IRISH FUNDS INDUSTRY ASSOCIATION

Ms. Michelle Sansom,
Accounting Standards Boards
5th Floor Aldwych House
71-91 Aldwych
London
WC2B 4HN

27th April 2012

Dear Michelle,

Re: The Future of Financial Reporting in the UK & Ireland
Revised Financial Reporting Exposure Draft ("FRED")

The Irish Funds Industry Association (IFIA) is the representative body for the international investment fund community in Ireland including administrators, custodians, managers and advisors who service international funds in Ireland. With over 11,000 Irish and Non-Irish domiciled funds, including sub-funds, with a Net Asset Value in excess of €1,900 billion, under administration in Ireland. Ireland is now one of the leading international jurisdictions for fund domicile and fund servicing and therefore provides a representative view of the international industry including promoters in Europe, Asia and North America.

As the parties responsible for the preparation of the Financial Statements of these investment funds, the industry companies have a keen interest in financial reporting and the standards that govern how accounts are prepared. As the industry service both Irish and Non-Irish funds, the industry companies have significant exposure to and experience in preparing investment funds financial statements under UK & Irish GAAP, IFRS and US GAAP in particular, and are well placed to recognize the strengths and challenges of each regime.

The IFIA welcomes the opportunity to respond to the Accounting Standards Board's (ASB's) revised Exposure Draft with respect to the Future of Financial Reporting in the UK & Ireland. We welcome the overall approach taken by the ASB in this Exposure Draft and have some specific comments, which we feel would make the proposed new standard more relevant and appropriate for Investment Funds and investors in such funds. We have specific concerns with respect to the inclusion of Investment Funds within the definition of Financial Institutions, as we consider the nature of such entities to differ significantly from other entities such as banks and insurance companies. We request that the ASB consider the appropriateness of including Investment Funds in the definition of financial institution in light of our comments on sensitivity analysis and risk disclosures currently required by FRED 48 and we propose that the final standard include a specific definition of Investment Funds, and that it would include alternative or specific requirements more appropriate to an Investment Fund, as set out in our specific comments below. We have included, in Appendix I, several possible means of defining Investment Funds.

Our specific comments are as follows:

1) **Requirements applicable to Publically Traded Entities**

We note that, as presently structured, there are a number of requirements that would extend to Investment Funds that meet the definition of Publically Traded Entities. These include the requirement to disclose Earnings Per Share, comply with Segmental Reporting Requirements and, where preparing interim financial statements, comply with IAS 34. We consider that Investment Funds are unique entities that aren't comparable with other commercial entities or financial institutions and these requirements would not be of value to the users of the financial statements. Consequently, we would suggest that the revised new standard should include a definition of investment entities, and should include an exemption from these requirements for those entities that meet such definition.

2) **Consolidation – Transition Provisions**

We welcome the exclusion from consolidation that has been included in Section 9.9(b) of FRED 48, however, we consider that transition provisions are required for entities that had previously consolidated underlying entities. We therefore request that transition provisions be included in the revised standard.

3) **Consolidation – Master/Feeder Funds**

We note that the exclusion from consolidation per Section 9.9(b) covers subsidiaries held with a view to subsequent resale. We would highlight that many investment funds are structured as "Master/Feeder" structures whereby one or more Feeder Fund entities act as the vehicles through which investors participate. The Feeder Fund(s) then in turn invest in the Master Fund, which is the vehicle through which investments are held. As a Master Fund would not be held for subsequent resale, it would not be able to avail of this exclusion. However, as the ownership of the Master could vary each year depending on investor transactions at Feeder Fund level, we consider that the requirement for a Feeder Fund to consolidate a Master Fund could be onerous and confusing for investors. We note that under US GAAP, a Master/Feeder structure is defined and specific rules govern how a Feeder Fund accounts for its investment in a Master Fund. This includes exemption from the requirement to consolidate. We believe it would be more meaningful for investors in a Feeder Fund that the Feeder Fund should not be required to consolidate a Master Fund, where the latter exists solely for the purposes of holding investments. We consider it would be more appropriate for an investor in a Feeder Fund to receive financial statements for the Feeder (unconsolidated) and for the underlying Master Fund.

4) **Fair Value**

The revised FRED sets out the basis for determining Fair Value of financial instruments, making specific reference to bid prices (Section 11.279a)). However, we would draw your attention to IFRS 13, which has removed the specific requirement for fair value to be determined for financial assets at bid prices (and financial liabilities at ask prices) and which brings the fair value measurement rules in line with US GAAP, which permits valuations within the bid/ask range. We would consider it more appropriate to align the fair value provisions within the revised standard, to the equivalent provisions of IFRS 13.

5) **Financial Instruments – Sensitivity Analysis (or alternative such as VaR)**

We note that the revised FRED retains the requirement included in IFRS 7 for a sensitivity analysis, or alternative measure such as Value at Risk (VaR) to be disclosed with respect to financial instruments held. We consider that this requirement is not appropriate for Investment Entities, is of little value to users and is often accompanied by disclosure noting the limitations or other flaws in such disclosures. Investment funds hold financial instruments for a variety of purposes and, in contrast to entities that are passively exposed to risks, many funds actively manage their portfolios to deliver complex risk exposures or mitigate complex risk exposures. Thus, sensitivity analyses based on individual risk components are often meaningless when taken in isolation and are often accompanied by language highlighting their limitations. We consider that the mandatory requirement to provide a sensitivity analysis (or alternative) should be removed from the revised standard for entities that meet the definition of an Investment Entity. Instead, we consider it would be more appropriate to require Investment Entities to make alternative disclosures, which would require them to provide specific disclosures with respect to the risks they are exposed to and how those risks are managed and monitored. We consider that Investment Entities should be given the flexibility to determine how best to express risk metrics based on the underlying strategy adopted by the Investment Entity with respect to the financial instruments held, rather than prescribe a specific requirement, as currently included in the revised FRED.

6) **Financial Instruments – Risk Disclosures**

As noted, Investment Entities differ significantly from other entities that hold financial instruments, in that the primary assets and liabilities held by an Investment Entity are financial instruments and the purpose of an Investment Entity is to hold financial instruments in order to deliver a defined risk exposure to investors. The investment strategies and risk exposures can vary significantly from simple strategies that are based on delivering performance relative to an index, to highly complex strategies that involve the combined management of several risk factors. The revised FRED requires disclosures to be given with respect to certain individual specifically identified risks. We consider that this can cause difficulty for Investment Entities, as the required disclosures are specific to individual risks, whereas in fact risks can be managed in complex combined manners. We recommend that Investment Entities be exempted from the requirements to provide quantitative and qualitative risk disclosures for individual risks and instead be required to give disclosure that details the overall investment strategy, risk management strategy and provide quantitative disclosure based on the key information used by management to manage and monitor risks.

Question 1:

The ASB is setting out the proposals in this revised FRED following a prolonged period of consultation. The ASB considers the proposals in FRED's 46 to FRED 48 to achieve its project objective: "To enable users of accounts to receive high-quality, understandable financial reporting proportionate to the size and complexity of the entity and users' information needs."

Do you agree?

IFIA Response

We agree that the revised FRED achieves this objective on an overall basis. However, we have certain specific issues and concerns with respect to the impact of the FRED on the Investment Fund Industry, whereby we consider that amendment or clarification is needed in order to ensure that the objective is fully met with respect to the Investment Fund Industry.

Question 2:

The ASB has decided to seek views on whether: "As proposed in FRED 47, a qualifying entity that is a financial institution should not be exempt from any of the disclosure requirements in either IFRS 7 or IFRS 13; or Alternatively a qualifying entity that is a financial institution should be exempt in its individual accounts from all of IFRS 7 except for paragraphs 6, 7, 9(b), 16, 27A, 31, 33, 36, 37, 38, 39, 40 and 41 and from paragraphs 92-99 of IFRS 13 (all disclosure requirements except the disclosure objectives)."

Which alternative do you prefer and why?

IFIA response

We consider that there would be no significant difference for Investment Entities under either alternative. As we noted in the opening comments of this letter, we consider that the resulting requirements would not be appropriate for Investment Entities and we would suggest an alternative approach be taken.

Question 3:

Do you agree with the proposed scope for the areas cross-referenced to EU adopted IFRS as set out in section 1 of FRED 48? If not, please state what changes you prefer and why.

IFIA Response

We do have a concern in principle that entities not otherwise subject to EU adopted IFRS could be drawn into the disclosure requirements of EU adopted IFRS rather than IFRS (not fully adopted by the EU). We would note that there are Investment Funds that currently report under Irish GAAP and they may wish to apply the revised FRED rather than await EU endorsement for all relevant new standards. The revised FRED would likely be a more attractive option to non EU domiciled and unlisted Investment Entities, if the references to IFRS were not limited to IFRS as endorsed by the EU.

Question 4:

Do you agree with the definition of a financial institution? If not, please provide your reasons and suggest how the definition might be improved.

IFIA Response

We consider Investment Funds to be unique entities that have different characteristics and issues relative to other entities falling under the definition of a financial institution. We suggest that Investment Funds be defined separately within the revised FRED so that specific comments we express separately relating to Investment Funds could be incorporated and applied to those entities that would fall within the definition of an Investment Fund.

Question 5:

In relation to the proposals for specialist activities, the ASB would welcome views on:

(a) Whether and, if so, why the proposals for agriculture activities are considered unduly arduous? What alternatives should be proposed?

(b) Whether the proposals for service concession arrangements are sufficient to meet the needs of preparers?
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IFIA Response

We do not see these proposals as impacting on the Investment Funds Industry and consequently we have no comments to make.

Question 6:

The ASB is requesting comment on the proposals for the financial statements of retirement benefit plans, including:

(a) Do you consider that the proposals provide sufficient guidance?
(b) Do you agree with the proposed disclosures about the liability to pay pension benefits?

IFIA Response

We do not see these proposals as impacting on the Investment Funds Industry and consequently we have no comments to make.

Question 7:

Do you consider that the related party disclosure requirements in section 33 of FRED 48 are sufficient to meet the needs of preparers and users?

IFIA Response

We agree that the proposed disclosure requirements are sufficient.

Question 8:

Do you agree with the effective date? If not, what alternative date would you prefer and why?

IFIA Response

We agree with the proposed effective date.

Question 9

Do you support the alternative view, or any individual aspect of it?

IFIA Response

We have no comments to make in this regard, other than to refer to our other comments on the revised FRED.

We are grateful for the opportunity to provide our comments and we would welcome the opportunity to discuss further with you.

Yours sincerely,

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Patrick Lardner

Chief Executive

Appendix I

1. Define investment funds by specific reference to UCITS and alternative investment funds.

2. Define investment funds by reference to the definition of Investment Entities included in ED 10 Consolidated Financial Statements.

3. Define Investment Funds by reference to an Investment Company under US GAAP, contained in SOP 07-1, section 5; "*An investment company is a separate legal entity whose business purpose and activity are investing in multiple substantive investments for current income, capital appreciation, or both, with investment plans that include exit strategies. Accordingly, investment companies do not acquire or hold investments for strategic operating purposes and do not obtain benefits (other than current income, capital appreciation, or both) from investees that are unavailable to non investor entities that are not related parties to the investee.*"