

THE INVESTMENT ASSOCIATION

AMENDMENTS TO THE STATEMENT OF RECOMMENDED PRACTICE

Financial Statements of UK Authorised Funds

June 2017

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INTRODUCTION



This document sets out the Investment Association's (IA) amendments to the Statement of Recommended Practice for the Financial Statements of UK Authorised Funds issued by the Investment Management Association in May 2014 (IMA SORP).

The Financial Reporting Council (FRC) is the prescribed body for issuing accounting standards in the UK. The IA is recognised by the FRC as the SORP-making body for the purposes of the IMA SORP. In this respect the IA meets the FRC's criteria and agrees to develop and maintain the IMA SORP in accordance with the FRC's Policy on Developing SORPs¹.

In July 2015 the FRC issued amendments to The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102). These amendments became applicable for accounting periods beginning on or after 1 January 2016 and included a change to the definition of a related party and, as a consequence, the authorised fund manager came to be regarded as a related party. This created a conflict with paragraph 3.95 of the IMA SORP and, as a result, paragraph 3.95 ceased to have effect. In December 2015 the IA issued additional guidance to assist practitioners in the preparation of related party disclosures in accordance with FRS 102.

In March 2016 the FRC issued amendments to FRS 102 in respect of the fair value hierarchy disclosures. These amendments became applicable for accounting periods beginning on or after 1 January 2017, with early application permitted, and changed the definition of the tiers within the fair value hierarchy. This created a conflict with paragraph 3.100 and appendix C of the IMA SORP and, as a result, paragraph 3.100 and appendix C ceased to have effect.

Also in March 2016 the FRC issued a revised Policy on Developing SORPs which included a new shortened administrative procedure to be used for amending SORPs to reflect changes in FRC standards or in legislative or regulatory requirements and the amendments do not involve any new interpretation of those requirements or introduce other changes. This procedure dispenses with the need to publish a consultation draft.

These amendments to the IMA SORP are necessary as a consequence of the amendments to FRS 102 and therefore are being made in accordance with the shortened administrative procedure.

In June 2017 the FRC's Codes and Standards Committee considered these amendments and approved the issuance of the FRC's Statement on the SORP.

¹ [FRC Policy on Developing SORPs](#) (March 2016)

STATEMENT BY THE FINANCIAL REPORTING COUNCIL



Statement by the Financial Reporting Council on the SORP 'Statement of Recommended Practice for the Financial Statements of UK Authorised Funds' issued by The Investment Association

The aim of the Financial Reporting Council (FRC) is to promote high-quality corporate governance and reporting to foster investment. In relation to accounting standards applicable in the UK and Republic of Ireland, the FRC's overriding objective is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs. In particular industries or sectors, clarification of aspects of those standards may be needed in order for the standards to be applied in a manner that is relevant and provides useful information to users of financial statements in that industry or sector.

Such clarification in connection with accounting standards is issued in the form of Statements of Recommended Practice (SORPs) by bodies recognised for this purpose by the FRC. The Investment Association has confirmed that it shares the FRC's aim of high quality financial reporting and has been recognised by the FRC for the purpose of issuing SORPs for UK Authorised Funds.

In accordance with the FRC's Policy on Developing Statements of Recommended Practices (SORPs) the FRC carried out a review of the SORP focusing on those aspects relevant to the financial statements but also including aspects relevant to the FRC's broader responsibilities where appropriate.

On the basis of its review, the FRC has concluded that the SORP has been developed in accordance with the FRC's Policy on SORPs and does not appear to:

- contain any fundamental points of principle that are unacceptable in the context of present accounting practices;
- conflict with an accounting standard; or
- undermine the FRC's broader objectives.

22 June 2017

AMENDMENTS TO THE IMA SORP



The IMA SORP is amended as follows:

Paragraphs 1.9A and 3.95A are added.

Paragraphs 3.95 and 3.100 are amended.

Appendix C is amended.

Date from which effective

1.9A This SORP was amended in June 2017 in accordance with the shortened administrative procedure set out in paragraph 31 of the FRC's "Policy on Developing SORPs" as a consequence of changes in FRC standards issued before 31 March 2017. As stated in paragraph 1.4, the requirements of FRC standards issued after this SORP prevail over any conflicting recommendations of this SORP. Therefore, the affected requirements have ceased to apply and these amendments are applicable immediately. As a consequence, this SORP, as amended, should be referred to as the SORP issued by the IMA in May 2014.

Related parties

3.95 The authorised fund manager should identify any related parties and make the disclosures required by section 33 of FRS 102. Generally, ~~neither the authorised fund manager nor the depositary~~ will be regarded as a related party because it provides key management personnel services to the authorised fund thus meeting the conditions in paragraph 33.2(b) of FRS 102. The depositary does not perform key management personnel services and so will not be regarded as a related party.

3.95A In respect of the relationship with the authorised fund manager, the requirements of section 33 of FRS 102 should be satisfied by disclosing the following:

- the nature of the relationship, and information about the transactions, with the authorised fund manager;
- the amounts receivable and payable on issue and cancellation of units for the period and the amount of any balances outstanding at the period end (amounts should include equalisation and any dilution levy or adjustment);
- the amounts of fees or expenses payable to, or rebates receivable from, the authorised fund manager for the period for providing services to the authorised fund and the amount of any balances outstanding at the period end; and
- where amounts outstanding are yet to crystallise, details of the circumstances in which they may reverse.

Fair value disclosure



3.100 ~~An analysis of the portfolio in accordance with~~ The value of financial instruments in each level of the fair value hierarchy, in accordance with paragraph 34.22 of FRS 102, should be disclosed in the notes. This should show separately the value of investments assets and investment liabilities in each of the following levels: valued on the basis of a

- Level 1: Unadjusted quoted price for an identical asset in an active market for an identical instrument;
- Level 2: Valuation techniques using observable inputs other than quoted prices within level 1;
- Level 3: Valuation techniques using unobservable inputs.

~~, the price of 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 C.~~

APPENDIX C – Illustrative application of fair value disclosures



This appendix forms an integral part of the SORP.

- C.1 Fair value based on an unadjusted quoted price for an identical instrument in an active market for identical instruments (level 1) includes exchange-traded instruments unless there is persistently insufficient activity to regard the market as active. Examples typically include equities, depositary receipts, warrants, rights, money market instruments, exchange-traded derivatives, exchange-traded products (including exchange-traded funds) and some highly liquid exchange-traded debt securities.~~will generally include equities, some highly liquid bonds and exchange-traded derivatives.~~
- C.2 Fair value based on the price of a recent transaction for an identical instrument will generally include holdings in other schemes.~~[deleted]~~
- C.3 Fair value based on a valuation technique using observable market data (level 2) includes over-the-counter instruments, instruments priced via multi-broker quotes or evaluated pricing techniques, exchange-traded instruments where the market is persistently not active and instruments subject to fair value pricing adjustments made by reference to observable market data. Examples typically include OTC derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds.~~will generally include evaluated pricing techniques using inputs such as quoted prices for similar instruments, interest rates, yield curves or credit spreads.~~
- C.4 Fair value based on a valuation technique that relies significantly on ~~non-~~unobservable market data (level 3) typically includes single broker-priced instruments, suspended/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions on redemption rights.~~will include values not primarily derived from observable market data.~~

- C.5 The disclosures required by paragraph 3.100 may be presented as follows:

<u>Basis of valuation technique</u>	Assets £'000	Liabilities £'000
<u>Level 1: Quoted prices for identical instruments in active markets</u>	X	X
<u>Prices of recent transactions for identical instruments</u>	X	X
<u>Level 2: Valuation techniques using observable market data</u>	X	X
<u>Level 3: Valuation techniques using non-unobservable data</u>	X	X
	XX	XX

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