Illustrative IFRS financial statements 2019

Investment funds

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This publication provides an illustrative set of financial statements, prepared in accordance with International Financial Reporting Standards (IFRS), for a fictional open-ended investment fund ('ABC Fund' or the 'Fund').

ABC Fund is an existing preparer of IFRS financial statements; IFRS 1, 'First-time adoption of IFRS', is not applicable. It does not have any subsidiaries, associates or joint ventures. The Fund's shares are not traded in a public market. Guidance on financial statements for first-time adopters of IFRS is available at www.pwc.com/ifrs.

This publication is based on the requirements of IFRS standards and interpretations for the financial year beginning on 1 January 2019.

There are no standards effective for the first time in 2019 that required changes to the disclosures or accounting policies in this publication. However, readers should consider whether any of the standards that are mandatory for the first time for financial years beginning 1 January 2019 could affect their own accounting policies. Appendix XII contains a full list of these standards (including those that have only a disclosure impact) as well as a summary of their key requirements.

In compiling the illustrative disclosures, we have updated the guidance included in Appendix VIII to address IFRIC 23 'Uncertainty over income tax treatments' which is applicable for financial years beginning on or after 1 January 2019.

Commentary boxes are included throughout the publication to provide additional information where necessary.

We have attempted to create a realistic set of financial statements for an open-ended investment fund. However, by necessity we illustrate disclosures that for many entities may be immaterial. Determining the level of disclosure is a matter of judgment, and naturally, disclosure of immaterial items is not required. Certain types of transactions have been excluded as they are not relevant to the Fund's operations. Example disclosures for some of these additional items have been included in appendices.

The illustrative disclosures should not be considered the only acceptable form of presentation. The form and content of each reporting entity's financial statements are the responsibility of the entity's management. Alternative presentations to those proposed in this publication may be equally acceptable if they comply with the specific disclosure requirements prescribed in IFRS.

These illustrative financial statements are not a substitute for reading the standards and interpretations themselves or for professional judgement as to the fairness of presentation. They do not cover all possible disclosures that IFRS requires, nor do they take account of any specific legal framework. Further specific information may be required in order to ensure fair presentation under IFRS. We recommend that readers refer to our most recent *IFRS disclosure checklist publication*. Additional accounting disclosures may be required in order to comply with local laws and/or stock exchange regulations.

Format

The references in the left-hand margin of the financial statements represent the paragraph of the standard in which the disclosure appears – for example, '8p40' indicates IAS 8 paragraph 40. The reference to IFRS appears in full – for example, 'IFRS13p66' indicates IFRS 13 paragraph 66. The designation 'DV' (disclosure voluntary) indicates that IFRS does not require the disclosure. Additional notes and explanations are shown in footnotes and commentary boxes.

ABC Fund financial statements

31 December 2019

Contents

(All amounts in € thousands unless otherwise stated)

Statement of financial position

1p54, 60, 113		Note	As at 31 December 2019	2018
	Assets			
1p66	**Current assets**			
1p54(d), IFRS7p8(a)	Financial assets at fair value through profit or loss	6, 9	106,460	93,242
IFRS9p3.2.23	Financial assets at fair value through profit or loss pledged as collateral	6, 9	15,268	–
IFRS7p8	Due from brokers		2,356	984
1p54(h), IFRS7p8	Other receivables		497	448
1p55	Margin accounts	10	1,026	223
1p54(i)	Cash and cash equivalents	11	1,620	325
	Total assets		**127,227**	**95,222**
	Liabilities			
1p69	**Current liabilities**			
1p54(m), IFRS7p8(e)	Financial liabilities at fair value through profit or loss	7, 9	(11,663)	(9,738)
IFRS7p8	Due to brokers		(893)	(665)
1p54(k)	Accrued expenses		(257)	(145)
1p55	**Liabilities (excluding net assets attributable to holders of redeemable shares)**		**(12,813)**	**(10,548)**
32IE32	**Net assets attributable to holders of redeemable shares**		**114,414**	**84,674**

The notes on pages 5 to 31 are an integral part of these financial statements.

(All amounts in € thousands unless otherwise stated)

Statement of comprehensive income[1] – by nature of expense

1p82, 81B, 85, 102, 113		Note	Year ended 31 December 2019	2018
	Income			
1p82(a)	Interest income	5	167	74
1p85	Interest from financial assets at fair value through profit or loss	5	780	475
IFRS9p5.7.1A	Dividend income		1,538	1,055
1p85	Net foreign currency gains or losses on cash and cash equivalents[2]		27	(7)
IFRS7p20(a)(i), 1p35	Other net changes in fair value on financial assets and financial liabilities at fair value through profit or loss	6, 7	13,455	(2,218)
1p85	**Total net income/(loss)**		**15,967**	**(621)**
1p85,99	**Expenses**			
	Management fee	14	(803)	(684)
	Custodian, secretarial and administration fees	14	(56)	(47)
	Transaction costs		(326)	(137)
	Directors' fees	14	(30)	(25)
	Other operating expenses		(151)	(123)
	Total operating expenses		**(1,366)**	**(1,016)**
1p85	**Operating profit/(loss)**		**14,601**	**(1,637)**
1p82(b)	**Finance costs (excluding increase/decrease in net assets attributable to holders of redeemable shares)**			
1p85, 32 p35	Distributions to holders of redeemable shares	13	(2,000)	(1,000)
	Profit/(loss) after distributions and before tax		**12,601**	**(2,637)**
1p82(d)	Withholding taxes		(182)	(138)
32IE32, 1p85, 32p35	**Increase/(decrease) in net assets attributable to holders of redeemable shares from operations[3]**		**12,419**	**(2,775)**

The notes on pages 5 to 31 are an integral part of these financial statements.

[1] IAS 1 'Presentation of financial statements', allows a choice of presenting all items of income and expense recognised in a period either (a) in a single statement of comprehensive income, or (b) in two statements comprising (i) a separate income statement, which displays components of profit or loss, and (ii) a statement of comprehensive income, which begins with profit or loss and displays components of other comprehensive income. ABC Fund has elected to use the single statement approach.

[2] Foreign currency gains and losses are only disclosed for cash and cash equivalents because there are no other financial assets and liabilities that are not accounted for at fair value through profit or loss, upon which foreign currency gains or losses have arisen during the period.

[3] 1p82A requires the disclosure of each component of 'other comprehensive income'. Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRS. ABC Fund has no other comprehensive income items. All income and expenses have previously been reported in the income statement.

(All amounts in € thousands unless otherwise stated)

Statement of changes in net assets attributable to holders of redeemable shares[1]

1p6, 106, 113

	Note	Year ended 31 December 2019	2018
Net assets attributable to holders of redeemable shares at 1 January		**84,674**	**76,713**
Proceeds from redeemable shares issued		26,991	12,901
Redemption of redeemable shares		(9,670)	(2,165)
Net increase from share transactions		17,321	10,736
Increase/(decrease) in net assets attributable to holders of redeemable shares from operations		12,419	(2,775)
Net assets attributable to holders of redeemable shares at 31 December	12	**114,414**	**84,674**

The notes on pages 5 to 31 are an integral part of these financial statements.

[1] This statement of changes in net assets attributable to holders of redeemable shares provides relevant and useful information to the reader corresponding to the requirements of IAS 1 and is therefore considered best practice. There are no equity balances or movements of equity in either period.

(All amounts in € thousands unless otherwise stated)

Statement of cash flows[1]

7p10, 18(b)			Year ended 31 December	
		Note	**2019**	**2018**
	Cash flows from operating activities			
	Increase/(decrease) in amount attributable to holders of redeemable shares		12,419	(2,775)
7p20	Adjustment for:			
	– Interest income and interest from financial assets at fair value through profit or loss		(947)	(549)
	– Distributions to holders of redeemable shares		2,000	1,000
	– Dividend income		(1,538)	(1,055)
7p35	– Withholding taxes		182	138
7p28	– Exchange (gains)/losses on cash and cash equivalents		(27)	7
			12,089	**(3,234)**
	Net (increase)/decrease in due from/to brokers		(1,144)	124
	Net increase in other receivables and accrued expenses		37	35
	Increase in margin accounts		(803)	(804)
	Increase in financial assets at fair value through profit or loss		(28,486)	(9,009)
	Increase in financial liabilities at fair value through profit or loss		1,925	2,156
	Cash used in operations		(16,382)	(10,732)
7p31	Interest received		917	482
7p31	Dividend received		1,412	664
	Net cash used in operating activities		**(14,053)**	**(9,586)**
7p21, 10	**Cash flows from financing activities**			
7p17	Distributions paid to holders of redeemable shares	13	(2,000)	(1,000)
7p17	Proceeds from redeemable shares issued		26,991	12,901
7p17	Redemption of redeemable shares		(9,670)	(2,165)
	Net cash from financing activities		**15,321**	**9,736**
	Net increase in cash and cash equivalents		1,268	150
	Cash and cash equivalents at beginning of the year	11	325	182
7p28	Exchange gains/(losses) on cash and cash equivalents		27	(7)
	Cash and cash equivalents at end of the year	11	**1,620**	**325**

The notes on pages 5 to 31 are an integral part of these financial statements.

[1] The cash flow statement above has been presented using the indirect method as this is more commonly seen in practice. An illustration of the cash flow statement using the direct method has been presented in appendix I.

(All amounts in € thousands unless otherwise stated)

Notes to the financial statements

1. General information

1p138(a) 1p51(a)(b) ABC Fund (the 'Fund') is an open-ended investment fund domiciled and incorporated as a limited liability company under the laws of Lagartos. The address of its registered office is 3 Cypress Pointe, West Bay Road, Lagartos.

1p138(b) The Fund's objective is to generate significant medium to long-term capital growth. It aims to achieve this objective by trading a highly diversified portfolio of listed equity and debt securities of predominantly US and other global companies included in the S&P 500 index as well as eurozone sovereign and corporate debt. The Fund will also invest in related derivatives within a defined strategy and may invest a limited portion of its portfolio in unlisted securities. Unlisted holdings will at no time exceed 10% of the Fund's total net asset value attributable to holders of redeemable shares.

1p138(b) The Fund's investment activities are managed by XYZ Capital Limited (the 'Investment Manager'), with the administration delegated to ABC Fund Services Limited.

The Fund offers its shares to a broad group of investors mainly from the eurozone.[1]

10p17 These financial statements were authorised for issue by the Board of Directors on 15 February 2020.

2. Summary of significant accounting policies

1p119 1p117(b) The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1p112(a) **2.1 Basis of preparation**

1p16 1p117(a) The financial statements of ABC Fund have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

8p28 *(a) Standards and amendments to existing standards effective 1 January 2019*[2]

There are no standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 January 2019 that have a material effect on the financial statements of the Fund.

8p30 *(b) New standards, amendments and interpretations effective after 1 January 2019 and have not been early adopted*[3]

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Fund.

[1] If instruments are traded in a public market or when the financial statements are filed with a securities commission or other regulatory organisation for the purpose of issuing any class of instrument in a public market, IFRS 8, 'Operating segments', would be applicable. Appendix VI and VII include segment reporting for a fund that is within the scope of IFRS 8.

[2] New or revised accounting standards and interpretations only need to be disclosed if they resulted in a change in accounting policy which had an impact in the current year or could impact on future periods. There is no need to disclose pronouncements that did not have any impact on the entity's accounting policies and amounts recognised in the financial statements. ABC Fund has disclosed amendments that could have affected its accounting policies but doesn't mention standards that are not relevant to it. A complete list of standards and interpretations that apply for the first time to financial reporting periods commencing on or after 1 January 2019 is set out in Appendix XII.

[3] Entities must explain if there are any accounting standards and interpretations which are not yet applied but are expected to have a material effect on the entity in the current period and on foreseeable future transactions. Where a pronouncement introduces a new accounting option that was not previously available, the entity should explain whether and/or how it expects to use the option in the future. In our view, where the expected impact is material, entities should make these disclosures even if the new accounting pronouncement is issued after the balance sheet date but before the date of authorisation of the financial statements. The illustrative accounting policy note only discusses pronouncements that are relevant for ABC Fund and that have not been early adopted. It also makes certain assumptions regarding materiality that may not apply to all entities alike and will need to be adapted to the individual circumstances of an entity. For a complete listing of standards and interpretations that were in issue as at 30 September 2019 but not yet mandatory please refer to Appendix XII.

1p119
IFRS7p21

2.2 Foreign currency translation

(a) Functional and presentation currency

21p17
21p9
1p51(d)

The Fund's investors are mainly from the eurozone, with the subscriptions and redemptions of the redeemable shares denominated in euro. The primary activity of the Fund is to invest in US securities and derivatives and to offer eurozone investors a higher return compared to other products available in the eurozone. The performance of the Fund is measured and reported to the investors in euro. The Board of Directors considers the euro as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in euro, which is the Fund's functional and presentation currency.

21p21, 28, 52(a)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the statement of financial position date.

Foreign exchange gains and losses arising from translation are included in the statement of comprehensive income.

21p28

Foreign exchange gains and losses relating to cash and cash equivalents are presented in the statement of comprehensive income within 'net foreign currency gains or losses on cash and cash equivalents'.

21p30

Foreign exchange gains and losses relating to the financial assets and liabilities carried at fair value through profit or loss are presented in the statement of comprehensive income within 'other net changes in fair value on financial assets and financial liabilities at fair value through profit or loss'.

1p119
IFRS7p21

2.3 Financial assets and financial liabilities at fair value through profit or loss

IFRS9p4.1.1

(a) Classification

IFRS9pB4.1.6

(i) *Assets*
The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. The contractual cash flows of the Fund's debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, all investments are measured at fair value through profit or loss.

IFRS9p4.2.1

(ii) *Liabilities*
The Fund makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are held for trading and are consequently classified as financial liabilities at fair value through profit or loss. Derivative contracts that have a negative fair value are presented as liabilities at fair value through profit or loss.

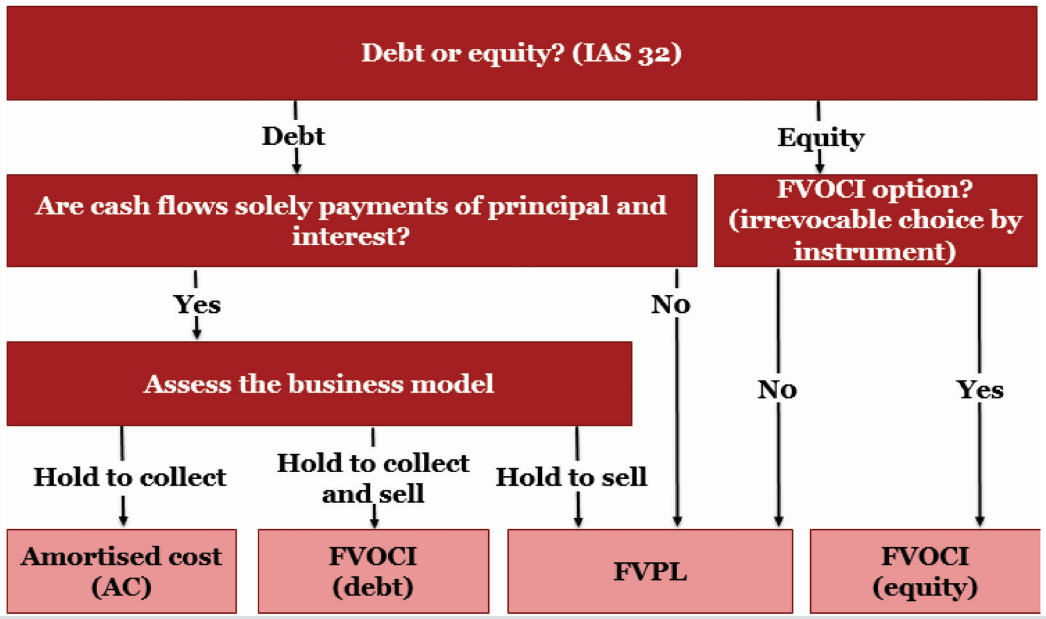
As such, the Fund classifies all of its investment portfolio as financial assets or liabilities as fair value through profit or loss.

The Fund's policy requires the Investment Manager and the Board of Directors to evaluate the information about these financial assets and liabilities on a fair value basis together with other related financial information.

Commentary – Determining business model under IFRS 9

IFRS 9 sets out three potential categories for financial assets. These are amortised cost, fair value through other comprehensive income, and fair value through profit or loss. The following decision tree summarises the model described in IFRS 9 which determines a financial asset's relevant category.

(All amounts in € thousands unless otherwise stated)



Pursuant to IFRS 9, a portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis is neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. The entity is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. In addition, a portfolio of financial assets that meets the definition of held for trading is not held to collect contractual cash flows or held both to collect contractual cash flows and to sell financial assets. For such portfolios, the collection of contractual cash flows is only incidental to achieving the business model's objective. Consequently, such portfolios of financial assets must be measured at fair value through profit or loss [IFRS9pB4.1.6].

The evaluation of the performance of ABC Fund is done for the entire portfolio on a fair value basis, as is the reporting to the key management personnel and to the investors. In this case, all equity, derivatives and debt investments form part of the same portfolio for which the performance is evaluated on a fair value basis together and reported to the key management personnel in its entirety. As all of ABC Fund's investments are either held for trading and/or managed and evaluated on a fair value basis, they have remained classified as fair value through profit or loss upon adoption of IFRS 9. The adoption of IFRS 9 therefore has not resulted in any change to the classification or measurement of financial assets, in either the current or prior period for ABC Fund.

If the portfolio is not all managed on a fair value basis, other criteria of IFRS 9 regarding the business model assessment should be considered.

To determine the business model of a fund, the following areas should be considered:
- How does the fund manage its financial assets?
- How is the performance of the fund measured?
- What does the fund's prospectus say about the management strategy and the risk factors to be considered when investing into the fund?
- How does management communicate the achievements of the fund to investors?
- What is the measurement basis for the fund units at sale or redemption?
- How does the fund meet the redemption requests?
- How were the assets previously reported under IAS 39?

Further guidance on the determination of business model for a fund and how these questions impact that determination can be found in PwC's 'IFRS 9: What's new in financial instruments accounting for asset management' published on inform.pwc.com in February 2018.

Significant accounting judgements in determining business model

The objective of ABC Fund is to achieve long-term capital appreciation and its portfolio is managed on a fair value basis. ABC Fund therefore applies the business model allowed by IFRS 9pB4.1.6 which requires its portfolio to be classified at fair value through profit or loss.

Determining the appropriate business model and assessing whether cash flows generated by an asset constitute solely payments of principal and interest (SPPI) is sometimes complex and may require significant judgement. Depending on the level of judgement and the amount of financial assets affected by the conclusion, the SPPI and/or business model assessment may require disclosure as a significant judgement in accordance with IAS 1 p122.

IFRS7B5(c) *(b) Recognition, derecognition and measurement*

IFRS7p21, IFRS9p3.2.2, p3.1.2, p5.1.1 Regular purchases and sales of investments are recognised on the trade date – the date on which the Fund commits to purchase or sell the investment. Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed as incurred in the statement of comprehensive income.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

When the Fund purchases an option, an amount equal to fair value which is based on the premium paid is recorded as an asset. When the Fund writes an option, an amount equal to fair value which is based on the premium received by the Fund is recorded as a liability. When options are closed, the difference between the premium and the amount paid or received, net of brokerage commissions, or the full amount of the premium if the option expires worthless, is recognized as a gain or loss and is presented in the statement of comprehensive income within other net changes in fair value of financial assets and liabilities at fair value through profit or loss.

IFRS9p5.2.1 IFRS9p5.7.1 Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the statement of comprehensive income within other net changes in fair value of financial assets and liabilities at fair value through profit or loss in the period in which they arise.

IFRS9p5.7.1A IFRS7AppxB5(e) Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income within dividend income when the Fund's right to receive payments is established. Interest on debt securities at fair value through profit or loss is recognised in the statement of comprehensive income. Dividend expense on short sales of equity securities is included within other net changes in fair value on financial assets and financial liabilities at fair value through profit or loss.

(c) Fair value estimation

IFRS13p91 IFRS13p70 Fair value is 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. The fair value of financial assets and liabilities traded in active markets[1] (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the reporting date[2]. The Fund utilises the last traded market price for both financial assets and financial liabilities where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, management will determine the point within the bid-ask spread that is most representative of fair value.

Commentary – IFRS 13 and fair value estimation

According to IFRS13p70-71, if an asset or a liability measured at fair value has a bid price and an ask price (for example an input from a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances should be used to measure fair value regardless of where the input is categorised within the fair value. The use of bid prices for asset positions and ask prices for liability positions is permitted, but is not required. This IFRS does not preclude the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread.

If a significant movement in fair value occurs subsequent to the close of trading up to midnight in Lagartos on the year end date, valuation techniques will be applied to determine the fair value. A significant event is any event that occurs after the last market price for a security, close of market or close of the foreign exchange, but before the Fund's valuation time that materially affects the integrity of the closing prices for any security, instrument, currency or securities affected by that event so that they cannot be considered 'readily available' market quotations.[3]

IFRS13p62 The fair value of financial assets and liabilities that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include the use of comparable recent ordinary transactions between market participants, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques

[1] The existence of published price quotations in an active market is the best evidence of fair value and, when they are available, they are used to measure fair value. The phrase 'quoted in an active market' means that quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency. Those prices represent actual and regularly occurring market transactions on an arm's length basis that are not distressed sales. The price can be taken from the principal market or, in the absence of a principal market, the most advantageous market [IFRS13p16]. The quoted market price cannot be adjusted for transaction costs [IFRS13p25]. The quoted market price cannot be adjusted for 'blockage' factors [IFRS13p69].
[2] If investments are restricted – that is, they are a particular class of instrument, with a restriction in the terms of that class or issued with the restriction – that is relevant in determining the fair value of investments. However, if the restriction is part of a separate agreement between the buyer and seller and the shares are identical to other shares with no such restriction, that is not relevant to the valuation of the securities.
[3] If a 'significant event' (for example, corporate action, corporate or regulatory news, suspension of trading, natural disaster, market fluctuations) occurs, the Fund should consider whether the valuation model would reflect a more current value of the securities held by the Fund.

(All amounts in € thousands unless otherwise stated)

commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

(d) Transfers between levels of the fair value hierarchy

IFRS13p95 Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting period.

IFRS7p21 1p119

2.4 Offsetting financial instruments

32p42, AG38B Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

IFRS7p21 1p119

2.5 Due from and due to brokers

Amounts due from and to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet settled or delivered on the statement of financial position date respectively. The due from brokers balance is held for collection.

IFRS9p5.1.1, p5.4.1, p5.5 These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund shall measure the loss allowance on amounts due from broker at an amount equal to the *lifetime expected credit losses* if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to *12-month expected credit losses*. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

Commentary – Expected credit losses

The Fund's impairment policy aligns with the requirements of the IFRS 9 expected credit loss model. Certain factors, such as what is deemed a 'significant increase in credit risk' and what is deemed to be an impairment, are inherently judgemental. Entities should develop their own policies for such factors with consideration given to the application guidance and rebuttable presumptions contained in IFRS 9.

Additional guidance can be found in PwC's 'IFRS 9: What's new in financial instruments accounting for asset management' published on inform.pwc.com in February 2018.

IFRS7p21 1p119

2.6 Cash and cash equivalents

7p45, 7p46 Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term investments in an active market with original maturities of three months or less[1] and bank overdrafts. Bank overdrafts are shown in current liabilities in the statement of financial position.

IFRS7p21 1p119

2.7 Accrued expenses

Accrued expenses are recognised initially at fair value and subsequently stated at amortised cost using the effective interest method.

IFRS7p21 1p119

2.8 Redeemable shares

32p18 IFRS9pB4.3.7 The Fund issues two classes of redeemable shares, which are redeemable at the holder's option and do not have identical rights. Such shares are classified as financial liabilities. Redeemable shares can be put back to the Fund at any dealing date for cash equal to a proportionate share of the Fund's net asset value attributable to the share class. Shares are redeemable weekly.

The redeemable shares are carried at amortised cost which corresponds to the redemption amount that is payable at the statement of financial position date if the holder exercises the right to put the share back to the Fund.

Redeemable shares are issued and redeemed at the holder's option at prices based on the Fund's net asset value per share at the time of issue or redemption. The Fund's net asset value per share is calculated by dividing the net assets

[1] Only non-restricted margin accounts should be included as part of cash and cash equivalents.

attributable to the holders of each class of redeemable shares with the total number of outstanding redeemable shares for each respective class. In accordance with the provisions of the Fund's regulations, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per share for subscriptions and redemptions.

IFRS7p21
1p119

2.9 Interest income and interest from financial assets at fair value through profit or loss

IFRS9p5.4.1

Interest is recognised on a time-proportionate basis using the effective interest method. Interest income includes interest from cash and cash equivalents. Interest from financial assets at fair value through profit or loss includes interest from debt securities.

Commentary – IFRIC agenda decision on interest income

IFRS 9 introduced a consequential amendment to paragraph 82(a) of IAS 1, which is effective for accounting periods beginning on or after 1 January 2018. Under this amendment, interest revenue calculated using the effective interest method should be separately presented as a component of revenue on the face of the income statement.

The IFRS Interpretations Committee (the 'Committee') has issued an agenda decision which concludes that this separate line item can be used only for interest on those financial assets that are measured at amortised cost or fair value through other comprehensive income (subject to the effect of applying hedge accounting to derivatives in designated hedge relationships).

This means that interest income on items that are not measured at amortised cost or fair value through other comprehensive income will no longer be able to be included in the same line item.

Some entities might wish, as a matter of accounting policy, to present additional line items, on the face of the income statement, for 'interest' on instruments measured at fair value through profit or loss. Whilst not addressed by the Committee, IAS 1 permits an entity to present additional line items where doing so is relevant to an understanding of the entity's financial performance. If such a presentation is adopted, the additional line items should be appropriately presented and labelled. Also, the entity's accounting policy, including how such amounts are calculated and on which instruments, should be disclosed.

2.10 Dividend income

IFRS9p5.7.1A

Dividend income is recognised when the right to receive payment is established.

IFRS7p21
1p119

2.11 Transaction costs

Transaction costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss. They include fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognised in profit or loss as an expense.

IFRS7p21
1p119
32IE32
32p35, 40

2.12 Distributions payable to holders of redeemable shares

Proposed distributions to holders of redeemable shares are recognised in the statement of comprehensive income when they are appropriately authorised and no longer at the discretion of the Fund. This typically occurs when proposed distribution is ratified at the Annual General Meeting. The distribution on the redeemable shares is recognised as a finance cost in the statement of comprehensive income.

IFRS7p21
1p119

2.13 Increase/decrease in net assets attributable to holders of redeemable shares from operations

Income not distributed is included in net assets attributable to holders of redeemable shares. Movements in net assets attributable to holders of redeemable shares are recognised in the statement of comprehensive income as finance costs.

IFRS7p21
1p119

2.14 Taxation[1,2]

The Fund is domiciled in Lagartos. Under the current laws of Lagartos, there is no income, estate, corporation, capital gains or other taxes payable by the Fund.

The Fund currently incurs withholding taxes imposed by certain countries on investment income and capital gains. Such income or gains are recorded gross of withholding taxes in the statement of comprehensive income. Withholding taxes are shown as a separate item in the statement of comprehensive income.

[1] Refer to Appendix VIII for investment funds with tax uncertainty.
[2] If the entity is subject to government levies the policy note should be expanded to address the accounting treatment of these costs in accordance with IFRIC 21.

(All amounts in € thousands unless otherwise stated)

2.15 Collateral

IFRS9IGD.1
IFRS9p3.2.23

Cash collateral provided by the Fund is identified in the statement of financial position as margin cash and is not included as a component of cash and cash equivalents. For collateral other than cash, if the party to whom the collateral is provided has the right by contract or custom to sell or re-pledge the collateral, the Fund classifies that asset in its statement of financial position separately from other assets and identifies the asset as pledged collateral. Where the party to whom the collateral is provided does not have the right to sell or re-pledge, a disclosure of the collateral provided is made in the notes to the financial statements.

3. Financial risks

IFRS7p33

3.1 Financial risk factors

IFRS7p31

The Fund's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

DV

The Fund is also exposed to operational risks such as custody risk. Custody risk is the risk of loss of securities held in custody occasioned by the insolvency or negligence of the custodian. Although an appropriate legal framework is in place that eliminates the risk of loss of value of the securities held by the custodian, in the event of its failure, the ability of the Fund to transfer securities might be temporarily impaired.

The Fund's overall risk management programme seeks to maximise the returns derived for the level of risk to which the Fund is exposed and seeks to minimise potential adverse effects on the Fund's financial performance. The Fund's policy allows it to use derivative financial instruments to both moderate and create certain risk exposures.

All securities investments present a risk of loss of capital. The maximum loss of capital on purchased options, long equity and debt securities is limited to the fair value of those positions. On written call options, short future positions and on equity and debt sold short, the maximum loss of capital can be unlimited. The maximum loss of capital on written put options, long futures and forward currency contracts is limited to the notional contract values of those positions.

The management of these risks is carried out by the investment manager under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, the use of derivative financial instruments and non-derivative financial instruments and the investment of excess liquidity.

The Fund's use of leverage and borrowings can increase the Fund's exposure to these risks, which in turn can also increase the potential returns the Fund can achieve. The Investment Manager manages these exposures on an individual securities level. The Fund has specific limits on these instruments to manage the overall potential exposure. These limits include the ability to borrow against the assets of the Fund up to a maximum €50 million or 50% of gross assets, whichever is lower, and a limit on derivative contracts such that the net notional contract values should not exceed 30% of net assets attributable to holders of redeemable shares.

The Fund uses different methods to measure and manage the various types of risk to which it is exposed; these methods are explained below.

IFRS7p33

3.1.1 Market risk

(a) Price risk

IFRS7p33(a), 33(b)

The Fund is exposed to equity securities price risk and derivative price risk. This arises from investments held by the Fund for which prices in the future are uncertain. Where non-monetary financial instruments – for example, equity securities – are denominated in currencies other than the euro, the price initially expressed in foreign currency and then converted into euros will also fluctuate because of changes in foreign exchange rates. Paragraph (b) 'Foreign exchange risk' below sets out how this component of price risk is managed and measured.

The Fund's policy is to manage price risk through diversification and selection of securities and other financial instruments within specified limits set by the Board of Directors. Between 70% and 120% of the net assets attributable to holders of redeemable shares is expected to be invested in equity securities and related derivatives. Between 60% and 80% of this amount is expected to be in individual equities and the balance is in traded options and futures. A summary analysis of investments by nature and geography is presented in Note 6.

The Fund's policy also limits individual equity securities to no more than 5% of net assets attributable to holders of redeemable shares.

The majority of the Fund's equity investments are publicly traded and are included in the S&P 500 Index. The Fund's policy requires that the overall market position is monitored on a daily basis by the Fund's Investment Manager and is reviewed on a quarterly basis by the Board of Directors. Compliance with the Fund's investment policies are reported to the Board on a monthly basis.

(All amounts in € thousands unless otherwise stated)

At 31 December, the fair value of equities and related derivatives exposed to price risk were as follows:

IFRS7p34

	Fair value	
	2019	**2018**
Equity securities	99,746	76,656
Equity related derivative assets	1,545	1,300
Equity related derivative liabilities	(1,115)	(538)
Equity securities sold short	(10,548)	(9,200)
Total	**89,628**	**68,218**

At 31 December, the Fund's overall exposure to price risk including the notional exposure on derivative contracts were as follows:

	2019	**2018**
Net equity securities	89,198	67,456
Net notional exposure from futures contracts	22,000	16,250
Net notional exposure from options	28,000	17,000
Total exposure to price risk from equities and equity related derivatives	**139,198**	**100,706**

The Fund also manages its exposure to price risk by analysing the investment portfolio by industrial sector and benchmarking the sector weighting to that of the S&P 500 Index. The Fund's policy is to concentrate the investment portfolio in sectors where management believe the Fund can maximise the returns derived for the level of risk to which the Fund is exposed. The table below is a summary of the significant sector concentrations within the equity portfolio (including Level 1, 2 and 3 equity securities), net of securities sold short.

IFRS7B8

	At 31 December			
	2019		2018	
Sector	**Fund's equity portfolio (%)**	**S&P 500 benchmark allocation (%)**	**Fund's equity portfolio (%)**	**S&P 500 benchmark allocation (%)**
Information technology	15.1	17.1	17.2	16.8
Financials	18.2	14.4	18.1	17.6
Energy	14.1	13.8	14.2	12.9
Health care	12.8	12.9	11.2	12.0
Consumer staples	9.8	11.6	11.5	10.2
Industrials	13.2	11.4	10.5	11.5
Consumer discretionary	9.9	8.4	10.2	8.5
Utilities	2.1	3.7	3.1	3.6
Materials	1.9	3.6	2.1	3.3
Telecommunications services	2.9	3.1	1.9	3.6
Total	**100.0**	**100.0**	**100.0**	**100.0**

The below table is a summary of derivatives held which gives rise to price risk.

	At 31 December			
	2019		2018	
Derivative type	**Contract Value**	**Fair Value**	**Contract Value**	**Fair Value**
Futures				
S&P 500	22,000	290	16,250	380
Total	**22,000**	**290**	**16,250**	**380**
Options				
Purchased call options: S&P 500	30,000	400	19,125	300
Purchased put options: S&P 500	(12,000)	445	(9,625)	400
Written call options: S&P 500	(17,800)	(300)	(10,500)	(115)
Written put options: S&P 500	27,800	(405)	18,000	(203)
Total	**28,000**	**140**	**17,000**	**382**

(All amounts in € thousands unless otherwise stated)

IFRS7p35 During the year ended 31 December 2019, the Fund's exposure to various industry sectors was significantly different from the exposure as at 31 December 2019. Specifically, the Fund's exposure to the financial service sector during the year averaged 7.5% (versus the S&P average of 17.9%) of the Fund's equity portfolio. The Fund's movement to the overweight position in the financial services sector at 31 December 2019 was at the expense primarily of the 'consumer staples' and 'utilities' sectors which, while being in an overweight position during most of the period, moved to an underweight position at 31 December 2019. Exposure as at 31 December 2018 is representative of the exposures held throughout the year ending 31 December 2018.

The Fund had no concentrations in individual equity positions exceeding 3% (2018: 4%) of the net assets attributable to holders of redeemable shares.

IFRS7p40 The table below summarises the sensitivity of the Fund's net assets attributable to holders of redeemable shares to equity price movements as at 31 December. The analysis is based on the assumptions that the S&P 500 Index increased by 6% (2018: 7%) and decreased by 3% (2018: 3%), with all other variables held constant, and that the fair value of the Fund's portfolio of equity securities and equity-based derivatives moved according to their historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the S&P 500 Index, having regard to the historical volatility of the index. The historical beta of the Fund's equity portfolio with upward movements in the index is 0.95 (2018: 0.90) of the index gain and 0.75 (2018: 0.80) of downward movements in the index. The impact below arises from the reasonable possible change in the fair value of equities and equity derivatives.[1]

	2019	**2018**
Effect on net assets attributable to redeemable shares of an increase in the index	7,959	6,344
Effect on net assets attributable to redeemable shares of a decrease in the index	(3,142)	(2,416)

The Investment Manager uses the S&P 500 Index as a reference point in making investment decisions. However, the investment manager does not manage the Fund's investment strategy to track the S&P 500 Index or any other index or external benchmark. The sensitivity analysis presented is based upon the portfolio composition as at 31 December and the historical correlation of the securities comprising the portfolio to the respective indices. The composition of the Fund's investment portfolio, including the use of leverage, and the correlation thereof to the S&P 500 Index, is expected to change over time. The sensitivity analysis prepared as of 31 December is not necessarily indicative of the effect on the Fund's net assets attributed to redeemable shares of future movements in the level of the S&P 500 Index.

Commentary – Risk exposure and consideration of derivative contract values

Although there is no specific requirement to disclose the contract/notional value of derivatives under IFRS, management should disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period [IFRS7p31]. The disclosures require focus on the risks that arise from financial instruments and how they have been managed [IFRS7p31/32].

For each type of risk arising from financial instruments an entity is required to disclose concentrations of that risk [IFRS7p34].

A derivative instrument typically provides leveraged exposure to a particular risk, the measure of which is not reflected in the fair value of the instrument. In the case of ABC Fund, which holds futures and options linked to the S&P 500 index, the net total exposure is €50,000, however the net fair value of these instruments is only €430. For the purpose of addressing the IFRS7 risk disclosure requirements, ABC Fund must therefore disclose the total risk of €50,000 as well as any concentrations within that risk. In this instance, the only concentration is to the S&P 500 index, therefore this is disclosed.

Careful consideration must be given to the type of derivatives held when determining the nature of the exposures they create. For instance, a fund that holds Contracts For Differences ('CFDs') in various equity positions should consider the contract values when analysing exposure to particular geographic locations, industries and individual equities. Similarly, when disclosing a concentration of risk, contract values should be considered. Derivatives which expose the entity to foreign exchange risk or interest rate risk (for example, foreign exchange forward contracts and interest rate swaps) will need to be considered and disclosed in a similar manner.

Additionally, when preparing a sensitivity analysis the effect of a reasonable possible movement in the risk variable should be determined considering the effect of derivatives where relevant.

[1] This includes the Level 3 equity positions. Note that the separate level 3 sensitivity analysis, which is based on valuation inputs, does not meet the requirement to present a market sensitivity analysis.

(b) Foreign exchange risk

IFRS7 p33(a),(b) The Fund operates internationally and holds both monetary and non-monetary assets denominated in currencies other than the euro, the functional currency. Foreign currency risk, as defined in IFRS 7, arises as the value of future transactions, recognised monetary assets and monetary liabilities denominated in other currencies fluctuate due to changes in foreign exchange rates. IFRS 7 considers the foreign exchange exposure relating to non-monetary assets and liabilities to be a component of market price risk not foreign currency risk. However, management monitors the exposure on all foreign currency denominated assets and liabilities. The table below provides analysis between monetary and non-monetary items to meet the requirements of IFRS 7.

The Fund does not enter into any foreign exchange hedging transactions for the purpose of managing its exposure to foreign exchange movements (both monetary and non-monetary).

When the Investment Manager formulates a view on the future direction of foreign exchange rates and the potential impact on the Fund, the Investment Manager factors that into its portfolio allocation decisions. While the Fund has direct exposure to foreign exchange rate changes on the price of non-euro-denominated securities, it may also be indirectly affected by the impact of foreign exchange rate changes on the earnings of certain companies in which the Fund invests, even if those companies' securities are denominated in euro. For that reason, the below sensitivity analysis may not necessarily indicate the total effect on the Fund's net assets attributable to holders of redeemable shares of future movements in foreign exchange rates.

The table below summarises the Fund's assets and liabilities, monetary and non-monetary, which are denominated in a currency other than the euro.

IFRS7p34(a) **Concentration of foreign currency exposure**

(Amounts in euro thousands)

	At 31 December			
	2019		2018	
	USD	**GBP**	**USD**	**GBP**
Assets				
Monetary assets	4,024	10	1,894	–
Non-monetary assets	88,990	1,100	69,730	584
Liabilities				
Monetary liabilities	605	–	398	–
Non-monetary liabilities	10,715	–	2,018	–

IFRS7p33(b) In accordance with the Fund's policy, the Investment Manager monitors the Fund's monetary and non-monetary foreign exchange exposure on a daily basis, and the Board of Directors review it on a quarterly basis.

IFRS7p40 IFRS7IG36 The table below summarises the sensitivity of the Fund's monetary and non-monetary assets and liabilities to changes in foreign exchange movements at 31 December. The analysis is based on the assumptions that the relevant foreign exchange rate increased/decreased by the percentage disclosed in the table below, with all other variables held constant. This represents management's best estimate of a reasonable possible shift in the foreign exchange rates, having regard to historical volatility of those rates. This increase or decrease in the net assets attributable to holders of redeemable shares arises mainly from a change in the fair value of US dollar equity and fixed interest securities and UK equities that are classified as financial assets and liabilities at fair value through profit or loss.

		Reasonable possible shift in rate 2019	**Movement in value 2019**	**Reasonable possible shift in rate 2018**	**Movement in value 2018**
	Currency				
	US dollars				
IFRS7p40(a) DV[1]	– Monetary	+/- 3%	+/- 103	+/- 6%	+/- 90
	– Non-monetary	+/- 3%	+/- 2,348	+/- 6%	+/- 4,063
	Pounds sterling				
IFRS7p40(a) DV[1]	– Monetary	+/- 6%	+/- 1	+/- 8%	–
	– Non-monetary	+/- 6%	+/- 66	+/- 8%	+/- 47

[1] Non-monetary sensitivity analysis is voluntary. In accordance with IFRS 7B23, currency risk does not arise from financial instruments that are non-monetary.

(All amounts in € thousands unless otherwise stated)

(c) Cash flow and fair value interest rate risk

IFRS7p33(a), (b)

Interest rate risk arises from the effects of fluctuations in the prevailing levels of markets interest rates on the fair value of financial assets and liabilities and future cash flow. The Fund holds fixed interest securities that expose the Fund to fair value interest rate risk. The Fund also holds a limited amount of euro-denominated floating rate debt, cash and cash equivalents that expose the Fund to cash flow interest rate risk. The Fund's policy requires the Investment Manager to manage this risk by measuring the mismatch of the interest rate sensitivity gap of financial assets and liabilities and calculating the average duration of the portfolio of fixed interest securities. The average effective duration of the Fund's portfolio is a measure of the sensitivity of the fair value of the Fund's fixed interest securities to changes in market interest rates.

The Fund's policy is to hold no more than 20% of the Fund's net assets attributed to holders of redeemable shares in interest bearing assets and liabilities and that the average effective duration of the fixed interest portfolio must remain within 30% of the average duration of the ABC Bank US short-duration bond index. The table below summarises the Fund's relative sensitivity to interest rate changes versus its reference benchmark of the ABC Bank US short-duration bond index. This measure of duration for the portfolio indicates the approximate percentage change in the value of the portfolio if interest rates change by 100 basis points.

	31 December			
	2019		2018	
	Fund	Benchmark	Fund	Benchmark
Effective duration	2.01	2.75	1.86	2.25

IFRS7p40
IFRS7IG36

At 31 December 2019, if interest rates on euro-denominated assets and liabilities had been lower by 75 basis points with all other variables held constant, the increase in net assets attributable to redeemable shareholders would have been €286 (2018: €127). This arises substantially from the increase in the fair value of fixed interest securities, with a small portion affecting interest rate futures[1] €5 (2018: € nil). If interest rates on euro-denominated assets and liabilities had been higher by 50 basis points, the decrease in net assets attributable to redeemable shareholders would amount to €190 (2018: €85).

At 31 December 2019, if interest rates on USD-denominated assets had been 25 basis points lower/higher with all other variables held constant, the change in net asset attributable to redeemable shareholders would have been €11 (2018: €9) higher/lower. This primarily arises from the increase/decrease in the fair value of fixed interest securities, with a small proportion arising from the decrease/increase in interest income on cash and cash equivalents of €1 (2018: €1).

The Fund has direct exposure to interest rate changes on the valuation and cash flows of its interest bearing assets and liabilities. However, it may also be indirectly affected by the impact of interest rate changes on the earnings of certain companies in which the Fund invests. Therefore, the above sensitivity analysis may not fully indicate the total effect on the Fund's net assets attributable to holders of redeemable shares of future movements in interest rates.

IFRS7p33

In accordance with the Fund's policy, the Investment Manager monitors the Fund's overall interest sensitivity on a daily basis; the Board of Directors reviews it on a quarterly basis.

3.1.2 Liquidity risk

IFRS7p39(c), IFRS7p33(a), (b)

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to the daily settlement of margin calls on derivatives and to weekly cash redemptions of redeemable shares. Its policy is therefore to invest the majority of its assets in investments that are traded in an active market and can be readily disposed. Only a limited proportion of its assets in investments are not actively traded on a stock exchange.

The Fund's listed securities are considered readily realisable, as the majority are listed on the New York stock exchange.

The Fund may periodically invest in derivative contracts and debt securities that are traded over the counter and unlisted equity investments that are not traded in an active market. As a result, the Fund may not be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirements, or be able to respond to specific events such as deterioration in the creditworthiness of any particular issuer.

7p50(a)

The Fund has the ability to borrow in the short term to ensure settlement. No such borrowings have arisen during the year. The maximum amount available to the Fund from this borrowing facility is limited to the lower of €50 million or to 50% of the gross assets and would be secured by the assets of the Fund. This facility bears interest at 1 week USD LIBOR plus 25 basis points.

In order to manage the Fund's overall liquidity, the Fund also has the ability to withhold 25% of weekly redemption requests for a period of no more than one month. Under extraordinary circumstances the Fund also has the ability to

[1] Note that interest rate risk sensitivity from interest linked derivatives should be based on notional values as this represents the actual exposure.

(All amounts in € thousands unless otherwise stated)

suspend redemptions if this is deemed to be in the best interest of all shareholders. The Fund did not withhold any redemptions or implement any suspension during 2019 and 2018.

In accordance with the Fund's policy, the Investment Manager monitors the Fund's liquidity position on a daily basis; the Board of Directors reviews it on a quarterly basis.

IFRS7p39(a) The table below analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows and are based on the assumption that the Fund exercises its ability to withhold 25% of weekly redemptions.

At 31 December 2019	**Less than 7 days**	**7 days to 1 month**
Financial liabilities at fair value through profit or loss	10,548	–
Due to brokers	893	–
Accrued expenses	158	99
Net asset attributable to holders of redeemable shares	85,814	28,600
Contractual cash out flows (excluding derivatives)	**97,413**	**28,699**
At 31 December 2018		
Financial liabilities at fair value through profit or loss	9,200	–
Due to brokers	665	–
Accrued expenses	95	50
Net asset attributable to holders of redeemable shares	63,504	21,170
Contractual cash out flows (excluding derivatives)	**73,464**	**21,220**

Redeemable shares are redeemed on demand at the holder's option (Note 2.8). However, the Board of Directors does not envisage that the contractual maturity disclosed in the table above will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long term. At 31 December 2019 and 2018, no individual investor held more than 10% of the Fund's redeemable shares.

IFRS7B11E The Fund manages its liquidity risk by investing predominantly in securities that it expects to be able to liquidate within 7 days or less. The following table illustrates the expected liquidity of assets held:*

At 31 December 2019	**Less than 7 days**	**7 days to 1 month**	**1–12 months**	**More than 12 months**
Total assets	111,479	7,850	7,298	600

At 31 December 2018	**Less than 7 days**	**7 days to 1 month**	**1–12 months**	**More than 12 months**
Total assets	91,053	3,778	306	85

Commentary – Asset liquidity

* IFRS 7B11E states that an entity shall disclose a maturity analysis of financial assets it holds for managing liquidity risk if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. It is acceptable to present this analysis in narrative format or tabular format.

Careful consideration must be given to the nature of assets held when categorizing within liquidity buckets. For instance, emerging market debt instruments may have a different liquidity profile from developed market debt instruments.

(All amounts in € thousands unless otherwise stated)

IFRS7p39(b) The table below analyses the Fund's derivative financial instruments in a loss position for which the contractual maturities are considered to be essential to an understanding of the timing of cash flows based on the Fund's investment strategy.

	Less than 7 days	7 days to 1 month	1–12 months	More than 12 months
At 31 December 2019				
Net settled derivatives				
– S&P Futures[1]	310	45	40	15
– S&P Options	355	350	–	
At 31 December 2018				
Net settled derivatives				
– S&P Futures	–	110	100	10
– S&P Options	318	–	–	–

Commentary – Liquidity risk disclosures and derivatives

Gross settled derivatives

An entity is required to disclose its gross cash outflows on gross settled derivatives (IFRS7B11D(d)). A foreign exchange forward contract is an example of a derivative instrument which is commonly settled on a gross basis rather than at net. There is no explicit requirement to disclose the corresponding inflow. However, IFRS7B11E requires an entity to disclose a maturity analysis of financial assets it holds for managing liquidity risk if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.

Expected maturity vs contractual maturity

Amended IFRS 7p39(b) states: 'the maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows'. When more relevant, the information will be presented based on expected maturities rather than contractual maturities.

IFRS7p33

3.1.3 Credit risk

IFRS7p33(a), (b) The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The main concentration to which the Fund is exposed arises from the Fund's investments in debt securities. The Fund is also exposed to counterparty credit risk on trading derivative products, cash and cash equivalents, amounts due from brokers and other receivable balances.

The Fund's policy to manage this risk is to invest in debt securities that have a minimum credit rating of BBB/Baa as designated by a well-known rating agency, Ratings plc, with no more than 50% of the debt portfolio rated less than AA/Aa. Within the above limits, the Fund may also invest in unrated assets where a rating is assigned by the investment manager using an approach that is consistent with the approach used by that rating agency. The analysis below summarises the credit quality of the Fund's debt portfolio at 31 December.

DV

Debt securities by rating category	2019	2018
AAA/Aaa	40%	45%
AA/Aa	20%	23%
A/A	15%	13%
BBB/Baa	13%	10%
Unrated*	12%	9%
Total	**100%**	**100%**

*In order to monitor the credit quality of the ''Unrated'' underlying debt securities, the investment manager, on the basis of internal research, prepares its own shadow ratings for the various instruments for which publically available credit ratings are not available. The investment manager reviews the key financial metrics of the issue and structural features of the instruments in order to calculate the implied ratings for each of these investments. The majority of unrated securities have been assessed by the investment manager to have credit quality consistent with BBB/Baa rated securities. A BBB/Baa rating is the lowest rating a bond can have and still be considered investment-grade. An investment grade bond is a bond considered to have a relatively low risk of default.

All other receivables, amounts due from brokers, cash and short-term deposits are held by parties with a credit rating of AA/Aa or higher.

[1] The net settled derivatives that have a negative fair value at the reporting date (that is, those that are liabilities) are included in the above liquidity analysis at contractual undiscounted amounts. Net settled derivatives that have a positive fair value (that is, those that are assets) may also be included; however, this is not a requirement of IFRS 7. IFRS 7B10A requires that if the cash outflows can be significantly different from the amounts indicated in the liquidity analysis (for example, in the case of a net settled derivative for which the counterparty has the option to require gross settlement), the entity states that fact and provides quantitative information that enables users of the financial statements to evaluate the extent of that risk.

(All amounts in € thousands unless otherwise stated)

The Fund also restricts its exposure to credit losses on the trading derivative instruments it holds by entering into master netting arrangements with counterparties (approved brokers) with whom it undertakes a significant volume of transactions. Master netting arrangements do not result in an offset of statement of financial position assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Fund's overall exposure to credit risk on derivative instruments subject to a master netting arrangement can change substantially within a short period, as it is affected by each transaction subject to the arrangement. Refer to note 3.1.4 for further analysis of the Funds master netting arrangements.

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

In accordance with the Fund's policy, the Investment Manager monitors the Fund's credit position on a daily basis; the Board of Directors reviews it on a quarterly basis.

IFRS7p36(a)
IFRS7p34

The maximum exposure to credit risk before any credit enhancements at 31 December is the carrying amount of the financial assets as set out below.[1]

	2019	**2018**
Debt securities	20,382	15,286
Derivative assets	1,600	1,300
Cash and cash equivalents	1,620	325
Other assets	3,879	1,655
Total	**27,481**	**18,566**

IFRS7p35F

The Fund measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. At 31 December 2019 and 31 December 2018, all other receivables, amounts due from brokers, cash and short-term deposits are held with counterparties with a credit rating of AA/Aa or higher and are due to be settled within 1 week. Management consider the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

Commentary – IFRS 7 credit risk disclosures

There are significant disclosure requirements surrounding credit risk and impairment that are not relevant for ABC Fund but which may be relevant for other entities. Further illustrative guidance on the disclosure requirements of IFRS 9 can be found in PwC's 'VALUE IFRS Plc: Illustrative IFRS consolidated financial statements December 2019' publication, which is supplemented by 'IFRS 9 disclosures for corporates: a practice aid'. Both are available on inform.pwc.com.

The clearing and depository operations for the Fund's security transactions are mainly concentrated with one prime broker, namely Custodian plc. Custodian plc is a member of a major securities exchange, and at 31 December 2019 had a credit rating of Aa (2018: Aa). At 31 December 2019 and 31 December 2018, substantially all cash and cash equivalents, balances due from broker and investments are placed in custody with Custodian plc.

IFRS7p14
IFRS7p36

The Fund has provided Custodian plc with a general lien over all assets (excluding cash[2]) held in custody in return for services including borrowed securities and derivatives trading. Custodian plc has the right to sell or re-pledge up to 125% (2018: nil) of the collateral received to the extent of equity securities sold short and the fair value of derivatives in a loss position. The Fund is therefore also exposed to credit risk to Custodian plc to the extent that collateral provided has been sold or re-pledged. There are also risks involved in dealing with custodians or brokers who settle trades with regard to the segregation of assets. It is expected that all securities and other assets deposited with custodians or brokers will be clearly identified as being assets of the Fund; the Fund should not therefore be exposed to a credit risk with respect to such parties. However, it may not always be possible to achieve this segregation, so the portfolio of the Fund may experience increased exposure to credit risk associated with the applicable custodians or brokers.

[1] IFRS7p36(a); Disclosure of the amount that best represents the maximum exposure to credit risk is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk.
[2] If cash collateral was provided for a specific transaction, the Fund would separately identify the collateral as 'margin cash' or a 'receivable' and not include the amount as part of 'cash and cash equivalents' [IFRS9 IE D.1.1].

(All amounts in € thousands unless otherwise stated)

Commentary – Derivatives and risk disclosures

When making the required IFRS 7 risk disclosures illustrated above, careful thought must be given to the risk exposures created by the various derivative instruments that the fund may hold. For most derivatives, the notional or contract value of the instrument would determine the total risk exposure. These exposures need to be incorporated into the respective quantitative disclosures and sensitivity analysis where applicable.

1p134, 1p135

3.1.4 Offsetting and amounts subject to master netting arrangements and similar agreements

As at 31 December 2019 and 2018 the Fund was subject to one master netting arrangement with its sole derivative counterparty. All of the derivative assets and liabilities of the Fund are held with this counterparty and the margin balance maintained by the Fund is for the purpose of providing collateral on derivative positions.

IFRS7p13C

The following tables present the Fund's financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements. The tables are presented by type of financial instrument.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements:

	A	B	C = A-B	D		E = C-D
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set-off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set-off in the statement of financial position		Net amount
				D(i) and D(ii) Financial Instruments	D(ii) Cash collateral received	
Description						
2019: Derivatives assets	1,600	–	1,600	1,115	–	485
2018: Derivatives assets	1,300	–	1,300	538	–	762

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements:

	A	B	C = A-B	D		E = C-D
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set-off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set-off in the statement of financial position		Net amount
				D(i) and D(ii) Financial Instruments	D(ii) Cash collateral received	
Description						
2019: Derivatives liabilities	1,115	–	1,115	1,115	–	–
2018: Derivatives liabilities	538	–	538	538	–	–

Amounts in D(i) and D(ii) above relate to amounts subject to set-off that do not qualify for offsetting under (B) above. This includes (i) amounts which are subject to set-off against the asset (or liability) disclosed in 'A' which have not been offset in the statement of financial position, and (ii) any financial collateral (including cash collateral), both received and pledged.

IFRS7p13E, B50

The Fund and its counterparty have elected to settle all transactions on a gross basis however, each party has the option to settle all open contracts on a net basis in the event of default of the other party. Per the terms of the master netting agreement, an event of default includes the following:

- failure by a party to make payment when due;
- failure by a party to perform any obligation required by the agreement (other than payment) if such failure is not remidied within 30 days after notice of such failure is given to the party;
- bankruptcy.

Commentary – Offsetting and amounts subject to master netting arrangements and similar agreements

The illustrative disclosure provided above is minimal and deals with a non-complex arrangement. For further detailed guidance and illustrative disclosure on the Amendments to IFRS 7, 'Disclosures – Offsetting financial assets and financial liabilities', refer to Appendix X.

1p134, 1p135 **3.2 Capital risk management**

The capital of the Fund is represented by the net assets attributable to holders of redeemable shares. The amount of net asset attributable to holders of redeemable shares can change significantly on a weekly basis, as the Fund is subject to weekly subscriptions and redemptions at the discretion of shareholders, as well as changes resulting from the Fund's performance. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for shareholders, provide benefits for other stakeholders and maintain a strong capital base to support the development of the investment activities of the Fund.

In order to maintain the capital structure, the Fund's policy is to perform the following:
- Monitor the level of weekly subscriptions and redemptions relative to the assets it expects to be able to liquidate within 7 days and adjust the amount of distributions the Fund pays to redeemable shareholders.
- Redeem and issue new shares in accordance with the constitutional documents of the Fund, which include the ability to restrict redemptions and require certain minimum holdings and subscriptions.

The Board of Directors and Investment Manager monitor capital on the basis of the value of net assets attributable to redeemable shareholders.

3.3 Fair value estimation

IFRS13p70 The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the year end date. The Fund utilises the last traded market price for both financial assets and financial liabilities. If a significant movement in fair value occurs subsequent to the close of trading up to midnight in Lagartos on the year end date, valuation techniques will be applied to determine the fair value.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each year end date. Valuation techniques used for non-standardised financial instruments such as options, currency swaps and other over-the-counter derivatives, include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

For instruments for which there is no active market, the Fund may use internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value unlisted equity, debt securities and other debt instruments for which markets were or have been inactive during the financial year. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Fund holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risk, liquidity risk and counterparty risk.

IFRS7p29(a) The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Fund for similar financial instruments.

IFRS13p93(b) The fair value hierarchy has the following levels:
- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

(All amounts in € thousands unless otherwise stated)

Commentary – IFRS 13

The overall disclosure objective of IFRS 13 is for an entity to disclose information that helps users of its financial statements assess both of the following:

- For assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements; and
- For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.

Recurring fair value measurements of assets or liabilities are those that other IFRSs require or permit in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of assets or liabilities are those that other IFRSs require or permit in the statement of financial position in particular circumstances.

In the vast majority of cases, it can be expected that a fund would only have recurring fair value measurements on its statement of financial position.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Fund. The Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following table analyses within the fair value hierarchy the Fund's assets and liabilities (by class) measured at fair value at 31 December 2019[1].

All fair value measurements disclosed are recurring fair value measurements[2].

IFRS13p93(a), (b)

	Level 1	Level 2	Level 3	Total balance
Assets				
Financial assets at fair value through profit or loss:				
Equity securities				
Eurozone				
Industrial	11,774	–	–	11,774
United States				
Information technology	13,469	–	–	13,469
Financials	13,540	2,694	–	16,234
Health care	11,417	–	–	11,417
Consumer staples	8,741	3,250	7,298	19,289
Energy	8,500	4,077	–	12,577
Consumer discretionary	4,650	4,181	–	8,831
Other sectors	4,800	1,355		6,155
Derivatives				
Listed options	845	–	–	845
Listed futures	755	–	–	755
Debt securities				
US Treasury bills	2,000	–	–	2,000
Eurozone sovereign	11,499	4,501	–	16,000
Eurozone corporate	–	1,600	–	1,600
United States corporate	–	182	600	782
Total assets at fair value through profit or loss	**91,990**	**21,840**	**7,898**	**121,728**
Liabilities				
Financial liabilities at fair value through profit or loss:				
Equity securities sold short				
United States				
Consumer staples	6,198	4,350	–	10,548
Derivatives				
Listed options	705	–	–	705
Listed futures	410	–	–	410
Total liabilities at fair value through profit or loss	**7,313**	**4,350**	**–**	**11,663**

[1] Valuation hierarchy disclosures should be given by class of asset and liability measured at fair value [IFR13p93(b)]. The concept of disclosure by 'class' existed prior to IFRS13; however, the standard provides further clarification on what should be considered in determining appropriate classes of assets and liabilities. Factors to consider would be the nature, characteristics and risks of the asset and liability as well as the level of the fair value hierarchy in which the measurement is categorised. Greater disaggregation of classes may be needed for Level 3 due to the degree of uncertainty and subjectivity [IFRS13p94].
[2] This table follows the illustrative guidance in IFRS13pIE60.

(All amounts in € thousands unless otherwise stated)

The following table analyses within the fair value hierarchy the Fund's assets and liabilities measured at fair value at 31 December 2018.

	Level 1	Level 2	Level 3	Total balance
Assets				
Financial assets at fair value through profit or loss:				
Equity securities:				
Eurozone				
Industrial	6,523	–	–	6,523
Other	491	–	–	491
United States				
Information technology	10,685	–	–	10,685
Financials	11,244	–	–	11,244
Health care	6,572	–	–	6,572
Consumer staples	13,964	3,600	306	17,870
Energy	3,745	5,077	–	8,822
Consumer discretionary	6,337	–	–	6,337
Other sectors	8,112	–	–	8,112
Derivatives:				
Listed options	700	–	–	700
Listed futures	600	–	–	600
Debt securities:				
US Treasury bills	1,000	–	–	1,000
Eurozone sovereign	9,700	4,000	–	13,700
United States corporate	–	501	85	586
Total assets at fair value through profit or loss	**79,673**	**13,178**	**391**	**93,242**
Liabilities				
Financial liabilities at fair value through profit or loss:				
Equity securities sold short				
United States				
Consumer staples	4,850	4,350	–	9,200
Derivatives				
Listed options	318	–	–	318
Listed futures	220	–	–	220
Total liabilities at fair value through profit or loss	**5,388**	**4,350**	**–**	**9,738**

Commentary – Classes of assets and liabilities

IFRS13p94 states that an entity should determine appropriate classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability; and the level of the fair value hierarchy within which the fair value measurement is categorised. The number of classes may need to be greater for fair value measurements categorised within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. An entity should provide information sufficient to permit reconciliation to the line items presented in the statement of financial position.

All disclosure requirements of IFRS13p93, which are dealt with in the remainder of this note, are required to be made by class of assets and liabilities.

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include active listed equities, exchange traded derivatives, US government treasury bills and certain non-US sovereign obligations. The Fund does not adjust the quoted price for these instruments.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources[1] supported by observable inputs are classified within Level 2. These include investment-grade corporate bonds and certain non-US sovereign obligations, listed equities and over-the-counter derivatives. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently. Level 3 instruments include private equity and corporate debt securities. As observable prices are not available for these securities, the Fund has used valuation techniques to derive the fair value.

[1] In cases where funds utilise broker quotes to assess valuation, it is important to identify whether the quotes are binding and executable or indicative and not executable. Binding quotes would support a level 2 classification; however, if a quote is just indicative, this may result in level 3.

(All amounts in € thousands unless otherwise stated)

IFRS13p93(g) Level 3 valuations are reviewed on a weekly basis by the Fund's valuation committee who report to the Board of Directors on a monthly basis. The committee considers the appropriateness of the valuation model inputs, as well as the valuation result using various valuation methods and techniques generally recognised as standard within the industry. In selecting the most appropriate valuation model the committee performs back testing and considers which model's results have historically aligned most closely to actual market transactions.*

Commentary – Level 3 valuation process

* For fair value measurements categorised within Level 3 of the fair value hierarchy, an entity is required to disclose a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period) [IFRS13p93(g)]. To satisfy this requirement, the illustrative example provided in IFRS 13 states that an entity might disclose information, such as the group within the entity that decides the entity's valuation policies and procedures, to whom that group reports, the frequency and methods for calibration, back testing and other testing procedures of pricing models, etc. [IFRS13pIE65].

The Level 3 equity that amounts to €7,298 consists of private equity positions. The Fund utilises comparable trading multiples in arriving at the valuation for these positions. Management determines comparable public companies (peers) based on industry, size, developmental stage and strategy. Management then calculates a trading multiple for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by its earnings before interest, taxes, depreciation and amortisation (EBITDA). The trading multiple is then discounted for considerations such as illiquidity and differences between the comparable companies based on company-specific facts and circumstances.

The Level 3 debt that amounts to €600 consists of US corporate debt positions. The Fund values these instruments using the net present value of estimated future cash flows. The Fund also considers other liquidity, credit and market risk factors, and adjusts the valuation model as deemed necessary.

IFRS13p93(d), (h)

Description	Fair value at 31 Dec 2019	Valuation Technique	Unobservable Inputs	Weighted average input **	Reasonable possible shift +/- (absolute value)	Change in Valuation +/-
US equity securities: – Consumer staples	7,298	Comparable trading multiples	EBITDA multiple	9.5	1	605/(605)
			Discount for lack of marketability	10%	5%	(405)/405
			Control premium	12%	6%	487/(487)
Debt securities: – US corporate	600	Discounted cash flows	Cost of capital	10%	2%	(24)/24
			Probability of default	15%	10%	(75)/75

Description	Fair value at 31 Dec 2018	Valuation Technique	Unobservable Inputs	Weighted average input **	Reasonable possible shift +/- (absolute value)	Change in Valuation +/-
US equity securities: – Consumer staples	306	Comparable trading multiples	EBITDA multiple	8.5	1	30/(30)
			Discount for lack of marketability	15%	5%	(18)/18
			Control premium	12%	6%	20/(20)
Debt securities: – US corporate	85	Discounted cash flows	Cost of capital	10%	2%	(3)/3
			Probability of default	18%	10%	(12)/12

(All amounts in € thousands unless otherwise stated)

IFRS13p93(h), (i) The change in valuation disclosed in the above table shows the direction an increase or decrease in the respective input variables would have on the valuation result. For equity securities, increases in the EBITDA multiple and control premium inputs would each lead to an increase in estimated value. However, an increase in the discount for lack of marketability would lead to a decrease in value. For debt securities, increases in cost of capital and probability of default would both lead to a decrease in estimated value[1].

No interrelationships between unobservable inputs used in the Fund's valuation of its Level 3 equity investments have been identified. However, for Level 3 debt securities, a change in the assumption used for the probability of default is expected to be accompanied by a directionally similar change in the cost of capital[2].

Commentary – Level 3 disclosure

**** For fair value measurements categorised within Level 3 of the fair value hierarchy, quantitative information about the significant unobservable inputs used in the fair value measurement should be provided.**

An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (for example, when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure, an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity [IFRS13p93(d)].

This needs to be presented in addition to the sensitivity analysis.

IFRS13p93(c), (e) The following table presents the transfers between levels for the year ended 31 December 2019.

	Level 1	Level 2	Level 3
Transfers between Levels 1 and 2:			
US equities securities			
Financial sector	(2,200)	2,200	–
Consumer discretionary	(3,520)	3,520	–
Transfers between Levels 2 and 3:			
United States corporate	–	(450)	450

The equity securities transferred out of Level 1 relate to positions whose trading was inactive as at 31 December 2019 but was actively traded on 31 December 2018. The debt transferred from Level 2 to Level 3 relates to a single corporate debt security whose issuer experienced financial difficulty during the year. This ultimately resulted in a halt in trading activity on all of its issued debt instruments. The valuation inputs for this security were not therefore based on market observable inputs and resulted in the reclassification to Level 3.

The following table presents the transfers between levels for the year ended 31 December 2018.

	Level 1	Level 2	Level 3
Transfers between Levels 1 and 2:			
US equities securities			
Consumer staples	(525)	525	–
Consumer discretionary	1,012	(1,012)	–
Transfers between levels 2 and 3:			
United States corporate	–	(600)	600

The equity securities transferred out of level 1 relate to positions whose trading was inactive as at 31 December 2018 but was actively traded on 31 December 2017. The equity securities transferred into Level 1 relate to positions for which significant trading activity existed on 31 December 2018 but which were only thinly traded on and around 31 December 2017. The transfer from Level 2 to Level 3 relates to corporate debt securities whose issuers experienced significant reductions in trading activity during the year as well as significant credit rating downgrades. The valuation inputs for these securities were not therefore based on market observable inputs and resulted in the reclassification to Level 3.

IFRS13p95 Transfers between levels of the fair value hierarchy, for the purpose of preparing the above table, are deemed to have occurred at the beginning of the reporting period.***

[1] A narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs is required if a change in those inputs might result in a significantly higher or lower fair value measurement. [IFRS13p93(h)(i)].

[2] If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement is required to be disclosed [IFRS13p93(h)(i)].

(All amounts in € thousands unless otherwise stated)

Commentary – Transfers

An entity should disclose the amounts of any transfers between levels of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred. Transfers into each level should be disclosed and discussed separately from transfers out of each level [IFRS13p93(c),(e)(iv), p95].

*** The policy with regard to the timing of the recognition of transfers should be the same for transfers into the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include the following [IFRS13p95]:

- The date of the event or change in circumstances that caused the transfer.
- The beginning of the reporting period.
- The end of the reporting period.

IFRS13p93(e) The following table presents the movement in level 3 instruments for the year ended 31 December 2019 by class of financial instrument.

	US equity securities – consumer staples	US corporate debt	Total
Opening balance	**306**	**85**	**391**
Purchases	6,500	–	6,500
Sales	(850)	(20)	(870)
Transfers into Level 3	–	450	450
Net gains/(losses) recognised in other net changes in fair value on financial assets and financial liabilities at fair value through profit or loss	1,342	85	1,427
Closing balance	**7,298**	**600**	**7,898**
Change in unrealised gains or losses for Level 3 assets held at year end and included in other net changes in fair value on financial assets and financial liabilities at fair value through profit or loss****	1,292	80	1,372

The following table presents the movement in Level 3 instruments for the year ended 31 December 2018 by class of financial instrument.

	US equity securities – consumer staples	US corporate debt	Total
Opening balance	–	–	–
Purchases	450	–	450
Sales	(150)	(400)	(550)
Transfers into level 3	–	600	600
Net gains/(losses) recognised in other net changes in fair value on financial assets and financial liabilities at fair value through profit or loss	6	(115)	(109)
Closing balance	**306**	**85**	**391**
Change in unrealised gains or losses for Level 3 assets held at year end and included in other net changes in fair value on financial assets and financial liabilities at fair value through profit or loss ****	4	(25)	(21)

Commentary – Level 3 assets and liabilities held at year end

**** IFRS 13 clarifies that for Level 3 positions, the amount of the total gains or losses for the period included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period, and the line item(s) in profit or loss in which those unrealised gains or losses are recognised, should be disclosed [IFRS13p93(f)].

IFRS13p97 For assets and liabilities carried at amortised cost, their carrying values are a reasonable approximation of fair value.

Commentary – Assets and liabilities not carried at fair value but for which fair value is disclosed

For each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity should disclose the level within the fair value hierarchy within which the fair value measurement would be categorised, and a description of the valuation technique and the inputs used in the technique [IFRS13p97].

The example the IASB used for this requirement is the case in which a financial instrument that is measured at amortised cost in the statement of financial position is required to disclose its fair value per IFRS 7. However IFRS 7p29(a) states that disclosures of fair value are not required when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables. As such, the disclosure requirements of IFRS13p97 are not mandatory when the assets and liabilities are exempt from fair value disclosure per IFRS 7p29(a). The entity should disclose the fact that these current receivables and payables are carried at values that reflect a reasonable approximation of their fair value.

4. Critical accounting estimates and judgements

1p122, 125

4.1 Critical accounting estimates and assumptions

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are outlined below.

(a) Fair value of derivative financial instruments

The Fund may, from time to time, hold financial instruments that are not quoted in active markets, such as over-the-counter derivatives. Fair values of such instruments are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel at ABC Fund Services Limited, independent of the party that created them. Models are calibrated by back-testing to actual transactions to ensure that outputs are reliable.

(b) Fair value of securities not quoted in an active market

The fair value of such securities not quoted in an active market may be determined by the Fund using reputable pricing sources (such as pricing agencies) or indicative prices from bond/debt market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. The Fund would exercise judgement and estimates on the quantity and quality of pricing sources used. Where no market data is available, the Fund may value positions using its own models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. The inputs into these models are primarily earning multiples and discounted cash flows. The models used to determine fair values are validated and periodically reviewed by experienced personnel at ABC Fund Services Limited, independent of the party that created them. The models used for private equity securities are based mainly on earnings multiples (based on the historical earnings of the issuer over the past decade), adjusted for lack of marketability and control premiums. The models used for debt securities are based on net present value of estimated future cash flows, adjusted as appropriate for liquidity, and credit and market risk factors.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The sensitivity to unobservable inputs is based on management's expectation of reasonable possible shifts in these inputs, taking into consideration historical volatility and estimations of future market movements.

The determination of what constitutes 'observable' requires significant judgement by the Fund. The Fund considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

4.2 Critical judgements

Functional currency

The Board of Directors considers the euro the currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The euro is the currency in which the Fund measures its performance and reports its results, as well as the currency in which it receives subscriptions from its investors. This determination also considers the competitive environment in which the Fund is compared to other European investment products.

(All amounts in € thousands unless otherwise stated)

Commentary – Significant accounting judgements in determining business model

The objective of ABC Fund is to achieve long-term capital appreciation and its portfolio is managed on a fair value basis. ABC Fund therefore applies the business model allowed by IFRS 9pB4.1.6 which requires its portfolio to be classified at fair value through profit or loss.

Determining the appropriate business model and assessing whether cash flows generated by an asset constitute solely payments of principal and interest (SPPI) is sometimes complex and may require significant judgement. Depending on the level of judgement and the amount of financial assets affected by the conclusion, the SPPI and/or business model assessment may require disclosure as a significant judgement in accordance with IAS 1 p122.

5. Interest income and interest from financial assets at fair value through profit or loss

		2019	2018
IFRS7p20(b)	Interest income from cash and cash equivalents	167	74
DV	Interest from debt securities at fair value through profit or loss	780	475
	Total	**947**	**549**

6. Financial assets at fair value through profit or loss

		2019	2018
IFRS7p8(a)	Financial assets at fair value through profit or loss:		
	– Equity securities	99,746	76,656
	– Derivatives	1,600	1,300
	– Treasury bills	2,000	1,000
	– Debt securities	18,382	14,286
	Total financial assets at fair value through profit or loss	**121,728**	**93,242**
	Other net changes in fair value on financial assets at fair value through profit or loss:		
DV	– Realised	3,834	(689)
	– Change in unrealised	8,884	(878)
	Total gains/(losses)	**12,718**	**(1,567)**

IFRS7p7, 34, 1p77, 112(c)

	2019		2018	
	Fair value	**% of net assets**	**Fair value**	**% of net assets**
Debt securities				
Eurozone sovereign	16,000	14.0%	13,700	16.2%
Eurozone corporate	1,600	1.4%	–	–
United States corporate	782	0.7%	586	0.7%
US treasury bills	2,000	1.7%	1,000	1.2%
Total debt securities	20,382	17.8%	15,286	18.1%
Equity securities				
Eurozone	11,774	10.3%	7,014	8.3%
United States	87,972	76.9%	69,642	82.2%
Total equity securities	99,746	87.2%	76,656	90.5%
Derivatives				
S&P futures[1]	700	0.6%	600	0.7%
S&P options	845	0.7%	700	0.8%
Interest rate futures	55	0.0%	–	–
Total derivatives	1,600	1.3%	1,300	1.5%
Total financial assets at fair value through profit or loss	**121,728**	**106.3%**	**93,242**	**110.1%**

Debt and equity securities are grouped based on their primary market in which the issuer operates.

[1] In certain markets futures trading may be structured in a way that requires daily settlement and thus may result in a nil fair value at the end of each day. ABC Fund does not have such an arrangement. Instead, the daily margin movements are considered to be collateral rather than settlement transactions.

(All amounts in € thousands unless otherwise stated)

IFRS7p14 The Fund has provided Custodian plc with a general lien over all assets (excluding cash[1]) held in custody. Custodian plc has the right to sell or re-pledge up to 125% (2018: nil) of the collateral received to the extent of listed equity securities sold short and the fair value of derivatives in a loss position. At 31 December 2019, this amounted to €15,268 (2018: nil). This amount has been presented separately from the remaining financial assets at fair value through profit and loss in the statement of financial position.

IFRS7p15 The Fund has not sold or re-pledged any collateral during the period.

The terms and conditions associated with collateral have no significant unusual requirements from the usual practice of recourse when a default occurs.

Commentary – Centrally cleared derivative instruments

In some instances, when variation margin is posted on centrally cleared derivatives, the payment (or receipt) of variation margin is legally characterized as collateral. The cash is payment of collateral, which might have to be repaid, depending on future changes in the value of the trade being collateralised, and should be separately recognised as a collateral asset / liability. The illustrative disclosures for ABC Fund follow this scenario.

In certain circumstances daily variation margin posted would be legally characterized as a partial settlement payment as opposed to collateral. However, the partial settlement payment will not terminate the derivative agreement as the contract will continue to exist with the terms governing future payments (for example the notional, fixed, and floating terms of an interest rate swap) remaining unchanged.

In order for the transaction to be considered a partial settlement, as opposed to collateral, and the cash payment to achieve partial derecognition of the original trade, the derecognition requirements of IFRS 9 must be met. This will generally be because, under the terms of the relevant contract(s), the cash payment causes:

i. for an asset, the contractual rights to cash flows of the original contract to expire (as they are satisfied in full by the receipt of cash) in accordance with IFRS 9.3.2.3(a); or
ii. for a liability, the contractual obligations under the original contract to be discharged in accordance with IFRS 9.3.3.1.

Some Central Clearing Counterparties, including the London Clearing House (LCH) and Chicago Mercantile Exchange (CME), have implemented rule amendments to the nature of variation margin so that it is considered a partial settlement payment, as opposed to the posting of collateral. Care should therefore be taken to ensure that the accounting reflects the most up to date terms and conditions, including any recent changes.

7. Financial liabilities at fair value through profit or loss

		2019	2018
	Financial liabilities:		
IFRS7p6, 8(e)	– Listed equity securities sold short	10,548	9,200
IFRS9pBA.7	– Derivatives	1,115	538
	Total financial liabilities at fair value through profit or loss	**11,663**	**9,738**

		2019	2018
IFRS7p20(a)(i)	Other net changes in fair value on financial liabilities at fair value through profit or loss:		
	– Realised	(500)	(622)
	– Change in unrealised	1,237	(29)
	Total net gains/(losses)	**737**	**(651)**

IFRS7p7, 34, 1p77, 112(c)

	2019		2018	
	Fair value	% of net assets	Fair value	% of net assets
Short sales of equity securities				
United States	10,548	9.2%	9,200	10.9%
Total short sales of equity securities	**10,548**	**9.2%**	**9,200**	**10.9%**
Derivatives				
S&P futures	410	0.4%	220	0.3%
S&P options	705	0.6%	318	0.4%
Total derivatives	**1,115**	1.0%	**538**	0.7%
Total financial liabilities at fair value through profit or loss	**11,663**	**10.2%**	**9,738**	**11.6%**

[1] If cash collateral was provided on specific transactions, the Fund would be required to separately identify the collateral as 'margin cash' or a 'receivable' and not include the amount as part of 'cash and cash equivalents' [IFRS9 IE D.1.1].

(All amounts in € thousands unless otherwise stated)

8. Financial instruments by category

IFRS7p6,8

31 December 2019	Financial assets at amortised cost	Financial assets at fair value through profit or loss	Total
Assets as per statement of financial position			
Financial assets at fair value through profit or loss	–	106,460	106,460
Financial assets at fair value through profit or loss pledged as collateral	–	15,268	15,268
Due from brokers	2,356	–	2,356
Other receivables	497	–	497
Margin accounts	1,026	–	1,026
Cash and cash equivalents	1,620	–	1,620
Total	**5,499**	**121,728**	**127,227**

31 December 2018	Financial assets at amortised cost	Financial assets at fair value through profit or loss	Total
Assets as per statement of financial position			
Financial assets at fair value through profit or loss	–	93,242	93,242
Due from brokers	984	–	984
Other receivables	448	–	448
Margin accounts	223	–	223
Cash and cash equivalents	325	–	325
Total	**1,980**	**93,242**	**95,222**

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
31 December 2019			
Liabilities as per statement of financial position			
Financial liabilities at fair value through profit or loss	11,663	–	11,663
Due to broker	–	893	893
Accrued expenses	–	257	257
Net assets attributable to holders of redeemable shares[1]	–	114,414	114,414
Total	**11,663**	**115,564**	**127,227**

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
31 December 2018			
Liabilities as per statement of financial position			
Financial liabilities at fair value through profit or loss	9,738	–	9,738
Due to broker	–	665	665
Accrued expenses	–	145	145
Net assets attributable to holders of redeemable shares	–	84,674	84,674
Total	**9,738**	**85,484**	**95,222**

9. Derivative financial instruments

The Fund holds the following derivative instruments:

(a) Futures

IFRS7p31 Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates at a future date at a specified price, established in an organised financial market.

[1] The Fund carries its redeemable shares at amortised cost. The option is available for a Fund to designate their redeemable shares as fair value through profit and loss which would lead to a different categorisation in the table above. If this option is taken by a fund then other requirements applicable to fair valued instruments will apply to its redeemable shares as required by IFRS13.

(All amounts in € thousands unless otherwise stated)

(b) Options

IFRS7p31 An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price. Options held by the Fund are exchange-traded. The Fund is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

The contract amounts of certain types of financial instrument, as disclosed in note 3.1.1, provide a basis for comparison with instruments recognised on the statement of financial position, but they do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

10. Margin accounts

1p112(c) Margin accounts represent margin deposits held in respect of open exchange-traded futures contracts.

11. Cash and cash equivalents

7p45 For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with original maturity of less than 90 days:

	2019	2018
Cash at bank	620	325
Short-term deposits	1,000	–
Total	**1,620**	**325**

12. Redeemable shares

1p79, 80
1p134, 135 The Fund's authorised redeemable share capital is 5,000,000 shares with par value of €0.1 per share. These are issued as Class A or Class B shares, both of which carry equal voting rights, are entitled to dividends and are entitled to a proportionate share of the Fund's net assets attributable to holders of redeemable shares. Class B shares are not subject to management fees. All issued redeemable shares are fully paid. The Fund's redeemable shares are subject to a minimum holding and subscription amount. The Fund also has the ability to limit weekly cash redemptions and withhold 25% of the requested amount for a period of no more than one month. Under extraordinary circumstances, the Fund also has the ability to suspend redemptions if this is deemed to be in the best interest of all shareholders. The relevant movements are shown on the statement of changes in net assets attributable to holders of redeemable shares. In accordance with the objectives outlined in Note 1 and the risk management policies in Note 3, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short-term borrowings or disposal of listed securities where necessary.

DV The Fund's net asset value per share is €12,465.84 (2018: €10,764.01) for a Class A share and €13,090.84 (2018: €11,195.14) for a Class B share, at the statement of financial position date.

During the year ended 31 December, the number of shares issued, redeemed and outstanding were as follows:

	2019			2018		
	Class A	Class B	Total	Class A	Class B	Total
At 1 January	7,856	10	7,866	6,878	10	6,888
Redeemable shares issued	2,315	20	2,335	1,183	–	1,183
Redeemable shares redeemed	(1,018)	(6)	(1,024)	(205)	–	(205)
At 31 December	**9,153**	**24**	**9,177**	**7,856**	**10**	**7,866**

13. Distribution payable

32p35, 40 The dividends paid in 2019 and 2018 amounted to €2,000 (€254.26 per share) and €1,000 (€145.18 per share) respectively and are presented as finance cost. A dividend for the year ended 31 December 2019 of €2,500 (€272.42 per share) will be proposed at the Annual General Meeting on 30 April 2020. These financial statements do not reflect this dividend payable.

(All amounts in € thousands unless otherwise stated)

14. Related-party transactions

24p9
24p18
Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

(a) Management fee

The Fund is managed by XYZ Capital Limited (the 'Investment Manager'), an investment management company incorporated in Lagartos. Under the terms of the management agreement dated 15 May 2001, the Fund appointed XYZ Capital Limited as an Investment Manager to provide management services to the Fund. XYZ Capital Limited receives in return a fee based on the net asset value of Class A shares estimated based on traded values, payable quarterly in advance using the annual rate of 0.8%. Total management fees for the year amounted to €803 (2018: €684), with €67 (2018: €57) in outstanding accrued fees due to XYZ Capital Management Limited at the end of the year.

24p18 *(b) Custodian fee*

The Fund has engaged the services of XYZ Custody Bank Limited, a fellow subsidiary company of the Investment Manager, to provide custodian services for a fee. The fees are charged on a scale of 0.075% per annum on the first €50,000 of the Fund, and 0.04% thereafter on the net asset value of the Fund, estimated based on traded values. Total custodian fees, for the year amounted to €40 (2018: €34), with €4 (2018: €3) in outstanding accrued fees due to XYZ Custody Bank at the end of the year.

24p18 *(c) Secretarial and administration fee*

The Fund has engaged the services of ABC Fund Services Limited, a fellow subsidiary company of the Investment Manager, to provide secretarial and administrative services for a fee. The fees are charged on a scale of 0.02% per annum on the net asset value of the Fund, estimated based on traded values.

Total fees for secretarial and administrative services for the year amounted to €16 (2018: €13), with €6 (2018: €5) in outstanding of accrued fees due to ABC Fund Services Limited at the end of the year.

(d) Board of Directors' remuneration

The total remuneration paid to directors in 2019 was €30 (2018: €25) and consisted of only fixed directors' fees.

(e) Related party share holdings

The Directors of the Fund held all the Class B redeemable shares in the Fund (2018: 100%) as detailed below.

For the year ended 31 December 2019:

24p18, 24p19(f)

Shareholder	Number of shares at the start of year	Number of shares acquired in the year	Number of shares redeemed in the year	Number of shares at year end
Directors	10	20	6	24

For the year ended 31 December 2018:

Shareholder	Number of shares at the start of the year	Number of shares acquired in the year	Number of shares redeemed in the year	Number of shares at year end
Directors	10	–	–	10

Independent auditor's report

To the shareholders of ABC Fund

The audit report will be provided by the entity's auditor upon completion of the audit of the financial statements. As the wording of the report is likely to differ from country to country, we have not included an illustrative report in this publication.

Independent auditor's report

Form and content of audit report

ISA700 Standards and guidance on the preparation of reports on audits conducted in accordance with international auditing standards are given in International Standard on Auditing ISA 700 *Forming an Opinion and Reporting on Financial Statements*.

(All amounts in € thousands unless otherwise stated)

Appendix I – Statement of cash flows – direct method

The financial statements of ABC Fund present the cash flows from operations using the indirect method. The statement below shows the cash flows from operations using the direct method. Both methods are permitted under IAS 7, ‘‘Statement of Cash Flows’’.

			Year ended 31 December	
1p113		**Note**	**2019**	**2018**
7p10, 18(a), 21	**Cash flows from operating activities**			
7p15	Purchase of financial assets and settlement of financial liabilities		(36,218)	(15,175)
7p15	Proceeds from sale of financial assets		20,622	5,058
7p15	Purchase and settlement of derivative financial instruments		(1,840)	(1,000)
7p15	Proceeds from derivative financial instruments		2,025	1,167
7p31	Dividends received		1,412	664
7p31	Interest received		917	482
	Operating expenses paid		(971)	(782)
	Net cash used in operating activities		**(14,053)**	**(9,586)**
7p10, 21	**Cash flows from financing activities**			
7p17	Distributions paid to holders of redeemable shares	13	(2,000)	(1,000)
7p17	Proceeds from redeemable shares		26,991	12,901
7p17	Redemptions of redeemable shares		(9,670)	(2,165)
	Net cash from financing activities		**15,321**	**9,736**
	Net increase in cash and cash equivalents		1,268	150
	Cash and cash equivalents at beginning of the year	11	325	182
7p28	Exchange gains/(losses) on cash and cash equivalents		27	(7)
	Cash and cash equivalents at end of the year	11	**1,620**	**325**

(All amounts in € thousands unless otherwise stated)

Appendix II – Funds whose shares are equity

The illustrative financial statements are based on an open-ended fund that issues puttable instruments, which are classified as financial liabilities under IAS 32, 'Financial instruments: Presentation'. The below includes example disclosures for a closed ended fund whose shares or units are equity under IAS 32, 'Financial instruments: Presentation'.

Statement of financial position

1p54, 60, 113		Note	As at 31 December	
			2019	2018
	Assets			
1p66	**Current assets**			
1p54(d), IFRS7p8(a)	Financial assets at fair value through profit or loss	6, 9	106,460	93,242
IFRS9p3.2.23	Financial assets at fair value through profit or loss pledged as collateral	6, 9	15,268	–
IFRS7p8	Due from brokers		2,356	984
1p54(h), IFRS7p8	Other receivables		497	448
1p55	Margin accounts	10	1,026	223
1p54(i)	Cash and cash equivalents	11	1,620	325
	Total assets		**127,227**	**95,222**
	Equity			
1p54(r)	**Capital and reserves attributable to equity holders of the Fund**			
1p78(e)	Share capital		9,177	7,866
1p78(e)	Share premium[1]		81,410	65,400
1p78(e)	Retained earnings		23,827	11,408
	Total equity		**114,414**	**84,674**
	Liabilities			
1p69	**Current liabilities**			
1p54(m), IFRS7p8(e)	Financial liabilities at fair value through profit or loss	7, 9	11,663	9,738
IFRS7p8	Due to brokers		893	665
1p54(k)	Accrued expenses		257	145
	Total liabilities		**12,813**	**10,548**
	Total equity and liabilities		**127,227**	**95,222**

[1] A fund may choose to present the split between share capital and share premium in the notes rather than in the primary statements. In circumstances where there is no share premium, presentation of this split would not be required.

(All amounts in € thousands unless otherwise stated)

Statement of comprehensive income[1]

1p82, 81B, 85,102		Note	Year ended 31 December	
			2019	2018
1p82(a)	**Income**			
1p85	Interest income	5	167	74
	Interest from financial assets at fair value through profit or loss		780	475
IFRS9p5.7.1A	Dividend income		1,538	1,055
1p85	Net foreign currency gains or losses on cash and cash equivalents		27	(7)
IFRS7p20(a)(i), 1p35	Other net changes in fair value on financial assets and liabilities at fair value through profit or loss	6, 7	13,455	(2,218)
	Total net income		**15,967**	**(621)**
1p85, 99	**Expenses**			
	Management fee	14	(803)	(684)
	Custodian fee, secretarial and administration fees	14	(56)	(47)
	Transaction costs		(326)	(137)
	Director's fees	14	(30)	(25)
	Other operating expenses		(151)	(123)
	Total operating expenses		**(1,366)**	**(1,016)**
1p85	**Profit/(loss) before tax**		14,601	(1,637)
1p82(d)	Withholding taxes		(182)	(138)
1p81A	**Profit/(loss) for the year**		**14,419**	**(1,775)**
1p82A	**Other comprehensive income[2]**		–	–
1p81A	**Total comprehensive income/(loss)**		**14,419**	**(1,775)**
33p66	**Earnings/(loss) per share – basic and diluted (€ per share)[3]**		**1,692.37**	**(246.53)**

Statement of changes in equity

1p106		Share capital	Share premium	Retained earnings	Total
	At 1 January 2018	6,888	55,642	14,183	76,713
1p106(a)	Total comprehensive income/(loss) for the year	–	–	(1,775)	(1,775)
1p107	Dividend	–	–	(1,000)	(1,000)
1p106(d)	Issue of shares	1,183	11,718	–	12,901
1p106(d)	Repurchase of own shares	(205)	(1,960)	–	(2,165)
	At 31 December 2018	**7,866**	**65,400**	**11,408**	**84,674**
1p106(a)	Total comprehensive income for the year	–	–	14,419	14,419
1p107	Dividend	–	–	(2,000)	(2,000)
1p106(d)	Issue of shares	2,335	24,656	–	26,991
1p106(d)	Repurchase of own shares	(1,024)	(8,646)	–	(9,670)
	At 31 December 2019	**9,177**	**81,410**	**23,827**	**114,414**

[1] IAS 1 (revised), 'Presentation of financial statements', allows a choice of presenting all items of income and expense recognised in a period either (a) in a single statement of comprehensive income or (b) in two statements comprising (i) a separate income statement, which displays components of profit or loss, and (ii) a statement of comprehensive income, which begins with profit or loss and displays components of other comprehensive income. The Fund has elected to use the single statement approach.
[2] The Fund has no components of 'other comprehensive income'; an additional line item has been included for illustrative purposes.
[3] IAS 33, 'Earnings per share', is applicable where the Fund's ordinary shares are traded in a public market or when the financial statements are filed with a regulatory organisation for the purpose of issuing ordinary shares in a public market.

(All amounts in € thousands unless otherwise stated)

Note – Accounting policies (extracts)

1p119 **Share capital**

32p37 Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of new ordinary shares or options, or for the acquisition of a business, are included in the cost of acquisition as part of the purchase consideration.

32p33 Where the Fund re-purchases its own ordinary shares (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Fund's equity holders until the ordinary shares are cancelled, re-issued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Fund's equity holders.

1p119 **Dividend distribution**

10p12 Dividend distribution to the Fund's shareholders is recognised as a liability in the Fund's financial statements in the period in which the dividends are approved by the Fund's shareholders.

Note – Share capital

1p79, 80

	2019	2018
Authorised share capital 10,000 ordinary shares with a par value of €1,000 per share	10,000	10,000
Ordinary shares-issued and fully paid	9,177	7,866

Each issued and fully paid ordinary share is entitled to dividends when declared and carries one voting right.

The Fund's capital is represented by ordinary shares that have a €1,000 par value and carry one vote each. They are entitled to dividends when declared. The Fund has no restrictions or specific capital requirements on the issue and re-purchase of ordinary shares. The relevant movements on capital are shown on the statement of changes in equity.

Note – Earnings per share

Basic earnings per share is calculated by dividing the profit/(loss) for the year by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Fund and held as treasury shares.

		2019	2018
33p70(a)	Profit/(loss) for the year (€000's)	14,419	(1,775)
33p70(b)	Weighted average number of ordinary shares in issue	8,520	7,200
	Basic earnings/(loss) per share – basic and diluted (€ per share)	1,692.37	(246.53)

The Fund has not issued any shares or other instruments that are considered to have dilutive potential.

Note – Dividend payable

10p12 The dividend paid in 2019 and 2018 amounted to €2,000 (€254.26 per share) and €1,000 (€145.18 per share) respectively. A dividend for the year ended 31 December 2019 of €2,500 (€272.42 per share) will be proposed at the Annual General Meeting on 30 April 2020. These financial statements do not reflect this dividend payable.

(All amounts in € thousands unless otherwise stated)

Appendix III – Funds with puttable instruments reclassified from liabilities to equity

The illustrative financial statements are based on an open-ended fund which issues puttable instruments, which are classified as financial liabilities under IAS 32, 'Financial instruments: Presentation'.

The below includes example disclosures where the Fund is required to reclassify its puttable shares from liabilities to equity in accordance with IAS 32.

In the prior year the Fund had two share classes in issue (Class A and Class B shares). Both classes in 2018 were classified as 'financial liabilities', given that there was no subordination and that they did not have identical rights. On 1 January 2019, Class B was fully redeemed, leaving only Class A shares remaining in the Fund. Class A shares entitle the holder to a pro rata share of the entity's net assets at liquidation. No other financial instruments are in issue that have total cash flows based substantially on the profit or loss, the changes in the recognised net assets or the changes in the fair value of the recognised and unrecognised net assets of the Fund. The Class A shares have no other contractual obligation than the obligation to redeem the puttable instrument.

Statement of financial position

		Note	As at 31 December	
1p54, 60, 113			2019	2018
	Assets			
1p66	**Current assets**			
1p54(d), IFRS7p8	Financial assets at fair value through profit or loss	6, 9	106,460	93,242
IFRS9p3.2.23	Financial assets at fair value through profit or loss pledged as collateral	6, 9	15,268	–
IFRS7p8	Due from brokers		2,356	984
1p54(h), IFRS7p8	Other receivables		497	448
1p55	Margin accounts	10	1,026	223
1p54(i)	Cash and cash equivalents	11	1,620	325
	Total assets		**127,227**	**95,222**
	Liabilities			
1p69	**Current liabilities**			
1p54(m), IFRS7p8(e)	Financial liabilities at fair value through profit or loss	7, 9	11,663	9,738
IFRS7p8	Due to brokers		893	665
1p54(k)	Accrued expenses		257	145
	Total liabilities (2018: excluding net assets attributable to holders of redeemable shares)*		**12,813**	**10,548**
1p54(r)	**Net assets attributable to holders of redeemable shares***	12	**114,414**	**84,674**

* Net assets attributable to holders of redeemable shares are classified as equity as at 31 December 2019 and as financial liabilities as at 31 December 2018.

(All amounts in € thousands unless otherwise stated)

Statement of comprehensive income

		Note	Year ended 31 December 2019	2018
1p82, 81B, 85, 102, 113				
1p82(a)	**Income**			
1p85	Interest income	5	167	74
	Interest from financial assets at fair value through profit or loss		780	475
IFRS9p5.7.1A	Dividend income		1,538	1,055
1p85	Net foreign currency gains or losses on cash and cash equivalents		27	(7)
IFRS7p20 (a)(i)1p35	Other net changes in fair value on financial assets and financial liabilities at fair value through profit or loss	6, 7	13,455	(2,218)
1p85	**Total net income/(loss)**		**15,967**	**(621)**
1p85, 99	**Expenses**			
	Management fee	14	(803)	(684)
	Custodian, secretarial and administration fees	14	(56)	(47)
	Transaction costs		(326)	(137)
	Directors' fees	14	(30)	(25)
	Other operating expenses		(151)	(123)
	Total operating expenses		**(1,366)**	**(1,016)**
1p85	**Operating profit/(loss)**		**14,601**	**(1,637)**
1p82(b)	**Finance costs**			
1p85, 32p 35	Distributions to holders of redeemable shares (2018)[1]	13	–	(1,000)
	Profit/(loss) before tax		**14,601**	**(2,637)**
1p82(d)	Withholding taxes		(182)	(138)
32IE32, 1p85, 32p35, 1p81A	**Increase/(decrease) in net assets attributable to holders of redeemable shares[2]**		**14,419**	**(2,775)**

Statement of changes in net assets attributable to holders of redeemable shares[3]

1p6, 106, 113

	Note	2019	2018
Net assets attributable to holders of redeemable shares at 1 January*		**84,674**	**76,713**
Dividend paid to shareholders (2019)		(2,000)[4]	–
Proceeds from redeemable shares issued		26,991	12,901
Redemption of redeemable shares		(9,670)	(2,165)
Net increase		15,321	10,736
Increase/(decrease) in net assets attributable to holders of redeemable shares from operations		14,419	(2,775)
Net assets attributable to holders of redeemable shares at 31 December*	12	**114,414**	**84,674**

* During the year ended 31 December 2018, net assets attributable to holders of redeemable shares are classified as a liability. During the year ended 31 December 2019, net assets attributable to holders of redeemable shares are classified as equity.

Commentary – change to equity classification

The presentation used above seeks to minimise the variation from the presentation used when shares are classified as liabilities. The further analysis of equity movement as required by 1p78(e) is presented in the notes (see share capital note extract).

[1] Under the liability treatment distributions are recognised as a finance cost in the statement of comprehensive income however, under equity treatment distributions are recognised as dividends in the statement of changes in equity.
[2] Use of this heading description is acceptable, as its literal meaning is applicable to both years.
[3] Use of this heading description is acceptable, as its literal meaning is applicable to both years.
[4] Under the liability treatment, distributions are recognised as a finance cost in the statement of comprehensive income; however, under equity treatment, distributions are recognised as dividends in the statement of changes in equity.

(All amounts in € thousands unless otherwise stated)

Notes to the financial statements (extracts)

IFRS7p21
1p119

Redeemable shares

32p16A-D

Prior to 1 January 2019 the fund classified its puttable instruments as liabilities in accordance with IAS 32 (Amendment), 'Financial instruments: Presentation'. However, the amendment requires puttable financial instruments that meet the definition of a financial liability to be classified as equity where certain strict criteria are met. Those criteria include:

- the puttable instruments must entitle the holder to a pro-rata share of net assets;
- the puttable instruments must be the most subordinated class and class features must be identical;
- there must be no contractual obligations to deliver cash or another financial asset other than the obligation on the issuer to repurchase; and
- the total expected cash flows from the puttable instrument over its life must be based substantially on the profit or loss of the issuer.

These conditions were met when Class B became fully redeemed on 1 January 2019 and Class A became the sole share class in the Fund.

As a result of the reclassification of redeemable shares from liabilities to equity, the Fund's distributions are no longer be classified as a finance cost in the statement of comprehensive income, but rather as a dividends paid in the statement of changes in net assets attributable to holders of redeemable shares.

Should the terms or conditions of the redeemable shares change such that they do not comply with the strict criteria contained in the amended IAS 32, the redeemable shares would be reclassified to a financial liability from the date the instrument ceases to meet the criteria. The financial liability would be measured at the instrument's fair value at the date of reclassification. Any difference between the carrying value of the equity instrument and fair value of the liability on the date of reclassification would be recognised in equity.

Redeemable shares can be put back to the Fund at any time for cash equal to a proportionate share of the Fund's trading net asset value calculated in accordance with the Fund's regulations.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of new ordinary shares or options, or for the acquisition of a business, are included in the cost of acquisition as part of the purchase consideration.

Where the Fund re-purchases its redeemable shares, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Fund's equity holders until the ordinary shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Fund's equity holders.

Note – Share capital (extracts)

1p136A(a) As at 31 December 2019, the Fund had €114,414 (2018: €0) of puttable financial instruments classified as equity.

A breakdown of the Fund's equity balance is disclosed in the table extract below:

1p78(e)

	Share capital	Share premium	Retained earnings	Total
At 31 December 2018	**–**	**–**	**–**	**–**
Adjustment for classification of redeemable shares to equity	7,866	65,400	11,408	84,674
Total comprehensive income	–	–	14,419	14,419
Dividend	–	–	(2,000)	(2,000)
Issue of shares	2,335	24,656	–	26,991
Repurchase of own shares	(1,024)	(8,646)	–	(9,670)
At 31 December 2019	**9,177**	**81,410**	**23,827**	**114,414**

(All amounts in € thousands unless otherwise stated)

Commentary – IAS 32 equity versus liability classification

This appendix presents a scenario where a fund moves from the liability treatment to equity treatment of net assets attributable to holders of redeemable shares. In this scenario, the Fund met the criteria prescribed in the IAS 32 amendment at the beginning of the reporting period.

However, if the change in treatment were the other way around (that is, equity to liability classification), the illustrations presented in this appendix can easily be adapted to address that scenario as well.

(All amounts in € thousands unless otherwise stated)

Appendix IV – Funds that invest in other investment funds

Investment funds may hold investments in other investment funds. The additional disclosures that may be provided for funds holding investments in other investment funds are illustrated in this appendix.

Note – Summary of accounting policies (extracts)

Financial assets and financial liabilities at fair value through profit or loss

IFRS13p91 *Valuation of investments in other funds*

The Fund's investments in other funds ('Investee Funds') are subject to the terms and conditions of the respective Investee Fund's offering documentation. The investments in Investee Funds are valued based on the latest available redemption price of such units for each Investee Fund, as determined by the Investee Funds' administrators. The Fund reviews the details of the reported information obtained from the Investee Funds and considers:

- the liquidity of the Investee Fund or its underlying investments;
- the value date of the net asset value (NAV) provided;
- any restrictions on redemptions; and
- the basis of accounting and, in instances where the basis of accounting is other than fair value, fair valuation information provided by the Investee Fund's advisors.

If necessary, the Fund makes adjustments to the NAV of various Investee Funds to obtain the best estimate of fair value. Other net changes in fair value on financial assets and financial liabilities at fair value through profit or loss in the statement of comprehensive income include the change in fair value of each Investee Fund.

Note – Financial risk (extracts)

Fair value estimation (risk note extracts)

IFRS13p91 As at 31 December 2019, 100% (2018: 100%) of financial assets at fair value through profit or loss comprise investments in Investee Funds that have been fair valued in accordance with the policies set out above. The shares of the Investee Funds are not publicly traded; redemption can only be made by the Fund on the redemption dates and subject to the required notice periods specified in the offering documents of each of the Investee Funds. The rights of the Fund to request redemption of its investments in Investee Funds may vary in frequency from weekly to annual redemptions. As a result, the carrying values of the Investee Funds may not be indicative of the values ultimately realised on redemption. In addition, the Fund may be materially affected by the actions of other investors who have invested in the Investee Funds in which the Fund has invested.

All of the Investee Funds in the investment portfolio are managed by portfolio managers who are compensated by the respective Investee Funds for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee. Such compensation is reflected in the valuation of the Fund's investment in each of the Investee Funds.

The Investee Funds are not traded on an active market; their fair value is determined using valuation techniques. The value is primarily based on the latest available redemption price of the Investee Fund's units as reported by the administrator of such Investee Fund. The Fund may make adjustments to the value based on considerations such as; liquidity of the Investee Fund or its underlying investments, the value date of the net asset value provided, any restrictions on redemptions and the basis of accounting.

IFRS13p93(b) IFRS 13 requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

(All amounts in € thousands unless otherwise stated)

IFRS13p93(b) The following table analyses within the fair value hierarchy the Fund's financial assets measured at fair value at 31 December 2019:

Assets	Level 1	Level 2	Level 3	Total balance
Financial assets at fair value through profit or loss:				
– Fund of fund investments	–	118,470	1,050	119,520
Total	**–**	**118,470**	**1,050**	**119,520**

The following table analyses within the fair value hierarchy the Fund's financial assets measured at fair value at 31 December 2018:

Assets	Level 1	Level 2	Level 3	Total balance
Financial assets at fair value through profit or loss:				
– Fund of fund investments	–	93.242	–	93,242
Total	**–**	**93,242**	**–**	**93,242**

The Investee Funds held by the Fund are not quoted in active markets[1].

The Investee Funds classified in Level 2[2] were fair valued using the net asset value of the Investee Fund, as reported by the respective Investee Fund's administrator. For these Investee Funds, management believes the Fund could have redeemed its investment at the net asset value per share at the statement of financial position date.

Level 3[3] is comprised of a single Investee Fund, which was fair valued with reference to the net asset value as reported by the Investee Fund's administrator, adjusted to take into account the restrictions applicable to redemptions. Prior to the statement of financial position date, the Investee Fund placed a suspension on its redemptions. Management of the Investee Fund has communicated its intention to lift the suspension by January 2020.[4]

Note – Critical accounting estimates and judgements (extracts)

1p122
1p125 The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Fair value of investments in other funds

The fair value of investments in Investee Funds that are not quoted in an active market is determined primarily by reference to the latest available redemption price of such units for each Investee Fund, as determined by the administrator of such Investee Fund. The Fund may make adjustments to the reported net asset value of various Investee Funds based on considerations such as:

- the liquidity of the Investee Fund or its underlying investments;
- the value date of the net asset value provided;
- any restrictions on redemptions; and
- the basis of accounting and, in instances where the basis of accounting is other than fair value, fair valuation information provided by the Investee Fund's advisors.

The models used to determine fair values are validated and periodically reviewed by experienced personnel at ABC Fund Services Limited, independent of the party that created them. The carrying values of the Investee Funds may be materially different to the values ultimately realised on redemption.

Notes – Financial risk (extracts)

IFRS7p33 *(i) Price risk (extracts)*

The Fund invests in other funds and is susceptible to market price risk arising from uncertainties about future values of those Investee Funds. The investment manager makes investment decisions after an extensive assessment of the underlying fund, its strategy and the overall quality of the underlying fund's manager. The Fund's policy requires the Investment Manager to complete a full reassessment of each of the Investee Funds on a quarterly basis and track the performance of each Investee Fund on a weekly basis.

[1] Funds quoted in an active market would be classified in Level 1 and would consist mostly of daily traded funds for which there is sufficient evidence of transactions taking place on a regular basis and trading prices are readily available.
[2] IFRS13p81 requires the valuation of Level 2 investments to be based on observable inputs. When considering the classification of an investment in an Investee Fund, an observable input can be considered to be, among other things, the published net asset value of the Investee Fund where the net asset value can be transacted upon on the measurement date.
[3] Level 3 roll disclosure is required by IFRS 13; however, it is not presented in this appendix.
[4] Refer to the main body of the Illustrative Financial Statements for disclosure requirements on valuation of level 3 investments.

(All amounts in € thousands unless otherwise stated)

The Fund's investment restrictions prohibit it from investing more than 10% of its assets in any one Investee Fund.

At 31 December 2019, the exposure to investments in investee funds at fair value by strategy employed is disclosed in the following table. These investments are included in financial assets at fair value through profit or loss in the statement of financial position.

IFRS7p34

	31 December			
	2019		2018	
	Fair value	% of net assets attributable to holders of redeemable shares	Fair value	% of net assets attributable to holders of redeemable shares
Equity long/short	55,548	49.8	20,564	24.3
Event driven	41,531	37.2	20,568	24.3
Directional trading	9,668	8.7	17,656	20.9
Multi-strategy	5,752	5.2	2,567	3.0
Fund of funds	5,565	5.0	31,887	37.7
Relative value	1,456	1.3	–	–
Total	**119,520**	**107.2**	**93,242**	**110.2**

IFRS7p33(b) The performance of investments held by the Fund is monitored by the Fund's Investment Manager on a weekly basis and reviewed by the Board of Directors on a quarterly basis.

IFRS7p34, 40 The table below summarises the impact on the Fund's net assets attributable to holders of redeemable shares, of reasonable possible changes in the returns of each of the strategies to which the Fund is exposed through the 37 funds in which it invests at year end (2018: 32 funds). A reasonably possible change is management's assessment, based on historical data sourced from the underlying Investee Funds, of what a reasonably possible percentage movement is in the value of a fund following each respective strategy over a 12-month period, in euros. The impact on net assets attributable to holders of redeemable shares is calculated by applying the reasonably possible movement determined for each strategy to the value of each Investee Fund held by the Fund.

The analysis is based on the assumption that the returns on each strategy have increased or decreased, as disclosed, with all other variables held constant. The underlying risk disclosures represent the market risks to which the underlying funds are directly exposed. I, F, O represents interest rate, foreign currency and other price risks respectively. For the purpose of determining the underlying risk disclosures, in accordance with IFRS 7, currency risk is not considered to arise from financial instruments that are non-monetary items – for example, equity investments.

As at 31 December 2019

Strategy	Sub-strategy	Underlying risk exposures	Number of Funds	Reasonable possible change (%)	Impact on net assets attributable to redeemable shareholders
Equity long/short:					
	Sector specialists	O	6	0.2	1,115
	Short bias	O	5	3.0	1,157
	Opportunistic	O	1	6.7	155
Event driven:					
	Distressed securities	I, F	4	7.5	2,113
	Merger arbitrage	O	4	5.6	1,040
	Emerging markets	I,F,O	2	9.5	169
Directional trading:					
	Global macro	I,F,O	4	8.0	313
	Market timing	I,F,O	1	7.0	34
	Commodity pools	I,F,O	1	5.3	233
Multi-strategy:		I,F,O	2	7.0	402
Fund of funds:					
	Fund of funds	I,F,O	1	7.5	245
	Multi-manager	I,F,O	1	6.6	113
Relative value:					
	Convergence arbitrage	I,F,O	2	6.7	19
	Fixed income arbitrage	I,F	1	8.0	37
	Convertible arbitrage	I,F,O	1	5.7	25
	MBS strategy	I,F	1	7.8	20
Total			**37**		**7,190**

(All amounts in € thousands unless otherwise stated)

As at 31 December 2018

Strategy	Sub-strategy	Underlying risk exposures	Number of Funds	Reasonable possible change (%)	Impact on net assets attributable to redeemable shareholders
Equity long/short:					
	Sector specialists	O	6	5.5	1,115
	Short bias	O	2	3.2	115
Event driven:					
	Distressed securities	I, F	5	7.5	1,050
	Merger arbitrage	O	4	5.6	300
	Emerging markets	I,F,O	1	9.5	86
Directional trading:					
	Global macro	I,F,O	2	9.2	513
	Market timing	I,F,O	3	6.8	505
	Commodity pools	I,F,O	1	5.3	502
Multi-strategy:		I,F,O	1	7.0	125
Fund of funds:					
	Fund of funds	I,F,O	6	7.5	1,997
	Multi-manager	I,F,O	1	6.6	103
Total			**32**		**6,411**

IFRS7p33

Note – Liquidity risk (extracts)

The Fund is exposed to monthly cash redemptions of redeemable shares and has a 30-day notice period for redemption requests. It therefore invests the majority of its assets in Investee Funds from which the Fund can redeem within one month or less; it invests only a limited proportion of its assets in Investee Funds with redemption restrictions or redemption terms greater than one month. Certain Investee Funds acquired may also be subject to an initial lock-up period that may range up to two years. No Investee Funds were subject to lock-up periods as at 31 December 2019 or 2018. At 31 December 2019, 90% of the Fund's investments in other funds are subject to redemption restrictions exercisable by the manager of the Investee Fund to manage extraordinary liquidity pressures (2018: 85%). These include the ability to suspend redemptions or withhold varying amounts of any redemption requested. At 31 December 2019, one Investee Fund (2018: nil) has suspended redemptions and was valued at €1,050 (2018: nil).

IFRS7p39(a) The financial liabilities of the Fund at 31 December 2019 and 2018 comprise of accrued expenses and net assets attributable to holders of redeemable shares. As at 31 December 2019, total accrued expenses of €1,150 (2018: €810) had contractual maturity dates ranging between 1 and 7 days (2018: 1 and 7 days) after the year end date. As at 31 December 2019 net assets attributable to holders of redeemable shares of €123,869 (2018: €92,886) had contractual maturity dates of 30 days after year end. As all liabilities as at 31 December 2019 and 2018 fall due within one month of the year end, the effect of discounting has no material impact on the cash flows.

The Fund will generally retain sufficient cash and cash equivalent balances to satisfy its accrued expenses as they fall due. In order to satisfy shareholder redemption requests, the Fund will redeem its investments in Investee Funds, which allow redemptions within one month or less. However, the majority of Investee Funds have the ability to impose discretionary redemption restrictions, which include the ability to suspend redemptions or withhold varying amounts of any redemption requested in extraordinary situations. Additionally, a portion of the Investee Funds may have redemption terms that are greater than one month or may also be subject to lock-up periods of up to two years.

IFRS7pB11E The following table shows the ordinary redemption periods of the Investee Funds held[1]:

At 31 December 2019	**Less than 7 days**	**7 days to 1 month**	**1-6 months**	**Suspended**
Funds with notice periods of less than 7 days	11,626	14,870	–	–
Funds with notice periods of 7 and 30 days	–	86,129	5,845	1,050*
Total	11,626	100,999	5,845	1,050
At 31 December 2018				
Funds with notice periods of less than 7 days	2,939	5,238	–	–
Funds with notice periods of 7 and 30 days	–	69,780	15,285	–
Total	**2,939**	**75,018**	**15,285**	**–**

*This relates to XYZ Fund of Fund Limited. On 30 November 2019, the directors of XYZ Fund of Fund Limited suspended redemptions due to the level of redemption requests received and the illiquidity of several material positions in its portfolio. The directors of XYZ Fund of Fund Limited issued an advisory letter to shareholders on 18 December 2019, stating that they intend to lift the suspension by January 2020.

[1] IFRS7pB11E states that an entity should disclose a maturity analysis of financial assets it holds for managing liquidity risk if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. It is acceptable to present this analysis in narrative format or in a tabular format.

(All amounts in € thousands unless otherwise stated)

The Fund has entered into a short-term financing agreement with Bank plc, which will allow the Fund to borrow up to 50% of its net asset value for the purpose of paying redemptions. The borrowing facility is available to the Fund up to December 2020 and bears interest at one-month USD LIBOR plus 50 basis points. It is the intention of the Fund to utilise this facility only in instances where it is unable to liquidate an adequate portion of its investments in order to pay redemptions as they fall due, or in cases where the liquidation of investments held would put the Fund in a disadvantageous position. The Fund has not utilised this facility during 2019 and 2018.

The Fund also has the ability in extraordinary situations to impose discretionary redemption restrictions, which include the ability to suspend redemptions or withhold varying amounts of any redemption requested. It is the intention of the Fund to exercise this ability only in instances where the payment of redemptions would put the remaining shareholders in a disadvantageous position, or if the Fund is unable to liquidate its investments or source acceptable financing that would allow the Fund to pay redemptions as they fall due.

Commentary – IFRS 12, 'Disclosure of interests in other entities'

When investee funds are considered to be 'structured entities' as defined in IFRS 12, there will be additional disclosure requirements [IFRS12p24-31]. Refer to Appendix IX for the impact of IFRS 12 on funds that invest in other investment funds which meet the definition of ''structured entities''.

Appendix V – Funds with significant leverage

Investment funds may have significant levels of leverage that are critical to the operations of the fund, which give rise to additional risks for such funds. Examples of the additional disclosures that may be required for funds in these circumstances are illustrated below.

Note – Accounting policies (extracts)

1p119
IFRS7p21

Borrowings

Borrowings are recognised at fair value net of transaction costs incurred. They are subsequently valued at amortised cost; any difference is recognised in the statement of comprehensive income over the period of the borrowing using the effective interest method.

Collateral

IFRS9IGD1.1
IFRS9p3.2.23

Cash collateral provided by the Fund is identified in the statement of financial position as 'margin cash' and is not included as a component of 'cash and cash equivalents'. For collateral other than cash, if the party to whom the collateral is provided has the right by contract or custom to sell or re-pledge the collateral, the Fund classifies that asset in its statement of financial position separately from other assets and identifies the asset as pledged collateral. Where the party to whom the collateral is provided does not have the right to sell or re-pledge, the collateral provided is disclosed in the notes to the financial statements.

1p119
IFRS7p21

Sale and repurchase agreements

IFRS9pB3.2.16

Securities sold subject to repurchase agreements are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral. The counterparty liability is included under 'due under repurchase agreements'. Securities purchased under agreements to resell are recorded separately under 'due from agreements to resell'. The difference between the sale and the repurchase price is treated as interest and accrued over the life of the agreement using the effective interest method.

Note – Borrowings (extracts)

7p50

The Fund has a margin borrowing facility for investment purposes up to 10 times its most recently calculated net asset value attributable to holders of redeemable shares.

The margin borrowing facility matures in 2021 and bears interest at 1 week USD LIBOR plus 25 basis points.

IFRS7p14

The margin borrowings are secured by certain financial assets at fair value through profit or loss equal to €110,000 (2018: €90,000).

IFRS7p29

The carrying value of the borrowings approximates their fair value.

Note – Financial risk management (extracts)

Financial risk factors

IFRS7p31

The Fund may use various forms of leverage that increases the effect of any investment value changes on capital. These include the use of margin borrowings, repurchase agreements and derivatives. While borrowing and leverage present opportunities for increasing total return, they have the effect of potentially increasing losses as well.

If the gains on financial assets made with borrowed funds are less than the costs of the leverage or, under certain circumstances, if the borrowing is terminated by the applicable lenders or counterparties in advance of its stated term, the value of the Fund's net assets attributable to holders of redeemable shares will decrease. Therefore, any event that adversely affects the value of an investment by the Fund would be magnified to the extent leverage is employed. The cumulative effect of the use of leverage in a market that moves adversely to a leveraged investment could result in a substantial loss which would be greater than if leverage were not used.

3.1.1 Market risk (extracts)

(c) Cash flow and fair value interest rate risk

IFRS7p33(a)

The Fund uses various forms of leverage that increase the Fund's interest costs. There is no guarantee that existing borrowing arrangements or other arrangements for obtaining leverage can be refinanced at rates as favourable to the Fund as those rates available in the past.

(All amounts in € thousands unless otherwise stated)

3.1.2 Liquidity risk (extracts)

IFRS7p33(a), 31

There is no guarantee that existing borrowing facilities or arrangements for obtaining leverage, will remain in place for the life of the Fund. The Fund's borrowing facilities are subject to a security interest in favour of the relevant creditors and contain various financial and other covenants, including over-collateralisation tests, limitations on restricted payments and limitations on indebtedness. Such over-collateralisation tests limit the amount that can be borrowed by the Fund to a calculated percentage of the fair value of the pledged financial assets and other collateral. If there were a decline in the fair value of the collateral pledged to the creditors under such facilities, the Fund might be required to liquidate collateral assets in order to maintain compliance with the applicable financial covenants and might be prevented from making any distributions.

Following an event of default under such facilities, the creditors could direct sales of the collateral assets. The prices obtained in any such liquidation or foreclosure sales may not be sufficient to repay the Fund's obligations under the facilities, in which case the Fund would not have any remaining funds to distribute.

Further, most leveraged transactions require the posting of collateral. A decrease in fair value of such financial assets may result in the lender, including derivative counterparties, requiring the Fund to post additional collateral or otherwise sell assets at a time when it may not be in the Fund's best interest to do so. A failure of the Fund to continue to post the required collateral could result in a disposition of Fund's assets at times and prices, which could be disadvantageous to the Fund and could result in substantial losses having a material adverse effect on the Fund. To the extent that a creditor has a claim on the Fund, such claim would be senior to the rights of the redeemable participating shareholders.

Expiration or withdrawal of available financing for leverage positions, and the requirement to post collateral in respect of changes in the fair value of leveraged exposures, can rapidly result in adverse effects to the Fund's access to liquidity and its ability to maintain leveraged positions, and may cause the Fund to incur material losses.

The borrowing facilities available to the Fund mature during 2021. As of 31 December 2019, the Fund has existing available financing of €275 million (2018: €115 million) and is in the process of obtaining additional financing arrangements. However, there is no guarantee the borrowing facility or other arrangements for obtaining leverage will be available on the same terms and conditions acceptable to the Fund. In the event of not obtaining additional financing, the Fund will be forced to liquidate positions to repay the outstanding borrowings.

Commentary – Disclosure initiative – Amendments to IAS 7

Amendments to IAS 7, effective for annual periods beginning on or after 1 January 2017, are also applicable to funds with significant leverage. Entities are required to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non cash changes. To the extent necessary to satisfy this requirement, entities should disclose the following changes in liabilities arising from financing activities:

(i) changes from financing cash flows;
(ii) changes arising from obtaining or losing control of subsidiaries or other businesses;
(iii) the effect of changes in foreign exchange rates;
(iv) changes in fair values; and
(v) other changes.

One way to fulfil the above disclosure requirements is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including the changes identified above.

Further illustrative guidance can be found in PwC's 'VALUE IFRS Plc: Illustrative IFRS consolidated financial statements December 2019' publication on inform.pwc.com.

(All amounts in € thousands unless otherwise stated)

Appendix VI – Segment reporting – multiple segments

If the Fund has debt or equity instruments that are traded in a public market or when the financial statements are filed with a securities commission or other regulatory organisation for the purpose of issuing any class of instrument in a public market, IFRS 8, 'Operating segments', is applicable.

IFRS 8 requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This appendix includes segment information for a fund that is within the scope of IFRS 8 and has more than one operating segment.

Note – Accounting policies (extracts)

1p119 **Segment reporting**

IFRS8p5(b) Operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the strategic asset allocation committee of the investment manager that makes strategic decisions.

Note – Segment information

IFRS8p22(a) The strategic asset allocation committee of the investment manager makes the strategic resource allocations on behalf of the fund. The Fund has determined the operating segments based on the reports reviewed by this committee that are used to make strategic decisions.

IFRS8p22(a) The committee considers the business as two sub-portfolios, which are managed by separate specialist teams at the Investment Manager. These sub-portfolios consist of an equity portfolio, which focuses on equity securities and related derivatives; the second sub-portfolio consists of debt and cash instruments.

IFRS8p22(b) The reportable operating segments derive their income by seeking investments to achieve targeted returns consummate with an acceptable level of risk within each portfolio. These returns consist of interest, dividends and gains on the appreciation in the value of investments.

IFRS8p29 There were no changes in the reportable segments during the year.

The segment information provided to the strategic allocation committee for the reportable segments is as follows:

Commentary – Description of segments

Entities shall disclose factors used to identify its reportable segments, including the basis of organisation, and types of products and services from which each reportable segment derives its revenues. They must also disclose the judgments made by management in applying the aggregation criteria of the standard, including a description of the aggregated segments and the economic indicators that have been assessed in determining that the aggregated segments share similar economic characteristics [IFRS8p22(aa)]. This appendix does not include illustrative guidance on aggregated segments as there are no aggregated segments in this example.

For the year ended 31 December 2019

IFRS8p23, 24

	Equity sub-portfolio	Debt sub-portfolio	Total
Interest income	–	167	167
Interest from financial assets at fair value through profit or loss	–	780	780
Dividend income	1,538	–	1,538
Capital gains	13,733	(251)	13,482
Transaction costs	(196)	(130)	(326)
Withholding taxes	(182)	–	(182)
Total net segment income	**14,893**	**566**	**15,459**
Total segment assets	101,867	22,507	124,374
Total segment liabilities	11,663	–	11,663

Total segment assets include:

	Equity sub-portfolio	Debt sub-portfolio	Total
Financial assets at fair value through profit or loss	100,841	20,887	121,728
Other	1,026	1,620	2,646

(All amounts in € thousands unless otherwise stated)

For the year ended 31 December 2018

IFRS8p23, 24

	Equity sub-portfolio	Debt sub-portfolio	Total
Interest income	–	74	74
Interest from financial assets at fair value through profit or loss	–	475	475
Dividend income	1,055	–	1,055
Capital gains	(2,760)	535	(2,225)
Transaction costs	(96)	(41)	(137)
Withholding taxes	(138)	–	(138)
Total net segment income	**(1,939)**	**1,043**	**(896)**
Total segment assets	77,974	15,816	93,790
Total segment liabilities	9,738	–	9,738

Total segment assets include:

	Equity sub-portfolio	Debt sub-portfolio	Total
Financial assets at fair value through profit or loss	77,751	15,491	93,242
Other	223	325	548

IFRS8p23 There were no transactions between reportable segments.

IFRS8p27 The assessment of the performance of the operating segments is based on investments valued at last traded market prices. The Fund's administration and management fees are not considered to be segment expenses.

IFRS8p28(b) A reconciliation of total net segmental income to operating profit/(loss) is provided as follows.

	2019	2018
Total net segment income	15,459	(896)
Withholding taxes	182	138
Other fees and expenses	(1,040)	(879)
Operating profit/(loss)	**14,601**	**(1,637)**

IFRS8p27 The amounts provided to the strategic allocation committee with respect to total assets are measured in a manner consistent with IFRS. The Fund's other receivables are not considered to be segment assets and are managed by the administration function.

Reportable segments' assets are reconciled to total assets as follows.

IFRS8p28

	2019	2018
Segment assets for reportable segments	124,374	93,790
Other receivables	2,853	1,432
Total assets	**127,227**	**95,222**

IFRS8p27 The amounts provided to the strategic allocation committee with respect to total liabilities are measured in a manner consistent with IFRS. The Fund's redeemable participating shares and payables for administration and management fees are not considered to be segment liabilities and are managed by the administration function.

Reportable segments' liabilities are reconciled to total liabilities as follows:

IFRS8p28

	2019	2018
Segment liabilities for reportable segments	11,663	9,738
Accrued expenses	257	145
Net assets attributable to redeemable shareholders	114,414	84,674
Other payables	893	665
Total liabilities	**127,227**	**95,222**

IFRS8p33 The Fund is domiciled in Lagartos. All of the Fund's income from investments is from entities incorporated in countries other than Lagartos.

The Fund has no assets classified as non-current assets.

The breakdown of the major components of income and assets from other countries are disclosed below. All revenues are derived from financial assets and are attributed to a country based on the domiciliation of the issuer of the instrument.

Appendix VI – Segment reporting – multiple segments

(All amounts in € thousands unless otherwise stated)

For the year ended 31 December 2019:

	United States	**Europe[1]**	**Total**
Segmental net income	13,872	1,587	15,459
Financial assets at fair value through profit or loss	95,826	28,548	124,374

For the year ended 31 December 2018

	United States	**Europe**	**Total**
Segmental net income	(886)	(10)	(896)
Financial assets at fair value through profit or loss	72,776	21,014	93,790

IFRS8p34 The Fund also has a highly diversified shareholder population, and no individual investor owns more than 1% of the issued capital of the Fund.

[1] If there were material balances included in this segment that related to an individual country, additional disclosures would be required to present segmental information for those individual countries with material balances.

(All amounts in € thousands unless otherwise stated)

Appendix VII – Segment reporting – single segment

IFRS 8, 'Operating segments', is applicable if the Fund has debt or equity instruments that are traded in a public market or when the financial statements are filed with a securities commission or other regulatory organisation for the purpose of issuing any class of instrument in a public market. This appendix includes segment information for a fund that is within the scope of IFRS 8 but has only one operating segment. The standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

This appendix is based on a Fund for which the internal reporting provided to the chief operating decision-maker (CODM) is consistent with the measurement and recognition principles of IFRS.

In cases where the information provided to the CODM may differ from that contained in the Fund's financial statements – for instance, where investments are valued on a different basis or where certain income or expense items are excluded from the internally reported profit or loss – the Fund will present the segment information consistent with what is reported internally to the CODM; it will also present a reconciliation to the financial statement amounts. (See Appendix VI for examples of these types of disclosure.)

In this instance, the Fund trades in a highly diversified portfolio of listed XYZ-Land equity, and the CODM's asset allocation decisions are made using a bottom-up approach based on a single, integrated investment strategy, with the Fund's performance being evaluated on an overall basis. These factors are the main reasons why the Fund qualifies as a single-segment entity.

It is possible for another fund that holds an identical portfolio to have multiple segments, depending on how the fund is managed internally. For example, if another fund that also invests only in listed XYZ-Land equity is managed using a top-down approach, with the CODM allocating a specific portion of total assets to a select group of industries, and with the performance of each industry group being measured and managed separately, that fund may be seen as having multiple segments. IFRS8p5-10 lists the considerations to be made when determining the different operating segments of an entity.

Note – Accounting policies (extracts)

1p119 **Segment reporting**

IFRS8p5(b) Operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the managing director (MD) of the investment manager that makes strategic decisions.

Note – Segment information

IFRS8p22(a) The MD of the investment manager makes the strategic resource allocations on behalf of the fund. The Fund has determined the operating segments based on the reports reviewed by the MD, which are used to make strategic decisions.

IFRS8p22(a) The MD is responsible for the Fund's entire portfolio and considers the business to have a single operating segment. The MD's asset allocation decisions are based on a single, integrated investment strategy, and the Fund's performance is evaluated on an overall basis.

IFRS8p22(b) The Fund trades in a highly diversified portfolio of listed XYZ-Land equity with the objective of generating significant medium-term capital growth.

IFRS8p23
IFRS8p24 The internal reporting provided to the MD for the Fund's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of IFRS.

IFRS8p29 There were no changes in the reportable segments during the year.

IFRS8p33[1] The Fund is domiciled in Lagartos. All of the Fund's income is from investments in entities incorporated in XYZ-Land.

The Fund has no assets classified as non-current assets.

The Fund has a highly diversified portfolio of investments, and no single investment accounts for more than 6% of the Fund's income.

IFRS8p34 The Fund also has a diversified shareholder population. However, as at 31 December 2019, there were three shareholders who each held more than 10% of the Fund's net asset value. Their holdings were 11%, 13% and 19% respectively. As at 31 December 2018, there were no shareholders who held greater than 10% of the Fund's net asset value.[2]

[1] IFRS8p33(a) makes reference to 'external customers'. Although this term bears no literal relevance to a fund, a fund will be required to present the equivalent revenue disclosures required by this paragraph.
[2] The IFRS8p34 reference to 'external customers' in this paragraph is taken to mean the investors for the purpose of a fund.

Appendix VIII – Investment funds with a tax uncertainty

In cases where a country's tax regulations cause uncertainty, it is necessary to assess the extent of this uncertainty and the resulting accounting impact. In all cases where material tax uncertainty exists, adequate disclosure should be included in the notes to the financial statement to bring the users' attention to the exposure, even if measured at nil.

Care should be taken when considering whether the exposure is direct or indirect. If the exposure is indirect – for example, via a participating instrument established between the investor and an intermediary – the exposure may be more appropriately considered as part of the fair valuation process when valuing the participating agreements, rather than as a potential income tax liability. The relevant standards and recognition and measurement criteria may be different.

On 7 June 2017, the IFRS Interpretations Committee (IFRS IC) issued IFRIC 23 'Uncertainty over income tax treatments' (''IFRIC 23''). IFRIC 23 clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments.

IFRIC 23 addresses: –

(i) whether an entity considers uncertain tax treatments separately;
(ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities;
(iii) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
(iv) how an entity considers changes in fact and circumstances.

It is effective for annual periods beginning on or after 1 January 2019.

Measurement

Under IFRIC 23, if an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made (for example, by recognising an additional tax liability or applying a higher tax rate).

The entity should then measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The most likely amount method might be appropriate if the possible outcomes are binary or are concentrated on one value. The expected value method might be appropriate if there is a range of possible outcomes that are neither binary nor concentrated on one value. Some uncertainties affect both current and deferred taxes (for example, an uncertainty over the year in which an expense is deductible). IFRIC 23 requires consistent judgements and estimates to be applied to current and deferred taxes.

Changes in circumstances

The judgements and estimates made to recognise and measure the effect of uncertain tax treatments are reassessed whenever circumstances change or when there is new information that affects those judgements. New information might include actions by the tax authority, evidence that the tax authority has taken a particular position in connection with a similar item, or the expiry of the tax authority's right to examine a particular tax treatment. IFRIC 23 states specifically that the absence of any comment from the tax authority is unlikely to be, in isolation, a change in circumstances or new information that would lead to a change in estimate.

Disclosures

There are no new disclosure requirements in The Interpretation. However, entities are reminded of the need to disclose, in accordance with IAS 1, the judgements and estimates made in determining the uncertain tax treatment.

Commentary – Observation

IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. For example, the Interpretation specifies how to determine the unit of account and the recognition and measurement guidance to be applied to that unit.

Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management should assess the existing models against the specific guidance in the Interpretation and consider the impact on income tax accounting.

(All amounts in € thousands unless otherwise stated)

Interest and penalties on uncertain tax positions

An entity might receive or pay interest or penalties in relation to taxation (for example, where uncertain tax positions are resolved by the tax authorities). IAS 12 does not specifically address the treatment of uncertain tax positions or associated interest and penalties.

The IFRS Interpretations Committee (IC) issued an agenda decision in September 2017 on interest and penalties related to income taxes.

The IC observed in the agenda decision that entities do not have an accounting policy choice between applying IAS 12 and applying IAS 37, 'Provisions, contingent liabilities and contingent assets', to interest and penalties related to income taxes. If an entity considers that a particular amount payable or receivable for interest and penalties is an income tax, IAS 12 is applied to that amount. If an entity does not apply IAS 12 to an amount payable or receivable for interest and penalties, it applies IAS 37 to that amount.

The IC also observed that i) an entity discloses its judgement in this respect applying paragraph 122 of IAS 1, 'Presentation of financial statements', if it has a significant effect on the amounts recognised in the financial statements and ii) regardless of whether an entity applies IAS 12 or IAS 37 when accounting for interest and penalties related to income taxes, the entity discloses information about those items if material, because both IAS 12 and IAS 37 provide disclosure requirements.

Entities therefore need to decide whether a particular amount payable or receivable for interest and penalties is an income tax. IC agenda decisions in March 2006 and May 2009 noted that IAS 12 defines income taxes as taxes that are based on taxable profits, and the term 'taxable profit' implies a notion of a net rather than a gross amount. Amounts that are not based on taxable profits are not income taxes. For example, interest and penalties might not be separated from income taxes where there is an overall settlement with the tax authority and any interest and penalties cannot be identified separately.

Presentation and disclosures – Estimation uncertainty

An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of: (a) their nature, and (b) their carrying amount as at the end of the reporting period [MoA 14.178].

Below is an illustrative disclosure that may be appropriate in cases of direct exposure to tax uncertainties.

IAS12p46

Accounting policies – Tax and related interest and penalties (extracts)

In accordance with IAS 12, 'Income taxes', the Fund is required to recognise a tax liability when it is probable that the tax laws of foreign countries require a tax liability to be assessed on the Fund's capital gains sourced from such foreign country, assuming the relevant taxing authorities have full knowledge of all the facts and circumstances. The tax liability is then measured at the amount expected to be paid to the relevant taxation authorities, using the tax laws and rates that have been enacted or substantively enacted by the end of the reporting period. There is sometimes uncertainty about the way enacted tax law is applied to offshore investment funds. This creates uncertainty about whether or not a tax liability will ultimately be paid by the Fund. Therefore, when measuring any uncertain tax liabilities, management considers all of the relevant facts and circumstances available at the time that could influence the likelihood of payment, including any formal or informal practices of the relevant tax authorities. If the Fund concludes that it is not probable that its tax treatment will be accepted by the authorities, it reflects the effect of this uncertainty in its income tax accounting in the period in which that determination is made. The Fund measures the impact of the uncertainty using either the most likely amount method or the expected value method, whichever is the most appropriate given the circumstances.

Critical judgements (extracts)

IAS1p122

The Fund considers interest and penalties on related tax liabilities to be an inseparable element of the tax liability and accounts for interest and penalties as if they are within the scope of IAS 12. These amounts are included within the tax line in the statement of comprehensive income, and the liability would be included within the income tax liability on the statement of financial position.

Notes to the financial statements – Taxation

The Fund invests in securities issued by entities which are virtually all domiciled in countries other than Lagartos. Many of these foreign countries have tax laws that indicate that capital gains taxes may be applicable to non residents, such as the Fund. Typically, these capital gains taxes are required to be determined on a self assessment basis; therefore, such taxes may not be deducted by the Fund's broker on a 'withholding' basis.

(All amounts in € thousands unless otherwise stated)

At 31 December 2019 and 2018, the Fund has applied the most likely amount method in measuring uncertain tax liabilities and related interest and penalties with respect to foreign capital gains taxes at nil: while this represents management's best estimate the estimated value could differ significantly[1] from the amount ultimately payable. The maximum exposure of the Fund as at 31 December 2019 was €XXX (2018: €XXX).[2]

[If the maximum exposure to a specific tax uncertainty was substantial management may wish to consider replacing the 2nd paragraph with the following wording]:

At December 31, 2019 and 2018, the Fund has applied the most likely amount method in measuring uncertain tax liabilities and related interest and penalties with respect to foreign capital gains taxes at nil. While this represents management best estimate there remains a risk that foreign tax authorities will attempt to collect taxes on capital gains earned by the Fund. This could happen without giving any prior warning, possibly on a retrospective basis, and could result in a substantial loss to the Fund. The maximum expected potential exposure of a loss to the Fund as at 31 December 2019 is €XXX (2018: €XXX).

Commentary – Observation

The Fund has applied the most likely amount method to measure the tax uncertainty as the possible outcomes were binary in nature. If there were multiple possible outcomes then the expected value method may have been more appropriate, in which case the Fund would not have been able to arrive a nil measurement.

[1] If the exposure is not significant then the word ''significantly'' should be deleted and consideration given to including a statement explaining that the potential impact is not expected to be significant.
[2] The specific facts that support the non-accrual of uncertain tax liabilities should be disclosed here. These factors may include for example, the relevant tax authority's public communication or private communication with specific tax payers, a history of non-collection (due perhaps to an inability or unwillingness to collect), or other specific precedents etc. The factors should not include detection risk or anticipation of changes in tax law.

(All amounts in € thousands unless otherwise stated)

Appendix IX – Impact of IFRS 12, 'Disclosure of interests in other entities' on funds that invest in other investment funds

This appendix provides illustrative disclosure required by IFRS 12 for a Fund that holds investments in underlying funds which meet the definition of "unconsolidated structured entities" under IFRS 12. It is assumed that the Fund has no interests in any other entities, as defined by IFRS 12, that require disclosure, including interests in subsidiaries, joint ventures and associates.

The objective of IFRS 12, 'Disclosures of interests in other entities' is to require an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. Any entity that has an interest in subsidiaries, joint arrangements, associates or unconsolidated structured entities will be caught in the scope of this standard. As such, funds that invest in other funds may be caught in the scope of this standard if the investee funds are consolidated subsidiaries (whether structured entities or not) or unconsolidated structured entities as defined in IFRS 12.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements [IFRS12pB21].

A structured entity often has some or all of the following features or attributes:

(a) restricted activities.

(b) a narrow and well-defined objective, such as to effect a tax-efficient lease, carry out research and development activities, provide a source of capital or funding to an entity or provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors.

(c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support.

(d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches) [IFRS12pB22].

Commentary – Significant judgements and assumptions

A reporting entity should consider whether its interest in another entity represents an interest in a structured entity. Significant judgements and assumptions made should be disclosed. Funds are often constituted so that they either do not have voting rights or where voting rights are only protective in nature. Many funds (including exchange traded funds) may, therefore, meet the definition of a structured entity [IFRS12p2]. This appendix does not address this issue.

Illustrative Disclosure:

Notes – Summary of accounting policies (extracts)

IFRS12pB21 **Structured entities**

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes; (a) restricted activities, (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors, (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

IFRS12p26 The Fund considers all of its investments in other funds ("Investee Funds") to be investments in unconsolidated structured entities. The Fund invests in Investee Funds whose objectives range from achieving medium to long term capital growth and whose investment strategy does not include the use of leverage. The Investee Funds are managed by unrelated asset managers and apply various investment strategies to accomplish their respective investment objectives. The Investee Funds finance their operations by issuing redeemable shares which are puttable at the holder's option and entitles the holder to a proportional stake in the respective fund's net assets. The Fund holds redeemable shares in each of its Investee Funds.

IFRS12B26(c) The change in fair value of each Investee Fund is included in the statement of comprehensive income in "Other net changes in fair value on financial assets and financial liabilities at fair value through profit or loss".

Commentary – Sponsored structured entities

For the purpose of this illustrative it is also assumed that the Fund has not sponsored any structured entities, if the Fund had sponsored a structured entity the Fund would need to meet the additional disclosure requirements of IFRS12p27.

(All amounts in € thousands unless otherwise stated)

Notes 4 Financial risk (extracts)

IFRS12p26 The Fund's investments in Investee Funds are subject to the terms and conditions of the respective Investee Fund's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those Investee Funds. The investment manager makes investment decisions after extensive due diligence of the underlying fund, its strategy and the overall quality of the underlying fund's manager. All of the Investee Funds in the investment portfolio are managed by portfolio managers who are compensated by the respective Investee Funds for their services. Such compensation generally consists of an asset based fee and a performance based incentive fee and is reflected in the valuation of the Fund's investment in each of the Investee Funds.

IFRS12B26(e) The right of the Fund to request redemption of its investments in Investee Funds ranges in frequency from weekly to semi annually.

IFRS12p29 The exposure to investments in Investee Funds at fair value by strategy employed is disclosed in the following table. These investments are included in financial assets at fair value through profit or loss in the statement of financial position[1].

IFRS12p24, 26 & 29

31 Dec 2019[2]

Strategy	Number of Investee Funds	Net Asset Value of Investee Fund (range and weighted avg) €Million	Investment fair value € 000's	% of net assets attributable to holders of redeemable shares
Equity long/short	12	25-60/(45)	55,548	49.8
Event driven	10	75-107/(82	41,531	37.2
Directional trading	6	100-225(175)	9,668	8.7
Multi-strategy	2	37-45/(41)	5,752	5.2
Fund of Funds	2	21-25/(23)	5,565	5
Relative value	5	25-100/(66)	1,456	1.3
			119,520	107.2

Commentary – Disclosure

IFRS12p26 requires disclosure of qualitative and quantitative information about an entity's interests in unconsolidated structured entities, including, but not limited to, the nature, purpose, size and activities of the structured entity and how the structured entity is financed.

IFRS12p29 (c)&(d) The Fund's maximum exposure to loss from its interests in Investee funds is equal to the total fair value of its investments in investee funds.

IFRS12p25 Once the Fund has disposed of its shares in an investee fund the Fund ceases to be exposed to any risk from that investee fund.

IFRS12p30 The Fund's investment strategy entails trading in other funds on a regular basis. Total purchases in investee funds during the year ended 31 December 2019 was €35,345,000 (2018: €16,012,013). The Fund intends to continue opportunistic trading in other funds. As at 31 December 2019 and 31 December 2018 there were no capital commitment obligations and no amounts due to investee funds for unsettled purchases.

IFRS12B26(b) During the year ended 31 December 2019 total net losses incurred on investments in Investee Funds were €17,381,000 (2018: €11,081,981).

Commentary – IFRS 7

The disclosure requirements of IFRS 7 and IFRS 12 may overlap to some extent. However, the intention is that both standards complement each other [IFRS12BC72-BC74]. Therefore in situations where a fund invests in other funds, which fall within the definition of a structured entity, additional disclosures requirements will result from the application of IFRS 12.

[1] The line item in the statement of financial position in which the structured entities are included should be disclosed [IFRS12p29(b)]
[2] Comparative information has not been included in the Illustrative disclosure above however it is required as the standard was effective since 1 January 2013.

(All amounts in € thousands unless otherwise stated)

Appendix X – Offsetting: Requirements and Disclosures under IAS 32 and IFRS 7

IFRS 7 requires disclosures to enable users of financial statements to evaluate the effect or the potential effects of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. IAS 32 provides guidance on offsetting criteria.

This appendix provides detailed guidance on the offsetting criteria contained in IAS 32 and disclosures required by IFRS 7.

Offsetting requirements under IAS 32

The guidance in paragraph 42 of IAS 32 states that a ''financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, an entity:
(a) currently has a legally enforceable right to set-off the recognised amounts; and
(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.''

IAS 32 stipulates that an entity currently has a ''legally enforceable right to set-off'' if the right to set-off is not contingent on a future event and is enforceable in the normal course of business, in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties [32pAG38B].

IAS 32 also states that gross settlement can be considered equivalent to net settlement if, and only if, the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that will process receivables and payables in a single settlement process or cycle. AG38F of IAS32 lists several characteristics that a gross settlement system might have that would allow it to meet this criterion. It is possible that systems utilised, for instance, by certain clearing houses may be considered equivalent to a net settlement system.

Commentary – Offsetting requirements under IAS 32

The nature and extent of the right of set off, including any conditions attached to its exercise and whether it would remain in the event of default or insolvency or bankruptcy, may vary from one legal jurisdiction to another. As such, the laws applicable to the relationships between the parties need to be considered to ascertain whether the right to set off is enforceable in the manner defined in the IAS 32 [32pAG38C & 38D].

It is also likely that legal analysis and judgement would be required in the determination of whether arrangements to which the entity is subject meet the netting criteria under IAS 32.

Offsetting disclosures under IFRS 7

Scope:

Offsetting disclosures are required for all recognised financial instruments that are set-off in accordance with paragraph 42 of IAS 32 (see above). These disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether they are set-off in accordance with paragraph 42 of IAS 32 [IFRS7p13A,B40].

The similar agreements referred to above include derivative clearing agreements, global master repurchase agreements, global master securities lending agreements, and any related rights to financial collateral. The similar financial instruments and transactions referred to above include derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, securities borrowing, and securities lending agreements [IFRS7pB41].

Financial instruments that are subject only to a collateral agreement are not within the scope [IFRS7pB41].

IFRS 7 and IAS 32 do not provide a definition of ''master netting arrangement'' however IAS 32 provides the following list of characteristics which a master netting arrangement would have:
– Such an agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any one contract.
– These arrangements are commonly used by financial institutions to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations.
– A master netting arrangement commonly creates a right of set-off that becomes enforceable and affects the realisation or settlement of individual financial assets and financial liabilities only following a specified event of default or in other circumstances not expected to arise in the normal course of business [32p50].

Offsetting disclosure requirements:

The offsetting disclosure requirements contained in IFRS 7 apply to all recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set-off in accordance with paragraph 42 of IAS 32 [IFRS7p13A].

(All amounts in € thousands unless otherwise stated)

The purpose of these disclosures is to enable users of the financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position. This includes the effect or potential effect of rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities that are subject to a master netting arrangement or similar agreement [IFRS7p13B].

The disclosures require amounts to be presented in a tabular format separately for financial assets and financial liabilities, unless another format is more appropriate [IFRS7p13C]. For instance, an entity may choose to disclose one table for its assets (and a separate table for its liabilities) which are subject to a master netting arrangements. The specific disclosure requirements are listed below, however, in general terms, each table will disclose:

i) Gross assets (or liabilities) subject to a master netting arrangement;
ii) Amounts set-off against the asset (or liability) in accordance with the offsetting criteria in paragraph 42 of IAS 32; and
iii) Amounts available for set-off against the asset (or liability) that have not been set-off.

The following table details the main disclosure requirements and provides commentary explanations of each requirement:

	Disclosure requirement	**Explanation and commentary**
A	Gross amounts of recognised financial assets and recognised financial liabilities [IFRS7p13C(a)].	These amounts relate to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement irrespective of whether they meet the offsetting criteria. However, they do not relate to any amounts recognised as a result of collateral agreements that do not meet the offsetting criteria in paragraph 42 of IAS 32 (such amounts will be disclosed under D below) [IFRS7pB43].
B	The amounts that are set-off in accordance with the criteria in paragraph 42 of IAS 32 [IFRS7p13C(b)].	Amounts disclosed are limited to the amounts that are subject to set-off. For example, if the gross amount of the asset is larger than the gross amount of the liability (assuming the asset and liability meet the offsetting criteria), the financial asset disclosure table will include the entire amount of the derivative asset (in accordance with 'A') and the entire amount of the derivative liability (in accordance with 'B'). However, while the financial liability disclosure table will include the entire amount of the derivative liability (in accordance with 'A'), it will only include the amount of the derivative asset (in accordance with 'B') that is equal to the amount of the derivative liability [IFRS7pB44].
C	The net amounts presented in the statement of financial position [IFRS7p13C(c)].	This is simply the difference between 'A' and 'B'. Note that if there are no amounts which meet the offsetting criteria then the amounts disclosed for 'A' will equal the amount disclosed for 'C' [IFRS7pB45].
D	Amounts subject to set-off that do not qualify for offsetting under (B) above [IFRS7p13C(d)]. This relates to; i. amounts which are subject to set-off against the asset (or liability) disclosed in 'A' which have not been offset in the statement of financial position, and ii. Any financial collateral (including cash collateral), both received and pledged.	The amounts disclosed under 'D' are limited to the amounts disclosed in 'C' [IFRS7p13D]. This is further explained in the illustrative guidance provided below.
E	Net amount [IFRS7p13C(e)].	Net of C and D.

Other disclosure requirements:

- An entity shall include a description in the disclosures of the rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities subject to enforceable master netting arrangements and similar agreements that are disclosed in accordance with 'D' in the table above, including the nature of those rights [IFRS7p13E].
- If the disclosure requirements listed above are disclosed in more than one note to the financial statements, an entity shall cross-refer between those notes [IFRS7p13F].
- The amounts required to be disclosed by 'C' in the table above must be reconciled to the individual line item amounts presented in the statement of financial position [IFRS7pB46].
- To meet the objective of the disclosure requirements an entity may need to supplement them with additional (qualitative) disclosures, depending on the terms of the enforceable master netting arrangements and related agreements, including the nature of the rights of set-off, and their effect or potential effect on the entity's financial position [IFRS7pB53].

(All amounts in € thousands unless otherwise stated)

Disclosure options

In making the quantitative disclosure requirements listed in items 'A' to 'E' in the table above, IFRS 7 provides the option of:

i) Making all disclosures 'A' to 'E' by type (of financial instrument or transaction), or
ii) Making disclosures 'A' to 'C' by type and making disclosures 'C' to 'E' by counterparty. Under this option, disclosure for item 'C' is therefore made both by type and by counterparty.

If option (ii) is taken, amounts that are individually significant in terms of total counterparty amounts shall be separately disclosed and the remaining individually insignificant counterparty amounts shall be aggregated into one line item [IFRS7pB52].

Commentary – IFRS 7, Disclosures

It is not uncommon for a fund to engage in transactions with several different counterparties and therefore be subject to several different master netting arrangements. As a result, care must be taken to match assets and liabilities only to amounts that are subject to offset with assets or liabilities held with the same counterparty.

For example, Fund W engages in derivative trading with 3 different counterparties. Transactions with each counterparty are governed by separate master netting agreements. However, the offsetting criteria under paragraph 42 of IAS32 have NOT been met. For simplicity, no collateral has been received or pledged with any counterparty. Relevant balances are below:

	Asset	Liability
Counterparty X	4	4
Counterparty Y	5	0
Counterparty Z	6	11
Total	**15**	**15**

Quantitative asset disclosure for Fund W's derivatives are as follows:

Gross assets per 'A'	–	15
Amount offset per 'B'	–	0
Net per 'C'	–	15
Amount per 'D'	–	10
Net per 'E'	–	5

As shown above, although Fund W has gross derivative assets of 15 and gross derivative liabilities of 15, which are all subject to master netting arrangements, the net amount per 'E' is 5. The reason for this is that Fund W has zero liabilities subject to set off with Counterparty Y and, while the Fund has a liability of 11 with Counterparty Z, only an amount of 6 can be used in the disclosure since the amount disclosed under 'D' is limited to the gross asset held with that counterparty.

This concept is further explained in the illustrative disclosure below.

The following illustrative disclosure is based on a fictional fund (Fund A) which engages in derivatives, repurchase and reverse repurchase transactions with various counterparties. The transactions with counterparties are all governed by separate master netting agreements which fall within the scope of IFRS 7. The following table summarises the gross assets, liabilities and collateral relevant to each counterparty.

	Counterparty 1	Counterparty 2	Counterparty 3	Counterparty 4	TOTAL
Derivative assets not offset per IAS 32p42	1,000	720	220	–	**1,940**
Derivative assets offset per IAS 32p42 *	100	–	50	–	**150**
Derivative Liabilities not offset per IAS 32p42	(400)	(1,200)	(300)	–	**(1,900)**
Derivative Liabilities offset per IAS 32p42 *	(100)	–	(50)	–	**(150)**
Amounts receivable under agreements to resell	–	–	–	500	**500**
Amounts payable under agreements to repurchase	–	–	–	(650)	**(650)**
Cash paid as collateral	–	400	–	–	**400**
Cash received as collateral	(500)	–	–	–	**(500)**
Investments pledged by counterparty to Fund **	–	–	–	(510)	**(510)**
Investments pledged by Fund to counterparty	–	150	50	700	**900**

* These balances are not reflected in the statement of financial position as they have been offset in accordance with IAS 32
** This balance is not reflected in the statement of financial position as it does not meet the recognition criteria

The following illustrative disclosure includes extracts from the Fund's statement of financial position and disclosure required by IFRS 7. The IFRS 7 disclosure requirements are illustrated using both disclosure options mentioned previously.

(All amounts in € thousands unless otherwise stated)

Illustrative Disclosure:

Fund A
Statement of financial position (EXTRACTS)

Assets	
Derivatives	1,940
Amounts receivable under agreements to resell	500
Cash collateral receivable	400
Investments pledged by Fund	900
Liabilities	
Derivatives	(1,900)
Amounts payable under agreements to repurchase	(650)
Cash collateral payable	(500)

Notes – Offsetting and amounts subject to master netting arrangements and similar agreements

IFRS7p13C, B51

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements[1]:

	A	B	C = A-B	D		E = C-D
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set-off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set-off in the statement of financial position		Net amount
				D(i) and D(ii) Financial Instruments	D(ii) Cash collateral received	
Description						
Derivatives	2,090	150	1,940	1,340	500	100
Reverse repo receivable	500	–	500	500	–	–

IFRS7p13C, B51

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements:

	A	B	C = A-B	D		E = C-D
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set-off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set-off in the statement of financial position		Net amount
				D(i) and D(ii) Financial Instruments	D(ii) Cash collateral pledged	
Description						
Derivatives	2,050	150	1,900	1,540	330	30
Repo payable	650	–	650	650	–	–

[1] This table illustrates Fund A's application of the quantitative disclosure requirements (requirements 'A' to 'E' detailed in the table further above) by TYPE of financial instrument (ie. the first option).

(All amounts in € thousands unless otherwise stated)

Commentary – Quantitative disclosures

'A' –
In the above example, amounts disclosed under 'A' would include derivative assets, derivative liabilities, amounts receivable under agreements to resell and amounts payable under agreements to repurchase. Amounts disclosed under 'A' do not relate to any amounts recognised as a result of collateral agreements that do not meet the offsetting criteria in paragraph 42 of IAS32. As a result, the cash collateral receivable and payable as well as the financial assets pledged by the Fund will not be presented under 'A'.

For the asset table, the gross derivative would equal all amounts subject to a master netting arrangement, including amounts set-off in the SoFP. This would be 1,940 + 150 = 2,090. Similarly, the gross derivative liability would be 1,900 + 150 = 2,050.

'B' –
The amounts that are set off in accordance with the criteria in paragraph 42 of IAS32 will be disclosed here.

'C' –
This is the difference between 'A' and 'B' (this amount should reconcile to the statement of financial position).

'D' –
Assets:
The amount disclosed for derivatives is calculated as follows:

	Counterparty 1	**Counterparty 2**	**Counterparty 3**	**TOTAL $**
Net derivative asset	1,000	720	220	1,940
Derivative liability subject to set off	(400)	(720)	(220)	1,340
Sub total	**600**	**0**	**0**	**600**
Cash collateral received	(500)	n/a	n/a	(500)
Net	**100**	**0**	**0**	**100**

For the amounts receivable under agreements to resell, although the Fund has a payable to Counterparty 4 of 650 and has also received pledged collateral of 510, the value disclosed under 'D' is limited to 500 which is the gross asset amount and the amount disclosed in 'C'.

'D' –
Liabilities:
The amount disclosed for derivatives is calculated as follows:

	Counterparty 1	**Counterparty 2**	**Counterparty 3**	**TOTAL $**
Net derivative liability	400	1,200	300	1,900
Derivative asset subject to set off	(400)	(720)	(220)	(1,340)
Sub total	**0**	**480**	**80**	**560**
Investments pledged by Fund	n/a	(150)	(50)	(200)
Sub total	**0**	**330**	**30**	**360**
Cash collateral provided	n/a	(330)	0	(330)
Net	**0**	**0**	**30**	**30**

The amount disclosed under 'D' relating to financial instruments (1,540) is comprised of the derivative assets subject to set off (1,340) plus the investments pledged by the Fund (200).

For Counterparty 2, although 400 cash collateral was provided, the amount disclosed for 'D(ii)' is limited to the net amount remaining, which in the above scenario is 330.

For the amounts payable under agreements to repurchase, although the Fund has a receivable from Counterparty D of 500 and has pledged collateral of 700, the value disclosed under 'D' is limited to 650 which is the gross liability amount and the amount disclosed in 'C'.

'E' –
This is the difference between 'C' and 'D'

(All amounts in € thousands unless otherwise stated)

The following table illustrates Fund A's application of the quantitative disclosure requirements (requirements 'A' to 'E' detailed in the table further above) by COUNTERPARTY (ie. the second option). Under this option, the Fund will disclose items 'A' to 'C' by type and items 'C' to 'E' by counterparty.

Disclosure of items 'A' to 'C' by type will be the same as illustrated in the tables above. The following tables therefore just illustrate items 'C' to 'E' by counterparty:

IFRS7p13C, B52

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements:

	C = A-B	D		E = C-D
	Net amounts of financial assets presented in the statement of financial position	Related amounts not set-off in the statement of financial position		Net amount
		D(i) and D(ii) Financial Instruments	D(ii) Cash collateral received	
Counterparty 1	1,000	400	500	100
Counterparty 2	720	720	–	–
Counterparty 3	220	220	–	–
Counterparty 4	500	500	–	–

IFRS7p13C, B52

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements:

	C = A-B	D		E = C-D
	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set-off in the statement of financial position		Net amount
		D(i) and D(ii) Financial Instruments	D(ii) Cash collateral pledged	
Counterparty 1	400	400	–	–
Counterparty 2	1,200	870	330	–
Counterparty 3	300	270	–	30
Counterparty 4	650	650	–	–

Commentary – Quantitative disclosures (continued)

Disclosure by counterparty:

From the tables above it can be seen that the net amounts presented in 'E' are the same regardless of which presentation option is used by the fund.

Refer to previous commentary boxes for explanations on how the individual amounts presented in the counterparty table were calculated.

Collateral and disclosure under item 'D':

For the purpose of this disclosure an entity shall disclose collateral at its fair value. This applies both to collateral received and collateral pledged [IFRS7pB48].

The amounts disclosed in accordance with 'D' should also relate to actual collateral received or pledged and not to any resulting payables or receivables recognised to return or receive back such collateral [IFRS7pB48].

(All amounts in € thousands unless otherwise stated)

IFRS7p13E, B50 Transactions with Counterparty 1, 2, 3 and 4 are governed by separate master netting agreements. Each agreement allows for net settlement of certain open contracts where the Fund and respective counterparty both elect to settle on a net basis. In the absence of such an election, contracts will be settled on a gross basis. However, each party to the master netting agreement will have the option to settle all open contracts on a net basis in the event of default of the other party. Per the terms of each master netting agreement, an event of default includes the following:

- failure by a party to make payment when due;
- failure by a party to perform any obligation required by the agreement (other than payment) if such failure is not remidied within 30 days after notice of such failure is given to the party;
- bankruptcy.

IFRS7pB50 Investments pledged as collateral by the Fund can be sold or repledged by the respective counterparty. Cash collateral received is restricted and does not form part of the Fund's cash and cash equivalents. Under the terms of the master netting agreements, collateral can only be seized by a party in the event of default of the other party.

Commentary – Qualitative disclosures

An entity shall include a description in the disclosures of the rights of set off associated with the entity's recognised financial assets and recognised financial liabilities subject to enforceable master netting arrangements and similar agreements that are disclosed in accordance with item 'D', including the nature of those rights [IFRS7p13E].

For example:

- An entity shall describe its conditional rights.
- For instruments subject to rights of set-off that are not contingent on a future event but that do not meet the remaining criteria in IAS 32p42, the entity shall describe the reason(s) why the criteria are not met.
- For any financial collateral received or pledged, the entity shall describe the terms of the collateral agreement (for example, when the collateral is restricted) [IFRS7pB50].

In order to make the above required disclosures an entity will need to analyse the terms contained in its agreements. The qualitative disclosures provided above are illustrative only and may not necessarily be consistent with the terms contained in master netting and similar agreements of all funds.

(All amounts in € thousands unless otherwise stated)

Appendix XI – Funds whose shares are transacted using a different measurement basis for certain assets or liabilities, when compared to IFRS

A fund's prospectus may require certain items to be accounted for differently when calculating the net asset value for transacting its own shares (the "trading NAV"), compared to the requirements of IFRS. For instance, IFRS requires set-up costs to be expensed when incurred however, a fund's prospectus may require such costs to be amortised over several years for the purpose of determining the trading NAV. In such a circumstance the fund's financial statements will have to include the total expense in the period incurred with no amortisation in order to comply with IFRS, however this would lead to the fund having a trading NAV that is different from the sum of the fund's assets and liabilities (excluding redeemable shares) calculated in accordance with IFRS. This appendix addresses how such differences should be treated.

Equity vs Liability:
The treatment of such differences differs depending on whether the shares of the fund are classified as equity or liabilities under IAS 32[1,2]. This is because different measurement criteria apply to the shares depending on the classification.

Equity:
The IFRS framework [paragraph 4.4] defines equity simply as "the residual interest in the assets of the entity after deducting all its liabilities". As such, if the shares are considered to be equity instruments then their measurement would have to equate to total assets less total liabilities calculated in accordance with IFRS. In this circumstance there would therefore be a difference between the trading NAV of the fund (calculated in accordance with the prospectus) and the net asset value (equity value) calculated in accordance with IFRS, however it is permissible to disclose and explain the nature of this difference in the notes to the financial statements. No adjustment to the primary statements is required[3].

Commentary – Example note disclosure when shares are presented as equity under IAS 32.

As mentioned above, no adjustment to the primary statements is necessary in this scenario if the shares were classified as equity. However, a fund may still wish to explain the difference between its trading net asset value and its equity as per the Statement of Financial Position. The following is example note disclosure that can be used:

Example Note:
The Fund's prospectus requires set-up costs to be amortised over a period of 4 years for the purpose of calculating its trading net asset value, whereas IFRS requires set-up costs to be expensed as incurred. All set-up costs have been expensed during the year ended 31 December 2018 in accordance with IFRS, however this has resulted in a difference between the Fund's trading net asset value and the sum of assets and liabilities measured in accordance with IFRS. The Fund's shares are classified as equity in accordance with IAS 32 and therefore equate to the residual value of the Fund's total assets less its total liabilities. The following table shows the reconciliation of the Fund's equity value to its trading net asset value:

	As at December 31	
	2019	**2018**
Equity as per Statement of Financial Position	79,543	83,924
Adjustment for set-up costs	500	750
Trading net asset value calculated in accordance with the Fund's Prospectus	80,043	84,674

Liability:
If shares are considered to be liabilities under IAS 32 then IFRS requires the liability to be measured at fair value or amortised cost. The primary input of measurement would be the amount payable upon redemption of the shares[4], which in turn would be based on the trading net asset value in accordance with the fund's prospectus. In this situation the liability measurement of the shares will not equate to the sum of the fund's assets and liabilities (excluding the shares). This difference therefore becomes an adjustment that needs to be presented in the primary statements. The following illustrates how such an adjustment is presented.

[1] Where the criteria listed in IAS32p16A&B are met a fund's shares shall be classified as equity.
[2] For the purpose of this appendix, set-up costs are not considered to have a substantial impact on the total expected cash flows attributable to the puttable shares over the life of the instrument. If the impact of set-up costs was substantial then IAS 32p16A(e) should be considered in determining whether the shares should be classified as equity or liabilities.
[3] Refer to PwC Q&A solution "Dual Net Asset Value Reporting".
[4] The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid [IFRS13p47]. In cases where the trading NAV is higher than the sum of assets and liabilities (as illustrated in this Appendix) an adjustment will be required, however if the trading NAV is lower than the sum of assets and liabilities there should be no adjustment since all net assets are attributable to the shareholders.

(All amounts in € thousands unless otherwise stated)

Example scenario:

The fund commenced operations on 1 January 2018 and incurred €1,000 in set-up costs. The fund's year end is 31 December and the policy per the fund's prospectus is to amortise all set-up costs over 4 years.

	Statement of Operations: Expense		Statement of Financial Position: Capitalised set-up costs	
	Per IFRS	Per prospectus	Per IFRS	Per prospectus
Year ended 31 Dec 2018	1,000	250	–	750
Year ended 31 Dec 2019		250	–	500
Year ended 31 Dec 2020		250	–	250
Year ended 31 Dec 2021		250	–	–

The above scenarios results in an adjustment of €750 at the end of 31 December 2018 and an adjustment of €500 at the end of 31 December 2019.

Statement of financial position

		As at 31 December 2019	2018
	Assets		
	Current assets		
	Financial assets at fair value through profit or loss	78,000	91,000
	Due from brokers	2,000	950
	Other receivables and prepayments	500	440
	Cash and cash equivalents	350	325
	Total assets	**80,850**	**92,715**
	Liabilities		
	Current liabilities		
	Financial liabilities at fair value through profit or loss	(250)	(7,500)
	Due to brokers	(800)	(770)
	Accrued expenses	(257)	(521)
1p55	**Liabilities (excluding net assets attributable to holders of redeemable shares)**	(1,307)	(8,791)
32IE32	**Net assets attributable to holders of redeemable shares (before set-up cost adjustment)**	**79,543**	**83,924**
	Represented by:		
1p54(m)	**Net assets attributable to holders of redeemable shares (at trading value)**	**80,043**	**84,674**
1p55, 78(e)	Adjustment for set-up costs*	(500)	(750)

Appendix XI – Funds whose shares are transacted using a different measurement basis

(All amounts in € thousands unless otherwise stated)

Statement of comprehensive income

		Note	Year ended 31 December 2019	2018
	Income			
	Dividend income		1,538	1,000
	Other net changes in fair value on financial assets and financial liabilities at fair value through profit or loss		7,500	5,000
	Total net income/(loss)		**9,038**	**6,000**
	Expenses			
	Management fee		(800)	(650)
	Transaction costs		(125)	(100)
	Other operating expenses		(140)	(150)
	Total operating expenses		**(1,065)**	**(900)**
	Operating profit/(loss)		**7,973**	**5,100**
	Finance costs			
	Distributions to holders of redeemable shares		(500)	(500)
	Profit/(loss) after distributions		**7,473**	**4,600**
	Adjustment for set-up costs*	12	(250)	750
32IE32, 1p85, 32p35	**Increase/(decrease) in net assets attributable to holders of redeemable shares from operations**		**7,223**	**5,350**

Statement of changes in net assets attributable to holders of redeemable shares

	Note	Year ended 31 December 2019	2018
Net assets attributable to holders of redeemable shares at 1 January (before set up cost adjustment)		**83,924**	–
Represented by:			
Net assets attributable to holders of redeemable shares at 1 January (at trading value)		84,674	–
Adjustment for set-up costs		(750)	–
Net assets attributable to holders of redeemable shares at 1 January (at trading value)		**84,674**	–
Proceeds from redeemable shares issued		3,346	79,324
Redemption of redeemable shares		(15,200)	–
Net increase from share transactions		(11,854)	79,324
Profit/(loss) after distributions and tax		7,473	4,600
Adjustment for set-up costs*	**12**	(250)	750
Increase/(decrease) in net assets attributable to holders of redeemable shares from operations		7,223	5,350
Net assets attributable to holders of redeemable shares at 31 December (at trading value)		**80,043**	**84,674**

(All amounts in € thousands unless otherwise stated)

Commentary – Subsidiary providing investment services

* The amount presented in the Statement of Comprehensive Income represents the movement in the adjustment during the year. As 2018 is the first year of operation, the adjustment moved from nil to €750. During 2019 the adjustment decreased from €750 to €500 in the statement of Financial Position, therefore the movement presented in the Statement of Comprehensive Income was (€250).

Notes to the financial statements (extracts)

Note 12

The Fund's prospectus requires set-up costs to be amortised over a period of 4 years for the purpose of calculating its trading net asset value, whereas IFRS requires set-up costs to be expensed as incurred. All set-up costs have been expensed during the year ended 31 December 2018 in accordance with IFRS, however this has resulted in a difference between the Fund's trading net asset value and the sum of assets and liabilities (excluding redeemable shares) measured in accordance with IFRS. The Fund's shares are classified as liabilities in accordance with IAS 32. This liability is measured at the amount which the Fund is obligated to pay upon redemption, which is based on the trading net asset value calculated in accordance with the prospectus. The resulting difference of €500 (2018: €750) is presented in the Statement of Financial Position and the movement in these differences of (€250) (2018: €750) has been presented in the Statement of Comprehensive Income.

(All amounts in € thousands unless otherwise stated)

Appendix XII – New standards and amendments

This appendix provides a summary of (a) new standards and amendments that are effective for the first time for periods commencing on 1 January 2019 (i.e. years ending 31 December 2019) and (b) forthcoming requirements, being standards and amendments that will become effective after 1 January 2019.

New standards and amendments – applicable 1 January 2019

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2019:

Title	Key requirements	Effective Date*
IFRS 16 *Leases*	IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases. The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change. Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows. The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.	1 January 2019 Early adoption is permitted only if IFRS 15 is adopted at the same time.
Interpretation 23 Uncertainty over income tax treatments	This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. When there is uncertainty over income tax treatments, this Interpretation addresses: a. whether an entity considers uncertain tax treatments separately; b. the assumptions an entity makes about the examination of tax treatments by taxation authorities; c. how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and d. how an entity considers changes in facts and circumstances.	1 January 2019
Prepayment Features with Negative Compensation – Amendments to IFRS 9	The narrow-scope amendments made to IFRS 9 Financial Instruments in December 2017 enable entities to measure certain prepayable financial assets with negative compensation at amortised cost. These assets, which include some loan and debt securities, would otherwise have to be measured at fair value through profit or loss. To qualify for amortised cost measurement, the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect' business model.	1 January 2019

* Applicable to reporting periods commencing on or after the given date.

(All amounts in € thousands unless otherwise stated)

Title	Key requirements	Effective Date*
Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28	The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9 Financial Instruments before applying the loss allocation and impairment requirements in IAS 28 Investments in Associates and Joint Ventures.	1 January 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	The following improvements were finalised in December 2017: • IFRS 3 – clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages. • IFRS 11 – clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation. • IAS 12 – clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. • IAS 23 – clarified that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.	1 January 2019
Plan Amendment, Curtailment or Settlement – Amendments to IAS 19	The amendments to IAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must: • calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change • any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling • separately recognise any changes in the asset ceiling through other comprehensive income.	1 January 2019

* Applicable to reporting periods commencing on or after the given date.

(All amounts in € thousands unless otherwise stated)

Forthcoming requirements

As at 30 September 2019, the following standards and interpretations had been issued but were not mandatory for annual reporting periods ending 31 December 2019. For more recent information please refer to our web site at www.pwc.com/ifrs.

Title	Key requirements	Effective Date*
IFRS 17 *Insurance Contracts*	IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of: • discounted probability-weighted cash flows • an explicit risk adjustment, and • a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period. The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.	1 January 2021 (likely to be extended to 1 January 2022)
Definition of Material – Amendments to IAS 1 and IAS 8	The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information. In particular, the amendments clarify: • that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and • the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.	1 January 2020
Definition of a Business – Amendments to IFRS 3	The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments will likely result in more acquisitions being accounted for as asset acquisitions.	1 January 2020

* Applicable to reporting periods commencing on or after the given date.

(All amounts in € thousands unless otherwise stated)

Title	Key requirements	Effective Date*
Revised Conceptual Framework for Financial Reporting	The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include: • increasing the prominence of stewardship in the objective of financial reporting • reinstating prudence as a component of neutrality • defining a reporting entity, which may be a legal entity, or a portion of an entity • revising the definitions of an asset and a liability • removing the probability threshold for recognition and adding guidance on derecognition • adding guidance on different measurement basis, and • stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements. No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.	1 January 2020
Interest rate benchmark reform – Amendment to IFRS 7, IFRS 9 and IAS 39	The amendments modify some specific hedge accounting requirements to provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.	1 January 2020

* Applicable to reporting periods commencing on or after the given date.

About PwC's Asset Management practice

The asset management industry faces challenging markets, new regulatory reform measures, and competition for clients and talent – All against a backdrop of heightened expectations from investors, regulators, industry partners, and other stakeholders. Our Asset Management partners and staff can assist in meeting these key industry challenges.

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Questions?
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