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31 October 2013

The SORP Working Group
The Investment Management Association
65 Kingsway, London
Greater London, WC2B 6TD

Re: Invitation to comment – Exposure Draft: SORP for UK Authorised Funds

To whom it may concern,

BlackRock is one of the world's pre-eminent investment management firms and a premier provider of global investment management, risk management and advisory services to institutional and retail clients around the world.

BlackRock is a premier provider of asset management, risk management, and advisory services to institutional, intermediary, and individual clients worldwide. As of 30 September 2013, the firm manages £2.54 trillion across asset classes in separate accounts, mutual funds, other pooled investment vehicles, and the industry-leading iShares® exchange-traded funds.

Through BlackRock Solutions®, the firm offers risk management and advisory services that combine capital markets expertise with proprietarily-developed analytics, systems, and technology. BlackRock Solutions currently provides risk management and enterprise investment services for £8.73 trillion in assets.

BlackRock serves clients in North and South America, Europe, Asia, Australia, Africa, and the Middle East. Headquartered in New York, the firm maintains offices in 30 countries around the world.

BlackRock is pleased to have the opportunity to respond to the proposed revised Statement of Recommended Practice (SORP) for UK Authorised Funds. We support the revision of the SORP which is a positive piece of work that is being carried out by the Investment Management Association (IMA) and we appreciate the conscious effort being made to strike the appropriate balance of providing investors with a clear and transparent picture of fund performance and results without overwhelming investors with too much information that is likely to be lost in translation and add little value. Our responses to the questions posed are set out below;

Question 1 - How many funds do you expect to have significant numbers of instruments that are valued using unobservable inputs?

We do not expect to have a significant number of funds holding instruments that are valued using unobservable inputs.

Question 2 - Do you have systems or processes in place to support the IFRS reporting levels?
Yes – the core accounting system utilised by our service partner has the functionality to enable fair value hierarchy reporting in accordance with IFRS.

Given the framework established under IFRS (which is consistent with US GAAP) is internationally recognised and understood, we would propose that if the proposed SORP is to require leveling disclosures, the IFRS fair value hierarchy is incorporated into the SORP. This will ensure operational efficiency and comparability with IFRS and US GAAP accounts.

We understand that the current proposal in the SORP aims to meet the requirements of FRS102 while striving to retain comparability with IFRS and US GAAP. The divergence in determining the levels between IFRS [IFRS13:72] and FRS102 [paragraph 11.27] is unhelpful as it moves away from the widely established and understood approach currently used in practice and may be problematic from an implementation perspective. The changes will introduce additional operating requirements to adapt IFRS based reporting and system developments will need to be considered to provide reporting compliant with FRS102 in parallel with IFRS reporting requirements.

Market practice has yet to emerge on how best to meet the disclosure requirements of FRS102. In this context, whilst including a template FRS102 style hierarchy in the SORP could be helpful in reaching a workable implementation, there is a risk of the SORP potentially falling out of line with market practice and reducing comparability and understandability of disclosures in authorised funds relative to other UK GAAP reporting entities. We feel that it may be more prudent to include only broad based guidance on any fair value hierarchy which will allow SORP users to follow market practice as it develops.

Question 3 - Do you agree that the SORP's emphasis justifies the additional disclosure category for unobservable inputs? If not, please explain why?

For the reasons outlined in our response to Question 2, our proposed approach would be to adopt the fair value hierarchy framework under IFRS13. If the SORP is to include a fair value hierarchy template, the sub-categorisation proposed would appear to be sensible. Separately disclosing those instruments that are valued using unobservable inputs is of significant benefit to investors in order to apply a full understanding of the extent to which judgment has been applied in determining fair value.

Question 4 - Do you agree with the generic approach for all authorised funds or should it be more focused on UCITS with non-UCITS funds being dealt with by exception in Appendix III?

We would support a more focused approach on UCITS with non-UCITS funds being dealt with by exception in Appendix III. We would recommend that any UCITS specific requirements are highlighted within the SORP to provide a clear distinction between the two frameworks.

Question 5 - Do you agree with the integrated approach of using a single set of disclosures to satisfy the regulatory and accounting requirements?

The objective of the financial statements is to provide information on the financial position and performance of a fund that is understandable and comparable to existing and prospective investors. In this context, we agree that adopting an integrated approach of using a single set of disclosures to satisfy the regulatory and accounting requirements would be beneficial to investors. However, the objective of the financial statements could be easily lost if the SORP attempted to disclose every regulatory requirement which may not be required to achieve the objective of the financial statements. For example, it would appear sensible and in the best interests of investors to align risk disclosures with regulatory requirements, to the extent of meeting accounting requirements, to appropriately capture the processes and techniques used in measuring and managing risk.

Question 6 - Do you think the SORP should define realised and unrealised gains/losses for non-UCITS funds?

We do not believe it is necessary for the SORP to define realised and unrealised gains and losses for non-UCITS funds.

Question 7 - If so, should it use definition A, B or something else?

If a definition is to be included, we would propose the approach taken in the Association of Investment Companies SORP, where profits or losses arising on the disposal of investments are shown separately from profits or losses arising from the revaluation of investments held at the reporting date. This is more understandable to investors and in line with the traditional historical cost accounting model where realised gains and losses are those that arise on the disposal of an investment and unrealised gains and losses are those gains and losses on investments that remain in the portfolio at the reporting date.

We would propose the following if a definition is to be included:

Realised
Gains and losses arising on the disposal of investments are calculated based upon proceeds from disposal less cost to acquire.

Unrealised
Gains and losses arising from the revaluation of investments held at the Balance Sheet date are calculated based on closing fair value less opening fair value, or cost if acquired during the period.

Question 8 - Do you think the proposals will help investors better understand the performance and costs? If not, please suggest how it might be improved.

Yes, we believe that that the proposals will help investors better understand the performance and costs of the fund in which they have invested. However, consideration should be given to the substantial amount of information that is already made available to investors to ensure consistency, comparability and understandability between all sources.

In a UCITS fund, investors have available to them information on performance and costs from the following sources;

- the Prospectus
- Factsheets
- Interim Reports and Accounts
- Annual Reports and Accounts
- the Key Investor Information Document ("KIID")
- IMA enhanced disclosure of Fund Charges and Costs

The usefulness of the disclosure would be somewhat diminished if a fund has multiple classes of shares with similar cost structures due to unnecessary duplication. Furthermore, substantial disclosures on charges and costs at a share class level are already provided to investors and prospective investors through the KIID and IMA enhanced disclosures of fund charges and costs. Information on portfolio transaction costs is also included in the IMA enhanced disclosures on fund charges and costs as well as being separately disclosed in the annual Reports and Accounts. As substantial information is already made available to investors, we propose that the disclosure in both the long and short reports be limited to the primary share class within a fund.

We see limited value in providing three years of data and would propose that disclosure be limited in the long report to the current and prior reporting period consistent with the financial statements presented. In relation to the short report, we would propose that this disclosure is limited to the actual period of the report so that it remains an appropriate length and meets its objective of being a summary report. The long report is made available should further information be required by investors.

Additional performance related information based on appropriate performance intervals of a fund e.g. last 5 years and since launch performance can continue to be voluntarily provided as currently done across the industry.

Question 9 - Are there any aspects of the proposals that you think will be particularly troublesome to produce?

If realised gains and losses are defined in the manner proposed under option A and B, this would cause serious operational issues as administrators' systems are not set up to calculate gains and losses in this way. Other than this, we do not believe there are any aspects of the proposals that will be particularly troublesome to produce. However, given retrospective application is currently being proposed, we recommend that early adoption is optional to allow those organisations with large fund ranges sufficient time to retrieve all required data.

Question 10 - Do you agree with the simplification of the principles for recognising revenue from debt securities?

Yes, we agree with the simplification of the principles for recognising revenue from debt securities.

Question 11 - Do you agree with the removal of the aggregation?

Yes, we agree with the removal of the aggregation.

Question 12 - What do you think would be the earliest feasible effective date?

Considering the scale of our business we propose an 'apply all' based approach for accounting periods beginning on or after 1 January 2015 in line with the effective date of FRS 102.

Question 13 - Which requirements need an earlier effective date?

We do not believe any requirements need an earlier effective date. As noted above in Question 12, we propose an 'apply all' based approach for accounting periods beginning on or after 1 January 2015 in line with the effective date of FRS 102.

Question 14 - Which requirements should be deferred?

Please see response to questions 12 & 13.

Question 15 - Do you think the proposed SORP satisfies the requirements of FRS 102?

Yes, we believe the proposed SORP addresses the principles of FRS102.

Question 16 - Do you have any other comments on the proposed SORP?

Fiscally transparent entity (para 1.26A): We believe that the definition should also be extended to entities that are fiscally transparent as regards to taxation of gains as well. This is relevant particularly in the case of an Authorised Contractual Scheme ('ACS') that is set up as a limited partnership. The assets held by a feeder fund in an ACS structured as a limited partnership is its share of underlying assets, and any disposal or other dealing with the assets may give rise directly to a capital gain or loss. In this context, it is recommended that a provision similar to clause 2.25A be introduced in relation to gains arising to the fund investing in a fiscally transparent entity as they arise in the entity, where the entity is transparent as regards to taxation of gains.

Transaction costs (para 3.35A): It should be clarified that the examples given in para 3.35A are in the context of UK stamp duty / SDRT as a fund may be incurring other local transaction taxes that may be applicable on various transactions.

Reconciliation of the number of shares of each class (para 3.76A): We understand that by including this requirement the SORP is being compliant with FRS102, but we do not believe it provides useful information to investors. The level of subscriptions and redemptions is disclosed in the statement of changes in net assets attributable to unitholders. If the level of redemptions is such that the fund is no longer a going concern then that would be separately disclosed. We would encourage the IMA to take this point forward with the Financial Reporting Council.

We appreciate the opportunity to address and comment on the revised SORP proposed by the IMA and are happy to work with the IMA on any specific issues which may assist in developing an appropriate financial reporting regime for UK authorised funds.

Overall, we believe the proposed SORP will improve the usefulness of information that will be comparable, understandable and transparent to our investors.

Yours Sincerely,

Tom McGrath
Vice President
European Fund Financial Reporting