

A large, abstract graphic of a network or sphere made of interconnected blue nodes and lines, positioned in the upper right background. The nodes are 3D cubes, and the lines are thin, glowing blue tubes. The overall effect is a complex, interconnected web.

Hong Kong

Accounting

FUNDS AND FUND MANAGEMENT 2009

1.1 Requirement to produce financial statements

Requirement to maintain the books and records in the local jurisdiction

The Code on Unit Trusts and Mutual Funds (the Unit Trust Code) requires the management company to maintain books and records of funds authorized by the Hong Kong Securities and Futures Commission (authorized funds).

Production of financial statements by collective investment funds

The Unit Trust Code requires the production of interim and annual financial statements for authorized funds.

For corporate vehicles, the directors are responsible for the preparation of the financial statements. For unit trusts, the manager takes responsibility for the preparation of the financial statements.

Typically, two directors would sign the financial statements for corporate vehicles and the manager and the trustee would sign for unit trusts.

Choice of period/year-end for collective investment funds

Collective investment funds can choose their own year/period-end.

Requirement for comparatives

Comparatives are required.

Restriction on the currency under which financial statements must be prepared

There is no restriction on the currency that can be used in the preparation of financial statements.

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

Chapter 8 of and Appendix E to the Unit Trust Code specify certain disclosure requirements to be included in the financial statements of authorized funds.

Use of short form accounts

There are no provisions in legislation for short form accounts.

Umbrella funds

For unit trust umbrella funds, there is no requirement to produce financial statements for the umbrella or to produce separate financial statements for each sub fund. However, financial statements need to be produced for each authorized sub-fund and it is common practice for funds to produce financial statements for the umbrella with separate financials for each sub-fund included.

Classes of shares

Financial statements are required to incorporate all classes of shares. There is no requirement that separate financial statements be produced for each class of share.

1.2 Requirement to audit financial statements

Annual financial statements of authorized funds must be audited but it is not necessary that an audit be carried out of interim financial statements.

The auditor must be independent of the management company, the trustee/custodian, and, in the case of a mutual fund corporation, the directors.

1.3 Publication of financial statements

For authorized funds, annual reports and audited financial statements must be published and distributed to unit/share holders within four months of the end of the fund's financial year and interim reports must be published within two months of the end of the period they cover. For unauthorized funds, the time frame for the distribution of annual reports and financial statements is specified in the explanatory memorandum of the funds.

There is no specific requirement in the Unit Trust Code in respect of the method of publishing the financial statements. It is the common practice to issue printed copies of financial statements for distribution to the investors.

Subsequent to the authorization, the fund, its management company and trustee/custodian must file all financial reports produced for the fund with the Hong Kong Securities and Futures Commission within the time frame specified above.

1.4 Accounting standards

There is no restriction on the type of accounting standards that may be used.

1.5 Contents of annual report and annual financial statements

Summary of the major requirements:

	Required by Unit Trust Code (for authorized funds only)	Required by GAAP
A statement which includes all income less expenses plus realized and unrealized gains and losses ^{1,2}	No	Yes
A statement which includes all income less expenses ²	Yes	No
A statement which only includes income less expenses plus realized gains and losses ^{1,2}	No	No
Statement of assets and liabilities	Yes	Yes
Statement of changes in net assets	No, but a Statement of Movements in Capital Account is required.	Yes
Cash flow statement	No	Yes
Distribution statement	Yes	No
Statement of accounting policies	Yes	Yes
A table showing the net asset value (NAV) and NAV per unit/share over the last 3 financial years	Yes	No

	Required by Unit Trust Code (for authorized funds only)	Required by GAAP
A performance record over the last 10 financial years (showing the highest issue price and the lowest redemption price during each year)	Yes	No

Notes

1. The accounting standards in Hong Kong have been fully converged with International Financial Reporting Standards (IFRS) effective 1 January 2005.
2. The Unit Trust Code sets out items, where applicable, must be disclosed in the annual financial statements. It, however, does not dictate the format or the order or those items.

1.6 Accounting treatments and disclosures

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

	Required by Unit Trust Code (for authorized funds only)	Required by GAAP
Futures are shown on balance sheet using the grossed up notional amount	No	No
Futures are shown on the balance sheet based on the margin outstanding	No	No
Futures are shown on the balance sheet based on the margin outstanding and the margin paid to date	No	Yes
Organization costs are written off immediately	No	Yes
Organization costs are amortized over one year	No	No
Organization costs are amortized over more than one year	No	No
Issue costs are netted off against creation proceeds	No	No
Contingent deferred sales charges are recorded as income	No	No
Contingent deferred sales charges are netted off against redemption proceeds	No	No
Methods used in financial statements presentation to measure listed investments are:		

	Required by Unit Trust Code (for authorized funds only)	Required by GAAP
Cost	No	No
Market value:		
bid	No	Yes
mid	No	No
offer	No	Yes
close	No	No
price at any time during the day	No	No
Transaction costs arising from sale/purchase of investment are recognized as expenses in the revenue statement	No	Yes
The gains or losses of investment are disclosed separately if material	No	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:

Accounting pronouncements

Hong Kong Institute of Certified Public Accountants (HKICPA)
www.hkicpa.org.hk

Regulator

The Hong Kong Securities and Futures Commission (SFC)
www.hksfc.org.hk

Taxation Authority - Inland Revenue Department

<http://www.ird.gov.hk/eng/welcome.htm>

Industry Association

The Hong Kong Investment Funds Association (HKIFA)

www.hkifa.com.hk

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