

Statement of Recommended Practice

Financial Statements of

UK Authorised Funds

Additional Guidance

December 2015

ADDITIONAL GUIDANCE



1. The Statement of Recommended Practice for the Financial Statements of UK Authorised Funds ("the SORP") was issued by the IMA in May 2014. The FCA rules (COLL) require authorised funds to apply the requirements of the SORP in preparing annual and half-yearly reports. In June 2015 The Investment Association initiated the first annual review of the SORP in accordance with the FRC's Policy and Code of Practice on SORPs. The review identified three areas where it would be helpful to provide additional guidance.
2. The purpose of this additional guidance is to assist practitioners in the preparation of financial statements. It does not form part of the SORP, nor has it been reviewed by the FRC. It attempts to explain and illustrate what is required under the SORP but does not carry the authority of the SORP.

VALUATION

3. Paragraphs 2.18 and 2.19 of the SORP require that a fund should value underlying holdings in other funds as follows: single-priced funds at the single price; dual-priced funds operated by the same authorised fund manager at the cancellation price; and other operators' dual-priced funds at the bid price.
4. The Investment Association is aware that these requirements do not provide an appropriate valuation of a feeder's holding in its master and leads to divergence in the respective performance records of the master and the feeder. Master-feeder arrangements are unique in that they are usually operated in concert as if they were a single entity. The effect of paragraphs 2.18 and 2.19 of the SORP is typically to cause the feeder to value its holding of units in the master at a premium or discount to the master's net asset value per unit.
5. Paragraph 2.20 of the SORP requires a feeder to carry the master at fair value. As a derogation from paragraphs 2.18 and 2.19, a feeder should determine the fair value of a master based on the net asset value per unit that corresponds to the master's balance sheet total. In the case of a UK authorised master, this will be the net asset value per unit reported in the master's comparative table in accordance with Appendix A of the SORP.

TRANSACTION COSTS

6. Paragraph 3.38 of the SORP requires total purchases and sales and associated direct transaction costs to be analysed for each significant asset class showing the amount of each type of direct transaction cost together with the percentage each represents of the relevant principal purchase or sale amount. A footnote indicates that derivatives should be included at the settlement amount of the contract.
7. In order to provide clarity The Investment Association is providing guidance on the meaning of the footnote.



8. The intention of paragraph 3.38 of the SORP was that the disclosure of purchases and sales would provide useful contextual information about direct transaction costs. However, derivatives do not have purchases or sales amounts so there is no meaningful contextual information to show alongside derivative transaction costs. Therefore the footnote to paragraph 3.38 was included in order that it is not necessary to derive notional implied purchase or sale amounts for derivatives.
9. In the interests of transparency, when making the disclosures required by paragraph 3.38 in respect derivatives, direct transaction costs should be presented even though no contextual figures are given for purchases or sales. It follows that percentages are not required.

RELATED PARTY TRANSACTIONS

10. Paragraph 3.95 of the SORP requires the authorised fund manager to identify any related parties and to make the disclosures required by section 33 of FRS 102. However, at the time the SORP was issued, the conditions in paragraph 33(b) of FRS 102 were such that the authorised fund manager would not generally be regarded as a related party of the authorised fund.
11. In July 2015 the FRC issued amendments to FRS 102 that changed the definition of a related party. As a result, the authorised fund manager will come to be regarded as a related party because it provides key management personnel services to the authorised fund. The amendment is applicable to accounting periods beginning on or after 1 January 2016 with earlier application permitted.
12. Section 33 of FRS 102 requires disclosure of the nature of the related party relationship as well as information about the transactions and outstanding balances. The amount of transactions and outstanding balances with their terms and conditions and the nature of the consideration to be provided should be given in addition to the total amounts incurred for the provision of key management personnel services.
13. In respect of the relationship with the authorised fund manager, the requirements of section 33 of FRS 102 should be satisfied by disclosing the following:
 - a. the nature of the relationship, and information about the transactions, with the authorised fund manager;
 - b. the total amounts receivable on issue of units for the year and the amount of any balances outstanding at the year end;
 - c. the total amounts payable on cancellation of units for the year and the amount of any balances outstanding at the year end;
 - d. the total amounts of fees or expenses payable to, or rebates receivable from, the authorised fund manager and associates for the year for providing services to the authorised fund and the amount of any balances outstanding at the year end; and

- e. where the amounts in d are yet to crystallise, details of the circumstances in which they may reverse.
14. The amounts in 13b and 13c should include equalisation and any dilution levy or adjustment.
 15. Although the amendment does not apply until a year after the SORP becomes mandatory, authorised fund managers should consider the need to present comparative information in respect of related party transactions and subject it to audit. One way to achieve this is by applying the guidance in paragraph 13 in the first year of SORP implementation.
 16. For the avoidance of doubt, the depositary or trustee does not perform key management personnel services and so will not be regarded as a related party.

