

**INVESTMENT FIRMS (AUDITOR'S REPORTS) INSTRUMENT 2007****Powers exercised**

- A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 138 (General rule-making power);
  - (2) section 156 (General supplementary powers);
  - (3) section 157(1) (Guidance); and
  - (4) section 340(1) (Appointment of Auditors and Actuaries).
- B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

**Commencement**

- C. This instrument comes into force on 31 December 2007.

**Amendments to the Handbook**

- D. The modules of the FSA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Prudential sourcebook for UCITS Firms (UPRU)	Annex A
Interim Prudential sourcebook for Investment Businesses (IPRU(INV))	Annex B
Supervision manual (SUP)	Annex C

**Citation**

- E. This instrument may be cited as the Investment Firms (Auditor’s Reports) Instrument 2007.

By order of the Board  
6 December 2007

## Annex A

### Amendments to the Prudential sourcebook for UCITS Firms (UPRU)

In this Annex, underlining indicates new text and striking through indicates deleted text.

Annual ~~audited~~ fixed expenditure

- 2.1.3 R For the purposes of this sourcebook, a *firm's* annual ~~audited~~ fixed expenditure is:
- ...
- 2.1.4 G A *firm's financial resources requirement* will be recalculated ~~and audited~~ annually when its *annual financial return* is prepared. The *firm* should maintain *financial resources* sufficient to meet its new *financial resources requirement* from the date on which the *annual financial return* is ~~approved by the auditor~~ prepared. The annual ~~audited~~ fixed expenditure applicable at the *accounting reference date* to which the *annual financial return* is prepared will be that based on the previous year's figures. This will usually be the same as that used in the fourth quarter's *quarterly financial return* prepared to the same *accounting reference date*.

## Annex B

### Amendments to the Interim Prudential sourcebook for Investment Businesses (IPRU(INV))

In this Annex, underlining indicates new text and striking through indicates deleted text.

3 Securities and Futures firms which are not Investment Firms

...

#### APPENDIX 1 – GLOSSARY OF TERMS FOR IPRU(INV) 3

*annual financial statements* means statements drawn up in accordance with Schedule 4 to the Companies Act 1985 or, where applicable, *international accounting standards* as at the *firm's annual accounting reference date* ~~and, where required, an *auditor's report*;~~

*auditor's report* ~~means a report drawn up in the format required by the *Supervision manual* which a firm must submit to the FSA in conjunction with the *firm's annual financial statements*;~~

*reporting statement* means any one or more of the following types of report as required by the *Supervision manual*:

...

(c) ~~Auditor's report; [deleted]~~

...

5.2.4(2) G ~~A firm's financial resources requirement will be recalculated and, where required, audited~~ annually when its *annual financial return* is prepared. The *firm* must maintain *financial resources* sufficient to meet its new *financial resources requirement* from the date on which the *annual financial return* is prepared, ~~and where required, approved by the auditor.~~ The *expenditure based requirement* applicable at the *accounting reference date* to which the *annual financial return* is prepared will be that based on the previous year's figures. This will usually be the same as that used in the fourth quarter's *quarterly financial return* prepared to the same *accounting reference date*.

5.2.4(3) R ~~A firm's annual expenditure must be audited unless the firm is exempt from the provisions of Part VII of the Companies Act 1985 relating to the audit of accounts (section 249A (Exemptions from audit)). [deleted]~~

...

Chapter 5:  
APPENDIX 1 (INTERPRETATION)

...

*annual ~~audited~~ expenditure* has the meaning given in rule 5.2.4(1) (Determination).

## Annex C

### Amendments to the Supervision manual (SUP)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

#### 3.1.2 R Applicable sections (see SUP 3.1.1 R)

(1) Category of firm		(2) Sections applicable to the firm	(3) Sections applicable to its auditor
(1)	<i>Authorised professional firm</i> which is required by <i>IPRU(INV)</i> 2.1.2R to comply with chapters 3, 5, <del>9</del> <u>10</u> or 13 of <i>IPRU(INV)</i> and which has an auditor appointed under or as a result of a statutory provision other than in the <i>Act</i> (Note 1)	SUP 3.1 - SUP 3.7	SUP 3.1, SUP 3.2, SUP 3.8 <sub>2</sub> –SUP 3.10
...			
(7)	<i>Investment management firm</i> , (other than an <i>exempt CAD firm</i> ) <i>personal investment firm</i> (other than a <i>small personal investment firm</i> ), or <i>securities and futures firm</i> (other than an <i>exempt CAD firm</i> ) which, in each case, has an auditor appointed under or as a result of a statutory provision other than in the <i>Act</i> (Notes 3 and 3A)	SUP 3.1 - SUP 3.7	SUP 3.1, SUP 3.2, SUP 3.8 <sub>2</sub> –SUP 3.10
...			
(7B)	<i>UCITS firm</i>	SUP 3.1 - SUP 3.7	SUP 3.1, SUP 3.2, SUP 3.8 <sub>2</sub> –SUP 3.10
...			

3.1.6 G The application of *SUP 3.7* and ~~*SUP 3.9*~~ to an *incoming Treaty firm* or an auditor of such a *firm* is further qualified in *SUP 3.7.1 G* and ~~*SUP 3.9.2 R*~~.

Auditors of lead regulated firms

3.1.7 G The application of ~~*SUP 3.9*~~ and *SUP 3.10* to the auditor of a *lead regulated firm* is qualified in ~~*SUP 3.9.2 R*~~ and *SUP 3.10.3 R*.

...

*SUP 3.9* is deleted in its entirety. The text is not shown struck through.

*SUP 3.9* [deleted]

5.3.2 G The decision to require a report by a *skilled person* will normally be prompted by a specific requirement for information, analysis of information, assessment of a situation or expert advice or recommendations or by a decision to seek assurance in relation to a regulatory return. It ~~will usually~~ may be part of the risk mitigation programme applicable to a *firm*, or the result of an event or development relating or relevant to a *firm*, or prompted by a need for verification of information provided to the *FSA* or part of the *FSA's* regular monitoring of a *firm*.

16.7.34 G ~~The *FSA* expects the audited annual financial statements to be submitted together with the auditor's report required by *SUP 3.9.4 R*. [deleted]~~

16.7.39 G (1) ~~The *FSA* expects the annual accounts to be submitted together with the auditor's report required by *SUP 3.9.4 R*. [deleted]~~

(2) Notes giving *guidance* on the completion of the consolidated financial resources return are contained in *SUP 16 Ann 17*. The *guidance* in *SUP 16.3.25G* (Reports from groups) is also relevant.

16.7.70 G ~~The *FSA* expects the annual accounts to be submitted together with the auditor's report required by *SUP 3.9.4 R*. [deleted]~~

# 16 Ann 5R: Investment management firms' reporting forms and requirements applying to their completion

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## Financial Return

### Investment Management Firms

#### Annual Financial Return

For the year ended \_\_\_\_\_

Name of Firm \_\_\_\_\_

FSA firm reference number \_\_\_\_\_

Date of Audit Opinion \_\_\_\_\_

...

#### CALCULATION OF FINANCIAL RESOURCES REQUIREMENT FOR FORTHCOMING YEAR AFS5

	£000	£000
<b>Expenditure Based Requirement</b> ( <i>IPRU(INV)Table 5.2.3(5) (a)</i> )		
...		
Expenditure		
Annual Expenditure (pro-rated where relevant to annual amount) ( <i>IPRU (INV) 5.2.4R(1)(b)R</i> ) ( <del>audited unless the firm is exempt from the requirement to audit accounts</del> ) ( <i>IPRU (INV) 5.2.4(3)R</i> )		
Expenditure Based Requirement (6/52* or 13/52* of Annual Expenditure)		(69)
Fraction indicator (6* or 13*)		(70)

*Note: The Expenditure Based Requirement calculated above becomes effective from the date on which this Annual Financial Return is approved by the ~~auditor~~ management of the firm. At all times throughout the period from this date until the next Annual Financial Return is approved, the Firm's Financial Resources must satisfy its Financial Resources Requirement incorporating the above Requirement. ~~If the Firm is not required to have an auditor, then the Expenditure Based Requirement becomes effective when approved by the management of the Firm.~~*

*\*Delete whichever is not applicable*

...

#### DECLARATION

AFS7

This Annual Financial Return has been properly prepared in accordance with the Rules,

and was approved by the Firm on .....(date).

It is accompanied by the Annual Accounts ~~and, if required by the rules, the report of the auditor to the FSA.~~

**SIGNATURE AND DECLARATION**

Knowingly or recklessly giving the FSA information which is false or misleading in a material particular may be a criminal offence (sections 398 and 400 of the Financial Services and Markets Act 2000). It should not be assumed that information is known to the FSA merely because it is in the public domain or has previously been disclosed to the FSA or another regulatory body.

I confirm that the information in this form is accurate and complete to the best of my knowledge and belief.

Signed on behalf of the Firm by:

(date) ..... (authorised signatory) .....

.....(authorised signatory) .....  
(date)

...



**16 Ann 16R: UCITS management companies reporting forms and requirements applying to their completion**

...

**Financial Return**

**UCITS Management Companies**

**Annual Financial Return**

For the year ended \_\_\_\_\_

Name of Firm \_\_\_\_\_

FSA firm reference number \_\_\_\_\_

Date of Audit Opinion \_\_\_\_\_

...

**Satisfaction of Financial Resource Tests - UCITS Management Companies**

**UAFS 4**

**Financial Resources Requirements for all UCITS Management Companies**

...

**Test 2**

**Financial Resources Test**

Financial resources (*line 47*) \_\_\_\_\_ (54)

Less the higher of :

€125,000 \_\_\_\_\_ (55)

Plus : Funds Under Management over €250m X 0.02% \_\_\_\_\_ (56)

Total (55+56 is subject to a maximum of €10m) (\_\_\_\_\_) (57)

and

13/52 of annual audited fixed expenditure (*UPRU 2.1.2R(2) -form UAFS5*) (\_\_\_\_\_) (58)

**Surplus/Deficit of financial resources** [54-57 or 58] \_\_\_\_\_ (59)

**Test 3** (applicable to UCITS Investment Firms only )

**Liquid Capital Resource Test**

Liquid capital (*line 50*) \_\_\_\_\_ (60)

13/52 of Annual <del>Audited</del> Fixed Expenditure ( <i>IPRU(INV) Rule 7.2.3 -form UAFS5</i> )	_____	(61)
Position Risk Requirement ( <i>IPRU(INV) Table 5.2.3(5)(b)</i> )	_____	(62)
Counterparty Risk Requirement ( <i>IPRU(INV) Table 5.2.3(5)(c)</i> )	_____	(63)
Foreign Exchange Requirement ( <i>IPRU(INV) Table 5.2.3(5)(d)</i> )	_____	(64)
Other Assets Requirement ( <i>IPRU(INV) Table 5.2.3(5)(e)</i> )	_____	(65)
Liquid Capital Resource Requirement [61 to 65]	(            )	(66)
	=====	
<b>Surplus/Deficit of liquid capital</b> [60-66]	=====	(67)

**Calculation of financial resources requirement for forthcoming year-UCITS Management Companies  
UAFS 5**

	£000	£000
<b>Annual <del>Audited</del> Fixed Expenditure</b>		
...		
<del>Audited</del> Fixed Expenditure		=====
Annual <del>Audited</del> Fixed Expenditure (pro-rated where relevant to annual amount)( <i>UPRU 2.1.3R (2)</i> )		=====
Expenditure Based Requirement (13/52 of Annual <del>Audited</del> Fixed Expenditure)		===== (68)

*Note: The annual ~~audited~~ fixed expenditure calculated above becomes effective from the date on which this Annual Financial Return is approved by the ~~auditor~~ management of the firm. At all times throughout the period from this date until the next Annual Financial Return is approved, the Firm's Financial Resources must satisfy its Financial Resources Requirement incorporating the above Requirement.*

...

**DECLARATION UCITS Management Companies** **UAFS 7**

This Annual Financial Return has been properly prepared in accordance with the rules,  
and was approved by the Firm on .....(date).

It is accompanied by the Annual Accounts and the report of the auditor to the FSA as required by the rules.

...

Financial Return

UCITS Management Companies

Quarterly Financial Return

...

Satisfaction of Financial Resource Tests - UCITS Management Companies

UQFS 4

**Financial Resources Requirements for all UCITS Management Companies**

£000

£000

...

**Test 2**

**Financial Resources Test**

Financial resources ( <i>line 47</i> )		=====	(54)
Less the higher of :			
€125,000	_____		(55)
Plus : Funds Under Management over €250m X 0.02%	_____		(56)
Total (55+56 is subject to a maximum of €10m)		(_____)	(57)
and			
13/52 of annual-audited fixed expenditure ( <i>IPRU 2.1.2R(2) -form UAFS 5</i> )		(_____)	(58)
<b>Surplus/Deficit of financial resources</b> [54-57 or 58]		=====	(59)

**Test 3** (applicable to UCITS Investment Firms only )

**Liquid Capital Resource Test**

Liquid capital ( <i>line 50</i> )		_____	(60)
13/52 of Annual-Audited Fixed Expenditure( <i>IPRU(INV) Rule 7.2.3 -form UAFS 5</i> )	_____		(61)
Position Risk Requirement ( <i>IPRU(INV) Table 5.2.3(5)(b)</i> )	_____		(62)
Counterparty Risk Requirement ( <i>IPRU(INV) Table 5.2.3(5)(c)</i> )	_____		(63)
Foreign Exchange Requirement ( <i>IPRU(INV) Table 5.2.3(5)(d)</i> )	_____		(64)
Other Assets Requirement ( <i>IPRU(INV) Table 5.2.3(5)(e)</i> )	_____		(65)
Liquid Capital Resource Requirement [61 to 65]		(_____)	(66)
<b>Surplus/Deficit of liquid capital</b> [60-66]		=====	(67)

Sch 2		Notification requirements				
...						
Sch 2.2	G	Handbook reference	Matter to be notified	Contents of notification	Trigger event	Time allowed
		...				
		SUP 3.9	Auditor: certain <i>investment business firms</i> —annual report	Various matters including relevant financial reporting statements and adequacy of financial resources and whether proper accounting records kept	After each <i>accounting reference date</i>	<i>Securities and futures firms</i> : three months; <i>Personal investment firms</i> and <i>investment management firms</i> : four months
		SUP 3.9.8 R	Auditor: certain <i>investment business firm</i> —inability to prepare annual report	Inability to report on matters set out in SUP 3.9; reasons why unable to meet the requirements	Inability to report within timetable (see time allowed)	<i>Securities and futures firms</i> : three months; <i>Personal investment firms</i> and <i>investment management firms</i> : four months
		...				