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# *Illustrative Financial Statements of Private Equity Fund holding an Investment Entity subsidiary*

*Applying the Investment Entities consolidation  
exception: Amendments to IFRS 10, IFRS 12  
and IAS 28*

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## Investment Entity holding an Investment Entity subsidiary

### Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28).

This publication provides illustrative disclosures which are considered best practice disclosures to be made by an Investment Entity (as a result of the Investment Entities Applying the Consolidation Exception: Amendments to IFRS 10 – Consolidated Financial Statements, IFRS 12 – Disclosure of Interests in Other Entities and IAS 28 – Investments in Associates and Joint Ventures) (the “Amendments”) which has a controlled subsidiary, that itself meets the definition of an “Investment Entity”, and which had previously consolidated that subsidiary.

These illustrative disclosures have been prepared for a fictional private markets entity, which has the legal form of a limited partnership (‘ABC Private Equity LP’ or the ‘Partnership’).

ABC Private Equity LP is a “holding entity” and an existing preparer of IFRS financial statements; IFRS 1, ‘First-time adoption of IFRS’, is not applicable. Guidance on financial statements for first-time adopters of IFRS is available at [www.pwc.com/ifrs](http://www.pwc.com/ifrs). ABC Private Equity LP is not traded in a public market.

ABC Private Equity LP has a number of external private equity investments, as well as two subsidiaries X Subsidiary (the “Subsidiary”) and Y Subsidiary. Its investment objectives are to seek medium- to long-term growth by investing in private unlisted companies with high growth potential both directly and through its subsidiaries. The Partnership is tax transparent. Both the Partnership and X Subsidiary meet the definition of an Investment Entity. Y Subsidiary does not meet the definition of an Investment Entity but does provide services related to the Partnership. As a result the Partnership applies the exception to consolidation and classifies its investment in X Subsidiary as ‘fair value through profit or loss’ (FVTPL). The Partnership’s investment in Y Subsidiary does not meet the requirements for exception to consolidation, and so Y Subsidiary is consolidated. The Partnership does not apply hedge accounting. The underlying private equity investments of X Subsidiary are mainly denominated in Euros, US dollars and British pounds. The investments held by the Partnership are all denominated in Euros. The Partnership’s and subsidiaries’ functional and presentation currency is the Euro. The resulting foreign currency exposure is reduced by the use of foreign exchange derivatives. X Subsidiary utilizes one external credit facility and has associated pledges and covenants. Y Subsidiary has no external credit facilities.

The example 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. The entity’s management is also responsible for providing disclosures that may be required by the relevant legal and regulatory requirements of the governing jurisdiction in which the entity operates.

The following illustrative disclosures are not a substitute for reading the standards and interpretations themselves or for professional judgement as to 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. Additional accounting disclosures may be required in order to comply with local laws and/or stock exchange regulations.

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## Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 28)

'Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)' was issued in December 2014. These Amendments clarified that IFRS10p32 does not apply to subsidiaries which are themselves investment entities. This means that an investment entity parent, that has a subsidiary which is also an investment entity, must fair value that subsidiary. These Amendments are effective for annual periods beginning on or after 1 January 2016, and are described as clarifications of the existing guidance.

### *Commentary – Introduction*

The purpose of this document is to illustrate the impact of first time adoption of these Amendments for an entity which previously consolidated its subsidiary. As the Amendments are effective for annual periods beginning on or after 1 January 2016, entities with financial year ends prior to 31 December 2016 may have to adopt these Amendments for the first time in their 2017 financial statements. For illustrative purposes this document is therefore based on a 31 December 2016 year end date. In applying this amendment, parent entities are required to make this assessment for each subsidiary, in order to determine whether those subsidiaries are themselves Investment Entities per IFRS 10.

The Amendments provide an exception to consolidation under IFRS 10 for Investment Entities.

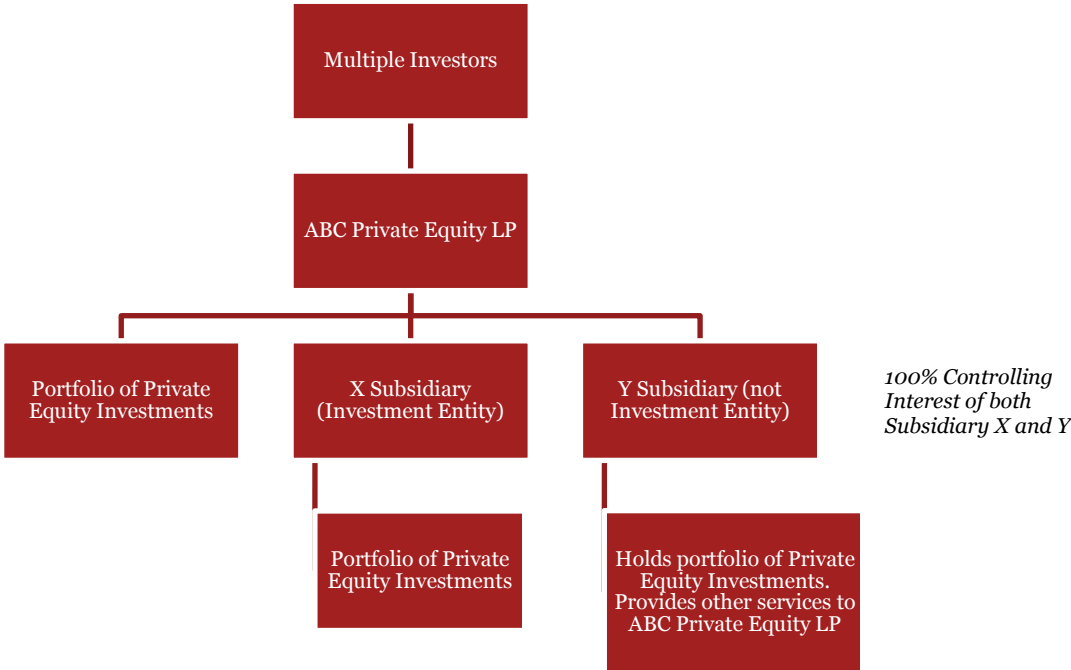
A parent entity will need to make an assessment of whether it meets the definition of an investment entity. An Investment Entity is defined as an entity that:

- (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- (b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- (c) measures and evaluates the performance of substantially all of its investments on a fair value basis. [IFRS10p27].

A parent entity will also need to consider a set of typical characteristics. These, combined with the above definition, are intended to allow for an appropriate balance between creating a clear scope and allowing judgment in assessing whether an entity is an investment entity. The characteristics are:

- (a) holding more than one investment;
- (b) having more than one investor;
- (c) having investors that are not related parties of the entity; and
- (d) having ownership interests in the form of equity or similar interests [IFRS10p28].

The absence of one or more of these characteristics does not prevent the entity from qualifying as an investment entity [IFRS10B85N].



**Figure 1: Structure of ABC Private Equity LP**

*Commentary - Structure*

Although X Subsidiary (the “Subsidiary”) does not meet all typical characteristics, the General Partner has concluded that the Subsidiary meets the definition of an investment entity as the following conditions exist:

- (a) The Subsidiary is not deemed an operating subsidiary of the Partnership as it does not bear any administration or management fees for its activities;
- (b) the Parent-Subsidiary structure’s business purpose, which was communicated directly to investors of the Partnership, is investing solely for capital appreciation and investment income and the Subsidiary has identified and documented potential exit strategies for its equity and non-financial investments;
- (c) although the Partnership does not have an exit strategy for its interest in the Subsidiary, the Partnership can nevertheless be considered to have an exit strategy for its investments because the Subsidiary was formed in connection with the Partnership and holds investments on behalf of the Partnership; and
- (d) the investments held by the Subsidiary are measured and evaluated on a fair value basis and information about the investments made by the Subsidiary is provided to investors on a fair value basis through the Partnership [IFRS10IE14].

Note that the conclusion reached by the General Partner constitutes a critical judgement and disclosure in respect of this along with the supporting rationale should be provided (in accordance with IAS 1 paragraph 122).

Furthermore, the Partnership should also consider the requirements of IAS 1 paragraph 112(c) to provide information not presented elsewhere in the financial statements but might be relevant. Additional disclosure as to what the effect of applying the exception to consolidation would have been on the income statement and statement of financial position (i.e. the fair value approach) might be considered appropriate to meet this requirement, as it would provide a user with both sets of financial information.

## Illustrative Financial Statements of an Investment Entity holding an Investment Entity subsidiary

The following presents extracts of the financial statements of the Partnership after adoption of the Amendments, appropriately applying the requirements of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

### Consolidated statement of financial position

	2016	As at 31 December 2015 (Restated)	As at 1 January <sup>1</sup> 2015 (Restated)
<b>Assets</b>			
<b>Current assets</b>			
Financial asset at fair value through profit or loss	159,335	144,381	111,815
Other receivables and prepayments	369	309	258
Cash and cash equivalents	275	245	165
<b>Total assets</b>	<b>159,979</b>	<b>144,935</b>	<b>112,238</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accrued expenses	(305)	(248)	(155)
<b>Liabilities (excluding net assets attributable to the partners)</b>	<b>(305)</b>	<b>(248)</b>	<b>(155)</b>
<b>Net assets attributable to the partners</b>	<b>159,674</b>	<b>144,687</b>	<b>112,083</b>

### Consolidated statement of comprehensive income

	Year ended 31 December	
	2016	2015 (Restated)
<b>Income</b>		
Interest income	4	3
Other net changes in fair value on financial asset at fair value through profit or loss	12,452	15,492
<b>Total net income</b>	<b>12,456</b>	<b>15,495</b>
<b>Expenses</b>		
Management fee	(879)	(803)
Directors fees	(10)	(10)
Other operating expenses	(190)	(169)
<b>Total operating expenses</b>	<b>(1,079)</b>	<b>(982)</b>
<b>Increase in net assets attributable to the partners from operations</b>	<b>11,377</b>	<b>14,513</b>

<sup>1</sup> IAS1p39 requires an entity to present a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively.

### *Commentary – Fair value of the Subsidiary*

The Parent -Subsidiary structure used for the above illustration is based on a scenario where the previous carrying amount of X Subsidiary as at 1 January 2015 was equal to the fair value of the Partnership's investment in X Subsidiary at that date. As such, no adjustment to equity was needed per IFRS10C3B.

It is possible however, for the fair value of a subsidiary to be different from the previous carrying amount of the subsidiary. For example, where the investee fund's trading net asset value is calculated differently from the measurement basis of the investee fund's individual assets and liabilities. In this scenario, the difference would be recognized as an adjustment to equity in accordance with IFRS10C3B.

### *Note – Disclosures relating to Subsidiary Y*

Note that the financial statements of the Partnership should also include the necessary disclosures relating to Y Subsidiary, which is consolidated. As the purpose of these illustrative disclosures is to set out the impact for a subsidiary that meets the definition of an Investment Entity (X Subsidiary), these disclosures have been omitted. For further detail of disclosures required for Y Subsidiary, please refer to PwC's "Practical guide to IFRS 10 – Investment entities: Exception to consolidation".

## **Accounting policies (extracts)**

### **Basis of preparation (extracts)**

- IFRS12p19A** The Partnership meets the definition of an investment entity as defined by IFRS 10 and is required to account for the investment in the Subsidiary, which is itself an investment entity, at fair value through profit or loss.
- These financial statements are the only financial statements presented by the Partnership.
- 27p8A, 16A** *Standards and amendments effective for annual periods beginning on or after 1 January 2016:*
- 8p28** The Partnership has adopted the Investment Entities: Applying The Consolidation Exception: amendments to IFRS 10, IFRS 12 and IAS 28 (the "Amendments") which are effective 1 January 2016. The Amendments confirm that the exception to preparing consolidated financial statements should be applied by an intermediate parent investment entity whose subsidiary is also an investment entity.
- IFRS10C3A** On adoption, the Partnership has determined that it meets the definition of an investment entity. As a result, the Partnership has changed its accounting policy with respect to its investment in the Subsidiary. The Subsidiary, which was previously consolidated, is now accounted for at fair value through profit or loss. This change in accounting policy has been applied retrospectively in accordance with the transition provisions of IFRS 10 and the Amendments to IFRS 10. The transition provisions require retrospective application in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. However, they specify that an entity needs only to present the quantitative information required by paragraph 28(f) of IAS 8 for the annual period immediately preceding the date of initial application. The Partnership has presented additional information, which it considers relevant to the understanding of these financial statements. Such disclosures include the effect that applying the consolidation exception has had on the Partnership's statement of financial position and statement of comprehensive income. For these disclosures refer below to "Note Additional information as a result of applying the consolidation exception".
- IFRS10C2, C2A**

The amendments to IFRS 12 clarifies the disclosure requirements related to investment entities. Adoption of the IFRS 12 amendments have impacted the Partnership's level of presentation and disclosures in certain of the above noted areas, but has not impacted the Partnership's financial position or results of operations.

### **X Subsidiary – Critical judgment**

**IFRS12p19B** The Partnership controls 100% of the voting rights and ownership interests in X Subsidiary (the "Subsidiary"). The Subsidiary is incorporated in Lagartos.

#### *Commentary – Subsidiaries of an investment entity subsidiary*

If the investment entity is the parent of another investment entity (the subsidiary), the parent shall also provide the disclosures required by IFRS12p19B for investments that are controlled by its investment entity subsidiary. The disclosure may be provided by including, in the financial statements of the parent, [extracts from] the financial statements of the subsidiary that contain the information [IFRS12p19C]. For the purpose of this paper, the X Subsidiary has itself no subsidiaries.

**IFRS12p19D(b)** The Partnership and the Subsidiary operate as an integrated structure whereby the Partnership invests solely into the Subsidiary. Total subscriptions made by the Partnership into the Subsidiary during the year ended 31 December 2016 were €35,345,000 (2015: € 25,432,000). As at 31 December 2016 and 31 December 2015 there were no capital commitment obligations and no amounts due to the Subsidiary for unsettled purchases.

**IAS1p122** Per IFRS 10, there is a requirement for the General Partner to assess whether the Subsidiary is itself an Investment Entity. The General Partner has performed this assessment and has concluded that the Subsidiary is itself an Investment Entity for the reasons below:

- (a) The Subsidiary has obtained funds for the purpose of investing in equity or other similar interests in multiple investments and providing the Partnership (and its investors) with returns from capital appreciation and investment income.
- (b) The performance of investments made through the Subsidiary are measured and evaluated on a fair value basis.

Furthermore, the Subsidiary is itself not deemed to be an operating entity providing services to the Partnership, and therefore is able to apply the exception to consolidation.

Movements in the fair value of the Subsidiary's portfolio and corresponding movements in the fair value of the Subsidiary may expose the Partnership to a loss.

#### *Commentary – Critical Judgement – Y Subsidiary*

If the General Partner determines that Y Subsidiary does not meet the definition of Investment Entity, a critical judgement note would typically be included where there is significant judgement made in that determination, in accordance with IAS 1 paragraph 122.

The judgment that Y Subsidiary does not meet the definition of an investment entity is based upon the observation that Y Subsidiary is deemed to be an operating subsidiary of the Partnership, has its own Board of directors, provides services to the Partnership (including buying / selling securities as well as managing the portfolios on a fair value basis), and is remunerated for these services. Although Y Subsidiary was formed in connection with the Partnership and holds investments on behalf of the Partnership, it was also formed to provide other services to the Partnership. The Partnership does not have an exit strategy for Y Subsidiary.

As Y Subsidiary is not deemed to be an investment entity, and is an operating entity, the exception to consolidation cannot be applied and Y Subsidiary is therefore consolidated.

## Fair Value estimation

### IFRS13p91

The Partnership's investment in the Subsidiary is subject to the terms and conditions of the Subsidiary's constitutional documents. The investment in the Subsidiary is valued at fair value, which is based on the latest available value of the Subsidiary's limited partnership interests. Management reviews the details of the reported information obtained from the Subsidiary and considers:

- the liquidity of the Partnership's holding in the Subsidiary or its underlying investments; and
- the value date of the net asset value (NAV) provided.

If necessary, the Partnership makes adjustments to the NAV of the Subsidiary 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 the Subsidiary.

## Note – Change in accounting policy and transition

### IAS8p28

As a result of the adoption of IFRS 10 and the Amendments to IFRS 10, the Partnership has changed its accounting policy with respect to its investment in its subsidiary. The Subsidiary, which was previously consolidated is now accounted for at fair value through profit or loss. The transition provisions require retrospective application in accordance with IAS 8. However, they specify that an entity need only present the quantitative information required by paragraph 28(f) of IAS 8 for the annual period immediately preceding the date of initial application. Comparative amounts have been restated in accordance with the transition guidance.

The following shows the adjustments made to each financial statement line item for the comparative period<sup>2</sup>:

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<sup>2</sup> IAS8p28(f) requires, to the extent practicable, the presentation of the amount of adjustment for each financial statement line item affected. For the purpose of this appendix we have only presented the adjustments to the statement of financial position and statement of comprehensive income as an example of the disclosure required.



(All amounts in Euro thousands unless otherwise stated)

### Consolidated statement of financial position

	31 December 2015	Adjustment	31 December 2015 (Restated)
<b>Assets</b>			
<b>Current assets</b>			
Financial assets at fair value through profit or loss	151,952	(7,571)	144,381
Due from brokers	2,356	(2,356)	-
Other receivables and prepayments	509	(200)	309
Margin accounts	1,026	(1,026)	-
Cash and cash equivalents	1,665	(1,420)	245
<b>Total assets</b>	<b>157,508</b>	<b>(12,573)</b>	<b>144,935</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Financial liabilities at fair value through profit or loss	(11,663)	11,663	-
Due to brokers	(893)	893	-
Accrued expenses	(265)	17	(248)
<b>Liabilities (excluding net assets attributable to the partners)</b>	<b>(12,821)</b>	<b>12,573</b>	<b>(248)</b>
<b>Net assets attributable to the partners</b>	<b>144,687</b>	<b>-</b>	<b>144,687</b>

**Consolidated statement of comprehensive income**

	Year ended 31 December 2015	Adjustment	Year ended 31 December 2015 (Restated)
<b>Income</b>			
Interest income	948	(945)	3
Dividend income	1,538	(1,538)	-
Net foreign currency gains or losses on cash and cash equivalents	27	(27)	-
Other net changes in fair value on financial assets and financial liabilities at fair value through profit or loss	13,566	1,926	15,492
<b>Total net income/(loss)</b>	<b>16,079</b>	<b>(584)</b>	<b>15,495</b>
<b>Expenses</b>			
Management fee	(803)	-	(803)
Custodian, secretarial and administration fees	(56)	56	-
Transaction costs	(202)	202	-
Directors fees	(30)	20	(10)
Other operating expenses	(169)	-	(169)
<b>Total operating expenses</b>	<b>(1,260)</b>	<b>278</b>	<b>(982)</b>
<b>Operating profit/(loss)</b>	<b>14,819</b>	<b>(306)</b>	<b>14,513</b>
<b>Finance costs</b>			
Interest expense	(124)	124	-
<b>Total finance costs</b>	<b>(124)</b>	<b>124</b>	<b>-</b>
<b>Profit before tax</b>	<b>14,695</b>	<b>(182)</b>	<b>14,513</b>
Withholding taxes	(182)	182	-
<b>Increase/(decrease) in net assets attributable to the partners from operations</b>	<b>14,513</b>	<b>-</b>	<b>14,513</b>

**Commentary – IAS 8, ‘Accounting policies, changes in accounting estimates and errors’**

IAS 8p28 lists the disclosure requirements when initial application of an IFRS has an effect on the current period or any prior period. These requirements include; disclosure of the amount of the adjustment for each financial statement line item affected for the current period and each prior period presented, to the extent practicable [IAS8p28(f)]. The amendment to IFRS 10 however, provides some relief from this requirement and states that an entity need only present the quantitative information required by IAS 8p 28(f) for the annual period immediately preceding the date of initial application of IFRS 10. An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so [IFRS10pC2A].

The above illustration shows the presentation of adjustments relating to the statement of financial position and the statement of comprehensive income as an example of the disclosure required.

## Note – Additional information as a result of applying the consolidation exception

The below demonstrates the effect on the Partnership's statement of financial position and statement of comprehensive income, had the consolidation exception not been applied:

### Consolidated statement of financial position

	Year ended 31 December	
	2016	2015
<b>Assets</b>		
<b>Current assets</b>		
Financial asset at fair value through profit or loss	167,155	151,952
Due from brokers	2,213	2,356
Other receivables and prepayments	417	509
Margin accounts	997	1,026
Cash and cash equivalents	1,916	1,665
<b>Total assets</b>	<b>172,698</b>	<b>157,508</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Financial liabilities at fair value through profit or loss	(12,010)	(11,663)
Due to brokers	(752)	(893)
Accrued expenses	(262)	(265)
<b>Liabilities (excluding net assets attributable to the partners)</b>	<b>(13,024)</b>	<b>(12,821)</b>
<b>Net assets attributable to the partners</b>	<b>159,674</b>	<b>144,687</b>

(All amounts in Euro thousands unless otherwise stated)

### Consolidated statement of comprehensive income

	Year ended 31 December	
	2016	2015
<b>Income</b>		
Interest income	1,057	948
Dividend income	1,442	1,538
Net foreign currency gains on cash and cash equivalents	18	27
Other net changes in fair value on financial asset at fair value through profit or loss	10,938	13,566
<b>Total net income</b>	<b>13,455</b>	<b>16,079</b>
<b>Expenses</b>		
Management fee	(1,096)	(803)
Custodian, secretarial and management fees	(62)	(56)
Transaction costs	(246)	(202)
Directors fees	(30)	(30)
Other operating expenses	(237)	(169)
<b>Total operating expenses</b>	<b>(1,671)</b>	<b>(1,260)</b>
<b>Operating profit/(loss)</b>	<b>11,784</b>	<b>14,819</b>
<b>Finance costs</b>		
Interest expense	(173)	(124)
<b>Total finance costs</b>	<b>(173)</b>	<b>(124)</b>
<b>Profit before tax</b>	<b>11,611</b>	<b>14,695</b>
Withholding taxes	(234)	(182)
<b>Increase/(decrease) in net assets attributable to the partners from operations</b>	<b>11,377</b>	<b>14,513</b>

## IFRS 7 – Financial Risk Disclosures

### *Commentary – General note IFRS 7, Financial Risk Disclosures*

Please note that the disclosure example provided in this paper will contain the disclosure of Market Risk: Foreign Currency Risk and Interest Rate Risk only as an example. The same assessment process and judgment would be applied for the other risks as well (Market Risk: Price Risk, Credit Risk, Liquidity Risk, Capital Risk Management etc.) and appropriate disclosures added.

### *Commentary – IFRS 7 Financial risk disclosures*

In restating financial risk disclosures required by IFRS 7, 'Financial instruments: disclosures', careful thought and judgement must be applied. IFRS 7 requires an entity to 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]. IFRS 7 also requires an entity to disclose its objectives, policies and processes for managing the risk and the methods used to measure the risk [IFRS7p33(b)].

The fact that the Partnership has moved from consolidation to fair value accounting for its subsidiary would not, in itself, change the risks to which the Partnership is/was exposed to. The basis for much of the risk disclosures under IFRS 7 is 'through the eyes of management' – that is, based on the information provided to key management personnel. As such, it is likely that the change in policy would also have little or no impact on the Partnership's objectives, policies and processes for managing risk and its methods used to measure risk per IFRS7p33.

### **Foreign currency risk**

#### **IFRS7p33 (a-b)**

#### **Direct exposure to foreign currency risk**

As of 31 December 2015 and 2014, the Partnership did not directly hold any material assets or liabilities denominated in currencies other than the Euro. Therefore, the Partnership does not have material direct foreign currency exposure in its assets or liabilities and, accordingly, a sensitivity analysis on direct currency risk is not presented as the General Partner considers the impact not significant.

#### **IFRS7p40, IFRS7IG36**

#### **Indirect exposure to foreign currency risk**

The Partnership has indirect exposure to foreign currency risk through the assets indirectly held in the Portfolio of Investments through the Subsidiary. The Partnership holds indirectly assets (both monetary and non-monetary) denominated in currencies other than the functional currency (the Euro) through the Subsidiary. It is therefore indirectly exposed to currency risk, as the value of the financial instruments denominated in other currencies will fluctuate due to the changes in exchange rates. On behalf of the Subsidiary, the Partnership manages the net positions of the monetary and non-monetary positions in each foreign currency by using currency forward contracts at the subsidiary level.

#### **IFRS7p33 (a-b)**

The Subsidiary holds assets (both monetary and non-monetary) denominated in currencies other than the functional currency (the Euro). It is therefore exposed to currency risk, as the value of the financial instruments denominated in other currencies will fluctuate due to the changes in exchange rates. On behalf of the General Partner, the Investment Adviser manages the net position of the monetary and non-monetary positions in each foreign currency by using external currency forward contracts.

In accordance with the Partnership's policy, the Investment Adviser monitors the Subsidiary's currency position, including monetary and non-monetary items, on a monthly basis; the General Partner reviews it on a quarterly basis.

The following table presents the foreign currency exchange rates applied at the respective reporting date:

	<b>31 December 2016</b>	<b>31 December 2015</b>
US dollar	1.1145	1.2155
British pound	0.7281	0.7825

Foreign currency risk, as defined in IFRS 7, arises as the value of recognized 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, the General Partner monitors the exposure on all foreign-currency-denominated assets and liabilities. The table below has therefore been analyzed between monetary and non-monetary items to meet the requirements of IFRS 7.

The Partnership's policy is to manage the Subsidiary's exposure to foreign exchange movements (both monetary and non-monetary) by using forward foreign exchange contracts; however, the Subsidiary does not adopt any hedge accounting policies.

**IFRS7p34** Amounts presented in equivalent amounts of Euro thousands with the original currency as:

	<b>USD'000 2015</b>	<b>USD'000 2014</b>	<b>GBP'000 2015</b>	<b>GBP'000 2014</b>
<b>As at 31 December</b>				
<b>Assets</b>				
Cash at bank (monetary)	99	89	76	71
Financial assets at fair value through profit or loss – equity securities (non-monetary)	12,005	15,567	5,800	14,008
Financial assets at fair value through profit or loss – debt securities (monetary)	48,008	34,089	53,797	46,693
Other assets (monetary)	138	145	207	137
<b>Liabilities</b>				
Other liabilities (monetary)	50	67	215	135
Net statement of financial position exposure	60,200	49,823	59,665	60,774
Less nominal value of forward exchange contract (monetary)	-	-	(42,356)	(18,954)
<b>Net currency exposure</b>	<b>60,200</b>	<b>49,823</b>	<b>17,309</b>	<b>41,820</b>

**IFRS7p40** At 31 December 2016, had the exchange rate between the US dollar and the Euro increased or decreased by 10% compared to actual rate of 1.1145 as of 31 December 2016 (2015: 1.2155) with all other variables held constant, the increase or decrease respectively in net assets attributable to the partners from operations would amount to approximately €38,010 (2014: €3,507), of which €26,108 (2014: €1,760) is attributable to monetary items. This would have been mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated financial assets at fair value through profit or loss.

**IFRS7IG36**

At 31 December 2016, had the exchange rate between the British pound and the Euro increased or decreased by 8% compared to actual rate of 0.7281 as of 31 December 2016 (2015: 0.7825) with all other variables held constant, the increase or decrease respectively in net assets attributable to the partners from operations would amount to approximately €4,157 (2014: €8,666), of which €119 (2014: €2,765) are attributable to monetary items. This would have been mainly as a result of foreign exchange gains/losses on translation of British pound-denominated financial assets at fair value through profit or loss.

### **Interest rate risk**

#### **Direct exposure to interest rate risk**

**IFRS7p33**  
**(a-b)**

As of 31 December 2015 and 2014, the Partnership did not directly hold any material assets or liabilities which were subject to interest rate risk. Therefore, the Partnership does not have material direct interest rate exposure in its assets or liabilities and, accordingly, a sensitivity analysis on direct interest rate risk is not presented as the General Partner considers the impact not significant.

#### **Indirect exposure to interest rate risk**

**IFRS7p33**  
**(a-b)**

The Partnership has indirect exposure to interest rate risk through the assets and liabilities indirectly held through the Subsidiary. All debt instruments included in the category financial assets at fair value through profit or loss in the portfolio of investments held by the Subsidiary, and all borrowings, have floating interest rates. On behalf of the Subsidiary, the Partnership manages the net positions of the monetary and non-monetary positions in each foreign currency by using external currency forward contracts at Subsidiary Level.

**IFRS7p33**  
**(b)**

In accordance with the Partnership's policy, the Investment Adviser monitors the Subsidiary's overall interest sensitivity on a monthly basis, and the General Partner reviews it on a quarterly basis with reference to market interest rates of 3-month US T-bills and Euribor.

The Subsidiary 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 Subsidiary invests, and the impact on the valuation that use interest rates as an input in the valuation model. Therefore the below sensitivity analysis may not indicate the total effect on the Partnership's net assets attributable to the partners of future movements in interest rates.

The table summarizes the Subsidiary's exposure to interest rate risks. It includes the Subsidiary's assets and liabilities at fair values, categorized by the earlier of contractual re-pricing or maturity dates.

(All amounts in Euro thousands unless otherwise stated)

	Up to 1 month	1 -12 months	12 months to 3 years	Non- interest bearing	Total
<b>At 31 December 2016</b>					
<b>Assets</b>					
Financial assets at fair value through profit or loss	-	-	101,805	23,205	125,010
Other receivables and prepayments	2,196	-	-	-	2,196
Cash and cash equivalents	153	-	-	-	153
<b>Total assets</b>	<b>2,349</b>	<b>-</b>	<b>101,805</b>	<b>23,205</b>	<b>127,359</b>
<b>Liabilities</b>					
Borrowings	-	453	1,896	-	2,349
Net assets attributable to the partners	-	-	-	125,010	125,010
<b>Total liabilities</b>	<b>-</b>	<b>453</b>	<b>1,896</b>	<b>125,010</b>	<b>127,359</b>
<b>At 31 December 2015</b>					
<b>Assets</b>					
Financial assets at fair value through profit or loss	-	-	80,782	33,375	114,157
Other receivables and prepayments	2,827	-	-	-	2,827
Cash and cash equivalents	84	-	-	-	84
<b>Total assets</b>	<b>2,911</b>	<b>-</b>	<b>80,782</b>	<b>33,375</b>	<b>117,068</b>
<b>Liabilities</b>					
Borrowings	-	562	2,349	-	2,911
Net assets attributable to the partners	-	-	-	114,157	114,157
<b>Total liabilities</b>	<b>-</b>	<b>562</b>	<b>2,349</b>	<b>114,157</b>	<b>117,068</b>

**IFRS7p40,** At 31 December 2016, had interest rates changed by 25 basis points (2015: 35 basis points) with all other variables remaining constant, the increase/decrease in net assets attributable to the partners from operations for the year would amount to approximately €1,052 (2015: €1,069.) The sensitivity of net assets attributable to the partners to movements in interest rates is lower in 2016 than in 2015 because of repayment of a portion of the loan.

**IFRS7IG36**



## IFRS 13 – Fair Value Disclosures

### *Commentary – IFRS 13 direct disclosure (Parent-Subsidiary)*

For the full illustrative IFRS 13 disclosures please refer to the “Illustratives IFRS – Private Equity – 2016”. For illustrative purposes the direct disclosure (Investment in Subsidiary at Fair Value through Profit or Loss) has been simplified. The Partnership invests in a Subsidiary which is a private entity that is closed ended. The Partnership is not able to readily redeem as stipulated in the offering documents of the Subsidiary and therefore the Subsidiary is classified as level 3.

### **Valuation of investment in Subsidiary**

**IFRS 13p91** The Partnership’s investment in its Subsidiary is subject to the terms and conditions of the Subsidiary’s offering documentation. The investment in Subsidiary is primarily valued based on the latest available financial information provided by the Subsidiary’s general partner. The Investment Advisor, under instruction from the General Partner, reviews the details of the reported information obtained from the Subsidiary and considers: (i) the valuation of the Subsidiary’s underlying investments; (ii) the value date of the net asset value (NAV) provided; (iii) cash flows (calls/distributions) since the latest value date; and (iv) the basis of accounting and, in instances where the basis of accounting is other than fair value, fair valuation information provided by the Subsidiary’s general partner. If necessary, adjustments to the reported NAV of the Subsidiary are made to obtain the best estimate of fair value. Other net changes in fair value on financial assets and financial liabilities at FVTPL in the statement of comprehensive income include the change in fair value of the Subsidiary during the period.

### **Fair value estimation – direct**

**IFRS13p91** As at 31 December 2016, 78.5% (2015: 79.1%) of financial assets at fair value through profit or loss comprise of the investment in the Subsidiary that has been fair valued in accordance with the policies set out above. The Subsidiary is not publicly traded; prior to maturity, an exit can only be made by the Partnership through a sale of its investment and commitment in the Subsidiary through a secondary market. As set out in the LPA, the Partnership’s objective is to acquire investments with the intention to recover the capital invested through distributions received from the Subsidiary funded through their realization of their private equity, debt or infrastructure investment positions. As a result, the carrying value of the Subsidiary may be significantly different from the value ultimately realized on an exit via a secondary market sale. It is not the objective nor intention of the Partnership to exit the Subsidiary in the secondary market sale.

The Subsidiary (and its respective investments) is managed by investment managers who are compensated by the Subsidiary for their services. Such compensation generally consists of a commitment/investment based management fee and a performance based incentive fee which is accounted for at an underlying Subsidiary level. Such compensation is reflected in the valuation of the Partnership’s investment in the Subsidiary.

As the Subsidiary is not traded on an active market, and its fair value is determined using valuation techniques. The value is primarily based on the latest available financial/capital account statement of the Subsidiary as reported by the general partner of the Subsidiary. The Partnership may make adjustments to the value based on considerations such as: the underlying investments of the Subsidiary, the value date of the net asset value provided, cash flows since the last value date, geographic and sector exposures, market movements and the basis of accounting of the underlying Subsidiaries.

**IFRS13p91, 93** IFRS 13 requires the Partnership 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 Partnership 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 that have been applied in valuing the respective asset or liability.

**IFRS13p93 (a), (b)** The determination of what constitutes ‘observable’ requires significant judgement by the Partnership. The Partnership 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.

The following table analyses within the fair value hierarchy the Partnership’s financial assets (by class) measured at fair value at 31 December 2016.

All fair value measurements disclosed are recurring fair value measurements<sup>3</sup>.

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets designated at fair value through profit or loss at inception:				
Subsidiary	–	–	125,010	125,010
Private equity fund investments	–	–	34,325	34,325
<b>Total assets measured at fair value</b>	–	–	<b>159,335</b>	<b>159,335</b>

The following table analyses within the fair value hierarchy the Partnership’s financial assets (by class) measured at fair value at 31 December 2015:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets designated at fair value through profit or loss at inception:				
Subsidiary	–	–	114,157	114,157
Private equity fund investments	–	–	30,224	30,224
<b>Total assets measured at fair value</b>	–	–	<b>144,381</b>	<b>144,381</b>

*Note*

The fair value hierarchy table is also required for the comparative figures for January 1, 2015, as shown in the statement of financial position. For these illustrative purposes we have omitted this.

Level 3 is comprised of the investment in Subsidiary held by the Partnership, and private equity fund investments that are not quoted in an active market.

<sup>3</sup> This table follows the illustrative guidance in IFRS13pIE60.

### **Valuation – X Subsidiary**

In determining the fair value of the Subsidiary, the Partnership relies on the valuation as reported in the latest available financial statements and/or capital account statements provided by the Subsidiary's general partner.

The Investment Advisor is responsible for monitoring the performance of the Subsidiary and reporting such performance to the General Partner. Where the information provided by the Subsidiary's general partner is not considered appropriate by the Investment Adviser and General Partner, the Investment Adviser will make amendments to the NAV obtained as noted above in order to recommend a carrying value that more appropriately reflects the fair value at the Partnership reporting date. The General Partner receives such recommendations from the Investment Adviser and is responsible for approving the final valuation of the underlying Subsidiary.

### **Valuation – private equity fund investments**

In determining the fair value of the private equity fund investments, the Partnership considers the valuation as reported in the latest available financial statements and/or capital account statements provided by the underlying fund investments' general partners, unless the Partnership is aware of reasons that such a valuation may not be the best approximation of fair value. In such cases, the Partnership reserves the right to assign a fair value to such investments which differs from the one reported by the underlying fund investments' general partners.

These differences may arise because of a number of reasons including but not limited to:

- (a) The reports received from the underlying fund investments' general partners may be non-coterminous with the Partnership's reporting date;
- (b) The reports received by the underlying fund investments' general partners may be based on principles that are not aligned with the fair value principles set out in IFRS 13 or that of the Partnership; and
- (c) The Investment Adviser and General Partner of the Partnership may have other observable or unobservable data that would indicate that amendments are required to particular portfolio company investment fair values presented in the report from underlying fund investments' general partners.

#### *Commentary – IFRS 13, Financial Risk Disclosures*

The following section illustrates some additional voluntary disclosure that may be provided for private equity funds holding investments (at Subsidiary level) in other private equity funds or direct investments (portfolio of investments). These voluntary disclosures are made on a look-through basis. The Partnership invests in the Subsidiary, which is a private entity fund that is closed ended. The Partnership is not able to redeem at NAV and therefore the Subsidiary is classified as level 3 (per disclosures above). In addition to the disclosures made above, management has provided look-through information of the investments held by the Subsidiary.

**IFRS13p93 (e)** The changes in investments measured at fair value for which the Partnership has used Level 3 inputs to determine fair value as of 31 December, 2016 are as follows:

	<b>Subsidiary 2016</b>	<b>Subsidiary 2015 (restated)</b>	<b>Direct private equity investments 2016</b>	<b>Direct private equity investments 2015 (restated)</b>
Opening balance	114,157	102,260	30,224	28,900
Purchase/addition	35,345	25,432	2,900	1,200
Sales/reduction	(23,039)	(27,994)	(995)	(525)
Total gains/(losses) recognised in other changes in fair value on financial assets at fair value through profit or loss	(1,453)	14,459	2,196	649
<b>Total</b>	<b>125,010</b>	<b>114,157</b>	<b>34,325</b>	<b>30,224</b>

**DV Fair value estimation – indirect**

In determining the fair value of the underlying fund investments, the Partnership considers the valuation as reported in the latest available financial statements and/or capital account statements provided by the Subsidiary's general partner. The Subsidiary itself considers the valuation as reported in the latest available financial statements and/or capital account statements provided by the underlying fund investments' general partners, unless the Subsidiary is aware of reasons that such a valuation may not be the best approximation of fair value. In such cases, the Subsidiary reserves the right to assign a fair value to such investments which differs from the one reported by the underlying fund investments' general partners.

These differences may arise because of a number of reasons including but not limited to:

- (a) The reports received from the underlying fund investments' general partners may be non-coterminous with the Subsidiary's reporting date;
- (b) The reports received by the underlying fund investments' general partners may be based on principles that are not aligned with the fair value principles set out in IFRS 13 or that of the Subsidiary; and
- (c) The Investment Adviser and General Partner of the Partnership or the investment advisor and general partner of the Subsidiary may have other observable or unobservable data that would indicate that amendments are required to particular portfolio company investment fair values presented in the report from underlying fund investments' general partners.

The tables below present those investee funds of the Subsidiary whose fair values are recognized in whole or in part using valuation techniques (based on assumptions that are not supported by prices or other inputs from observable current market transactions) as noted above. The unobservable inputs which significantly impact the fair value have been presented. The NAV reflects input being the value advised by the investee fund's general partner and the Fair Value Adjustments reflect the input being the adjustments made by the general partner of the Subsidiary on advice of the Investment Adviser, as discussed above.

(All amounts in Euro thousands unless otherwise stated)

**31 December 2016**

<b>Description</b>	<b>Fair value at 31 Dec 2016 (€000's)</b>	<b>Average Committed Capital<sup>4</sup> (€m's)</b>	<b>Valuation Technique</b>	<b>Unobservable Inputs</b>	<b>Weighted average input</b>	<b>Reasonable possible shift +/- (%)</b>	<b>Change in Valuation +/-</b>
<b><i>Fund Investments</i></b>							
<b><i>United States of America</i></b>							
Private Equity	<b>12,909</b>	303	NAV - Adjusted	NAV	N/A	5%	645/(645)
	<b>(2,803)</b>			Fair Value Adjustments	N/A	2%	56/(56)
Private Debt	<b>86,800</b>	287	NAV - Adjusted	NAV	N/A	4%	3,472/(3,472)
	<b>(8,550)</b>			Fair Value Adjustments	N/A	1%	86/(86)
<b><i>Europe</i></b>							
Private Equity	<b>5,600</b>	227	NAV - Adjusted	NAV	N/A	10%	560/(560)
	<b>(568)</b>			Fair Value Adjustments	N/A	2%	11/(11)
Private Debt	<b>19,268</b>	165	NAV - Adjusted	NAV	N/A	3%	578/(578)
	<b>(2,706)</b>			Fair Value Adjustments	N/A	0.5%	14/(14)
<b><i>United Kingdom</i></b>							
Private Equity	<b>10,487</b>	227	NAV - Adjusted	NAV	N/A	10%	1,049/(1,049)
	<b>(2,420)</b>			Fair Value Adjustments	N/A	2%	48/(48)
Private Debt	<b>8,762</b>	165	NAV - Adjusted	NAV	N/A	3%	3,263/(3,263)
	<b>(1,769)</b>			Fair Value Adjustments	N/A	0.5%	9/(9)

4 Average committed capital reflects the average size of the underlying funds by reference to the original total committed capital of the underlying Investee Funds.

(All amounts in Euro thousands unless otherwise stated)

**31 December 2015**

Description	Fair value at 31 Dec 2015 (€000's)	Average Committed Capital <sup>5</sup> (€m's)	Valuation Technique	Unobservable Inputs	Weighted average input	Reasonable possible shift +/- (%)	Change in Valuation +/-
<b><i>Fund Investments</i></b>							
<b><i>United States of America</i></b>							
Private Equity	<b>11,700</b>	240	NAV - Adjusted	NAV	N/A	6%	702/(702)
	<b>(6,700)</b>			Fair Value Adjustments	N/A	2.5%	168/(168)
Private Debt	<b>51,956</b>	198	NAV - Adjusted	NAV	N/A	3%	1,559/(1,559)
	<b>(7,864)</b>			Fair Value Adjustments	N/A	2%	157/(157)
<b><i>Europe</i></b>							
Private Equity	<b>4,789</b>	78	NAV - Adjusted	NAV	N/A	10%	479/(479)
	<b>(467)</b>			Fair Value Adjustments	N/A	1%	5/(5)
Private Debt	<b>34,987</b>	136	NAV - Adjusted	NAV	N/A	3%	1,050/(1,050)
	<b>(2,800)</b>			Fair Value Adjustments	N/A	1%	28/(28)
<b><i>United Kingdom</i></b>							
Private Equity	<b>28,553</b>	78	NAV - Adjusted	NAV	N/A	10%	2,855/(2,855)
	<b>(4,500)</b>			Fair Value Adjustments	N/A	1%	45/(45)
Private Debt	<b>4,953</b>	136	NAV - Adjusted	NAV	N/A	3%	149/(149)
	<b>(450)</b>			Fair Value Adjustments	N/A	1%	5/(5)

**Note**

As above, comparative tables are also required for the corresponding January 1, 2015, investments as shown in the statement of financial position. For illustrative purposes we have omitted this.

5 Average committed capital reflects the average size of the underlying funds by reference to the original total committed capital of the underlying Investee Funds.

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### Questions?

PwC clients who have questions about this publication should contact their engagement partner. Engagement teams that have questions should contact members of the Asset Management team in Accounting Consulting Services.

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