



# Hot Topic: Coronavirus

## Subsequent events disclosures for investment funds

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### KPMG highlights potential subsequent events disclosure considerations for investment funds as a result of COVID-19.

#### Background and impacts of COVID-19 to investment funds

Stock markets around the world have reacted to the current and potential economic impacts of COVID-19. Global markets have seen decreases in value and are experiencing volatility in asset prices, currency exchange rates and commodities indices.

The impacts of COVID-19 to investment funds are not limited to global market valuations. Sharp decreases in net asset values may have implications to contractual arrangements, such as termination and settlement provisions with derivative counterparties, margin calls, requirements to post additional collateral, and noncompliance with debt covenants. Investor sentiment and liquidity needs may result in additional redemption requests from investors and reductions in new capital. Effects from widespread office closures, travel restrictions and government-imposed measures may result in business interruption impacts to investment funds. In addition, current conditions can have implications to regulatory compliance and reporting requirements for investment funds.

#### Is COVID-19 a recognized or nonrecognized subsequent event?

We believe that the economic disruption resulting from COVID-19 should not be recognized in the financial statements of investment funds as of December 31, 2019. Although the first case of COVID-19 was reported in 2019, very little was known about it or its potential impact on the global economy, and the extensive spread of the virus outside of China that caused global economic impacts had not yet occurred. The World Health Organization did not announce the coronavirus as a global health emergency until the end of January 2020, and no significant measures were taken by any governments until early 2020. Further, the effects of the COVID-19 outbreak did not have a significant impact on global markets and share prices until February 2020. That is, the impact is a nonrecognized subsequent event under Topic 855, as it relates to the global markets and fair value measurements of investment funds as of December 31, 2019. [\[855-10-55-2\(f\)\]](#)

In light of the current and evolving circumstances, investment funds should consider the disclosure requirements of Topic 855 related to nonrecognized subsequent events for December 31, 2019 year-

end financial statements. KPMG’s Hot Topic, [Subsequent events, going concern, and risks and uncertainties disclosures](#), provides additional guidance on the effect of COVID-19 on financial statement disclosures.



## Subsequent event disclosures

An investment fund may be required to disclose nonrecognized subsequent events if disclosure is necessary to keep the financial statements from being misleading. Although determining whether disclosure is necessary requires judgment based on the facts and circumstances of the event and of the fund, we expect that the later the December 31, 2019 financial statements are issued, the more pervasive and detailed these disclosures will be. In general, a nonrecognized subsequent event should be disclosed if it is expected to have a material effect on the financial statements when recognized, and not disclosing it would be misleading.

Disclosures of nonrecognized subsequent events include the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made. [\[855-10-50-2\]](#)

### Change in the fair value of investment portfolio

Investment funds should consider disclosing material changes in the fair value of their investments or performance since the reporting date, if those indicate a material change in the fund’s financial condition. This may be especially relevant for funds that do not publish their net asset values on a daily basis. However, investment funds should consider current market conditions and the availability of pricing information when determining the precision of their disclosures and should not disclose forward-looking statements in the financial statements, such as management’s projections of future market conditions or other events.

### Other example subsequent event disclosure considerations

While not exhaustive, the following are examples of events or circumstances that may apply to an investment fund. An investment fund should consider whether the disclosure of such occurrences are necessary to keep the financial statements from being misleading.

<b>Market conditions</b>	<ul style="list-style-type: none"><li>— Unusual declines in the fair value of specific investments or vulnerable industries or geographic areas in which the fund concentrates its investments</li><li>— Downgrades in sovereign debt, municipal, single issuer or indexed credit ratings</li><li>— Troubled debt restructurings by issuers</li><li>— Impacts from market suspensions or closures</li><li>— Temporary restrictions on trading activities, such as short-selling</li></ul>
<b>Contractual obligations</b>	<ul style="list-style-type: none"><li>— Required settlement of derivative or other positions under contractual provisions</li><li>— Margin calls from financial institutions</li><li>— Performance of guarantees, including through obligations under credit derivatives triggered by certain credit events</li></ul>

	<ul style="list-style-type: none"> <li>— Sufficiency of collateral maintenance requirements</li> <li>— Significant changes to financial support arrangements to portfolio companies/investees (e.g. due to defaults, troubled debt restructurings or bankruptcies)</li> <li>— Impact of material adverse effect clauses under pending buy-side or sell-side deal agreements, or on borrowing arrangements</li> <li>— Debt covenant violations at the fund, including under joint and several borrowing arrangements with other entities</li> <li>— Delinquent financial reporting requirements under contractual agreements, such as delivery of audited financial statements to investors or lenders</li> <li>— Defaults in investor capital calls</li> <li>— Significant investor redemptions and redemption requests subsequent to the reporting date</li> <li>— Changes to fee arrangements</li> </ul>
<b>Business continuity</b>	<ul style="list-style-type: none"> <li>— Business interruption events affecting the fund, the investment adviser or other significant service providers, which may include: <ul style="list-style-type: none"> <li>– significant disruptions to portfolio management, financial reporting, or shareholder service functions;</li> <li>– inability to access reliable market data to value investment positions accurately and in a timely manner; or</li> <li>– adverse liquidity conditions.</li> </ul> </li> <li>— Travel restrictions impacting the fund’s ability to: <ul style="list-style-type: none"> <li>– access or monitor its portfolio companies as part of its valuation process;</li> <li>– perform due diligence activities on prospective investments; or</li> <li>– perform capital raising activities.</li> </ul> </li> <li>— Government imposed restrictions and closures</li> <li>— Imposed restrictions on redemptions, such as lock-ups and gates</li> <li>— Limitations on obtaining additional leverage</li> <li>— New financing arrangements to meet liquidity needs</li> <li>— Conditions that indicate substantial doubt about the fund’s ability to continue as a going-concern</li> <li>— Commencement of a plan of liquidation</li> </ul>
<b>Regulatory compliance</b>	<ul style="list-style-type: none"> <li>— Liquidity reportable events in regulatory filings for registered investment companies</li> <li>— Noncompliance with asset coverage requirements for senior securities of registered investment companies</li> <li>— Noncompliance with regulatory reporting and filing deadlines</li> </ul>

## Evolving information

The potential global and economic impacts of the coronavirus continue to evolve rapidly, and investment funds should monitor the situation. Investment funds are encouraged to maintain close communications with their boards of directors, external auditors, legal counsel and other service providers as the circumstances progress. Stay informed at [read.kpmg.us/coronavirus](https://read.kpmg.us/coronavirus)

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