Dear Sirs,

Firstly, we welcome the draft SORP for UK Authorised Funds and we look forward to its publication next year.

We have reviewed the draft SORP dated July 2013 and wish to highlight our concerns relating to the recognition of dividend income and a slight inconsistency between section 2.22 and 2.32. We welcome the additional guidance in 2.22 which states that "Returns should be recognised as revenue or capital in accordance with their economic substance". However, this text remains subject to other sections, principally section 2.32 where the SORP refers to "where the receipt of a special dividend results in a significant reduction in the capita value …. then it …. should be recognised as capital".

To date, the majority of special dividends received by our unit trust have been revenue in nature when reviewing their economic substance. Many of these dividends have been relatively large, typically around7-12% of the share price. However, as long term holders of our investments (average is c.3 years), we have typically taken the special dividends to revenue and debated the meaning of "significant" with our auditors. It would be useful if the new SORP could provide additional guidance on what the IMA view as "significant", or our preference, would be to remove this sentence as it should not be relevant to dividends and section 2.22 would stand alone.

One further observation, not all investee companies declare such dividends as "special" and therefore, where they don't use the term "special", are we permitted to rely solely on section 2.22 and the economic substance of the return? In which case, this could lead to further inconsistencies.

Finally, we would find it particularly useful if the SORP gave additional guidance/examples where it would be more likely to take a return/dividend to revenue or capital. For example:

- Investee company returns surplus cash to its investors by way of a one-off substantial dividend in order to make better use of its working capital. The dividend represents revenue reserves and the company funds the dividend partly from operation cashflows and debt facilities. The company has not sold any businesses or assets to fund the dividend. The company has also announced this may be a regular feature in future. *Decision: Recognise as revenue?*
- Investee company starts making annual distributions after years of building up profits and cash balances. The distribution policy is set as 50% of net operating cashflows each year to be paid as a B share dividend to allow maximum tax benefits for shareholders (to be taken as income or capital tax receipt). The key point here is that the distribution is from operating cash flows but it represents around 8-10% of the current share price. *Decision: Recognise as revenue?*
- Investee company announces a dividend together with a one –off special dividend following the sale of its subsidiary or, say, buildings. The one-off dividend is not significant. *Decision: Recognise as capital?*

Please contact me if you wish to discuss the above points further. Any further clarification on these issues in the revised SORP would be very welcome.