

News Release



23 February 2010

E&Y: CI funds are ahead of the game

The Channel Islands are well placed to meet future changes within the European investment fund industry, according to [Ernst & Young](#).

A new survey undertaken by the accountancy firm has found that there is little evidence that International Financial Reporting Standards (IFRS) is being embraced across Europe.

Richard Le Tissier, a senior manager in Ernst & Young's Asset Management Group, says the survey also reveals an expectation that IFRS will one day become the European standard for investment funds.

"The Channel Islands were among the first jurisdictions to embrace the use of IFRS and therefore that puts fund managers and administrators in an excellent position. Many local companies have already adopted IFRS to some extent for investment fund reporting," he added.

However, much like elsewhere in Europe, IFRS is still not being fully utilised by the fund industry in the islands and to a large extent many funds still apply other forms of reporting. Guernsey and Jersey laws and regulations allow funds to prepare financial statements in accordance with Generally Accepted Accounting Principles (GAAP) and therefore many use alternative standards such as UK or US GAAP. But it is looking increasingly likely that, in the medium term, UK GAAP will no longer be acceptable for funds going forward.

According to Mr Le Tissier: "Should the UK Accounting Standards Board (ASB) proceed with its *Policy Proposal – The Future of UK GAAP*, current UK GAAP users will be required, in most situations, to adopt IFRS from 1 January 2012.

"While this may have a significant impact for financial statement preparers in the UK, the impact will probably be smaller in the islands. The number one concern of respondents on conversion to IFRS was the IFRS technical knowledge of their staff. Many local companies are already familiar with IFRS and for those that are not, they have immediate access to a community that is familiar with the requirements."

The importance of financial reporting has been thrown into the spotlight and recent economic events have had a profound impact on the asset management industry and, in particular, hedge funds. The G20 has called for the setting up of one single set of high-quality global accounting standards to aid global financial stability.

The poll of leading fund managers, administrators and supervisors in 44 European countries found that just a fifth of fund managers and administrators who currently have the option to apply IFRS do so exclusively. The survey also revealed though that 48% of managers and administrators believe that conversion had significantly improved the quality of financial reporting. So why don't more people adopt IFRS?

Mr Le Tissier explains: "This could be tax driven, or simply due to historical reasons, the financial statement has always been reported using another GAAP, so why change."

Mr Le Tissier believes it is more likely that the reason for not changing may relate more to the broad nature of IFRS.

He explains: "IFRS has been developed so that it can be applied by all forms of entities regardless of industry and unlike UK and US GAAP, it does not have an industry specific guide."

Mr Le Tissier predicts that a reporting standard which combines US GAAP and IFRS seems the "most logical solution" for the industry.

He adds: "Until now there has been very little appetite by the International Accounting Standards Board ("IASB") to introduce specific industry standards. However, during its February 2010 meeting the IASB discussions took a rather surprising turn.

"ED 10 - *Consolidated Financial Statements*, is the proposed replacement to the current consolidation accounting standard, which requires funds to consolidate all investments they control. Many in the industry argue this distorts the relevance of financial statements as investors are generally only concerned with the fair value of the investment.

"During the meeting the IASB tentatively agreed to consider an exception for investment companies similar to US GAAP. This is a very encouraging development and although discussions are still at an early stage and we wait to see how this will evolve, this is clear evidence that the IASB are taking on board one of the industries major concerns."

Mr Le Tissier concludes: "Channel Island based investment funds could be losing out by not adopting IFRS. Yes, there are some concerns and, yes, there will be pressures on implementation and costs during transition. But the rewards will result in standardised financial reporting and cost efficiencies, particularly in training, which will benefit the industry and its key stakeholders.

“Take the new segment reporting standard as an example, some argue this is unnecessary disclosure, while others would use it to reaffirm a funds tax position here in the islands. The rapid changes to IFRS which result in ever changing disclosure requirements can be challenging, but in the spirit of transparency and in addressing G20 concerns for openness it is clear that the industry should take advantage of the standards.”

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