

Proposed amendments to disclosure of substantial holdings in unquoted investments

AIC SORP public consultation

The [AIC's Statement of Recommended Practice](#) (SORP) is applicable to investment trusts or venture capital trusts preparing financial statements in accordance with United Kingdom law and UK Financial Reporting Standards (FRS).

The AIC and industry stakeholders have raised concerns about the current approach set out in the SORP in relation to the disclosure of substantial holdings in unquoted investments. The AIC proposes to revise the SORP to address these concerns. As required by the Financial Reporting Council's (FRC) Policy on Developing SORPs, we have set out our proposals in this consultation in order to seek the views of stakeholders.

Invitation to comment

We invite stakeholders to provide responses to the questions set out on page 3 and share their views on our proposals by the **close of business on Friday 22 April 2022**. Please send comments to lisa.easton@theaic.co.uk.

All consultation responses will be sent to the FRC. In addition, consultation responses shall be published and publicly available on the AIC's website unless confidentiality is requested by the respondent.

An analysis of the issues

The SORP requires that investment companies disclose any holdings in investee undertakings which comprise 3% or more of its capital if the holding is material in the context of its financial statements. See paragraph 30 of the SORP set out in **Appendix 2**.

This paragraph is similar to the requirements in the FCA's Disclosure Guidance and Transparency Rules (DTRs) that require a person to notify an issuer of the percentage of voting rights held where that percentage reaches or exceeds 3%. See DTR 5.1.2 set out in **Appendix 2**.

However, unlike the requirements of the SORP, the DTR requirement is restricted to providing information about holdings in an issuer whose shares are admitted to trading on a regulated market, such as the Main Market of the London Stock Exchange, or a prescribed market, such as AIM. In contrast, the SORP requirements are for any holding, whether the security is on a regulated market, prescribed market or is unquoted.

In some cases, this has resulted in an unintended commercial consequence because the disclosure requirements in the SORP allow third parties to calculate the market value of an unquoted investee entity.

Paragraph 30 of the SORP requires investment companies to disclose the name of the investee company and the percentage of capital held if the holding is 3% or greater of any share class. For certain holdings, paragraph 82.c.3 of the SORP also requires investment companies to disclose the cost of the investment and the aggregate market value.

When taken together, these requirements may have a significant impact on the investee company, for example in relation to its ability to gain bank financing. This is not the intention of the SORP. The AIC understands that in some cases unquoted investee companies are reluctant to have investment companies make significant investments in them due to these SORP disclosure requirements. This issue does not arise for securities admitted to trading on a regulated market or prescribed market as they are required to provide regulated disclosures to the market. But it does prejudice investment in unquoted companies.

This disclosure is likely to have greater negative consequences due to the change in nature of investment company assets. **Appendix 3** shows how the breakdown of investment company assets has changed since 1999 when listed equities accounted for over 80% of investment company assets. In 2021, the figure stood at less than 50%.

In the past, it was also likely that any unquoted investment held in a portfolio were much smaller holdings than they are now. Therefore, further information as set out in paragraph 82 of the SORP, including the proportion of capital owned in an investee company, was unlikely to have been required. Given the significant change in the trend of investments company assets, the AIC considers this issue is likely to arise more in the future. The AIC is therefore keen to act now to prevent any unintended impacts on unquoted investee companies and ensure that investment companies can continue to invest in as wide a range of assets as possible.

The AIC's proposals

To rectify the issues set out above, the AIC is proposing to:

- Amend paragraph 30 of the SORP to remove the requirement to disclose unquoted investee undertakings comprising 3% or more of any class of capital;
- Amend paragraph 82 of the SORP to remove the requirement to disclose the proportion of capital owned;
- Amend paragraph 82 of the SORP to highlight other relevant disclosures regarding significant holdings contained in UK company law and FRS 102; and
- Amend the definition of terms in the SORP to include a definition of regulated and prescribed market.

The proposed amendments are set out in **Appendix 1**.

The AIC considers that:

- It is not appropriate for the AIC SORP to require the disclosure of commercially sensitive information which is otherwise not publicly available;
- The disclosures the AIC proposes removing are not required for accounting, legal or regulatory purposes. Instead, this is a commercial issue. It should be noted that similar disclosure requirements regarding unquoted investments were removed from the Listing Rules in 2007 to make the rules more principles based. The then Financial Services Authority (FSA) stated that, among other things, boards should not be constrained, through detailed Listing Rules, from undertaking investment activity which they believe is

in the interests of their shareholders. The AIC considers the proposed amendment to be in line with the FSA's approach;

- Removing this information may have a significant and positive impact on the investment company and the investee companies. From our initial outreach with our technical committees, we do not consider this will have a significant impact on investors, but this consultation is intended to solicit views on this;
- This current disclosure recommendation puts investment companies at a competitive disadvantage to other investment vehicles as some unquoted companies will not allow investment companies to invest if they are required to provide this confidential and commercially sensitive information to the market that is not otherwise publicly available;
- The disclosure is an unnecessary extension of similar DTR requirements. The DTRs are designed to provide information about the public market. The same issues do not apply for unquoted shares where such information is not publicly available;
- Removing this disclosure will not change the valuation given in the accounts, nor will it affect any of the figures in the accounts, or have any other consequential impacts. Other information will still be provided about the unquoted investment, such as its name;
- In cases where that holding becomes more substantial i.e. where a company gains 20% or more of the voting power of another company, accounting rules on associates already provide that summarised financial information is given about the investee company. These rules will remain in place;
- Although both paragraphs 30 and 82 have been in the SORP in their current format for some time, trends in investment company holdings have moved away from solely listed equities towards alternative assets and unquoted investments. Also, the size of such holdings has increased. As the market continues to evolve, the current SORP disclosure requirements are becoming more of a material concern and it is right that the AIC SORP evolves alongside the market;
- The AIC is not aware of any other investment products which provides these disclosures, for example this is not required by the [Investment Association's SORP for UK authorised funds](#). (For the avoidance of doubt, paragraph 3.15 of the Investment Association's SORP refers to the amount held being the number of shares the investment fund holds; the value being the market value of those shares; and the percentage being the proportion that value represents of the value of the investment fund as a whole. These disclosures do not relate to information about the investee company itself); and
- The AIC's proposed amendments do not prevent investment companies providing further information about its investee companies should it wish to do so. But the AIC does not consider this is a matter for the SORP and the SORP should not impose additional regulatory requirements where they are not required.

Questions to be considered

- 1. Do you consider that the current requirements of the AIC SORP pose a commercial issue for investment companies which could restrict their ability to invest in unquoted investments?**

2. Do you consider that the current requirements of the AIC SORP pose a commercial issue for investee companies? If so, please explain the impact on these companies.
3. Do you consider the AIC's proposed amendments pose any threat to market integrity?
4. Do you consider the AIC's proposed amendments remove information which you consider to be imperative to making an informed investment decision?
5. Do you agree that the AIC's proposed amendments should be made to the SORP?

Scope of the FRC's Review

In accordance with the [Financial Reporting Council's \(FRC\) Policy on Developing SORPs](#) the FRC carried out a review of the proposed amendments to the AIC SORP focusing on those aspects relevant to the financial statements but also including aspects relevant to the FRC's broader responsibilities where appropriate.

23 February 2022

Appendix 1 – proposed amendments to the SORP

Proposed deletions are shown as struck through text and proposed insertions are shown as underlined text.

Proposed amendment 1 - Paragraph 30 of the SORP:

“An Investment Company should disclose any holding in an investee undertaking whose shares are admitted to trading on a regulated or prescribed market which comprises 3% or more of any class of capital if the holding is material in the context of its Financial Statements.

*“**Note:** where an Investment Company has a substantial holding in an investee undertaking whose shares are admitted to trading on a regulated or prescribed market, this fact should be disclosed in the Financial Statements since it may have implications in areas of interest to users of the Financial Statements, such as risk, liquidity and marketability. The Investment Company should disclose the name of the investee company and the percentage held.”*

Proposed amendment 2 - Paragraph 82 of the SORP:

“Whether or not Investment Companies have different operating segments as defined in IFRS 8, they should nevertheless disclose in the Financial Statements, unless they are fully described elsewhere in the annual report, the following analyses and information (in addition to those required by the Listing Rules and other relevant provisions, such as Paragraphs 4-6, Part 1, Schedule 4 Accounts and Reports Regulations, Section 33 of FRS 102 and other relevant requirements particularly for companies preparing consolidated financial statements):

- a) a broad geographical analysis of the undertakings whose securities are held in the portfolio;*
- b) an analysis of total income between income from Investments and other income; and an analysis of each of these components into material subcomponents; and*
- c) a list of all investments held at the balance sheet date with a value greater than 5% of its portfolio and at least the ten largest investments including the value of each investment and, with respect to any Unquoted Investments included in the list, the following:*
 - 1. a brief description of its business;*
 - 2. ~~the proportion of capital owned or potentially owned if significantly different;~~*
 - 3. the cost of the investment and aggregate market value, if any, at the latest practicable date;*
 - 4. total income recognised by the Investment Company in the reporting period, including dividends (highlighting any abnormal dividends) and other amounts;*

5. *turnover and pre-tax profits for the latest audited financial year; and*
6. *net assets attributable to shareholders as at the date of the latest audited balance sheet, distinguishing if appropriate between the net assets attributable to different classes of share.*

Where relevant, comparative figures should also be provided...”

Proposed amendment 3 - Definition of terms included in the SORP:

The AIC proposes to include the following two new definitions in the SORP:

“Prescribed market means a prescribed market as defined by the Financial Services and Markets Act 2000.”

“Regulated market means a regulated market as defined by the Financial Services and Markets Act 2000.”

Appendix 2 –extracts of disclosure requirements

The AIC has set out below some relevant disclosure requirements that respondents may find helpful. This is a non-exhaustive list and other provisions may be relevant.

SORP paragraph 30 - Substantial holdings disclosure

Paragraph 30 of the SORP states:

“An Investment Company should disclose any holding in an investee undertaking which comprises 3% or more of any class of capital if the holding is material in the context of its Financial Statements.

“Note: *where an Investment Company has a substantial holding in an investee undertaking, this fact should be disclosed in the Financial Statements since it may have implications in areas of interest to users of the Financial Statements, such as risk, liquidity and marketability. The Investment Company should disclose the name of the investee company and the percentage held.”*

SORP paragraph 82 - Other disclosure requirements

Paragraph 82 of the SORP states:

“Whether or not Investment Companies have different operating segments as defined in IFRS 8, they should nevertheless disclose in the Financial Statements, unless they are fully described elsewhere in the annual report, the following analyses and information (in addition to those required by the Listing Rules and other relevant provisions):

- a) a broad geographical analysis of the undertakings whose securities are held in the portfolio;*
- b) an analysis of total income between income from Investments and other income; and an analysis of each of these components into material subcomponents; and*
- c) a list of all investments held at the balance sheet date with a value greater than 5% of its portfolio and at least the ten largest investments including the value of each investment and, with respect to any Unquoted Investments included in the list, the following:*
 - 1. a brief description of its business;*
 - 2. the proportion of capital owned or potentially owned if significantly different;*
 - 3. the cost of the investment and aggregate market value, if any, at the latest practicable date;*
 - 4. total income recognised by the Investment Company in the reporting period, including dividends (highlighting any abnormal dividends) and other amounts;*

5. *turnover and pre-tax profits for the latest audited financial year; and*
6. *net assets attributable to shareholders as at the date of the latest audited balance sheet, distinguishing if appropriate between the net assets attributable to different classes of share.*

Where relevant, comparative figures should also be provided...”

DTR requirements

The DTR requirements address notification of the acquisition or disposal of major shareholdings.

The requirements of DTR 5 apply to:

- UK companies with shares admitted to trading on a UK regulated market (such as the Main Market of the London Stock Exchange);
- UK public companies with shares admitted to trading on a prescribed market (such as AIM); and
- Non-UK companies with shares admitted to trading on a UK regulated market.

DTR 5.1.2 states:

“A person must notify the issuer of the percentage of its voting rights he holds as shareholder or holds or is deemed to hold through his direct or indirect holding of financial instruments falling within DTR 5.3.1R (1) (or a combination of such holdings) if the percentage of those voting rights:

- (1) reaches, exceeds or falls below 3%, 4%, 5%, 6%, 7%, 8%, 9%, 10% and each 1% threshold thereafter up to 100% (or in the case of a non-UK issuer on the basis of thresholds at 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75%) as a result of an acquisition or disposal of shares or financial instruments falling within DTR 5.3.1R; or*
- (2) reaches, exceeds or falls below an applicable threshold in (1) as a result of events changing the breakdown of voting rights and on the basis of information disclosed by the issuer in accordance with DTR 5.6.1 R and DTR 5.6.1A R;*

and in the case of an issuer which is not incorporated in the United Kingdom a notification under (2) must be made on the basis of equivalent events and disclosed information.

[Note: articles 9(1), 9(2), 13(1) and 13a(1) of the TD]”

DTR 5.3.1R (1) states:

“A person must make a notification in accordance with the applicable thresholds in DTR 5.1.2R in respect of any financial instruments which they hold, directly or indirectly, which:

- a) on maturity give the holder, under a formal agreement, either the unconditional right to acquire or the discretion as to the holder’s right to acquire, shares to which voting rights are attached, already issued, of an issuer; or*
- b) are not included in (a) but which are referenced to shares referred to in (a) and with economic effect similar to that of the financial instruments referred to in (a), whether or not they confer a right to a physical settlement.*

[Note: article 13(1) of the TD]”

Investment Association SORP disclosures

For comparative purposes, the [Investment Association SORP](#) states:

Paragraph 3.13:

“A list of all a fund’s investments is required as part of the authorised fund manager’s report in both the annual and half-yearly reports.”

Paragraph 3.15:

“The portfolio statement is a list of all the investment assets and liabilities in a fund’s portfolio. For each investment it should show the following information:

- *Security name*
- *Amount held*
- *Value determined in accordance with paragraphs 2.11 to 2.22*
- *Percentage of the net assets”*

Paragraph 3.16:

“The investments should be analysed by category using the most appropriate criteria in the light of the investment policy of the fund, for example economic, geographical or currency. The percentage that each category represents of the total net assets should be shown.”

UK Company law

The UK Companies Act ([The Large and Medium-sized Companies and Groups \(Accounts and Reports\) Regulations 2008](#) Schedule 4, Part 1, Paragraphs 4 – 6 – Significant holdings in undertakings other than subsidiary undertakings) requires the following information to be provided for significant holdings:

Paragraph 4

1. *The information required by paragraphs 5 and 6 must be given where at the end of the financial year the company has a significant holding in an undertaking which is not a subsidiary undertaking of the company, and which does not fall within paragraph 18 (joint ventures) or 19 (associated undertakings).*
2. *A holding is significant for this purpose if—*
 - a. *it amounts to 20% or more of the nominal value of any class of shares in the undertaking, or*
 - b. *the amount of the holding (as stated or included in the company's individual accounts) exceeds one-fifth of the amount (as so stated) of the company's assets.*

Paragraph 5

1. *The name of the undertaking must be stated.*
2. *There must be stated—*
 - a. *the address of the undertaking's registered office (whether in or outside the United Kingdom),*
 - b. *if it is unincorporated, the address of its principal place of business.*
3. *There must also be stated—*
 - a. *the identity of each class of shares in the undertaking held by the company, and*
 - b. *the proportion of the nominal value of the shares of that class represented by those shares.*

Paragraph 6

1. *Subject to paragraph 14, there must also be stated—*
 - a. *the aggregate amount of the capital and reserves of the undertaking as at the end of its relevant financial year, and*
 - b. *its profit or loss for that year.*
2. *That information need not be given in respect of an undertaking if—*
 - a. *the undertaking is not required by any provision of the 2006 Act to deliver a copy of its balance sheet for its relevant financial year and does not otherwise publish that balance sheet in the United Kingdom or elsewhere, and*

- b. the company's holding is less than 50% of the nominal value of the shares in the undertaking.*
- 3. Information otherwise required by this paragraph need not be given if it is not material.*
- 4. For the purposes of this paragraph the “relevant financial year” of an undertaking is—*
 - a. if its financial year ends with that of the company, that year, and*
 - b. if not, its financial year ending last before the end of the company's financial year.*

FRS 102 Section 33 – Related party disclosures

FRS 102 includes a section on related parties. Amongst other things, it requires:

Paragraph 33.9:

“If an entity has related party transactions, it shall disclose the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements. Those disclosure requirements are in addition to the requirements in paragraph 33.7 to disclose key management personnel compensation... At a minimum, disclosures shall include:

- a) The amount of the transactions.*
- b) The amount of outstanding balances and:*
 - i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and **
 - ii) details of any guarantees given or received.*
- c) Provisions for uncollectible receivables related to the amount of outstanding balances.*
- d) The expense recognised during the period in respect of bad or doubtful debts due from related parties.*

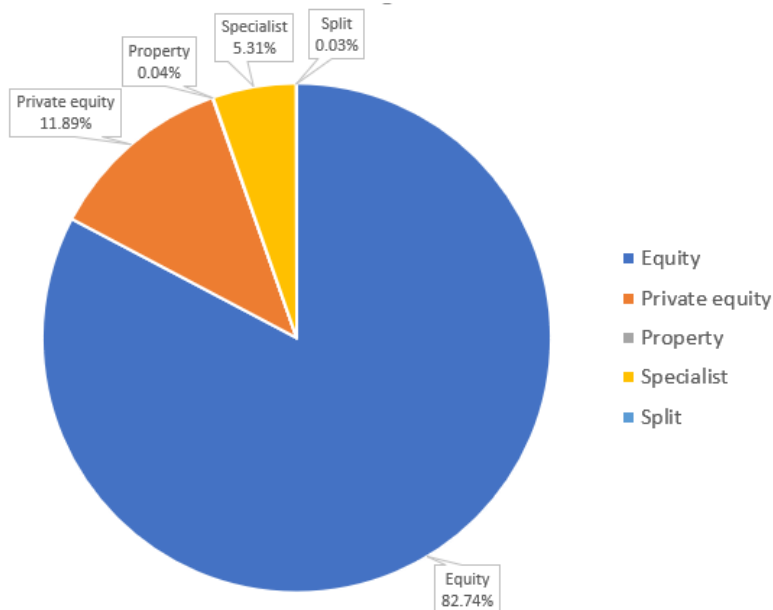
Such transactions could include purchases, sales, or transfers of goods or services, leases, guarantees and settlements by the entity on behalf of the related party or vice versa.”

Appendix 3 – Breakdown of asset type

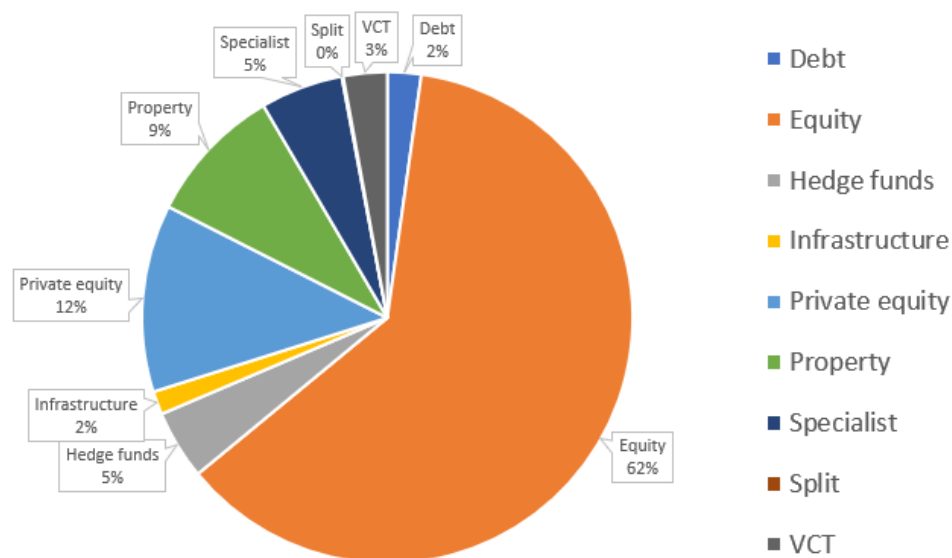
Below is a breakdown of the asset type that investment companies invest in. There has been a significant growth in investment in non-equity asset classes between 1999 and 2021. There has also been a significant growth in total assets under management.

As at 31 December 1999

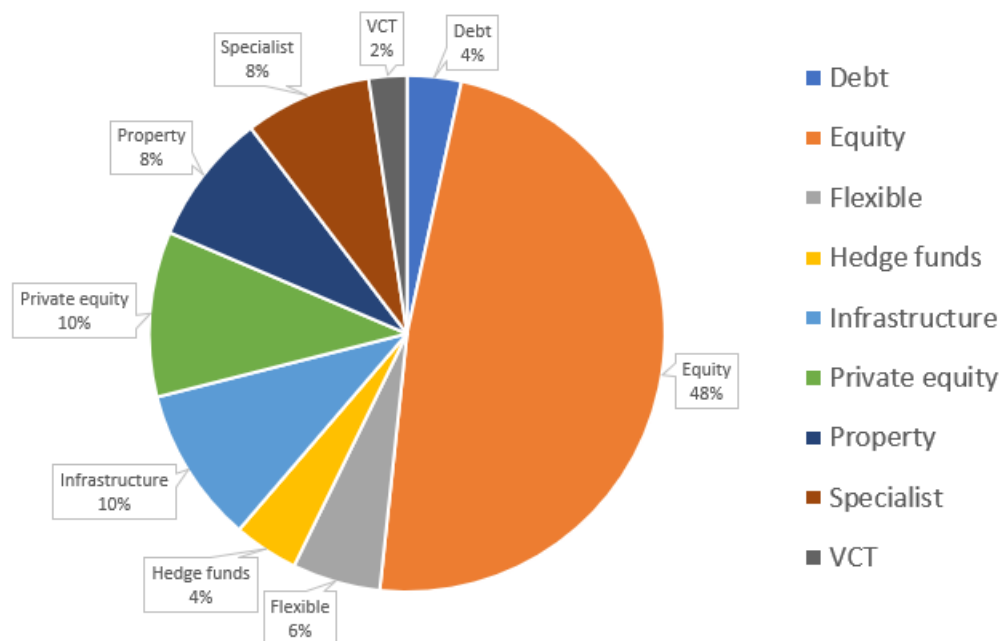
Note that AIC's records do not allow for this to be calculated an earlier date on the same basis.



As at 31 July 2007



As at 31 July 2021



Industry assets from 1999 to 2021

