



GSCCA FINANCIAL REPORTING AND ACCOUNTING UPDATE

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Agenda

1. IMA SORP NOVEMBER 2008
2. IAS 1 revised
3. IFRS for SMEs



The IMA SORP for Authorised Funds

Revision of the Authorised Fund SORP

OVERVIEW

- Refreshed, re-organised and reduced in length
- Compulsory for accounting periods commencing on or after 1 January 2009
- The differences between “*income*”, “*revenue*” and “*capital*” defined
Income = Revenue (less expenses) plus capital (gains/(losses) on investments)

Reduced half-year reporting

Portfolio statement moved outside the financial statements

Summary of material portfolio changes removed (i.e. the requirement for disclosure of the 20 largest purchases and sales)

Requirement for Portfolio Turnover Rate (PTR); Total Expense Ratio (TER); and narrative explanation of changes in the portfolio in the manager’s report are emphasised

Revision of the Authorised Fund SORP

Guidance on Revenue and capital provided (paragraphs 2.21 to 2.45)

- **Income encompasses both revenue and capital gains and losses**
- **Revenue includes such items as dividends, interest, rent and equivalent items**
- **Capital is the return, positive or negative, from holding investments other than that part of the return that is revenue**
- **Pertinent for the taxation of and distributions by Authorised funds**
- **No longer have the separate presentation of ‘other gains/(losses)’ in the STR.**

Revision of the Authorised Fund SORP

Guidance on Effective Interest Accounting 'EIR' provided (paragraphs 2.41 to 2.50)

Derivative recognition and disclosure

- revenue or capital items on derivative contracts unchanged – “*motives and circumstances*” remain
- Examples of the use of derivatives (annex C removed) – option example included in paragraph 2.27

Credit rating disclosures in bond funds – further guidance provided (paragraph 3.17)

Detailed guidance provided on the requirement to explain the fund's distribution policies (paragraph 3.57-3.63)

Comparatives

Revision of the Authorised Fund SORP

FRS 25 limited scope amendment in respect of classification of puttables is not incorporated.

Definition of fair value aligned with FRS 26

SORP does not fully apply FRS 26 and FRS 29 but still need to comply with FRS 26 and FRS 29 if you fair value so little reason not to apply SORP

Statement of Total Return

| Statement of total return | |
|---|-----|
| Income | |
| Net capital gains/(losses) | X |
| Revenue | X |
| Expenses (X) | |
| Finance Costs: Interest | (X) |
| Net revenue/(expense) before taxation | XX |
| Taxation (X) | |
| Net revenue/(expense) after taxation | XX |
| Total return before distributions | XX |
| Finance costs: Distributions (X) | |
| Change in net assets attributable to unit holders from investment activities | XX |

Income

Accounting principles regard income as being the total return generated from investment activities – encompassing both revenue and capital gains/losses.

The new SORP reflects a distinction between “income property and capital property”, as defined by the FSA and “income” as defined in accounting standards.

Net Capital Gains/(losses)

Capital is the return, positive or negative, from holding investments other than that part of the return that is revenue. It includes:

- Items previously shown in net gains/(losses) on investments;
- Items previously shown in other gains/(losses);
- Transaction costs and handling charges;
- AG 8 adjustments due to using the effective interest method; and
- Other items regarded as capital in nature

Revenue

Revenue includes items such as ordinary dividends, overseas dividends, interest, fees, rent and equivalent items.

Expenses

Expenses no longer include any transaction costs and handling charges.

Taxation

AG 8 adjustments are not taxable as they are included in net capital gains/(losses). This has a positive effect on the total return.

No longer require a reconciliation item in relation to transaction costs in the tax note.

Finance costs: Distribution

No longer require a reconciliation item for transaction costs in the finance costs note.

Comparison of the SORP and FRS26/FRS29

| | SORP | Accounting standards |
|----------------------------------|--|-------------------------|
| Have to apply FRS 26 and FRS 29? | No. Bid pricing and effective yield accounting, Focus on narrative for risk disclosures. | ✓ |
| Transaction costs | Included in net capital gains/losses | Required by FRS 26 |
| Portfolio statement | Not a “financial statement” | Required by regulations |
| Top 20 purchases and sales | Not required provided certain other disclosures included | Required by regulations |
| Credit risk disclosures | Have potential to provide sub-analysis or unrated/below investment grade bonds | Required under FRS 29 |
| FRS 29 – Sensitivity analysis | Only for sophisticated derivative funds | Required under FRS 29 |

Comparison of the SORP and FRS26/FRS29 (cont'd)

| | SORP | FRS26/FRS29 |
|--|------|-------------|
| Early adoption of FRS 25 amendment (puttable instrument) | X | ✓ |

IAS 1 – Financial statement presentation: A Revised approach

IAS 1 – Revised Presentation

Effective
1 January 2009

- Impacts all companies for Interims 2009!
- Terminology changes:
 - Balance sheet: **Statement of financial position**
 - Cash flow statement: **Statement of cash flows**
 - Total recognised income and expenses: **Total comprehensive income**

IAS 1 Presentation of Financial Statements

- Complete set of financial statements comprises:
 - Statement of financial position at end of period
 - Statement of comprehensive income for period*
 - Statement of changes in equity for period
 - Statement of cash flows for the period
 - Notes, comprising accounting policies and other explanatory information, and...
- Opening statement of financial position if change in accounting policy, restatement or reclassification

* May be presented as two statements

When is a third Statement of Financial Position required?

- Standard says “when accounting policy applied retrospectively, makes a retrospective restatement or reclassifies an item in its financial statements”
- Our views:
 - Accounting policy choice must impact opening balance sheet – ie not IFRS 8
 - Impact on opening balance sheet should not be immaterial – watch puttables.

Statement of comprehensive income

- **May be shown as two statements:**
 - Income statement and
 - Other comprehensive income (OCI) – compares with old SORIE
- **Must still show statement of changes in equity as primary statement**

Statement of changes in equity

- **Show total comprehensive income for period, showing separately the total attributable to parent and to NCI**
- **For each component of equity show reconciliation of carrying amount at beginning and end of period showing separately:**
 - Profit or loss
 - Each item of comprehensive income, and
 - Transactions with shareholders
- **Must disclose amount and per share amount of dividends recognised in period**

Impact on interims

- **Every interim will have a new statement, either:**
 - Statement of Comprehensive income
 - Statement of Other Comprehensive income, or
 - Statement of Changes in Equity



Interims 2009

IFRS for SMEs – the future of UK GAAP?

Background & Overview

- IFRS for Small and Medium sized Entities was issued by IASB in July 2009.
- August 2009, the ASB issued a consultation paper “Policy proposal – the Future of UK GAAP”
- Sets out a differential reporting regime based on public accountability broadly in line with the definition in the IFRS for SMEs which states that entities do have public accountability if :
 - They trade their debt or equity instruments in a public market (or are in the process of being issued for trading)
 - Hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses (eg bank or insurance company)

ASB Proposals – the future of UK GAAP

- Three tier financial reporting structure proposed
- TIER 1
All UK entities that are ‘publically accountable’ to use full IFRS for their consolidated and individual accounts.
- TIER 2
All UK non-publicly accountable companies other than those which apply the FRSSE could apply the IFRS for SMEs
- TIER 3
Small entities which could choose to continue to apply the FRSSE
- ‘Opt out’ option allowed to a higher level

ASB Proposals – the future of UK GAAP

- Appendix B to consultation document details differences between UK GAAP and IFRS for SMEs.
- Accounting policies and impact of these changes will differ company to company

IFRS for SMEs

- IFRS for SMEs intended to facilitate financial reporting for SME by:
 - Providing significantly less guidance than full IFRSs
 - Simplifying in certain areas the recognition and measurement requirements
 - Removing the more complex option in certain areas in which full IFRSs allow more than one accounting option

IFRS for SMEs is a separate standalone document that is organised by document.

- IASB will conduct an implementation review when 2 years of financial statements using the standard have been published

Watch this space

- Closing date for comments on the ASBs consultation paper is 1 February 2010
- ASB is planning a change to IFRS for SMEs for years commencing on or after 1 January 2012
- IFRS for SMEs run to approximately 300 pages versus 3,000 pages plus for full IFRS
- Companies need to start planning ahead on the basis that IFRS for SMEs will be effective on 1 January 2012



Questions ?