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Czech Republic

Accounting

FUNDS AND FUND MANAGEMENT 2009

1.1 Requirement to produce financial statements

Requirement to maintain the books and records in the local jurisdiction

There is no requirement to physically maintain the books and records in the Czech Republic. Nevertheless, the books must be in the Czech language and must be available for inspection on request.

Production of financial statements by collective investment funds

Czech investment companies are required to produce annual financial statements for the investment company and its mutual funds in accordance with the Act on Accounting and the Act on Collective Investment. Furthermore, the investment company is required to produce a report on its financial situation and the financial situation of its mutual funds on an annual and semiannual basis in accordance with the Act on Collective Investment.

The statutory body of the investment company is responsible for the preparation of the financial statements. The financial statements have to be signed by the statutory body.

Choice of period/year-end for collective investment funds

Theoretically, investment funds can choose their own year-end, however as the information requirements are based on the calendar year, a year-end other than 31 December is not practically possible.

Requirement for comparatives

In financial statements, comparatives for the one previous period are required. Furthermore, the annual report prepared under the Act on Collective Investment must include comparatives for one last year at least.

Restrictions on the currency under which financial statements must be prepared

Financial statements of investment funds and investment companies must be prepared in the Czech currency.

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

Funds and investment companies must prepare financial statements according to the chart of accounts for banks and other financial institutions including specific differences for funds. KPMG in the Czech Republic is not aware of any special accounting publications for the funds industry issued by accounting bodies or the regulator.

Use of short form accounts

Czech accounting legislation regulates the short form of financial statements. However, such form of financial statements cannot be used by investment funds and investment companies.

Umbrella schemes

As Czech legislation does not address the umbrella structures directly, such structures are not allowed.

Classes of shares

Czech legislation does not distinguish between different classes of shares in investment funds.

1.2 Requirement to audit financial statements

The annual financial statements of investment funds require an annual audit. The audited financial statements must be published within four months of the year-end. If the audit is not completed in the time-limit mentioned above, the financial statements must be published immediately after the audit is finished. There is no general requirement to audit the interim financial statements.

The audit must be performed by an auditor registered with the Chamber of Auditors.

1.3 Publication of financial statements

Reports on financial situation are prepared semi-annually. Only the annual report on financial situation has to include audited financial statements.

The reports must be submitted to the Securities Centre, Czech National Bank (successor of Securities Commission), and the fund's custodian, and must be made available at the registered office within four months for annual and one month for semiannual reports. Electronic versions are not allowed.

The annual report on financial situation must include the full set of financial statements and audit report. Other necessary information to be included is set out in the Ministerial Regulation no. 603/2006 providing the Collective Investment Act.

Specific obligatory additional information includes the following:

- Composition of the portfolio of securities, (if the relevant type of security exceeds 1 percent of the equity of the fund) structured according to the issuer and the type of security.
- Value of the participation certificate of all managed mutual funds and description of its development during the reported period. Number of participation certificates purchased and sold for each mutual fund.
- Information on borrowers of securities, unsettled options, or forward transactions.
- Information on persons holding more than 10 percent of the registered capital or voting rights of the investment company or investment fund.
- Other information, for example, with respect to expected future developments.

1.4 Accounting standards

For accounting purposes, the Czech Act on Accounting and Czech Accounting Standards issued by the Ministry of Finance of the Czech Republic must always be followed. Financial statements using international financial reporting standards or generally accepted accounting principles can also be prepared.

1.5 Contents of financial statements

Requirement for inclusion in annual financial statements:

	Required by law	Required by GAAP	Complied with for Best Practice
A statement which includes all income less expenses plus realized and unrealized gains and losses	Yes	Yes	Yes
A statement which only includes income less expenses	No	No	No
A statement which only includes income less expenses plus realized gains and losses	No	No	No
Statements of net assets and liabilities	No	No	No
Statement of changes in net assets	Yes	Yes	Yes
Cash flow statement	No	No	No
Statement of accounting policies	Yes	Yes	Yes
3 year net asset value table	Yes	Yes	Yes
5 year net asset value table	No	No	No

1.6 Accounting treatments and disclosures

The following items must be included in the annual financial statements:

	Required by law	Required by GAAP	Complied with for Best Practice
Futures are shown on balance sheet using the grossed up notional amount	No	No	No
Futures are shown on the balance sheet based on the margin outstanding	No	No	No
Futures are shown on the balance sheet based on the margin outstanding and the margin paid to date	No	No	No
Organization costs are written off immediately	Yes	Yes	Yes

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	Required by law	Required by GAAP	Complied with for Best Practice
Organization costs are amortized over one year	No	No	No
Organization costs are amortized over more than one year	No	No	No
Issue costs are charged to the statement of operations	Yes	Yes	Yes
Issue costs are netted off against creation proceeds	No	No	No
Contingent deferred sales charges are recorded as income	No	No	No
Contingent deferred sales charges are netted off against redemption proceeds	No	No	No
Holdings in other collective investment funds are consolidated if the fund holds > 50% of the underlying collective investment fund's shares	No	No	No
Methods used in financial statement presentation to measure listed investments are:			
Cost	No	No	No
Market value:			
bid	No	No	No
mid	Yes	Yes	Yes
offer	No	No	No
close	Yes	Yes	Yes
price at any time during the day	No	No	No
The financial statements distinguish between income and capital	Yes	Yes	Yes

Appendix

Reference Material

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

Regulator

All relevant information can be found on the internet pages of the Czech National Bank: <http://www.cnb.cz>

Stock exchange

<http://www.pse.cz>

Taxation authority

<http://finance.statnisprava.cz>

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.