FINANCIAL ACCOUNTING SERIES

FASB ACCOUNTING STANDARDS UPDATE

No. 2013-08
June 2013

Financial Services—Investment Companies (Topic 946)

Amendments to the Scope, Measurement, and Disclosure Requirements

An Amendment of the *FASB Accounting Standards Codification®*

Financial Accounting Standards Board

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FINANCIAL ACCOUNTING SERIES (ISSN 0885-9051) is published quarterly by the Financial Accounting Foundation. Periodicals postage paid at Norwalk, CT and at additional mailing offices. The full subscription rate is $242 per year. POSTMASTER: Send address changes to Financial Accounting Standards Board, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116. | **No. 385**

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

Topic 946, Financial Services—Investment Companies, contains specialized accounting and reporting requirements for investment companies. Under U.S. generally accepted accounting principles (GAAP), investment companies generally measure their investments at fair value, including controlling financial interests in investees that are not investment companies. In contrast, before the issuance of guidance in *Investment Entities (Amendments to IFRS 10, IFRS 12, and IAS 27)*, International Financial Reporting Standards (IFRS) did not include the concept of an investment company and required reporting entities to consolidate controlled investees. As part of the joint project on consolidation, the FASB and the International Accounting Standards Board (IASB) (collectively, the Boards) agreed that they would look to develop a consistent approach for determining whether an entity is an investment company for which fair value of investments is the most relevant measurement attribute for the entity's financial statement users. The amendments in this Update modify the guidance in Topic 946 for determining whether an entity is an investment company.

The requirements in Topic 946 originally were included in the AICPA Audit and Accounting Guide, *Investment Companies*. In June 2007, the AICPA issued AICPA Statement of Position 07-1, *Clarification of the Scope of the Audit and Accounting Guide* Investment Companies *and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies,* to clarify practice issues on whether certain entities are investment companies and to provide guidance about when the specialized industry-specific accounting guidance applied by an investment company should be retained by a parent or equity method investor that is accounting for its interest in an investment company. In December 2007, the FASB indefinitely deferred SOP 07-1 for those entities that had not already adopted the SOP to provide the Board time to consider a number of implementation issues that arose from applying the SOP. The amendments in this Update also supersede the pending content for SOP 07-1 in the *FASB Accounting Standards Codification*®.

Who Is Affected by the Amendments in This Update?

The amendments to the investment company assessment in this Update primarily affect entities currently within the scope of Topic 946 that will no longer be investment companies as a result of the amendments. Entities that adopted SOP 07-1 before the FASB's indefinite deferral of that SOP also must assess whether they continue to be within the scope of Topic 946 by determining

whether they are investment companies as a result of the amendments to the investment company assessment in this Update. Also, entities that are currently not within the scope of Topic 946 may be investment companies as a result of the amendments in this Update.

The measurement and disclosure amendments to Topic 946 in this Update affect all entities that are investment companies.

The Board decided not to address issues related to the applicability of investment company accounting for real estate entities and the measurement of real estate investments at this time. As such, the Board does not intend for the amendments in this Update to change practice for real estate entities for which it is industry practice to issue financial statements using the measurement principles in Topic 946.

What Are the Main Provisions?

The amendments in this Update affect the scope, measurement, and disclosure requirements for investment companies under U.S. GAAP. The amendments do all of the following:

1. Change the approach to the investment company assessment in Topic 946, clarify the characteristics of an investment company, and provide comprehensive guidance for assessing whether an entity is an investment company
2. Require an investment company to measure noncontrolling ownership interests in other investment companies at fair value rather than using the equity method of accounting
3. Require the following additional disclosures: (a) the fact that the entity is an investment company and is applying the guidance in Topic 946, (b) information about changes, if any, in an entity's status as an investment company, and (c) information about financial support provided or contractually required to be provided by an investment company to any of its investees.

How Do the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

The amendments in this Update change the assessment of whether an entity is an investment company by developing a new two-tiered approach for that assessment, which requires an entity to possess certain fundamental characteristics while allowing judgment in assessing other typical characteristics. The new approach requires an entity to assess all of the characteristics of an investment company and consider its purpose and design to determine whether it

is an investment company. The amendments in this Update also clarify the characteristics of an investment company and provide additional implementation guidance for the assessment. The amendments result in a more appropriate reflection of the characteristics of an investment company and capture the population of entities for which fair value of investments is generally the most relevant measurement attribute for the entity's financial statement users.

The amendments in this Update also reduce complexity in the accounting for noncontrolling ownership interests in other investment companies by requiring fair value measurement for those interests rather than the equity method of accounting. The fair value of an interest in an investment company could be measured using the net asset value per share practical expedient in Topic 820, Fair Value Measurement.

The amendments in this Update also include disclosure requirements that provide financial statement users with additional information about an entity's status as an investment company and financial support provided or contractually required to be provided by an investment company to its investees.

When Will the Amendments Be Effective?

The amendments in this Update are effective for an entity's interim and annual reporting periods in fiscal years that begin after December 15, 2013. Earlier application is prohibited.

An entity must discontinue application of the guidance in Topic 946 if the entity is no longer an investment company upon the effective date of the amendments in this Update. That entity is required to present the change in its status as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption.

An entity that is an investment company upon the effective date of the amendments in this Update should apply the guidance prospectively. That entity is required to record the effect of applying the amendments as an adjustment to opening net assets for the period of adoption.

How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

The amendments in this Update are the result of the Boards' efforts to develop a consistent approach for determining whether an entity is an investment company. The characteristics to be evaluated to determine whether an entity is an investment company under the amendments in this Update are similar to the characteristics under IFRS. However, there are differences related to certain characteristics that are described in the basis for conclusions of this Update.

There also are two significant scope differences between U.S. GAAP for investment companies and IFRS for investment entities:

1. U.S. GAAP provides comprehensive accounting and reporting guidance for investment companies within the scope of Topic 946. Investments held by investment companies generally are measured at fair value under U.S. GAAP, including controlling financial interests in investees that are not investment companies. Rather than providing comprehensive accounting and reporting guidance, IFRS only provides an exception from consolidation requirements for entities that are investment entities. Under IFRS, an entity must have at least one controlled investee to be within the scope of the investment entities guidance. An entity that has at least one controlled investee and that meets the definition of an investment entity is required to measure its controlled investees at fair value (except those investees that provide services to the investment entity). Consequently, for investment companies with controlling financial interests in investees that are not investment companies, the amendments in this Update improve the comparability of financial statements prepared by entities that are investment companies under U.S. GAAP and those that are investment entities under IFRS. However, differences exist between the accounting and reporting requirements for investment companies that report under U.S. GAAP and investment entities that report under IFRS. The basis for conclusions of this Update highlights some of those differences.
2. Under the amendments in this Update, an entity that is regulated as an investment company under the Investment Company Act of 1940 is also an investment company for accounting purposes. Because regulatory and legal requirements may differ depending on a particular jurisdiction, the IASB decided not to link its definition of an investment company to whether the entity is an investment company under local regulations or laws.

In addition to differences related to accounting and reporting by an investment company, there also is a difference in how a noninvestment company parent should account for its interests in an investment company subsidiary under U.S. GAAP and IFRS. Under U.S. GAAP, a noninvestment company parent retains the specialized accounting applied by an investment company subsidiary in consolidation. That specialized accounting includes generally measuring investments at fair value. In contrast, IFRS does not allow a noninvestment entity parent to retain the exception to consolidation applied by an investment entity subsidiary. Therefore, under IFRS, a noninvestment entity parent is required to consolidate controlled investees of an investment entity subsidiary.

Amendments to the *FASB Accounting Standards Codification®*

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–54. In some cases, to put the change in context, not only are the amended paragraphs shown but so are the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~. The newly added Subtopics and Master Glossary terms are not underlined to enhance readability.

2. The pending content and related headings in Subtopics 946-10, 946-323, and 946-810 are being superseded as of the effective date of the amendments in this Update (see amendments to paragraph 946-10-65-1). Therefore, the amendments to those Subtopics are not made to the pending content. The new text is underlined but the pending content is not shown as text that is struck out, for ease of readability.

Amendments to the Master Glossary

3. Supersede the following Master Glossary term, with a link to transition paragraph 946-10-65-2, as follows:

~~**Investment Company**~~

~~An investment company is a separate legal entity whose business purpose and activity comprise all of the following:~~

~~a. Investing in multiple substantive investments~~
~~b. Investing for current income, capital appreciation, or both~~
~~c. Investing with investment plans that include exit strategies.~~

~~Accordingly, investment companies do not either:~~

~~a. Acquire or hold investments for strategic operating purposes~~
~~b. Obtain benefits (other than current income, capital appreciation, or both) from investees that are unavailable to noninvestor entities that are not **related parties** to the investee.~~

~~*See Section 946-10-65 for Transition and Open Effective Date Information related to this glossary term.*~~

4. Add the following Master Glossary terms to Subtopic 946-10 as follows:

Affiliate

A party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with an entity.

Net Asset Value per Share

Net asset value per share is the amount of net assets attributable to each share of capital stock (other than senior equity securities, that is, preferred stock) outstanding at the close of the period. It excludes the effects of assuming conversion of outstanding convertible securities, whether or not their conversion would have a diluting effect.

Parent

An entity that has a controlling financial interest in one or more subsidiaries. (Also, an entity that is the primary beneficiary of a variable interest entity.)

5. Supersede the following Master Glossary terms from Subtopic 946-10 as follows:

~~**12b-1**~~

~~Rule 12b-1 in Chapter 17 of the Code of Federal Regulations is one of the regulations implementing the Investment Company Act of 1940.~~

~~**Closed-End Funds**~~

~~Closed-end funds are investment companies that issue a fixed number of shares (that generally trade on an open market) to raise capital, similar to the way in which an entity sells stock in an initial public offering.~~

~~**Contingent Deferred Sales Load**~~

~~A sales charge imposed directly on redeeming shareholders based on a percentage of the lesser of the redemption proceeds or original cost. The percentage may decrease or be eliminated based on the duration of share ownership (frequently decreases by 1 percent a year). Also referred to as back-end load.~~

6. Supersede the following Master Glossary terms from Subtopic 946-323 as follows:

~~**Related Parties**~~

~~Related parties include:~~

~~a. Affiliates of the entity~~

~~b. Entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity~~

~~c. Trusts for the benefit of employees, such as pension and profit sharing trusts that are managed by or under the trusteeship of management~~

~~d. Principal owners of the entity and members of their immediate families~~

~~e. Management of the entity and members of their immediate families~~

~~f. Other parties with which the entity may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests~~

~~g. Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.~~

~~Underlying~~

~~A specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, or other variable (including the occurrence or nonoccurrence of a specified event such as a scheduled payment under a contract). An underlying may be a price or rate of an asset or liability but is not the asset or liability itself. An underlying is a variable that, along with either a notional amount or a payment provision, determines the settlement of a derivative instrument.~~

7. Add the following Master Glossary term to Subtopic 946-325 as follows:

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

8. Supersede the following Master Glossary term from Subtopic 946-810 as follows:

~~Related Parties~~

~~Related parties include:~~

~~a. Affiliates of the entity~~

~~b. Entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity~~

~~c. Trusts for the benefit of employees, such as pension and profit sharing trusts that are managed by or under the trusteeship of management~~
~~d. Principal owners of the entity and members of their immediate families~~
~~e. Management of the entity and members of their immediate families~~
~~f. Other parties with which the entity may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests~~
~~g. Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.~~

Amendments to Subtopic 946-10

9. Amend paragraph 946-10-05-1, with a link to transition paragraph 946-10-65-2, as follows:

Financial Services—Investment Companies—Overall

Overview and Background

946-10-05-1 The Financial Services—Investment Companies Topic includes the following Subtopics:

a. Overall
b. Investment Company Activities
c. Presentation of Financial Statements
d. Balance Sheet
e. Income Statement
f. Statement of Cash Flows
g. Notes to Financial Statements
h. Cash and Cash Equivalents
i. Receivables
j. Investments—Debt and Equity Securities
k. Investments—Equity Method and Joint Ventures
kk. Investments—Other
l. Liabilities
m. Equity
n. Revenue Recognition
o. Income Taxes
p. Consolidation
q. Foreign Currency Matters.

10. Supersede paragraphs 946-10-05-2 through 05-6, with a link to transition paragraph 946-10-65-2, as follows:

946-10-05-2 Paragraph superseded by Accounting Standards Update 2013-08. ~~An investment company, as used in this Topic, generally is an entity that pools shareholders' funds to provide the shareholders with professional investment management. Typically, an investment company sells its shares to the public, invests the proceeds, mostly in securities, to achieve its investment objectives, and distributes to its shareholders the net income earned on its investments and net gains realized on the sale of its investments. In this Topic, the term *investment company* refers to an entity with the attributes described in paragraph 946-10-15-2. This term is not used to conform with the legal definition of an investment company in the federal securities laws.~~ **[Content amended and moved to paragraph 946-20-05-1A]**

946-10-05-3 Paragraph superseded by Accounting Standards Update 2013-08. ~~Several kinds of investment companies exist: management investment companies, unit investment trusts, common (collective) trust funds, investment partnerships, certain separate accounts of life insurance companies, and offshore funds. Management investment companies may be open-end funds, usually known as mutual funds, **closed-end funds**, special purpose funds, venture capital investment companies, small business investment companies, and business development companies. Investment companies are organized as corporations (in the case of mutual funds, under the laws of certain states that authorize the issuance of common shares redeemable on demand of individual shareholders), common law trusts (sometimes called business trusts), limited partnerships, limited liability investment partnerships and companies, and other more specialized entities, such as separate accounts of insurance companies that are not in themselves entities at all except in the technical definition of the Investment Company Act of 1940.~~ **[Content amended and moved to paragraph 946-20-05-1B]**

946-10-05-4 Paragraph superseded by Accounting Standards Update 2013-08. ~~Once an investment company has been organized to do business, it usually engages immediately in its planned principal operations, that is, the sale of capital stock and investment of funds. Employee training, development of markets for the sale of capital stock, and similar activities are usually performed by the investment adviser or other agent, and the costs of these activities are not borne directly by the investment company. However, an investment company, particularly one not engaging an agent to manage its portfolio and to perform other essential functions, may engage in such activities and may bear those costs directly during its development stage.~~ **[Content moved to paragraph 946-20-05-1C]**

946-10-05-5 Paragraph superseded by Accounting Standards Update 2013-08. ~~Multiple-class funds issue more than one class of shares. Each class of shares typically has a different kind of sales charge, such as a front-end load, **contingent-deferred sales load**, **12b-1** fee (referring to Rule 12b-1 in Chapter 17 of the Code of Federal Regulations, which implements the Investment Company Act of 1940), or combinations thereof. Multiple-class funds may charge different classes of shares for specific or incremental expenses, such as transfer-agent, registration, and printing expenses related to each class.~~ **[Content moved to paragraph 946-20-05-1D]**

946-10-05-6 Paragraph superseded by Accounting Standards Update 2013-08. ~~Venture capital investment companies, including most small business investment companies, and business development companies differ in operating method from other types of investment companies. The usual open-end or closed-end company is a passive investor, whereas the venture capital investment company is more actively involved with its investees. In addition to providing funds, whether in the form of loans or equity, the venture capital investment company often provides technical and management assistance to its investees as needed and requested. The portfolio of a venture capital investment company may be illiquid by the very nature of the investments, which are usually securities with no public market. Often, gains on those investments are realized over a relatively long holding period. The nature of the investments therefore requires valuation procedures that differ markedly from those used by the typical investment company primarily addressed by this Subtopic. Venture capital investment companies may incur liabilities not generally found in other investment companies.~~ **[Content amended and moved to paragraph 946-20-05-1E]**

11. Amend paragraphs 946-10-15-1 through 15-3, with a link to transition paragraph 946-10-65-2, as follows:

Scope and Scope Exceptions

> Overall Guidance

946-10-15-1 The Financial Services—Investment Companies Topic only provides incremental industry-specific guidance for the entities ~~defined~~ that meet the assessment of investment company status described in this Scope Section, ~~or as further defined in the Scope Sections of the individual Financial Services—Investment Companies Subtopics~~ with the exception of Subtopic 946-605, which has its own discrete scope. Entities within the scope of this Topic also shall ~~also~~ comply with the applicable guidance not included in this Topic. The Scope Section of the Overall Subtopic establishes the pervasive scope for all Subtopics of the Financial Services—Investment Companies Topic. Unless explicitly addressed within specific Subtopics, the following scope guidance applies to all

Subtopics of the Financial Services—Investment Companies Topic, with the exception of Subtopic 946-605~~, which has its own discrete scope~~.

> Entities

946-10-15-2 The accounting principles discussed in this ~~the Financial Services—Investment Companies~~ Topic apply to all investment companies. ~~Investment companies~~ An investment company as discussed in this Topic is an entity that meets the assessment described in paragraphs 946-10-15-4 through 15-9.~~are required to report their investment assets at **fair value** and have the following attributes:~~

a. Subparagraph superseded by Accounting Standards Update 2013-08.~~Investment activity. The investment company's primary business activity involves investing its assets, usually in the securities of other entities not under common management, for current income, appreciation, or both.~~
b. Subparagraph superseded by Accounting Standards Update 2013-08.~~Unit ownership. Ownership in the **investment company** is represented by units of investments, such as shares of stock or partnership interests, to which a proportionate shares of net assets can be attributed.~~
c. Subparagraph superseded by Accounting Standards Update 2013-08.~~Pooling of funds. The funds of the investment company's owners are pooled to avail owners of professional investment management.~~
d. Subparagraph superseded by Accounting Standards Update 2013-08.~~Reporting entity. The investment company is the primary reporting entity.~~

~~Further, an investment company (other than a separate account of an insurance company as defined in the Investment Company Act of 1940) must be a separate legal entity to be within the scope of the Financial Services—Investment Companies Topic. That is, the guidance in this Topic should be applied only if the investment is held by an investment company that is a separate legal entity. Though many aspects of venture capital investment companies, including small business investment companies and business development companies, differ from aspects of other types of investment companies, the provisions of this Topic generally apply.~~

946-10-15-3 The guidance in this Topic does not apply to real estate investment trusts~~, which have some of the attributes of investment companies but are covered by other generally accepted accounting principles (GAAP)~~.

12. Amend paragraphs 946-10-15-4 through 15-6 by adding the following new text and their related heading, with a link to transition paragraph 946-10-65-2, as follows:

> > Assessment of Investment Company Status

946-10-15-4 An entity regulated under the Investment Company Act of 1940 is an investment company under this Topic.

946-10-15-5 An entity that is not regulated under the Investment Company Act of 1940 shall assess all the characteristics of an investment company in paragraphs 946-10-15-6 through 15-7 to determine whether it is an investment company. The entity shall consider its purpose and design when making that assessment.

946-10-15-6 An investment company has the following fundamental characteristics:

a. It is an entity that does both of the following:
   1. Obtains funds from one or more investors and provides the investor(s) with investment management services
   2. Commits to its investor(s) that its business purpose and only substantive activities are investing the funds solely for returns from capital appreciation, investment income, or both.
b. The entity or its **affiliates** do not obtain or have 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.

13. Add paragraphs 946-10-15-7 through 15-9, with a link to transition paragraph 946-10-65-2, as follows:

946-10-15-7 An investment company also has the following typical characteristics:

a. It has more than one investment.
b. It has more than one investor.
c. It has investors that are not **related parties** of the **parent** (if there is a parent) or the investment manager.
d. It has ownership interests in the form of equity or partnership interests.
e. It manages substantially all of its investments on a **{add glossary link to second definition}fair value{add glossary link to second definition}** basis.

946-10-15-8 To be an investment company, an entity shall possess the fundamental characteristics in paragraph 946-10-15-6. Typically, an investment company also has all of the characteristics in the preceding paragraph. However, the absence of one or more of those typical characteristics does not necessarily preclude an entity from being an investment company. If an entity does not possess one or more of the typical characteristics, it shall apply judgment and determine, considering all facts and circumstances, how its activities continue to be consistent (or are not consistent) with those of an investment company.

946-10-15-9 The implementation guidance in Section 946-10-55 is an integral part of assessing investment company status and provides additional guidance for that assessment.

14. Add paragraphs 946-10-25-1 through 25-3 and their related heading, with a link to transition paragraph 946-10-65-2, as follows:

Recognition

> Reassessment of Investment Company Status

946-10-25-1 The initial determination of whether an entity is an investment company within the scope of this Topic shall be made upon formation of the entity. An entity shall reassess whether it meets (or does not meet) the assessment of investment company status in paragraphs 946-10-15-4 through 15-9 only if there is a subsequent change in the purpose and design of the entity or if the entity is no longer regulated under the Investment Company Act of 1940.

946-10-25-2 An entity that is no longer an investment company under this Topic as a result of the reassessment of status shall discontinue applying the guidance in this Topic and shall account for the change in its status prospectively by accounting for its investments in accordance with other Topics as of the date of the change in status. The **{add glossary link to second definition}fair value{add glossary link to second definition}** of an investment at the date of the change in status shall be the investment's initial carrying amount.

946-10-25-3 An entity that subsequently is an investment company under this Topic as result of the reassessment of status shall account for the effect of the change in status from the date of the change in status. The effect of applying this Topic shall be recognized as a cumulative-effect adjustment to net assets at the date of the change in status. The cumulative-effect adjustment shall be included in the net asset value at the beginning of the period in the per-share information included in the financial highlights. The adjustment to net assets represents both of the following:

a. The difference between the fair value and the carrying amount of the entity's investees (or **parent**'s portion of the assets minus liabilities for consolidated investments) at the date of the change in status
b. Any amounts previously recognized in accumulated other comprehensive income.

15. Amend paragraphs 946-10-50-1 through 50-2 by adding the following new text and their related headings, with a link to transition paragraph 946-10-65-2, as follows:

Disclosure

> Investment Company Status

946-10-50-1 An investment company under this Topic shall disclose that it is an investment company following accounting and reporting guidance in this Topic.

> > Change in Status

946-10-50-2 An entity with a change in status (as described in paragraphs 946-10-25-1 through 25-3) shall disclose that a change in status occurred and the reasons for that change.

16. Add paragraph 946-10-50-3, with a link to transition paragraph 946-10-65-2, as follows:

946-10-50-3 An entity that previously was not an investment company under this Topic and becomes an investment company under this Topic shall disclose the effect of the change in status on the reported amounts of investments as of the date of the change in status.

17. Amend paragraphs 946-10-55-1 through 55-45 by adding the following new text and their related headings, with a link to transition paragraph 946-10-65-2, as follows:

Implementation Guidance and Illustrations

> Implementation Guidance

946-10-55-1 This Section provides additional guidance for the assessment in paragraphs 946-10-15-5 through 15-9 to determine whether an entity that is not regulated under the Investment Company Act of 1940 is an investment company under this Topic.

946-10-55-2 This Section is organized as follows:

a. Fundamental characteristics of an investment company
b. Typical characteristics of an investment company
c. Illustrative examples.

> > Fundamental Characteristics of an Investment Company

946-10-55-3 To be an investment company, an entity shall possess the fundamental characteristics in paragraph 946-10-15-6. Paragraphs 946-10-55-4 through 55-10 provide additional guidance for determining whether an entity has the fundamental characteristics of an investment company.

> > > Business Purpose and Substantive Activities

946-10-55-4 An investment company should have no substantive activities other than its investing activities and should not have significant assets or liabilities other than those relating to its investing activities, subject to the exception in the following paragraph.

946-10-55-5 An investment company may provide investing-related services (for example, investment advisory or transfer agent services) to other entities, directly or indirectly through an investment in an entity that provides those services, as long as those services are not substantive. However, an investment company may provide substantive investing-related services, directly or indirectly through an investment in an entity that provides those services, if the substantive services are provided to the investment company only.

> > > > Evidence of an Entity's Business Purpose and Substantive Activities

946-10-55-6 Evidence of the entity's business purpose and substantive activities may be included in the entity's offering memorandum, publications distributed by the entity, and other corporate or partnership documents that indicate the investment objectives of the entity. Evidence of the entity's business purpose and substantive activities also may include the manner in which the entity presents itself to other parties (such as potential investors or potential investees). For example, an entity that presents its business to its investors as having the objective of investing for capital appreciation has characteristics that are consistent with the business purpose and substantive activities of an investment company. Alternatively, an entity that presents itself as an investor whose objective is jointly developing, producing, or marketing products with its investees has characteristics that are inconsistent with the business purpose and substantive activities of an investment company.

946-10-55-7 An entity's investment plans also provide evidence of its business purpose and substantive activities. Accordingly, an investment company whose business purpose and substantive activities include realizing capital appreciation should have an exit strategy for how it plans to realize the capital appreciation of its investments. Although the entity may not yet have determined the specific method or timing of disposing of an investment, the fact that it has identified potential exit strategies through which it can realize capital appreciation provides evidence that its business purpose and substantive activities are consistent with those of an investment company. The entity need not document specific exit strategies for each individual investment held for the purpose of realizing capital appreciation but should identify potential exit strategies for different types or portfolios of investments held with the purpose of realizing capital appreciation. Disposal of investments only during liquidation or to satisfy investor redemptions are not exit strategies. Therefore, an entity should have a plan to dispose of its investments before liquidation when its business purpose and substantive activities include realizing capital appreciation. An investment company whose

business purpose and substantive activities are to invest for returns only from investment income does not require an exit strategy for its investments.

> > > Returns or Benefits from Investments

946-10-55-8 An entity would not be an investment company if the entity or its **affiliates** obtain or have 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. Examples of relationships and activities that would be inconsistent with the characteristics of an investment company include any of the following:

a. The entity or its affiliates acquire, use, exchange, or exploit the processes, assets, or technology of an investee or its affiliates. This includes the entity or its affiliates having disproportionate or exclusive rights to acquire assets, technology, products, or services of an investee or its affiliates (for example, by holding an option to purchase an asset from an investee if the asset's development is deemed successful).
b. There are other arrangements between the entity or its affiliates and an investee or its affiliates to jointly develop, produce, market, or provide products or services.
c. An investee or its affiliates provide financing guarantees or assets to serve as collateral for borrowing arrangements of the entity or its affiliates to provide returns or with the objective of providing returns other than capital appreciation or investment income. The guidance in this paragraph does not prohibit an investment company from using its investments in its investees as collateral for any of its borrowings.
d. An affiliate of the entity holds an option to purchase from the entity ownership interests in an investee at an amount other than **{add glossary link to second definition}fair value{add glossary link to second definition}**.
e. There are transactions between the entity or its affiliates and an investee or its affiliates that meet any of the following:
    1. They are on terms that are unavailable to entities that are not affiliates of the investee.
    2. They are not at fair value or are not conducted at arm's length.
    3. They represent a substantive portion of the investee's or the entity's business activities, including business activities of affiliates of the entity or affiliates of the investee.

946-10-55-9 An investment company may have a strategy to invest in more than one investee in the same industry, market, or geographical area to benefit from synergies that increase the returns from capital appreciation and investment income from those investments. Transactions between an entity's investees should not affect the entity's assessment of whether it is an investment company unless those transactions result in the entity obtaining returns or benefits other than capital appreciation or investment income.

946-10-55-10 An investment company may provide both of the following services to an investee, either directly or through an investment in an entity that provides those services, only if those services are provided for the purpose of maximizing returns from capital appreciation, investment income, or both (rather than other benefits) and do not represent a separate substantial business activity or separate substantial source of income for the investment company:

a. Assistance with day-to-day management of the operations of an investee
b. Financial support, such as a loan, capital commitment, or guarantee.

> > Typical Characteristics of an Investment Company

946-10-55-11 As required by paragraph 946-10-15-5, an entity shall assess all the typical characteristics in paragraph 946-10-15-7 to determine whether it is an investment company. If an entity does not possess one or more of the typical characteristics, it should apply judgment and determine, considering all facts and circumstances, how its activities continue to be consistent (or are not consistent) with those of an investment company. Paragraphs 946-10-55-12 through 55-29 provide additional guidance for determining whether an entity has a certain typical characteristic of an investment company.

> > > More Than One Investment

946-10-55-12 An investment company typically holds multiple investments at the same time to diversify its risk and maximize its returns from capital appreciation, investment income, or both. Investments typically consist of securities of other entities, but also may include commodities, securities based on indexes, securities sold short, derivative instruments, real estate properties, and other forms of investments.

946-10-55-13 An investment company may hold investments directly or indirectly through another investment company. For example, in a master-feeder structure, a feeder fund holds multiple investments indirectly through its investment in a master fund that holds multiple investments or, in a fund-of-funds structure, an investment company holds multiple investments indirectly through its investment in an underlying fund that holds multiple investments.

946-10-55-14 Holding a single investment does not necessarily preclude an entity from being an investment company. There may be times when an investment company holds a single investment, such as in any of the following examples:

a. It is in its start-up period and has not yet identified suitable investments and, therefore, has not yet executed its investment plan to acquire multiple investments.
b. It has not yet made other investments to replace those it has disposed of.
c. It is in the process of liquidation.

d. It is established to pool investors' funds to invest in a single investment when that investment is unobtainable by individual investors (for example, when the required minimum investment is too high for an individual investor).

946-10-55-15 An investment company with a single investment also may be formed (for legal, regulatory, tax, or other business reasons) in conjunction with another investment company that holds multiple investments (for example, a master-feeder structure or blocker fund). Investment companies formed in conjunction with each other are not required to be formed at the same time. Holding a single investment for that reason does not necessarily preclude an entity from being an investment company.

> > > More Than One Investor

946-10-55-16 An investment company typically pools funds from multiple investors and provides them with investment management services, including access to investment opportunities unobtainable by individual investors. Having multiple investors makes it less likely that the entity or its affiliates obtain or have 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.

946-10-55-17 Having a single investor does not necessarily preclude an entity from being an investment company. There may be times when an investment company has a single investor, such as in any of the following examples:

a. It is in its initial offering period, which has not expired, and it is actively identifying suitable investors.
b. It is actively identifying investors but has not yet identified suitable investors to replace those that have redeemed their ownership interests.
c. It is in the process of liquidation.

946-10-55-18 An investment company may be formed by, or for, a single investor that represents or supports the interests of a wider group of investors (for example, a pension fund, government investment fund, or endowment fund). An investment company with a single investor also may be formed (for legal, regulatory, tax, or other business reasons) in conjunction with another investment company that has multiple investors (for example, a master-feeder structure or a blocker fund). Investment companies formed in conjunction with each other are not required to be formed at the same time. Having a single investor for those reasons does not necessarily preclude an entity from being an investment company.

> > > Investors That Are Not Related Parties of the Parent or Investment Manager

946-10-55-19 An investment company typically has investors that are not **related parties** of the **parent** (if there is a parent) or the investment manager. Those

unrelated investors, in aggregate, hold a significant interest in the investment company. Having investors that are not related parties of the parent or the investment manager makes it less likely that the entity or its affiliates obtain or have 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.

946-10-55-20 Investors that are related parties of the parent or investment manager should be combined and treated as a single investor, along with the parent or investment manager, for the purposes of evaluating the more-than-one-investor characteristic of an investment company in paragraph 946-10-15-7.

946-10-55-21 Having investors that are related parties of the parent or the investment manager does not necessarily preclude an entity from being an investment company. For example, an investment manager may form an investment company for its employees in conjunction with another investment company. Although the employees may be related parties of the investment manager, the investment company formed for its employees mirrors the business purpose and activities of the main investment company.

946-10-55-22 If the parent or its related parties have an implicit or explicit arrangement that would require them to acquire another investor's ownership interest in the investment company at an amount other than fair value, those interests should be combined and treated as if they were owned by the parent for the purposes of evaluating the typical characteristics of an investment company. Examples of when interests would be combined and treated as if they were owned by the parent include any of the following:

a. The parent or its related parties have a written option to acquire another investor's ownership interests in the entity at an amount other than fair value.
b. The parent finances another investor's ownership interests, and the ownership interests are collateral for the debt.

> > > Ownership Interests

946-10-55-23 Ownership interests in an investment company are typically in the form of equity or partnership interests. Each ownership interest represents a specifically identifiable portion of the net assets of the investment company. An investor in an investment company contributes funds to acquire ownership interests, and the value of those interests is dependent on the changes in the fair value of the underlying investments of the investment company.

946-10-55-24 Having multiple classes of equity instruments, such as shares with distinct rights or rights that do not represent a proportionate interest in all of the underlying investments of the investment company, does not preclude an entity from meeting this characteristic of an investment company.

946-10-55-25 An investment company can be but is not required to be a separate legal entity. For example, separate accounts of life insurance companies may not be separate legal entities. However, investors in the separate accounts base their investment decisions on the changes in the fair value of the underlying investments held in those separate accounts.

946-10-55-26 In addition, having significant ownership interests that are not considered equity interests in accordance with other Topics (for example, ownership interests in the form of debt) does not necessarily preclude an entity from being an investment company provided that the holders are exposed to variable returns from changes in the fair value of the underlying investments of the entity. The economic substance of the entity, rather than its legal form, should be evaluated to determine whether the entity has that characteristic of an investment company.

> > > Managing on a Fair Value Basis

946-10-55-27 An investment company typically manages substantially all of its investments on a fair value basis. Determining whether an entity manages its investments on a fair value basis does not depend on the nature of its investments but, rather, includes an evaluation of whether fair value is a key component of any of the following:

a. How the entity evaluates the performance of its investments
b. How the entity transacts with its investors
c. How asset-based fees are calculated.

An investment company's activities typically demonstrate that fair value is the primary measurement attribute used to evaluate the financial performance of and to make investment decisions for substantially all of its investments. Also, an investment company typically transacts with investors on the basis of **net asset value per share** and incurs asset-based fees, both of which are based on the fair value of its investments.

946-10-55-28 Assets held by an investment company that are used to service the investment company's own investments are not required to be managed on a fair value basis (see paragraph 946-10-55-5).

946-10-55-29 Managing investments on another basis, such as a yield basis or an income basis, does not necessarily preclude an entity from being an investment company. For example, although a short-term investment fund may evaluate the performance of its investments on a yield (amortized cost) basis, fair value is the primary measurement attribute used to evaluate the financial performance of investments and to make investment decisions because the fund monitors the fair value of its investments to minimize the differences between the carrying value and the fair value.

> Illustrations

946-10-55-30 The following Examples illustrate the assessment to determine whether an entity that is not regulated under the Investment Company Act of 1940 is an investment company under this Topic:

a. Example 1: Limited partnership
b. Example 2: Technology fund
c. Example 3: Master-feeder structure.

> > Example 1: Limited Partnership

946-10-55-31 Entity A, a limited partnership, is formed in 20X1 with a 10-year life. The offering memorandum provides that Entity A's purpose is to invest in operating entities with rapid growth potential, with the only objective of realizing capital appreciation from investments in those entities over the life of Entity A. One percent of Entity A's capital was contributed by the general partner (the investment manager), who has the responsibility of identifying suitable investments for Entity A. The remaining 99 percent of Entity A's capital was contributed by 75 limited partners, who are not related parties of the general partner.

946-10-55-32 Entity A begins its investment activities in 20X1. However, no suitable investments are identified during that year. In 20X2, Entity A acquires a controlling financial interest in Entity B, a corporation. Entity A is unable to identify suitable investments and complete any other investment purchases until 20X3, at which time it acquires equity interests in five additional operating companies. Other than acquiring those equity interests, Entity A conducts no other activities. Entity A manages and evaluates the performance of its investments on a fair value basis. Information about Entity A's financial results, including changes in the fair value of its investments, are provided by the general partner to the limited partners periodically.

946-10-55-33 Entity A has plans to dispose of its interests in each of its investees during the 10-year stated life of the partnership to realize returns from the capital appreciation of its investees. Those disposals include the sale of the interests for cash or the distribution of marketable equity securities to investors following a successful public offering of an investee's securities.

946-10-55-34 From formation in 20X1 to December 31, 20X3, Entity A has the fundamental characteristics of an investment company because all of the following conditions exist:

a. Entity A obtained funds from investors (the general partner and the limited partners) and is providing those investors with investment management services.
b. Entity A's business purpose and only substantive activity is acquiring interests in operating companies with the objective of realizing returns over its life from the capital appreciation of the investments. Entity A has

identified exit strategies for its investments to realize the capital appreciation.

c. Entity A does not have an objective of obtaining returns or benefits other than capital appreciation from its investments.

946-10-55-35 Entity A also has all of the following typical characteristics of an investment company:

a. Entity A is funded by multiple investors.
b. The limited partners of Entity A hold a significant interest in the partnership and are not related to the investment manager (the general partner).
c. Ownership in Entity A is represented by partnership interests acquired through capital contributions.
d. Investments are managed, and their performance is evaluated on a fair value basis.

946-10-55-36 Entity A does not hold more than one investment until 20X3. However, that is because during each of the years 20X1, 20X2, and part of 20X3, it is in its start-up period and has not yet fully executed its investment plan to acquire multiple investments because it could not identify suitable investment opportunities.

946-10-55-37 Entity A is an investment company from formation in 20X1 to December 31, 20X3. It has all the fundamental characteristics of an investment company. In addition, although Entity A does not possess all of the typical characteristics of an investment company, its activities are consistent with those of an investment company.

> > Example 2: Technology Fund

946-10-55-38 Entity C, an investment fund, is formed in 20X1 by six corporations in the technology industry to invest in multiple technology start-up companies for capital appreciation. Entity D, one of the corporations, holds a 70 percent controlling financial interest in Entity C. The remaining 30 percent of the fund is owned by the other 5 corporations, which are not related to each other or Entity D. Entity D holds options at amounts other than fair value to acquire controlling financial interests in the investees of the technology fund and options to purchase assets produced by the investees, if the technology developed by the investee is successful and would benefit the operations of Entity D. No plans for exiting the investments have been identified by Entity C. Entity C is managed by an investment manager that is not related to the investors. The investors in Entity C also provide significant advice to the investment manager about potential investments.

946-10-55-39 Even though Entity C's business purpose and substantive activities include investing for returns from capital appreciation and it has many of the

typical characteristics of an investment company, Entity C is not an investment company because of both of the following conditions:

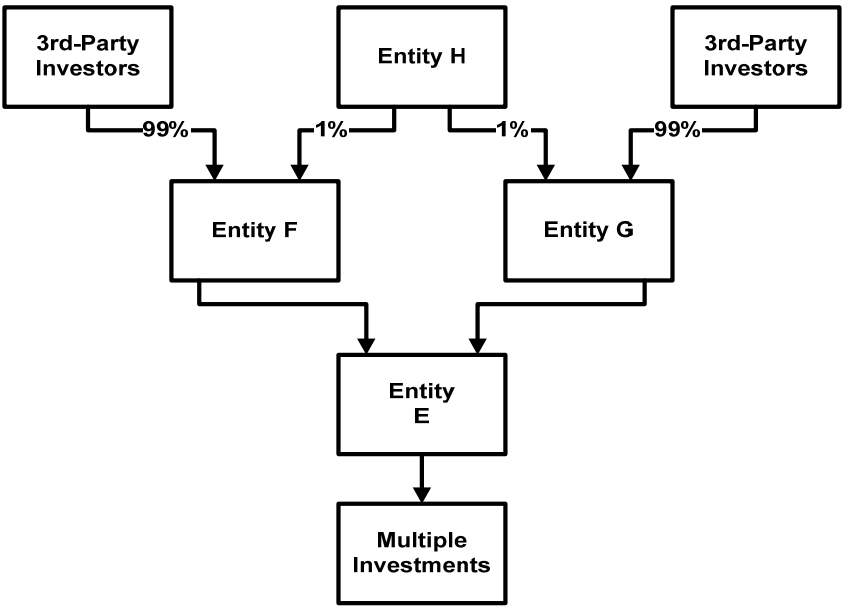
a. Entity D, the parent of Entity C, holds options at amounts other than fair value to acquire investees of the fund and assets of the investees if the technology developed by the investee is successful and would benefit Entity D's operations. That provides Entity D with a benefit that is other than returns from capital appreciation or investment income.
b. The investment plans of Entity C do not include exit strategies for its investments to realize returns from the capital appreciation of investees.

> > Example 3: Master-Feeder Structure

946-10-55-40 Entity E, a master fund, is formed in 20X1 with a 10-year life. The equity of Entity E is held by Entity F and Entity G, two affiliated feeder funds. Entity F and Entity G are established in conjunction with Entity E to meet legal, regulatory, tax, or other requirements. Entity F, the domestic feeder partnership, is capitalized with a 1 percent investment from the general partner and 99 percent from unaffiliated investors (with no party holding a controlling financial interest). Entity G, the offshore feeder fund, is capitalized with a 1 percent equity investment from the sponsor and 99 percent equity investments from unaffiliated investors (with no party holding a controlling financial interest). Entity H is the investment manager for the master-feeder structure and is the general partner of Entity F and the sponsor of Entity G.

946-10-55-41 This figure illustrates the master-feeder structure.

[Note: For ease of readability, the figure is not underlined as new text.]



946-10-55-42 The purpose of Entity E is to invest in multiple investments to generate returns solely from capital appreciation and investment income. Entity F and Entity G have communicated to investors that the sole purpose of the master-feeder structure is to provide investment opportunities for investors in separate market niches to invest in a large pool of assets. Entity E has identified exit strategies for the investments that it holds for returns from capital appreciation. In addition, Entity E manages, and evaluates the performance of, its investments on a fair value basis. Entity F and Entity G provide their investors with periodic information about the financial results of the master-feeder structure.

946-10-55-43 Entity E, Entity F, and Entity G each possess the fundamental characteristics of an investment company because all of the following conditions exist:

a. Entity E, Entity F, and Entity G obtained funds from investors and are providing those investors with investment management services.

b. The master-feeder structure's business purpose and only substantive activities, which were communicated to investors of Entity F and Entity G, are investing solely for returns from capital appreciation and investment income.
c. Entity E has identified exit strategies for the investments it holds for returns from capital appreciation. Although Entity F and Entity G do not have an exit strategy for their interests in Entity E, they are considered to have an exit strategy for their investments because Entity E was formed in conjunction with Entity F and Entity G and holds investments on behalf of them.
d. Entity E, Entity F, and Entity G do not have an objective of obtaining returns or benefits other than capital appreciation and investment income from their investments.

946-10-55-44 Entity E, Entity F, and Entity G each also possess all of the following typical characteristics of an investment company:

a. Entity E holds more than one investment. Both Entity F and Entity G also are considered to hold more than one investment because they were formed in conjunction with Entity E.
b. Both Entity F and Entity G are funded by multiple investors. Entity E also is considered to be funded by multiple investors because it was formed in conjunction with Entity F and Entity G.
c. Both Entity F and Entity G have investors that hold a significant interest in the partnership and are not related to the investment manager (Entity H). Although Entity F and Entity G are related to Entity E, Entity E is considered to have unrelated investors because it was formed in conjunction with Entity F and Entity G, which have unrelated investors.
d. Ownership in Entity E and Entity G are represented by equity interests acquired through capital contributions. Ownership in Entity F is represented by partnership interests acquired through capital contributions.
e. Entity E manages and evaluates the performance of investments on a fair value basis. Additionally, investors of Entity F and Entity G are provided with periodic financial information about the investing activities of Entity E, which includes information about the change in fair value of investments held.

946-10-55-45 Entity E, Entity F, and Entity G are investment companies. They possess all the fundamental characteristics of an investment company and all the typical characteristics of an investment company, either directly or indirectly as a result of the master-feeder structure.

18. Amend paragraph 946-10-65-1 and add paragraph 946-10-65-2 and its related heading as follows:

> Transition and Effective Date of Certain Scope, Equity Method, and Consolidation Guidance

946-10-65-1 ~~The effective date of the pending content that links to this paragraph is delayed indefinitely.~~ An entity that early adopted ~~that~~ the pending content that links to this paragraph before December 15, 2007, is permitted but not required to continue to apply the provisions of that pending ~~content.~~content until the effective date of the amendments in Accounting Standards Update No. 2013-08, *Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*, as specified in paragraph 946-10-65-2(a). After the effective date of the amendments in Accounting Standards Update 2013-08, the pending content that links to this paragraph is superseded and may no longer be applied. No other entity may adopt the provisions of the pending content that links to this paragraph, with the following exception. If a **{add glossary link}**parent**{add glossary link}** ~~entity~~ that early adopted the pending content that links to this paragraph chooses not to rescind its early adoption, an entity consolidated by that parent ~~entity~~ that is formed or acquired after that parent's ~~parent entity's~~ adoption of that pending content must apply the provisions of that pending content in its standalone financial statements. If an entity that early adopted the provisions of the pending content that links to this paragraph voluntarily rescinds its early adoption as permitted by this paragraph, that entity shall account for that change according to the provisions of Subtopic 250-10.

> Transition Related to Accounting Standards Update No. 2013-08, *Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*

946-10-65-2 The following represents the transition and effective date information related to Accounting Standards Update No. 2013-08, *Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*:

a. The pending content that links to this paragraph shall be effective for an entity's interim and annual reporting periods in fiscal years that begin after December 15, 2013. Earlier application is prohibited.

Entities that are no longer investment companies

b. An entity shall no longer apply the guidance in Topic 946 if it is no longer an investment company because it does not meet the assessment of investment company status in paragraphs 946-10-15-4 through 15-9.
c. At the date of adoption, for those entities that are no longer investment companies, the difference between the net assets required to be recognized and the amount previously recognized shall be recognized as a cumulative-effect adjustment to retained earnings as of the

beginning of the period of adoption. An entity shall describe the transition method(s) applied and shall disclose the amount and classification of the consolidated assets or liabilities in its statement of financial position by the transition method(s) applied.

Initial measurement

d. If an entity is required to consolidate a subsidiary because the entity is no longer an investment company, the initial measurement of the assets, liabilities, and noncontrolling interests of the subsidiary depends on whether the determination of their carrying amounts is practicable. In that context, *carrying amounts* refers to the amounts at which the assets, liabilities, and noncontrolling interests would have been carried in the consolidated financial statements if the requirements of the pending content that links to this paragraph had been effective when the entity acquired its controlling financial interest in the subsidiary.

e. Similarly, for those investments that are required to be accounted for using the equity method as a result of the entity no longer being an investment company, the initial measurement of the investments depends on whether the determination of the investment's carrying amount is practicable. In that context, *carrying amount* refers to the amount at which the equity method investee would have been carried in the consolidated financial statements if the requirements of the pending content that links to this paragraph had been effective when the entity acquired its equity method investment.

f. If determining the carrying amounts is not practicable, the entity shall use the **{add glossary link to second definition}fair value{add glossary link to second definition}** of an investment at the date that the pending content that links to this paragraph becomes effective in applying Topic 805 on business combinations or Topic 323 on equity method and joint ventures at that date.

g. For all other investments that are required to be accounted for under other Topics as a result of the entity no longer being an investment company, the initial measurement of those investments shall be the fair value at the date of adoption.

Fair value option

h. An entity that is required to consolidate a subsidiary as a result of the initial application of the pending content that links to this paragraph may elect the fair value option provided by the Fair Value Option Subsections of Subtopic 825-10 only if the entity elects the option for all financial assets and financial liabilities of that subsidiary that are eligible for that option under those Fair Value Option Subsections. That election

shall be made upon the adoption of the pending content that links to this paragraph on a subsidiary-by-subsidiary basis.

i. In addition, an entity may elect the fair value option provided by the Fair Value Option Subsections of Subtopic 825-10 for its financial instruments that are required to be accounted for under other Topics, including the equity method of accounting in Topic 323, as a result of the initial application of the pending content that links to this paragraph.

Entities that become investment companies or continue to be investment companies

j. An entity that is an investment company because it meets the assessment of investment company status in paragraphs 946-10-15-4 through 15-9 shall report the effect of applying the pending content that links to this paragraph as of the date that the content is first effective. The effect, if any, of applying the pending content that links to this paragraph shall be recorded as an adjustment to opening net assets (or a similar account). The adjustment to opening net assets (or a similar account) shall be included in the net asset value at the beginning of the period in the per-share information included in the financial highlights.

k. The adjustment to net assets (or a similar account) shall represent both of the following:
   1. The difference between the fair value and the carrying amount of the entity's investees (or parent's portion of the assets minus liabilities for consolidated investments) at the date of adoption
   2. Any amounts previously recognized in accumulated other comprehensive income.

Amendments to Subtopic 946-20

19. Amend paragraph 946-20-05-1, with no link to a transition paragraph because the amendments to this organizational paragraph do not result in a change in the application of the guidance, as follows:

Financial Services—Investment Companies—Investment Company Activities

Overview and Background

946-20-05-1 This Subtopic addresses accounting for certain activities engaged in by investment companies. ~~This Section provides overview and background information on all of the following matters:~~

a. Subparagraph superseded by Accounting Standards Update 2013-08.~~Payments by affiliates~~
b. Subparagraph superseded by Accounting Standards Update 2013-08.~~Certain distribution costs~~
c. Subparagraph superseded by Accounting Standards Update 2013-08.~~Expense limitation agreements~~
d. Subparagraph superseded by Accounting Standards Update 2013-08.~~Brokerage service agreements~~
e. Subparagraph superseded by Accounting Standards Update 2013-08.~~General partner advisory services~~
f. Subparagraph superseded by Accounting Standards Update 2013-08.~~Fee waivers.~~

20. Add paragraphs 946-20-05-1A through 05-1E and their related heading, with a link to transition paragraph 946-10-65-2, as follows:

> Background Information about Investment Company Activities

946-20-05-1A ~~An investment company, as used in this Topic, generally is an entity that pools shareholders' funds to provide the shareholders with professional investment management.~~ Typically, an investment company sells its ~~shares to the public~~ownership interests, invests the proceeds~~, mostly in securities,~~ to achieve its investment objectives, and ~~distributes~~ provides returns to its ~~shareholders~~investors from the net income earned on its investments and net gains realized on the ~~sale~~disposal of its investments. ~~In this Topic, the term *investment company* refers to an entity with the attributes described in paragraph 946-10-15-2. This term is not used to conform with the legal definition of an investment company in the federal securities laws.~~ **[Content amended as shown and moved from paragraph 946-10-05-2]**

946-20-05-1B Several kinds of investment companies exist: management investment companies, unit investment trusts, common (collective) trust funds, exchange-traded funds, investment partnerships, certain separate accounts of life insurance companies, and offshore funds. Management investment companies may be open-end funds (commonly known as mutual funds), ~~funds, usually known as mutual funds,~~ **closed-end funds**, special purpose funds, venture capital investment companies, small business investment companies, and business development companies. Investment companies are organized as corporations (in the case of mutual funds, under the laws of certain states that authorize the issuance of common shares redeemable on demand of individual shareholders), common law trusts (sometimes called business trusts), limited partnerships, limited liability investment partnerships and companies, and other more specialized entities, such as separate accounts of insurance companies that are not in themselves legal entities.~~entities at all except in the technical~~

~~definition of the Investment Company Act of 1940.~~ **[Content amended as shown and moved from paragraph 946-10-05-3]**

946-20-05-1C Once an investment company has been organized to do business, it usually engages immediately in its planned principal operations, that is, the sale of capital stock and investment of funds. Employee training, development of markets for the sale of capital stock, and similar activities are usually performed by the investment adviser or other agent, and the costs of these activities are not borne directly by the investment company. However, an investment company, particularly one not engaging an agent to manage its portfolio and to perform other essential functions, may engage in such activities and may bear those costs directly during its development stage. **[Content moved from paragraph 946-10-05-4]**

946-20-05-1D Multiple-class funds issue more than one class of shares. Each class of shares typically has a different kind of sales charge, such as a front-end load, **contingent-deferred sales load**, **12b-1** fee (referring to Rule 12b-1 in Chapter 17 of the Code of Federal Regulations, which implements the Investment Company Act of 1940), or combinations thereof. Multiple-class funds may charge different classes of shares for specific or incremental expenses, such as transfer-agent, registration, and printing expenses related to each class. **[Content moved from paragraph 946-10-05-5]**

946-20-05-1E Venture capital investment companies, including most small business investment companies and private equity investment companies, ~~and business development companies~~ differ ~~in operating method~~ from other types of investment companies. The ~~usual~~ typical open-end or closed-end investment company is a more passive investor, whereas ~~the~~a venture capital investment company is more actively involved with its investees. In addition to providing funds, whether in the form of loans or equity, ~~the~~a venture capital investment company often provides technical and management assistance to its investees as needed and requested. That assistance is provided for maximizing the overall value of the investment rather than for other benefits. The portfolio of a venture capital investment company may be illiquid by the very nature of the investments, which are usually securities with no public market. Often, gains on those investments are realized over a relatively long holding period. The nature of the investments therefore requires valuation procedures that may differ ~~markedly~~ from those used by the typical investment company primarily addressed by this Subtopic. Venture capital investment companies also may incur liabilities not generally found in other investment companies. **[Content amended as shown and moved from paragraph 946-10-05-6]**

21. Supersede paragraph 946-20-25-1, with no link to a transition paragraph because the amendments to this organizational paragraph do not result in a change in the application of the guidance, as follows:

Recognition

946-20-25-1 Paragraph superseded by Accounting Standards Update 2013-08.~~This Section addresses all of the following recognition matters:~~

~~a. Payments by affiliates~~
~~b. Certain distribution costs~~
~~c. Expense limitation agreements~~
~~d. Offering costs~~
~~e. Capital share transactions~~
~~f. Dividends~~
~~g. Performance fees.~~

22. Supersede paragraph 946-20-50-1, with no link to a transition paragraph because the amendments to this organizational paragraph do not result in a change in the application of the guidance, as follows:

Disclosure

946-20-50-1 Paragraph superseded by Accounting Standards Update 2013-08.~~The guidance in this Section is organized as follows:~~

~~a. Payments by affiliates~~
~~b. Certain distribution costs~~
~~c. General partner advisory services~~
~~d. Expense limitation agreements~~
~~e. Fee waivers~~
~~f. Dividends~~
~~g. Components of capital and distributable earnings.~~

23. Add paragraphs 946-20-50-15 through 50-16 and their related heading, with a link to transition paragraph 946-10-65-2, as follows:

> Financial Support to Investees

946-20-50-15 If, during the periods presented, an investment company provides financial support to an investee, it shall disclose information about both of the following items, disaggregated by financial support that it was contractually required to provide and financial support that it was not previously contractually required to provide:

a. The type and amount of financial support provided, including situations in which the investment company assisted the investee in obtaining financial support
b. The primary reasons for providing the financial support.

946-20-50-16 An investment company also shall separately disclose both of the following items about financial support that it is contractually required to provide to any of its investees but has not yet provided:

a. The type and amount of financial support to be provided, including situations in which the investment company must assist the investee in obtaining financial support
b. The primary reasons for the contractual requirement to provide the financial support.

Amendments to Subtopic 946-320

24. Add paragraph 946-320-30-1, with a link to transition paragraph 946-10-65-2, as follows:

Financial Services—Investment Companies—Investments—Debt and Equity Securities

Initial Measurement

946-320-30-1 ~~Paragraph not used.~~An investment company shall initially measure its investments in debt and equity securities at their transaction price. The transaction price shall include commissions and other charges that are part of the purchase transaction.

25. Amend paragraph 946-320-40-1, with a link to transition paragraph 946-10-65-2, as follows:

Derecognition

> Determining Costs and Realized Gains and Losses

946-320-40-1 The cost of investment securities held in the portfolio of ~~a registered~~ an investment company and the net realized gains or losses thereon shall be determined~~, for financial accounting purposes,~~ on the specific identification or average-cost methods. An investment company shall use only one method for all ~~securities.~~of its investments. ~~Cost includes commissions and other charges that are a part of securities purchase transactions.~~

Amendments to Subtopic 946-323

26. Amend paragraph 946-323-05-1 by adding the following new text, with a link to transition paragraph 946-10-65-2, as follows:

Financial Services—Investment Companies—Investments—Equity Method and Joint Ventures

Overview and Background

946-323-05-1 This Subtopic provides guidance on the application of the equity method of accounting in Topic 323 by an investment company.

27. Amend paragraph 946-323-15-1 by adding the following new text and its related heading, with a link to transition paragraph 946-10-65-2, as follows:

Scope and Scope Exceptions

> Overall Guidance

946-323-15-1 This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic, see Section 946-10-15.

28. Amend paragraphs 946-323-45-1 through 45-2, with a link to transition paragraph 946-10-65-2, as follows:

Other Presentation Matters

> Application of the Equity Method

946-323-45-1 Except as discussed in the following paragraph, use of the equity method of accounting by an **{remove glossary link}investment company{remove glossary link}** ~~of a non-investment company investee~~ is not appropriate. Rather, those noncontrolling ownership interests held by an investment company shall be measured in accordance with guidance in Subtopic 946-320, which requires investments in debt and equity securities to be subsequently measured at **{add glossary link to second definition}fair value{add glossary link to second definition}**.

946-323-45-2 An exception to the general principle in the preceding paragraph occurs if the investment company has an investment in an operating entity that provides services to the investment company, for example, an investment adviser or transfer ~~agent.~~ agent (see paragraph 946-10-55-5). In those cases, the purpose of the investment is to provide services to the investment company rather than to realize a gain on the sale of the investment. If an investment company holds a noncontrolling ownership interest in such an operating entity that otherwise qualifies for use of the equity method of accounting, the investment company should use the equity method of accounting for that

investment, rather than measuring the investment at fair value.~~the **fair value** of the investee's assets and liabilities.~~

Addition of Subtopic 946-325

29. Add Subtopic 946-325, with a link to transition paragraph 946-10-65-2, as follows:

Financial Services—Investment Companies—Investments—Other

Overview and Background

General

946-325-05-1 This Subtopic addresses an investment company's accounting for its other investments.

Scope and Scope Exceptions

General

> Overall Guidance

946-325-15-1 This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic, see Section 946-10-15.

Initial Measurement

General

946-325-30-1 An investment company shall initially measure its other investments at their transaction price. The transaction price shall include commissions and other charges that are part of the purchase transaction.

Subsequent Measurement

General

946-325-35-1 An investment company shall subsequently measure its other investments at **{add glossary link to second definition}fair value{add glossary link to second definition}**.

Amendments to Subtopic 946-810

30. Amend paragraph 946-810-05-1 by adding the following new text, with a link to transition paragraph 946-810-65-2, as follows:

Financial Services—Investment Companies—Consolidation

Overview and Background

946-810-05-1 This Subtopic provides guidance on the application of consolidation guidance in Topic 810 by an investment company.

31. Amend paragraph 946-810-15-1 by adding the following new text and its related heading, with a link to transition paragraph 946-10-65-2, as follows:

> Overall Guidance

946-810-15-1 This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic, see Section 946-10-15.

32. Amend paragraphs 946-810-45-2 through 45-3 and their related heading by adding the following new text, with a link to transition paragraph 946-10-65-2, as follows:

Other Presentation Matters

> Application of Consolidation Guidance ~~by Investment Companies~~

946-810-45-2 ~~Paragraph 810-10-15-10(a)(3) states that, except~~Except as discussed in the following paragraph, consolidation by an **{remove glossary link}investment company{remove glossary link}** of ~~a non-investment company~~ an investee that is not an investment company is not appropriate. Rather, those controlling financial interests held by an investment company shall be measured in accordance with guidance in Subtopic 946-320, which requires investments in debt and equity securities to be subsequently measured at **{add glossary link to second definition}fair value{add glossary link to second definition}**.

946-810-45-3 An exception to the general principle in the preceding paragraph occurs if the investment company has an investment in an operating entity that provides services to the investment company, for example, an investment adviser or transfer ~~agent.~~agent (see paragraph 946-10-55-5). In those cases, the purpose of the investment is to provide services to the investment company rather than to realize a gain on the sale of the investment. If an ~~individual~~

investment company holds a controlling financial interest in such an operating entity, ~~consolidation is appropriate.~~the investment company should consolidate that investee, rather than measuring the investment at fair value.

Amendments to Subtopic 230-10

33. Amend paragraph 230-10-15-4, with a link to transition paragraph 946-10-65-2, as follows:

Statement of Cash Flows—Overall

Scope and Scope Exceptions

230-10-15-4 The guidance in this Topic does not apply to the following entities:

a. A statement of cash flows is not required to be provided by a defined benefit pension plan that presents financial information in accordance with the provisions of Topic 960. Other employee benefit plans that present financial information similar to that required by Topic 960 (including the presentation of plan investments at fair value) also are not required to provide a statement of cash flows. Employee benefit plans are encouraged to include a statement of cash flows with their annual financial statements when that statement would provide relevant information about the ability of the plan to meet future obligations (for example, when the plan invests in assets that are not highly liquid or obtains financing for investments).
b. Provided that the conditions in (c) are met, a statement of cash flows is not required to be provided by the following entities:
    1. An investment company within the scope of Topic 946 on investment companies~~that is subject to the registration and regulatory requirements of the Investment Company Act of 1940~~
    2. Subparagraph superseded by Accounting Standards Update 2013-08.~~An investment company that has essentially the same characteristics as those subject to the Investment Company Act of 1940~~
    3. A common trust fund, variable annuity account, or similar fund maintained by a bank, insurance entity, or other entity in its capacity as a trustee, administrator, or guardian for the collective investment and reinvestment of ~~moneys.~~funds.
c. For an investment company specified in (b) to be exempt from the requirement to provide a statement of cash flows, all of the following conditions must be met:
    1. Subparagraph superseded by Accounting Standards Update No. 2012-04.

2. During the period, substantially all of the entity's investments were carried at **fair value** and classified as Level 1 or Level 2 measurements in accordance with Topic 820.
3. The entity had little or no debt, based on the average debt outstanding during the period, in relation to average total assets. For the purpose of determining average debt outstanding, obligations resulting from redemptions of shares by the entity from unsettled purchases of securities or similar assets, or from covered options written generally may be excluded. However, any extension of credit by the seller that is not in accordance with standard industry practices for redeeming shares or for settling purchases of investments shall be included in average debt outstanding.
4. The entity provides a statement of changes in net assets.

Amendments to Subtopic 323-10

34. Amend paragraph 323-10-15-4, with a link to transition paragraph 946-10-65-2, as follows:

Investments—Equity Method and Joint Ventures—Overall

Scope and Scope Exceptions

323-10-15-4 The guidance in this Topic does not apply to any of the following:

a. An investment accounted for in accordance with Subtopic 815-10
b. An investment in common stock held by a nonbusiness entity, such as an estate, trust, or individual
    1. Subparagraph superseded by Accounting Standards Update No. 2012-04.
    2. Subparagraph superseded by Accounting Standards Update No. 2012-04.
    3. Subparagraph superseded by Accounting Standards Update No. 2012-04.
c. An investment in common stock within the scope of Topic 810
d. Except as discussed in paragraph 946-323-45-2, an~~An~~ investment ~~in common stock accounted for at fair value in accordance with the specialized accounting guidance in~~ held by an investment company within the scope of Topic 946.

35. Add paragraph 323-10-25-7 and its related heading, with a link to transition paragraph 946-10-65-2, as follows:

Recognition

> Retention of Industry-Specific Accounting

323-10-25-7 For the purposes of applying the equity method of accounting to an investee subject to guidance in an industry-specific Topic, an entity shall retain the industry-specific guidance applied by that investee.

36. Supersede paragraph 323-10-45-4 and its related heading, with a link to transition paragraph 946-10-65-2, as follows:

Other Presentation Matters

~~**> Equity Method Investments in an Investment Company**~~

323-10-45-4 Paragraph superseded by Accounting Standards Update 2013-08.~~Subtopic 946-323 discusses the circumstances in which the specialized accounting in Topic 946 shall not be retained by a noninvestment company equity method investor of an investment company. In those cases, Subtopic 810-10 applies to the investments held by the investment company equity method investee for the purposes of the equity method investor's financial statements.~~

Amendments to Subtopic 340-10

37. Amend paragraph 340-10-60-15, with a link to transition paragraph 946-10-65-2, as follows:

Other Assets and Deferred Costs—Overall

Relationships

> Financial Services—Investment Companies

340-10-60-15 For accounting for offering costs by investment companies, see ~~Sections 946-10-05, 946-20-25, 946-20-35, and 946-20-40.~~ Subtopic 946-20.

Amendments to Subtopic 810-10

38. Amend paragraphs 810-10-15-10 and 810-10-15-12, with a link to transition paragraph 946-10-65-2, as follows:

Consolidation—Overall

Scope and Scope Exceptions

General

810-10-15-10 A reporting entity shall apply consolidation guidance for entities that are not in the scope of the Variable Interest Entities Subsections (see the Variable Interest Entities Subsection of this Section) as follows:

a. All majority-owned subsidiaries—all entities in which a parent has a controlling financial interest—shall be consolidated. However, there are exceptions to this general rule.
   1. A majority-owned subsidiary shall not be consolidated if control does not rest with the majority **owner**—for instance, if any of the following are present:
      i. The subsidiary is in legal reorganization
      ii. The subsidiary is in bankruptcy
      iii. The subsidiary operates under foreign exchange restrictions, controls, or other governmentally imposed uncertainties so severe that they cast significant doubt on the parent's ability to control the subsidiary.
      iv. In some instances, the powers of a shareholder with a majority voting interest to control the operations or assets of the investee are restricted in certain respects by approval or veto rights granted to the noncontrolling shareholder (hereafter referred to as noncontrolling rights). In paragraphs 810-10-25-2 through 25-14, the term *noncontrolling shareholder* refers to one or more noncontrolling shareholders. Those noncontrolling rights may have little or no impact on the ability of a shareholder with a majority voting interest to control the investee's operations or assets, or, alternatively, those rights may be so restrictive as to call into question whether control rests with the majority owner.
      v. Control exists through means other than through ownership of a majority voting interest, for example as described in (b) through (e).
   2. A majority-owned subsidiary in which a parent has a controlling financial interest shall not be consolidated if the parent is a broker-dealer within the scope of Topic 940 and control is likely to be temporary.
   3. Subparagraph superseded by Accounting Standards Update 2013-08.~~Except as discussed in paragraph 946-810-45-3, consolidation by an investment company within the scope of Topic 946 of a non-investment-company investee is not appropriate.~~

b. Subtopic 810-20 shall be applied to determine whether the rights of the limited partners in a limited partnership overcome the presumption that the general partner controls, and therefore should consolidate, the partnership.
c. Subtopic 810-30 shall be applied to determine the consolidation status of a research and development arrangement.
d. The Consolidation of Entities Controlled by Contract Subsections of this Subtopic shall be applied to determine whether a contractual management relationship represents a controlling financial interest.
e. Paragraph 710-10-45-1 addresses the circumstances in which the accounts of a rabbi trust that is not a VIE (see the Variable Interest Entities Subsections for guidance on VIEs) shall be consolidated with the accounts of the employer in the financial statements of the employer.

810-10-15-12 The guidance in this Topic does not apply in any of the following circumstances:

a. An employer shall not consolidate an employee benefit plan subject to the provisions of Topic 712 or 715.
b. Subparagraph superseded by Accounting Standards Update No. 2009-16
c. Subparagraph superseded by Accounting Standards Update No. 2009-16
d. ~~Investments accounted for at fair value in accordance with the specialized accounting guidance in Topic 946 are not subject to consolidation according to the requirements of this Topic.~~Except as discussed in paragraph 946-810-45-3, an investment company within the scope of Topic 946 shall not consolidate an investee that is not an investment company.
e. A reporting entity shall not consolidate a governmental organization and shall not consolidate a financing entity established by a governmental organization unless the financing entity meets both of the following conditions:
    1. Is not a governmental organization
    2. Is used by the business entity in a manner similar to a VIE in an effort to circumvent the provisions of the Variable Interest Entities Subsections.

39. Amend paragraph 810-10-25-15 using the current content because the pending content will be superseded at the effective date of this Update, with a link to transition paragraph 946-10-65-2, as follows:

Recognition

General

> Retention of Specialized Accounting for Investments in Consolidation

810-10-25-15 ~~The application of guidance in an industry-specific Topic of this Codification to a subsidiary within the scope of that industry-specific Topic shall be retained in consolidation of that subsidiary.~~For the purposes of consolidating a subsidiary subject to guidance in an industry-specific Topic, an entity shall retain the industry-specific guidance applied by that subsidiary.

40. Amend paragraph 810-10-65-2(aa)(1), with a link to transition paragraph 946-10-65-2, as follows:

> Transition Related to FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*

810-10-65-2 The following represents the transition and effective date information related to FASB Statement No. 167, *Amendments to FASB Interpretation 46(R)*:

a. Except as noted in item aa, the pending content that links to this paragraph is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited.

aa. Except for the pending content in Section 810-10-50, the pending content that links to this paragraph shall not be applied to either of the following:

1. A reporting entity's interest in an entity if all of the following conditions are met:
   i. The entity ~~either~~is any of the following:
      01. ~~Has all of the attributes specified in paragraph 946-10-15-2(a) through (d)~~An investment company within the scope of Topic 946
      02. ~~Does not have all of the attributes specified in paragraph 946-10-15-2(a) through (d) but is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with those in Topic 946 (including recognizing changes in fair value currently in the statement of operations) for financial reporting purposes.~~A real estate fund for which it is industry practice to measure investment assets at fair value on a recurring basis and to issue financial

statements that are consistent with the measurement principles in Topic 946.

03. An entity that has all of the following attributes:

A. Investment activity. The entity's primary business activity involves investing its assets, usually in the securities of other entities not under common management, for current income, appreciation, or both.

B. Unit ownership. Ownership in the entity is represented by units of investments, such as shares of stock or partnership interests, to which proportionate shares of net assets can be attributed.

C. Pooling of funds. The funds of the entity's owners are pooled to avail owners of professional investment management.

D. Reporting entity. The entity is the primary reporting entity.

ii. The reporting entity does not have an explicit or implicit obligation to fund losses of the entity that could potentially be significant to the entity. This condition should be evaluated considering the legal structure of the reporting entity's interest, the purpose and design of the entity, and any guarantees provided by the reporting entity's related parties.

iii. The entity is not:

01. A securitization entity

02. An asset-backed financing entity

03. An entity that was formerly considered a qualifying special-purpose entity.

Examples of entities that may meet the preceding conditions include a mutual fund, a hedge fund, a mortgage real estate investment fund, a private equity fund, and a venture capital fund. Examples of entities that do not meet the preceding conditions include structured investment vehicles, collateralized debt/loan obligations, commercial paper conduits, credit card securitization structures, residential or commercial mortgage-backed entities, and government sponsored mortgage entities.

Amendments to Subtopic 820-10

41. Amend paragraph 820-10-15-4, with a link to transition paragraph 946-10-65-2, as follows:

Fair Value Measurement—Overall

Scope and Scope Exceptions

> > Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)

820-10-15-4 Paragraphs 820-10-35-59 through 35-62 and 820-10-50-6A shall apply only to an investment that meets both of the following criteria as of the reporting entity's measurement date:

a. The investment does not have a **readily determinable fair value**
b. The investment is in ~~an entity that has all of the attributes specified in paragraph 946-10-15-2 or, if one or more of the attributes specified in paragraph 946-10-15-2 are not present, is in an entity for which it is industry practice to issue financial statements using guidance that is consistent with the measurement principles in Topic 946 (for example, certain investments~~ an investment company within the scope of Topic 946 or is an investment in a real estate ~~funds that~~fund for which it is industry practice to measure investment assets at fair value on a recurring ~~basis)~~basis and to issue financial statements that are consistent with the measurement principles in Topic 946.

Amendments to Subtopic 965-325

42. Amend paragraph 965-325-45-2, with a link to transition paragraph 946-10-65-2, as follows:

Plan Accounting—Health and Welfare Benefit Plans—Investments—Other

Other Presentation Matters

> Non-Participant-Directed Investments

965-325-45-2 The presentation of non-participant-directed investments in the statement of net assets available for benefits or in the notes shall be detailed by general type, including the following:

a. Registered investment ~~entities~~ companies (also known as mutual funds)
b. Government securities
c. Short-term securities
d. Corporate bonds
e. Common stocks
f. Mortgages

g. Subparagraph superseded by Accounting Standards Update No. 2012-04.
h. Real estate.

Amendments to Status Sections

43. Amend paragraph 946-10-00-1 as follows:

946-10-00-1 ~~No updates have been made to this subtopic.~~The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
12b-1	Superseded	2013-08	06/07/2013
Affiliate	Added	2013-08	06/07/2013
Closed-End Funds	Superseded	2013-08	06/07/2013
Contingent-Deferred Sales Load	Superseded	2013-08	06/07/2013
Investment Company	Superseded	2013-08	06/07/2013
Net Asset Value per Share	Added	2013-08	06/07/2013
Parent	Added	2013-08	06/07/2013
946-10-05-1	Amended	2013-08	06/07/2013
946-10-05-2 through 05-6	Superseded	2013-08	06/07/2013
946-10-15-1 through 15-6	Amended	2013-08	06/07/2013
946-10-15-7 through 15-9	Added	2013-08	06/07/2013
946-10-25-1 through 25-3	Added	2013-08	06/07/2013
946-10-50-1	Amended	2013-08	06/07/2013
946-10-50-2	Amended	2013-08	06/07/2013
946-10-50-3	Added	2013-08	06/07/2013
946-10-55-1 through 55-45	Amended	2013-08	06/07/2013
946-10-55-46 through 55-71	Superseded	2013-08	06/07/2013
946-10-65-1	Amended	2013-08	06/07/2013
946-10-65-2	Added	2013-08	06/07/2013

44. Amend paragraph 946-20-00-1 as follows:

946-20-00-1 ~~No updates have been made to this subtopic.~~The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
946-20-05-1	Amended	2013-08	06/07/2013
946-20-05-1A through 05-1E	Added	2013-08	06/07/2013
946-20-25-1	Superseded	2013-08	06/07/2013
946-20-50-1	Superseded	2013-08	06/07/2013
946-20-50-15	Added	2013-08	06/07/2013
946-20-50-16	Added	2013-08	06/07/2013

45. Amend paragraph 946-320-00-1, by adding the following items to the table, as follows:

946-320-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
946-320-30-1	Added	2013-08	06/07/2013
946-320-40-1	Amended	2013-08	06/07/2013

46. Amend paragraph 946-323-00-1 as follows:

946-323-00-1 ~~No updates have been made to this subtopic.~~The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Investment Company	Superseded	2013-08	06/07/2013
Related Parties	Superseded	2013-08	06/07/2013
Underlying	Superseded	2013-08	06/07/2013
946-323-05-1	Amended	2013-08	06/07/2013
946-323-15-1	Amended	2013-08	06/07/2013
946-323-15-2	Superseded	2013-08	06/07/2013
946-323-45-1	Amended	2013-08	06/07/2013
946-323-45-2	Amended	2013-08	06/07/2013

Paragraph Number	Action	Accounting Standards Update	Date
946-323-45-3 through 45-18	Superseded	2013-08	06/07/2013
946-323-50-1 through 50-4	Superseded	2013-08	06/07/2013
946-323-55-1 through 55-9	Superseded	2013-08	06/07/2013

47. Add paragraph 946-325-00-1 as follows:

946-325-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Fair Value (2nd def.)	Added	2013-08	06/07/2013
946-325-05-1	Added	2013-08	06/07/2013
946-325-15-1	Added	2013-08	06/07/2013
946-325-30-1	Added	2013-08	06/07/2013
946-325-35-1	Added	2013-08	06/07/2013

48. Amend paragraph 946-810-00-1 as follows:

946-810-00-1 ~~No updates have been made to this subtopic.~~The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Investment Company	Superseded	2013-08	06/07/2013
Related Parties	Superseded	2013-08	06/07/2013
946-810-05-1	Amended	2013-08	06/07/2013
946-810-15-1	Amended	2013-08	06/07/2013
946-810-15-2	Superseded	2013-08	06/07/2013
946-810-45-1	Superseded	2013-08	06/07/2013
946-810-45-2	Amended	2013-08	06/07/2013
946-810-45-3	Amended	2013-08	06/07/2013
946-810-45-4 through 45-24	Superseded	2013-08	06/07/2013
946-810-50-1 through 50-4	Superseded	2013-08	06/07/2013

Paragraph Number	Action	Accounting Standards Update	Date
946-810-55-1 through 55-12	Superseded	2013-08	06/07/2013

49. Amend paragraph 230-10-00-1, by adding the following item to the table, as follows:

230-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
230-10-15-4	Amended	2013-08	06/07/2013

50. Amend paragraph 323-10-00-1, by adding the following items to the table, as follows:

323-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
323-10-15-4	Amended	2013-08	06/07/2013
323-10-25-7	Added	2013-08	06/07/2013
323-10-45-4	Superseded	2013-08	06/07/2013

51. Amend paragraph 340-10-00-1 as follows:

340-10-00-1 ~~No updates have been made to this subtopic.~~The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
340-10-60-15	Amended	2013-08	06/07/2013

52. Amend paragraph 810-10-00-1, by adding the following items to the table, as follows:

810-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
810-10-15-10	Amended	2013-08	06/07/2013
810-10-15-12	Amended	2013-08	06/07/2013
810-10-25-15	Amended	2013-08	06/07/2013
810-10-65-2	Amended	2013-08	06/07/2013

53. Amend paragraph 820-10-00-1, by adding the following item to the table, as follows:

820-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
820-10-15-4	Amended	2013-08	06/07/2013

54. Amend paragraph 965-325-00-1, by adding the following item to the table, as follows:

965-325-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
965-325-45-2	Amended	2013-08	06/07/2013

The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Leslie F. Seidman, *Chairman*
Daryl E. Buck
Russell G. Golden
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The amendments in this Update change the approach to the assessment of investment company status, clarify the characteristics of an investment company, and provide comprehensive guidance for determining whether an entity is an investment company under U.S. GAAP. The amendments in this Update also prohibit an investment company from using the equity method of accounting for noncontrolling ownership interests in other investment companies and instead require those interests to be measured at fair value. Finally, the amendments in this Update require additional disclosures about an entity's status as an investment company, changes to that status, and information about financial support provided or contractually required to be provided by an investment company to an investee.

Background Information

BC3. Topic 946 contains specialized accounting and reporting requirements for investment companies. The requirements in Topic 946 were originally included in the AICPA's Audit and Accounting Guide on investment companies.

BC4. In June 2007, the AICPA issued SOP 07-1 to clarify when an entity is an investment company for accounting purposes. SOP 07-1 also provided guidance about when the specialized industry-specific accounting guidance applied by an investment company should be retained by a parent or an equity method investor accounting for its interest in an investment company. However, in December 2007, the Board issued FSP SOP 07-1-1, *Effective Date of AICPA Statement of Position 07-1*, which indefinitely deferred the SOP for those entities that had not already adopted it. The deferral was issued to provide the Board time to consider a number of implementation issues raised by stakeholders about the application of SOP 07-1.

BC5. The IASB added an investment entities project to its agenda during deliberations of the joint consolidations project. In December 2008, the IASB published Exposure Draft 10, *Consolidated Financial Statements.* Exposure Draft

10, consistent with IAS 27, *Consolidated and Separate Financial Statements,* would have required reporting entities to consolidate all controlled investees, regardless of the nature of the reporting entity. Stakeholders that responded to Exposure Draft 10 questioned the usefulness of financial statements of investment companies that consolidate investees that the investment company controls. They pointed out that some national accounting requirements, including U.S. GAAP, have historically provided specialized industry-specific guidance that generally requires investment companies to measure their investments at fair value, including controlled investees that are not investment companies.

BC6. In light of that feedback, the IASB decided to consider an exception to consolidation that requires entities that are investment companies to measure controlled investees at fair value. The IASB worked together with the Board to develop a consistent and converged approach for determining whether an entity is an investment company. This also allowed the Board to supersede the indefinite deferral of SOP 07-1.

BC7. In August 2011, the IASB issued an Exposure Draft, *Investment Entities*, and in October 2011, the FASB issued a proposed Accounting Standards Update, *Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*. The FASB and the IASB jointly held the majority of deliberations leading to the issuance of their Exposure Drafts and final guidance. On October 31, 2012, the IASB issued *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*. The similarities and differences between the investment entities guidance under IFRS and the investment companies guidance in U.S. GAAP are discussed in paragraphs BC83–BC87.

Approach to the Assessment of Investment Company Status

BC8. In the proposed Update, the Board would have required an entity to meet six criteria to be an investment company. The Board used the then-current requirements in Topic 946 together with the guidance deferred in SOP 07-1 as the basis for developing the six criteria for identifying an investment company.

BC9. Many stakeholders expressed concern that requiring an entity to meet all six criteria to be an investment company would be too restrictive and would cause entities that currently follow investment company accounting to lose investment company status. Furthermore, stakeholders stated that the implementation guidance in the proposed Update provided too many exceptions to the strict criteria. Stakeholders emphasized the importance of applying judgment when determining whether an entity is an investment company. Those stakeholders stated that a more flexible approach to assessing the criteria would result in more consistent reporting by entities with similar business activities.

BC10. Some stakeholders recommended an approach similar to the approach in SOP 07-1 to provide more rigor to the assessment of investment company status compared to the qualitative assessment in then-current U.S. GAAP while still providing flexibility when evaluating certain characteristics of an entity. Those stakeholders recommended that the Board develop a principle that defines an investment company with certain proposed criteria required to be met and the remainder of the proposed criteria to be used as additional indicators that the entity is an investment company.

BC11. The Board agreed with the stakeholders who stated that requiring an entity to meet all six criteria to be an investment company would be too restrictive and would inappropriately exclude common investment fund structures from applying investment company guidance. The Board decided that an entity should assess all of the criteria that were in the proposed Update but agreed that there are investment fund structures that would not meet one or more criteria but that should still be investment companies. For example, the amendments in the proposed Update would have required an investment company to have more than one investor. That proposal would have excluded some pension funds and sovereign wealth funds from investment company status, which the Board decided should be investment companies as long as they meet the remaining characteristics of an investment company.

BC12. In response to the feedback received from stakeholders on the proposed Update, the Board decided that an entity should consider its purpose and design when assessing all of the characteristics of an investment company. The Board decided that an entity should possess certain characteristics that are fundamental to being an investment company but that other characteristics, while present in typical investment companies, may not be present in all investment companies.

BC13. An entity that does not possess those fundamental characteristics is not an investment company. However, the absence of one or more of the typical characteristics does not necessarily preclude an entity from being an investment company. Not having one or more of the typical characteristics indicates that additional judgment is required to determine whether the entity's activities are consistent (or not consistent) with those of an investment company. The Board decided that it is very unlikely that an entity that does not possess any of the typical characteristics is an investment company.

BC14. The Board concluded that requiring an entity to meet certain fundamental characteristics while allowing judgment in assessing typical characteristics achieves the appropriate balance between clearly defining which entities should apply investment company accounting and the use of strict rules.

Fundamental Characteristics of an Investment Company

BC15. Considering stakeholder feedback, the Board decided that an investment company's business purpose and activities differentiate it from other

types of entities. The Board decided that the fundamental characteristics of an investment company should comprise three elements: (a) providing investment management services, (b) the business purpose and only substantive activities committed to investors, and (c) the returns or benefits received from investments.

Investment Management Services

BC16. The Board noted that one of the fundamental activities of an investment company is that it obtains funds from its investor or investors and provides those investors with investment management services. The Board concluded that this is the traditional function of an investment company and, therefore, an entity should possess this characteristic to be an investment company.

Business Purpose and Only Substantive Activities

BC17. The Board noted that another fundamental characteristic of an investment company is that its business purpose and only substantive activities are investing funds from investors solely to obtain returns from capital appreciation, investment income, or both. The Board noted that an investment company, different from other types of entities, makes a commitment to its investors (or potential investors) that its business purpose and only substantive activities are to invest to generate and provide returns from capital appreciation, investment income, or both. The Board decided that an entity must possess those characteristics to be an investment company.

BC18. The Board considered whether an investment company's activities should *primarily* be investing activities or whether *all* of its substantive activities should be investing activities. Topic 946 stated that an investment company's *primary* business activities involve investing in assets for "current income, appreciation, or both." The Board noted that the term *primary* has been interpreted inconsistently with respect to the amount of noninvestment activities that can be conducted by an investment company. The Board concluded that an investment company has one substantive activity—investing for capital appreciation, investment income, or both. Having other substantive activities calls into question whether the entity exists for reasons other than to invest for capital appreciation or investment income. Therefore, the Board decided that an investment company's *only substantive activities* should be its investing activities.

BC19. The Board recognized that an investment company may directly provide or hold an interest in an operating entity that provides services to the investment company to support the investing activities of the investment company. The Board decided that providing such investing-related services should not prohibit an entity from being an investment company, if substantive services are provided only to the investment company, because the services are simply an extension of the investment company.

Exit strategy

BC20. The Board noted that evidence of an entity's business purpose and substantive activities may be included in the entity's offering memorandum, publications distributed by the entity, and other corporate or partnership documents that indicate the investment objectives of the entity. Evidence of an entity's business purpose and substantive activities also may include the manner in which the entity presents itself to other parties (such as potential investors or potential investees).

BC21. The Board noted that an entity's investment plans also provide evidence of the entity's business purpose and substantive activities. The Board concluded that an exit strategy is essential to an investment company whose investment objectives include realizing returns from capital appreciation because the investment company must have a plan to dispose of its investments to realize the capital appreciation. Although the exit strategy may vary depending on the nature and objectives of the investment, the maturity or development of the investee, market conditions, or other circumstances, potential exit strategies provide evidence that the entity's business purpose and substantive activities are realizing capital appreciation.

BC22. The Board decided that an exit strategy is not essential for investments that are held for returns from investment income only (for example, some investments in municipal bonds) because the entity does not plan to realize changes in the price of the investments through disposal. However, the Board also concluded that fair value is still the most relevant measurement attribute for all investments held by investment companies, including debt securities held only for returns from investment income, because investors in the investment company typically transact on the basis of net asset value per share, which is calculated using the fair value of the investment company's underlying investments.

Returns or Benefits from Investments

BC23. The Board was concerned that an investment company could be inserted into a larger corporate structure to achieve a particular accounting outcome. For example, a parent could use an "internal" investment company subsidiary to invest in operating entities that may be incurring losses (for example, research and development activities on behalf of the overall group) and would record its investments at fair value, rather than reflecting the underlying activities of the investee.

BC24. To address those concerns and to emphasize the business purpose and substantive activities of an investment company, the Board decided to require that an investment company or its affiliates must *not* obtain or *not* have 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 the Board's view, this characteristic also differentiates an investment company from an investment of an operating conglomerate or holding company. If an entity or its affiliates obtain returns or benefits from an investee or its affiliates that are not normally attributable to ownership interests, the Board decided that the entity holds that investment for operating or strategic benefits that are not consistent with the business purpose and substantive activities of an investment company.

BC25. However, the Board clarified that an investment company may have a strategy to invest in more than one investee in the same industry, market, or geographical area to benefit from synergies that increase the capital appreciation of those investments. The Board noted that those investments are common in the private equity industry. The Board decided that trading transactions or synergies that arise between the investees of an investment company should not be prohibited because their existence does not necessarily mean that the investment company is obtaining returns or benefits that are other than capital appreciation or investment income.

BC26. The Board considered prohibiting an investment company from assisting an investee with day-to-day management of the investee's operations or providing financial support to an investee. The Board also considered including guidance that only would permit an entity to perform management activities to the extent that those activities are consistent with an investment manager's fiduciary duties. Those activities could include representation on the board of directors or advisory services provided in areas of the investment company's expertise (for example, assistance with an investment offering).

BC27. The Board ultimately concluded that an investment company may be involved in the day-to-day management activities of its investees and may provide financial support to its investees if those services are provided to maximize the overall value of the investment, rather than to obtain other benefits. The Board also noted that such services can be consistent with the business purpose and activities of an investment company as long as they do not represent a separate substantial business activity or separate substantial source of income for the investment company. Finally, the Board was concerned that diversity in the application of investment company accounting may evolve if an investment company is only involved in the day-to-day management for some of its investees or only on a temporary basis.

Typical Characteristics of an Investment Company

BC28. Considering stakeholder feedback on each of the criteria in the proposed Update, the Board identified several characteristics that a typical investment company has that differentiate it from other types of entities. However, the Board recognized that there may be some common investment company structures that do not possess one or more of those typical

characteristics. The Board decided that an entity should consider all of the typical characteristics of an investment company before concluding that it is (or is not) an investment company.

BC29. The Board identified all of the following characteristics as being present in a typical investment company:

a. It has more than one investment.
b. It has more than one investor.
c. It has investors that are not related parties of the parent (if there is a parent) or the investment manager.
d. It has ownership interests in the form of equity or partnership interests.
e. It manages substantially all of its investments on a fair value basis.

More Than One Investment

BC30. The Board noted that investment companies typically invest or plan to invest in multiple investees at the same time as a means of diversifying their portfolio and maximizing their returns. Therefore, the Board noted that investing in multiple investments is an important characteristic of an investment company.

BC31. The amendments in the proposed Update would have required an investment company to hold multiple investments either directly or indirectly through another investment company. However, stakeholders provided examples of entities that they stated should be investment companies but that hold a single investment throughout the life of the entity. Those examples included single investment funds set up to pool investors' funds because the investment is unobtainable by individual investors.

BC32. The Board agreed with stakeholders and concluded that prohibiting an entity from being an investment company because it holds only one investment is too restrictive. The Board decided that although a typical investment company invests in multiple investees, there could be circumstances in which an entity holds one investment but its activities are still consistent with those of an investment company. Also, the Board noted that an entity could be structured to meet a strict multiple investments requirement without substantively changing the nature of the entity and decided that holding more than one investment should instead be a typical characteristic.

BC33. The Board also considered whether specific guidance should be provided on the number of investments that an investment company should hold. The Board concluded that it was unnecessary to provide a specific number but, rather, that entities should be able to apply judgment in determining whether the number of investments held by an entity in the context of its other activities and characteristics are sufficient to conclude that the entity is an investment company.

More Than One Investor

BC34. The Board noted that, typically, investment companies have multiple external investors. The Board also noted that this is an important characteristic of an investment company because it would make it less likely that the entity or its affiliates obtain or have 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.

BC35. The amendments in the proposed Update would have required an investment company to have multiple investors. However, many stakeholders provided various examples of entities with a single investor that should not be prohibited from being investment companies. Those examples included government investment funds, investment funds wholly owned by pension plans, and endowment funds, all of which would be inappropriately excluded from being investment companies.

BC36. The Board agreed with stakeholders and concluded that prohibiting an entity from being an investment company because it has only one investor is too restrictive. The Board decided that although a typical investment company has multiple investors, there are circumstances in which a wholly owned entity's activities could still be consistent with those of an investment company. Also, the Board noted that an entity could be structured to meet a strict multiple investors requirement without substantively changing the nature of the entity and decided that having more than one investor should instead be a typical characteristic.

BC37. The Board also considered whether to provide guidance about the number of investors that an investment company should have or that a prescribed percentage of the investors should be passive investors. The Board did not include such a requirement because an entity should be able to apply judgment in determining whether the number of investors in the context of its other activities and attributes are sufficient to conclude that the entity is an investment company.

Investors That Are Not Related Parties of the Parent or the Investment Manager

BC38. The Board noted that, typically, investment companies have investors that are not related to the parent or to the investment manager. The Board also noted that, typically, those external investors collectively hold a significant ownership in the investment company. The Board noted that having external investors is one way to ensure that an investment company would not be inserted into a larger corporate structure to achieve a particular accounting outcome or to obtain returns or benefits from investments that are other than capital appreciation or investment income.

BC39. The amendments in the proposed Update would have required that an investment company have investors that are not related to the parent (if there is a parent) and those investors, in aggregate, hold a significant ownership interest in the entity. However, stakeholders provided examples of entities with related investors that they noted should be investment companies. A common example provided by stakeholders was that of employee side-by-side funds. Employees and their families often are offered the chance to invest in the same investments as other investment funds offered by the investment manager but those employee side-by-side funds are kept separate from the main fund. Stakeholders explained that although the employees are related parties of the investment manager, the business purpose and substantive activities of the employee funds mirror that of the other investment funds.

BC40. The Board agreed with stakeholders and concluded that prohibiting an entity from being an investment company because it has related investors is too restrictive and would inappropriately exclude certain entities from being investment companies. The Board decided that entities should be able to apply judgment in determining whether the nature of the investors is consistent with the business purpose and substantive activities of an investment company.

BC41. The Board noted that the typical characteristic of having external investors could be met while still enabling the parent to have all of the exposure to the underlying investees if the parent enters into side arrangements with the investment company's other investors. Because of that concern, the Board decided that if the parent or its related parties have an implicit or explicit arrangement that could result in the parent being required to acquire another investor's interests in the entity for an amount that is not fair value, those investments should be combined and treated as if they were held by the parent. In addition, the Board decided that investors that are related parties of the parent or investment manager should be combined and treated as a single investor, along with the parent or investment manager, for the purposes of determining whether the entity has the more-than-one-investor typical characteristic of an investment company. In cases in which substantially all of the ownership interests are held by the parent or its related parties, the Board noted that the purpose and design of the entity should be carefully considered.

Ownership Interests

BC42. The Board noted that, typically, investment companies have ownership interests in the form of equity or partnership interests that entitle investors to a specifically identifiable portion of the net assets of the investment company. The Board noted that this characteristic is important because it explains in part why fair value of investments held is more relevant to investors of an investment company. Specifically, the value of each ownership interest in an investment company is dependent on the changes in the fair value of the underlying investments of the investment company.

BC43. The amendments in the proposed Update would have required an investment company to have ownership units in the form of equity or partnership interests. Many stakeholders provided examples of entities that do not have units of ownership but that entitle investors to a specifically identifiable portion of the entity's net assets. Those examples included pension funds and sovereign wealth funds with beneficiaries that are entitled to the net assets of the fund but that do not have ownership units because the fund is directly owned by a pension plan or the government. Many stakeholders also stated that requiring ownership units to be in the form of equity or partnership interests introduces complexity, including determining whether units in the legal form of equity are considered debt for accounting purposes.

BC44. The Board agreed with arguments raised by stakeholders and decided that the focus of the ownership interest characteristic should be that holders are exposed to variable returns from changes in the fair value of the underlying investments of an investment company. Although, typically, ownership interests are in the form of equity or partnership interests, the Board decided that entities should be able to apply judgment and not strictly focus on the legal form of the ownership interests.

BC45. The Board also initially considered requiring an investment company to be a separate legal entity. However, the Board decided that a portion of an entity should be permitted to be an investment company if the economic activities of that portion can be distinguished objectively from the rest of the entity and the financial results of that portion of the entity are useful in making decisions about whether to provide resources to that portion. Also, the Board did not require an investment company to be a separate legal entity because it was concerned that some entities, such as partnerships, are considered legal entities in one jurisdiction but may not be considered legal entities in other jurisdictions.

Managing on a Fair Value Basis

BC46. The Board has heard that the most useful information for users of investment company financial statements is the fair value of their investments, including an understanding of how the investment company calculates fair value. Fair value is critical for analyzing the performance of investments made by investment companies. As such, the operations and management of an investment company typically have an emphasis on fair value information. Therefore, the Board noted that an important characteristic of an investment company is that it manages substantially all of its investments on a fair value basis.

BC47. The Board decided that an entity could manage substantially all of its investments on a fair value basis in a number of ways. An entity could demonstrate that fair value is the primary measurement attribute used to evaluate the financial performance of, and to make investment decisions for,

substantially all of its investments. Information about the entity's investments should be provided internally on a fair value basis to key management personnel.

BC48. The entity also could demonstrate that it transacts with its investors on the basis of net asset value per share, which is calculated using the fair value of the entity's investments. In addition, the entity could incur asset-based fees (such as a management fee) calculated on the basis of the fair value of the entity's investments.

BC49. The Board decided that managing on a fair value basis is a typical characteristic of an investment company rather than a fundamental characteristic because other performance metrics may be used to manage an investment company's investments. For example, short-term investment funds may manage their investments on a yield (or amortized cost) basis. However, those funds also are managed on a fair value basis because they are managed to minimize the differences between the carrying value and the fair value of their investments. The Board decided that an entity should apply judgment to determine whether an entity is managing its investments on a fair value basis.

Investment Companies Regulated under the Investment Company Act of 1940

BC50. The Board discussed determining whether an entity is an investment company on the basis of whether the entity is an investment company under local regulatory or legal requirements, such as the Investment Company Act of 1940 (1940 Act) for U.S. entities. The Board initially decided, jointly with the IASB, that the assessment of investment company status should not be linked to local regulatory and legal requirements. The Boards were concerned that regulatory and legal requirements in different jurisdictions may result in similar entities being investment companies in one jurisdiction but not in another and that regulatory and legal requirements may change over time.

BC51. However, the FASB ultimately decided that an investment company that is regulated under the 1940 Act should be an investment company under U.S. GAAP regardless of whether that entity meets the assessment of investment company status. The FASB was concerned that some entities (primarily certain business development companies) that are required to comply with the regulatory and legal requirements for investment companies may not meet the assessment of investment company status developed.

BC52. The Board recognizes that determining whether an entity is an investment company on the basis of U.S. regulatory and legal requirements is not convergent with guidance in IFRS, but that approach would avoid situations in which an entity would be required to present assets and liabilities under two measurement bases because it is considered an investment company for regulatory and legal purposes but not for U.S. GAAP financial reporting purposes. That requirement was included in the proposed Update, and the

majority of stakeholders agreed that investment companies regulated under the 1940 Act also should be investment companies for accounting purposes.

Real Estate Entities

BC53. Through its separate project on investment property entities, the Board was aware that some real estate entities currently measure their real estate investments at fair value because (a) they have determined that they are investment companies, (b) they are controlled by pension plans that are required to measure their investments at fair value, or (c) industry practices have developed such that real estate investments are measured at fair value without regard to investment company attributes or pension plan ownership. However, U.S. GAAP excludes other types of real estate entities—real estate investment trusts—from the scope of Topic 946.

BC54. In October 2011, the FASB issued proposed Accounting Standards Update, *Real Estate—Investment Property Entities (Topic 973).* That proposal would have required all entities that focus on investing in real estate properties to follow specialized accounting guidance. In addition, the Board removed the scope exception in Topic 946 for real estate investment trusts in its proposed Update on investment companies. Therefore, as a result of the combined guidance in both proposals, a real estate entity, regardless of whether it is a real estate fund or real estate investment trust, would have first determined whether it is an investment property entity. A real estate entity that did not meet the requirements to be an investment property entity would then determine whether it is an investment company. The Board concluded that the combined guidance in both proposals would result in the consistent application of U.S. GAAP across all real estate entities that have similar business operations.

BC55. The Board removed the scope exception in Topic 946 for real estate investment trusts in the proposed Update on investment companies because it was concerned that this scope exception was based on whether an entity has made a designation to be treated as a real estate investment trust under the Internal Revenue Code. Because this project is a joint project with the IASB and income tax requirements are different for each tax jurisdiction, the Board, jointly with the IASB, concluded that an entity's election as a real estate investment trust should not affect whether the entity is an investment company.

BC56. The majority of stakeholders did not support the Board's proposal on investment property entities. Real estate entity stakeholders raised concerns that many of them would not meet the requirements to be investment property entities. Consequently, those stakeholders requested that the Board clarify how certain aspects of the assessment of investment company status apply to real estate entities. Furthermore, many real estate investment trust stakeholders and their representative organizations disagreed with the removal of the scope exception in Topic 946, stating that the business model of real estate investment trusts is different from that of an investment company.

BC57. Because of the complexity of the issues and a potential delay in issuing guidance for assessing investment company status for other types of entities, the Board ultimately decided to retain the existing scope exception in Topic 946 for real estate investment trusts. However, the Board amended the language in the scope exception to remove references to "attributes" of an investment company to be consistent with the Board's decisions on the investment company assessment in this Update.

BC58. The Board decided not to address issues related to the applicability of investment company accounting for real estate entities and the measurement of real estate investments at this time. As such, the Board does not intend to change practice for real estate entities for which it is industry practice to issue financial statements that are consistent with the measurement principles in Topic 946.

Interests in Other Entities

Noncontrolling Ownership Interests

BC59. Longstanding U.S. GAAP prohibits an investment company from using the equity method of accounting for a noncontrolling ownership interest in a noninvestment company investee, unless that investee is an operating entity that provides services to the investment company. The Board concluded that an investment company also should not apply the equity method of accounting to a noncontrolling ownership interest in another investment company. Instead, those interests should be measured at fair value.

BC60. The Board decided that not requiring an investment company to apply the equity method of accounting for investments in another investment company would reduce complexity because the reporting investment company could apply the net asset value per share practical expedient in Topic 820 on fair value measurement to measure the fair value of its interest. Furthermore, because the investee's underlying investments are measured at fair value, the Board concluded that measuring the investment in that investee at fair value would not significantly affect the reporting investment company's financial statements.

BC61. The proposed Update would have required an investment company to measure noncontrolling ownership interests in investees at fair value rather than apply the equity method of accounting, unless the investee is an operating entity that provides services to the investment company. Almost all stakeholders agreed with the proposal.

Controlling Financial Interests

BC62. Longstanding U.S. GAAP prohibits an investment company from consolidating a noninvestment company subsidiary, unless that subsidiary is an operating entity that provides services to the investment company. The proposed

Update would have required that an investment company consolidate controlling financial interests in another investment company in a fund-of-funds structure.

BC63. The Board was concerned that by not requiring an investment company to consolidate controlling financial interests in another investment company, transparency into underlying investments and obligations to which the parent investment company has economic exposure would be reduced. The Board was particularly concerned about transparency when an investment company establishes a wholly owned investment company subsidiary for tax, legal, or regulatory purposes. In the proposed Update, the Board did not make a distinction between a wholly owned subsidiary and a majority-owned subsidiary because, in the Board's view, there is no conceptual basis for that distinction and an investment company could easily structure around a consolidation requirement on the basis of whether the investee is wholly owned.

BC64. Most stakeholders did not support the requirement in the proposed Update to consolidate controlling financial interests in a fund-of-funds structure. Those stakeholders stated that all investments held by an investment company should be measured at fair value, unless the investee is an operating entity that provides services to the investment company. Those stakeholders raised both conceptual concerns and operational concerns about the proposed consolidation requirement. Stakeholders argued that consolidation would decrease the usefulness of investment company financial statements by giving prominence to controlled investees regardless of their significance to the investment company's net assets and would result in mixed presentation of similar investments in which some investments would be measured at fair value and other investments would be consolidated.

BC65. In light of the feedback received from stakeholders, the Board decided not to amend Topic 946 regarding an investment company's application of consolidation guidance in Topic 810, Consolidation. However, the Board remains concerned about transparency into the risks, obligations, and expenses of an investee fund. To address those concerns, the Board decided that it would develop additional disclosures about investments in other investment companies. To avoid a delay in issuing guidance for assessing investment company status, the Board decided it would develop those disclosures at a later date. The Board will consider stakeholder feedback that it received on the proposed Update on investment companies and additional outreach performed during this project when it deliberates issues relevant to those disclosure requirements.

Disclosure

BC66. Users informed the Board that disclosures about the valuation methodology used for measuring fair value and the underlying inputs are essential to their analyses. Because that information is already required by Topic

820, the Board decided that it was not necessary to require any additional disclosures about the fair value measurements made by investment companies.

BC67. The Board decided that an entity should disclose that it is an investment company and, therefore, is applying specialized accounting guidance in Topic 946. The Board concluded that such a disclosure would provide useful information.

BC68. The amendments in the proposed Update would have required an investment company to disclose when it provided or intended to provide any explicit or implicit financial support to any of its investees. The Board concluded that disclosure would help users of financial statements understand an investment company's exposure to risk.

BC69. Many stakeholders raised concerns about the operability of the proposed requirement to provide disclosures about financial support that the investment company *intends* to provide and financial support that it is not contractually required to provide. The Board acknowledged stakeholder concerns and decided that an investment company should disclose information about (a) financial support that was provided to an investee during the reporting period and (b) financial support that it is contractually required to provide to an investee but that has not yet been provided. The Board decided that providing information about financial support provided during the reporting period and all financial support that is contractually required is more operable and focuses on the investment company's commitments at the reporting date. The Board decided that disaggregating the disclosures about financial support provided during the period into support that was contractually required and by support that was not previously contractually required provides incremental useful information. Furthermore, the Board concluded that the financial support disclosure requirements provide information about the investment company's potential future obligations without being forward looking in nature.

Noninvestment Company Parent of an Investment Company

BC70. The Board considered whether a noninvestment company parent of an investment company should retain the specialized accounting applied by the investment company subsidiary when preparing its consolidated financial statements. In Emerging Issues Task Force (EITF) Issue No. 85-12, "Retention of Specialized Accounting for Investments in Consolidation" (now included in Subtopic 810-10), the EITF discussed whether consolidated financial statements should retain specialized industry accounting principles applicable to investment company subsidiaries. The EITF reached a consensus that, assuming the specialized industry accounting principles are appropriate at the subsidiary level, those principles should be retained in consolidation.

BC71. The Board agreed with the conclusions reached by the EITF and decided that a noninvestment company parent of an investment company should retain the specialized industry accounting principles of its investment company subsidiaries when preparing consolidated financial statements. Those specialized industry accounting principles for investment companies include generally measuring investments at fair value. Furthermore, the Board noted that this approach improves the visibility into the investments held by the subsidiary entity.

BC72. The Board also concluded that the specialized accounting applied by an investment company subsidiary should be retained in the consolidated financial statements because the business purpose and substantive activities of an investment company do not change when it is consolidated by a parent. Fair value measurement of an investment company's investments provides the most useful information because the investment company subsidiary's business purpose and only substantive activities are investing funds solely for returns from capital appreciation, investment income, or both. The investment company or its affiliates (such as the parent) do not obtain or have the objective of obtaining other benefits or returns from an investee or its affiliates.

BC73. Under IFRS, a noninvestment entity parent is required to consolidate controlled investees held by an investment company subsidiary in its consolidated financial statements. The Board noted that the guidance for a noninvestment company parent of an investment company subsidiary does not converge with guidance under IFRS. However, the Board concluded that the business purpose of an investment company does not change even if it is controlled by a noninvestment company parent and, therefore, the accounting applied by an investment company subsidiary should be retained in consolidation. Furthermore, the requirement to retain the specialized accounting applied by an investment company subsidiary in consolidation was included in the proposed Update and almost all stakeholders agreed to retain that requirement.

BC74. The Board considered providing guidance on issues that could arise when a parent retains the specialized accounting of an investment company subsidiary (for example, when a noninvestment company parent and an investment company subsidiary invest in the same investee or when an investee of an investment company holds an ownership interest in the parent of the investment company). The Board ultimately decided that because those situations are not widespread, specific guidance to address those issues should not be developed.

Transition and Effective Date

BC75. The Board decided that an entity that is currently applying investment company guidance in Topic 946 but does not meet the assessment of investment

company status in the amendments in this Update should discontinue applying the guidance in Topic 946 upon the effective date of the amendments in this Update. The Board decided that the change in status should be applied as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The Board decided to provide a practicability exception for determining the initial carrying amount of assets, liabilities, and noncontrolling interests of a subsidiary and of an equity method investment when the entity must consolidate or apply the equity method of accounting for an investment. The Board recognized that determining historical carrying values accurately, particularly when interests have been held for long periods of time, could be complex.

BC76. This transition guidance for an entity that is no longer an investment company was included in the proposed Update. Most stakeholders agreed with the transition guidance and expressed support for the practicability exception.

BC77. The Board decided that an entity that was not previously an investment company but meets the assessment in the amendments in this Update should apply investment company accounting prospectively because retrospective application would be impracticable. Given the requirement that an investment company generally measures its investments at fair value, retrospective application could involve looking back several years to determine what the fair value for multiple assets (some of which the entity may no longer hold) might have been. The Board concluded that this application was too onerous.

BC78. The transition guidance for an entity that becomes an investment company as a result of the amendments in this Update was included in the proposed Update. Almost all stakeholders agreed with the Board that retrospective application would be impracticable and added that investment company presentation is most appropriate only for the periods in which an entity is an investment company.

BC79. The Board decided that the amendments in this Update should be effective for an entity's interim and annual reporting periods in fiscal years that begin after December 15, 2013. The Board concluded that the effective date provides sufficient time for an entity to implement the guidance. The Board also decided that early adoption should be prohibited for comparability reasons.

BC80. The Board decided that a different effective date for nonpublic entities is not warranted for the amendments in this Update. The Board concluded that the guidance primarily affects nonpublic investment companies because investment companies regulated under the 1940 Act would continue to be investment companies under the guidance. The Board decided on an effective date, particularly keeping operability for nonpublic investment companies in mind, and required the same effective date for public investment companies.

BC81. The Board acknowledged that the evaluation to determine whether an entity qualifies for the indefinite effective date deferral provided in Accounting

Standards Update No. 2010-10, *Consolidation (Topic 810): Amendments for Certain Investment Funds,* from the consolidation requirements in Accounting Standards Update No. 2009-17, *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities,* is based in part on whether the investee being evaluated has the attributes of an investment company in Topic 946. An investee that is an investment company under the new assessment of investment company status in this Update qualifies for the indefinite deferral in Update 2010-10. Furthermore, the Board was concerned that some investees may no longer qualify for the indefinite deferral because they do not meet the new requirements to be investment companies. To address those concerns, the amendments do not prohibit an investee that has all of the old attributes of an investment company to continue to qualify for the indefinite deferral in Update 2010-10.

BC82. Finally, the amendments in this Update supersede the pending content in Subtopics 946-10, 946-323, and 946-810 for SOP 07-1. Therefore, an entity that became an investment company as a result of early adopting the guidance in SOP 07-1 would no longer be allowed to follow investment company accounting as of the effective date of the amendments in this Update unless the entity meets the assessment of investment company status in this Update.

Convergence with IFRS

BC83. The concept of an investment company is not a new concept in the United States. Longstanding U.S. GAAP has provided comprehensive accounting and reporting guidance for investment companies that generally requires fair value measurement of investments, including a controlling financial interest in an investee that is not an investment company. However, the concept of an investment company is new to IFRS. The Board added this project to improve and converge with IFRS the characteristics of an investment company, an entity for which fair value of investments is generally the most relevant measurement attribute for the entity's financial statement users.

BC84. The scope of the IASB's project on investment entities differs from the scope of investment company guidance under U.S. GAAP. The IASB added the project only to provide an exception to consolidation requirements for a class of entities. The IASB did not seek to comprehensively address accounting and reporting by investment entities, including the general requirement to measure all investments at fair value. Consequently, under IFRS, an entity must have at least one controlled investee to be within the scope of investment entities guidance. An entity that has at least one controlled investee and that meets the definition to be an investment entity is required to measure its subsidiaries at fair value (except those subsidiaries that provide services to the investment entity).

BC85. For investment companies with controlling financial interests in investees that are not investment companies, the amendments in this Update

improve the comparability of financial statements prepared by entities that are investment companies under U.S. GAAP and those that are investment entities under IFRS.

BC86. The Boards jointly deliberated issues relevant under this project with the intent to provide as similar guidance as possible. The Boards developed a consistent approach for determining whether an entity is an investment company. In addition, the characteristics to be evaluated to determine whether an entity is an investment company under this Update are similar to the characteristics under IFRS. However, there are a few significant differences related to certain characteristics of an investment company under the amendments in this Update and IFRS, as follows:

a. Exit strategy requirement—Under the amendments in this Update, the exit strategy requirement to be an investment company depends on the returns the entity plans to obtain from its investments. The amendments require an investment company whose business purpose and substantive activities include realizing returns from capital appreciation to have an exit strategy for how it plans to realize the capital appreciation of its investments. An investment company does not require an exit strategy for its investments if the investment company's business purpose and substantive activities is only to invest for returns from investment income. Under IFRS, the exit strategy requirement to be an investment entity depends on the nature of investments held. An investment entity is prohibited from holding its investments indefinitely and, therefore, it must have an exit strategy for investments without stated maturity dates, such as equity securities and nonfinancial assets. An investment entity is not required to have an exit strategy for investments that have stated maturity dates.
b. Managing on a fair value basis—Under the amendments in this Update, an entity must consider whether it manages and evaluates the performance of substantially all of its investments on a fair value basis to be an investment company. Under IFRS, an entity must measure (rather than manage) and evaluate the performance of substantially all of its investments on a fair value basis to be an investment entity. Furthermore, under IFRS, an entity could satisfy the fair value measurement requirement if investments are measured at fair value with fair value changes recognized in other comprehensive income. However, under U.S. GAAP, investment companies are required to recognize changes in fair value as a net increase (decrease) in net assets from operations and are not permitted to recognize any amounts in other comprehensive income.
c. Investing-related services—Under both the amendments in this Update and IFRS, an entity could provide investing-related services to third parties and still be an investment company. However, in contrast with IFRS, the amendments in this Update disqualify an entity that provides

substantive investing-related services to third parties from being an investment company.

BC87. Also, as a result of the difference in the scope of the guidance under U.S. GAAP and IFRS, the following differences remain between the accounting and reporting requirements for investment companies that report under U.S. GAAP and investment entities that report under IFRS:

a. Initial measurement—Topic 946 requires an investment company to initially measure its investments at their transaction price, which includes commissions and other charges that were part of the purchase transaction. Under IFRS, investments that are subsequently measured at fair value also are initially measured at fair value (excluding transaction costs), unless the investment is an investment property as defined in IAS 40, *Investment Property*. IAS 40 requires an investment property to be initially measured at cost, including any transaction costs.
b. Subsequent measurement—Topic 946 generally requires an investment company to subsequently measure all investments at fair value with changes in fair value recognized as a net increase (decrease) in net assets from operations. Under IFRS, an investment entity is required to measure its subsidiaries at fair value with changes recognized in net income. IFRS does not provide subsequent measurement guidance for all other investments of investment entities. However, to meet the definition of an investment entity, an entity must measure substantially all of its investments at fair value whenever fair value is required or permitted in accordance with relevant IFRSs. As a result, an investment entity under IFRS could have a limited number of investments measured at amounts other than fair value. Furthermore, as discussed in paragraph BC86(b) above, an investment entity under IFRS could have investments measured at fair value with changes recognized in other comprehensive income.
c. Accounting for controlling financial interests in another investment company—Topic 946 prohibits an investment company from consolidating an investee that is not an investment company, unless that investee provides services to the investment company. However, Topic 946 does not provide guidance for an investment company's accounting for a controlling financial interest in another investment company. IFRS requires an investment entity to measure all subsidiaries at fair value, except those that provide services to the investment entity. As such, an investment company could account for controlling financial interests in another investment company differently under U.S. GAAP and IFRS.
d. Disposal of securities—Topic 946 requires an investment company to determine the cost of disposed securities using the average cost of the securities or specifically identifying the cost of each security sold. IFRS does not prescribe how to calculate the cost of disposed securities. The

amount of realized gain (or loss) on the disposal of a security could be different under U.S. GAAP and IFRS depending on the method used to determine the cost of the disposed security.

e. Required financial statements—Under IFRS, an investment company is required to present comparative financial statements and the related footnotes. Topic 946 requires comparative financial statements and a statement of cash flows in certain circumstances. In addition, IFRS does not include a requirement to provide a statement of changes in net assets or a schedule of investments. Rather, it requires additional information only for controlled investees.

f. Financial statement line items—Topic 946 contains specific financial statement presentation requirements for investment companies. For example, Topic 946 includes specific presentation requirements for realized gains and losses and for unrealized gains and losses. IFRS does not include the same financial statement presentation requirements. That could result in different financial statement captions for investment companies applying U.S. GAAP and IFRS and may affect the comparability of financial information.

g. Disclosure requirements—Topic 946 contains a number of disclosure requirements that are not required under IFRS. For example, Topic 946 requires financial highlights information and provides guidance on how per-share information, ratios, and total return should be calculated. On the other hand, disclosure requirements in other areas of IFRS (for example, the sensitivity analysis in IFRS 7, *Financial Instruments: Disclosures*) are not required by U.S. GAAP.

h. Accounting by a noninvestment company parent of an investment company subsidiary—U.S. GAAP requires that a noninvestment company parent retain the specialized accounting applied by an investment company subsidiary in its consolidated financial statements. That specialized accounting includes generally measuring investments at fair value. IFRS prohibits a noninvestment entity parent from retaining the exception to consolidation applied by an investment entity subsidiary. As such, a noninvestment entity parent is required to consolidate controlled investees of an investment entity subsidiary, which could result in significant differences in the financial statements of a noninvestment company parent under U.S. GAAP and IFRS.

i. Net asset value per share practical expedient—Topic 820 provides a practical expedient that allows an investor in an investment company to measure the fair value of its interest using net asset value per share, if certain conditions are met. IFRS does not include the concept of net asset value for an investment entity and, therefore, does not provide a similar practical expedient to fair value measurement for an investment in an investment entity.

j. Investment companies under regulatory or legal rules—Under the amendments in this Update, an entity that is regulated as an investment company under the 1940 Act is an investment company for accounting

purposes. The guidance under IFRS does not link the assessment of investment entity status to whether the entity is an investment company under local regulations or laws. Therefore, some investment companies regulated under the 1940 Act or other regulatory rules and laws may not be investment entities under IFRS.

k. Other differences—There are also other differences that arise as a result of references to other U.S. GAAP and IFRS requirements. For example, under IAS 32, *Financial Instruments: Presentation*, open-end multiple class funds generally classify investor ownership interests as liabilities, with distributions paid to investors reflected as a finance cost. Topic 946 requires an equity issuance of an open-end fund to be reflected as a shareholder transaction.

Benefits and Costs

BC88. The objective of financial reporting is to provide information that is useful to existing and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Existing and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs of implementing new guidance are borne primarily by existing investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs of implementing new guidance or to quantify the value of improved information in financial statements.

BC89. The Board concluded that the amendments in this Update improve the assessment of investment company status in Topic 946. The Board decided that the benefits of the amendments in this Update include the following:

a. Identifying the population of entities for which fair value measurement of investments provides the most useful information by more appropriately reflecting the characteristics of an investment company and making the approach to assessing investment company status more structured compared with the qualitative assessment previously in Topic 946.
b. Simplifying the assessment of investment company status by providing comprehensive guidance for that assessment.
c. Prohibiting entities from inserting investment company subsidiaries into a larger corporate structure to achieve a particular accounting outcome.
d. Continuing to include entities that are typical investment companies and that should follow investment company accounting within the scope of that guidance, including investment companies that are regulated under the 1940 Act. This results in little or no cost to implement the new guidance for those entities.

e. Reducing complexity by requiring an investment company to measure noncontrolling ownership interests in other investment companies at fair value rather than using the equity method of accounting.
f. Providing investors with additional information about financial support that has been provided or contractually required to be provided by an investment company to its investees.

Amendments to the XBRL Taxonomy

Investment companies regulated under the Investment Company Act of 1940 are currently not required to file an XBRL exhibit with the SEC. As a result, guidance in Topic 946 is not included in the U.S. GAAP Financial Reporting Taxonomy (UGT). Therefore, no changes will be made to the UGT as a result of this Update.