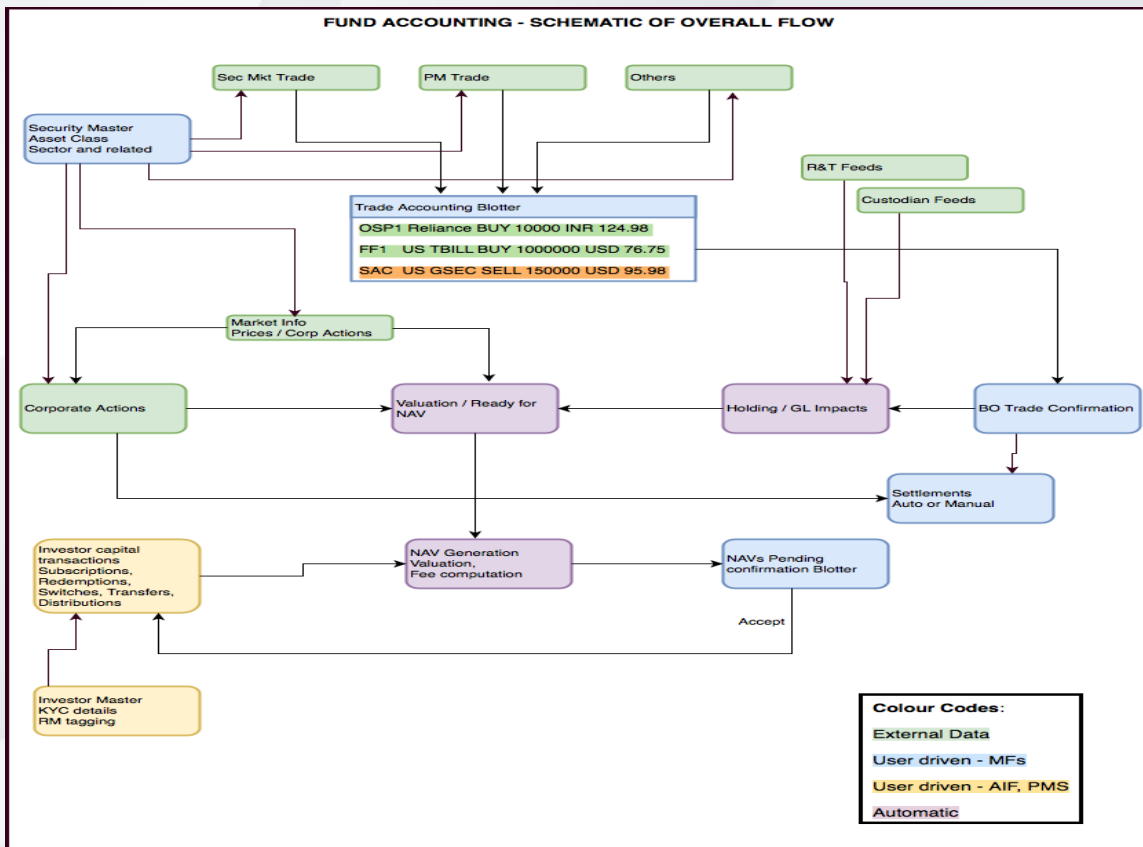


Fund Accounting

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Agenda

- Accounting, Valuation policies
- Trade accounting
- Valuation and income accounting
- Revaluation in multi-ccy structures
- Corporate actions
- Expense accrual
- Computing the NAV

Accounting Policies:

1. Trades are recognised on trade date
2. Trade fees are capitalised / expensed:
 - a. Brokerage capitalised
 - b. Stamp expensed
 - c. STT expensed
3. Realized gains / losses are reckoned based on weighted average cost or on a lot basis (FIFO, LIFO et al)
4. Income on debt recognised from the settlement date of trade
5. Corporate actions recognised on respect ex-dates
6. Cost apportioned to asset created by a de-merger, will be based on basis provided by competent authority.

Valuation Policies - Equity:

1. Listed equity - valued based on closing prices of NSE / any other market
 - a. If price is not available in preferred market, then price may be picked from alternate markets
 - b. Source of the price will be Stock exchange data or Bloomberg
2. In case, based on trading volumes / values in past 'n' days, a listed security is deemed to be 'Thinly Traded' then valuation will be based on Fair value provided by a competent authority
3. Rights – Valued on price from preferred market. If price is not available then it may be computed as the price of the underlying share minus the amount to be paid to exercise the right.
4. Demerged shares which are unlisted – valued based on Fair value.

Valuation Policies - Debt:

1. Investment grade paper is fairly straightforward and obtained directly from the agency per valuation policy.
2. Non – Investment grade – generally use price provided by the agency. If no price is available we will have to use the hair-cut prescribed for the paper.
3. In case of paper which is new in the market and the agency has not yet commenced providing prices, the weighted average trade price is used for valuation. In case of discounted instruments we typically use the yield and arrive at the price on the T+1 day and use this as the valuation price
4. Tail 'n' days to be valued on amortisation basis

As a good practice, it may be prudent to manually compute the price / yield based on the paper's cash flows and compare the same with that provided by the agency.

Valuation Policies - Derivatives:

1. Exchange traded derivatives are valued based on prices obtained from the relevant markets
2. OTC – derivatives. For some of them prices to value are obtained from agencies. E.g:- IRS valuation prices are obtained from rating agencies in India.
3. OTC – derivatives where prices are not provided, are valued based on established methodologies (Shiva will take us through this, for some common OTC derivatives).
4. When valuation / MTM is manually computed, the same will have to be reconciled with Counterparty / Custodian

Trade Accounting:

1. Acquisition and disposal of assets will follow the relevant policies.
2. On trade date, cost of investment will include the price and all capitalised trade fees.
3. In the case of debt, broken coupon will be computed till the settlement date and establish the settlement date to be the start date for income recognition. Conversely, in the case of sales, income will continue to accrue till the settlement date.
4. In the case of primary market, asset will be held under a pending allotment account till the allotment date. This is applicable for subscription / redemption of Mutual fund units where the price (NAV) of the units is known on a prospective basis.
5. Cost of acquisition of derivatives, irrespective of long or short, will be booked based on the price paid to obtain the same. Realised P/L will occur on square off / expiry

Income Accounting:

- 1) Accrual of income on Fixed income securities
 - a) Day count, holiday conventions
 - b) Leap year considerations
 - i) Only if you cross 29th February
 - ii) Sometimes ignore 366 – Coupon specific denominator
 - iii) Sometimes the full year is considered as 366 denominator
 - c) Compounding complications
 - i) Including margin or excluding margin
 - ii) No compounding on holidays – week-end or bank holiday – dependence on calendar
- 2) Amortising the Discount in case of discounted securities (like TBILLS, CP, Deep discount bonds etc)

Revaluation of ccy positions:

- 1) Market value of foreign ccy securities translated to values in principal / fund currency.
 - a) Unrealised gain/loss to include impact of market price movement as well as changes in exchange rate
 - b) Ability to segregate impact of price movement from that of exchange rate movement.
- 2) Revaluation of payables / receivables, foreign currency bank balances. In addition any GL account which needs to be revalued.

Corporate Actions:

- 1) All corporate actions are impacted on the relevant ex-dates
- 2) When multiple corporate actions for the same asset occur on the same date, we need to take care of sequencing them properly
- 3) Corporate actions where the investor can elect, need to be managed appropriately
 - a) Company dividends where choice is provided for obtaining in cash or kind
 - b) Dividends where investor is provided a choice of currency
- 4) In cases where gain/loss is tracked on a lot basis, bonus, splits and such corporate actions to appropriately create new lots with appropriate acquisition dates, based on existing lots.
- 5) Demerger and other such actions which require cost / value apportionment to be managed upon receipt of all relevant information.

Capital and Distribution:

- 1) Commitment as agreed by investors
- 2) Drawdowns against the commitment
- 3) Distribution of proceeds based on various allocation methods
- 4) Distributions may also need to follow a waterfall based on the agreement
- 5) The fee structures may be different for each class. These will include management fees, performance fees based on HWM and hurdle rates
- 6) Performance may be at class level with different hurdle rates.

$$\text{NAV} = (\text{Assets} - \text{Liabilities}) / \text{Total number of outstanding units}$$

1. The NAV is perhaps the most important and critical factor. This is generated through a combination of valuation and accounting
2. NAV is the result of assembling all the valuation and account data
3. Fund level NAV is arrived as Assets at Market Value less Liabilities
4. Class level NAV is arrived as Capital plus Net income (including unrealised gain/loss)
5. Allocation of income movement to the classes is based on the NAV ratio.

Assembling the NAV Statement

| Account Type | Description | Amount | % of NAV | Account Type | Description | Class A | Class B | Total |
|--------------|-------------------------------|-----------------------|---------------|--------------|----------------------------------------|-----------------------|--------------------|-----------------------|
| Investments | Equity Shares | 6,374.42 | 0.05 | Capital | Unit holders Capital | 1,19,99,950.00 | 1,50,000.00 | 1,21,49,950.00 |
| Investments | Government Securities | 59,32,353.66 | 49.17 | Income | Income - Interest | 3,197.67 | 39.96 | 3,237.63 |
| Investments | Options | 8,282.70 | 0.07 | Income | Income - Profit on Sale of Investments | 34,601.56 | 432.51 | 35,034.07 |
| | Total Investments | 59,47,010.78 | 49.29 | Income | Income - Gain/Loss on Derivatives | -97,971.13 | -1,224.56 | -99,195.69 |
| Other Assets | Current Bank Account | 60,24,433.36 | 49.93 | Income | Income - Dividend | 76.12 | 0.95 | 77.07 |
| Other Assets | Receivable - Interest | 16,094.72 | 0.13 | Income | Income - Gain/Loss on Forex | -7,661.27 | -95.76 | -7,757.03 |
| Other Assets | Receivable - Trade Settlement | 84,828.85 | 0.70 | Income | Income - Variable Margin | -792.29 | -9.90 | -802.19 |
| Other Assets | Receivable - Variable Margin | 77.07 | 0.00 | Income | Income - Others | 6,470.21 | -15.45 | 6,454.76 |
| Other Assets | Receivable - Others | 1,485.70 | 0.01 | | Total Income | -62,079.13 | -872.25 | -62,951.38 |
| | Total Other Assets | 61,26,919.70 | 50.78 | Expense | Expense - Brokerage Fee | -570.67 | -7.14 | -577.81 |
| Liability | Payable - Trade Settlement | -933.00 | -0.01 | Expense | Expense - Loss on Sale of Investments | -16,207.80 | -202.59 | -16,410.39 |
| Liability | Payable - Management Fee | -2,630.08 | -0.02 | Expense | Expense - Management Fee | -2,630.08 | - | -2,630.08 |
| Liability | Payable - Audit Fee | -781.92 | -0.01 | Expense | Expense - Audit Fee | -772.23 | -9.69 | -781.92 |
| Liability | Payable - STT | -0.10 | -0.00 | Expense | Expense - STT Fee | -0.10 | - | -0.10 |
| Liability | Payable - Others | -3,692.61 | -0.03 | Expense | Expense - Others | -669.07 | -36.48 | -705.55 |
| | Total Liability | -8,037.71 | -0.07 | | Total Expense | -20,849.95 | -255.90 | -21,105.85 |
| | Total Net Asset Value | 1,20,65,892.77 | 100.00 | | Total Net Asset Value | 1,19,17,020.92 | 1,48,871.85 | 1,20,65,892.77 |
| | Units Outstanding | 1,21,49,950 | | | Units Outstanding | 1,19,99,950 | 1,50,000 | 1,21,49,950 |
| | NAV Per Unit | 0.9931 | | | NAV Per Unit | 0.9931 | 0.9925 | 0.9931 |

NAV Checks

- Previous days NAV with capital movement, movement in income/expense including unrealized gains/losses
- Unnatural movement
- Nav per unit movement

At a glance

| Masters | Fees / Setup | Trades | Income Accrual | Expense Accrual | EOD Activities | Reports |
|--------------|------------------------------------|------------------------------|---------------------------------|-----------------------|-------------------------|--------------------------|
| Security | Trade Fees - Brokerage, STT | Buy / Sell Trades | Interest | Trade - Brokerage | Income Accrual | Trial Balance |
| Broker | Trade Fee Capitalisation | Trade Settlement | Discount Income | Trade - STT | Corporation Action | Holding Statement |
| Counterparty | NAV Fee Setup - Man Fee, Audit Fee | Div, Int, Red Settlement | Int on Deposits | NAV - Man Fee | Valuation | NAV Report |
| Custodian | Amortisation of Charges | Adjustment Vouchers (if any) | Int on Repo | NAV - Audit Fee | NAV Fees Accrual | General Leder |
| Fund Setup | Valuation Parameters | | Int on IRS | NAV - Performance Fee | Generate NAV | Purchase / Sale |
| Class Setup | | | Int on Sec Borr Lend | | Publish NAV to Stakehol | Capital Movement |
| | | | Unrealised Gain/Loss Accounting | | | |
| | | Uploads | Variable Margin | | | Custodian Reconciliation |
| | | Market Prices - Exchanges | Forex Revaluation | | | |
| | | Forex Rate | | | | Statutory Reports |
| | | Custodian Holding Upload | | | | Client Reports |
| | | | | | | |

Thank You

Fund Administration
Leaders Program

