

## **Exposure Draft**

### **Statement of Recommended Practice**

#### **Financial Statements of** **UK Authorised Funds**

**July 2013**

## Contents

<b>Statement by the Financial Reporting Council.....</b>	<b>1</b>
<b>1. Introduction.....</b>	<b>2</b>
Objective.....	2
Scope.....	3
Date from which effective.....	3
Responsibilities.....	3
Definitions.....	4
<b>2. Accounting.....</b>	<b>8</b>
Assets and liabilities.....	8
Recognition.....	8
Valuation.....	8
Income.....	10
Revenue and capital.....	10
<i>Fiscally transparent entities</i> .....	10
<i>Derivatives</i> .....	10
<i>Dividends</i> .....	11
<i>Interest from debt securities</i> .....	12
<i>Other income</i> .....	14
Expenses.....	15
Taxation.....	16
Consolidation.....	17
Classification of units.....	17
<b>3. Reports.....</b>	<b>18</b>
Annual reports.....	18
Half-yearly reports.....	19
Comparative table.....	19
Portfolio statement.....	20
Financial statements.....	21
Annual financial statements.....	22
Interim financial statements.....	22
Contents of financial statements.....	23
Statement of total return.....	23
Statement of change in net assets attributable to unitholders.....	25
Balance sheet.....	25
Statement of cash flows.....	26
Notes to the financial statements.....	26
<i>Accounting policies</i> .....	27
<i>Distribution policies</i> .....	27
<i>Risk management policies</i> .....	28
<i>Other information in the notes</i> .....	29

**APPENDIX I** – Presentation for funds with units classified as equity instruments

**APPENDIX II** – [Illustrative application of fair value disclosures](#)

**APPENDIX III** – [Additional guidance for non-UCITS funds](#)

**APPENDIX IV** - Applicable laws, regulations and accounting standards

Deleted: I

## Statement by the Financial Reporting Council

**Deleted: Accounting Standards Board**

[The FRC's "Statement on the SORP" will appear here]

**Deleted:** The aims of the Accounting Standards Board (ASB) are to establish and improve standards of financial accounting and reporting, for the benefit of users, preparers, and auditors of financial information. To this end, the ASB issues accounting standards that are primarily applicable to general purpose company financial statements. In particular industries or sectors, further guidance may be required in order to implement accounting standards effectively. This guidance is issued, in the form of Statements of Recommended Practice (SORPs), by bodies recognised for the purpose by the ASB.¶

¶  
The Investment Management Association (IMA) has confirmed that it shares the ASB's aims of advancing and maintaining standards of financial reporting in the public interest and has been recognised by the ASB for the purpose of issuing SORPs. As a condition of recognition, the Association has agreed to follow the ASB's code of practice for bodies recognised for issuing SORPs.¶

¶  
The code of practice sets out procedures to be followed in the development of SORPs. These procedures do not include a comprehensive review of the proposed SORP by the ASB, but a review of limited scope is performed.¶

¶  
The ASB believes that all the movements in revenue and capital and the total return should be considered in assessing total financial performance and so does not take a view on the basis of allocation of costs and returns between capital and revenue set out in the SORP. However, it accepts that this distinction is necessary to determine the distribution, as noted in paragraph 2.21 of the SORP.¶

¶  
On the basis of its review, the ASB has concluded that the SORP has been developed in accordance with the ASB's code of practice and does not appear to contain any fundamental points of principle that are unacceptable in the context of present accounting practice or to conflict with an accounting standard or the ASB's plans for future standards.¶

¶  
October 2010¶

# 1. Introduction

1.1 Statements of Recommended Practice (SORPs) are recommendations on accounting practices for specialised industries or sectors. They supplement Financial Reporting Standards (FRS) and other legal and regulatory requirements in the light of the special factors prevailing or transactions undertaken in a particular industry or sector.

**Deleted:** accounting standards

1.2 The Financial Reporting Council (FRC) has approved the Investment Management Association (IMA) for the purposes of issuing recognised SORPs for UK authorised funds. This arrangement requires the IMA to follow the FRC's code of practice for the production and issuing of SORPs. The code of practice provides the framework to be followed by the IMA for the development of SORPs, but does not entail a detailed examination of the proposed SORP by the FRC. However, a review of limited scope is performed.

**Deleted:** Accounting Standards Board

**Deleted:** ASB

**Deleted:** ASB

**Deleted:** ASB

1.3 The recommendations of this SORP are not an alternative for referring to the relevant regulations and FRS. For convenience signposts are provided to the relevant regulations. The SORP should be read in conjunction with the FRC Statement "SORPs: Policy and Code of Practice", any rules and regulations relating to authorised funds that are in force, and the law relating to these matters. The recommendations of this SORP have been arrived at after consideration of all Jaws, regulations and FRS issued before 31 July 2013.

**Deleted:** accounting standards

**Deleted:** or accounting standards

**Deleted:** ASB

1.4 Financial statements prepared in accordance with this SORP should comply with all applicable FRS and FRC Abstracts. The SORP does not reflect the full detail of the relevant FRS. The full standards should be applied in order for the financial statements to give a true and fair view of the results and financial position of an authorised fund. Where standards issued after this SORP contain requirements that conflict with this SORP, the requirements of the relevant standard shall prevail.

**Deleted:** rules

**Deleted:** accounting standards

**Deleted:** 30 June 2010

**Deleted:** Statements of Standard Accounting Practice (SSAPs), Financial Reporting Standards (FRSs)

**Deleted:** Urgent Issues Task Force (UITF)

**Deleted:** accounting standards

1.5 FRS 100 allows entities a choice of preparing financial statements in accordance with FRS 102 or EU-adopted IFRS. SORPs are applicable when the financial statements are prepared in accordance with FRS 102. Regulations require the financial statements of authorised funds to be prepared in accordance with this SORP. Therefore, if the requirements of EU-adopted IFRS conflict with the requirements of this SORP, it will be necessary to apply FRS 102 in order to fulfil the regulatory requirement of compliance with this SORP.

**COLL 4.5.7R**

**COLL 4.5.8R**

**Deleted:** [deleted]

## Objective

1.6 The objective of this SORP is to provide recommendations for the preparation of the financial statements of all authorised funds. In addition to providing standard interpretations of accounting standards and other legal and regulatory requirements in so far as they relate to authorised funds, this SORP establishes principles for determining the nature of items of income as revenue or capital for the purposes of both distribution and taxation.

## Scope

- 1.7 This SORP applies to the annual and half-yearly reports of all **UK** authorised funds. Notwithstanding that SORPs describe 'recommended' practice; compliance with this SORP is required by the Financial **Conduct** Authority's (FCA's) Collective Investment Schemes (COLL) sourcebook.

Deleted: Services

Deleted: S

## Date from which effective

- 1.8 This SORP was issued by the IMA in **[date]** and supersedes the previous SORP for authorised funds. **Paragraphs 2.25A, 2.64A, 3.12A 3.12B and 3.12C are applicable to accounting periods ending on or after 31 March 2014.** The remaining recommendations of this SORP are applicable to accounting periods beginning on or after 1 January 201**5**. Earlier application is permitted.

Deleted: October 2010

Deleted: 0

## Responsibilities

- 1.9 The directors of an open-ended investment company must prepare an annual report and a half-yearly report for each accounting period of the company. Where the company's first annual accounting period is less than 12 months, a half-yearly report need not be prepared for any part of that period. **OEICR 66 R**
- 1.10 The annual report of an open-ended investment company must contain the **financial statements** of the company and the auditor's report in respect of the accounts. **OEICR 67 R**
- 1.11 The authorised fund manager must, for each annual and half-yearly accounting period, prepare a short report and a long report. Where the first annual accounting period is less than 12 months, a half-yearly report need not be prepared. **COLL 4.5.3 R**
- 1.12 The authorised fund manager of an authorised fund that is a qualified investor scheme must prepare a report in respect of each annual and half-yearly reporting period. Where the first annual accounting period is less than 12 months, a half-yearly report need not be prepared. **COLL 8.3.5 R**
- 1.13 The directors of an open-ended investment company must lay copies of the annual report before the company in general meeting where general meetings are held. **OEICR 66 R**
- 1.13A The annual and half-yearly long reports must be signed in accordance with paragraph 3.4.

Deleted: accounts

## Definitions

1.14 ~~[deleted]~~

1.15 ~~[deleted]~~

1.16 *Authorised fund*

- A unit trust scheme which is authorised by an authorisation order under section 243 of FSMA;
- An open-ended investment company incorporated by an authorisation order under regulation 14 of the OEIC Regulations; or
- A contractual scheme which is authorised by an authorisation order under section 261D of FSMA.

1.17 *Authorised fund manager*

The authorised corporate director (ACD) of an open-ended investment company (OEIC), the manager of an authorised contractual scheme (ACS) or the manager of an authorised unit trust scheme (AUT).

1.18 *Collective investment scheme (scheme)*

Any arrangements with respect to property of any description, including money, the purpose or effect of which is to enable persons taking part in the arrangements (whether by becoming owners of the property or any part of it or otherwise) to participate in or receive profits or income arising from the acquisition, holding, management or disposal of the property or sums paid out of such profits or income.

1.19 *Counterparty risk*

The risk of loss resulting from the fact that the counterparty to a transaction may default on its obligations prior to the final settlement of the transaction's cash flow.

FCA

1.20 ~~[deleted]~~

1.21 *Debt securities*

Government and public securities, debentures, debenture stocks, loan stocks, bonds, certificates of deposit and any other instrument creating or acknowledging indebtedness.

FCA

1.22 *Depositary*

- The trustee of an authorised unit trust scheme;
- The person to whom is entrusted the safekeeping of the property of an open-ended investment company;
- The person holding the property of an authorised contractual scheme for the participants.

1.23 *Derivative*

A derivative<sup>1</sup> is a financial instrument or other contract with all three of the following characteristics:

- (a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the

**Deleted:** *Amortised cost*<sup>¶</sup>  
The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount.

**Deleted:** ¶  
**FRS 26**

**Deleted:** Authorised corporate director (ACD)<sup>¶</sup>  
The director of an OEIC who is the authorised corporate director of the OEIC in accordance with COLL 6.5.3 R (Appointment of an ACD).

**Deleted:** ¶  
**FSA Glossary**

**Deleted:** .

**Deleted:** and authorised by an authorisation order made by virtue of the provisions of FSMA.

**Deleted:** ¶  
**FSA Glossary**

**Deleted:** authorised OEIC

**Deleted:** M

**Deleted:** ¶  
**FSMA 235 R**

**Deleted:** FRS 29

**Deleted:** *Credit risk*<sup>¶</sup>  
The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

**Deleted:** *Currency risk*<sup>¶</sup>  
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

**Deleted:** ¶  
**FRS 29**

**Deleted:** FSA Glossary

**Deleted:** ¶  
**FSMA 237 R**

**Deleted:** the property subject to the scheme, which is not a unit trust scheme,

**Deleted:** for

**Deleted:** ¶  
**FRS 26**

<sup>1</sup> For the purposes of determining whether returns from derivatives are revenue or capital in nature, paragraphs 2.26 and 2.27 apply to derivatives and to instruments that would be defined as derivatives but for their high initial net investment.

case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');

- (b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- (c) it is settled at a future date.

1.24 ~~[deleted]~~

1.25 ~~[deleted]~~

1.25A ~~[deleted]~~

1.25B Exposure

Exposure, or global exposure, for funds is a risk management term being a value representation of the extent of risk arising in the connection with financial instruments at a point in time. Exposure may be calculated in a number of ways:

- on a gross basis as the sum of the absolute values (notional values) of all a fund's positions;
- on a commitment basis by adjusting the gross exposure for netting and hedging arrangements; or
- on a value-at-risk basis.

1.26 ~~[deleted]~~

1.26A Fiscally transparent entity

An entity, regardless of its domicile or legal form, that is recognised by the UK tax authorities as fiscally transparent as regards the taxation of income.

1.26B Functional currency

The functional currency is the currency of the primary economic environment in which an entity operates. Generally a fund's net asset values and unit prices are calculated, in accordance with COLL 6.3, in the functional currency notwithstanding that unit prices might be translated into another currency for dealing purposes. A sub-fund's valuation currency must be stated in its prospectus where it is different to the base currency of the umbrella.

1.27 *Fund*

A standalone authorised fund or an individual sub-fund of an authorised fund that is an umbrella.

1.27A ~~[deleted]~~

1.28 *Income*

Income is the economic return generated from investment activities and encompasses both revenue and capital gains/losses. Revenue includes items such as dividends, interest, fees, rent and equivalent items. Capital gains/losses arise, for example, from the revaluation of investments.

1.29 *Instrument constituting the fund*

In relation to an OEIC, the instrument of incorporation, in relation to an authorised contractual scheme, the contractual scheme deed and in relation to an authorised unit trust, the trust deed.

**Deleted: Effective interest method¶**  
A method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

**Deleted: ¶**  
**FRS 26**

**Deleted: Effective interest rate (EIR)¶**  
The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Paragraphs 9 and AG5 to AG8 of FRS 26 contain guidance for calculating EIR.

**Deleted: ¶**  
**FRS 26**

**Deleted: Equity instrument¶**  
A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

**Deleted: ¶**  
**FRS 25**

**Deleted: Fair value¶**  
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Paragraphs AG69 to AG82 of FRS 26 contain guidance for determining the fair value of a financial asset or financial liability.

**Deleted: ¶**  
**FRS 26**

**Deleted: Gilt-edged security¶**  
A UK Government sterling denominated security issued by, or on behalf of, HM Treasury.

**Deleted: scheme**

**Deleted: ¶**  
**FSA Glossary**

- 1.30 ~~[deleted]~~
- 1.30A Leverage  
Leverage is an indicator of the sensitivity of a fund's net asset value to changes in underlying market variables. It is expressed in terms of exposure, calculated on either a gross basis or commitment basis, divided by the net asset value.
- 1.31 *Liquidity risk*  
The risk that a position in a fund's portfolio cannot be sold, liquidated or closed out at limited cost in an adequately short timeframe and that the ability of the scheme to comply with its obligations to redeem units is thereby compromised.
- 1.32 ~~[deleted]~~
- 1.33 *Market risk*  
The risk of loss resulting from fluctuation in the market value of positions in a fund's portfolio attributable to changes in market variables such as interest rates, foreign exchange rates, equity and commodity prices or an issuer's credit worthiness.
- 1.33A Master-feeder arrangement  
An arrangement whereby a feeder invests at least 85% of its assets in a single master fund.
- 1.33A Non-UCITS fund  
An authorised fund that is not a UCITS.
- 1.34 ~~[deleted]~~
- 1.35 ~~[deleted]~~
- 1.36 ~~[deleted]~~
- 1.37 ~~[deleted]~~
- 1.37A ~~[deleted]~~
- 1.38 *Qualified investor scheme (QIS)*  
Qualified investor schemes are authorised funds which may be sold only to sophisticated investors and accordingly have a more relaxed set of rules governing their operation.
- 1.38A Risk management framework  
A risk management framework comprises the risk management policy and the arrangements, processes and techniques for measuring and managing risk.
- 1.39 ~~[deleted]~~
- 1.40 ~~[deleted]~~
- 1.41 *Units*  
The rights or interests of the participants in a collective investment scheme.  
  
The term unit, and derivations thereof, have been used throughout this SORP for

- Deleted: Interest rate risk¶**  
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
- Deleted: ¶**  
**FRS 29**
- Deleted: FRS 29**
- Deleted: The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.**
- Deleted: Manager¶**  
The firm that is the manager of an AUT in accordance with the trust deed.
- Deleted: ¶**  
**FSA Glossary**
- Deleted: FRS 29**
- Deleted: The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.**
- Deleted: Open-ended investment company (OEIC)¶**  
A collective investment scheme which satisfies both the following conditions:¶  
The property belongs beneficially to, and is managed by or on behalf of, a body corporate having as its purpose the investment of its funds with the aim of spreading the investment risk and giving its members the benefit of the results of the management of those funds by or on behalf of that body.¶  
A reasonable investor would, if he were to participate in the scheme, expect that he would be able to realise, within a period appearing to him to be reasonable, his investment in the ...
- Deleted: ¶**  
**FSMA 236 R**
- Deleted: Open market value¶** ...
- Deleted: ¶**  
**COLL 5.6.20 R**
- Deleted: Operator¶** ...
- Deleted: ¶**  
**FSMA 237 R**
- Deleted: Other price risk¶** ...
- Deleted: ¶**  
**FRS 29**
- Deleted: Puttable instrument¶** ...
- Deleted: ¶**  
**FRS 25**
- Deleted: Trustee¶** ...
- Deleted: ¶**  
**FSMA 237 R**
- Deleted: Unit trust scheme¶** ...
- Deleted: ¶**  
**FSMA 237 R**
- Deleted: ¶**  
**FSMA 237 R**

FCA

FCA

COLL 8.1.4 G

COLL 6.12  
FUND 3.7  
AIFML2 38-4



the sake of simplicity. This should not preclude an OEIC from using the term share or shareholder in situations where it is more appropriate.

| 1.42 ~~[deleted]~~

**Deleted:** Zero dividend preference shares  
Preference shares which carry no entitlement to dividends but the right, on a fixed date or on any earlier redemption, to the repayment of capital and a premium in priority to any capital payment to the holders of ordinary shares.

## 2. Accounting

2.1 Authorised funds are schemes whereby contributions from investors are pooled and managed together with the aim of spreading investment risk and generating an investment return for investors. The instrument constituting the **fund** may provide for different classes of unit. However, where this is the case the assets and liabilities of the authorised fund remain as one pool and are not separately owned by any individual unit class.

Deleted: scheme

### Assets and liabilities

#### Recognition

2.2 Transactions should be recognised when a legally binding and unconditional right to obtain, or an obligation to deliver, an asset or liability arises.

2.3 Amounts receivable and payable should be recorded for transactions awaiting settlement between the trade date and the settlement date. Amounts outstanding for purchases and sales with the same broker should not be offset unless so required by paragraph 2.8.

2.4 ~~[deleted]~~

Deleted: Transactions should be recognised at the total amount of the consideration payable or receivable, including transaction costs.

2.5 Where the consideration is not known for certain, for example there may be uncertainty about the final transaction costs relating to an immovable property transaction, a reasonable estimate of the consideration should be used.

2.6 Accrued interest purchased and sold on interest-bearing securities should be excluded from the cost of these securities and recognised in revenue.

2.7 Transactions denominated in a foreign currency should be translated using the exchange rate prevailing on the date of the transaction.

2.7A Assets should be recognised when it is probable that an inflow of economic benefits will arise. Contingent assets, including potential recoveries of overseas withholding taxes, should not be recognised unless it becomes virtually certain that an inflow of economic benefits will arise.

2.8 Assets and liabilities should not be offset unless offsetting is required. Offsetting is required when a right to set off is legally enforceable and there is an intention to settle the asset and liability on a net basis or simultaneously.

Deleted: FRS 25

2.9 Securities on loan should continue to be recognised and any collateral held in respect of such loans should not be recognised.

#### Valuation

2.10 Authorised fund managers perform regular valuations of authorised funds for the purpose of determining the dealing price of units. For most authorised funds this is done daily at a regular valuation point during the day. The methodology for valuing the investments and other assets and liabilities for pricing purposes is laid

COLL 6.3.3 R

down in the instrument constituting the fund<sup>1</sup>.

Deleted: scheme

2.11 For the purposes of the financial statements all investments are to be valued at their fair value<sup>2</sup> as at the balance sheet date. In an active market the fair value of long positions is the quoted bid price and fair value of short positions is the quoted offer price. Where, in view of exceptional circumstances, for example the suspension of the market, the last quoted price is not used, and a valuation technique is used instead, the notes should describe clearly the basis of valuation and the reasoning behind it in accordance with paragraph 3.85.

Deleted: ,

2.12 For derivatives, fair value is the price that would be required to close out the contract at the balance sheet date. A contract is closed out by another contract that eliminates any further exposure to market movements or market risk. The income and expenditure relating to a derivative are generally required to be offset so that the risks and rewards are properly matched.

2.13 Fair value is normally determined by reference to quoted prices from reputable sources; that is the market price. If the authorised fund manager believes that the quoted price is unreliable, or if no recent price exists, a valuation technique is used whereby fair value is the authorised fund manager's best estimate of a fair and reasonable value for that investment arrived at in accordance with the instrument constituting the fund. The notes should include adequate details about the basis of the valuation, and a statement on how the authorised fund manager reached the valuation in accordance with paragraph 3.85. This statement should make it clear that the intention of the valuation was to estimate fair value.

COLL 6.3.6 G

Deleted: scheme

2.14 Foreign currency assets and liabilities should be translated using the exchange rate prevailing on the balance sheet date.

2.15 For the purposes of the financial statements it is acceptable to use the prices and the portfolio holdings determined at the last valuation point of the accounting period, rather than perform an additional valuation, provided the authorised fund manager is satisfied that the resultant valuation would not be materially different from a valuation carried out at close of business on the balance sheet date. The precise valuation point should be disclosed in the notes.

Deleted: on the balance sheet date

2.16 Investments are valued at their fair value and are shown on the balance sheet excluding any element of accrued interest. Accruals should be included at realisable value.

2.17 Where a fund invests in another collective investment scheme operated by the same authorised fund manager, holdings should be valued at cancellation price for dual priced funds and at the single price for single priced funds.

2.18 Where a fund invests in other operators' collective investment schemes, holdings should be valued at bid price for dual priced funds and at the single price for single priced funds. Valuation should take into account any agreed rate of redemption charge.

2.18A A feeder in a master-feeder arrangement should not consolidate the master but should instead carry the master at fair value.

<sup>1</sup> Valuation guidance in COLL 6.3.6 G establishes the principles to be followed by authorised fund managers.

<sup>2</sup> It will often be the case that the valuation for the financial statements is different to the valuation for determining unit dealing prices.

2.19 Investment properties should be valued at fair value. The name and qualifications of the valuer should be given in the notes, together with details of the basis of valuation of the properties.

Deleted: Immovable

Deleted: y

Deleted: open market

Deleted: SSAP 19

2.20 Qualifying money market fund valuations are performed daily on an amortised cost basis. Weekly procedures must exist to ensure that these valuations do not differ significantly from a valuation performed on a mark to market basis. It is acceptable to use the amortised cost valuation provided that the fact that amortised cost is not significantly different to fair value is disclosed in the notes.

COLL 6.3.13 R

## Income

### Revenue and capital

2.21 Income encompasses both revenue and capital gains/losses. For authorised funds it is necessary to distinguish revenue from capital for the purpose of determining the distribution.

2.22 Revenue includes items such as dividends, interest, fees, rent and equivalent items. Capital is the return, positive or negative, from holding investments other than that part of the return that is revenue. Returns should be recognised as revenue or capital in accordance with their economic substance. Subject to this principle, the following sections of this SORP provide guidance on the items that should be recognised as revenue and those that should be recognised as capital.

Deleted: T

Deleted: s

Deleted: <sup>1</sup>

Deleted: Where specific guidance is not given an item should be recognised as revenue or capital in accordance with its economic substance.

2.23 The distribution for the period is determined by taking the revenue, deducting the expenses and taxation and making such other adjustments as the authorised fund manager considers appropriate and in accordance with FCA rules.

2.24 Revenue should be recognised when earned.

Deleted: S

2.25 If it is expected that revenue receivable at the balance sheet date will not be received, a provision should be made for the relevant amount.

### Fiscally transparent entities

2.25A Where a fund invests in a fiscally transparent entity, revenue is earned by the fund as it arises in the entity. It follows that any distributions made by the entity should not be taken into account for the purpose of determining the fund's revenue.

### *Derivatives*

2.26 The treatment of the returns from derivatives<sup>1</sup> depends upon the nature of the transaction. Both motives and circumstances are used to determine whether returns should be treated as capital or revenue. In making such determinations it is expected that the authorised fund manager will consult with the investment manager, the auditors and the depositary. Where positions are undertaken to protect or enhance capital, and the circumstances support this, the returns are capital. Similarly where they are for generating or protecting revenue, and the circumstances support this, the returns are revenue. Where positions generate

Deleted: or trustee

<sup>1</sup> In order to maintain consistency with the definition of a derivative in the tax rules (section 576 of the Corporation Tax Act 2009), paragraphs 2.26 and 2.27 apply to derivatives and to instruments that would be defined as derivatives but for their high initial net investment.

total returns it will generally be appropriate to apportion such returns between capital and revenue to properly reflect the nature of the transaction.

- 2.27 For returns on an option or derivative with the characteristics of an option: if, when entered into, such an instrument has the immediate effect of generating a capital loss, for instance it is written "in the money", then generally it would be the case that all returns, including premiums received, would be regarded as being capital in nature. However, if there is no immediate capital loss generated, circumstances can support the treatment of the premium as revenue notwithstanding that any future losses may be treated as capital.

#### *Dividends*

- 2.28 In the case of quoted equity shares, and non-equity shares, dividends should be recognised as revenue when the security is quoted ex-dividend (i.e. when the price quoted falls to reflect the value of the dividend concerned). In the case of unquoted equity shares, dividends should be recognised when declared, and the amount at which the securities are shown in the balance sheet should reflect any such declared dividend.
- 2.29 Application of the accruals concept means that a return (whether in respect of dividends, in respect of redemption, or otherwise) on a non-equity share (such as a preference share) should, in principle, be recognised and accrued on a time-apportionment basis. However, because of the practical difficulties arising from the requirement to undertake daily valuations for pricing purposes (such as the lack of availability of pricing information that achieves an accurate allocation between capital and revenue for these shares), this is impractical for authorised funds. Therefore, returns from non-equity shares should be recognised on the same basis as equities.

#### *Stock dividends*

- 2.30 For certain securities, the holder may receive a dividend in the form of shares rather than cash. Generally the value of the shares to be received will approximate to the amount of the cash dividend (an 'ordinary' stock dividend), any small difference being attributable to the movement of the share price between the dividend declaration and the shares being quoted ex dividend. In certain cases an enhancement may be offered such that the value of the shares significantly exceeds the cash dividend (an 'enhanced' stock dividend).
- 2.31 In the case of an ordinary stock dividend, the whole amount should be recognised as revenue, on the basis of the market price of the shares on the date they are quoted ex dividend. In the case of an enhanced stock dividend, the value of the enhancement, calculated as the amount by which the total fair value of the shares on the date they are quoted ex dividend exceeds the cash dividend, is capital.

#### *Special dividends, share buy-backs and additional share issues*

- 2.32 Whether a special dividend, share buy-back or additional share issue is revenue or capital depends on the facts of each particular case. It is likely that where the receipt of a special dividend results in a significant reduction in the capital value of the holding, then the special dividend should be recognised as capital so as to ensure that the matching principle is applied to gains and losses. Otherwise, the special dividends should be recognised as revenue.

Income from collective investment schemes

**Deleted:** Distributions

2.33 Income arising from collective investment schemes (other than fiscally transparent schemes) should be recognised as revenue when the units are priced ex-distribution (i.e. when the unit price falls to reflect the value of the distribution concerned) unless sufficient relevant and reliable information about that income is available to enable recognition before that date. Where an amount is reported in lieu of a distribution, for example, where the units are held in an accumulation form, the amount reported should be recognised as revenue.

**Deleted:** Distributions receivable

2.34 Any equalisation element should be regarded as a return of capital regardless of any alternative treatment that may be permitted in determining the distribution.

**Deleted:** Distributions receivable from collective investment schemes, excluding a

2.34A Where an estimate of the amount to be received or reported is made in accordance with paragraph 2.33, any difference between the estimate and the actual amount shall be recognised in the period when the information about the actual amount becomes available.

**Deleted:** , should be recognised as revenue. Where an amount is reported in lieu of a distribution, for example, where the units are held in an accumulation form, the amount reported should be recognised as revenue

*Zero dividend preference shares*

2.35 Zero dividend preference shares carry no entitlement to dividends but give the holders a preferential right to receive a repayment of capital and a premium, from the capital reserves of an investment company. Accordingly, the returns should be recognised as capital.

**Deleted:** Holders of z

**Deleted:** are

**Deleted:** ly

**Deleted:** entitled to a return

*Interest from debt securities*

2.36 The coupon interest from debt securities should be recognised as revenue on an accruals basis. The total revenue recognised on debt securities will be the coupon interest adjusted to spread the premium or discount on the purchase of the debt security and other adjustments over its remaining life having regard to the guidance in this SORP.

**Deleted:** I

**Deleted:** on an appropriate basis

**Deleted:** using the effective interest method by reference to the purchase price.

**Deleted:** and the effective interest method should not be used

**Moved (insertion) [1]**

**Deleted:** (ie a security already impaired)

**Deleted:** S

**Deleted:** interest

**Deleted:** for such a security

**Moved (insertion) [2]**

**Deleted:** Initially cash flows f

**Deleted:** estimated

2.37 Some instruments are structured such that the economic substance may be closely tied to an underlying indicator. The accounting treatment should follow the economic substance. If, for example, an instrument's returns have the characteristics of equity returns, the instrument should be treated as equity.

2.37A When a distressed security is purchased, the purchase cost reflects incurred credit losses. Where significant, such incurred credit losses should be taken into account when estimating cash flows so as to ensure that revenue is recognised at an appropriate rate, that is, a rate that is not significantly different to reasonable commercial expectations.

**Deleted:** For the purpose of determining recognised interest, securities with embedded derivatives, for example convertible bonds, should be separated into their component parts. The effective interest method should be applied to the host contract excluding the embedded derivative. The purchase price for the host contract should be estimated, using the best available information, for example, by comparison to similar debt securities in the market with similar risk characteristics. Where this is not possible the derivative component should be valued instead.

2.37B For securities with variable maturity terms, such as callable bonds, the spreading of the premium or discount should be on the basis of the most likely maturity date and value. For the holder of a security this is usually the date with the worst yield to maturity, although other factors, such as the reputation of the issuer, may also be relevant. It should be assumed that issuers and holders of securities will behave rationally.

2.37C For sinking bonds, the spreading of the premium or discount should take account of the expected repayment profile.

2.38 [deleted]

- 2.39 ~~[deleted]~~
- 2.40 ~~[deleted]~~
- 2.41 For securities with floating rates, it is acceptable to recognise revenue on the basis of the revised coupon rate and the original amortisation schedule. Changes in the maturity value calculated by reference to inflation shall be regarded as revenue.
- 2.41A For securities such as stepped bonds, where the interest rate changes over the remaining period to the expected maturity date, an adjustment should be made to ensure that the recognition of the total revenue for each distribution period is determined in a way to result in a reasonably consistent rate or amount for each period.
- 2.41B Where the circumstances of the debt security change so that the original assumptions regarding the expected cash flows are no longer valid, an appropriate adjustment should be made so that the future revenue recognition has regard to the improving or deteriorating outlook for the debt security. Such an adjustment should ensure that interest continues to be recognised at an appropriate rate.
- 2.42 ~~[deleted]~~
- 2.43 ~~[deleted]~~
- 2.44 ~~[deleted]~~
- 2.45 ~~[deleted]~~
- 2.46 ~~[deleted]~~
- 2.47 When an existing security becomes impaired, or a distressed security recovers, the loss, or gain, due to the change in its fair value should be recognised as capital.
- 2.48 ~~[deleted]~~
- 2.49 Where an event occurs that makes the receipt of future coupon payments and maturity proceeds uncertain and it is considered prudent to both cease daily income accruals and provide against previous accruals, then the maximum provision that should be made against revenue in the current period is the coupon accrual and amortisation arising since the last ex coupon date. Where there is no ex coupon date, for instance the instrument is a zero coupon debt security, then generally the preceding distribution period end date should be substituted for the ex coupon date. Where amounts in respect of previous coupons are due but not paid then consideration should also be given to providing against these in which case any provision would be recorded as an expense in the current period.
- 2.50 ~~[deleted]~~

**Deleted:** Securities denominated in a foreign currency should apply the effective interest method in the foreign currency and translate the resulting amortisation using the prevailing exchange rate on the date of recognition.

**Deleted:** When calculating the effective interest rate (EIR), an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses.

**Deleted:** FRS 26

**Deleted:** *EIR and floating rate securities*<sup>¶</sup>

**Deleted:** The calculation for floating interest rate securities initially takes the coupon rate prevailing at the date of purchase and does not take into the calculation the future changes to interest rates as predicted by the yield curve. The EIR is then recalculated each time the coupon rate applying to the security changes. Where the purchase cost of a floating interest rate security is close to the expected maturity value

**Deleted:** In the case of a fixed to floating rate security, where the expected maturity date includes the floating rate period, the estimate of the floating rate is normally based on the variable rate at the time of purchase.

**Deleted:** Index-linked securities are a form of floating interest rate security and as such follow the requirements of paragraph 2.41. However, the amount expected to be paid at maturity will be determined by the appropriate measure of inflation<sup>1</sup>, which may make the maturity value considerably higher than the purchase cost. The recognised interest includes the amortisation of this inflation uplift.

**Deleted:** <sup>¶</sup>  
*EIR and variable maturity securities*<sup>¶</sup>

**Moved up [2]:** <sup>¶</sup>

**Deleted:** Over time markets typically respond to changes in market conditions by re-pricing securities, for example, falling interest rates cause the prices of fixed interest rate securities to rise. Where the terms of a security are variable, for instance the security car (...)

**Deleted:** When, as a result of a change to the expected maturity date, the authorised fund manager revises cash flow estimates the amortised co (...)

**Deleted:** <sup>¶</sup>  
*EIR and impairment*<sup>¶</sup>

**Deleted:** fall

**Moved up [1]:** <sup>¶</sup>

**Deleted:** When a distressed security recovers, the gain due to the rise in the fair value should be recognised as capital. Any release of provisions (...)

*Other income*

*Other interest*

2.51 Bank and other interest should be recognised as revenue on an accruals basis.

*Underwriting commission*

2.52 Underwriting commission should be recognised when the issue takes place, except where the fund is required to take up all or some of the shares underwritten, in which case an appropriate proportion of the commission received should be deducted from the cost of those shares.

2.53 Underwriting commission should be recognised as revenue except for the proportion that is deducted from the cost of shares, which is capital.

Deleted: of

*Rent*

2.54 Rent ~~(excluding amounts for services such as insurance and maintenance)~~ should be recognised on a straight-line basis ~~over the lease term, unless either:~~

Deleted: SSAP 21

Deleted: over the period of the lease

- ~~another systematic basis is representative of the time pattern of the lessee's benefit from the property, even if the receipt of payments is not on that basis;~~  
~~or~~

Deleted: (a)

Deleted: ¶

Deleted: ¶

- ~~the payments to the lessor are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary according to factors other than inflation, then this condition is not met.~~

Deleted: (b)

Deleted: (b)

2.55 Lease incentives should be treated as a reduction to rent and ~~recognised in accordance with paragraph 2.54 over the lease term on a straight-line basis, unless another systematic basis is representative of the time pattern over which the lessor's benefit from the leased asset is diminished.~~

Deleted: or, if shorter, up to the first rent review date

Deleted: and rent free periods

Deleted: UITF 28

Deleted: should be amortised on a straight-line basis over the period of the lease or, if shorter, up to the first rent review date

~~2.55A Where lease incentives were recognised initially under a previous SORP, any residual benefit or cost associated with those lease incentives may continue to be amortised on a straight-line basis over the period of the lease or, if shorter, up to the first rent review date.~~

Deleted: should

2.56 Where rent is subject to negotiation, the previous rent may continue to be charged by the landlord pending the conclusion of such negotiations. In this situation the authorised fund manager should include the best estimate of the market rent that will become due over the entire new period.

2.57 Rent should be recognised as revenue.

*Stock lending fees*

2.58 Net fees receivable arising from stock lending activities should be recognised as revenue on an accruals basis.

*Fee rebates*

2.59 Where a fund invests in other collective investment schemes, fee rebates



(including trail or renewal commissions) should be recognised on an accruals basis.

- 2.60 Where it is the policy of the underlying fund to charge its fees to capital in determining its distribution, the fund should generally recognise such rebates as capital. Otherwise the fund should recognise such rebates as revenue.

*Tax on revenue*

- 2.61 Revenue should be stated net of irrecoverable tax credits. In cases where revenue is received after the deduction of withholding tax, the revenue should be shown gross of taxation, and the tax consequences should be shown within the tax charge.

Deleted: FRS 16

*Guaranteed funds*

- 2.62 Where a premium is paid to a third party for a guarantee, the accounting treatment follows the nature of the transaction. Where the nature of the guarantee is to limit or cap the expenses of the fund, any receipt from the third party should be shown as a deduction against expenses rather than income. Any such deduction should be disclosed in the notes. The cost of the premium should be recognised in the statement of total return over the period to which the guarantee relates. The treatment of any recoveries from third parties follows the treatment of the premium. Because there will be instances where professional judgement will be required and other factors might have to be taken into account (for example the ability of third parties to honour their guarantees), there should be sufficient narrative disclosure in the notes to enable the user properly to understand the nature of the receipt.
- 2.63 Where a third party guarantees to protect investments, the income and expenditure should be dealt with in capital; where it guarantees to protect revenue, the income and expenditure should be dealt with in revenue.

**Expenses**

- 2.64 Expenses should be recognised when incurred.

2.64A Where a fund invests in a fiscally transparent entity, expenses are incurred by the fund as they arise in the entity.

- 2.65 [deleted]

Deleted: Transaction costs¶

- 2.66 Charges arising as a result of investment transactions for the scheme, such as handling charges levied by custodians, should be recognised on an accruals basis as deductions from capital. **COLL 6.7.11**

Deleted: Transaction costs are generally recognised as part of the consideration for a transaction.

Deleted: Any other c

Deleted: effecting

2.66A Costs incurred in relation to aborted transactions should be charged against revenue regardless of any alternative treatment that may be permitted in determining the distribution.

- 2.67 All other expenses, including performance fees and interest on borrowing, should be charged against revenue regardless of any alternative treatment that may be permitted in determining the distribution. **COLL 6.7.11**

Deleted: Expenses¶

Deleted: (but excluding transaction costs and other charges covered by paragraphs 2.65 and 2.66),

2.68 Where an authorised fund incurs costs in pursuing a claim, but the outcome is uncertain, those costs should be charged as expenses as they are incurred. In determining the distribution, such expenses should be offset to capital until such time as an economic benefit is crystallised. The expenses should then be matched to the benefits either as deductions against revenue or as part of capital, as appropriate.

#### VAT

2.69 To the extent that a fund is able to recover VAT it should not be included in income or in expenditure. Irrecoverable VAT should be included as part of the relevant cost.

Deleted: SSAP 5

### Taxation

2.70 In general, the tax accounting treatment should follow that of the principal amount, with charges or reliefs allocated using the marginal basis. Under the marginal basis, tax charges or reliefs are allocated to capital or revenue to the extent that there remains a liability to corporation tax after relief has been made for all expenses attributed directly to revenue and capital. In calculating how much tax relief should be allocated, revenue expenses are matched first against taxable income arising in revenue, and tax deductible capital expenses are matched first against taxable income arising in capital. Tax relief should be allocated to capital only to the extent that expenses in capital (if any remain after offsetting these expenses against taxable income in capital) are required to reduce or eliminate taxable profits. Similarly, tax relief should be allocated only to revenue to the extent that expenses in revenue (if any remain after offsetting these expenses against taxable income in revenue) are required to eliminate taxable profits. The fact that a fund is not in an overall taxpaying position is not, in itself, a reason not to allocate tax relief on expenses.

2.71 For example, a fund with £100 of taxable income and £120 of relievable expenses, £50 of which are offset to capital, would take full relief for the £70 of expenses borne by revenue before allocating relief of £6 (being £100 less £70 = £30 at 20%) to capital.

2.72 Overseas withholding tax suffered net of expected recoveries under any relevant double tax treaty, to the extent that a valid claim is or is expected to be made, should be separately disclosed in the financial statements. In addition, there may be a large amount of overseas taxation recoverable under double tax treaties. There may often be a significant time lag between the receipt of the overseas dividend net of taxation and the receipt of the tax refund. Whether the distribution should assume that all tax claims would be recovered in full will depend on the circumstances and recovery experience in respect of the investments and territories involved. If provision is considered necessary, owing to significant uncertainty as to receipt, this should be deducted from the amount receivable and disclosed as part of overseas taxation. The estimated expense of recovering the taxation should also be provided for and included within expenses.

2.73 Where an authorised fund opts to pay an interest distribution, the amount paid out or, for accumulation units, reinvested is allowed as a deduction against the fund's taxable profit for the period. However, except where an interest distribution is paid gross to unitholders, it will nevertheless be a responsibility of the fund to deduct income tax at source at the appropriate rate on payment of the interest distribution to the unitholders. Tax withheld on interest distributions should be shown **as part of "distributions payable on income units"** and not as part

Deleted: In effect, where all of the revenue is paid out or reinvested, there should be no charge to tax within the fund.

Deleted: within 'other creditors'

of the liability to corporation tax, since it will be settled from amounts transferred to the distribution account.

#### Deferred tax

- 2.74 Deferred tax should be recognised in respect of timing differences that have originated but not reversed by the balance sheet date in accordance with paragraph 29.6 of FRS 102. Deferred tax assets should be recognised to the extent that, on the basis of all available evidence, it is regarded as more likely than not that they will be recovered. Deferred tax should be measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.
- 2.75 Deferred tax assets are realised only as a reduction of a tax payment, which will normally be more than 12 months into the future. Realisation is contingent on the crystallisation of future taxable profits. Credits arising from the recognition of deferred tax assets should not form part of the distribution until the period in which the tax liability is reduced. Therefore, in determining the distribution, the benefit of taxable losses should be included only to the extent that taxable profits have arisen in the period under consideration.

Deleted: FRS 19

#### Consolidation

- 2.76 Authorised funds do not report under the Companies Act and therefore are exempted from the requirement to prepare consolidated financial statements by paragraph 9.3(g) of FRS 102. However, authorised funds that hold immovable property through intermediate holding vehicles (IHVs) should prepare consolidated financial statements that include the authorised fund and the IHVs that it controls. The consolidation should be prepared in accordance with the procedures set out in Section 9 of FRS 102.
- 2.77 [deleted]
- 2.78 [deleted]
- 2.79 [deleted]
- 2.80 [deleted]

Deleted: The principles for determining when an entity is required to produce consolidated financial statements are set out in FRS 2. When required, an authorised fund's consolidated financial statements should be prepared in accordance with the requirements of FRS 2.

Deleted: All assets and liabilities of an entity acquired should be included in the acquirer's consolidated balance sheet at their fair value at the date of acquisition. The results and cash flows of the acquired entity should be brought into the consolidated financial statements only from the date of acquisition.

Deleted: FRS 6

Deleted: Intragroup balances, transactions, income and expenses should be eliminated in full.

Deleted: FRS 2

Deleted: Uniform accounting policies should be used for determining the amounts to be included in the consolidated financial statements, if necessary by adjusting these amounts for consolidation purposes.

Deleted: FRS 2

Deleted: The annual accounting period of subsidiary undertakings should, wherever practicable, be coterminous with the parent undertaking.

Deleted: FRS 2

Deleted: FRS 25

#### Classification of units

- 2.81 Authorised fund units are puttable instruments because they give the unitholder the right to sell the units back to the issuer. A puttable instrument that has all of the features in paragraph 22.4(a) of FRS 102 is classified as an equity instrument. Fund units exhibit all of these features, and therefore are classified as equity instruments, only when they meet all three of the following conditions:
- the fund is a stand-alone fund or is the sole sub-fund of an umbrella;
  - the fund has only a single class of units; and
  - the fund is not obliged to distribute by way of cash (where, for example, only accumulation units are in issue) any part of the total return to unitholders.

All other fund units are classified as financial liabilities.

### 3. Reports

- 3.1 The authorised fund manager of an authorised fund that is not a qualified investor scheme (QIS) must, no more than four months after the end of each financial year, make available and publish the annual long report and, no more than two months after the end of the first six months of each financial year, make available and publish the half-yearly long report. **COLL 4.5.14 R**
- 3.2 The authorised fund manager of an authorised fund that is not a QIS must publish and send to unitholders annual and half-yearly short reports in the timescales applicable in paragraph 3.1. The contents of the short report<sup>1</sup>, which must be consistent with the long report, are not within the scope of this SORP. **COLL 4.5.13 R**
- 3.3 The authorised fund manager of a QIS must, within a reasonable time period after the end of each relevant accounting period, make available and publish the annual report and half-yearly report. **COLL 8.3.5 R**
- 3.4 Annual and half-yearly long reports, including reports prepared under paragraph 3.3, should be signed in accordance with the Financial Services Authority's Collective Investment Schemes (COLL) sourcebook and dated. The date shall be construed as the date on which the financial statements were authorised for issue. **COLL 4.5.8B R**  
**COLL 8.3.5E R**

#### Annual reports

- 3.5 Annual reports on authorised funds which are umbrella funds must contain: **COLL 4.5.7 R**
- Authorised fund manager's report<sup>2</sup>
  - Statement of the authorised fund manager's responsibilities
  - Depositary's report<sup>3</sup>
  - Auditors' report<sup>4</sup>
  - For each sub-fund:
    - Comparative table for each class of units<sup>5</sup>
    - Annual financial statements, including the distribution table (audited)
- 3.6 Annual reports on authorised funds which are not umbrella funds, or are individual sub-funds of an umbrella fund, must contain the same items as umbrella funds. **COLL 4.5.7 R**
- 3.7 The authorised fund manager must ensure that the financial statements referred to in paragraphs 3.5 and 3.6 give a true and fair view of the net revenue, the net capital gains or losses and the financial position of the fund as at the end of the period. This is achieved by complying with this SORP and with relevant accounting standards. **COLL 4.5.7 R**
- 3.8 In addition to complying with the requirements for umbrella funds, the authorised fund manager may prepare further annual long reports for any one or more individual sub-funds of an umbrella fund. Paragraph 3.54A does not apply to any such annual long reports. **COLL 4.5.7 R**

**Deleted:** <#>Aggregated annual financial statements (audited)<sup>¶</sup>

**Deleted:** <#>Total expense ratio<sup>¶</sup>

**Deleted:** except that they should not include aggregated financial statements

**Deleted:** a

**Deleted:** is

<sup>1</sup> The contents of the short report are defined in COLL 4.5.5 R.

<sup>2</sup> The authorised fund manager's report must contain the items set out in COLL 4.5.9 R (or COLL 8.3.5C R for a QIS). This information must be given for each sub-fund if it would vary from that given in respect of the umbrella as a whole.

<sup>3</sup> The depositary's report must contain the items set out in COLL 4.5.11 R (or COLL 8.3.5D R for a QIS).

<sup>4</sup> The authorised fund manager must ensure that the auditors' report includes the all the matters set out in COLL 4.5.12 R.

<sup>5</sup> Information required in the comparative table is defined in COLL 4.5.10 R (comparative tables are not required for a QIS).

## Half-yearly reports

3.9 Half-yearly reports on authorised funds which are umbrella funds must, subject to paragraph 3.12, contain: **COLL 4.5.8 R**

- Authorised fund manager's report<sup>1</sup>
- For each sub-fund:
  - Interim financial statements

**Deleted:** <#>Aggregated interim financial statements¶

3.10 Half-yearly reports on authorised funds which are not umbrella funds, or are individual sub-funds of an umbrella fund, must contain the same items as umbrella funds. **COLL 4.5.8 R**

**Deleted:** <#>Number of units in circulation and net asset value per unit<sup>1</sup>¶  
<#>Total expense ratio<sup>1</sup>¶

**Deleted:** except that they should not include aggregated financial statements

3.11 In addition to complying with the requirements for umbrella funds, the authorised fund manager may prepare further half-yearly long reports for any one or more individual sub-funds of an umbrella fund. **COLL 4.5.8 R**

3.12 The authorised fund manager of an authorised fund that is a QIS may choose whether the half-yearly report is prepared for the umbrella as a whole, or for each individual sub-fund, or both. **COLL 8.3.5B R**

## Comparative table

3.12A A comparative table is required covering each of the last three financial years or, if less than three, each financial year since launch. All figures should be expressed "per unit" unless specified otherwise.

3.12B The comparative table summarises the financial highlights and should show, in a single table for each unit class, the following amounts:

### Illustrative performance of a unit in issue throughout the period

#### Change in net assets per unit

Opening net assets	X
Total return before charges*	X
Operating charges	(X)
Total return after charges	XX
Distributions	X
Closing net assets <sup>4</sup>	XX

\* after transaction costs<sup>5</sup> (see page x) of: X

#### Performance

Total return after charges X.XX%

#### Operating charges<sup>6</sup>

Annual management charge	X
Other charges paid to the Manager	X

<sup>1</sup> The authorised fund manager's report must contain the items set out in COLL 4.5.9 R (or in COLL 8.3.5C R for a QIS). This information must be given for each sub-fund if it would vary from that given in respect of the umbrella as a whole.

<sup>4</sup> Closing net assets per unit should correspond to the balance sheet total.

<sup>5</sup> Transaction costs may be stated after deducting a relevant proportion of the amounts collected from dilution adjustments or dilution levies.

<sup>6</sup> As a minimum, all charges payable to the authorised fund manager and, where applicable, the investment adviser should be separately disclosed. Charges payable to other parties should be separately identified only if they are material.

<u>Other charges</u>	<u>X</u>
<u>Charges made in underlying schemes</u>	<u>X</u>
<u>Total</u>	<u>XX</u>

Operating charges<sup>1</sup> X.XX%

Prices

<u>Highest unit price</u>	<u>X</u>
<u>Lowest unit price</u>	<u>X</u>

3.12C In addition to the table for each unit class the comparative table should show the following amounts for the fund:

Net asset value (£'000) X

Transaction costs:

<u>Transfer taxes</u>	<u>X.XX%</u>
<u>Commissions - execution</u>	<u>X.XX%</u>
<u>Commissions - research</u>	<u>X.XX%</u>
<u>Amounts recovered<sup>2</sup> on units issued and cancelled</u>	<u>(X.XX)%</u>
<u>Total</u>	<u>X.XX%</u>

An estimate of the average portfolio dealing spread on the balance sheet date should also be given.

**Portfolio statement**

3.13 A list of all a fund's investments is required as part of the authorised fund manager's report in both the annual and half-yearly reports. **COLL 4.5.9 R**

3.14 The total net assets in the portfolio statement should agree to the balance sheet total.

3.15 The portfolio statement is a list of all the investment assets and liabilities in a fund's portfolio. For each investment<sup>3,4</sup> it should show the following information:

- Security name
- Amount held
- Value determined in accordance with paragraphs 2.10 to 2.20
- Percentage of the net assets

3.16 The investments should be analysed by category using the most appropriate criteria in the light of the investment policy of the fund, for example economic, geographical or currency. The percentage that each category represents of the total net assets should be shown.

Deleted: UCITS Sch B

3.17 For funds where a significant proportion of the portfolio is invested in debt securities, where credit rating is not a category used in presenting the portfolio statement, there should be additional analysis indicating the credit quality of the portfolio. This analysis should show the proportion of the portfolio that is invested

<sup>1</sup> The ex-post figure for the financial year and otherwise calculated in accordance with CESR/10-674.

<sup>2</sup> Amounts recovered are the relevant proportions of the amounts collected from dilution adjustments or dilution levies.

<sup>3</sup> Notwithstanding paragraph 2.38, securities with embedded derivatives should not be separated into their component parts for the purposes of presentation in the portfolio statement.

<sup>4</sup> This information is not required for immovable property investments which should be shown in accordance with paragraph 3.22.

in unrated securities and the proportion in securities that are below investment grade. Where the authorised fund manager believes such analysis would be misleading, for instance due to substantial use of credit default swaps, the reasons for this belief should be disclosed and an appropriate alternative analysis should be presented.

- 3.18 Comparative percentages for each category (but not for each security) should be given for the end of the preceding financial year in order to indicate changes in the composition of the portfolio during the period.
- 3.19 If a fund invests in more than one class of asset (for example, bonds and equities) and asset class is not a category used in presenting the portfolio statement, the split between each asset class should be made clear at the foot of the portfolio statement. Such an analysis is not recommended if a single asset class represents more than 95% of the total value of the net assets.
- 3.20 The portfolio statement should distinguish<sup>1</sup> between those securities admitted to official stock exchange listing, securities traded on another regulated market, recently issued securities and other securities.
- 3.21 The net value of each derivative position should be shown in the portfolio statement.
- 3.22 The value and percentage of each individual investment property need not be shown in the portfolio statement. As a minimum, properties should be shown in valuation bands. The width of each band should not be more than 5% of the total net asset value. Where this presentation is adopted, details of individual properties should be given within each band and the percentage of the total net assets that each band represents should be shown.
- 3.23 UCITS schemes are required to show changes in the composition of the portfolio during the period. For authorised funds this requirement is satisfied by the inclusion of all of the following:
- Portfolio statement comparatives (paragraph 3.18)
  - Total purchases and sales (paragraph 3.35)
  - Description of the material changes in portfolio composition as part of the review of investment activities

Deleted: UCITS Sch B

Deleted: immovable

Deleted: P

Deleted: may

Deleted: aggregated

Deleted: ,

Deleted: e

Deleted: representing not

Deleted: of immovable properties

## Financial statements

- 3.24 The requirements for the contents of financial statements where the fund units are all classified as financial liabilities are set out in paragraphs 3.26 to 3.83 inclusive. Where fund units are classified as equity in accordance with paragraph 2.81, paragraphs 3.33, 3.48 and 3.49 should be amended in accordance with Appendix I. Where these paragraphs provide a format for the layout the items identified are required where applicable.

Deleted: instruments

Deleted: 3.46,

Deleted: replaced with paragraphs 3.33A, 3.46A, 3.48A and 3.49A in

Deleted: Where a particular line item given in the format is nil for both the current and preceding period, that line item need not be shown.

3.24A The AIFMD L2 Regulation imposes additional requirements for the content and format of the financial statements of non-UCITS funds. Appendix III provides additional guidance in order to take account of the need to ensure the financial statements of non-UCITS funds applying these regulations remain consistent with

<sup>1</sup> The categories required in this paragraph are defined by article 19 of the UCITS Directive, but for the purpose of this SORP apply to all types of authorised fund.

[the requirements of FRS 102 and this SORP.](#)

3.25 Where an authorised fund is required to produce consolidated financial statements, both the consolidated and the individual primary statements required in paragraphs 3.26 or 3.29 should be presented. Where appropriate consolidated and individual notes should be presented to support the figures in the primary statements.

### Annual financial statements

3.26 A complete set of annual financial statements should contain:

- Statement of total return
- Statement of change in net assets attributable to unitholders
- Balance sheet
- Statement of cash flows<sup>1</sup>
- Notes to the financial statements

3.27 The statements above should be presented with equal prominence. There is no prescribed order in which these statements should be presented; however, the statement of total return and the statement of change in net assets attributable to unitholders should be presented on the same page, thereby providing unitholders with a summary of the principal features of the fund's results for the period.

3.28 Comparative information should be shown for all items in the annual financial statements, unless [permitted otherwise](#). The corresponding amounts should be the amounts for the preceding financial year.

Deleted: FRS 28

Deleted: the exceptions defined in FRS 28 apply

### Interim financial statements

3.29 Interim financial statements are a condensed version of annual financial statements and should contain:

- Statement of total return
- Statement of change in net assets attributable to unitholders
- Balance sheet
- Statement of cash flows<sup>1</sup>

3.30 Comparative information should be shown for all items in the interim financial statements. The corresponding amounts for the balance sheet should be the amounts as at the end of the preceding financial year and the equivalent amounts for the same half-yearly period in the preceding financial year for all other statements.

3.31 Interim financial statements should include a statement that they are prepared on the basis of the accounting policies set out in the most recent set of annual financial statements. Where it is known that an accounting policy change will be made in the annual financial statements, the change should be implemented in the interim financial statements rather than deferred to year end. The nature of each change and the reasons for it should be disclosed.

3.32 There are no specific requirements for notes in the interim financial statements.

Deleted: "Cash Flow Statements"

Deleted: (paragraph 3.50)

<sup>1</sup> A statement of cash flows is not required where the conditions in FRS 102.7.1A are met.



## Contents of financial statements

### Statement of total return

3.32A The statement of total return includes the items to be included in a profit and loss account in accordance with the requirements of Part 1 of Schedule 1 of the company accounts regulations<sup>1</sup> and modified in accordance with the provisions of Section A of that Part.

3.33 The statement of total return summarises the results of the management of the fund and should show at least the following line items, unless otherwise permitted by this SORP:

Income		
Net capital gains/(losses)		X
Revenue	X	
Expenses	(X)	
<u>Interest payable and similar charges</u>	(X)	
Net revenue/(expense) before taxation	XX	
Taxation	(X)	
Net revenue/(expense) after taxation		XX
Total return before distributions		XX
<u>Distributions</u>		(X)
Change in net assets attributable to unitholders from investment activities		XX

**Deleted:** amounts

**Deleted:** Finance costs: Interest

**Deleted:** Finance costs:

#### *Net capital gains/(losses)*

3.34 The notes should include an appropriate analysis of this figure and should distinguish amounts relating to derivatives and non-derivatives. Foreign exchange gains/(losses), except for those arising on investments, should be disclosed separately in the notes.

**Deleted:** Net capital gains/(losses) include all items that are recognised as capital.

#### *Transaction costs*

3.35 Transaction costs form part of net capital gains/losses. For purchases and for sales the total before and after transaction costs should be disclosed in the notes. The notes should also show the amount of each type of transaction cost making up the total.

CIS Gov

**Deleted:** treated as capital (paragraph 2.65 and 2.66)

3.35A Certain transactions (such as investments acquired by way of a fund reorganisation, an in specie transfer, a corporate action or the purchases and sales of cash funds as part of a daily sweep to manage liquidity) would not normally be expected to give rise to costs. Such transactions should be excluded from the disclosures required by paragraph 3.35. The value and nature of excluded transactions should be stated.

#### *Revenue*

3.36 The notes should include an appropriate analysis of this figure and should distinguish amounts relating to derivatives and non-derivatives.

**Deleted:** Revenue includes all items that are recognised as revenue.

<sup>1</sup> The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

*Stock lending and repurchase agreements*

3.37 Fees earned from stock lending and repurchase agreements are included in revenue on a net basis. The notes should disclose the gross fees and related direct and indirect expenses. The identity of the recipient(s) of these expenses and their relationship to the authorised fund manager or the depositary should be disclosed.

**ESMA 2012/1** Deleted: CIS Gov

3.38 Disclosure should be given in the notes of the aggregate value of securities on loan or subject to a repurchase agreement at the balance sheet date, the exposure created<sup>1</sup> and the nature and value of collateral held in respect thereof, analysed by asset class. Unless included elsewhere in the annual report, the identity of the counterparties should be stated.

**ESMA 2012/832**

*Expenses*

3.39 Each type of expense (excluding transaction costs which are disclosed in accordance with paragraph 3.35) should be shown in the notes with an analysis that shows the expenses payable to each of the authorised fund manager and associates, the depositary and associates and other third parties.

Deleted: interest on borrowing and

Deleted: or trustee, other related parties

3.40 Where there is directly or indirectly any fee sharing between the authorised fund manager, the depositary or an affiliate of either, this must be disclosed with the relevant details.

Deleted: CIS Gov

3.41 Where performance fees are charged, the basis of the charge should be disclosed. Where there are known circumstances that may affect future performance fees, this information should be disclosed in the notes.

*Interest payable and similar charges*

3.41A Dividends payable on short positions should be included in this line item and disclosed separately in the notes. Where this line item contains only interest payable and the amount is not material it may be combined and disclosed under expenses.

*Taxation*

3.41B A fund's total tax charge should be disclosed and comprises corporation tax, tax withheld on capital gains and tax withheld on revenue but should not include tax withheld by the fund on distributions on behalf of unitholders.

3.42 The notes should include an analysis of the fund's total tax charge for the period distinguishing between current and deferred tax. The current tax charge should show separately the domestic and foreign tax, any adjustments relating to prior periods and any relief under double taxation treaties.

Deleted: FRS 16

3.43 The notes should disclose the amount of corporation tax that would arise on the net revenue before taxation at the standard rate for UK corporation tax for authorised funds. This amount should be reconciled to the fund's total tax charge for the period.

Deleted: actual current

<sup>1</sup> This exposure is calculated in accordance with section 2.1.4 of CESR's guidelines on risk measurement and the calculation of global exposure and counterparty risk for UCITS (CESR/10-788)

3.44 The deferred tax provision at the start and the end of the period and the movement in the year should be stated in the notes.

3.45 The amount of any deferred tax asset that has not been recognised should be disclosed in the notes together with the circumstances in which the asset would be recovered.

Deleted: FRS 19

Distributions

Deleted: Finance costs

3.46 ~~[deleted]~~

Deleted: The notes should detail the total finance costs showing distributions, interest payable and any other finance costs to give a single total. The amount and type of each distribution payable in respect of the period should be disclosed.

3.47 The amount and type of each distribution payable in respect of the period should be disclosed. Where there is a material difference between net revenue after taxation shown in the statement of total return and the total amount of the distributions, a reconciliation of the difference should be included in the notes. It is expected that the authorised fund manager’s report should explain the investment strategy, the result of which has led to this material difference.

**Statement of change in net assets attributable to unitholders**

3.48 The statement of change in net assets attributable to unitholders reconciles the opening and closing net assets attributable to unitholders. It presents the impact of transactions with unitholders in addition to the results of the management of the fund and should show at least the following line items, unless the amount is nil for both the current and preceding period:

Deleted: amounts

Opening net assets attributable to unitholders		X
Amounts receivable on issue of units	X	
Amounts payable on cancellation of units	(X)	
		XX
Dilution levy/adjustment		X
Stamp duty reserve tax		X
Change in net assets attributable to unitholders		
from investment activities		X
Retained distributions on accumulation units		X
Unclaimed distributions		X
Closing net assets attributable to unitholders		XX

Additional line items should be presented for other significant amounts.

3.48A In the case of single priced funds, amounts receivable on issue of units and amounts payable on cancellation of units should be stated at the mid-market price.

**Balance sheet**

3.48B The balance sheet is presented in accordance with the requirements of Part 1 of Schedule 1 of the company accounts regulations<sup>1</sup> and modified in accordance with the provisions of Section A of that Part.

<sup>1</sup> The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

3.49 The balance sheet presents the financial position and should show at least the following line items, unless the amount is nil for both the current and preceding period:

Assets:	
<u>Fixed assets:</u>	
<u>Tangible assets:</u>	
Land and buildings	X
Property under construction	X
Investments	X
<u>Current assets:</u>	
Debtors *	X
Cash and bank balances *	X
<u>Total assets</u>	<u>XX</u>
Liabilities:	
Investment liabilities	X
<u>Provisions for liabilities *</u>	<u>X</u>
Creditors:	
Bank overdrafts	X
Distribution payable on income units	X
<u>Other creditors *</u>	<u>X</u>
<u>Total liabilities</u>	<u>XX</u>
<u>Net assets attributable to unitholders</u>	<u>XX</u>

\* For annual financial statements these items should be analysed further in the notes.

**Deleted:** amounts

**Deleted:** assets

**Deleted:** Total other assets . XX¶

**Deleted:** \* X

**Deleted:** Total other liabilities . XX¶

**Deleted:** and items relating to derivatives should be shown separately, either

**Deleted:** or on the face of the balance sheet

### Statement of cash flows

3.50 Authorised funds qualify for exemption from the need to prepare a statement of cash flows if they meet all the following conditions:

- substantially all of the entity's investments are highly liquid;
- substantially all of the entity's investments are carried at fair value; and
- the entity provides a statement of change in net assets.

3.51 When assessing the criteria for exemption from the need to prepare a statement of cash flows the authorised fund manager should consider both the nature of the investments and the prevailing market conditions.

3.52 Authorised funds that do not qualify for exemption should prepare a statement of cash flows in accordance with Section 7 of FRS 102.

3.53 [deleted]

3.54 [deleted]

**Deleted:** The statement of cash flows should deal with cash flows under the following headings:¶

- ¶ Operating activities¶
- ¶ Servicing of finance¶
- ¶ Taxation¶
- ¶ Financial investment¶
- ¶ Financing

**Deleted:** FRS 1

**Deleted:** The notes to the annual financial statements should include a reconciliation between the cash flow from operating activities and the total return before distributions reported in the statement of total return.

**Deleted:** FRS 1

**Deleted:** The notes to the annual financial statements should also include a reconciliation between the movement of cash for the period and the movement of net debt.

**Deleted:** FRS 1

### Notes to the financial statements

3.54A In case of an umbrella fund, the information in the notes must be given in the financial statements of each sub-fund only to the extent it would vary from that given in respect of the umbrella as a whole.

*Accounting policies*

- 3.55 The financial statements should state the title of this SORP and whether the financial statements have been prepared in accordance with it. In the event of a departure from the SORP, the financial statements should include the disclosures required by paragraph 6 of FRS 100.
- 3.56 A description of each of the accounting policies that are material in the context of the financial statements should be given, together with a description of significant judgements and estimation techniques. Details of any changes from the previous period should also be disclosed.

**Deleted: FRS 18**

**Deleted:** authorised fund should give a brief description of how the financial statements depart from the recommended practice set out in the SORP, which should include:¶  
¶ the reasons why the treatment adopted is judged more appropriate to the particular circumstances of the authorised fund; and¶  
¶ details of any disclosures recommended by the SORP that have not been provided, and the reasons why they have not been provided.

**Deleted: FRS 18**

*Distribution policies*

- 3.57 A description of the distribution policies that are material in the context of the distribution should be given detailing, in particular, policies relating to adjustments to net revenue after taxation in determining the distribution together with a statement explaining the consequential impact on the value of capital. Where policies are specific to each class this should be disclosed. Details of any changes from the previous period should also be disclosed.
- 3.58 Ordinary stock dividends are recognised as revenue in the first instance. The policy for ordinary stock dividends should state whether or not they form part of the distribution.
- 3.59 The distribution policy<sup>1</sup> should be stated and where the policy is to increase the distribution by disregarding the effect of amortisation a statement explaining the consequential impact on the value of capital should be included.
- 3.59A The distribution policy<sup>2</sup> should be stated where that policy is designed to contribute to the preservation of the unit value in real terms.
- 3.60 Expenses, including performance fees, are charged against revenue in the first instance. Where the policy is to partially or fully offset expenses against capital in order to determine the distribution, the distribution policy should be disclosed together with a statement explaining the consequential impact on the value of capital. Where the transfer is between the revenue and capital of the same class it is acceptable not take into account marginal tax relief. This policy should also be disclosed.
- 3.61 Where income arises to an authorised fund from other collective investment schemes, any equalisation is recognised as capital in the first instance. The distribution policy of the fund should state whether or not this equalisation forms part of its distribution.
- 3.62 The distribution policy for qualifying money market funds should be stated and should explain the impact that maintaining the value of such a fund has on the distribution.
- 3.63 Where consolidated financial statements are produced, the distribution policy should state whether the distribution is determined based on the authorised fund's

**Deleted:** Interest from debt securities is recognised using the effective interest method in the first instance.

**Deleted:** receives distributions

**Deleted:** the policy for recognising

**Deleted:** included in the distribution

**Deleted:** received should be stated in the accounting policies

**Deleted:** in respect of

**Deleted:** should also be stated

<sup>1</sup> COLL 6.8.3 R permits transfers to be made such that distributions are determined disregarding the effect of amortisation, provided that the resultant distribution is not less than if those transfers had not been made.

<sup>2</sup> COLL 6.8.3 R permits funds whose policy is to invest predominantly in index-linked securities to make transfers in respect of index-linked gilt-edged securities in order to exclude from the distribution the amount attributable to the change in the Retail Prices Index during the period.

individual net revenue after taxation or on that of the consolidated group.

*Risk management policies*

3.64 Disclosures are required to enable users of financial statements to evaluate the nature and extent of the risks that arise in connection with financial instruments and how those risks are managed. Regulations require authorised fund managers to put in place a documented risk management framework. This SORP recommends integrated risk disclosures using the elements of the regulatory risk management framework to satisfy the requirements of paragraphs 34.23 to 34.30 of FRS 102.

**COLL 6.12**  
**FUND 3.7**  
**AIFML2 38-45**

**Deleted:** assess and understand

3.64A Authorised funds are designed to generate returns for investors in the form of changes in the fair value of their investment. To achieve this they create and manage exposure to market risk and regulations require other risks to be fully mitigated. Where an authorised fund is exposed to credit risk in the form of an issuer's credit quality, this is measured and managed as part of the exposure to market risk. The residual exposure to credit risk is referred to as counterparty risk. The authorised fund manager should ensure that suitable narrative and numerical risk disclosures in respect of market risk, counterparty risk and liquidity risk are provided by those who are responsible for the risk management framework.

**Deleted:** For authorised funds, these risks will typically include market risk (currency risk, interest rate risk and other price risk), liquidity risk and credit

**Deleted:** of those risks

3.65 The disclosures should include:

- a description of the risk profile explaining each type of risk and how it arises;
- a description of the main features of the risk management framework outlining the risk management policy, the allocation of responsibilities pertaining to risk management and the arrangements, processes and techniques for measuring and managing risk; and
- if any of these disclosures reflect a significant change<sup>1</sup> from the explanations provided for the previous period the reasons for that change, and the impact, should be explained.

**Deleted:** For each type of risk that arises t

**Deleted:** n explanation of the

**Deleted:** ,

**Deleted:** and its significance in the context of the fund

**Deleted:** of the objectives, policies and procedures used to manage that

3.66 [deleted]

Market risk

3.66A The sensitivity of the returns and the portfolio valuation to currency and other price risk should be provided. Except where derivatives or efficient portfolio management techniques are used to change the risk profile of the fund significantly, the portfolio statement will provide an adequate indication of the fund's exposure to currency risk and other price risk (including risk arising from an issuer's credit worthiness). Where this is the case statements should be made to indicate that the sensitivity to risks is proportionate to the fund's disclosed exposures.

**Deleted:** In the case of an umbrella scheme the narrative risk disclosures (paragraph 3.65) may be presented in the aggregated financial statements together with a cross-reference to the numerical disclosures (paragraph 3.67) that are required to be presented in each sub-fund's financial statements.

**Deleted:** risk

3.66B An indication of the method or methods used to calculate global exposure should be given together with the total amount of leverage calculated on a gross basis.

**CESR 10-788**

3.66C Where value-at-risk is used the lowest, the highest and the average utilisation of the value-at-risk limit calculated during the financial year should be given. The

**CESR 10-788**

<sup>1</sup> As a minimum, changes notified to the FCA in accordance with COLL 6.12.7 R (2) or AIFM L2 41.4 should be explained.

model and inputs used for calculation (calculation model, confidence level, holding period, length of data history) should be disclosed and explained in order to aid an understanding of these disclosures. Where relative value-at-risk is used, information on the reference portfolio should be given.

- 3.67 Where there is significant exposure to interest rate risk, or paragraph 3.66A to 3.66C do not provide an adequate indication of the exposure to a particular type of risk, a numerical analysis of the exposure and sensitivity of returns and portfolio valuation to that risk is also required. When assessing the significance of a particular risk the authorised fund manager should consider both the nature of the investments and the prevailing market conditions. Where disclosure is not given on the grounds of significance, it should be stated that this is the case.

Deleted: es

Deleted: is significant

Deleted: Market risk should be disclosed in accordance with paragraphs 3.78 to 3.82.

#### Counterparty risk

3.67A In most cases the FRS 102 credit risk disclosure requirements will be satisfied by the counterparty risk disclosures made in accordance with paragraphs 3.38, 3.65 and 3.67B and the credit quality disclosure referred to in paragraph 3.66A.

3.67B Disclosure should be given in the notes of the exposure obtained<sup>1</sup> through the use of derivatives and the nature and value of collateral held or pledged in respect thereof, analysed by asset class. Unless included elsewhere in the annual report, the identity of the counterparties to these derivatives should be stated.

ESMA 2012/832

#### *Other information in the notes*

##### *Commitments, contingent liabilities and contingent assets*

- 3.68 A provision should be recognised when the entity has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimation can be made of the amount of the obligation.

Deleted: FRS 12

- 3.69 Where an authorised fund has a commitment, for example, where it may be called upon to subscribe for shares pursuant to an underwriting, placing or similar agreement, and the existence of an obligation will be confirmed only by the occurrence of one or more future events not wholly within the authorised fund's control, the aggregate commitments should be disclosed. Such future events could include the passing of certain resolutions by the issuing company.

- 3.70 A contingent liability should not be recognised but, unless the possibility of a transfer of economic benefits is remote, should be disclosed with a brief description of the nature of the contingent liability and, where practicable, an estimate of its financial effect, an indication of the uncertainties relating to the amount or timing of any outflow and the possibility of any reimbursement.

Deleted: FRS 12

Deleted: and

- 3.71 A fund may have a commitment with respect to partly paid and nil paid shares. Even though it may be intended to sell these shares before the calls become due, a possible obligation exists, and the aggregate commitment, on partly paid and nil paid shares should be disclosed.

Deleted: contingent liability

Deleted: should be disclosed

Deleted: as a contingent liability for

- 3.72 A contingent asset, including a potential recovery of overseas withholding taxes, should not be recognised in the financial statements unless it becomes virtually certain that an inflow of economic benefits will arise. If an inflow is probable, the

Deleted: FRS 12

<sup>1</sup> This exposure is calculated in accordance with section 2.1.4 of CESR's guidelines on risk measurement and the calculation of global exposure and counterparty risk for UCITS (CESR/10-788).

contingent asset should be disclosed with a brief description of its nature and, where practicable, an estimate of its financial effect.

3.73 Contingent assets usually arise from unplanned or other unexpected events that give rise to economic benefits. An example is a claim that an entity is pursuing through legal processes, where the outcome is uncertain.

Deleted: FRS 12

3.74 Whilst contingent assets should not be recognised in the financial statements they may be recognised, on a proportional or otherwise appropriate basis, for the purposes of determining the dealing prices of units. Where the bases of recognition are different, disclosure should be given in the notes explaining the reasons for the differences.

3.74A Where the disclosures required by paragraphs 3.70 and 3.72 might be prejudicial to unitholders' interests, they should not be given. A brief description of the general nature of the contingent asset or contingent liability should be provided.

#### *Related parties*

Deleted: y transactions

3.75 The authorised fund manager should identify any related parties and make the disclosures required by Section 33 of FRS 102. Generally the authorised fund manager will not be regarded as a related party because it does not control, or have significant influence over, an authorised fund.

Deleted: Transactions and balances with related parties should be disclosed.

Deleted: the

Deleted: FRS 8

Deleted: . Generally the authorised fund manager will not be regarded as a related party because it does not control, or have significant influence over, an authorised fund

#### *Unitholders' funds*

3.76 The price of a unit is determined by reference to the proportional share of the net asset value attributable to each unit class. Where there are different unit classes, the price of units will reflect the terms and conditions of each class, but it is not necessary to analyse each class in the financial statements. The different rights and terms attaching to each unit class, including the rights on winding-up and the policy for allocating taxation and distributable income, should be summarised in the notes to the financial statements, unless they are disclosed elsewhere in the report.

Deleted: Related parties will include, in the case of an OEIC, the ACD, and in the case of a unit trust scheme, the manager and the trustee, and may include parties by reason of their relationship with the ACD, manager or trustee. Material unitholders will be related parties to the extent that they are in a position to control the company, and the required disclosure should be given. Disclosure of other material unitholders may also be desirable. Material dealing in the units and investments of the fund carried out with or through related parties should also be disclosed

3.76A A reconciliation of the opening and closing numbers of units of each class should be given showing the number of units issued, cancelled and converted during the period. This reconciliation need not be presented for prior periods.

#### *Distribution table*

3.77 A table showing the distribution rate per unit for each distribution relating to the period for every class of unit is required. The table should distinguish between group 1 and group 2 units, and should be analysed to show:

- Gross revenue \*
- Income tax \*
- Net revenue
- Equalisation
- Distribution

\* These items are required only for funds that withhold income tax on their distributions.

Deleted: not

Deleted: making dividend

Deleted: ¶  
Risk disclosures<sup>¶</sup>

Deleted: Funds with a significant exposure to interest rate risk should include the numerical interest rate disclosures in paragraphs 3.79 and 3.80.

3.78 [deleted]



3.79 ~~[deleted]~~

3.80 ~~[deleted]~~

3.81 ~~[deleted]~~

3.82 ~~[deleted]~~

*Events after the balance sheet date*

3.83 In accordance with Section 32 of FRS 102, the nature and financial effect of each significant category of non-adjusting events should be disclosed. An example of such an event is an abnormally large change in the fair value of investments between the balance sheet date and the date the accounts are signed.

*Fair value disclosure*

3.84 An analysis of the portfolio in accordance with the fair value hierarchy should be disclosed in the notes. This should show separately the value of investment assets and liabilities valued on the basis of a quoted price for an identical asset in an active market, a recent transaction for an identical asset or an alternative valuation technique. The value determined by valuation techniques that rely significantly on assumptions and non-observable market data should be disclosed separately to those using observable market data. Additional guidance is provided in appendix II.

3.85 When a valuation technique is used, the assumptions applied in determining the fair value should be disclosed. This disclosure should reflect the extent to which the authorised fund manager has exercised judgment in quantifying the inputs to the valuation technique in order to determine fair value.

*Investment property disclosure*

3.86 The following disclosures should be made for investment properties:

- the methods and significant assumptions applied in determining the fair value of investment property;
- the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal;
- contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements; and
- a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing separately:
  - additions
  - disposals;
  - net gains or losses from fair value adjustments; and
  - other changes.

This reconciliation need not be presented for prior periods.

**Deleted:** The aggregate value of assets and of liabilities should be analysed, by principal currency, to show, separately, assets and liabilities at fixed interest rates, those at floating interest rates and those that are non-interest bearing.

**Deleted: FRS 13**

**Deleted:** The following should also be disclosed by reference to principal currencies:¶

- ¶ the weighted average interest rate of fixed rate instruments;¶
- ¶ the weighted average period for which fixed rates are fixed;¶
- ¶ the weighted average period to maturity for non-interest bearing instruments;¶
- ¶ the benchmark rates for determining interest payments for floating rate instruments.

**Deleted: FRS 13**

**Deleted:** For funds with a significant exposure to currency risk the net exposure to the principal foreign currencies should be shown after taking into account any instruments used to hedge against the foreign currencies.

**Deleted: FRS 13**

**Deleted:** For sophisticated<sup>2</sup> funds the impact of market changes arising from the use of derivatives should be determined by using a value at risk technique or another appropriately robust model. It is recommended that disclosures should be made using the tools being used as part of the derivative risk management process. The methods and assumptions used should be described in order to aid understanding of these disclosures.

**Deleted: T**

**Deleted: FRS 21**

## APPENDIX I – Presentation for funds with units classified as equity

This appendix forms an integral part of the SORP and shows the variations to the text embedded in the body of the SORP that should be followed where a fund's units are assessed as equity, having regard to the conditions in paragraph 2.81, rather than financial liabilities.

AI.1 In paragraphs 3.33 and 3.48, replace "Change in net assets attributable to unitholders from investment activities" with "Change in unitholders' funds from investment activities".

AI.2 In paragraph 3.48, replace "Opening net assets attributable to unitholders" with "Opening net assets" and replace "Closing net assets attributable to unitholders" with "Closing net assets".

AI.3 In paragraph 3.49, replace "Net assets attributable to unitholders" with "Net assets" and add a line item "Unitholders' funds" below "Net assets".

Deleted: instruments

Deleted: instruments

Deleted: ¶  
Statement of total return¶  
¶  
3.33A

## APPENDIX II – Illustrative application of fair value disclosures

This appendix forms an integral part of the SORP.

AII.1 Fair value based on a quoted price for an identical instrument in an active market will generally include equities, some highly liquid bonds and exchange traded derivatives.

AII.2 Fair value based on a recent transaction for an identical instrument will generally include holdings in other funds.

AII.3 Fair value based on a valuation technique using observable market data will generally include evaluated pricing techniques using inputs such as quoted prices for similar instruments, interest rates, yield curves or credit spreads.

AII.4 Fair value based on a valuation technique that relies significantly on non-observable market data will include values not primarily derived from observable market data.

AII.5 The disclosures required by paragraph 3.84 may be presented as follows:

<u>Valuation technique</u>	<u>Assets</u>	<u>Liabilities</u>
	<u>£'000</u>	<u>£'000</u>
<u>Quoted prices for identical instruments in active markets</u>	<u>X</u>	<u>X</u>
<u>Recent transactions for identical instruments</u>	<u>X</u>	<u>X</u>
<u>Valuation techniques using observable market data</u>	<u>X</u>	<u>X</u>
<u>Valuation techniques using non-observable data</u>	<u>X</u>	<u>X</u>
	<u>XX</u>	<u>XX</u>

AII.6 In preparing these disclosures, consideration should be given to other guidance including that issued by the IMA.

## APPENDIX III – Additional guidance for non-UCITS funds

The FCA's Investment Funds Sourcebook (FUND), which implements the AIFM Directive, and the AIFMD L2 Regulation contain specific requirements in respect of the annual reports of non-UCITS funds. This appendix provides guidance on applying these requirements in a manner that is consistent with the requirements of FRS 102. References to articles in this appendix refer to the AIFM L2 Regulation unless otherwise specified.

AIII.1 FUND requires the financial statements to be prepared in accordance with the accounting standards of the Member State in which a non-UCITS fund is domiciled.

AIII.2 Article 103 states the general principles of materially relevant, reliable, comparable and clear in respect of the information provided in the annual report. Authorised fund managers should have regard for the needs of investors to be able to compare authorised funds regardless of whether they are established as UCITS or non-UCITS funds.

AIII.3 Article 104 specifies the elements and underlying line items that should be included in the financial statements of a non-UCITS fund but permits these to be modified to the extent necessary to ensure consistency with national accounting standards and the instrument constituting the fund and compliance with national legislation.

AIII.4 Article 104 specifies a balance sheet line item for cash and cash equivalents. FRS 102, by application of the Companies Act formats, requires cash at bank and in hand to be shown. This conflict can be resolved by including an additional line item for cash equivalents in the balance sheet.

AIII.5 Article 104 specifies separate income and expenditure account line items for realised gains, unrealised gains under income and realised losses and unrealised losses under expenses. FRS 102 requires a single line item for net gains or net losses, including changes in fair value and this SORP refers to this line item as net capital gains/losses. In order to resolve this conflict and maintain consistency of presentation with UCITS, this conflict can be resolved by including a single line item for net capital gains/losses and disaggregating gains or losses into their realised and unrealised components in the notes.

AIII.6 [The meaning of realised gains or losses]

AIII.7 Article 104 specifies separate income and expenditure account line items for investment advisory or management fees and other expenses. This SORP refers to a single line item for expenses with further analysis in the notes. In order to maintain consistency of presentation with UCITS, the SORP presentation generally will be sufficient to satisfy the information requirements of Article 104.

AIII.8 Article 105 specifies the minimum contents of the investment manager's report.

AIII.9 Article 106 deals with material changes to the information made available to investors before they invested.

AIII.10 Article 107 specifies that information to be disclosed in the annual report in respect of the remuneration paid by the authorised fund manager to its staff.

AIII.11 Articles 108 and 109 specify information that should be disclosed as part of the periodic reporting to investors at the same time as the annual report is made available. The disclosures should include information about liquidity management arrangements, the risk profile and risk management systems including an outline of the measures to assess the sensitivity of the portfolio to the most relevant risks, and the actual utilisation of leverage calculated on both a gross and a commitment basis. Authorised fund managers should consider the overlap between these requirements and the requirements in paragraphs 3.64 to 3.67 of this SORP.

## APPENDIX IV – Laws, regulations and accounting standards

Deleted: I

At the time the SORP was issued the following laws, regulations and accounting standards were relevant to the financial statements of authorised funds.

### Laws and regulations

#### **Financial Services and Markets Act 2000 (FSMA)**

An Act to make provision about the regulation of financial services and markets.

Part XVII deals with powers of incorporation and authorisation and defines the types of entity that are authorised funds and the parties involved their operation.

#### **Open-Ended Investment Companies Regulations 2001 (OEICR)**

Regulations, made under FSMA, governing the establishment, carrying on, and regulation of open-ended investment companies (OEICs).

Part II deals with powers of incorporation and authorisation. Part III deals with the responsibilities of the directors of an OEIC, including in respect of reports.

#### **Collective Investment Schemes Sourcebook (COLL)**

Part of the FCA's regulatory handbook, this specialist sourcebook provides the detailed framework within which authorised funds operate.

Section 4.5 deals with an authorised fund manager's responsibilities in relation to reports and accounts. Chapter 6 deals with operating duties and responsibilities of the parties involved in operating an authorised fund.

#### **Investment Funds Sourcebook (FUND)**

Part of the FCA's regulatory handbook, this specialist sourcebook provides the detailed framework within which funds operate.

FUND has been created as part of the implementation of the AIFM Directive and it is expected that FCA will incorporate the requirements of COLL into FUND in due course.

#### **Commission Delegated Regulation (EU) No 231/2013 (AIFMD L2)**

European Commission Regulations, made under the AFIM Directive, with regard to exemptions, general operation conditions, depositaries, leverage, transparency and supervision.

Section 1 of Chapter V deals with the requirements for annual reports.

**Deleted: UCITS Directive 85/611/EEC (UCITS)**  
The European Council Directive of 20 December 1985 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), as amended.  
Section VI deals with the requirements for publishing periodical reports. Schedule B of annex I deals with the information to be included in the periodic reports. Articles 19 and 21 provide background information to some of the requirements of Schedule B.

Deleted: S

### Accounting standards

#### **FRS 100 Application of Financial Reporting Requirements**

This standard sets out the applicable financial reporting framework for entities preparing financial statements that are intended to give a true and fair view. It specifies the statements that should be made regarding compliance with the SORP.

#### **FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland**

This standard sets out the financial reporting requirements applicable to financial statements that are intended to give a true and fair view of an entity's financial position and financial performance for the period.

**Deleted: Collective investment schemes governance review (CIS Gov)**  
A set of recommendations regarding the governance arrangements of UK authorised collective investment schemes and issued by the IMA in February 2005.

All sections of FRS 102 are applicable to authorised funds and the following sections are the most likely to be relevant:

**Section 3: Financial Statement Presentation**

This section explains fair presentation of financial statements, what compliance with this FRS requires, and what constitutes a complete set of financial statements.

**Section 4: Statement of Financial Position**

This section sets out the information that is to be presented in a statement of financial position and how to present it.

**Section 5: Statement of Comprehensive Income and Income Statement**

This section requires an entity to present its total comprehensive income for a period – ie its financial performance for the period - in one or two financial statements. It sets out the information that is to be presented in those statements and how to present it.

**Section 8: Notes to the Financial Statements**

This section sets out the principles underlying information that is to be presented in the notes to the financial statements and how to present it.

**Section 10: Accounting Policies, Estimates and Errors**

This section provides guidance for selecting and applying the accounting policies used in preparing financial statements. It also covers changes in accounting estimates and corrections of errors in prior period financial statements.

**Sections 11 and 12: Financial Instruments**

Section 11 and 12 together deal with recognising, derecognising, measuring and disclosing financial instruments (financial assets and financial liabilities).

**Section 21: Provisions and Contingencies**

This section applies to all provisions (ie liabilities of uncertain timing or amount), contingent liabilities and contingent assets except those provisions covered by other sections of this FRS.

**Section 22: Liabilities and Equity**

This section establishes principles for classifying financial instruments as either liabilities or equity and deals with the accounting for compound financial instruments.

**Section 29: Income Tax**

This section covers accounting for current, deferred and value added taxes.

**Section 30: Foreign Currency Translation**

This section prescribes how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency.

**Section 32: Events after the End of the Reporting Period**

This section defines events after the end of the reporting period and sets out principles for recognising, measuring and disclosing those events.

**Section 34: Specialised Activities**

This section sets out additional financial reporting requirements for financial institutions.

**Section 35: Transition**

This section sets out requirements for entities applying this FRS for the first time.

The following sections of FRS 102 may also be relevant to some authorised funds:

**Section 7: Statement of Cash Flows**

This section sets out the information that is to be presented in a statement of cash flows and how to present it.

**Section 9: Consolidated and Separate Financial Statements**

This section sets out the circumstances where consolidation is required and the consolidation procedures that should be followed.

**Section 14: Investments in Associates**

This section applies to accounting for investments in associates.

**Section 15: Investments in Joint Ventures**

This section applies to accounting for investments in joint ventures.

**Section 16: Investment Property**

This section applies to accounting for investments in land or buildings that meet the definition of investment property and some property interests held by a lessee under an operating lease that are treated like investment property.

**Section 20: Leases**

This section covers accounting for leases.

**Section 25: Borrowing Costs**

This section specifies the accounting for borrowing costs.

**Section 33: Related Party Disclosures**

This section requires an entity to include in its financial statements the disclosures necessary to draw attention to the possibility that its financial position and profit or loss have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

The following standards are not likely to be relevant to authorised funds.

**FRS 101 Reduced Disclosure Framework**

This standard sets out disclosure exemptions for the individual financial statements of subsidiaries of parents that apply EU-adopted IFRS.

**FRS 103 Insurance Contracts**

This standard sets out the accounting requirements for insurance contracts.

**Other guidance**

**FRC Statement: SORPs: Policy and code of practice**

This statement provides guidance on the policy for recognition of a SORP-making body and the process of developing and issuing a SORP.

**Technical Release 02/10: Guidance on realised and distributable profits under the Companies Act 2006**

Issued by the ICAEW and ICAS for the purpose of identifying, interpreting and applying the principles relating to the determination of realised profits and losses for the purposes of making distributions.

**Deleted: FRS 28 - Corresponding Amounts¶**

The standard sets out the requirements for the disclosure of corresponding amounts for items shown in an entity's primary financial statements and the notes to the financial statements.¶ ...

**Deleted: Page Break**

The following standards do not currently apply to authorised funds. However, if they were to apply, they would be relevant to authorised funds.¶

**FRS 29 (IFRS 7) - Financial Instruments: Disclosures¶**

This standard requires disclosures that enable users to evaluate the significance of financial instruments on financial position and performance, the nature and extent of risks from financial instruments, and how the entity manages those risks. This standard, which supersedes the disclosure requirements of FRS 25, is not mandatory because it forms part of the FRS 26 package of standards.¶ ...