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Considerations regarding the movement toward IFRS

The movement toward adopting a single set of globally accepted accounting standards has gained significant momentum

Driven by the globalization of today's markets, the movement toward adopting a single set of high quality, globally accepted accounting standards has gained significant momentum in the United States and internationally. Led by other global capital markets, U.S. acceptance of International Financial Reporting Standards as the global accounting language of the future continues to grow. The progression toward IFRS implementation in the United States, assuming it continues unabated, would likely impact public and private entities alike.

The IFRS Movement

Globally there is a significant trend toward full IFRS conversion. Over 12,000 public companies in nearly 100 countries use IFRS accounting standards¹. Canada, India, Japan and a number of other countries will complete their transition to IFRS by 2011. In fact, nine of the top 10

global capital markets have either transitioned to IFRS or are in the process of doing so². Only the United States still uses U.S. Generally Accepted Accounting Principles as its approved set of accounting standards. This appears likely to change, given developments over the last few years.

Regulatory bodies in the United States have begun pushing forward in an effort to promote IFRS as the preferred set of standards for domestic companies. Within the next few years the U.S. Securities and Exchange Commission could mandate a timeline in which all U.S. public companies must transition to IFRS. The SEC has already enacted rules that allow foreign private issuers to list securities in the United States using IFRS without performing a reconciliation to US GAAP. The SEC has recently approved a roadmap for conversion (*continued on page 2*)

LaCrosse, Lombard, Deloitte & Touche to offer free Cash and Collateral Management webinar

Understanding and Managing the Post-Trade Deal Process – Using Collateral Inventory for Competitive Advantage, Feb. 3, 2 p.m. EST and Feb. 5, 10 a.m. EST

Join LaCrosse Global Fund Services Co-CEO Stuart Feffer, and Senior Cash and Collateral Manager Matt Waller as they discuss the improvement and competitive positioning of collateralized trading along with Lombard Street Research and Deloitte & Touche, LLP.

Hedge funds and asset managers alike must continue to push their firms to adopt a best practice approach to better manage the post-deal trade life cycle. The industry is re-examining trading relationships and credit standards, but operational processes and procedures also need to be evaluated to determine risk/reward. *Understanding and Managing the Post Trade Deal Process – Using Collateral Inventory for Competitive Advantage* is intended to help buy-side executive management and senior collateral managers examine the criteria for deciding whether to build, buy or partner to improve collateral management. (*continued on page 3*)

...IFRS (continued from page 1)

to IFRS, including elective adoption by large public companies in the United States in 2009 and a 2011 deadline to determine if a phased transition for U.S. public companies should begin in 2014.

As the regulatory bodies in the United States set the table for IFRS conversion, recent developments have focused on public companies. However private entities, including non-registered investment companies, may be impacted as well. Internationally, the International Accounting Standards Board (IASB) has taken steps to provide guidance on the impact of IFRS to private entities by initiating an IFRS for Private Entities project. The Private Company Financial Reporting Committee (PCFRC) in the United States has been monitoring this project and has suggested that field tests by private entities in the United States would be beneficial in assessing the impact of the IASB's project and IFRS in general. The PCFRC seems to support a parallel IFRS track for private entities if the SEC's initiatives for public companies continue to move forward.

IFRS Use by Non-Registered Investment Companies

Advisers looking to launch new funds today are faced with the decision regarding which set of accounting standards to use – US GAAP or IFRS? For non-registered investment companies such as hedge funds that are not subject to regulatory filing requirements, that decision can be driven by significant seed investors or future marketing plans for a fund. Seed investors subject to IFRS will likely look for the new fund to adopt IFRS standards and vice versa for seed investors subject to US GAAP. Absent strong preferences by significant seed investors, an adviser may consider future marketing plans and the geographic location of potential investors as factors in choosing a set of standards.

Some advisers employ multiple sets of standards when they manage stand-alone funds domiciled in different countries. This allows them to market their U.S. domiciled funds to U.S. investors under US GAAP while marketing their foreign funds to foreign investors under IFRS.

The Impact of IFRS

Through clarification and convergence on existing standards, as well as cooperation on new standards, joint efforts between the Financial Accounting Standards Board (FASB) and the IASB are intended to address the more significant accounting and reporting differences between US GAAP and IFRS by the time the SEC considers mandating IFRS conversion. Addressing these issues in such a short timeframe will be a tall order, given the magnitude of the differences in accounting and financial reporting requirements between the two sets of standards. This is especially true for investment companies and other industries that apply industry-specific guidance under US GAAP, whereas no specialized industry requirements exist under IFRS.

This likely leaves many advisers asking how and when they will be impacted by a potential transition to IFRS. Steps taken by the SEC to mandate conversion must be watched, as well as convergence efforts between the FASB and IASB. Progress in the IASB's IFRS for Private Entities project bears monitoring, as do developments in the PCFRC's interpretation and guidance regarding IFRS, as these organizations will help drive conversion requirements and timelines for private companies. The move toward IFRS seems inevitable for private entities, especially if investors start to demand its use based on the conversion efforts of public companies.

The efforts required to effect a transition from US GAAP to IFRS for investment companies should not be taken lightly, and definitely should not be entertained for the first time at year-end during the audit and financial reporting process. This is a significant effort that requires careful planning and consideration of the following factors:

- **Technical Knowledge.** IFRS is a principle-based set of standards intended to address all industries rather than the rules-based approach of US GAAP that has been tailored to specific industries. As such IFRS requires significant use of professional judgment when applying principles to an investment company. Care must be taken in developing an IFRS framework in which to apply the standards and support accounting and reporting positions.
- **Operational Processes.** As stated earlier, there are a number of accounting and financial reporting differences between US GAAP and IFRS specific to investment companies. On the accounting side, potential differences include:
 - valuation methodologies
 - consolidation
 - amortization approach
 - treatment of brokerage commissions

...IFRS (continued from previous page)

- + • Even more significant are the reporting requirements that can vary regarding:
 - comparative data
 - financial statement classification
 - statement of cash flows
 - schedule of investments
 - financial highlights information
 - extensive disclosures such as IFRS 7

- + • System Readiness. The differences outlined above could substantially impact accounting and financial reporting systems as changes are made to accommodate new IFRS accounting policies and reporting processes. A thorough understanding of the requirements, as well as areas open to interpretation, is critical to ensure system capabilities are aligned with IFRS requirements in a controlled manner.

Fund Administrator Capabilities

- + Investments made by proactive administrators to develop their processes and systems internally to accommodate IFRS standards can pay dividends to advisers. An administrator proficient in IFRS allows advisers to be proactive in a US GAAP-to-IFRS conversion, whether related to FASB/IASB convergence efforts or potential mandatory conversion requirements. Advisers will have flexibility when selecting a set of accounting standards based on new funds, new clients or international marketing efforts.

Given the likelihood that non-registered investment companies eventually will be impacted by a conversion to IFRS, and the complexities involved with managing a transition from US GAAP to IFRS, it is important for advisers to consider an administrator's IFRS capabilities and experience when selecting its hedge fund administrator. The right administrator will be competent in both US GAAP and IFRS, and will have controlled processes and systems in place to lead advisers through a conversion to IFRS.

¹ The CPA Letter, June 2008, Vol. 88 No. 6

² "International financial reporting standards for US investment companies" by Kulok and Romeo, PwC alternatives, volume 3 no. 3

...Webinar (continued from page 1)

Find out more about the options available for gaining greater insight into how to manage the post-deal trade process more effectively while using collateral inventory for a competitive advantage.

To register for *Understanding and Managing the Post-Trade Deal Process – Using Collateral Inventory for Competitive Advantage*, click [here](#) (Feb. 3, 2009) or [here](#) (Feb. 5, 2009), or visit www.lacrosseglobal.com.

LaCrosse in the News

A roundup of news stories and press coverage on LaCrosse Global Fund Services. Click on the links below to open the articles in your web browser (where available).

- + Jan. 6, 2009
Fox Business News View LaCrosse co-CEO Stuart Feffer's appearance on Fox Business's "America's Nightly Scoreboard."
+
- + Jan. 5, 2009
Bloomberg Television LaCrosse co-CEO Chris Kundro discusses the current Hedge Fund environment on Bloomberg Television's "In Focus."
+
- + Jan. 2, 2009
CNBC Europe Watch LaCrosse co-CEO Stuart Feffer give his thoughts for the New Year on CNBC's "Power Lunch."
+
- + Nov. 26, 2008
Operations Management "Hedge Fund Admins See Rise In Middle Office Outsourcing" Article featuring quotes from LaCrosse co-CEO Chris Kundro
+
- + Nov. 24, 2008
AsiaHedge "LaCrosse offers platform for real estate loan funds"
+
- + Nov. 4, 2008
Funds Europe "Avoiding the pitfalls of collateral management" By Matt Waller, Senior Manager, Cash & Collateral Management for Funds Europe Magazine
+

About LaCrosse Global Fund Services

LaCrosse Global Fund Services is a provider of operations, middle-office and administration services to managers of complex hedge funds globally. The firm has more than 300 employees in 10 global office locations: Bogota, Buenos Aires, Caracas, Istanbul, London, Minneapolis, Moscow, New York, Sao Paulo and Singapore.

Current assets under administration and supported operationally are in excess of USD \$13 billion, encompassing strategies traded by global portfolio managers who cover global equities, fixed income, commodities, currencies, emerging markets and related derivatives.

LaCrosse began as a spinout of the middle- and back-office operations that had supported Black River Asset Management and, prior to that, Cargill Global Capital Markets. Today it is an independently managed subsidiary of Cargill providing services to the alternative investment industry. For more information, visit LaCrosse at www.lacrosseglobal.com.

To see a complete list of asset classes supported by LaCrosse Global Fund Services, please click [here](#).