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Italy

Accounting

FUNDS AND FUND MANAGEMENT 2009

1.1 Requirement to produce financial statements

Requirement to maintain the books and records in the local jurisdiction

Italian law requires that fund management companies ensure that each collective investment fund portfolio is managed separately. To this end, all cash and financial instruments relating to each collective fund must be deposited in a specific account for each fund.

Accordingly, fund management companies should ensure that accounting records are managed separately, for each collective fund.

It follows that fund management companies' accounting records do not reflect transactions performed on behalf of collective funds. Moreover, the annual financial statements of fund management companies, which are governed by Banca d'Italia under regulations issued on 14 February 2006, only report the companies' results and contain very limited information on the volumes of managed collective investment funds or on commitments for unsettled transactions.

Fund management companies are required to keep a general ledger for each collective investment fund. Such general ledger should include daily records of all transactions relating to the management of the fund as well as all subscriptions and redemptions pursuant to Article 2 of decree No. 228/99 of the Treasury Ministry.

Production of financial statements by collective investment funds

Under Banca d'Italia Regulations issued on 14 April 2005 and Legislative decree no. 58/98, fund management companies are required to prepare annual financial statements for each fund at year-end.

In addition, fund management companies are required to prepare half-year reports on the funds' performance.

When collective investment funds distribute dividends periodically, financial statements should be prepared at the end of the shortest period in which dividends are distributed.

The board of directors of the fund management company, which has to approve the annual financial statements of each fund within 60 days of the last working day of the year, is responsible for preparing the funds' financial statements.

Choice of period/year-end for collective investment funds

Annual financial statements should be prepared at the last trading day of the year, in accordance with paragraph three, section VI, chapter IV of Banca d'Italia regulation of 14 April 2005.

Should collective investment funds distribute dividends periodically, the financial statements should be prepared to the end of the shortest period in which dividends are distributed. If this is the case, relevant legislation allows fund management companies to prepare a report comprised of the balance sheet and profit and loss account only. However, fund management companies which exercise this power, are also required to prepare complete financial statements (balance sheet, profit and loss account, notes to the financial statements and directors' report) for a 12-month period.

Requirements for comparatives

Banca d'Italia regulation of 14 April 2005 provides that the funds' balance sheet and profit and loss account be prepared with comparative figures. This requirement also extends to certain schedules in the notes to the financial statements.

Restrictions on the currency under which financial statements must be prepared

The report should be prepared in Euro, pursuant to Banca d'Italia regulation of 14 April 2005 and article 2423 of the Italian Civil Code.

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

There are no accounting publications specific to the funds industry issued by accounting bodies in Italy. A trade organization dedicated to the industry, Assogestioni, publishes infrequent guidance papers dealing with specific accounting matters.

Asset management should be conducted in compliance with a specific Banca d'Italia regulation (14 April 2005), which also covers the minimum content of annual and interim financial statements.

Use of short-form accounts

There are no provisions in legislation relating to short-form accounts.

Umbrella schemes

Paragraph three, section VI, chapter IV of regulation dated 14 April 2005 provides that where funds are split into sub funds, individual financial statements should be produced for each sub fund, including specific accounting schedules.

Different schedules are required for the reports on open-ended and closed-ended investment funds as well as for OEICs.

1.2 Requirement to audit financial statements

Collective investment funds

Annual financial statements on collective investment funds governed by Banca d'Italia are subject to audit pursuant to the Consolidated Finance Act (Section 2 of Article 9 and Article 156 of Legislative decree no. 58/98).

The half year financial statements, which fund management companies are required to prepare for each fund, are not subject to audit, unless a dividend is distributed.

Funds management company

The annual financial statements of fund management companies are subject to audit pursuant to the Consolidated Finance Act (Section 2 of Article 9 and Article 156 of Legislative decree no. 58/98) and the approval of shareholders within four months of the balance sheet date. The financial statements, with the accompanying independent auditors' report, should be filed at the companies' registered offices at least fifteen days before the date scheduled for the shareholders' meeting.

The funds' annual financial statements are audited after the approval by the Board of Directors. Specifically, the auditor of the fund management company's financial statements should also express an opinion on the financial statements of the collective investment fund, pursuant to Section 2 of Article 9 and Article 156 of Legislative decree no. 58/98.

The audit firm has to be independent from the fund management company.

1.3 Publication of financial statements

Article 3 of the Ministerial decree of 24 May 1999 sets out the methods for publication of financial statements of collective investment funds.

The annual and half year financial statements of collective investment funds as well as the schedule illustrating how the unit value was determined should be made available to the public at the office of the related fund management company.

The half-year financial statements must be prepared within thirty days of the date they are prepared and the schedule illustrating how the unit value was determined should be disclosed to the public the day after it is prepared and should be published in the newspaper. On the contrary, annual financial statements must be prepared and disclosed within 60 days of the date they are prepared, but always before any dividend distribution (when applicable). The annual financial statements must be audited and disclosed to Banca d'Italia within ninety days of the beginning of the year, but always before any dividend distribution (when applicable).

Furthermore, the latest annual financial statements and the latest half year financial statements should be made available to the public on file at the depository bank and at its branches. Investors have the right to have copies sent to their homes at no charge.

Forms of publication for reserved and speculative funds other than those discussed above may be allowed provided that they are specified in the fund's regulations.

The supervisory authorities in Italy are CONSOB (the Italian Commission for Listed Companies and the Stock Exchange) and Banca d'Italia.

The fund management company (or the promoting company) is required to send CONSOB the financial statements of the investment fund along with the directors' report and the independent auditors' report within 30 days of the deadline set for their preparation pursuant to point t), Article 10 of CONSOB resolution no. 14015 of 1 April 2003. The same deadline is established for Banca d'Italia (paragraph 4.1, section IV, chapter IV of Banca d'Italia Regulation dated 14 April 2005).

The deadline for the statistic report is the 25th of the month following that in which the board of directors of the fund management company resolved to approve the financial statements, pursuant to the supervisory instructions for fund management companies issued by Banca d'Italia in circular no. 189, General Instructions paragraph 4.2.

1.4 Accounting standards

The generally accepted accounting principles (GAAP) used for collective investment funds in Italy are governed by Banca d'Italia, and integrated and interpreted by the accounting principles promulgated by the Italian accounting profession. Italian GAAP and Banca d'Italia regulations (20 September and 14 April 2005) must be complied with.

1.5 Contents of financial statements

The structure of financial statements reports is not flexible: indeed contents are provided by Banca d'Italia Regulations issued on 14 April 2005 (www.bancaditalia.it).

Requirements for inclusion in annual financial statements mainly include:

	Required by Law	Required by Italian GAAP	Complied with for Best Practice
A statement which includes all income and 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 and unrealized gains and losses	No	No	No
Statements of net assets and liabilities	Yes	Yes	Yes
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

For each asset/liability and income/expense caption the Annex IV.6.1 to the Regulations issued on 14 April 2005 by Banca d'Italia (www.bancaditalia.it), establishes specific formats.

Financial statements also include the Directors' report.

1.6 Accounting treatments and disclosures:

Transactions are recorded at the date they take place.

The following items must be included in annual financial statements:

	Required by Law	Required by Italian 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 balance sheet based on the margin outstanding	Yes	Yes	Yes
Futures are shown on balance sheet based on the margin outstanding and the margin paid to date	No	No	No
Organization costs are written off immediately ¹	No	No	No
Organization costs are amortized over one year ¹	No	No	No
Issue costs are charged to the statements of operations ¹	No	No	No
Issue costs are netted against creation proceeds ¹	No	No	No
Contingent deferred sales charges are recorded as income	No	No	No
Contingent deferred sales charges are netted off against redemptions proceeds	No	No	No
Holdings in other collective funds are consolidated if the fund holds > 50 percent of the underlying collective investment fund's shares	No	No	No
Methods used in financial statement presentation to measure listed investments are:	No	No	No
Cost	No	No	No
Market value ²	Valuation method is described in the prospectus		
The financial statements distinguish between income and capital			

Notes

¹ Organization and issue costs cannot be recorded in the funds' financial statements; they are recorded in the profit and loss of the asset management company.

2 Unlisted financial instruments are measured at cost adjusted by their recoverable amount. Real estate and private equity funds are exempted from this requirement. The value of real estate assets are appraised by a third party expert.

Financial statements also include income taxes (12.5 percent) calculated on the net results of the fund, considering subscriptions and redemptions (that can be either a credit or a debit position, depending on the result). This treatment may change during the year; indeed, the Italian government is considering to apply taxation directly to clients upon redemption.

Appendix I

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) of where this material can be located:

Accounting pronouncements

- Banca d'Italia: Regulation dated 14 April 2005, Regulation dated 24 December 1999: www.bancaditalia.it
- Parliament: Law no. 58/98, Consolidated Finance Act: www.parlamento.it

Regulator

www.consob.it

www.bancaditalia.it

Taxation authority

www.finanze.it

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