

# AICPA Releases Technical Practice Aid for Non-registered Investment Partnerships

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In January 2006, the American Institute of Certified Public Accountants (AICPA) released authoritative accounting guidance applicable to non-registered investment companies, i.e. hedge funds and commodity pools. The AICPA guidance was in the form of a Technical Practice Aid (TPA). TPAs are generally published in order to clarify already existing auditing and accounting pronouncements, and address questions that have been brought to the attention of the AICPA by accounting professionals. The TPA was effective immediately upon its release.

## **Presentation and Disclosure of Long and Short Positions in the Schedule of Investments**

Questions have arisen in practice about whether long and short positions in the same security should be disclosed on a gross or a net basis. The TPA clarifies that, even if a perfect hedge of matched positions exists, the long and short positions should be evaluated separately on a gross basis. If either side of a gross position exceeds 5% of net assets, then it should be disclosed separately in the schedule of investments. The long and short positions should not be presented on a net basis. If one side of an offsetting position in the same issuer exceeds 5% of net assets and the other side is

less than 5%, then a fund is only required to disclose the position that exceeds 5% of net assets. However, the fund is not precluded from disclosing both positions.

Questions have also arisen about how to present securities and derivative contracts related to the same issuer. The TPA states that securities and derivatives of the same issuer that are classified as assets should be aggregated, and if in the aggregate they exceed 5%, then each position should be presented separately. The similar approach is taken for short securities positions and derivatives classified as liabilities.

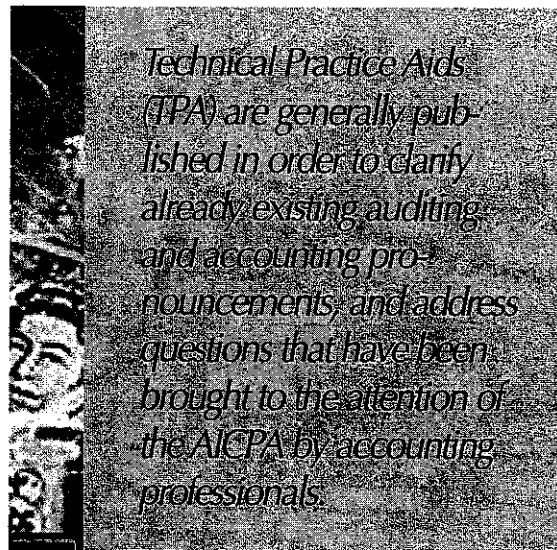
## **Information Required to be Disclosed in Comparative Financial Statements**

The TPA clarifies that if a fund elects to present comparative (multi-year) financial statements, then it should also present a schedule of investments for each year that a statement of assets

and liabilities is presented. In addition, the financial highlights (i.e., total returns and expense ratios) should be presented for each period that a statement of operations is presented. Many hedge funds present only single-year financial statements and the AICPA Investment Companies Audit Guide does not require comparative financial statements for non-registered funds. However, U.S. commodity pools that are not exempt from certain investor reporting rules of the CFTC are required to present comparative financial statements.

## **Presentation of Purchases and Sales of Investments in the Statement of Cash Flows**

Questions have been raised about whether a fund that presents a statement of cash flows should report the cost of securities purchased separately from the proceeds of sales and maturities, or whether only the net difference need be reported. The TPA states that purchases and sales/maturities of long-term investments should be presented on a gross basis. Accounting literature defines long-term securities as



securities purchased with no stated maturity or with a stated maturity of greater than one year at the date of acquisition. The TPA also states that funds may consider Statement of Financial Accounting Standards No. 102—Statement of Cash Flows, which provides that certain investments—if turnover is quick, amounts are large and maturities are short – may qualify for net reporting. Many funds qualify for an exemption from presenting a statement of cash flows under accounting

standards, generally because their investments are readily marketable and carried at fair market value, and they have little or no debt.

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