

Exposure Draft: Statement of Recommended Practice (SORP) for the Financial Statements of UK Authorised Funds

Comments on proposals

2.73 Taxation

Clarification has been given that tax withheld on interest distributions should be shown “as part of ‘distributions payable on income units’” and not as part of the liability to corporation tax. However, tax is also withheld on interest distributions for accumulation share classes. It may therefore be more appropriate to shorten the line header to ‘distributions payable’.

3.12 Comparative table

We embrace the industry initiative, led by the IMA, to enhance the transparency of disclosure of performance and charges to shareholders. However, we question whether the financial statements (long reports) are the appropriate document for the additional disclosure as proposed by the introduction of the new comparative table. Although the long reports are available upon request to shareholders, the reality is that these documents are seldom requested.

Instead, it may be more appropriate to disclose additional information on Managers’ websites, in line with the enhanced disclosure of fund charges and costs.

In addition, the introduction of changes to the comparative table in the long reports would mean the focus of the information being shown in the long reports is different from that disclosed in the short reports (the documents that are sent to all shareholders). While we appreciate that the contents of the short reports are governed by COLL and are outwith the scope of the SORP, and that the requirement is only for the information disclosed in the short reports to be consistent with the long reports, we feel that the two should go hand in hand.

We agree with the proposal, pending amendments being made by the FCA to COLL 4.5.10, to change the reporting of the performance record from five to three years and from a calendar year to a financial year basis. The combination of calendar and financial period information can be confusing and misleading, particularly in the case of funds with an income mandate.

We note that the performance return in the comparative table **(3.12B)** is to two decimal places and wonder whether this is appropriate as other performance measurements e.g. the five year past performance table is quoted to one decimal place.

In relation to the additional disclosure on transaction costs **(3.12C)**, as our funds operate on a swinging single price basis with a dilution adjustment being applied whenever dealings in the shares of the funds result in shares being issues or cancelled, we agree that the proposed disclosure of transaction costs should factor in amounts recovered on units issued and cancelled. This provides a shareholder with an indication of the level of protection afforded to the fund through the application of the dilution adjustment. However, the amounts recovered on units issued and cancelled to be included in the

comparative table, are the relevant proportions of the amounts collected from dilution adjustments i.e. the element of the dilution adjustments that relate specifically to the brokerage costs and transfer taxes. Systems developments will therefore be required to extract this information from the dilution calculations and this time lag should be factored in to the timetable for adoption (see below).

We note that guidance will be required regarding the accuracy of the information to be disclosed i.e. number of significant figures/decimal places.

3.24A/Appendix III Additional guidance for non-UCITS funds

We note the specific disclosure requirements for non-UCITS funds as imposed by the AIFMD. **AIII.5** requires the disaggregating of gains or losses into their realised and unrealised components in the notes. We believe that a clearer definition of what constitutes realised and unrealised gains or losses would be helpful as without this interpretation may not be consistent across the industry.

3.33/3.48/3.49 Line items with nil amounts

We agree that there should be the option to retain line items with nil amounts as the inclusion of these may assist shareholders in interpreting accounts. We believe that the taxation line in accounts for bond funds is one such example.

3.48 Statement of change in net assets attributable to unitholders

We note that the proposed layout is unchanged but welcome the proposal that dilution adjustments can be shown separately from creations and cancellations of shares i.e. in line with the presentation of dilution levies. As noted above, we apply dilution adjustments to our funds and have been disclosing the dilution adjustment in the statement of change in net assets attributable, believing this to be a more meaningful disclosure to shareholders.

3.5 Aggregated financial statements

We welcome the proposal to remove the requirement to produce aggregated financial statements for an umbrella company. Following the adoption of the protected cell regime, it makes little sense to aggregate individual sub-funds' financial statements from the perspective of shareholders or from the perspective of creditors of a fund.

3.57 Distribution policies

While a clarification rather than a fundamental change, we welcome the proposed amendments to paragraphs **3.57** and **3.60**.

3.64 Risk management policies

We note the update in the information presented on the type and disclosure of the risks to which a fund is exposed, including the additional disclosure relating to risk management policies and the intention to align the financial instruments risk disclosures with the documented risk management policies and

procedures required under COLL. As this represents a different approach to disclosure from that used currently, we would welcome guidance in this area whether in the form of templates or proformas.

3.78-3.82 Interest rate and currency exposure (deleted)

We welcome the proposal removing the requirement to disclose interest rate and currency exposure. We believe these tables offered little benefit to shareholders and were a considerable administrative burden.

3.84 Fair value disclosure

We note the expansion of the fair value disclosure in paragraphs **3.84** and **3.85** and the requirement for the disclosure of the fair value hierarchy in the financial statements. We welcome **Appendix II – Illustrative application of fair value disclosures**. We note that this will have implications from a systems/data gathering perspective although an alignment of disclosure requirements across the financial industry (UK collectives, investments trusts and pension funds) would be helpful. Additional guidance on disclosure would also be welcomed.

Timetable for adoption

Our preference for adoption of the disclosure requirements for the new SORP would be for accounting periods commencing on and after 1 January 2015. This should provide sufficient time to implement the various changes to systems that would be required.