

## ASU 2013-08 – Determination of Investment Companies Disclosure

### ASU 2013 -08, Financial Services – Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements - Sample Disclosures and Guidance

➤ **Upon adoption Include in the Basis of Accounting footnote section paragraph:**

The Fund qualifies as an investment company, as defined in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 946 Financial Services – Investment Companies and, therefore, is applying the specialized accounting and reporting guidance in ASC Topic 946.

➤ **If there is a change in status as an investment company:**

An entity with a change in status is required to disclose that a change in status occurred and the reasons for that change. An entity that was not an investment company and becomes an investment company is required to disclose the effect of the change in status on the reported amounts of investments as of the date of the change in status.

**Guidance for presentation of financial statement amounts if change in status:**

An entity must discontinue application of the guidance in ASC Topic 946 if it no longer qualifies as an investment company upon the effective date. The entity is required to present the change in its status as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. A currently non-investment company entity that is an investment company under the new guidance upon the effective date is required to apply the investment company accounting and financial reporting guidance by recording the effect of applying the amendments as an adjustment to opening net assets as of the effective date. The cumulative-effect adjustment is included in the net asset value at the beginning of the period. The adjustment to net assets represents both the difference between the fair value and the carrying amount of the entity’s investments and any amount previously recognized in accumulated other comprehensive income.

➤ **Include disclosure of financial support\*\* provided to investee in the Related Parties footnote section:**

During the year ended December 31, 20XX, the Fund provided financial support to [NAME INVESTEE] to finance the purchase of equipment that came onto the market at short notice. Although the Fund had no contractual obligation to do so, the financial support was made available because the equipment was needed for the [NAME INVESTEE] to commence manufacturing for a new significant customer. The loan provided to [NAME INVESTEE] bears interest at a rate of X% and is repayable in 20XX. The loan was later replaced by a bank loan between [NAME INVESTEE] and a bank, which the Fund assisted [NAME INVESTEE] in obtaining. The Fund does not have any contractual obligation to provide financial support to [NAME INVESTEE]. However, the Fund would consider providing any support required by [NAME INVESTEE] in the future, if such support were necessary to maintain and/or enhance its operations in the market in which it operates. The Fund did not provide any guarantees or indemnifications to the bank on behalf of [NAME INVESTEE].

Or:

During the year ended December 31, 20XX, the Fund did not provide financial support to any investees and it has no intention of providing financial or other support.

And/Or:

In order to assist NAME INVESTEE in obtaining financing from various banks and other lenders it needed for working capital purposes and for purchases of manufacturing equipment for a new product line, the Fund has

unconditionally guaranteed the repayment of certain loans and related interest and fees for [NAME INVESTEE]. The guarantees continue until the loans, including accrued interest and fees, have been paid in full. The maximum amount of the guarantees may vary, but is limited to the sum of the total due and unpaid principal amounts plus related interest and fees. Additionally, the maximum amount of the guarantees, certain of which are denominated in foreign currencies, will vary based on fluctuations in foreign exchange rates. As of December 31, 20XX, the maximum principal amount guaranteed by the Fund was approximately \$XX,XXX.

The Fund may recover a portion of its maximum liability upon sale or liquidation of [NAME INVESTEE]. The proceeds from such sale or liquidation cannot be accurately estimated due to the multitude of factors that would affect the valuation and realization of such proceeds upon sale or liquidation.

**And/Or:**

In order to assist NAME INVESTEE in obtaining financing needed from various banks and other lenders it needed for working capital purposes and for purchases of manufacturing equipment for a new product line, the Fund provided contractual financial support to [NAME INVESTEE, which has a \$X,XXX line of credit agreement (Agreement) with a bank. Under terms of the Agreement, the Fund is obligated to advance to NAME INVESTEE, a maximum of \$X,XXX if NAME INVESTEE's working capital falls below \$X,XXX or its current ratio is less than 1. Any funds advanced under this Agreement are available to the bank. In addition, the bank may have claims against the Fund in an amount not to exceed \$X,XXX of any unsatisfied required advances. The term of the guarantee is through X/XX/20XX. At December 31, 20XX, NAME INVESTEE was in compliance with the terms of the Agreement with the bank.

**And/Or:**

During the year ended December 31, 20XX, the Fund provided contractual financial support to [NAME INVESTEE] for its working capital needs to fund its operations and to alleviate liquidity constraints. As of December 31, 20XX, total commitments provided by the Fund under this line of credit agreement (the "Agreement"), amounted to approximately \$XX,XXX. Advances under the Agreement bears interest at a rate of X% and is repayable in full upon expiration of the line on XX/XX/XXXX. The Agreement is secured by [NAME INVESTEE's] inventory and accounts receivable. Under the terms of the Agreement, [NAME INVESTEE] is required to maintain certain minimum working capital, net worth, profitability levels, and other specific financial ratios. The Agreement allows [NAME INVESTEE] to draw down and repay amounts as needed to fund its operations, however it limits the draw down amounts at any particular time to a maximum of \$XXX and requires full payment and maintenance of a zero balance for a month every six months. In addition, the Agreement prohibits [NAME INVESTEE's] payment of cash dividends and contains certain restrictions on its ability to borrow money or purchase assets or interests in other entities without the prior written consent of the Fund.

**\*\*Required Disclosure of financial support:**

**No contractual obligation to provide the financial support:**

An investment company is required to disclose information about the:

- 1) Type and amount of financial support provided, including situations in which the investment company assisted the investee in obtaining financial support; and
- 2) Primary reasons for providing the financial support, disaggregated by financial support that it is contractually required to provide and financial support that it was not previously required to provide to any of its investees during the periods presented.

**Contractual obligation to provide the financial support:**

An investment company is also required to separately disclose information about financial support including the:

- 1) Type and amount of financial support to be provided, including situations in which the investment company must assist the investee in obtaining financial support; and
- 2) Primary reasons for the contractual requirement to provide the financial support.