KPMG

Investment Fund Directors

Webinar Series

Your Partner For What's Next

Investment Fund Directors

Webinar Series:

Wednesday 11 November, 2pm
Taxation & Regulation

Wednesday 18 November, 2 pm
ESG & Valuation

Tuesday 24 November, 2pm
Accounting & Auditing

Link to webinar slides & recordings will be forwarded

Speakers

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Contents slide

New Accounting Standards

Jennifer Fitzpatrick
Asset Management
Audit Director

New Standards 2020 IFRS EU

New amendments	EU Effective date	Transition / Impact	KPMG web article
Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020	Prospectively - It is not expected to have a significant impact on the financials, however it is important to re-assess how the information is communicated and organised within the financials	Applying materiality when preparing financial statements
Definition of a Business (Amendments to IFRS 3)	1 January 2020	Prospectively - transactions happening on or after 1 January 2020	IFRS 3 amendments - Clarifying what is a business
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020	Phase 1 completed - amendments to IFRS9/IAS39 - hedge accounting - retrospectively. Focus is now on phase 2	IBOR reform - First-phase amendments issued
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020	This may affect in situations where no accounting standard applies to a particular transaction / event	Conceptual Framework - The new foundation for IFRS

New Standards 2020 Irish GAAP (FRS 102)

New amendments	Effective date	Transition / Impact
New standards		
Interest rate benchmark reform (Amendments to FRS 102)	1 January 2020 (early application permitted) To be applied retrospectively to those relationships that existed at the beginning of the reporting period	Interest rate benchmarks such as the London Interbank Offered Rate (LIBOR) are being reformed, and it is anticipated that LIBOR will not be available after 2021. These amendments to specific hedge accounting requirements in Section 12 provide relief that will avoid unnecessary discontinuation of hedge accounting, during the period of uncertainty. Entities will apply specific hedge accounting requirements assuming that the interest rate benchmark relevant to the hedge accounting is not altered as a result of interest rate benchmark reform
Multi-employer defined benefits plans (Amendments to FRS 102)	1 January 2020 (early application permitted)	When an entity participates in a defined benefit plan, which is a multi-employer plan that is accounted for as if the plan was a defined contribution plan, and sufficient information to use defined benefit accounting becomes available, the entity shall account for the difference between any liability for the contributions payable and the net defined benefit liability in other comprehensive income
Other recent standards		
FRS 102 Triennial Review (Other recent updates)	1 January 2019	Several amendments including the Requirement to disclose the nature and extent of interests in unconsolidated SPE's and the risks associated with them (ref 9.23)

New Standards 2020 US GAAP

ASU*	Effective date	Summary
* Other standards to note: ASU 2016-02 Leases (effective for FY beginning after 15 Dec 2019) which is not expected to have a significant impact on Investment Funds) and also ASU 2016-15 Cash Flow (effective for FY after 15 Dec 2018)		
New standards		
ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities	FY beginning after 15 December, 2019 (15 Dec 2018 for PBE) – modified retrospective approach (i.e. cumulative effect on transition)	This shortens the amortisation period for certain callable debt securities held at a premium to the earliest call date.
ASU 2018-13: Changes to Disclosure Requirements for FV measurements	All entities for FY beginning after 15 December 19	**Removal**, **modification** and new disclosure requirements. This eliminates: (i) the disclosure of amounts and reasons for transfers between L1 and L2 recurring measurements; (ii) policy for timing of transfers between levels; (iii) valuation process for L3 FV measurements; and (iv) the changes for unrealised gains/losses for recurring L3. This modifies: (i) the L3 rollforward is not longer required, instead disclose transfer in/out and purchases (i.e. no longer required to disclose sales and gains/losses of L3); and (ii) liquidity events (for investments in entities that calculate a NAV, i.e. Companies are now required to disclose the timing of liquidation of an investee only of the investee has communicated the timing to the entity or publicly; (iii) the uncertainty measurement, i.e. now it is only at the reporting date and not futures dates for L3; This adds new requirements for Public Companies only.
New proposed changes		
SEC's New Valuation Practice Framework** ** This is in addition to the AICPA Valuation guide issued (August 19)	SEC proposed a new Rule in April 2020. The public comment period expired on July 21, 2020	If adopted, there will be a one-year transition period for funds to comply with the new requirements Board of Directors - Greater degree of oversight; For Investment Advisors - greater transparency, record keeping and avoidance of conflicts of interest; For Valuers - consistency in models, techniques, etc.

Other considerations & reminders

Cristian Reyes
Asset Management
Audit Principal

Other reminders

Regulatory updates & COVID-19

Areas of Focus	
IFRS 7	➢ Liquidity risk notes – the liability is to be allocated to the earliest period that the Fund can be required to pay. ➢ Sensitivity analysis required disclosures – it applies to interest, currency and other price risk.
IFRS 13	➢ Required information by class of asset and liability.
IFRS 9	➢ How forward looking information has been incorporated.
IFRS 10	➢ Control assessment (Board representation, % of voting held in meetings, exposure to variable returns, etc.).
APMs	➢ Alternative Performance Measures (APMs) add/improve disclosures rather than adjusting or including new APMs (due to Covid-19).

COVID-19 & Other topics for consideration	
Fair Value considerations	➢ FV adjustments (liquidity, bid-ask spreads, etc.). ➢ FVH implications due to reduced observability/consistency market data. ➢ Thorough quality assurance of pricing feeds from external vendors. ➢ Mark to model positions increase? ➢ Consider modelling assumptions (in particular hard to value assets) and uncertainty due to high volatility. ➢ Potentially now less weighting to be placed on recent transaction pricing (pre-Covid-19).
Disclosures	➢ Disclosures to provide much needed **transparency** to users of financial statements (performance, cash flows, etc.). ➢ Identify key judgements, assumptions and estimates. ➢ Additional requirements when instruments are transferred into level 3.
Uncertainty	➢ Material uncertainties (e.g. investors redemptions post year end, impact of Brexit). ➢ Liquidity and covenant breaches. ➢ Going Concern.

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Auditing Standards update

Gary Fitzpatrick
Asset Management
Audit Director

ISA 570 (Revised) An Overview

What are the changes?

Increased work effort, which will include:

- Expanded risk assessment procedures over going concern;
- Increased scrutiny over management's going concern assessment, in particular, an expectation that management will have prepared a going concern assessment in all cases; and
- A requirement for the auditor to evaluate management's assessment in all cases, not only when events or conditions which may cast significant doubt as to the entity's ability to continue as a going concern have been identified.

Further reporting requirements, which include:

- Positive conclusions that the use of the going concern basis is appropriate, and that the auditor has not identified a material uncertainty; and
- An explanation of how the auditor evaluated management's assessment, including key observations (for EU PIEs and listed entities), i.e. equivalent to a key audit matter.

IAASA have released their own revised going concern standard, based largely on the FRC's version. The new standard is effective for periods commencing on or after 15 December 2019

ISA 570 Revised Process

- Risk assessment
- Evaluate management's assessment
- Evaluate the sufficiency and appropriateness of audit evidence (auditor forms own judgement on assessment)
- Disclosures and reporting

Why change?

Mike Suffield, the FRC's acting executive director of audit regulation said: "Recent corporate failures and the FRC's own enforcement work has shown the existing [going concern requirements] needs to be strengthened. "Our proposals will significantly expand the work required of auditors — however, we believe this to be an important investment in the quality of the work that underpins what is a cornerstone of audit."

ISA 570 (Revised) Managements Assessment

Key points to note

- Expectation that management will have prepared a going concern assessment in all cases (if they haven't we need to request)
- Cover a period of at least 12 months from the date of approval of the financial statements
- If management are unable/unwilling to prepare a going concern assessment – consider whether there is a deficiency in internal control and limitation of scope
- Management need to consider events or conditions beyond their period of assessment

Evaluation of managements assessment

- Method e.g. liquidity analysis
- Underlying data
- Assumptions e.g. redemption scenarios
- Plans

ISA 540 (Revised) An Overview

What are the changes?

- More detailed general risk assessment procedures over accounting estimates.
- More in-depth understanding of how management addresses estimation uncertainty.
- A walkthrough to understand the processes used by entities to determine accounting estimates.
- Performance of risk assessment in aggregate for elements and at an individual element level for methods/models, assumptions and data.
- Focused response to our risk assessment.

KPMG's methodology

- Given the consistency of the requirements arising from ISA 540 (Revised) and AS 2501, KPMG International has developed a revised methodology for auditing estimates, including fair value measurements and related disclosures ("accounting estimates") that complies with both standards.
- Accordingly, engagement teams globally will apply one methodology when auditing accounting estimates.

Why change?

- Address more complex business environments.
- Address complexity due to new accounting standards.
- Respond to audit inspection findings in the area of auditing estimates.

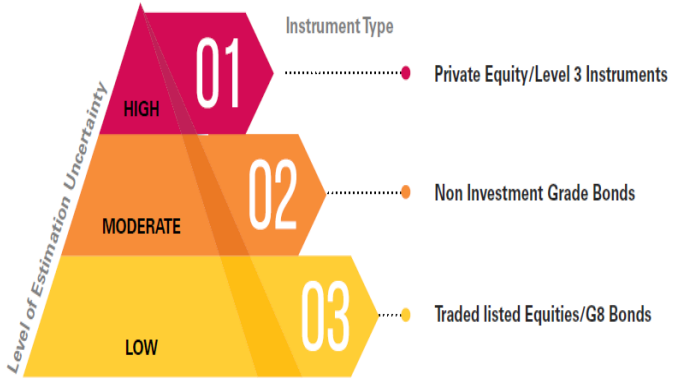
The Impact

- Earlier audit planning to perform risk assessments.
- More information requests from our clients to assist with the new requirements.
- More interaction and communication with those who prepare estimates, management and those charged with governance.
- Longer time to document on our files our audit of estimates.

ISA 540 (Revised) is the new revised auditing standard for accounting estimates. It is effective for periods beginning on or after 15 December 2019. It will have a significant impact on the audit approach to estimates and will require thorough consideration during audit planning.

ISA 540 (Revised): Key changes

Key Changes	Impact envisaged on fund service providers, fund managers and those charged with governance
More emphasis on the need for the auditor to exercise professional scepticism	The auditor may increasingly challenge aspects of how the fund entity values its financial instruments.
More granular assessments regarding risk accounting estimates are materially misstated	The auditor may place more emphasis on obtaining an understanding of the nature and extent of a fund's valuation process and key aspects of the related valuation policies and procedures.
Focus on appropriately responding to the levels of estimation uncertainty, complexity and subjectivity in accounting estimates	If the auditor determines the risk of an entity's accounting estimate being materially misstated as high, then the work effort will increase, which in turn will likely impact how much, and the type of, information fund management would need to provide the auditor.
Audit work effort based on the selected approach(es) (testing management's process, developing own estimate, subsequent events), including a more detailed understanding of the significant matters considered in making key judgements and decisions affecting accounting estimates	Fund management may receive more focussed requests from the auditor on each these matters. Fund management should ensure they have documented key judgements and decisions in anticipation of auditor requests. Such documentation is likely to provide basis for more efficient and effective discussions between fund management and the audit team.
New requirement to consider how fund management reviews the outcomes of previous accounting estimates and responds to the results of that review.	Auditors will expect there to be a retrospective review process in place for financial instrument valuations that were subject to a high degree of estimation uncertainty, complexity and subjectivity.
More emphasis on auditing financial instrument disclosures in the financial statements	If the auditor determines the risk of material misstatement is higher for certain disclosures, then the work effort will increase, which in turn will impact how much, and the type of, information an entity will need to provide the auditor.
More detailed written representations and communications	Fund management may receive requests for new or changed representations compared to previous years. Therefore, those charged with governance may wish to ask the auditor to let them know as soon as practicable the details of the written representations they will request from them.



The above is for illustrative purposes only. Specific fund portfolio facts and circumstances must always be taken into account along with the degree of subjectivity and complexity.

Questions & Answers

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