

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.

# United Kingdom

## Accounting

FUNDS AND FUND MANAGEMENT 2009

### 1.1 Requirement to produce financial statements

#### Requirement to maintain the books and records in the local jurisdiction

UK authorized funds (UK AFs), which in the UK comprise authorized unit trusts (AUTs) and open-ended investment companies (OEICs). OEICs are also, occasionally known as investment companies with variable capital (ICVCs). UK AFs must maintain accounting records but are not required to maintain the fund's accounting records in the United Kingdom.

The accounting records must be sufficient to show the disposition of assets and liabilities at all times; must be maintained for a minimum period of six years and for the first two years the Financial Services Authority (FSA) requires the accounting records to be accessible to the firm managing the UK AF within 24 hours, including where the accounting records are maintained by an administrator outside the United Kingdom.

The accounting records must be sufficient to allow reliable pricing of units to permit unit dealing. For UCITS retail funds pricing must be undertaken at least twice a month but it is typically undertaken daily; for non-UCITS retail funds the pricing may be less frequent but is also typically undertaken daily. In part this reflects taxation rules and investor expectations regarding unit dealing.

#### Production of financial statements by collective investment funds

The FSA publishes rules that require authorized funds to prepare annual and half-yearly reports and financial statements.

Guidance on accounting, the form and content of annual and half-yearly reports, are contained in the statement of recommended practice (SORP) for authorized funds issued by the Investment Management Association (IMA) in November 2008 (the AF SORP 2008). This revised version of the SORP applies for accounting periods commencing on and after 1 January 2009, however early adoption is encouraged and the changes from the SORP issued in December 2005 may make early adoption attractive. A copy of the AF SORP 2008 is available on the IMA Web site:

<http://www.investmentuk.org/news/standards/sorp.pdf>

The authorized fund manager (the AFM), which for an OEIC is the authorized corporate director (referred to as the ACD), and for an AUT is the manager is responsible for the preparation of the annual and half-yearly report and financial statements. The AFM may contract with a third party to provide accounting services including the preparation of financial statements; however responsibility for the accounting records and for preparation of the financial statements remains with the AFM.

Each report of an OEIC must be signed by the ACD and, if there are other directors, must be approved by the board of directors and signed by the ACD and one other director. Two directors of the manager must sign each report for an AUT, unless that company (the manager) only has one director in which case that director must sign. Approval applies to both the annual and half-yearly reports and any other reports issued by the AFM.

### Choice of period/year-end for collective investment funds

Authorized funds may select any annual accounting reference date. The date will be recorded in the prospectus for the scheme. All funds in an umbrella scheme must have the same accounting reference date.

### Requirements for comparatives

The financial statements are required to provide comparative information. The information must be the equivalent information in the preceding accounting period. In the half-yearly report the comparatives required are the same half-year period in the previous year for the statement of total return but the last audited figures (that is, the last full accounting period) for the other primary statements. Comparatives are also required in the notes to the financial statements. The updated SORP issued in November 2008 moves the portfolio statement outside the financial statements; line by line comparatives are not required for the detailed portfolio but are required at the sector or geographical summary level.

### Restrictions on the currency under which financial statements must be prepared

Financial statements must be prepared in the base currency of the fund. Funds may offer currency class shares in currencies other than the currency of the fund but accounting will be in the base currency of the fund. Funds are also permitted to offer currency hedged class shares where class specific hedging transactions are used to hedge currency risk for the currency hedged class shareholders. Where umbrella schemes operate sub-funds in a currency other than the base currency of the umbrella company, the financial statements of the sub-fund will be prepared in the operating currency of that sub-fund. However, when preparing the accounts of the umbrella company the accounts

of a non-base currency sub-fund must be translated into the base currency in order to prepare the aggregate financial statements for the company as a whole.

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

In addition to Financial Reporting Standards published by the UK Accounting Standards Board, the most important documents regarding accounting and reporting by UK authorized funds are:

- the FSA's Rules for authorized funds – these are in the FSA's Collective Investment Schemes sourcebook (acronym: COLL);
- the Open-Ended Investment Companies Regulations 2001 (the OEIC Regulations);
- the SORP for Authorized Funds (the AF SORP); and
- the IMA issued a revised SORP in November 2008.

The FSA's COLL Rules for authorized funds, which are contained in the Specialist sourcebooks of the FSA Handbook, were issued in April 2004.

#### Use of short form accounts

The permissibility of preparing short form accounts was discontinued in February 2007. The short form account was replaced by the requirement to prepare short reports.

#### Requirement to prepare a short report

The FSA's COLL Rules require the AFM to prepare a short report for retail investors. An overview of the content of the short report is contained in section 4.5.5 of the COLL Rules.

The purpose of the short report is to inform the average investor regarding the disposition of the fund and the activity of the fund during the period. It is intended to be short – around two to four pages. The short report does not constitute the financial statements of the fund. It provides more investor friendly information and the reduction in length significantly reduced production and distribution costs.

The IMA has issued guidance on the form and content of the short report.

The AFM must still prepare full accounts and provide a copy of the full accounts to any investor or prospective investor who may request them.

### Umbrella schemes

Umbrella schemes must prepare full accounts comprising the accounts of all the sub-funds in the umbrella. Umbrella OEICs must also prepare aggregate financial statements combining the financial statements of all the sub-funds.

The COLL Rules require full accounts to be prepared for each sub-fund in an umbrella. The COLL Rules permit the accounts of a sub-fund to be published separately but the full accounts combining all sub-funds must also be prepared and be available to shareholders and prospective shareholders who request them.

Umbrella schemes are permitted to prepare a document comprising all the short reports for the funds within the umbrella but as these are not financial statements there is no aggregate short report for the umbrella company.

### Classes of shares

Under the COLL Rules both AUTs and OEICs may have more than one class of unit (unit is the common term for units in AUTs and shares in OEICs).

Whether there is one or many unit/share classes, all classes participate in a common pool of assets.

The financial statements of a fund with several share classes must comprise the assets and liabilities of all shares classes. Preparation of financial statements for one class of share is not permitted.

Rules permitting currency hedging were introduced in 2007 and extended to include the base currency shares in 2008.

## 1.2 Requirement to audit financial statements

The annual financial statements must be subject to a full scope audit in accordance with UK Auditing Standards by an eligible person. For an AUT, that is a person qualified for appointment as auditor of an authorized person. For an OEIC, which is itself defined as an authorized person, the auditor must be eligible for appointment as auditor under Part 42, section 1212 of the Companies Act 2006.

No audit is required of the half-yearly report or, if prepared, any other interim reports.

The short report, under the COLL Rules, is not subject to examination by the auditor. There is no auditors' statement in short reports.

### 1.3 Publication of financial statements

In the UK, there is no public repository for the reports and accounts of UK authorized funds.

UK AFs are required to submit the signed annual and half-yearly report and accounts to the FSA but the FSA does not maintain these on a public record.

Investors in the fund are entitled to receive the annual and half-yearly report and accounts. However, where those investors hold their investment through a nominee account, including a nominee account managed by the AFM, the AFM is not required to provide the report and accounts to these investors but may agree to make these available under the agreed terms of business.

The AFM must offer the most recent annual report and, if more recent, the most recent half-yearly report free of charge to all prospective investors before making the sale of units.

### 1.4 Accounting standards

UK AFs must follow UK Generally Accepted Accounting Principles (UK GAAP) and the Financial Reporting Standards issued by the UK Accounting Standards Board.

The introduction of International Financial Reporting Standards (IFRS) does not apply directly to UK AFs. However, the convergence of UK GAAP to IFRS may be relevant to UK AFs in the future.

As noted above, the detailed application of UK GAAP to authorized funds is set out in the AF SORP. The AF SORP achieves a high degree of consistency of accounting and presentation by UK AFs.

### 1.5 Contents of financial statements

Requirements for inclusion in financial statements:

	Required by law <sup>1</sup>	Required by UK GAAP	Complied with for Best Practice
An income statement which comprises revenue less expenses plus realized and unrealized gains and losses <sup>2</sup>	Yes	Yes	Yes
A statement which only includes income less expenses	Not permitted	Not permitted	Not permitted
A statement which only includes income less expenses plus realized gains and losses	Not permitted	Not permitted	Not permitted

	Required by law <sup>1</sup>	Required by UK GAAP	Complied with for Best Practice
Statements of net assets and liabilities (a balance sheet)	Yes	Yes	Yes
Statement of changes in net assets <sup>3</sup>	Yes	Yes	Yes
Cash flow statement	Not required	Exemption provided under FRS 1 <sup>4</sup>	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
5-year performance record <sup>5</sup>	Yes	Yes	Yes

### Notes

1. UK law establishes the FSA as the competent authority to establish the rules by which UK AFs must operate. Rules in the FSA's COLL sourcebook require the financial statements of AUTs and OEICs to be prepared in accordance with UK GAAP and the AF SORP. In addition to the FSA's COLL Rules, OEICs are subject to the Open-Ended Investment Companies Regulations 2001.
2. Income comprises gains and losses on investments plus revenue. Revenue less expenses and taxation of the fund are reported separately from the gains and losses on investments.
3. The statement of changes in net assets incorporates the return for the period after distributions, changes due to expansion and contraction of the units in issue and retained distributions on accumulation units. It also includes dilution levy where charged on unit transactions and stamp duty reserve tax paid by the fund.
4. Exemption does not apply to funds materially invested in land and buildings e.g. real property funds.
5. The fund must present a five year record (or, if shorter, a record covering the period for which the fund has existed) providing: the highest and lowest price of a unit of each class during each year; and net income distributed per unit in each year, taking into account any sub-division or consolidation of units that have occurred.

## 1.6 Accounting treatments and disclosures

The following must be included in annual financial statements:

	Required by law <small>Note 1 above</small>	Required by UK GAAP	Complied with for best practice
Futures are shown on balance sheet using the grossed up notional amount <sup>1</sup>	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	Yes	Yes	Yes
Organization costs are written off immediately	Yes	Yes	Yes
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 <sup>2</sup>	No	No	No
Issue costs are netted off against creation proceeds <sup>2</sup>	No	No	No
Contingent deferred sales charges are recorded as income <sup>3</sup>	No	No	No
Contingent deferred sales charges are netted off against redemption proceeds <sup>3</sup>	No	No	No

### Notes

- Following revisions to the AF SORP in 2005, derivatives held by funds must be shown in the balance sheet at market value, assets and liabilities must be shown separately (not netted off). If the use of derivatives is assessed as sophisticated in the Derivative Risk Management Process document, the economic effect disclosed in a sensitivity analysis note.
- Initial charges by the AFM, disclosed in the prospectus, are retained by the AFM and are outside the scope of the accounting records of the fund. Any permitted charge to the investor for dilution levy or stamp duty reserve tax provision must be paid into the fund and credited to the statement of movement in shareholders' funds.

3. Contingent deferred sales charges are not permitted for UK authorized funds.
4. This will generally be the case for a UK authorized UCITS or non-UCITS retail fund but for other funds, including QIS funds, where the investment powers are not prescribed by the Rules this would have to be assessed on a case by case basis.

Under the AF SORP the investments of the fund should be stated at bid-market value at the accounting date. Where there are daily valuations, it is acceptable to use that value rather than performing an additional valuation at the close of business on the accounting date. The date and time of the valuation must be stated in the financial statements

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.