

A large, abstract graphic of a network or sphere made of interconnected blue nodes and lines, positioned in the upper right background.

Australia

Accounting

FUNDS AND FUND MANAGEMENT 2009

Collective investment funds or schemes are normally structured as unit trusts in Australia. Such funds can take different forms. Generally they are either Registered Managed Investment Schemes (MIS) and subject to regulation under the Corporations Act or they can be Register Able Superannuation Entities (RSE) and subject to regulation under the Superannuation Industry (Supervision) Act.

1.1 Requirement to produce financial statements

Requirement to maintain the books and records

Written financial records must be kept for all regulated Australian schemes. The financial records must correctly record and explain the scheme's transactions and financial position, and performance. The financial records should enable true and fair financial statements to be prepared and audited.

The financial records may be kept in any language. An English translation of financial records not kept in English must be made available within a reasonable time to any person who is entitled to inspect the records and requests a translation of the records.

Production of financial statements by MIS

MIS are required to produce an annual financial report and a directors' report under the Corporations Act 2001 of Australia.

Any scheme with 100 or more investors and/or any listed scheme meets the definition of a disclosing entity for the purposes of the Corporations Act 2001. Disclosing entities are required to prepare a half-year financial report and directors' report.

A Responsible Entity (RE) must be appointed to manage schemes registered under the Corporations Act. The directors of the RE are responsible for the financial report of the scheme. One director of the RE should sign the directors' report, which is attached to the scheme's financial report.

Production of financial statements by RSE

RSE are required to produce an annual financial report and a trustee's report under the Superannuation Industry (Supervision) Act 1993 (SIS).

There is no requirement for RSE to produce a half-year financial report.

An RSE licensee (trustee) must be appointed to manage the RSE under SIS. RSE licensees are usually incorporated entities. The directors of the trustee are responsible for the financial report of the RSE. The annual trustee's report to members is not required to accompany the annual financial report.

Choice of period/year-end for schemes

Australian schemes can choose their own year end. However, most schemes have a 30 June year end which coincides with the Australian tax year end. There is almost no scope to obtain a tax year end other than 30 June.

The first financial year for a scheme starts on the day the MIS is registered with Australian Securities and Investments Commission (ASIC) or the day the RSE is registered with the Australian Prudential Regulation Authority (APRA). For MIS, the first financial year lasts for a period of up to 12 months (not longer than 18 months) as determined by the directors of the RE. For RSE, the first financial year lasts for a period of up to 12 months to its chosen year end.

A half-year for a scheme is the first six months of the financial year. The directors may determine that the half-year is to be shorter or longer (but not by more than seven days).

Requirement for comparatives

Comparatives are required for all financial statements.

Restrictions on the currency under which financial statements must be prepared

The reporting currency is the currency determined to be the functional currency under Australian Accounting Standards (which mirror the requirements of International Financial Reporting Standards).

Accounting publications specific to the funds industry (as issued by accounting bodies or the regulators)

There is a specific accounting standard that deals with financial reporting by RSE – AAS 25 Financial Reporting by Superannuation Plans. Apart from this standard, there are no accounting publications specific to the funds industry issued in Australia. An industry body, the Investment and Financial Services

Association (IFSA), publishes IFSA Standards and Guidance Notes, some of which deal with specific accounting and disclosure topics for MIS. The guidance notes are not mandatory; however, adoption of the notes is considered best practice in Australia.

MIS must comply with disclosure requirements contained in the Accounting Standards and the Corporations Act 2001. RSE must comply with disclosure requirements contained in the Accounting Standards.

All listed MIS (there are no listed RSE) must comply with disclosure requirements contained within the Australian Stock Exchange's (ASX) - Official Listing Rules, as well as additional disclosure requirement specifically for listed registered schemes included in the Corporations Act 2001.

Classes of units

Financial statements are required which incorporate all classes of units.

There is no requirement to produce financial statements for each class of units if they are all issued within the one legal entity.

1.2 Requirement to audit financial statements

MIS and RSE are required to have their annual financial report audited and obtain an auditor's report. Disclosing entities must have their half-year financial report either audited or reviewed and obtain an auditor's report or an auditor's review report.

1.3 Publication of financial statements

MIS are required to lodge their annual financial reports with ASIC within three months after the end of the financial year. RSE must lodge a prescribed annual return of financial and other information with APRA within four months after the end of the financial year, together with a copy of the audit report on the RSE's annual financial report.

Disclosing entities required to prepare half-year financial reports, must lodge the reports with ASIC within 75 days after the end of the half-year.

MIS are required to provide members copies of the annual financial report, the directors' report and the auditor's report on the financial report for the financial year within three months after the end of the financial year.

RSE are only required to provide members copies of the annual trustee report, which contains certain prescribed financial information. The report must be provided with six months of year end. Trustees are also required to provide members with a copy of the audited financial report of the RSE upon receipt of a written request from the member.

1.4 Accounting standards

MIS and RSE must prepare financial reports in accordance with Australian Accounting Standards as issued by the Australian Accounting Standards Board (AASB).

RSE must prepare financial reports in accordance with AAS 25 Financial Reporting by Superannuation Plans. The AASB has a project to comprehensively review the requirements of AAS 25 and an exposure draft is expected to be released in 2009.

1.5 Contents of financial report

Requirements for inclusion in annual financial report of MIS:

	Required by AASB	Complied with for Best Practice
Directors' report	No	Yes*
Income statement which includes all income less expenses plus realized and unrealized gains and losses	Yes	Yes
Statement of recognized income and expenses	Yes	Yes
Balance sheet	Yes	Yes
Statement of cash flows	Yes	Yes
Statement of compliance with accounting standards	Yes	Yes
Statement of significant accounting policies	Yes	Yes
Segment reporting	Yes*	Yes*
Accounting estimates and judgments	Yes	Yes
Interest income	Yes	Yes
Gains and losses on debt and equity investments designated at fair value through profit and loss	Yes	Yes
Auditors' remuneration	Yes	Yes
Cash and cash equivalents	Yes	Yes
Investments	Yes	Yes
Balances due from/to broker	Yes	Yes
Distributions paid and payable	Yes	Yes
Reconciliation of cash flows from operating activities	Yes	Yes
Financial instruments	Yes	Yes
Related party transactions	Yes	Yes
Commitments and contingent assets and liabilities	Yes	Yes
Subsequent events	Yes	Yes
Changes in accounting policy	Yes	Yes

Note: *Applicable to listed MIS only.

*Specific requirement of the Corporations Act.

The Corporations Act operates as a national act throughout all states and territories of Australia. The Act requires the financial report to include the financial statements and notes to the financial statements as required by the accounting standards. Therefore, by default all requirements listed above are required by law.

Requirements for inclusion in annual financial report of RSE:

	Required by AASB	Complied with for Best Practice
Operating statement/statement of changes in net assets	Yes	Yes
Statement of financial position/statement of net assets	Yes	Yes
Statement of cash flows	Yes**	Yes
Statement of significant accounting policies	Yes	Yes
Statement of compliance with accounting standards	Yes	Yes
Payables	Yes	Yes
General administration expenses	Yes	Yes
Investments	Yes	Yes
Movements in net market values***	Yes	Yes
Auditors' remuneration	Yes	Yes
Income tax expense	Yes	Yes
Deferred tax assets and liabilities	Yes	Yes
Liability for accrued benefits and funding arrangements	Yes	Yes
Vested benefits	Yes	Yes
Guaranteed benefits	Yes	Yes
Operating leases	Yes	Yes
Related party transactions	Yes	Yes
Investment manager	Yes	Yes
Additional financial instruments disclosure	Yes	Yes
Commitments and contingent assets and liabilities	Yes	Yes
Subsequent events	Yes	Yes
Changes in accounting policy	Yes	Yes

**Not required for Defined Benefit Superannuation Funds

***Net market value as defined by AAS 25

Accounting treatments

The following accounting treatments should be used in the preparation of the financial report for MIS:

	Required by AASB	Complied with for Best Practice
Acquisition costs of the fund manager are amortized over the life of the contract	Yes	Yes
Derivatives are shown on balance sheet and are stated at fair value	Yes	Yes
Financial instruments are valued at fair value	Yes	Yes
Transaction costs on initial acquisition of financial assets should be expensed as incurred in the income statement	Yes	Yes
Listed investments are measured at bid price	Yes	Yes
Unit holders' funds which meet the definition of a puttable instrument are classified as liabilities	Yes	Yes
Holdings in other registered schemes are consolidated if the scheme holds > 50% of the shares of the underlying scheme	Yes	Yes

The following accounting treatments should be used in the preparation of the financial report for RSE:

	Required by AASB	Complied with for Best Practice
Derivatives are shown on balance sheet and are stated at net market value	Yes	Yes
Financial instruments are valued at net market value	Yes	Yes
Listed investments are measured at net market value	Yes	Yes
All other assets and liabilities are measured at net market value	Yes	Yes
Members' accrued benefits are classified as liabilities	Yes	Yes
Holdings in other registered schemes are consolidated if the scheme holds > 50% of the shares of the underlying scheme	Yes	Yes

Appendix 1

Reference Material

The following details relevant laws and regulations for schemes and provides Web addresses where this material can be located:

Regulatory

Australian Securities and Investments Commission

- <http://www.asic.gov.au>

Australian Prudential Regulation Authority

- <http://www.apra.gov.au>

Australian Stock Exchange

- <http://www.asx.com.au>

Law

Corporations Act 2001

- <http://www.comlaw.gov.au>

Superannuation Industry (Supervision) Act

- <http://www.comlaw.gov.au>

Australian Taxation Office

- <http://www.ato.gov.au>

Other

Australian Accounting Standards Board

- <http://www.aasb.com.au>

Investment and Financial Services Association

- <http://www.ifsa.com.au>

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.