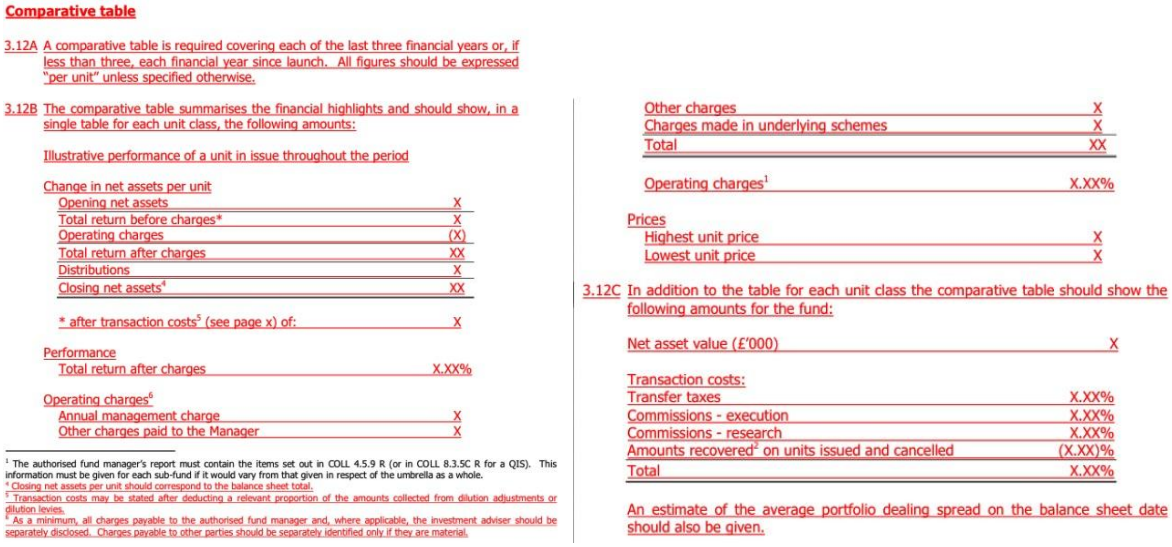
I am writing in respect of the comment from the Investment Management Association (IMA) regarding a new SORP in which:

'*The IMA has taken the opportunity to make other improvements to the SORP and to introduce a template for presenting information about performance and charges during the reporting period*.'

The proposed SORP is stated as being a table '*laid out to show the progress of a unit held throughout the year including the investment return expressed on a consistent basis, the operating charges expressed on a basis consistent with the ongoing charges figure and an indication of the transaction costs incurred. Operating charges are further analysed between amounts paid to the authorised fund manager and other parties involved in operating the fund. Transaction costs are broken down into tax and dealing costs, with the dealing costs further sub-divided into their execution and research components…..*

Taken together, the figures presented will provide investors with a statement of performance and costs that will start to help them be better informed in understanding the value they have received from their investment in funds.'



Comparative table

3.12A A comparative table is required covering each of the last three financial years or, if less than three, each financial year since launch. All figures should be expressed "per unit" unless specified otherwise.

3.12B The comparative table summarises the financial highlights and should show, in a single table for each unit class, the following amounts:

Illustrative performance of a unit in issue throughout the period

Change in net assets per unit	
Opening net assets	X
Total return before charges*	X
Operating charges	(X)
Total return after charges	XX
Distributions	X
Closing net assets[4]	XX
* after transaction costs[5] (see page x) of:	X
Performance	
Total return after charges	X.XX%
Operating charges[6]	
Annual management charge	X
Other charges paid to the Manager	X
Other charges	X
Charges made in underlying schemes	X
Total	XX
Operating charges[1]	X.XX%
Prices	
Highest unit price	X
Lowest unit price	X

3.12C In addition to the table for each unit class the comparative table should show the following amounts for the fund:

Net asset value (£'000)	X
Transaction costs:	
Transfer taxes	X.XX%
Commissions - execution	X.XX%
Commissions - research	X.XX%
Amounts recovered[2] on units issued and cancelled	(X.XX)%
Total	X.XX%

An estimate of the average portfolio dealing spread on the balance sheet date should also be given.

[1] The authorised fund manager's report must contain the items set out in COLL 4.5.9 R (or in COLL 8.3.5C R for a QIS). This information must be given for each sub-fund if it would vary from that given in respect of the umbrella as a whole.
[4] Closing net assets per unit should correspond to the balance sheet total.
[5] Transaction costs may be stated after deducting a relevant proportion of the amounts collected from dilution adjustments or dilution levies.
[6] As a minimum, all charges payable to the authorised fund manager and, where applicable, the investment adviser should be separately disclosed. Charges payable to other parties should be separately identified only if they are material.

It is our submission that this proposed SORP fails to meet these objectives for the following reasons:

1. The Returns and Costs are not shown on a consistent basis, making aggregation impossible – all are shown on a per unit basis with the notable exception of the average portfolio dealing spreads which are shown on a per transaction basis; thereby making it impossible to add these costs to the other elements of transaction costs disclosed.
2. It is a partial and incomplete indication of the overall transaction costs as it excludes the 'implicit' transaction costs (relating to market maker spreads) which frequently exceed the 'explicit' transaction costs (relating to

taxes and commissions) in many bond funds or equities funds that deal in less liquid shares with a wider dealing spread e.g. smaller companies.

3. It is inconsistent in its treatment of costs in fund of fund structures as it adds the ongoing charges within the underlying funds but then completely excludes the same underlying fund's transaction costs – i.e. it only measures the costs of buying and selling the funds but not the costs of buying and selling within the funds.

4. It is inconsistent in its treatment of the overall transaction costs as on the one hand it chooses to net off from the transaction costs, '*amounts recovered on units issues and cancelled*' which by definition will include an element of portfolio dealing spreads, but then completely fails to net off the corresponding dealing spreads actually incurred. The result is that the reported transaction costs are reduced by a revenue item against which the corresponding cost item is totally ignored.

5. It is not clear where (if at all) any income received by the manager or its wholly owned subsidiary deriving from securities lending is recognised in this table either explicitly or implicitly. It may be a significant item within a fund and therefore should be separately identified.

6. Similarly it is not clear where (if at all) any income received by the manager from any deductions associated with interest income or foreign exchange transactions received by the fund manager is recognised. It may be a significant item within a fund and therefore should be separately identified.

7. The table fails to aggregate the figures, a key factor in helping investors to understand the value they receive.

8. In terms of layout, we suggest it is highly confusing and therefore fails to achieve its overall objective of a better understanding of '*the value they have received from their investment in funds'.*

A SORP is MEANT NOT to contain '*any fundamental points of principle that are unacceptable in the context of current accounting practice or to conflict with an accounting standard*'.

It is our opinion that this SORP clearly fails to meet almost every single accounting principle, and that failure to radically amend it risks grave damage to the reputation and integrity of professional accountants, professional accounting bodies and the FRC itself.

There is also a threat that any investors relying on such a patently misleading fund cost statement as a basis for their future investment, may have a claim against any accountant, firm or fund group signing off such misleading accounts. It is worth contemplating that this proposed SORP could open the floodgates for future litigation.

The new Proposed SORP fails to meet the Understandability test, the Relevance Test, the Materiality Test, the Substance over Form Test, the Prudence Test, the Completeness Test, the Comparability Test and the over-riding True and Fair Test.

Senior members of the FRC have asked for suggested alternatives or amendments. To this end we are submitting, for your consideration and debate, the alternative which we suggest is clearer, fairer, not misleading, logically formatted, and understandable; as well as satisfies the fundamental accounting principles. In terms of making comparisons, investors would be enabled to compare different funds whether they hold investments direct or through other funds, whether they pay transaction costs via commissions or spreads, see all the transactions costs including those within the underlying funds and see explicitly any other payments

received by the manager e.g. securities lending income or deductions from client interest or foreign exchange transactions by the manager.

Illustrative performance of a unit in issue throughout the period			
Change in net assets per unit			
Opening net assets	x		
Total return before charges*	**x**		
Operating charges (as per below)	(x)		
Total transaction charges (as per below)	(x)		
Total Return after charges	xx		
Distributions	x		
Closing net assets*	xx		
Performance			
Total return before costs and charges (derived from adding back total costs of investing to total return after charges)			**x.xx%**
Operating Charges			
Annual Management Charge	(x.xx%)		
Income received by the Manager/Wholly owned agent from securities lending	(x.xx%)		
Other charges paid to the Manager Including those relating to deductions/receipts paid as a result of transacting foreign exchange or from client interest	(x.xx%)		
Other charges not included above	(x.xx%)		
Operating Charges made in underlying schemes	(x.xx%)		
Total Operating Charges		(x.xx%)	
Transaction Costs			
Transfer taxes	(x.xx%)		
Commissions - execution	(x.xx%)		
Commissions - research	(x.xx%)		
Spread Related Costs*	(x.xx%)		
Transaction Costs in underlying schemes	(x.xx%)		
Amounts recovered on units issues and cancelled	x.xx%		
Total Transaction Charges		(x.xx%)	
TOTAL COSTS OF INVESTING			**(x.xx%)**
Total return after charges			**x.xx%**
*Spread Related Costs is calculated by applying the average estimated portfolio dealing spread (as indicated at the beginning, interim and end of the financial year) by half the sum of the purchases and sales as a percentage of the average fund value (taken at the beginning, interim and end of the financial year)			

Additional Comments

Financial Reporting Standard 102 - applicable in the UK and Republic of Ireland

1. Understandability

2.4 The information provided in financial statements should be presented in a way that makes it comprehensible by users who have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. However, the need for understandability does not allow relevant information to be omitted on the grounds that it may be too difficult for some users to understand

The IMA recommended SORP fails as the list of numbers is acknowledged by leading professional users to be incomprehensible.

Many other informed professional users have stated how incomprehensible the proposed layout is within http://www.thisismoney.co.uk/money/investing/article-2383708/IMA-make-fund-managers-offer-breakdown-charges.html

Nick Bamford of advisory firm, Informed Choice, states:
'Developing information that helps to do this is clearly a good thing. But I tend to agree with the True and Fair Campaign, does the IMA really expect the "Man on the Clapham Omnibus" to understand the table that describes this total charge?

'Frankly, the typical consumer of these units is already inundated with data, usually in paper format, and the chances of them reading it and understanding it is slim. If the objective is to set out a single charge for units which the consumer is to understand, then make it that, a single number, not a table!'

The proposed SORP fails to comply with the latest report from the Office of Fair Trading (OFT)
http://www.oft.gov.uk/shared_oft/market-studies/oft1505

Paragraph 6.33, **"***we consider that it is important to improve the visibility of investment transaction costs according to a consistent reporting methodology. In particular, although we have not received comparable and comprehensive data on levels of transaction costs, we are concerned that the quantum of investment transaction costs for some funds may be significant - particularly in funds with high turnover rates. Visibility is an important part of securing greater competitive pressure on investment transaction costs*."

The proposed code fails to comply with the OFT recommendations – it even fails to show the Portfolio Turnover Rate (PTR), let alone produce a comparable and comprehensive transaction costs. It excludes the key element of spreads within the per unit transaction charges which the OFT correctly summarises on p.146:

Investment transaction costs
Transaction costs include:
• *bid-offer spreads – the difference between the price received when you sell a financial product (the bid price) and the price paid when you buy it (the offer price). This 'spread' creates a profit for the 'market maker'*
• *bank transaction charges*
• *foreign exchange fees associated with the transaction, and*
• *any local taxes (including UK stamp duty).*

Relevance
2.5 The information provided in financial statements must be relevant to the decision-making needs of users. Information has the quality of relevance when it is capable of influencing the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.

It is clear that many different user groups will be using the proposed fund table yet it fails to meet the relevance test by excluding key items – the spread element within the master fund and all transaction costs within any underlying funds in particular. This makes such statements patently misleading for any fund of

fund or any fund containing any form of fixed interest investment or any fund in which the 'implicit' dealing related costs may be significant.

Materiality

2.6 Information is material—and therefore has relevance—if its omission or misstatement, individually or collectively, could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Any table that excludes key elements – namely the spreads per unit, and the transaction costs within funds where held within a 'master fund' clearly fails to meet the materiality test.

Substance over form

2.8 Transactions and other events and conditions should be accounted for and presented in accordance with their substance and not merely their legal form. This enhances the reliability of financial statements.

Example – one fund buys and sells UK shares directly and incurs transaction costs of £1,000. The other fund invests through other funds that themselves incur the same transaction costs of £1,000. Whilst the substance for the investor is identical – they are invested in identical shares with identical transaction costs; under the proposed SORP one fund would report transaction costs of 0, the other £1,000.

Another example – One fund transacts in shares and transacts at the middle price but pays the broker the normal spread via a commission which in aggregate within the fund amounts to £1,000. Another fund with identical shares decides to pay no commission for the same shares but build the same cost into the spread of the shares, the amount of which adds up to the same £1,000. In one fund the transaction cost is recorded at £1,000 (as it's a commission), the other at £0 (as it is a spread).

These examples illustrate how the proposed SORP would fail as the same shares would have been bought at the same overall cost and yet the treatment by the proposed SORP would be completely different.

Prudence

2.9 The uncertainties that inevitably surround many events and circumstances are acknowledged by the disclosure of their nature and extent and by the exercise of prudence in the preparation of the financial statements. Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow the deliberate understatement of assets or income, or the deliberate overstatement of liabilities or expenses. In short, prudence does not permit bias.

The proposed SORP fails as it understates key costs by completely excluding them and therefore introduces a significant bias into such statements.

Completeness

2.10 To be reliable, the information in financial statements must be complete within the bounds of materiality and cost. An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.

Example:

A typical bond fund will pay no taxes or commissions but will deal within a buy/sell spread which within most corporate bonds is around 0.9% according to various Fund Enhanced Disclosure statements. Therefore a fund which turns over half its portfolio at a cost of 0.45% (0.5*0.9) would record 0 transaction costs rather than the actual 0.45%. The average turnover of a typical bond fund is over 50% per annum and there are in fact many bonds (except Western government bonds) that have a spread of 1% or more.

The proposed SORP fails as it omits key costs as outlined above, making the proposed table incomplete and false and misleading in many circumstances.

Comparability

2.11 Users must be able to compare the financial statements of an entity through time to identify trends in its financial position and performance. Users must also be able to compare the financial statements of different entities to evaluate their relative financial position, performance and cash flows. Hence, the measurement and display of the financial effects of like transactions and other events and conditions must be carried out in a consistent way throughout an entity and over time for that entity, and in a consistent way across entities. In addition, users must be informed of the accounting policies employed in the preparation of the financial statements, and of any changes in those policies and the effects of such changes.

The proposed SORP fails as users cannot compare directly any two funds which have the same identical underlying holdings but with one holding the securities directly and the other holding them within a fund. Investors could not compare funds which deal in equities with a bond fund in which none of the overall transaction cost is likely to be recorded as the transaction costs would all fall within the non-disclosed portfolio spreads (on a per unit basis) or in any two funds with different mixes of bonds and equities.

I would be delighted to discuss our proposed amendments and how they would promote significantly higher levels of consumer understanding and therefore consumer protection.

Kind regards,



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