

# Authorised investment funds technical release

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November 2010

## A revised Statement of Recommended Practice for the financial statements of Authorised Funds

The IMA has finalised amendments to the SORP relating to the financial statements of authorised funds. The revised 2010 SORP is effective for accounting periods beginning on or after 1 January 2010.

### **UK GAAP and the SORP**

Following their 2009 consultation on the future of financial reporting in the UK, the ASB has acknowledged that there should be a future role for the Authorised Funds SORP. This is a welcome policy shift as the original proposal had been that the SORP should be discontinued. The change in policy recognises the key role which the SORP has played in promoting consistency in fund reporting over the years and reflects the strong support for the SORP voiced by respondents to the consultation paper.

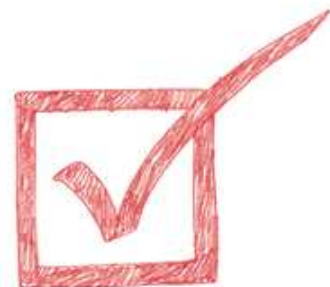
With the implementation of the ASB's proposed three-tier framework for UK GAAP now unlikely to take place prior to accounting periods beginning on 1 July 2013, any wholesale revision of the SORP remains a little way off. In the meantime the process of keeping the SORP up to date continues and the 2010 SORP makes only limited amendments at this juncture. The primary reason for the update is to incorporate the FRS 25 amendments dealing with the presentation of puttable instruments, which became effective on 1 January 2010.

### **Puttable instruments - debt or equity?**

FRS 25 sets out the criteria which puttable instruments would need to meet in order to be equity. Shares in multi-class funds generally fail the criteria as they do not have identical features. Income shares also typically fail the equity test as there is an obligation to pay cash dividends. The SORP therefore concludes that in most cases units or shares in an authorised fund will continue to be shown as liabilities. The exception to this is a stand-alone fund or a sole sub-fund of an umbrella scheme which only has accumulation units in issue. In such circumstances the units will be equity.

The SORP contains an illustrative presentation which seeks to maintain as far as possible the comparability between funds with units which are liabilities and funds with units which are equity.

Because the FRS 25 amendments are effective for periods beginning on or after 1 January 2010, it should be noted that for funds where presentation changes are required, these would be applicable in interim reports from June 2010 onwards.



## Other changes

The other main changes to the SORP are:

- Removal of the requirement to disclose the portfolio turnover rate in the annual report;
- A reminder of the requirement to disclose significant non-adjusting post balance sheet events - for example a significant movement in the value of investments after the year end;
- Clarification that index linked gilt funds could, if they wished, use the indexation methodology set out in s400 Corporation Tax Act 2009 as a suitable measure of inflation for accounting purposes. This could have the effect of aligning the accounting, tax and distribution on such funds although it is perhaps worth commenting that, so long as inflation remains volatile, the amendment is unlikely to assist funds who happen to hold index linked gilts as part of a multi-asset class investment strategy.

Looking ahead, further updates to the SORP are likely to be necessary in 2011 to reflect forthcoming COLL changes implementing UCITS IV. It would then seem likely that any major SORP revisions necessary to reflect the outcome of the ongoing UK GAAP consultations would take place in 2012 or 2013 depending on the implementation date finally settled upon by the ASB.

## Contact us

If you would like to discuss any of the matters raised in this release further, please contact one of our authorised funds experts listed below.



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