency:</p> <ol style="list-style-type: none"> <li>1) It is the currency:             <ol style="list-style-type: none"> <li>a. That mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled)</li> <li>b. Of the country whose competitive forces and regulations mainly determine the sales prices of the entity's goods and services.</li> </ol> </li> <li>2) It is the currency that mainly influences labour, material and other costs of providing goods or services; this will often be the currency in which such costs are denominated and settled.</li> </ol> <p>Secondary indicators include the currency in which funds from financing activities are generated and the currency in which receipts from operating activities are usually retained (IAS 21.10). An example for financing is the currency in which the investment fund's shares are issued and redeemed. As a result, determining the functional currency of an investment fund is not straightforward and depends on multiple factors, including but not limited to:</p> <ol style="list-style-type: none"> <li>1) The economic environment(s) in which the financial assets are invested.</li> <li>2) The economic environment(s) of the investors.</li> <li>3) The regulatory environment.</li> <li>4) The competitive environment.</li> <li>5) The fee structure.</li> <li>6) The denomination of subscriptions and redemptions.</li> </ol> <p>When the factors are mixed and the functional currency is not obvious, management should use its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions that affect the entity (IAS 21.12).</p> <p>When the presentation currency is different from the functional currency, disclosure should be made for the investment fund's functional currency and the presentation currency, which is the currency used in the presentation of financial statements. The reason for using a different presentation currency should also be disclosed (IAS 21.53).</p>	<p>Investment companies determine their functional currency based on facts and circumstances using judgment. In certain cases an entity may choose a reporting currency which differs from the entity's functional currency. In such cases, the translation method in EIC 130 - Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a Change in Reporting Currency, is used.</p>
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### Other Accounting & Reporting Topics continued

#### 5.2 Foreign Currency Transactions and Translation of Financial Statements

A foreign currency transaction should be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate at the transaction date (IAS 21.21).

When a debt security is classified as available-for-sale, any foreign currency gains and losses are recognised in the income statement and not included as part of other comprehensive income.

At subsequent balance sheet dates, monetary assets and liabilities denominated in a foreign currency are translated using the closing rates (IAS 21.23). Non-monetary balance sheet items that are measured at historical cost in a foreign currency should be translated using the exchange rate at the date of the transaction (IAS 21.23). Non-monetary balance sheet items that are measured at fair value in a foreign currency should be translated at the exchange rate at the date when the fair value is determined (IAS 21.23).

When translating the financial statements from the functional currency into the presentation currency, assets and liabilities shall be translated at the closing rate and income statement items shall be translated at the exchange rates at the dates of the transactions (or an average rate as a practical alternative, provided that the exchange rate does not fluctuate significantly).

Similar to IFRS.

#### 5.3 Tax Uncertainties

Although IAS 12 does not specifically address uncertain tax positions, the general measurement guidance in IAS 12.46 should be applied: “Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities using the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date”. The unit of account and measurement method are not specified in IAS 12.

An investment fund may choose to consider uncertain tax positions at the level of the individual uncertainty or group of related uncertainties. It also may choose to consider tax uncertainties at the level of its total tax liability to each taxing authority.

Income tax liabilities and income tax assets are measured using the income tax rates and income tax laws that, at the balance sheet date, are expected to apply when the liability is settled or the asset realised, which would normally be those enacted at the balance sheet date. Recognition of future income tax assets is limited to the amount that is more likely than not to be realised.

Generally, investment funds in Canada do not incur income taxes as a result of the flow-through nature of their structure.

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<b>Other Accounting &amp; Reporting Topics continued</b>		
<b>Tax Uncertainties continued</b>	<p>When an investment fund elects to consider uncertain tax positions at the level of each uncertainty, it should first consider whether each position taken in the tax return is probable of being sustained on examination by the taxing authority. A liability should be recognised in connection with each item that is not probable of being sustained. The liability is measured using either an expected value (weighted average probability) approach or a single best estimate of the most likely outcome. The current tax liability would be the aggregate liability in connection with uncertain tax positions.</p> <p>When an entity elects to consider uncertain tax positions at the level of its relationship with the taxing authority, the key issue is the measurement of the tax liability. It is probable that an investment fund will pay tax, so the recognition threshold has been met. The investment fund should determine the total amount of current tax it expects to pay, taking into account all the tax uncertainties, using either an expected value (weighted average probability) approach or a single best estimate of the most likely outcome.</p> <p>IAS 37, Provisions, Contingent Liabilities and Contingent Assets, excludes income taxes from its scope and is not used to account for uncertain tax positions.</p>	
<b>5.4 Real Estate Investments</b>	<p>IAS 40.32A permits an entity to choose either the fair value model with changes in fair value recognised in earnings or the cost model for all investment property. IAS 40.5 defines an investment property as a land and/or a building, held to earn rentals or for capital appreciation or both. An investment property does not include property held for use in production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business.</p>	<p>Real estate investments are accounted for at fair value for funds that meet the definition of an investment company under Accounting Guideline 18. In circumstances where the fund is involved in the ongoing management of the properties, the fund may not meet the definition of an investment company, in which case the investments should be accounted for at cost.</p>

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### Other Accounting & Reporting Topics continued

#### 5.5 Share Based Compensation

##### Recognition

The fair value of shares and options awarded to employees is recognised over the period to which the employees' services relate. The award is presumed to be for past services if it is unconditional without any performance criteria.

##### Measurement

For equity-settled share-based payment awards issued to employees, the awards should be measured by reference to the fair value of the equity instruments granted and recognised as compensation expense and a corresponding increase to equity over the requisite service period. For cash-settled share-based payment transactions, the goods or services acquired and the liability incurred are measured at the fair value of the liability which is marked to market at each balance sheet date. Extensive disclosures are also required.

##### Employer's payroll tax payable on exercise of share options by employees

Employers' social security liability arising from share-based payment transactions is recognised over the same period or periods as the share-based payment charge.

Similar to IFRS. However, share based compensation generally does not occur within investment companies in Canada.

#### 5.6 Financial Highlights (including Earnings Per Share)

The disclosure of financial highlights, including the disclosure of the entity's net asset value, is not required under IFRS.

If an investment fund provides an alternative performance measure (such as financial highlights), the entity should ensure that it addresses the four qualitative characteristics that make the information provided in financial statements useful to readers: comprehensibility; relevance; reliability; and comparability. Therefore, investment funds should consider the following guidelines if alternative performance measures are disclosed:

- 1) Define the terminology used and the basis of calculation adopted.
- 2) Where possible, present alternative performance measures only in combination with measures defined under IFRS.
- 3) Alternative performance measures should be presented consistently over time.

Required to be presented in Management's report on fund performance and should follow specific calculation, presentation and disclosure requirements outlined in NI 81-106.

	International Financial Reporting Standards	Canadian Accounting Standards
<b>Other Accounting &amp; Reporting Topics continued</b>		
<b>Financial Highlights (including Earnings Per Share) continued</b>	<p>4) To ensure that investors are not misled, alternative performance measures should not be presented with greater prominence than defined IFRS measures. Where alternative performance measures are derived from audited financial statements and resemble defined performance measures, but do not actually have the characteristics of the defined measures, then the defined measures should be given greater prominence than the alternative performance measures.</p> <p>5) Generally, explain the reason for presenting alternative performance measures to investors (i.e. may be used internally).</p> <p>If an investment fund has equity instruments that are publicly traded, earnings per share should be disclosed in accordance with IAS 33, Earnings Per Share.</p>	
<b>5.7 Related Party Transactions</b>	<p>The term “related party” is defined in paragraph 9 of IAS 24, Related Party Disclosures.</p> <p>The disclosures required for related party transactions, typically applicable to an investment fund, are as follows (IAS 24.17):</p> <ol style="list-style-type: none"> <li>1) The amount of transactions.</li> <li>2) The amount of outstanding balances and             <ol style="list-style-type: none"> <li>a. Their terms and conditions</li> <li>b. Details of any guarantee received or given.</li> </ol> </li> <li>3) Provisions for doubtful debts related to the amounts of outstanding balances.</li> <li>4) The expense recognised in respect of bad or doubtful debts due from related parties.</li> <li>5) The identity of the controlling party.</li> </ol> <p>Additionally, under IFRS an investment fund is also required to disclose key management personnel compensation in total and for each of the following categories:</p> <ol style="list-style-type: none"> <li>1) Short-term employee benefits.</li> <li>2) Post-employment benefits.</li> <li>3) Other long-term benefits.</li> <li>4) Termination benefits.</li> <li>5) Share-based payment.</li> </ol>	<p>Similar to IFRS. However, there are specific measurement criteria for related party transactions under CICA 3840, Related Party Transactions.</p>

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**Other Accounting & Reporting Topics continued**

<p><b>5.8 Segment Reporting</b></p>	<p>Segment reporting is required for entities whose debt or equity instruments are traded in a public market.</p> <p>On 30 November 2006, the IASB issued IFRS 8, Operating Segments, which is effective for the year beginning on or after 1 January 2009. IFRS 8 is a convergence standard with FAS 131. Under IFRS 8, a segment is an operating segment, which is identified on the basis of internal reports that are regularly reviewed by an entity's chief operating decision makers in order to allocate resources to the segment and assess its performance. Measurement and disclosure requirements have also been amended. The segment reporting under IFRS 8 is to disclose an entity's segment through the eyes of management.</p>	<p>Similar to IFRS, segmented reporting is required for publicly traded investment funds.</p>
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## International Financial Reporting Standards

## Hong Kong Financial Reporting Standards

### 1 Framework

#### 1.1 Accounting Standards/ Industry Practice

The objective of general purpose financial statements for investment funds is to provide information about an entity's financial position, financial performance and cash flows so that users of the financial statements can make informed decisions. Financial statements also show the results of management's stewardship of the resources entrusted to it (IAS 1).

IFRS, as a set of principle-based accounting standards, does not provide accounting standards or guidance specific to investment funds. Accordingly, investment funds follow the same financial reporting standards as general entities.

IFRS embodies not only the International Financial Reporting Standards themselves but also the International Accounting Standards (IAS) and interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or its former Standing Interpretations Committee (SIC) (IAS 1R.7). Investment funds are required to follow all such standards and interpretations in order to be in compliance with IFRS; an explicit and unreserved statement of such compliance also should be made in the notes to the financial statements (IAS 1R.16).

IFRS (IAS 8) articulates a hierarchy of guidance that management would follow in the absence of a standard that specifically applies to a transaction. In such cases, management uses its judgment in developing and applying an accounting policy. In making that judgment, management considers, first the requirement of other IFRS standards dealing with similar issues, and the concepts in the IASB's framework. It also may consider the accounting standards of other standard-setting bodies.

Under the Hong Kong Institute of Certified Public Accountants' (HKICPA) convergence initiatives, Hong Kong Financial Reporting Standards (HKFRS) converge fully with IFRS, effective for annual periods beginning on or after 1 January 2005. Similar to IFRS, HKFRS also does not provide specific standards / requirements for investment funds. HKFRS are standards and interpretations issued by the HKICPA and comprise Hong Kong Financial Reporting Standards themselves, Hong Kong Accounting Standards and interpretations.

Investment funds that are authorised by the Securities and Futures Commission of Hong Kong (SFC), i.e. those that can be marketed to retail investors in Hong Kong, are also governed by the Code on Unit Trusts and Mutual Funds (Code) issued by the SFC where Appendix E of the Code provides guidelines on presentation and disclosure in the financial statements.



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## Hong Kong Financial Reporting Standards

### Framework continued

#### 1.2 First-time Adoption of Accounting Framework

IFRS 1, First-time Adoption of International Financial Reporting Standards, provides specific guidance on applying IFRS for the first time. First-time adoption of IFRS as a primary accounting basis generally requires full retrospective application of the standards, effective at the reporting date for the entity's first IFRS financial statements. However, IFRS 1 establishes optional exceptions (e.g. business combinations, employee benefits) and mandatory exceptions (e.g. hedge accounting, estimates) from retrospective application.

An entity's first IFRS financial statements must present reconciliations of profit or loss in respect of the last period reported under previous GAAP, of equity at the end of the last period reported under previous GAAP and of equity at the start of the earliest period presented in the financial statements. These reconciliations should be presented in sufficient detail to enable users to understand the material adjustments made in the conversion to IFRS.

If the entity presented a statement of cash flows under its previous GAAP, it should explain the material adjustments required for it to comply with IFRS.

For annual periods beginning on or after 1 January 2009, a first-time adopter is required to disclose its opening balance sheet at the date of transition to IFRS.

Similar to IFRS.

### 2 Financial Statements

#### 2.1 Components of Financial Statements

Comparative financial statements are required (IAS 1R.36) and include (IAS 1R.10):

- |                                      |   |
|--------------------------------------|---|
| 1) A balance sheet.                  | 4) A cash flow statement.   |
| 2) An income statement.              | 5) Notes to the financial statements, comprising a summary of significant |
| 3) A statement of changes in equity. | accounting policies and other explanatory notes.                          |

An investment fund, whose redeemable shares are classified as a financial liability and which does not have any other transaction classified under equity, is not required to present a statement of changes in equity since it does not have equity. For those shares classified as liabilities, a statement of changes in net assets attributable to holders of redeemable shares provides relevant and useful information and it is therefore best practice to provide this statement.

The date of authorisation to issue financial statements, and who authorises them for issue are required under IFRS (IAS 10.17).

For non-SFC authorised investment funds, similar to IFRS.

For SFC authorised investment funds, in addition to HKFRS which is similar to IFRS, Appendix E of the Code requires the following where comparative figures for the previous period are required:

- 1) A statement of assets and liabilities.
- 2) A revenue statement.
- 3) A distribution statement.
- 4) A statement of movements in capital account.
- 5) Notes to the financial statements, including

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	International Financial Reporting Standards	Hong Kong Financial Reporting Standards										
<b>Financial Statements continued</b>												
<b>Components of Financial Statements continued</b>		principal accounting policies, transactions with connected persons as defined in the Code, soft commission arrangements, borrowings, contingent liabilities and commitments, negotiability of assets and other explanatory notes.										
<b>2.2 Balance Sheet</b>	<p>IFRS does not prescribe a specific format for an investment fund's balance sheet. At a minimum, the face of the balance sheet shall include line items that present the following amounts (note: only those minimum line items that might apply to an investment fund are identified – please see IAS 1R.54 for the complete list):</p> <table border="0"> <tr> <td>1) Investment property.</td> <td>6) Financial liabilities.</td> </tr> <tr> <td>2) Financial assets.</td> <td>7) Provisions.</td> </tr> <tr> <td>3) Trade and other receivables.</td> <td>8) Issued capital and other components of shareholders' equity (unless shares are classified as financial liabilities).</td> </tr> <tr> <td>4) Cash and cash equivalents.</td> <td></td> </tr> <tr> <td>5) Trade and other payables.</td> <td></td> </tr> </table> <p>An entity may present additional line items, headings and subtotals on the face of the statement of financial position when the presentation is relevant to an understanding of its financial position (IAS 1R.55).</p> <p>Both current and non-current assets and current and non-current liabilities should be reported on the face of the balance sheet except when presentation based on liquidity, in which assets and liabilities are presented in the order of liquidity, provides information that is reliable and more relevant (IAS 1R.60). Whichever method of presentation is adopted, assets and liabilities with maturities greater than 12 months should be identified in the notes.</p> <p>A typical investment fund whose shares are redeemable at the discretion of its holders or in a limited life entity where the shares are redeemable at liquidation may have no shareholders' equity at all or only a nominal amount representing its voting, non-participating shares (please see "Equity – Classification" for detailed discussion on classification of these shares and the impact of the new IAS 32 amendment on these shares). Although there is no specific format, illustrative examples (IE) 32 and IE 33 of IAS 32, Financial Instruments: Presentation, provide models of presentation for balance sheets and income statements for entities with no equity or some equity but explicitly state that other formats are possible. PwC's publication, IFRS Illustrative Financial Statements – Investment Funds, also provides an example for reference.</p>	1) Investment property.	6) Financial liabilities.	2) Financial assets.	7) Provisions.	3) Trade and other receivables.	8) Issued capital and other components of shareholders' equity (unless shares are classified as financial liabilities).	4) Cash and cash equivalents.		5) Trade and other payables.		<p>For non-SFC authorised investment funds, similar to IFRS.</p> <p>For SFC authorised investment funds, in addition to HKFRS which is similar to IFRS, Appendix E of the Code requires the following specific items to be presented and disclosed in the statement of assets and liabilities at a minimum:</p> <ol style="list-style-type: none"> <li>1) Total value of investments.</li> <li>2) Bank balances.</li> <li>3) Formation costs.</li> <li>4) Dividends and other receivables.</li> <li>5) Amounts receivable on subscription.</li> <li>6) Bank loans and overdrafts or other forms of borrowing.</li> <li>7) Amounts payable on redemption.</li> <li>8) Distributions payable.</li> <li>9) Total value of all assets.</li> <li>10) Total value of all liabilities.</li> <li>11) Net asset value.</li> <li>12) Number of units/shares in issue.</li> <li>13) Net asset value per unit/share.</li> </ol>
1) Investment property.	6) Financial liabilities.											
2) Financial assets.	7) Provisions.											
3) Trade and other receivables.	8) Issued capital and other components of shareholders' equity (unless shares are classified as financial liabilities).											
4) Cash and cash equivalents.												
5) Trade and other payables.												

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## International Financial Reporting Standards

## Hong Kong Financial Reporting Standards

### Financial Statements continued

#### 2.3 Equity – Classification

The definition of a financial liability includes a contractual obligation to deliver cash or another financial asset to another entity (IAS 32.11). A financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset (a “puttable instrument”) is a financial liability regardless of whether the amount of cash or another financial asset is determined based on an index or other item that has the potential to increase or decrease. IAS 32 specifically cites, as examples of puttable instruments, interests issued by open-ended mutual funds, unit trusts, partnerships, etc. (IAS 32.18), that would be classified as liabilities.

However, in February 2008, the IASB issued an amendment to IAS 32 and IAS 1, Puttable Financial Instruments and Obligations Arising on Liquidation (IAS 32 amendment), which is effective for annual periods beginning on or after 1 January 2009 (with earlier adoption permitted). The amendment provides an exception to the definition of a financial liability to permit certain puttable instruments and instruments with obligations that arise upon liquidation to be classified as equity if strict criteria are met. The scope of the amendment is intended to be narrow, and unless all criteria are met, the instrument would continue to be classified as a liability. The specific criteria are as follows:

- 1) The instrument is the most subordinate class of instruments.
- 2) All financial instruments in the class of instruments that is subordinate to all other classes have identical features (e.g. the formula to calculate the redemption price is the same for all instruments in that class).
- 3) The holder is entitled to a pro rata share of net assets (i.e. the assets remaining after deducting all other claims on its assets).
- 4) The total expected cash flows to the holder are substantially based on profit and loss, change in net assets or change in the fair value of the net assets\*.
- 5) There is no other instrument which is tied to the same measures as in #4 above and has the effect of fixing or restricting the residual return to the puttable instrument holder.
- 6) The instrument has no other liability feature apart from the obligation to redeem the instrument\*.

\* A criterion only for puttable instruments.

Similar to IFRS.

Amendments to HKAS 32 and HKAS 1, Puttable Financial Instruments and Obligations Arising on Liquidation, was issued by the HKICPA in June 2008 and is effective for annual periods beginning on or after 1 January 2009. There are no differences between Amendments to IAS 32 and IAS 1 and Amendments to HKAS 32 and HKAS 1.

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## Hong Kong Financial Reporting Standards

### Financial Statements continued

#### Equity – Classification continued

Given the restrictive criteria above, redeemable shares of investment funds will rarely qualify for equity classification under the IAS 32 amendment.

Apart from redeemable shares which may be classified as liabilities, an investment fund may have activity in equity (e.g. shares meeting the definition of equity, or available-for-sale securities in which changes in fair value would be recorded through other comprehensive income). In such cases, the investment fund is required to present a statement of changes in equity.

Changes in the liability, which includes related dividends or distribution of income to holders of redeemable shares and subsequent measurement of the liability, should be recognised in the income statement. (Please refer to the “Net Assets – Measurement” section below.) Subscriptions and redemptions should be recorded directly as a change in the liability and not flow through the income statement.

#### 2.4 Net Assets – Measurement

Net assets attributable to holders of redeemable shares will generally be classified as a liability on the balance sheet, carried at the redemption amount that would be payable at the balance sheet date if the holders exercised the right to put the shares back to the investment fund. Changes in this redemption amount each period should be recorded through the income statement.

If the net asset value for subscriptions and redemptions is different from the net asset value calculated using bid/ask prices (e.g. because NAV as prescribed by the offering memorandum is based on the last traded price), an adjustment to net asset value is recorded so that the net asset value attributable to the holders of redeemable shares represents the redemption amount.

Similar to IFRS.

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## International Financial Reporting Standards

## Hong Kong Financial Reporting Standards

### Financial Statements continued

#### 2.5 Schedule of Investments

A condensed schedule of investments is not required to be presented under IFRS. However, IFRS 7 requires an entity to disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance (IFRS 7.7). In particular, IFRS 7 requires quantitative disclosures about concentrations of risk (IFRS 7.34c). As such, an analysis of the investments similar to the one provided through the schedule of investments may be used as part of the IFRS 7 disclosures.

For non-SFC authorised investment funds, similar to IFRS.

For SFC authorised investment funds, in addition to HKFRS which is similar to IFRS, Appendix E of the Code requires the following specific items to be presented and disclosed in a schedule of investment portfolio at a minimum:

- 1) Number or quantity of each holding together with the description and market value. Distinguish between listed and unlisted and categorise by country. For investments in investment funds by a unit portfolio management fund as defined in the Code, the place of incorporation of the investment funds should be disclosed.
- 2) The total investment stated at cost.
- 3) The value of each holding as a percentage of net asset value.
- 4) A statement of movements in portfolio holdings since the end of the preceding accounting period. Detailed holdings in individual securities, holdings in different sectors of a particular market, holdings in different countries and holdings in various kinds of securities are acceptable methods to illustrate portfolio holdings. Except for detailed holdings in individual securities, movements in portfolio holdings can be expressed in percentages.

Comparative figures for the previous period are not required. This schedule of investment portfolio falls outside the financial statements.

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## Hong Kong Financial Reporting Standards

### Financial Statements continued

#### 2.6 Income Statement

IFRS does not prescribe a specific format. Similar to the balance sheet, IAS 1R.82 requires that certain minimum line items be presented on the face of the income statement. Expenses should be classified according to nature or function (IAS 1R.99). If the classification by function is used, additional information on the nature of expenses should be disclosed.

The portion of the profit and loss attributable to the minority interest is disclosed separately in the income statement (IAS 1R.83). The minority portion of net income is presented after the “net income” line as an allocation of “net income”.

An investment fund may present additional line items, headings and subtotals on the face of the income statement when it is relevant to an understanding of its financial performance (IAS 1R.85).

In addition, in an instance in which the entity has little or no equity, IAS 32.IE 32 and 32.IE 33 provide examples of income statements for such entities. PwC’s publication, IFRS Illustrative Financial Statements – Investment Funds, also provides an example for reference.

For non-SFC authorised investment funds, similar to IFRS.

For SFC authorised investment funds, in addition to HKFRS which is similar to IFRS, Appendix E of the Code requires the following specific items to be presented and disclosed in the revenue statement at a minimum:

- 1) Total investment income net of withholding tax, broken down by category.
- 2) Total other income, broken down by category.
- 3) Equalisation on issue and cancelation of units/shares.
- 4) An itemised list of various costs which have been debited to the investment fund including:
  - a. Fees paid to the management company
  - b. Remuneration of the trustee/custodian
  - c. Fees paid to investment adviser (if any)
  - d. Other amounts paid to any connected persons of the investment fund
  - e. Amortisation of formation costs
  - f. Directors’ fee and remuneration
  - g. Safe custody and bank charges
  - h. Auditors’ remuneration
  - i. Interest on borrowings
  - j. Legal and other professional fees
  - k. Any other expenses borne by the investment fund.
- 5) Taxes.
- 6) Amounts transferred to and from the capital account.
- 7) Net income to be carried forward for distribution.

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## Hong Kong Financial Reporting Standards

### Financial Statements continued

#### 2.7 Interest and Dividend Income Recognition

Interest should be accrued and recognised using the effective interest method (IAS 18.30) from the date of purchase (IAS 18.32), and dividends should be recognised when the right to receive payment is established (IAS 18.30), typically the ex-dividend date. As such, the discount and premium of fixed income securities should be included in the calculation of interest income under the effective interest method.

The effective interest method is based on the estimated future cash flows through the expected life of the instrument without considering future credit losses (IAS 39.9). However, in some cases, investments are acquired at a deep discount that reflect incurred credit losses and such incurred credit losses should be included in the estimated cash flows (IAS 39.AG 5). If the investment fund subsequently revises its estimated future cash flows, it shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows using the original effective interest rate and record this adjustment through the income statement (IAS 39.AG 8).

IFRS requires separate presentation of interest income and foreign currency exchange gains and losses except when the financial assets and liabilities are carried at fair value through profit or loss. For example, exchange differences arising on translating an available-for-sale debt security as well as the current period amortisation on the security would need to be presented separately in the income statement.

Similar to IFRS.

#### 2.8 Realised and Unrealised Gains (Losses) on Investments – Presentation

Although not a minimum required item to be presented under IAS 1R, net gains or losses on investments are typically presented on the face of the income statement given their importance to an investment fund's financial performance. There is no requirement to separate realised and unrealised gains or losses.

Since interest income and foreign exchange gains/losses do not need to be disclosed separately for financial instruments at fair value through profit or loss, they may be included in the gains or losses on investments.

For non-SFC authorised investment funds, similar to IFRS.

For SFC authorised investment funds, in addition to HKFRS which is similar to IFRS, Appendix E of the Code requires surplus/loss on sale of investments, unrealised appreciation/diminution in value of investments and exchange gain/loss to be presented and disclosed separately.



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<b>Financial Statements continued</b>		
<b>2.9 Withholding Taxes – Presentation</b>	Income received should be included gross in the income statement. The withholding taxes should be presented as a separate component of income tax for the period.	Similar to IFRS.
<b>2.10 Statement of Changes in Net Assets/Equity</b>	<p>IFRS does not prescribe a specific format. The general presentation and disclosure requirements are detailed in IAS 1R.106 through 1R.110.</p> <p>For an investment fund with no equity (i.e. all the shares are classified as liability under IAS 32 and the investment fund does not have any other equity reserves), the statement of changes in equity is not required. PwC's publication, IFRS Illustrative Financial Statements – Investment Funds, also provides an example for reference.</p>	<p>For non-SFC authorised investment funds, similar to IFRS.</p> <p>For SFC authorised investment funds, in addition to HKFRS which is similar to IFRS, Appendix E of the Code requires the following specific items to be presented and disclosed in the statement of movements in capital account at a minimum:</p> <ol style="list-style-type: none"> <li>1) Value of the investment fund as at the beginning of the period.</li> <li>2) Number of units/shares issued and the amounts received upon such issuance (after equalisation if applicable).</li> <li>3) Number of units/shares redeemed and the amounts paid on redemption (after equalisation if applicable).</li> <li>4) Any items resulting in an increase/decrease in value of the investment fund including:               <ol style="list-style-type: none"> <li>a. Surplus/loss on sale of investments</li> <li>b. Exchange gain/loss</li> <li>c. Unrealised appreciation/diminution in value of investments</li> <li>d. Net income for the period less distribution.</li> </ol> </li> <li>5) Amounts transferred to and from the revenue account.</li> <li>6) Value of the investment fund as at the end of the period.</li> </ol>

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<b>Financial Statements continued</b>		
<p><b>2.11</b> <b>Statement of Cash Flows</b></p>	<p>A statement of cash flows is always required.</p> <p>The statement of cash flows should report cash flows classified by operating, investing and financing activities (IAS 7.10). The cash flows from operating activities can be presented using either the direct or indirect method (IAS 7.18) although IFRS encourages the use of the direct method (IAS 7.19).</p> <p>Regardless of whether the direct or indirect method is used, cash flows from interest and dividends received and paid should be disclosed separately within the statement of cash flows and classified consistently as either operating, investing or financing activities (IAS 7.31). Cash flows from taxes should also be disclosed separately and classified as operating activities unless specifically identified with financing or investing activities (IAS 7.35).</p> <p>In accordance with IAS 7.15, purchases and sales of investments for investment funds are generally considered operating activities as they relate to the main revenue-producing activity of the investment fund. In addition, purchases and sales may either be shown on a gross basis or on a net basis (IAS 7.22 and 7.24) if the turnover is rapid, the amounts are large and the maturities are short.</p> <p>Non-cash transactions should be excluded from the statement of cash flows and should be disclosed in the notes to the financial statements (IAS 7.43).</p>	<p>Similar to IFRS.</p>
<p><b>2.12</b> <b>Definition of Cash and Cash Equivalents</b></p>	<p>Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value (IAS 7.6). Usually, an investment qualifies as a cash equivalent when it has a maturity of three months or less from the date of acquisition (IAS 7.7).</p> <p>Bank overdrafts can be included as a component of cash and cash equivalents if they are repayable on demand and form an integral part of an entity's overall cash management (IAS 7.8).</p> <p>The effect of exchange rate changes on cash and cash equivalents held or due in foreign currency should be presented on the face of the cash flow statement, although separately from cash flows from operating, investing or financing activities, in order to reconcile the cash and cash equivalents at the beginning and end of the period (IAS 7.28).</p> <p>Cash and cash equivalents that are not available for use by the investment fund should be disclosed. Cash and cash equivalents subject to withdrawal or use restrictions should be disclosed separately from other cash amounts (IAS 7.48).</p>	<p>Similar to IFRS.</p>

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### 3 Consolidation

#### 3.1 Overview of the Consolidation Model

The accounting standards on consolidation are set forth in IAS 27R, Consolidated and Separate Financial Statements, which does not provide a scope exception for an investment fund.

An investment fund should consolidate all its investments in which it has control. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities:

- 1) Control is presumed to exist if an investment fund owns more than half of the voting power of another entity.
- 2) If an investment fund owns half or less than half of voting power, control also exists if it has:
  - a. Power over more than half of voting rights by virtue of an agreement with other investors
  - b. Power to govern the financial and operating policies of the entity under a statute or an agreement
  - c. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body
  - d. Power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

The existence of currently exercisable potential rights, such as warrants, call options or convertible instruments, also should be taken into consideration under the consolidation model.

An investment fund should consolidate any investments which are deemed to be subsidiaries under IAS 27R. A subsidiary is defined as an entity, including an unincorporated entity such as a partnership that is controlled by another entity (IAS 27R.4). A feeder fund that has the majority of voting shares of the master fund in a master-feeder structure will need to consolidate the master fund. In cases in which the feeder fund owns only non-voting participating shares of a master fund, other criteria should also be considered, including whether the feeder fund has the power to govern by virtue of laws or an agreement such as a control agreement between the feeder fund and the master fund, and whether the master fund is in fact a special purpose entity of the feeder fund.

In some circumstances, in which a feeder fund invests in only one particular master fund, the feeder and master funds may represent an integrated entity. In such cases, the integrated entity could be considered the reporting entity and only one set of financial statements may be prepared for the integrated reporting entity (i.e. by combining the master and feeder financial statements).

Similar to IFRS.

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### Consolidation continued

#### Overview of the Consolidation Model continued

Furthermore, a fund of funds or a private equity fund may need to consolidate the investments in other investment funds or investee companies for which it has control as defined in IAS 27R. However, if the fund of funds holds only non-voting shares and the holders of the voting shares have the ability to direct the financial and operating policies of the investment fund, then the fund of funds should not consolidate the investee company.

A private equity fund typically purchases investments, including controlling interests, in investee companies with a view to resale. However, unless qualified as a disposal group held for sale at acquisition under the criteria in IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations, the investee companies should be consolidated. The criteria include that the assets should be available for immediate sale and that such a sale should be highly probable, including completing the sale within one year (IFRS 5.7 and 5.8).

#### Special purpose entities

An investment fund should consolidate any special purpose entity (“SPE”), defined as an entity created to accomplish a narrow and well-defined objective (SIC 12.1), when the substance of the relationship indicates that the SPE is controlled by the investment fund (SIC 12.8).

To establish control, the criteria under IAS 27R discussed above should be considered. Furthermore, the following circumstances may indicate control (SIC 12):

- 1) The activities of the SPE are being conducted on behalf of an entity according to its business need so that the entity obtains benefits from the SPE’s operations.
- 2) The entity has the decision making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an “autopilot” mechanism, the entity has delegated these decision making powers.
- 3) The entity has the rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE.
- 4) The entity retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

As a result of the provisions under SIC 12, an investment fund should consolidate an investee entity, which is qualified as an SPE in which the substance of the relationship indicates control by the investment fund. All the factors identified in SIC 12 should be evaluated equally in assessing the substance of control.

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<b>Consolidation continued</b>		
<p><b>3.2</b> <b>Equity Method of Accounting for Investments in Common Stock / Investment in Associates</b></p>	<p>An associate is an entity over which an investment fund has significant influence and is neither a subsidiary nor an interest in a joint venture (IAS 28.2). An investment fund is presumed to have significant influence over an entity when it has more than 20% of the voting power of that entity. If it possesses less than 20%, other factors should be taken into consideration to determine the existence of significant influence. IAS 28.7 provides certain examples of such factors.</p> <p>Investments in associates should be accounted for using the equity method of accounting. However, IAS 28 provides an exception when the investment is held by a venture capital organisation, mutual fund, unit trust or similar entity and it is designated as a financial instrument at fair value through profit or loss (the fair value option) or is classified as held for trading (IAS 28.1). The same exception applies to joint venture investments held by an investment fund as defined by IAS 31. In practice, investment funds have used this exception to carry the investment at fair value through profit or loss.</p>	<p>Similar to IFRS.</p>
<p><b>3.3</b> <b>Business Combinations and Non-controlling Interests (NCI)</b></p>	<p>Under IFRS, an investment fund needs to first assess whether or not it acquires a business. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for purposes of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants (IFRS 3R.App A – definition of a business). If, as a result of the transaction, an investment fund obtains control over a business, IFRS 3R would apply. As defined in the “Overview of the Consolidation Model” section above, control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefit from activities.</p> <p>At a high level, IFRS 3R requires investment funds to:</p> <ol style="list-style-type: none"> <li>1) Recognise and measure the identifiable assets acquired and the liabilities assumed at their fair value on their acquisition date with limited exceptions.</li> <li>2) Record any non-controlling interest in the acquiree at:             <ol style="list-style-type: none"> <li>a. Its fair value, resulting in the measurement of goodwill relating to the controlling and non-controlling interest, or</li> <li>b. The non-controlling interest’s proportionate share of the acquiree’s identifiable net assets resulting in the measurement of goodwill only for the controlling interest.</li> </ol> </li> </ol>	<p>Similar to IFRS.</p>

	International Financial Reporting Standards	Hong Kong Financial Reporting Standards
<b>Consolidation continued</b>		
<p><b>Business Combinations and Non-controlling Interests (NCI) continued</b></p>	<p>3) Recognise and measure the goodwill acquired in a business combination or a gain from a bargain purchase. Gains or losses may be recognised in the income statement when control is obtained or lost. Any equity interest that is currently held as a result of a previous transaction is re-measured at fair value and any resulting gain or loss is recognised in the income statement when an acquirer gains control. Any gain or loss on the interest sold and on any retained non-controlling investment (re-measured at fair value) is recognised in the income statement when an acquirer loses control.</p> <p>Additional acquisitions of ownership interests after control is obtained and disposals of an ownership interest that do not result in an entity losing control are treated as equity transactions.</p> <p>IFRS 3R and IAS 27R also require disclosure to enable users of the financial statements to evaluate the nature and the financial effects of a business combination and the relationship between the investment fund and its subsidiaries.</p> <p>IFRS 3R is to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009 (earlier adoption is permitted). IAS 27R should be adopted at the same time.</p>	

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	International Financial Reporting Standards	Hong Kong Financial Reporting Standards
<b>4 Financial Instruments</b>		
<b>4.1 Initial Recognition</b>	<p>Investment funds follow the general recognition principle noted in IAS 39, Financial Instruments: Recognition and Measurement, which states that a financial asset or a financial liability should be recognised only when an entity becomes a party to the contractual provisions of the instrument, subject to the provisions governing regular-way purchases and sales of financial assets (IAS 39.14).</p> <p>A regular-way purchase or sale is the acquisition of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the relevant market (IAS 39.9). Examples of regular-way purchases and sales include securities traded on an exchange or an over-the-counter market. Regular-way purchases of financial assets should be recognised using either trade date accounting or settlement date accounting (IAS 39.38). The choice of method is an accounting policy decision and should be disclosed. The method used should be applied consistently for purchases and sales of investments that belong to the same category (IAS 39.AG 53). Derivatives that require or permit net settlement do not meet the definition of regular-way trades (IAS 39.AG 54).</p>	Similar to IFRS.
<b>4.2 De-Recognition</b>	<p>Regular-way sales of financial assets should be recognised using either trade date accounting or settlement date accounting (IAS 39.38). The method used should be applied consistently for purchases and sales of investments that belong to the same category (IAS 39.AG 53).</p> <p>A financial asset (or part) should be de-recognised, when (IAS 39.17 through 39.19):</p> <ol style="list-style-type: none"> <li>1) The cash flows from the financial asset expire.</li> <li>2) The right to the financial asset's cash flows and substantially all risks and rewards of ownership are transferred.</li> <li>3) An obligation to transfer the asset's cash flows is assumed, substantially all risks and rewards are transferred and the following conditions are met: <ol style="list-style-type: none"> <li>a. No obligation to pay cash flows unless equivalent cash flows from the transferred asset are collected</li> <li>b. Prohibition from selling or pledging the asset other than as security to the eventual recipient for the obligation to pass through cash flow</li> <li>c. Obligation to remit any cash flows without material delay.</li> </ol> </li> </ol>	Similar to IFRS.



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### Financial Instruments continued

#### De-Recognition continued

4) The rights to the cash flows are transferred (or an obligation to transfer the cash flows is assumed) and the additional conditions in #3 above are met. However, substantially all the risks and rewards are neither transferred nor retained, but control of the asset is transferred as follows:

- The transferee has the practical ability to sell the asset in its entirety (e.g. the asset is traded in an active market)
- The transferee is able to exercise this right unilaterally to an unrelated third party
- There are no further restrictions imposed on the transferee's sale (e.g. no "strings" attached).

A financial liability should be de-recognised when the obligation specified in the contract is discharged or cancelled or expired. A financial liability is also considered extinguished if there is a substantial modification in the terms of the instrument (IAS 39.39 and 39.40). Upon de-recognition, the difference between the carrying amount of the financial instruments and the consideration paid should be recognised as gain or loss in the profit and loss (IAS 39.41).

First-in-first-out (FIFO) and weighted average cost are the methods generally applied for calculating the cost basis of a portfolio of investments under IFRS.

#### 4.3 Financial Assets – Classification

Financial assets are classified as follows:

- Financial instruments at fair value through profit or loss.
- Held to maturity investments.
- Loans and receivables.
- Available-for-sale financial assets.

Financial assets should be classified into the above four categories. Financial assets measured at fair value through profit or loss (i.e. the changes in fair value are recorded as gains or losses in the income statement) are further divided into two sub-categories: financial assets measured at fair value through profit or loss upon initial recognition (i.e. the fair value option, subject to the conditions below) or held for trading.

Similar to IFRS.

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## International Financial Reporting Standards

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### Financial Instruments continued

#### Financial Assets – Classification continued

A financial asset is classified as held for trading if it is:

- 1) Acquired or incurred principally for the purpose of selling or repurchasing in the near term.
- 2) Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.
- 3) A derivative (except for a derivative that is a financial guarantee contract or designated as an effective hedging instrument).

Financial asset at fair value through profit or loss: The standard also allows an entity to designate a financial asset, a financial liability or a group of financial instruments (financial assets, financial liabilities or both) as at fair value through profit and loss provided it meets one of the following criteria (IAS 39.9 and 39.11):

- 1) A contract contains one or more embedded derivatives and, in that case, the entire hybrid can be designated as a financial asset or financial liability at fair value through profit or loss.
- 2) Such use results in more relevant information, because either:
  - a. It eliminates or significantly reduces a measurement or recognition inconsistency that otherwise would arise from measuring assets and liabilities or recognising the gains and losses on them on a different basis; or
  - b. A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

Note that the fair value option applies only to contracts within the scope of IAS 39 or equity method investments qualifying for the fair value option in accordance with IAS 28.1/IAS 31.1. An investment that needs to be consolidated under IAS 27/SIC 12 cannot be designated at fair value through profit or loss in the consolidated financial statements.

Caution should be taken in the classification of financial instruments under the fair value option. Once financial instruments are so designated, an investment fund will not be able to reclassify them into or out of the fair value through profit or loss category (IAS 39.50).

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## International Financial Reporting Standards

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### Financial Instruments continued

#### Financial Assets – Classification continued

Held-to-maturity investments: Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the investment fund has the positive intention and ability to hold to maturity other than:

- 1) Those that upon initial recognition are designated as at fair value through profit or loss.
- 2) Those that are designated as available-for-sale.
- 3) Those that meet the definition of loans and receivables.

Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- 1) Those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss.
- 2) Those that upon initial recognition are designated as available-for-sale.
- 3) Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale.

Available-for-sale financial assets: Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables; (b) held-to-maturity investments; or (c) financial assets at fair value through profit or loss. However, available-for-sale investments are still required to be measured at fair value unless there is no reliable fair value, in which case an unquoted equity security is valued at cost (only in rare circumstances, since it is presumed that fair value can be reliably determined) and would need to be assessed for impairment which would require an estimate of the present value of the future cash flows (IAS 39.66). Changes in fair value are recognised net of tax effects in equity (i.e. presented in the statement of changes in equity and recycled to the income statement when sold, impaired or collected). (See the “Subsequent Measurement” section below for further discussion of the result of different classification.)

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## Hong Kong Financial Reporting Standards

### Financial Instruments continued

#### 4.4 Financial Liabilities – Classification

IAS 39 has two defined categories of financial liabilities:

- 1) Financial liabilities “at fair value through profit or loss”.
- 2) Other financial liabilities.

A financial liability is at fair value through profit and loss if it is either held for trading, a derivative not designated as a hedging instrument or an instrument that elected the fair value option at initial recognition (provided specific criteria described above for financial assets are met).

Financial liabilities that are not classified as at fair value through profit or loss would automatically fall into the second category of “other financial liabilities” and are measured at amortised cost. Common examples are trade payables and borrowings.

Similar to IFRS.

#### 4.5 Initial Measurement

IFRS requires that a financial asset and financial liability be initially measured and recorded at fair value or fair value plus/minus transaction costs where the financial asset or financial liability will not be carried at fair value through profit or loss (IAS 39.43). The fair value is typically the amount paid or received at the time of the transaction.

Transaction costs, including the “bid-ask spread”, directly attributable to the acquisition or issue of financial instruments at fair value through profit or loss should be expensed through profit and loss. On the other hand, as noted above for instruments not carried at fair value through profit and loss, transaction costs should be included in the amount initially measured.

Since investments held by an investment fund are typically financial instruments carried at fair value through profit or loss, the investment fund should follow the IFRS requirement to expense the transaction costs, including the “bid-ask spread” and such spread may be included as part of the change in fair value of the securities in the income statement from a practical standpoint or as a separate expense similar to other transactions costs, such as borrowing costs.

Similar to IFRS.

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## International Financial Reporting Standards

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### Financial Instruments continued

#### 4.6 Subsequent Measurement

Subsequent measurement depends on the initial classification of the financial instrument. The general principles for subsequent measurement:

- 1) Financial instruments carried at fair value through profit or loss subsequently should be measured at fair value without any deduction of transaction costs that may be incurred on disposal (IAS 39.46 and 39.47). Changes in value should be recognised as gains or losses in profit and loss (IAS 39.55).
- 2) Financial assets designated as available-for-sale instruments subsequently should be measured at fair value (IAS 39.46) or at cost for an unquoted equity security if the fair value cannot be reliably determined (IAS 39.46). Changes in value should be recognised directly in equity, through the statement of changes in equity, except for impairment charges and the impact of movements in foreign currency exchange rates on amortised cost of available-for-sale debt instruments. Furthermore, related interest income should be recorded in profit and loss (IAS 39.55).
- 3) Financial assets designated as held-to-maturity and other financial assets (such as loans and receivables) subsequently should be measured at amortised cost.
- 4) Financial liabilities not carried at fair value through profit or loss should be measured at amortised cost which is calculated using the effective interest method. Refer also to the “Net Assets – Measurement” section above for measurement of units or shares classified as financial liabilities.

For all financial assets which are not measured at fair value through profit or loss, any impairment should be assessed at each balance sheet date. Any such impairment, if identified, should be recorded as a loss in the income statement. A financial asset is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset. The standard provides guidance on objective evidence of impairment which varies depending on whether the investment is a debt or equity security. An impairment loss can be reversed for debt instruments if there is objective evidence that the decrease in impairment loss is related to an event that occurred after the impairment charge was recorded.

Similar to IFRS.

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## International Financial Reporting Standards

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### Financial Instruments continued

#### 4.7 Fair Value

Financial instruments quoted in an active market should be valued at bid price for long positions and asking price for short positions.

When an investment fund has financial assets and liabilities with offsetting market risks, it may use mid-market prices to determine fair value for the offsetting risk positions and apply bid or asking prices to the net open position, as appropriate.

The use of a blockage factor is not appropriate in the determination of fair value for instruments traded in an active market (IAS 39.AG 71). A restriction on the securities that is specific to the asset would generally require a discount to be applied in determination of fair value.

For financial instruments without an active market, the fair value should be determined based on a valuation technique. The valuation technique should be based on market transactions of substantially similar securities, discounted cash flow analysis, an option pricing model or another valuation technique commonly used by market participants and proven to be reliable (IAS 39.AG 74).

Similar to IFRS.

#### 4.8 Disclosure

Disclosures related to financial instruments are driven primarily by IFRS 7. The objective of IFRS 7 is to provide disclosures “through the eyes of management” and encompass both qualitative narrative descriptions and specific quantitative data such that users are able to evaluate the nature and extent of risks arising from financial instruments to which an investment fund is exposed at the reporting date and how the risks are managed.

IFRS 7 requires that certain disclosures be provided by class of financial instruments. Although IFRS 7 does not provide a prescriptive list of classes, it states that a class shall contain financial instruments of the same nature and characteristics. An instrument class is not the same as an instrument category as classes should be determined at a lower level than the categories and reconciled back to the balance sheet (IFRS 7.6). For example, instruments within the category of fair value through profit or loss might be disaggregated into different types of investments held by an investment fund (i.e. different classes).

Similar to IFRS.

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## International Financial Reporting Standards

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### Financial Instruments continued

#### Disclosure continued

#### Balance sheet disclosure

IFRS 7 requires disclosure of the carrying values of each of the following categories either on the face of the balance sheet or in the notes (IFRS 7.8):

- 1) Financial assets at fair value through profit or loss, showing separately those designated upon initial recognition and those classified as held for trading.
- 2) Financial assets designated as available-for-sale.
- 3) Financial assets designated as held-to-maturity.
- 4) Loans and receivables.
- 5) Financial liabilities at fair value through profit or loss, showing separately those designated upon initial recognition and those classified as held for trading.
- 6) Financial liabilities measured at amortised cost.

Fair value of each of the categories of financial assets and liabilities, including the assumptions and estimations used in the determination of fair value, should be disclosed (IFRS 7.30). For an investment fund, since investments generally are carried at fair value and other financial assets and liabilities are short-term in nature, the carrying amounts of other financial assets and liabilities typically approximate the fair value. This should be stated in the notes to the financial statements (IFRS 7.29).

Collateral pledged, including carrying amounts and terms and conditions, should be disclosed (IFRS 7.14).

Collateral held, including the fair value, the fair value of any such collateral sold or re-pledged, whether the entity has an obligation to return it, and terms and conditions should all be disclosed (IFRS 7.15).

#### Income statement disclosure

IFRS 7 requires the disclosure of net gains or losses on each of the categories of financial assets and liabilities.

Total interest income and interest expense should be disclosed for financial assets and financial liabilities that are not at fair value through profit or loss. Any impairment loss for each category also should be disclosed.



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### Financial Instruments continued

#### Disclosure continued

#### Nature and extent of risks arising from financial instruments

To help users understand the nature and extent of risks arising from financial instruments, both qualitative and quantitative disclosures should be made. The risks for an investment fund usually include credit risk, liquidity risk and market risk (including interest rate risk, price risk and currency risk). Disclosures around the nature and extent of risks should be tailored to reflect the financial instruments held by the investment fund; additional risks may be identified and disclosed based on the entity's specific investment objectives and activities.

With regard to qualitative disclosures for each type of risk resulting from financial instruments, the investment fund should disclose exposures to risk and how they arise; the entity's objectives, policies and processes for managing and measuring risk; and any changes during the period related to risk and risk management.

Investment funds are also required to disclose summary quantitative data about their exposure to each type of risk arising from financial instruments based on information provided internally to key management. At a minimum, these disclosures should include:

- 1) Credit risk, including:
  - a. The amount that best represents the maximum exposure to credit risk at the reporting date without consideration of collateral held or other credit enhancements
  - b. Disclosure around collateral held or other credit enhancements for that instrument
  - c. Analysis of financial assets that are either past due or impaired.
- 2) Liquidity risk, including a maturity analysis for financial liabilities that shows the remaining contractual maturities and a description of how the investment fund manages the liquidity risk inherent in the maturity analysis.

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### Financial Instruments continued

#### Disclosure continued

3) Market risk, including a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date. The disclosures for the sensitivity analysis should also include the methods and assumptions used in preparing the sensitivity analysis and any changes from the previous period to these methods and assumptions. This disclosure is one of the most challenging areas for investment funds due to the judgment and analysis involved as well as the need to accumulate data which the investment fund may not immediately have access to. As part of the process, management should identify the relevant risk variables that reflect best the exposure of the entity to market risk. For example, for an investment fund with a long/short debt strategy, the relevant risk variables would be interest and foreign currency rates. When preparing the sensitivity analysis, the quantitative impacts of the interest and foreign currency rate sensitivities of the investment fund need to be determined and disclosed.

The investment fund also should provide information about concentration of risk to the extent that this information is not apparent through the disclosure discussed above. PwC's publication, IFRS Illustrative Financial Statements – Investment Funds, provides examples of disclosure in accordance with IFRS 7.

In addition to IFRS 7, IAS 1 also requires:

- 1) The disclosure of the use of judgment that management has made in the application of accounting policies and that have the most significant effect on the amounts recognised in the financial statements (IAS 1R.122).
- 2) The key assumptions used and sources of estimation of uncertainty also should be disclosed, together with the nature and carrying amounts of the affected assets and liabilities (IAS 1R.125).
- 3) The qualitative and quantitative information about the investment fund's objectives, policies and processes for managing capital (IAS 1R.136).

	International Financial Reporting Standards	Hong Kong Financial Reporting Standards
<b>Financial Instruments continued</b>		
<b>4.9 Offsetting</b>	<p>A financial asset and a financial liability should be offset and the net amount presented on the balance sheet when an investment fund (IAS 32.42):</p> <ol style="list-style-type: none"> <li>1) Currently has a legal enforceable right to offset the recognised amounts.</li> <li>2) Intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.</li> </ol> <p>In order to offset financial assets and liabilities, an investment fund must have a currently enforceable legal right to do so. Conditional rights do not meet this criterion. For instance, an investment fund may have a conditional right to set off recognised amounts, such as in a master netting agreement, but such rights are enforceable only on the occurrence of some future event, usually a default of the counterparty. Consequently, IFRS does not consider such an agreement as meeting the conditions for offset (IAS 32.AG 38). As a result, positive and negative fair value of derivatives under a master netting arrangement should not be offset even if such derivatives have the same counterparty. The amounts should be presented as financial assets and financial liabilities on the balance sheet, respectively.</p>	Similar to IFRS.

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## International Financial Reporting Standards

## Hong Kong Financial Reporting Standards

### 5 Other Accounting & Reporting Topics

<p><b>5.1 Functional Currency</b></p>	<p>Functional currency is the currency of the primary economic environment in which an investment fund operates (IAS 21.9).</p> <p>An entity considers the following primary indicators in the determination of its functional currency:</p> <ol style="list-style-type: none"> <li>1) It is the currency:             <ol style="list-style-type: none"> <li>a. That mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled)</li> <li>b. Of the country whose competitive forces and regulations mainly determine the sales prices of the entity's goods and services.</li> </ol> </li> <li>2) It is the currency that mainly influences labour, material and other costs of providing goods or services; this will often be the currency in which such costs are denominated and settled.</li> </ol> <p>Secondary indicators include the currency in which funds from financing activities are generated and the currency in which receipts from operating activities are usually retained (IAS 21.10). An example for financing is the currency in which the investment fund's shares are issued and redeemed. As a result, determining the functional currency of an investment fund is not straightforward and depends on multiple factors, including but not limited to:</p> <ol style="list-style-type: none"> <li>1) The economic environment(s) in which the financial assets are invested.</li> <li>2) The economic environment(s) of the investors.</li> <li>3) The regulatory environment.</li> <li>4) The competitive environment.</li> <li>5) The fee structure.</li> <li>6) The denomination of subscriptions and redemptions.</li> </ol> <p>When the factors are mixed and the functional currency is not obvious, management should use its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions that affect the entity (IAS 21.12).</p> <p>When the presentation currency is different from the functional currency, disclosure should be made for the investment fund's functional currency and the presentation currency, which is the currency used in the presentation of financial statements. The reason for using a different presentation currency should also be disclosed (IAS 21.53).</p>	<p>Similar to IFRS.</p>
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## International Financial Reporting Standards

## Hong Kong Financial Reporting Standards

### Other Accounting & Reporting Topics continued

#### 5.2 Foreign Currency Transactions and Translation of Financial Statements

A foreign currency transaction should be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate at the transaction date (IAS 21.21).

When a debt security is classified as available-for-sale, any foreign currency gains and losses are recognised in the income statement and not included as part of other comprehensive income.

At subsequent balance sheet dates, monetary assets and liabilities denominated in a foreign currency are translated using the closing rates (IAS 21.23). Non-monetary balance sheet items that are measured at historical cost in a foreign currency should be translated using the exchange rate at the date of the transaction (IAS 21.23). Non-monetary balance sheet items that are measured at fair value in a foreign currency should be translated at the exchange rate at the date when the fair value is determined (IAS 21.23).

When translating the financial statements from the functional currency into the presentation currency, assets and liabilities shall be translated at the closing rate and income statement items shall be translated at the exchange rates at the dates of the transactions (or an average rate as a practical alternative, provided that the exchange rate does not fluctuate significantly).

Similar to IFRS.

#### 5.3 Tax Uncertainties

Although IAS 12 does not specifically address uncertain tax positions, the general measurement guidance in IAS 12.46 should be applied: “Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities using the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date”. The unit of account and measurement method are not specified in IAS 12.

An investment fund may choose to consider uncertain tax positions at the level of the individual uncertainty or group of related uncertainties. It also may choose to consider tax uncertainties at the level of its total tax liability to each taxing authority.

Similar to IFRS.

	International Financial Reporting Standards	Hong Kong Financial Reporting Standards
<b>Other Accounting &amp; Reporting Topics continued</b>		
<p><b>Tax Uncertainties continued</b></p>	<p>When an investment fund elects to consider uncertain tax positions at the level of each uncertainty, it should first consider whether each position taken in the tax return is probable of being sustained on examination by the taxing authority. A liability should be recognised in connection with each item that is not probable of being sustained. The liability is measured using either an expected value (weighted average probability) approach or a single best estimate of the most likely outcome. The current tax liability would be the aggregate liability in connection with uncertain tax positions.</p> <p>When an entity elects to consider uncertain tax positions at the level of its relationship with the taxing authority, the key issue is the measurement of the tax liability. It is probable that an investment fund will pay tax, so the recognition threshold has been met. The investment fund should determine the total amount of current tax it expects to pay, taking into account all the tax uncertainties, using either an expected value (weighted average probability) approach or a single best estimate of the most likely outcome.</p> <p>IAS 37, Provisions, Contingent Liabilities and Contingent Assets, excludes income taxes from its scope and is not used to account for uncertain tax positions.</p>	
<p><b>5.4 Real Estate Investments</b></p>	<p>IAS 40.32A permits an entity to choose either the fair value model with changes in fair value recognised in earnings or the cost model for all investment property. IAS 40.5 defines an investment property as a land and/or a building, held to earn rentals or for capital appreciation or both. An investment property does not include property held for use in production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business.</p>	<p>Similar to IFRS.</p> <p>Investment funds that are authorised by the SFC as real estate investment trusts, i.e. those that can be marketed to retail investors in Hong Kong and invest primarily in real estates with the aim to provide returns to holders derived from the rental income of the real estates, are also governed by the Code on Real Estate Investment Trusts issued by the SFC where Appendix C of the Code on Real Estate Investment Trusts provides guidelines on presentation and disclosure in the financial statements.</p>

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### Other Accounting & Reporting Topics continued

#### 5.5 Share Based Compensation

##### Recognition

The fair value of shares and options awarded to employees is recognised over the period to which the employees' services relate. The award is presumed to be for past services if it is unconditional without any performance criteria.

##### Measurement

For equity-settled share-based payment awards issued to employees, the awards should be measured by reference to the fair value of the equity instruments granted and recognised as compensation expense and a corresponding increase to equity over the requisite service period. For cash-settled share-based payment transactions, the goods or services acquired and the liability incurred are measured at the fair value of the liability which is marked to market at each balance sheet date. Extensive disclosures are also required.

##### Employer's payroll tax payable on exercise of share options by employees

Employers' social security liability arising from share-based payment transactions is recognised over the same period or periods as the share-based payment charge.

Similar to IFRS.

#### 5.6 Financial Highlights (including Earnings Per Share)

The disclosure of financial highlights, including the disclosure of the entity's net asset value, is not required under IFRS.

If an investment fund provides an alternative performance measure (such as financial highlights), the entity should ensure that it addresses the four qualitative characteristics that make the information provided in financial statements useful to readers: comprehensibility; relevance; reliability; and comparability. Therefore, investment funds should consider the following guidelines if alternative performance measures are disclosed:

- 1) Define the terminology used and the basis of calculation adopted.
- 2) Where possible, present alternative performance measures only in combination with measures defined under IFRS.
- 3) Alternative performance measures should be presented consistently over time.

For non-SFC authorised investment funds, similar to IFRS.

For SFC authorised investment funds, in addition to HKFRS which is similar to IFRS, Appendix E of the Code requires the following specific items to be presented and disclosed in a performance table at a minimum:

- 1) A comparative table covering the last three financial years and including, for each financial year, at the end of the financial year:
  - a. The total net asset value
  - b. The net asset value per unit/share.



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### Other Accounting & Reporting Topics continued

#### Financial Highlights (including Earnings Per Share) continued

4) To ensure that investors are not misled, alternative performance measures should not be presented with greater prominence than defined IFRS measures. Where alternative performance measures are derived from audited financial statements and resemble defined performance measures, but do not actually have the characteristics of the defined measures, then the defined measures should be given greater prominence than the alternative performance measures.

5) Generally, explain the reason for presenting alternative performance measures to investors (i.e. may be used internally).

If an investment fund has equity instruments that are publicly traded, earnings per share should be disclosed in accordance with IAS 33, Earnings Per Share.

2) A performance record over the last 10 financial years; or if the investment fund has not been in existence during the whole of that period, over the whole period in which it has been in existence, showing the highest issue price and the lowest redemption price of the units/shares during each of those years.

This performance table falls outside the financial statements.

#### 5.7 Related Party Transactions

The term “related party” is defined in paragraph 9 of IAS 24, Related Party Disclosures.

The disclosures required for related party transactions, typically applicable to an investment fund, are as follows (IAS 24.17):

- 1) The amount of transactions.
- 2) The amount of outstanding balances and
  - a. Their terms and conditions
  - b. Details of any guarantee received or given.
- 3) Provisions for doubtful debts related to the amounts of outstanding balances.
- 4) The expense recognised in respect of bad or doubtful debts due from related parties.
- 5) The identity of the controlling party.

Additionally, under IFRS an investment fund is also required to disclose key management personnel compensation in total and for each of the following categories:

- 1) Short-term employee benefits.
- 2) Post-employment benefits.
- 3) Other long-term benefits.
- 4) Termination benefits.
- 5) Share-based payment.

For non-SFC authorised investment funds, similar to IFRS.

For SFC authorised investment funds, in addition to HKFRS which is similar to IFRS, Appendix E of the Code requires the following specific items on transactions with the management company, investment adviser, the directors of the investment fund or any entity in which these parties or their connected persons as defined in the Code have a material interest to be presented and disclosed in the notes to the financial statements at a minimum:

- 1) A description of the nature of any transactions entered into during the period between the investment fund and the management company, investment adviser, the directors of the investment fund or any entity in which those parties or their connected persons as defined in the Code have a material interest,

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	International Financial Reporting Standards	Hong Kong Financial Reporting Standards
<b>Other Accounting &amp; Reporting Topics continued</b>		
<b>Related Party Transactions continued</b>		<p>together with a statement confirming that those transactions have been entered into in the ordinary course of business and on normal commercial terms.</p> <p>2) a. The total aggregate value of the transactions of the investment fund effected through a broker who is a connected person as defined in the Code of the management company, the investment adviser, or the directors of the investment fund.</p> <p>b. The percentage of such transactions in value to the total transactions in value of the investment fund during the year.</p> <p>c. The total brokerage commission paid to such broker in relation to transactions effected through it.</p> <p>d. The average rate of commission effected through such broker.</p> <p>3) Details of all transactions which are outside the ordinary course of business or not on normal commercial terms entered into during the period between the investment fund and the management company, investment adviser, the directors of the investment fund or any entity in which those parties or their connected persons as defined in the Code have a material interest.</p>

	International Financial Reporting Standards	Hong Kong Financial Reporting Standards
<b>Other Accounting &amp; Reporting Topics continued</b>		
<b>Related Party Transactions continued</b>		<p>4) Name of the management company, the director of the investment fund or any connected persons of such company or director if any of them becomes entitled to profits from transactions in units/shares or from management of the investment fund, and the amount of profits to which each of them becomes entitled.</p> <p>5) Where the investment fund does not have any transactions with connected persons as defined in the Code during the period, a nil statement to that effect.</p> <p>6) The basis of the fee charged for the management of the investment fund and the name of the management company. In addition, where a performance fee is charged to the investment fund, the basis of calculation and amount of performance fee charged should be separately disclosed. For futures and options funds as defined in the Code, the total transactions costs must also be disclosed.</p>
<b>5.8 Segment Reporting</b>	<p>Segment reporting is required for entities whose debt or equity instruments are traded in a public market.</p> <p>On 30 November 2006, the IASB issued IFRS 8, Operating Segments, which is effective for the year beginning on or after 1 January 2009. IFRS 8 is a convergence standard with FAS 131. Under IFRS 8, a segment is an operating segment, which is identified on the basis of internal reports that are regularly reviewed by an entity's chief operating decision makers in order to allocate resources to the segment and assess its performance. Measurement and disclosure requirements have also been amended. The segment reporting under IFRS 8 is to disclose an entity's segment through the eyes of management.</p>	<p>Similar to IFRS.</p> <p>HKFRS 8, Operating Segments, was issued by the HKICPA in March 2007 and is effective for annual periods beginning on or after 1 January 2009. There are no differences between IFRS 8 and HKFRS 8.</p>

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▶ 1 Framework

▶ 2 Financial Statements

▶ 3 Consolidation

▶ 4 Financial Instruments

▶ 5 Other Accounting and Reporting Topics

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	International Financial Reporting Standards	Indian Accounting Standards
<b>1 Framework</b>		
<p><b>1.1 Accounting Standards/ Industry Practice</b></p>	<p>The objective of general purpose financial statements for investment funds is to provide information about an entity's financial position, financial performance and cash flows so that users of the financial statements can make informed decisions. Financial statements also show the results of management's stewardship of the resources entrusted to it (IAS 1).</p> <p>IFRS, as a set of principle-based accounting standards, does not provide accounting standards or guidance specific to investment funds. Accordingly, investment funds follow the same financial reporting standards as general entities.</p> <p>IFRS embodies not only the International Financial Reporting Standards themselves but also the International Accounting Standards (IAS) and interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or its former Standing Interpretations Committee (SIC) (IAS 1R.7). Investment funds are required to follow all such standards and interpretations in order to be in compliance with IFRS; an explicit and unreserved statement of such compliance also should be made in the notes to the financial statements (IAS 1R.16).</p> <p>IFRS (IAS 8) articulates a hierarchy of guidance that management would follow in the absence of a standard that specifically applies to a transaction. In such cases, management uses its judgment in developing and applying an accounting policy. In making that judgment, management considers, first the requirement of other IFRS standards dealing with similar issues, and the concepts in the IASB's framework. It also may consider the accounting standards of other standard-setting bodies.</p>	<p>Indian GAAP does not provide specific standards / requirements for mutual funds. Mutual funds are required to follow the accounting policies and standards as specified in the Ninth Schedule of the Securities and Exchange Board of India (SEBI) (Mutual Funds) Regulations, 1996 and amendments thereto (SEBI Regulations). In addition accounting standards, to the extent applicable and not in conflict with the SEBI Regulations, are required to be followed.</p> <p>The financial statements are prepared fund-wise and present net assets, balance sheet, revenue account, financial highlights and statement of portfolio holding.</p>

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	International Financial Reporting Standards	Indian Accounting Standards						
<b>Framework continued</b>								
<b>1.2</b> <b>First-time Adoption of Accounting Framework</b>	<p>IFRS 1, First-time Adoption of International Financial Reporting Standards, provides specific guidance on applying IFRS for the first time. First-time adoption of IFRS as a primary accounting basis generally requires full retrospective application of the standards, effective at the reporting date for the entity's first IFRS financial statements. However, IFRS 1 establishes optional exceptions (e.g. business combinations, employee benefits) and mandatory exceptions (e.g. hedge accounting, estimates) from retrospective application.</p> <p>An entity's first IFRS financial statements must present reconciliations of profit or loss in respect of the last period reported under previous GAAP, of equity at the end of the last period reported under previous GAAP and of equity at the start of the earliest period presented in the financial statements. These reconciliations should be presented in sufficient detail to enable users to understand the material adjustments made in the conversion to IFRS.</p> <p>If the entity presented a statement of cash flows under its previous GAAP, it should explain the material adjustments required for it to comply with IFRS.</p> <p>For annual periods beginning on or after 1 January 2009, a first-time adopter is required to disclose its opening balance sheet at the date of transition to IFRS.</p>	<p>SEBI-registered mutual funds are required to follow the accounting policies and standards as specified in the Ninth Schedule of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 and amendments thereto (SEBI Regulations) from inception. In addition accounting standards, to the extent applicable and not in conflict with the SEBI Regulations, are required to be followed.</p>						
<b>2 Financial Statements</b>								
<b>2.1</b> <b>Components of Financial Statements</b>	<p>Comparative financial statements are required (IAS 1R.36) and include (IAS 1R.10):</p> <table border="0"> <tr> <td>1) A balance sheet.</td> <td>4) A cash flow statement.</td> </tr> <tr> <td>2) An income statement.</td> <td>5) Notes to the financial statements, comprising a summary of significant</td> </tr> <tr> <td>3) A statement of changes in equity.</td> <td>accounting policies and other explanatory notes.</td> </tr> </table> <p>An investment fund, whose redeemable shares are classified as a financial liability and which does not have any other transaction classified under equity, is not required to present a statement of changes in equity since it does not have equity. For those shares classified as liabilities, a statement of changes in net assets attributable to holders of redeemable shares provides relevant and useful information and it is therefore best practice to provide this statement.</p> <p>The date of authorisation to issue financial statements, and who authorises them for issue are required under IFRS (IAS 10.17).</p>	1) A balance sheet.	4) A cash flow statement.	2) An income statement.	5) Notes to the financial statements, comprising a summary of significant	3) A statement of changes in equity.	accounting policies and other explanatory notes.	<p>A SEBI-registered investment fund is required to present comparative financials and includes:</p> <ol style="list-style-type: none"> <li>1) A balance sheet.</li> <li>2) An income statement.</li> <li>3) Cash flow statements (where applicable under Accounting Standard 3 – Cash Flow Statements).</li> <li>4) Notes to the financial statements, comprising a summary of significant accounting policies.</li> <li>5) Statement of portfolio holding as at the year end;</li> <li>6) Financial highlights in the form of historical per unit statistics for three years as specified in the Eleventh Schedule of the SEBI Regulations.</li> </ol>
1) A balance sheet.	4) A cash flow statement.							
2) An income statement.	5) Notes to the financial statements, comprising a summary of significant							
3) A statement of changes in equity.	accounting policies and other explanatory notes.							

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## International Financial Reporting Standards

## Indian Accounting Standards

### Financial Statements continued

#### 2.2 Balance Sheet

IFRS does not prescribe a specific format for an investment fund's balance sheet. At a minimum, the face of the balance sheet shall include line items that present the following amounts (note: only those minimum line items that might apply to an investment fund are identified – please see IAS 1R.54 for the complete list):

- |                                 |  |
|---------------------------------|--|
| 1) Investment property.         | 6) Financial liabilities.                                      |
| 2) Financial assets.            | 7) Provisions.   |
| 3) Trade and other receivables. | 8) Issued capital and other components of shareholders' equity |
| 4) Cash and cash equivalents.   | (unless shares are classified as financial liabilities).       |
| 5) Trade and other payables.    |  |

An entity may present additional line items, headings and subtotals on the face of the statement of financial position when the presentation is relevant to an understanding of its financial position (IAS 1R.55).

Both current and non-current assets and current and non-current liabilities should be reported on the face of the balance sheet except when presentation based on liquidity, in which assets and liabilities are presented in the order of liquidity, provides information that is reliable and more relevant (IAS 1R.60). Whichever method of presentation is adopted, assets and liabilities with maturities greater than 12 months should be identified in the notes.

A typical investment fund whose shares are redeemable at the discretion of its holders or in a limited life entity where the shares are redeemable at liquidation may have no shareholders' equity at all or only a nominal amount representing its voting, non-participating shares (please see "Equity – Classification" for detailed discussion on classification of these shares and the impact of the new IAS 32 amendment on these shares). Although there is no specific format, illustrative examples (IE) 32 and IE 33 of IAS 32, Financial Instruments: Presentation, provide models of presentation for balance sheets and income statements for entities with no equity or some equity but explicitly state that other formats are possible. PwC's publication, IFRS Illustrative Financial Statements – Investment Funds, also provides an example for reference.

The Eleventh Schedule of SEBI Regulations specifies the contents of the balance sheet.

As a minimum the following items are to be included on the face of the balance sheet:

On the assets side:

- 1) Investments.
- 2) Deposits.
- 3) Other current assets.
- 4) Deferred revenue expenditure.

On the liabilities side:

- 1) Unit Capital.
- 2) Reserves and surplus.
- 3) Current liabilities and provisions.

Specific items to be presented under each of the above headings (if applicable) are specified in the Eleventh Schedule of the SEBI Regulations.

Additional line items may be presented.



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### Financial Statements continued

#### 2.3 Equity – Classification

The definition of a financial liability includes a contractual obligation to deliver cash or another financial asset to another entity (IAS 32.11). A financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset (a “puttable instrument”) is a financial liability regardless of whether the amount of cash or another financial asset is determined based on an index or other item that has the potential to increase or decrease. IAS 32 specifically cites, as examples of puttable instruments, interests issued by open-ended mutual funds, unit trusts, partnerships, etc. (IAS 32.18), that would be classified as liabilities.

However, in February 2008, the IASB issued an amendment to IAS 32 and IAS 1, Puttable Financial Instruments and Obligations Arising on Liquidation (IAS 32 amendment), which is effective for annual periods beginning on or after 1 January 2009 (with earlier adoption permitted). The amendment provides an exception to the definition of a financial liability to permit certain puttable instruments and instruments with obligations that arise upon liquidation to be classified as equity if strict criteria are met. The scope of the amendment is intended to be narrow, and unless all criteria are met, the instrument would continue to be classified as a liability. The specific criteria are as follows:

- 1) The instrument is the most subordinate class of instruments.
- 2) All financial instruments in the class of instruments that is subordinate to all other classes have identical features (e.g. the formula to calculate the redemption price is the same for all instruments in that class).
- 3) The holder is entitled to a pro rata share of net assets (i.e. the assets remaining after deducting all other claims on its assets).
- 4) The total expected cash flows to the holder are substantially based on profit and loss, change in net assets or change in the fair value of the net assets\*.
- 5) There is no other instrument which is tied to the same measures as in #4 above and has the effect of fixing or restricting the residual return to the puttable instrument holder.
- 6) The instrument has no other liability feature apart from the obligation to redeem the instrument\*.

\* A criterion only for puttable instruments.

Mutual funds in India issue units to investors investing in schemes introduced by fund houses. SEBI Regulations define “unit” as “interest of unitholders in a mutual fund scheme which consists of each unit representing one undivided share in the assets of a scheme”. Units issued to investors (unitholders) are considered as the corpus of the mutual fund scheme and are accounted for as “Unit Capital”. Subscriptions and redemptions are recorded as a change in unit capital balances.

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<b>Financial Statements continued</b>		
<b>Equity – Classification continued</b>	<p>Given the restrictive criteria above, redeemable shares of investment funds will rarely qualify for equity classification under the IAS 32 amendment.</p> <p>Apart from redeemable shares which may be classified as liabilities, an investment fund may have activity in equity (e.g. shares meeting the definition of equity, or available-for-sale securities in which changes in fair value would be recorded through other comprehensive income). In such cases, the investment fund is required to present a statement of changes in equity.</p> <p>Changes in the liability, which includes related dividends or distribution of income to holders of redeemable shares and subsequent measurement of the liability, should be recognised in the income statement. (Please refer to the “Net Assets – Measurement” section below.) Subscriptions and redemptions should be recorded directly as a change in the liability and not flow through the income statement.</p>	
<b>2.4 Net Assets – Measurement</b>	<p>Net assets attributable to holders of redeemable shares will generally be classified as a liability on the balance sheet, carried at the redemption amount that would be payable at the balance sheet date if the holders exercised the right to put the shares back to the investment fund. Changes in this redemption amount each period should be recorded through the income statement.</p> <p>If the net asset value for subscriptions and redemptions is different from the net asset value calculated using bid/ask prices (e.g. because NAV as prescribed by the offering memorandum is based on the last traded price), an adjustment to net asset value is recorded so that the net asset value attributable to the holders of redeemable shares represents the redemption amount.</p>	<p>Net assets represent the residual value of the assets, net of liabilities.</p>

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	International Financial Reporting Standards	Indian Accounting Standards
<b>Financial Statements continued</b>		
<p><b>2.5</b> <b>Schedule of Investments</b></p>	<p>A condensed schedule of investments is not required to be presented under IFRS. However, IFRS 7 requires an entity to disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance (IFRS 7.7). In particular, IFRS 7 requires quantitative disclosures about concentrations of risk (IFRS 7.34c). As such, an analysis of the investments similar to the one provided through the schedule of investments may be used as part of the IFRS 7 disclosures.</p>	<p>As per the Eleventh Schedule of the SEBI Regulations, the cost and market/fair value of each category of investment is separately disclosed in the financial statements.</p> <p>The following category of investments are to be disclosed separately:</p> <ol style="list-style-type: none"> <li>1) Equity shares.</li> <li>2) Preference shares.</li> <li>3) Privately placed debentures/bonds.</li> <li>4) Debentures and bonds listed/awaiting listing on a recognised stock exchange.</li> <li>5) Central and state government securities.</li> <li>6) Commercial paper.</li> <li>7) Any other type of security.</li> </ol> <p>A fund-wise statement of portfolio holding as at the year end is to be presented. All investments are grouped under the major classification given in the balance sheet. Under each major classification, the total value of investments falling under each major industry group (which constitutes not less than 5% of the total investment in the major classification) are disclosed together with the percentage thereof in relation to the total investment within the classification. Where the non-traded investments which have been fair valued exceed 5% of the NAV at the end of the year, the aggregate value of such investments is disclosed.</p>

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	International Financial Reporting Standards	Indian Accounting Standards
<b>Financial Statements continued</b>		
<p><b>2.6</b> <b>Income</b> <b>Statement</b></p>	<p>IFRS does not prescribe a specific format. Similar to the balance sheet, IAS 1R.82 requires that certain minimum line items be presented on the face of the income statement. Expenses should be classified according to nature or function (IAS 1R.99). If the classification by function is used, additional information on the nature of expenses should be disclosed.</p> <p>The portion of the profit and loss attributable to the minority interest is disclosed separately in the income statement (IAS 1R.83). The minority portion of net income is presented after the “net income” line as an allocation of “net income”.</p> <p>An investment fund may present additional line items, headings and subtotals on the face of the income statement when it is relevant to an understanding of its financial performance (IAS 1R.85).</p> <p>In addition, in an instance in which the entity has little or no equity, IAS 32.IE 32 and 32.IE 33 provide examples of income statements for such entities. PwC’s publication, IFRS Illustrative Financial Statements – Investment Funds, also provides an example for reference.</p>	<p>The Eleventh Schedule of SEBI Regulations specifies the contents of the income statement (referred to as the “revenue account”). Certain minimum items are presented on the face of the revenue account as follows:</p> <p>Income:</p> <ol style="list-style-type: none"> <li>1) Dividend.</li> <li>2) Interest.</li> <li>3) Profit on sale/redemption of investments (other than inter-scheme transfer/sale).</li> <li>4) Profit on inter-scheme transfer/sale of investments.</li> <li>5) Other income (indicating nature).</li> </ol> <p>Expenses:</p> <ol style="list-style-type: none"> <li>1) Loss on sale/redemption of investments (other than inter-scheme transfer/sale).</li> <li>2) Loss on inter-scheme transfer/sale of investments.</li> <li>3) Management fees.</li> <li>4) Trusteeship fees.</li> <li>5) Publicity expenses.</li> <li>6) Audit fees.</li> <li>7) Other operating expenses.</li> <li>8) Deferred revenue expenses written off.</li> <li>9) Custodian fees.</li> <li>10) Registrar and transfer agent fees.</li> <li>11) Any other expense.</li> </ol>

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	International Financial Reporting Standards	Indian Accounting Standards
<b>Financial Statements continued</b>		
<b>Income Statement Continued</b>		<p>12) Change in unrealised depreciation in value of investments.</p> <p>Amount recovered from investment manager on account of expenses charged to the fund beyond expense limits specified in the SEBI Regulations / Fund offer documents are shown as a reduction from total expenses.</p> <p>Appropriation of surplus by way of transfer to reserves and dividend distributed is to be shown separately for each plan/option of the fund.</p> <p>Income and expenditure as a percentage of average net assets is to be shown in the notes to the financial statements.</p>
<b>2.7 Interest and Dividend Income Recognition</b>	<p>Interest should be accrued and recognised using the effective interest method (IAS 18.30) from the date of purchase (IAS 18.32), and dividends should be recognised when the right to receive payment is established (IAS 18.30), typically the ex-dividend date. As such, the discount and premium of fixed income securities should be included in the calculation of interest income under the effective interest method.</p> <p>The effective interest method is based on the estimated future cash flows through the expected life of the instrument without considering future credit losses (IAS 39.9). However, in some cases, investments are acquired at a deep discount that reflect incurred credit losses and such incurred credit losses should be included in the estimated cash flows (IAS 39.AG 5). If the investment fund subsequently revises its estimated future cash flows, it shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows using the original effective interest rate and record this adjustment through the income statement (IAS 39.AG 8).</p> <p>IFRS requires separate presentation of interest income and foreign currency exchange gains and losses except when the financial assets and liabilities are carried at fair value through profit or loss. For example, exchange differences arising on translating an available-for-sale debt security as well as the current period amortisation on the security would need to be presented separately in the income statement.</p>	<p>Interest is recognised on an accrual basis using the straight line method. Dividend income is recognised on the date on which the security is quoted on an ex-dividend basis.</p>

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<b>Financial Statements continued</b>		
<b>2.8 Realised and Unrealised Gains (Losses) on Investments – Presentation</b>	<p>Although not a minimum required item to be presented under IAS 1R, net gains or losses on investments are typically presented on the face of the income statement given their importance to an investment fund's financial performance. There is no requirement to separate realised and unrealised gains or losses.</p> <p>Since interest income and foreign exchange gains/losses do not need to be disclosed separately for financial instruments at fair value through profit or loss, they may be included in the gains or losses on investments.</p>	<p>Net realised gains (losses) on inter-scheme sale / transfer of investments and third party sales are disclosed separately.</p> <p>Unrealised gains are disclosed under an unrealised appreciation reserve; and unrealised losses (depreciation) are recognised in the revenue account. The unrealised gains (losses) are determined separately for each category of investments and the category-wise appreciation / depreciation is disclosed by way of a note to the financial statements.</p>
<b>2.9 Withholding Taxes – Presentation</b>	<p>Income received should be included gross in the income statement. The withholding taxes should be presented as a separate component of income tax for the period.</p>	<p>Income earned by mutual funds is exempt from income tax under Section 10(23D) of the Income Tax Act, 1961. In case tax is withheld, income is disclosed gross and the withholding tax amount is accounted for as a receivable.</p>
<b>2.10 Statement of Changes in Net Assets/Equity</b>	<p>IFRS does not prescribe a specific format. The general presentation and disclosure requirements are detailed in IAS 1R.106 through 1R.110.</p> <p>For an investment fund with no equity (i.e. all the shares are classified as liability under IAS 32 and the investment fund does not have any other equity reserves), the statement of changes in equity is not required. PwC's publication, IFRS Illustrative Financial Statements – Investment Funds, also provides an example for reference.</p>	<p>There is no requirement to present a statement of changes in equity / net assets. However, the movement in units during the year is disclosed by way of a schedule to the financial statements.</p>

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	International Financial Reporting Standards	Indian Accounting Standards
<b>Financial Statements continued</b>		
<p><b>2.11</b> <b>Statement of Cash Flows</b></p>	<p>A statement of cash flows is always required.</p> <p>The statement of cash flows should report cash flows classified by operating, investing and financing activities (IAS 7.10). The cash flows from operating activities can be presented using either the direct or indirect method (IAS 7.18) although IFRS encourages the use of the direct method (IAS 7.19).</p> <p>Regardless of whether the direct or indirect method is used, cash flows from interest and dividends received and paid should be disclosed separately within the statement of cash flows and classified consistently as either operating, investing or financing activities (IAS 7.31). Cash flows from taxes should also be disclosed separately and classified as operating activities unless specifically identified with financing or investing activities (IAS 7.35).</p> <p>In accordance with IAS 7.15, purchases and sales of investments for investment funds are generally considered operating activities as they relate to the main revenue-producing activity of the investment fund. In addition, purchases and sales may either be shown on a gross basis or on a net basis (IAS 7.22 and 7.24) if the turnover is rapid, the amounts are large and the maturities are short.</p> <p>Non-cash transactions should be excluded from the statement of cash flows and should be disclosed in the notes to the financial statements (IAS 7.43).</p>	<p>If certain criteria as specified in Accounting Standard (AS) – 3 (Cash Flow Statements) are met, a SEBI-registered investment fund may be exempted from presenting a statement of cash flows.</p> <p>Accounting Standard – 3 (Cash Flow Statements) issued by the Institute of Chartered Accountants of India specifies the format and method of presenting cash flow statements. Either the direct or indirect method can be used. Generally, the indirect method is used.</p>
<p><b>2.12</b> <b>Definition of Cash and Cash Equivalents</b></p>	<p>Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value (IAS 7.6). Usually, an investment qualifies as a cash equivalent when it has a maturity of three months or less from the date of acquisition (IAS 7.7).</p> <p>Bank overdrafts can be included as a component of cash and cash equivalents if they are repayable on demand and form an integral part of an entity's overall cash management (IAS 7.8).</p> <p>The effect of exchange rate changes on cash and cash equivalents held or due in foreign currency should be presented on the face of the cash flow statement, although separately from cash flows from operating, investing or financing activities, in order to reconcile the cash and cash equivalents at the beginning and end of the period (IAS 7.28).</p> <p>Cash and cash equivalents that are not available for use by the investment fund should be disclosed. Cash and cash equivalents subject to withdrawal or use restrictions should be disclosed separately from other cash amounts (IAS 7.48).</p>	<p>Cash includes cash on hand and demand deposits with banks. Cash equivalents include short term, highly liquid investments with maturities less than or equal to three months from date of acquisition which are subject to an insignificant risk of changes in value.</p>



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### 3 Consolidation

#### 3.1 Overview of the Consolidation Model

The accounting standards on consolidation are set forth in IAS 27R, Consolidated and Separate Financial Statements, which does not provide a scope exception for an investment fund.

An investment fund should consolidate all its investments in which it has control. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities:

- 1) Control is presumed to exist if an investment fund owns more than half of the voting power of another entity.
- 2) If an investment fund owns half or less than half of voting power, control also exists if it has:
  - a. Power over more than half of voting rights by virtue of an agreement with other investors
  - b. Power to govern the financial and operating policies of the entity under a statute or an agreement
  - c. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body
  - d. Power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

The existence of currently exercisable potential rights, such as warrants, call options or convertible instruments, also should be taken into consideration under the consolidation model.

An investment fund should consolidate any investments which are deemed to be subsidiaries under IAS 27R.

A subsidiary is defined as an entity, including an unincorporated entity such as a partnership that is controlled by another entity (IAS 27R.4). A feeder fund that has the majority of voting shares of the master fund in a master-feeder structure will need to consolidate the master fund. In cases in which the feeder fund owns only non-voting participating shares of a master fund, other criteria should also be considered, including whether the feeder fund has the power to govern by virtue of laws or an agreement such as a control agreement between the feeder fund and the master fund, and whether the master fund is in fact a special purpose entity of the feeder fund.

In some circumstances, in which a feeder fund invests in only one particular master fund, the feeder and master funds may represent an integrated entity. In such cases, the integrated entity could be considered the reporting entity and only one set of financial statements may be prepared for the integrated reporting entity (i.e. by combining the master and feeder financial statements).

There is no requirement for mutual funds to present consolidated financial statements.

Fund of funds are also not required to consolidate investee funds.

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### Consolidation continued

#### Overview of the Consolidation Model continued

Furthermore, a fund of funds or a private equity fund may need to consolidate the investments in other investment funds or investee companies for which it has control as defined in IAS 27R. However, if the fund of funds holds only non-voting shares and the holders of the voting shares have the ability to direct the financial and operating policies of the investment fund, then the fund of funds should not consolidate the investee company.

A private equity fund typically purchases investments, including controlling interests, in investee companies with a view to resale. However, unless qualified as a disposal group held for sale at acquisition under the criteria in IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations, the investee companies should be consolidated. The criteria include that the assets should be available for immediate sale and that such a sale should be highly probable, including completing the sale within one year (IFRS 5.7 and 5.8).

#### Special purpose entities

An investment fund should consolidate any special purpose entity (“SPE”), defined as an entity created to accomplish a narrow and well-defined objective (SIC 12.1), when the substance of the relationship indicates that the SPE is controlled by the investment fund (SIC 12.8).

To establish control, the criteria under IAS 27R discussed above should be considered. Furthermore, the following circumstances may indicate control (SIC 12):

- 1) The activities of the SPE are being conducted on behalf of an entity according to its business need so that the entity obtains benefits from the SPE’s operations.
- 2) The entity has the decision making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an “autopilot” mechanism, the entity has delegated these decision making powers.
- 3) The entity has the rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE.
- 4) The entity retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

As a result of the provisions under SIC 12, an investment fund should consolidate an investee entity, which is qualified as an SPE in which the substance of the relationship indicates control by the investment fund. All the factors identified in SIC 12 should be evaluated equally in assessing the substance of control.

There is no requirement for mutual funds to present consolidated financial statements.

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	International Financial Reporting Standards	Indian Accounting Standards
<b>Consolidation continued</b>		
<p><b>3.2</b> <b>Equity Method of Accounting for Investments in Common Stock / Investment in Associates</b></p>	<p>An associate is an entity over which an investment fund has significant influence and is neither a subsidiary nor an interest in a joint venture (IAS 28.2). An investment fund is presumed to have significant influence over an entity when it has more than 20% of the voting power of that entity. If it possesses less than 20%, other factors should be taken into consideration to determine the existence of significant influence. IAS 28.7 provides certain examples of such factors.</p> <p>Investments in associates should be accounted for using the equity method of accounting. However, IAS 28 provides an exception when the investment is held by a venture capital organisation, mutual fund, unit trust or similar entity and it is designated as a financial instrument at fair value through profit or loss (the fair value option) or is classified as held for trading (IAS 28.1). The same exception applies to joint venture investments held by an investment fund as defined by IAS 31. In practice, investment funds have used this exception to carry the investment at fair value through profit or loss.</p>	<p>As per SEBI Regulations a mutual fund is restricted from investing more than 10% of the paid-up capital of a company. The SEBI Regulations do not prescribe equity method of accounting.</p>
<p><b>3.3</b> <b>Business Combinations and Non-controlling Interests (NCI)</b></p>	<p>Under IFRS, an investment fund needs to first assess whether or not it acquires a business. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for purposes of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants (IFRS 3R.App A – definition of a business). If, as a result of the transaction, an investment fund obtains control over a business, IFRS 3R would apply. As defined in the “Overview of the Consolidation Model” section above, control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefit from activities.</p> <p>At a high level, IFRS 3R requires investment funds to:</p> <ol style="list-style-type: none"> <li>1) Recognise and measure the identifiable assets acquired and the liabilities assumed at their fair value on their acquisition date with limited exceptions.</li> <li>2) Record any non-controlling interest in the acquiree at:             <ol style="list-style-type: none"> <li>a. Its fair value, resulting in the measurement of goodwill relating to the controlling and non-controlling interest, or</li> <li>b. The non-controlling interest’s proportionate share of the acquiree’s identifiable net assets resulting in the measurement of goodwill only for the controlling interest.</li> </ol> </li> </ol>	<p>A SEBI-registered investment fund invests in a portfolio of securities issued by companies based on its investment objective and investment pattern as specified in the offer document. Securities include equity, debt and money market instruments. Further, a SEBI-registered investment fund is required to make investments within the investment restrictions specified in the SEBI Regulations. By virtue of these restrictions, a fund cannot acquire a controlling stake in any company.</p>

	International Financial Reporting Standards	Indian Accounting Standards
<b>Consolidation continued</b>		
<b>Business Combinations and Non-controlling Interests (NCI) continued</b>	<p>3) Recognise and measure the goodwill acquired in a business combination or a gain from a bargain purchase. Gains or losses may be recognised in the income statement when control is obtained or lost. Any equity interest that is currently held as a result of a previous transaction is re-measured at fair value and any resulting gain or loss is recognised in the income statement when an acquirer gains control. Any gain or loss on the interest sold and on any retained non-controlling investment (re-measured at fair value) is recognised in the income statement when an acquirer loses control.</p> <p>Additional acquisitions of ownership interests after control is obtained and disposals of an ownership interest that do not result in an entity losing control are treated as equity transactions.</p> <p>IFRS 3R and IAS 27R also require disclosure to enable users of the financial statements to evaluate the nature and the financial effects of a business combination and the relationship between the investment fund and its subsidiaries.</p> <p>IFRS 3R is to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009 (earlier adoption is permitted). IAS 27R should be adopted at the same time.</p>	

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<b>4 Financial Instruments</b>		
<b>4.1 Initial Recognition</b>	<p>Investment funds follow the general recognition principle noted in IAS 39, Financial Instruments: Recognition and Measurement, which states that a financial asset or a financial liability should be recognised only when an entity becomes a party to the contractual provisions of the instrument, subject to the provisions governing regular-way purchases and sales of financial assets (IAS 39.14).</p> <p>A regular-way purchase or sale is the acquisition of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the relevant market (IAS 39.9). Examples of regular-way purchases and sales include securities traded on an exchange or an over-the-counter market. Regular-way purchases of financial assets should be recognised using either trade date accounting or settlement date accounting (IAS 39.38). The choice of method is an accounting policy decision and should be disclosed. The method used should be applied consistently for purchases and sales of investments that belong to the same category (IAS 39.AG 53). Derivatives that require or permit net settlement do not meet the definition of regular-way trades (IAS 39.AG 54).</p>	<p>Securities transactions are recorded on a trade date basis. Where securities transactions take place through private placements, purchases are recorded as of the date on which the fund obtains an enforceable obligation to pay the price.</p>
<b>4.2 De-Recognition</b>	<p>Regular-way sales of financial assets should be recognised using either trade date accounting or settlement date accounting (IAS 39.38). The method used should be applied consistently for purchases and sales of investments that belong to the same category (IAS 39.AG 53).</p> <p>A financial asset (or part) should be de-recognised, when (IAS 39.17 through 39.19):</p> <ol style="list-style-type: none"> <li>1) The cash flows from the financial asset expire.</li> <li>2) The right to the financial asset's cash flows and substantially all risks and rewards of ownership are transferred.</li> <li>3) An obligation to transfer the asset's cash flows is assumed, substantially all risks and rewards are transferred and the following conditions are met: <ol style="list-style-type: none"> <li>a. No obligation to pay cash flows unless equivalent cash flows from the transferred asset are collected</li> <li>b. Prohibition from selling or pledging the asset other than as security to the eventual recipient for the obligation to pass through cash flow</li> <li>c. Obligation to remit any cash flows without material delay.</li> </ol> </li> </ol>	<p>There are no specific guidelines regarding de-recognition of securities. As per SEBI guidelines, a security is de-recognised when it is transferred or the rights to the cash flows expire. Unlike IFRS there is no requirement to test for the transfer of risks and rewards in order to achieve de-recognition.</p>

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	International Financial Reporting Standards	Indian Accounting Standards
<b>Financial Instruments continued</b>		
<b>De-Recognition continued</b>	<p>4) The rights to the cash flows are transferred (or an obligation to transfer the cash flows is assumed) and the additional conditions in #3 above are met. However, substantially all the risks and rewards are neither transferred nor retained, but control of the asset is transferred as follows:</p> <ol style="list-style-type: none"> <li>a. The transferee has the practical ability to sell the asset in its entirety (e.g. the asset is traded in an active market)</li> <li>b. The transferee is able to exercise this right unilaterally to an unrelated third party</li> <li>c. There are no further restrictions imposed on the transferee's sale (e.g. no "strings" attached).</li> </ol> <p>A financial liability should be de-recognised when the obligation specified in the contract is discharged or cancelled or expired. A financial liability is also considered extinguished if there is a substantial modification in the terms of the instrument (IAS 39.39 and 39.40). Upon de-recognition, the difference between the carrying amount of the financial instruments and the consideration paid should be recognised as gain or loss in the profit and loss (IAS 39.41).</p> <p>First-in-first-out (FIFO) and weighted average cost are the methods generally applied for calculating the cost basis of a portfolio of investments under IFRS.</p>	
<b>4.3 Financial Assets – Classification</b>	<p>Financial assets are classified as follows:</p> <ol style="list-style-type: none"> <li>1) Financial instruments at fair value through profit or loss.</li> <li>2) Held to maturity investments.</li> <li>3) Loans and receivables.</li> <li>4) Available-for-sale financial assets.</li> </ol> <p>Financial assets should be classified into the above four categories. Financial assets measured at fair value through profit or loss (i.e. the changes in fair value are recorded as gains or losses in the income statement) are further divided into two sub-categories: financial assets measured at fair value through profit or loss upon initial recognition (i.e. the fair value option, subject to the conditions below) or held for trading.</p>	<p>All traded investments are valued at market value. Non-traded investments are valued at fair value. There is no specific classification as the one contained in IFRS.</p>

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### Financial Instruments continued

#### Financial Assets – Classification continued

A financial asset is classified as held for trading if it is:

- 1) Acquired or incurred principally for the purpose of selling or repurchasing in the near term.
- 2) Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.
- 3) A derivative (except for a derivative that is a financial guarantee contract or designated as an effective hedging instrument).

Financial asset at fair value through profit or loss: The standard also allows an entity to designate a financial asset, a financial liability or a group of financial instruments (financial assets, financial liabilities or both) as at fair value through profit and loss provided it meets one of the following criteria (IAS 39.9 and 39.11):

- 1) A contract contains one or more embedded derivatives and, in that case, the entire hybrid can be designated as a financial asset or financial liability at fair value through profit or loss.
- 2) Such use results in more relevant information, because either:
  - a. It eliminates or significantly reduces a measurement or recognition inconsistency that otherwise would arise from measuring assets and liabilities or recognising the gains and losses on them on a different basis; or
  - b. A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

Note that the fair value option applies only to contracts within the scope of IAS 39 or equity method investments qualifying for the fair value option in accordance with IAS 28.1/IAS 31.1. An investment that needs to be consolidated under IAS 27/SIC 12 cannot be designated at fair value through profit or loss in the consolidated financial statements.

Caution should be taken in the classification of financial instruments under the fair value option. Once financial instruments are so designated, an investment fund will not be able to reclassify them into or out of the fair value through profit or loss category (IAS 39.50).

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**Financial Instruments continued**

<p><b>Financial Assets – Classification continued</b></p>	<p>Held-to-maturity investments: Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the investment fund has the positive intention and ability to hold to maturity other than:</p> <ol style="list-style-type: none"> <li>1) Those that upon initial recognition are designated as at fair value through profit or loss.</li> <li>2) Those that are designated as available-for-sale.</li> <li>3) Those that meet the definition of loans and receivables.</li> </ol> <p>Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:</p> <ol style="list-style-type: none"> <li>1) Those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss.</li> <li>2) Those that upon initial recognition are designated as available-for-sale.</li> <li>3) Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale.</li> </ol> <p>Available-for-sale financial assets: Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables; (b) held-to-maturity investments; or (c) financial assets at fair value through profit or loss. However, available-for-sale investments are still required to be measured at fair value unless there is no reliable fair value, in which case an unquoted equity security is valued at cost (only in rare circumstances, since it is presumed that fair value can be reliably determined) and would need to be assessed for impairment which would require an estimate of the present value of the future cash flows (IAS 39.66). Changes in fair value are recognised net of tax effects in equity (i.e. presented in the statement of changes in equity and recycled to the income statement when sold, impaired or collected). (See the “Subsequent Measurement” section below for further discussion of the result of different classification.)</p>
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<b>Financial Instruments continued</b>		
<p><b>4.4</b> <b>Financial Liabilities – Classification</b></p>	<p>IAS 39 has two defined categories of financial liabilities:</p> <ol style="list-style-type: none"> <li>1) Financial liabilities “at fair value through profit or loss”.</li> <li>2) Other financial liabilities.</li> </ol> <p>A financial liability is at fair value through profit and loss if it is either held for trading, a derivative not designated as a hedging instrument or an instrument that elected the fair value option at initial recognition (provided specific criteria described above for financial assets are met).</p> <p>Financial liabilities that are not classified as at fair value through profit or loss would automatically fall into the second category of “other financial liabilities” and are measured at amortised cost. Common examples are trade payables and borrowings.</p>	<p>There is no specific classification as the one contained in IFRS. Financial liabilities are carried at cost and derivative liabilities at fair value.</p>
<p><b>4.5</b> <b>Initial Measurement</b></p>	<p>IFRS requires that a financial asset and financial liability be initially measured and recorded at fair value or fair value plus/minus transaction costs where the financial asset or financial liability will not be carried at fair value through profit or loss (IAS 39.43). The fair value is typically the amount paid or received at the time of the transaction.</p> <p>Transaction costs, including the “bid-ask spread”, directly attributable to the acquisition or issue of financial instruments at fair value through profit or loss should be expensed through profit and loss. On the other hand, as noted above for instruments not carried at fair value through profit and loss, transaction costs should be included in the amount initially measured.</p> <p>Since investments held by an investment fund are typically financial instruments carried at fair value through profit or loss, the investment fund should follow the IFRS requirement to expense the transaction costs, including the “bid-ask spread” and such spread may be included as part of the change in fair value of the securities in the income statement from a practical standpoint or as a separate expense similar to other transactions costs, such as borrowing costs.</p>	<p>Cost of investments purchased is represented by the consideration paid to acquire the investment. Brokerage, stamp charges and any charge customarily included in the broker’s contract note are included as a part of the cost of investment at initial recognition.</p>

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### Financial Instruments continued

#### 4.6 Subsequent Measurement

Subsequent measurement depends on the initial classification of the financial instrument. The general principles for subsequent measurement:

- 1) Financial instruments carried at fair value through profit or loss subsequently should be measured at fair value without any deduction of transaction costs that may be incurred on disposal (IAS 39.46 and 39.47). Changes in value should be recognised as gains or losses in profit and loss (IAS 39.55).
- 2) Financial assets designated as available-for-sale instruments subsequently should be measured at fair value (IAS 39.46) or at cost for an unquoted equity security if the fair value cannot be reliably determined (IAS 39.46). Changes in value should be recognised directly in equity, through the statement of changes in equity, except for impairment charges and the impact of movements in foreign currency exchange rates on amortised cost of available-for-sale debt instruments. Furthermore, related interest income should be recorded in profit and loss (IAS 39.55).
- 3) Financial assets designated as held-to-maturity and other financial assets (such as loans and receivables) subsequently should be measured at amortised cost.
- 4) Financial liabilities not carried at fair value through profit or loss should be measured at amortised cost which is calculated using the effective interest method. Refer also to the “Net Assets – Measurement” section above for measurement of units or shares classified as financial liabilities.

For all financial assets which are not measured at fair value through profit or loss, any impairment should be assessed at each balance sheet date. Any such impairment, if identified, should be recorded as a loss in the income statement. A financial asset is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset. The standard provides guidance on objective evidence of impairment which varies depending on whether the investment is a debt or equity security. An impairment loss can be reversed for debt instruments if there is objective evidence that the decrease in impairment loss is related to an event that occurred after the impairment charge was recorded.

All traded investments are valued at market value. Non-traded investments are valued at fair value. The SEBI Regulations specify the norms for treating an investment as ‘non-traded’ and the manner in which the fair value of such investments are computed. Unrealised gains are transferred to an unrealised appreciation reserve; and unrealised losses (depreciation) are recognised in the revenue account.

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<b>Financial Instruments continued</b>		
<p><b>4.7 Fair Value</b></p>	<p>Financial instruments quoted in an active market should be valued at bid price for long positions and asking price for short positions.</p> <p>When an investment fund has financial assets and liabilities with offsetting market risks, it may use mid-market prices to determine fair value for the offsetting risk positions and apply bid or asking prices to the net open position, as appropriate.</p> <p>The use of a blockage factor is not appropriate in the determination of fair value for instruments traded in an active market (IAS 39.AG 71). A restriction on the securities that is specific to the asset would generally require a discount to be applied in determination of fair value.</p> <p>For financial instruments without an active market, the fair value should be determined based on a valuation technique. The valuation technique should be based on market transactions of substantially similar securities, discounted cash flow analysis, an option pricing model or another valuation technique commonly used by market participants and proven to be reliable (IAS 39.AG 74).</p>	<p>All traded investments are valued at market value. The closing price of a security on the principal stock exchange would represent the market value. The SEBI Regulations specify the norms for treating an investment as 'non-traded' and the manner in which the fair value of such investments are computed.</p> <p>The asset manager has to make an initial selection of the principal stock exchange and thereafter consistently price the securities based on the closing prices on the said exchange.</p> <p>If an equity or debt security is not traded for a period of 15 days or 30 days respectively, on the principal stock exchange / exchange where the security is principally traded above a certain specified volume, the security is said to be non-traded.</p> <p>The fair valuation procedures mentioned in the SEBI Regulations have to be followed by the asset manager and the policies for such valuation have to be approved by the trustees.</p>

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### Financial Instruments continued

#### 4.8 Disclosure

Disclosures related to financial instruments are driven primarily by IFRS 7. The objective of IFRS 7 is to provide disclosures “through the eyes of management” and encompass both qualitative narrative descriptions and specific quantitative data such that users are able to evaluate the nature and extent of risks arising from financial instruments to which an investment fund is exposed at the reporting date and how the risks are managed.

IFRS 7 requires that certain disclosures be provided by class of financial instruments. Although IFRS 7 does not provide a prescriptive list of classes, it states that a class shall contain financial instruments of the same nature and characteristics. An instrument class is not the same as an instrument category as classes should be determined at a lower level than the categories and reconciled back to the balance sheet (IFRS 7.6). For example, instruments within the category of fair value through profit or loss might be disaggregated into different types of investments held by an investment fund (i.e. different classes).

#### Balance sheet disclosure

IFRS 7 requires disclosure of the carrying values of each of the following categories either on the face of the balance sheet or in the notes (IFRS 7.8):

- 1) Financial assets at fair value through profit or loss, showing separately those designated upon initial recognition and those classified as held for trading.
- 2) Financial assets designated as available-for-sale.
- 3) Financial assets designated as held-to-maturity.
- 4) Loans and receivables.
- 5) Financial liabilities at fair value through profit or loss, showing separately those designated upon initial recognition and those classified as held for trading.
- 6) Financial liabilities measured at amortised cost.

Fair value of each of the categories of financial assets and liabilities, including the assumptions and estimations used in the determination of fair value, should be disclosed (IFRS 7.30). For an investment fund, since investments generally are carried at fair value and other financial assets and liabilities are short-term in nature, the carrying amounts of other financial assets and liabilities typically approximate the fair value. This should be stated in the notes to the financial statements (IFRS 7.29).

Investments are to be disclosed at marker/fair value in the balance sheet. The cost of investments is also disclosed.

Investments are to be disclosed by category, such as equity shares, debentures, etc. Aggregate value of non-traded securities are quantified and mentioned in the notes to the financial statements.

The accounting policy in respect of investment valuation is to be disclosed.

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### Financial Instruments continued

#### Disclosure continued

Collateral pledged, including carrying amounts and terms and conditions, should be disclosed (IFRS 7.14). Collateral held, including the fair value, the fair value of any such collateral sold or re-pledged, whether the entity has an obligation to return it, and terms and conditions should all be disclosed (IFRS 7.15).

#### Income statement disclosure

IFRS 7 requires the disclosure of net gains or losses on each of the categories of financial assets and liabilities. Total interest income and interest expense should be disclosed for financial assets and financial liabilities that are not at fair value through profit or loss. Any impairment loss for each category also should be disclosed.

#### Nature and extent of risks arising from financial instruments

To help users understand the nature and extent of risks arising from financial instruments, both qualitative and quantitative disclosures should be made. The risks for an investment fund usually include credit risk, liquidity risk and market risk (including interest rate risk, price risk and currency risk). Disclosures around the nature and extent of risks should be tailored to reflect the financial instruments held by the investment fund; additional risks may be identified and disclosed based on the entity's specific investment objectives and activities.

With regard to qualitative disclosures for each type of risk resulting from financial instruments, the investment fund should disclose exposures to risk and how they arise; the entity's objectives, policies and processes for managing and measuring risk; and any changes during the period related to risk and risk management.

Investment funds are also required to disclose summary quantitative data about their exposure to each type of risk arising from financial instruments based on information provided internally to key management. At a minimum, these disclosures should include:

- 1) Credit risk, including:
  - a. The amount that best represents the maximum exposure to credit risk at the reporting date without consideration of collateral held or other credit enhancements
  - b. Disclosure around collateral held or other credit enhancements for that instrument
  - c. Analysis of financial assets that are either past due or impaired.

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<b>Financial Instruments continued</b>		
<b>Disclosure continued</b>	<p>2) Liquidity risk, including a maturity analysis for financial liabilities that shows the remaining contractual maturities and a description of how the investment fund manages the liquidity risk inherent in the maturity analysis.</p> <p>3) Market risk, including a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date. The disclosures for the sensitivity analysis should also include the methods and assumptions used in preparing the sensitivity analysis and any changes from the previous period to these methods and assumptions. This disclosure is one of the most challenging areas for investment funds due to the judgment and analysis involved as well as the need to accumulate data which the investment fund may not immediately have access to. As part of the process, management should identify the relevant risk variables that reflect best the exposure of the entity to market risk. For example, for an investment fund with a long/short debt strategy, the relevant risk variables would be interest and foreign currency rates. When preparing the sensitivity analysis, the quantitative impacts of the interest and foreign currency rate sensitivities of the investment fund need to be determined and disclosed.</p> <p>The investment fund also should provide information about concentration of risk to the extent that this information is not apparent through the disclosure discussed above. PwC's publication, IFRS Illustrative Financial Statements – Investment Funds, provides examples of disclosure in accordance with IFRS 7.</p> <p>In addition to IFRS 7, IAS 1 also requires:</p> <ol style="list-style-type: none"> <li>1) The disclosure of the use of judgment that management has made in the application of accounting policies and that have the most significant effect on the amounts recognised in the financial statements (IAS 1R.122).</li> <li>2) The key assumptions used and sources of estimation of uncertainty also should be disclosed, together with the nature and carrying amounts of the affected assets and liabilities (IAS 1R.125).</li> <li>3) The qualitative and quantitative information about the investment fund's objectives, policies and processes for managing capital (IAS 1R.136).</li> </ol>	

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	International Financial Reporting Standards	Indian Accounting Standards
<b>Financial Instruments continued</b>		
<p><b>4.9</b> <b>Offsetting</b></p>	<p>A financial asset and a financial liability should be offset and the net amount presented on the balance sheet when an investment fund (IAS 32.42):</p> <ol style="list-style-type: none"> <li>1) Currently has a legal enforceable right to offset the recognised amounts.</li> <li>2) Intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.</li> </ol> <p>In order to offset financial assets and liabilities, an investment fund must have a currently enforceable legal right to do so. Conditional rights do not meet this criterion. For instance, an investment fund may have a conditional right to set off recognised amounts, such as in a master netting agreement, but such rights are enforceable only on the occurrence of some future event, usually a default of the counterparty. Consequently, IFRS does not consider such an agreement as meeting the conditions for offset (IAS 32.AG 38). As a result, positive and negative fair value of derivatives under a master netting arrangement should not be offset even if such derivatives have the same counterparty. The amounts should be presented as financial assets and financial liabilities on the balance sheet, respectively.</p>	<p>Mutual funds cannot short sell securities and all securities contracts have to be settled on a gross delivery basis. Consequently, no offsetting of trades is allowed.</p>

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### 5 Other Accounting & Reporting Topics

#### 5.1 Functional Currency

Functional currency is the currency of the primary economic environment in which an investment fund operates (IAS 21.9).

An entity considers the following primary indicators in the determination of its functional currency:

- 1) It is the currency:
  - a. That mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled)
  - b. Of the country whose competitive forces and regulations mainly determine the sales prices of the entity's goods and services.
- 2) It is the currency that mainly influences labour, material and other costs of providing goods or services; this will often be the currency in which such costs are denominated and settled.

Secondary indicators include the currency in which funds from financing activities are generated and the currency in which receipts from operating activities are usually retained (IAS 21.10). An example for financing is the currency in which the investment fund's shares are issued and redeemed. As a result, determining the functional currency of an investment fund is not straightforward and depends on multiple factors, including but not limited to:

- 1) The economic environment(s) in which the financial assets are invested.
- 2) The economic environment(s) of the investors.
- 3) The regulatory environment.
- 4) The competitive environment.
- 5) The fee structure.
- 6) The denomination of subscriptions and redemptions.

When the factors are mixed and the functional currency is not obvious, management should use its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions that affect the entity (IAS 21.12).

When the presentation currency is different from the functional currency, disclosure should be made for the investment fund's functional currency and the presentation currency, which is the currency used in the presentation of financial statements. The reason for using a different presentation currency should also be disclosed (IAS 21.53).

All mutual funds present financial statements in Indian rupees.



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	International Financial Reporting Standards	Indian Accounting Standards
<b>Other Accounting &amp; Reporting Topics continued</b>		
<b>5.2 Foreign Currency Transactions and Translation of Financial Statements</b>	<p>A foreign currency transaction should be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate at the transaction date (IAS 21.21).</p> <p>When a debt security is classified as available-for-sale, any foreign currency gains and losses are recognised in the income statement and not included as part of other comprehensive income.</p> <p>At subsequent balance sheet dates, monetary assets and liabilities denominated in a foreign currency are translated using the closing rates (IAS 21.23). Non-monetary balance sheet items that are measured at historical cost in a foreign currency should be translated using the exchange rate at the date of the transaction (IAS 21.23). Non-monetary balance sheet items that are measured at fair value in a foreign currency should be translated at the exchange rate at the date when the fair value is determined (IAS 21.23).</p> <p>When translating the financial statements from the functional currency into the presentation currency, assets and liabilities shall be translated at the closing rate and income statement items shall be translated at the exchange rates at the dates of the transactions (or an average rate as a practical alternative, provided that the exchange rate does not fluctuate significantly).</p>	<p>Similar to IFRS to the extent of monetary items. There are no non-monetary items in a SEBI-registered investment fund.</p> <p>Net gains (losses) on foreign exchange are disclosed separately.</p>
<b>5.3 Tax Uncertainties</b>	<p>Although IAS 12 does not specifically address uncertain tax positions, the general measurement guidance in IAS 12.46 should be applied: “Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities using the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date”. The unit of account and measurement method are not specified in IAS 12.</p> <p>An investment fund may choose to consider uncertain tax positions at the level of the individual uncertainty or group of related uncertainties. It also may choose to consider tax uncertainties at the level of its total tax liability to each taxing authority.</p>	<p>Income earned by a SEBI-registered investment fund is exempt under Section 10(23D) of the Income Tax Act, 1961. Therefore, no tax provisions are required to be made in the books of account.</p>

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### Other Accounting & Reporting Topics continued

#### Tax Uncertainties continued

When an investment fund elects to consider uncertain tax positions at the level of each uncertainty, it should first consider whether each position taken in the tax return is probable of being sustained on examination by the taxing authority. A liability should be recognised in connection with each item that is not probable of being sustained. The liability is measured using either an expected value (weighted average probability) approach or a single best estimate of the most likely outcome. The current tax liability would be the aggregate liability in connection with uncertain tax positions.

When an entity elects to consider uncertain tax positions at the level of its relationship with the taxing authority, the key issue is the measurement of the tax liability. It is probable that an investment fund will pay tax, so the recognition threshold has been met. The investment fund should determine the total amount of current tax it expects to pay, taking into account all the tax uncertainties, using either an expected value (weighted average probability) approach or a single best estimate of the most likely outcome.

IAS 37, Provisions, Contingent Liabilities and Contingent Assets, excludes income taxes from its scope and is not used to account for uncertain tax positions.

#### 5.4 Real Estate Investments

IAS 40.32A permits an entity to choose either the fair value model with changes in fair value recognised in earnings or the cost model for all investment property. IAS 40.5 defines an investment property as a land and/or a building, held to earn rentals or for capital appreciation or both. An investment property does not include property held for use in production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business.

As per the Ninth Schedule of SEBI Regulations, investments in real estate assets made by SEBI-registered real estate mutual funds are to be initially recognised at cost and subsequently are to be measured at fair value. Gain or loss arising from change in fair value is to be recognised in the revenue account of the period in which it arises.

For determining the fair value of a real estate asset in accordance with the SEBI Regulations, a real estate investment fund is required to use the services of two independent and approved valuers having recent experience in the category

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<b>Other Accounting &amp; Reporting Topics continued</b>		
<b>Real Estate Investments Continued</b>		<p>of real estate asset being valued, and use the lower of the two valuations.</p> <p>Regulation 49A of the SEBI Regulations defines a “real estate asset” as an identifiable immovable property:</p> <ol style="list-style-type: none"> <li>1) which is located within India in such city as may be specified by SEBI from time to time or in a special economic zone;</li> <li>2) on which construction is complete and which is usable;</li> <li>3) which is evidenced by valid title documents;</li> <li>4) which is legally transferable;</li> <li>5) which is free from all encumbrances;</li> <li>6) which is not the subject matter of any litigation.</li> </ol> <p>It does not include:</p> <ol style="list-style-type: none"> <li>1) A project under construction.</li> <li>2) Vacant land.</li> <li>3) Deserted property.</li> <li>4) Land specified for agricultural use.</li> <li>5) A property which is reserved or attached by any government or other authority or pursuant to orders of a court of law or the acquisition of which is otherwise prohibited under any law for the time being in force.</li> </ol>

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	International Financial Reporting Standards	Indian Accounting Standards
<b>Other Accounting &amp; Reporting Topics continued</b>		
<b>5.5 Share Based Compensation</b>	<p><b>Recognition</b> The fair value of shares and options awarded to employees is recognised over the period to which the employees' services relate. The award is presumed to be for past services if it is unconditional without any performance criteria.</p> <p><b>Measurement</b> For equity-settled share-based payment awards issued to employees, the awards should be measured by reference to the fair value of the equity instruments granted and recognised as compensation expense and a corresponding increase to equity over the requisite service period. For cash-settled share-based payment transactions, the goods or services acquired and the liability incurred are measured at the fair value of the liability which is marked to market at each balance sheet date. Extensive disclosures are also required.</p> <p><b>Employer's payroll tax payable on exercise of share options by employees</b> Employers' social security liability arising from share-based payment transactions is recognised over the same period or periods as the share-based payment charge.</p>	<p>The investment manager is responsible for managing the operations of an investment fund. All employee-related costs are borne by the investment manager. Therefore share based compensation is not applicable to SEBI-registered investment funds.</p>
<b>5.6 Financial Highlights (including Earnings Per Share)</b>	<p>The disclosure of financial highlights, including the disclosure of the entity's net asset value, is not required under IFRS.</p> <p>If an investment fund provides an alternative performance measure (such as financial highlights), the entity should ensure that it addresses the four qualitative characteristics that make the information provided in financial statements useful to readers: comprehensibility; relevance; reliability; and comparability. Therefore, investment funds should consider the following guidelines if alternative performance measures are disclosed:</p> <ol style="list-style-type: none"> <li>1) Define the terminology used and the basis of calculation adopted.</li> <li>2) Where possible, present alternative performance measures only in combination with measures defined under IFRS.</li> <li>3) Alternative performance measures should be presented consistently over time.</li> </ol>	<p>Disclosure of perspective historical per unit statistics is required to be given for three years under SEBI Regulations.</p> <p>Information includes: net asset value per unit; gross income per unit broken down into income other than profit on sale of investments, per unit; income from profit on inter-scheme sale of investments, per unit; income from profit on sale of investments to third party, per unit; transfer to revenue account from past year's reserve, per unit; aggregate of expenses, write off, amortisation and charge, per unit; net income per unit; unrealised appreciation / depreciation in</p>

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	International Financial Reporting Standards	Indian Accounting Standards
<b>Other Accounting &amp; Reporting Topics continued</b>		
<b>Financial Highlights (including Earnings Per Share) continued</b>	<p>4) To ensure that investors are not misled, alternative performance measures should not be presented with greater prominence than defined IFRS measures. Where alternative performance measures are derived from audited financial statements and resemble defined performance measures, but do not actually have the characteristics of the defined measures, then the defined measures should be given greater prominence than the alternative performance measures.</p> <p>5) Generally, explain the reason for presenting alternative performance measures to investors (i.e. may be used internally).</p> <p>If an investment fund has equity instruments that are publicly traded, earnings per share should be disclosed in accordance with IAS 33, Earnings Per Share.</p>	<p>value of investments per unit; the highest and lowest prices per unit during the year and the price earning ratio; ratio of expenses to average net assets by percentage; ratio of gross income to average net assets by percentage (excluding transfer to revenue account from past year's reserve but including unrealised appreciation on investments).</p> <p>The plan/option-wise net asset value per unit for each mutual fund scheme is disclosed in the financial statements.</p> <p>Earnings per share are not required to be disclosed.</p>
<b>5.7 Related Party Transactions</b>	<p>The term "related party" is defined in paragraph 9 of IAS 24, Related Party Disclosures.</p> <p>The disclosures required for related party transactions, typically applicable to an investment fund, are as follows (IAS 24.17):</p> <ol style="list-style-type: none"> <li>1) The amount of transactions.</li> <li>2) The amount of outstanding balances and             <ol style="list-style-type: none"> <li>a. Their terms and conditions</li> <li>b. Details of any guarantee received or given.</li> </ol> </li> <li>3) Provisions for doubtful debts related to the amounts of outstanding balances.</li> <li>4) The expense recognised in respect of bad or doubtful debts due from related parties.</li> <li>5) The identity of the controlling party.</li> </ol>	<p>Related party disclosures are to be given in accordance with Accounting Standard (AS) – 18, Related Party Disclosures. Related party relationships are defined in paragraph 3 of the accounting standard. These relationships are similar to those specified under IFRS except for post-employment benefit plans which are not considered as related parties under AS – 18.</p> <p>Disclosures are applicable to investment funds whose net income for the accounting period exceeds INR 500 million.</p>

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<b>Related Party Transactions continued</b>	<p>Additionally, under IFRS an investment fund is also required to disclose key management personnel compensation in total and for each of the following categories:</p> <ol style="list-style-type: none"> <li>1) Short-term employee benefits.</li> <li>2) Post-employment benefits.</li> <li>3) Other long-term benefits.</li> <li>4) Termination benefits.</li> <li>5) Share-based payment.</li> </ol>	<p>Disclosures required to be made include the following:</p> <ol style="list-style-type: none"> <li>1. Name of the transacting related party.</li> <li>2. Description of the relationship between the parties.</li> <li>3. Description of the nature of transactions.</li> <li>4. Volume of the transaction as an amount.</li> <li>5. Amounts of outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date.</li> <li>6. Amount written off or written back in the period in respect of debts due from or to related parties.</li> </ol> <p>For an investment fund, significant related party transactions include management fees, trusteeship fees, any amounts paid for distribution of units and investments made by related parties in the investment funds.</p>

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	International Financial Reporting Standards	Indian Accounting Standards
<b>Other Accounting &amp; Reporting Topics continued</b>		
<b>5.8 Segment Reporting</b>	<p>Segment reporting is required for entities whose debt or equity instruments are traded in a public market.</p> <p>On 30 November 2006, the IASB issued IFRS 8, Operating Segments, which is effective for the year beginning on or after 1 January 2009. IFRS 8 is a convergence standard with FAS 131. Under IFRS 8, a segment is an operating segment, which is identified on the basis of internal reports that are regularly reviewed by an entity's chief operating decision makers in order to allocate resources to the segment and assess its performance. Measurement and disclosure requirements have also been amended. The segment reporting under IFRS 8 is to disclose an entity's segment through the eyes of management.</p>	<p>Accounting Standard (AS) – 17, Segment Reporting is applicable if the criteria on the applicability as specified in the standard are met.</p> <p>Under AS – 17, a segment is either a business segment or a geographic segment. In the case of investment funds, usually there is only one business segment which is the business of investing amounts received from investors as unit capital in accordance with investment objectives to generate returns. Therefore, disclosures under this accounting standard are not made. A note to this effect is included in the notes to the financial statements.</p>

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▶ 1 Framework

▶ 2 Financial Statements

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### 1 Framework

#### 1.1 Accounting Standards/ Industry Practice

The objective of general purpose financial statements for investment funds is to provide information about an entity's financial position, financial performance and cash flows so that users of the financial statements can make informed decisions. Financial statements also show the results of management's stewardship of the resources entrusted to it (IAS 1).

IFRS, as a set of principle-based accounting standards, does not provide accounting standards or guidance specific to investment funds. Accordingly, investment funds follow the same financial reporting standards as general entities.

IFRS embodies not only the International Financial Reporting Standards themselves but also the International Accounting Standards (IAS) and interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or its former Standing Interpretations Committee (SIC) (IAS 1R.7). Investment funds are required to follow all such standards and interpretations in order to be in compliance with IFRS; an explicit and unreserved statement of such compliance also should be made in the notes to the financial statements (IAS 1R.16).

IFRS (IAS 8) articulates a hierarchy of guidance that management would follow in the absence of a standard that specifically applies to a transaction. In such cases, management uses its judgment in developing and applying an accounting policy. In making that judgment, management considers, first the requirement of other IFRS standards dealing with similar issues, and the concepts in the IASB's framework. It also may consider the accounting standards of other standard-setting bodies.

"Rules on Calculation of Investment Fund Assets" ("Toushishintakuzaisan-no-Keisan-nikansuru-Kisoku" Order of Prime Minister's Office #133 modified by Cabinet Order #79) provides specific guidance on industry accounting standards and practices for both publicly and privately offered investment funds.

The objective of general purpose financial statements for investment funds is similar to IFRS but information about an entity's cash flow is not required.

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### Framework continued

#### 1.2 First-time Adoption of Accounting Framework

IFRS 1, First-time Adoption of International Financial Reporting Standards, provides specific guidance on applying IFRS for the first time. First-time adoption of IFRS as a primary accounting basis generally requires full retrospective application of the standards, effective at the reporting date for the entity's first IFRS financial statements. However, IFRS 1 establishes optional exceptions (e.g. business combinations, employee benefits) and mandatory exceptions (e.g. hedge accounting, estimates) from retrospective application.

An entity's first IFRS financial statements must present reconciliations of profit or loss in respect of the last period reported under previous GAAP, of equity at the end of the last period reported under previous GAAP and of equity at the start of the earliest period presented in the financial statements. These reconciliations should be presented in sufficient detail to enable users to understand the material adjustments made in the conversion to IFRS.

If the entity presented a statement of cash flows under its previous GAAP, it should explain the material adjustments required for it to comply with IFRS.

For annual periods beginning on or after 1 January 2009, a first-time adopter is required to disclose its opening balance sheet at the date of transition to IFRS.

Full retrospective application of all Japan GAAP (JGAAP) effective at the reporting date for a fund's first JGAAP financial statements. There is no requirement to present reconciliation of equity or profit or loss on first-time adoption of JGAAP.

### 2 Financial Statements

#### 2.1 Components of Financial Statements

Comparative financial statements are required (IAS 1R.36) and include (IAS 1R.10):

- |                                      |   |
|--------------------------------------|---|
| 1) A balance sheet.                  | 4) A cash flow statement.   |
| 2) An income statement.              | 5) Notes to the financial statements, comprising a summary of significant |
| 3) A statement of changes in equity. | accounting policies and other explanatory notes.                          |

An investment fund, whose redeemable shares are classified as a financial liability and which does not have any other transaction classified under equity, is not required to present a statement of changes in equity since it does not have equity. For those shares classified as liabilities, a statement of changes in net assets attributable to holders of redeemable shares provides relevant and useful information and it is therefore best practice to provide this statement.

The date of authorisation to issue financial statements, and who authorises them for issue are required under IFRS (IAS 10.17).

Two-years' balance sheets, income statement including changes in equity, notes, and one-year's schedule of investments.

The date of authorisation to issue financial statements, and who authorises them for issue, are not required under JGAAP.

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### Financial Statements continued

#### 2.2 Balance Sheet

IFRS does not prescribe a specific format for an investment fund's balance sheet. At a minimum, the face of the balance sheet shall include line items that present the following amounts (note: only those minimum line items that might apply to an investment fund are identified – please see IAS 1R.54 for the complete list):

- |                                 |  |
|---------------------------------|--|
| 1) Investment property.         | 6) Financial liabilities.                                      |
| 2) Financial assets.            | 7) Provisions.   |
| 3) Trade and other receivables. | 8) Issued capital and other components of shareholders' equity |
| 4) Cash and cash equivalents.   | (unless shares are classified as financial liabilities).       |
| 5) Trade and other payables.    |  |

An entity may present additional line items, headings and subtotals on the face of the statement of financial position when the presentation is relevant to an understanding of its financial position (IAS 1R.55).

Both current and non-current assets and current and non-current liabilities should be reported on the face of the balance sheet except when presentation based on liquidity, in which assets and liabilities are presented in the order of liquidity, provides information that is reliable and more relevant (IAS 1R.60). Whichever method of presentation is adopted, assets and liabilities with maturities greater than 12 months should be identified in the notes.

A typical investment fund whose shares are redeemable at the discretion of its holders or in a limited life entity where the shares are redeemable at liquidation may have no shareholders' equity at all or only a nominal amount representing its voting, non-participating shares (please see "Equity – Classification" for detailed discussion on classification of these shares and the impact of the new IAS 32 amendment on these shares). Although there is no specific format, illustrative examples (IE) 32 and IE 33 of IAS 32, Financial Instruments: Presentation, provide models of presentation for balance sheets and income statements for entities with no equity or some equity but explicitly state that other formats are possible. PwC's publication, IFRS Illustrative Financial Statements – Investment Funds, also provides an example for reference.

"Rules on Calculation of Investment Fund Assets" prescribes a format for the balance sheet of investment funds. Balance sheet captions are required to be presented in more detail compared to IFRS. The balance sheet should be categorised into current/non-current assets and liabilities, and should include certain required items.

Public funds are also required to comply with disclosure requirements stipulated in the Financial Instruments and Exchange Law.

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#### 2.3 Equity – Classification

The definition of a financial liability includes a contractual obligation to deliver cash or another financial asset to another entity (IAS 32.11). A financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset (a “puttable instrument”) is a financial liability regardless of whether the amount of cash or another financial asset is determined based on an index or other item that has the potential to increase or decrease. IAS 32 specifically cites, as examples of puttable instruments, interests issued by open-ended mutual funds, unit trusts, partnerships, etc. (IAS 32.18), that would be classified as liabilities.

However, in February 2008, the IASB issued an amendment to IAS 32 and IAS 1, Puttable Financial Instruments and Obligations Arising on Liquidation (IAS 32 amendment), which is effective for annual periods beginning on or after 1 January 2009 (with earlier adoption permitted). The amendment provides an exception to the definition of a financial liability to permit certain puttable instruments and instruments with obligations that arise upon liquidation to be classified as equity if strict criteria are met. The scope of the amendment is intended to be narrow, and unless all criteria are met, the instrument would continue to be classified as a liability. The specific criteria are as follows:

- 1) The instrument is the most subordinate class of instruments.
- 2) All financial instruments in the class of instruments that is subordinate to all other classes have identical features (e.g. the formula to calculate the redemption price is the same for all instruments in that class).
- 3) The holder is entitled to a pro rata share of net assets (i.e. the assets remaining after deducting all other claims on its assets).
- 4) The total expected cash flows to the holder are substantially based on profit and loss, change in net assets or change in the fair value of the net assets\*.
- 5) There is no other instrument which is tied to the same measures as in #4 above and has the effect of fixing or restricting the residual return to the puttable instrument holder.
- 6) The instrument has no other liability feature apart from the obligation to redeem the instrument\*.

\* A criterion only for puttable instruments.

In Japan, most contractual fund types are the open-end, while most corporate types are closed-end. Although most investment funds (contractual type) units are redeemable, they are treated as equity under JGAAP. No specific disclosure is required.

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<p><b>Equity – Classification continued</b></p>	<p>Given the restrictive criteria above, redeemable shares of investment funds will rarely qualify for equity classification under the IAS 32 amendment.</p> <p>Apart from redeemable shares which may be classified as liabilities, an investment fund may have activity in equity (e.g. shares meeting the definition of equity, or available-for-sale securities in which changes in fair value would be recorded through other comprehensive income). In such cases, the investment fund is required to present a statement of changes in equity.</p> <p>Changes in the liability, which includes related dividends or distribution of income to holders of redeemable shares and subsequent measurement of the liability, should be recognised in the income statement. (Please refer to the “Net Assets – Measurement” section below.) Subscriptions and redemptions should be recorded directly as a change in the liability and not flow through the income statement.</p>	
<p><b>2.4 Net Assets – Measurement</b></p>	<p>Net assets attributable to holders of redeemable shares will generally be classified as a liability on the balance sheet, carried at the redemption amount that would be payable at the balance sheet date if the holders exercised the right to put the shares back to the investment fund. Changes in this redemption amount each period should be recorded through the income statement.</p> <p>If the net asset value for subscriptions and redemptions is different from the net asset value calculated using bid/ask prices (e.g. because NAV as prescribed by the offering memorandum is based on the last traded price), an adjustment to net asset value is recorded so that the net asset value attributable to the holders of redeemable shares represents the redemption amount.</p>	<p>As stated in “Equity-Classification”, in Japan, most investment funds (contractual type) shares are redeemable but are treated as equity.</p> <p>Under Japanese regulation, the net asset value of investment funds for subscriptions and redemptions is the same as the net asset value of the funds. Change in the net assets should be recorded through the income statement</p>
<p><b>2.5 Schedule of Investments</b></p>	<p>A condensed schedule of investments is not required to be presented under IFRS. However, IFRS 7 requires an entity to disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance (IFRS 7.7). In particular, IFRS 7 requires quantitative disclosures about concentrations of risk (IFRS 7.34c). As such, an analysis of the investments similar to the one provided through the schedule of investments may be used as part of the IFRS 7 disclosures.</p>	<p>“Rules on Calculation of Investment Fund Assets” requires a schedule of investments for the current year and prescribes the format of the schedule.</p> <p>Public funds are also required to comply with disclosure requirements stipulated in the Financial Instruments and Exchange Law.</p>

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<p><b>2.6</b> <b>Income Statement</b></p>	<p>IFRS does not prescribe a specific format. Similar to the balance sheet, IAS 1R.82 requires that certain minimum line items be presented on the face of the income statement. Expenses should be classified according to nature or function (IAS 1R.99). If the classification by function is used, additional information on the nature of expenses should be disclosed.</p> <p>The portion of the profit and loss attributable to the minority interest is disclosed separately in the income statement (IAS 1R.83). The minority portion of net income is presented after the “net income” line as an allocation of “net income”.</p> <p>An investment fund may present additional line items, headings and subtotals on the face of the income statement when it is relevant to an understanding of its financial performance (IAS 1R.85).</p> <p>In addition, in an instance in which the entity has little or no equity, IAS 32.IE 32 and 32.IE 33 provide examples of income statements for such entities. PwC’s publication, IFRS Illustrative Financial Statements – Investment Funds, also provides an example for reference.</p>	<p>“Rules on Calculation of Investment Fund Assets” prescribes a format for the income statement, which includes the changes in equity. Specific items are required to be presented on the face of the statement.</p> <p>Public funds are also required to comply with disclosure requirements stipulated in the Financial Instruments and Exchange Law.</p>
<p><b>2.7</b> <b>Interest and Dividend Income Recognition</b></p>	<p>Interest should be accrued and recognised using the effective interest method (IAS 18.30) from the date of purchase (IAS 18.32), and dividends should be recognised when the right to receive payment is established (IAS 18.30), typically the ex-dividend date. As such, the discount and premium of fixed income securities should be included in the calculation of interest income under the effective interest method.</p> <p>The effective interest method is based on the estimated future cash flows through the expected life of the instrument without considering future credit losses (IAS 39.9). However, in some cases, investments are acquired at a deep discount that reflect incurred credit losses and such incurred credit losses should be included in the estimated cash flows (IAS 39.AG 5). If the investment fund subsequently revises its estimated future cash flows, it shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows using the original effective interest rate and record this adjustment through the income statement (IAS 39.AG 8).</p> <p>IFRS requires separate presentation of interest income and foreign currency exchange gains and losses except when the financial assets and liabilities are carried at fair value through profit or loss. For example, exchange differences arising on translating an available-for-sale debt security as well as the current period amortisation on the security would need to be presented separately in the income statement.</p>	<p>Similar to IFRS but using the straight-line method for amortisation.</p>

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#### 2.8 Realised and Unrealised Gains (Losses) on Investments – Presentation

Although not a minimum required item to be presented under IAS 1R, net gains or losses on investments are typically presented on the face of the income statement given their importance to an investment fund's financial performance. There is no requirement to separate realised and unrealised gains or losses.

Since interest income and foreign exchange gains/losses do not need to be disclosed separately for financial instruments at fair value through profit or loss, they may be included in the gains or losses on investments.

Similar to IFRS.

#### 2.9 Withholding Taxes – Presentation

Income received should be included gross in the income statement. The withholding taxes should be presented as a separate component of income tax for the period.

Earnings accruing on trust properties of securities investment trusts are exempt from income tax pursuant to Article 176 of the Income Tax Law in Japan, if the procedures designated by the Law are followed. Since investment trusts are not regarded as a corporate entity, they are not subject to corporate tax. The income is subject to withholding tax and should be included in the income statement net of the withholding taxes.

#### 2.10 Statement of Changes in Net Assets/Equity

IFRS does not prescribe a specific format. The general presentation and disclosure requirements are detailed in IAS 1R.106 through 1R.110.

For an investment fund with no equity (i.e. all the shares are classified as liability under IAS 32 and the investment fund does not have any other equity reserves), the statement of changes in equity is not required. PwC's publication, IFRS Illustrative Financial Statements – Investment Funds, also provides an example for reference.

Statement of changes in equity is incorporated in the income statement under JGAAP. (Please refer to "Income Statement" above.)



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### Financial Statements continued

<p><b>2.11</b> <b>Statement of Cash Flows</b></p>	<p>A statement of cash flows is always required.</p> <p>The statement of cash flows should report cash flows classified by operating, investing and financing activities (IAS 7.10). The cash flows from operating activities can be presented using either the direct or indirect method (IAS 7.18) although IFRS encourages the use of the direct method (IAS 7.19).</p> <p>Regardless of whether the direct or indirect method is used, cash flows from interest and dividends received and paid should be disclosed separately within the statement of cash flows and classified consistently as either operating, investing or financing activities (IAS 7.31). Cash flows from taxes should also be disclosed separately and classified as operating activities unless specifically identified with financing or investing activities (IAS 7.35).</p> <p>In accordance with IAS 7.15, purchases and sales of investments for investment funds are generally considered operating activities as they relate to the main revenue-producing activity of the investment fund. In addition, purchases and sales may either be shown on a gross basis or on a net basis (IAS 7.22 and 7.24) if the turnover is rapid, the amounts are large and the maturities are short.</p> <p>Non-cash transactions should be excluded from the statement of cash flows and should be disclosed in the notes to the financial statements (IAS 7.43).</p>	<p>Not required for investment funds under JGAAP.</p>
<p><b>2.12</b> <b>Definition of Cash and Cash Equivalents</b></p>	<p>Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value (IAS 7.6). Usually, an investment qualifies as a cash equivalent when it has a maturity of three months or less from the date of acquisition (IAS 7.7).</p> <p>Bank overdrafts can be included as a component of cash and cash equivalents if they are repayable on demand and form an integral part of an entity's overall cash management (IAS 7.8).</p> <p>The effect of exchange rate changes on cash and cash equivalents held or due in foreign currency should be presented on the face of the cash flow statement, although separately from cash flows from operating, investing or financing activities, in order to reconcile the cash and cash equivalents at the beginning and end of the period (IAS 7.28).</p> <p>Cash and cash equivalents that are not available for use by the investment fund should be disclosed. Cash and cash equivalents subject to withdrawal or use restrictions should be disclosed separately from other cash amounts (IAS 7.48).</p>	<p>Not required for investment funds under JGAAP.</p>



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### 3 Consolidation

#### 3.1 Overview of the Consolidation Model

The accounting standards on consolidation are set forth in IAS 27R, Consolidated and Separate Financial Statements, which does not provide a scope exception for an investment fund.

An investment fund should consolidate all its investments in which it has control. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities:

- 1) Control is presumed to exist if an investment fund owns more than half of the voting power of another entity.
- 2) If an investment fund owns half or less than half of voting power, control also exists if it has:
  - a. Power over more than half of voting rights by virtue of an agreement with other investors
  - b. Power to govern the financial and operating policies of the entity under a statute or an agreement
  - c. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body
  - d. Power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

The existence of currently exercisable potential rights, such as warrants, call options or convertible instruments, also should be taken into consideration under the consolidation model.

An investment fund should consolidate any investments which are deemed to be subsidiaries under IAS 27R.

A subsidiary is defined as an entity, including an unincorporated entity such as a partnership that is controlled by another entity (IAS 27R.4). A feeder fund that has the majority of voting shares of the master fund in a master-feeder structure will need to consolidate the master fund. In cases in which the feeder fund owns only non-voting participating shares of a master fund, other criteria should also be considered, including whether the feeder fund has the power to govern by virtue of laws or an agreement such as a control agreement between the feeder fund and the master fund, and whether the master fund is in fact a special purpose entity of the feeder fund.

In some circumstances, in which a feeder fund invests in only one particular master fund, the feeder and master funds may represent an integrated entity. In such cases, the integrated entity could be considered the reporting entity and only one set of financial statements may be prepared for the integrated reporting entity (i.e. by combining the master and feeder financial statements).

Consolidation is not required for investment funds under JGAAP. If an investment fund is a feeder fund within a “master/feeder” structure, the master fund should not be consolidated but shown using specific presentation requirements.

Additionally, if an investment fund is classified as a fund of funds, it would not consolidate investee funds but show its investments using specific presentation requirements.

Typically in Japan, the maximum allowable investment into a company is 10% of its total outstanding shares. Hence the fund does not control the company.

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### Consolidation continued

#### Overview of the Consolidation Model continued

Furthermore, a fund of funds or a private equity fund may need to consolidate the investments in other investment funds or investee companies for which it has control as defined in IAS 27R. However, if the fund of funds holds only non-voting shares and the holders of the voting shares have the ability to direct the financial and operating policies of the investment fund, then the fund of funds should not consolidate the investee company.

A private equity fund typically purchases investments, including controlling interests, in investee companies with a view to resale. However, unless qualified as a disposal group held for sale at acquisition under the criteria in IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations, the investee companies should be consolidated. The criteria include that the assets should be available for immediate sale and that such a sale should be highly probable, including completing the sale within one year (IFRS 5.7 and 5.8).

#### Special purpose entities

An investment fund should consolidate any special purpose entity (“SPE”), defined as an entity created to accomplish a narrow and well-defined objective (SIC 12.1), when the substance of the relationship indicates that the SPE is controlled by the investment fund (SIC 12.8).

To establish control, the criteria under IAS 27R discussed above should be considered. Furthermore, the following circumstances may indicate control (SIC 12):

- 1) The activities of the SPE are being conducted on behalf of an entity according to its business need so that the entity obtains benefits from the SPE’s operations.
- 2) The entity has the decision making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an “autopilot” mechanism, the entity has delegated these decision making powers.
- 3) The entity has the rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE.
- 4) The entity retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

As a result of the provisions under SIC 12, an investment fund should consolidate an investee entity, which is qualified as an SPE in which the substance of the relationship indicates control by the investment fund. All the factors identified in SIC 12 should be evaluated equally in assessing the substance of control.

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### Consolidation continued

#### 3.2 Equity Method of Accounting for Investments in Common Stock / Investment in Associates

An associate is an entity over which an investment fund has significant influence and is neither a subsidiary nor an interest in a joint venture (IAS 28.2). An investment fund is presumed to have significant influence over an entity when it has more than 20% of the voting power of that entity. If it possesses less than 20%, other factors should be taken into consideration to determine the existence of significant influence. IAS 28.7 provides certain examples of such factors.

Investments in associates should be accounted for using the equity method of accounting. However, IAS 28 provides an exception when the investment is held by a venture capital organisation, mutual fund, unit trust or similar entity and it is designated as a financial instrument at fair value through profit or loss (the fair value option) or is classified as held for trading (IAS 28.1). The same exception applies to joint venture investments held by an investment fund as defined by IAS 31. In practice, investment funds have used this exception to carry the investment at fair value through profit or loss.

No requirement to apply equity method on investments of investment funds under JGAAP.

In trust deeds of investment funds in Japan, the investment ratio of investment into one stock name is usually limited to around 10%.

#### 3.3 Business Combinations and Non- controlling Interests (NCI)

Under IFRS, an investment fund needs to first assess whether or not it acquires a business. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for purposes of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants (IFRS 3R.App A – definition of a business). If, as a result of the transaction, an investment fund obtains control over a business, IFRS 3R would apply. As defined in the “Overview of the Consolidation Model” section above, control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefit from activities.

At a high level, IFRS 3R requires investment funds to:

- 1) Recognise and measure the identifiable assets acquired and the liabilities assumed at their fair value on their acquisition date with limited exceptions.
- 2) Record any non-controlling interest in the acquiree at:
  - a. Its fair value, resulting in the measurement of goodwill relating to the controlling and non-controlling interest, or
  - b. The non-controlling interest’s proportionate share of the acquiree’s identifiable net assets resulting in the measurement of goodwill only for the controlling interest.

No concept of business combination of investment funds under JGAAP.

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<b>Consolidation continued</b>		
<b>Business Combinations and Non-controlling Interests (NCI) continued</b>	<p>3) Recognise and measure the goodwill acquired in a business combination or a gain from a bargain purchase. Gains or losses may be recognised in the income statement when control is obtained or lost. Any equity interest that is currently held as a result of a previous transaction is re-measured at fair value and any resulting gain or loss is recognised in the income statement when an acquirer gains control. Any gain or loss on the interest sold and on any retained non-controlling investment (re-measured at fair value) is recognised in the income statement when an acquirer loses control.</p> <p>Additional acquisitions of ownership interests after control is obtained and disposals of an ownership interest that do not result in an entity losing control are treated as equity transactions.</p> <p>IFRS 3R and IAS 27R also require disclosure to enable users of the financial statements to evaluate the nature and the financial effects of a business combination and the relationship between the investment fund and its subsidiaries.</p> <p>IFRS 3R is to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009 (earlier adoption is permitted). IAS 27R should be adopted at the same time.</p>	

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### 4 Financial Instruments

#### 4.1 Initial Recognition

Investment funds follow the general recognition principle noted in IAS 39, Financial Instruments: Recognition and Measurement, which states that a financial asset or a financial liability should be recognised only when an entity becomes a party to the contractual provisions of the instrument, subject to the provisions governing regular-way purchases and sales of financial assets (IAS 39.14).

A regular-way purchase or sale is the acquisition of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the relevant market (IAS 39.9). Examples of regular-way purchases and sales include securities traded on an exchange or an over-the-counter market. Regular-way purchases of financial assets should be recognised using either trade date accounting or settlement date accounting (IAS 39.38). The choice of method is an accounting policy decision and should be disclosed. The method used should be applied consistently for purchases and sales of investments that belong to the same category (IAS 39.AG 53). Derivatives that require or permit net settlement do not meet the definition of regular-way trades (IAS 39.AG 54).

Similar to IFRS. However, securities transactions need to be recorded on a trade date basis.

#### 4.2 De-Recognition

Regular-way sales of financial assets should be recognised using either trade date accounting or settlement date accounting (IAS 39.38). The method used should be applied consistently for purchases and sales of investments that belong to the same category (IAS 39.AG 53).

A financial asset (or part) should be de-recognised, when (IAS 39.17 through 39.19):

- 1) The cash flows from the financial asset expire.
- 2) The right to the financial asset's cash flows and substantially all risks and rewards of ownership are transferred.
- 3) An obligation to transfer the asset's cash flows is assumed, substantially all risks and rewards are transferred and the following conditions are met:
  - a. No obligation to pay cash flows unless equivalent cash flows from the transferred asset are collected
  - b. Prohibition from selling or pledging the asset other than as security to the eventual recipient for the obligation to pass through cash flow
  - c. Obligation to remit any cash flows without material delay.

Similar to IFRS. However, securities transactions need to be recorded on a trade date basis. Moving average cost is the method generally applied for calculating the cost basis of a portfolio of investments under JGAAP.

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### Financial Instruments continued

#### De-Recognition continued

- 4) The rights to the cash flows are transferred (or an obligation to transfer the cash flows is assumed) and the additional conditions in #3 above are met. However, substantially all the risks and rewards are neither transferred nor retained, but control of the asset is transferred as follows:
- The transferee has the practical ability to sell the asset in its entirety (e.g. the asset is traded in an active market)
  - The transferee is able to exercise this right unilaterally to an unrelated third party
  - There are no further restrictions imposed on the transferee's sale (e.g. no "strings" attached).

A financial liability should be de-recognised when the obligation specified in the contract is discharged or cancelled or expired. A financial liability is also considered extinguished if there is a substantial modification in the terms of the instrument (IAS 39.39 and 39.40). Upon de-recognition, the difference between the carrying amount of the financial instruments and the consideration paid should be recognised as gain or loss in the profit and loss (IAS 39.41).

First-in-first-out (FIFO) and weighted average cost are the methods generally applied for calculating the cost basis of a portfolio of investments under IFRS.

#### 4.3 Financial Assets – Classification

Financial assets are classified as follows:

- Financial instruments at fair value through profit or loss.
- Held to maturity investments.
- Loans and receivables.
- Available-for-sale financial assets.

Financial assets should be classified into the above four categories. Financial assets measured at fair value through profit or loss (i.e. the changes in fair value are recorded as gains or losses in the income statement) are further divided into two sub-categories: financial assets measured at fair value through profit or loss upon initial recognition (i.e. the fair value option, subject to the conditions below) or held for trading.

"Rules on Calculation of Investment Fund Assets" prescribes two classifications: securities held for trading (current) and other securities (non-current). Securities held for trading are valued at fair value. Other securities are valued in accordance with its purpose for investment.

An investment fund typically classifies its investments as securities held for trading.

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### Financial Instruments continued

#### Financial Assets – Classification continued

A financial asset is classified as held for trading if it is:

- 1) Acquired or incurred principally for the purpose of selling or repurchasing in the near term.
- 2) Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.
- 3) A derivative (except for a derivative that is a financial guarantee contract or designated as an effective hedging instrument).

Financial asset at fair value through profit or loss: The standard also allows an entity to designate a financial asset, a financial liability or a group of financial instruments (financial assets, financial liabilities or both) as at fair value through profit and loss provided it meets one of the following criteria (IAS 39.9 and 39.11):

- 1) A contract contains one or more embedded derivatives and, in that case, the entire hybrid can be designated as a financial asset or financial liability at fair value through profit or loss.
- 2) Such use results in more relevant information, because either:
  - a. It eliminates or significantly reduces a measurement or recognition inconsistency that otherwise would arise from measuring assets and liabilities or recognising the gains and losses on them on a different basis; or
  - b. A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

Note that the fair value option applies only to contracts within the scope of IAS 39 or equity method investments qualifying for the fair value option in accordance with IAS 28.1/IAS 31.1. An investment that needs to be consolidated under IAS 27/SIC 12 cannot be designated at fair value through profit or loss in the consolidated financial statements.

Caution should be taken in the classification of financial instruments under the fair value option. Once financial instruments are so designated, an investment fund will not be able to reclassify them into or out of the fair value through profit or loss category (IAS 39.50).

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### Financial Instruments continued

#### Financial Assets – Classification continued

Held-to-maturity investments: Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the investment fund has the positive intention and ability to hold to maturity other than:

- 1) Those that upon initial recognition are designated as at fair value through profit or loss.
- 2) Those that are designated as available-for-sale.
- 3) Those that meet the definition of loans and receivables.

Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- 1) Those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss.
- 2) Those that upon initial recognition are designated as available-for-sale.
- 3) Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale.

Available-for-sale financial assets: Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables; (b) held-to-maturity investments; or (c) financial assets at fair value through profit or loss. However, available-for-sale investments are still required to be measured at fair value unless there is no reliable fair value, in which case an unquoted equity security is valued at cost (only in rare circumstances, since it is presumed that fair value can be reliably determined) and would need to be assessed for impairment which would require an estimate of the present value of the future cash flows (IAS 39.66). Changes in fair value are recognised net of tax effects in equity (i.e. presented in the statement of changes in equity and recycled to the income statement when sold, impaired or collected). (See the “Subsequent Measurement” section below for further discussion of the result of different classification.)



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<p><b>4.4</b> <b>Financial Liabilities – Classification</b></p>	<p>IAS 39 has two defined categories of financial liabilities:</p> <ol style="list-style-type: none"> <li>1) Financial liabilities “at fair value through profit or loss”.</li> <li>2) Other financial liabilities.</li> </ol> <p>A financial liability is at fair value through profit and loss if it is either held for trading, a derivative not designated as a hedging instrument or an instrument that elected the fair value option at initial recognition (provided specific criteria described above for financial assets are met).</p> <p>Financial liabilities that are not classified as at fair value through profit or loss would automatically fall into the second category of “other financial liabilities” and are measured at amortised cost. Common examples are trade payables and borrowings.</p>	<p>“Rules on Calculation of Investment Fund Assets” prescribes two classifications: financial liabilities held for trading (current) and other financial liabilities (non-current). Financial liabilities held for trading are valued at fair value. Other financial liabilities are valued in accordance with its purpose for investment.</p> <p>An investment fund typically classifies its investments as financial liabilities held for trading.</p>
<p><b>4.5</b> <b>Initial Measurement</b></p>	<p>IFRS requires that a financial asset and financial liability be initially measured and recorded at fair value or fair value plus/minus transaction costs where the financial asset or financial liability will not be carried at fair value through profit or loss (IAS 39.43). The fair value is typically the amount paid or received at the time of the transaction.</p> <p>Transaction costs, including the “bid-ask spread”, directly attributable to the acquisition or issue of financial instruments at fair value through profit or loss should be expensed through profit and loss. On the other hand, as noted above for instruments not carried at fair value through profit and loss, transaction costs should be included in the amount initially measured.</p> <p>Since investments held by an investment fund are typically financial instruments carried at fair value through profit or loss, the investment fund should follow the IFRS requirement to expense the transaction costs, including the “bid-ask spread” and such spread may be included as part of the change in fair value of the securities in the income statement from a practical standpoint or as a separate expense similar to other transactions costs, such as borrowing costs.</p>	<p>Cost (consideration received or paid) typically represents the value of the investment at initial recognition. Transaction costs and proceeds on sale are included in the cost of investments.</p>

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#### 4.6 Subsequent Measurement

Subsequent measurement depends on the initial classification of the financial instrument. The general principles for subsequent measurement:

- 1) Financial instruments carried at fair value through profit or loss subsequently should be measured at fair value without any deduction of transaction costs that may be incurred on disposal (IAS 39.46 and 39.47). Changes in value should be recognised as gains or losses in profit and loss (IAS 39.55).
- 2) Financial assets designated as available-for-sale instruments subsequently should be measured at fair value (IAS 39.46) or at cost for an unquoted equity security if the fair value cannot be reliably determined (IAS 39.46). Changes in value should be recognised directly in equity, through the statement of changes in equity, except for impairment charges and the impact of movements in foreign currency exchange rates on amortised cost of available-for-sale debt instruments. Furthermore, related interest income should be recorded in profit and loss (IAS 39.55).
- 3) Financial assets designated as held-to-maturity and other financial assets (such as loans and receivables) subsequently should be measured at amortised cost.
- 4) Financial liabilities not carried at fair value through profit or loss should be measured at amortised cost which is calculated using the effective interest method. Refer also to the “Net Assets – Measurement” section above for measurement of units or shares classified as financial liabilities.

For all financial assets which are not measured at fair value through profit or loss, any impairment should be assessed at each balance sheet date. Any such impairment, if identified, should be recorded as a loss in the income statement. A financial asset is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset. The standard provides guidance on objective evidence of impairment which varies depending on whether the investment is a debt or equity security. An impairment loss can be reversed for debt instruments if there is objective evidence that the decrease in impairment loss is related to an event that occurred after the impairment charge was recorded.

Similar to IFRS, but typically only trading securities at fair value through profit and loss. Any other securities should be measured at fair value and changes in value should be recognised directly in equity.

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<p><b>4.7</b> <b>Fair Value</b></p>	<p>Financial instruments quoted in an active market should be valued at bid price for long positions and asking price for short positions.</p> <p>When an investment fund has financial assets and liabilities with offsetting market risks, it may use mid-market prices to determine fair value for the offsetting risk positions and apply bid or asking prices to the net open position, as appropriate.</p> <p>The use of a blockage factor is not appropriate in the determination of fair value for instruments traded in an active market (IAS 39.AG 71). A restriction on the securities that is specific to the asset would generally require a discount to be applied in determination of fair value.</p> <p>For financial instruments without an active market, the fair value should be determined based on a valuation technique. The valuation technique should be based on market transactions of substantially similar securities, discounted cash flow analysis, an option pricing model or another valuation technique commonly used by market participants and proven to be reliable (IAS 39.AG 74).</p>	<p>In general, can be valued at bid or ask price, last price, mean between bid and asking price, or a valuation within the range of bid and ask price.</p> <p>However, neither use of ask price to value long positions nor use of bid price to value short positions is allowed.</p> <p>“Blockage factor” on unrestricted investments traded on an active market is not usually allowed.</p> <p>In the absence of an active market, the amounts representing estimates of fair values using methods applied consistently and determined in good faith by the board of directors should be used.</p>
<p><b>4.8</b> <b>Disclosure</b></p>	<p>Disclosures related to financial instruments are driven primarily by IFRS 7. The objective of IFRS 7 is to provide disclosures “through the eyes of management” and encompass both qualitative narrative descriptions and specific quantitative data such that users are able to evaluate the nature and extent of risks arising from financial instruments to which an investment fund is exposed at the reporting date and how the risks are managed.</p> <p>IFRS 7 requires that certain disclosures be provided by class of financial instruments. Although IFRS 7 does not provide a prescriptive list of classes, it states that a class shall contain financial instruments of the same nature and characteristics. An instrument class is not the same as an instrument category as classes should be determined at a lower level than the categories and reconciled back to the balance sheet (IFRS 7.6). For example, instruments within the category of fair value through profit or loss might be disaggregated into different types of investments held by an investment fund (i.e. different classes).</p>	<p>Fair value of financial instruments should be disclosed. Similar to IFRS, the use of judgment, key assumptions and sources of estimation of uncertainty should be disclosed.</p> <p>“Rules on Financial Statements” include general disclosure requirements and “Rules on Calculation of Investment Fund Assets” include specific disclosure requirements on investment funds.</p> <p>Public funds are also required to comply with disclosure requirements stipulated in the Financial Instruments and Exchange Law.</p>

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### Financial Instruments continued

#### Disclosure continued

#### Balance sheet disclosure

IFRS 7 requires disclosure of the carrying values of each of the following categories either on the face of the balance sheet or in the notes (IFRS 7.8):

- 1) Financial assets at fair value through profit or loss, showing separately those designated upon initial recognition and those classified as held for trading.
- 2) Financial assets designated as available-for-sale.
- 3) Financial assets designated as held-to-maturity.
- 4) Loans and receivables.
- 5) Financial liabilities at fair value through profit or loss, showing separately those designated upon initial recognition and those classified as held for trading.
- 6) Financial liabilities measured at amortised cost.

Fair value of each of the categories of financial assets and liabilities, including the assumptions and estimations used in the determination of fair value, should be disclosed (IFRS 7.30). For an investment fund, since investments generally are carried at fair value and other financial assets and liabilities are short-term in nature, the carrying amounts of other financial assets and liabilities typically approximate the fair value. This should be stated in the notes to the financial statements (IFRS 7.29).

Collateral pledged, including carrying amounts and terms and conditions, should be disclosed (IFRS 7.14).

Collateral held, including the fair value, the fair value of any such collateral sold or re-pledged, whether the entity has an obligation to return it, and terms and conditions should all be disclosed (IFRS 7.15).

#### Income statement disclosure

IFRS 7 requires the disclosure of net gains or losses on each of the categories of financial assets and liabilities.

Total interest income and interest expense should be disclosed for financial assets and financial liabilities that are not at fair value through profit or loss. Any impairment loss for each category also should be disclosed.

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### Financial Instruments continued

#### Disclosure continued

#### Nature and extent of risks arising from financial instruments

To help users understand the nature and extent of risks arising from financial instruments, both qualitative and quantitative disclosures should be made. The risks for an investment fund usually include credit risk, liquidity risk and market risk (including interest rate risk, price risk and currency risk). Disclosures around the nature and extent of risks should be tailored to reflect the financial instruments held by the investment fund; additional risks may be identified and disclosed based on the entity's specific investment objectives and activities.

With regard to qualitative disclosures for each type of risk resulting from financial instruments, the investment fund should disclose exposures to risk and how they arise; the entity's objectives, policies and processes for managing and measuring risk; and any changes during the period related to risk and risk management.

Investment funds are also required to disclose summary quantitative data about their exposure to each type of risk arising from financial instruments based on information provided internally to key management. At a minimum, these disclosures should include:

- 1) Credit risk, including:
  - a. The amount that best represents the maximum exposure to credit risk at the reporting date without consideration of collateral held or other credit enhancements
  - b. Disclosure around collateral held or other credit enhancements for that instrument
  - c. Analysis of financial assets that are either past due or impaired.
- 2) Liquidity risk, including a maturity analysis for financial liabilities that shows the remaining contractual maturities and a description of how the investment fund manages the liquidity risk inherent in the maturity analysis.

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#### Disclosure continued

3) Market risk, including a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date. The disclosures for the sensitivity analysis should also include the methods and assumptions used in preparing the sensitivity analysis and any changes from the previous period to these methods and assumptions. This disclosure is one of the most challenging areas for investment funds due to the judgment and analysis involved as well as the need to accumulate data which the investment fund may not immediately have access to. As part of the process, management should identify the relevant risk variables that reflect best the exposure of the entity to market risk. For example, for an investment fund with a long/short debt strategy, the relevant risk variables would be interest and foreign currency rates. When preparing the sensitivity analysis, the quantitative impacts of the interest and foreign currency rate sensitivities of the investment fund need to be determined and disclosed.

The investment fund also should provide information about concentration of risk to the extent that this information is not apparent through the disclosure discussed above. PwC's publication, IFRS Illustrative Financial Statements – Investment Funds, provides examples of disclosure in accordance with IFRS 7.

In addition to IFRS 7, IAS 1 also requires:

- 1) The disclosure of the use of judgment that management has made in the application of accounting policies and that have the most significant effect on the amounts recognised in the financial statements (IAS 1R.122).
- 2) The key assumptions used and sources of estimation of uncertainty also should be disclosed, together with the nature and carrying amounts of the affected assets and liabilities (IAS 1R.125).
- 3) The qualitative and quantitative information about the investment fund's objectives, policies and processes for managing capital (IAS 1R.136).

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	International Financial Reporting Standards	Japanese Accounting Standards
<b>Financial Instruments continued</b>		
<b>4.9 Offsetting</b>	<p>A financial asset and a financial liability should be offset and the net amount presented on the balance sheet when an investment fund (IAS 32.42):</p> <ol style="list-style-type: none"> <li>1) Currently has a legal enforceable right to offset the recognised amounts.</li> <li>2) Intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.</li> </ol> <p>In order to offset financial assets and liabilities, an investment fund must have a currently enforceable legal right to do so. Conditional rights do not meet this criterion. For instance, an investment fund may have a conditional right to set off recognised amounts, such as in a master netting agreement, but such rights are enforceable only on the occurrence of some future event, usually a default of the counterparty. Consequently, IFRS does not consider such an agreement as meeting the conditions for offset (IAS 32.AG 38). As a result, positive and negative fair value of derivatives under a master netting arrangement should not be offset even if such derivatives have the same counterparty. The amounts should be presented as financial assets and financial liabilities on the balance sheet, respectively.</p>	<p>Similar to IFRS, except that the financial assets and liabilities recognised for derivative contracts with the same counterparty under a master netting arrangement can be offset, unless all requirements of the arrangement are met.</p>

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### 5 Other Accounting & Reporting Topics

<p><b>5.1 Functional Currency</b></p>	<p>Functional currency is the currency of the primary economic environment in which an investment fund operates (IAS 21.9).</p> <p>An entity considers the following primary indicators in the determination of its functional currency:</p> <ol style="list-style-type: none"> <li>1) It is the currency:             <ol style="list-style-type: none"> <li>a. That mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled)</li> <li>b. Of the country whose competitive forces and regulations mainly determine the sales prices of the entity's goods and services.</li> </ol> </li> <li>2) It is the currency that mainly influences labour, material and other costs of providing goods or services; this will often be the currency in which such costs are denominated and settled.</li> </ol> <p>Secondary indicators include the currency in which funds from financing activities are generated and the currency in which receipts from operating activities are usually retained (IAS 21.10). An example for financing is the currency in which the investment fund's shares are issued and redeemed. As a result, determining the functional currency of an investment fund is not straightforward and depends on multiple factors, including but not limited to:</p> <ol style="list-style-type: none"> <li>1) The economic environment(s) in which the financial assets are invested.</li> <li>2) The economic environment(s) of the investors.</li> <li>3) The regulatory environment.</li> <li>4) The competitive environment.</li> <li>5) The fee structure.</li> <li>6) The denomination of subscriptions and redemptions.</li> </ol> <p>When the factors are mixed and the functional currency is not obvious, management should use its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions that affect the entity (IAS 21.12).</p> <p>When the presentation currency is different from the functional currency, disclosure should be made for the investment fund's functional currency and the presentation currency, which is the currency used in the presentation of financial statements. The reason for using a different presentation currency should also be disclosed (IAS 21.53).</p>	<p>Not applicable. Japanese mutual funds usually apply multi-currency accounting, where foreign currency transactions are initially booked in the foreign currency and are translated into Japanese yen periodically at a pre-determined calculation period end (not necessarily equal to fiscal year-end) by the exchange rate prevailing at the period end.</p>
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### Other Accounting & Reporting Topics continued

#### 5.2 Foreign Currency Transactions and Translation of Financial Statements

A foreign currency transaction should be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate at the transaction date (IAS 21.21).

When a debt security is classified as available-for-sale, any foreign currency gains and losses are recognised in the income statement and not included as part of other comprehensive income.

At subsequent balance sheet dates, monetary assets and liabilities denominated in a foreign currency are translated using the closing rates (IAS 21.23). Non-monetary balance sheet items that are measured at historical cost in a foreign currency should be translated using the exchange rate at the date of the transaction (IAS 21.23). Non-monetary balance sheet items that are measured at fair value in a foreign currency should be translated at the exchange rate at the date when the fair value is determined (IAS 21.23).

When translating the financial statements from the functional currency into the presentation currency, assets and liabilities shall be translated at the closing rate and income statement items shall be translated at the exchange rates at the dates of the transactions (or an average rate as a practical alternative, provided that the exchange rate does not fluctuate significantly).

Japanese mutual funds usually apply multi-currency accounting, where foreign currency transactions are initially booked in the foreign currency.

Under multi-currency accounting, foreign currency transactions (exchanging foreign currency into Japanese yen) are translated into Japanese yen by applying to the foreign currency amount the spot exchange rate at the transaction date.

Foreign currency balances are translated into Japanese yen periodically at a pre-determined calculation period end (not necessarily equal to fiscal year-end) by the exchange rate prevailing at the period end.

#### 5.3 Tax Uncertainties

Although IAS 12 does not specifically address uncertain tax positions, the general measurement guidance in IAS 12.46 should be applied: “Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities using the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date”. The unit of account and measurement method are not specified in IAS 12.

An investment fund may choose to consider uncertain tax positions at the level of the individual uncertainty or group of related uncertainties. It also may choose to consider tax uncertainties at the level of its total tax liability to each taxing authority.

Not applicable. Earnings accruing on trust properties of securities investment trusts are exempt from income tax pursuant to Article 176 of the Income Tax Law, if the procedures designated by the Law are followed. Since the trust properties are not regarded as a corporate entity, they are not subject to corporate tax.

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### Other Accounting & Reporting Topics continued

#### Tax Uncertainties continued

When an investment fund elects to consider uncertain tax positions at the level of each uncertainty, it should first consider whether each position taken in the tax return is probable of being sustained on examination by the taxing authority. A liability should be recognised in connection with each item that is not probable of being sustained. The liability is measured using either an expected value (weighted average probability) approach or a single best estimate of the most likely outcome. The current tax liability would be the aggregate liability in connection with uncertain tax positions.

When an entity elects to consider uncertain tax positions at the level of its relationship with the taxing authority, the key issue is the measurement of the tax liability. It is probable that an investment fund will pay tax, so the recognition threshold has been met. The investment fund should determine the total amount of current tax it expects to pay, taking into account all the tax uncertainties, using either an expected value (weighted average probability) approach or a single best estimate of the most likely outcome.

IAS 37, Provisions, Contingent Liabilities and Contingent Assets, excludes income taxes from its scope and is not used to account for uncertain tax positions.

#### 5.4 Real Estate Investments

IAS 40.32A permits an entity to choose either the fair value model with changes in fair value recognised in earnings or the cost model for all investment property. IAS 40.5 defines an investment property as a land and/or a building, held to earn rentals or for capital appreciation or both. An investment property does not include property held for use in production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business.

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### Other Accounting & Reporting Topics continued

#### 5.5 Share Based Compensation

##### Recognition

The fair value of shares and options awarded to employees is recognised over the period to which the employees' services relate. The award is presumed to be for past services if it is unconditional without any performance criteria.

##### Measurement

For equity-settled share-based payment awards issued to employees, the awards should be measured by reference to the fair value of the equity instruments granted and recognised as compensation expense and a corresponding increase to equity over the requisite service period. For cash-settled share-based payment transactions, the goods or services acquired and the liability incurred are measured at the fair value of the liability which is marked to market at each balance sheet date. Extensive disclosures are also required.

##### Employer's payroll tax payable on exercise of share options by employees

Employers' social security liability arising from share-based payment transactions is recognised over the same period or periods as the share-based payment charge.

Share-based compensation does not usually apply to investment funds since usually there are no employees in investment funds.

The general criteria for share-based compensation under JGAAP is limited to equity-settled share-based payment awards.

Similar to IFRS, for equity-settled share-based payment awards issued to employees, the awards should be measured by reference to the fair value of the equity instruments granted and recognised as compensation expense and a corresponding increase to equity over the requisite service period. No specific requirement for cash-settled share-based payment transactions under JGAAP.

#### 5.6 Financial Highlights (including Earnings Per Share)

The disclosure of financial highlights, including the disclosure of the entity's net asset value, is not required under IFRS.

If an investment fund provides an alternative performance measure (such as financial highlights), the entity should ensure that it addresses the four qualitative characteristics that make the information provided in financial statements useful to readers: comprehensibility; relevance; reliability; and comparability. Therefore, investment funds should consider the following guidelines if alternative performance measures are disclosed:

- 1) Define the terminology used and the basis of calculation adopted.
- 2) Where possible, present alternative performance measures only in combination with measures defined under IFRS.
- 3) Alternative performance measures should be presented consistently over time.

Not required in financial statements of investment funds under JGAAP. Required to be presented in the management report and should follow the specific disclosure requirements of "Rules on Calculation of Investment Fund Assets". The management report is not a part of the financial statements.

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### Other Accounting & Reporting Topics continued

<p><b>Financial Highlights (including Earnings Per Share) continued</b></p>	<p>4) To ensure that investors are not misled, alternative performance measures should not be presented with greater prominence than defined IFRS measures. Where alternative performance measures are derived from audited financial statements and resemble defined performance measures, but do not actually have the characteristics of the defined measures, then the defined measures should be given greater prominence than the alternative performance measures.</p> <p>5) Generally, explain the reason for presenting alternative performance measures to investors (i.e. may be used internally).</p> <p>If an investment fund has equity instruments that are publicly traded, earnings per share should be disclosed in accordance with IAS 33, Earnings Per Share.</p>	
<p><b>5.7 Related Party Transactions</b></p>	<p>The term “related party” is defined in paragraph 9 of IAS 24, Related Party Disclosures.</p> <p>The disclosures required for related party transactions, typically applicable to an investment fund, are as follows (IAS 24.17):</p> <ol style="list-style-type: none"> <li>1) The amount of transactions.</li> <li>2) The amount of outstanding balances and               <ol style="list-style-type: none"> <li>a. Their terms and conditions</li> <li>b. Details of any guarantee received or given.</li> </ol> </li> <li>3) Provisions for doubtful debts related to the amounts of outstanding balances.</li> <li>4) The expense recognised in respect of bad or doubtful debts due from related parties.</li> <li>5) The identity of the controlling party.</li> </ol> <p>Additionally, under IFRS an investment fund is also required to disclose key management personnel compensation in total and for each of the following categories:</p> <ol style="list-style-type: none"> <li>1) Short-term employee benefits.</li> <li>2) Post-employment benefits.</li> <li>3) Other long-term benefits.</li> <li>4) Termination benefits.</li> <li>5) Share-based payment.</li> </ol>	<p>Similar to IFRS. However, “Related Party” is defined as:</p> <ol style="list-style-type: none"> <li>1. Management company of the fund.</li> <li>2. Related party of the management company.</li> <li>3. Trustee of the fund.</li> </ol>

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	International Financial Reporting Standards	Japanese Accounting Standards
<b>Other Accounting &amp; Reporting Topics continued</b>		
<b>5.8 Segment Reporting</b>	<p>Segment reporting is required for entities whose debt or equity instruments are traded in a public market.</p> <p>On 30 November 2006, the IASB issued IFRS 8, Operating Segments, which is effective for the year beginning on or after 1 January 2009. IFRS 8 is a convergence standard with FAS 131. Under IFRS 8, a segment is an operating segment, which is identified on the basis of internal reports that are regularly reviewed by an entity's chief operating decision makers in order to allocate resources to the segment and assess its performance. Measurement and disclosure requirements have also been amended. The segment reporting under IFRS 8 is to disclose an entity's segment through the eyes of management.</p>	Not required for investment funds under JGAAP.

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# Singapore



▶ 1 Framework

▶ 2 Financial Statements

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## International Financial Reporting Standards

## Singapore Accounting Standards

### 1 Framework

#### 1.1 Accounting Standards/ Industry Practice

The objective of general purpose financial statements for investment funds is to provide information about an entity's financial position, financial performance and cash flows so that users of the financial statements can make informed decisions. Financial statements also show the results of management's stewardship of the resources entrusted to it (IAS 1).

IFRS, as a set of principle-based accounting standards, does not provide accounting standards or guidance specific to investment funds. Accordingly, investment funds follow the same financial reporting standards as general entities.

IFRS embodies not only the International Financial Reporting Standards themselves but also the International Accounting Standards (IAS) and interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or its former Standing Interpretations Committee (SIC) (IAS 1R.7). Investment funds are required to follow all such standards and interpretations in order to be in compliance with IFRS; an explicit and unreserved statement of such compliance also should be made in the notes to the financial statements (IAS 1R.16).

IFRS (IAS 8) articulates a hierarchy of guidance that management would follow in the absence of a standard that specifically applies to a transaction. In such cases, management uses its judgment in developing and applying an accounting policy. In making that judgment, management considers, first the requirement of other IFRS standards dealing with similar issues, and the concepts in the IASB's framework. It also may consider the accounting standards of other standard-setting bodies.

Recommended Accounting Practice 7 ("RAP 7") sets out recommendations on the way in which the financial statements of unit trusts should be prepared. It is applicable to all authorised unit trusts in the Republic of Singapore. While RAP 7 states that compliance with RAP 7 is encouraged but not mandatory, the Code on Collective Investment Schemes issued by the Monetary Authority of Singapore for authorised unit trusts requires their financial statements to be prepared in accordance with RAP 7.

The objective of financial statements is to provide information on the transactions in the portfolio during the period, the total return over the period, comprising net capital gains/losses and net income, and distributions for the period together with the value of the portfolio at the period end.



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<b>Framework continued</b>		
<p><b>1.2</b> <b>First-time Adoption of Accounting Framework</b></p>	<p>IFRS 1, First-time Adoption of International Financial Reporting Standards, provides specific guidance on applying IFRS for the first time. First-time adoption of IFRS as a primary accounting basis generally requires full retrospective application of the standards, effective at the reporting date for the entity's first IFRS financial statements. However, IFRS 1 establishes optional exceptions (e.g. business combinations, employee benefits) and mandatory exceptions (e.g. hedge accounting, estimates) from retrospective application.</p> <p>An entity's first IFRS financial statements must present reconciliations of profit or loss in respect of the last period reported under previous GAAP, of equity at the end of the last period reported under previous GAAP and of equity at the start of the earliest period presented in the financial statements. These reconciliations should be presented in sufficient detail to enable users to understand the material adjustments made in the conversion to IFRS.</p> <p>If the entity presented a statement of cash flows under its previous GAAP, it should explain the material adjustments required for it to comply with IFRS.</p> <p>For annual periods beginning on or after 1 January 2009, a first-time adopter is required to disclose its opening balance sheet at the date of transition to IFRS.</p>	<p>RAP 7 is silent on first-time adoption of the Recommended Accounting Practice.</p>



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	International Financial Reporting Standards	Singapore Accounting Standards
<b>2 Financial Statements</b>		
<p><b>2.1 Components of Financial Statements</b></p>	<p>Comparative financial statements are required (IAS 1R.36) and include (IAS 1R.10):</p> <ol style="list-style-type: none"> <li>1) A balance sheet.</li> <li>2) An income statement.</li> <li>3) A statement of changes in equity.</li> <li>4) A cash flow statement.</li> <li>5) Notes to the financial statements, comprising a summary of significant accounting policies and other explanatory notes.</li> </ol> <p>An investment fund, whose redeemable shares are classified as a financial liability and which does not have any other transaction classified under equity, is not required to present a statement of changes in equity since it does not have equity. For those shares classified as liabilities, a statement of changes in net assets attributable to holders of redeemable shares provides relevant and useful information and it is therefore best practice to provide this statement.</p> <p>The date of authorisation to issue financial statements, and who authorises them for issue are required under IFRS (IAS 10.17).</p>	<p>The financial statements are comparative and include:</p> <ol style="list-style-type: none"> <li>1) Statement of total return.</li> <li>2) Balance sheet.</li> <li>3) Portfolio statement.</li> <li>4) Notes to the financial statements including material accounting policies used in preparing the financial statements.</li> </ol> <p>In the event that the units are classified as equity, the financial statements should contain a statement of movements in unitholders' funds. This should summarise the movements in the total value of the trust/fund. This statement reconciles the changes in net assets during the period in summary form. It draws on the statement of total return for the net increase/decrease in assets attributable to the investment activities, shows the extent to which the trust/fund has grown or contracted as a result of the creation or cancellation of units as well as any reduction in trust/fund size due to distributions to unitholders during the period.</p> <p>In the event that the units are classified as a financial liability, the notes to the financial statements should contain a note that summarises the movements in the net assets attributable to unitholders, similar to that described in the preceding paragraphs.</p> <p>The disclosure of the authorisation of financial statements for issue similar to IFRS is not required, unless required by local laws and regulations.</p>

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### Financial Statements continued

#### 2.2 Balance Sheet

IFRS does not prescribe a specific format for an investment fund's balance sheet. At a minimum, the face of the balance sheet shall include line items that present the following amounts (note: only those minimum line items that might apply to an investment fund are identified – please see IAS 1R.54 for the complete list):

- |                                 |  |
|---------------------------------|--|
| 1) Investment property.         | 6) Financial liabilities.                                      |
| 2) Financial assets.            | 7) Provisions.   |
| 3) Trade and other receivables. | 8) Issued capital and other components of shareholders' equity |
| 4) Cash and cash equivalents.   | (unless shares are classified as financial liabilities).       |
| 5) Trade and other payables.    |  |

An entity may present additional line items, headings and subtotals on the face of the statement of financial position when the presentation is relevant to an understanding of its financial position (IAS 1R.55).

Both current and non-current assets and current and non-current liabilities should be reported on the face of the balance sheet except when presentation based on liquidity, in which assets and liabilities are presented in the order of liquidity, provides information that is reliable and more relevant (IAS 1R.60). Whichever method of presentation is adopted, assets and liabilities with maturities greater than 12 months should be identified in the notes.

A typical investment fund whose shares are redeemable at the discretion of its holders or in a limited life entity where the shares are redeemable at liquidation may have no shareholders' equity at all or only a nominal amount representing its voting, non-participating shares (please see "Equity – Classification" for detailed discussion on classification of these shares and the impact of the new IAS 32 amendment on these shares). Although there is no specific format, illustrative examples (IE) 32 and IE 33 of IAS 32, Financial Instruments: Presentation, provide models of presentation for balance sheets and income statements for entities with no equity or some equity but explicitly state that other formats are possible. PwC's publication, IFRS Illustrative Financial Statements – Investment Funds, also provides an example for reference.

RAP 7 does not prescribe a specific format. At a minimum (according to Appendix to RAP 7), the face of the balance sheet should include:

- 1) Investments.
- 2) Receivables.
- 3) Cash and bank balances.
- 4) Payables.
- 5) Financial derivatives, at fair value.
- 6) Net assets attributable to unitholders.

As in IFRS, additional line items can be presented.

Under RAP 7, the balance sheet is non-classified since all assets and liabilities of an investment fund are presumed to be current. Furthermore, the general practice of the industry is to present investments as the first asset because of their relative importance to total assets.

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### Financial Statements continued

#### 2.3 Equity – Classification

The definition of a financial liability includes a contractual obligation to deliver cash or another financial asset to another entity (IAS 32.11). A financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset (a “puttable instrument”) is a financial liability regardless of whether the amount of cash or another financial asset is determined based on an index or other item that has the potential to increase or decrease. IAS 32 specifically cites, as examples of puttable instruments, interests issued by open-ended mutual funds, unit trusts, partnerships, etc. (IAS 32.18), that would be classified as liabilities.

However, in February 2008, the IASB issued an amendment to IAS 32 and IAS 1, Puttable Financial Instruments and Obligations Arising on Liquidation (IAS 32 amendment), which is effective for annual periods beginning on or after 1 January 2009 (with earlier adoption permitted). The amendment provides an exception to the definition of a financial liability to permit certain puttable instruments and instruments with obligations that arise upon liquidation to be classified as equity if strict criteria are met. The scope of the amendment is intended to be narrow, and unless all criteria are met, the instrument would continue to be classified as a liability. The specific criteria are as follows:

- 1) The instrument is the most subordinate class of instruments.
- 2) All financial instruments in the class of instruments that is subordinate to all other classes have identical features (e.g. the formula to calculate the redemption price is the same for all instruments in that class).
- 3) The holder is entitled to a pro rata share of net assets (i.e. the assets remaining after deducting all other claims on its assets).
- 4) The total expected cash flows to the holder are substantially based on profit and loss, change in net assets or change in the fair value of the net assets\*.
- 5) There is no other instrument which is tied to the same measures as in #4 above and has the effect of fixing or restricting the residual return to the puttable instrument holder.
- 6) The instrument has no other liability feature apart from the obligation to redeem the instrument\*.

\* A criterion only for puttable instruments.

The unit trust shall classify the units, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument in SFRS 32.

Singapore Financial Reporting Standards (“SFRS”) 32 is generally consistent with IAS 32 (effective from 2007) in all material aspects.

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### Financial Statements continued

#### Equity – Classification continued

Given the restrictive criteria above, redeemable shares of investment funds will rarely qualify for equity classification under the IAS 32 amendment.

Apart from redeemable shares which may be classified as liabilities, an investment fund may have activity in equity (e.g. shares meeting the definition of equity, or available-for-sale securities in which changes in fair value would be recorded through other comprehensive income). In such cases, the investment fund is required to present a statement of changes in equity.

Changes in the liability, which includes related dividends or distribution of income to holders of redeemable shares and subsequent measurement of the liability, should be recognised in the income statement. (Please refer to the “Net Assets – Measurement” section below.) Subscriptions and redemptions should be recorded directly as a change in the liability and not flow through the income statement.

#### 2.4 Net Assets – Measurement

Net assets attributable to holders of redeemable shares will generally be classified as a liability on the balance sheet, carried at the redemption amount that would be payable at the balance sheet date if the holders exercised the right to put the shares back to the investment fund. Changes in this redemption amount each period should be recorded through the income statement.

If the net asset value for subscriptions and redemptions is different from the net asset value calculated using bid/ask prices (e.g. because NAV as prescribed by the offering memorandum is based on the last traded price), an adjustment to net asset value is recorded so that the net asset value attributable to the holders of redeemable shares represents the redemption amount.

RAP 7 states that accounting policies should generally comply with the principles relating to recognition and measurement of the Singapore FRS.

Net assets attributable to holders of redeemable shares/units will generally be classified as a liability on the balance sheet. The carrying amount is the difference between total assets and other liabilities. Generally, no adjustments are made if the net asset value for subscriptions and redemptions is different from the net asset value calculated using bid/ask prices (e.g. because NAV as prescribed by the offering memorandum is based on the last traded price).

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	International Financial Reporting Standards	Singapore Accounting Standards
<b>Financial Statements continued</b>		
<b>2.5 Schedule of Investments</b>	<p>A condensed schedule of investments is not required to be presented under IFRS. However, IFRS 7 requires an entity to disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance (IFRS 7.7). In particular, IFRS 7 requires quantitative disclosures about concentrations of risk (IFRS 7.34c). As such, an analysis of the investments similar to the one provided through the schedule of investments may be used as part of the IFRS 7 disclosures.</p>	<p>A portfolio statement (equivalent to schedule of investments) is required.</p> <p>For each holding in the portfolio, the value and the percentage (in relation to the net asset of the unit trust) of the value of the property of the unit trust that the holding represents should be shown. The percentage should also be shown for each category of holding in the investment of the unit trust. These categories should be the most appropriate in the light of the investment policy of the unit trust (e.g. economic, geographic or currency). Comparative percentages for these sector statistics (rather than comparative percentages for each holding) should be given in the portfolio statement.</p> <p>There will be a primary and secondary segment reporting. If a unit trust's primary format is geographical segment, the required secondary format is to disclose the industry segment (aggregated amount by industry and not by individual security) in a tabular form, and vice versa.</p>

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### Financial Statements continued

#### 2.6 Income Statement

IFRS does not prescribe a specific format. Similar to the balance sheet, IAS 1R.82 requires that certain minimum line items be presented on the face of the income statement. Expenses should be classified according to nature or function (IAS 1R.99). If the classification by function is used, additional information on the nature of expenses should be disclosed.

The portion of the profit and loss attributable to the minority interest is disclosed separately in the income statement (IAS 1R.83). The minority portion of net income is presented after the “net income” line as an allocation of “net income”.

An investment fund may present additional line items, headings and subtotals on the face of the income statement when it is relevant to an understanding of its financial performance (IAS 1R.85).

In addition, in an instance in which the entity has little or no equity, IAS 32.IE 32 and 32.IE 33 provide examples of income statements for such entities. PwC’s publication, IFRS Illustrative Financial Statements – Investment Funds, also provides an example for reference.

An income statement is usually called a statement of total return. The objective of the statement of total return is to present the increase or decrease in net assets resulting from all of a fund’s investment activities, but RAP 7 does not prescribe a specific format. At a minimum (according to Appendix to RAP 7), the face of the statement of total return should include:

- 1) Income
  - a. dividend income
  - b. Interest income
  - c. Other income
- 2) Expenses
  - a. Management fees
  - b. Registration fees
  - c. Trustee fees
  - d. Custodian fees
  - e. Audit fee
  - f. Other
- 3) Net gains or losses on value of investments
  - a. Net realised gains on investments sold
  - b. Net change in fair value of investments
  - c. Net realised gains on financial derivatives
  - d. Net unrealised gain on financial derivatives
  - e. Net foreign exchange gains
- 4) Income tax
- 5) Distribution
- 6) Total return for the year as in IFRS, additional line items can be presented.

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### Financial Statements continued

#### 2.7 Interest and Dividend Income Recognition

Interest should be accrued and recognised using the effective interest method (IAS 18.30) from the date of purchase (IAS 18.32), and dividends should be recognised when the right to receive payment is established (IAS 18.30), typically the ex-dividend date. As such, the discount and premium of fixed income securities should be included in the calculation of interest income under the effective interest method.

The effective interest method is based on the estimated future cash flows through the expected life of the instrument without considering future credit losses (IAS 39.9). However, in some cases, investments are acquired at a deep discount that reflect incurred credit losses and such incurred credit losses should be included in the estimated cash flows (IAS 39.AG 5). If the investment fund subsequently revises its estimated future cash flows, it shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows using the original effective interest rate and record this adjustment through the income statement (IAS 39.AG 8).

IFRS requires separate presentation of interest income and foreign currency exchange gains and losses except when the financial assets and liabilities are carried at fair value through profit or loss. For example, exchange differences arising on translating an available-for-sale debt security as well as the current period amortisation on the security would need to be presented separately in the income statement.

Interest and income on securities should be recognised when earned. Interest income on debt instruments should be recognised using the effective interest method. The effective interest is the rate that discounts future cash flows of a debt instrument to the initial cost at inception. Recognising interest income using this method automatically includes amortisation of premiums or discounts in the initial costs.

RAP 7 is silent on dividend income recognition. SFRS18 is generally consistent with IAS18 (effective from 1995) in all material aspects, except for revenue recognition of pre-sold uncompleted properties.

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	International Financial Reporting Standards	Singapore Accounting Standards
<b>Financial Statements continued</b>		
<p><b>2.8</b> <b>Realised and Unrealised Gains (Losses) on Investments – Presentation</b></p>	<p>Although not a minimum required item to be presented under IAS 1R, net gains or losses on investments are typically presented on the face of the income statement given their importance to an investment fund's financial performance. There is no requirement to separate realised and unrealised gains or losses.</p> <p>Since interest income and foreign exchange gains/losses do not need to be disclosed separately for financial instruments at fair value through profit or loss, they may be included in the gains or losses on investments.</p>	<p>The investment gains or losses should be analysed to show realised gains/losses together with the change in fair value of investments during the period. In addition, the realised gains/losses and the changes in fair value of the financial derivatives should be separately shown. Realised gains/losses and the change in fair value of investments are typically separated per RAP 7.</p> <p>Consistent with IFRS, interest income and foreign exchange gains/losses do not need to be disclosed separately for financial instruments at fair value through profit or loss; they may be included in the gains or losses on investments.</p>
<p><b>2.9</b> <b>Withholding Taxes – Presentation</b></p>	<p>Income received should be included gross in the income statement. The withholding taxes should be presented as a separate component of income tax for the period.</p>	<p>In cases where income is received after the deduction of income tax, whether Singapore or overseas, the income should be shown gross of income tax, and the tax consequences should be shown within the tax charge.</p> <p>Overseas withholding tax on income suffered should be separately shown in the financial statements.</p>



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<b>Financial Statements continued</b>		
<b>2.10 Statement of Changes in Net Assets/Equity</b>	<p>IFRS does not prescribe a specific format. The general presentation and disclosure requirements are detailed in IAS 1R.106 through 1R.110.</p> <p>For an investment fund with no equity (i.e. all the shares are classified as liability under IAS 32 and the investment fund does not have any other equity reserves), the statement of changes in equity is not required. PwC's publication, IFRS Illustrative Financial Statements – Investment Funds, also provides an example for reference.</p>	<p>In the event that the units are classified as equity, the financial statements should contain a statement of movements in unitholders' funds. This statement should summarise the movements in the total value of the trust/fund, and reconcile the changes in net assets during the period in summary form. It draws on the statement of total return for the net increase/decrease in assets attributable to the investment activities, shows the extent to which the trust/fund has grown or contracted as a result of the creation or cancellation of units, as well as any reduction in trust/fund size due to distributions to unitholders during the period.</p> <p>In the event that the units are classified as financial liability, the notes to the financial statements should contain a note that summarises the movements in the net assets attributable to unitholders, similar to that described in the preceding paragraphs.</p>

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### Financial Statements continued

#### 2.11

#### Statement of Cash Flows

A statement of cash flows is always required.

The statement of cash flows should report cash flows classified by operating, investing and financing activities (IAS 7.10). The cash flows from operating activities can be presented using either the direct or indirect method (IAS 7.18) although IFRS encourages the use of the direct method (IAS 7.19).

Regardless of whether the direct or indirect method is used, cash flows from interest and dividends received and paid should be disclosed separately within the statement of cash flows and classified consistently as either operating, investing or financing activities (IAS 7.31). Cash flows from taxes should also be disclosed separately and classified as operating activities unless specifically identified with financing or investing activities (IAS 7.35).

In accordance with IAS 7.15, purchases and sales of investments for investment funds are generally considered operating activities as they relate to the main revenue-producing activity of the investment fund. In addition, purchases and sales may either be shown on a gross basis or on a net basis (IAS 7.22 and 7.24) if the turnover is rapid, the amounts are large and the maturities are short.

Non-cash transactions should be excluded from the statement of cash flows and should be disclosed in the notes to the financial statements (IAS 7.43).

Statement of cash flow is not required.

#### 2.12

#### Definition of Cash and Cash Equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value (IAS 7.6). Usually, an investment qualifies as a cash equivalent when it has a maturity of three months or less from the date of acquisition (IAS 7.7).

Bank overdrafts can be included as a component of cash and cash equivalents if they are repayable on demand and form an integral part of an entity's overall cash management (IAS 7.8).

The effect of exchange rate changes on cash and cash equivalents held or due in foreign currency should be presented on the face of the cash flow statement, although separately from cash flows from operating, investing or financing activities, in order to reconcile the cash and cash equivalents at the beginning and end of the period (IAS 7.28).

Cash and cash equivalents that are not available for use by the investment fund should be disclosed. Cash and cash equivalents subject to withdrawal or use restrictions should be disclosed separately from other cash amounts (IAS 7.48).

Statement of cash flow is not required.

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### 3 Consolidation

#### 3.1 Overview of the Consolidation Model

The accounting standards on consolidation are set forth in IAS 27R, Consolidated and Separate Financial Statements, which does not provide a scope exception for an investment fund.

An investment fund should consolidate all its investments in which it has control. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities:

- 1) Control is presumed to exist if an investment fund owns more than half of the voting power of another entity.
- 2) If an investment fund owns half or less than half of voting power, control also exists if it has:
  - a. Power over more than half of voting rights by virtue of an agreement with other investors
  - b. Power to govern the financial and operating policies of the entity under a statute or an agreement
  - c. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body
  - d. Power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

The existence of currently exercisable potential rights, such as warrants, call options or convertible instruments, also should be taken into consideration under the consolidation model.

An investment fund should consolidate any investments which are deemed to be subsidiaries under IAS 27R. A subsidiary is defined as an entity, including an unincorporated entity such as a partnership that is controlled by another entity (IAS 27R.4). A feeder fund that has the majority of voting shares of the master fund in a master-feeder structure will need to consolidate the master fund. In cases in which the feeder fund owns only non-voting participating shares of a master fund, other criteria should also be considered, including whether the feeder fund has the power to govern by virtue of laws or an agreement such as a control agreement between the feeder fund and the master fund, and whether the master fund is in fact a special purpose entity of the feeder fund.

In some circumstances, in which a feeder fund invests in only one particular master fund, the feeder and master funds may represent an integrated entity. In such cases, the integrated entity could be considered the reporting entity and only one set of financial statements may be prepared for the integrated reporting entity (i.e. by combining the master and feeder financial statements).

RAP 7 is silent on consolidation.

SFRS 27 is consistent with IAS 27 in all material aspects, except in one of the conditions for exemption from consolidation.

SFRS 27 requires the ultimate holding company or any intermediate parent of a company that seeks exemption from consolidation to produce consolidated financial statements that are available for public use. These consolidated financial statements need not comply with any specific accounting framework.

IAS 27 requires the ultimate holding company or any intermediate parent of a company that seeks exemption from consolidation to produce consolidated financial statements available for public use that comply with IFRS.

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### Consolidation continued

#### Overview of the Consolidation Model continued

Furthermore, a fund of funds or a private equity fund may need to consolidate the investments in other investment funds or investee companies for which it has control as defined in IAS 27R. However, if the fund of funds holds only non-voting shares and the holders of the voting shares have the ability to direct the financial and operating policies of the investment fund, then the fund of funds should not consolidate the investee company.

A private equity fund typically purchases investments, including controlling interests, in investee companies with a view to resale. However, unless qualified as a disposal group held for sale at acquisition under the criteria in IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations, the investee companies should be consolidated. The criteria include that the assets should be available for immediate sale and that such a sale should be highly probable, including completing the sale within one year (IFRS 5.7 and 5.8).

#### Special purpose entities

An investment fund should consolidate any special purpose entity (“SPE”), defined as an entity created to accomplish a narrow and well-defined objective (SIC 12.1), when the substance of the relationship indicates that the SPE is controlled by the investment fund (SIC 12.8).

To establish control, the criteria under IAS 27R discussed above should be considered. Furthermore, the following circumstances may indicate control (SIC 12):

- 1) The activities of the SPE are being conducted on behalf of an entity according to its business need so that the entity obtains benefits from the SPE’s operations.
- 2) The entity has the decision making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an “autopilot” mechanism, the entity has delegated these decision making powers.
- 3) The entity has the rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE.
- 4) The entity retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

As a result of the provisions under SIC 12, an investment fund should consolidate an investee entity, which is qualified as an SPE in which the substance of the relationship indicates control by the investment fund. All the factors identified in SIC 12 should be evaluated equally in assessing the substance of control.

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### Consolidation continued

#### 3.2 Equity Method of Accounting for Investments in Common Stock / Investment in Associates

An associate is an entity over which an investment fund has significant influence and is neither a subsidiary nor an interest in a joint venture (IAS 28.2). An investment fund is presumed to have significant influence over an entity when it has more than 20% of the voting power of that entity. If it possesses less than 20%, other factors should be taken into consideration to determine the existence of significant influence. IAS 28.7 provides certain examples of such factors.

Investments in associates should be accounted for using the equity method of accounting. However, IAS 28 provides an exception when the investment is held by a venture capital organisation, mutual fund, unit trust or similar entity and it is designated as a financial instrument at fair value through profit or loss (the fair value option) or is classified as held for trading (IAS 28.1). The same exception applies to joint venture investments held by an investment fund as defined by IAS 31. In practice, investment funds have used this exception to carry the investment at fair value through profit or loss.

RAP 7 is silent on equity accounting.

SFRS 28 is consistent with IAS 28 in all material aspects, except in one of the conditions for exemption from equity accounting. The dissimilarity is as identified in SFRS 27.

#### 3.3 Business Combinations and Non- controlling Interests (NCI)

Under IFRS, an investment fund needs to first assess whether or not it acquires a business. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for purposes of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants (IFRS 3R.App A – definition of a business). If, as a result of the transaction, an investment fund obtains control over a business, IFRS 3R would apply. As defined in the “Overview of the Consolidation Model” section above, control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefit from activities.

At a high level, IFRS 3R requires investment funds to:

- 1) Recognise and measure the identifiable assets acquired and the liabilities assumed at their fair value on their acquisition date with limited exceptions.
- 2) Record any non-controlling interest in the acquiree at:
  - a. Its fair value, resulting in the measurement of goodwill relating to the controlling and non-controlling interest, or
  - b. The non-controlling interest’s proportionate share of the acquiree’s identifiable net assets resulting in the measurement of goodwill only for the controlling interest.

RAP 7 is silent on business combinations.

SFRS 103 is consistent with IFRS 3 in all material aspects, except for their effective dates.

SFRS 103 is effective for business combinations occurring in annual periods beginning on or after 1 July 2004, whilst IFRS 3 is effective for business combinations with the agreement date on or after 31 March 2004.

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<b>Consolidation continued</b>		
<b>Business Combinations and Non-controlling Interests (NCI) continued</b>	<p>3) Recognise and measure the goodwill acquired in a business combination or a gain from a bargain purchase. Gains or losses may be recognised in the income statement when control is obtained or lost. Any equity interest that is currently held as a result of a previous transaction is re-measured at fair value and any resulting gain or loss is recognised in the income statement when an acquirer gains control. Any gain or loss on the interest sold and on any retained non-controlling investment (re-measured at fair value) is recognised in the income statement when an acquirer loses control.</p> <p>Additional acquisitions of ownership interests after control is obtained and disposals of an ownership interest that do not result in an entity losing control are treated as equity transactions.</p> <p>IFRS 3R and IAS 27R also require disclosure to enable users of the financial statements to evaluate the nature and the financial effects of a business combination and the relationship between the investment fund and its subsidiaries.</p> <p>IFRS 3R is to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009 (earlier adoption is permitted). IAS 27R should be adopted at the same time.</p>	

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### 4 Financial Instruments

#### 4.1 Initial Recognition

Investment funds follow the general recognition principle noted in IAS 39, Financial Instruments: Recognition and Measurement, which states that a financial asset or a financial liability should be recognised only when an entity becomes a party to the contractual provisions of the instrument, subject to the provisions governing regular-way purchases and sales of financial assets (IAS 39.14).

A regular-way purchase or sale is the acquisition of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the relevant market (IAS 39.9). Examples of regular-way purchases and sales include securities traded on an exchange or an over-the-counter market. Regular-way purchases of financial assets should be recognised using either trade date accounting or settlement date accounting (IAS 39.38). The choice of method is an accounting policy decision and should be disclosed. The method used should be applied consistently for purchases and sales of investments that belong to the same category (IAS 39.AG 53). Derivatives that require or permit net settlement do not meet the definition of regular-way trades (IAS 39.AG 54).

RAP 7 states that accounting policies should generally comply with the principles relating to recognition and measurement of the Singapore FRS.

Purchases of investments should be accounted for on the trade date. The general principle in the recognition of investments is consistent with IFRS.

#### 4.2 De-Recognition

Regular-way sales of financial assets should be recognised using either trade date accounting or settlement date accounting (IAS 39.38). The method used should be applied consistently for purchases and sales of investments that belong to the same category (IAS 39.AG 53).

A financial asset (or part) should be de-recognised, when (IAS 39.17 through 39.19):

- 1) The cash flows from the financial asset expire.
- 2) The right to the financial asset's cash flows and substantially all risks and rewards of ownership are transferred.
- 3) An obligation to transfer the asset's cash flows is assumed, substantially all risks and rewards are transferred and the following conditions are met:
  - a. No obligation to pay cash flows unless equivalent cash flows from the transferred asset are collected
  - b. Prohibition from selling or pledging the asset other than as security to the eventual recipient for the obligation to pass through cash flow
  - c. Obligation to remit any cash flows without material delay.

Sales of investments should be accounted for on the trade date. The general principle in the de-recognition of investments is consistent with IFRS.

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### Financial Instruments continued

#### De-Recognition continued

- 4) The rights to the cash flows are transferred (or an obligation to transfer the cash flows is assumed) and the additional conditions in #3 above are met. However, substantially all the risks and rewards are neither transferred nor retained, but control of the asset is transferred as follows:
- The transferee has the practical ability to sell the asset in its entirety (e.g. the asset is traded in an active market)
  - The transferee is able to exercise this right unilaterally to an unrelated third party
  - There are no further restrictions imposed on the transferee's sale (e.g. no "strings" attached).

A financial liability should be de-recognised when the obligation specified in the contract is discharged or cancelled or expired. A financial liability is also considered extinguished if there is a substantial modification in the terms of the instrument (IAS 39.39 and 39.40). Upon de-recognition, the difference between the carrying amount of the financial instruments and the consideration paid should be recognised as gain or loss in the profit and loss (IAS 39.41).

First-in-first-out (FIFO) and weighted average cost are the methods generally applied for calculating the cost basis of a portfolio of investments under IFRS.

#### 4.3 Financial Assets – Classification

Financial assets are classified as follows:

- Financial instruments at fair value through profit or loss.
- Held to maturity investments.
- Loans and receivables.
- Available-for-sale financial assets.

Financial assets should be classified into the above four categories. Financial assets measured at fair value through profit or loss (i.e. the changes in fair value are recorded as gains or losses in the income statement) are further divided into two sub-categories: financial assets measured at fair value through profit or loss upon initial recognition (i.e. the fair value option, subject to the conditions below) or held for trading.

RAP 7 is silent on classification of financial assets/ liabilities.

SFRS39 is consistent with IAS39.



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### Financial Instruments continued

#### Financial Assets – Classification continued

A financial asset is classified as held for trading if it is:

- 1) Acquired or incurred principally for the purpose of selling or repurchasing in the near term.
- 2) Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.
- 3) A derivative (except for a derivative that is a financial guarantee contract or designated as an effective hedging instrument).

Financial asset at fair value through profit or loss: The standard also allows an entity to designate a financial asset, a financial liability or a group of financial instruments (financial assets, financial liabilities or both) as at fair value through profit and loss provided it meets one of the following criteria (IAS 39.9 and 39.11):

- 1) A contract contains one or more embedded derivatives and, in that case, the entire hybrid can be designated as a financial asset or financial liability at fair value through profit or loss.
- 2) Such use results in more relevant information, because either:
  - a. It eliminates or significantly reduces a measurement or recognition inconsistency that otherwise would arise from measuring assets and liabilities or recognising the gains and losses on them on a different basis; or
  - b. A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

Note that the fair value option applies only to contracts within the scope of IAS 39 or equity method investments qualifying for the fair value option in accordance with IAS 28.1/IAS 31.1. An investment that needs to be consolidated under IAS 27/SIC 12 cannot be designated at fair value through profit or loss in the consolidated financial statements.

Caution should be taken in the classification of financial instruments under the fair value option. Once financial instruments are so designated, an investment fund will not be able to reclassify them into or out of the fair value through profit or loss category (IAS 39.50).

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### Financial Instruments continued

#### Financial Assets – Classification continued

Held-to-maturity investments: Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the investment fund has the positive intention and ability to hold to maturity other than:

- 1) Those that upon initial recognition are designated as at fair value through profit or loss.
- 2) Those that are designated as available-for-sale.
- 3) Those that meet the definition of loans and receivables.

Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- 1) Those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss.
- 2) Those that upon initial recognition are designated as available-for-sale.
- 3) Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale.

Available-for-sale financial assets: Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables; (b) held-to-maturity investments; or (c) financial assets at fair value through profit or loss. However, available-for-sale investments are still required to be measured at fair value unless there is no reliable fair value, in which case an unquoted equity security is valued at cost (only in rare circumstances, since it is presumed that fair value can be reliably determined) and would need to be assessed for impairment which would require an estimate of the present value of the future cash flows (IAS 39.66). Changes in fair value are recognised net of tax effects in equity (i.e. presented in the statement of changes in equity and recycled to the income statement when sold, impaired or collected). (See the “Subsequent Measurement” section below for further discussion of the result of different classification.)

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### Financial Instruments continued

<p><b>4.4</b> <b>Financial Liabilities – Classification</b></p>	<p>IAS 39 has two defined categories of financial liabilities:</p> <ol style="list-style-type: none"> <li>1) Financial liabilities “at fair value through profit or loss”.</li> <li>2) Other financial liabilities.</li> </ol> <p>A financial liability is at fair value through profit and loss if it is either held for trading, a derivative not designated as a hedging instrument or an instrument that elected the fair value option at initial recognition (provided specific criteria described above for financial assets are met).</p> <p>Financial liabilities that are not classified as at fair value through profit or loss would automatically fall into the second category of “other financial liabilities” and are measured at amortised cost. Common examples are trade payables and borrowings.</p>	<p>RAP 7 is silent on classification of financial liabilities.</p> <p>SFRS 39 is generally consistent with IAS 39 in all material aspects.</p>
<p><b>4.5</b> <b>Initial Measurement</b></p>	<p>IFRS requires that a financial asset and financial liability be initially measured and recorded at fair value or fair value plus/minus transaction costs where the financial asset or financial liability will not be carried at fair value through profit or loss (IAS 39.43). The fair value is typically the amount paid or received at the time of the transaction.</p> <p>Transaction costs, including the “bid-ask spread”, directly attributable to the acquisition or issue of financial instruments at fair value through profit or loss should be expensed through profit and loss. On the other hand, as noted above for instruments not carried at fair value through profit and loss, transaction costs should be included in the amount initially measured.</p> <p>Since investments held by an investment fund are typically financial instruments carried at fair value through profit or loss, the investment fund should follow the IFRS requirement to expense the transaction costs, including the “bid-ask spread” and such spread may be included as part of the change in fair value of the securities in the income statement from a practical standpoint or as a separate expense similar to other transactions costs, such as borrowing costs.</p>	<p>RAP 7 requires investments to be initially measured at fair value. Direct expenses relating to the purchase or sales of investments need not be expensed through the statement of total return, i.e. capitalisation as part of the cost of investments is allowed.</p> <p>SFRS 39 is generally consistent with IAS 39 in all material aspects.</p>

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### Financial Instruments continued

#### 4.6 Subsequent Measurement

Subsequent measurement depends on the initial classification of the financial instrument. The general principles for subsequent measurement:

- 1) Financial instruments carried at fair value through profit or loss subsequently should be measured at fair value without any deduction of transaction costs that may be incurred on disposal (IAS 39.46 and 39.47). Changes in value should be recognised as gains or losses in profit and loss (IAS 39.55).
- 2) Financial assets designated as available-for-sale instruments subsequently should be measured at fair value (IAS 39.46) or at cost for an unquoted equity security if the fair value cannot be reliably determined (IAS 39.46). Changes in value should be recognised directly in equity, through the statement of changes in equity, except for impairment charges and the impact of movements in foreign currency exchange rates on amortised cost of available-for-sale debt instruments. Furthermore, related interest income should be recorded in profit and loss (IAS 39.55).
- 3) Financial assets designated as held-to-maturity and other financial assets (such as loans and receivables) subsequently should be measured at amortised cost.
- 4) Financial liabilities not carried at fair value through profit or loss should be measured at amortised cost which is calculated using the effective interest method. Refer also to the “Net Assets – Measurement” section above for measurement of units or shares classified as financial liabilities.

For all financial assets which are not measured at fair value through profit or loss, any impairment should be assessed at each balance sheet date. Any such impairment, if identified, should be recorded as a loss in the income statement. A financial asset is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset. The standard provides guidance on objective evidence of impairment which varies depending on whether the investment is a debt or equity security. An impairment loss can be reversed for debt instruments if there is objective evidence that the decrease in impairment loss is related to an event that occurred after the impairment charge was recorded.

Investments are subsequently measured at fair value. The change in fair value of investments is recognised in the statement of total return in the year in which they arise.

SFRS 39 is generally consistent with IAS 39 in all material aspects.

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<p><b>4.7</b> <b>Fair Value</b></p>	<p>Financial instruments quoted in an active market should be valued at bid price for long positions and asking price for short positions.</p> <p>When an investment fund has financial assets and liabilities with offsetting market risks, it may use mid-market prices to determine fair value for the offsetting risk positions and apply bid or asking prices to the net open position, as appropriate.</p> <p>The use of a blockage factor is not appropriate in the determination of fair value for instruments traded in an active market (IAS 39.AG 71). A restriction on the securities that is specific to the asset would generally require a discount to be applied in determination of fair value.</p> <p>For financial instruments without an active market, the fair value should be determined based on a valuation technique. The valuation technique should be based on market transactions of substantially similar securities, discounted cash flow analysis, an option pricing model or another valuation technique commonly used by market participants and proven to be reliable (IAS 39.AG 74).</p>	<p>The fair value for an asset held or liability to be issued is usually the current bid price and, for an asset to be acquired or liability held, the current offer or asking price. In exceptional circumstances when the last quoted price is not used, for example when the market is suspended, the notes should describe clearly the basis of valuation and the reasoning behind it.</p> <p>In most unit trusts, the determination of the fair value of the portfolio should be reasonably straightforward, since the values are readily available through published sources. Where the value cannot be readily determined, the securities should be stated at the managers' valuation and the notes to the financial statements should include adequate details about the basis of the managers' valuation.</p>
<p><b>4.8</b> <b>Disclosure</b></p>	<p>Disclosures related to financial instruments are driven primarily by IFRS 7. The objective of IFRS 7 is to provide disclosures "through the eyes of management" and encompass both qualitative narrative descriptions and specific quantitative data such that users are able to evaluate the nature and extent of risks arising from financial instruments to which an investment fund is exposed at the reporting date and how the risks are managed.</p> <p>IFRS 7 requires that certain disclosures be provided by class of financial instruments. Although IFRS 7 does not provide a prescriptive list of classes, it states that a class shall contain financial instruments of the same nature and characteristics. An instrument class is not the same as an instrument category as classes should be determined at a lower level than the categories and reconciled back to the balance sheet (IFRS 7.6). For example, instruments within the category of fair value through profit or loss might be disaggregated into different types of investments held by an investment fund (i.e. different classes).</p>	<p>Risk management objectives and policies should be disclosed, but there is no specific requirement/ guidance.</p> <p>SFRS107 is generally consistent with IFRS7 in all material aspects.</p>

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## International Financial Reporting Standards

## Singapore Accounting Standards

### Financial Instruments continued

#### Disclosure continued

#### Balance sheet disclosure

IFRS 7 requires disclosure of the carrying values of each of the following categories either on the face of the balance sheet or in the notes (IFRS 7.8):

- 1) Financial assets at fair value through profit or loss, showing separately those designated upon initial recognition and those classified as held for trading.
- 2) Financial assets designated as available-for-sale.
- 3) Financial assets designated as held-to-maturity.
- 4) Loans and receivables.
- 5) Financial liabilities at fair value through profit or loss, showing separately those designated upon initial recognition and those classified as held for trading.
- 6) Financial liabilities measured at amortised cost.

Fair value of each of the categories of financial assets and liabilities, including the assumptions and estimations used in the determination of fair value, should be disclosed (IFRS 7.30). For an investment fund, since investments generally are carried at fair value and other financial assets and liabilities are short-term in nature, the carrying amounts of other financial assets and liabilities typically approximate the fair value. This should be stated in the notes to the financial statements (IFRS 7.29).

Collateral pledged, including carrying amounts and terms and conditions, should be disclosed (IFRS 7.14).

Collateral held, including the fair value, the fair value of any such collateral sold or re-pledged, whether the entity has an obligation to return it, and terms and conditions should all be disclosed (IFRS 7.15).

#### Income statement disclosure

IFRS 7 requires the disclosure of net gains or losses on each of the categories of financial assets and liabilities.

Total interest income and interest expense should be disclosed for financial assets and financial liabilities that are not at fair value through profit or loss. Any impairment loss for each category also should be disclosed.

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### Financial Instruments continued

#### Disclosure continued

#### Nature and extent of risks arising from financial instruments

To help users understand the nature and extent of risks arising from financial instruments, both qualitative and quantitative disclosures should be made. The risks for an investment fund usually include credit risk, liquidity risk and market risk (including interest rate risk, price risk and currency risk). Disclosures around the nature and extent of risks should be tailored to reflect the financial instruments held by the investment fund; additional risks may be identified and disclosed based on the entity's specific investment objectives and activities.

With regard to qualitative disclosures for each type of risk resulting from financial instruments, the investment fund should disclose exposures to risk and how they arise; the entity's objectives, policies and processes for managing and measuring risk; and any changes during the period related to risk and risk management.

Investment funds are also required to disclose summary quantitative data about their exposure to each type of risk arising from financial instruments based on information provided internally to key management. At a minimum, these disclosures should include:

- 1) Credit risk, including:
  - a. The amount that best represents the maximum exposure to credit risk at the reporting date without consideration of collateral held or other credit enhancements
  - b. Disclosure around collateral held or other credit enhancements for that instrument
  - c. Analysis of financial assets that are either past due or impaired.
- 2) Liquidity risk, including a maturity analysis for financial liabilities that shows the remaining contractual maturities and a description of how the investment fund manages the liquidity risk inherent in the maturity analysis.

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### Financial Instruments continued

#### Disclosure continued

3) Market risk, including a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date. The disclosures for the sensitivity analysis should also include the methods and assumptions used in preparing the sensitivity analysis and any changes from the previous period to these methods and assumptions. This disclosure is one of the most challenging areas for investment funds due to the judgment and analysis involved as well as the need to accumulate data which the investment fund may not immediately have access to. As part of the process, management should identify the relevant risk variables that reflect best the exposure of the entity to market risk. For example, for an investment fund with a long/short debt strategy, the relevant risk variables would be interest and foreign currency rates. When preparing the sensitivity analysis, the quantitative impacts of the interest and foreign currency rate sensitivities of the investment fund need to be determined and disclosed.

The investment fund also should provide information about concentration of risk to the extent that this information is not apparent through the disclosure discussed above. PwC's publication, IFRS Illustrative Financial Statements – Investment Funds, provides examples of disclosure in accordance with IFRS 7.

In addition to IFRS 7, IAS 1 also requires:

- 1) The disclosure of the use of judgment that management has made in the application of accounting policies and that have the most significant effect on the amounts recognised in the financial statements (IAS 1R.122).
- 2) The key assumptions used and sources of estimation of uncertainty also should be disclosed, together with the nature and carrying amounts of the affected assets and liabilities (IAS 1R.125).
- 3) The qualitative and quantitative information about the investment fund's objectives, policies and processes for managing capital (IAS 1R.136).



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	International Financial Reporting Standards	Singapore Accounting Standards
<b>Financial Instruments continued</b>		
<b>4.9 Offsetting</b>	<p>A financial asset and a financial liability should be offset and the net amount presented on the balance sheet when an investment fund (IAS 32.42):</p> <ol style="list-style-type: none"> <li>1) Currently has a legal enforceable right to offset the recognised amounts.</li> <li>2) Intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.</li> </ol> <p>In order to offset financial assets and liabilities, an investment fund must have a currently enforceable legal right to do so. Conditional rights do not meet this criterion. For instance, an investment fund may have a conditional right to set off recognised amounts, such as in a master netting agreement, but such rights are enforceable only on the occurrence of some future event, usually a default of the counterparty. Consequently, IFRS does not consider such an agreement as meeting the conditions for offset (IAS 32.AG 38). As a result, positive and negative fair value of derivatives under a master netting arrangement should not be offset even if such derivatives have the same counterparty. The amounts should be presented as financial assets and financial liabilities on the balance sheet, respectively.</p>	<p>Offsetting is allowed only when there is a legally enforceable right to set off and there is intention to settle on a net basis or to realise the asset and settle the liability simultaneously.</p> <p>There is no exception to the offsetting rules for master netting arrangements; all the conditions for offset must be met.</p>

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### 5 Other Accounting & Reporting Topics

#### 5.1 Functional Currency

Functional currency is the currency of the primary economic environment in which an investment fund operates (IAS 21.9).

An entity considers the following primary indicators in the determination of its functional currency:

- 1) It is the currency:
  - a. That mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled)
  - b. Of the country whose competitive forces and regulations mainly determine the sales prices of the entity's goods and services.
- 2) It is the currency that mainly influences labour, material and other costs of providing goods or services; this will often be the currency in which such costs are denominated and settled.

Secondary indicators include the currency in which funds from financing activities are generated and the currency in which receipts from operating activities are usually retained (IAS 21.10). An example for financing is the currency in which the investment fund's shares are issued and redeemed. As a result, determining the functional currency of an investment fund is not straightforward and depends on multiple factors, including but not limited to:

- 1) The economic environment(s) in which the financial assets are invested.
- 2) The economic environment(s) of the investors.
- 3) The regulatory environment.
- 4) The competitive environment.
- 5) The fee structure.
- 6) The denomination of subscriptions and redemptions.

When the factors are mixed and the functional currency is not obvious, management should use its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions that affect the entity (IAS 21.12).

When the presentation currency is different from the functional currency, disclosure should be made for the investment fund's functional currency and the presentation currency, which is the currency used in the presentation of financial statements. The reason for using a different presentation currency should also be disclosed (IAS 21.53).

Definition and determination of functional currency is consistent with IFRS.

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## Singapore Accounting Standards

### Other Accounting & Reporting Topics continued

#### 5.2 Foreign Currency Transactions and Translation of Financial Statements

A foreign currency transaction should be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate at the transaction date (IAS 21.21).

When a debt security is classified as available-for-sale, any foreign currency gains and losses are recognised in the income statement and not included as part of other comprehensive income.

At subsequent balance sheet dates, monetary assets and liabilities denominated in a foreign currency are translated using the closing rates (IAS 21.23). Non-monetary balance sheet items that are measured at historical cost in a foreign currency should be translated using the exchange rate at the date of the transaction (IAS 21.23). Non-monetary balance sheet items that are measured at fair value in a foreign currency should be translated at the exchange rate at the date when the fair value is determined (IAS 21.23).

When translating the financial statements from the functional currency into the presentation currency, assets and liabilities shall be translated at the closing rate and income statement items shall be translated at the exchange rates at the dates of the transactions (or an average rate as a practical alternative, provided that the exchange rate does not fluctuate significantly).

Consistent with IFRS

#### 5.3 Tax Uncertainties

Although IAS 12 does not specifically address uncertain tax positions, the general measurement guidance in IAS 12.46 should be applied: “Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities using the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date”. The unit of account and measurement method are not specified in IAS 12.

An investment fund may choose to consider uncertain tax positions at the level of the individual uncertainty or group of related uncertainties. It also may choose to consider tax uncertainties at the level of its total tax liability to each taxing authority.

RAP 7 is silent on tax uncertainties.

SFRS 12 is generally consistent with IAS 12 (effective from 1998) in all material aspects, except for accounting for unremitted foreign income.

Under RAP 8 issued by the Institute of Certified Public Accountants of Singapore (ICPAS), no deferred tax is accounted for temporary differences arising from foreign income not yet remitted to Singapore if:

- 1) the entity is able to control the timing of the reversal of the temporary difference; and

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<b>Other Accounting &amp; Reporting Topics continued</b>		
<b>Tax Uncertainties continued</b>	<p>When an investment fund elects to consider uncertain tax positions at the level of each uncertainty, it should first consider whether each position taken in the tax return is probable of being sustained on examination by the taxing authority. A liability should be recognised in connection with each item that is not probable of being sustained. The liability is measured using either an expected value (weighted average probability) approach or a single best estimate of the most likely outcome. The current tax liability would be the aggregate liability in connection with uncertain tax positions.</p> <p>When an entity elects to consider uncertain tax positions at the level of its relationship with the taxing authority, the key issue is the measurement of the tax liability. It is probable that an investment fund will pay tax, so the recognition threshold has been met. The investment fund should determine the total amount of current tax it expects to pay, taking into account all the tax uncertainties, using either an expected value (weighted average probability) approach or a single best estimate of the most likely outcome.</p> <p>IAS 37, Provisions, Contingent Liabilities and Contingent Assets, excludes income taxes from its scope and is not used to account for uncertain tax positions.</p>	<p>2) it is probable that the temporary difference will not reverse in the foreseeable future.</p> <p>Under IAS 12, deferred tax is required to be accounted for temporary differences arising from such unremitted foreign income.</p>
<b>5.4 Real Estate Investments</b>	<p>IAS 40.32A permits an entity to choose either the fair value model with changes in fair value recognised in earnings or the cost model for all investment property. IAS 40.5 defines an investment property as a land and/or a building, held to earn rentals or for capital appreciation or both. An investment property does not include property held for use in production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business.</p>	<p>RAP 7 is silent on real estate investments.</p> <p>SFRS 40 is generally consistent with IAS 40 (effective from 2005) in all material aspects. Improvements to IFRS: Amendments affecting IAS 40: Investment Property, effective for annual periods commencing 1 January 2009 has not been adopted locally.</p>

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### Other Accounting & Reporting Topics continued

#### 5.5 Share Based Compensation

##### Recognition

The fair value of shares and options awarded to employees is recognised over the period to which the employees' services relate. The award is presumed to be for past services if it is unconditional without any performance criteria.

##### Measurement

For equity-settled share-based payment awards issued to employees, the awards should be measured by reference to the fair value of the equity instruments granted and recognised as compensation expense and a corresponding increase to equity over the requisite service period. For cash-settled share-based payment transactions, the goods or services acquired and the liability incurred are measured at the fair value of the liability which is marked to market at each balance sheet date. Extensive disclosures are also required.

##### Employer's payroll tax payable on exercise of share options by employees

Employers' social security liability arising from share-based payment transactions is recognised over the same period or periods as the share-based payment charge.

RAP 7 is silent on share-based payment.

SFRS 102 is generally consistent with IFRS 2 in all material aspects, except for their effective dates for non-listed companies. For non-listed companies, FRS 102 is effective for annual periods beginning on or after 1 January 2005, whilst IFRS 2 is effective for annual periods beginning on or after 1 January 2005.

Additionally, IFRS 2 will apply to:

- 1) share-based payment transactions that were granted on or after 7 November 2002 and had not yet vested by 1 January 2005; and
- 2) share-based payment transactions made before 7 November 2002, which were subsequently modified.

SFRS 102 replaces "7 November 2002" with "22 November 2002".

#### 5.6 Financial Highlights (including Earnings Per Share)

The disclosure of financial highlights, including the disclosure of the entity's net asset value, is not required under IFRS.

If an investment fund provides an alternative performance measure (such as financial highlights), the entity should ensure that it addresses the four qualitative characteristics that make the information provided in financial statements useful to readers: comprehensibility; relevance; reliability; and comparability. Therefore, investment funds should consider the following guidelines if alternative performance measures are disclosed:

- 1) Define the terminology used and the basis of calculation adopted.
- 2) Where possible, present alternative performance measures only in combination with measures defined under IFRS.
- 3) Alternative performance measures should be presented consistently over time.

The ratio of expenses to average net asset value ("expense ratio") and the turnover ratio should be presented in the notes to the financial statements. The expense ratio should be calculated in accordance with the guidelines laid down by the Investment Management Association of Singapore ("IMAS"). The turnover ratio should be calculated in accordance with the guidelines laid down in the Code on Collective Investment Schemes.

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### Other Accounting & Reporting Topics continued

#### Financial Highlights (including Earnings Per Share) continued

4) To ensure that investors are not misled, alternative performance measures should not be presented with greater prominence than defined IFRS measures. Where alternative performance measures are derived from audited financial statements and resemble defined performance measures, but do not actually have the characteristics of the defined measures, then the defined measures should be given greater prominence than the alternative performance measures.

5) Generally, explain the reason for presenting alternative performance measures to investors (i.e. may be used internally).

If an investment fund has equity instruments that are publicly traded, earnings per share should be disclosed in accordance with IAS 33, Earnings Per Share.

#### 5.7 Related Party Transactions

The term “related party” is defined in paragraph 9 of IAS 24, Related Party Disclosures.

The disclosures required for related party transactions, typically applicable to an investment fund, are as follows (IAS 24.17):

- 1) The amount of transactions.
- 2) The amount of outstanding balances and
  - a. Their terms and conditions
  - b. Details of any guarantee received or given.
- 3) Provisions for doubtful debts related to the amounts of outstanding balances.
- 4) The expense recognised in respect of bad or doubtful debts due from related parties.
- 5) The identity of the controlling party.

Additionally, under IFRS an investment fund is also required to disclose key management personnel compensation in total and for each of the following categories:

- 1) Short-term employee benefits.
- 2) Post-employment benefits.
- 3) Other long-term benefits.
- 4) Termination benefits.
- 5) Share-based payment.

Transactions and balances with related parties should be set out in the financial statements. Related parties will include the manager and trustee and parties by reason of their relationship with the manager and trustee.

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<b>Other Accounting &amp; Reporting Topics continued</b>		
<b>5.8 Segment Reporting</b>	<p>Segment reporting is required for entities whose debt or equity instruments are traded in a public market.</p> <p>On 30 November 2006, the IASB issued IFRS 8, Operating Segments, which is effective for the year beginning on or after 1 January 2009. IFRS 8 is a convergence standard with FAS 131. Under IFRS 8, a segment is an operating segment, which is identified on the basis of internal reports that are regularly reviewed by an entity's chief operating decision makers in order to allocate resources to the segment and assess its performance. Measurement and disclosure requirements have also been amended. The segment reporting under IFRS 8 is to disclose an entity's segment through the eyes of management.</p>	<p>Segment reporting is presented as part of the portfolio statement. The portfolio statement should be presented based on material industrial and geographical segments.</p> <p>There will be a primary and secondary segment reporting. The investment objectives of the unit trust will provide guidance for determining the primary format of segment reporting.</p> <p>A predominantly single-country unit trust will report by industry segment. Similarly for a unit trust that invests predominantly in a particular industry, its primary reporting format will be by geographical segment.</p>

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