

THE  
INVESTMENT  
ASSOCIATION

# STATEMENT OF RECOMMENDED PRACTICE

Financial Statements of Authorised Funds

October 2025



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# Statement by the Financial Reporting Council

## **Financial Reporting Council’s statement on the *Statement of Recommended Practice: Financial Statements of Authorised Funds***

The purpose of the Financial Reporting Council (FRC) is to serve the public interest and support UK economic growth by upholding high standards of corporate governance, corporate reporting, audit and actuarial work. In relation to accounting standards applicable in the UK and Republic of Ireland, the FRC’s overriding objective is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users’ information needs. In particular industries or sectors, clarification of aspects of those standards may be needed in order for the standards to be applied in a manner that is relevant and provides useful information to users of financial statements in that industry or sector.

Such clarification in connection with accounting standards is issued in the form of Statements of Recommended Practice (SORPs) by bodies recognised for this purpose by the FRC. The Investment Association has confirmed that it shares the FRC’s aim of high-quality financial reporting and has been recognised by the FRC for the purpose of issuing a SORP for Authorised Funds.

In accordance with the FRC’s *Policy on Developing Statements of Recommended Practice (SORPs)* the FRC carried out a review of this SORP focusing on those aspects relevant to the financial statements but also including aspects relevant to the FRC’s broader responsibilities when appropriate.

On the basis of its review, the FRC has concluded that the SORP has been developed in accordance with the FRC’s *Policy on Developing SORPs* and does not appear to contain any fundamental points of principle that are unacceptable in the context of present financial reporting practices or to conflict with an accounting standard or to undermine the FRC’s broader objectives.

**Financial Reporting Council**  
**17 October 2025**

# 1. Introduction

- 1.1 Statements of Recommended Practice (SORPs) are sector-driven recommendations on financial reporting, auditing practices or actuarial practices for specialised industries, sectors or areas of work, or which supplement Financial Reporting Council (FRC) standards and other legal and regulatory requirements in the light of special factors prevailing or transactions undertaken in that particular industry, sector or area of work that are not addressed in FRC standards. SORPs also address matters that are addressed in FRC standards, but about which additional guidance is considered necessary. When there are policy options in FRC standards, a SORP may recommend the most appropriate option to the particular industry or sector. The accounting standards developed by the FRC are designated Financial Reporting Standards (FRSs).
- 1.2 The FRC has recognised the Investment Association (IA) as a SORP-making body for the purpose of developing and issuing the SORP for Authorised Funds. In entering this arrangement, the IA agrees to abide by the FRC's Policy on Developing SORPs. The Policy provides a due process for developing and maintaining SORPs and requires approval from the FRC at each key stage of the process. As a SORP-making body, the IA shares the FRC's aim of high-quality understandable financial reporting, proportionate to the size and complexity of the entity and users' information needs.
- 1.3 The recommendations of this SORP have been arrived at after consideration of all laws, regulations and applicable accounting standards issued before 31 March 2025. Notes on the legal requirements and applicable accounting standards are included in Appendix H.
- 1.4 Financial statements prepared in accordance with this SORP should comply with all accounting standards applicable at the relevant reporting date (which does not preclude early application when permitted). When the current edition of this SORP predates a change in legislation or accounting standards and a conflict is thereby created, or other developments lead to a conflict, the affected provisions of this SORP cease to have effect.
- 1.5 FRS 100 *Application of Financial Reporting Requirements* sets out the applicable financial reporting framework for entities preparing financial statements and specifies that SORPs are applicable when the financial statements are prepared in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. Although FRS 100 provides a choice of applying FRS 102 or UK-adopted international accounting standards, the application of FRS 102 is the only option consistent with the legal status of this SORP, as set out in paragraph 1.10.
- 1.6 In relation to FRS 102, this SORP is for guidance only and is not a substitute for referring to the full text version of FRS 102 which is a joint copyright document of the FRC and the IFRS Foundation.
- 1.7 FRS 104 *Interim Financial Reporting* defines the minimum requirements for interim financial reports and is intended for use by entities that prepare annual financial statements in accordance with FRS 102. The application of FRS 104 is not mandatory, and entities may choose to prepare either condensed interim financial statements and selected explanatory notes in accordance with FRS 104 or a complete set of financial statements as described in FRS 102.
- 1.8 The authorised fund manager is responsible for managing investors' contributions on a pooled basis in accordance with defined investment objectives and policies. Pooled contributions are most commonly invested in a portfolio of financial instruments and in certain types of authorised fund may also be invested in immovable property and, to a limited extent, precious metals. This SORP is written in the context of a portfolio of financial instruments with additional requirements specific to other types of assets being set out in separate appendices.

## OBJECTIVE

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- 1.9 The objective of this SORP is to provide recommendations for the preparation of the financial statements of all authorised funds. In addition to providing standard interpretations of accounting standards and other legal and regulatory requirements in so far as they relate to authorised funds, this SORP establishes principles for determining the nature of items of income as revenue or capital for the purposes of both distribution and taxation.

## APPLICATION

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- 1.10 This SORP applies to the annual and interim financial statements, portfolio statements, and comparative tables of authorised funds. Notwithstanding that SORPs describe “recommended” practice, compliance with this SORP is required by the Financial Conduct Authority’s (FCA’s) Collective Investment Schemes sourcebook (COLL). Consequently, the use of modal verbs (such as should, shall and must) should not be construed as implying different compliance expectations. The text indicates where requirements relate to the subject matter of accounting standards or COLL.

## DATE FROM WHICH EFFECTIVE

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- 1.11 This SORP was issued by the IA in October 2025 and supersedes all previous SORPs for Authorised Funds. The recommendations of this SORP are applicable for accounting periods beginning on or after 1 January 2026. Earlier application is permitted provided that the amendments to FRS 102 issued in March 2024 are applied at the same time and the disclosure required by paragraph 1.38 of FRS 102 is made.
- 1.12 A change to a valuation technique arising from the application of section 2A of FRS 102, such as adopting the mid-market pricing convention set out in paragraph 2.12, should be applied prospectively in accordance with paragraph 1.41 of FRS 102 from the date this SORP is first applied.

## BASIS OF PREPARATION

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- 1.13 Authorised funds are schemes whereby contributions from investors are pooled and managed together with the aim of spreading investment risk and generating an investment return. Investors are entitled to withdraw their contributions based on a price determined by reference to the fair value of the net assets. An authorised fund may be a stand-alone scheme whereby investors’ contributions form a single pool, or an umbrella scheme made up of separate pools where each pool is a sub-fund. The assets of each sub-fund are protected and cannot be used to discharge liabilities of any other sub-fund or the umbrella itself. The instrument constituting the fund may provide for different classes of unit to be issued by an authorised fund or each individual sub-fund. Where this is the case, the assets and liabilities of the authorised fund, or sub-fund, remain as one pool and are not separately owned by any individual unit class.
- 1.14 COLL requires the authorised fund manager to prepare annual and half-yearly reports that contain the accounts of each authorised fund, or each sub-fund in the case of an umbrella scheme, for each annual and half-yearly accounting period. The accounting periods are determined in accordance with COLL 6.8.2 R. Where the accounting period is shortened or extended in accordance with COLL 6.8.2 R (6) the disclosures required by paragraph 3.10 of FRS 102 should be given.
- 1.15 Where in accordance with COLL 6.8.2 R (4), the first annual accounting period would be less than six months long it may be extended to the end of the subsequent annual accounting period. Consequently,

the first annual report will cover the extended period. Where the first annual accounting period of a new sub-fund of an existing umbrella scheme is extended in this way, the annual report will contain the accounts of each sub-fund excluding the new sub-fund. The subsequent annual and half-yearly reports will contain the accounts of the new sub-fund covering the extended period, alongside the accounts of the existing sub-funds for the regular accounting period. The disclosures set out in paragraph 3.63 should be given in respect of each excluded sub-fund.

- 1.16 Where a regular valuation has been performed on the last business day of an accounting period, COLL 6.8.2 R (5A) permits the authorised fund manager to decide that the accounting period ends, and the subsequent accounting period begins, at the last regular valuation point on that day. Where such a decision has been made, the disclosures set out in paragraph 3.64 should be given. In the absence of such a decision, or where the last day of the accounting period is not a business day, each accounting period ends at the end of the last day of the accounting period and paragraph 2.15 applies (see Appendix G).
- 1.17 Paragraph 3.8 of FRS 102 requires the authorised fund manager to make a going concern assessment and, unless the assessment casts significant doubt on the ability of the authorised fund, or sub-fund, to continue as a going concern, prepare the accounts on a going concern basis. The disclosures appropriate to the outcome of the assessment, set out in paragraph 3.59, should be given.

## 2. Accounting

### ASSETS AND LIABILITIES

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- 2.1 Authorised fund managers should make the accounting policy choice set out in paragraphs 11.2(a) and 12.2(a) of FRS 102 to apply the provisions of sections 11 and 12 of FRS 102 in full and disclose this choice in accordance with paragraph 3.61.

#### Recognition and derecognition

- 2.2 The relevant requirements are set out in FRS 102. In particular, paragraphs 11.12 and 12.6 specify the initial recognition of financial assets and liabilities, paragraphs 11.13 and 12.7 specify the initial measurement, and paragraph 30.7 specifies the translation of transactions denominated in a foreign currency. Derecognition requirements are specified in paragraphs 11.33 and 12.14 for financial assets and paragraphs 11.36 and 12.14 for financial liabilities. Paragraph 11.34 specifies the treatment of transactions that do not result in derecognition, and paragraph 11.35 specifies the accounting for non-cash collateral.
- 2.3 Transactions should be recognised when a legally binding and unconditional right to obtain, or an obligation to deliver, an asset or liability arises.
- 2.4 Amounts receivable and payable should be recorded for transactions awaiting settlement between the trade date and the settlement date. Amounts outstanding for purchases and sales with the same broker should not be offset unless offsetting is required (see paragraph 2.8).
- 2.5 Accrued interest purchased and sold on interest-bearing securities should be excluded from the cost of these securities and recognised in revenue.
- 2.6 Transactions denominated in a foreign currency should be translated using the exchange rate prevailing on the date of the transaction.
- 2.7 Assets should be recognised when it is probable that an inflow of economic benefits will arise. Contingent assets, including potential recoveries of overseas withholding taxes, should not be recognised unless it becomes virtually certain that an inflow of economic benefits will arise.
- 2.8 Paragraphs 11.38A and 12.25W of FRS 102 require assets and liabilities to be offset when, and only when, a right to set off is legally enforceable and there is an intention to settle the asset and liability on a net basis or simultaneously.
- 2.9 Securities on loan should continue to be recognised and any collateral held in respect of such loans should not be recognised.

#### Valuation

- 2.10 Paragraphs 11.14 and 12.8 of FRS 102 specify the subsequent measurement of financial instruments. Paragraphs 11.14(d)(iv) and 12.8 require shares and derivatives to be measured at fair value. Debt instruments should be designated as at fair value in accordance with the option provided by paragraph 11.14(b)(ii). Section 2A of FRS 102 specifies the approach to be followed in estimating fair value. Paragraph 30.9 of FRS 102 specifies the translation of foreign currency values.
- 2.11 Regulations<sup>1</sup> require authorised fund managers to perform regular valuations of authorised funds for the purpose of determining the dealing price of units. The methodology for valuing the investments

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<sup>1</sup> COLL 6.3.3 R for retail schemes, COLL 8.5.9 R for QIS, COLL 15.8.2 R for LTAFs and Chapter IV of the UK version of Regulation (EU) 2017/1131 for money market funds. COLL 6.3.6 G provides further guidance for authorised fund managers of retail schemes.

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and other assets and liabilities for pricing purposes is laid down in the instrument constituting the fund and the prospectus.<sup>2</sup>

- 2.12 For the purposes of the financial statements all investments are to be valued at their fair value as at the end of the accounting period. According to paragraph 2A.15 of FRS 102, the best evidence of fair value is an unadjusted quoted price in an active market. Where separate bid and ask prices are quoted, paragraph 2A.18 of FRS 102 requires the most representative price within the bid-ask spread to be used. For authorised funds applying this SORP, the mid-market price is usually the pricing convention most representative of fair value unless circumstances require an alternative approach, such as when the financial statements are not prepared on a going concern basis. Where, in view of exceptional circumstances, for example the suspension of the market, the last quoted price is not used and a valuation technique is used instead, the notes should describe clearly the basis of valuation and the reasoning behind it in accordance with paragraph 3.61.
- 2.13 For derivatives, fair value reflects the price that would be required to close out the contract at the end of the accounting period. A contract is closed out by another contract that eliminates any further exposure to market movements or market risk. The income and expenditure relating to a derivative are generally required to be offset so that the risks and rewards are properly matched.
- 2.14 Fair value is normally determined by reference to quoted prices from reputable sources; that is the market price. If the authorised fund manager believes that the quoted price is unreliable, or if no recent price exists, a valuation technique is used whereby fair value is the authorised fund manager's best estimate of a fair and reasonable value for that investment arrived at in accordance with the instrument constituting the fund. The notes should include adequate details about the basis of the valuation, and a statement on how the authorised fund manager reached the valuation in accordance with paragraph 3.61. This statement should make it clear that the intention of the valuation was to estimate fair value.
- 2.15 In the absence of the decision described in paragraph 1.16, or where the last day of the accounting period is not a business day, the accounting period ends at the end of the last day of the accounting period. The valuation of the fund should reflect the last available price of each investment and, where relevant, the last available exchange rate. Where a valuation performed at the end of the last day of the accounting period would not be significantly different from a valuation performed at the last regular valuation point, the last regular valuation may be used as a suitable indicator of the value of the fund at the period end (see Appendix G).
- 2.16 Investments are valued at their fair value and are shown on the balance sheet excluding any element of accrued interest. Accruals should be included at realisable value.
- 2.17 Where a fund invests in other collective investment schemes, holdings should be valued at the quoted single price or, where separate buying and selling prices are quoted, at the midpoint of those prices excluding any preliminary charge.
- 2.18 As an exception to paragraph 2.17, a feeder in a master-feeder arrangement should carry the master at fair value based on the net asset value per unit that corresponds to the master's balance sheet total.

## INCOME

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### Revenue and capital

- 2.19 Income encompasses both revenue and capital gains/losses. For authorised funds it is necessary to distinguish revenue from capital for the purpose of determining the distribution.
- 2.20 Revenue includes items such as dividends, interest, fees, rent and equivalent items. Capital is the return, positive or negative, from holding investments other than that part of the return that is

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<sup>2</sup> It may be the case that the valuation for the financial statements is different to the valuation for determining unit dealing prices.

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revenue. Returns should be recognised as revenue or capital in accordance with their economic substance. Subject to this principle, the following sections of this SORP provide guidance on the items that should be recognised as revenue and those that should be recognised as capital.

- 2.21 The distribution for the period is determined by taking the revenue, deducting the expenses and taxation and making such other adjustments permitted by COLL as the authorised fund manager considers appropriate.
- 2.22 Revenue should be recognised when earned.
- 2.23 If it is expected that revenue receivable at the end of the accounting period will not be received, a provision should be made for the relevant amount.

### Fiscally transparent entities

- 2.24 Where a fund invests in a fiscally transparent entity, the revenue earned by that entity should be recognised as revenue by the fund.

### Derivatives

- 2.25 The treatment of the returns from derivatives<sup>3</sup> depends upon the nature of the transaction. Both motives and circumstances are used to determine whether returns should be treated as capital or revenue. In making such determinations it is expected that the authorised fund manager will consult with the investment manager, the auditors and the depositary. Where positions are undertaken to protect or enhance capital, and the circumstances support this, the returns are capital. Similarly, where they are for generating or protecting revenue, and the circumstances support this, the returns are revenue. Where positions generate total returns it will generally be appropriate to apportion such returns between capital and revenue to properly reflect the nature of the transaction.
- 2.26 For returns on an option or derivative with the characteristics of an option: if, when entered into, such an instrument has the immediate effect of generating a capital loss, for instance it is written “in the money”, then generally it would be the case that all returns, including premiums received, would be regarded as being capital in nature. However, if there is no immediate capital loss generated, circumstances can support the treatment of the premium as revenue notwithstanding that any future losses may be treated as capital.

### Dividends

- 2.27 Paragraphs 11.14A and 12.9A of FRS 102 specify the recognition of dividends in profit or loss.
- 2.28 In the case of quoted equity shares, and non-equity shares, dividends should be recognised as revenue when the security is quoted ex-dividend (i.e. when the price quoted falls to reflect the value of the dividend concerned). In the case of unquoted equity shares, dividends should be recognised when declared, and the amount at which the securities are shown on the balance sheet should reflect any such declared dividend.
- 2.29 Application of the accruals concept means that a return (whether in respect of dividends, in respect of redemption, or otherwise) on a non-equity share (such as a preference share) should, in principle, be recognised and accrued on a time-apportionment basis. However, because of the practical difficulties arising from the requirement to undertake daily valuations for pricing purposes (such as the lack of availability of pricing information that achieves an accurate allocation between capital and revenue for these shares), this is impractical for authorised funds. Therefore, returns from non-equity shares should be recognised on the same basis as equities.

### Scrip and stock dividends

- 2.30 For certain securities, the holder may receive a dividend in the form of shares rather than cash. Generally, the value of the shares to be received will approximate to the amount of the cash dividend.

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<sup>3</sup> In order to maintain consistency with the definition of a derivative in the tax rules (section 576 of the Corporation Tax Act 2009), paragraphs 2.25 and 2.26 apply to derivatives as defined in FRS 102 and to instruments that would be defined as derivatives but for their high initial net investment.

In certain cases, an enhancement may be offered such that the value of the shares significantly exceeds the cash dividend.

- 2.31 Except where there is a cash alternative to the receipt of shares, the whole amount should be recognised as revenue, on the basis of the market price of the shares on the date they are quoted ex dividend. Where there is a cash alternative, the value of the cash alternative should be recognised as revenue and any difference between the cash alternative and the market price of the shares received recognised as capital.

### **Special dividends, share buy-backs and additional share issues**

- 2.32 Whether a special dividend, share buy-back, or additional share issue is revenue or capital depends on the facts of each particular case. It is likely that where the receipt of a special dividend results in a significant reduction in the capital value of the holding, then the special dividend should be recognised as capital so as to ensure that the matching principle is applied to gains and losses.

### **Income from collective investment schemes**

- 2.33 Income arising from collective investment schemes (other than fiscally transparent schemes) should be recognised as revenue when the units are priced ex-distribution (i.e. when the unit price falls to reflect the value of the distribution concerned). Reported income in excess of any distributions should be recognised as revenue when it is reported. Income arising on units held in an accumulation form should be recognised as revenue.
- 2.34 Any equalisation element should be regarded as a return of capital regardless of any alternative treatment that may be permitted in determining the distribution.
- 2.35 Where sufficient relevant and reliable information has been obtained, the amount of revenue may be estimated and recognised before the date specified in paragraph 2.33. Any difference between the estimate and the actual amount shall be recognised in the period when the information about the actual amount becomes available.
- 2.36 Where a feeder accrues revenue on a holding whose distribution includes equalisation, the equalisation received from the master should not form part of the income property. When the feeder sells units of the master, the proceeds should be regarded as realising any income accrual in respect of the units sold.

### **Zero dividend preference shares**

- 2.37 Zero dividend preference shares carry no entitlement to dividends but give the holders a preferential right to receive a repayment of capital and a premium from the capital reserves of an investment company. Accordingly, the returns should be recognised as capital.

### **Interest from debt securities**

- 2.38 The revenue arising from a debt security comprises the coupon interest and the difference between the purchase price and the expected maturity price. The total revenue recognised on a debt security should be spread over its expected remaining life at a constant rate or amount having regard to the guidance in this SORP.
- 2.39 Generally, a consistent methodology will be chosen for all debt securities with similar characteristics. However, a different methodology may be more appropriate for debt securities with certain characteristics, for example, index-linked bonds. The method or methods used should be disclosed in the accounting policies.
- 2.40 Some instruments are structured such that the economic substance may be closely tied to an underlying indicator. The accounting treatment should follow the economic substance. If, for example, an instrument's returns have the characteristics of equity returns, the instrument should be treated as equity.

- 2.41 When a distressed security is purchased, the purchase cost reflects incurred credit losses. Where significant, such incurred credit losses should be taken into account when estimating cash flows so as to ensure that revenue is recognised at an appropriate rate, that is, a rate that is not significantly different to reasonable commercial expectations.
- 2.42 For securities with variable maturity terms, such as callable bonds, the spreading of the premium or discount should be on the basis of the most likely maturity date and value. For the holder of a security this is usually the date with the worst yield to maturity, although other factors, such as the reputation of the issuer, may also be relevant. It should be assumed that issuers and holders of securities will behave rationally.
- 2.43 For sinking bonds, the spreading of the premium or discount should take account of the expected repayment profile.
- 2.44 For securities with floating rates, it is acceptable to recognise revenue on the basis of the revised coupon rate and the original amortisation schedule. Changes in the maturity value calculated by reference to inflation shall be regarded as revenue.
- 2.45 For securities such as stepped bonds, where the interest rate changes over the remaining period to the expected maturity date, an adjustment should be made to ensure that the recognition of the total revenue for each distribution period is determined in a way to result in a reasonably consistent rate or amount for each period.
- 2.46 Where the circumstances of the debt security change so that the original assumptions regarding the expected cash flows are no longer valid, an appropriate adjustment should be made so that the future revenue recognition has regard to the improving or deteriorating outlook for the debt security. Such an adjustment should ensure that interest continues to be recognised at an appropriate rate.
- 2.47 When an existing security becomes impaired, or a distressed security recovers, the loss, or gain, due to the change in its fair value should be recognised as capital.
- 2.48 Where an event occurs that makes the receipt of future coupon payments and maturity proceeds uncertain and it is considered prudent to both cease daily income accruals and provide against previous accruals, then the maximum provision that should be made against revenue in the current period is the coupon accrual and amortisation arising since the last ex coupon date. Where there is no ex-coupon date, for instance the instrument is a zero-coupon debt security, then generally the preceding distribution period end date should be substituted for the ex-coupon date. Where amounts in respect of previous coupons are due but not paid then consideration should also be given to providing against these in which case any provision would be recorded as an expense in the current period.

## Other income

### Other interest

- 2.49 Bank and other interest should be recognised as revenue on an accruals basis.

### Underwriting commission

- 2.50 Underwriting commission should be recognised when the issue takes place, except where the fund is required to take up all or some of the shares underwritten, in which case an appropriate proportion of the commission received should be deducted from the cost of those shares.
- 2.51 Underwriting commission should be recognised as revenue except for the proportion that is deducted from the cost of shares, which is capital.

### Rent

- 2.52 Rent should be recognised as revenue on the basis set out in Appendix E.

### **Stock lending fees**

2.53 Net fees receivable arising from stock lending activities should be recognised as revenue on an accruals basis.

### **Fee rebates**

2.54 Where a fund invests in other collective investment schemes, fee rebates (including trail or renewal commissions) should be recognised on an accruals basis.

2.55 Where it is the policy of the underlying scheme to charge its fees to capital in determining its distribution, the fund should generally recognise such rebates as capital. Otherwise, the fund should recognise such rebates as revenue.

### **Tax on revenue**

2.56 Revenue should be stated net of irrecoverable tax credits. In cases where revenue is received after the deduction of withholding tax, the revenue should be shown gross of taxation, and the tax consequences should be shown within the tax charge.

### **Guaranteed funds**

2.57 Where a premium is paid to a third party for a guarantee, the accounting treatment follows the nature of the transaction. Where the nature of the guarantee is to limit or cap the expenses of the fund, any receipt from the third party should be shown as a deduction against expenses rather than income. Any such deduction should be disclosed in the notes. The cost of the premium should be recognised in the statement of total return over the period to which the guarantee relates. The treatment of any recoveries from third parties follows the treatment of the premium. Because there will be instances where professional judgement will be required and other factors might have to be taken into account (for example the ability of third parties to honour their guarantees), there should be sufficient narrative disclosure in the notes to enable the user properly to understand the nature of the receipt.

2.58 Where a third party guarantees to protect investments, the income and expenditure should be dealt with in capital; where it guarantees to protect revenue, the income and expenditure should be dealt with in revenue.

## **EXPENSES**

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2.59 Expenses should be recognised when incurred.

2.60 Where a fund invests in a fiscally transparent entity, the expenses incurred by the entity should be recognised as expenses by the fund.

2.61 Charges arising as a result of investment transactions for the scheme, such as handling charges levied by custodians, should be recognised on an accruals basis as deductions from capital.

2.62 Costs incurred in relation to aborted transactions should be charged against revenue regardless of any alternative treatment that may be permitted in determining the distribution.

2.63 All other expenses, including performance fees and interest on borrowing should be charged against revenue regardless of any alternative treatment that may be permitted in determining the distribution.

2.64 Where an authorised fund incurs costs in pursuing a claim, but the outcome is uncertain, those costs should be charged as expenses as they are incurred. In determining the distribution, such expenses should be offset to capital until such time as an economic benefit is crystallised. The expenses should then be matched to the benefits either as deductions against revenue or as part of capital, as appropriate.

## Value added tax (VAT)

- 2.65 To the extent that a fund is able to recover VAT it should not be included in income or in expenditure. Irrecoverable VAT should be included as part of the relevant cost.

## TAXATION

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- 2.66 In general, the tax accounting treatment should follow that of the principal amount, with charges or reliefs allocated using the marginal basis regardless of any alternative treatment that may be permitted in determining the distribution. Under the marginal basis, tax charges or reliefs are allocated to capital or revenue to the extent that there remains a liability to corporation tax after relief has been made for all expenses attributed directly to revenue and capital. In calculating how much tax relief should be allocated, revenue expenses are matched first against taxable income arising in revenue, and tax-deductible capital expenses are matched first against taxable income arising in capital. Tax relief should be allocated to capital only to the extent that expenses in capital (if any remain after offsetting these expenses against taxable income in capital) are required to reduce or eliminate taxable profits. Similarly, tax relief should be allocated only to revenue to the extent that expenses in revenue (if any remain after offsetting these expenses against taxable income in revenue) are required to eliminate taxable profits. The fact that a fund is not in an overall taxpaying position is not, in itself, a reason not to allocate tax relief on expenses.
- 2.67 For example, a fund with £100 of taxable income and £120 of relievable expenses, £50 of which are offset to capital, would take full relief for the £70 of expenses borne by revenue before allocating relief of £6 (being £100 less £70 = £30 at 20%) to capital.
- 2.68 Overseas withholding tax suffered net of expected recoveries under any relevant double tax treaty, to the extent that a valid claim is or is expected to be made, should be separately disclosed in the financial statements. In addition, there may be a large amount of overseas taxation recoverable under double tax treaties. There may often be a significant time lag between the receipt of the overseas dividend net of taxation and the receipt of the tax refund. Whether the distribution should assume that all tax claims would be recovered in full will depend on the circumstances and recovery experience in respect of the investments and territories involved. If provision is considered necessary, owing to significant uncertainty as to receipt, this should be deducted from the amount receivable and disclosed as part of overseas taxation. The estimated expense of recovering the taxation should also be provided for and included within expenses.
- 2.69 Where an authorised fund is required to deduct income tax at source on all or part of a distribution, the tax withheld should be shown as part of “distributions payable” and not as part of the liability to corporation tax, since it will be settled from amounts transferred to the distribution account.

## Deferred tax

- 2.70 Deferred tax should be recognised in respect of timing differences that have originated but not reversed by the end of the accounting period in accordance with paragraph 29.6 of FRS 102. Deferred tax assets should be recognised to the extent that, on the basis of all available evidence, it is regarded as more likely than not that they will be recovered. Deferred tax should be measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the end of the accounting period.
- 2.71 Deferred tax assets are realised only as a reduction of a tax payment, which will normally be more than 12 months into the future, and are therefore classified as non-current assets in accordance with paragraph 3.53. Realisation is contingent on the crystallisation of future taxable profits. Credits arising from the recognition of deferred tax assets should not form part of the distribution until the period in which the tax liability is reduced. Therefore, in determining the distribution, the benefit of taxable

losses should be included only to the extent that taxable profits have arisen in the period under consideration.

## CLASSIFICATION OF UNITS

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2.72 A puttable instrument is classified as equity if it meets the conditions set out in paragraph 22.4(a) of FRS 102. As unitholders have the right to sell units back to the issuer, fund units are puttable instruments. They will therefore be classified as equity instruments if, and only if, they meet all three of the following conditions:

- the fund is a stand-alone fund or is the sole sub-fund of an umbrella;
- the fund has only a single class of units; and
- the fund is not obliged to distribute by way of cash (where, for example, only accumulation units are in issue) any part of the total return to unitholders.

All other fund units are classified as financial liabilities.

## SCHEMES OF ARRANGEMENT

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2.73 Where an authorised fund is the transferee in a scheme of arrangement, it is the acquirer for the purposes of section 19 of FRS 102 and should apply the purchase method when accounting for the scheme of arrangement.

## 3. Reports

- 3.1 COLL<sup>4</sup> requires the authorised fund manager to prepare a report for each annual and half-yearly accounting period<sup>5</sup> for each authorised fund it manages. COLL does not require a half-yearly report to be prepared where the first annual accounting period is less than 12 months.
- 3.2 COLL<sup>6</sup> requires the annual and half-yearly long reports to be signed. Paragraph 32.9 of FRS 102 requires disclosure of the date on which the financial statements were authorised for issue. The name of the authorised fund manager who gave that authorisation should be given.

### ANNUAL REPORTS

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- 3.3 COLL<sup>7</sup> requires the authorised fund manager to make available and publish an annual report for each annual accounting period.
- 3.4 COLL<sup>8</sup> sets out the required contents of the annual report which include, but are not limited to, the accounts for the annual accounting period, a portfolio statement as part of the authorised fund manager's report, and a comparative table as at the end of the period to which the report relates, each of which must be prepared in accordance with the requirements of this SORP. The accounts, portfolio statements, and comparative tables are required for each individual sub-fund in the case of an umbrella scheme.

### HALF-YEARLY REPORTS

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- 3.5 COLL<sup>9</sup> requires the authorised fund manager to make available and publish a half-yearly report for each half-yearly accounting period.
- 3.6 COLL<sup>10</sup> sets out the required contents of the half-yearly report which include, but are not limited to, the accounts for the half-yearly accounting period and a portfolio statement as part of the authorised fund manager's report, each of which must be prepared in accordance with the requirements of this SORP. The accounts and portfolio statements are required for each individual sub-fund in the case of an umbrella scheme.

### COMPARATIVE TABLE

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- 3.7 COLL<sup>11</sup> requires a comparative table prepared in accordance with the requirements of this SORP to be included in the annual report. The comparative table requirements are set out in Appendix A.

### PORTFOLIO STATEMENT

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- 3.8 COLL<sup>12</sup> requires a portfolio statement prepared in accordance with the requirements of this SORP to be included as part of the authorised fund manager's report in both the annual and half-yearly reports.

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<sup>4</sup> COLL 4.5.3 R for retail schemes, COLL 8.3.5 R for QIS, and COLL 15.5.2 R for LTAFs.

<sup>5</sup> The accounting periods are determined in accordance with COLL 6.8.2 R.

<sup>6</sup> COLL 4.5.8B R for retail schemes, COLL 8.3.5E R for QIS, and COLL 15.5.8 R for LTAFs.

<sup>7</sup> COLL 4.5.14 R for retail schemes and COLL 15.5.2 R for LTAFs.

<sup>8</sup> COLL 4.5.7 R for retail schemes, COLL 8.3.5A R for QIS, and COLL 15.5.3 R for LTAFs.

<sup>9</sup> COLL 4.5.14 R for retail schemes and COLL 15.5.2 R for LTAFs.

<sup>10</sup> COLL 4.5.8 R for retail schemes, COLL 8.3.5B R for QIS, and COLL 15.5.5 R for LTAFs.

<sup>11</sup> COLL 4.5.10 R.

<sup>12</sup> COLL 4.5.9 R for retail schemes, COLL 8.3.5C R for QIS, and COLL 15.5.6 R for LTAFs.

- 3.9 The total net assets in the portfolio statement should agree to the balance sheet total.
- 3.10 The portfolio statement is a list of all the investment assets and liabilities in a fund's portfolio. For each investment<sup>13</sup> it should show the following information:
- Security name
  - Amount held
  - Value determined in accordance with paragraphs 2.10 to 2.18
  - Percentage of the net assets
- 3.11 The investments should be analysed by category using the most appropriate criteria in the light of the investment policy of the fund, for example economic, geographical or currency. The percentage that each category represents of the total net assets should be shown.
- 3.12 Comparative percentages for each category (but not for each security) should be given for the end of the preceding annual accounting period in order to indicate changes in the composition of the portfolio during the period.
- 3.13 Securities that are not approved securities<sup>14</sup> should be identified within the portfolio statement and the aggregate percentage that they represent of the total net assets should be shown.
- 3.14 The net value of each derivative position should be shown in the portfolio statement.

## FINANCIAL STATEMENTS

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- 3.15 The requirements for the contents of financial statements where the fund units are all classified as financial liabilities are set out in paragraphs 3.16 to 3.109 inclusive. Where fund units are classified as equity in accordance with paragraph 2.72, these paragraphs should be amended in accordance with Appendix B. Where these paragraphs provide a format for the layout the items identified are required where applicable.

## ANNUAL FINANCIAL STATEMENTS

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- 3.16 COLL<sup>15</sup> requires the accounts for the annual accounting period to be prepared in accordance with the requirements of this SORP. The accounts for the annual accounting period may also be referred to as the annual financial statements.
- 3.17 COLL also requires the authorised fund manager to ensure that the accounts give a true and fair view of the net revenue or expenses after taxation and the net capital gains or losses for the annual accounting period and of the financial position as at the end of that period.
- 3.18 Additional guidance for non-UCITS funds is provided in Appendix D.
- 3.19 Paragraph 3.17 of FRS 102 defines a complete set of financial statements and paragraph 3.22 permits the titles to be modified. Accordingly, a complete set of annual financial statements for an authorised fund should contain:
- Statement of total return
  - Statement of change in net assets attributable to unitholders
  - Balance sheet
  - Statement of cash flows<sup>16</sup>
  - Notes to the financial statements

<sup>13</sup> This information is not required for investment properties which should be shown in accordance with paragraph E.12.

<sup>14</sup>In COLL an approved security is a transferable security that is admitted to official listing in the UK or an EEA State or is traded on or under the rules of an eligible securities market.

<sup>15</sup> COLL 4.5.7 R for retail schemes, COLL 8.3.5A R for QIS, and COLL 15.5.3 R for LTAFs.

<sup>16</sup> A statement of cash flows is not required where the conditions in paragraph 7.1A of FRS 102 are met.

- 3.20 Paragraph 3.21 of FRS 102 requires each statement to be presented with equal prominence. There is no prescribed order in which these statements should be presented; however, the statement of total return and the statement of change in net assets attributable to unitholders should be presented on the same page, thereby providing unitholders with a summary of the principal features of the fund's results for the period.
- 3.21 Paragraph 3.23 of FRS 102 requires the financial statements to be clearly identifiable and distinguishable from other information in the annual report. The information and disclosures required by paragraphs 3.23 and 3.24 of FRS 102 should be given.
- 3.22 Paragraph 3.14 of FRS 102 requires comparative information to be shown for all items in the annual financial statements, unless permitted otherwise. The corresponding amounts should be the amounts for the preceding annual accounting period.

## Statement of total return

- 3.23 Section 5 of FRS 102 sets out the basis for the presentation of the income statement. The title and format have been adapted as described in paragraphs 3.22 and 5.9 of FRS 102.
- 3.24 The statement of total return summarises the results of the management of the fund and should show at least the following line items, unless otherwise permitted by this SORP:

Income		
Net capital gains/(losses)		X
Revenue	X	
Expenses	(X)	
Interest payable and similar expenses	(X)	
Net revenue/(expense) before taxation	XX	
Taxation	(X)	
Net revenue/(expense) after taxation		XX
Total return before distributions		XX
Distributions		(X)
Change in net assets attributable to unitholders from investment activities		XX

- 3.25 Where the financial statements are presented in a currency other than the functional currency, the exchange differences resulting from translation to the presentation currency should be calculated and recognised in the statement of total return in accordance with paragraph 30.18 of FRS 102, and the disclosures required by paragraph 30.26 of FRS 102 should be given.

## Net capital gains/(losses)

- 3.26 The notes should include an appropriate analysis of this figure and should distinguish amounts relating to derivatives and non-derivatives. Paragraph 30.25 of FRS 102 requires foreign exchange gains/(losses) to be disclosed separately in the notes, except for those arising on financial instruments.

## Transaction costs

- 3.27 Transaction costs form part of net capital gains/(losses). For purchases and for sales the total before and after direct transaction costs should be disclosed in the notes. The notes should also show the amount of each type of direct transaction cost making up the total. Direct transaction costs should be included for derivatives notwithstanding that the corresponding consideration may be nil. Amounts

related to purchases and sales of instruments for the purpose of managing uninvested cash balances (see paragraph 3.51) should be excluded.

- 3.28 The portfolio dealing spread, including the effect of foreign exchange, as at the end of the accounting period should be stated. This spread is the difference between the values determined respectively by reference to the bid and offer prices of investments expressed as a percentage of the value determined by reference to the offer price. Where the authorised fund manager believes the spread at the end of the accounting period is not representative of the typical spread throughout the accounting period, this should be disclosed.

### **Revenue**

- 3.29 The notes should include an appropriate analysis of this figure and should distinguish amounts relating to derivatives and non-derivatives. Dividends payable on short positions and derivative funding costs should be included in this line item and disclosed separately in the notes.

### **Stock lending and repurchase agreements**

- 3.30 Fees earned from stock lending and repurchase agreements are included in revenue on a net basis. The notes should disclose the gross fees and related direct and indirect expenses. The identity of the recipient(s) of these expenses and their relationship to the authorised fund manager or the depositary should be disclosed.
- 3.31 Disclosure should be given in the notes of the total value of securities on loan or subject to a repurchase agreement at the end of the accounting period, and the nature and value of collateral held in respect thereof, analysed by asset class.

### **Expenses**

- 3.32 Each type of expense (excluding transaction costs which are disclosed in accordance with paragraph 3.27) should be shown in the notes with an analysis that shows the expenses payable to each of the authorised fund manager and associates, the depositary and associates and other third parties.
- 3.33 Where there is directly or indirectly any fee sharing between the authorised fund manager, the depositary or an associate of either, this must be disclosed with the relevant details.
- 3.34 The basis of any performance fee, and any known circumstances that may affect future performance fees, should be disclosed in the notes.
- 3.35 Where income is donated to charity for Sharia income purification purposes, the amounts paid as donations must be disclosed together with the names of the charities receiving the donations.

### **Interest payable and similar expenses**

- 3.36 Where this line item contains only interest payable, and the amount is not material, it may be combined and disclosed under expenses. Significant amounts other than interest payable should be itemised separately in the notes.

### **Taxation**

- 3.37 A fund's total tax charge should be disclosed and comprises corporation tax, tax on capital gains and tax withheld on revenue.
- 3.38 The notes should include an analysis of the fund's total tax charge for the period distinguishing between current and deferred tax. The current tax charge should show separately the domestic and foreign tax, any adjustments relating to prior periods and any relief under double taxation treaties.
- 3.39 The notes should disclose the amount of corporation tax that would arise on the net revenue/(expense) before taxation at the standard rate for UK corporation tax for authorised funds. This amount should be reconciled to the fund's total tax charge for the period.
- 3.40 The deferred tax provision at the start and the end of the period and the movement during the period should be stated in the notes.

3.41 The amount of any deferred tax asset that has not been recognised should be disclosed in the notes together with the circumstances in which the asset would be recovered.

### Distributions

3.42 The amount and type of each distribution payable in respect of the period should be disclosed. Where there is a material difference between net revenue/(expense) after taxation shown in the statement of total return and the total amount of the distributions, a reconciliation of the difference should be included in the notes. It is expected that the authorised fund manager’s report should explain the investment strategy, the result of which has led to this material difference.

3.43 The amount held in any income reserve account (see paragraph 3.70) at the beginning and end of the accounting period, and the movements during the period, should be given in the notes.

### Statement of change in net assets attributable to unitholders

3.44 The statement of change in net assets attributable to unitholders reconciles the opening and closing net assets attributable to unitholders. It presents the impact of transactions with unitholders in addition to the results of the management of the fund and should show at least the following line items, unless the amount is nil for both the current and preceding period:

Opening net assets attributable to unitholders		X
Issue of units	X	
Cancellation of units	(X)	
		XX
Dilution levy/adjustment		X
Profit from resale of units		X
Change in net assets attributable to unitholders from investment activities		X
Retained distributions on accumulation units		X
Unclaimed distributions		X
Closing net assets attributable to unitholders		XX

Additional line items should be presented for other significant amounts.

### Dilution adjustments

3.45 In the case of single priced funds, the amounts for issue of units and cancellation of units should be stated at the price prior to any dilution adjustment with the aggregate amount of any dilution adjustment being shown separately. Dual priced funds may make an equivalent disclosure.

### Profit from resale of units

3.46 Where the policy for allocating the differences described in paragraph 3.65 is by payment into the fund, the amount paid should be presented as profit from resale of units.

### Balance sheet

3.47 Section 4 of FRS 102 sets out the basis for the presentation of the statement of financial position. The title and format have been adapted as described in paragraphs 3.22 and 4.2A to 4.2C of FRS 102.

3.48 The balance sheet presents the financial position and should show at least the following line items, unless the amount is nil for both the current and preceding period:

Assets:	
Investment property	X
Investments	X
Amounts receivable	X
Cash and cash equivalents	X
<b>Total assets</b>	<b>XX</b>
Liabilities:	
Investments	X
Provisions	X
Bank overdrafts	X
Distribution payable	X
Other amounts payable	X
<b>Total liabilities</b>	<b>XX</b>
<b>Net assets attributable to unitholders</b>	<b>XX</b>

### Investments

3.49 Paragraphs 4.2B and 34.20 of FRS 102 require a breakdown of the investments line item. This disclosure should distinguish between each significant class of financial instrument (for example, shares, debt instruments, derivatives, and units in collective investment schemes). Paragraph 34.22 of FRS 102 requires the value of each class of financial instrument in each level of the following fair value hierarchy to be disclosed in the notes:

- Level 1: Unadjusted quoted price in an active market for an identical instrument;
- Level 2: Valuation techniques using observable inputs other than quoted prices within level 1;
- Level 3: Valuation techniques using unobservable inputs.

Additional guidance is provided in Appendix C.

### Amounts receivable

3.50 Paragraph 4.2B of FRS 102 requires a breakdown of the amounts receivable line item. This disclosure should distinguish between at least amounts receivable on issue of units, sales awaiting settlement, prepayments, and accrued income in the notes unless the amount would not be significant. The extent to which these amounts are receivable from related parties should be shown.

### Cash and cash equivalents

3.51 FRS 102 defines cash equivalents as short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. Instruments meeting this definition that are held as part of the investment strategy should be included as part of investments. Instruments held for the purpose of managing uninvested cash balances should be included within cash and cash equivalents. The security name, amount held, and value of any money market funds included in cash and cash equivalents should be disclosed in the notes.

### Other amounts payable

3.52 Paragraph 4.2B of FRS 102 requires a breakdown of the other amounts payable line item. This disclosure should distinguish between at least amounts payable on cancellation of units, purchases

awaiting settlement, deferred income, and accruals in the notes unless the amount would not be significant. The extent to which these amounts are payable to related parties should be shown.

### **Current and non-current items**

3.53 Paragraph 4.2A of FRS 102 requires a distinction to be made between current and non-current line items on the balance sheet. The balance sheet should be accompanied by a statement that all line items are current where this is the case, otherwise sub-headings should be used to distinguish any non-current line items.

### **Statement of cash flows**

3.54 Paragraph 7.1A of FRS 102 exempts authorised funds from the need to prepare a statement of cash flows if they meet all the following conditions:

- substantially all of the entity's investments are highly liquid;
- substantially all of the entity's investments are carried at fair value; and
- the entity provides a statement of change in net assets.

3.55 When assessing the criteria for exemption from the need to prepare a statement of cash flows the authorised fund manager should consider both the nature of the investments and the prevailing market conditions.

3.56 Authorised funds that do not qualify for the exemption referred to in paragraph 3.54 are required to prepare a statement of cash flows in accordance with section 7 and paragraph 34.33 of FRS 102.

### **Notes to the financial statements**

3.57 In case of an umbrella fund, the information in the notes may be presented once where it relates to the umbrella as a whole provided that the financial statements of each sub-fund contain appropriate cross-references. Information specific to an individual sub-fund should be disclosed separately for the sub-fund to which it relates and presented in the order indicated by paragraph 8.4 of FRS 102.

### **Basis of preparation**

3.58 Where the financial statements have been prepared in compliance with FRS 102, a statement that this is the case should be given in accordance with paragraph 3.3 of FRS 102. The title of this SORP and whether the financial statements have been prepared in accordance with it should be stated in accordance with paragraph 6 of FRS 100. Where a provision of this SORP has ceased to have effect due to a conflict the cause of which postdates this SORP (see paragraph 1.4) the financial statements should include a brief description of the effect of not applying that provision.

3.59 Where the financial statements have been prepared on a going concern basis, a statement that this is the case should be given together with the disclosures required by paragraph 3.8A of FRS 102. Where the authorised fund manager's assessment results in an alternative basis of preparation, the reasons should be given together with the disclosures required by paragraph 3.9 of FRS 102.

### **Accounting policies**

3.60 Paragraph 8.5 of FRS 102 requires disclosure of material accounting policy information, including the measurement bases used (i.e. the use of fair value measurement) in preparing the financial statements, together with a description of the judgements made by the authorised fund manager in accordance with paragraph 8.6 of FRS 102. Accounting policy information is likely to be material when a change to a policy would be likely to result in a material change to the information in the financial statements (see paragraph 8.5B of FRS 102 for further guidance). Changes in accounting policy should be disclosed in accordance with paragraph 10.13 or 10.14 of FRS 102 as appropriate.

3.61 Paragraph 11.40 of FRS 102 requires disclosure of the accounting policy choice made in accordance with paragraph 2.1. Paragraph 11.43 of FRS 102 requires disclosure of the basis for determining fair value including the assumptions applied in determining the fair value for each class of financial

instrument when a valuation technique is used. This disclosure should reflect the extent to which the authorised fund manager has exercised judgment in quantifying the inputs to the valuation technique in order to determine fair value.

- 3.62 Paragraph 8.7 of FRS 102 requires the notes to include information about key assumptions and key sources of estimation uncertainty. Where the uncertainty relates to the use of valuation techniques to estimate fair value, this requirement will normally be met by the disclosures set out in paragraph 3.61.
- 3.63 Where the authorised fund manager has elected to exclude a sub-fund from an annual report (see paragraph 1.15), the accounting policies should include a statement that the accounts for that sub-fund are not included and the reason why. The following information should be given for each excluded sub-fund:
- the name of the sub-fund;
  - the date the sub-fund launched; and
  - the net assets of the sub-fund at the last regular valuation point and a statement that this figure has not been audited.

Sufficient disclosure should be included in subsequent reports to make it clear that the accounts for a previously excluded sub-fund cover an extended period.

- 3.64 Where the authorised fund manager has decided that the accounting period ends at the last regular valuation point on the last day of that period (see paragraph 1.16), this should be stated in the accounting policies along with the time of the valuation point used.
- 3.65 Where the authorised fund manager sells units that it redeemed at the same valuation point at a selling price that is higher than the redemption price, the policy for allocating the difference in accordance with COLL 6.3.5D R should be explained.

### Distribution policies

- 3.66 A description of the distribution policies that are material in the context of the distribution should be given detailing, in particular, policies relating to adjustments to net revenue/(expense) after taxation in determining the distribution together with a statement explaining the consequential impact on the value of capital. Where policies are specific to one or more, but not all, classes of units this should be disclosed. Details of any changes from the previous period should also be disclosed.
- 3.67 Ordinary stock dividends are recognised as revenue in the first instance. The policy for ordinary stock dividends should state whether or not they form part of the distribution.
- 3.68 The distribution policy<sup>17</sup> should be stated and where the policy is to increase the distribution by disregarding the effect of amortisation a statement explaining the consequential impact on the value of capital should be included.
- 3.69 The distribution policy<sup>18</sup> should be stated where that policy is designed to contribute to the preservation of the unit value in real terms.
- 3.70 Where an authorised fund that is registered as a charity has established an income reserve account<sup>19</sup> for the purpose of avoiding fluctuations in the amounts available for distribution, the policy for operating that account should be stated.
- 3.71 The distribution policy<sup>20</sup> of an authorised fund that is registered as a charity should be stated where that policy is designed to deliver a pre-determined target distribution.

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<sup>17</sup> COLL 6.8.3 R permits transfers to be made such that distributions are determined disregarding the effect of amortisation, provided that the resultant distribution is not less than if those transfers had not been made.

<sup>18</sup> COLL 6.8.3 R permits funds whose policy is to invest predominantly in index-linked securities to make transfers in respect of index-linked gilt-edged securities in order to exclude from the distribution the amount attributable to the change in the Retail Prices Index during the period.

<sup>19</sup> COLL 14.4.2 R permits funds that are registered as charities to establish an income reserve account.

<sup>20</sup> COLL 14.4.5 R permits funds that are registered as charities to adopt a total return approach to determining the amount available for distribution.

- 3.72 Expenses, including performance fees, are charged against revenue in the first instance unless they are recognised in accordance with paragraph 2.61. Where the policy is to offset expenses partially or fully against capital in order to determine the distribution, the distribution policy should be disclosed together with a statement explaining the consequential impact on the value of capital.
- 3.73 Where a transfer is made between the revenue and capital of the same class it is acceptable not to take into account marginal tax relief in determining the distribution. This policy should be disclosed.
- 3.74 Where income arises to an authorised fund from other collective investment schemes any equalisation is recognised as capital in the first instance. The distribution policy of the fund should state whether or not this equalisation forms part of its distribution.
- 3.75 The distribution policy for money market funds should be stated and, where relevant, should explain the impact that maintaining the value of such a fund has on the distribution.

### Risk management policies

- 3.76 Paragraph 34.23 of FRS 102 requires disclosures that enable users of the financial statements to evaluate the nature and extent of risks arising from financial instruments at the end of the accounting period. Regulations<sup>21</sup> require authorised fund managers to establish a permanent risk management function, an adequate and documented risk management policy, and adequately documented processes for identifying, monitoring, measuring, and managing all risks to which the authorised fund is or might be exposed. In particular, the risk management policy is required to comprise procedures to assess the exposure to market, liquidity, and counterparty risks, and to all other risks that might be material. The authorised fund manager should ensure that suitable narrative and, where applicable, numerical disclosures about each type of risk identified in the risk management policy are provided by the permanent risk management function.
- 3.77 For each type of risk that arises from financial instruments, paragraph 34.24 of FRS 102 requires disclosure of:
- the exposures to risk and how they arise;
  - the objectives, policies and processes for managing the risk and the methods used to measure the risk; and
  - any changes from the previous period.
- 3.78 The narrative disclosures made in accordance with paragraph 3.77 should be consistent with the relevant parts of the authorised fund manager’s risk management policy and processes. It should be made clear that the risk disclosures should be read in conjunction with the relevant parts of the authorised fund manager’s report.
- 3.79 Quantitative data about the exposure to each type of risk at the end of the accounting period should be disclosed where the carrying amounts of financial instruments are unrepresentative of the exposure to a particular type of risk. Exposure (and, where relevant, leverage) should be quantified based on the calculations performed to enable the authorised fund manager’s permanent risk function to fulfil its regulatory duties.<sup>22</sup> Where quantitative data is unrepresentative of the exposures during the period, the main reasons should be explained.

### Market risk

- 3.80 Paragraph 34.29 of FRS 102 requires a sensitivity analysis showing the impact of each type of market risk. Where a sensitivity analysis reflecting the interdependencies between risk variables (such as value-at-risk) is used to manage financial risks, paragraph 34.30 of FRS 102 permits that sensitivity analysis to be used instead. Both approaches require disclosure of the methods and assumptions used.

<sup>21</sup> COLL 6.11 and COLL 6.12 for UCITS and Chapter III, Section 3 of the UK version of Commission Delegated Regulation (EU) No 231/2013 for non-UCITS funds.

<sup>22</sup> COLL 6.11.4 R for UCITS and Article 39 of the UK version of Commission Delegated Regulation (EU) No 231/2013 for non-UCITS funds.

- 3.81 The net exposure and the level of leverage resulting from the use of derivatives should be disclosed with sufficient explanation to aid an understanding of the disclosure in terms of both the net exposure and the potential effect on returns of a reasonably possible change in relevant market variables.
- 3.82 For funds with a significant exposure to currency risk the net exposure to each of the principal foreign currencies should be disclosed. Net exposure should take account of any instruments used to hedge against the foreign currencies.
- 3.83 For funds with a significant exposure to interest rate risk an analysis showing separately the value of investments at fixed interest rates, at variable interest rates, and those that are non-interest bearing should be disclosed. The values disclosed should take account of relevant credit derivatives and any instruments used to hedge against changes in interest rates. An indication of the potential effect on returns of a reasonably possible change in interest rates should be provided using an appropriate measure, such as a form of duration, with sufficient explanation to aid an understanding of the disclosure.
- 3.84 For funds where a significant proportion of the portfolio is invested in debt securities, an analysis of the credit quality of the portfolio should be given using the credit ratings or, as a minimum, a breakdown showing the value of unrated securities, the value of investment grade securities, and the value of securities that are below investment grade. The disclosure should reflect the impact of derivative positions on the risk profile.

### **Counterparty risk**

- 3.85 Paragraph 34.25 of FRS 102 requires disclosure of the maximum exposure to credit risk, a description of collateral held and other credit enhancements (such as netting agreements), and the extent to which collateral held and other credit enhancements, and credit derivatives and similar instruments, mitigate credit risk. Information is also required about the credit quality of the investments held.
- 3.86 Paragraph 34.26 of FRS 102 requires an age analysis of any financial assets past due, and additional disclosures are required by paragraph 34.27 where possession is taken of collateral held or other credit enhancements are called upon.
- 3.87 The disclosures made in accordance with paragraphs 3.31, 3.84 and 3.88 will normally be sufficient to satisfy the requirements set out in paragraph 3.85.
- 3.88 Disclosure should be given in the notes of the total counterparty exposure obtained through the use of OTC derivatives and the nature and value of collateral held in respect thereof, analysed by asset class.
- 3.89 Paragraph 11.46 of FRS 102 requires disclosure of the value of assets pledged by the fund as collateral and the related terms and conditions.

### **Liquidity risk**

- 3.90 Paragraph 34.28 of FRS 102 requires disclosure of a maturity analysis for financial liabilities. Where substantially all a fund's liabilities are its units, it will normally be sufficient to deal with liquidity risk by narrative disclosure in accordance with paragraph 3.77.

### **Other information in the notes**

#### **Commitments, contingent liabilities and contingent assets**

- 3.91 Paragraph 21.4 of FRS 102 requires a provision to be recognised only when the entity has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimation can be made of the amount of the obligation.
- 3.92 Where an authorised fund has a commitment, for example, where it may be called upon to subscribe for shares pursuant to an underwriting, placing or similar agreement, and the existence of an obligation will be confirmed only by the occurrence of one or more future events not wholly within the authorised

fund's control, the aggregate commitments should be disclosed. Such future events could include the passing of certain resolutions by the issuing company.

- 3.93 Paragraph 21.12 of FRS 102 requires a contingent liability not to be recognised but, unless the possibility of a transfer of economic benefits is remote, paragraph 21.15 of FRS 102 requires a brief description of the nature of the contingent liability to be given and, where practicable, an estimate of its financial effect, an indication of the uncertainties relating to the amount or timing of any outflow, and the possibility of any reimbursement.
- 3.94 A fund may have a commitment with respect to partly paid and nil paid shares. Even though it may be intended to sell these shares before the calls become due, a possible obligation exists, and the aggregate commitment on partly paid and nil paid shares should be disclosed.
- 3.95 Paragraph 21.13 of FRS 102 requires a contingent asset, including a potential recovery of overseas withholding taxes, not to be recognised in the financial statements unless it becomes virtually certain that an inflow of economic benefits will arise. If an inflow is probable, paragraph 21.16 of FRS 102 requires a brief description of the nature of the contingent asset and, where practicable, an estimate of its financial effect.
- 3.96 Whilst contingent assets should not be recognised in the financial statements they may be recognised, on a proportional or otherwise appropriate basis, for the purposes of determining the dealing prices of units. Where the bases of recognition are different, disclosure should be given in the notes explaining the reasons for the differences.

### **Related parties**

- 3.97 Section 33 of FRS 102 sets out the disclosures that should be made about transactions with related parties. Generally, the authorised fund manager will be regarded as a related party because it provides key management personnel services to the authorised fund thus meeting the conditions in paragraph 33.2(b) of FRS 102. The depositary does not perform key management personnel services and so will not be regarded as a related party.
- 3.98 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:
- the nature of the relationship, and information about the transactions, with the authorised fund manager;
  - the amounts receivable and payable on issue and cancellation of units for the period and the amount of any balances outstanding at the period end (amounts should include equalisation and any dilution levy or adjustment);
  - the amounts of fees or expenses payable to, or rebates receivable from, the authorised fund manager for the period for providing services to the authorised fund and the amount of any balances outstanding at the period end; and
  - where amounts outstanding are yet to crystallise, details of the circumstances in which they may reverse.

### **Unitholders' funds**

- 3.99 The price of a unit is determined by reference to the proportional share of the net asset value attributable to each unit class. Where there are different unit classes, the price of units will reflect the terms and conditions of each class, but it is not necessary to analyse each class in the financial statements. The different rights and terms attaching to each unit class, including the rights on winding-up and the policy for allocating taxation and distributable income, should be summarised in the notes to the financial statements, unless they are disclosed elsewhere in the report.

## Events after the end of the accounting period

3.100 Paragraph 32.10 of FRS 102 requires the nature and financial effect of each significant category of non-adjusting event to be disclosed. An example of such an event is an abnormally large change in the prices of investments between the end of the accounting period and the date the financial statements are authorised for issue in accordance with paragraph 3.2.

## INTERIM FINANCIAL STATEMENTS

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3.101 COLL<sup>23</sup> requires the accounts for the half-yearly accounting period to be prepared in accordance with the requirements of this SORP. The accounts for the half-yearly accounting period may also be referred to as the interim financial statements.

3.102 As set out in paragraph 1.7, the authorised fund manager may choose to prepare condensed interim financial statements and selected explanatory notes in accordance with FRS 104 or a complete set of financial statements as described in FRS 102. Where a choice to prepare condensed interim financial statements has been made, paragraphs 3.16 to 3.100 do not apply except as required by paragraphs 3.103 to 3.109 below. In the absence of such a choice, paragraphs 3.16 to 3.100 should be applied in full.

3.103 Paragraph 8 of FRS 104 defines the minimum components of a condensed set of interim financial statements which should be prepared in accordance with the accounting requirements in section 2 of this SORP and should contain:

- Statement of total return in accordance with paragraph 3.24
- Statement of change in net assets attributable to unitholders in accordance with paragraph 3.44
- Balance sheet in accordance with paragraph 3.48
- Statement of cash flows<sup>24</sup> in accordance with paragraph 3.56
- Selected explanatory notes in accordance with paragraphs 3.105 to 3.109

3.104 Paragraph 20 of FRS 104 requires comparative information to be shown for all items in the interim financial statements. The corresponding amounts for the balance sheet should be the amounts as at the end of the preceding annual accounting period and the equivalent amounts for the preceding half-yearly accounting period for all other statements.

3.105 Paragraph 16A(a) of FRS 104 requires condensed interim financial statements to include a statement that they are prepared on the basis of the accounting policies, distribution policies, and valuation techniques (see paragraph 3.61) set out in the most recent set of annual financial statements. Where it is known that a change to these policies or techniques will be made in the next annual financial statements, the change should be implemented in the interim financial statements and the nature of each change and the reasons for it should be disclosed.

3.106 Paragraph 4A of FRS 104 requires a going concern assessment to be made and the appropriate disclosures as set out in paragraph 4B of FRS 102 to be given.

3.107 Paragraph 15B(j) of FRS 104 requires disclosure of significant related party transactions. This disclosure should be made in accordance with paragraph 3.98.

3.108 Paragraph 16A(j) of FRS 104 requires the fair value hierarchy disclosures required by paragraph 3.49 to be given.

3.109 Where condensed interim financial statements have been prepared in compliance with FRS 104, paragraph 19 of FRS 104 requires this fact to be disclosed. The statements in paragraph 3.58 about the SORP should also be given.

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<sup>23</sup> COLL 4.5.8 R for retail schemes, COLL 8.3.5B R for QIS, and COLL 15.5.5 R for LTAFs.

<sup>24</sup> A statement of cash flows is not required where the conditions in paragraph 7.1A of FRS 102 are met.

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## 4. Glossary

This glossary forms an integral part of the SORP.

Unless otherwise defined the terms used throughout this SORP are used with the meaning specified in FRS 102.

<i>Associate</i>	Associate has the meaning given in the FCA Glossary which, in summary, means a party that has a community of interest with another party.
<i>Authorised fund</i>	A collective investment scheme authorised by the FCA for marketing in the UK and constituted as: <ul style="list-style-type: none"><li>• A unit trust scheme which is authorised by an authorisation order under section 243 of the Financial Services and Markets Act 2000;</li><li>• An open-ended investment company incorporated by an authorisation order under regulation 14 of the Open-Ended Investment Companies Regulations 2001; or</li><li>• A contractual scheme which is authorised by an authorisation order under section 261D of the Financial Services and Markets Act 2000.</li></ul>
<i>Authorised fund manager</i>	The authorised corporate director of an open-ended investment company or the manager of any other type of authorised fund.
<i>Business day</i>	Business day has the meaning given in the FCA Glossary which, in summary, means a day which is not a Saturday or Sunday, Christmas Day, Good Friday or a UK bank holiday.
<i>Collective investment scheme (scheme)</i>	Collective investment scheme has the meaning given in section 235 of the Financial Services and Markets Act 2000 which, in summary, means an arrangement with respect to property of any description which enables the participants to participate in the profits or income arising from the acquisition, holding, management or disposal of the property and where the participants do not have day-to-day control over the management of the property.
<i>Counterparty risk</i>	The risk of loss resulting from the fact that the counterparty to a transaction may default on its obligations prior to the final settlement of the transaction's cash flow.
<i>Debt securities</i>	Government and public securities, debentures, debenture stocks, loan stocks, bonds, certificates of deposit and any other instrument creating or acknowledging indebtedness.
<i>Depositary</i>	The trustee of an authorised unit trust scheme, being the person holding the property of the scheme on trust for the participants, or the person to whom the property subject to any scheme that is another type of authorised fund is entrusted for safekeeping.
<i>Direct transaction costs</i>	Fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Direct transaction costs do not include any difference between the quoted bid and offer prices or internal administrative or holding costs, such as custodial handling charges.

<i>Fiscally transparent entity</i>	An entity, regardless of its domicile or legal form, that is fiscally transparent as regards the taxation of income.
<i>Functional currency</i>	The functional currency is the currency of the primary economic environment in which the fund operates. Generally, a fund's net asset values and unit prices are calculated, in accordance with COLL 6.3, in the functional currency notwithstanding that unit prices might be translated into another currency for dealing purposes.
<i>Fund</i>	A standalone authorised fund or an individual sub-fund of an authorised fund that is an umbrella.
<i>Income</i>	Income is the economic return generated from investment activities and encompasses both revenue and capital gains/losses. Revenue includes items such as dividends, interest, fees, rent and equivalent items. Capital gains/losses arise, for example, from the revaluation of investments.
<i>Instrument constituting the fund</i>	In relation to an open-ended investment company, the instrument of incorporation, in relation to an authorised contractual scheme, the contractual scheme deed and in relation to an authorised unit trust, the trust deed.
<i>Liquidity risk</i>	The risk that a position in a fund's portfolio cannot be sold, liquidated or closed out at limited cost in an adequately short timeframe and that the ability of the scheme to comply with its obligations to redeem units is thereby compromised.
<i>Long-term asset fund (LTAF)</i>	An authorised fund with an investment strategy to invest mainly in long-term illiquid assets (COLL 15.6.6 R) which is subject to the restriction on promotion set out in COLL 15.1.3 R. LTAFs have governance arrangements and investment powers designed to accommodate investment in unlisted securities and other long-term assets such as interests in immovables.
<i>Market risk</i>	The risk of loss resulting from fluctuation in the market value of positions in a fund's portfolio attributable to changes in market variables such as interest rates, foreign exchange rates, equity and commodity prices or an issuer's credit worthiness.
<i>Master-feeder arrangement</i>	An arrangement whereby a feeder invests at least 85% of its assets in a single master scheme.
<i>Non-UCITS fund</i>	An authorised fund that is not a UCITS.
<i>Qualified investor scheme (QIS)</i>	An authorised fund which is subject to the restriction on promotion set out in COLL 8.1.3 R, and accordingly subject to a more relaxed set of rules governing its operation and investment powers.
<i>Retail scheme</i>	An authorised fund that is not a qualified investor scheme or a long-term asset fund.
<i>Sub-fund</i>	Each separate part of the scheme property of a collective investment scheme that is an umbrella.

<i>Umbrella</i>	A collective investment scheme in which the contributions of the participants are pooled in relation to separate parts of the scheme property and whose participants are entitled to exchange rights in one part for rights in another.
<i>UCITS</i>	For the purposes of this SORP, an Undertaking for Collective Investment in Transferable Securities (UCITS) is an authorised fund with the investment powers permitted by COLL 5.2.
<i>Units</i>	The rights or interests of the participants in a collective investment scheme. The term unit, and derivations thereof, have been used throughout this SORP for the sake of simplicity. This should not preclude an open-ended investment company from using the term share or shareholder in situations where it is more appropriate.

# Appendix A Comparative table

This appendix belongs to paragraph 3.7 and forms an integral part of the SORP.

- A.1 COLL 4.5.10 R requires a comparative table for each unit class covering each of the last three annual accounting periods or, if less than three, each annual accounting period since launch. For classes launched during a period the opening net asset value per unit should be the launch price and the charges and costs figures should be apportioned on an appropriate basis. A comparative table is not required for classes that closed during the period. All figures should be expressed “per unit” unless specified otherwise.
- A.2 The comparative table summarises the financial highlights and should show, in a single table for each unit class, the following amounts:

Illustrative performance of a unit in issue throughout the period

Change in net assets per unit	
Opening net asset value per unit	X
Return before operating charges* <sup>1</sup>	X
Operating charges <sup>2,10</sup>	(X)
Return after operating charges* <sup>3</sup>	XX
Distributions on income units <sup>4</sup>	(X)
Closing net asset value per unit <sup>5</sup>	XX
Retained distributions on accumulation units <sup>4</sup>	X
* after direct transaction costs <sup>6,7</sup> of:	X
Performance	
Return after charges <sup>8</sup>	X.X%
Other information	
Closing net asset value (£'000)	X
Closing number of units	X
Operating charges <sup>9,10</sup>	X.XX%
Direct transaction costs <sup>7,11</sup>	X.XX%
Prices	
Highest unit price	X
Lowest unit price	X

- A.3 The direct transaction costs figures in the comparative table of a feeder in a master-feeder arrangement should take account of the master’s direct transaction costs.
- A.4 Explanations should be given in order to aid an understanding of the disclosures in the comparative table.

<sup>1</sup> The “return before operating charges” is calculated as the “return after operating charges” plus the “operating charges”.

<sup>2</sup> The ex-post figure for the period and expressed by reference to the average of the number of units in issue at each valuation point during the period.

<sup>3</sup> The “return after operating charges” is calculated as the “closing net asset value per unit” plus the “distributions” minus the “opening net asset value per unit”.

<sup>4</sup> Delete as appropriate.

<sup>5</sup> Closing net asset value per unit should correspond to the balance sheet total.

<sup>6</sup> Total direct transaction costs expressed by reference to the average of the number of units in issue at each valuation point during the period.

<sup>7</sup> Direct transaction costs may be stated after deducting, in the case of single-priced funds, the proportion of the amounts collected from dilution adjustments or dilution levies that relates to direct transaction costs and, in the case of dual-priced funds, the amounts collected in relation to direct transaction costs added to, or subtracted from, the valuations by virtue of COLL 6.3.6 G (4).

<sup>8</sup> The “return after charges” is calculated as the “return after operating charges” per unit divided by the “opening net asset value per unit”.

<sup>9</sup> The ex-post figure for the period.

<sup>10</sup> Any performance-related fee for the period (excluding amounts crystallised on the cancellation of units) should be disclosed separately alongside operating charges.

<sup>11</sup> Total direct transaction costs expressed by reference to the average of the net asset values at each valuation point during the period.

# Appendix B Presentation for funds with units classified as equity

This appendix belongs to paragraph 3.15 and forms an integral part of the SORP.

- B.1 The text embedded in the body of the SORP should be amended in accordance with this appendix where a fund's units are assessed as equity, having regard to the conditions in paragraph 2.72, rather than financial liabilities.
- B.2 In paragraphs 3.19, 3.20, 3.103 and in the heading above paragraph 3.44, replace "Statement of change in net assets attributable to unitholders" with "Statement of change in unitholders' funds".
- B.3 In paragraphs 3.24 and 3.44, replace "Change in net assets attributable to unitholders from investment activities" with "Change in unitholders' funds from investment activities".
- B.4 In paragraph 3.44, replace the first sentence with "The statement of change in unitholders' funds reconciles the opening and closing net assets."
- B.5 In paragraph 3.44, replace "Opening net assets attributable to unitholders" with "Opening net assets" and replace "Closing net assets attributable to unitholders" with "Closing net assets".
- B.6 In paragraph 3.48, replace "Net assets attributable to unitholders" with "Net assets" and add a line item "Unitholders' funds" below "Net assets".

# Appendix C Illustrative application of fair value disclosures

This appendix belongs to paragraph 3.49 and forms an integral part of the SORP.

- C.1 Authorised fund managers should determine which level in the fair value hierarchy each financial instrument falls based on the characteristics of the instrument’s price formation. The categorisation should reflect the methodology used to measure the fair value at each regular valuation point. Therefore, instruments will not normally change level except as a result of a significant change in economic circumstances.
- C.2 In this context a significant change in economic circumstances may relate to the circumstances of the issuer, disruption to the operation of relevant markets, or a change in the collective behaviour of market participants. Examples include the credit crisis, natural disasters, trade embargos or market suspensions.
- C.3 Fair value based on an unadjusted quoted price in an active market for identical instruments (level 1) includes exchange-traded instruments unless there is persistently insufficient activity to regard the market as active. The fact that a market is closed due to normal business hours at the time the fair value is determined does not cause an otherwise active market to be regarded as inactive.
- C.4 Where a quoted price is adjusted (for example, to reflect a fair value pricing adjustment) the instrument will be categorised in a lower level in the hierarchy. However, where a global adjustment is recorded in relation to the entire portfolio, or a portion of that portfolio, and individual quoted prices are not adjusted, instruments will remain in this category and only the adjustment will be categorised in a lower level in the hierarchy.
- C.5 An example of how the disclosures required by paragraph 3.49 may be made is illustrated below. The order in which the classes of financial instrument are presented is not prescribed and it may be appropriate to provide a more detailed breakdown of certain classes. It is not necessary to show rows with nil value.

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
<b>Assets:</b>				
Equities				XX
Debt instruments				XX
Collective investment schemes				XX
Derivatives				XX
Other (specify)				XX
	XX	XX	XX	XX
<b>Liabilities:</b>				
Derivatives				XX
Other (specify)				XX
	XX	XX	XX	XX

- C.6 Examples of level 1 instruments typically include equities, depositary receipts, warrants, rights, money market instruments, exchange-traded derivatives, exchange-traded products (including exchange-traded funds) and some highly liquid exchange-traded debt securities.<sup>1</sup>
- C.7 Fair value based on a valuation technique using observable market data (level 2) includes over-the-counter instruments, instruments priced via multi-broker quotes or evaluated pricing techniques, exchange-traded instruments where the market is persistently not active and instruments subject to fair value pricing adjustments made by reference to observable market data. Examples typically include OTC derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds.
- C.8 Fair value based on a valuation technique that relies significantly on unobservable data (level 3) typically includes single broker-priced instruments, suspended<sup>2</sup>/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions on redemption rights.

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<sup>1</sup> Debt securities are generally valued by reference to the average prices quoted by market-makers in the case of exchange-traded debt securities or by brokers. Where the valuation of highly liquid exchange-traded debt securities (for instance G7 sovereign debt, supranational debt, or certain corporate bonds) is sufficiently close to a binding quoted price to justify categorising it as such in level 1, the amount of debt securities included in the highest level should be stated.

<sup>2</sup> Excluding routine short-lived suspensions such as a suspension pending an announcement.

# Appendix D Additional guidance for non-UCITS funds

This appendix forms an integral part of the SORP.

- D.1 The FCA's Investment Funds Sourcebook (FUND) and the UK version of Commission Delegated Regulation (EU) No 231/2013 contain specific requirements in respect of the annual reports of non-UCITS funds. Authorised fund managers should have regard for the needs of investors to be able to compare authorised funds regardless of whether they are established as UCITS or non-UCITS funds. This appendix provides guidance on applying these requirements in a manner that is consistent with the requirements of FRS 102. References to articles in this appendix refer to the UK version of Commission Delegated Regulation (EU) No 231/2013 unless otherwise specified.
- D.2 Article 104 specifies the elements and underlying line items that should be included in the financial statements of a non-UCITS fund but permits these to be modified to the extent necessary to ensure consistency with national accounting standards and the instrument constituting the fund and compliance with national legislation.
- D.3 Article 104 specifies separate income and expenditure account line items for realised gains, unrealised gains under income and realised losses and unrealised losses under expenses. FRS 102 requires a single line item for net gains or net losses, including changes in fair value and this SORP refers to this line item as net capital gains/losses. In order to ensure the financial statements comply with FRS 102 and to maintain consistency of presentation with UCITS, this conflict should be resolved by including a single line item for net capital gains/losses in the statement of total return and disaggregating net gains or losses into their realised and unrealised components in the notes. It should be explained that, where realised gains/losses include gains/losses arising in previous periods, a corresponding loss/gain is included in unrealised gains/losses.
- D.4 For the purpose of paragraph D.3, realised gains/losses on investments should be calculated as the proceeds from disposal less the book cost.
- D.5 Article 104 specifies separate income and expenditure account line items for investment advisory or management fees and other expenses. This SORP refers to a single line item for expenses with further analysis in the notes. In order to maintain consistency of presentation with UCITS, the SORP presentation generally will be sufficient to satisfy the information requirements of article 104.

# Appendix E Additional guidance for funds investing in immovable property

This appendix forms an integral part of the SORP.

- E.1 COLL<sup>1</sup> permits certain types of authorised fund to invest in immovable property. Immovables are land and buildings that meet the conditions laid out in COLL. This appendix provides additional recommendations relevant to funds investing in immovable property.

## Investment in immovables

- E.2 Immovables are investment properties for the purposes of FRS 102 and the accounting treatment is set out in section 16.
- E.3 Investment property transactions should be recognised at total cost including transaction costs. Note paragraph 16.5 of FRS 102.
- E.4 Investment properties should be valued and disclosed at fair value excluding the value of any guarantees or incentives. Note paragraph 16.7 of FRS 102.
- E.5 Paragraph 16.10 of FRS 102 sets out the disclosure requirements in respect of investment property. For the avoidance of doubt, paragraph 3.49 does not apply to investment properties.
- E.6 In general, authorised funds are not required to prepare consolidated financial statements. However, where an authorised fund holds investment property through one or more intermediate holding vehicles (IHVs) and so consolidates<sup>2</sup> the accounts of those IHVs with its own accounts, the consolidation should be prepared in accordance with the procedures set out in paragraphs 9.13 to 9.17 of FRS 102 and the disclosures required by paragraph 9.23 should be made. Where consolidated financial statements are presented, it is not required to present individual financial statements.

## Leasing of immovables

- E.7 The accounting treatment for investment property leased to tenants is set out in section 20 of FRS 102. Such leases are assumed to be operating leases.
- E.8 Paragraph 20.37 of FRS 102 defines the lease term as beginning at the commencement date and as including any rent-free periods. Where the tenant can choose between a shorter or longer lease period through options to terminate or extend the lease, paragraph 20.40 of FRS 102 indicates that the lease term should be taken to be the shorter period unless the tenant is reasonably certain to choose the longer period.
- E.9 Paragraph 20.106 of FRS 102 requires rent to be recognised as the rent payments to be made by the tenant over the lease term, less any lease incentives granted to the tenant, on a straight-line basis over the lease term, unless another basis specified in paragraph 20.106 is more appropriate.
- E.10 Where rent remains subject to negotiation after the effective start date of a lease, the authorised fund manager should include the best estimate of the market rent that will become due over the entire lease term.
- E.11 Paragraph 20.114 to 20.121 of FRS 102 set out the disclosure requirements for lessors. Paragraph 20.121 requires disclosure of a maturity analysis of rent payments to be received in each of the next five years and in total thereafter.

<sup>1</sup> COLL 5.6.18 R for non-UCITS retail schemes, COLL 8.4.11 R for QIS, and COLL 15.6.18 R for LTAFs.

<sup>2</sup> COLL 5.6.18B G for non-UCITS retail schemes, COLL 8.4.11B G for QIS, and COLL 15.6.20 G for LTAFs. Consolidation is one of the conditions listed in regulation 69I of the Authorised Investment Funds (Tax) Regulations 2006 (SI 2006/964) that must be met for the property rental business of an IHV to form a part of the property rental business of a PAIF.

### Immovables in the portfolio statement

E.12 The value and percentage of each individual investment property need not be shown in the portfolio statement. As a minimum, properties should be shown in valuation bands. The width of each band should not be more than 5% of the total net asset value, but there is no limit to the aggregate value of property listed in each band. Where this presentation is adopted, the address of each individual property should be given within each band, but the individual values need not be disclosed. The percentage of the total net assets that each band represents should be shown. Investment properties held through intermediate holding vehicles should be treated in the portfolio statement as if they were direct holdings.

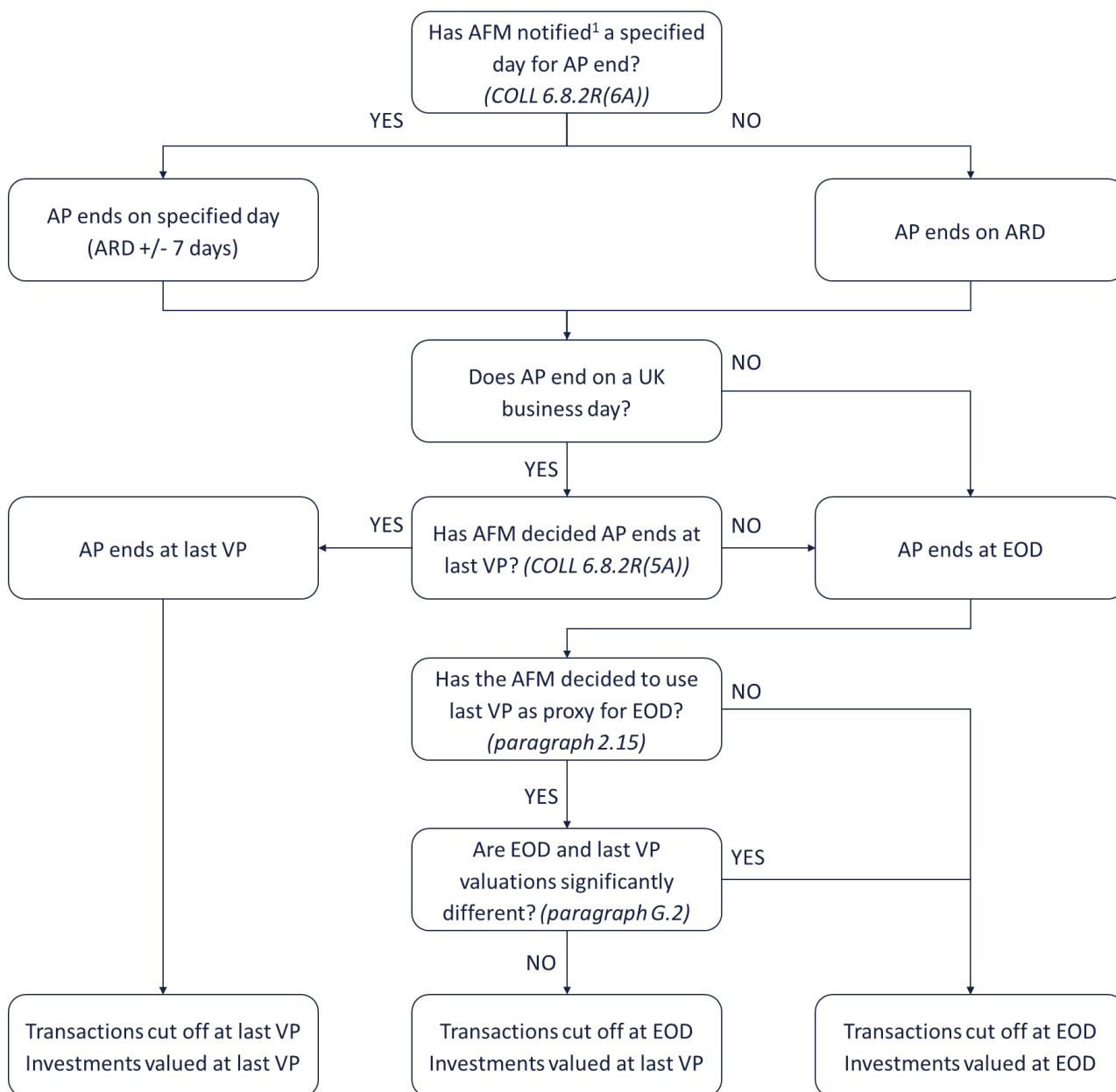
# Appendix F Additional guidance for long-term asset funds

Long-term asset funds are authorised funds with an investment strategy to invest mainly in long-term illiquid assets. It is expected that a long-term asset fund will invest at least 50% of its value in unlisted securities and other long-term assets such as interests in immovables or other collective investment schemes investing in such securities or long-term assets. However, a long-term asset fund could have a strategy of investing mainly in a mix of unlisted assets and listed but illiquid assets. This appendix is a placeholder for relevant material that may emerge from a future review of the requirements for LTAFs.

# Appendix G Flowchart for determining the end of an accounting period

This appendix belongs to paragraphs 1.16 and 2.15 and forms an integral part of the SORP.

G.1 The flowchart illustrates the application of COLL 6.8.2 R for determining the end of an accounting period (see paragraph 1.16) together with the circumstances in which paragraph 2.15 is applicable.



G.2 The authorised fund manager should discuss and agree the threshold for determining whether the difference is significant with the auditor and depository in advance of the period end.

<sup>1</sup> COLL requires the notice to be given in respect of each period before that period would otherwise end.

AFM Authorised Fund Manager.

AP Accounting Period. The annual or half-yearly period determined in accordance with COLL 6.8.2R.

ARD Accounting Reference Date. The date stipulated in the prospectus on which the annual AP ends. For a half-yearly AP, references to ARD should be read as being the day which is six months before the last day of the annual AP, or an alternative date as set out in the prospectus.

EOD End of Day. Midnight on the last day of the AP.

VP Valuation Point. A fixed time on each dealing day on which a valuation will be carried out for dealing purposes.

# Appendix H Notes on legal requirements and applicable accounting standards

This appendix provides an overview of the legal basis for the application of UK accounting standards and this Statement of Recommended Practice (“SORP”), and the sections of the relevant accounting standards that have been addressed in the development of this SORP.

## Laws and regulations

Authorised funds are collective investment schemes within the meaning of section 235 of the Financial Services and Markets Act 2000 (“FSMA”) that are authorised by the Financial Conduct Authority (“FCA”) in the exercise of powers under sections 243 and 261D of FSMA, and regulation 14 of the Open-Ended Investment Companies Regulations 2001 (“OEIC Regulations”) for marketing in the UK. The FCA is empowered to make rules as to the constitution, management, and operation of authorised funds, including in respect of the preparation and provision of periodical reports, under section 247 and 261I of FSMA, and regulation 6 of the OEIC Regulations.

The Collective Investment Schemes sourcebook (“COLL”) sets out the FCA’s rules requiring the preparation<sup>1</sup> and publication<sup>2</sup> of annual and half-yearly reports for authorised funds for each annual and half-yearly accounting period.<sup>3</sup>

COLL<sup>4</sup> sets out the required contents of the annual report which include:

- the accounts for the annual accounting period;
- a portfolio statement as part of the authorised fund manager’s report; and
- a comparative table as at the end of the period to which the report relates;

each of which must be prepared in accordance with the requirements of this SORP. The accounts in the annual report must give a true and fair view of the net revenue or expense after taxation and net capital gains or losses for the annual accounting period and the financial position as at the end of that period.

COLL<sup>5</sup> also sets out the required contents of the half-yearly report which include:

- the accounts for the half-yearly accounting period; and
- a portfolio statement as part of the authorised fund manager’s report;

both of which must be prepared in accordance with the requirements of this SORP. Where the first annual accounting period is less than 12 months, COLL does not require a half-yearly report to be prepared.<sup>6</sup>

In the case of an umbrella scheme, COLL requires the accounts, portfolio statement, and comparative table to be prepared for each individual sub-fund and not for the umbrella itself.

In addition, the OEIC Regulations require<sup>7</sup> a report for each annual and half-yearly accounting period of an open-ended investment company to be prepared. The annual report must contain the accounts of the company<sup>8</sup> for the annual accounting period.

The Investment Funds sourcebook (“FUND”) sets out additional FCA rules requiring annual reports to be made available for AIFs within the meaning of regulation 3 of the Alternative Investment Fund Managers Regulations 2013. FUND<sup>9</sup> requires the annual report to contain a balance sheet or statement of assets and liabilities and an income and expenditure account for the financial year prepared in accordance with UK

<sup>1</sup> COLL 4.5.3 R for retail schemes, COLL 8.3.5 R for QIS, and COLL 15.5.2 R for LTAFs.

<sup>2</sup> COLL 4.5.14 R for retail schemes, COLL 8.3.5 R for QIS, and COLL 15.5.2 R for LTAFs.

<sup>3</sup> The annual and half-yearly accounting periods are determined in accordance with COLL 6.8.2 R.

<sup>4</sup> COLL 4.5.7 R for retail schemes, COLL 8.3.5A R for QIS, and COLL 15.5.3 R for LTAFs.

<sup>5</sup> COLL 4.5.8 R for retail schemes, COLL 8.3.5B R for QIS, and COLL 15.5.5 R for LTAFs.

<sup>6</sup> COLL 4.5.3 R for retail schemes, COLL 8.3.5 R for QIS, and COLL 15.5.2 R for LTAFs.

<sup>7</sup> Regulations 66 and 67 of the Open-Ended Investment Companies Regulations 2001.

<sup>8</sup> Note: Paragraph 7.17 of FCA Consultation Paper 14/8: Quarterly consultation No. 5 (June 2014).

<sup>9</sup> FUND 3.3.

accounting standards. Article 104 of the UK version of Commission Delegated Regulation (EU) No 231/2013 sets out further requirements for the content and format of the balance sheet or statement of assets and liabilities and of the income and expenditure account.

## Accounting standards

The Financial Reporting Council (“FRC”) is the prescribed body for issuing accounting standards<sup>1</sup> in the UK and Republic of Ireland and is primarily concerned with the requirements of the Companies Act 2006 (and equivalent Irish legislation) when developing accounting standards. Nevertheless, the FRC’s accounting standards are applicable to all financial statements that are intended to give a true and fair view of the financial performance and financial position of an entity regardless of the relevant governing legislation. Accounting standards developed by the FRC are designated Financial Reporting Standards (FRS).

### FRS 100 Application of Financial Reporting Requirements

FRS 100 sets out the applicable financial reporting framework for entities preparing financial statements that are intended to give a true and fair view. Paragraph 5 specifies that SORPs are applicable when the financial statements are prepared in accordance with FRS 102. Although paragraph 4 provides authorised funds with choice of applying FRS 102 or UK-adopted international accounting standards, the application of FRS 102 is the only option consistent with the legal status of this SORP under COLL. Paragraphs 6 and 9 require statements of compliance with the SORP and with FRS 102.

### FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland

FRS 102 applies to financial statements that are intended to give a true and fair view of a reporting entity’s financial position and profit or loss (or income and expenditure) for a period. The following sections are the most likely to be relevant to authorised funds:

#### Section 1: Scope

Section 1 sets out the scope, application and transitional arrangements of FRS 102.

#### Section 2: Concepts and Pervasive Principles

Section 2 sets out the objective of financial statements and the concepts and basic principles underlying the financial statements. This section applies when another section of FRS 102 or this SORP do not address a particular or similar issue.

#### Section 2A: Fair Value Measurement

Section 2A applies when another section requires or permits fair value measurements or disclosures about fair value measurements.

#### Section 3: Financial Statement Presentation

Section 3 sets out the requirement that the financial statements of an entity shall give a true and fair view, what compliance with FRS 102 requires, and what is a complete set of financial statements.

#### Section 4: Statement of Financial Position

Section 4 sets out the information that is to be presented about the financial position at the end of the reporting period and how to present it.

#### Section 5: Statement of Comprehensive Income and Income Statement

Section 5 sets out the information that is to be presented about the financial performance for the reporting period and how to present it. It provides a choice of presenting a single statement or two separate statements. Authorised funds do not have items of other comprehensive income so the choice of the single or two statement approach has no consequence.

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<sup>1</sup> The FRC’s Foreword to Accounting Standards explains the scope, authority and identification of accounting standards issued by the FRC.

## **Section 6: Statement of Changes in Equity**

Section 6 sets out the information that is to be presented about the changes in equity for the reporting period.

## **Section 8: Notes to the Financial Statements**

Section 8 sets out the principles underlying information that is to be presented in the notes to the financial statements and how to present it.

## **Section 10: Accounting Policies, Estimates and Errors**

Section 10 sets out the requirements for selecting and applying the accounting policies used in preparing financial statements, accounting for changes in accounting estimates and accounting for corrections of errors in prior period financial statements.

## **Sections 11, 12 and 34: Financial Instruments**

Sections 11 and 12 together set out the requirements for the recognition, derecognition, measurement, and disclosure of financial instruments (financial assets and financial liabilities). Paragraphs 17 to 33 of section 34 set out additional disclosure requirements for financial institutions, which includes authorised funds.

Section 11 classifies certain debt instruments as basic financial instruments and requires them to be carried at amortised cost unless they are designated as at fair value through profit or loss. For authorised funds it is more relevant to designate debt instruments as at fair value through profit or loss because they are managed, and their performance is evaluated, on a fair value basis in accordance with documented risk management and investment strategies. Sections 11 and 12 require all other financial instruments to be carried at fair value which means there is no consequence of the classification of financial instruments as basic.

## **Section 21: Provisions and Contingencies**

Section 21 applies to provisions (i.e. liabilities of uncertain timing or amount), contingent liabilities and contingent assets except those provisions covered by other sections of FRS 102.

## **Section 22: Liabilities and Equity**

Section 22 sets out the requirements for classifying financial instruments as either liabilities or equity and deals with the accounting for compound financial instruments.

## **Section 29: Income Tax**

Section 29 applies to income tax (current and deferred) and value added tax.

## **Section 30: Foreign Currency Translation**

Section 30 applies to foreign currency transactions, foreign operations, and the translation of financial statements into a presentation currency.

## **Section 32: Events after the End of the Reporting Period**

Section 32 applies to the recognition, measurement and disclosure of events after the end of the reporting period.

## **Section 33: Related Party Disclosures**

Section 33 requires an entity to include in its financial statements the disclosures necessary to draw attention to the possibility that its financial position and profit or loss have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

The following sections of FRS 102 may also be relevant to some authorised funds:

### **Section 7: Statement of Cash Flows**

Section 7 sets out the information that is to be presented in a statement of cash flows and how to present it. Authorised funds are exempt from section 7 unless they fail the highly liquid investments condition set out in paragraph 7.1A.

### **Section 9: Consolidated and Separate Financial Statements**

Section 9 applies to parents that are required by the Companies Act, or another statutory framework, to present consolidated financial statements and sets out the consolidation procedures that should be followed where such a requirement exists. The statutory framework for authorised funds does not require consolidated financial statements and the accounts of authorised funds will be individual financial statements for the purposes of FRS 102, except as set out in paragraph E.6.

### **Section 16: Investment Property**

Section 16 applies to investment property and will be relevant for funds investing in immovable property (see Appendix E).

### **Section 20: Leases**

Section 20 applies to all leases, including leases of right-of-use assets in a sublease, and will be relevant for funds investing in immovable property (see Appendix E).

## **Other guidance**

### **FRS 104 *Interim Financial Reporting***

FRS 104 sets out content, recognition and measurement principles for interim financial reports and is intended for use by entities that prepare annual financial statements in accordance with FRS 102. It defines the minimum requirements for interim financial reports and provides a basis for preparing condensed interim financial statements. The use of FRS 104 is not mandatory.

# Appendix I Basis for conclusions

In response to the Financial Reporting Council's (FRC) amendments to FRS 102, the Investment Association (IA) published, in April 2025, an exposure draft of a revised SORP. In addition to incorporating changes arising from the revision of FRS 102, the exposure draft included proposals aimed at providing additional clarity and, where possible, simplification. Nineteen written responses were received from interested parties including authorised fund managers, third-party fund accountants, and audit firms.

The SORP Working Party (SWP) considered this feedback in finalising the 2025 SORP.

This Basis for Conclusions explains the rationale for significant changes from the May 2014 SORP (as amended in June 2017). It is intended to aid understanding and does not have the authority of the SORP itself.

## **Streamlining the scope and structure of the SORP**

The 2025 SORP has been streamlined to focus on accounting requirements and on the matters FCA rules require the SORP to specify (the portfolio statement and comparative table). Non-accounting regulatory material is no longer reproduced; instead, the SORP signposts to relevant regulatory sources. Sections have been restructured accordingly.

Since 2014, the FCA has expanded the required contents of annual reports and other matters are imposed directly by EU-inherited rules and guidance. Removing non-accounting content from the SORP improves navigability and reduces the risk of inadvertent gold-plating. Respondents to the consultation agreed with the approach taken.

## **Fair value measurement basis for investments — use of mid-market prices**

Until 2005, the valuation basis for investments was to use mid-market prices as it was considered that this was the most appropriate basis for open-ended investment vehicles that both issue and redeem units on a regular basis.

The valuation basis was changed from mid to bid in the 2005 SORP in order to meet the new requirements of FRS 26.

Included in the amendments to FRS 102 is the ability to once again use mid-market rather than bid as a valuation basis. The SWP considered whether returning to the basis applied up until 2005 was appropriate and concluded that for open-ended funds this basis was appropriate.

Most respondents to the consultation agreed with the approach taken. However, some respondents suggested that the authorised fund manager should be free to determine the valuation basis. The SWP took the view that specifying the mid-market basis was appropriate in order to promote consistency across the industry, whilst retaining the ability to take an alternative approach where circumstances require it.

## **Balance sheet – simplified format**

The format for presenting the balance sheet was simplified in the 2025 SORP and references added to indicate the additional breakdowns of certain line items that are required by FRS 102. In response to consultation feedback, the SWP decided to combine the breakdown of investments by asset class with the fair value hierarchy disclosures.

## **Risk disclosures — refocus on accounting requirements**

The 2014 SORP sought to structure the risk disclosures to accommodate requirements emanating from a variety of sources including the UK Accounting Standards, the FCA rules, the UCITS and AIFM Directives, and guidance issued by the EU supervisory authorities.

Feedback from practitioners applying the 2014 SORP indicated that the approach taken to risk disclosures had the adverse effect of extending the application of certain requirements beyond their intended target and

brought them within the scope of the audited accounts. They also raised concerns about the inconsistent application of the requirements due to subjectivity about when to include certain numerical disclosures.

In order to address these issues, the risk disclosures in the 2025 SORP were refocused on the requirements of accounting standards and the requirements derived directly from EU-inherited guidance were removed. The SWP considered that, although a degree of judgement about the inclusion of numerical information is necessary to ensure the disclosures are relevant and appropriate to the specific risk profile, clearer thresholds and improved engagement with the authorised fund manager's permanent risk function should help with the identification of when, and for which types of instruments, numerical disclosures are required. Respondents to the consultation agreed with the approach taken.

## **Interim financial statements**

The 2008 SORP introduced a condensed format for interim accounts based on the Accounting Standards Board's (ASB) Statement: Half-Yearly Financial Reports. The main effect was that the majority of the notes and disclosures required in annual accounts were not required in interim accounts.

The ASB Statement was withdrawn and replaced by FRS 104 in 2015. In developing the 2025 SORP, the SWP concluded that FRS 104 provides an appropriate basis for a condensed format for interim accounts. The disclosure requirements in FRS 104 are more extensive than the ASB Statement so the 2025 SORP includes references to the additional disclosures required in interim accounts when FRS 104 is applied.









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