Invesco Ltd.
Form 10-Q
May 08, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2009

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 1-13908

Invesco Ltd.

(Exact Name of Registrant as Specified in Its Charter)

Bermuda *(State or Other Jurisdiction of*	**98-0557567** *(I.R.S. Employer*
Incorporation or Organization)	*Identification No.)*
1555 Peachtree Street, N.E., Suite 1800, Atlanta, GA *(Address of Principal Executive Offices)*	**30309** *(Zip Code)*

Registrant's telephone number, including area code:(404) 892-0896

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Exchange on Which Registered**
Common Shares, $0.20 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes o No x

As of April 30, 2009, the most recent practicable date, 382,676,854 of the company’s common shares, par value $0.20 per share, were outstanding.

TABLE OF CONTENTS

We include cross references to captions elsewhere in this Quarterly Report on Form 10-Q, which we refer to as this "Report," where you can find related additional information. The following table of contents tells you where to find these captions.

Item 1. ***Financial Statements***

Invesco Ltd.

Condensed Consolidated Balance Sheets

(Unaudited)

	As of	
$ in millions	**March 31, 2009**	**December 31, 2008**
ASSETS		
Current assets:		
Cash and cash equivalents	333.1	585.2
Cash and cash equivalents of consolidated investment products	59.0	73.0
Unsettled fund receivables	445.6	303.7
Accounts receivable	223.5	239.3
Investments	107.2	123.6
Prepaid assets	72.6	55.6
Other current assets	59.0	72.2
Deferred tax asset, net	47.7	86.1
Assets held for policyholders	802.8	840.2
Total current assets	2,150.5	2,378.9
Non-current assets:		
Investments	119.3	121.3
Investments of consolidated investment products	707.9	843.8
Prepaid assets	31.5	36.3
Deferred sales commissions	23.1	24.5
Deferred tax asset, net	28.6	37.2
Property and equipment, net	201.2	205.3
Intangible assets, net	139.6	142.8
Goodwill	5,904.0	5,966.8
Total non-current assets	7,155.2	7,378.0
Total assets	9,305.7	9,756.9
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	301.7	297.2
Unsettled fund payables	421.7	288.3
Income taxes payable	0.4	37.9
Other current liabilities	373.8	639.8
Policyholder payables	802.8	840.2
Total current liabilities	1,900.4	2,103.4
Non-current liabilities:		
Long-term debt	850.0	862.0
Other non-current liabilities	192.3	195.3
Total non-current liabilities	1,042.3	1,057.3

Total liabilities	2,942.7	3,160.7
Commitments and contingencies (See Note 10)		
Equity:		
Equity attributable to common shareholders:		
Common shares ($0.20 par value; 1,050.0 million authorized; 426.6 million shares issued as of March 31, 2009, and December 31, 2008)	85.3	85.3
Additional paid-in-capital	5,272.3	5,352.6
Treasury shares	(1,048.6)	(1,128.9)
Retained earnings	1,468.1	1,476.3
Accumulated other comprehensive loss, net of tax	(172.4)	(95.8)
Total equity attributable to common shareholders	5,604.7	5,689.5
Equity attributable to noncontrolling interests in consolidated entities	758.3	906.7
Total equity	6,363.0	6,596.2
Total liabilities and equity	9,305.7	9,756.9

See accompanying notes.

Invesco Ltd.

Condensed Consolidated Statements of Income

(Unaudited)

$ in millions	**Three Months Ended March 31, 2009**	**2008**
Operating revenues:		
Investment management fees	436.5	737.6
Service and distribution fees	89.0	138.4
Performance fees	10.9	11.0
Other	12.2	23.4
Total operating revenues	548.6	910.4
Operating expenses:		
Employee compensation	235.8	272.8
Third-party distribution, service and advisory	148.2	247.1
Marketing	26.9	43.9
Property, office and technology	45.9	50.1
General and administrative	30.0	68.4
Total operating expenses	486.8	682.3
Operating income	61.8	228.1
Other income/(expense):		
Equity in earnings of unconsolidated affiliates	2.5	17.9
Interest income	4.8	11.5
Gains and losses of consolidated investment products, net	(86.5)	(44.3)
Interest expense	(15.9)	(21.5)
Other gains and losses, net	(4.2)	(6.5)
Income before income taxes, including losses attributable to noncontrolling interests	(37.5)	185.2
Income tax provision	(20.3)	(73.8)
Net (loss)/income, including losses attributable to noncontrolling interests	(57.8)	111.4
Gains and losses attributable to noncontrolling interests in consolidated entities, net	88.5	43.8
Net income attributable to common shareholders	30.7	155.2
Earnings per share:		
— basic	$0.08	$0.40
— diluted	$0.08	$0.39
Dividends declared per share	$0.10	$0.22

See accompanying notes.

Invesco Ltd.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended March 31,	
$ in millions	**2009**	**2008**
Operating activities:		
Net(loss)/income, including losses attributable to noncontrolling interests	(57.8)	111.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and depreciation	16.0	16.6
Share-based compensation expense	23.7	26.7
Loss on disposal of property, equipment, software, net	0.1	0.1
Purchase of trading investments	(7.0)	(14.8)
Sale of trading investments	7.8	13.2
Other gains and losses, net	4.2	6.5
Gains and losses of consolidated investment products, net	86.5	44.3
Tax benefit from share-based compensation	29.8	29.3
Excess tax benefits from share-based compensation	—	(9.8)
Equity in earnings of unconsolidated affiliates	(2.5)	(17.9)
Changes in operating assets and liabilities:		
Change in cash held at consolidated investment products	14.0	(12.5)
Increase in receivables	(61.7)	(19.2)
Decrease in payables	(233.1)	(308.3)
Net cash used in operating activities	(180.0)	(134.4)
Investing activities:		
Purchase of property and equipment	(5.3)	(14.2)
Disposal of property and equipment	0.3	—
Purchase of available-for-sale investments	(5.8)	(21.1)
Proceeds from sale of available-for-sale investments	12.4	16.4
Purchase of investments by consolidated investment products	(26.2)	(51.5)
Proceeds from sale of investments by consolidated investment products	16.1	29.5
Returns of capital in investments of consolidated investment products	4.7	30.1
Purchase of other investments	(1.9)	(5.1)
Proceeds from sale of other investments	3.1	9.9
Acquisition earn-out payments	—	(129.6)
Net cash used in investing activities	(2.6)	(135.6)
Financing activities:		
Proceeds from exercises of share options	1.7	26.6
Purchases of treasury shares	—	(168.2)
Dividends paid	(38.9)	—
Excess tax benefits from share-based compensation	—	9.8
Capital invested into consolidated investment products	8.0	5.7
Capital distributed by consolidated investment products	(14.6)	(17.1)

Borrowings of consolidated investment products	—	28.9
Repayments of consolidated investment products	—	(9.3)
Net (repayments)/borrowings under credit facility	(4.5)	260.6
Repayments of senior notes	(3.0)	—
Acquisition of remaining noncontrolling interest in subsidiary	(10.3)	—
Net cash (used in)/provided by financing activities	(61.6)	137.0
Decrease in cash and cash equivalents	(244.2)	(133.0)
Foreign exchange movement on cash and cash equivalents	(7.9)	19.5
Cash and cash equivalents, beginning of year	585.2	915.8
Cash and cash equivalents, end of year	333.1	802.3
Supplemental Cash Flow Information:		
Interest paid	(9.7)	(13.8)
Interest received	5.2	11.5
Taxes paid	(15.5)	(71.8)

See accompanying notes.

Invesco Ltd.

Condensed Consolidated Statements of Changes in Equity

(Unaudited)

See accompanying notes.

	Equity Attributable to Common Shareholders						
$ in millions	**Common Shares**	**Additional Paid-in-Capital**	**Treasury Shares**	**Retained Earnings**	**Accumulated Other Comprehensive Loss**	**Non-controlling interests in consolidated entities**	**Total Equity**
January 1, 2009	85.3	5,352.6	(1,128.9)	1,476.3	(95.8)	906.7	6,596.2
Net (loss)/income, including losses attributable to noncontrolling interests	—	—	—	30.7	—	(88.5)	(57.8)
Other comprehensive income							
Currency translation differences on investments in overseas subsidiaries	—	—	—	—	(72.1)	—	(72.1)
Change in minimum pension liability	—	—	—	—	0.4	—	0.4
Change in net unrealized gains on available-for- sale investments	—	—	—	—	(4.0)	—	(4.0)
Tax impacts of changes in accumulated OCI balances	—	—	—	—	(0.9)	—	(0.9)
Total comprehensive income							(134.4)
Change in noncontrolling interests in consolidated entities, net	—	—	—	—	—	(58.5)	(58.5)
Dividends	—	—	—	(38.9)	—	—	(38.9)
Employee share plans:						—	—
Share-based compensation	—	23.7	—	—	—	—	23.7
Vested shares	—	(81.4)	81.4	—	—	—	—
Exercise of options	—	(8.7)	10.4	—	—	—	1.7
Tax impact of share-based payment	—	(5.0)	—	—	—	—	(5.0)
Purchase of shares	—	—	(11.5)	—	—	—	(11.5)
Acquisition of remaining noncontrolling interest in subsidiary	—	(8.9)	—	—	—	(1.4)	(10.3)
March 31, 2009	85.3	5,272.3	(1,048.6)	1,468.1	(172.4)	758.3	6,363.0

	Equity Attributable to Common Shareholders						
$ in millions	**Common Shares**	**Additional Paid-in-Capital**	**Treasury Shares**	**Retained Earnings**	**Accumulated Other Comprehensive Income**	**Non-controlling interests in consolidated entities**	**Total Equity**
January 1, 2008	84.9	5,306.3	(954.4)	1,201.7	952.1	1,121.2	7,711.8
Net income, including losses attributable to noncontrolling interests	—	—	—	155.2	—	(43.8)	111.4
Other comprehensive income							
Currency translation differences on investments in overseas subsidiaries	—	—	—	—	21.2	—	21.2
Change in minimum pension liability	—	—	—	—	(0.6)	—	(0.6)
Change in net unrealized gains on available-for- sale investments	—	—	—	—	(4.6)	—	(4.6)
Tax impacts of changes in accumulated OCI balances	—	—	—	—	1.6	—	1.6
Total comprehensive income							129.0
Change in noncontrolling interests in consolidated entities, net	—	—	—	—	—	4.8	4.8
Dividends	—	—	—	(89.5)	—	—	(89.5)
Employee share plans:							
Share-based compensation	—	26.7	—	—	—	—	26.7
Vested shares	—	(10.9)	10.9	—	—	—	—
Exercise of options	0.4	21.4	4.8	—	—	—	26.6
Tax impact of share-based payment	—	9.8	—	—	—	—	9.8
Purchase of shares	—	—	(168.2)	—	—	—	(168.2)
March 31, 2008	85.3	5,353.3	(1,106.9)	1,267.4	969.7	1,082.2	7,651.0

See accompanying notes.

Invesco Ltd.

Notes to the Condensed Consolidated Financial Statements

1. ACCOUNTING POLICIES

Corporate Information

Invesco Ltd. (Parent) and all of its consolidated entities (collectively, the company or Invesco) provide retail, institutional and high-net-worth clients with an array of global investment management capabilities. The company’s sole business is investment management.

Basis of Accounting and Consolidation

The accompanying Condensed Consolidated Balance Sheets, Statements of Income, Statements of Cash Flows, and Statement of Changes in Equity (together, the Condensed Consolidated Financial Statements) have not been audited and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the company’s Annual Report on Form 10-K for the year ended December 31, 2008. In the opinion of management, the Condensed Consolidated Financial Statements reflect all adjustments, consisting of normal recurring accruals, which are necessary for the fair presentation of the financial condition and results of operations for the interim periods presented. All significant intercompany transactions, balances, revenues and expenses are eliminated upon consolidation.

The Condensed Consolidated Financial Statements have been prepared in accordance with U.S. GAAP and consolidate the financial statements of the Parent, all of its controlled subsidiaries, any variable interest entities (VIEs) required to be consolidated under Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 46(R), “Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51,” and any entities required to be consolidated under Emerging Issues Task Force (EITF) Issue No. 04-5, “Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights” (EITF 04-5). Under FASB Statement No. 94, “Consolidation of All Majority-Owned Subsidiaries” (FASB Statement No. 94), control is deemed to be present when the parent holds a majority voting interest or otherwise has the power to govern the financial and operating policies of the subsidiary so as to obtain the benefits from its activities. FIN 46(R) requires that variable interest entities (VIEs), or entities in which the risks and rewards of ownership are not directly linked to voting interests, for which the company is the primary beneficiary (having the majority of rewards/risks of ownership) be consolidated. Certain of the company’s managed products are structured as partnerships in which the company is the general partner receiving a management and/or performance fee. If the company is deemed to have a variable interest in these entities and is determined to be the primary beneficiary, these entities are consolidated into the company’s financial statements. If the company is not determined to be the primary beneficiary, the equity method of accounting is used to account for the company’s investment in these entities. In accordance with EITF 04-5, non-VIE general partnership investments are deemed to be controlled by the company and would be consolidated, unless the limited partners have the substantive ability to remove the general partner without cause based upon a simple majority vote or can otherwise dissolve the partnership, or unless the limited partners have substantive participating rights over decision-making. Investment products that are consolidated under FIN46(R), EITF 04-5, or FASB Statement No. 94 are referred to as consolidated investment products in the accompanying Condensed Consolidated Financial Statements. See Note 7, “Consolidated Investment Products,” for additional details.

As required by Accounting Principles Board (APB) No. 18, “The Equity Method of Accounting for Investments in Common Stock,” the equity method of accounting is used to account for investments in joint ventures and noncontrolled subsidiaries in which the company’s ownership is between 20 and 50 percent. Equity investments are carried initially at cost (subsequently adjusted to recognize the company’s share of the profit or loss of the investee after the date of acquisition) and are included in investments on the Condensed Consolidated Balance Sheets. The proportionate share of income or loss is included in equity in earnings of unconsolidated affiliates in the Condensed Consolidated Statements of Income.

The financial statements have been prepared primarily on the historical cost basis; however, certain items are presented using other bases such as fair value, where such treatment is required. The financial statements of subsidiaries are prepared for the same reporting year as the Parent and use consistent accounting policies, which, where applicable, have been adjusted to U.S. GAAP from local generally accepted accounting principles or reporting regulations. Noncontrolling interests in consolidated entities represent the interests in certain entities consolidated by the company either because the company has control over the entity or has determined that it is the primary beneficiary under FIN 46(R), but of which the company does not own all of the equity.

In preparing the financial statements, management is required to make estimates and assumptions that affect reported revenues, expenses, assets, liabilities and disclosure of contingent liabilities. The primary estimates relate to investment valuation, goodwill impairment and taxes. Use of available information and application of judgment are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements.

Dividends to shareholders

Dividends to shareholders are recognized on the declaration date. Dividends are declared and paid on a quarterly basis.

Reclassifications

The presentation of certain prior period reported amounts has been reclassified to be consistent with the current presentation. Such reclassifications had no impact on net income or shareholders' equity.

Accounting Pronouncements Recently Adopted and Pending Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" (FASB Statement No. 157), which became effective for Invesco on January 1, 2008. FASB Statement No. 157 clarifies how companies should measure fair value when they are required by U.S. GAAP to use a fair value measure for recognition or disclosure. FASB Statement No. 157 establishes a common definition of fair value, establishes a framework for measuring fair value under U.S. GAAP, and expands disclosures about fair value measurements to eliminate differences in current practice in measuring fair value under existing accounting standards. The adoption of FASB Statement No. 157 did not result in any retrospective adjustments to prior period information or in a cumulative effect adjustment to retained earnings. See Note 2, "Fair Value of Assets and Liabilities," for additional disclosures.

In December 2007, the FASB issued FASB Statement No. 141 (revised 2007), "Business Combinations (FASB Statement No. 141(R))," and FASB Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (FASB Statement No. 160)." Under FASB Statement No. 141(R), the acquirer must recognize, with certain exceptions, 100% of the fair values of assets acquired, liabilities assumed, and noncontrolling interests in acquisitions of less than 100% controlling interest when the acquisition constitutes a change in control of the acquired entity. Additionally, when an acquirer obtains partial ownership in an acquiree, an acquirer recognizes and consolidates assets acquired, liabilities assumed and any noncontrolling interests at 100% of their fair values at that date regardless of the percentage ownership in the acquiree. As goodwill is calculated as a residual, all goodwill of the acquired business, not just the acquirer's share, is recognized under this "full-goodwill" approach. Contingent consideration obligations that are elements of consideration transferred are recognized as of the acquisition date as part of the fair value transferred in exchange for the acquired business. Acquisition-related costs incurred in connection with a business combination shall be expensed. FASB Statement No. 160 establishes new accounting and reporting standards for noncontrolling interests (formerly known as "minority interests") in a subsidiary and for the deconsolidation of a subsidiary. FASB Statement No. 141(R) and FASB Statement No. 160 became effective for the company on January 1, 2009. FASB Statement No. 141(R) will be applied prospectively, while FASB Statement No. 160 requires retroactive adoption of the presentation and disclosure requirements for existing noncontrolling interests but prospective adoption of all of its other requirements. The adoption of these two new accounting standards did not have a material impact on the company's financial statements; however the adoption of FASB Statement No. 141(R) did amend the definition of a business, which led to a change in the company's basis, but not the company's conclusion, of determining that it has one reporting unit for goodwill impairment purposes. See Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, "Critical Accounting Policies and Estimates – Goodwill" for additional information.

In February 2007, the FASB issued Statement No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (FASB Statement No. 159), which also became effective for Invesco on January 1, 2008, at its own discretion. FASB Statement No. 159 permits companies to elect, on an instrument-by-instrument basis, to fair value certain financial assets and financial liabilities with changes in fair value recognized in earnings as they occur (the fair value option). The company chose not to elect the FASB Statement No. 159 fair value option for eligible items existing on its balance sheet as of January 1, 2008, or for any new eligible items recognized subsequent to January 1, 2008.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, “Effective Date of FASB Statement No. 157 (FSP FAS 157-2).” FSP FAS 157-2 amends FASB Statement No. 157 to delay the effective date for nonfinancial assets and nonfinancial liabilities except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually). For items within its scope, FSP FAS 157-2 delays the effective date of FASB Statement No. 157 to January 1, 2009. As of January 1, 2008, Invesco applied the fair value measurement and disclosure provisions of FASB Statement No. 157 to its financial assets and financial liabilities that are recognized or disclosed at fair value in the financial statements. As of January 1, 2009, Invesco applied the fair value measurement and disclosure provisions of FASB Statement No. 157 to nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. Those items include: (1) nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination or other new basis event, but not measured at fair value in subsequent periods; (2) nonfinancial long-lived assets measured at fair value for an impairment assessment under FASB Statement No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets;” (3) nonfinancial liabilities for exit or disposal activities initially measured at fair value under FASB Statement No. 146, “Accounting for Costs Associated with Exit or Disposal Activities;” and (4) nonfinancial assets and nonfinancial liabilities measured at fair value in the second step of a goodwill impairment test. The adoption of FSP FAS 157-2 did not have a material impact on the company’s financial statements.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, “Determination of the Useful Life of Intangible Assets” (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset under FASB Statement No. 142, “Goodwill and Other Intangible Assets.” FSP FAS 142-3 requires an entity to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset. FSP FAS 142-3 is intended to improve the consistency between the useful life of an intangible asset determined under FASB Statement No. 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141(R) and other U.S. GAAP. The guidance provided by FSP FAS 142-3 for determining the useful life of a recognized intangible asset must be applied prospectively to intangible assets acquired after the effective date, which is January 1, 2009. FSP FAS 142-3 is not expected to have a material impact on the company’s financial statements.

During June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities” (FSP EITF 03-6-1). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method described in FASB Statement No. 128, “Earnings Per Share.” The guidance in the FSP EITF 03-6-1 provides that only those unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities that should be included in the calculation of basic EPS under the two-class method. The FASB concluded that the holder of a share-based award receives a noncontingent transfer of value each time the entity declares a dividend, and therefore the share-based award meets the definition of a participating security. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, with all prior period EPS data being adjusted retrospectively. The adoption of FSP EITF 03-6-1 on January 1, 2009, required the company to include unvested restricted stock units (RSUs) that contain nonforfeitable dividend equivalents as outstanding common shares for purposes of calculating basic EPS. The adoption of FSP EITF 03-6-1 did not have a material impact on the company’s calculation of basic EPS. The weighted average number of shares used for the calculation of prior period earnings per share have been restated to reflect the adoption of EITF 03-6-1. The adoption of FSP EITF 03-6-1 did not result in a change to prior period reported EPS amounts.

In October 2008, the FASB issued FASB Staff Position No. FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active” (FSP 157-3), which became effective for Invesco for the period ended September 30, 2008. FSP 157-3 clarifies the application of FASB Statement No. 157 to financial assets in an inactive market. The FSP includes an illustration of the application of judgment when selecting an appropriate discount rate to apply in the valuation of a collateralized debt obligation in a market that has become increasingly inactive. The adoption of FSP 157-3 did not have a material impact on the company’s financial statements.

In December 2008, the FASB issued FASB Staff Position No. FAS 140-4 and FIN 46(R)-8, “Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities (FSP FAS 140-4 and FIN 46(R)-8),” which became effective for the company on December 31, 2008. This staff position requires additional disclosures by public entities with a) continuing involvement in transfers of financial assets to a special purpose entity or b) a variable interest in a variable interest entity. The adoption of FSP FAS 140-4 and FIN 46(R)-8 did not have a material impact on the company’s financial statements. See Note 7, “Consolidated Investment Products,” for additional disclosures.

In January 2009, the FASB issued FASB Staff Position No. EITF 99-20-1, “Amendments to the Impairment Guidance of EITF Issue No. 99-20 (FSP EITF 99-20-1),” which became effective for the company on December 31, 2008. FSP EITF 99-20-1 revises the impairment guidance provided by EITF 99-20 for beneficial interests to make it consistent with the requirements of FASB Statement No. 115 for determining whether an impairment of other debt and equity securities is other-than-temporary. FSP EITF 99-20-1 eliminates the requirement that a holder’s best estimate of cash flows be based upon those that a market participant would use. Instead, FSP 99-20-1 requires that an other-than-temporary impairment be recognized when it is probable that there has been an adverse change in the holder's estimated cash flows. FSP EITF 99-20-1 did not have a material impact on the company's financial statements.

On April 9, 2009, the FASB issued three Staff Positions (FSPs) intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities. FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that Are Not Orderly (FSP 157-4)," provides guidelines for making fair value measurements more consistent with the principles presented in FASB Statement No. 157. FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments (FSP 107-1)," enhances consistency in financial reporting by increasing the frequency of fair value disclosures. FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments (FSP 115-2)," provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities.

FSP 157-4 addresses the measurement of fair value of financial assets when there is no active market or where the price inputs being used could be indicative of distressed sales. FSP 157-4 reaffirms the definition of fair value already reflected in FASB Statement No. 157, which is the price that would be paid to sell an asset in an orderly transaction (as opposed to a distressed or forced transaction) at the measurement date under current market conditions. FSP 157-4 also reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive.

FSP 107-1 was issued to improve the fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. Prior to issuing FSP 107-1, fair values of these assets and liabilities were only disclosed once a year. FSP 107-1 now requires these disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value.

FSP 115-2 on other-than-temporary impairments is intended to improve the consistency in the timing of impairment recognition, and provide greater clarity to investors about the credit and noncredit components of impaired debt securities that are not expected to be sold. FSP 115-2 requires increased and more timely disclosures sought by investors regarding expected cash flows, credit losses, and an aging of securities with unrealized losses.

FSP 157-4, FSP 107-1 and FSP 115-2 are effective for interim and annual periods ending after June 15, 2009, and provide for early adoption for the interim and annual periods ending after March 15, 2009. All three FSPs must be adopted in conjunction with each other. Invesco will adopt all three FSPs for the interim period ending June 30, 2009. The company is still assessing the impact these three FSPs will have on its financial statements.

2. FAIR VALUE OF ASSETS AND LIABILITIES

FASB Statement No. 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

§ Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

§ Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- § Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

An asset or liability’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

FASB Statement No. 157 allows three types of valuation approaches: a market approach, which uses observable prices and other relevant information that is generated by market transactions involving identical or comparable assets or liabilities; an income approach, which uses valuation techniques to convert future amounts to a single, discounted present value amount; and a cost approach, which is based on the amount that currently would be required to replace the service capacity of an asset.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Cash equivalents

Cash equivalents include cash investments in money market funds and time deposits. Cash and cash equivalents invested in affiliated money market funds totaled $157.4 million at March 31, 2009 (December 31, 2008: $209.4 million). Cash investments in money market funds are valued under the market approach through the use of quoted market prices in an active market, which is the net asset value of the underlying funds, and are classified within level 1 of the valuation hierarchy. Cash investments in time deposits are very short-term in nature and are accordingly valued at cost plus accrued interest, which approximates fair value, and are classified within level 2 of the valuation hierarchy.

Available-for-sale investments

Available-for-sale investments include amounts seeded into affiliated investment products, foreign time deposits and investments in collateralized loan obligations (CLOs). Seed money is valued under the market approach through the use of quoted market prices available in an active market, which is the net asset value of the underlying funds, and is classified within level 1 of the valuation hierarchy. Foreign time deposits are valued under the income approach based on observable interest rates and are classified within level 2 of the valuation hierarchy. CLOs are valued using an income approach through the use of certain observable and unobservable inputs. Due to current liquidity constraints within the market for CLO products that require the use of unobservable inputs, these investments are classified as level 3 within the valuation hierarchy.

Trading investments

Trading investments primarily include the investments of the deferred compensation plans that are offered to certain Invesco employees. These investments are primarily invested in affiliated funds. Trading securities are valued under the market approach through the use of quoted prices in an active market and are classified within level 1 of the valuation hierarchy.

Assets held for policyholders

Assets held for policyholders represent investments held by one of the company’s subsidiaries, which is an insurance entity that was established to facilitate retirement savings plans in the U.K. The assets held for policyholders are accounted for at fair value pursuant to AICPA Statement of Position No. 03-1, “Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts.” The assets are measured at fair value under the market approach based on the quoted prices of the underlying funds in an active market and are classified within level 1 of the valuation hierarchy.

The following table presents, for each of the hierarchy levels described above, the company’s assets that are measured at fair value as of March 31, 2009:

	As of March 31, 2009			
$ in millions	**Fair Value Measurements**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Current assets:				
Cash equivalents	226.6	157.4	69.2	—
Investments *				
Available-for-sale	73.7	59.7	14.0	—

Trading investments	32.5	32.5	—	—
Assets held for policyholders	802.8	802.8	—	—
Total current assets	1,135.6	1,052.4	83.2	—
Non-current assets:				
Investments – available-for-sale	13.5	—		