



China

Accounting

FUNDS AND FUND MANAGEMENT 2009

1.1 Requirements concerning financial statements

Requirement for maintaining books and records

A fund management company is required to regard each fund it manages as a separate entity and maintain accounting records separately. Funds must be independent of each other in respect of registration, bank accounts, cash transfers, and bookkeeping.

Production of financial statements by collective investment funds

Each fund is required to issue annual, semi-annual, quarterly, and monthly financial statements.¹ The funds management company is responsible for the preparation of these financial statements.

Period and year-end for collective investment funds

The financial accounting year is from 1 January to 31 December.²

According to the Measures for Disclosure of Securities Investment Funds issued by the China Securities Regulatory Commission (CSRC) since 2004, there is no requirement for a fund to issue quarterly, semiannual, or annual financial statements if the fund is launched within two months before the respective period-end dates.

Requirement of comparative figures

The financial statements of a fund include its balance sheet, income, and appropriation statements, and the statement of changes to net asset value for

¹ Securities Investment Funds Law, 2004, People's Republic of China (PRC); Measures for Securities Investment Funds Bookkeeping, PRC.

² Accounting Laws of The People's Republic of China, 1999.

current periods and the year, with comparative figures for the corresponding period and year.³

Restrictions on the currency under which financial statements must be prepared

The accounting laws of the People's Republic of China state the following requirements for reporting currency:

- The reporting currency must be in Chinese Yuan Renminbi (CNY)
- Reporting entities with operating income and expenses denominated in currencies other than CNY may be recorded in another currency, but all foreign currency transactions must be translated into renminbi in the financial statements

Measures for securities investment funds requires that a fund disclose information in Arabic numbers, with CNY as the currency unit.

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

In China, securities investment funds are governed by the accounting laws, Accounting Standards for Business Enterprises (2006), and Guidelines for Securities Investment Funds Bookkeeping. All listed funds (that is, close end fund) must comply with the disclosure requirements contained in the listing rules of Shanghai Stock Exchange and Shenzhen Stock Exchange.

Umbrella schemes

There are no regulations specific to the disclosure of umbrella schemes. In practice, a separate financial statement must be prepared for each sub fund and audited by a qualified accounting firm before they are published.

1.2 Requirement to audit financial statements

Financial statements included in an annual report are required to be audited.⁴ Fund audit reports should be issued by an accounting firm that is qualified for securities-related business.⁵ Certified Public Accountants are required to conduct their audit in conformity with China Standards on Auditing for Certified

³ "Content and Format Guidelines II—Content and Format of Annual Reports," Disclosure Measures for Securities Investment Funds, CSRC.

⁴ Disclosure Measures for Securities Investment Funds.

⁵ "Content and Format Guidelines II—Content and Format of Annual Reports," Disclosure Measures for Securities Investment Funds

Public Accountants and other related standards and regulations, and express an opinion of the financial statements and their compliance with terms in the fund contract.⁶

There are no audit requirements for interim reports.

1.3 Publication of financial statements

- Within 90 days of the end of the financial accounting year, fund managers are obliged to publish:
 - on their Web site, annual reports on the funds they manage; and
 - in specified publications, an abstract of those annual reports.⁷
- Within 60 days of the end of the first half-year, fund managers are obliged to publish:
 - on their Web site, semiannual reports on funds they manage;
 - in specified publications, an abstract of the semiannual report.⁸
- Within 15 days of the end of each quarter, fund managers are obliged to publish:
 - on their Web site, quarterly reports on the funds they manage; and
 - in specified publications, an abstract of those quarterly reports.⁹

Financial reports issued by funds should be filed with the CSRC on the next working day when these reports are disclosed to the public.

1.4 Accounting standards

In China, funds must apply the new Accounting Standards for Business Enterprises, that promulgated by the PRC's Ministry of Finance on 15 February 2006 and Guidelines for Securities Investment Funds Bookkeeping, which are promulgated by the Securities Association of China from 1 July 2007.

⁶ Ibid.

⁷ Disclosure Measures for Securities Investment Funds.

⁸ Ibid.

⁹ Ibid.

1.5 Contents of financial statements

Contents of a fund's annual financial statements should include:

- Audited financial statements and notes on the financial statement of funds.
- The following should be disclosed in notes to the financial statements:¹⁰
 - A brief introduction to the fund
 - Significant accounting policies, accounting assumptions, and their changes and impacts
 - Taxation
 - Illustration of significant items among the fund's financial statements, presenting comparative figures between two reporting dates or periods
 - Subsequent events to the balance sheet date
 - Related-party relationships and transactions, presenting no less than two years' related data
 - Illustration of any fund assets with restrictions on liquidity at the end of reporting periods
 - Other events requiring disclosure for better understanding and analysis of financial statements

1.6 Accounting treatments and disclosures

The following items must be included in the annual financial statements of a fund:¹¹

- The principal policies adopted in the preparation of the financial statements
- Accounting year
- Reporting currency
- Bases of preparation and measurement
- Basis of the fund's evaluation, including the evaluation of both listed and unlisted securities
- Method of cost evaluation of securities investment
- Amortization method and period of prepaid expenses

¹⁰ Measures for Securities Investment Funds No. 3—Preparation and Disclosure for Notes to Financial Statements.

¹¹ The accounting regulations shall only apply to the Security Investment funds which are publicly raised in the People's Republic of China.

- Revenue recognition
- Expenses recognition
- Principles of the fund's profit appropriation
- Other accounting policies and estimates adopted for significant events which may affect the fund's financial status and operations
- If there are changes in accounting policies and/or estimations during the period, the details or the reasons of the changes, and the effects of the changes or the reasons why the cumulative effects of the changes cannot be reasonably determined
- Correction of significant accounting errors and their consequent effects.

Notes to the fund's financial statements should be prepared in accordance with the principle of materiality. Financial statements of a fund should comply with Measures for Disclosure of Securities Investment Fund No.3—the Preparation and Disclosure for notes to Financial Statement when illustrating significant items in fund financial statements.

Appendix 1

Reference Material

The following details relevant laws and regulations for securities investment funds and fund management companies, and in certain instances, provides Web addresses for where this material can be located:

Regulators and Exchanges

- MOF: www.mof.gov.cn
- CSRC: www.csrc.gov.cn
- Shanghai Stock Exchange: www.sse.com.cn
- Shenzhen Stock Exchange: www.sse.org.cn

Laws and Regulations

- Accounting Law, 2000
- Company Law, 2006
- Securities Law, 2006
- Securities Investment Fund Laws, 2004
- Measures for Securities Investment Fund Operations, 2005
- Disclosure Measures for Securities Investment Funds, 2005

- Accounting Standards for Business Enterprises, 2006
- Guidelines for Securities Investment Funds Bookkeeping, 2007
- The Guiding Opinions on Further Regulating the Valuation Business of Securities Investment Funds. 2008

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.