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Via Electronic Delivery

Comments from Scottish Widows Investment Partnership Limited
on
IMA Invitation to Comment on the Statement of Recommended Practice (“SORP”) July 2013

Dear Sirs,

Following the release of **IMA Invitation to Comment on the Statement or Recommended Practice July 2013** Scottish Widows Investment Partnership Limited (“**SWIP**”) would like to make the following responses in relation to the questions in this document.

SWIP is one of Europe's largest asset management companies and part of Lloyds Banking Group plc (“**LBG**”). SWIP manage funds worth £145.79bn[1]. We have headquarters in Edinburgh and offices in London and New York. For the purposes of this memorandum the term “SWIP” is being used in general terms and refers to SWIP itself or any other of the affected SWIP Group of companies (which comprise various legal entities including four FCA authorised and regulated asset management companies). SWIP has a broad product range designed to meet investor needs covering the major asset classes of bonds, equities and real estate. We also offer both multi-manager and multi-asset funds as well as funds which adopt a socially responsible investment approach. SWIP also operates a number of private equity funds and structures where SWIP acts as general partner and operator of the limited partnership. SWIP as an asset management company provides asset management services to both institutional and retail clients.

General Comments

- SWIP welcomes the IMA's approach to allow industry consultation on the proposed SORP. This provides the opportunity not only to comment but to a period of consideration as to the wider effects of any proposed changes.
- With regards to implementation there remains the balancing of several regulatory changes all having differing dates, therefore any areas that require early adoption need to be highlighted. If possible it would be advantageous if implementation dates are aligned.
- SWIP has not yet considered the cost implications of the proposed changes, however it is expected there will be.

[1] Source: SWIP 30 June 2013

Specific Comments

SWIP would like to specifically comment on the following questions which directly impact SWIP:

Fair Value Disclosure

Q1. How many funds do you expect to have significant numbers of instruments that are valued using unobservable inputs?

SWIP have five Funds that currently have model prices plus a Property Trust investing mainly in direct property. In addition they also hold CIS schemes and other financial instruments. Therefore depending on the final definitions implemented, SWIP will be required to undertake a full review of all our holdings within our Regulated Funds to ensure that SWIP are comfortable with the category allocated.

Q2. Do you have systems or processes in place to support the IFRS reporting levels?

SWIP do not currently have systems or processes in place to support the IFRS levels therefore this would involve creating a reporting process in conjunction with our TPA.

Q3. Do you agree that the SORP's emphasis justifies the additional disclosure category for unobservable inputs? If not, please explain why.

There are certain types of Funds whose assets are going to fall into this category e.g. Property Assets so the level of disclosure requires further clarification. In addition the risk of the same assets being classified differently between investment houses is high and adds further confusion to Share Holders. SWIP believe that the proposal to split into four categories is welcomed subject to either clear guidance within the SORP itself or if deemed preferable within separate IMA guidance document.

Risk Disclosure

Q4. Do you agree with the generic approach for all authorised funds or should it be more focussed on UCITS with non-UCITS funds being dealt with by exception in Appendix III?

SWIP's optimal position would be to have one operating model across all our authorised funds however the challenge of the regulatory timetable may mean SWIP has separate models for UCITS and non-UCITS initially so the preference would be to have the option to deal with non-UCITS addressed by exception with a view to harmonising at a later date.

Q5. Do you agree with the integrated approach of using a single set of disclosures to satisfy the regulatory and accounting requirements?

SWIP agree with the proposed integrated approach of using a single set of disclosures to satisfy the regulatory and accounting requirements.

Aggregation

Q11. Do you agree with the removal of the aggregation?

SWIP agree with the removal of the aggregation as we believe it to be of no relevance to the Share Holders as they cannot hold an investment at OEIC level. However this leads to further clarifications being required as to how the Accounting Policies and Audit Opinion disclosure will alter due to the removal of this part of the report.

In addition SWIP outsources the Fund Accounting and Pricing for the Regulated Funds to a third party and has engaged in discussion with that party to understand the wider aspects of the questions and changes referred to within the SORP, together with their impact on SWIP Funds.

SWIP would therefore like to comment on the following questions:

AIFMD

Q6. Do you think the SORP should define realised and unrealised gains/losses for non-UCITS funds?

It would be good to have further clarity on the previous underlying decision to remove the disclosure split of unrealised and realised in prior SORPs and understand further the reasons why the reintroduction is deemed necessary.

Q7. If so, should it use definition A, B or something else?

Option A contains a change of process for all investments. This however would be a standard process so easier to maintain and avoid inconsistency depending on the type of asset. Option B leaves the majority of assets as they currently are however this is based on the Fund Management Company decision of categorisation. This may differ across Companies thus inconsistent treatment and disclosure of the same assets within different Funds.

SWIP's preference is to ensure consistency as it reduces risk and the removal of differing opinions on assets thus is a fairer approach. Within current processes there is a split of the unrealised and realised however this is based on the realised amount being all profits and losses taken to book cost on purchases and sales and the unrealised being the difference between the closing book cost and the valuation value. This may be the simplest and most accurate classification and would be our proposed disclosure for AIFMD.

Performance and Charges

Q8. Do you think the proposals will help investors better understand the performance and costs? If not, please suggest how it might be improved.

SWIP believe that combining current disclosures in one table is a sensible approach. However there are some areas which do not belong, in particular dilution disclosures (please see comments below). The table itself is clear however is likely to be very large if all share classes are included. Would a proposal to only show a representative share class be an option? This is currently used for SRRI disclosure and performance information.

Q9. Are there any aspects of the proposals that you think will be particularly troublesome to produce?

SWIP believe the Annual Report is not the correct place to provide the disclosure of the dilution including costs of purchases and sales (i.e. broker's costs etc). In our experience Share Holders go to Prospectus which is generally historic.

SWIP have created a "Monthly Dilution Flyer" which provides, on a monthly basis, more up to date information on the levels of dilution which may be applied and the number of times in the past year this has occurred. In addition (to comply with the enhanced charges that the IMA requested Fund Managers disclose) this document was extended to include the percentage level of SDRT and purchase and sales transaction costs.

SWIP believe with the introduction of this document we have provided the required information in a client friendly and clear manner. SWIP have attached two versions for your information.

The other area of disclosure that SWIP believe troublesome is Multi Manager Funds as underlying information may not be easy to obtain.

The final area we see causing concern is how the average spread across the market will be calculated and obtained.   Clear definitions, of "market" and the "acceptable source" e.g. TPA, Brokers, Trustees or Managers, are required or this may cause more confusion and disparity between funds within the same sector.

Income Recognition

Q10. Do you agree with the simplification of the principles for recognising revenue from debt securities?

Although providing the option to remove a potential complicated calculation, this may lead to problems comparing funds performance within sectors. The policy on income recognition would be open to client making fund specific instructions thus inconsistency may lead to more confusion for the Share Holder. SWIP therefore would like further clarity on whether this policy may be adopted at fund, asset or range of funds level and how this decision should be linked to the fund objectives and the IMA performance sector.

We would be happy to discuss our responses with you.

Yours sincerely,

Swip Investment Accounting and Regulatory Risk
Scottish Widows Investment Partnership Limited