31 October 2013

Our ref: ICAEW Rep 157/13

Investment Management Association
65 Kingsway
London
WC2B 6TD

Via email: financialreporting@investmentuk.org

Dear Sirs

Statement of Recommended Practice: Financial Statements of UK Authorised Funds

ICAEW is pleased to respond to your request for comments on *Statement of Recommended Practice: Financial Statements of UK Authorised Funds*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

Philippa Kelly

T +44 (0)207 7920 8446
E **philippa.kelly@icaew.com**

The Institute of Chartered Accountants in England and Wales
Chartered Accountants' Hall
Moorgate Place London EC2R 6EA UK
icaew.com

T +44 (0)20 7920 8100
F +44 (0)20 7920 0547
DX 877 London/City

ICAEW REP 157/13

ICAEW REPRESENTATION

STATEMENT OF RECOMMENDED PRACTICE: FINANCIAL STATEMENTS OF UK AUTHORISED FUNDS

Memorandum of comment submitted in October 2013 by ICAEW, in response to The Investment Management Association exposure draft Statement of Recommended Practice: Financial Statements of UK Authorised Funds published in July 2013.

Contents	**Paragraph**

INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the exposure draft *Statement of Recommended Practice: Financial Statements of UK Authorised Funds* published by The Investment Management Association on 31 July 2013, a copy of which is available from this link.

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 140,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

4. The Financial Services Faculty was established in 2007 to become a world class centre for thought leadership on issues facing the financial services industry acting free from vested interest. It draws together professionals from across the financial services sector and from the 25,000 ICAEW members specialising in the sector and provides a range of services and provides a monthly magazine FS Focus.

MAJOR POINTS

Support for the initiative

5. We support the work of the Investment Management Association in seeking to update the SORP to take account of the changing regulatory and accounting landscape that the industry is currently facing.

RESPONSES TO SPECIFIC QUESTIONS

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

6. ICAEW is commenting as a professional body, not a holder of funds, therefore we do not propose to contribute extensive views on this question. We would however note the prevalence of instruments without observable inputs to valuation.

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

7. As noted above we are a professional body, not a holder of funds, but we would expect administrators to be able to accommodate funds under IFRS and so be able to support the three reporting levels proposed.

Q3: Do you agree that the SORP's emphasis justifies the additional disclosure category for unobservable inputs? If not please explain why.

8. We agree that the emphasis made requires the third category, and that this will bring recommended practice into line with international best practice. We support the division of the “”other valuation techniques” into instruments with and without observable instruments. The user of authorised funds needs to be able to distinguish these, otherwise there would be be a risk that a fund with say 10% all observable is considered to have the same valuation risks as a fund with 10% all unobservable.

Q4: Do you agree with the generic approach for all authorised funds or should it be more focused on UCITS with non-UCITS funds being dealt with by exception in Appendix III?

9. We agree with the generic approach, which will facilitate more principles based guidance. We note both UCITS and Non –UCITS retail schemes are not essentially differentiated by the investor or the regulator. There may be a case for flexibility for QIS but these are very few in number.

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

10. Generally speaking, ICAEW does not favour combined or dual purpose reporting, as the needs of regulators are not necessarily aligned with the needs of shareholders or other financial statements users. Regulators are in the position to be able to ask for what information they need in order to effectively supervise and enforce regulations. Combined reporting reduces flexibility should regulations change more frequently or rapidly than accounting or vice versa.

11. We understand however that in some circumstances there is no other option for what are vehicles created by regulators for retail investors. As such it is key there is certainty surrounding what is accounting; what is distribution rules and policy; and what is regulatory reporting as the three can be mixed. We recommend that the accounting policies should not mix the distribution policies.

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

12. It would reduce ambiguity and the potential for differing application if the SORP were to define realised and unrealised gains/losses.

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

13. We are of the view that definition A is a simpler definition, which could be clarified with further guidance, so as to avoid confusion with regard to the terms realised and unrealised as used in UK Company law, and as explored in ICAEW Technical Release 02/10. Application of Alternative B may also impose an additional burden because, depending on the nature of the investments held, it may not be clear whether profits on re-measurement are readily convertible to cash.

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

14. We agree that the simplification measures suggested to facilitate users more efficiently identifying the information they need from the financial statements should help them better understand the performance and cost information.

15. We note however that the new IMA tables of performance and charges are pence per unit. This facilitates understanding, but not necessarily comparison. We suggest that alongside this are percentages with the opening figure being rebased to 100 or 100%.

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

16. The disclosures required will need systems work by administrators. We believe the release of industry guidance at the same time as the SORP would help facilitate consistency and prevent diverging practice. Such guidance would not conflict with the SORP as it is not accounting but performance and cost attribution.

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

17. Yes – seems appropriate given the way in which the fund is managed and the accrual of benefit. We would like to point out that despite simplification however estimating the expected cash flows to arrive at the revenue is still absolutely required whether this is straight line or effective interest rate method.

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

18. We agree that the principle of aggregation ceases to be useful when the rules regarding segregated liability come into effect at the end of this year. We do not disagree with the IMA SORP taking the lead on removing the requirement, and would encourage the FCA to consult in a timely manner so as to maintain consistency.

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

19. We believe the effective date should be 1 January 2015, on the proviso that the final SORP is published by 31 March 2014.

Q13: Which requirements need an earlier effective date?

20. We do not consider any of the accounting items to need an earlier date. We note that property funds may want to early adopt, but any early adoption should be in full. We understand that the industry would like to early adopt unit based performance and charges, which could be a challenge but is part of the need to disclose and the IMA has set a target of accounting periods bending after 31 March 2014 so periods already commenced.

Q14: Which requirements should be deferred?

21. No requirements should be deferred but we note that unless or until the FCA amends COLL some aspects cannot be adopted.

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

22. Yes.

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

23. We are also concerned that the enforced look through basis for accounting for all revenue and gains for all Tax Transparent Fund (TTF) investments is too one size fits all. This could potentially work well for feeder funds in master funds, but for funds that select a TTF as another investment, the information may not be obtained or could have disproportionate expense. We would like to point out that there does not have to be forced alignment of tax and accounting treatments (deferred tax, for example).

24. We would encourage the FCA to define 'material market movement' as used in paragraph 2.15. We note that the old guidance used 2% for forward pricing, but we would support something more relaxed than this.

E philippa.kelly@icaew.com