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Dear Mark

**Exposure Draft: SORP for Authorised Funds (IMA Circular 197-13)**

EY welcomes the publication, by the Investment Management Association (IMA), of the Invitation to Comment on the revised Statement of Recommended Practice (SORP) for the financial statements of UK Authorised Funds. We are pleased to offer our views – set out in Appendix I - on the Exposure Draft.

In summary, we are supportive of the proposed changes to the existing IMA SORP. There are however a number of areas where we feel that further detail would be useful: these have been noted in our responses to the consultations questions.

For the avoidance of doubt, this is not a confidential response.

Please do not hesitate to contact us if you would like any further information: we should, of course, be happy to discuss any points in more detail.

Yours sincerely

Caroline Mercer  
Audit Director

Enc.

## Appendix I

### Exposure Draft: SORP for Authorised Funds

#### Invitation to comment – responses to specific questions

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

Not applicable to EY.

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

Not applicable to EY.

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

We agree. It is important that the SORP addresses the reporting level differences between IFRS and FRS102. The proposed further analysis of "Other valuation techniques" into observable and unobservable inputs, will provide investors with a level of disclosure to enable comparison with other offshore investment funds which are already reporting under IFRS.

***Q4 – 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***

Yes, we agree with the proposed generic approach for all authorised funds. This approach is consistent with the Financial Conduct Authority's (FCA's) longer term aim of amalgamating all regulatory requirements (including UCITS and Non-UCITS) into a single specialist sourcebook.

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

Yes we agree with the integrated approach.

FRS102 as well as UK regulatory requirements and ESMA's European risk disclosure guidance have all focused on increasing transparency over the investment risks, as well as providing greater harmonisation of regulatory practices. We therefore believe, given the extent of the regulatory risk guidance issued, that the integrated approach in the SORP could be further supported through additional guidance. This guidance could take the form of a decision flow chart linked to the relevant risk requirements. Such a decision flow chart would also help in adopting a consistent application of the proportionate risk disclosures and clarifying when further supporting numerical disclosures should be considered.

***Q6 – Do you think the SORP should define realised and unrealised gains / losses for Non-UCITS schemes***

Yes, we believe the SORP should provide a definition of realised and unrealised gains / losses for Non-UCITS schemes to ensure a consistent application across all authorised funds.

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

We support definition A.

AIFMD L2 Article 104 describes realised gains / losses on investments as representing gains / losses on the disposal of investments and unrealised gains / losses as representing the gains / losses on the revaluation of investments. Although AIFMD does not provide a definition, we believe it is clear from the description provided in Article 104 that amounts realised are recognised only when investments are disposed. From discussions with our colleagues in other European fund centres, we understand that realised and unrealised disclosures will be disclosed more in line with definition A.

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

We agree that the proposals will add value in aiding investors' understanding of performance and costs associated with their investments in funds. However, for those investors who are regular savers, their total performance will not be reflected as the tabular layout in pence per share assumes an investor has held the same level of investment for the entire accounting period. The proposed disclosure should, therefore, be clear that the performance and costs only represents the return of a single unit held for the entire period.

We also believe that the prescribed layout should make a distinction between revenue distributions paid and accumulation distributions re-invested as the suggested tabular performance layout could be subject to differing interpretation as to how the accumulation distributions are disclosed.

The IMA may also wish to consider whether it might be able to work with standard setters in the other major fund centres (e.g. Ireland and Luxembourg) to seek to ensure a common and consistent approach is adopted for performance and cost disclosures.

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

We are not aware, at the current time, of any aspects of the proposals that would be "particularly" troublesome to produce, although asset managers will have to determine the proportion of the swing relating to transaction costs, which will require some manual calculation. However, it should be noted that those funds which do not swing the price everyday (and operate a partial swing) are likely to recover a lower proportion of costs compared to those funds operating a daily swing price (full swing). Those authorised funds which swing the price every day may have the advantage of disclosing a lower percentage of transaction costs suffered.

Manual processes to collate and calculate the performance and costs are also likely to be required until such time as reporting systems are enhanced or developed.

***Q10 – Do you agree with the principles for recognising revenue from debt securities?***

Yes we agree. The change provides managers with greater flexibility to apply alternative methodologies, such as applying the premium / discount on a straight line basis over the life of the debt security.

***Q11 – Do you agree with the removal of the aggregation***

Yes, we agree. The disclosure of the aggregated financial statements should be removed as they have no relevance for investors in the individual sub-funds.

***Q12 – What do you think would be the earliest feasible effective date***

The proposed changes to the presentation of fund performance and investment charges will present asset managers with some challenges in the layout and design of their long form reports. However we do not expect that asset managers will need a particularly long lead time to implement. In line with the SORP exposure draft transition dates, we would anticipate that the earliest effective date should be for periods ending on or after 31 March 2014 provided COLL is amended accordingly.

**Q13 – Which requirements need an earlier effective date**

The proportionate risk disclosures and the proposed removal of the aggregate are viewed as being particularly positive for authorised funds. Setting an early effective date would allow asset managers to take advantage of those particular changes.

**Q14 – Which requirements should be deferred**

The accounting changes which are specific to FRS102 could be implemented at a later date (for those periods commencing on or after 1 January 2015).

**Q15 – Do you think the proposed SORP satisfies the requirements of FRS102**

We are not aware of any non-compliance issues in relation to the requirements of FRS102.

**Q16 Do you have any other comments on the proposed SORP**

*Fiscally transparent entities*

Para 2.25A of the proposed SORP clarifies the revenue recognition position for tax transparent entities. However in doing so it will also be necessary to ensure that the value accounted for as capital is a “clean value” to prevent the double counting of revenue.

*Income from collective investment schemes (other than fiscally transparent entities)*

Para 2.33 of the proposed SORP should make it clear that a policy choice still exists for a fund of funds. Similar to the point raised above in relation to para 2.25A, if a fund of funds does decide to recognise revenue from underlying collectives they will also have to make adjustments to the capital value to ensure that income is not double counted in the fund price.

*Rental income*

Para 2.54 provides details of the change in the accounting for lease incentives, to bring the UK in line with the current treatment under IFRS. However the proposed SORP could also make it clear that any change in accounting for lease incentives needs to be considered when valuing the investment properties held. Property values will also need to be adjusted to avoid any potential for double counting.

*Tax relief on expenses*

Para 3.60 allows for the fund not to take account of marginal tax relief on expenses charged to capital for the purposes of the distribution (on the basis that the tax relief is applicable to capital and income of the same class of share). This will be beneficial to those funds with an income investment objective, as it will enable them to maximise distributions by allocating expenses to capital for the purposes of the distribution. The proposed SORP is however silent with regard to marginal tax relief on taxable capital amounts such as ACD fee rebates and non-reporting fund income gains and therefore equally there are scenarios where not recognising marginal tax relief is beneficial to those funds looking to preserve capital value.

*Distributions at share class level*

Para. 3.57 states that where policies are specific to each class this should be disclosed along with any consequential impact on the value of capital. The proposed SORP should, however, be clear that it neither permits nor prohibits the varying of the distribution policy at share class level. In our view the applicable tax regulations covering non-discrimination need to be considered carefully before adopting a change to any existing distribution policies.