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Introduction

IFRS 12 Disclosure of Interests in Other Entities is a disclosure standard that was issued by the International Accounting Standards Board (the IASB) in May 2011. IFRS 12 includes all of the disclosure requirements for reporting entities that have interests in other entities which are subsidiaries, joint arrangements, associates or structured entities.

IFRS 12 introduces the concept and definition of a structured entity. Prior to the issuance of IFRS 12, IFRS contained no specific disclosure requirements for structured entities or special purpose entities (SPE) as defined in SIC 12 - Consolidation: Special Purpose Entities. IFRS 12 requires a reporting entity to make disclosures in respect of its interests in structured entities, even when these structured entities are not subsidiaries, associates or joint ventures.

IFRS 12 states that some investment funds may be structured entities. In this publication we explore the impact of IFRS 12 on fund managers who manage investment funds which may fall within the definition of a structured entity.

The EY publication Applying IFRS - IFRS 12 Example disclosures for interests in unconsolidated structured entities (March 2013) includes further examples primarily in the banking sector.

Effective date

IFRS 12 is effective for periods beginning on or after 1 January 2013, or, for those reporting under IFRS as endorsed by the European Union, for periods beginning on or after 1 January 2014. The standard may be early adopted.
Structured entities – summary of what fund managers need to know

IFRS 12 introduces the concept of a structured entity and defines it as ‘an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to the administrative tasks only and the relevant activities are directed by means of contractual arrangements’.

An example of such contractual arrangements may be an investment management agreement (IMA).

IFRS 12 paragraph B23 states that some investment funds will fall under the definition of a structured entity.

The assessment of whether an investment fund is a structured entity is important because additional disclosures are required by IFRS 12 for interests in structured entities, whether they are consolidated or not.

Assessing whether an investment fund is a structured entity

In assessing whether an investment fund is a structured entity, it is necessary to determine whether voting or similar rights are the dominant factor in deciding who controls the fund. A fund controlled by voting or similar rights is not a structured entity.

IFRS 12 does not define ‘similar (to voting) rights’ or provide guidance as to what those rights may constitute. However, we consider that such rights may include the following:

- Right to remove the fund manager
- Right to liquidate the fund earlier than the expected termination date
- Right to redeem the investment (if the rights are equivalent to liquidation rights)

Factors to consider when determining whether voting or similar rights are substantive are as follows:

- Whether there are any barriers (economic or otherwise) that prevent the holders from exercising the rights
- The number of parties required to act together to exercise a right
- Whether the party or parties that hold the rights would benefit from the exercise of those rights
- Whether the rights are currently exercisable

Rights that are only exercisable following a fundamental change in activities or a breach of contract (or regulation) by the fund manager are not considered substantive rights. The factors to consider in making this assessment are explored in more detail in Section 2.

Link to the consolidation assessment

Some of the factors to consider in assessing whether a fund may be a structured entity are similar to the factors to consider in assessing whether the fund manager is acting as a principal of the fund (and, therefore, whether the fund manager should consolidate that fund), which are discussed in our publication Applying
IFRS 10 - Consolidation for fund managers (January 2013). Therefore, we recommend that these assessments should be performed in conjunction with one another.

However, it should be remembered that the assessment of whether a fund manager is acting as principal or agent is for the purpose of determining whether or not to consolidate. The assessment of a fund as a structured entity is for disclosure purposes.

Assessing whether a fund manager has an interest in an investment fund

IFRS 12 defines an interest in another entity as ‘contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments’.

Paragraph B56 of IFRS 10 Consolidated Financial Statements explains that variable returns are returns that are not fixed and have the potential to vary as a result of the performance of an investee. Variable returns can be positive, negative, or both. A fixed performance fee for managing an investee’s assets is considered to be a variable return because it exposes the investor to the performance risk of the investee.

Management fees are often based on a percentage of the value of funds under management. Therefore, management fees often vary depending on the changes in the value of the underlying funds. Fund managers may also earn incentive fees based on the performance of the funds (e.g., out-performance of a benchmark or return above a hurdle return).

Our view is that management fees are variable returns because they expose the fund manager to the performance risk of the fund. Therefore, fund managers that receive management fees from their funds (whether fixed, ad valorem or incentive-based) have an interest in those funds.

Required disclosures

IFRS 12 requires specific disclosure for interests in unconsolidated structured entities, which are split into two areas, namely ‘nature of interests’ and ‘nature of risks’. Paragraph 24 of IFRS 12 requires an entity to disclose information that enables users of its financial statements to:

a) Understand the nature and extent of its interests in unconsolidated structured entities (paragraphs 26-28); and

b) Evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities (paragraphs 29-31).

The following sections 3 to 9 discuss structured entities and the required disclosures in more detail.

Although IFRS 12 is a disclosure standard, it provides no examples to illustrate its disclosure requirements. We have included an illustrative example, in Appendix A to this publication, of possible disclosures that a fund manager may make, when it manages several investment funds which have been classified as unconsolidated structured entities.
1. What is a structured entity?

Whether an entity is a structured entity or not is important because additional disclosures are required by IFRS 12 for interests in structured entities. Section 4 onwards of this publication describes the additional disclosures required in respect of interests in unconsolidated structured entities and how they might be applied to structured entities that are investment funds.

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

The application guidance in paragraph B22 of IFRS 12 states that a structured entity often has some or all of the following features or attributes:

a. Restricted activities

b. A narrow and well defined objective, such as to effect a tax-efficient lease, to carry out research and development activities, to provide a source of capital or funding to an entity or to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to them

c. Insufficient equity to allow it to finance its activities without subordinated financial support

d. Financing in the form of multiple contractually linked instruments issued to investors that create concentrations of credit or other risks (tranches)

Paragraph B23 of IFRS 12 provides the following examples of entities that may be considered to be structured entities:

a. Securitisation vehicles

b. Asset backed financings

c. Some investment funds

Purpose of the features and attributes

Whilst not explicitly stated in IFRS 12, we believe the features and attributes described above are subordinate to the definition. This means that if an entity is controlled by voting or similar rights, the entity is not a structured entity and the features and attributes do not need to be considered. However, paragraph 84 of the Basis for Conclusions to IFRS 12 states that the IASB decided to include guidance similar to that in SIC-12 to reflect the IASB’s intention that the term structured entity should capture a set of entities similar to SPEs as defined in SIC-12. This seems to suggest that where some of the features or attributes are present in an entity, then it is more likely that the entity is a structured entity.
The IASB’s rationale for including specific disclosure requirements for investments in structured entities is to help users assess the risk associated with involvement in these entities, based on the concern that they may pose more risk than involvement in traditional operating entities. The increased risk exposure may arise because the structured entity may have restricted activities, it may have been created to pass on risks and returns arising from specified assets to investors, or it may have insufficient equity to fund losses on its assets, if they arise.

**Unconsolidated structured entities**

IFRS 12 requires specific additional disclosures for unconsolidated structured entities. The term unconsolidated structured entities refers to all structured entities that are not consolidated by the reporting entity. Therefore, it includes the following entities, provided that they meet the definition of a structured entity:

- In consolidated financial statements - interests in subsidiaries that are not consolidated, interests in joint ventures, associates or other interests in which the investor does not hold a significant influence
- In individual financial statements (stand-alone financial statements of an entity that does not have any subsidiaries) - interests in joint ventures, associates or other interests in which the investor does not hold a significant influence
- In separate financial statements (unconsolidated financial statements prepared by a parent) prepared as an entity’s only financial statements - interests in subsidiaries, joint ventures, associates and other interests in which the investor does not hold a significant influence
- In the financial statements of entities that meet the definition of an investment entity (investment entities do not consolidate investees that they control, but measure them at fair value through profit or loss (FVTPL)) - interests in subsidiaries, joint ventures, associates and other interests in which the investor does not hold a significant influence

An entity’s separate financial statements are not within the scope of IFRS 12 if that entity also prepares consolidated financial statements.

When a structured entity is an associate or joint venture, separate disclosures about those interests in their capacity as associates or joint ventures are also required under IFRS 12. These disclosures are not addressed in this publication but further information can be found in Chapter 13 of *International GAAP 2014*, EY, Wiley.
2. How to assess if your funds are structured entities

In assessing whether an investment fund is a structured entity, it is necessary to determine whether voting or similar rights are the dominant factor in directing the relevant activities of the fund. Where voting or similar rights are the dominant factor in directing the fund's relevant activities, the fund will not be a structured entity. Where voting or similar rights are not the dominant factor, the fund is likely to be a structured entity.

Relevant activities are the activities of an entity that significantly affect the entity’s returns. For a fund the relevant activities will relate to the investment process, setting investment policy and objectives and taking investment decisions, and the financing of the investment portfolio.

What are ‘similar (to voting) rights’?

As highlighted in the Summary, IFRS 12 does not define ‘similar (to voting) rights’ or provide any guidance as to what those rights may constitute. It seems likely that this will require the exercise of judgement by reporting entities and that there may be diversity in practice about what constitutes a ‘similar’ right and therefore whether an entity is a structured entity.

We consider that such rights may include the following:

- Rights to remove the fund manager
- Rights to liquidate the fund earlier than the expected termination date
- Rights to redeem the investment (if the rights are equivalent to liquidation rights)

Substantive rights

Further guidance on substantive rights can be found in IFRS 10. Paragraph 22 of IFRS 10 states ‘An investor, in assessing whether it has power, considers only substantive rights relating to an investee (held by the investor and others). For a right to be substantive, the holder must have the practical ability to exercise that right.’

Paragraphs B23 and B24 of IFRS 10 provide the following examples of factors to consider when determining whether voting or similar rights are substantive:

a. Whether there are any barriers (economic or otherwise) that prevent the holder (or holders) from exercising the rights
b. The parties required to exercise the rights, particularly where more than one party must act collectively to exercise the rights
c. Whether the party or parties that hold the rights would benefit from the exercise of those rights
d. Whether the rights are exercisable when decisions about the direction of the relevant activities need to be made

Below, we look at each of these factors in turn.
Barriers to exercising rights

Examples of barriers to exercising rights may include the following:

- The lack of an explicit, reasonable mechanism in the fund’s founding documents or in law allowing the exercise of rights, e.g., investors are not able to call a meeting of investors
- The absence of relevant information required to decide whether to exercise the right
- The absence of suitable alternatives once rights are exercised, e.g., in the case of removal rights, there would be no other fund managers with the necessary skills to manage the fund
- Significant penalty fees for exercising rights, e.g., onerous compensation payable to the fund manager if removed
- Gating provisions which allow the fund manager to reject redemption requests

When such barriers exist, voting or similar rights are unlikely to be substantive and, therefore, are unlikely to be the dominant factor in directing the relevant activities of the fund.

Parties holding the rights

Rights held by a single third party or by an independent board of directors are likely to be substantive.

When the exercise of rights requires the agreement of more than one party, or when the rights are held by more than one party, it is important that there is a mechanism in place to provide those parties with the practical ability to exercise their rights collectively, if they choose to do so. An example of such a mechanism would be the ability to call a meeting of those parties. The lack of such a mechanism is an indicator that the rights may not be substantive.

When rights require a number of different investors to act together, the greater the number of parties that need to act together, the less likely the right is to be a substantive right.

Parties benefiting from those rights

If the parties holding voting or similar rights would not benefit from the exercise of the rights, then those rights are unlikely to be substantive. For example, the holder of potential voting rights through an option contract is more likely to hold a substantive right if the instrument is in the money or the holder would benefit in other ways (e.g., by realising synergies between the holder and the investee) from the exercise or conversion of the instrument.

When are the rights exercisable?

The rights must be exercisable within a timeframe that gives the holder the current ability to direct the relevant activities, i.e., rights that are exercisable when decisions over relevant activities need to be made. Usually, to be substantive, the rights need to be currently exercisable. However, sometimes rights can be substantive, even though the rights are not currently exercisable.

In order to assess the current ability, an understanding is required of any restrictions regarding the exercise of voting or similar rights and how those restrictions will affect the decision-making (if at all) during the period of the restriction. If only limited decisions will be made during the period of the restriction then the rights are likely to be substantive.
Protective versus substantive rights

Protective rights typically relate to fundamental changes in the activities of an entity. These rights protect the investor in circumstances that are outside of the purpose and design of the entity. For example, rights that provide for the removal of the fund manager for committing fraud would not be considered part of the purpose and design and, as such, are protective. Consequently, protective rights are not relevant when assessing if ‘voting or similar rights’ are substantive, as protective rights are not exercisable without cause.

Applying these factors is shown in the following decision tree. The right refered to in the decision tree may be a voting or similar right.

**Decision Tree**

1. **Does the right cover the relevant activities?**
   - No
   - Yes

2. **Is the right exercisable without cause?**
   - Yes
   - No

3. **Are there significant barriers to exercise of the right (e.g., penalty fees, no mechanism for operation, no alternatives)?**
   - Yes
   - No

4. **Is the right currently exercisable (i.e., before any significant decision will be made)?**
   - Yes
   - No

5. **Structured entity**
   - Is the entity a subsidiary, associate or joint venture?
     - Yes
     - No

6. **Not a structured entity**
   - Outside the scope of this document

7. **Structured entity disclosures - addressed in this document**
   - See relevant disclosure requirements in IFRS 12

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3. What is an interest in a structured entity?

Generally, an interest in another entity refers to contractual or non-contractual involvement that exposes an entity to variability in returns on the performance of the other entity. An interest can be evidenced by, but is not limited to, the holding of equity or debt instruments, as well as other forms of involvement, such as the receipt of fees from the other entity and the provision of funding, liquidity support, credit enhancement or guarantees to that entity. However, an entity does not necessarily have an interest in another entity solely because of a typical customer-supplier relationship.

The application guidance in IFRS 12 states that consideration of the purpose and design of the structured entity may help the fund manager to assess whether it has an interest in that entity and, therefore, whether it is required to provide the disclosures in IFRS 12. The assessment includes consideration of the risks that the structured entity was designed to create and the risks it was designed to pass on to the fund manager and other parties.

As highlighted in the Summary, paragraph B56 of IFRS 10 explains that variable returns are returns that are not fixed and have the potential to vary as a result of the performance of an investee. Variable returns can be positive, negative, or both. An investor assesses whether returns from an interest are variable and how variable these returns are on the basis of the substance of the arrangement, regardless of the legal form of the returns. A fixed performance fee for managing an investee's assets is a variable return because it exposes the investor to the performance risk of the investee. The amount of variability depends on the investee's ability to generate sufficient income to pay the fee.

The definition of an interest in IFRS 12 is much broader than simply holding equity or debt instruments in an entity. As IFRS 12 requires disclosures of interests that a reporting entity holds in other entities, preparers will need to ensure that their reporting systems and processes are sufficient to identify those interests.

Management fees

Management fees may be based on a percentage of the value of funds under management and will vary depending on the valuation movements of those funds. Fund managers may also earn incentive fees based on the performance of the funds (e.g., outperformance of a benchmark or return above a hurdle return).

Our view is that management fees are variable returns because they expose the fund manager to the performance risk of the fund. Therefore, fund managers that receive management fees from their funds have a variable interest in those funds.

When would an entity be considered a sponsor of an unconsolidated structured entity?

Paragraph 27 of IFRS 12 requires disclosure of occasions where a reporting entity has sponsored an unconsolidated structured entity. IFRS 12 does not define sponsor, although SIC-12 defined a sponsor as 'the entity on whose behalf the SPE was created'. A reporting entity can be a sponsor and not have an interest in an unconsolidated structured entity at the reporting date.
The rationale for this disclosure requirement is that sponsoring a structured entity can create risks for an entity, even though the entity may not retain an interest in the structured entity. Paragraph BC87 of the Basis of Conclusions to IFRS 12 states, 'If the structured entity encounters difficulties, it is possible that the sponsor could be challenged on its advice or actions, or might choose to act to protect its reputation.'

Because the management fees expose the manage to variability, it is likely that a fund manager will have an interest in the funds managed. However, it is possible that a fund manager may fall into the category of a sponsor, for example, if the fund manager provides an implicit guarantee for a fund which it no longer manages, or a fund retains the fund manager’s name after the fund manager ceases to manage it, or the fund manager takes no fee from the fund for managing it. As the circumstances occur infrequently, this publication does not cover the disclosures required by IFRS 12 when there is no interest held. The required disclosures for a sponsor are shown in our publication Applying IFRS - IFRS 12 Example disclosures for interests in unconsolidated structured entities (March 2013).
4. IFRS 12 disclosure requirements for unconsolidated structured entities

As highlighted in the Summary, IFRS 12 requires an entity to disclose the significant judgements and assumptions in determining whether it controls another entity. In addition, IFRS 12 requires specific disclosure of interests in unconsolidated structured entities.

The disclosure requirements for interests in unconsolidated structured entities emphasise two areas, namely, ‘nature of interests’ and ‘nature of risks’.

Paragraph 24 of IFRS 12 requires an entity to disclose information that enables users of its financial statements:

a. To understand the nature and extent of its interests in unconsolidated structured entities (paragraphs 26-28); and

b. To evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities (paragraphs 29-31).

Paragraph 25 of IFRS 12 explains that the information required by (b) above includes information about an entity’s exposure to risk from involvement it had with unconsolidated entities in previous periods (e.g., sponsoring the structured entity), even if the entity no longer has any contractual involvement with the structured entity at the reporting date.
5. What disclosure is required to explain the nature, purpose, size and activities of the unconsolidated structured entity and how it is financed?

Paragraph 26 of IFRS 12 states that qualitative and quantitative disclosure of an entity's interests in an unconsolidated structured entity may be satisfied by providing information about the nature, purpose, size, and activities of the structured entity and how it is financed.

Paragraph B96 of IFRS 12 states that in requiring these disclosures, the IASB was persuaded by the views of respondents to the exposure draft (ED 10) who argued that disclosure of assets held by structured entities without information about the funding of assets is of limited use, and could be difficult to interpret. Therefore, the IASB decided to require an entity to disclose information about the nature, purpose, size and activities of a structured entity and how the structured entity is financed. The IASB concluded that this requirement should provide users with sufficient information about the assets held by structured entities and the funding of those assets, without requiring specific disclosures of the assets of unconsolidated structured entities in which the entity has an interest in all circumstances. If relevant to an assessment of its exposure to risk, an entity would be required to provide additional information about the assets and funding of structured entities.

Nature and purpose
The nature and purpose of most investment funds provides investors with a variety of investment opportunities through managed investment strategies.

Size
The requirement to disclose the size of an unconsolidated structured entity would most likely be satisfied by providing information about the net asset value of the fund. However, paragraph BC120 (h) of the Basis for Conclusions to IFRS 12 specifically states that IFRS 12 does not require the disclosure of the net asset value of the fund held by a structured entity in which an entity has an interest. This would seem to suggest that measures of size other than the fair value of assets would be acceptable.

Our view is that ‘funds under management’ is a well-known measure in the fund management industry and is readily available. Therefore, this may be the easiest and most useful measure of size for a fund manager to use in order to quantify the size of an investment fund. However, there may be circumstances (e.g., early in the life of a fund) when other measures like total fund commitments may be more appropriate than net asset value.

Activities
When disclosing the activities of an investment fund, the fund manager should disclose the primary activities for which the investment fund was designed, which are the activities that significantly affect the investment fund’s returns. Paragraph B11 of IFRS 10 provides examples of such activities, which, for an investment fund, would be the purchasing and selling of investments and the obtaining of financing.

Financing
This disclosure requirement is not limited to financing provided by the fund manager to the investment fund and would include financing received from third parties. It is also not limited to equity financing and would appear to include all forms of contractual financing which allow the investment fund to conduct its business activities.
6. What information would an entity disclose to explain the ‘nature of risks’ from an unconsolidated structured entity?

Paragraph 29 of IFRS 12 requires an entity to disclose, in tabular format (unless another format is more appropriate), a summary of:

a. The carrying amount of assets and liabilities recognised in its financial statements relating to its interests in unconsolidated structured entities

b. The line items in the statement of financial position in which those assets and liabilities are recognised

c. The amount that best represents the entity’s maximum exposure to loss from its interests in unconsolidated structured entities, including how it is determined. If the maximum exposure cannot be quantified, that fact and the reasons must be disclosed

d. A comparison of the carrying amount of assets and liabilities as above, and the maximum exposure to loss from those entities

IFRS 12 does not define maximum exposure to loss. The IASB decided not to provide such a definition, but to leave it to the entity to identify what constitutes a loss in the particular context of the reporting entity. The reporting entity should disclose how it has determined maximum exposure to loss. The IASB has acknowledged that an entity might not always be able to calculate maximum exposure to loss from its interest in an unconsolidated structured entity, such as when a financial instrument exposes an entity to theoretically unlimited losses. When this is the case, an entity should disclose the reasons why it is not possible to calculate the maximum possible loss.

We believe that maximum exposure to loss refers to the maximum loss that a fund manager could be required to record in its statement of comprehensive income as a result of its involvement with the investment fund. Further, this maximum loss must be disclosed regardless of the probability of such losses actually being incurred. Consistent with the equivalent disclosures required by IFRS 7, we believe that the maximum exposure to loss should be disclosed gross of any collateral or hedging instruments that may mitigate that loss, and that separate disclosure should be made in respect of such instruments.

A fund manager's maximum loss may be limited to the net asset value of the assets and liabilities relating to the fund in its statement of financial position, although this may be increased by capital commitments made to a fund, performance guarantees that a fund manager has made to a fund, or fees earned by a fund manager, which are still subject to claw back.

The disclosure of a comparison of carrying amounts of assets and liabilities and the maximum exposure to loss is intended to provide users with a better understanding of the differences between the maximum loss exposure and the amounts recorded in the financial statements. This disclosure is intended to help a user assess whether it is likely that an entity will bear some or all of those losses.
7. What constitutes financial or other ‘support’ provided to an unconsolidated structured entity?

IFRS 12 requires disclosure of financial and other support provided to unconsolidated structured entities. The disclosures relating to contractual support are contained in the disclosure requirements about the nature of risks for unconsolidated structured entities, which we discuss in Section 5. In this section, we discuss the disclosure requirements where an entity provides non-contractual support.

Paragraph 30 of IFRS 12 requires entities to disclose non-contractual financial or other support provided to unconsolidated structured entities. When financial or other support has been provided to an entity in which the reporting entity has or previously had an interest and it has no contractual obligation to provide that support, the reporting entity shall disclose:

- The type and amount of support provided, including situations in which the entity assisted the structured entity in obtaining financial support
- The reasons for providing support

Support

Support is not defined in IFRS. Paragraph BC105 of the Basis for Conclusions to IFRS 12 explains that the IASB did not define support because a definition would either be so broad that it would be ineffective, or it would invite restructuring so as to avoid disclosure. The IASB believes that support is widely understood as the provision of resources to another entity, either directly or indirectly. Examples of the type of support that may be disclosed for unconsolidated structured entities include purchase of the assets of a structured entity or forgiveness of debt owed by the structured entity.

IFRS 12 does not explain what is meant by ‘other support’ and whether this extends to such non-financial support as the provision of human resources or management services. Fund managers may provide other services to the investment funds they manage including administration and company secretarial services, although these may be provided by other companies within the fund manager’s group.

Current intentions to provide financial or other support

Paragraph 31 of IFRS 12 requires an entity to disclose any current intentions to provide financial or other support to a unconsolidated structured entity, including intentions to assist the structured entity in obtaining financial support.

IFRS 12 does not define intentions. Paragraph BC104 of the Basis for Conclusions indicates that it means the entity has decided to provide financial or other support (i.e., it has current intentions to do this). This implies that a decision to provide support has been approved by a party with the authority to do so. The wording in the Basis of Conclusions does not require that any intention needs to have been disclosed to the structured entity that will receive the support or that there has been established a constructive obligation as defined in IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

8. What should be disclosed as ‘additional information’?

To meet the disclosure requirements in ‘nature of risks’, the application guidance in paragraph B25 of IFRS 12 states that ‘In addition to the information required by paragraphs 29-31, an entity must disclose additional information that is necessary to meet the disclosure objective in paragraph 24(b).’
Examples of additional information that might be relevant, as given in paragraph B26 of IFRS 12 include:

a. The terms of an arrangement that could require the entity to provide support to an unconsolidated structured entity (e.g., liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support) including:
   i. A description of the events or circumstances that could expose the fund manager to a loss;
   ii. Whether there are any terms that would limit the obligation;
   iii. Whether there are any other parties that provide financial support and, if so, how the fund manager’s obligation ranks with those of other parties;

b. Losses incurred by the entity during the reporting period relating to its interests in unconsolidated structured entities;

c. The types of income the entity received during the reporting period from its interests in unconsolidated structured entities;

d. Whether an entity is required to absorb losses of an unconsolidated structured entity before other parties, the maximum limit of such losses for the entity and (if relevant) the ranking and amounts of potential losses borne by parties whose interests rank lower than the entity’s interest in the unconsolidated structured entity;

e. Information about any liquidity requirements, guarantees or other commitments with third parties that may affect the fair value or risk of the entity’s interests in unconsolidated structured entities;

f. Any difficulties an unconsolidated structured entity has experienced in financing its activities during the reporting period; and

g. In relation to the funding of an unconsolidated structured entity, the forms of funding (e.g., commercial paper or medium term notes) and their weighted-average life. That information might include an analysis of asset maturity and the funding of an unconsolidated structured entity if it has longer-term assets funded by shorter term funding.

IFRS 12 does not prescribe a specific format for this information. Therefore, a fund manager will need to determine whether a tabular or narrative format is more suitable, based upon its individual circumstances.

**Losses incurred**

A fund manager is required to disclose losses incurred in the reporting period from its interests in an unconsolidated investment fund.

The standard does not elaborate on losses incurred, but we believe that it contemplates both realised and unrealised losses and losses recognised in both profit and loss and other comprehensive income. It may be informative to explain to users of the financial statements, the line items in the financial statements in which the losses have been recognised. It would also be informative to disclose the aggregate losses incurred with respect to investments held at the reporting date as well as the losses incurred in the reporting period. Examples of such losses may be fair value losses from the fund manager’s holding in the investment fund and claw back of fees.
Income received
The income received by a fund manager during the reporting period from its funds under management must be disclosed. While not required by IFRS 12 a tabular format may be appropriate. A fund manager may receive the following types of income:

- Management and performance fees
- Interest, dividend or rental income
- Other service fees, e.g., property management fees, administration fees
- Gains or losses on its holding in the investment fund

Ranking of potential losses
Paragraph B26 (d) of IFRS 12 states that, if relevant, an entity should disclose whether it ‘is required to absorb losses of an unconsolidated structured entity before other parties, the maximum limit of such losses for the entity, and (if relevant) the ranking and amounts of potential losses borne by parties whose interests rank lower than the entity’s interest in the unconsolidated structured entity.’

This disclosure may be relevant for a fund manager that holds a different class of shares in the investment fund, which is subject to different returns or exposed to different losses, rather than the class of shares held by the other investors e.g., shares for which the return only occurs after a certain hurdle rate of return has been received by other investors.

Liquidity arrangements
This disclosure might include:

- Liquidity arrangements, guarantees or other commitments provided by third parties to the structured entity which affect the fair value or risk of the reporting entity’s interests in the structured entity
- Liquidity arrangements, guarantees or other commitments provided by third parties to the reporting entity which affect the risks of the reporting entity’s interests in the structured entity

We do not believe that this disclosure is intended to include liquidity arrangements, guarantees or other commitments made by the structured entity to third parties. This is because, while an arrangement provided to a third party may itself qualify as an interest in a structured entity, it would not normally affect the fair value of an entity’s interests in an unconsolidated structured entity.

Disclosure of funding difficulties
Paragraph B26 (f) of IFRS 12 requires disclosure of any difficulties that a structured entity has experienced in financing its activities during a reporting period. These disclosures could potentially be wide-ranging. In practice, we believe that such a disclosure is likely to focus on issues of debt and equity securities which have failed, either wholly or in part, but this could also include defaults on capital calls.

Disclosure of the forms of funding of an unconsolidated structured entity
This disclosure appears to refer to the overall funding of the structured entity, including forms of funding in which the fund manager has not participated, for example, bank loans, and issues of convertible loan stock and zero-dividend preference shares. Entities may wish to consider a tabular presentation as an effective way of making this disclosure.
9. At what level should the information required be aggregated?

IFRS 12 permits a fund manager to aggregate the disclosures required for interests in similar investment funds if aggregation is consistent with the disclosure objective and does not obscure the information provided. We believe determining when and how to aggregate information will require significant judgement for many entities.

In determining whether to aggregate information, a fund manager must consider qualitative and quantitative information about the different risk and return characteristics of each investment fund it is considering for aggregation and the significance of each investment fund to the fund manager. The disclosures must be presented in a manner that clearly explains to users of the financial statements the nature and extent of its interests.

We believe when aggregated, interests should share similar risk characteristics for example as follows:

- Type of asset invested, e.g., equity, bond, derivative or property
- Listed vs unlisted investments
- Country, region or market in which invested, e.g., developed, emerging or frontier markets
Appendix A: Example Disclosures

In the example below, we have considered the possible disclosure of a fund management group with several investment funds which have been classified as unconsolidated structured entities. The unconsolidated structured entities have been aggregated by type of asset in which the funds are invested, whether the funds invest in listed securities or not and in which type of market the funds are invested.

**Significant accounting judgements**

**Assessment of fund investments as structured entities**

The Group has assessed whether the funds it manages are structured entities. The Group has considered the voting rights and other similar rights afforded to other parties in these funds (investors and independent boards or directors), including the rights to remove the Group as fund manager, liquidate the funds, or redeem holdings in the funds (if such rights are equivalent to liquidating the funds) and has concluded as to whether these rights are the dominant factor in deciding who controls the funds.

The Group has judged that managed funds are structured entities unless substantive removal or liquidation rights (including redemption rights akin to liquidation) exist.

**Unconsolidated structured entities**

The Group manages several investment funds, which are unconsolidated structured entities. This note provides additional information on these funds. The Group holds interests in these funds through the receipt of management and other fees and an equity holding in certain of these funds.

These investment funds are limited partnerships, and open-ended and closed-ended investment companies which invest in a range of assets that are detailed below, together with the assets under management in each category.

The Group has no managed funds in which it did not have an interest at the year-end.

<table>
<thead>
<tr>
<th></th>
<th>20X1 £m</th>
<th>20X0 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed equities - developed markets</td>
<td>12,560</td>
<td>11,118</td>
</tr>
<tr>
<td>Listed equities - emerging markets</td>
<td>3,402</td>
<td>3,680</td>
</tr>
<tr>
<td>Private equities - developed markets</td>
<td>800</td>
<td>780</td>
</tr>
<tr>
<td>Private equities - emerging markets</td>
<td>4,231</td>
<td>4,400</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>9,777</td>
<td>8,889</td>
</tr>
<tr>
<td>Property</td>
<td>6,850</td>
<td>7,250</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>37,620</strong></td>
<td><strong>36,117</strong></td>
</tr>
</tbody>
</table>

The listed and private equities are held in both developed and emerging markets around the world. The corporate bonds are held in the US and Europe. The property is held in the United Kingdom.

The investment funds have various investment objectives and policies but all funds invest capital received from investors in a portfolio of assets in order to provide returns to those investors from capital appreciation of those assets, income from those assets or both.
The investment funds are financed through equity capital provided by investors. The listed equity and property funds also have debt financing with the following maturities as at 31 December 20X1:

<table>
<thead>
<tr>
<th>Fund asset type</th>
<th>Within one year</th>
<th>Between one and five years</th>
<th>More than five years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Listed equity - developed markets</td>
<td>100</td>
<td>300</td>
<td>150</td>
<td>550</td>
</tr>
<tr>
<td>Listed equity - emerging markets</td>
<td>50</td>
<td>100</td>
<td>100</td>
<td>250</td>
</tr>
<tr>
<td>Property</td>
<td>-</td>
<td>200</td>
<td>50</td>
<td>250</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>150</strong></td>
<td><strong>600</strong></td>
<td><strong>300</strong></td>
<td><strong>1,050</strong></td>
</tr>
</tbody>
</table>

The listed equity and property funds had debt financing with the following maturities as at 31 December 20X0:

<table>
<thead>
<tr>
<th>Fund asset type</th>
<th>Within one year</th>
<th>Between one and five years</th>
<th>More than five years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Listed equity - developed markets</td>
<td>200</td>
<td>200</td>
<td>250</td>
<td>650</td>
</tr>
<tr>
<td>Listed equity - emerging markets</td>
<td>80</td>
<td>70</td>
<td>100</td>
<td>250</td>
</tr>
<tr>
<td>Property</td>
<td>10</td>
<td>150</td>
<td>100</td>
<td>260</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>290</strong></td>
<td><strong>420</strong></td>
<td><strong>450</strong></td>
<td><strong>1,160</strong></td>
</tr>
</tbody>
</table>

The following table summarises the carrying values of the Group’s interests in unconsolidated structured entities recognised in the statement of financial position as at 31 December 20X1:

<table>
<thead>
<tr>
<th>Fund asset type</th>
<th>Investments at fair value through profit or loss</th>
<th>Loans</th>
<th>Accrued income - fees paid in arrears</th>
<th>Deferred income - fees paid in advance</th>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Listed equities - developed markets</td>
<td>12.1</td>
<td>-</td>
<td>0.4</td>
<td>-</td>
<td>12.5</td>
<td>-</td>
</tr>
<tr>
<td>Listed equities - emerging markets</td>
<td>1.2</td>
<td>-</td>
<td>0.1</td>
<td>-</td>
<td>1.3</td>
<td>-</td>
</tr>
<tr>
<td>Private equities - developed markets</td>
<td>0.9</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.9</td>
<td>-</td>
</tr>
<tr>
<td>Private equities - emerging markets</td>
<td>3.0</td>
<td>-</td>
<td>0.5</td>
<td>-</td>
<td>3.5</td>
<td>-</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>1.1</td>
<td>-</td>
<td>-</td>
<td>0.1</td>
<td>1.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Property</td>
<td>2.5</td>
<td>20.0</td>
<td>0.2</td>
<td>0.2</td>
<td>22.7</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20.8</strong></td>
<td><strong>20.0</strong></td>
<td><strong>1.2</strong></td>
<td><strong>0.3</strong></td>
<td><strong>42.0</strong></td>
<td><strong>0.3</strong></td>
</tr>
</tbody>
</table>
The following table summarises the carrying values of the Group’s interests in unconsolidated structured entities recognised in the statement of financial position as at 31 December 20X0:

<table>
<thead>
<tr>
<th>Fund asset type</th>
<th>Investments at fair value through profit or loss (£m)</th>
<th>Accrued income - fees paid in arrears (£m)</th>
<th>Deferred income - fees paid in advance (£m)</th>
<th>Assets (£m)</th>
<th>Liabilities (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed equities - developed markets</td>
<td>10.9</td>
<td>-</td>
<td>-</td>
<td>11.2</td>
<td>-</td>
</tr>
<tr>
<td>Listed equities - emerging markets</td>
<td>1.0</td>
<td>-</td>
<td>-</td>
<td>1.2</td>
<td>-</td>
</tr>
<tr>
<td>Private equities - developed markets</td>
<td>1.0</td>
<td>-</td>
<td>-</td>
<td>1.0</td>
<td>-</td>
</tr>
<tr>
<td>Private equities - emerging markets</td>
<td>2.8</td>
<td>-</td>
<td>-</td>
<td>3.2</td>
<td>-</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>1.0</td>
<td>-</td>
<td>0.1</td>
<td>1.0</td>
<td>0.1</td>
</tr>
<tr>
<td>Property</td>
<td>2.5</td>
<td>-</td>
<td>0.4</td>
<td>2.9</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19.2</strong></td>
<td><strong>1.3</strong></td>
<td><strong>0.3</strong></td>
<td><strong>20.5</strong></td>
<td><strong>0.3</strong></td>
</tr>
</tbody>
</table>

**Maximum exposure to loss**

The Group’s maximum exposure to loss in the funds invested in corporate bonds and property is limited to the carrying amounts shown in the table above.

The Group’s maximum exposure to loss in the funds invested in listed equities is limited to the carrying amounts shown in the table above and performance fees subject to claw back. The Group has received performance fees in the last two years totalling £14 million (20X0: £12.5 million), which are subject to possible claw back depending on the future performance of the relevant funds.

The Group’s maximum exposure to loss from private equity funds is the amounts in the table above and carried interest subject to possible claw back of £1.2 million (20X0: £0.9 million) depending on the future performance of the relevant funds.
The following table presents the Group’s total income and losses from unconsolidated structured entities in the income statement for the year ended 31 December 20X1:

<table>
<thead>
<tr>
<th>Structured entity type</th>
<th>Management and performance fees £m</th>
<th>Carried interest £m</th>
<th>Other fees £m</th>
<th>Investment income £m</th>
<th>Fair value gains and losses through P&amp;L £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed equities – developed markets</td>
<td>119.0</td>
<td>-</td>
<td>0.9</td>
<td>0.6</td>
<td>0.8</td>
<td>121.3</td>
</tr>
<tr>
<td>Listed equities – emerging markets</td>
<td>49.2</td>
<td>-</td>
<td>0.2</td>
<td>0.1</td>
<td>1.0</td>
<td>50.5</td>
</tr>
<tr>
<td>Private equities – developed markets</td>
<td>16.7</td>
<td>1.1</td>
<td>-</td>
<td>-</td>
<td>0.8</td>
<td>18.6</td>
</tr>
<tr>
<td>Private equities – emerging markets</td>
<td>84.4</td>
<td>22.3</td>
<td>-</td>
<td>-</td>
<td>0.2</td>
<td>106.9</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>49.0</td>
<td>-</td>
<td>0.1</td>
<td>0.3</td>
<td>(0.1)</td>
<td>49.3</td>
</tr>
<tr>
<td>Property</td>
<td>214.1</td>
<td>-</td>
<td>3.0</td>
<td>0.9</td>
<td>0.3</td>
<td>218.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>532.4</strong></td>
<td><strong>23.4</strong></td>
<td><strong>4.2</strong></td>
<td><strong>1.9</strong></td>
<td><strong>3.0</strong></td>
<td><strong>564.9</strong></td>
</tr>
</tbody>
</table>

The following table presents the Group’s total income and losses from unconsolidated structured entities in the income statement for the year ended 31 December 20X0:

<table>
<thead>
<tr>
<th>Structured entity type</th>
<th>Management and performance fees £m</th>
<th>Carried interest £m</th>
<th>Other fees £m</th>
<th>Investment income £m</th>
<th>Fair value gains and losses through P&amp;L £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed equities – developed markets</td>
<td>105.0</td>
<td>-</td>
<td>1.0</td>
<td>0.8</td>
<td>1.2</td>
<td>108.0</td>
</tr>
<tr>
<td>Listed equities – emerging markets</td>
<td>50.1</td>
<td>-</td>
<td>0.3</td>
<td>0.1</td>
<td>1.2</td>
<td>51.7</td>
</tr>
<tr>
<td>Private equities – developed markets</td>
<td>15.7</td>
<td>1.0</td>
<td>-</td>
<td>-</td>
<td>1.0</td>
<td>17.7</td>
</tr>
<tr>
<td>Private equities – emerging markets</td>
<td>65.2</td>
<td>19.3</td>
<td>-</td>
<td>-</td>
<td>0.4</td>
<td>84.9</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>45.6</td>
<td>-</td>
<td>0.1</td>
<td>0.3</td>
<td>0.1</td>
<td>46.1</td>
</tr>
<tr>
<td>Property</td>
<td>180.3</td>
<td>-</td>
<td>3.0</td>
<td>-</td>
<td>0.2</td>
<td>183.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>461.9</strong></td>
<td><strong>20.3</strong></td>
<td><strong>4.4</strong></td>
<td><strong>1.2</strong></td>
<td><strong>4.1</strong></td>
<td><strong>491.9</strong></td>
</tr>
</tbody>
</table>

Other fees include fees for property management and administrative services and fees earned on property acquisitions.

Investment income includes dividend and interest income from funds and interest on a bridging loan provided to a property fund (see below).
Financial support
The Group has provided a bridging loan of £50 million (20X0: £nil) to ABC Property Fund, which was launched during the year, so that this fund may acquire a property. This loan earned interest of £0.8 million (20X0: £nil) during the year and will be repaid once the fund has arranged a bank loan. The Group has not provided any other financial support to any of its investment funds during the year, and has no contractual obligations or current intention of providing financial support to any of its investment funds.

Other information
The Group holds all the management shares in ABC Hedge Fund, which have a par value of £0.6 million (20X0: £0.6 million). These shares hold 100% (20X0: 100%) of the voting rights and are subordinate to the redeemable preference shares held by other investors in this fund. In all other funds, the rights of the shares held by the Group are the same as those of other investors.
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