



Grant Thornton

Mark Sherwin
Investment Management Association
65 Kingsway
London
WC2B 6TD

31 October 2013

Dear Mark

Grant Thornton UK LLP
30 Finsbury Square
London EC2P 2YU

T +44 (0)20 7383 5100
F +44 (0)20 7184 4301
www.grant-thornton.co.uk

Statement of Recommended Practice: Financial Statements of Authorised Funds

Grant Thornton UK LLP welcomes the opportunity to comment on the IMA's exposure draft for a revised SORP. In this letter we set out our response to the various consultation questions contained in the exposure draft.

General comments

The SORP has a key role to play in promoting consistency of financial reporting in the authorised funds industry and we are very pleased that it will continue to perform that function under the recently revised framework for UK GAAP.

Response to consultation questions

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

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

As these questions are directed primarily at managers and administrators we have no hard data in relation to these questions. We would however anticipate that the number of instruments valued using unobservable inputs would be relatively low and that a number of administrators will be familiar with the IFRS reporting levels.

Q3. Do you agree that the SORP's emphasis justifies the additional disclosure category for unobservable inputs?

Yes. We support the approach set out in Appendix II of the SORP as it will provide additional useful information for investors over and above that specified in FRS 102.

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?

On balance, we agree with the generic approach as this will maintain a level of consistency in

Chartered Accountants

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see grant-thornton.co.uk for further details. Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No. OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP. A list of members is available from our registered office.

Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority.

reporting across authorised funds.

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

We would agree with this approach as it provides investors with disclosures which are aligned with the information used by the manager as part of the risk management framework. Also, in principle, it is consistent with the management approach used increasingly in accounting standards. This has a number of potential advantages including promoting symmetry of information throughout the annual report as well as potentially providing more useful information on a more cost effective basis.

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

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

Prior to AIFMD there has been no recent requirement to disclose this information - it is not required by accounting standards and is largely meaningless in an authorised funds context where capital gains are not taxable nor distributable regardless of the form that they may take, and where investments are predominantly highly liquid. Also AIFMD itself does not define what is realised and what is unrealised.

In light of the above, if industry participants were of a strong view on this matter having regard to systems capability then we would consider that this should be a key consideration. We agree with the SORP working party that there is arguably more merit in Option B than Option A, but given the overriding debatable utility of the information we would not strongly object if it were left to managers to determine the most appropriate basis, so long as the basis of calculation was clearly disclosed.

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

Our general observation on this area would be that whilst there has been much political debate about charges, what has received rather less attention is the quality of information regarding how the portfolio performance of the fund has been achieved. Thus there may be strong arguments for disclosure of a detailed attribution analysis for example.

We appreciate however that the focus of these revised disclosures is primarily driven by the desire to better explain charges and costs and in that respect we are of the view that the proposals have some merit. Given that long reports are not widely requested by investors we do however have some reservations regarding whether this is the best place for this information to be reported.

In terms of how the proposals might be improved, we have three comments on the clarity of the drafting:

1. Disclosure of performance % - the SORP does not currently specify the basis on which this information should be computed. We presume that it is intended to be based on NAV (ie from the table above) but adding a footnote for clarity might be worth considering.

2. Disclosure of operating charges per unit - we are unclear from the draft SORP whether it is intended that charges attributable to holdings in underlying schemes are required to be disclosed in all cases regardless of the level of holdings in other funds or whether the operating charges per unit are intended to mirror the charges used to compute the synthetic % required by CESR/10-674.
3. Transaction costs disclosures – it is stated that amounts collected from dilution levies and dilution adjustments are offset but it is not clear what approach should be taken for funds which are dual priced, with a view to maintaining comparability.

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

We have no comments on this question, which would be addressed best by managers and administrators.

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

We have no objections to the proposed simplifications.

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

Yes. In our view, aggregation provides no meaningful information for investors.

Q12. What do you think would be the earliest feasible effective date?

Again this would be a question for managers and administrators to address. However (subject to Q13 below) we see no problem with a general effective date of 1 January 2015 with early adoption permitted.

Q13. Which requirements need an earlier effective date?

We agree that (subject to the timing of COLL amendments) there is merit in having an earlier effective date in relation to the matters currently set out at paragraph 1.8 of the exposure draft. Consideration might also be given to clarifying the effective date of the CESR/ESMA requirements set out at 3.66B/C and 3.67B if these are to apply to all funds, for the avoidance of doubt. A mechanism enabling early access to the removal of aggregated accounts would also be useful if this regulatory change is effected by FCA/HM Treasury.

As a matter of general principle any matters directly related to FRS 102 would in our view need to be implemented at the same time.

Q14. Which requirements should be deferred?

We have not noted any matters which we consider should be deferred.

Q15. Do you think the proposed SORP satisfies the requirements of FRS 102?

As it would not be feasible for the SORP to duplicate all the requirements of accounting standards or to cover all the potential scenarios which funds may encounter, we have not carried out an analysis of the detailed requirements of FRS 102 for the purposes of this response and as such have no specific comments on this.

Q16. Do you have any other comments on the proposed SORP?

Other comments are set out below.

1. There are a number of areas in the SORP where accounting treatment follows tax treatment – accounting for reported income for example and, in the current exposure draft, revenue from fiscally transparent entities. Whilst we can understand the good reasons for this and also that these are primarily matters related to capital/revenue splits, it can create some tension with accounting principles. Paragraphs 2.25A and 2.64A (and perhaps indirectly in 2.33, although we are unclear how literally this paragraph is intended to be interpreted) for example introduce what is, in effect, 'look-through' accounting and our observation would be that this would not necessarily be treated equivalently in, for example, an investment trust.
2. In paragraph 3.66B we had wondered whether it was intended to require disclosure of leverage by all funds or just funds using VaR approaches under CESR/10-788. Also, in relation to information required to be disclosed in the annual report by CESR/ESMA more widely (but using leverage as an example), we wondered whether the working party had considered the location of information having regard to the cost implications of choosing to include this within the notes to the financial statements which are subject to audit. Similar considerations arise possibly in Appendix III (paragraph AIII.11).
3. In paragraph 2.76 dealing with consolidation, it might be helpful if the SORP were to clarify whether, in the event that consolidated accounts are required, it is considered necessary for "fund only" accounts to also be presented.

Should you wish to discuss further any of the matters raised in this letter please do not hesitate to contact us.

Yours sincerely



Marcus Swales
Partner, Financial Services Audit,
For Grant Thornton UK LLP