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India

Accounting

FUNDS AND FUND MANAGEMENT 2009

1.0 Accounting

In India, the regulator for governing mutual fund is the Securities and Exchange Board of India (SEBI). As part of its regulations, it governs maintenance of books of account and preparation of financial statements.

1.1 Requirement to produce financial statements

Requirement to maintain the books and records in the local jurisdiction

Every asset management company is required to keep and maintain proper books of accounts, records, and documents for each scheme and to intimate the regulator of the place where such books of accounts, records, and documents are maintained.

Production of financial statements by collective investment funds

Collective investment funds are required to produce financial statements. The regulator, that is, SEBI, requires the schemes to prepare financial statements every year.

The financial statements are to be prepared by the investment manager and signed by the trustees as well as the directors of the asset management company.

Choice of year/period-end for collective investment funds

The financial year for all the schemes should end on 31 March each year and comparatives are required for the financial statements.

Restrictions on the currency under which financial statements must be prepared

The reporting currency is India Rupee (INR).

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

The regulations issued by regulator cover accounting aspects of the schemes such as form and content of the balance sheet, revenue account, accounting policies, etc.

Use of short form accounts

The regulations detail the contents of abridged revenue accounts and balance sheets for the schemes.

Umbrella schemes

Financial statements are required for umbrella schemes including all sub funds. The fund can additionally produce financial statements for each sub fund.

Classes of shares

In India, funds are formed as trusts. The financial statements incorporate all classes of units and financial statements are required to be produced for each class of share.

1.2 Requirement to audit financial statements

Annual financial statements are required to be audited every financial year.

Interim financial statements are not required to be audited.

Every mutual fund shall need to have the annual accounts audited by an auditor who is not in any way associated with the audit of the asset management company.

1.3 Publication of financial statements

The annual accounts are required to be mailed to all unitholders within six months from the date of closure of each financial year. The unaudited half yearly accounts are also to be published within one month from the close of each half-year.

Annual accounts are required to be filed with the regulator within six months from the date of closure of each financial year. Unaudited half-yearly accounts are to be filed within two months from the close of each half year.

Abridged annual accounts can be sent to the investors in lieu of the full set of financial statements. However, a full set of financial statements shall be

available at the head office of the mutual fund and shall be made available to the unit holders.

The format of abridged accounts is prescribed by SEBI regulations.

1.4 Accounting standards

Indian Generally Accepted Accounting Principles (GAAP) must be used for preparation of financial statements.

1.5 Contents of financial statements

Requirement for inclusion in annual financial statements:

	Required by law	Required by GAAP (India)	Complied with for Best Practice
A statement which includes all income less expenses plus realized and unrealized gains and losses	Unrealized gains are shown below the line and unrealized losses are shown as a above the line adjustment in the revenue account	No	No
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	Yes	No	No
Statement of changes in net assets	No	No	No
Cash flow statement	No	Yes – in case the turnover exceeds the specified limits	No
Statement of accounting policies	Yes	Yes	No
3 year net asset value table	Yes	No	No
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 (India)	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	Yes	No
Organization costs are written off immediately	In case of open ended schemes and close ended schemes launched after 31 January 2008, initial issue expenses are adjusted against the load collected and not charged to scheme. In case of closed end schemes launched prior to 31 January 2008, initial issue expenses are amortized in the scheme.	Yes	No
Organization costs are amortized over one year	No	No	No
Organization costs are amortized over more than one year	Yes. In case of closed end schemes launched prior to 31 January 2008, initial issue expenses are amortized in the scheme.	No	No

	Required by law	Required by GAAP (India)	Complied with for Best Practice
Issue costs are charged to the statement of operations	In case of closed end schemes launched prior to 31 January 2008, initial issue expenses are amortized in the scheme.	No	No
Issue costs are netted off against creation proceeds	Initial issue expenses are adjusted against the load collected and not charged to scheme.	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: close	Yes	No	Yes
The financial statements distinguish between income and capital	Yes	No	No

Appendix

Reference material

The following details 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:

Securities and Exchange Board of India Mutual Fund Regulations 1996

www.sebi.gov.in

Accounting pronouncements

Institute of Chartered Accountants of India. Specific guidelines issued by Securities and Exchange Board of India

Regulator

Securities and Exchange Board of India

Stock exchange

Listing agreement

Taxation authority

Income tax authority, service tax authority

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