

## Chapter 6

# Operating duties and responsibilities

## 6.8 Income: accounting, allocation and distribution

### Application

6.8.1

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- (1) This section applies to an *authorised fund manager*.
- (2) ■ COLL 6.8.4 R (1) (Unclaimed, de minimis and joint unitholder distributions) also applies to the *depository* of an *authorised fund*.
- (3) Except in the case of ■ COLL 6.8.2 R (1) (Accounting periods) and ■ COLL 6.8.3 R (1) (Income allocation and distribution), ■ COLL 6.8 applies as if each *sub-fund* were a separate *authorised fund*.

### Accounting periods

6.8.2

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- (1) An *authorised fund* must have:
  - (a) an *annual accounting period*;
  - (b) a *half-yearly accounting period*; and
  - (c) an *accounting reference date*.
- (2) A *half-yearly accounting period* begins when an *annual accounting period* begins and ends on:
  - (a) the *day* which is six *months* before the last *day* of that *annual accounting period*; or
  - (b) some other reasonable date as set out in the *prospectus* of the *scheme*.
- (3) The first *annual accounting period* of a *scheme* must begin:
  - (a) on the first *day* of any period of *initial offer*; or
  - (b) in any other case, on the date of the relevant *authorisation order*;
 and in either case must end on the next *accounting reference date*, except where (4) applies.
- (4) When the *accounting reference date* of a *scheme* falls less than six *months* after the beginning of the first *annual accounting period*, that period may be extended until the subsequent *accounting reference date*.
- (5) Each *annual accounting period* of a *scheme* subsequent to the first period must begin immediately after the end of the previous period

and must end on the next *accounting reference date*, except where (6) or (6A) applies.

- (5A) Each *annual accounting period* or *half-yearly accounting period* must end either at the end of the *day* determined under this rule or, if the *authorised fund manager* so decides, at the last *valuation point* on that *day*.
- (6) Following a revision to the *prospectus* of the *scheme* that includes a change to the *accounting reference date*, the *annual accounting period* may be shortened, or extended by up to six *months*, so as to end on the new *accounting reference date*.
- (6A) If the *authorised fund manager* notifies the *depository* that a particular *annual accounting period* or *half-yearly accounting period* is to end on a specified *day*, which is not more than seven *days* after, and not more than seven *days* before, the *day* on which the period would otherwise end under this rule, that notice is to have effect provided it is given before the *day* on which the period would otherwise end.
- (7) The *authorised fund manager* must consult the *depository* and the *scheme's* auditor before shortening or extending an accounting period in accordance with (4) or (6).

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When the *annual accounting period* of a *scheme* is extended under ■ COLL 6.8.2 R (4) or ■ (6), resulting in a longer than usual period before the publication of reports to *unitholders*, the *authorised fund manager* should make summary information about the investment activities of the *scheme* available to *unitholders* during that period, in accordance with *Principles* 6 (Customers' interests) and 7 (Communications with clients).

**Income allocation and distribution**

6.8.2B R

The allocation or distribution of the income of a *UCITS scheme* must be determined in accordance with its *instrument constituting the fund*, its *prospectus* and the general law of the *United Kingdom*.

[Note: article 86 of the *UCITS Directive*]

6.8.3 R

- (1) An *authorised fund* must have an *annual income allocation date*, which must be within four *months* of the end of the relevant *annual accounting period*.
- (2) An *authorised fund* may have *interim income allocation dates* and one or more *interim accounting periods* for each of those dates and, if it does, the *interim income allocation date* must be within four *months* of the end of the relevant *interim accounting period(s)*.
- (3) An *authorised fund* must have a *distribution account* to which the amount of income allocated to *classes of units* that distribute income is transferred as at the end of the relevant accounting period.
- (3A) The amount available for income allocations must be calculated by:

- (a) taking the net revenue after taxation determined in accordance with the *IMA SORP*;
  - (b) making any transfers, to the extent permitted by the *prospectus*, between the *income account* and the *capital account* in order that the amount available for income allocations is calculated as if the revenue from *debt securities* had been determined disregarding the effect of:
    - (i) the change in the Retail Prices Index during the period, provided that the policy is to invest predominantly in *index-linked securities* and the transfer relates only to amounts in respect of index-linked gilt-edged securities; or
    - (ii) amortisation, provided that the amount available for income allocations is not less than if such transfers had not been made;
  - (c) making any other transfers between the *income account* and the *capital account* that are required in relation to:
    - (i) stock dividends;
    - (ii) *income equalisation* included in income allocations from other *collective investment schemes*;
    - (iii) the allocation of payments in accordance with ■ COLL 6.7.10 R (Allocation of payments to income or capital);
    - (iv) taxation;
    - (v) the aggregate amount of *income property* included in *units issued, cancelled* and converted during the period; and
    - (vi) amounts determined by the *authorised fund manager* to be the reportable income of other *collective investment schemes*.
- (4) If income is allocated during an accounting period:
- (a) with effect from the end of the relevant *annual or interim accounting period*, the amount of income allocated to *classes of units* that accumulate income becomes part of the *capital property* and requires an adjustment to the proportion of the value of the *scheme property* to which they relate if other *classes of units* are in *issue* during the period;
  - (b) the adjustment in (a) must ensure the *price of units* remains unchanged despite the transfer of income; and
  - (c) the amount of any interim allocation may not be more than the amount which, in the opinion of the *authorised fund manager*, would be available for allocation if the *interim accounting period* and all previous *interim accounting periods* in the same *annual accounting period*, taken together, were an *annual accounting period*.

#### Allocation of income to different classes of unit

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In the case of *sub-funds* with more than one *class of units* in issue, the proportionate interests of each *class of units* in the amount available for income allocations should be determined in accordance with the *instrument constituting the fund*.

**Unclaimed, de minimis and joint unitholder distributions**

6.8.4

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- (1) Any distribution remaining unclaimed after a period of six years, or such longer time specified by the *prospectus*, must become part of the *capital property*.
- (2) The *authorised fund manager* and the *depository* may agree a de minimis amount in respect of which a distribution of income is not required, and how any such amounts are to be treated.
- (3) Distributions made to the first named joint *unitholder* on the *register* will be as effective a discharge to the *trustee* and *manager*, as if the first named joint *unitholder* had been a sole *unitholder*.

**Guidance: contents of the prospectus**

6.8.5

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■ COLL 4.2.5 R (Table: contents of prospectus) requires the details of ■ COLL 6.8.2 R, ■ COLL 6.8.3 R (1) and ■ COLL 6.8.3 R (2) and ■ COLL 6.8.4 R (1) and ■ COLL 6.8.4 R (2) to be contained in the *prospectus* as well as when, and how, the distribution will be paid (e.g. by cheque or BACS) and also how any unclaimed distributions are to be processed.