

FCA and Financial Services Newsletter IMA SORP 2014



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In light of the changes to authorised funds and the introduction of the Alternative Investment Funds concept, the Investment Management Association (IMA) released a revised Statement of Recommended Practice (SORP) in May 2014.

Below we have highlighted some of the key changes between the IMA SORP 2010 and the IMA SORP 2014. It has been prepared with a selection of issues most likely to affect our existing fund clients however we stress that the new SORP should be read in full to gain an understanding of the requirements, as not all relevant changes may be covered.

Where applicable the paragraph number in the new SORP has been included to make it easier to cross reference.

Application

The new SORP is mandatory for accounting period beginning on or after 1 January 2015. Early adoption is possible, so long as the requirements of the new FRS102 accounting standards are also met. [\(Para 1.9\)](#).

Terminology

New AIFMD regulations introduce the concept of an Authorised Fund Manager (AFM), which replaces the Authorised Corporate Director role. The SORP refers to AFM and Alternative Investment Funds (AIFs) throughout, and has also been updated to reflect the change from the FSA to the FCA. [\(Para 1.18\)](#).

Reports

There is no longer the need to prepare aggregated accounts for an umbrella fund with a number of sub funds. Consolidated accounts are only required if the fund holds special purpose vehicles which in turn hold investment property. [\(Para 2.79\)](#).

There has been no change to the format of the main statements within the accounts, such as Statement of Total Return and the Balance Sheet.

Additional notes

The purchase and Sales note now needs to be split out by asset class (for example, equity, derivatives, debt etc), rather than showing all the figures together. Significant in specie transfers and corporate actions should also be separately disclosed. [\(Para 3.38\)](#).

The total of each type of direct transaction cost should be expressed as a percentage of the fund's average net asset value. [\(Para 3.40\)](#).

The average portfolio dealing spread also now needs to be disclosed. This is for both currency and where investments have a bid and an offer price. It is calculated by the difference between the bid and the offer price, divided by the offer price, expressed as a percentage. [\(Para 3.42\)](#).

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The accounting policies should reference that the accounts have been prepared in accordance with FRS102 as modified by the IMA SORP 2014. (Para 3.64).

Currently the Related Party Notes often include a reference to amounts paid to the ACD and depository. Revised guidance says that generally neither the AFM or Depository are likely to meet the definition of related parties, therefore no disclosure is needed. (Para 3.95).

Property Funds

The balance sheet for investment property funds now needs to separately disclose tangible fixed assets from other investments in the same way as a company does. (Para 3.59).

There is also a requirement for a fixed asset note, showing additions, disposals, revaluations and other movements. No prior year comparison is needed in respect of this new disclosure. (Para 3.102).

Funds are generally exempt from preparing a cash flow statement as the majority of the assets are highly liquid. This is not necessarily the case for property funds, so they need to prepare a cash flow statement. (Para 3.60).

The way new leases are treated within property funds has changed. Lease incentives (e.g. rent free periods) are now spread over the entire lease term rather than the period up until the first rent review date. Previous leases may continue to be amortised over the period up to the first rent review date. (Para 2.56 and 2.57)

Additional disclosure

Each unit class needs a reconciliation showing the number of units issued, cancelled, and converted during the period. There is no need for a prior year comparative. (Para 3.97).

The largest change is an additional table per unit class which shows comparisons for the last three years (or up to three years if the fund was launched within that period). The disclosure is designed to show the performance per unit throughout the period. The new table is as follows and is with Appendix A (A.2) of the SORP:

Change in net assets per unit	
Opening Net Asset Value per Unit (A)	A
Return before operating charges (B)*	D+(C)
Operating Charges (C)	(C)
Return after operating charges (D)	F-(E)-A
Distribution per unit (E)	(E)
Closing Net Asset Value per Unit (F)	F
Retained Distribution on Acc Units (G)	G - (if applicable)
*After direct transactions costs of :	X
Performance	
Return after charges	D/A %
Other information	
Closing net assets (£000)	X
Closing number of units	X
Operating Charges	OCF Calculation %
Direct Transaction costs	Total direct transaction costs / Average net assets
Prices	
Highest unit price	X
Lowest Unit Price	X

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Note that the table above needs to show three years, but under COLL guidelines, high and low pricing is still to be shown over five years. It will therefore depend on whether the fund still falls under COLL as to this disclosure.

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Specific advice should be obtained before taking action, or refraining from taking action, in relation to the above.



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