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Bermuda

Accounting

FUNDS AND FUND MANAGEMENT 2009

1.1 Requirement to produce financial statements

Requirement to maintain the books and records in the local jurisdiction.

Investment funds set up as a company are required to keep a registered office in Bermuda. They are also required to have a minimum of two directors, one director and the secretary or the secretary and resident representative, ordinarily resident in Bermuda. If the books and records of the fund are not kept in Bermuda, there needs to be adequate books and records maintained at the Bermuda office for the directors or resident representative to ascertain the financial position of the company at the end of each three-month period.

The Bermuda Monetary Authority (BMA) will usually prefer to deal with a Bermuda administrator and it is common practice for investment funds to have an administrator based in Bermuda.

Preparation of financial statements by investment funds

See Section 1.5 for rules regarding the financial statements of investment funds.

The directors of the investment fund are responsible for the preparation of the financial statements; however, the actual process of generating the statements is usually delegated to the administrator.

There is no requirement by the BMA for management to sign the financial statements. However, the annual statement of compliance (confirming compliance with the regulations), which has to be filed by each fund, may be signed by a director of the manager.

Before being laid before a general meeting of a company, financial statements must be signed by two directors of the company on the balance sheet.

Choice of period/year end for investment funds

Investment funds may choose their year-end.

Requirement for comparatives

Comparatives are not required under BMA regulations, however, they may be required depending on the Generally Accepted Accounting Principles (GAAP) applied by the investment fund.

Restrictions on the currency under which financial statements must be prepared

There is no restriction on the currency under which financial statements must be prepared.

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

The regulations are issued by the BMA. The Institute of Chartered Accountants of Bermuda (ICAB) has not issued any funds industry specific accounting publications. Depending on the GAAP followed by the investment fund there may be accounting guidance, such as the AICPA issues guidance under U.S. GAAP and the Canadian Institute of Chartered Accountants (CICA) has issued research studies under Canadian GAAP.

Use of short form accounts

Legislation does not provide for short form accounts.

Umbrella schemes

Bermuda law makes no distinction between types of investments funds. Subject to the investment fund byelaws, there are no specific financial statement requirements for umbrella schemes.

Classes of shares

Financials will generally present all classes of shares. However, if this is not done, that is, only one class is presented, the existence of the other classes should be disclosed and the financial statements should make it clear that they are only for one class, not the company as a whole.

If the directors chose not to present financial statements for a class, they may waive the requirement to produce financial statements and have an audit, with unanimous consent of the shareholders. As a practical matter, this would only occur where a class has only one or a few shareholders.

1.2 Requirement to audit financial statements

Unless the directors and all shareholders otherwise agree, investment funds are required to prepare and distribute annually to investors a financial report containing audited financial statements. Interim financial statements do not require an audit.

1.3 Publication of financial statements

Investment funds are not required to publish their financial statements. However, the prospectus filed by the fund must include the most recent set of financial statements.

Investment funds are not required to file their financial statements with the BMA.

1.4 Accounting standards

The BMA Regulations require investment funds to adopt appropriate GAAP in preparing financial statements. In making such a decision, the directors are required to consider the appropriateness of the GAAP to be selected in relation to:

- the requirements of any securities authorities or agencies, or supervisory or regulatory bodies to which the investment fund is subject;
- the country or jurisdiction in which the majority of investors or potential investors in the investment fund reside;
- the countries in which the sponsor, promoter and investment advisor are located; and
- the proposed business of the investment scheme and the nature of its investments.

Because Bermuda is an international financial center, GAAP of various countries (such as Canada, the United States, and the United Kingdom) or IFRS may be appropriate. The majority of funds adopt U.S. GAAP. Because ICAB is a member of the CICA, Bermuda's default GAAP is Canadian GAAP.

1.5 Contents of financial statements

The content of the financial statements is determined by the GAAP followed. As indicated in section 1.4, GAAP of many countries are acceptable.

Under the regulations an investment fund must include, subject to the requirements of GAAP, the following in the audited financial statements:

- A statement of net assets, a balance sheet, or a statement of assets and liabilities, which includes:
 - cash and bank balances;
 - investment balances;
 - unrealized gains (losses) on derivative financial instruments;
 - accrued investment income receivable;
 - amounts receivable on subscriptions for the scheme's securities;
 - receivables in respect of sales of investments;
 - unamortized organization costs;
 - loans and other forms of borrowing;
 - amounts payable on redemption of the scheme's securities;
 - amounts payable on distributions;
 - the value of net assets; and
 - net asset value per security.
- A statement of operations, or a statement of income and expenses, which includes:
 - investment income by significant category;
 - other income;
 - such other expenses as are material, including amortization of organization costs, auditor's fees, legal fees, and other professional fees;
 - taxes;
 - net income;
 - realized gains (losses) on investments and foreign currencies; and
 - unrealized gains (losses) on investments and foreign currencies
- A statement of changes in net assets which includes:
 - increases in net assets resulting from subscriptions during the year;
 - decreases in net assets resulting from redemptions during the year;
 - distributions made during the year, if any; and
 - the impact of operations on the net assets for the year, including, if not separately disclosed elsewhere, net

investment income (loss), realized gains (losses) on investment and foreign currencies, and unrealized gains (losses) on investment and foreign currencies.

- Notes to the financial statements containing disclosure which include:
 - the GAAP that has been followed in the preparation of the financial statements;
 - significant accounting policies, including:
 - the basis of valuation of investments including unquoted and unlisted investments;
 - the basis of recognition of investment income;
 - foreign currency translation policies and disposition of gains (losses);
 - the basis of amortization of organization costs, if material; and
 - any other accounting policy adopted to deal with items which are judged material;
 - any changes to accounting policies made during the period;
 - an analysis of the material contingent liabilities not provided for in the financial statements; and
 - any other disclosures as required under GAAP or the applicable listing rules.

Appendix

Reference Material

The following details the relevant laws and regulations for investment funds and fund management companies and provides web addresses (in certain instances) for where this material can be located:

Regulator

Bermuda Monetary Authority (BMA): www.bma.bm

Laws and Regulations

Investment Funds Act 2006

Fund Prospectus Rules 2007

Fund Rules 2007

The Investment Business Act 2003 (the Act)

Companies Act 1981, as amended

The Companies (Financial Statements and Auditor's Report) Rules 1995

Note: All of the laws and regulations noted above may be found on the Government of Bermuda's law database Web site at www.bermulaws.bm

Stock exchange

Bermuda Stock Exchange (BSX), www.bsx.com , BSX: Listing Offshore Funds

Taxation authority

Bermuda is a tax neutral jurisdiction. Bermuda does not impose any income or capital gain taxes on resident individuals or entities. Some individuals or entities may be subject to taxation by other countries as a result of their citizenship (such as U.S. citizens) or by virtue of being deemed by the tax laws of another jurisdiction to be tax resident.

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