

Reminder: Additional Year End Disclosures Required for All Investment Companies

By Erik Edson, CPA

In June of 2013, the Financial Accounting Standards Board (FASB) released Accounting Standards Update 2013-08 (the Update), an amendment to Financial Services – Investment Companies (Topic 946). The Update requires additional footnote disclosures for all entities qualifying as investment companies and provides specific guidance to entities for use in determining whether or not they do in fact qualify as investment companies in accordance with Generally Accepted Accounting Principles (GAAP) under Topic 946.

In order for an entity to qualify as an investment company, it must meet the following criteria:

- 1) An entity obtains funds from one or more investors, provides them with investment management services, and commits to investors that the entity's business purpose, and its only substantive activity, is to invest funds for the purpose of creating returns from capital appreciation and/or investment income (i.e. dividends and interest).
- 2) The entity or its affiliates does not obtain, nor has the objective of obtaining, returns or benefits from an investee or its affiliates that are not normally attributable to ownership interests, or that are other than capital appreciation or investment income.

In addition to the above approach for determining whether or not an entity qualifies as an investment company, the FASB also noted that investment companies *typically* have the following characteristics:

- More than one investment
- More than one investor
- Investors that are not related parties of the parent company or the investment manager
- Ownership interest in the form of equity or partnership interest
- Substantially all of the assets managed are on a fair value basis in accordance with Topic 820

If an entity does not possess all of the above characteristics, it is not necessarily precluded from being classified as an investment company in



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accordance with the Update. However, entities that do not satisfy all of the above characteristics must apply judgment, and consider all relevant facts and circumstances, when determining whether their business is consistent with that of an investment company. Finally, entities that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940 automatically qualify as investment companies under the Update.

Once an entity determines that it qualifies as an investment company in accordance with the Update, the entity must specifically disclose in the footnotes to the financial statements that the entity is an investment company and that it is applying the guidance in accordance with Topic 946. If applicable, the entity must disclose whether its status as an investment company has changed, and must also disclose information regarding financial support provided to investees, including any support that it has the contractual obligation to provide.

The Update is effective for all fiscal years beginning after December 15, 2013; therefore, for all entities with a calendar year-end, the Update is effective for financial statements as of December 31, 2014.

If we can be of any assistance in helping implement the new requirements of Topic 946, or with any other audit, tax or industry-related pronouncements, please contact:



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