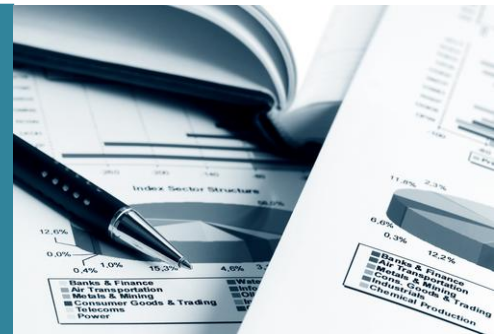


FINANCIAL SERVICES

Investment Management



ED SORP for Authorised Funds

Client Assets Report

European Securities Regulations MiFID review - Client Catergorisation

ED SORP for Authorised Funds

The following amendments have been proposed as the result of the first stage of reviewing the IMA SORP 2008. These changes, which are set out below, are mainly to incorporate amendments made to the Collective Investment Schemes Sourcebook (COLL) and to accounting standards:

- The requirement to disclose the portfolio turnover in the financial statements has been removed on the basis that it is not helpful for the understanding of the accounts;
- The portfolio statement continues to be required in the annual and half-yearly reports but will form part of the manager's report;
- Implementation of the amendment in FRS 25 for puttable instruments, such as authorised fund units. This change is likely to affect only a small number of funds which have all three of the following features; is a stand-alone fund or the sole sub-fund of an umbrella; has only a single class of units; and has no obligations to distribute by way of cash. Such funds will need to reclassify fund units as equity instruments;
- Clarification that it is permissible to use the same measure of inflation for calculation of the effective interest from index-linked securities as for the calculation of distribution; and

- Requirement for disclosure of significant post-balance sheet event in a note to the financial statements (for example a significant change in fair value of the investments);

The second stage of reviewing the SORP is still on-going and it is expected that an exposure draft will be published in the early part of 2011.

Client Assets Report

The FSA has recently performed a review of the quality and consistency of auditor's reports on client assets. The review identified a number of material findings and weaknesses in the reports. In a Consultancy paper (CP 10/20) the FSA sets out a number of proposed amendments to the FSA Handbook aiming to improve the quality and consistency of the reports and make them more consistent, and to clarify the responsibility of the auditors in respect of the content and timing of the report as well as the responsibility of the firms for which the report is prepared. The proposed amendments/clarifications include:

- For which categories of firms the auditor must submit a client assets report;
- The expectation that the auditor must prepare a reasonable assurance report where firms are holding client assets, and a limited assurance report for firms which do not hold any client assets;

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- The expectation that the auditors comply with applicable standards and guidance;
 - A new expanded client assets report which should be accompanied by a Breaches schedule.
 - The client assets report include a reference to compliance with mandate rules and the maintenance of adequate systems in relation to the mandate rules;
 - The draft client assets report should be delivered to the regulated firm allowing adequate time for consideration and comments to be received;
 - The Breaches schedule should include information provided by the regulated firm in response to circumstances that gave rise to breaches and any remedial actions taken;
 - The client assets report should be signed on behalf of the audit firm by the individual within the audit firm, who is primarily responsible for the report, in their own name; and
 - The client assets report should be submitted within 4 months of the end of the period covered.
- The FSA intends to publish a policy statement during the first quarter of 2011.

European Securities Regulations MiFID review - Client Categorisation

The Committee of European Securities Regulations (CESR) are undertaking a

review of the client categorisation in MiFID. In particular they are focusing on:

- Whether to further distinguish within the broad categories of clients: 'other authorised or regulated financial institutions'; 'locals'; and 'other institutional investors';
- Whether it is necessary to specifically address the categorisation of Local Authorities, and include a reference to make it clear that these do not fall within the scope of public bodies that manage public debt and consequently, are not considered to be professionals.
- Whether investment firms should be required to assess the knowledge and experience of clients before considering them to be professionals;
- Whether for very complex products, such as OTC derivatives and asset backed securities, the scope of the eligible counterparty categorisation should be narrowed; and
- Whether there should be a clarification in the standards that investment firms have to act honestly, fairly and professionally when undertaking transactions with eligible counterparties, and that they have to communicate with them in a way that is fair, clear and not misleading.

Specific advice should be obtained before taking action, or refraining from taking action, on any of the subjects covered

LONDON

10 Orange Street
Haymarket
London
WC2H 7DQ

T +44 (0)20 7312 0000
F +44(0)20 7312 0022
E advice@shipleys.com

GODALMING

3 Godalming Business Centre
Woolsack Way
Godalming
Surrey
GU7 1XW

T +44 (0)1483 423607
F +44 (0)1483 426079
E godalming@shipleys.com

SAFFRON WALDEN

Market House
10 Market Walk
Saffron Walden
Essex
CB10 1JZ

T +44 (0)1799 521301
F +44 (0)1799 523854
E saffron@shipleys.com

BIRMINGHAM

2nd Floor
3 Brindley Place
Birmingham
B1 2JB

T +44 (0)121 698 8566
F +44 (0)121 698 8600
E birmingham@shipleys.com



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