# What's new in funds financial reporting for 2022?

**Reporting update**

31 August 2023, 22RU-16 **Updated**

KPMG

## Highlights

- Introducing the Corporate Collective Investment Vehicle
- Reflecting the impact of uncertain times
- Illustrative fund financial statements and Australian specific reminders

## Introducing the Corporate Collective Investment Vehicle "" CCIV"

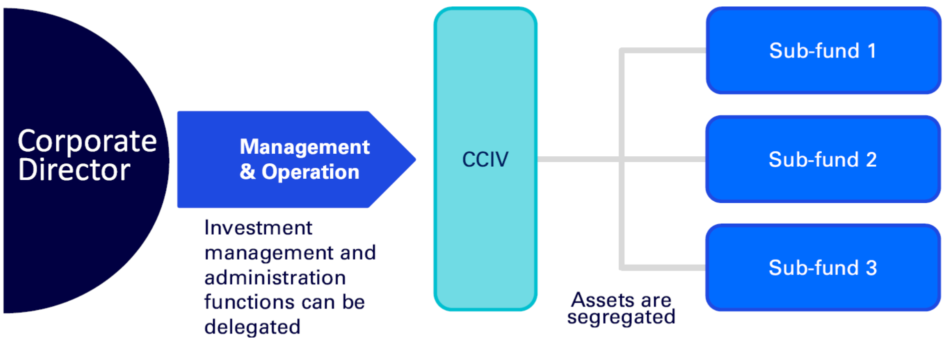
**A CCIV is a new form of collective investment vehicle which is a company alternative to a management investment scheme ("MIS")**

**The sub-funds of retail CCIVs are subject to similar reporting and compliance requirements as a registered MIS**

The *Corporate Collective Investment Vehicle Framework and Other Measures Act 2022, "the Act", which* came into effect on 1 July 2022, introduces a new type of collective investment vehicle in the form of a company. Investors pool their funds in an investment company, a CCIV, which is managed by a professional funds manager.

A CCIV must have at least one sub-fund with at least one member at all times and is governed by a Constitution. A sub-fund is not a separate legal entity but essentially operates (for both tax and legal purposes) as if it is a separate investment vehicle with a separate investment strategy and investors.

A CCIV must be operated by a corporate director ("CD") that is required to be a public company that holds an Australian financial services licence in a similar manner to how a Responsible Entity is required to operate a registered MIS.




Retail CCIVs are required to prepare audited annual and half-year financial and directors report for each of their sub-funds and have similar compliance plan obligations to registered managed investments schemes.

**Key differences exist between the structure of a retail CCIV and a traditional registered MIS**

## How does a CCIV differ from a MIS?

| | CCIV | MIS |
|---|---|---|
| **Legal form** | Company limited by shares | Typically structured as a unit Trust |
| **Allocation to sub-funds** | Assets and liabilities fully allocated to sub-funds and must be segregated from the assets and liabilities of other sub-funds | No requirement to have any sub-funds but may issue different classes of unit |
| **Retail versus wholesale investors** | If one investor in the CCIV is a retail investor, then it is a Retail CCIV. To be a wholesale CCIV, all investors must be wholesale investors. | Must be registered if > 20 members and professionally promoted.Exempt where all members are wholesale investors |
| **Reporting requirements** | For retail CCIVs, financial reports and audit opinions required for each sub-fund, rather than as a combined CCIV report | Financial reports and audit opinions prepared for registered MIS, not sub-funds |
| **Cross-investment between sub-funds in the same CCIV** | Permitted | Not permitted |
| **Governance structure** | A Corporate Director is responsible for the operation of the CCIV, with at least half of the directors of the Corporate Director required to be external*.This means that a CCIV is not required to establish a compliance committee like an MIS. | A Responsible Entity is responsible for the operation of the appointed to a MIS . There is no requirement for the RE to have at least half of its directors as external directors but if its Board is not so constituted ,then each scheme it operates requires a compliance plan with a compliance committee comprised of a majority of external members.of a scheme. |

*** External meaning they are not employees/managers / involved in professional dealings with the Corporate Director, and they (or relatives) do not have (or relatives) material investments in the CCIV (see section 1224G of the Act for full definition)*

**CCIV structures is to many corporate investment vehicles in foreign jurisdictions**

***"A CCIV is likely to be attractive to foreign investors who are more familiar with a corporate structure or limited partnership for collective investment and where local laws do not recognise common law trusts.***

***Depending on how transition provisions (yet to be finalised) to move from a MIS to a CCIV are determined, CCIVs offer fund managers an opportunity to rationalise existing trust-based based products and offer true legal segregation of portfolio assets and liabilities. "***

**John Moutsopoulos**
**Partner, KPMG Law**

## Reflecting the impact of uncertain times

**Uncertain times impact a fund's valuation of investments and may require additional disclosures**

Market disruptions associated with current geopolitical events and COVID-19 conditions and restrictions have had a global impact, and uncertainty exists as to their implications. Such disruptions can directly and indirectly adversely affect assets and performance of Funds.

ASIC Commissioner Sean Hughes said in a media release in June 2022 that "Many companies are facing changing market conditions and uncertainties. Directors and preparers should assess the impact on current and future performance, asset values and provisions. They should also ensure that increasing demands for better information for investors on uncertainties, key assumptions, business strategies and risks are met as required under the existing reporting regime for both annual and half-year reports."

A Fund is required to reflect the volatility in global and local capital markets resulting from the coronavirus (COVID-19) pandemic and global risks in the valuation of its investment portfolio and its financial results. The fair value of investments should reflect

- information available and market conditions at the measurement date
- valuation techniques that maximise the use of relevant observable inputs and minimises the use of unobservable inputs
- up to date cash flow projections and the necessary risk premiums.

In addition, there are also specific disclosures that should be considered, where relevant, in relation to impact of uncertainty, including

- consideration of whether uncertainty relating to valuation of investments in jurisdictions impacted by global events results in a loss of market observable inputs and a transfer of investments from Level 1 or Level 2 in the fair value hierarchy to Level 3
- providing additional disclosure on how reviews of portfolios are undertaken to identify investments that potentially may not be actively traded or have stale security pricing. This process identifies securities which possibly could be regarded as being level 3 securities
- disclosures about the key assumptions, sensitivities, and major sources of estimation uncertainty.

For more information on the implication of uncertainty, please refer to KPMG's [Financial reporting in uncertain times resource centre]

**Illustrative fund disclosure examples are available but should be tailored to an individual fund's circumstances**

# Illustrative fund financial statements and Australian specific reminders

KPMG publishes annually its Illustrative disclosures for investment funds . The guide is intended to help funds prepare and present financial statements in accordance with IFRS® Accounting Standards

As the guide is focused on IFRS Accounting Standards rather than Australian specific requirements, a MIS should consider in addition the disclosures under the new Australian Financial Reporting Framework applicable for 30 June 2022. As registered schemes should already be preparing Tier 1 general purpose financial statements (GPFS), the main impact of the changes would be for unregistered funds/wholesale funds where they previously prepared special purpose financial statements (SPFS).

A registered MIS should consider the requirements of the *Corporations Act 2001* in relation to preparation of a directors' report and directors' declaration, and the requirements of AASB 1054 *Australian Additional Disclosures* in relation to the basis of preparation, audit fees, and reconciliation of net operating cash flow to profits.

Within Australia, funds generally present a statement of changes in equity as a primary financial statement rather that a statement of changes in unitholders fund. As a result changes in unitholder funds which are classified as a liability are disclosed within the notes of the financial statements rather than as a primary statement.

The illustrative examples, together with the explanatory notes, are not intended to be seen as a complete and exhaustive summary of all disclosure requirements that are applicable under IFRS Accounting Standards to a MIS. In addition, users should consider any changes in requirements from when the guide was published. For or an overview of the latest changes to standard that are applicable under IFRS Accounting Standards and Australian Accounting Standards, please refer to the KPMG's Standards on Issue