

Accounting in asset management companies

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In Latvia an asset management company's core business activity is the management of investment funds, assets held by the state-funded pension scheme, pension plans of private pension funds, and individual portfolios. In Latvia, asset management is mainly undertaken by subsidiaries of banks, however an asset management company's founders can be individuals as well as entities. This article takes a look at pieces of legislation governing the activities of asset management companies and examines their core accounting principles.

Asset management companies (AMCs)

An AMC is incorporated as a public limited company and operates under the AMC Act, rules issued by the Financial and Capital Market Commission (FCMC), the Commercial Code, and other pieces of legislation, as well as the AMC's articles of association. The AMC is a participant in the financial and capital market as defined by the FCMC Act.

An AMC wishing to provide asset management services should apply to the FCMC for a licence and file a set of documents prescribed by the AMC Act,¹ including its accounting policy and core principles for organising its accounting records.

An AMC is an entity whose core business activity is the management of investment funds or assets held by the state-funded pension scheme. An AMC can also engage in the individual management of an investor's portfolio of financial instruments under the investor's authorisation if that portfolio comprises one or more financial instruments. If the AMC has taken out a licence for the management of individual portfolios, it can also advise its clients on investments in transferable securities, in certificates of investment funds and alternative investment funds, and in financial derivatives. The AMC can also manage assets of pension plans set up by private pension funds and alternative investment funds.

In asset management an AMC should comply with the following pieces of legislation:

- management of assets held by the state-funded pension scheme is governed by the State Funded Pensions Act;
- management of investment fund assets is governed by the AMC Act;
- pension plans of private pension funds should be managed in line with the Private Pension Funds Act; and
- alternative investment funds should be managed in line with the Alternative Investment Funds and Managers Act.

AMC accounting

An AMC should keep separate accounting records for the AMC itself and for each registered investment fund, each registered state-funded pension plan, and each individual portfolio.

In accounting the AMC is bound by the general tax laws and the FCMC rules.

Filings to the FCMC are governed by the following regulations issued by the FCMC:

- Regulation No. 14, *Rules for Preparing Reports in Asset Management Companies*, which provides for quarterly reporting on the AMC's operations:
 - the AMC's balance sheet report;
 - the AMC's profit and loss account;
 - a report on the AMC's assets under management and compliance with capital requirements, consisting of Part I, *The Company's Assets under Management*, and Part II, *The Company's Compliance with Capital Requirements*; and
- Regulation No. 46, *Rules for Preparing Annual Accounts and Consolidated Accounts in Credit Institutions, Investment Broker Companies, and Asset Management Companies*.

Like other public limited companies an AMC should prepare and file statutory statements, reports and tax returns with the SRS:

- details of employees;
- a statement of mandatory national social insurance contributions on employee wages, personal income tax, and business risk duty;
- a statement of amounts paid to an individual (summary);
- the corporate income tax return; and
- annual accounts (to be filed on or before 31 March in the following year under FCMC Regulation No. 46).

An AMC wishing to provide asset management services and applying to the FCMC for a licence is required under the AMC Act to put up a minimum initial capital of €125,000. If its assets under management exceed €250 million, the AMC is required to put up additional shareholders' equity amounting to 0.02% of the excess. The increase requirement does not apply to an AMC with shareholders' equity of €10 million or more.

The FCMC has currently registered 12 licensed AMCs, three of which are incorporated by non-banks.

¹ Section 10(6) of the AMC Act