

New Standard Clarifying Investment Company Status and Accounting

ASU 2013-08 “Financial Services-Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements”

We are sending you this memorandum and an article published by Marcum so that you are prepared for the new requirements of Accounting Standards Update 2013-08 (the “ASU”) and so that you can evaluate the requirements of this ASU to make sure that you maintain compliance with this new standard.

- The ASU changes the definition of when an entity qualifies to be an investment company, clarifies the characteristics of an investment company and provides comprehensive guidance for assessing whether the entity is an investment company.
- Under the ASU, an investment company also will be required to measure non-controlling ownership interests in other investment companies at fair value rather than using the equity method of accounting.
- There are additional disclosure requirements as a result of the ASU that should be incorporated into your year end financial statements.



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

Three Fundamental Characteristics Required for Investment Company Status

Investor Relationship

- The entity obtains funds, and provides investment management services to, one or more investors.

Business Purpose

- The entity commits to its investor(s) that its business purpose and only substantive activities are investing solely for returns from capital appreciation, investment income, or both.

Returns/ Benefits


- The entity does 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.



Must meet all 3 criteria!

Typical Secondary Characteristics for Investment Company Status

If the entity passes the 1st step (meets all the required characteristics) then consider the following secondary characteristics that are typical. The entity should consider its purpose and design when assessing these characteristics.

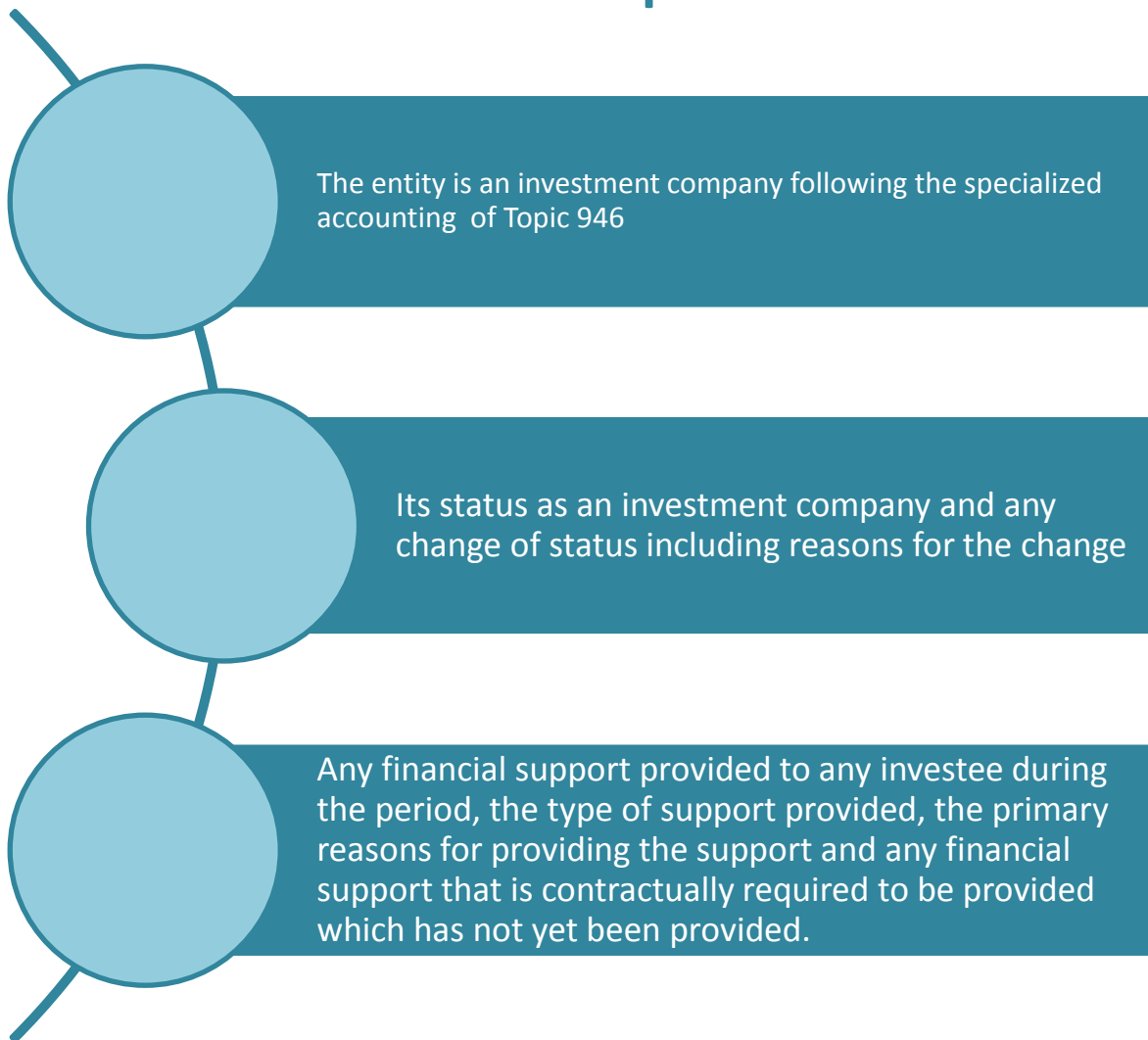


Multiple Investments	
Multiple Investors	
Non-related party investors	<ul style="list-style-type: none"> • Not related to the parent or the investment manager
Ownership interests	<ul style="list-style-type: none"> • Equity or Partnership interests
Manages investments on a fair value basis	



Apply judgment where one or more characteristics are not present– these characteristics are not absolute and are not required – and missing one or more does not preclude the entity from qualifying as an investment company.

Disclosure Requirements



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