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FASB Proposes Additional Disclosures for Investment Companies

The FASB recently issued a proposed Accounting Standards Update (ASU) that would change the disclosure requirements for investment companies that invest in other investment companies.[1]

Key Facts

The proposed ASU would:

- Require feeder funds (regulated and non-regulated) to provide the master fund's financial statements along with the feeder fund's financial statements; and
- Require all investment companies (regulated and non-regulated) to disclose each investment owned by an investee fund that exceeds five percent of the reporting investment company's net assets at the reporting date.

Comments on the proposed ASU are due by February 17, 2015.

Key Impact

The amendments in the proposed ASU would provide greater consistency and transparency by aligning disclosure and presentation requirements for regulated and non-regulated investment companies, including all master-feeder arrangements.

Contents

[1] FASB Proposed Accounting Standards Update, Disclosures about Investments in Other Investment Companies, available at www.fasb.org.

Why Require Investment Companies to Provide Additional Disclosures about Investment Company Investees?

During its project to revise the criteria for determining whether an entity is an investment company, the FASB became concerned that risks to investment companies from investment company investees were not sufficiently transparent to investors.[2] As a result, the FASB proposed that investment companies consolidate investment company investees in which they hold a controlling financial interest. However, stakeholders told the FASB that transparency concerns could be better addressed by requiring disclosure about investment company investees in the notes to the financial statements. The FASB decided not to require investment companies to consolidate investment company investees in which they hold a controlling financial interest. Instead, the FASB decided to improve the existing disclosure requirements in U.S. GAAP for investment companies' investments in investment company investees.

What Are the Proposed Amendments for Master-Feeder Arrangements?

Presently, the Securities and Exchange Commission (SEC) requires a feeder fund that is regulated by the Investment Company Act of 1940 (the 1940 Act) to provide the financial statements of its master fund along with its own financial statements. The proposed ASU would align the SEC's requirement by requiring a non-regulated feeder fund to provide its master fund's financial statements along with its own. Currently under U.S. GAAP a non-regulated feeder fund has the option to present its master fund's financial statements along with its own.

KPMG Observations

In practice, many non-regulated feeder funds elect to present their master fund's financial statements along with their own. As a result, the proposed requirement for a feeder fund to provide its master fund's financial statements is not expected to significantly affect current practice.

[2] FASB ASU 2013-08, Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements, available at www.fasb.org.

How Will the Proposals Affect Disclosures Provided by Regulated Investment Companies?

Current U.S. GAAP requires non-regulated investment companies to disclose certain information about investments held by investee funds when the investment's fair value individually exceeds five percent of the reporting investment company's net assets. The amendments in the proposed ASU would require those disclosures to be provided by investment companies that are regulated under the 1940 Act. Examples of disclosures that regulated investment companies would be required to provide when the fair value of an investment held by an investee fund exceeds five percent of the reporting investment company's net assets include the security type, the country or geographic location, and industry.

KPMG Observations

Current U.S. GAAP contains a practicability exception that permits an investment company to disclose that information about the investee investment company's investment portfolio is not available when the reporting investment company is unable to provide the information about investments of investee funds when the investment's fair value individually exceeds five percent of the reporting investment company's net assets. The FASB decided to permit registered investment companies to also apply this practicability exception to reduce the costs of applying the proposed guidance.

Effective Date and Transition

The FASB did not propose an effective date. The effective date will be determined after considering comments received on the proposed ASU. However, the proposed ASU would be effective prospectively as of the beginning of a reporting investment company's fiscal year and for the interim periods within those fiscal years. Early adoption would be permitted.

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