

INCLUDES CONTRIBUTIONS  
FROM A TEAM OF EXPERTS FROM  
**PwC, DELOITTE, KPMG,  
DUFF & PHELPS, AND TOPQ**

# PRIVATE EQUITY ACCOUNTING, INVESTOR REPORTING, AND BEYOND

---

MARIYA STEFANOVA

**Private Equity Accounting,  
Investor Reporting,  
and Beyond**

*This page intentionally left blank*

# **Private Equity Accounting, Investor Reporting, and Beyond**

Mariya Stefanova

with Yasir Aziz, Stephanie Coxon,  
Graeme Faulds, David L. Larsen, Ramon Louw,  
Roland Mills, Henry Todd

Publisher: Paul Boger  
Editor-in-Chief: Amy Neidlinger  
Executive Editor Jeanne Glasser  
Operations Specialist: Jodi Kemper  
Cover Designer: Chuti Prasertsith  
Managing Editor: Kristy Hart  
Senior Project Editor: Lori Lyons  
Copy Editor: Krista Hansing Editorial Services  
Proofreader: Gill Editorial Services  
Senior Indexer: Cheryl Lenser  
Senior Compositor: Gloria Schurick  
Manufacturing Buyer: Dan Uhrig

© 2015 PEA Publishing Limited  
by Pearson Education, Inc.  
Publishing as FT Press  
Upper Saddle River, New Jersey 07458

**This book is sold with the understanding that neither the author nor the publisher is engaged in rendering legal, accounting, or other professional services or advice by publishing this book. Each individual situation is unique. Thus, if legal or financial advice or other expert assistance is required in a specific situation, the services of a competent professional should be sought to ensure that the situation has been evaluated carefully and appropriately. The author and the publisher disclaim any liability, loss, or risk resulting directly or indirectly, from the use or application of any of the contents of this book.**

For information about buying this title in bulk quantities, or for special sales opportunities (which may include electronic versions; custom cover designs; and content particular to your business, training goals, marketing focus, or branding interests), please contact our corporate sales department at [corpsales@pearsoned.com](mailto:corpsales@pearsoned.com) or (800) 382-3419.

For government sales inquiries, please contact [governmentsales@pearsoned.com](mailto:governmentsales@pearsoned.com).

For questions about sales outside the U.S., please contact [international@pearsoned.com](mailto:international@pearsoned.com).

Company and product names mentioned herein are the trademarks or registered trademarks of their respective owners.

All rights reserved. No part of this book may be reproduced, in any form or by any means, without permission in writing from the publisher.

Printed in the United States of America

First Printing March 2015

ISBN-10: 0-13-359311-8

ISBN-13: 978-0-13-359311-2

Pearson Education LTD.

Pearson Education Australia PTY, Limited.

Pearson Education Singapore, Pte. Ltd.

Pearson Education Asia, Ltd.

Pearson Education Canada, Ltd.

Pearson Educación de Mexico, S.A. de C.V.

Pearson Education—Japan

Pearson Education Malaysia, Pte. Ltd.

Library of Congress Control Number: 2014955534

*To Lilly and Alex, who gave me a reason to do it;  
and to my mom, without whose help I couldn't have done it.*

*As usual, I also dedicate my work to those who need it most—  
the private equity accounting and investor reporting practitioners  
whose task to provide adequate reporting for the Limited Partners  
is very challenging, facing lack of detailed guidance and  
having to make many judgment calls.*

# Contents-at-a-Glance

<b>Part I</b>	<b>Private Equity Accounting, Investor Reporting, and Beyond</b>	<b>1</b>
Chapter 1	Private Equity Structures and Their Impact on Private Equity Accounting and Reporting .....	3
Chapter 2	The Importance of Allocations and Allocation Rules .....	19
Chapter 3	Private Equity Accounting Processes: Some Neglected Processes That Could Expose GPs .....	33
Chapter 4	Investor Reporting: ILPA versus IPEV IRG .....	41
Chapter 5	ESG Reporting and Responsible Investing .....	53
Chapter 6	Private Equity Valuation: Taking Valuation to a Level Higher .....	67
Chapter 7	Performance Measurement: IRRs, Multiples, and Beyond .....	93
Chapter 8	Carried Interest and Carried Interest Modelling .....	115
Chapter 9	Consolidated Financial Statements .....	139
Chapter 10	Technology in Private Equity .....	169
<b>Part II</b>	<b>Accounting for Different Types of Funds: Beyond Traditional Private Equity Fund Accounting</b>	<b>187</b>
Chapter 11	The Limited Partner's and Fund-of-Funds' Perspective on Private Equity Accounting, Reporting, and Performance Measurement .....	189
Chapter 12	Real Estate Funds .....	209
Chapter 13	Infrastructure Funds .....	227
Chapter 14	Private Debt Funds .....	245
Chapter 15	Mezzanine Debt Private Equity Funds .....	265
	Index .....	283

# Contents

<b>Part I</b>	<b>Private Equity Accounting, Investor Reporting, and Beyond</b>	<b>1</b>
Chapter 1	Private Equity Structures and Their Impact on Private Equity Accounting and Reporting . . . . .	3
	Structuring Considerations in Private Equity . . . . .	4
	Main Building Blocks and Vehicles of a PE Structure . . . . .	6
	<i>Domiciliation: Where to Form the Fund—Onshore or Offshore?</i> . . . . .	9
	<i>Simple or Complex?</i> . . . . .	9
	Using a Combination of Vehicles . . . . .	10
	<i>Master-Feeder Funds</i> . . . . .	11
	<i>Structures Involving Blockers</i> . . . . .	13
	<i>Parallel Structures</i> . . . . .	14
	<i>Master-Feeder or Parallel Structure?</i> . . . . .	15
	Alternative Private Equity Structures . . . . .	16
	Summary . . . . .	17
Chapter 2	The Importance of Allocations and Allocation Rules . . . . .	19
	Introduction: Why Start with Allocations and Allocation Rules? . . . . .	20
	What Is an Allocation Rule, and Why Is It So Important in Private Equity Accounting? . . . . .	20
	<i>Types of Allocation Rules</i> . . . . .	21
	Why Are Different Allocation Rules Used? Is Excel-Based Accounting Adequate? . . . . .	22
	How Do Inaccurate Allocations Affect Investors? . . . . .	27
	How Can You Identify the Allocation Rules in an LPA? . . . . .	27
	What Do You Do If the Allocation Rules Stipulated in the LPA Are Flawed? . . . . .	28
	What Is the Best Way of Doing Allocations? . . . . .	29
	<i>A Word of Caution for LPs</i> . . . . .	30
	Summary . . . . .	30
	<i>Last Advice for LPs</i> . . . . .	30
	<i>Last Advice for GPs</i> . . . . .	31

Chapter 3	Private Equity Accounting Processes: Some Neglected Processes That Could Expose GPs	33
	Introduction	34
	Some Neglected Private Equity Accounting Processes	35
	<i>Rebalancing</i>	35
	<i>Partner Transfers/Assignments</i>	37
	Summary	40
Chapter 4	Investor Reporting: ILPA versus IPEV IRG	41
	Introduction	42
	Existing Accounting Frameworks and GAAPs Used in Private Equity	43
	What Is Investor Reporting?	44
	Existing Reporting Framework	45
	Comparisons among ILPA, IPEV, and EVCA Reporting Guidelines	45
	Transition from EVCA RG and Other Local Reporting Guidelines to IPEV IRG	50
	ILPA or IPEV IRG Compliant?	51
	Summary	52
	Endnotes	52
Chapter 5	ESG Reporting and Responsible Investing	53
	Introduction	54
	Why ESG and RI?	55
	Potential Material Impacts of ESG Factors and Value Creation	56
	What Are the Implementation Challenges?	57
	Some ESG Issues	57
	Sample Procedure for RI and ESG Implementation	58
	<i>Stage 1: Developing an RI Policy</i>	59
	<i>Stage 2: Identifying Specific ESG Factors and Risks</i>	59
	<i>Stage 3: Implementing ESG Objectives and Putting ESG Systems and Processes in Place</i>	61
	<i>Stage 4: Assessing Existing Portfolio Companies for ESG Factors and Identifying ESG Factors and Risks</i>	61
	<i>Stage 5: Integrating ESG Management into the Future PE Investment Process: Brief Study on KKR's RI and ESG Management</i>	61
	<i>Stage 6: Implementing Specific ESG Programs for Each Portfolio Company</i>	62
	<i>Stage 7: Set Key Performance Indicators (KPIs) and Start Measuring against Them</i>	63
	<i>Stage 8: ESG Reporting</i>	64

Chapter 6	Private Equity Valuation: Taking Valuation to a Level Higher . . . . .	67
	Why Fair Value? A Fair Value History Lesson . . . . .	68
	Valuation Guidelines . . . . .	69
	Fair Value Accounting Standards . . . . .	71
	Basic Private Equity Valuation Concepts . . . . .	72
	<i>Basic Facts</i> . . . . .	73
	<i>Calibration</i> . . . . .	73
	Determining Enterprise Value at a Future Valuation Date . . . . .	74
	<i>Market Approach</i> . . . . .	74
	<i>Income Approach</i> . . . . .	74
	Levels 1, 2, and 3 . . . . .	76
	Selected Private Equity Valuation Nuances . . . . .	76
	<i>Marketability</i> . . . . .	76
	<i>Unit of Account</i> . . . . .	77
	<i>Valuing Noncontrolling Interest</i> . . . . .	78
	Valuing Investments in Private, Nontraded Debt . . . . .	82
	Valuing Fund Interests . . . . .	84
	<i>Background</i> . . . . .	85
	The Future of PE Valuation . . . . .	90
	About the Author . . . . .	91
	Endnotes . . . . .	91
Chapter 7	Performance Measurement: IRRs, Multiples, and Beyond . . . . .	93
	Introduction . . . . .	94
	Traditional Performance Measurement in Private Equity—	
	What Is the Status Quo? . . . . .	94
	What Is IRR? . . . . .	94
	Why IRR Is a Preferred Performance Measure in PE . . . . .	96
	IRR Calculation: What Do We Need to Calculate It? . . . . .	97
	<i>Manual IRR Calculation</i> . . . . .	98
	<i>Using a Computer to Calculate IRR</i> . . . . .	98
	The Difference between IRR and XIRR in Excel . . . . .	98
	The Guess: Do We Really Need It? . . . . .	99
	Pitfalls of Using IRR . . . . .	99
	Other Pitfalls . . . . .	102
	Levels and Types of IRRs Advocated by Professional Bodies—	
	Gross and Net IRR and Multiples . . . . .	103
	Gross IRR and Gross Multiples . . . . .	103
	Net IRR . . . . .	104

	Don't Forget to Strip Out Carried Interest! . . . . .	105
	Money/Net Multiples to Investors . . . . .	105
	Alternative Performance Metrics . . . . .	105
	Time-Weighted Rate of Return (TWR): Is It an Appropriate Metric for Measuring Performance in PE? . . . . .	106
	Modified IRR (MIRR) . . . . .	106
	Benchmarking PE Performance to Public Market Returns . . . . .	108
	Public Market Equivalent (PME) . . . . .	108
	Other Alternative Performance Metrics . . . . .	109
	Summary . . . . .	113
<b>Chapter 8</b>	<b>Carried Interest and Carried Interest Modelling . . . . .</b>	<b>115</b>
	Why "Carried Interest"? . . . . .	116
	<i>Substance of Carried Interest</i> . . . . .	116
	<i>Carry Participants</i> . . . . .	117
	<i>What Is a Waterfall?</i> . . . . .	117
	<i>Dual Nature of Carry</i> . . . . .	118
	<i>Cumulative Basis of Calculation</i> . . . . .	118
	<i>Types of Carried Interest Models/Arrangements</i> . . . . .	119
	<i>Mechanics of Pure Deal-by-Deal Carried Interest Model</i> . . . . .	120
	<i>Mechanics of Whole-of-Fund/Whole-Fund/All-Contributions-First European-Style Carry Model and the Cumulative Cash Bucket Concept</i> . . . . .	122
	<i>Preferred Return</i> . . . . .	128
	<i>Hybrid Models</i> . . . . .	130
	Clawback: What Is It, and Should We Recognize It in the Financial Statements? . . . . .	133
	<i>Accounting for Carried Interest</i> . . . . .	133
	<i>Notes on Carry to the Limited Partners</i> . . . . .	137
	Summary . . . . .	138
<b>Chapter 9</b>	<b>Consolidated Financial Statements . . . . .</b>	<b>139</b>
	Background . . . . .	140
	Introduction: Basis for Consolidation . . . . .	141
	Does a Fund Need to Consolidate Portfolio Investments That It Controls? . . . . .	142
	The Investment Entity Exemption . . . . .	143
	Do Any of the Changes Impact the Issue of Consolidation of the Fund? . . . . .	144
	Control . . . . .	145
	Purpose and Design . . . . .	146

Relevant Activities.....	147
<i>Identification</i> .....	147
<i>How Decisions Are Made</i> .....	148
Power.....	148
<i>Substantive Rights That Give an Investor the Right to Direct the Relevant Activities of the Investee</i> .....	148
<i>Practical Ability</i> .....	149
<i>Other Indicators</i> .....	150
<i>Voting Rights</i> .....	150
Protective and Veto Rights.....	151
Variable Returns.....	151
Principal versus Agent: A Link between Power and Variable Returns.....	152
De Facto Agents.....	156
Putting the Consolidation Issue All Together.....	157
Other Frequently Asked Questions.....	161
<i>What about the Consolidation of Master-Feeder Fund Structures?</i> .....	161
<i>What about the Consolidation of Funds of Funds?</i> .....	162
<i>Are Tax Blockers Treated the Same?</i> .....	163
<i>So Are There Any Other GAAP Options?</i> .....	164
About the Author.....	168
 Chapter 10 Technology in Private Equity.....	 169
Introduction.....	170
Technology for General Partners.....	171
<i>What Are the Options?</i> .....	171
<i>What Are the Pros and Cons of Having a Specialist PE System?</i> .....	172
<i>Beware the Pitfalls of Implementation</i> .....	172
<i>What Should a Good Comprehensive Specialist PE Platform Have?</i> .....	173
<i>Benefits from Having a Specialist PE System for Your Back Office, Middle Office, and Front Office</i> .....	174
Technology for Limited Partners.....	176
<i>Some Features LPs Should Expect from a Specialist System</i> .....	179
Summary.....	185

**Part II    Accounting for Different Types of Funds:  
Beyond Traditional Private Equity Fund Accounting    187**

Chapter 11 The Limited Partner’s and Fund-of-Fund’s Perspective on Private Equity Accounting, Reporting, and Performance Measurement . . . . . 189

- Difference in the Legal Structure of FoFs Compared to Traditional PE Funds . . . . 190
- Legal Personality: Should an FoF Have One? . . . . . 191
- Some Reporting Challenges for More Complex LP/FoF Structures . . . . . 192
  - Reporting for Master-Feeder Structures* . . . . . 192
  - Reporting for Parallel Structures* . . . . . 193
- Some Accounting-, Reporting- and Performance Measurement–Related Challenges for LPs and FoFs . . . . . 193
  - Carried Interest: What Should LPs Do When Investee Funds Do Not Report Interim Carry Accruals* . . . . . 193
  - Impact of Bridged Investments (“Quick Flip”) on Preferred Return* . . . . . 195
  - Impact of the Priority Profit Share (PPS) on the LP’s Capital Account* . . . . . 195
  - Treatment of Management Fees and Fund/Partnership Expenses Paid to Investee Funds* . . . . . 198
  - Management Fees and Fund/Partnership Expenses Called before Year-End but Due in the Next Accounting Period* . . . . . 199
  - Treatment of Deal Expenses Associated with Acquiring a Fund Investment as of the Year-End* . . . . . 200
  - Carried Interest Charged by Carried Interest Partner of Investee Funds* . . . . . 200
  - Administration, Tracking, and Treatment of Drawdowns and Distributions* . . . . . 201
- Recapitalizations . . . . . 203
  - Accounting Treatment of Recaps* . . . . . 203
  - Treatment of Distributions from Dividend Recaps at the LP Level* . . . . . 204
- Performance Measurement . . . . . 204
  - Impact of Recapitalizations on Performance* . . . . . 205
  - Impact of Netting Off Drawdowns against Distributions on Performance* . . . . . 205
  - Impact of Temporary Distributions on Performance* . . . . . 206
  - Stripping Out Carried Interest for the Purposes of IRR Calculation* . . . . . 206
- Challenges Associated with Secondary Investments . . . . . 206
- Summary . . . . . 208

Chapter 12	Real Estate Funds	209
	Introduction	210
	Key Real Estate Accounting Requirements and Options	210
	<i>Investment Property, or Property, Plant and Equipment (PP&amp;E)?</i>	210
	<i>Asset Revaluations</i>	211
	<i>Rental Income</i>	212
	<i>Service Charges</i>	213
	<i>Lease Structures</i>	213
	<i>Managing Agents and Advisers</i>	217
	Mind the GAAP	217
	<i>What Different Frameworks Are There?</i>	217
	<i>Which One Should I Use?</i>	218
	<i>How Are They Different?</i>	219
	<i>Some Tax Considerations</i>	222
	Other Common Accounting Mistakes	222
	<i>Stripping Out Lease Incentives from Valuations</i>	223
	<i>Grossing Up of Head Lease Liabilities</i>	223
	<i>Bad Debt Expense Presentation</i>	224
	<i>Service Charge Recording and Monitoring</i>	224
	Summary	225
	About the Author	225
Chapter 13	Infrastructure Funds	227
	Introduction	228
	<i>Investor Base</i>	229
	<i>Assets Held</i>	230
	<i>Exit Routes</i>	231
	Structure of Infrastructure Funds	231
	<i>Closed-Ended vs. Open-Ended</i>	231
	<i>Unlisted vs. Listed Infrastructure Funds</i>	232
	<i>Fee Structures</i>	232
	Market Trends	233
	<i>Infrastructure Funds and the Wider Economy</i>	233
	<i>Future of the Industry</i>	234
	<i>Role of Infrastructure Debt Funds</i>	234
	<i>Public-Private Partnerships and Private Finance Initiatives</i>	235
	Accounting for Infrastructure Funds	236
	<i>Reporting under IFRS</i>	237
	<i>Consolidating Investments</i>	237

<i>Consolidation and the Investment Entity Exemption</i> . . . . .	238
<i>Application of the Investment Entity Exemption to Infrastructure Funds</i> . . . .	239
<i>Investment Strategy</i> . . . . .	239
<i>Service Concession Arrangements</i> . . . . .	240
<i>Divergence between IFRS and U.S. GAAP</i> . . . . .	240
<i>Investment Company Exemption</i> . . . . .	241
<i>Nonstatutory Financial Statements</i> . . . . .	242
Investment Valuations . . . . .	242
<i>Performance Measurement for IFs</i> . . . . .	243
Summary . . . . .	244
About the Authors . . . . .	244
Chapter 14 Private Debt Funds . . . . .	245
Debt Funds in General . . . . .	246
How Debt Funds Differ from Private Equity Funds . . . . .	246
Liquidity, Risks, and Rewards Associated with Differing Debt Instruments . . . .	247
<i>Secured or Unsecured</i> . . . . .	248
<i>Senior Debt</i> . . . . .	248
<i>Mezzanine Debt</i> . . . . .	249
<i>Corporate Bonds</i> . . . . .	249
<i>Asset-Backed Securities</i> . . . . .	250
<i>Infrastructure Debt</i> . . . . .	251
<i>High-Yield Securities</i> . . . . .	251
<i>Distressed Debt</i> . . . . .	252
How Are Debt Funds Structured? . . . . .	253
Debt Funds and Financial Reporting . . . . .	255
Using IFRS or U.S. GAAP As a Debt Fund's Financial Reporting Basis . . . . .	256
<i>U.S. GAAP</i> . . . . .	256
<i>IFRS</i> . . . . .	256
<i>Differences between IFRS and U.S. GAAP</i> . . . . .	257
Measuring Debt Instruments at Fair Value . . . . .	258
Measuring Debt Instruments at Amortized Cost . . . . .	259
Challenges . . . . .	260
Summary . . . . .	262
About the Authors . . . . .	263
Endnotes . . . . .	263

Chapter 15 Mezzanine Debt Private Equity Funds.....	265
Introduction.....	266
What Is Mezzanine Debt? .....	266
<i>Why Mezzanine?</i> .....	267
<i>Main Uses of Mezzanine</i> .....	267
<i>Key Features of Mezzanine Debt</i> .....	269
European and U.S. Mezzanine Debt: Similarities and Differences .....	270
Rise of Mezzanine Debt within Private Equity .....	271
<i>Structuring of a Mezzanine Fund</i> .....	271
Accounting for Mezzanine Instruments .....	271
<i>Investment Instruments</i> .....	271
<i>Payment in Kind (PIK) Notes</i> .....	271
<i>Arrangement Fee</i> .....	272
<i>Warrants</i> .....	272
Accounting for Financial Assets .....	274
<i>Accounting under IFRS</i> .....	274
Challenges to Applying the Business Model Test.....	276
<i>Arrangement Costs</i> .....	277
<i>Interaction between the Investment Entity Exemption and IFRS 9</i> .....	277
<i>U.S. GAAP Considerations</i> .....	277
Valuation of Mezzanine Loans for PE Houses .....	280
Unit of Account for Mezzanine Instruments .....	280
Summary .....	281
About the Authors .....	281
Endnotes.....	282
Index.....	283

*This page intentionally left blank*

# Acknowledgments

With warm thanks to all my clients I have trained and consulted over the past three years, thanks for enriching my experience and making me think about different aspects of private equity accounting, reporting, and performance measurement. I learn from you as much as you learn from me. Special thanks to JP Morgan, AMP Capital, AlpInvest, Hong Kong Monetary Authority, H.I.G. Capital, and Capita Asset Services that have given me a lot of food for thought.

My gratitude also goes to all my contributors—David Larsen of Duff & Phelps; Roland Mills and Stephanie Coxon of PwC; Yasir Aziz and Ramon Louw of Deloitte; Henry Todd of KPMA; and Graeme Faulds of TopQ. Thanks for your expert contributions that give my book an edge.

And last, but not least, thanks to Jeanne Levine, my editor, for her patience, understanding, and professional approach.

Thank you all.

# About the Author

**Mariya Stefanova** is a founding partner of Private Equity Accounting Insights (PEAI), a private equity training and consultancy firm, providing specialist training and technical advice to GPs, LPs, and fund administrators. She has more than eleven years of experience in private equity accounting and investor reporting and more than seven years of experience in training, during which period she has trained over a thousand fund accountants and senior executives on the GP, LP, and fund administration side. PEA Group is also providing specialist PE publications such as the *PEAI Private Equity Technical Journal*.

Mariya is also the author of the best seller *Private Equity Accounting: The Global Guide* (<https://www.privateequityinternational.com/peaccounting/>), published by PEI Media in October 2011.

Previously, Mariya worked in the technical department of Augentius Fund Administration LLP, a premium provider of fund administration services specialized in private equity and real estate funds. She was in charge of the technical training of the client services accountants and keeping them up-to-date with the industry and accounting developments. Mariya also provided advice to clients and client-services accountants in resolving complex technical issues, as well as performed technical reviews of accounts, quarterly investors' reports, and complex calculations.

Before joining Augentius in 2008, Mariya worked for fund administrator Mourant International Finance Administration (now State Street) looking after a portfolio of private equity clients. Before joining Mourant in 2006, Mariya worked for Calyon, a French investment bank; and before Calyon, she worked for Patron Capital Partners, a leading European opportunistic real estate manager.

Mariya started her career with a large chemical company in Bulgaria, where she was chief accountant and was subsequently a financial controller for a Belgian industrial catering company.

Mariya holds a Masters in Finance and Accounting from the University of National and World Economy (UNWE).

E-mail: [info@peaccountinginsights.com](mailto:info@peaccountinginsights.com)

Web: <http://peaccountinginsights.com>

*This page intentionally left blank*

## Private Equity Structures and Their Impact on Private Equity Accounting and Reporting

---

Mariya Stefanova, PEAI

In this chapter, we discuss:

- Structuring considerations in private equity
- Main building blocks of a private equity structure
- Domiciliation: whether to form the fund—onshore or offshore
- Plain-vanilla private equity structure
- Combination of structures, including master-feeder structures, structures involving blockers, and parallel structures
- How to treat private equity structures for accounting and reporting purposes
- Alternative private equity structures: fund lites

**A**ny thorough discussion on private equity accounting and reporting should start by considering the relevant structure involved—whether at the fund level or at the underlying portfolio company’s level.

This chapter is by no means a comprehensive guide to private equity (PE) structures; it sets the scene for the accounting and reporting to take place. Accountants do need a reasonable understanding of the fund structure in order to account for it properly.

For some sponsors, a plain-vanilla structure works perfectly. For others, even a complex structure based on a combination of vehicles involving a number of jurisdictions might not be enough. In such cases, lawyers and tax advisers can provide tailored solutions to suit the sponsor’s specific requirements.

In the context of private equity accounting and reporting, when making decisions about the reporting of the fund, structure plays a part in how the information is channeled and then sliced and diced to come up with the most appropriate reporting. For instance, if you have a parallel structure, will you be reporting each parallel entity separately, or will you be reporting everything on an aggregated basis, as if the separate entities didn’t even exist and you had only one fund? Or will you use both methods?

## Structuring Considerations in Private Equity

To understand how and why a private equity fund is structured in a certain way, you need to understand what drives the main participants. First, there are two main questions to be asked:

### 1. What do PE fund managers/general partners (GPs) want?

In a nutshell, what GPs want is:

- Good tax results
- Simple structure—does not always work, but aim to use as simple a structure as possible with entities in as few different jurisdictions as possible
- Ease in operating/administering
- Moderate regulation/reporting
- Onshore access—unless good reason to be offshore (for example, VAT issues, creaming, avoid remittance)
- Familiar to LPs

## 2. What do investors/limited partners (LPs) want?

In a nutshell, what LPs want is:

- No tax at fund level
- Familiarity with the vehicle
- Limited liability
- No additional regulatory or reporting issues
- Good reputation (offshore / onshore / EU?)
- Avoidance of U.S. issues (for example, UBTI / ERISA / ECI / FIRPTA / FATCA if possible)

Based on the above drivers for the main participants, I think it's safe to say that most of the private equity structures are predominantly tax driven. Still, some other considerations deserve mentioning:

- Tax transparency of the fund—Limited partnerships, the most efficient and preferred legal form for PE funds, ticks that box.
- Limited liability for both manager and investors.
- Tax position (location and status) of the target investor base.
- Tax treatment of the fund's target assets.
- Tax efficiency of the management fee and carried interest.
- Regulatory issues (whether the manager and/or the fund need to be authorized or regulated).
- Commercial alignment of interests between managers and investors.
- Location of the management team.
- Investor and tax authority attitudes toward certain jurisdictions.
- Familiarity with and confidence in certain vehicles and jurisdictions.
- Cost (to maintain the structure) and time and resources (to handle the complexity of the structure).

# Main Building Blocks and Vehicles of a PE Structure

Lawyers use three broad categories of vehicles as building blocks to create private equity structures:

1. **Limited partnerships** (and their equivalents in the relevant jurisdiction under consideration) and funds for joint account. Some of the most popular ones are listed here:
  - Delaware Limited Partnerships—Although it is most often preferred by U.S. managers, this vehicle is also a vehicle of choice for non-U.S. sponsors. This is due to the jurisdiction’s well-developed case law and lack of obligation to disclose publicly the terms of the LPA, the identity of the LPs, and the partnership’s accounts, among other important characteristics.
  - Cayman Exempted Limited Partnerships—Cayman Limited Partnerships are one of the most common vehicles if you want to go offshore. They represent quite a flexible alternative along the English model whereby the LPs have to be registered and gazetted with the Cayman Exempt Limited Partnership, which does not have many of the original limited partnership features and is more aligned with the Delaware model, also including a number of innovative features.
  - English Limited Partnerships—Tax transparent for UK-tax purposes (for capital gains distributed to LP, as well as carried interest distributed to carried interest holders), it is one of the most commonly used vehicles in Europe, even by non-UK sponsors, and is also used by non-EU sponsors. Additional benefit for carried interest holders is that, on top of the beneficial treatment of carried interest (taxed with capital gains tax instead of income tax), they also “inherit” part of the base cost of the LPs (called “base-cost shift”), thus further reducing the capital gains tax liability of these carried interest holders.
  - Scottish Limited Partnerships—While still tax transparent, unlike the English Limited Partnership, this vehicle has a separate legal personality, discussed in more detail in Chapter 11. That distinction makes it more suitable for fund of funds (FoFs) and carried interest vehicles.
  - Jersey & Guernsey Limited Partnerships—These vehicles are the offshore equivalent of the UK limited partnerships with flexibility around the separate legal personality mentioned above.

- Luxembourg FCP (*fond commun de placements*)—As one of the few Luxembourg private equity regulatory regimes, this vehicle is a popular European fund vehicle, particularly for property funds. With no legal personality, represented by its management company, this vehicle is not a distinct corporate entity but a co-ownership of assets established by a contract.
- Dutch CV (*commanditaire vennootschap*) Dutch Limited Partnership—This vehicle is often used alongside English Limited Partners or Luxembourg FCP, rather than as a primary fund vehicle. They can be used to accommodate Dutch LPs that sometimes require a separate parallel fund vehicle structured so as to avoid classification as a “corporation” for Dutch tax purposes, which would potentially lead to adverse tax effect.
- Dutch FGR (*fonds voor gemene rekening*) Dutch mutual fund—An alternative way of structuring a fund (usually used for parallel or feeder vehicles), this vehicle is a set of agreements between the investors, the fund manager, and a depository.
- French FCPR (*fonds commun de placement à risques*)—Co-ownership of securities without a separate legal personality that is transparent for French tax purposes.
- German KG (*Kommanditgesellschaft*)—A vehicle often used, among others, by German institutional investors (such as pension funds and insurance companies) restricted from investing in non-OECD (Organization for Economic Co-operation and Development) partnerships.
- Spanish FCRs (*Fondos de Capital-Riesgo*)—Separate pools of assets that are legally and beneficially owned by investors but managed by a management company. The main characteristics of this vehicle are the lack of legal personality, limited liability, no tax transparency, and regulated status.

## 2. Taxable corporate fund vehicles. The most popular ones in Europe follow:

- Luxembourg taxable corporates—There are a number of Luxembourg corporate fund vehicles that qualify for the Lux ‘Soparfi’ investment regime:
  - SA (*société anonyme*)—Joint stock company or public limited company.
  - Luxembourg SarL (*société à responsabilité limitée*)—A private limited company that is not generally used as a fund vehicle, but more often used at the SPV level.
  - SCA (*société en commandite par actions*)—The closest Luxembourg corporate equivalent to the limited partnership.

- SICAR (*société d'investissement en capital à risque*)—An investment regime rather than a legal form (unlike the aforementioned SA, SarL, and SCA, which are legal forms). SICARs may be set up in various legal forms.
- Dutch taxable entities:
  - BV (*besloten vennootschap met beperkte aansprakelijkheid*)—The BV is required by law to have a “blocking close” in their articles of association to restrict the transfer of shares; therefore, it is not suitable for listed funds.
  - NV (*naamloze vennootschap*)—The Dutch NV is very similar to the BV, except for the “blocking clause” that makes them more suitable for listed fund vehicles. The BV and the NV are treated in the same way for Dutch tax purposes.
  - Dutch cooperative (*coöperatie*)—This vehicle could be used for fund vehicles, holding companies, and structured finance vehicles. It is popular due to its favorable tax treatment.
- German GmbH—A limited liability company.

### 3. Tax-exempt corporate fund vehicles. Some are listed here:

- Luxembourg SICAV (*société d'investissement à capital variable*, or “investment company with variable capital”) and SICAF (*société d'investissement à capital fixe*, or “investment company with fixed capital”).
- Dutch VBI (*vrijgestelde beleggingsinstelling*)—Exempt investment institution regime. These also may be set up in different legal forms (Dutch open mutual fund/open FGR, NV, or other similar European EU entity or entity from a Dutch tax treaty jurisdiction).

I will not elaborate on each of these vehicles. The purpose of this chapter is to put the private equity structures in the context of their accounting implication, not to explain the legal and tax implications. Some legal and tax aspects are mentioned, however, where relevant to the topic discussed.

This chapter focuses on the limited partnership as the preferred legal form for private equity funds, whether an English, Delaware, or Cayman limited partnership, or one set up in another jurisdiction. Therefore, unless stated otherwise, the discussions on accounting and reporting deal with a limited partnership structure in mind.

## Domiciliation: Where to Form the Fund—Onshore or Offshore?

In addition to the legal form, the sponsor, with the help of legal and tax advisers, needs to decide on the jurisdiction where the fund will be domiciled. Of particular consideration is whether it will be in an onshore or offshore jurisdiction.

## Simple or Complex?

Some lawyers say that it's best to keep it simple, with as few jurisdictions as possible, but that rarely works. Tailored solutions can be provided according to the specific circumstances of each sponsor, their investor base, and underlying assets.

## A Plain-Vanilla Private Equity Structure

Starting with the basic private equity structure in its simplest form is the plain-vanilla private equity structure in Figure 1.1 and Figure 1.2. These structures form the basis for understanding private equity structures in general. Even if your structure is complex because of your specific circumstances and structuring considerations, as long as you understand these structures, you should be able to follow along with more complex structures covered later in the chapter that use a combination of vehicles.

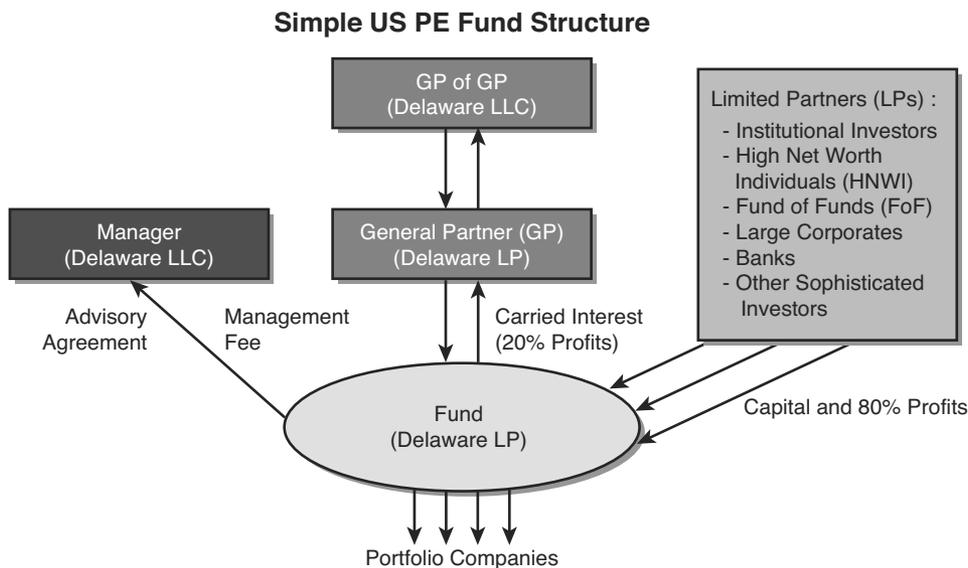
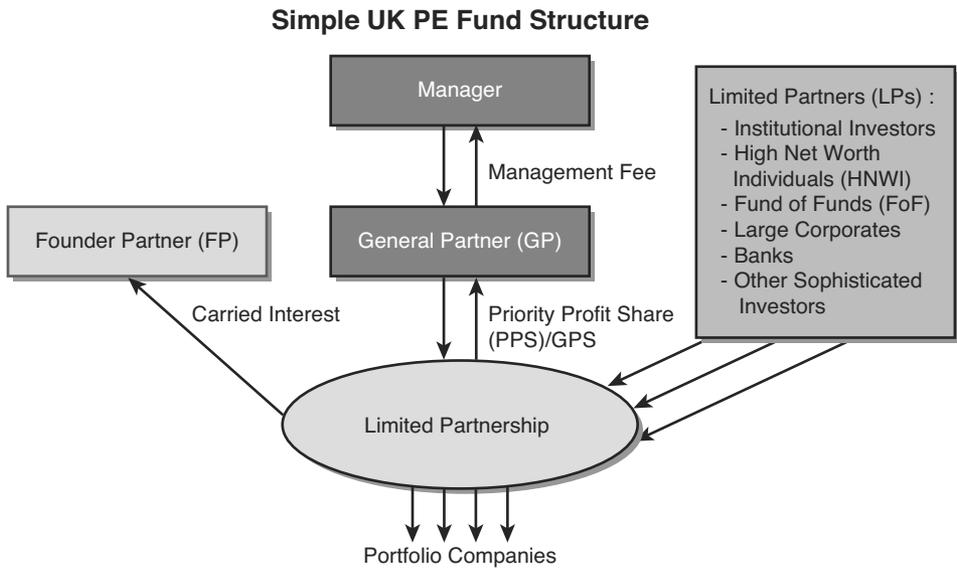


Figure 1.1 Simple U.S. PE fund structure



**Figure 1.2** Simple UK PE fund structure

## Using a Combination of Vehicles

Why would you want to use a complicated structure instead of having just one fund vehicle?

The reason for using a combination of vehicles is to cater to particular investor groups with specific tax and/or regulatory requirements that cannot be accommodated through the main fund.

For instance, assume that for the majority of your investors a common low partnership (e.g., English Limited Partnership) would work perfectly—it is tax efficient, and the investors are familiar and comfortable with this vehicle. However, there are, for example, two groups of investors, each one facing similar (within the group, but different to the other group) challenges, for which the main fund—the English Limited Partnership—is not an efficient (for tax, regulatory, or other reasons) vehicle. What do we do?

In this case, in order to attract these investors, the sponsor will have to come up with a more desirable vehicle—in fact, two additional vehicles to deal with each group of investor needs, basically creating a combination of vehicles.

To summarize, using a combination of vehicles offers the following advantage:

- Allows the sponsor to cater for different investor requirements

However, it also represents the following challenges:

- Increased complexity, which would require additional resources and skills to understand and administer the structure
- Need to rebalance among the fund entities upon subsequent closings (valid for parallel funds)
- Need to divide costs between the fund entities (also valid for parallel funds)
- Additional cost—each legal entity would involve additional cost to set up and maintain the structure

There are basically two main ways to go about the more complex structure:

- Using a master-feeder structure; or
- Using a parallel structure

### *Master-Feeder Funds*

A master-feeder structure is a subordinated structure in which investors invest through a feeder fund(s), which then invests in the master fund. (Often direct investors invest directly in the master fund as well, as in Figure 1.3). The master fund performs all the investment-related activities; the original drawdown and distribution activities take place at the feeder level and then are passed on to the master fund, except for any direct investors who invest directly in the master fund (see Figure 1.3).

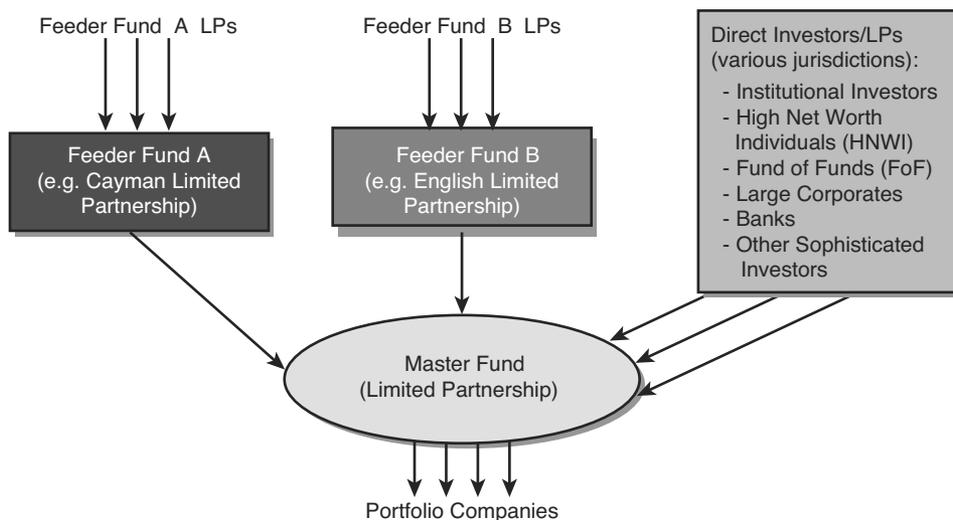
Management fees typically are charged at the master fund level. At the feeder fund level, usually only a symbolic fixed absolute amount (e.g., US\$1,000) is charged. The main expense for the management fee charged to the master fund is passed on to the feeder fund through the net asset value (NAV) allocated to the relevant feeder by the master fund.

For many investors, investing directly in a fund that is a common law partnership (such as an English Limited Partnership) might be tax-efficient (and regulatory-efficient). Let's call these investors "direct investors." However, for another group of investors, that might not be the most efficient way. To address the tax/regulatory issues specific to that group of investors (for example, Dutch investors), the sponsor might need to set up a feeder vehicle/fund (such as a Dutch CV). Doing so would make investing in the

master fund through a feeder more attractive to that particular group of investors—in this case, Dutch investors who need to avoid classification as a “corporation” for Dutch tax purposes, which would lead to adverse tax consequences.

Some sponsors and lawyers organize funds with multiple partnerships for reasons other than tax. For instance, they might want to keep all U.S. investors or all Employee Retirement Income Security Act (ERISA) investors in a separate partnership, to insulate non-U.S. investors from perceived adverse U.S. taxation, ERISA, or litigation risks.

Bottom line: Reasons differ, and lawyers can come up with different solutions depending on your specific circumstances.



**Figure 1.3** Master-feeder structure

Another alternative (see Figure 1.3) is to organize a fund with a main fund vehicle being a common law partnership, for flexibility and familiarity to investors (and sponsors), and to form feeders (as many as you need) or parallel vehicles to cater to major investor groups with specific tax or regulatory (or any other) requirements that investment in the common law partnership cannot accommodate.

You also might have one onshore feeder (such as a Delaware Limited Partnership or an English Limited Partnership) and another offshore feeder (such as a Cayman Exempt Limited Partnership or a Guernsey/Jersey Limited Partnership, respectively).

A master-feeder structure, as described by the International Accounting Standards Board (IASB), is often a common way for both foreign and domestic investors to invest in one central portfolio of underlying investments with different tax benefits, depending on whether an investor is invested in an onshore or offshore feeder fund. As IASB continues, from an accounting perspective, *the master fund and the feeder funds together could be viewed economically as one investment company.*

From an accounting perspective, the feeders are just another LP investing in the main/master fund. Therefore, the accounting for the feeder should be similar to an FoF—that is, taking an allocation of the NAV of the main/master fund.

From the master fund’s perspective, the feeder is just another LP. Therefore, they should be treated like the other direct investors/LP by providing them with a quarterly report and capital account that includes their relevant allocation of the master fund’s NAV. However, depending on the accounting framework/GAAP (Generally Accepted Accounting Principles), some specific requirements might apply.

For instance, under U.S. GAAP, a feeder fund is required to separately present its allocated share of the master fund’s net investment income and realized and unrealized gains and losses in its financial statements. In addition, for investment companies regulated by the 1940 Act, each feeder fund is required to present a complete set of the master’s financial statements along with its financial statements. This requirement is optional for unregulated investment companies.

Under International Financial Reporting Standards (IRFS), IASB has taken a slightly different view on that.

### ***Structures Involving Blockers***

Another type of structure that can also be viewed as an FoF structure for accounting purposes. In this case, an investment company invests in a blocker entity.

Some sponsors insert a “blocker” or “stopper” fund to change the character of the underlying income or asset (or both), primarily to address entity qualification criteria under tax, regulatory, or legal guidelines. Inserting a blocker fund converts “bad” assets and

income into “good” assets and income (a dividend instead of a distribution from a limited partnership), allowing the investment company to maintain its status or to achieve a more beneficial tax outcome.

## *Parallel Structures*

A number of different situations might give rise to the need to use parallel structures. One of the most common situations, for example, is where taxpaying and tax-exempt U.S. investors require the partnership through which they invest to make different elections for U.S. tax purposes. U.S. tax-exempt investors who do not want to have unrelated business taxable income (UBTI)—as they might be liable for tax on its UBTI and required to file certain tax returns—would typically require that their partnership elects to be treated as a corporation or hold investments through a corporation, and U.S. tax-paying investors would typically want their partnership to be treated as a tax transparent entity/partnership.

Although parallel structures are used most often for tax reasons, sometimes sponsors also use them to place different categories of investors into different vehicles for other than tax reasons. For instance, large investors paying reduced management fee/priority profit share (PPS) might be placed in one partnership while all the other investors who pay headline management fee rates are placed in a separate one.

Many examples (and as many reasons) prompt a sponsor to use a different parallel structure, and the aforementioned ones are just a few of them.

For reporting purposes, all parallel partnerships can be viewed as one partnership/entity because, if these reasons did not apply, the sponsor would have simply set up just one fund or vehicle. The reporting for parallel funds often reflects that by presenting a set of aggregated accounts in addition to the individual sets of accounts for each parallel vehicle. Under U.S. GAAP that is acceptable, but bear in mind that some auditors may challenge this concept under IFRS.

## Parallel Fund Structure

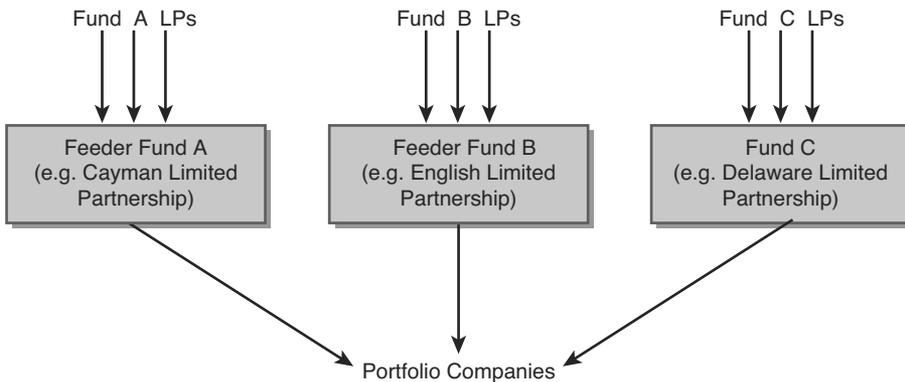


Figure 1.4 Parallel structure

### *Master-Feeder or Parallel Structure?*

Although sometimes the same goals may be achieved by using either master-feeder or parallel structure—for example, to resolve the issue with the different tax elections mentioned earlier—sometimes there may be advantages to a master-feeder structure compared with a parallel structure.

For instance, a master-feeder structure can be used if an investor in the master fund cannot, due to internal rules or otherwise, make up more than a certain percentage (e.g., 5%) of the vehicle he is participating in due to the fact that all the investors participate (directly or indirectly) in the master fund. If you are to use a parallel fund instead, the percentage of that investor who participates through a feeder fund may go over the restricted percentage.

Another example is when you have U.S. ERISA investors and the sponsor is relying on the so-called “25% limit exemption” from the master fund constituting “plan assets,” which requires that the aggregate amount of investment in the master fund subject to ERISA is less than 25%. Under a master-feeder structure, all the investors in the feeders count as investors in the master fund, which would not be the case with a parallel structure. In addition, if the business of the feeder fund is limited to investing in the master fund, you can claim that there is no investment discretion exercised by the manager/GP with respect to the feeder fund.

## Alternative Private Equity Structures

Although they are still the norm, the traditional blind-pool/committed-capital fund structure has been challenged by the harsh fundraising climate. New alternative solutions and new fund terms are appearing. Some of these structures, such as the managed accounts and pledged funds, are not really new—they just haven't been traditionally used by private equity. Some lawyers refer to some new structures with significantly modified fund terms as fund-lite structures because they are significantly simpler/lighter than the typical traditional blind-pool fund. Investors who want more flexibility, more liquidity, shorter fund life, transparency, or a more hands-on approach to PE investments like these structures. Some of these fund-lite structures are briefly outlined here, in case you are having difficulties raising a traditional PE fund or if your LPs are challenging the traditional blind-pool fund structure:

- **Deal-by-deal structure**—The vehicle is set up for one or more specific deals, and a “sponsorless GP” raises money for each deal.
- **Pledged funds**—Investors have not contractually committed to invest but have “pledged” (through a participation agreement) certain money to invest in specific deals as they choose from time to time. A formal fund structure – separate limited partnership is set up for each investment, and every time a new investment is found, the manager offers to the investors the opportunity to invest in that deal.
- **Managed accounts**—This is not a formal fund structure, but rather a segregated portfolio of assets owned directly by the investor. It offers the investors greater liquidity, and the scope of the account could be tailored to meet individual investor requirements.
- **Combined (“combo”) funds**—A combination of vehicles (for example, a traditional committed-capital fund and a pledged fund), i.e., partly committed and partly pledged.
- **Annual programs**—Investors commit capital on an annual basis, and they are free to recommit at the end of the term or pull their commitment.
- **Investment clubs**—They are more informal than structured funds, and the fees are for the “membership” of the club and on closing a transaction. It's more common in angel investing but is moving into other markets.
- **Co-investments**—They are becoming increasingly popular and are usually provided to special investors to sweeten their investment in the main fund by providing more beneficial conditions and/or allow investments on a deal-by-deal basis to boost investors' returns.

- **Fund lites**—It is usually a single-investment fund that retains the hallmark structure of a blind-pull fund, but with typically shorter term (5 to 7 years) and reduced fees; they usually have one or only a few limited investments held in them. They help first-time GPs gain a track record and help established managers bridge between fundraises or invest outside of their funds' policies.

Other key differences, compared to a traditional PE fund, are shorter life, reduced scope of investment objective, reduced fees (on committed capital only), deal-by-deal carry, and more transparency, among other solutions lawyers are trying to bring to PE clients.

## Summary

The private equity world, as we know it, is changing as a result of the post-financial crisis. But regardless of the structure, fund accountants need to be able to understand it and see behind it so that they can provide accurate accounting and adequate reporting to suit the needs of the main users of the financial statements: the LPs.

*This page intentionally left blank*

---

## A

accounting and reporting. *See* private equity accounting and reporting

accrual basis approach to carried interest accounting, 136-137

administration, benefits of specialist systems, 174

agents

de facto agents, 156-159

managing agents for real estate funds, 217

principals versus, 152-155

all-contributions-first structures, 119, 122-127

allocation rules

benefits of specialist systems, 174

correcting flawed rules, 28-29

drawdowns, 23-26

for excused investors, 22-23

identifying, 27

importance of, 20-21

LPA, 27-28

LPs and, 20-21

methods for reporting, 29-30

recommendations for LPs and GPs, 30-31

types of, 21-22

allocations

benefits of specialist systems, 174

importance of, 20-21

inaccurate allocations, effect of, 27

methods for computing, 29-30

alternative structures, 16-17

amortized cost for debt funds, 259-260

annual programs, 16

arrangement fees, 272, 277

ASC Topic 820 (SFAS 157 Fair Value Measurements), 71-72, 258

asset-backed securities, 250-251

assets

in infrastructure funds, 230

in partner transfers, 38

assignments. *See* partner transfers

## B

bad debt expense presentation for real estate funds, 224

billing dates for rental income, 212

blockers, 13-14, 163-164

bonds

corporate bonds, 249-250

infrastructure funds versus, 228-229

junk bonds, 251-252

break options in lease structures, 216

bridged investments, challenges for LPs and FoFs, 195

British Venture Capital and Private Equity Association (BVCA), 103

## **business model test**

- challenges to applying, 276-277
- defined, 275

## **BV (besloten vennootschap met beperkte aansprakelijkheid), 8**

## **BVCA (British Venture Capital and Private Equity Association), 103**

## **by-commitment allocation rule, 21, 23**

## **by-drawn-commitment allocation rule, 22**

## **by-remaining-commitment allocation rule, 21, 23**

## **by-sharing-percentages allocation rule, 22, 23**

## **C**

### **calibration, 73**

- at future valuation date, 74

### **capital accounts in partner transfers, 38-39**

### **capital contributions in lease structures, 214-215**

### **capital structures, cost of capital examples, 269**

### **carried interest**

- accounting considerations, 134
  - accrual basis approach, 136-137*
  - carry pass hurdle, 137*
  - hypothetical approach, 135-136*
  - IFRS, 135*
  - liquidation assumption, 133*
  - U.S. GAAP, 134-135*
- challenges for LPs and FoFs, 193-194, 200-201
- clawback, defined, 133
- cumulative basis of calculation, 118
- deal-by-deal structures, 119-121

### defined, 116

### dual nature of carry, 118

### hybrid structures, 120, 130-131

### as incentive, 116-117

### LPs and, 137-138

### participants in, 117

### preferred return, 128-129

### stripping out, 105, 206

### waterfall, defined, 117-118

### whole-of-fund structures, 119, 122-127

### **carried interest holders (CIHs), 117**

### **carried interest partners (CIPs), 117**

### **cash flow characteristics test, 275**

### **cash flow model, 87**

### **cash reinvestments, effect on IRR, 100-101**

### **cash yield for infrastructure funds, 243-244**

### **Cayman Exempted Limited Partnerships, 6**

### **CIHs (carried interest holders), 117**

### **CIPs (carried interest partners), 117**

### **clawback, defined, 133**

### **closed-ended debt funds, 253**

### **closed-ended infrastructure funds, 231-232**

### **co-investments, 16**

### **combination allocation rules, 22**

### **combined (combo) funds, 16**

### **complex structures**

#### advantages of, 10-11

#### blockers, 13-14

#### master-feeder structures, 11-13, 192-193

#### parallel structures, 14, 193

- selecting master-feeder versus parallel structures, 15
  - simple structures versus, 9
  - consolidated financial statements**
    - basis for consolidation, 141-142
    - de facto agents, 156-159
    - definition of consolidation, 140
    - examples of, 157-159
    - exemptions to consolidation, 142-144, 238-239
    - FASB versus IASB standards, 166
    - funds of funds, 162-163
    - IFRS 10, 140-141
    - for infrastructure funds, 237
      - exemptions to consolidation, 238-239*
      - IFRS versus U.S. GAAP, 240-242*
      - investment strategy, 239*
      - service concession arrangements, 240*
    - master-feeder structures, 161-162
    - power of investor over investee, 148-151
    - principals versus agents, 152-155
    - principles of control, 145-146
    - protective rights, 151
    - purpose and design, 146-147
    - relevant activities, 147-148
    - requirements for consolidation, 144-145
    - tax blocker companies, 163-164
    - U.K. GAAP standards, 167-168
    - U.S. GAAP exemptions, 164-165
    - variable returns, 151-152
  - consolidation**
    - in accounting frameworks, 43
    - basis for, 141-142
      - defined, 140
      - examples of, 157-159
      - exemptions to, 142-144, 238-239
      - requirements for, 144-145
  - contact management, benefits of specialist systems, 174**
  - contingent rents, 216**
  - control**
    - contractual basis of, 146-147
    - de facto agents, 156-159
    - defined, 141-142, 238
    - examples of consolidation, 157-159
    - power of investor over investee, 148-151
    - principals versus agents, 152-155
    - principles of, 145-146
    - protective rights, 151
    - relevant activities, 147-148
  - corporate bonds, 249-250**
  - cost of capital examples, 269**
  - cost reporting, fair value reporting versus, 68**
  - CRM (cost recovery method), 202**
  - cumulative calculations in carried interest, 118**
  - cumulative cash bucket. *See* waterfall calculations**
- D**
- DCF (discounted cash flow), 83, 243, 280**
  - de facto agents, 156-159**
  - deal-by-deal structures, 16, 119, 120-121**
  - debt funds**
    - accounting considerations, 255
      - amortized cost, 259-260*
      - challenges, 260-262*

*fair value reporting*, 258-259  
*U.S. GAAP versus IFRS*, 256-257

characteristics of, 246

effective interest rate, 261-262

private equity (PE) funds versus, 246-247

structure of, 253-255

types of, 247-248

- asset-backed securities*, 250-251
- corporate bonds*, 249-250
- distressed debt*, 252-253
- high-yield securities*, 251-252
- infrastructure debt funds*, 251
- mezzanine debt*, 249. *See also mezzanine debt*
- secured versus unsecured*, 248
- senior debt*, 248-249

Delaware Limited Partnerships, 6

direct investments in infrastructure funds, 230, 234

discounted cash flow (DCF), 83, 243, 280

distressed debt, 252-253

distributions

- allocation rules for, 27
- challenges for LPs and FoFs, 201-203
- from dividend recapitalizations, 204
- netting off drawdowns against, 205
- temporary distributions, 206

dividend recapitalizations, distributions from, 204

Dodd-Frank Act, 70

domiciliation, 9

DPI (distributions to paid-in capital), 105, 205

## drawdowns

- allocation rules for, 27
- challenges for LPs and FoFs, 201-203
- netting off against distributions, 205

## Dutch cooperative (coöperatie), 8

## Dutch CV (commanditaire vennootschap) Dutch Limited Partnership, 7

## Dutch FGR (fonds voor gemene rekening) Dutch mutual fund, 7

## Dutch taxable entities, 8

## Dutch VBI (vrijgestelde belegging-instelling), 8

## E

### economic cycle, infrastructure funds and, 233-234

### effective interest rate for debt funds, 261-262

### English Limited Partnerships, 6

### Environmental, Social & Governance (ESG) reporting. *See* ESG (Environmental, Social & Governance) reporting

### environmental issues in ESG reporting, 57

### equalization, rebalancing versus, 36

### equity method, 202

### ESG (Environmental, Social & Governance) reporting, 45, 54

- defined, 54

- environmental, social, governance issues, 57-58

- implementation challenges, 57

- importance of, 55-56

- positive and negative effects, 56-57

sample implementation plan, 58-65

*ESG management in investment process*, 61-62

*ESG program implementation*, 62

*existing company assessment*, 61

*factors and risks identification*, 59-60

*investor reporting*, 64-65

*KPIs (key performance indicators)*, 63

*objective implementation*, 61

*RI policy development*, 59

**European mezzanine debt markets, U.S. markets versus**, 270

**EVCA (European Venture Capital and Private Equity Association)**

comparison with ILPA and IPEV reporting guidelines, 45-50

IRR guidelines, 103

risk measurement guidelines, 45

transitioning to IPEV IRG, 50-51

**Excel-based accounting**, 22, 29-30. *See also* software systems

guess, 99

problems with, 176-178

specialist platforms versus, 172

XIRR function, 98

**excused investors, allocation rules for**, 22-23

**exit routes for infrastructure funds**, 231

## F

**fair value reporting**

advantages of, 68

for debt funds, 258-259

defining fair value, 71-72

future of, 90

at future valuation date, 74

for infrastructure funds, 242-244

input levels, 76

limited partnership interests, 84-90

marketability, 76-77

methodologies, 72-73

of mezzanine debt, 280-281

noncontrolling interests valuation, 78-82

private, nontraded debt, 82-84

for real estate funds, 211-212

unit of account, 77-78

valuation guidelines, 69-71

**FASB (Financial Accounting Standards Board)**

IASB standards versus, 166

Topic 946 (investment company disclosure requirements), 164-165

**fee structures for infrastructure funds**, 232-233

**financial assets accounting (IFRS 9)**. *See* IFRS 9 (financial assets accounting)

**fixed uplifts in lease structures**, 216

**French FCPR (fonds commun de placement à risques)**, 7

**FRS 101 (reduced disclosure framework) for real estate funds**, 217-222

**FRS 102 (consolidated financial statements)**, 167-168, 217-222

**fund IRR**, 104-105

**fund lites**, 17

**funds of funds (FoFs)**

accounting, reporting, performance measurement challenges

*bridged investments*, 195

*carried interest*, 193-194, 200-201

*drawdowns and distributions tracking*, 201-203

*fund acquisition expenses at year-end*, 200  
*management fees and fund expenses called before year-end*, 199  
*management fees and fund expenses paid to investee funds*, 198-199  
*priority profit share (PPS)*, 195-198  
 consolidation of, 162-163  
 legal personalities and, 191-192  
 performance measurement  
     *carried interest*, 206  
     *netting off drawdowns against distributions*, 205  
     *recapitalizations and*, 205  
     *temporary distributions and*, 206  
 private equity (PE) structure versus, 190  
 recapitalizations, 203-204  
 secondary investments, 206-207  
**future**  
     of fair value reporting, 90  
     of infrastructure funds, 234  
**future valuation date, fair value reporting at**, 74

## G

**GAAP**. *See* U.K. GAAP (Generally Accepted Accounting Principles); U.S. GAAP (Generally Accepted Accounting Principles)  
**gains and losses, allocation rules for**, 27  
**General Partners (GPs)**. *See* GPs (General Partners)  
**general partner's priority share (GPPS)**, 195-198  
**general partner's share (GPS)**, 195-198

**Generally Accepted Accounting Principles**. *See* U.K. GAAP (Generally Accepted Accounting Principles); U.S. GAAP (Generally Accepted Accounting Principles)

**German GmbH**, 8

**German KG (Kommanditgesellschaft)**, 7

**GIPS (Global Investment Performance Standards)**, 45, 103

**Gottschalg, Oliver**, 102

**governance issues in ESG reporting**, 58

**GP giveback**. *See* clawback

**GPPS (general partner's priority share)**, 195-198

**GPs (General Partners)**

    allocation recommendations, 31

    as carried interest participant, 117

    clawback, 133

    overlooked accounting practices, 33-34

*partner transfers*, 37-40

*rebalancing*, 35-37

    private equity (PE) structure requirements, 4

    software systems, 171

*benefits of specialist systems*, 174-176

*Excel-based accounting versus specialist systems*, 172

*implementation challenges*, 172-173

*options for*, 171

*requirements for specialist systems*, 173

**GPS (general partner's share)**, 195-198

**gross IRR**, 103-104

**gross multiples**, 103-104

**guess in IRR calculations**, 99

## H

head lease liabilities, grossing up, 223  
high-yield securities, 251-252  
hybrid carry models, 120, 130-131  
hypothetical approach to carried interest accounting, 135-136

## I

IAS 27 (consolidated and separate financial statements), 141, 142  
IAS 39. *See* IFRS 9 (financial assets accounting)  
IASB (International Accounting Standards Board), FASB standards versus, 166  
IFRIC 12 (service concession arrangements), 240  
IFRS (International Financial Reporting Standards)  
as accounting framework, 43  
carried interest, 135  
for debt funds  
*amortized cost*, 259-260  
*challenges*, 260-262  
*fair value reporting*, 258-259  
*U.S. GAAP versus*, 256-257  
for infrastructure funds, 237-239  
*consolidation*, 237  
*exemptions to consolidation*, 238-239  
*U.S. GAAP versus*, 240-242  
for real estate funds, comparison with other frameworks, 217-222

IFRS 9 (financial assets accounting), 274-276  
investment entity exemption and, 277  
U.S. GAAP versus, 277  
*IFRS 10 (consolidated financial statements)*, 140-141  
basis for consolidation, 141-142  
de facto agents, 156-159  
examples of consolidation, 157-159  
exemptions to consolidation, 142-144  
funds of funds, 162-163  
master-feeder structures, 161-162  
power of investor over investee, 148-151  
principals versus agents, 152-155  
principles of control, 145-146  
relevant activities, 147-148  
requirements for consolidation, 144-145  
tax blocker companies, 163-164  
variable returns, 151-152  
IFRS 12 (disclosure of interests in other entities), 144  
IFRS 13 (fair value measurement), 72  
for debt funds, 258-259  
definition of fair value, 242  
for real estate funds, 210, 211-212  
IFs (infrastructure funds). *See* infrastructure funds (IFs)  
ILPA (Institutional Limited Partners Association), 45, 70  
benefits of specialist systems, 174-175  
choosing ILPA versus IPEV IRG compliance, 51-52  
comparison with IPEV and EVCA reporting guidelines, 45-50

- ESG (Environmental, Social & Governance) reporting, 54
- IRR guidelines, 103
- inaccurate allocations, effect of, 27**
- incentives**
  - carried interest as, 116-117
  - lease incentives, 213
- income approach to fair value reporting, 72**
  - at future valuation date, 74
  - for private, nontraded debt, 83
- index method, 108-109**
- indirect investments in infrastructure funds, 230**
- infrastructure debt funds, 234-235, 251**
- infrastructure funds (IFs)**
  - accounting considerations, 236-237
    - consolidation, 237*
    - exemptions to consolidation, 238-239*
    - IFRS reporting, 237-239*
    - IFRS versus U.S. GAAP, 240-242*
    - investment strategy, 239*
    - nonstatutory financial statements, 242*
    - service concession arrangements, 240*
  - exit routes, 231
  - explained, 228-229
  - investor base, 229-230
  - market trends, 233-236
    - economic cycle and, 233-234*
    - future of industry, 234*
    - infrastructure debt funds, 234-235*
    - public-private partnerships (PPPs), 235-236*
  - structure of, 231
    - closed-ended versus open-ended, 231-232*
    - fee structures, 232-233*
    - unlisted versus listed, 232*
  - types of assets, 230
  - valuation, 242-244
- input levels for valuation, 76**
- INREV guidelines, 45**
- Institutional Limited Partners Association (ILPA). See ILPA (Institutional Limited Partners Association)**
- interest rate, effective rate for debt funds, 261-262**
- internal rate of return (IRR). See IRR (internal rate of return)**
- International Private Equity and Venture Capital (IPEV) Valuations Board, 69-70**
- investment clubs, 16**
- investment entities**
  - defined, 143, 238
  - exemptions to consolidation, 143-144, 238-239
  - IFRS 9 (financial assets accounting) and, 277
- investment instruments for mezzanine debt, 271**
- investment IRR, 103-104**
- investment properties, PP&E (property, plant and equipment) versus, 210**
- investor base for infrastructure funds, 229-230**
- investor IRR, 104-105**
- investor reporting**
  - choosing ILPA versus IPEV IRG compliance, 51-52

comparison among reporting guidelines, 45-46  
defined, 44  
ESG reporting, 54, 64-65  
existing reporting framework, 45  
transitioning to IPEV IRG, 46-51

**IPEV (International Private Equity and Venture Capital) Valuations Board, 69-70**

**IPEV IRG (IPEV Investor Reporting Guidelines), 44-45**  
choosing ILPA versus IPEV IRG compliance, 51-52  
comparison with ILPA and EVCA reporting guidelines, 45-50  
ESG reporting, 54  
transitioning from EVCA reporting guidelines, 50-51

**IRR (internal rate of return). *See also* performance measurement**  
calculation requirements, 97-98  
defined, 94-95  
gross IRR, 103-104  
guess, 99  
for infrastructure funds, 243-244  
MIRR (modified IRR), 106-108  
net IRR, 104  
net multiples to investors, 105  
pitfalls of using, 99-102  
PME (public market equivalent), 108-109  
professional guidelines, 103  
reasons for using, 96  
recapitalizations and, 205  
stripping out carried interest, 105, 206  
XIRR versus IRR function in Excel, 98

**IRR function, XIRR function versus, 98**

## J

**Jersey & Guernsey Limited Partnerships, 6**

**junk bonds, 251-252**

**jurisdiction, 9**

## K

**KKR ESG management example, 61-62**

**KPIs (key performance indicators) in ESG reporting, 63**

## L

**lease incentives, 213, 223**

**lease structures, 213-216**

break options, 216

capital contributions, 214-215

fixed uplifts, 216

grossing up head lease liabilities, 223

lease incentives, 213

rent reviews, 215

rent-free periods, 213-214

**legal personalities, funds of funds and, 191-192**

**Level 1 inputs**

for debt funds, 258-259

defined, 76

for real estate funds, 212

**Level 2 inputs**

for debt funds, 258-259

defined, 76

for real estate funds, 212

**Level 3 inputs**

for debt funds, 258-259

defined, 76

for real estate funds, 212

**levered PME, 109**

liabilities in partner transfers, 38

**Limited Partners (LPs).** *See* LPs (Limited Partners)

**limited partnership agreements (LPAs).**  
*See* LPAs (limited partnership agreements)

**limited partnerships**

examples of, 6-7

legal personalities and, 191-192

valuing fund interests, 84-90

**liquidation assumption, 133**

**listed debt funds, 254**

**listed infrastructure funds, 232**

**lookback.** *See* clawback

**LPA GAAP as accounting framework, 43-44**

**LPAs (limited partnership agreements)**

allocation rules

*correcting flawed rules, 28-29*

*identifying, 27*

for debt funds, 255

**LPs (Limited Partners)**

accounting, reporting, performance measurement challenges

*bridged investments, 195*

*carried interest, 193-194, 200-201*

*drawdowns and distributions tracking, 201-203*

*fund acquisition expenses at year-end, 200*

*management fees and fund expenses called before year-end, 199*

*management fees and fund expenses paid to investee funds, 198-199*

*priority profit share (PPS), 195-198*

allocation recommendations, 30

allocation rules, 20-21

carried interest notes, 137-138

as carried interest participant, 117

inaccurate allocations, effect of, 27

inaccurate partner transfers, effect of, 40

performance measurement

*carried interest, 206*

*netting off drawdowns against distributions, 205*

*recapitalizations and, 205*

*temporary distributions and, 206*

private equity (PE) structure requirements, 5

recapitalizations, 203-204

secondary investments, 206-207

software systems, 176-185

*problems with Excel-based accounting, 176-178*

*requirements for specialist systems, 178-180*

*usage examples, 180-184*

web portals for, benefits of specialist systems, 175-176

**Luxembourg FCP (fond commun de placements), 7**

**Luxembourg SarL (société à responsabilité limitée), 7-8**

**Luxembourg taxable corporates, 7-8**

**Luxembourg tax-exempt corporate fund vehicles, 8**

## **M**

**managed accounts, 16**

**management priority share (MPS), 195-198**

**managing agents for real estate funds, 217**

market approach to fair value reporting, 72, 74

marketability, 76-77

master-feeder structures, 11-13

consolidation of, 161-162

parallel structures versus, 15

reporting for, 192-193

mathematical models for noncontrolling interests valuation, 79-81

mezzanine debt, 249

accounting considerations

*arrangement fees*, 272

*challenges to applying business model test*, 276-277

*IFRS 9 (financial assets accounting)*, 274-276

*investment instruments*, 271

*payment in kind (PIK) notes*, 271-272

*warrants*, 272-274

defined, 266

features of, 269-270

importance of, 267

reasons for using, 267-269

structure of, 271

unit of account, 280-281

U.S. versus European markets, 270

valuation of, 280-281

MIRR (modified IRR), 106-108

money multiples. *See* multiples

MPS (management priority share), 195-198

multiple IRRs, 101-102

multiples

gross multiples, 103-104

net multiples to investors, 105

## N–O

National Venture Capital Association (NVCA), 69

NAV (net asset value), valuing fund interests, 85-90

negative carried interest. *See* clawback

net income, allocation rules for, 27

net IRR, 104-105

net multiples to investors, 105

net recovery approach to valuing debt, 83-84

Newton, Isaac, 96

Newton-Raphson technique, 96, 98

noncontrolling interests valuation, 78-82

nonperforming debt, 253

nonstatutory financial statements for infrastructure funds, 242

nontraded debt, valuation of, 82-84

NV (naamloze vennootschap), 8

NVCA (National Venture Capital Association), 69

observable secondary market pricing, 87

offshore funds, domiciliation, 9

onshore funds, domiciliation, 9

open-ended debt funds, 253

open-ended infrastructure funds, 231-232

OPM (option pricing models), 79-80

opt-outs, 23-26

## P

P&L in partner transfers, 38

parallel structures, 14

master-feeder structures versus, 15

reporting for, 193

**partner transfers, 37-40**  
 accounting considerations, 38-39  
 challenges associated with, 206-207  
 defined, 37-38  
 inaccurate transfers, effect of, 40

**partnerships. See limited partnerships**

**payment in kind (PIK) notes, 271-272**

**PCAOB (Public Company Accounting Oversight Board), 70-71**

**PEGCC (Private Equity Growth Capital Council), 69**

**PEIGG (Private Equity Industry Guidelines Groups), 69**

**PERACS Alpha, 110-112**

**performance measurement. See also IRR (internal rate of return)**  
 alternative metrics, 109-112  
 benchmarking to public market returns, 108-109  
 benefits of specialist systems, 175  
 carried interest, 206  
 challenges for LPs and FoFs  
*bridged investments, 195*  
*carried interest, 193-194, 200-201*  
*drawdowns and distributions tracking, 201-203*  
*fund acquisition expenses at year-end, 200*  
*management fees and fund expenses called before year-end, 199*  
*management fees and fund expenses paid to investee funds, 198-199*  
*priority profit share (PPS), 195-198*  
 for infrastructure funds, 243-244  
 netting off drawdowns against distributions, 205  
 PME (public market equivalent), 108-109  
 recapitalizations and, 205  
 temporary distributions and, 206  
 traditional measures, 94  
 TWR (time-weighted rate of return), 106

**performing debt, 252**

**PFI (private finance initiative) contracts, 235-236**

**PIC (paid-in capital to committed capital), 105**

**PIK (payment in kind) notes, 271-272**

**plain-vanilla structure, 9**

**pledged funds, 16**

**PME (public market equivalent), 108-109**

**PME+, 109**

**PME-multiple, 109**

**portfolio-level reporting, 45, 175**

**power of investor over investee, 148-150, 152-155**

**PP&E (property, plant and equipment), investment properties versus, 210**

**PPPs (public-private partnerships), 235-236**

**PPS (priority profit share), 195-198**

**preferred return, 128-129**

**principals, agents versus, 152-155**

**priority profit share (PPS), 195-198**

**private debt, valuation of, 82-84. See also debt funds**

**private equity (PE) accounting and reporting**  
 allocation rules. *See* allocation rules  
 carried interest, 134  
*accrual basis approach, 136-137*  
*carry pass hurdle, 137*

- hypothetical approach*, 135-136
- IFRS, 135
- liquidation assumption*, 133
- U.S. GAAP, 134-135
- challenges for LPs and FoFs
  - bridged investments*, 195
  - carried interest*, 193-194, 200-201
  - drawdowns and distributions tracking*, 201-203
  - fund acquisition expenses at year-end*, 200
  - management fees and fund expenses called before year-end*, 199
  - management fees and fund expenses paid to investee funds*, 198-199
  - priority profit share (PPS)*, 195-198
- ESG reporting. *See* ESG (Environmental, Social & Governance) reporting
- fair value reporting. *See* fair value reporting
- frameworks, 42-44
  - choosing ILPA versus IPEV IRG compliance*, 51-52
  - comparison among reporting guidelines*, 45-46
  - existing reporting framework*, 45
  - IFRS, 43
  - LPA GAAP, 43-44
  - transitioning to IPEV IRG*, 46-51
  - U.K. GAAP, 44
  - U.S. GAAP, 43
- investor reporting, defined, 44
- for master-feeder structures, 192-193
- overlooked accounting practices, 33-34
  - partner transfers*, 37-40
  - rebalancing*, 35-37
- for parallel structures, 193
- recapitalizations, 203-204
- software systems. *See* software systems
- structure, importance of, 4
- Private Equity Growth Capital Council (PEGCC)**, 69
- Private Equity Industry Guidelines Groups (PEIGG)**, 69
- private equity (PE) funds, debt funds versus**, 246-247
- private equity (PE) structure**
  - alternative structures, 16-17
  - categories of vehicles
    - limited partnerships*, 6-7
    - taxable corporate fund vehicles*, 7-8
    - tax-exempt corporate fund vehicles*, 8
  - domiciliation, 9
  - funds of funds structure versus, 190
  - importance in accounting and reporting, 4
  - mezzanine debt within, 271
  - requirements, 4-5
  - simple versus complex, 9
    - advantages of complex structures*, 10-11
    - blockers*, 13-14
    - master-feeder structures*, 11-13, 192-193
    - parallel structures*, 14, 193
    - plain-vanilla structure*, 9
    - selecting master-feeder versus parallel structures*, 15
- private finance initiative (PFI) contracts**, 235-236
- probability-expected weighted return models (PWERM)**, 80

property, plant and equipment (PP&E),  
investment properties versus, 210

protective rights, 151

Public Company Accounting Oversight  
Board (PCAOB), 70-71

public market equivalent (PME),  
108-109

public market returns, benchmarking  
PE performance, 108-109

public-private partnerships (PPPs),  
235-236

PWERM (probability-expected  
weighted return models), 80

## Q–R

quick flips, challenges for LPs and FoFs,  
195

Raphson, Joseph, 96

real estate funds

accounting frameworks, compared,  
217-222

common mistakes

*bad debt expense presentation*, 224

*grossing up head lease liabilities*, 223

*service charges*, 224-225

*stripping lease incentives from  
valuations*, 223

IFRS 13 (fair value measurement),  
211-212

investment properties versus PP&E  
(property, plant and equipment), 210

lease structures, 213-216

*break options*, 216

*capital contributions*, 214-215

*fixed uplifts*, 216

*lease incentives*, 213

*rent reviews*, 215

*rent-free periods*, 213-214

managing agents, 217

rental income, 212

service charges, 213

valuation, 211-212

rebalancing, 35-37

equalization versus, 36

importance of, 35-36

recapitalizations, 203-204, 205

Red Book, 211

reinvestments, effect on IRR, 100-101

relevant activities in determining  
control, 147-148

rent reviews, 215

rental income, 212

rent-free periods, 213-214

reporting. *See private equity accounting  
and reporting*

requirements

for IRR calculations, 97-98

for private equity structures, 4-5

responsible investing (RI), 54

importance of, 55-56

sample implementation plan, 58-65

*ESG management in investment  
process*, 61-62

*ESG program implementation*, 62

*existing company assessment*, 61

*factors and risks identification*,  
59-60

*investor reporting*, 64-65

*KPIs (key performance  
indicators)*, 63

*objective implementation*, 61

*RI policy development*, 59

RICS (Royal Institute of Chartered Surveyors), 211  
Robinson, David, 109  
RVPI (residual value to paid-in capital), 105, 205

## S

SA (société anonyme), 7  
Sarbanes-Oxley legislation, 70  
SCA (société en commandite par actions), 7  
Scottish Limited Partnerships, 6, 192  
secondary investments, 206-207  
secured debt funds, 248  
senior debt, 248-249  
Sensoy, Berk, 109  
service charges for real estate funds, 213, 224-225  
service concession arrangements for infrastructure funds, 240  
SFAS 157 Fair Value Measurements (ASC Topic 820), 71-72  
SIC12 (consolidation—special purpose entities), 141  
SICAF (société d'investissement à capital fixe), 8  
SICAR (société d'investissement en capital à risque), 8  
SICAV (société d'investissement à capital variable), 8  
simple PE structures

- complex structures versus, 9
- plain-vanilla structure, 9

SLPs. *See* Scottish Limited Partnerships  
social issues in ESG reporting, 58

software systems

- for GPs, 171
  - benefits of specialist systems, 174-176*
  - Excel-based accounting versus specialist systems, 172*
  - implementation challenges, 172-173*
  - options for, 171*
  - requirements for specialist systems, 173*
- for LPs, 176-185
  - problems with Excel-based accounting, 176-178*
  - requirements for specialist systems, 178-180*
  - usage examples, 180-184*

Spanish FCRs (Fondos de Capital-Riesgo), 7

specialist platforms. *See* software systems

spreadsheet-based accounting. *See* Excel-based accounting

static spread, 109

structure. *See* private equity (PE) structure

substantive rights, 148-149

## T

tax blocker companies. *See* blockers

taxable corporate fund vehicles, examples of, 7-8

tax-exempt corporate fund vehicles, examples of, 8

technology. *See* software systems

temporary distributions, performance measurement and, 206

time-weighted rate of return (TWR), 106

Topic 946 (investment company disclosure requirements), 164-165  
tranches in debt funds, 254  
TVPI (total value to paid-in capital), 105, 205  
TWR (time-weighted rate of return), 106

## U

U.K. GAAP (Generally Accepted Accounting Principles)  
as accounting framework, 44  
consolidated financial statements, 167-168  
for real estate funds, comparison with other frameworks, 217-222

Uniform Standards of Professional Appraisal Practice, 211

unit of account, 77-78

for mezzanine debt, 280-281  
for noncontrolling interests, 79

unlisted infrastructure funds, 232

unsecured debt funds, 248

unstable IRRs, 101-102

U.S. GAAP (Generally Accepted Accounting Principles)

as accounting framework, 43  
carried interest, 134-135  
clawback, 133  
consolidated financial statement exemptions, 164-165  
for debt funds  
*amortized cost*, 259-260  
*challenges*, 260-262  
*fair value reporting*, 258-259  
*IFRS versus*, 256-257

fair value reporting, 69-71  
IFRS 9 versus, 277  
for infrastructure funds, IFRS versus, 240-242  
for real estate funds, comparison with other frameworks, 217-222  
U.S. mezzanine debt markets, European markets versus, 270

## V

valuation

of debt funds, 258-259  
ESG reporting, positive and negative effects, 56-57  
fair value reporting  
*advantages of*, 68  
*defining fair value*, 71-72  
*future of*, 90  
*at future valuation date*, 74  
*input levels*, 76  
*limited partnership interests*, 84-90  
*marketability*, 76-77  
*methodologies*, 72-73  
*noncontrolling interests*, 78-82  
*private, nontraded debt*, 82-84  
*unit of account*, 77-78  
guidelines, 69-71  
of infrastructure funds, 242-244  
of mezzanine debt, 280-281  
of real estate funds, 211-212  
*bad debt expense presentation*, 224  
*grossing up head lease liabilities*, 223  
*stripping lease incentives from*, 223

variable returns, 151-152

principals versus agents, 152-155

veto rights, 151

**voting rights**

- power and, 150-151
- relevant activities and, 148

**W–X**

warrants, 272-274

**waterfall calculations**

- benefits of specialist systems, 175
- defined, 117-118
- in fair value reporting, 82
- for hybrid carry models, 131
- for whole-of-fund structures, 122-127

**web portals for investors, benefits of specialist systems, 175-176**

**whole-of-fund structures, 119, 122-127**

**XIRR function, 98**