

# Statement of Recommended Practice

## Financial Statements of Authorised Open-Ended Investment Companies

November 2000



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# Statement by the Accounting Standards Board

The aims of the Accounting Standards Board (the ASB) are to establish and improve standards of financial accounting and reporting, for the benefit of users, preparers, and auditors of financial information. To this end, the ASB issues accounting standards which are primarily applicable to general purpose financial statements. In special industry and other sectors, further guidance may be required in order to implement accounting standards effectively. This guidance is issued, in the form of Statements of Recommended Practice (SORPs), by bodies authorised for the purpose by the ASB.

The FSA has confirmed that it shares the ASB's aim of advancing and maintaining standards of financial reporting in the public interest and has been recognised by the ASB for the purpose of issuing SORPs. As a condition of recognition, the FSA has agreed to follow the ASB's code of practice for bodies recognised for issuing SORPs.

The code of practice sets out procedures to be followed in the development of SORPs. These procedures include a review of the proposed SORP by the ASB, though not a comprehensive examination of all potentially relevant issues.

On the basis of its review, the ASB has concluded that the SORP has been developed in accordance with the ASB's code of practice and does not appear to contain any fundamental points of principle that are unacceptable in the context of current accounting practice, or the ASB's plan for future standards, or to conflict with accounting standards, except in the limited manner identified below. Because the capitalisation of start-up costs has been explicitly permitted by the Regulations governing open-ended investment companies, the Board has accepted as a pragmatic matter that, where these costs have been capitalised and are being amortised over a period of up to five years, the process may continue (paragraph 2.32). All other start-up costs are now to be written off as incurred.

21 September 2000

# 1 Introduction

## **Status**

- 1.1. This Statement of Recommended Practice ('SORP'), issued by the Financial Services Authority ('FSA'), sets out requirements for the preparation of financial statements for shareholders of Open-Ended Investment Companies ('oeics'), which have been authorised under Regulation 7 of the Open-Ended Investment Companies (Investment Companies with Variable Capital) Regulations 1996 ('the ECA Regulations').
- 1.2. The Accounting Standards Board ('the ASB') has approved the FSA for the purposes of issuing recognised SORPs for Collective Investment Schemes. This arrangement requires the FSA to follow the ASB's code of practice for the production and issuing of SORPs.
- 1.3. This code of practice provides the framework to be followed by the FSA for the development of SORPs, but does not entail a detailed examination of the proposed SORP by the ASB. However a review of limited scope is performed.
- 1.4. Under the ECA Regulations, the directors of an oeic are responsible for the preparation of the company's annual and half-yearly reports. In addition, under the Financial Services (Open-Ended Investment Companies) Regulations 1997 ('the FSA Regulations'), the Authorised Corporate Director ('the ACD') of the company is responsible for ensuring that the contents of each report comply with the FSA Regulations.
- 1.5. The requirements of this SORP have been arrived at after consideration of the Statements of Standard Accounting Practice ('SSAPs') and Financial Reporting Standards ('FRSs') in force, and proposed at 1 September 2000.

## General accounting requirements

- 1.6 Financial statements should comply with SSAPs and FRs. Appropriate disclosure of the accounting policies should be made in the notes to the financial statements. Examples of the accounting policies required are covered in Part II of this SORP. Taken together, this should ensure that the accounts provide a true and fair view.

## Other regulations and rules

- 1.7 The requirements of this SORP should be read in conjunction with ASB's Explanatory Foreword to SORPs, any rules and regulations relating to oeics that are in force, and the law relating to these matters. Compliance with this SORP is required by the FSA Regulations. **Financial statements should state the title of this SORP and whether its financial statements have been prepared in accordance with it and, in the event of a departure, give:**
- (a) a brief description of how the treatment adopted departs from the recommended practice set out in the SORP; and
  - (b) the reasons why the directors judge the treatment adopted to be more appropriate to the particular circumstances of the company.
- 1.8 The ECA Regulations contain a number of requirements relating to reports, but the bulk of the accounting requirements are contained in the FSA Regulations. For the sake of completeness, this SORP also includes the FSA Regulations covering the contents of annual and half-yearly reports to shareholders. The directors of an oeic are responsible for preparing the reports, and for ensuring that the full accounts give a true and fair view of the position at the end of the period, and the net income for the period.

## Approach

- 1.9 As is the case with the unit trust SORP, the explanatory background has been included within the text and all the information about an individual topic can be found in one place. **Whilst the whole of this Statement represents the SORP, in order to distinguish required practice from what is primarily explanatory background, the specific requirements of the SORP are printed in bold throughout the document.**

## Future changes

- 1.10 Where requirements change as a result of changed regulations, legislation, product changes or the publication of FRs, the implications for this SORP

may be dealt with by guidance until such time as the SORP itself is revised. The FSA will keep this SORP under regular review, in accordance with the ASB's code for SORPs, and will amend it from time to time in the light of developments including the extension of the oeic regime to cover investment in other types of financial assets, provision for which is made in the Financial Services and Markets Act 2000. Pending such changes being issued, accounts must be prepared on the basis of accounting standards and Urgent Issues Task Force (UITF) Abstracts issued after publication of this SORP, from their effective date.

### **Costs and benefits**

- 1.11 The FSA does not anticipate that the introduction of this SORP will involve additional costs either for consumers or operators. The FSA sees considerable benefits to consumers, who will be enabled to receive clearly presented short form accounts of their fund, whilst still being able to apply for the full accounts. It is anticipated that this will reduce costs for operators, and that the SORP will provide a focus for applying accounting standards to the accounts of oeics.

### **Date from which effective**

- 1.12 The requirements of this SORP will be applicable for all accounting periods (including half-yearly accounts) ending after 30 November 2000, but will not become mandatory until those ending after 31 May 2001. Earlier adoption is encouraged.

# 2 Contents of financial statements

## Contents

### Annual reports and accounts of the company

- 2.1 The annual report to shareholders should contain the audited financial statements, a statement of net asset value per share, the number of shares of each class in issue, and a comparative table and the information required to be disclosed by Schedule 2, Part I of the FSA Regulations. It should also contain the investment report together with reports of the auditor and depositary. Statements of responsibilities of each of the auditor, ACD and depositary should also be included. Special requirements relating to umbrella companies are set out in paragraph 34. The FSA Regulations require each report of the company to be signed by the ACD. If there are other directors, the report must be signed on behalf of the Board by the ACD and at least one other director. The ECA Regulations require the directors to lay copies of the annual report before the company in general meeting, and that a copy of the report, which must be signed as above at the end of the balance sheet, is sent to the Registrar of Companies. **The audited annual financial statements should contain appropriate information on the transactions in the portfolio during the period, and the total return over the period, comprising net capital gains/losses and net income. Distributions for the period together with the value of the portfolio at the period end should also be shown. The following items should be included:**

**a statement of total return**

**a statement of movements in shareholders' funds**

**a portfolio statement**

**a balance sheet**

**a summary of material portfolio changes**

a statement of the material accounting policies used in preparing the financial statements

further details in notes to the financial statements.

a distribution table

Comparative figures should be given for the previous year for all items in the statement of total return, statement of movements in shareholders' funds and the balance sheet, and the notes to each, and for sector percentage totals in the portfolio statement.

- 2.2 Under the special exemptions in the revised FRS 1 a cash flow statement is not required.
- 2.3 Pro forma financial statements that meet the requirements set out above are included in Annex A. **The pro forma is a minimum requirement and, although the order of the statements is not prescribed, headings used within statements should be adhered to in the order shown.** Additional disclosure is recommended to reflect any special circumstances and to ensure that the financial statements show a true and fair view.

#### **Half-yearly reports and accounts of the company**

- 2.4 The half-yearly report to shareholders should contain the half-yearly financial statements, a statement of the net asset value per share, and the number of shares of each class in issue. It should also contain the investment report and the information required to be disclosed by Schedule 2, Part I of the FSA Regulations. The report should be signed by the directors in accordance with the FSA Regulations.

The half-yearly financial statements (which are not required to be audited) should be prepared using the same accounting policies and format as the annual financial statements and include the following items:

a statement of total return

a statement of movements in shareholders' funds

a portfolio statement

a balance sheet

a summary of material portfolio changes

a statement of the material accounting policies used in preparing the financial statements

further details in notes to the financial statements.

a distribution table (if appropriate)

Comparative figures should be given for all items in the statement of total return, and balance sheet, and the notes to each, and for sector percentage totals in the portfolio statement. They should be the equivalent figures for the same half-yearly period in the previous year for the statement of total return, but the last audited figures (i.e. at the end of the last full accounting period) for the other statements). Comparative figures are not required for the statement of movement in shareholders' funds.

### **Short form accounts in reports of the company**

- 2.5 At the discretion of the directors, short form accounts may be included in the reports to shareholders for any period instead of the full accounts specified in paragraphs 2.1 and 2.4. If so, it must be made clear when such accounts are included that shareholders are entitled to apply for and receive the reports containing the full accounts. In preparing the short form accounts, the information shown may be limited so as to give shareholders a clear and simple picture of the performance of their investment over the period. Pro forma documents are set out in Annex B and should be designed to give the average shareholder, firstly, a clear simplified picture of the total return and amount distributed or accumulated, and the amount taken out by way of expenses and, secondly, of where his funds were invested.
- 2.6 **Every annual and half-yearly report to shareholders containing short form accounts should include a statement of the net asset value per share and the information required to be disclosed by Schedule 2, Part I of the FSA Regulations in a form appropriate for short form accounts.** It is intended that the directors' report included in a report containing short form accounts should cover everything required by Schedule 2, Part I, but that it need not be covered in the same amount of detail. **In addition, a report that relates to an annual accounting period should include a comparative table, giving the same information as required by Schedule 2, Part II of the Regulations for reports containing the full accounts.** It should also contain the report of the depositary and a copy of the auditor's statement on the short form accounts. The report including the short form accounts should be signed by the directors as set out in paragraph 2.1. Statements of responsibilities of each of the ACD, auditor and depositary should also be included as appropriate.
- 2.7 Reports to shareholders containing short form accounts must form a separate stand-alone document that does not include any extraneous material. Short form accounts should contain the following items (with comparatives on the same basis as for the full accounts):
- a statement of total return
  - a statement of movements in shareholders' funds

**a statement of investments and other assets**

**a distribution table**

- 2.8 Pro forma short form accounts that meet the requirements set out above are included in Annex B. **The pro forma is a minimum requirement and although the order of statements is not prescribed, headings used within the statements should be adhered to in the order shown.** It is not intended that notes to the financial statements will be included but additional disclosure is recommended where there is a need to reflect any special circumstances.

### **Reports and accounts of umbrella companies**

- 2.9 The annual and half yearly report to shareholders of an umbrella company should contain reports and accounts relating to each of its sub-funds, prepared in the base currency of the company together with the other information set out in paragraphs 2.1 and 2.4 as appropriate. The reports should also contain the other information specifically required by the FSA regulations for sub-funds. An aggregation of the accounts of each sub-fund must also be prepared, together with the additional information specifically required by the FSA regulations for an umbrella company. **The aggregated financial statements should comprise:**

**a statement of total return**

**a statement of movements in shareholders' funds**

**a balance sheet**

**a statement of the material accounting policies used in preparing the financial statements**

**appropriate notes to the aggregated financial statements**

- 2.10 The Board of directors can elect to send to shareholders a report on the relevant sub-fund only. Where such reports only are provided, a report on the umbrella company as a whole must be made available to shareholders on request. The FSA Regulations also permit the Board of directors to elect to produce short form accounts in reports sent to shareholders. Where this is the case, copies of the report containing the full accounts of the umbrella company as a whole (which include the full accounts for each sub-fund) must be made available to shareholders on request.
- 2.11 Annex D sets out a table showing the minimum amount of information that must be sent to shareholders, and the total information that must be made available to them.

## **Companies or sub-funds with different share classes**

- 2.12 Where there are different share classes, the investments of the company or sub-fund remain as one pool, and are not separately allocated to share classes. Where there is a different charging structure for each class, such differences will be reflected in the price of each share class, and the proportion of the pool of investments attributable to each class. The prices will determine the amount receivable or payable by the company or sub-fund in respect of issues and cancellations of shares, but these amounts are not required to be analysed by class in the Statement of Movement in Shareholders' Funds. **The share of the company's or sub-fund's net assets, the net asset value of each share in each class, at the beginning and end of the period, and the distributions attributable to each class should be included in the accounts. The different rights and terms attaching to each share class, including the rights on winding-up, should be summarised in the notes to the accounts.**

## **Statement of total return**

- 2.13. A statement of total return should be prepared. This will set out the total return, comprising net investment gains or losses together with net income after tax, and will then identify that part of the total return that is to be distributed in accordance with the FSA Regulations.
- 2.14 The statement of total return should show, with corresponding figures for the preceding equivalent period:
- net gains/losses on investments during the period**
  - other gains/losses**
  - net income/expense after taxation for the period showing separately, gross income, total expenses, and the tax charge**
  - total return for the period**
  - distributions**
  - net increase/decrease in shareholders' funds from investment activities.**
- 2.15 As the example included in Annex A shows, the statement of total return incorporates investment gains/losses and income after tax showing the various components separately.
- 2.16 The headings used in paragraph 2.14 are summary components only, to keep the principal statement clear and simple. **The main components will require more detailed analysis in notes to the financial statements;** in particular the net gains/losses on investments, other gains/losses, and net income/expense after taxation, examples of which are given in Annex A.

### **Net gains/losses on investments**

- 2.17 The investment gains/losses should be analysed in the notes to show realised gains/losses, the extent to which such gains/losses have been recognised in previous periods, together with the change in the unrealised gains/losses during the period. Any special dividends regarded as capital in nature (see paragraph 2.28) should be included within realised gains.

### **Other gains/losses**

- 2.18 Other gains/losses should be explained (in the notes if not on the face of the statement) and may include such items as gains/losses on back-to-back loans, and other currency movements relating to capital items.

### **Net income/expense after taxation**

- 2.19 The net income/expense after taxation should show gross income, total expenses and taxation with details of these individual components given in the notes. An example of the disclosure required is included in Annex A.

### **Total return for the period**

- 2.20 Where there is a material difference between net income after taxation shown in the Statement of Total Return and the amount distributed, an explanation of the difference should be included in the notes. It is expected that the directors' report will explain the investment strategy leading to any material difference and also an explanation of why there may be a distribution even if the total return is negative.

### **Derivatives**

- 2.21 The treatment of derivatives (other than foreign exchange hedging contracts) in the balance sheet is dealt with under 'Portfolio Statement,' paragraphs 2.52 to 2.54. For the purposes of the statement of total return, the inclusion of gains or losses from derivative products in net gains or losses on investments or in net income before taxation will depend upon the intention behind the transaction. These transactions will be covered by the relevant provisions of Part 5, Section E of the FSA Regulations, which deal with Efficient Portfolio Management ('EPM'). The intention behind the transactions will therefore have been identified by the ACD in determining their appropriateness. **Where positions are undertaken to protect or enhance investments, the gains or losses should be dealt with in gains or losses on investments; where they are for generating or protecting income, the costs or income should be dealt with in net income before taxation.**

### **Income from equities**

- 2.22 **In the case of quoted equity investments, and non-equity shares, the income should be regarded as earned when the security is quoted ex-dividend, when the price quoted falls to reflect the value of the dividend concerned. In the case of unquoted equity investments income should be regarded as earned when the dividend is declared, but the valuation will need to reflect this.**
- 2.23 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 as income and accrued on a time-apportionment basis so as to reflect the 'effective yield' on the share where this has a material effect on income. However, because of the practical difficulties (such as the lack of availability of pricing information that achieves an accurate allocation between capital and income for these shares) arising from the requirement to undertake daily valuations for pricing purposes, this is inappropriate for open-ended investment companies. **Therefore, income from non-equity shares should be recognised on the same basis as equities.**

### **Interest and income on other securities**

- 2.24 **Interest and income on other securities should be recognised as earned. To achieve this, accrued interest purchased and sold on interest-bearing securities should be excluded from the capital cost of these securities and dealt with as part of the income of the scheme. In the case of debt securities issued at a significant discount to the maturity value (defined as a percentage which is the lower of half the number of years of the term of the issue and 15 per cent), the total income arising on such securities, taking into account the amortisation of such a discount, should be spread over the life of the security on an appropriate basis, having regard to applicable accounting standards.**

### **Income recognition**

- 2.25 **If any income receivable at the balance sheet date (this does not include accrued income earned, but not yet receivable) is not expected to be received for a significant period after the accounting period end, a provision reflecting the timing of receipt should be made for the relevant amount.**

### **Deduction of tax**

- 2.26 **In cases where income is received after the deduction of withholding tax, the income should be shown gross of taxation, and the tax consequences should be shown within the tax charge.**

## **Scrip dividends**

- 2.27 For certain securities, the holder may elect to receive a dividend in the form of shares rather than cash. In most cases the value of the shares to be received will approximate to the amount of the cash dividend (an 'ordinary' scrip dividend), any small difference being attributable to the movement of the share price between the dividend declaration and the shares being quoted ex dividend. In a few cases an enhancement may be offered such that the value of the shares significantly exceeds the cash dividend (an 'enhanced' scrip dividend). Even though no cash is received such dividends are, at least in part, income of the fund. **In the case of an ordinary scrip dividend the whole amount should be recognised as income, on the basis of the market value of the shares on the date they are quoted ex dividend. In the case of an enhanced scrip dividend, the value of the enhancement, calculated as the amount by which the total market value of the shares on the date they are quoted ex dividend exceeds the cash dividend, should be treated as capital.** Scrip dividends may not need to form part of the distribution and the **fund's distribution policy for this item should be stated**, i.e. that the ordinary element of scrip dividends is treated as income but does/does not form part of the distribution and, if it does not, that the distribution is in accordance with the FSA Regulations.

## **Special dividends and share buy-backs**

- 2.28 From time to time companies pay special dividends or carry out share buy-backs. **These should be treated as repayments of capital unless there is sufficient evidence that they should be treated as income. The tax accounting treatment should follow the treatment of the principal amount.**

## **Underwriting commission**

- 2.29 Underwriting commission should be taken to income and 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.

## **Stock lending**

- 2.30 Any fees arising from stock lending should be recognised as income on an accruals basis.

## **Expenses**

- 2.31 To facilitate comparability between funds, **all expenses (other than those relating to the purchase and sale of investments and stamp duty reserve tax arising on sales and repurchases of shares in the company) should be charged**

**against income**, regardless of any alternative treatment that may be permitted in determining the distribution. To the extent that such expenses can be borne ultimately by capital, the distribution will reflect this, and be higher than the net income as disclosed in the financial statements. **Expenses should be analysed to show those payable to the ACD, the depositary, related parties to either the ACD or the depositary, and third parties.**

- 2.32 **Initial set up costs should be written off as incurred in the Statement of Total Return, and not carried as an asset in the Balance Sheet.** However, where, prior to the adoption of this SORP initial set up costs had been capitalised in accordance with the regulations and amortised over a period of up to 5 years, this process may continue. The remaining costs should be amortised over the remaining life of the original amortisation period, and the unamortised balance and remaining amortisation period should be disclosed.

### **Taxation**

- 2.33 **The following items should be separately identified within the notes to the financial statements together with any other material components of the tax charge:**

UK corporation tax

overseas taxation

double tax relief

avoir fiscal

deferred tax

**adjustments in respect of prior periods.**

**In general, the tax accounting treatment should follow that of the principal amount.**

### **Overseas taxation**

- 2.34 **Overseas withholding tax suffered 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 will 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.

### **Interest distributions**

- 2.35 Where a company opts to pay an interest distribution, the amount paid out is allowed as a deduction against the company's taxable profit for the period. In effect, where all such income is paid out there should be no charge to tax within the fund in respect of that income. However, except where an interest distribution is paid gross to shareholders, it will nevertheless be a responsibility of the fund to deduct income tax at source at the appropriate rate on payment of the interest distribution to the shareholder. **Withholding tax on interest distributions should not be shown as part of the fund's liability to taxation, since it will be settled from amounts transferred to the distribution account.**

### **Deferred taxation**

- 2.36 There may be timing differences between the accounting treatment of certain items and their taxation. Because it is important to maintain equity in entitlements between accounting periods, **deferred taxation should be provided on all timing differences**, with details being given in the notes to the financial statements.

### **Value Added Tax**

- 2.37 The VAT recovery position will vary from company to company. As for all other items in the financial statements, the recovery of VAT should be accounted for on an accruals basis. **Irrecoverable VAT should be included as part of the relevant cost.**

### **Distributions**

- 2.38 **Details of the type of distribution being paid should be given in the notes to the accounts.**

### **Statement of movements in shareholders' funds**

- 2.39 **The statement of movements in shareholders' funds should summarise the movements in the total value of the fund.** This statement reconciles the changes in net assets during the period in summary form. It draws on the statement of total return for the net increase/decrease in assets attributable to the investment activities and shows the extent to which the company has grown or contracted as a result of the issue or cancellation of shares. An example of this statement is given in Annex A.
- 2.40 **The statement of movements in shareholders' funds should be presented on the same page of the financial statements as the statement of total return,**

thereby providing shareholders, on one page, with a summary of the principal features of the scheme's results for the period.

### **Dilution levy**

- 2.41 **Any dilution levy charged (in the case of issue and sale of shares) or deducted (in the case of redemption and cancellation) should be shown separately. The ACD's policy on charging such levy should be set out in the notes to the accounts.**

### **Stamp duty reserve tax**

- 2.42 **SDRT arising as a result of sales and redemptions of shares in the company should be shown separately where the cost of the tax is borne by the company.**

## **Balance sheet and portfolio statement**

### **Balance sheet**

#### Disclosure

- 2.43 **The reports to shareholders must include a balance sheet, which includes all assets and liabilities, and a portfolio statement.**

#### Stock lending activities

- 2.44 **Securities lent should be included in the financial statements, and no account should be taken of any collateral held. In order that the shareholder is aware of the extent to which the company's securities are the subject of stock lending arrangements, disclosure should be given in a note to the financial statements of the aggregate value of securities on loan at the balance sheet date and the nature and value of collateral held in respect thereof.**

#### Securities awaiting settlement

- 2.45 **Purchases and sales of investments should be accounted for on the trade date. Balances owing to and due from brokers in respect of these trades should be separately disclosed in the balance sheet under debtors and creditors. Balances due to and from the same broker can be netted off only where there is a legal right of set-off, and as permitted by FRS 5.**

#### Back-to-back loans

- 2.46 **Oeics are permitted to borrow only in accordance with the FSA regulations. Where any foreign currency borrowing is entered into to hedge the value of an investment denominated in that currency, such borrowing is matched by a**

deposit. **Back-to-back loans should be shown separately**, in order to give an indication of the total value of the portfolio for which the currency risk has been hedged. **The deposits against which such loans were made should also be shown separately** from other cash and deposit balances, because they are not available for investment. The required information on interest rate risk should be given in the portfolio statement or the notes to the accounts.

### **Portfolio statement**

Investments in securities

- 2.47 **Investments of the company should be stated at mid-market value at the balance sheet date. Where applicable, investments should always be valued to exclude any element of accrued income. The value of overseas securities should be translated into the reporting currency at exchange rates prevailing at the balance sheet date. Where, in view of unusual market movements, the last quoted price is not used, the notes should describe clearly the basis of valuation, and the reasoning behind it.**
- 2.48 The accounting system used for valuing the investments for financial statements purposes at the period end will normally be the same as that used for valuation purposes. Where daily valuations are produced for the purposes of pricing, it is acceptable to use that valuation of the property of the company for the purposes of the financial statements rather than performing an additional valuation, provided that the valuation point is sufficiently near to the close of business on the balance sheet date, such that any distortion arising from price movements or as a result of subsequent deals is clearly immaterial. **The precise valuation point should be disclosed in the notes to the financial statements.**
- 2.49 In most funds the determination of the market value of the portfolio should be reasonably straightforward, since the values are readily available through published sources. However, in certain situations the value of a security may not be readily determinable, as will often be the case where the investment is not an approved security within the meaning of the FSA regulations. **Where the value cannot be readily determined, the securities should be stated at the directors' valuation, arrived at in accordance with the company's instrument of incorporation, and the notes to the financial statements should include adequate details about the basis of the valuation.**
- 2.50 For each holding in the portfolio, the percentage of the value of the fund or sub-fund property that the holding represents should be shown. **The percentage should also be shown for each category of holding in the property of the fund or sub-fund, in addition to the individual holdings. These categories should be the most appropriate in the light of the investment policy of the fund(e.g. economic, geographic or currency). Comparative percentages**

for these sector statistics (rather than comparative percentages for each holding) should be given in the portfolio statement. A suggested format for the portfolio statement is set out in Annex A.

- 2.51 **The portfolio statement should distinguish between those securities admitted to official stock exchange listing, and those traded on or under the rules of an eligible securities market, and those securities that are unapproved.** It is considered that a geographical analysis of the portfolio would give an adequate indication of the official stock exchanges on which the securities are listed. The statement should include such information about the categories of securities mentioned above as is necessary to explain their essential differences.

#### Derivatives

- 2.52 The FSA Regulations permit the use of derivatives for the purposes of EPM. Under EPM, derivatives may be used for the purposes of controlling risk, generating additional income or reducing costs, but not for speculation. Because of the changing nature of derivative products, this statement sets out the broad principles that should cover most circumstances.
- 2.53 As a general rule, **derivative instruments are no different from any other investments and they should be marked to market, with the exception of positions taken to hedge income earned but not receivable until after the balance sheet date, which should be valued at the contract rate.**
- 2.54 For disclosure purposes it is the exposure to the market that is significant rather than the number of individual contracts and terms. Therefore, in the portfolio statement **the aggregate nominal value of positions held on derivatives for each security or index should be shown as an asset or a liability, together with the market value. The cash committed, to the extent that it has not been advanced, should be shown as a deduction from cash balances.** An example is included in the specimen Portfolio Statement in Annex A. Paragraphs 2.63 and 2.64 set out the risk disclosure that should be set out in the financial statements.

#### Investment in units in another collective investment scheme

- 2.55 **Where a fund invests in another authorised collective investment scheme, the holding should be valued at mid-market value,** as for any other investment. If such scheme is managed or operated by the ACD or an associate of the ACD, the consideration paid will exclude any initial charge, and mid-market value will therefore exclude any charges. Thus oeics will be valued at quoted price, and unit trusts at the mid of creation and cancellation prices. If the oeic invests in schemes operated by other management groups, appropriate charges should be taken into account. For holdings in such shares, both oeics and unit trusts should be valued at the mid point of contractual prices.

- 2.56 Where the units or shares held are in an accumulation form, the accumulation of income relating to the holding should be recognised in the income account, including any withholding taxes but excluding tax credits.

### **Summary of material portfolio changes**

- 2.57 Significant changes in the disposition of the assets of the fund should be provided. The summary of material portfolio changes should identify the value of purchases or sales of a security exceeding 2% of the net assets of the fund or sub-fund at the start of the period (for the first period 2% of the fund at the end of the period). In any event, at a minimum, the 20 largest purchases and 20 largest sales must be shown.
- 2.58 To provide information about the extent of investment activity, the total cost of purchases and net proceeds from sales of investments during the period should be disclosed.

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

- 2.59 The notes should include any other information required by the FSA Regulations or the ECA Regulations, together with the accounting policies used, and any information that is required for the accounts to give a true and fair view.

### **Contingent liabilities and commitments**

- 2.60 FRS 12 distinguishes between provisions and contingent liabilities. A provision should be recognised where a present obligation exists and it is probable that a transfer of economic benefits will be required in settlement. Contingent liabilities are defined in FRS 12. Where, for instance, there is a liability to subscribe for shares pursuant to an underwriting, placing or similar agreement, **the aggregate underwriting commitments should be disclosed as a contingent liability**. A company may enter into a placing agreement that is contingent on certain resolutions being passed by the issuing company. Where placing agreement resolutions have not been passed at the balance sheet date **the aggregate commitment should be disclosed as a contingent liability**.
- 2.61 A commitment may exist on partly paid shares, nil paid shares and warrants. Even though it may be intended to sell these shares before the calls become due, a commitment exists, and **the aggregate commitment should be disclosed as a contingent liability for partly paid shares, nil paid shares and warrants**.

## **Related party transactions**

- 2.62 **Transactions and balances with related parties should be set out in the accounts, as required by FRS 8.** The related parties should be identified by the board of directors. Related parties will include the ACD, and may include parties by reason of their relationship with the ACD. Material shareholders will be related parties to the extent that they are in a position to control the company, and disclosure should be given in accordance with FRS 8. Disclosure of other material shareholders may also be desirable. **Material dealing in the shares and investments of the fund carried out with or through related parties should also be disclosed.**

## **Derivatives and other financial instruments**

Disclosure of objectives, policies, and strategies

- 2.63 FRS 13 requires oeics to discuss the risks that arise in connection with financial instruments and to describe how those risks are managed. For oeics these risks will typically include credit risk, interest rate risk, currency risk, liquidity risk and market price risk.
- 2.64 **The main narrative disclosure required by FRS 13 is an explanation of the role that financial instruments have had during the period in creating or changing the risk an oeic faces in its activities. This should include an explanation of the objectives and policies for holding financial instruments and the strategies for achieving those objectives that have been followed during the period.**

Numerical disclosures

- 2.65 **FRS 13 also requires oeics to provide certain numerical disclosures about their exposure to interest rate risk, currency risk, liquidity risk and market price risk; about their hedging activities; and about the fair value of financial instruments that they hold.** The FRS provides certain exemptions from the disclosures for assets and liabilities within its definition of short-term debtors and creditors.
- 2.66 The required information for the numerical disclosure for interest rate risk should be set out in the notes. When calculating the weighted average interest rate the redemption yield basis should be used.
- 2.67 Currency risks will relate to funds with exposure to foreign currencies, where they will arise both on the portfolio of investments and on cash, debtors, and creditors. The required numerical information on the currency risk exposures should be incorporated in the notes, and based on the fund's net exposure.
- 2.68 FRS 13 also requires the fair value of all financial instruments to be disclosed. For investments, this requirement will be met by stating them in the accounts

at mid-market value. Fair values will therefore need only to be disclosed for other financial instruments, including debtors, creditors and certain derivatives.

**Disclosure in umbrella companies**

- 2.69 The numerical disclosures required by paragraphs 2.65 to 2.68 above should be included in the accounts of each sub-fund of an umbrella company. The aggregated accounts should provide the narrative disclosure required by paragraph 2.64 together with a cross-reference to the numerical disclosures contained in the sub-fund accounts. Where sub-fund accounts are sent to shareholders separately, they should include the narrative as well as the numerical disclosure.

# Typical open-ended investment company annual report and financial statements

30 November 2000

The figures included in this pro forma report are provided for illustrative purposes only.

AUTHORISED CORPORATE DIRECTOR

OTHER DIRECTORS

DIRECTORS OF THE AUTHORISED CORPORATE DIRECTOR \*

INVESTMENT ADVISER

DEPOSITARY

REGISTRARS

AUDITORS

\* optional

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\* Specimen wording not provided, as this is dealt with either by the Regulations or each reporting entity will have its own specific standard wording.

## Statement of total return

for the period (specify) ended 30 November 2000

	Notes	2000		1999	
		£000	£000	£000	£000
Net gains/(losses) on investments					
during the period	2		8,525		(2,325)
Other gains/(losses)	3		200		(100)
Gross income	4	954		862	
Expenses	5	<u>(588)</u>		<u>(555)</u>	
Net income/(expense) before taxation		366		307	
Taxation	6	<u>(78)</u>		<u>(63)</u>	
Net income/(expense) after taxation			<u>288</u>		<u>244</u>
<b>Total return for the period</b>			9,013		(2,181)
Distributions	7		<u>(289)</u>		<u>(261)</u>
<b>Net increase/(decrease) in shareholders' funds from investment activities</b>			<u>8,724</u>		<u>(2,442)</u>

## Statement of movements in shareholders' funds

for the period (specify) ended 30 November 2000

	Notes	2000		1999	
		£000	£000	£000	£000
<b>Net assets at the start of the period</b>			43,106		44,366
Movement due to sales and repurchases of shares					
Amounts receivable on issue of shares		3,703		2,718	
Less: Amounts payable on cancellation of shares		<u>(5,002)</u>		<u>(1,638)</u>	
			(1,299)		1,080
Dilution levy charged	8		25		17
Stamp duty reserve tax			(3)		0
Net increase/(decrease) in shareholders' funds from investment activities (see above)			8,724		(2,442)
Retained distribution on accumulation shares			97		85
Other items (specify)			<u>—</u>		<u>—</u>
<b>Net assets at the end of the period</b>			<u>50,650</u>		<u>43,106</u>

## Portfolio statement

as at 30 November 2000

	Holding or nominal value of positions at 30 November 2000	Market value £000	Percentage of total net assets %
<b>JAPAN</b> (25.64%, 1999 - 26.89%)			
Japan A	17,000	371	0.73
Japan B*	25,000	102	0.20
etc			
Exposure to options in Japan C	25,000	27	0.05
etc			
Total Japan		<u>12,987</u>	<u>25.64</u>
<b>UNITED KINGDOM</b> (26.75%, 1999 - 27.14%)			
UK A	3,000	346	0.68
UK B	6,000	298	0.59
etc			
Exposure to futures contracts in FTSE	42,000	39	0.08
etc			
Total UK		<u>13,550</u>	<u>26.75</u>
<b>UNITED STATES</b> (40.94%, 1999 - 36.40%)			
USA A	50,000	858	1.69
USA B	60,000	583	1.15
Exposure to futures contract USA C	25,000	23	0.05
etc			
Total USA		<u>20,735</u>	<u>40.94</u>
<b>OTHER COUNTRIES</b> (3.33%, 1999 - 3.51%)		<u>1,686</u>	<u>3.33</u>
<b>Portfolio of investments</b>		48,958	96.66
<b>Net current assets</b>		<u>1,692</u>	<u>3.34</u>
<b>Net assets</b>		<u>50,650</u>	<u>100.00</u>

\* Not an approved security

## Balance sheet

as at 30 November 2000

		<b>2000</b>	<b>1999</b>
	<b>Notes</b>	<b>£000</b>	<b>£000</b>
<b>Portfolio of investments</b>		<u>48,958</u>	<u>40,495</u>
<b>Net current assets</b>			
Debtors	9	230	200
Deposits matching currency loans		770	390
Cash and bank balances	10	<u>2,518</u>	<u>3,726</u>
		<u>3,518</u>	<u>4,316</u>
less			
Creditors	11	906	1,120
Bank overdrafts		50	95
Currency loans matched by deposits		770	390
Distribution payable on income shares		<u>100</u>	<u>100</u>
		<u>1,826</u>	<u>1,705</u>
<b>Net current assets</b>		<u>1,692</u>	<u>2,611</u>
<b>Net assets</b>		<u>50,650</u>	<u>43,106</u>
<b>Shareholders' funds</b>		<u>50,650</u>	<u>43,106</u>



# Notes to the financial statements

as at 30 November 2000

## 1 ACCOUNTING POLICIES

### (1) Basis of accounting

The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised oeics issued by the FSA.

### (2) Recognition of income

### (3) Treatment of stock dividends

### (4) Treatment of expenses (including management expenses)

### (5) Allocation of income and expense to multiple share classes

### (6) Distribution policy

### (7) Basis of valuation of investments

### (8) Exchange rates

### (9) Taxation/deferred taxation

### (10) Set up costs

## 2 NET GAINS/(LOSSES) ON INVESTMENTS

The net gains/(losses) on investments during the period comprise:

	<b>2000</b>	<b>1999</b>
	£000	£000
Proceeds from sales of investments during the period	9,328	6,779
Original cost of investments sold during the period	<u>8,201</u>	<u>5,327</u>
Gains/(losses) realised on investments sold during the period	1,127	1,452
Net (appreciation)/depreciation thereon already recognised in earlier periods	<u>920</u>	<u>(2,760)</u>
Net realised appreciation/(depreciation) for the period	2,047	(1,308)
Net unrealised appreciation/(depreciation) for the period	<u>6,478</u>	<u>(1,017)</u>
Net gains/(losses) on investments	<u><u>8,525</u></u>	<u><u>(2,325)</u></u>

Included in net gains/(losses) on investments are losses of £79,000 (1999 – gains £54,000) relating to forward foreign exchange contracts.

## 3 OTHER GAINS/(LOSSES)

Other gains/(losses) comprise:

	<b>2000</b>	<b>1999</b>
	£000	£000
Net gains/(losses) on back-to-back loans	83	(67)
Other currency gains/(losses)	117	(33)
Other (specify)	<u>–</u>	<u>–</u>
Other gains/ (losses)	<u><u>200</u></u>	<u><u>(100)</u></u>

#### 4 GROSS INCOME

	2000	1999
	£000	£000
UK dividends	276	274
Overseas dividends	500	450
Scrip dividends	11	17
Interest on debt securities	17	11
Bank interest	94	54
Underwriting commission	56	56
Other (specify)	—	—
Gross income	<u>954</u>	<u>862</u>

#### 5 EXPENSES

	2000	1999
	£000	£000
<b>Payable to the authorised corporate director, associates of the authorised corporate director, and agents of either of them:</b>		
Authorised Corporate Director's periodic charge	510	490
Registration fees	10	—
Safe custody fees	—	—
Other (specify)	—	—
	<u>520</u>	<u>490</u>
<b>Payable to depositary, associates of the depositary, and agents of either of them:</b>		
Depositary's fees	40	37
Handling charges	—	—
Safe custody fees	13	12
Other (specify)	2	2
Registration fees	—	7
	<u>55</u>	<u>58</u>
<b>Other expenses</b>		
FSA fee	1	1
Audit fee	6	5
Other (specify)	6	1
	<u>13</u>	<u>7</u>
<b>Total expenses</b>	<u>588</u>	<u>555</u>

## 6 TAXATION

	<b>2000</b>	<b>1999</b>
	£000	£000
Corporation tax	16	3
Double tax relief	(16)	(3)
Overseas tax	75	68
Deferred tax	–	(2)
Adjustments in respect of prior periods	3	(3)
Total taxation	<u>78</u>	<u>63</u>

Corporation tax has been provided at a rate of 20% (1999:20%).

## 7 DISTRIBUTIONS

The distributions take account of income received on the creation of shares and income deducted on cancellation of shares, and comprise:

	<b>2000</b>	<b>1999</b>
	£000	£000
Interim	115	122
Final	166	145
	<u>281</u>	<u>267</u>
Add: Income deducted on cancellation of shares	17	7
Deduct: Income received on creation of shares	(9)	(13)
Net distribution for the period	<u>289</u>	<u>261</u>

Details of the distribution per share are set out in the table on page xx.

## 8 DILUTION LEVY

The company's policy is to charge a dilution levy on large deals, and, in accordance with the FSA Regulations, to pay this levy into the company. Normally, the company will only charge such levy on deals over £25,000.

## 9 DEBTORS

	<b>2000</b>	<b>1999</b>
	£000	£000
Amounts receivable for issue of shares	98	88
Sales awaiting settlement	52	40
Accrued income	71	65
Other debtors	9	7
Debtors	<u>230</u>	<u>200</u>

## 10 CASH AND BANK BALANCES

	2000	1999
	£000	£000
Amount held at futures clearing houses and brokers	50	170
Cash and bank balances	2,468	3,556
Total cash and bank balances	<u>2,518</u>	<u>3,726</u>

## 11 CREDITORS

	2000	1999
	£000	£000
Amount payable for cancellation of shares	32	155
Purchases awaiting settlement	821	895
Accrued expenses	42	61
Deferred taxation	11	9
Total creditors	<u>906</u>	<u>1,120</u>

## 12 RELATED PARTY TRANSACTIONS

ABC Limited, as authorised corporate director (ACD), is a related party, and acts as principal in respect of all transactions of shares in the company. The aggregate monies received through issue and paid on cancellation are disclosed in the Statement of Movement in Shareholders' Funds. Any amounts due to or from ABC Limited at the end of the accounting period are disclosed in notes 9 and 11.

Amounts payable to ABC Limited in respect of fund administration and registration services are disclosed in Note 5 and amounts due at the period end in Note 11.

## 13 SHAREHOLDER FUNDS

The company currently has two share classes; Class 1 (Retail) and Class 2 (Institutional). The annual management charge on each share class is as follows:

Class 1: 1.50%

Class 2: 1.00%

The net asset value of each share class, the net asset value per share, and the number of shares in each class are given in the comparative table on page xx. The distribution per share class is given in the distribution table on page xx. Both classes have the same rights on winding up.

## 14 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The analysis and tables provided below refer to the narrative disclosure on Derivatives and other financial instrument risks on page xx\*.

### Currency exposures

A substantial proportion of the net assets of the company are denominated in currencies other than Sterling, with the effect that the balance sheet and total return can be significantly affected by currency movements.

Currency	Net foreign currency monetary assets	
	2000 £000	1999 £000
US Dollar	20,855	15,691
Japanese Yen	13,012	11,592
Euro	585	628
Australian Dollar	420	435
Other	681	451

### Interest rate risk profile of financial assets and financial liabilities

The interest rate risk profile of the company's financial assets and liabilities at 30 November 2000 was:

Currency	Floating Rate financial assets	Fixed Rate financial assets	Financial assets not carrying interest	Total
2000	£000	£000	£000	£000
US Dollar	320	–	20,735	21,055
Japanese Yen	595	–	12,987	13,582
Euro	–	–	585	585
Australian Dollar	–	–	420	420
Other	–	–	681	681
UK Sterling	2,598	1,175	12,375	16,148
Currency 1999	£000	£000	£000	£000
US Dollar	–	–	15,691	15,691
Japanese Yen	390	–	11,592	11,982
Euro	–	–	628	628
Australian Dollar	–	–	435	435
Other	–	–	451	451
UK Sterling	3,926	925	10,773	15,624

<b>Currency</b>	<b>Floating Rate financial liabilities £000</b>	<b>Financial liabilities not carrying interest £000</b>	<b>Total £000</b>
<b>2000</b>			
Japanese Yen	570	–	570
US Dollar	200	–	200
UK Sterling	50	1,006	1,056
<b>Currency 1999</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Japanese Yen	390	–	390
UK Sterling	95	1,220	1,315

<b>Currency</b>	<b>Fixed rate financial assets</b>	
<b>2000</b>	Weighted average interest rate	Weighted average period for which rate is fixed
UK Sterling	8%	8.10 years

There are no material amounts of non interest-bearing financial assets, other than equities, which do not have maturity dates.

The floating rate financial assets and liabilities comprise:

- Sterling denominated bank balance and overdrafts that bear interest at rates based on the six month LIBOR, and
- US Dollar and Japanese Yen deposits and loans that bear interest at rates based on the rate set by the Federal Reserve plus 200 basis points.

#### **Fair value of financial assets and financial liabilities**

There is no material difference between the value of the financial assets and liabilities, as shown in the balance sheet, and their fair value.

\* Paragraphs 2.63 and 2.64 describe what should be covered by the narrative disclosure in the report, but no specific example is given here.

## Distribution table \*

for the period (specify) ended 30 November 2000

Group 1: shares purchased prior to 1 June 2000

Group 2: shares purchased on or after 1 June 2000

	Gross income (interest distributions only)	Income tax (interest distributions only)	Net income	Equalisation	Distribution payable	Distribution payable
	2000 pence per share	2000 pence per share	2000 pence per share	2000 pence per share	2000 pence per share	1999 pence per share
<i>Income shares</i>		†				
Group 1	×	×	×	×	×	×
Group 2	×	×	×	×	×	×
<i>Accumulation shares</i>						
Group 1	×	×	×	×	×	×
Group 2	×	×	×	×	×	×

\* Where the company or sub-fund has different share classes, a separate table will be required for each class.

† May be no tax in the case of interest distributions paid gross to shareholders.

# Typical open-ended investment company short form accounts

30 November 2000

The figures included in this pro forma report are provided for illustrative purposes only.

AUTHORISED CORPORATE DIRECTOR

DIRECTORS OF THE AUTHORISED CORPORATE DIRECTOR \*

INVESTMENT ADVISER

DEPOSITARY

REGISTRARS

AUDITORS

\* optional

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Statement of Movements in Shareholders' Funds

Statement of Investments and Other Assets

Distribution table

\* Specimen wording not provided, as this is dealt with either by the Regulations or each reporting entity will have its own specific standard wording.

## Statement of total return

for the period (specify) ended 30 November 2000

	2000		1999	
	£000	£000	£000	£000
Net gains/(losses) on investments during the period		8,525		(2,325)
Other gains/(losses)		200		(100)
Gross income	954		862	
Expenses	<u>(588)</u>		<u>(555)</u>	
Net income/(expense) before taxation	366		307	
Taxation	<u>(78)</u>		<u>(63)</u>	
Net income/(expense) after taxation		<u>288</u>		<u>244</u>
<b>Total return for the period</b>		9,013		(2,181)
Distributions		<u>(289)</u>		<u>(261)</u>
<b>Net increase/(decrease) in shareholders' funds from investment activities</b>		<u><u>8,724</u></u>		<u><u>(2,442)</u></u>

## Statement of movements in shareholders' funds

for the period (specify) ended 30 November 2000

	2000		1999	
	£000	£000	£000	£000
<b>Net assets at the start of the period</b>		43,106		44,366
Movement due to sales and repurchases of shares				
Amounts receivable on creation of shares	3,703		2,718	
Less: Amounts payable on cancellation of shares	<u>(5,002)</u>		<u>(1,638)</u>	
		(1,299)		1,080
Dilution levy charged		25		17
Stamp duty reserve tax		(3)		-
Net increase/(decrease) in shareholders' funds from investment activities (see above)		8,724		(2,442)
Retained distribution on accumulation shares		97		85
Other items (specify)		<u>-</u>		<u>-</u>
<b>Net assets at the end of the period</b>		<u><u>50,650</u></u>		<u><u>43,106</u></u>

## Statement of investments and other assets

at 30 November 2000

	2000		1999	
	£000	%	£000	%
<b>Investments</b>				
USA equities	20,735	40.94	15,691	36.40
UK equities	13,550	26.75	11,698	27.14
Japanese equities	12,987	25.64	11,592	26.89
Other countries	<u>1,686</u>	<u>3.33</u>	<u>1,514</u>	<u>3.51</u>
Total investments	<u>48,958</u>	<u>96.66</u>	<u>40,495</u>	<u>93.94</u>
<b>Net current assets/(liabilities)</b>				
Uncommitted cash	2,468	4.87	3,631	8.42
Net debtors/(creditors)	<u>(776)</u>	<u>(1.53)</u>	<u>(1,020)</u>	<u>(2.36)</u>
Total net current assets/(liabilities)	<u>1,692</u>	<u>3.34</u>	<u>2,611</u>	<u>6.06</u>
<b>Net assets</b>	<u>50,650</u>	<u>100%</u>	<u>43,106</u>	<u>100%</u>

## Distribution table \*

for the period (specify) ended 30 November 2000

Group 1: shares purchased prior to 1 June 2000

Group 2: shares purchased on or after 1 June 2000

	Gross income (interest distributions only)	Income tax (interest distributions only)	Net income	Equalisation	Distribution payable	Distribution payable
	2000 pence per share	2000 pence per share	2000 pence per share	2000 pence per share	2000 pence per share	1999 pence per share
<i>Income shares</i>		†				
Group 1	×	×	×	×	×	×
Group 2	×	×	×	×	×	×
<i>Accumulation shares</i>						
Group 1	×	×	×	×	×	×
Group 2	×	×	×	×	×	×

\* Where the company or sub-fund has different share classes, a separate table will be required for each class.

† May be no tax in the case of interest distributions paid gross to shareholders.

# Part 9

## Reports and accounts

### Explanation

*ECA Regulations 60, 61 and 62 contain a number of requirements relating to reports and accounts in respect of a company. These requirements include –*

- (i) the directors must prepare annual and half-yearly reports, although a half-yearly report need not be prepared where a company's first annual accounting period is less than 12 months;*
- (ii) the directors must lay copies of the annual report before the company in general meeting,*
- (iii) every annual report is to contain accounts of the company and a report by the auditor to the company's shareholders.*

*This Part 9 builds upon the requirements in the ECA Regulations and Part 8 of these regulations (which provides how the annual and half-yearly accounting periods shall be determined). It covers the content of reports, including the annual reports of the depositary and of the auditor. It provides for the accounts to be contained in the annual and half-yearly reports to comply with the SORP relating to Authorised Open-Ended Investment Companies issued by the FSA in November 2000. It also permits, in specified circumstances, short form accounts to be included in annual and half-yearly reports sent or supplied to shareholders.*

### **9.01 Contents of annual and half-yearly reports**

- 1 An annual report of a company, other than an umbrella company, shall contain –
  - a. accounts for the annual accounting period;
  - b. the information required to comply with Parts I and II of Schedule 2;
  - c. a copy of the report of the depositary referred to in regulation 9.05, and
  - d. a copy of the report of the auditor referred to in Part IV of Schedule 2.

- 2 An annual report of an umbrella company shall contain -
  - a. reports relating to each of its sub-funds which shall each, so far as practicable, contain the accounts and the information that would be required by paragraphs 1a. and 1b. if the sub-fund were a separate company, except that the information required to comply with Part I of Schedule 2 shall be that required by paragraph 12a. of that Part;
  - b. an aggregation of the accounts required by paragraph a. of this regulation 9.01.2, and
  - c. except insofar as contained in a report relating to a sub-fund in accordance with that paragraph –
    - (i) the information referred to in paragraph 1b., and
    - (ii) the copy reports relating to the company referred to in paragraphs 1c. and 1d.
- 3 An annual report relating to a sub-fund which is not contained in a report under paragraph 2 shall, contain –
  - a. so far as practicable, the accounts and the information that would be required by paragraphs 1a. and 1b. if the sub-fund were a separate company;
  - b. the statements required by paragraph 13 of Part I of Schedule 2;
  - c. the copy report relating to the company referred to in paragraph 1c; and
  - d. the copy report of the auditor in respect of the accounts of the sub-fund referred to in Part IV of schedule 2.
- 4 **A half-yearly report of a company, other than an umbrella company, shall contain –**
  - a. accounts for the half-yearly accounting period, and
  - b. the information required to comply with Part I of Schedule 2.
- 5 A half-yearly report relating to an umbrella company shall contain –
  - a. reports relating to each of its sub-funds which shall each, so far as practicable, contain the accounts and information that would be required by paragraph 4 if the sub-fund were a separate company, except that the information required to comply with Part I of Schedule 2 shall be that required by paragraph 12a. of that Part, and
  - b. an aggregation of the accounts required by paragraph a. of this regulation 9.01.5 and, except insofar as contained in a report relating to a sub-fund in accordance with that paragraph, the information required to comply with Part I of Schedule 2.

- 6 A half-yearly report relating to a sub-fund which is not contained in a report under paragraph 5 shall contain –
  - a. so far as practicable the accounts and information that would be required by paragraph 4 if the sub-fund were a separate company, and
  - b. the statements required by paragraph 13 of Part I of Schedule 2.
- 7 The directors shall ensure that the accounts referred to in paragraphs 1a., 2a., 2b. and 3a. give a true and fair view of the net income and the net gains or losses on the scheme property of the company or, in the case of paragraphs 2a. and 3a., sub-fund, for the annual accounting period in question and the financial position of the company or sub-fund as at the end of that period.
- 7A Without prejudice to the contents of the accounts referred to in paragraph 7, if the directors so determine, the accounts contained in a report sent or supplied to each shareholder in accordance with regulation 9.02.2 or 9.02.3 may be short form accounts except to the extent that, in respect of any particular accounting period, a shareholder (or in the case of joint shareholders, the first named) has requested that a report containing the full accounts of the company or umbrella company be sent or supplied to him.
- 7B An annual report that contains short form accounts in accordance with paragraph 7A shall contain a copy of the auditor's statement referred to in Part IVA of Schedule 2 in lieu of a copy of the report of the auditor referred to in Part IV of Schedule 2.
- 7C The accounts referred to in paragraphs 1 to 6 and any short form accounts for any accounting period shall, subject to these regulations (and, in particular, paragraph 7D) include all the matters required to be included in them by the Statement of Recommended Practice relating to Authorised Open-Ended Investment Companies issued by the Financial Services Authority in November 2000. Accordingly, references to these accounts are not to be restricted to relate only to the balance sheet and the statement of total return.
- 7D If the directors so determine in respect of a report for any half-yearly or annual accounting period ending on or before 31 May 2001 that report shall be governed by these regulations in the form in which they were in operation immediately prior to 30 November 2000 and the auditor shall act in accordance with any such determination.
- 8 Without prejudice to paragraph 7, it shall be the duty of the ACD to ensure that each annual and half-yearly report (including any accounts to be contained in it) complies with this regulation.
- 9 Each report (other than a report prepared in accordance with paragraphs 2a. or 5a.) shall be signed by the ACD or, if there is more than one director of the company, shall, following approval of the report by the board of directors, be

signed on behalf of the board of directors of the company by the ACD and at least one other director, and, in the case of a copy annual report sent by the ACD to the registrar of companies, the report shall be so signed at the end of the balance sheet contained in it.

- 10 Accounts to be included in a report to be published or offered in accordance with regulations 9.02, 9.03 or 9.04 may only be short form accounts to the extent permitted by paragraph 7A.

#### **9.02 Publication of company reports**

- 1 The ACD shall within four months after the end of each annual accounting period and within two months after the end of a half-yearly accounting period, respectively publish the annual report and half-yearly report in accordance with paragraphs 2 and 4.
- 2 Subject to paragraph 3 the ACD shall send a copy of each annual report and each half-yearly report free of charge to each shareholder (or to the first named of joint shareholders) entered in or entitled to be entered in the register at the close of business on the last day of the relevant accounting period or half-yearly accounting period and shall supply free of charge a copy of the report to each holder of bearer shares at his request. A report relating to an umbrella company to be sent or supplied under this paragraph need not contain the aggregation of the accounts relating to each sub-fund. However, if requested to do so by any shareholder in respect of any accounting period, the ACD must send or supply to that shareholder (or, in the case of joint shareholders, the first named) a report including the aggregation of those accounts.
- 3 In the case of an umbrella company, if the directors so determine for any accounting period, the reports sent or supplied to shareholders in accordance with paragraph 2 may be the reports complying with regulation 9.01.3 or 9.01.6 (as the case may be) relating to the respective sub-fund to which their shareholdings relate, but if requested to do so by any shareholder in respect of any particular accounting period, the ACD shall send or supply to that shareholder (or, in the case of joint shareholders, the first named), a report complying with regulation 9.01.2 or 9.01.5 (as the case may be).
- 4 The ACD shall make available the most recent annual report (and, if more recent, the most recent half-yearly report) of the company in English prepared in accordance with paragraphs 1, 2, 4 or 5 (as appropriate) of regulation 9.01 for inspection by the public free of charge during ordinary office hours at a place specified for the purpose in the most recently published prospectus.
- 5 The ACD shall also make the reports referred to in paragraph 4 available for the same purpose at a place designated by it in each member State other than

the United Kingdom in which it markets shares in the company, in English and in at least one of that other member State's official languages.

- 6 The ACD shall send a copy of each annual report and half-yearly report, any report sent or supplied in accordance with paragraph 3 and any report containing short form accounts on publication to the Financial Services Authority.

#### **9.03 Reports to be offered to purchasers of shares**

- 1 A company shall not effect any sale of its shares to any person in the United Kingdom until it has offered that person free of charge a copy in English of the most recent annual report of the company and (if more recent) the most recent half-yearly report of the company.
- 2 A company shall not effect any sale of its shares to any person in the territory of a member State other than the United Kingdom until it has offered that person free of charge a copy, in an official language of that member State, of the most recent annual report of the company and (if more recent) the most recent half-yearly report of the company.

#### **9.04 Publication of availability of reports and prospectus**

- 1 The ACD shall, with every publication of prices in a United Kingdom newspaper under regulation 4.17, publish a statement that a copy of the most recent annual report or half-yearly report and prospectus is available free of charge to anyone who requests the company for it.
- 2 Paragraph 1 is sufficiently complied with if one of the pages in which the ACD publishes prices in the newspaper carries the statement there required in relation to all, or any relevant category of, the collective investment schemes referred to in those pages.

#### **9.05 Annual report by the depositary**

It shall be the duty of the depositary to make an annual report to the shareholders, which shall contain the matters set out in Part III of Schedule 2 and be delivered to the directors in good time to enable its inclusion in the annual report to be published within four months after the end of an annual accounting period.

## **SCHEDULE 2 ANNUAL AND HALF-YEARLY REPORTS**

Except as stated the following matters shall be set out in every annual and half-yearly report of the directors.

### **Part I: Report of the directors**

- 1 The names and addresses of the following –
  - a. the ACD;
  - b. the depositary, and
  - c. the auditor.
- 2 The names of any directors other than the ACD.
- 3 A statement that –
  - a. the company is an open-ended investment company with variable capital, and
  - b. the shareholders are not liable for the debts of the company.
- 4 A statement that the company is a securities company, a warrant company or an umbrella company, as the case may be.
- 5 The investment objectives of the company.
- 6 The company's policy for achieving that objective.
- 7 A review of the company's investment activities during the period to which the report relates.
- 7A Where the directors have determined that the accounts contained in the report should be short form accounts, a statement that a report containing the full accounts is available on request.
- 8 Particulars of any significant change in the prospectus made since the date of the last report.
- 9 Particulars of any significant change in the instrument of incorporation made since the date of the last report.
- 10 A statement of any sub-division or consolidation of shares which has been effected during the period to which the report relates (other than any as between smaller and larger denomination shares effected under regulation 2.05).

- 11 Any other significant information which would enable shareholders to make an informed judgement on the development of the activities of the company during this period and the results of those activities as at the end of that period.
- 12 In the case of a report relating to an umbrella company –
- a. information required under the above paragraphs shall be given in respect of each sub-fund if it would vary from that given in respect of the umbrella company as a whole and paragraph 4 shall apply as if it required a statement in respect of each sub-fund that it has investment powers equivalent to those of a securities company, or to those of a warrant company as the case may be, and
  - b. the report shall contain statements to the effect that –
    - (i) there are and/or (as the case may be), in the future there may be, other sub-funds of that umbrella company, and
    - (ii) as a sub-fund is not a legal entity, if the assets attributable to any sub-fund were insufficient to meet the liabilities attributable to it, the shortfall might have to be met out of the assets attributable to one or more other sub-funds of the umbrella company.
- 13 In the case of a report relating to a sub-fund which is not contained in a report relating to the umbrella company of which the sub-fund is part –
- a. statements equivalent to those required by paragraph 12b and, in the case of the statement under 12b.(ii), making it clear that the shortfall, or part of it, might have to be met out of the sub-fund to which the report relates;
  - b. a statement of whether the auditors report on the annual accounts of the company for the period in question was unqualified or qualified and, if it was qualified, contain a copy of that report in full together with any further material needed to understand the qualification, and
  - c. a statement that a report relating to the umbrella company as a whole is available from the company on request.
- 14 In the case of short form accounts for any annual accounting period –
- a. a statement of whether the report of the auditor on the full accounts was unqualified or qualified and, if it was qualified, contain a copy of that report in full together with any further material needed to understand the qualification, and
  - b. a statement of whether the report of the auditor contained a statement under paragraphs 3 or 4 of Part IV of this schedule and, if so, set out the statement(s) in full.

## **Part II: Comparative table**

- 1 A performance record over the last 5 calendar years, or if the company has not been in existence during the whole of that period, over the whole period in which it has been in existence, showing –
  - a. the highest and the lowest price of a share of each class in issue during each of those years, and
  - b. the net income distributed (or, in the case of accumulation shares, allocated) for a share of each class during each of those years, taking account of any sub-division or consolidation of shares that occurred during that period.
- 2 As at the end of each of the last three annual accounting periods (or all of the company's accounting periods, if less than three) the total value of the scheme property at the end of each of those years and the price for a share of each class and the number of shares of each class in issue at the end of each of those years.
- 3 If, in the period covered by the table –
  - a. the company has been the subject of any event, (such as an amalgamation or reconstruction but excluding any issue or cancellation of shares for cash), having a material effect on the size of the company, or
  - b. there have been changes in the investment objectives of the company,an indication, related in the body of the table to the relevant year in the table, of the date of the event or change in the investment objectives and a brief description of its nature.
- 4 In the case of an umbrella company paragraphs 1 to 3 shall not apply and the information required under each of paragraphs 1 to 3 shall instead be given in respect of each sub-fund of the umbrella company.

## **Part III: Report of the depositary**

The report of the depositary to the shareholders for any annual accounting period shall contain statements:

- a. which may be in summary form, describing the duties of the depositary under regulation 6.05.1 and in respect of the safekeeping of the scheme property;
- b. to the effect of whether –
  - (i) the issue, sale, redemption and cancellation, and calculation of the price of the company's shares and the application of the company's income have been carried out in accordance with these regulations

and, where applicable, the ECA Regulations and the instrument of incorporation of the company, and

- (ii) the investment and borrowing powers and restrictions applicable to the company in accordance with these regulations and, (if it contains any such powers or restrictions), the instrument of incorporation of the company, have been exceeded.

**Part IV: Report of the auditor**

The report of the auditor to the shareholders in respect of the accounts of the company (or, in the case of a report prepared for the purposes of regulation 9.01.3, in respect of the accounts of the sub-fund) shall state –

- 1 whether in the auditor’s opinion, the accounts have been properly prepared in accordance with generally accepted accounting principles, the Statement of Recommended Practice relating to Authorised Open-Ended Investment Companies issued by the Financial Services Authority in November 2000, and these regulations and the instrument of incorporation; and
- 2 whether, in the auditor’s opinion the accounts give a true and fair view of the net income and the net gains or losses on the scheme property of the company (or, as the case may be the scheme property attributable to the sub-fund) for the annual accounting period in question and the position of the company or sub-fund as at the end of that period.
- 3 if the auditor is of the opinion that proper accounting records for the company (or, as the case may be, sub-fund) have not been kept or that the accounts are not in agreement with those records, that fact; and
- 4 if the auditor has not been given all the information and explanations which, to the best of his knowledge and belief, are necessary for the purposes of his audit, that fact, and
- 5 if the auditor is of the opinion that the information given in the report of the directors for that period is inconsistent with the accounts, that fact.

**Part IVA: Auditor’s statement relating to short form accounts**

In relation to short-form accounts for any annual accounting period, the auditor shall state whether, in the auditor’s opinion, the short-form accounts are consistent with the full accounts, are prepared in accordance with the Statement of Recommended Practice relating to Authorised Open-Ended Investment Companies issued by the Financial Services Authority in November 2000, so far as it relates to short form accounts, and are in accordance with these regulations and the instrument of incorporation.

# Accounts of umbrella companies

Table showing the minimum accounts and reports which must be included in half-yearly and annual reports sent to shareholders, and the full information which must be made available (see paragraph 2.10)

## 1 **Minimum**

Short-form accounts of sub-fund; Auditor's statement\*; Depository's report\*; Schedule 2 Part I and Part II\* information in short form for sub-fund; Statements of responsibility\*; Net Asset Value per share.

2. Full accounts of sub-fund; Auditor's report\*; Depository's report\*; Schedule 2 Part I and Part II\* information for sub-fund; Statements of responsibility\*; Net Asset Value per share, and number of shares in issue.
3. Short-form accounts of all sub-funds; Auditor's statement\*; Depository's report\*; Schedule 2 Part I and Part II\* information in short form for all sub-funds; Statements of responsibility\*; Net Asset Value per share.
4. Full accounts of all sub-funds; Auditor's report\*; Depository's report\*; Schedule 2 Part I and Part II\* information for all sub-funds; Statements of responsibility\*; Net Asset Value per share, and number of shares in issue.

## 5 **Full information to be made available**

Full accounts of all sub-funds; Auditor's report\*; Depository's report\*; Schedule 2 Part I and Part II\* information for all sub-funds; Statements of responsibility\*; Net Asset Value per share and number of shares in issue. Aggregated accounts of the company comprising all sub-funds.

\*Required for annual reports only.