

A new authorised fund regime for investing in long term assets

Consultation Paper

CP21/12**

May 2021

How to respond

We are asking for comments on this Consultation Paper (CP) by **25 June 2021**.

You can send them to us using the form on our website at: www.fca.org.uk/cp21-12-response-form

Or in writing to:

Michael Collins and Tom Bramhill
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

Email:
cp21-12@fca.org.uk

Moving around this document

Use your browser's bookmarks and tools to navigate. To **search** on a PC use Ctrl+F or Command+F on MACs.

Sign up for our news and publications alerts

See all our latest press releases, consultations and speeches.



Contents

1	Summary	4
2	The wider context	7
3	The long-term asset fund	11
4	Proposed amendments to the permitted links rules (COBS 21.3)	20
5	Distribution of the LTAF	23
Annex 1		
	Questions in this paper	29
Annex 2		
	Cost benefit analysis	31
Annex 3		
	Compatibility statement	38
Annex 4		
	Abbreviations used in this paper	43
Appendix 1		
	Draft Handbook text	

Contents by sector

This table sets out which chapters are particularly relevant for each sector. This is where you will find the most relevant chapter(s) for your firm.

Sector	Chapter
Fund managers	2, 3, 5
Insurers	2, 4, 5

1 Summary

Why we are consulting

- 1.1** This consultation sets out proposals for a new category of authorised open-ended fund called the long-term asset fund (LTAF). This is designed to enable authorised funds to be set up to invest efficiently in long-term, illiquid assets.
- 1.2** Illiquid assets include venture capital, private equity, private debt, real estate and infrastructure. They can provide a useful alternative investment opportunity for consumers able to bear the risks of such investments. An ability to invest in illiquid assets, through appropriately designed and managed investment vehicles, is also important to supporting economic growth and the transition to a low carbon economy. Such investments can be higher risk than diversified portfolios of listed equities or bonds but have the potential for higher long-term returns in return for less or no immediate liquidity.
- 1.3** UK investors currently invest in illiquid assets mainly through closed-ended structures. But some investors prefer investing in open-ended funds.
- 1.4** Open-ended funds need to match the underlying liquidity of the assets in which they invest with the redemption terms that they offer to investors. We would therefore expect LTAFs to be set up with notice periods and other liquidity management features that take account of the liquidity profile of the underlying assets. This aligns with observations of the Financial Policy Committee (FPC), and international bodies such as the Financial Stability Board and IOSCO, around the risks associated with liquidity mismatch in open-ended funds.
- 1.5** Respondents to our August 2020 consultation on property funds, in which we proposed a move to notice periods of between 90-180 days, noted that much of the wider operational infrastructure around the distribution of open-ended funds currently only supports daily dealing funds. This operational infrastructure will need to change to support funds with notice periods.
- 1.6** Establishing a new fund regime, and overcoming operational hurdles, are only two steps in creating an environment in which investment in longer-term less liquid assets, by those investors who understand the risks, do not need immediate liquidity, and have long-term investment horizons, can flourish. To address these wider questions, together with Her Majesty's Treasury (HMT) and the Bank of England, we have convened an industry working group (the Productive Finance Working Group). This working group is expected to draw its conclusions in July 2021. We have been engaging with the group throughout the development of the LTAF. In making final rules, we will consider any recommendations of the Productive Finance Working Group.
- 1.7** The Productive Finance Working Group is considering how to ensure that the wider ecosystem can operationally support the LTAF as a non-daily dealing fund. This could lay the ground for other non-daily dealing funds in the future. As the implementation of notice periods for property funds potentially poses similar operational difficulties

to the LTAF, we will not take a final decision on whether to introduce notice periods for open ended property funds until we have received feedback from the LTAF consultation.

- 1.8** The Productive Finance Working Group is considering how the 'default' investment options of defined contribution (DC) schemes might invest part of their assets into an LTAF, consistent with their investment horizons and risk appetite. This consultation also, therefore, proposes amending the permitted link rules to enable pension schemes to consider the proportion of illiquid assets across their investment portfolios, rather than to restrict the proportion of illiquid assets in each underlying fund in which they invest.
- 1.9** DC default schemes need to cater for member or employer driven liquidity events. Governance bodies of DC schemes will therefore have to work out how the relatively lower liquidity offered by the LTAF can be accommodated within liquidity management across the wider portfolio of the default scheme.
- 1.10** Illiquid assets can take many forms, and so we propose a flexible regime for the LTAF, letting firms with experience create a broad range of propositions. Nevertheless, it is important that the LTAF commands the confidence of target investor groups and can meet their needs. We therefore propose rules to secure an appropriate level of consumer protection and to address specific risks related to investments in illiquid assets, for example as regards valuation. We welcome feedback from potential investors in LTAFs as to whether the measures we have included are sufficient to give them confidence to invest in LTAFs.
- 1.11** HMT has also recently sought input on how the UK fund regime might change to meet the needs of investors. We will continue to engage closely with this work.
- 1.12** We think our proposals would enable the establishment of authorised funds that are appropriate for investors that want this type of investment risk and opportunity. Initially we propose to restrict distribution of the LTAF to professional investors and sophisticated retail investors. Such investors can decide whether an investment proposition is right for them or take advice on it. It is designed as an enabling regime and does not imply that we consider investment in any specific long-term or illiquid asset is appropriate for all investors in a particular group.
- 1.13** There is a further question about whether LTAFs should be made available to a wider investor base. Some retail investors seek out non-traditional investments in a search for diversification or higher yield. The LTAF may enable such diversified investment propositions, managed to appropriately high standards, especially if retail investors can invest with the confidence that they are doing so only alongside sophisticated institutional investors who are well placed to understand the risks. On the other hand, retail investors may take excessive comfort from the authorised status of the fund or may not fully understand the illiquid nature and commensurate risk associated with the underlying assets. We ask discussion questions about whether, and how, we can safely permit future wider retail access to such funds than the rules we initially propose would permit.

Who this applies to

1.14 This consultation will primarily be of interest to:

- asset managers with experience of managing illiquid, long-term assets
- depositaries
- potential investors in long-term asset funds, like pension providers and trustees of DC or hybrid pension schemes, and sophisticated or wealthy investors
- investment advisers and private wealth managers
- insurers who write unit-linked insurance business
- fund distributors

What we want to change

1.15 We propose a new category of authorised fund called a long-term asset fund (LTAF), with its own distinct chapter in our handbook. The framework provides flexibility to facilitate investment in long-term illiquid assets combined with rules to address specific risks posed by long-term, illiquid investments.

Outcome we are seeking

1.16 We want investment in long-term illiquid assets, including productive finance, to be a viable option for investors with long-term investment horizons who understand the risks.

1.17 Investment in productive finance assets is important for economic growth and the creation of jobs. Without it some long-term projects with good potential returns may not happen.

1.18 While this proposal to create a new fund structure will not address all the barriers to investment in productive finance, we hope it will contribute to improving opportunities to make such investment.

Measuring success

1.19 If we implement these proposals, key measures of success will be the launch of LTAFs, and the success of those LTAFs in the long term.

Next steps

1.20 We welcome feedback on our proposals by 25 June 2021.

1.21 We will consider all feedback, and subject to the responses received we will look to publish a final policy statement and final handbook rules later in 2021.

2 The wider context

- 2.1** Long-term investment assets are sometimes called productive finance. They include different types of investments, like venture capital, private equity, private debt, real estate and infrastructure. These assets are typically not traded on public markets, and so there are not continual daily opportunities to buy and sell them. Instead, they usually require long term investment commitment. They can also be complex and expose investors to different risks from listed investments.
- 2.2** Productive finance investments can potentially deliver higher returns, in part as compensation for the lack of immediate liquidity and the risks. They can also provide diversification benefits that come from investing in different asset classes. As part of its Patient Capital Review (PCR), the government highlighted the economic benefits of investment in these assets.
- 2.3** Investors with long-term time horizons might have good reasons to make at least some investment in long-term assets. But several reports, including from the UK Funds Regime Working Group, the British Business Bank and the Pensions Policy Institute, have noted that there are barriers, or perceived barriers, that inhibit long-term investment. For instance, default arrangements of DC pension schemes commonly choose not to invest significantly in these assets, despite the long-term nature of their investment horizons. A recent survey commissioned by the Department for Work and Pensions (DWP) found that two-thirds of these schemes do not invest in illiquid assets, while the remaining third invest between 1.5% and 7%, mainly in property.
- 2.4** This matters because:
- Most DC pension investments are in default arrangements.
 - DC scheme members rely on investment returns to grow their contributions – a 1 percentage point a year increase in returns would increase a pension pot by c.25% over 40 years. One report estimates that the potential total return from a diversified portfolio of alternative investments would be around 1.4% higher each year than from a typical balanced portfolio.
 - DC pension schemes are forecast to continue to grow rapidly, partly as a result of auto-enrolment. They have risen from an estimated £340 billion in assets in 2015 to £460 billion in 2019 and are expected to rise to over £1 trillion by 2030.
- 2.5** Other categories of investor may also currently find it challenging to invest in long-term assets. The UK Funds Regime Working Group (p.21-2) argued that 'investment trusts provide a valuable solution for investors wanting closed-ended structures' to invest in less liquid assets. It also argued that some potential investors in illiquid assets seek 'investment vehicles that reflect the values and volatility profiles of the underlying investments', rather than those of listed shares. We consider that it is also desirable to have appropriately structured open-ended funds that can invest in these assets as a viable alternative investment option.
- 2.6** We have considered how this market is working, and what barriers we can address to make it work better. The lack of an appropriate open-ended fund structure is only one factor that might be inhibiting investment in productive finance. We are aware that there are operational and other barriers to DC pension defaults investing in long-term assets.

- 2.7** As noted in chapter 1, the Productive Finance Working Group is considering how to address these barriers. It has identified barriers to demand from governing bodies of DC schemes including: a focus on the costs of investing, potentially at the expense of net returns; an investment culture that favours investment in daily dealing funds; and a lack of confidence in, and experience of, investing in illiquid assets. It has observed that, to succeed as an investment vehicle that facilitates DC pension schemes investing in productive finance, the LTAF must meet the needs of those pension schemes. Governing bodies of DC pension schemes will need to take difficult decisions to deliver long-term investment outcomes for scheme members. Our proposals aim to create a fund structure that gives investors confidence by providing clear disclosures, setting high standards of governance and addressing specific risks.
- 2.8** Investors need to have confidence in the valuation of the assets held by an LTAF. They also need confidence that it will be able to meet their liquidity needs. We set out requirements in those areas in chapter 3. To reinforce the confidence provided by the LTAF rules, fund managers may need to develop and adhere to standards in specific areas beyond what is required by our rules. We welcome the input of the Productive Finance Working Group to this consultation and we encourage the Working Group and its members to respond to it.
- 2.9** DWP is also working to address some barriers. It has recently set out proposed changes to regulations to enable DC pension schemes to invest more easily in illiquid asset classes, where trustees determine the current default arrangement charge cap may be inhibiting investment.

Discussion paper on Patient Capital and Authorised Funds (DP18/10)

- 2.10** In December 2018 we published a discussion paper on patient capital and authorised funds, as part of our response to the PCR. The PCR investigated whether the UK market for long-term capital was successfully bringing together those looking to make long-term investment with those needing long-term financing. The PCR found that investment in patient capital assets was below the evident level of demand for long term finance, negatively affecting the UK economy, tax receipts and job creation.
- 2.11** The discussion paper explored the impact of the regulatory regime on investment in patient capital assets through regulated funds including European long-term investment funds (ELTIF), European social entrepreneurship funds (EuSEF) and European venture capital funds (EuVECA). These EU regulations have now been brought into UK legislation as part of the onshoring of EU legislation.
- 2.12** We sought views on whether the existing regime provides investors and fund managers with appropriate access to patient capital investments while maintaining an appropriate level of consumer protection.
- 2.13** In February 2020, we published our feedback statement summarising the responses received to DP18/10. We found that authorised retail funds, UCITS and non-UCITS retail schemes (NURS), offer limited opportunities for retail investors to invest in long-term assets. But there was acknowledgement that the restrictions imposed by the investment and borrowing powers of such funds provide valuable protection to retail investors. We also noted that closed-ended investment products like investment companies and venture capital trusts provide retail investors with access to investment in long-term assets.

- 2.14** Respondents noted that only limited use was made of the specialised EU fund ranges due to overly complex operational and suitability requirements. The EuSEF has seen limited uptake and no UK ELTIFs have been launched.
- 2.15** The substantive provisions of the UK's Long-Term Investment Funds (Amendment) (EU Exit) Regulations 2019 came into force at the end of the transition period, applying primarily to UK alternative investment fund managers (AIFMs) and funds established in the UK. While losing the option of the EU marketing passport that forms part of the ELTIF regime, the LTIF broadly has the same existing rules as the ELTIF regime.
- 2.16** On 31 July 2019, the Investment Association (IA) published its long-term asset fund proposal as part of the UK Funds Regime Working Group's Final Report to the Treasury's Asset Management Taskforce. This was included as part of the feedback to our discussion paper. The proposal adapted the existing NURS structure to accommodate a new type of fund with the following characteristics:
- authorised retail fund
 - flexible investment and borrowing powers
 - flexible dealing frequency
 - improved liquidity management
 - model-based valuations
 - strong investor protection measures
- 2.17** The IA further developed the proposals in a position paper in July 2020. We have worked with the IA and others, in particular the Productive Finance Working Group, in developing the proposals in this paper. This consultation represents our view of a fund regime that enables investment in productive finance, while securing an appropriate degree of protection for consumers.

Previous rule changes to permitted links

- 2.18** We also modified our permitted links rules (COBS 21.3), to address any unjustified barriers to retail investors investing in a broader range of long-term assets in unit-linked funds, while maintaining an appropriate degree of investor protection (see [CP18/40](#) and [PS20/4](#)). This consultation addresses feedback that those rules still do not work effectively in practice to enable this investment by DC default arrangements.

How this links to our objectives

- 2.19** The proposals set out in this consultation are intended to advance our operational objective of promoting effective competition in the interest of consumers. They are also relevant to our consumer protection objective. Some market participants, including DC pension schemes, appear to lack the confidence to invest in illiquid assets despite having the investment horizon to do so. In formulating our proposals to secure an appropriate degree of protection for consumers, we have considered the degree of risk associated with investing in a fund that is predominantly exposed to illiquid assets. We think the proposals in this paper will provide an appropriate degree of protection for investors in long-term asset funds, taking into account the experience and expertise that those who are permitted to invest in them will have.

Equality and diversity considerations

2.20 We have considered the equality and diversity issues that may arise from the proposals in this Consultation Paper. We are required under the Equality Act 2010 in exercising our functions to:

- 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act
- advance equality of opportunity between persons who share a relevant protected characteristic and those who do not
- foster good relations between people who share a protected characteristic and those who do not

2.21 Overall, we do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010. However, we recognise that investing in LTAFs will require certain types of investor, for example those close to retirement, to carefully consider when they might need to take out the proceeds of their investment. We will continue to consider the equality and diversity implications of the proposals during the consultation period.

Q1: Do you consider that these proposals raise any equality and diversity issues? If so, please provide further details and suggest action we might take to address these.

3 The long-term asset fund

- 3.1** A long-term asset fund needs to operate within a framework which provides adequate protections to prospective investors. This chapter explains the requirements that we propose to introduce for that framework.

Framework for a long-term asset fund

- 3.2** We propose creating a new category of fund which will be called a long-term asset fund (LTAF). A fund wishing to be authorised by the FCA as an LTAF must meet certain criteria. We are creating a new chapter of the Collective Investment Schemes (COLL) sourcebook containing rules for LTAFs. Authorised fund managers (AFMs) will also need to comply with rules in other sourcebooks including PRIN, FUND, COBS and SYSC.
- 3.3** No existing authorised fund uses the term 'long-term asset fund' or LTAF in its name. We propose to restrict the use of these terms within authorised funds to LTAFs.
- 3.4** The LTAF will be an alternative investment fund (AIF). LTAFs will make investments in assets that may be complex and risky. This means that managers of LTAFs will need to have appropriate resources as well as good systems and controls. So we plan to require that only a firm that is authorised as a full-scope UK AIFM can manage an LTAF. These firms are subject to rules in the FCA Handbook, notably in FUND (and COLL where the AIF is an authorised fund) as well as to the other requirements of the UK AIFM regime.
- 3.5** The purpose of these rules is to set a high-level framework for the LTAF. The proposed framework is principles-based and we do not propose to set detailed or prescriptive rules in many areas. We have designed a regime which we consider secures an appropriate degree of protection investors for whom the products might be appropriate. LTAFs will facilitate investment through a UK-authorised fund, in assets that are less liquid, and potentially higher risk, than assets that are available for mainstream retail funds.
- 3.6** In chapter 5, we discuss the LTAF distribution rules. Pending feedback to the discussion questions in this paper and [Discussion Paper DP21/1](#) which raises wider questions about the distribution of investment products to retail investors, we propose initially restricting the distribution of LTAFs by subjecting them to the same distribution rules as a Qualified Investor Scheme (QIS). We have designed the rules for the LTAF so that nothing within the fund design itself should prevent wider distribution, if we subsequently decide that this would be appropriate.
- 3.7** LTAFs will have wide investment flexibility. We plan to enable LTAFs to invest in a range of long-term illiquid assets, with few restrictions on eligible investments. The types of investment held within an LTAF could have diverse risk characteristics and return profiles. Because of this we propose requiring additional disclosures, in clear and plain language, to help investors and potential investors understand how the fund will be managed, and to explain important features.

How the rules are set out

- 3.8** The LTAF will be a new, distinct category of authorised fund, with its own chapter within the FCA Handbook. Detailed rules apply to full-scope UK managers of AIFs and these are contained in the FUND sourcebook, as well as in other parts of the Handbook, and in other legislation. Firms managing authorised funds, and the funds themselves, must also comply with relevant rules in the COLL sourcebook. As part of managing the Handbook, we propose copying across or referring to various requirements derived from the FUND rules in the LTAF rules. This should have the effect of making it easier for a firm to see which rules apply to an LTAF. We have based the LTAF rules on the rules in COLL 8, with additional protections, but have structured them slightly differently. We are not currently proposing to make equivalent changes to other chapters of COLL (including similar rules in COLL 8). Outside the COLL rules, the permitted links rules in COBS 21, and certain definitions, an LTAF is included in the definition of (and is treated as) a qualified investor scheme in the Handbook. This is particularly relevant in the context of the rules in COBS 4.12 on non-mainstream pooled investments (NMPIs).

Requirements specific to an LTAF

Strong governance

- 3.9** Given the types of risk that LTAFs might be exposed to, we consider it is important that they have commensurate governance and oversight requirements. This will give investors confidence that they are being managed appropriately and in their interests. So we propose rules to add additional governance around LTAFs.
- 3.10** Similar to the existing requirement to assess value in an authorised fund, we plan to require the AFM of an LTAF to assess how it has managed the fund in the best interests of the fund, its investors and the integrity of the market. The assessment will need consider how the assets of the fund have been valued by the AFM or (where relevant) the basis for the appointment of an external valuer, how due diligence has been conducted in line with good practice, and how the manager has managed liquidity and conflicts of interest in the best interests of the fund, the investors and the integrity of the market. We plan to require that the annual report of an LTAF includes details of the assessment on these matters, similar to the current report on the assessment of value.
- 3.11** We plan to require the AFM to allocate responsibility for complying with these requirements to an approved person. Where the chair of the governing body of the AFM is an approved person, the responsibility must be allocated to them. This is consistent with the existing prescribed responsibility for the chair of the governing body of the AFM under the Senior Managers and Certification Regime (SMCR) in relation to assessments of value, independent directors and compliance with the client's best interests rule for AIFMs (COBS 2.1.4R).

Clear disclosure

- 3.12** Investors and their advisers should be able to assess whether a fund is right for them based on the information disclosed in its prospectus. Our rules will set out disclosure requirements for the fund prospectus. These are in addition to the requirements on the content of a prospectus for a QIS, and the pre-sale disclosure requirements in FUND 3.2.

- 3.13** AFMs are already required to provide information that is fair, clear and not misleading. We propose that the LTAF rules expressly provide that certain disclosures in the prospectus, covered in more detail below, should be set out fairly, clearly and in plain language. LTAFs might have complex features, for example in their investment strategies, subscription and redemption terms, or charging structures. We consider that clear disclosures in these areas are important to give investors confidence that they can understand the nature of their investment and make informed decisions. Some LTAFs might hold themselves out as being sustainable, responsible or delivering some form of impact. We are not currently proposing any specific requirements for such funds but would welcome views on what, if any, additional disclosures might be required where an LTAF makes any claims in this area.

Purpose of the fund

- 3.14** We propose a requirement that the investment strategy of an LTAF must be to invest mainly in assets which are long-term and illiquid in nature, or in other collective investment schemes (CIS) which invest in such assets. We set this out at a high-level to avoid situations where prescriptive requirements might force a manager to sell an asset when the manager does not consider it is in the best interests of the fund to do so. For example, we do not intend the rules to force a fund to sell an investment at the point when it lists on a public market, or if its value grows beyond a certain size. However, we would expect more than 50% of the value of the scheme property to be invested in unlisted securities and other long-term assets or other CIS investing in such assets.
- 3.15** The investment strategy of an LTAF might be to invest in a mix of illiquid listed and unlisted investments, alongside some more liquid investments to manage the fund's liquidity. This may have implications for an LTAF's subscription and redemption terms and its liquidity management.

Investment powers

- 3.16** We plan to base the investment powers of the fund on the existing rules for QIS. This permits a fund to invest in certain specified investments under the Regulated Activities Order, as well as certain types of immovable assets and commodities.
- 3.17** To secure an appropriate degree of consumer protection for investors in LTAFs, we plan to require an LTAF to have a prudent spread of risk. This is the standard expected of a UCITS or a NURS. A QIS simply has to have a spread of risk. In guidance, we set out that we consider that the manager of an LTAF should consider whether the fund's exposures are sufficiently diversified, including, where relevant, exposures to underlying investments through structures such as holding companies or CIS. We also set out that we expect a prudent spread of the different risks to which an LTAF is exposed. We propose that LTAFs should have 24 months to achieve a prudent spread of risk.
- 3.18** We plan to permit funds to invest in loans in addition to the assets permitted for a QIS. This will be provided that these loans meet certain conditions, for example that they are not made to individuals or affiliated parties, and that they do not give rise to any conflict of interest. We understand that private credit funds invest in loans, and that there are some concerns that the existing QIS rules do not necessarily permit investments in all appropriate loan types. The intention is to permit LTAFs to invest in direct lending, for example as part of a lending syndicate, as part of a diversified portfolio of investments. We do not plan to set any specific diversification requirements, beyond the overarching requirement to have a prudent spread of risk.

We would welcome feedback on whether the proposed rules achieve the objective of permitting appropriate investments in loans. We are also aware that there may be tax issues if an LTAF's activities would amount to a trade for tax purposes. We are engaging with HMT and Her Majesty's Revenue and Customs (HMRC) on these issues.

- 3.19** Additionally, we plan to enable LTAFs to invest in other CIS in a way that is somewhat less prescriptive than the existing requirements on investments in second schemes for QIS. Under the current QIS rules, managers have to establish that a CIS will not invest more than 15% of its assets into other CIS. To obtain efficient exposure to a diversified portfolio of private assets, LTAFs may choose to invest in CIS that themselves invest in other CIS. For example, local CIS may be the most tax efficient way to access private investments in some overseas jurisdictions. Some private investments may also be structured as CIS to enable a sufficiently diversified portfolio of investments.
- 3.20** The rule limiting the amount of assets that may be held in other CIS exists to reduce the risk of circular investments, where a scheme invests in other schemes, and directly or indirectly they invest back into the original scheme. Instead of the limitation on the proportion of assets, we propose to set a principle-based requirement that the manager should make reasonable efforts to ensure that the scheme does not indirectly invest in itself.
- 3.21** The restriction on investing in second schemes also reduces the risk of layering of costs and charges within a scheme. LTAFs will be subject to the rules on assessment of value. Additionally, as noted below, we consider it important that there is full disclosure of costs and charges. These factors will reduce the risk that an LTAF incurs excessive costs and charges.

Borrowing

- 3.22** We propose setting the maximum level of borrowing that an LTAF may undertake at 30% of net assets. This is higher than the maximum level of borrowing permitted for a NURS of 10%, but less than the maximum permitted for a QIS of 100%. Funds investing in illiquid assets sometimes need to borrow to invest efficiently. But borrowing to invest in illiquid assets creates the risk that the lender will not extend the loan, forcing the fund to sell assets potentially at unattractive prices to repay it. We consider that a borrowing limit of 30% should enable LTAFs to operate efficiently without being exposed to excessive risk.
- 3.23** In gauging what is an appropriate level of borrowing for a specific fund, the manager will have to consider the extent to which borrowing (as a part of the investment strategy) is consistent with the liquidity profile of the investments and the redemption policy of the fund. We propose that this forms part of the assessment set out in 3.10. There is no obligation on an LTAF to borrow, and LTAFs may choose to have a lower or even no borrowing limit.
- 3.24** We do not intend to set specific limits on the aggregate borrowing of underlying investments. We consider that this is an investment decision for the fund manager, in line with their investment strategy, as they would do with any other fund.

Valuation

- 3.25** There are standards set out in FUND 3.9 supplemented by detailed rules in the AIFMD delegated regulation on the obligations of managers of AIFs when valuing fund assets.

These set out a broad and widely applicable approach around the responsibility for valuing assets, including required policies and procedures.

- 3.26** Most of the assets within an LTAF are likely to be illiquid and many will not have regular market prices. So, a fair and accurate valuation of an LTAF is particularly important.
- 3.27** Under AIFMD, a manager may either value the assets of a fund itself or appoint an external valuer. We plan to require that the manager must appoint an external valuer, unless it can demonstrate that it has the competence and experience to value assets of the type in which the LTAF invests. If the manager ceases to have this capacity it will have to appoint an external valuer. Where the manager acts as the valuer, we propose to require that it values the fund's assets in line with good practice.
- 3.28** We think it is important to the success of the LTAF that investors have full confidence in the valuation of an LTAF's assets. Pension trustees, for example, may need this to have confidence they are meeting their obligations. We would be interested to understand whether greater external assurance might be needed, and whether the additional costs of this would add sufficient benefit.
- 3.29** The depositary is responsible for taking reasonable care to ensure that the scheme is managed in accordance with the rules on valuation. We will require the depositary to assess the manager's competence to value the scheme's assets when the fund applies for authorisation, and on an ongoing basis.
- 3.30** Even where it is not possible to deal in units of the fund, we consider that it is important there is transparency about the valuation of units in an LTAF to reduce the risk of the valuation becoming stale. Some potential investors in LTAFs, like the default arrangements of DC pension schemes or diversified multi-asset funds, will need to use the price of the LTAF to calculate a fair price for units in their own scheme. We propose requiring that the LTAF's assets should be valued at least monthly, and the price published, in line with rules for NURS. We think that this will provide transparency to investors.

Redemptions and subscriptions

- 3.31** Given the nature of the investments permitted within an LTAF, we do not expect any of these funds to offer daily dealing. Instead we will permit funds to use a wide range of liquidity management tools, including notice periods, and to disclose their use in the prospectus. We propose requiring clear explanations of the tools that the fund has available to use along with worked examples of what this means for investors in practice.
- 3.32** We do not propose setting detailed requirements as to how LTAFs should manage their liquidity, but to allow managers to choose liquidity tools that are appropriate to their investment strategy. This may include the ability to use notice periods on redemptions and subscriptions, to defer redemptions, and to limit the amount of the fund that could be redeemed at any dealing point. As with any AIF, the manager of an LTAF is obliged to ensure that the investment strategy, liquidity profile and redemption policy of the LTAF are consistent. Some funds may choose to have long notice periods, potentially in excess of the 90-180 days we recently proposed for property funds. We propose that an assessment of liquidity management forms part of the assessment described in 3.10 above.

- 3.33** We consider that an LTAF should not expect to use, nor rely on, suspension as a means of managing fund liquidity in the normal course of events. Suspension is a tool for use only in exceptional circumstances for the protection of fund investors. An LTAF should have tools available to manage its liquidity that are appropriate to the types of asset that it invests in, taking into account any borrowing or other features of the fund that could create liquidity pressure. A manager of an LTAF will be subject to the requirements of articles 46-49 of the AIFMD delegated regulation. We would expect the manager of an LTAF to be able to manage its liquidity so that it would not be forced to sell assets unexpectedly or over a time period when it could not achieve an appropriate value.
- 3.34** Article 47 of the AIFMD delegated regulation requires the manager to consider the profile of the investor base of an AIF, including the type of investors when monitoring the liquidity profile of the portfolio of assets held. In this context it is worth noting that while DC defaults might have a long investment horizon, they also have liquidity needs, which could be driven by actions of individual members or by corporate or scheme action. This makes for a complex situation that managers of LTAFs will need to assess carefully.
- 3.35** To meet the requirements around purpose set out above, LTAFs will invest a significant proportion of their portfolio in inherently illiquid assets. To address the liquidity risks that this creates, managers may need to make additional agreements with investors to deal with liquidity events. Whilst this goes beyond the management of the fund, we would be interested in views of how pension funds and managers could contract to deal with these complex scenarios, and whether there is merit in a cross-industry solution or standard.

Investment due diligence

- 3.36** Private assets can present very different risks compared with publicly traded assets. So when investing in private assets, it is important that the manager carries out due diligence that is commensurate with the risks they pose. Full-scope UK AIFMs are currently subject to rules requiring due diligence around investments in their AIFs. The AIFMD delegated regulation requires that managers 'shall apply a high standard of diligence in the selection and ongoing monitoring of investments' and that they 'shall ensure that they have adequate knowledge and understanding of the assets in which the AIF is invested.' In addition, where managers invest in assets of limited liquidity, there are extra requirements set out in article 19 of the AIFMD delegated regulation.
- 3.37** Given the nature of investments that an LTAF might make, we propose to require managers to undertake due diligence on their investments in line with good practice and to disclose in the prospectus how they do this.

Knowledge, skills and experience

- 3.38** To reduce the risk that firms that do not have adequate systems and controls might manage LTAFs, we plan to restrict management of LTAFs to firms with the permissions to operate as a full-scope UK AIFM. There are existing requirements under FCA rules derived from AIFMD that the senior personnel of a full-scope UK AIFM must be sufficiently experienced for the investment strategies pursued by the AIFs it manages. Because LTAFs might be very different from other types of authorised funds, to meet our obligations under article 21 of the AIFMD delegated regulation, we will require firms to provide evidence of this as part of the authorisation process. Firms wishing to act as the AIFM and to delegate portfolio management to another firm must be able

to demonstrate that they themselves possess the knowledge, skills and experience necessary to understand the activities, and in particular the risks involved in those activities. Firms applying for authorisation should expect scrutiny in line with the complexity of the asset class.

Disclosure of charges

3.39 We propose that an LTAF be required to disclose additional information about its charges. Schemes investing in illiquid assets sometimes have complex charging structures. For example, they may have performance fees, or they may incur charges indirectly, such as charges made by the manager for services provided to companies that the scheme invests in. These fees may be charged at the level of the scheme or within other schemes that it invests in. So we propose to add a requirement for an LTAF to provide examples of how any performance fee will operate, equivalent to the requirement for UCITS and NURS in COLL 4.2.5R(13).

3.40 We also propose to require full disclosure of all costs and charges incurred directly or indirectly by the scheme. The charges for LTAFs will need to be considered in the context of the value that they offer. LTAFs will be subject to the requirement to carry out an assessment of value. As noted in chapter 2, DWP is currently consulting on changes to the charge cap, and we would welcome any feedback on how our rules will interact in practice with the charge cap requirements.

Governance

3.41 As set out above, the senior manager responsible under the SMCR for the prescribed responsibility relating to authorised funds will be responsible for ensuring that the AFM manages an LTAF in the best interests of the fund, its investors and the integrity of the market, that an annual assessment of value is carried out, and that there are enough independent directors on the board. These standards were set following the FCA's competition study into the asset management market.

3.42 We propose adding an additional requirement for the fund manager to assess, and publicly report on, 4 further elements: the valuation of investments, due diligence, conflicts of interest and liquidity management.

3.43 In line with the requirements for AFMs operating authorised funds, the governing body of the AFM of an LTAF must have independent representation on it. We consider that this package of measures will provide LTAFs with robust oversight from the manager, including challenge from the independent directors. This should lead to a regime where investors can have confidence that they are investing in high-quality products with strong oversight.

Reporting

3.44 We propose that the manager of an LTAF should produce a report along the lines of the value assessment report, explaining how they have met the additional requirements set out above. Because of the additional elements of an LTAF report and because LTAFs are likely to be significantly different from other authorised funds, we propose that for an LTAF the report should form part of its annual report, rather than giving firms the option to produce a composite report.

3.45 We also propose requiring that an LTAF report quarterly to its investors on the investments in the portfolio, transactions during the period, and any significant developments in the investments which the investors should be aware of. The intention of this reporting is to enable investors to monitor the activity of the manager. This would be in addition to the half-yearly and annual reports that are required for authorised funds. We propose that the quarterly update reports should be produced within 20 business days of the quarter end.

Q2: Do you agree that clear disclosures and additional governance (as set out in 3.9-3.13 and 3.39-3.43), in addition to the existing rules, provide appropriate levels of protection for potential investors in an LTAF? If not, what alternative approach would you suggest?

Q3: Do you agree with the detailed requirements (on purpose, investment powers, borrowing, valuation, redemptions and subscriptions, due diligence, knowledge, skills and experience, and reporting) which we propose for the LTAF? If not, which requirements do you not agree with, and why? What alternative requirements would you suggest?

Q4: Do you have any other observations on the proposed regime for LTAFs?

Other considerations

3.46 We have considered other points regarding the LTAF, that are not reflected in the rules.

Use of intermediate holding companies

3.47 Some stakeholders have raised the question of whether intermediate holding companies, which are sometimes used for private assets, would be permitted in an LTAF. We understand that the rule on holding companies for overseas property has led some to conclude that, in other situations, such investments would not be permitted. If a holding company meets the definition of a permitted asset for an LTAF, and if the fund prospectus permits the fund to invest in these companies, we do not consider that the rules necessarily need to make specific provision to permit these investments. We also note, in this context, that there may be tax issues around holding companies and that the Government has recently consulted on the tax treatment of asset holding companies.

Depositary requirements for non-custodial assets

3.48 Depositaries have noted that there are issues with the requirement for some non-custodial assets in an authorised fund to be registered in the name of the depositary, which is therefore the legal owner. This is a wider risk management issue which is also relevant to other types of authorised fund. We have considered this issue, but are concerned that, within the context of an authorised fund, a change to this registration model will create risks for investors that are hard to manage. But we would welcome engagement with depositaries and fund managers as to how an alternative model might work.

Authorisation timelines

- 3.49** We are currently required by law to authorise, or reject an authorisation application, for an authorised fund other than a UCITS, within 6 months. Such a long period can be a barrier to investment activity. The FCA has therefore committed to a service-level agreement (SLA) to authorise QIS within one month. Because LTAFs are a new type of fund, we do not think it prudent to be committed to authorise an LTAF within 1 month. We will, however, strive to authorise funds without undue delay, and encourage firms who are considering making an authorisation application for an LTAF to engage with us prior to submitting an application. We plan to review after 1 year whether a 1 month or longer SLA is appropriate, based on our experience of authorising LTAFs.

4 Proposed amendments to the permitted links rules (COBS 21.3)

4.1 We propose to integrate the LTAF into the regulatory framework for the investment by DC pension schemes in unit-linked long-term insurance products, via amendments to the 'permitted links' rules.

4.2 Specifically, DC schemes may wish to allocate a proportion of their default funds to such assets, but may seek to do so by investing in an individual LTAF that is largely illiquid. We want to ensure that our rules enable schemes to think of their default investment proposition holistically.

Current permitted links and conditional permitted links rules

4.3 The FCA Handbook specifies (in COBS 21.3) 12 categories of assets in which firms may invest to provide linked benefits in unit-linked life policies where the investment risk is borne by a policyholder who is a natural person (mainly retail investors, so for the purposes of this section we refer to those persons as 'retail investors'). In FS 12/2 we explained that COBS 21.3 applies in the context of DC pension schemes, since it is the members who bear the investment risk.

4.4 The relevant rules are known as the 'permitted links'. They are designed to ensure that the assets underlying unit-linked life policies are appropriate for retail investors. There are 5 existing categories of permitted links most relevant to long-term capital investment in illiquid assets:

- Category 1 – Permitted land and property (COBS 21.3.1R (2) (d))
- Category 2 – Permitted unlisted securities (COBS 21.3.1R (2) (c))
- Category 3 – Permitted scheme interests (COBS 21.3.1R (2) (g))
- Category 4 – Permitted loans (COBS 21.3.1R (2) (e))
- Category 5 – Approved securities (COBS 21.3.1R (2) (a))

4.5 In Policy Statement PS 20/4, we implemented the following measures to address barriers to retail investors investing in a broader range of long-term assets in unit-linked funds, while maintaining an appropriate degree of investor protection:

- a. adding new 'conditional permitted links' for insurers able to meet the following conditions providing an enhanced degree of investor protection. These conditions included:
 - i. Ensuring that any investment in conditional permitted link categories does not prevent an investor from exercising rights under the unit-linked contract. This includes to switch unit-linked funds, take benefits, or to withdraw or transfer their investment within the timeframe envisaged in that contract and, within a reasonable timeframe, notwithstanding any contractual terms. When considering a reasonable timeframe for these purposes, firms should consider the needs of investors, including the purpose for which the investment is held.

- ii. A pre-condition that the insurer must ensure the investments are suitable and appropriate for retail investors in the investment context in which they are being used. This includes consideration of expected period to maturity of the investment and the purpose for which the investment is being used by the retail investor.
 - iii. Provision of adequate risk warnings to consumers about liquidity and investment risk in relevant disclosures at an appropriate point in the investor's decision-making process, to ensure that consumers are aware of the consequences of any additional liquidity and investment risks they may be taking on via increased use of conditional permitted links.
- b. for firms choosing to invest in conditional permitted links and meeting the relevant conditions, a new amalgamated limit such that overall investments in conditional permitted links and permitted scheme interests in a linked fund should comprise no more than 35% of total assets. These firms could exceed the current limits for individual permitted links categories (see paragraph 4.7 below) as long as they didn't exceed the overall aggregated limit. For other firms (ie for firms whose unit-linked funds are linked only to the existing permitted links categories and not any conditional permitted links), there would be no change to current limits.

4.6 Under the current rules, LTAFs, as an authorised fund that is not a UCITS or a NURS, would fall under the 'permitted scheme interests' or 'conditional permitted scheme interests' categories, depending on whether the LTAF itself was invested in assets treated as permitted links or conditional permitted links for COBS 21.3 purposes. The rules for 'permitted scheme interests' or 'conditional permitted scheme interests' (ie investments in other funds, including authorised funds, UCITS schemes, Qualified Investor Schemes (QIS) and Unregulated Collective Investment Scheme (UCIS) assets) require the underlying funds to publish their prices regularly. We understand that firms sometimes equated this with a requirement to publish prices daily. To remove this perceived 'regulatory barrier', we clarified in [Consultation Paper 18/40](#) that regular publication of pricing does not necessarily mean daily pricing.

4.7 There is also a limit of 20% in the existing permitted links on the proportion of a unit-linked fund which can be invested in QIS and UCIS assets (via the category of permitted scheme interests). QIS and UCIS must invest only in permitted links and must publish their prices regularly. This was put in place because there are fewer investor protection requirements applied to these schemes compared with UCITS or NURS. In PS20/4 we removed the 20% limit on holdings of assets through QIS/UCIS for firms meeting the investor protection conditions, provided that the underlying assets are themselves conditional permitted links and that the fund publishes its prices regularly. Investments in this category are instead limited by the overall 35% aggregate percentage limit across all conditional permitted links and permitted scheme interests. The existing 20% limit remains for firms using the existing permitted links.

Integration of the LTAF into the permitted links regime

4.8 In considering the interaction between proposals for LTAF and potential amendment of the 'permitted links' rules in COBS 21.3, there are 2 key areas of focus.

Additional flexibility for investments by DC pension schemes

- 4.9** In the short term, as part of the wider work on productive capital, we are considering amendments to the permitted links rules where the unit-linked contract forms part of the default arrangement of an occupational or workplace DC pension scheme. We understand from industry feedback that in practice the 20/35% cap on illiquid investments within any unit-linked fund means that firms find it difficult to market such a fund to DC schemes, which typically construct their default arrangements from a number of funds and so prefer to use a fund which is 100% illiquid as part of a wider portfolio, in combination with funds consisting of more liquid assets.
- 4.10** We therefore propose to remove the 35% limit on illiquid investments where an LTAF fund forms part of the default arrangement of a pension scheme, while retaining requirements on insurers to provide risk warnings and ensure that the fund is suitable for the ultimate investors. This will be achieved for current purposes by allowing links to an investment in LTAF but carving out LTAF from the definition of QIS for COBS 21.3 purposes, making LTAF available as a conditional permitted link only in respect of default arrangements (and not for retail investors investing outside of the pension environment).
- 4.11** We will also clarify in relevant rules that investment in these LTAFs does not count towards calculation of the 35% limit. In this scenario, responsibility for deciding the proportion of the default arrangement which was invested in illiquid assets falls primarily on the trustees (of an occupational scheme) or on the operator of a workplace scheme (an insurer or SIPP operator). However, we will include guidance clarifying that the insurer is expected to consider the concentration risks associated with the inclusion of LTAF in a default arrangement when complying with the conditions for the use of LTAF investment. LTAF unit-linked investment will only apply for default arrangements in occupational or workplace pensions, not self-select options available to pension scheme members, and not for non-workplace personal pensions. The 35% limit will also continue to apply for the other investments that a default arrangement may make in other conditional permitted links.

Q5: Do you agree with our proposals to allow investments in LTAF for default arrangements of DC schemes if the conditions as outlined above are satisfied? If not, how would you change them to make them more workable for DC default arrangements?

Q6: Are there any assets which can be included in an LTAF which may be of concern regarding wider use for DC schemes? If so, which assets are you concerned about and why, and how would you mitigate the risk involved?

5 Distribution of the LTAF

- 5.1 Investment in illiquid assets, including productive finance assets, may carry risks that are more difficult to assess than those in other investments, not least because an investor may be committed for a significant time period.
- 5.2 It is important that investors to whom the LTAF is made available are aware of these risks. If investors misunderstand the risks of the product, it could be detrimental to them, as well as harming the perception of LTAFs overall.
- 5.3 Alongside the proposals for how the fund is structured and governed set out in Chapter 3, we want to explore what the appropriate distribution of the LTAF might be, as well as the longer-term wider application of the LTAF to linked contracts of insurance.

Initial promotion of the LTAF – proposals for consultation now

- 5.4 We have engaged with stakeholders, including the members of the Productive Finance Working Group on the target market for the LTAF. The case for the LTAF is most obvious in relation to professional investors, in particular DC pension schemes as part of their default arrangement, where investment decisions are made on behalf of scheme members by experienced individuals such as trustees. There may also be interest from advised high net worth retail investors and advised sophisticated retail investors. The original proposal for the LTAF envisaged marketing the fund to DC schemes, private wealth/discretionary portfolio managers, professional investors, multi asset/fund of funds and local government pension schemes (LGPS) (UK Funds Regime Working Group report, p.62). Stakeholders, including the steering committee of the Productive Finance Working Group, have been in general agreement that LTAFs are unlikely to be suitable for unrestricted distribution to all retail investors, though some representatives from the asset management community have made arguments that they should be capable of being distributed like a NURS.
- 5.5 We need to give the LTAF a status in our rules at the point when we permit firms to launch them. As noted in chapter 3, we are currently considering wider changes to the financial promotions regime and have published a discussion paper on this topic. In advance of receiving responses to this discussion chapter as well as to the wider discussion paper we do not want to establish a new distribution model exclusive to the LTAF. So we propose that initially we make LTAFs subject to the same promotion restrictions as QIS. This broadly means that, under the NMPI rules, an LTAF can only be promoted to professional clients and certain types of retail client, as set out in COBS 4.12. Most investors for whom the LTAF was originally envisaged can be marketed to if the LTAF is subject to these rules.
- 5.6 Retail investors to whom QIS are permitted to be promoted include certified sophisticated investors and self-certified sophisticated investors. Guidance in COBS 4.12.13 implies that it is unlikely to be appropriate or in the client's best interest to promote a QIS to other investors, which would include certified high net worth investors. There is a question of whether and how that guidance should apply to

the LTAF. An NMPI can only be marketed to certified high net worth investors and self-certified sophisticated investors following a preliminary assessment of suitability conducted by the firm promoting the investment.

- 5.7** We have previously received feedback that some distributors have expressed practical concerns around the NMPI rules. These include difficulties conducting the preliminary assessment of suitability as well as a perception that the risks associated with distributing NMPIs are not proportionate to the potential benefit to clients of doing so. We are keen to understand these challenges in more detail.
- 5.8** We can see an argument for broadening the potential investor base beyond the current restrictions for QIS, given the LTAF will be held to higher standards in a range of areas. In the next section we set out arguments and options we are considering on this.

Q7: Do you agree that LTAFs should initially be treated as QIS for distribution purposes? Do you agree that LTAFs should be subject to the same guidance as QIS on sophisticated and high net worth retail investors? If not, what alternative approach would you propose?

Q8: Do you see any barriers within the existing NMPI rules that will prevent the LTAF from being distributed to the target market set out in 5.4? If so, please provide details and evidence of the barriers.

For discussion – broadening promotion to additional retail clients

- 5.9** As noted above, we are currently considering the regime for promoting investments to retail investors in a discussion paper. In that paper we set out our view that pooled investment products might be suitable for less restricted distribution to retail investors if they have additional features which protect investors. Proposals around the distribution of the LTAF will have to fit into that wider approach.
- 5.10** Building on the material set out in that paper, there could be a case for broadening the promotion of the LTAF to a wider retail audience than other NMPI because the LTAF is subject to the requirements set out in chapter 3. These requirements may give enough reassurance that LTAFs may be an appropriate investment for a wider range of retail investors who are not classed as sophisticated, at least to some extent.
- 5.11** Some stakeholders have argued that some retail investors have long-term investment horizons and could reasonably be allowed to take advantage of the illiquidity premium that can be earned from illiquid investments. They also argue that retail investors can and do access these asset classes now through other vehicles, and as such should be permitted to access them through open-ended fund structures.
- 5.12** Retail investors can already access these types of investments through listed vehicles like investment trusts, which provide daily liquidity through the trading of shares on the secondary market, meaning a retail investor can exit when they want. Investment trusts benefit from transparent price formation through the market, are subject to the Listing Rules, and are governed by a board of independent directors. These vehicles often trade at a discount or premium to the NAV of the underlying assets. However,

some retail investors may wish to access long-term assets through a vehicle which provides the option of purchasing and redeeming shares at NAV, even if this means they must wait longer to redeem their units.

- 5.13** Retail investors can also access a broad range of other alternative investments, some of which will be subject to less well-defined governance arrangements than the ones we propose for the LTAF. We know that a search for yield in a low interest rate environment can encourage such investment.
- 5.14** LTAFs will, by their nature, invest in higher risk assets. There could be significant differences in the risk and return profile from fund to fund. Different LTAFs might take very different risks or offer different return profiles. Some risks, such as the inability to sell assets at the time when an investor wants to, will be common to most LTAFs. But private investments often involve more complicated risks than listed investments. Retail investors may not understand the risks they are taking or may see unexpected risks crystallise. These risks might make an LTAF unsuitable for broad distribution to retail investors. Investments in assets which retail investors are less familiar with, for example infrastructure, could pose other, more esoteric, risks. While firms should consider the target market for an LTAF, and take steps to ensure the LTAF is distributed to the identified target market, rules restricting distribution provide an important protection for retail investors.
- 5.15** We recently consulted on a proposal that daily dealing authorised property funds should operate with a notice period of between 90 and 180 days. However, LTAFs could have notice periods at least this long (plus initial lock-in periods), which may make them inappropriate for retail investors who are likely to need to access their funds more readily. The range of returns from private asset funds is very wide, and when funds experience difficulties they can lose value before an investor is able to redeem. This reflects the risks of the underlying assets that these funds invest in.

Determining eligible retail clients

- 5.16** Considering the additional protections that an LTAF affords, we think that it is potentially acceptable to broaden the type of retail investor to whom these funds can be promoted beyond the restrictions currently set out under the NMPI rules. However, given the nature of the risks, we think it unlikely to be desirable to permit an LTAF to be marketed directly to retail investors without any restrictions. We also note from our engagement with stakeholders that there is general agreement that LTAFs should not be able to be distributed to retail investors without restrictions. We set out below some of the options that we are considering around the distribution of LTAFs. We welcome views on these and on other potential ways that we might permit LTAFs to be distributed to retail investors.
- 5.17** One option would be to use the existing rules which categorise certain investments as non-complex and place restrictions on the distribution of all other investments.
- 5.18** Under the rules in COBS 10A, a firm distributing a financial instrument (the definition of which includes units in CIS) that is not classed as non-complex is required to ask a prospective client to provide information regarding their knowledge and experience in the relevant investment. The firm must then assess whether the product is appropriate for the client. On the basis that LTAFs will not offer frequent redemption

opportunities, we think it is unlikely that a fund could qualify as both an LTAF and a non-complex financial instrument under COBS 10A.4.2UK, and as such distributors will need to conduct an appropriateness test for all prospective retail investors in an LTAF. We are interested in respondents' views on the extent to which this protects retail investors.

- 5.19** Another option would be to treat the LTAF in the same category as a non-readily-realizable security (NRRS), rather than an NMPI.
- 5.20** This would mean that any investor who is not a sophisticated retail investor and is accessing the fund through a direct offer financial promotion would have to qualify as a 'restricted investor', and then be subject to the appropriateness assessment set out above. Broadly speaking, restricted investors, as described in COBS 4.7.10R, are investors who declare that they have not invested more than 10% of their net assets (subject to certain exclusions) in NRRS in the previous 12 months and will not do so in the coming 12 months. The discussion paper referred to above also discusses strengthening the requirements of our financial promotion rules in this area, for example the responsibility of firms to ensure accurate categorisation of investors as high net worth, sophisticated or restricted.
- 5.21** If we used these rules, the exposure of an ordinary retail investor accessing an LTAF through a direct offer financial promotion should be limited to no more than 10% of their net worth. Given the likely risk profile of an LTAF, we think that limiting the amount of exposure that a retail investor can get to these funds could potentially provide enough protection while still allowing investors to participate in any potential investment gains.

Alternative or additional requirements

- 5.22** The options outlined above build on our existing retail distribution framework. There may be alternative ways of ensuring good outcomes for retail investors. This could be done by placing additional requirements on LTAFs that are to be marketed to (eligible) retail investors.
- 5.23** It is our expectation that professional investors, such as large DC schemes, will be able to scrutinise funds more closely than retail investors can. If retail investors can co-invest into LTAFs that have already been subject to scrutiny by professional investors, they will effectively benefit from that scrutiny. In other markets, such as debt markets, we have seen that pure retail propositions are often higher risk and on poorer terms than institutional investors would accept. With this in mind, we could require that a fund maintains a minimum proportion of investment from institutional investors unconnected to the manager before it can be marketed to retail investors. For a fund to meet this, it would need to have a minimum net asset value, to prevent it being available for promotion to retail investors by virtue of a small investment from a single institutional investor.
- 5.24** The presence of institutional investors in an LTAF could provide a level of reassurance to retail investors about the quality of the fund. However, there are challenges that the mix of institutional and retail investors can pose within a fund, which might not necessarily always benefit retail investors. Investment from institutional investors does not lead to retail investors having a better understanding of the risk they are taking, nor

does it in any way guarantee the investment return. Institutional investors may value features of a fund, for example diversification from their existing investments, which are less relevant to retail investors.

5.25 This may also not work if institutional investors do not want to use the same funds as retail investors. Some institutional investors might avoid funds that also seek investment from less sophisticated retail investors. They might be concerned that these investors could destabilise the fund if they sought to redeem their investment in a way that did not enable the fund to be managed efficiently. There may also be tax considerations which limit the ability of institutional and retail investors to co-invest. For example some institutional investors may wish to use Authorised Contractual Schemes, which require a minimum investment of £1 million from a non-professional investor.

5.26 As a further alternative, the fund of alternative investment funds (FAIF) regime could provide a way for retail investors to gain exposure to LTAFs. FAIFs can invest in a diversified portfolio of AIFs and can be promoted to retail investors. The diversification and spread of risk, as well as the expertise of an AFM selecting different LTAFs, could provide sufficient levels of comfort to retail investors. We are interested in understanding if there are any practical restrictions which might make it difficult or impossible to manage such a fund.

Q9: Do you think that the LTAF should be available for promotion more widely than to retail investors permitted to invest in NMPI? If not, why not?

Q10: To what extent do you think the appropriateness assessment would help to protect retail investors in the LTAF?

Q11: Do you think that the NRRS regime would work as a way of restricting investment in LTAFs, permitting them to be promoted to restricted investors? If not, why not?

Q12: Do you think that a minimum level of investment from professional clients would provide sufficient protection for retail investors? If so, what would an appropriate minimum level be?

Q13: What changes would need to be made to the FAIF regime to enable FAIFs to operate a portfolio of LTAFs?

Q14: What other options could we consider to make the promotion of the LTAF to retail clients more appropriate?

Q15: Who else do you think the LTAF should be capable of being marketed to, and why? What are the barriers currently preventing this from happening?

Wider application of LTAF to linked contracts of insurance

- 5.27** Depending on feedback to this chapter, we may consider potential changes to allow insurance contracts to be linked to investments in LTAF more widely than just when used by default arrangements in DC schemes. Under current rules where the investment risk under the contract is with a 'natural person bearing the investment risk' the degree to which they could in theory be exposed to LTAF investments would be 20% of the overall fund under the ordinary permitted links rules, or 35% where the conditional permitted links are being used (requiring additional risk warnings and suitability assessments on the part of the insurer).
- 5.28** We would welcome detailed feedback on issues that may arise that are particular to permitted link investments.
- Q16:** Do you think we should enable wider use of the LTAF as a permitted link or conditional permitted link to long-term contracts of insurance? What do you see as the main obstacles to this and how would you resolve them?
- Q17:** Do you have any views on how permitted links might be expanded to other fund structures or direct investments in illiquid assets?

Annex 1

Questions in this paper

- Q1:** Do you consider that these proposals raise any equality and diversity issues? If so, please provide further details and suggest action we might take to address these.
- Q2:** Do you agree that clear disclosures and additional governance (as set out in 3.9-3.13 and 3.39-3.43), in addition to the existing rules, provide appropriate levels of protection for potential investors in an LTAF? If not, what alternative approach would you suggest?
- Q3:** Do you agree with the detailed requirements (on purpose, investment powers, borrowing, valuation, redemptions and subscriptions, due diligence, knowledge, skills and experience, and reporting) which we propose for the LTAF? If not, which requirements do you not agree with, and why? What alternative requirements would you suggest?
- Q4:** Do you have any other observations on the proposed regime for LTAFs?
- Q5:** Do you agree with our proposals to allow investments in LTAF for default arrangements of DC schemes if the conditions as outlined above are satisfied? If not, how would you change them to make them more workable for DC default arrangements?
- Q6:** Are there any assets which can be included in an LTAF which may be of concern regarding wider use for DC schemes? If so, which assets are you concerned about and why, and how would you mitigate the risk involved?
- Q7:** Do you agree that LTAFs should initially be treated as QIS for distribution purposes? Do you agree that LTAFs should be subject to the same guidance as QIS on sophisticated and high net worth retail investors? If not, what alternative approach would you propose?
- Q8:** Do you see any barriers within the existing NMPI rules that will prevent the LTAF from being distributed to the target market set out in 5.4? If so, please provide details and evidence of the barriers.
- Q9:** Do you think that the LTAF should be available for promotion more widely than to retail investors permitted to invest in NMPI? If not, why not?

- Q10:** To what extent do you think the appropriateness assessment would help to protect retail investors in the LTAF?
- Q11:** Do you think that the NRRS regime would work as a way of restricting investment in LTAFs, permitting them to be promoted to restricted investors? If not, why not?
- Q12:** Do you think that a minimum level of investment from professional clients would provide sufficient protection for retail investors? If so, what would an appropriate minimum level be?
- Q13:** What changes would need to be made to the FAIF regime to enable FAIFs to operate a portfolio of LTAFs?
- Q14:** What other options could we consider to make the promotion of the LTAF to retail clients more appropriate?
- Q15:** Who else do you think the LTAF should be capable of being marketed to, and why? What are the barriers currently preventing this from happening?
- Q16:** Do you think we should enable wider use of the LTAF as a permitted link or conditional permitted link to long-term contracts of insurance? What do you see as the main obstacles to this and how would you resolve them?
- Q17:** Do you have any views on how permitted links might be expanded to other fund structures or direct investments in illiquid assets?
- Q18:** Do you have any comments on our cost benefit analysis?

Annex 2

Cost benefit analysis

Introduction

1. FSMA, as amended by the Financial Services Act 2012, requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.
2. This analysis presents estimates of the significant impacts of our proposal. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For others, we provide estimates of outcomes in other dimensions. Our proposals are based on carefully weighing up these multiple dimensions and reaching a judgement about the appropriate level of consumer protection, taking into account all the other impacts we foresee.

Problem and rationale for intervention

3. We have been told by various market participants that the existing types of FCA authorised fund are not well-suited to investment in long-term assets for certain types of investor, including DC schemes and sophisticated retail investors. Most notably, default arrangements of DC pension schemes choose not to invest significantly in these assets, despite the long-term nature of their investment horizons. A recent survey commissioned by DWP found that two-thirds of such schemes do not invest in illiquid assets, while the remaining third invest between 1.5% and 7%, mainly in property. Other categories of investor may also currently find it challenging to invest in long-term assets.
4. Investors with long-term time horizons or long-term liabilities might be expected to make at least some investment in long-term assets. But several reports have noted that there are barriers, or perceived barriers, that inhibit long-term investment.¹ This consultation therefore sets out a regulatory regime that caters specifically to UK-authorized open-ended funds that seek to invest more efficiently in long-term, illiquid assets.
5. The driver of this harm is that the managers of assets do not invest in long-term illiquid assets because the options to do so under the current regulatory regime do not meet their needs. They may therefore experience reduced returns and/or ability to diversify risk in a wider array of investments.

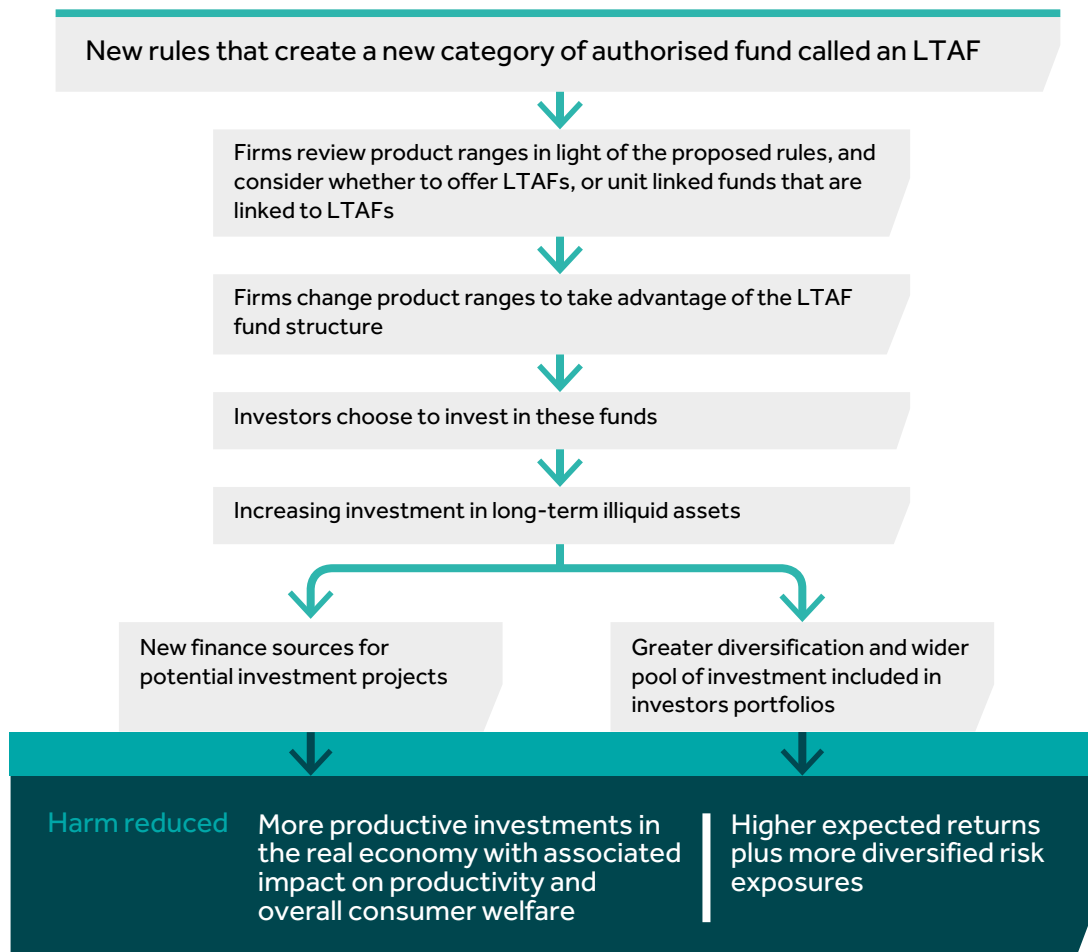
1 Reports from the UK Fund Regime Working Group, the British Business Bank and the Pension Policy Institute.

6. Additionally, by preventing investment in illiquid assets, some investments will not occur and so there will be lower productivity and lower associated consumer welfare from the absence of these investments.

Summary of our proposed intervention

7. We propose creating a new category of authorised fund called a long-term asset fund (LTAF), with its own distinct chapter in our handbook. This builds on the existing rules for QIS. The QIS regime was set up to allow greater investment flexibility to more sophisticated retail investors and professional investors within a regulated investment framework. The proposed rule changes include:
- various disclosure and governance requirements, including in relation to fees, portfolio changes, valuation, due diligence, subscription and redemption policy, and liquidity management
 - various changes to investment and borrowing powers, including capping fund-level borrowing at 30% and requiring a prudent spread of risk
 - external valuation of the fund's assets unless the manager demonstrates (and the depositary confirms) competence and experience in valuing the assets
 - minimum valuation frequency for LTAFs
 - restricting management of an LTAF to firms that can demonstrate experience and are categorised as full scope UK AIFMs
 - restriction on use of LTAF/long-term asset nomenclature
8. We are also proposing amendments to the permitted links and conditional permitted links rules in COBS 21.3 and related rules as appropriate to allow DC pension schemes to invest in LTAFs. This will be effected by changes to the 'permitted links' rules. Our proposed changes to the rules on permitted links include:
- guidance where appropriate for new permitted links category terms to clarify our expectations
 - amending and adding to rules where appropriate, for example to enable a wider permitted investment range and to amend the application of quantitative limits where firms meet qualifying conditions
 - appropriate risk mitigation including risk warnings to consumers to ensure they understand the investment risks involved and a requirement on firms, IGCs and DC pension scheme trustees using the greater flexibility afforded by our proposed changes to ensure that investments are offered/taken up in appropriate contexts and that investors are able to exercise contractual rights within a timeframe appropriate to their needs
9. The following figure sets the causal chain by which we expect to see our proposals reduce the harm described above.

Figure 1: The causal chain



Baseline

10. Without intervention, we expect the market to continue as it currently operates.
11. In the short-term we expect to see the continued impact of coronavirus on the economy and investment activity. We note that the Bank of England in its [Inflation Report](#) said that investment spending does not exceed its 2019 Q4 level until 2022 Q4 under its central projection (see page 8). The Bank of England also said that 'the UK's withdrawal from the EU is also projected to have a persistent effect on supply, as trade barriers result in lower cross-border trade, which in turn dampens investment and productivity growth'.
12. However, while we might expect investment in the UK in the short to medium term to be lower, we do not think that this reduction will materially affect our assessment of the impact of LTAFs.

Costs and benefits

- 13.** We set out the expected costs and benefits. We note that our proposed rules are generally 'permissive' so firms will only incur the costs of introducing products taking advantage of our rule changes if the private benefits of doing so exceed the costs.

Costs of our proposals

Costs to firms

- 14.** Aside from the restriction on the use of 'LTAF'/'long-term asset fund' in the name of a fund, our proposed rules changes are generally 'permissive'. They allow firms to change their practices, in this case introducing products offering exposure to investments in long-term assets, but don't oblige them to do so. As firms don't have to change their practices in response to these rule changes, we believe that familiarisation costs, that is reading and learning about the rules, will be the main direct costs to firms resulting from the proposals. We estimate familiarisation costs using standard assumptions. As part of our rules we are also proposing that a fund must not use the phrase 'long term asset fund' or 'LTAF' in its name unless it is authorised by the FCA as an LTAF. This means any authorised funds that currently have those terms in their name would be required to change their name, which would result in some costs. However, we do not think that there are any authorised funds that currently use those terms in their name, and as such we do not expect any cost to arise from these rules.
- 15.** We expect firms affected by our intervention will read relevant changes put forward as part of the proposals in this consultation paper and will familiarise themselves with the detailed requirements of the new rules and guidance. There are currently around 160 Alternative Investment Fund Managers and managers of unit linked funds that we think will be interested in our permissive proposals and hence will review them.
- 16.** We have estimated the costs of this to firms using assumptions on the time taken to read the document, which is 44 pages long. We assume that there are 300 words per page and reading speed is 100 words per minute.
- 17.** This means that the document would take 2.2 hours to read. We convert this into a monetary value by applying an estimate of the cost of time to firms, as set out in Table 1.
- 18.** Table 1 sets out the total familiarisation costs by firm type, along with the assumptions to calculate these costs based on firm size. In total, we estimate that the one-off industry cost of familiarisation would be around £168,000.

Table 1: familiarisation costs

Firm Size	Number of firms	Number of compliance staff needed to read the document	Total Familiarisation Cost
Large	42	20	165,092
Medium	70	5	84,906
Small	48	2	12,4032
Total Industry	160		262,391

- 2.1** As mentioned, our proposed amendments to the permitted links and conditional permitted links rules are permissive changes. If firms do choose to use them, then they may incur further costs. For the firms that choose to use LTAFs, we would expect firms to incur some legal costs as they seek to understand the scope of the new regime and how they can comply with these new rules. We estimate that firms would have to review 84 pages of legal text, with per firm costs of £13,000 for large firms, £5,000 for medium and £650 for small firms.
- 19.** Firms will also incur some costs in designing processes for setting up a new type of fund. However, firms may incorporate these costs within similar costs that they already incur. Some firms already offer authorised funds investing in long-term assets, such as property, and have existing systems and procedures in place which may reduce these costs in this respect. Where firms already have systems and processes in place to offer funds investing in long-term assets, they are not obliged to change them in a prescriptive way to increase that holding. So, we do not anticipate significant costs will arise to firms because of the change. We also note that funds may be set up as an LTAF rather than an alternative.
- 20.** We do not believe that it is reasonably practicable for us to quantify and monetise these compliance costs. This is because we do not think we can reasonably predict the take up of LTAFs over the medium term. While we could gauge interest of the use of LTAFs, the number of LTAFs that are brought to market and the size of the investments within them will depend on not only the appetite for firms to bring them to market but also investor demand and investment opportunities that arise within LTAFs.

Costs to investors

- 21.** There is a potential risk of these types of investments, for example in relation to fund liquidity and valuation of the assets in which an LTAF invests. However, our proposed fund rules introduce additional requirements (as set out in paragraph 7 of the CBA, and in chapter 3 of the CP), which we think will help to reduce these risks. We are also proposing that LTAFs can only be promoted to professional clients and certain types of retail client, as set out in COBS 4.12, as set out in para 5.5 – 5.7 of the CP. As a result, the costs to consumers of making unsuitable purchases or paying high prices for their investments are limited under our proposals. Additionally, all investors will benefit from the protections we are proposing such as requiring the dealing frequency of LTAFs to match the liquidity of the fund assets.
- 22.** While LTAFs are more complicated than more traditional investment products, our proposed rules restrict investment to professional and sophisticated retail investors. We therefore expect the risks to investors are no greater than other fund types. We do not think it is reasonably practicable to estimate these costs given it is not possible

to predict the extent to which LTAFs will be taken up, or whether consumers will make unsuitable purchases, but we do expect the protections within the regime will prevent most unsuitable choices.

FCA costs

23. We will incur some costs in authorising and supervising LTAFs. We intend to incorporate the oversight of the LTAF within our existing supervisory framework. The costs will be relative to the number of LTAF applications we receive and approve, which we are unable to predict, and therefore we believe that it is not reasonably practicable to quantify these costs.

Benefits of our proposals

Benefits to firms

24. Benefits to firms may include increased revenue from investors investing in an LTAF launched by the firm. The introduction of a new type of authorised fund tailored specifically for long-term assets (and accompanying adjustments to permitted and conditional permitted links rules) may increase the flexibility of firms to offer different investment products to better target the needs of their investor base. This may increase demand for a firm's products. Additionally, better returns will directly increase the assets managed by the firm. Both these effects will increase revenues and the profits of firms that take advantage of our proposals.
25. We believe it is not reasonably practicable to estimate the benefits to firms. As benefits to firms will be highly dependent on internal practices and the degree to which investors subscribe to LTAFs, we believe that it is not reasonably practicable to quantify these benefits.

Benefits to consumers

26. The proposed rule changes will benefit relevant investors insofar as they allow firms to provide a broader range of long-term investment choices. Investors could be offered a wider range of products. Some investors may benefit from matching their preference for the balance of investment longevity and on-demand liquidity more appropriately. Investors who do not require short term liquidity will be willing to give up liquidity in return for higher investment returns. Additionally, by including new assets in their portfolios, investors can earn higher returns and/or a reduction in the risk associated with their portfolio.
27. Benefits to consumers are dependent on firms adopting new practices and the degree to which consumers take advantage of the new products offered. We don't think it is reasonably practicable to estimate the benefits to investors.

Benefits to the wider economy

28. With the introduction of the new type of authorised fund and amendments to the permitted and conditional permitted links rules, there is a greater opportunity for investment in long term, productive finance assets and therefore, more investment funding is likely to flow into long-term UK projects and at a potentially cheaper

prices. This will increase amount of investment undertaken. Productive investments will ultimately lead to higher growth and benefit the consumers who use these investments or goods derived from these productive investments.

- 29.** We don't think it is reasonably practicable to estimate wider economic benefits. This is because it is not possible to predict the potential new investment that may be made as a consequence of our proposals, nor the benefits that arise in terms of growth or benefits to end consumers.

Q18: Do you have any comments on our cost benefit analysis?

Annex 3

Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).
2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules is (a) compatible with its general duty, under s. 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, and (b) its general duty under s. 1B(5)(a) FSMA to have regard to the regulatory principles in s. 3B FSMA. The FCA is also required by s. 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.
3. This Annex sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (s. 1B(4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.
4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s. 1JA FSMA about aspects of the economic policy of Her Majesty's Government to which we should have regard in connection with our general duties.
5. This Annex includes our assessment of the equality and diversity implications of these proposals.
6. Under the Legislative and Regulatory Reform Act 2006 (LRRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRRA.

The FCA's objectives and regulatory principles: Compatibility statement

7. The proposals set out in this consultation are primarily intended to advance the FCA's operational objective of promoting effective competition in the interests of consumers in the specified markets and, in particular in relation to these proposals, the market for regulated financial services. They are also relevant to the FCA's consumer protection objective.

8. In formulating our proposals for promoting effective competition in the interests of consumers in the market for regulated financial services, we have considered how the existing market for investments in long-term, illiquid assets through authorised fund structures operates. As set out in the consultation paper, we have observed that some market participants, including DC default pension schemes, appear to lack the confidence to invest in illiquid assets despite having the investment horizon to do so. This suggests that the needs of consumers, for example, members of DC pension schemes, are not being met. In formulating our proposals so as to secure an appropriate degree of protection for consumers, we have considered the degree of risk associated with investing in a fund that is predominantly exposed to illiquid assets and have proposed various protections that we believe are commensurate with the risk. We think that this secures an appropriate level of consumer protection for those investors to whom an LTAF can be marketed or offered as part of a DC pension scheme default strategy.
9. In relation to our consumer protection objective, we have also considered the particular risks that may arise when unit-linked funds invest in illiquid assets. We have sought to identify ways in which these may be mitigated in a proportionate way in relation to default funds in DC pension schemes, while still allowing pension savers access to products that can help to diversify their investment portfolios and ensuring that consumers have the information they need to understand fully the risks involved in funds that invest in inherently illiquid assets.
10. We consider these proposals are compatible with the FCA's strategic objective of ensuring that the relevant markets function well because they aim to address the market failure that DC default pension schemes do not invest in long-term, illiquid assets, despite having the investment horizon to do so. This means that scheme members do not have the opportunity to benefit from any illiquidity premium associated with these assets. For the purposes of the FCA's strategic objective, 'relevant markets' are defined by s. 1F FSMA.
11. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s. 3B FSMA. We cover the most relevant of these below.

The need to use our resources in the most efficient and economic way

12. As noted above, we have designed the rules in a way that assigns clear oversight responsibilities to the governing body of the AFM, with its independent director representation, and to the independent depositary. As such, we anticipate that authorising and supervising these funds will not demand proportionately more FCA resource than we allocate to other types of authorised fund. The FCA resource that will be used in relation to the LTAF has been weighed against the benefits that the initiative is intended to generate.

The principle that a burden or restriction should be proportionate to the benefits

13. The CBA of our proposals is outlined in Annex 2 of this CP. Our LTAF proposals complement existing requirements under FCA rules. Our proposals are permissive in enabling greater investment in illiquid assets through authorised funds and flexibility to use investment in illiquid assets as part of the permitted links rules, while continuing to secure an appropriate degree of consumer protection. The proposed rules are proportionate to the risks that these assets present to consumer protection.

The desirability of sustainable growth in the economy of the United Kingdom in the medium or long term

14. The asset management industry is one of the most important providers of capital needed for economic growth. Currently, funds investing in inherently illiquid assets mainly invest in commercial property. However, the Government is seeking to promote sustainable long-term growth by encouraging greater private investment in 'productive finance', for example through infrastructure and venture capital. By introducing an authorised fund focused on these types of investments and by increasing the ability of DC schemes to invest in such funds within a robust regulatory framework, our proposals permit investments that could contribute towards the sustainability of UK economic growth.

The general principle that consumers should take responsibility for their decisions

15. We are proposing not to permit the direct marketing of LTAFs to retail investors except for those certified as sophisticated investors, although we are opening this topic for discussion. We are proposing to remove certain limits related to conditional permitted links, but only where there is a decision-maker, such as a trustee or insurer, between the end-consumer and the unit-linked fund exposed to an LTAF.
16. In addition, we are proposing to continue to require DC scheme providers to meet conditions for linking to conditional permitted links, including providing consumer risk warnings. Therefore, we think that the degree of responsibility to be placed on the consumer is reasonable and proportionate in the context of allowing additional flexibility to invest in illiquid assets as part of a longer-term investment portfolio.

The responsibilities of senior management

17. We propose to expand the existing prescribed responsibilities under the SMCR to include obligations on certain senior managers of the authorised fund manager of an LTAF. These new obligations relate to asset valuation, due diligence in asset selection, portfolio liquidity management and conflicts of interest. We think that this is proportionate to securing an appropriate degree of protection for consumers.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

18. Since LTAFs will make investments in assets that may be complex and risky, managers of LTAFs will need to have appropriate resources as well as good systems and controls. We propose to restrict the management of LTAFs to full-scope UK AIFMs, which are subject to existing high standards in this regard. We think that this is proportionate to securing an appropriate degree of protection for consumers.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

19. Information about the FCA authorisation status of firms (authorised fund managers) and of the LTAFs they manage will be published on the FCA register, as for other authorised funds.

20. The authorised fund manager must publish a prospectus for each authorised fund it manages, which is made available to prospective investors on demand. We propose that the prospectus of an LTAF will include information relating to its investment strategy, subscription and redemption terms, and charging structures. These disclosures will need to be set out fairly, clearly and in plain language so investors can understand the nature of their investment and make informed decisions. We also propose that the authorised fund manager publish quarterly reports about the investments held in the scheme property. We think that these disclosure requirements are proportionate to securing an appropriate degree of protection for consumers.

The principle that we should exercise of our functions as transparently as possible

21. We will continue to engage with stakeholders throughout the consultation process, before making any rules.
22. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s. 1B(5)(b) FSMA). However, our proposals simply build on existing rules which already take account of this requirement.

Expected effect on mutual societies

23. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies, as the proposals apply equally to all firms engaged in or wishing to engage in management and/or the promotions of an LTAF and/or linked long-term insurance business.

Compatibility with the duty to promote effective competition in the interests of consumers

24. When advancing our consumer protection objective, we have a duty, so far as compatible with advancing that objective, to discharge our general functions (such as making rules and giving general guidance) in a way which promotes effective competition in the interests of consumers. We are proposing to restrict the management of LTAFs to full-scope UK AIFMs in order to secure an appropriate degree of protection for investors. We considered whether the management of LTAFs should be open to any AIFM, including small AIFMs, and whether the additional competition between different types of AIFM might be in the interests of consumers. However, we consider that the management of LTAFs should be limited to full-scope UK AIFMs because these firms are subject not only to the requirements of both COLL and FUND, but also the other applicable provisions of the UK AIFM regime. The LTAF regime relies on the combination of all these requirements to secure an appropriate degree of protection for consumers. We acknowledge that restricting the management of LTAFs to full scope UK AIFMs will prevent sub-threshold AIFMs from managing an LTAF but we note however that a small AIFM (small registered AIFM or small authorised AIFM) may be able to opt-up to become a full-scope UK AIFM.

Equality and diversity

- 25.** We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, to and foster good relations between people who share a protected characteristic and those who do not.
- 26.** As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. The outcome of our consideration in relation to these matters in this case is stated in paragraph 2.21 of the Consultation Paper.

Legislative and Regulatory Reform Act 2006 (LRR)

- 27.** We have had regard to the principles in the LRR for the parts of the proposals that consist of general policies, principles or guidance. We believe that they are proportionate and promote our statutory objectives of consumer protection and effective competition and our strategic objective to ensure that markets function well, without creating undue burdens on the asset management industry, nor adversely impacting competition.
- 28.** We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance and consider the proposals are proportionate to the potential harm to consumers or risks to our statutory objectives identified.

Treasury recommendations about economic policy

- 29.** We consider that our proposals are consistent with the aspects of the government's economic policy to which the FCA should have regard.
- 30.** In the remit letter from the Chancellor of the Exchequer to the FCA on 23 March 2021, the Chancellor affirms the FCA's role in protecting consumers, promoting competition in financial services and protecting and enhancing the integrity of the UK financial system.
- 31.** The FCA has had regard to this letter and the recommendations within. As set out in this Annex, we consider that our proposals are proportionate, aim to increase investor protection and promote effective competition. Our proposals are of particular relevance to promoting competition between business models of entities that invest in long term, illiquid assets through authorised fund structures, to growth and climate change, as they will contribute to sustainable economic growth and encourage investment into the low carbon economy, to better outcomes for consumers, as they will enable investors to more easily access investments in assets with the potential to provide higher returns, and to trade, as the proposals will provide greater opportunity for investment in long term, productive finance assets so that more investment funding is likely to flow into long term UK projects.

Annex 4

Abbreviations used in this paper

Abbreviation	Description
AFM	Authorised Fund Manager
AIF	Alternative Investment Fund
AIFM	Alternative Investment Fund Manager
AIFMD	Alternative Investment Fund Managers Directive
CBA	Cost-benefit Analysis
CIS	Collective Investment Scheme
COBS	Conduct of Business Sourcebook
COLL	Collective Investment Schemes Sourcebook of the FCA Handbook
CP	Consultation Paper
DC	Defined contribution
DP	Discussion Paper
DWP	Department for Work and Pensions
ELTIF	European Long-term Investment Fund
EU	European Union
EuSEF	European Social Entrepreneurship Fund
EuVECA	European Venture Capital Fund
FAIF	Fund of Alternative Investment Funds
FCA	Financial Conduct Authority
FPC	Financial Policy Committee
FSMA	Financial Services and Markets Act 2000
FUND	Investment Funds Sourcebook of the FCA Handbook

Abbreviation	Description
HMRC	Her Majesty's Revenue and Customs
HMT	Her Majesty's Treasury
IA	The Investment Association
IGC	Independent Governance Committee
LGPS	Local Government Pension Scheme
LTAf	Long-term Asset Fund
LTIF	Long-term Investment Fund
MiFID	Markets in Financial Instruments Directive
NAV	Net Asset Value
NMPI	Non-Mainstream Pooled Investment
NRRS	Non-readily Realisable Securities
NURS	Non-UCITS Retail Scheme
PCR	Patient Capital Review
PRIN	The Principles for Business Sourcebook of the FCA Handbook
SIPP	Self-invested Personal Pension
SLA	Service Level Agreement
SMCR	Senior Managers and Certification Regime
SYSC	Senior Management Arrangements, Systems and Controls Sourcebook of the FCA Handbook
QIS	Qualified Investor Scheme
UCIS	Unregulated Collective Investment Scheme
UCITS	Undertaking for Collective Investment in Transferable Securities

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

All our publications are available to download from www.fca.org.uk. If you would like to receive this paper in an alternative format, please call 020 7066 7948 or email: publications_graphics@fca.org.uk or write to: Editorial and Digital team, Financial Conduct Authority, 12 Endeavour Square, London E20 1JN



Sign up for our **news and publications alerts**

Appendix 1

Draft Handbook text

LONG-TERM ASSET FUND INSTRUMENT 2021**Powers exercised**

- A. The Financial Conduct Authority (“the FCA”) makes this instrument in the exercise of the following powers and related provisions in or under:
- (1) the following sections of the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 59 (Approval for particular arrangements);
 - (b) section 60 (Applications for approval);
 - (c) section 60A (Vetting of candidate by an authorised person);
 - (d) section 61 (Determination of applications);
 - (e) section 62A (Changes in responsibilities of senior managers);
 - (f) section 137A (The FCA’s general rules);
 - (g) section 137D (FCA general rules: product intervention);
 - (h) section 137R (Financial promotion rules);
 - (i) section 137T (General supplementary powers);
 - (j) section 138D (Action for damages);
 - (k) section 139A (Power of the FCA to give guidance);
 - (l) section 242 (Application for authorisation of unit trust schemes);
 - (m) section 247 (Trust scheme rules);
 - (n) section 248 (Scheme particulars rules);
 - (o) section 261C (Applications for authorisation of contractual schemes);
 - (p) section 261I (Contractual scheme rules);
 - (q) section 261J (Contractual scheme particulars rules);
 - (r) section 340 (Appointment);
 - (s) paragraph 23 of Schedule 1ZA (Fees);
 - (2) regulations 6 (FCA rules) and 12 (Applications for authorisation) of the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228); and
 - (3) the other rule and guidance making powers listed in Schedule 4 (Powers exercised) to the General Provisions of the FCA’s Handbook.
- B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on *[date]*.

Amendments to the Handbook

- D. The modules of the FCA’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) below.

(1)	(2)
Glossary of definitions	Annex A
Senior Management Arrangements, Systems and Controls sourcebook (SYSC)	Annex B
Conduct of Business sourcebook (COBS)	Annex C
Collective Investment Schemes sourcebook (COLL)	Annex D

Citation

E. This instrument may be cited as the Long-Term Asset Fund Instrument 2021.

By order of the Board
[date]

Annex A

Amendments to the Glossary of definitions

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

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

<i>conditional permitted long-term asset fund</i>	in relation to <i>conditional permitted links</i> , and in respect of a <i>firm's</i> business with <i>linked policyholders</i> , a <i>long-term asset fund</i> .
<i>feeder LTAF</i>	an <i>LTAF</i> which is <i>dedicated to units</i> in either: <ul style="list-style-type: none"> (a) a single <i>qualifying master LTAF</i>; or (b) a single <i>sub-fund</i> of a <i>qualifying master LTAF</i> that is an <i>umbrella</i>.
<i>intermediate unitholder in a long-term asset fund</i>	a <i>firm</i> whose name is entered in the <i>register</i> of a <i>long-term asset fund</i> , or which holds <i>units</i> in a <i>long-term asset fund</i> indirectly through a third party acting as a nominee, and is not the beneficial owner of the relevant <i>unit</i> , and: <ul style="list-style-type: none"> (a) does not <i>manage investments</i> on behalf of the relevant beneficial owner of the <i>unit</i>; or (b) does not act as a <i>depository</i> of a <i>collective investment scheme</i> or on behalf of such a <i>depository</i> in connection with its role in holding property subject to the <i>scheme</i>. <p>For the purposes of this definition, “register” has the meaning set out in paragraph (3) of the <i>Glossary</i> definition of “register”.</p>
<i>long-term asset fund</i>	an <i>authorised fund</i> whose <i>authorised fund manager</i> operates, or proposes to operate, it in accordance with the <i>rules</i> in <i>COLL 15</i> (Long-term asset funds).
<i>LTAF</i>	a <i>long-term asset fund</i> .
<i>qualifying master LTAF</i>	where a <i>feeder LTAF</i> is <i>dedicated to units</i> in a single <i>collective investment scheme</i> which is a second <i>scheme</i> that meets the requirements in [<i>COLL 15.6.9R</i>], that <i>collective investment scheme</i> .
<i>quarterly reporting period</i>	(in <i>COLL</i>) a period determined in accordance with [<i>COLL 15.5.9R(2)</i>] (Quarterly reports).

Amend the following definitions as shown.

<i>appropriate valuer</i>	(in <i>COLL</i>) a person who complies with the requirements <u>requirements</u> of <i>COLL</i> 5.6.18R(7) (Investment in property), or <i>COLL</i> 8.4.11R(4) (Investment in property) <u>or [COLL 15.6.18R(4)] (Investment in property).</u>
<i>distribution account</i>	(in <i>COLL</i>) the account to which the amount of income of an <i>authorised fund</i> allocated to <i>classes</i> of <i>units</i> that distribute income must be transferred as at the end of each <i>annual accounting period</i> under <i>COLL</i> 6.8.3R (Income allocation and distribution), or <i>COLL</i> 8.5.15R (Income) <u>or [COLL 15.8.17R] (Income).</u>
<i>inherently illiquid asset</i>	an asset which is: <ul style="list-style-type: none"> ... (6) a <i>unit</i> in a <i>qualified investor scheme</i> where that <i>qualified investor scheme</i>: <ul style="list-style-type: none"> ... (b) permits redemptions of <i>units</i> on timescales which do not reflect the time typically needed to sell, liquidate or close out the assets in which the <i>qualified investor scheme</i> invests, those assets being ones which fall within paragraphs (1) to (5) above or <u>(6A) and (7)</u> below; and ... <u>(6A) a <i>unit</i> in a <i>long-term asset fund</i> where that <i>long-term asset fund</i>:</u> <ul style="list-style-type: none"> <u>(a) would itself meet condition (1) of the definition of a <i>FIIA</i> if it were a <i>non-UCITS retail scheme</i>; and</u> <u>(b) is not in the process of winding up or termination;</u> (7) a <i>unit</i> in an open-ended <i>unregulated collective investment scheme</i> where that <i>unregulated collective investment scheme</i>: <ul style="list-style-type: none"> (a) aims to invest at least 50% of the value of the property of the <i>unregulated collective investment scheme</i> in assets falling within paragraphs (1) to (6) <u>(6A)</u> above; ...
<i>intermediate holding vehicle</i>	a company, trust or partnership but not a <i>collective investment scheme</i> , whose purpose is to enable the holding of overseas

	immovables on behalf of a <i>non-UCITS retail scheme</i> , or a <i>qualified investor scheme</i> <u>or a long-term asset fund</u> .
<i>non-UCITS retail scheme</i>	an <i>authorised fund</i> which is neither not <u>not</u> a <i>UCITS scheme</i> , or a <i>qualified investor scheme</i> <u>or a long-term asset fund</u> .
<i>permitted scheme interests</i>	(a) [deleted]
	(b) in respect of a firm's <i>firm's</i> business with <i>linked policyholders</i> any of the following: <ul style="list-style-type: none"> (i) an <i>authorised fund</i>, <u>except a long-term asset fund</u>; ...
<i>prospectus</i>	... <ul style="list-style-type: none"> (2) (except in <i>LR</i> and <i>PRR</i>) (in relation to a <i>collective investment scheme</i>) a document containing information about the <i>scheme</i> and complying with the requirements <u>requirements in COLL 4.2.5R</u> (Table: contents of the prospectus), <i>COLL 8.3.4R</i> (Table: contents of qualified investor scheme prospectus), or <i>COLL 9.3.2R</i> (Additional information required in the prospectus for an application under section 272), <u>or [COLL 15.4.5R] (Table: contents of a long-term asset fund prospectus)</u>, applicable to a <i>prospectus</i> of a <i>scheme</i> of the type concerned.
<i>qualified investor scheme</i>	(a) an <i>authorised fund</i> whose <i>instrument constituting the fund</i> contains the statement in <i>COLL 8.2.6R(2)</i> (Table: contents of the instrument constituting the fund) that it is a <i>qualified investor scheme</i> ; <u>and</u>
	(b) <u>(except in COLL, COBS 21, and the definitions of permitted scheme interests and conditional permitted scheme interests) an authorised fund in (a) and a long-term asset fund.</u>
<i>qualifying scheme</i>	... <ul style="list-style-type: none"> (c) (in <i>COBS 9.4.11R</i>, <i>COBS 19.1</i>, and <i>COBS 19.2</i> <u>and</u> <i>COBS 21</i>) in addition to the schemes in (a) as qualified by (b), a <i>defined contribution occupational pension scheme</i> that is a qualifying scheme for the purposes of the Pensions Act 2008.
<i>register</i>	... <ul style="list-style-type: none"> (3) (in <i>COLL</i>) the register of <i>unitholders</i> kept under Schedule 3 to the <i>OEIC Regulations</i>, or <i>COLL 6.4.4R</i> (Register: general requirements and contents), or <i>COLL 8.5.8R</i> (The

register of unitholders: AUTs or ACSs), or [COLL 15.7.11R] (The register of unitholders: AUTs or ACSs) as appropriate or, in relation to a *collective investment scheme* that is not an *authorised fund*, a record of the holders (other than of *bearer certificates*) of *units* in it.

standing independent valuer

the *person* appointed as such under *COLL 5.6.20R* (Standing independent valuer and valuation), ~~and~~ *COLL 8.4.13R(1)* (Standing independent valuer and valuation), or [COLL 15.6.22R(1)] (Standing independent valuer and valuation).

valuation point

(in *COLL*) a *valuation point* fixed by the *authorised fund manager* for the purpose of *COLL 6.3.4R* (Valuation points), ~~or~~ *COLL 8.5.9R* (Valuation, pricing and dealing) or [COLL 15.8.2R] (Valuation, pricing and dealing) or, in the case of a *regulated money market fund*, the applicable requirements of article 29 to article 32 of the *Money Market Funds Regulation*.

Annex B

Amendments to the Senior Management Arrangements, Systems and Controls sourcebook (SYSC)

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

24 Senior managers and certification regime: Allocation of prescribed responsibilities

...

24.2 Allocation of FCA-prescribed senior management responsibilities: Main allocation rules

...

What the FCA-prescribed senior management responsibilities are

...

24.2.6 R Table: FCA-prescribed senior management responsibilities

FCA-prescribed senior management responsibility	Explanation	Reference letter
...		
(20) The responsibilities allocated under <i>COLL</i> 6.6.27R ₂ or <i>COLL</i> 8.5.22R or [<i>COLL</i> 15.7.20R] (Allocation of responsibility for compliance to an approved person).	Only applies to a firm to which the rules in column (1) apply.	(za)
...		

...

Annex C

Amendments to the Conduct of Business sourcebook (COBS)

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

21 Permitted Links and conditional permitted links

...

21.3 Further rules for firms engaged in linked-long-term insurance business

...

Conditional permitted links

21.3.15 R A *conditional permitted link* is any of the following property where the conditions in COBS 21.3.16R are met:

- (1) *conditional permitted unlisted securities;*
- (2) *conditional permitted immovables;*
- (3) *conditional permitted loans; ~~and~~*
- (4) *conditional permitted scheme interests; and*
- (5) *(only in respect of a linked fund included in the default arrangement of a qualifying scheme) conditional permitted long-term asset funds.*

21.3.16 R ...

- (3) *(only in respect of conditional permitted long-term asset funds) the linked fund investing in conditional permitted long-term asset funds may only be included in the default arrangement of a qualifying scheme.*

...

21.3.18 G The assessment in COBS 21.3.16R(2), in relation to a *linked fund* which is included in a default or similar arrangement for a pension scheme, would include ongoing consideration of:

- (1) whether the investment risks of any *conditional permitted links* remain suitable and appropriate for a particular cohort of *linked policyholders*, including as that cohort moves toward retirement; and
- (2) *where the linked fund contains conditional permitted long-term asset funds, the total exposure of the default arrangement to conditional*

permitted long-term asset funds and other investments of similar risk profile to that of conditional permitted long-term asset funds.

Conditional permitted links: requirements

...

21.3.19 R The gross assets that a *linked fund* invests in *conditional permitted long-term asset funds* do not count towards the limit set out in *COBS 21.3.19R*.
A

Annex D

Amendments to the Collective Investment Schemes sourcebook (COLL)

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

1 Introduction

...

1.2 Types of authorised fund

Types of authorised fund

1.2.1 R An application for an *authorisation order* must propose that the *scheme* be one of the following types:

...

(2) a *non-UCITS retail scheme*, including:

...

(b) a *non-UCITS retail scheme* which is an *umbrella* with *sub-funds* operating as:

...

(iii) a mixture of (i) and (ii); ~~or~~

(3) a *qualified investor scheme*; or

(4) a long-term asset fund.

...

Types of authorised fund – explanation

1.2.2 G ...

(3A) (a) A long-term asset fund may be promoted only to:

(i) professional clients; and

(ii) retail clients who are sophisticated investors.

on the same terms as non-mainstream pooled investments.

- (b) A long-term asset fund is an AIF and must be managed by a full-scope UK AIFM (see [COLL 15.2.2R] (Authorised fund manager to be a full-scope UK AIFM)).
- (c) Under the Act and the UK AIFM regime, the FCA is able to impose stricter requirements on an AIFM or an AIF marketed to retail clients than the requirements that apply to an AIF marketed only to professional clients. This sourcebook contains stricter requirements for an AIF which is a long-term asset fund.
- (d) A full-scope UK AIFM must also comply with the requirements in FUND and any other applicable provisions of the UK AIFM regime.
- (e) A long-term asset fund could change to become a qualified investor scheme, a non-UCITS retail scheme or a UCITS scheme, provided it complies with the necessary conditions. The authorised fund manager of an LTAF may need to make significant changes to the LTAF's constitution, objectives and investment powers for it to become a UCITS scheme or a non-UCITS retail scheme.
- (f) A qualified investor scheme could become authorised as a long-term asset fund if the authorised fund manager operates, or proposes to operate, the scheme in accordance with the rules in COLL 15 (Long-term asset funds).
- (g) The nature of the assets that are held (or expected to be held) by a long-term asset fund means that it will not be able to seek authorisation as a regulated money market fund, or to have the characteristics of such a fund without significant changes to its constitution, objectives and investment powers. See also article 6 of the Money Market Funds Regulation.
- (4) The changes referred to in (2), ~~and (3)~~ and (3A) require approval by the FCA and ~~further information on that process is provided in COLLG 3A.1.6G (Notification of changes to unit trusts (sections 251 and 252A)) and COLLG 4A.1.3G (Notification of changes to ICVCs (Regulations 21 and 22A)).~~

[Note: In COBS 4.12 and the rules on non-mainstream pooled investments, a reference to a qualified investor scheme includes a long-term asset fund. This is because of the extended meaning of qualified investor scheme in rules and guidance outside of COLL.]

...

4 Investor Relations

...

4.5 Reports and accounts

...

Comparative information

- 4.5.10 R The comparative information required by *COLL* 4.5.7R (Contents of the annual long report), ~~and~~ *COLL* 8.3.5AR (Contents of the annual report), and *COLL* 15.5.3R (Contents of the annual report) must be shown for the last three *annual accounting periods* (or all of the *authorised fund's annual accounting periods*, if fewer than three) and must set out:

...

...

...

6 Operating duties and responsibilities

...

6.9 Independence, names and UCITS business restrictions

...

Use of the term 'UCITS ETF'

- 6.9.8B G ...

Use of the term 'long-term asset fund' or 'LTAF'

- 6.9.8C R (1) Paragraph (2) applies to the *authorised fund manager* of a *UCITS scheme* or a *non-UCITS retail scheme*, an *ICVC* which is such a *scheme*, and any other *directors* of such an *ICVC*.
- (2) The *scheme* or *sub-fund*:
- (a) must not use 'Long-Term Asset Fund' or 'LTAF' in its name; and
- (b) must not otherwise suggest through its name that it is a *fund* which invests in long-term assets or describe itself as such.
- 6.9.8D G (1) The term 'Long-Term Asset Fund' or 'LTAF' is reserved for *long-term asset funds* (see *COLL* 15).
- (2) Only *AIFs* that are authorised in accordance with the *LTIF Regulation* may use the designation 'LTIF' or 'long-term investment fund'.

...

8 Qualified investor schemes

...

8.2 Constitution

...

Names of schemes, sub-funds, and classes of units

- 8.2.3 R (1) ...
- (2) ~~Paragraph (3) applies to an authorised fund manager of a qualified investor scheme, an ICVC which is such a scheme, and any other directors of such an ICVC.~~
- (3) The scheme or sub-fund:
- (a) must not use ‘Long-Term Asset Fund’ or ‘LTAF’ in its name; and
- (b) must not otherwise suggest through its name that it is a fund which invests in long-term assets or describe itself as such.

Undesirable and misleading names

- 8.2.4 G (1) *COLL 6.9.6G (Undesirable and misleading names) contains guidance as to names which may be undesirable or misleading.*
- (2) The term ‘Long-Term Asset Fund’ or ‘LTAF’ is reserved for long-term asset funds (see COLL 15).
- (3) Only AIFs that are authorised in accordance with the LTIF Regulation may use the designation ‘LTIF’ or ‘long-term investment fund’.

...

8.3 Investor relations

...

Drawing up and availability of a prospectus

...

- 8.3.2A G (1) ...
- (2) The requirements of the PRIIPs Regulation are directly applicable form part of UK law.

...

...

14 Charity authorised investment funds**14.1 Introduction**

...

Types of charity authorised investment fund

14.1.3 R (1) *A charity authorised investment fund* may be:

...

- (b) *a non-UCITS retail scheme; ~~or~~*
- (c) *a qualified investor scheme; or*
- (d) *a long-term asset fund.*

Insert the following chapter after *COLL* 14. All of the text is new and is not underlined.

15 Long-term asset funds**15.1 Introduction**

Application

15.1.1 R (1) This chapter applies to:

- (a) *an authorised fund manager* of an *AUT*, *ACS* or an *ICVC*;
- (b) any other *director* of an *ICVC*;
- (c) the *depository* of an *AUT*, *ACS* or an *ICVC*; and
- (d) an *ICVC*,

which is a *long-term asset fund*.

- (2) Where this chapter refers to *rules* in any other chapter of this sourcebook, those *rules* and any relevant *guidance* should be applied as if they referred to *long-term asset funds*.

15.1.2 G Except in *COLL*, and *COBS* 21 (Permitted Links and conditional permitted links) and related definitions, a reference to a *qualified investor scheme* in the *FCA Handbook* includes a *long-term asset fund*. This is the effect of the expanded *Glossary* definition of *qualified investor scheme*.

Purpose

- 15.1.3 G (1) This chapter assists in achieving the *statutory objective* of securing an appropriate degree of protection for *consumers* in respect of *authorised funds* that are only intended for investors that are, in general, prepared to accept a higher degree of risk in their investments or have a higher degree of experience and expertise than investors in a *UCITS scheme* or a *non-UCITS retail scheme*.
- (2) A *long-term asset fund* is essentially a type of *scheme* where different types of permitted asset may be included as part of the *scheme property*, depending on the investment objectives and policy of that *scheme* and within any restrictions in the *rules*. The *FCA* would generally expect at least 50% of the *scheme property* of an *LTAf* to consist of assets that are illiquid and need to be held over the longer term.
- (3) In comparison to *qualified investor schemes*, *long-term asset funds* have greater flexibility in their investment powers. Therefore, to assist the *FCA* in achieving the *statutory objective* of securing an appropriate degree of protection for *consumers*, this chapter balances this additional flexibility by placing other requirements on the *authorised fund managers* and *depositories* of *LTAfs*.
- (4) This chapter ceases to apply where a *long-term asset fund* has converted to be authorised as a *UCITS scheme*, a *non-UCITS retail scheme* or a *qualified investor scheme*.

Long-term asset funds: eligible investors

- 15.1.4 R (1) Subject to (3), the *authorised fund manager* of a *long-term asset fund* must take reasonable care to ensure that ownership of *units* in that *scheme* is recorded in the *register* only for a *person* to whom such *units* may be promoted under *COBS 4.12.4R* (Exemptions from the restrictions on the promotion of non-mainstream pooled investments).
- (2) In addition to (1), the *authorised contractual scheme manager* of a *long-term asset fund* which is an *ACS* must take reasonable care to ensure that ownership of *units* in that *scheme* is only recorded in the *register* for a *person* that meets the criteria set out in *COLL 15 Annex 1R* (*ACS Long-term asset funds: eligible investors*).
- (3) The *authorised fund manager* will be regarded as complying with (1) and (2) to the extent that it can show that it was reasonable for it to rely on relevant information provided by another *person*.

[**Note:** In *COBS* 4.12 (Restrictions on the promotion of non-mainstream pooled investments), a reference to a *qualified investor scheme* includes a *long-term asset fund*. This is because of the extended meaning of *qualified investor scheme* in *rules* and *guidance* provisions other than those in *COLL*, and *COBS* 21 (Permitted Links and conditional permitted links) and related definitions.]

Long-term asset funds - explanation

- 15.1.5 G (1) *Long-term asset funds* are *authorised funds* which are intended only for *professional clients* and for *retail clients* who are sophisticated investors. For this reason, *long-term asset funds* are subject to a restriction on promotion under *COBS* 4.12.3R (Restrictions on the promotion of non-mainstream pooled investments).
- (2) *COBS* 4.12.13G (Qualified investor schemes) sets out the *FCA*'s view that the promotion of a *qualified investor scheme* to a *retail client* who is not a *certified sophisticated investor* or a *self-certified sophisticated investor* is unlikely to be appropriate or in the *client*'s best interests. Because of the extended definition of *qualified investor scheme* in *COBS* 4.12 (Non-mainstream pooled investments), the guidance in *COBS* 4.12.13G applies equally in respect of a *long-term asset fund*.
- (3) The *authorised contractual scheme manager* of a *long-term asset fund* which is an *ACS* must take reasonable care to ensure that it accepts subscription to *units* in the *LTAf* only from a *person* to whom such *units* may be promoted under *COBS* 4.12.4R (Exemptions from the restrictions on the promotion of non-mainstream pooled investments) and who also meets the criteria in *COLL* 15 Annex 1R.

[**Note:** In *COBS* 4.12 (Restrictions on the promotion of non-mainstream pooled investments), a reference to a *qualified investor scheme* includes a *long-term asset fund*. This is because of the extended meaning of *qualified investor scheme* in *rules* and *guidance* provisions other than those in *COLL* and *COBS* 21 (Permitted Links and conditional permitted links).]

Application and notification procedures

- 15.1.6 G Details of the application procedures in respect of *long-term asset funds* are contained in *COLL* 2.1 (Authorised fund applications). Further information is available on the *FCA* website [LINK].

15.2 Eligibility to act as the authorised fund manager

Application

- 15.2.1 R This section applies to:
- (1) the *authorised fund manager* of an *AUT*, *ACS* or an *ICVC*;
 - (2) any other *director* of an *ICVC*;

- (3) the *depository* of an *AUT*, *ACS* or an *ICVC*; and
 - (4) an *ICVC*,
- which is a *long-term asset fund*.

Authorised fund manager to be a full-scope UK AIFM

- 15.2.2 R The *authorised fund manager* of a *long-term asset fund* must be a *full-scope UK AIFM*.
- 15.2.3 G (1) To ensure an appropriate degree of *consumer* protection, only a *full-scope UK AIFM* is able to act as an *authorised fund manager* for an *LTAf*.
- (2) *Full-scope UK AIFMs* are subject to the requirements of both *COLL* and *FUND*, and must also comply with any other applicable provisions of the *UK AIFM regime*, including the *AIFMD level 2 regulation* and the *AIFMD UK regulation*. *Small authorised UK AIFMs* are subject to a more limited set of *rules* and requirements.

Competence and resources of the authorised fund manager

- 15.2.4 R (1) The *authorised fund manager* of a *long-term asset fund* must, having regard to the investment objectives, policy and strategy of the *LTAf*:
- (a) possess the knowledge, skills and experience necessary to understand the activities of the *LTAf* and, in particular, the risks involved in those activities and the assets which the *LTAf* holds (or is to hold) in the *scheme property*; and
 - (b) employ sufficient personnel with the skills, knowledge and expertise necessary for discharging the responsibilities allocated to them.
- (2) The *authorised fund manager* may not rely on a delegation or outsourcing arrangement to satisfy (1).
- 15.2.5 R The *authorised fund manager* of a *long-term asset fund* must at all times be able to demonstrate to the *FCA* that it complies with *COLL* 15.2.4R.

[**Note:** Article 22 of the *AIFMD level 2 regulation*.]

Appointment of external valuer or authorised fund manager with knowledge, skills and experience of valuing long-term assets

- 15.2.6 R (1) The *authorised fund manager* of a *long-term asset fund* must appoint an *external valuer* to perform the valuation function for the *LTAf*, but this is subject to (2).

- (2) The *authorised fund manager* need not appoint an *external valuer* under (1) if:
- (a) the *authorised fund manager* possesses the knowledge, skills and experience necessary to be able to carry out a proper and independent valuation of the assets and types of assets which the *long-term asset fund* holds or is to hold (see *FUND 3.9.4R*); and
 - (b) the *depository* of the *long-term asset fund*, having made an assessment of the matters in (a), has determined without qualification that the *authorised fund manager* possesses the knowledge, skills and experience required by (a).
- (3) The *depository* must:
- (a) review its determination under (2)(b):
 - (i) regularly, and in any event at least annually; and
 - (ii) whenever the *depository* becomes aware of any circumstances which could affect the determination;
 - (b) for a period of six years, keep a written record of its determination under (2)(b) and the reasons for its assessment; and
 - (c) provide the *FCA* with a copy of the written record on request.
- (4) Where the *authorised fund manager* performs the valuation function itself in accordance with (2), the *authorised fund manager* may appoint, as applicable:
- (a) an *appropriate valuer*; or
 - (b) a *standing independent valuer*,
- for the purpose of valuing immovables in accordance with *COLL 15.6.18R* (Investment in property) or *COLL 15.6.22R* (Standing independent valuer and valuation).

[**Note:** *FUND 3.9* (Valuation), *FUND 3.10* (Delegation), article 19(5) of *AIFMD*, and articles 67 to 74 and article 94(4) of the *AIFMD level 2 regulation*.]

15.2.7 G Where an *authorised fund manager* appoints an *external valuer* under COLL 15.2.6R(1) certain additional requirements apply. For example, FUND 3.9.7R(3) (Performance of the valuation function) sets certain conditions relating to the independence of the *external valuer*, and the *authorised fund manager* will also need to be able to demonstrate the matters set out in FUND 3.9.9R (Appointment of external valuer). The *AIFMD level 2 regulation* contains further requirements that apply to the *authorised fund manager* where an *external valuer* is used. Certain requirements also apply to the *external valuer* and the *depository* of an *LTAf* with an *external valuer*.

[**Note:** Articles 67 to 74 and article 94(4) of the *AIFMD level 2 regulation*.]

15.2.8 R The *governing body* of the *authorised fund manager* of a *long-term asset fund* must:

- (1) possess the collective knowledge, skills and experience to be able to understand the *authorised fund manager's* activities, in particular, the main risks involved in those activities and the assets in which the *long-term asset fund* is invested;
- (2) have members that commit sufficient time to properly perform their functions in the *authorised fund manager*; and
- (3) have members that act with honesty, integrity and independence of mind.

[**Note:** Article 21 of the *AIFMD level 2 regulation*.]

15.2.9 G (1) In order to establish whether an *authorised fund manager* of a *long-term asset fund* conducts its activities honestly, fairly and with due skills, the *FCA* is required to assess various matters, including those set out in articles 21 and 22 of the *AIFMD level 2 regulation*. In addition, under [COLL 15.2.4R], the *authorised fund manager* must possess the knowledge, skills and experience necessary to manage a *long-term asset fund* without relying on delegation arrangements to satisfy the requirement.

(2) The *authorised fund manager* of a *long-term asset fund* is subject to various other requirements relating to its governance arrangements; its organisational structure; the skills, knowledge, expertise and competence of those it employs; and its obligation to act honestly, fairly and with due skill, care and diligence. See for example the *rules* in SYSC 4 (General organisational requirements), SYSC 5 (Employees, agents and other relevant persons) and COBS 2.1 (Acting honestly, fairly and professionally).

(3) The *authorised fund manager* of a *long-term asset fund* should also note the organisational requirements set out in the *AIFMD level 2 regulation*; for example, article 57 (General requirements).

15.3 Constitution

Application

- 15.3.1 R This section applies to an *authorised fund manager* of a *long-term asset fund*.

Classes of unit

- 15.3.2 R A *long-term asset fund* may issue such *classes of unit* as are set out in the *instrument constituting the fund*, provided the rights of any *class* are not unfairly prejudicial as against the interests of the *unitholders* of any other *class of units* in that *scheme*.

Names of schemes, sub-funds, and classes of units

- 15.3.3 R (1) The *authorised fund manager* must ensure that the name of the *scheme*, a *sub-fund* or a *class of unit* is not undesirable or misleading.
- (2) The *authorised fund manager* of a *long-term asset fund* must include the term ‘long-term asset fund’ or ‘LTAF’ in the name of the *scheme* and in relation to any *sub-fund* which is also a *long-term asset fund*.

Undesirable and misleading names

- 15.3.4 G (1) COLL 6.9.6G (Undesirable and misleading names) contains *guidance* as to names which may be undesirable or misleading.
- (2) The term ‘Long-Term Asset Fund’ or ‘LTAF’ is reserved for a *long-term asset fund* whose *authorised fund manager* operates, or proposes to operate, it in accordance with the *rules* in this chapter.
- (3) Only *AIFs* that are authorised in accordance with the *LTIF Regulation* may use the designation ‘LTIF’ or ‘long-term investment fund’.

Instrument constituting the fund

- 15.3.5 R The statements and provisions required by [COLL 15.3.6R] must be included in the *instrument constituting the fund* of a *long-term asset fund*.

Table: contents of the instrument constituting the fund

- 15.3.6 R This table belongs to [COLL 15.3.5R].

1	Description of the authorised fund	
	Information detailing:	
	(1)	the name of the <i>authorised fund</i> ;
	(2)	that the <i>authorised fund</i> is a <i>long-term asset fund</i> ;

	(3)	in the case of an <i>ICVC</i> , whether the head office of the <i>company</i> is situated in England and Wales, Wales, Scotland or Northern Ireland.
2	Property Authorised Investment Funds	
	For a <i>property authorised investment fund</i> , a statement that:	
	(1)	it is a <i>property authorised investment fund</i> ;
	(2)	no <i>body corporate</i> may seek to obtain or intentionally maintain a holding of more than 10% of the net asset value of the <i>scheme</i> ; and
	(3)	in the event that the <i>authorised fund manager</i> reasonably considers that a <i>body corporate</i> holds more than 10% of the net asset value of the <i>scheme</i> , the <i>authorised fund manager</i> is entitled to delay any <i>redemption</i> or <i>cancellation</i> of <i>units</i> in accordance with 8 if the <i>authorised fund manager</i> reasonably considers such action to be:
	(a)	necessary in order to enable an orderly reduction of the holding to below 10%; and
	(b)	in the interests of the <i>unitholders</i> as a whole.
3	Constitution	
	The following statements:	
	(1)	the <i>scheme property</i> of the <i>scheme</i> is entrusted to a <i>depository</i> for safekeeping (subject to any exception permitted by the <i>rules</i>);
	(2)	if relevant, the duration of the <i>scheme</i> is limited and, if so, for how long;
	(3)	charges and expenses of the <i>scheme</i> may be taken out of <i>scheme property</i> ;
	(4)	for an <i>ICVC</i> :
	(a)	what the maximum and minimum sizes of the <i>scheme's</i> capital are; and
	(b)	the <i>unitholders</i> are not liable for the debts of the <i>company</i> ;
	(5)	for an <i>ICVC</i> which is an <i>umbrella</i> , a statement that the assets of a <i>sub-fund</i> belong exclusively to that <i>sub-fund</i> and shall not be used to discharge directly or indirectly the liabilities of, or claims against, any other <i>person</i> or body, including the <i>umbrella</i> , or any other <i>sub-fund</i> , and shall not be available for any such purpose;

	(6)	for a <i>co-ownership scheme</i> which is an <i>umbrella</i> , the property subject to a <i>sub-fund</i> is beneficially owned by the participants in that <i>sub-fund</i> as tenants in common (or, in Scotland, is the common property of the <i>participants</i> in that <i>sub-fund</i>) and must not be used to discharge any liabilities of, or meet any claims against, any <i>person</i> other than the <i>participants</i> in that <i>sub-fund</i> ;	
	(7)	for a <i>limited partnership scheme</i> , that the <i>scheme</i> prohibits pooling as is mentioned in section 235(3)(a) of the <i>Act</i> in relation to separate parts of the <i>scheme property</i> , with the effect that the <i>scheme</i> cannot be an <i>umbrella</i> ;	
	(8)	for an <i>AUT</i> :	
		(a)	the <i>trust deed</i> :
		(i)	is made under and governed by the law of England and Wales, or the law of Scotland or the law of Northern Ireland;
		(ii)	is binding on each <i>unitholder</i> as if he had been a party to it and that he is bound by its provisions; and
		(iii)	authorises and requires the <i>trustee</i> and the <i>manager</i> to do the things required or permitted of them by its terms;
		(b)	subject to the provisions of the <i>trust deed</i> and all the <i>rules</i> made under section 247 of the <i>Act</i> (Trust scheme rules):
		(i)	the <i>scheme property</i> (other than sums held to the credit of the <i>distribution account</i>) is held by the <i>trustee</i> on trust for the <i>unitholders</i> according to the number of <i>units</i> held by each <i>unitholder</i> or, where relevant, according to the number of individual shares in the <i>scheme property</i> represented by the <i>units</i> held by each <i>unitholder</i> ; and
		(ii)	the sums standing to the credit of any <i>distribution account</i> are held by the <i>trustee</i> on trust to distribute or apply them in accordance with [COLL 15.8.17R] (Income);
		(c)	a <i>unitholder</i> is not liable to make any further payment after he has paid the <i>price</i> of his <i>units</i> and that no further liability can be imposed on him in respect of the <i>units</i> he holds; and
		(d)	payments to the <i>trustee</i> by way of <i>remuneration</i> are authorised to be paid (in whole or in part) out of the <i>scheme property</i> ; and
	(9)	for an <i>ACS</i> :	

		(a)	the <i>contractual scheme deed</i> :	
			(i)	is made under and governed by the law of England and Wales, or the law of Scotland or the law of Northern Ireland;
			(ii)	is binding on each <i>unitholder</i> as if he had been a party to it and that he is bound by its provisions;
			(iii)	authorises and requires the <i>depository</i> and the <i>authorised contractual scheme manager</i> to do the things required or permitted of them by its terms; and
			(iv)	states that <i>units</i> may not be <i>issued</i> to a <i>person</i> other than a <i>person</i> :
				(A) who is a:
				(i) <i>professional ACS investor</i> ;
				(ii) <i>large ACS investor</i> ; or
				(iii) <i>person</i> who already holds <i>units</i> in the <i>scheme</i> ; and
				(B) to whom <i>units</i> in a <i>long-term asset fund</i> may be promoted under <i>COBS 4.12.4R</i> ;
			(v)	states that the <i>authorised contractual scheme manager</i> of an <i>ACS</i> must <i>redeem units</i> as soon as practicable after becoming aware that those <i>units</i> are vested in anyone (whether as a result of subscription or transfer of <i>units</i>) other than a <i>person</i> meeting the criteria in (iv)(A) and (B);
			(vi)	states that for a <i>co-ownership scheme</i> :
			(A)	the <i>scheme property</i> is beneficially owned by the <i>participants</i> as tenants in common (or, in Scotland, is the common property of the <i>participants</i>);
			(B)	the arrangements constituting the <i>scheme</i> are intended to constitute a <i>co-ownership scheme</i> as defined in section 235A(2) of the <i>Act</i> ; and
			(C)	the <i>operator</i> and <i>depository</i> are required to wind up the <i>scheme</i> if directed to do so by the <i>FCA</i> in exercise of its power under section 261X (Directions) of the <i>Act</i> ;

			(vii)	states:
			(A)	whether the transfer of <i>units</i> in the <i>ACS</i> scheme or, for a <i>co-ownership scheme</i> which is an <i>umbrella</i> (<i>sub-funds</i> of which pursue differing policies in relation to transfer of <i>units</i>), in each particular <i>sub-fund</i> , is either:
				(i) prohibited; or
				(ii) allowed;
			(B)	where a transfer of <i>units</i> is allowed by the <i>scheme</i> or, where appropriate the <i>sub-fund</i> , in accordance with (A)(ii), <i>units</i> may only be transferred in accordance with the conditions specified by <i>FCA rules</i> , including that <i>units</i> may not be transferred to a <i>person</i> other than a <i>person</i> :
				(i) who is a:
				(1) <i>professional ACS investor</i> ; or
				(2) <i>large ACS investor</i> ; or
				(3) <i>person</i> who already holds <i>units</i> in the <i>scheme</i> ; and
				(ii) to whom <i>units</i> in a <i>long-term asset fund</i> may be promoted under <i>COBS 4.12.4R</i> ; and
			(vii)	states that for a <i>limited partnership scheme</i> , the <i>scheme</i> is not dissolved on any <i>person</i> ceasing to be a <i>limited partner</i> or <i>nominated partner</i> provided that there remains at least one <i>limited partner</i> ;
		(b)		subject to the provisions of the <i>contractual scheme deed</i> and all the <i>rules</i> made under section 261I of the <i>Act</i> (Contractual scheme rules) and for the time being in force:
			(i)	the <i>scheme property</i> (other than sums standing to the credit of the <i>distribution account</i>) is held by, or to the order of, the <i>depository</i> for and on behalf of the <i>unitholders</i> according to the number of <i>units</i> held by each <i>unitholder</i> or, where relevant, according to the number of individual shares in the <i>scheme property</i> represented by the <i>units</i> held by each <i>unitholder</i> ; and

		(ii)	the sums standing to the credit of any <i>distribution account</i> are held by the <i>depository</i> to distribute or apply them in accordance with [COLL 15.8.17R (Income)]; and
		(c)	a <i>unitholder</i> in a <i>co-ownership scheme</i> is not liable to make any further payment after he has paid the price of his <i>units</i> and that no further liability can be imposed on him in respect of the <i>units</i> he holds;
		(d)	a <i>unitholder</i> in a <i>limited partnership scheme</i> is not liable for the debts or obligations of the <i>limited partnership scheme</i> beyond the amount of the <i>scheme property</i> which is available to the <i>authorised contractual scheme manager</i> to meet such debts or obligations, provided that the <i>unitholder</i> does not take part in the management of the partnership business;
		(e)	the exercise of rights conferred on <i>limited partners</i> by <i>FCA rules</i> does not constitute taking part in the management of the partnership business;
		(f)	the <i>limited partners</i> , other than the <i>nominated partner</i> , are to be the <i>participants</i> in the <i>scheme</i> ; and
		(g)	the <i>operator</i> of a <i>co-ownership scheme</i> is authorised to:
		(i)	acquire, manage and dispose of the <i>scheme property</i> ; and
		(ii)	enter into contracts which are binding on <i>unitholders</i> for the purposes of, or in connection with, the acquisition, management or disposal of <i>scheme property</i> .
4	Investment objectives		
	A statement of the object of the <i>scheme</i> , in particular the types of <i>investments</i> and assets in which it and each <i>sub-fund</i> (where applicable) may invest and that the object of the <i>scheme</i> is to invest in property of that kind with the aim of spreading investment risk.		
5	Units in the scheme		
	A statement of:		
	(1)	the <i>classes</i> of <i>units</i> which the <i>scheme</i> may issue, indicating, for a <i>scheme</i> which is an <i>umbrella</i> , which <i>class</i> or <i>classes</i> may be issued in respect of each <i>sub-fund</i> ; and	
	(2)	the rights attaching to <i>units</i> of each <i>class</i> (including any provisions for the expression in two denominations of such rights).	

6	Limitation on issue of and redemption of units	
	Details as to:	
	(1)	the provisions relating to any restrictions on the right to <i>redeem units</i> in any <i>class</i> ; and
	(2)	the circumstances in which the <i>issue</i> of the <i>units</i> of any particular <i>class</i> may be limited.
7	Income and distribution	
	Details of the <i>person</i> responsible for the calculation, transfer, allocation and distribution of income for any <i>class</i> of <i>unit</i> in <i>issue</i> during the accounting period.	
8	Redemption or cancellation of units on breach of law or rules	
	A statement that where any holding of <i>units</i> by a <i>unitholder</i> is (or is reasonably considered by the <i>authorised fund manager</i> to be) an infringement of any law, governmental regulation or rule, those <i>units</i> must be <i>redeemed</i> or <i>cancelled</i> .	
9	Base currency	
	A statement of the <i>base currency</i> of the <i>scheme</i> .	
10	Meetings	
	Details of the procedures for the convening of meetings and the procedures relating to resolutions, voting and the voting rights for <i>unitholders</i> .	
11	Powers and duties of the authorised fund manager and depositary	
	Where relevant, details of any function to be undertaken by the <i>authorised fund manager</i> and <i>depositary</i> which the <i>rules</i> in <i>COLL</i> require to be stated in the <i>instrument constituting the fund</i> .	
12	Termination and suspension	
	Details of:	
	(1)	the grounds under which the <i>authorised fund manager</i> may initiate a suspension of the <i>scheme</i> and any associated procedures; and
	(2)	the methodology for determining the rights of <i>unitholders</i> to participate in the <i>scheme property</i> on winding up.

13	Investment in overseas property through an intermediate holding vehicle
	If investment in an overseas immovable is to be made through an <i>intermediate holding vehicle</i> or a series of <i>intermediate holding vehicles</i> , a statement that the purpose of that <i>intermediate holding vehicle</i> or series of <i>intermediate holding vehicles</i> will be to enable the holding of overseas immovables by the <i>scheme</i> .
14	Other relevant matters
	Details of those matters which enable the <i>scheme</i> , <i>authorised fund manager</i> or <i>depository</i> to obtain any privilege or power conferred by the <i>rules</i> in <i>COLL</i> which is not otherwise provided for in the <i>instrument constituting the fund</i> .

[**Note:** In *COBS* 4.12 (Restrictions on the promotion of non-mainstream pooled investments), a reference to a *qualified investor scheme* includes a *long-term asset fund*. This is because of the extended meaning of *qualified investor scheme* in *rules* and *guidance* outside of *COLL*.]

Limited issue

- 15.3.7 R *Units* whose *issue* may be limited can only be *issued* if permitted by the *instrument constituting the fund*, under the conditions set out in the *prospectus* and provided that this will not materially prejudice any existing *unitholders* in the *scheme*.

15.4 Prospectus and other pre-sale notifications

Application

- 15.4.1 R This section applies to:
- (1) the *authorised fund manager* of an *AUT*, *ACS* or an *ICVC*; and
 - (2) an *ICVC*,
- which is a *long-term asset fund*.

Drawing up and availability of a prospectus

- 15.4.2 R (1) An *authorised fund manager* must ensure that a *prospectus* of a *long-term asset fund* is drawn up which contains:
- (a) the information specified in [*COLL* 15.4.5R] (Table: contents of long-term asset fund prospectus);
 - (b) the information for investors required by *FUND* 3.2.2R and *FUND* 3.2.3R (Prior disclosure of information to investors); and

- (c) the information for investors required by *FUND 3.2.5R* and *FUND 3.2.6R* (Periodic disclosure), unless the up-to-date information has been published in the *scheme's* most recent annual report or half-yearly report.
- (2) An *authorised fund manager* must:
- (a) revise the *prospectus* immediately upon the occurrence of any materially significant change in the information required to be stated within it;
 - (b) include the date of any revision in a prominent manner in the revised *prospectus*;
 - (c) send a copy of the original and any revised *prospectus* to the *FCA*; and
 - (d) review the *prospectus* periodically and revise it to take account of any significant change or new matter.
- (3) The *prospectus* must not contain any provision which is unfairly prejudicial to the interests of *unitholders* generally or to the *unitholders* of any *class* of *units*.
- (4) An *ICVC* or the *authorised fund manager* of an *AUT* or *ACS* must offer a copy of the *scheme's* most recent *prospectus* free of charge to any *person* eligible to invest in a *long-term asset fund*, prior to the purchase of any *units*.
- 15.4.3 G (1) The information specified in [*COLL 15.4.5R*] (Table: contents of long-term asset fund prospectus) includes the provisions specified in *FUND 3.2.2R*(1) to (12) and (16), as well as requiring certain additional pieces of information. A 'Note' indicates whether the information is derived from *FUND 3.2.2R*.
- (2) The *authorised fund manager* of an *LTAF* will also need to comply with *FUND 3.2.2R* by providing investors with the information specified in *FUND 3.2.2R*(13) to (15) and (17).

False or misleading prospectus

- 15.4.4 R The *authorised fund manager* must ensure that the *prospectus* does not contain any untrue or misleading statement or omit any matter required by the *rules* in this sourcebook to be included in it.

Table: contents of a long-term asset fund prospectus

15.4.5 R This table belongs to [COLL 15.4.2R].

1	Document status	
	A statement that this document is the <i>prospectus</i> of the <i>authorised fund</i> valid as at a particular date which shall be the date of the <i>document</i> .	
2	Description of the authorised fund	
	Information detailing:	
	(1)	the name of the <i>authorised fund</i> ;
	(2)	its <i>FCA</i> product reference number (PRN);
	(3)	that the <i>authorised fund</i> is either an <i>ICVC</i> , <i>ACS</i> or an <i>AUT</i> ;
	(4)	that the <i>scheme</i> is a <i>long-term asset fund</i> ;
	(5)	where relevant, that the <i>shareholders</i> in an <i>ICVC</i> are not liable for the debts of the <i>authorised fund</i> ;
	(6)	where relevant, the address of the <i>ICVC</i> 's head office and the address in the <i>United Kingdom</i> for service on the <i>ICVC</i> of documents required or authorised to be served on it;
	(7)	the effective date of the <i>authorisation order</i> made by the <i>FCA</i> and, if the duration of the <i>authorised fund</i> is not unlimited, when it will or may terminate;
	(8)	the <i>base currency</i> for the <i>authorised fund</i> ;
	(9)	where relevant, the maximum and minimum sizes of the <i>ICVC</i> 's capital;
	(10)	for an <i>ACS</i> that is a <i>limited partnership scheme</i> , the address of the proposed principal place of business of the <i>limited partnership scheme</i> ; and
	(11)	a description of the other main legal implications of the contractual relationship entered into for the purpose of investment, including information on jurisdiction, the applicable law and the existence or absence of any legal instruments providing for the recognition and enforcement of judgments.
	[Note: <i>FUND</i> 3.2.2R(3).]	

3	Investment objectives, policy and strategy		
	The following particulars, which must be set out fairly, clearly and in plain language:		
	(1)	Information to enable a <i>unitholder</i> to ascertain:	
		(a)	the investment objectives of the <i>authorised fund</i> ;
		(b)	the <i>authorised fund's</i> investment policy for achieving those investment objectives, including:
		(i)	the general nature of the portfolio and any intended specialisation;
		(ii)	the policy for providing a prudent spread of risk in the <i>scheme property</i> ; and
		(iii)	the policy in relation to the exercise of powers to borrow cash and use leverage, including:
			(A) the purposes for which cash borrowing and leverage may be used;
			(B) the nature of the cash borrowing, including whether it is short- or long-term, temporary or otherwise;
			(C) the types and sources of leverage permitted and the associated risks;
			(D) any restrictions on the use of leverage and any <i>collateral</i> and asset reuse arrangements;
			(E) the maximum level of leverage which the <i>authorised fund manager</i> is entitled to employ on behalf of the <i>LTAF</i> ;
			(F) an explanation of how and why that is compatible with the objectives of the <i>LTAF</i> ;
		(c)	whether there are any restrictions in the assets which may be held in the <i>scheme property</i> ; and
		(d)	the extent (if any) to which that investment policy does not envisage remaining fully invested at all times.
	(2)	A description of the investment strategy of the <i>long-term asset fund</i> which must comply with [COLL 15.6.6R] (Long-term asset funds: investment strategy).	

	[Note: FUND 3.2.2R(1)(a), FUND 3.2.2R(1)(f) and FUND 3.2.2R(1)(g) to (j).]	
4	Feeder LTAFs	
	If the <i>LTAF</i> is a <i>feeder LTAF</i> :	
	(1)	the name and <i>FCA</i> product reference number (PRN) of the <i>qualifying master LTAF</i> ;
	(2)	whether the <i>qualifying master LTAF</i> is established in England, Wales, Scotland or Northern Ireland; and
	(3)	the following details of the <i>qualifying master LTAF</i> :
	(a)	its investment objective, policy and strategy, including its risk profile;
	(b)	the minimum and (if relevant) maximum investment that the <i>feeder LTAF</i> may make in it;
	(c)	how copies of its <i>prospectus</i> may be obtained;
	(d)	how the <i>unitholders</i> of the <i>feeder LTAF</i> may obtain further information about it; and
	(e)	a description of all <i>remuneration</i> or reimbursement of costs payable by the <i>feeder LTAF</i> by virtue of its investment in <i>units</i> of the <i>qualifying master LTAF</i> , as well as the aggregate charges of the two <i>schemes</i> .
	[Note: FUND 3.2.2R(1)(b).]	
5	Fund of funds	
	If the <i>LTAF</i> is a <i>fund of funds</i> , information on where the underlying <i>funds</i> are established.	
	[Note: FUND 3.2.2R(1)(c).]	
6	Assets in which the LTAF may invest	
	A description of the types of assets in which the <i>LTAF</i> may invest, including, where relevant:	
	(1)	for investment in immovables:
	(a)	the countries or territories in which the <i>authorised fund</i> may invest in immovables;

	(b)	the <i>authorised fund manager's</i> policy in relation to insuring any immovables which form part of the <i>scheme property</i> ; and
	(c)	the policy of the <i>authorised fund manager</i> in relation to the granting of options over immovables in the <i>scheme property</i> and the purchase of options on immovables.
(2)		if intended, whether the <i>scheme property</i> may consist of <i>units</i> in <i>collective investment schemes</i> (“second <i>schemes</i> ”) which are managed by or operated by the <i>authorised fund manager</i> or by one of its <i>associates</i> and a statement as to:
	(a)	the basis of the maximum amount of the charges in respect of transactions in a second <i>scheme</i> ; and
	(b)	the extent to which any such charges will be reimbursed to the <i>scheme</i> ;
(3)		if intended, whether the <i>scheme</i> may enter into <i>stock lending</i> arrangements and <i>repo</i> contracts and, if so, what procedures will operate and what <i>collateral</i> will be required.
		[Note: FUND 3.2.2R(1)(d).]
7		Investment techniques and associated risks
		At least the following information, which must be set out fairly, clearly and in plain language, about the investment techniques that the <i>authorised fund manager</i> may employ and all associated risks, including:
	(1)	having regard to the investment strategy of the <i>long-term asset fund</i> and the type of assets in which the <i>scheme</i> may invest, an explanation of the risks associated with the <i>scheme</i> investing in those assets and how those risks might crystallise;
	(2)	any other risks for <i>unitholders</i> investing in the <i>long-term asset fund</i> ;
	(3)	a description of the tools and arrangements the <i>authorised fund manager</i> would propose using, including those required by <i>rules</i> , to mitigate the risks referred to in (1) and (2); and
	(4)	an explanation of the circumstances in which those tools and arrangements would typically be deployed and the likely consequences for investors.
		[Note: FUND 3.2.2R(1)(e).]

8	Procedures to change of strategy or policy	
	A description of the procedures by which the <i>authorised fund manager</i> of the <i>LTAf</i> may change its investment objective and policy or its investment strategy, or both.	
	[Note: <i>FUND</i> 3.2.2R(2).]	
9	Classes of units	
	Information as to:	
	(1)	the names of the <i>classes of units</i> in issue or available for <i>issue</i> and the rights attached to them in so far as they vary from the rights attached to other <i>classes</i> ;
	(2)	how <i>unitholders</i> may exercise their voting rights and what these are; and
	(3)	the circumstances where a mandatory <i>redemption, cancellation</i> or conversion of <i>units</i> from one <i>class</i> to another may be required.
	[Note: <i>FUND</i> 3.2.2R(3), (8), (9), (11) and (12).]	
10	Identity and duties of the authorised fund manager, depositary, auditor and other service providers, and investors' rights	
	(1)	The following particulars of the <i>authorised fund manager</i> :
	(a)	its name and the nature of its corporate form;
	(b)	the country or territory of its incorporation;
	(c)	the date of its incorporation and if the duration of its corporate status is limited, when that status will or may cease;
	(d)	if it is a <i>subsidiary</i> , the name of its ultimate <i>holding company</i> and the country or territory in which that <i>holding company</i> is incorporated;
	(e)	the address of its registered office, its head office, and, if different, the address of its principal place of business in the <i>United Kingdom</i> ;
	(f)	the amount of its issued share capital and how much of it is paid up;

		(g)	for an <i>ICVC</i> , a summary of the material provisions of the contract between the <i>ICVC</i> and the <i>authorised fund manager</i> which may be relevant to <i>unitholders</i> including provisions (if any) relating to termination, compensation on termination and indemnity;
		(h)	the names of the <i>directors</i> of the <i>authorised fund manager</i> ; and
		(i)	a description of the duties of the <i>authorised fund manager</i> .
	(2)	Where the <i>LTAf</i> is an <i>ICVC</i> , other than for the <i>ACD</i> :	
		(a)	the names and positions in the <i>ICVC</i> of the <i>directors</i> ; and
		(b)	the manner, amount and calculation of the <i>remuneration</i> of the <i>directors</i> .
	(3)	The following particulars of the <i>depository</i>	
		(a)	its name and the nature of its corporate form;
		(b)	the country or territory of its incorporation;
		(c)	the address of its registered office and the address of its head office if that is different from the address of its registered office;
		(d)	if neither its registered office nor its head office is in the <i>United Kingdom</i> , the address of its principal place of business in the <i>United Kingdom</i> ; and
		(e)	a description of the duties of the <i>depository</i> .
	(4)	If an <i>investment adviser</i> or any other <i>person</i> is retained to provide services in connection with the business of the <i>authorised fund</i> :	
		(a)	the name of the <i>person</i> ;
		(b)	whether or not the <i>person</i> is authorised by the <i>FCA</i> ; and
		(c)	a description of the duties of the <i>person</i> .
	(5)	The name of the auditor of the <i>authorised fund</i> and a description of the duties of the auditor.	
	[Note: <i>FUND</i> 3.2.2R(4).]		

11	Professional liability	
	A description of how the <i>authorised fund manager</i> complies with the requirements referred to in <i>IPRU-INV</i> 11.3.11G (Professional negligence) relating to professional liability risk.	
	[Note: <i>FUND</i> 3.2.2R(5).]	
12	Delegation arrangements	
	To the extent not covered by [10], a description of:	
	(1)	any <i>AIFM management function</i> delegated by the <i>authorised fund manager</i> ;
	(2)	any safe-keeping function delegated by the <i>depository</i> ;
	(3)	the identity of each delegate appointed under <i>FUND</i> 3.10 (Delegation); and
	(4)	any conflicts of interest that may arise from such delegation.
	[Note: <i>FUND</i> 3.2.2R(6).]	
13	Valuation of scheme property and due diligence	
	(1)	A statement setting out whether the valuation function is performed by an <i>external valuer</i> or the <i>authorised fund manager</i> and:
	(a)	where an <i>external valuer</i> is used to perform the valuation function, an explanation of how that <i>person</i> meets the requirements set out in <i>FUND</i> 3.9.7R(3) (Performance of the valuation function) and the relevant requirements in articles 67 to 74 of the <i>AIFMD level 2 regulation</i> , and how the <i>authorised fund manager</i> is able to demonstrate the matters specified in <i>FUND</i> 3.9.9R (Appointment of an external valuer) and <i>FUND</i> 3.10.2R(2)(f) (General delegation requirements); or
	(b)	where the <i>authorised fund manager</i> performs the valuation function itself, details of the <i>depository's</i> determination of the matters referred to in <i>COLL</i> 15.2.6R(2) (Appointment of external valuer or authorised fund manager with knowledge, skills and experience of valuing long-term assets), including the reasons for the determination.
	(2)	A description of the valuation procedure and of the pricing methodology for valuing assets, including the methods used in valuing hard-to-value assets, in line with <i>FUND</i> 3.9 (Valuation), and details as to:

	(a)	how frequently and at what times of the <i>day</i> the <i>scheme property</i> will be regularly valued to determine the <i>price</i> at which <i>units</i> in the <i>scheme</i> may be purchased from or <i>redeemed</i> by the <i>authorised fund manager</i> and a description of any circumstance where the <i>scheme property</i> may be specially valued;
	(b)	in relation to each purpose for which the <i>scheme property</i> must be valued and each category of asset held in the <i>scheme property</i> , the basis on which it will be valued, identifying any codes of good practice used by the <i>external valuer</i> (where relevant) or the <i>authorised fund manager</i> ; and
	(c)	how the <i>price</i> of <i>units</i> of each <i>class</i> will be determined, including a statement that a <i>forward price</i> basis is to be applied.
	(3)	Details as to:
	(a)	the <i>authorised fund manager's</i> policies and procedures in relation to the selection and ongoing monitoring of investments (see article 18(2) of the <i>AIFMD level 2 regulation</i>);
	(b)	the arrangements for ensuring that investment decisions on behalf of the <i>long-term asset fund</i> are carried out in compliance with the objectives and the investment strategy of the <i>scheme</i> (see article 18(3) of the <i>AIFMD level 2 regulation</i>);
	(c)	how the <i>authorised fund manager</i> will carry out due diligence in line with good market practice.
	<p>[Note: FUND 3.2.2R(7).] [Note 2: Articles 67 to 71 of the <i>AIFMD level 2 regulation</i> contain detailed requirements relating to the valuation of assets by <i>full-scope UK AIFMs</i>. Articles 18 to 20 of the <i>AIFMD level 2 regulation</i> also contain detailed requirements relating to the due diligence obligations of <i>full-scope UK AIFMs</i>.]</p>	
14	Fees, charges and expenses	
	A description of all fees, charges and expenses, including:	
	(1)	the maximum amounts directly or indirectly borne by investors;
	(2)	the payments that may be made out of the <i>scheme property</i> to any <i>person</i> whether by way of <i>remuneration</i> for services, reimbursement of expense, or charge or other payment and for each category of <i>remuneration</i> , expense, charge or payment the following should be specified:

		(a)	(i)	the <i>person</i> to whom the <i>remuneration</i> , charge, expense or payment is payable or made;
			(ii)	what that payment is for;
			(iii)	the current rates or amounts of such <i>remuneration</i> , charge, expense or payment;
			(iv)	how the <i>remuneration</i> , charge, expense or payment will be calculated;
			(v)	when it will be paid; and
			(iv)	where a performance fee is taken, whether by the <i>authorised fund manager</i> or any other <i>person</i> providing services to the <i>authorised fund manager</i> or the <i>long-term asset fund</i> in relation to the operation of the <i>scheme</i> , examples of how the performance fee works in plain English and the maximum it can amount to;
		(b)		if notice has been given to <i>unitholders</i> of the <i>authorised fund manager's</i> intention to:
			(i)	introduce a new category of <i>remuneration</i> for its services;
			(ii)	increase the basis of any current charge; or
			(iii)	change the basis of the treatment of a payment from the <i>capital property</i> set out in [COLL 15.8.15R(2)] (Payments);
				particulars of that introduction or increase and when it will take place; and
		(c)		if, in accordance with [COLL 15.8.15R(2)] (Payments), all or part of the <i>remuneration</i> or expense are to be treated as a capital charge:
			(i)	that fact; and
			(ii)	the basis of the charge which may be so treated; and
	(3)			if the <i>authorised fund manager</i> makes any charges on <i>sale</i> or <i>redemption</i> of <i>units</i> , details of the charging structure and how notice will be provided to <i>unitholders</i> of any increase.

	<p>[Note: <i>FUND</i> 3.2.2R(9).]</p> <p>[Note 2: Annex VI of the onshored Commission Delegated Regulation (EU) 2017/653 laying down regulatory technical standards with regard to the presentation, content, review and revision of <i>key information documents</i>, sets out detailed requirements in relation to the costs to be disclosed in a <i>key information document</i>.]</p>	
15	Fair treatment of investors and investor rights	
	(1)	A description of how the <i>authorised fund manager</i> ensures a fair treatment of investors.
	(2)	Whenever an investor obtains preferential treatment or the right to obtain preferential treatment, a description of:
	(a)	that preferential treatment;
	(b)	the type of investors who obtain such preferential treatment; and
	(c)	where relevant, their legal or economic links with the <i>LTAf</i> or the <i>authorised fund manager</i> .
	(3)	A description of the rights of investors.
	[Note: <i>FUND</i> 3.2.2R(4), (10) and (11).]	
16	Dealing	
	The procedure and conditions for the <i>issue</i> and <i>sale</i> of <i>units</i> or <i>shares</i> including details of the following, in fair, clear and plain language, using worked examples to explain how these procedures might apply to <i>unitholders</i> in practice:	
	(1)	the <i>dealing days</i> and times in the <i>dealing day</i> on which the <i>authorised fund manager</i> will receive requests for the <i>sale</i> and <i>redemption</i> of <i>units</i> ;
	(2)	the procedures for effecting:
	(a)	the <i>issue</i> and <i>cancellation</i> of <i>units</i> ;
	(b)	the <i>sale</i> and <i>redemption</i> of <i>units</i> ; and
	(c)	the settlement of transactions;

	(3)	the steps required to be taken by a <i>unitholder</i> in redeeming <i>units</i> before he can receive the proceeds, including any relevant notice periods, and the circumstances and periods where a deferral of payment as provided in [COLL 15.8.12R(3)] (Sale and redemption) may be applied;
	(4)	a description of the <i>LTAF's</i> liquidity risk management, including how an investor's ability to <i>redeem units</i> in the <i>LTAF</i> may be affected in exceptional circumstances, and the circumstances in which the <i>redemption</i> of <i>units</i> may be suspended;
	(5)	the <i>days</i> and times in the <i>day</i> on which recalculation of the <i>price</i> will commence;
	(6)	details of the minimum number or value of each type of <i>unit</i> in the <i>authorised fund</i> which:
	(a)	any one <i>person</i> may hold; and
	(b)	may be the subject of any one transaction of <i>sale</i> or <i>redemption</i> ;
	(7)	the circumstances in which the <i>authorised fund manager</i> may arrange for, and the procedure for, a <i>redemption</i> of <i>units</i> in specie;
	(8)	the circumstances in which the further <i>issue</i> of <i>units</i> in any particular <i>class</i> may be limited and the procedures relating to this;
	(9)	the circumstances in which direct <i>issue</i> or <i>cancellation</i> of <i>units</i> by the <i>ICVC</i> or the <i>depository</i> of an <i>AUT</i> or <i>ACS</i> (as appropriate) may occur and the relevant procedures for such <i>issues</i> and <i>cancellations</i> ;
	(10)	whether a <i>unitholder</i> may effect transfer of title to <i>units</i> on the authority of an <i>electronic communication</i> and if so the conditions that must be satisfied in order to effect a transfer;
	(11)	if the <i>authorised fund manager</i> deals as principal in <i>units</i> of the <i>scheme</i> and holds them for that purpose, a statement of its policy for doing so and, where applicable:
	(a)	a description of when the <i>authorised fund manager</i> may retain any profits it earns and absorb any losses it incurs for these activities; and
	(b)	a statement of non-accountability as referred to in [COLL 15.8.16G]; and
	(12)	any other features relating to <i>dealing</i> in <i>units</i> in the <i>scheme</i> which <i>unitholders</i> would reasonably expect to be aware of, including (but not limited to):

	(a)	any minimum periods for which <i>unitholders</i> must hold <i>units</i> in any <i>class</i> of the <i>scheme</i> ;
	(b)	any limits or caps on the number or value of <i>units</i> in any <i>class</i> that a <i>unitholder</i> may <i>redeem</i> , whether on one occasion or over a period of time;
	(c)	whether the <i>scheme</i> may use side-pockets, and if so the procedures for their use,
		using worked examples to explain the effects or consequences that these features may have on <i>unitholders</i> in the <i>scheme</i> .
	[Note: FUND 3.2.2R(8).]	
17	Issue of units in ACSs: eligible investors	
	(1)	A statement that <i>units</i> may not be <i>issued</i> to a <i>person</i> other than to a <i>person</i> :
	(a)	who is a:
	(i)	<i>professional ACS investor</i> ; or
	(ii)	<i>large ACS investor</i> ; or
	(iii)	<i>person</i> who already holds <i>units</i> in the <i>scheme</i> ; and
	(b)	to whom <i>units</i> in a <i>long-term asset fund</i> may be promoted under COBS 4.12.4R.
	(2)	A statement that the <i>authorised contractual scheme manager</i> of an <i>ACS</i> must <i>redeem units</i> as soon as practicable after becoming aware that those <i>units</i> are vested in anyone (whether as a result of subscription or transfer of <i>units</i>) other than a <i>person</i> meeting the criteria in (1).
	[Note: FUND 3.2.2R(12).]	
18	Transfer of units in ACSs	
	(1)	A statement whether the transfer of <i>units</i> in the <i>ACS scheme</i> is either:
	(a)	prohibited; or
	(b)	allowed;
		by the <i>instrument constituting the fund</i> and <i>prospectus</i> .

	(2)	A statement that where transfer of <i>units</i> is allowed by the <i>instrument constituting the fund</i> and <i>prospectus</i> in accordance with (1)(b), <i>units</i> may only be transferred in accordance with the conditions specified by <i>FCA rules</i> , including that <i>units</i> may not be transferred to a <i>person</i> other than a <i>person</i> :
	(a)	who is a:
	(i)	<i>professional ACS investor</i> ; or
	(ii)	<i>large ACS investor</i> ; or
	(iii)	<i>person</i> who already holds <i>units</i> in the <i>scheme</i> ; and
	(b)	to whom <i>units</i> in a <i>long-term asset fund</i> may be promoted under <i>COBS 4.12.4R</i> .
	(3)	For a <i>co-ownership scheme</i> which is an <i>umbrella</i> , a statement in accordance with (1)(a) or (1)(b) and, where appropriate, a statement in accordance with (2), must also be made for the <i>sub-funds</i> . Where individual <i>sub-funds</i> have differing policies in relation to transfer of <i>units</i> , separate statements are required.
	[Note: <i>FUND 3.2.2R(12)</i> .]	
19	Prime brokerage firms	
	(1)	The identity of any <i>prime brokerage firm</i> .
	(2)	A description of any material arrangements of the <i>LTAF</i> with its <i>prime brokerage firm</i> and the way any conflicts of interest are managed.
	(3)	The provision in the contract with the <i>depository</i> on the possibility of transfer and reuse of the <i>scheme property</i> of the <i>LTAF</i> .
	(4)	Information about any transfer of liability to the <i>prime brokerage firm</i> that may exist.
	[Note: <i>FUND 3.2.2R(16)</i> .]	
20	Distributions and accounting dates	
	Relevant details of accounting and distribution dates and a description of the procedures:	
	(1)	for determining and applying income (including how any distributable income is paid); and
	(2)	relating to unclaimed distributions.

21	The register of unitholders	
	Details of the address in the <i>United Kingdom</i> where the <i>register of unitholders</i> is kept and can be inspected by <i>unitholders</i> .	
22	Property Authorised Investment Funds	
	For a <i>property authorised investment fund</i> , a statement that:	
	(1)	it is a <i>property authorised investment fund</i> ;
	(2)	no <i>body corporate</i> may seek to obtain or intentionally maintain a holding of more than 10% of the net asset value of the <i>scheme</i> ; and
	(3)	in the event that the <i>authorised fund manager</i> reasonably considers that a <i>body corporate</i> holds more than 10% of the net asset value of the <i>scheme</i> , the <i>authorised fund manager</i> is entitled to delay any <i>redemption</i> or <i>cancellation of units</i> if the <i>authorised fund manager</i> reasonably considers such action to be:
		(a) necessary in order to enable an orderly reduction of the holding to below 10%; and
		(b) in the interests of the <i>unitholders</i> as a whole.
23	General information	
	Details as to:	
	(1)	when annual and half- yearly reports will be published; and
	(2)	the address at which copies of the <i>instrument constituting the fund</i> , any amending instrument and the most recent annual reports may be inspected and from which copies may be obtained.
24	Winding up of the LTAF	
	Information detailing the circumstances in which the <i>authorised fund</i> may be wound up under the <i>rules</i> in <i>COLL</i> and a summary of the procedure for, and the rights of <i>unitholders</i> under, such a winding up.	
25	Information on the umbrella	
	In the case of a <i>scheme</i> which is an <i>umbrella</i> , the following information:	
	(1)	that a <i>unitholder</i> may exchange <i>units</i> in one <i>sub-fund</i> for <i>units</i> in another <i>sub-fund</i> and that such an exchange is treated as a <i>redemption</i> and <i>sale</i> ;

	(2)	what charges may be made on exchanging <i>units</i> in one <i>sub-fund</i> for <i>units</i> in other <i>sub-funds</i> ;
	(3)	the policy for allocating between <i>sub-funds</i> any assets of, or costs, charges and expenses payable out of, the <i>scheme property</i> which are not attributable to any particular <i>sub-fund</i> ;
	(4)	in respect of each <i>sub-fund</i> , the currency in which the <i>scheme property</i> allocated to it will be valued and the <i>price</i> of <i>units</i> calculated and payments made, if this currency is not the <i>base currency</i> of the <i>umbrella</i> ;
	(5)	the circumstances in which a <i>sub-fund</i> may be terminated under the <i>rules</i> in <i>COLL</i> and a summary of the procedures for, and the rights of <i>unitholders</i> under, such a termination;
	(6)	for an <i>ICVC</i> or a <i>co-ownership scheme</i> , that:
	(a)	for an <i>ICVC</i> , its <i>sub-funds</i> are segregated portfolios of assets and, accordingly, the assets of a <i>sub-fund</i> belong exclusively to that <i>sub-fund</i> and shall not be used to discharge directly or indirectly the liabilities of, or claims against, any other <i>person</i> or body, including the <i>umbrella</i> , or any other <i>sub-fund</i> , and shall not be available for any such purpose;
	(b)	for a <i>co-ownership scheme</i> , the property subject to a <i>sub-fund</i> is beneficially owned by the <i>participants</i> in that <i>sub-fund</i> as tenants in common (or, in Scotland, is the common property of the <i>participants</i> in that <i>sub-fund</i>) and must not be used to discharge any liabilities of, or meet any claims against, any <i>person</i> other than the participants in that <i>sub-fund</i> ; and
	(c)	for an <i>ICVC</i> or a <i>co-ownership scheme</i> , while the provisions of the <i>OEIC Regulations</i> , and section 261P (Segregated liability in relation to umbrella co-ownership schemes) of the <i>Act</i> in the case of <i>co-ownership schemes</i> , provide for segregated liability between <i>sub-funds</i> , the concept of segregated liability is relatively new. Accordingly, where claims are brought by local creditors in foreign courts or under <i>foreign law contracts</i> , it is not yet known how those foreign courts will react to regulations 11A and 11B of the <i>OEIC Regulations</i> or, as the case may be, section 261P of the <i>Act</i> ; and
	(7)	the <i>FCA</i> product reference number (PRN) of each <i>sub-fund</i> .
26	Application of the prospectus contents to an umbrella	
	For a <i>scheme</i> which is an <i>umbrella</i> , information required must be stated:	

	(1)	in relation to each <i>sub-fund</i> where the information for any <i>sub-fund</i> differs from that for any other; and
	(2)	for the <i>umbrella</i> as a whole, but only where the information is relevant to the <i>umbrella</i> as a whole.
27	Investment in overseas property through an intermediate holding vehicle	
	If investment in an overseas immovable is to be made through an <i>intermediate holding vehicle</i> or a series of <i>intermediate holding vehicles</i> , a statement:	
	(1)	disclosing the existence of that <i>intermediate holding vehicle</i> or series of <i>intermediate holding vehicles</i> ; and
	(2)	confirming that the purpose of that <i>intermediate holding vehicle</i> or series of <i>intermediate holding vehicles</i> is to enable the holding of overseas immovables by the <i>scheme</i> .
28	Information on authorised contractual schemes	
	A statement that:	
	(1)	a <i>unitholder</i> in a <i>co-ownership scheme</i> is not liable to make any further payment after he has paid the price of his <i>units</i> and that no further liability can be imposed on him in respect of the <i>units</i> he holds;
	(2)	a <i>unitholder</i> in a <i>limited partnership scheme</i> is not liable for the debts or obligations of the <i>limited partnership scheme</i> beyond the amount of the <i>scheme property</i> which is available to the <i>authorised contractual scheme manager</i> to meet such debts or obligations, provided that the <i>unitholder</i> does not take part in the management of the partnership business;
	(3)	the exercise of rights conferred on <i>limited partners</i> by <i>FCA rules</i> does not constitute taking part in the management of the partnership business; and
	(4)	the <i>scheme property</i> of a <i>co-ownership scheme</i> is beneficially owned by the <i>participants</i> as tenants in common (or, in Scotland, is the common property of the <i>participants</i>).

29	Additional information
	Any other material information which is within the knowledge of the <i>directors</i> of an <i>ICVC</i> or the <i>authorised fund manager</i> of an <i>AUT</i> or <i>ACS</i> , or which the <i>directors</i> or <i>authorised fund manager</i> would have obtained by the making of reasonable enquiries which investors and their professional advisers would reasonably require, and reasonably expect to find in the <i>prospectus</i> , for the purpose of making an informed judgement about the merits of investing in the <i>authorised fund</i> and the extent and characteristics of the risks accepted by participating.

[**Note:** In *COBS* 4.12, a reference to a *qualified investor scheme* includes a *long-term asset fund*. This is because of the extended meaning of *qualified investor scheme* in *rules* and *guidance* outside of *COLL*.]

Additional information to be made available on securities financing transactions and total return swaps

- 15.4.6 G (1) The *Securities Financing Transactions Regulation* sets out the additional information which an *authorised fund manager* of a *long-term asset fund* must make available to investors before they invest.
- (2) *COLL* 4.2.5BUK and *COLL* 4.2.5CUK copy out the relevant provisions of that regulation.
- (3) An *authorised fund manager* of a *long-term asset fund* should publish the information in the *prospectus*.
- (4) An *authorised fund manager* of a *long-term asset fund* that does not use *securities financing transactions* or *total return swaps* is not required to include the information in *COLL* 4.2.5CUK in the *prospectus* or other pre-sale documents.

Preparation of key information document in accordance with the *PRIIPs* regulation

- 15.4.7 G (1) The *PRIIPs Regulation* requires the manufacturer of a *PRIIP* to draw up a *key information document* in accordance with the *PRIIPs Regulation* before that *PRIIP* is made available to retail investors (as defined in the *PRIIPs Regulation*).
- (2) The requirements of the *PRIIPs Regulation* form part of *UK* law by virtue of the *EUWA*.
- (3) As a result, when a *long-term asset fund* is made available to *retail clients*, the *authorised fund manager* in the *United Kingdom* must comply with the *PRIIPs Regulation* and will need to prepare a *key information document* in accordance with the *PRIIPs Regulation*, in addition to the *prospectus*.

15.5 Annual report and investor relations

Application

- 15.5.1 R This section applies to:
- (1) the *authorised fund manager* of an *AUT*, *ACS* or an *ICVC*; and
 - (2) an *ICVC*,
- which is a *long-term asset fund*.

Report and accounts

- 15.5.2 R
- (1) The *authorised fund manager* must prepare a report in respect of each *annual accounting period*, *half-yearly accounting period* and *quarterly reporting period*.
 - (2) Where the first *annual accounting period* of a *scheme* is less than 12 *months*, a half-yearly report need not be prepared.
 - (3) The *authorised fund manager* must:
 - (a) publish the annual report not more than four *months* after the end of each relevant *annual accounting period*;
 - (b) publish the half-yearly report not more than two *months* after the end of each relevant *half-yearly accounting period*; and
 - (c) publish the quarterly report not more than 20 *business days* after the end of each relevant *quarterly reporting period*,

and in each case provide a copy free of charge on request to any *unitholder*.
 - (4) The *authorised fund manager* must provide free of charge, on the request of any *person* eligible to invest in the *scheme*, a copy of the latest:
 - (a) annual report and (if more recent) half-yearly report; and
 - (b) quarterly report,

before the conclusion of any *sale* to such a *person*.
 - (5) The *authorised fund manager* must provide a copy of each annual, half-yearly and quarterly report to the *FCA*.

- (6) For a *scheme* which is an *umbrella*, any annual report provided under (3) or (4) may be a report prepared under [COLL 15.5.3R(3)], but the *authorised fund manager* must nevertheless provide free of charge the report prepared under [COLL 15.5.3R(2)] if a *unitholder* or any other *person* eligible to invest in the *scheme* requests it.

Contents of the annual report

- 15.5.3 R (1) An annual report, other than for a *scheme* which is an *umbrella*, must contain:
- (a) the accounts for the *annual accounting period* prepared in accordance with the requirements of the *IMA SORP*;
 - (b) the report of the *authorised fund manager* in accordance with [COLL 15.5.6R] (Authorised fund manager's report);
 - (c) comparative information in accordance with COLL 4.5.10R (1A) and (2A) (Comparative information);
 - (d) the report of the *depository* in accordance with [COLL 15.5.7R] (Report of the depository); and
 - (e) the report of the auditor in accordance with COLL 4.5.12R (Report of the auditor).
- (2) An annual report on a *scheme* which is an *umbrella* must be prepared for the *umbrella* as a whole and must contain:
- (a) for each *sub-fund*:
 - (i) the accounts required by (1)(a);
 - (ii) the report of the *authorised fund manager* in accordance with [COLL 15.5.6R]; and
 - (iii) comparative information in accordance with COLL 4.5.10R(1A) and (2A);
 - (b) the report of the *depository* in accordance with [COLL 15.5.7R]; and
 - (c) the report of the auditor in accordance with COLL 4.5.12R.
- (3) The *authorised fund manager* of a *scheme* which is an *umbrella* may, in addition to complying with (2), prepare a further annual report for any one or more individual *sub-funds* of the *umbrella*, in which case it must contain:
- (a) for the *sub-fund*:

- (i) the accounts required by (1)(a);
 - (ii) the report of the *authorised fund manager* in accordance with [COLL 15.5.6R]; and
 - (iii) comparative information in accordance with COLL 4.5.10R(1A) and (2A);
- (b) the report of the *depository* in accordance with [COLL 15.5.7R]; and
- (c) the report of the auditor in accordance with COLL 4.5.12R.
- (4) The *directors* of an *ICVC* or the *authorised fund manager* of an *AUT* or *ACS* must ensure that the accounts referred to in (1)(a), (2)(a) and (3)(a) give a true and fair view of the net revenue and the net capital gains or losses on the *scheme property* of the *authorised fund* or *sub-fund* for the relevant *annual accounting period*, and of the financial position of the *authorised fund* or *sub-fund* as at the end of that period.
- (5) An annual report of a *long-term asset fund* must also contain a statement setting out a description of the assessment of value required by [COLL 15.7.13R] including:
- (a) a separate discussion and conclusion for the matters covered in each paragraph of COLL 6.6.21R, and for each other matter that formed part of the assessment, covering the considerations taken into account in the assessment, a summary of its findings and the steps undertaken as part of or as a consequence of the assessment;
 - (b) an explanation for any case in which benefits from economies of scale that were identified in the assessment have not been passed on to *unitholders*;
 - (c) an explanation for any case in which *unitholders* hold *units* in a *class* for which the payments out of *scheme property* in relation to that *class* as set out in the *prospectus* (in this rule, “charges”) are higher than those applying to other *classes* of the same *scheme* with substantially similar rights;
 - (d) the conclusion of the *authorised fund manager’s* assessment of whether the charges are justified in the context of the overall value delivered to the *unitholders* in the *scheme*; and
 - (e) if the assessment has identified that the charges are not justified in the context of the overall value delivered to the *unitholders*, a clear explanation of what action has been or will be taken to address the situation.

- (6) An annual report of a *long-term asset fund* must also contain a statement setting out a description of the assessment required by [COLL 15.7.16R] (Assessment of investment valuations, due diligence, conflicts of interest and liquidity management), including:
- (a) a separate discussion and conclusion for each of the matters specified in [COLL 15.7.17R] (Table: minimum considerations – assessment of investment valuations, due diligence, conflicts of interest and liquidity management) and for each other matter that formed part of the assessment;
 - (b) a summary of the assessment’s findings and the steps undertaken as part of or as a consequence of the assessment; and
 - (c) the conclusion of the *authorised fund manager’s* assessment of how it managed the *LTAf* in the best interests of the *scheme*, its investors and the integrity of the market.

Information to be included in annual reports on securities financing transactions and total return swaps

- 15.5.4 G (1) The *Securities Financing Transactions Regulation* sets out the additional information which an *authorised fund manager* who is a *full-scope UK AIFM* of a *long-term asset fund* must include in the *scheme’s* annual report.
- (2) COLL 4.5.8ABUK and COLL 4.5.8ACUK copy out the relevant provisions of that regulation.
- (3) An *authorised fund manager* of a *long-term asset fund* that has not used *securities financing transactions* or *total return swaps* during the relevant *annual accounting period* is not required to include the information in COLL 4.5.8ACUK in its reports.

Contents of the half-yearly report

- 15.5.5 R (1) A half-yearly report on an *authorised fund* or *sub-fund* must contain:
- (a) the accounts for the half-yearly accounting period which must be prepared in accordance with the requirements of the *IMA SORP*; and
 - (b) the report of the *authorised fund manager* in accordance with [COLL 15.5.6R].
- (2) For a *scheme* which is an *umbrella*, the *authorised fund manager* may choose whether the half-yearly report is prepared for the *umbrella* as a whole, or for each individual *sub-fund*, or both.

Authorised fund manager's report

- 15.5.6 R The report of the *authorised fund manager* must include:
- (1) a review of the investment activities during the period to which the report relates;
 - (2) a portfolio statement prepared in accordance with the requirements of the *IMA SORP*;
 - (3) in the case of an *umbrella* which has more than one *sub-fund*, particulars in the form of a table showing, as at the end of the period to which the report relates:
 - (a) for each *sub-fund*, the number of *units* in that *sub-fund* that were held by a second *sub-fund* of that *umbrella*; and
 - (b) the value of each such holding;

or, alternatively, a statement that there were no such holdings as at the end of that period;
 - (4) particulars of any fundamental or significant change to the *authorised fund* made since the date of the last report;
 - (5) in relation to each *scheme* or *sub-fund* which is a *long-term asset fund*:
 - (a) the amount of any *remuneration*, charge, payment or expense paid out of the *scheme property* during the period to which the report relates;
 - (b) the *person* to whom that amount was paid;
 - (c) what that *remuneration*, charge, payment or expense was for; and
 - (d) how the *remuneration*, charge, payment or expense was calculated; and
 - (6) any other information which would enable *unitholders* to make an informed judgement on the development of the activities of the *authorised fund* during the period and the results of those activities as at the end of the period.

Report of the depositary

- 15.5.7 R
- (1) The *depositary* must make an annual report to *unitholders* which must be included in the annual report.
 - (2) The *depositary's* report must contain:

- (a) a description, which may be in summary form, of the duties of the *depository* under [COLL 15.7.6R] (Duties of the depository) and in respect of the safekeeping of the *scheme property*;
- (b) in relation to its oversight and monitoring obligations:
 - (i) a description of the reasonable steps the *depository* has taken to ensure that the *LTAF* has been managed in accordance with each of the matters specified in COLL 15.7.6R(2)(g) (Duties of the depository); and
 - (ii) where an *external valuer* has not been appointed, a statement setting out the *depository's* determination without qualification of whether the *authorised fund manager* possesses the knowledge, skills and experience required by COLL 15.2.6R(2)(a) (Appointment of external valuer or authorised fund manager with knowledge, skills and experience of valuing long-term assets), and the reasons for the determination; and
- (c) a statement as to whether in any material respect:
 - (i) the *issue, sale, redemption and cancellation* and calculation of the *price* of the *units* and the application of the *authorised fund's* revenue, have not been carried out in accordance with the *rules* in this sourcebook and, where applicable, the *OEIC Regulations* and the *instrument constituting the fund*; and
 - (ii) the investment and borrowing powers and restrictions applicable to the *authorised fund* have been exceeded.

Signing of the annual and half-yearly reports

- 15.5.8 R The annual reports in [COLL 15.5.3R(1) and (2)] and the half-yearly reports in [COLL 15.5.5R(1)] must:
- (1) in the case of an *ICVC*, if there is:
 - (a) more than one *director*, be approved by the board of *directors* and signed on their behalf by the *ACD* and at least one other *director*; or
 - (b) no *director* other than the *ACD*, be signed by the *ACD*;
 - (2) in the case of an *AUT* or *ACS*, if the *authorised fund manager* has:
 - (a) more than one *director*, be signed by at least two *directors* of the *authorised fund manager*; or

- (b) only one director, be signed by the director of the *authorised fund manager*.

Quarterly reports

- 15.5.9 R (1) A quarterly report must contain details of any transactions executed by, or for or on behalf of, the *long-term asset fund* in the relevant *quarterly reporting period* which have resulted in assets being held in the *LTAF's scheme property*, including:
- (a) the date of each transaction;
 - (b) details of the asset and type of asset which was the subject of the transaction; and
 - (c) an explanation of how the transaction is consistent with the *LTAF's* investment objectives, investment policy and investment strategy.
- (2) A *quarterly reporting period* for a *long-term asset fund* must be determined in accordance with (a) to (c).
- (a) Each *quarterly reporting period* must be three *months* long.
 - (b) There must be four consecutive *quarterly reporting periods* in each *annual accounting period*.
 - (c) The first *quarterly reporting period* in each *annual accounting period* must begin when the *annual accounting period* begins.

Alterations to the scheme and notices to unitholders

- 15.5.10 R (1) Any proposed change which would be reasonably considered to be a fundamental change to the *scheme* requires the prior sanction of an *extraordinary resolution* of the *unitholders*.
- (2) Any proposed change to the scheme which is not within (1) but which would be reasonably considered to be significant, requires the giving of reasonable notice to *unitholders* to become effective.
- (3) Alterations affecting only a particular *sub-fund* or *class* of *units* may be approved in accordance with (1) or (2) for the particular *sub-fund* or *class* of *units*, with the consent of, or, as the case may be, notice to, the relevant *unitholders*.
- (4) This *rule* and [COLL 15.5.12R] (Meetings) will apply (unless the context requires otherwise) to alterations concerning *unitholders* of a particular *sub-fund* or *class* of *units* rather than the *scheme* or *sub-fund* as a whole.

Alterations to the scheme and notices to unitholders: guidance

- 15.5.11 G Although account should be taken of the *guidance* on fundamental changes (*COLL* 4.3.5G (Guidance on fundamental changes)) and significant changes (*COLL* 4.3.7G (Guidance on significant changes)) the impact of any change to the *scheme* should be assessed individually based on the nature of the *scheme* and its investor profile.

Meetings

- 15.5.12 R (1) Details of the procedures for the convening and conducting of meetings and resolutions must be set out in the *instrument constituting the fund* and be reasonable and fair as between all relevant parties.
- (2) The *authorised fund manager* must record and keep minutes for six years of all proceedings to which [*COLL* 15.5.10R] (Alterations to the scheme and notices to unitholders) and this *rule* are relevant.
- (3) The provisions in *COLL* 4.4.12R (Notices to unitholders), *COLL* 4.4.13R (Other notices) and *COLL* 4.4.14G (References to writing and electronic documents) apply in relation to *long-term asset funds*.

15.6 Investment and borrowing powers

Application

- 15.6.1 R This section applies to:
- (1) the *authorised fund manager* of an *AUT*, *ACS* or an *ICVC*;
 - (2) the *depository* of an *AUT*, *ACS* or an *ICVC*; and
 - (3) an *ICVC*,
- which is a *long-term asset fund*.
- 15.6.2 R (1) Where this section refers to a second *scheme*, and the second *scheme* is a feeder *scheme*, which (in respect of investment in *units* in *collective investment schemes*) is dedicated to *units* in a single *collective investment scheme*, the reference in this section to the second *scheme* must be read as if it were a reference to any *scheme* into which the feeder *scheme*'s master *scheme* invests.
- (2) Where this section refers to a second *scheme*, and the second *scheme* is a master *scheme* to which (in respect of investment in *units* in *collective investment schemes*) the relevant *long-term asset fund* is dedicated, the reference in this section to the second *scheme* must be read as if it were a reference to any *scheme* into which that master *scheme* invests.

Prudent spread of risk

- 15.6.3 R (1) An *authorised fund manager* must ensure that, taking account of the investment objectives, policy and strategy of the *long-term asset fund* as stated in its most recently published *prospectus*, the *scheme property* of the *long-term asset fund* aims to provide a prudent spread of risk.
- (2) The *rules* in this section relating to the limits on *investments* held in the *scheme property* do not apply until 24 *months* after the later of:
- (a) the date when the *authorisation order* in respect of the *long-term asset fund* takes effect; and
 - (b) the date the initial offer commenced;
- provided that (1) is complied with during such period.
- 15.6.4 G For the purpose of *COLL* 15.6.3R(1), an *authorised fund manager* should consider the risks to which the *LTAF* is exposed, including:
- (1) whether the assets or *investments* held in the *scheme property* provide a sufficient diversification of exposure including, for example, in respect of the underlying assets or *investments* held by any holding company or other *collective investment scheme*;
 - (2) the spread of any other risks arising from the assets or *investments* held in the *scheme property* of the *LTAF* such as *market risks*, credit risks, liquidity risks and *counterparty risks*.

[**Note:** Article 44 of the *AIFMD level 2 regulation*.]

Investment powers: general

- 15.6.5 R (1) The *scheme property* of a *long-term asset fund* may, subject to the *rules* in this chapter, comprise any assets or *investments* to which it is dedicated.
- (2) The *instrument constituting the fund* and the *prospectus* may further restrict:
- (a) the kinds of assets in which the *scheme property* may be invested;
 - (b) the types of transactions permitted and any relevant limits; and
 - (c) the borrowing powers of the *scheme*.

Long-term asset funds: investment strategy

- 15.6.6 R The investment strategy of a *long-term asset fund* must be to invest mainly in long-term illiquid assets.
- 15.6.7 G The *FCA* would expect *long-term asset funds* to invest mainly (more than 50% of the value of the *scheme property*) in unlisted *securities* and other long-term assets such as interests in immovables or other *collective investment schemes* investing in such *securities* or long-term assets. However, a *long-term asset fund* could have a strategy of investing mainly in a mix of unlisted assets and listed but illiquid assets.

Long-term asset funds: general

- 15.6.8 R The *scheme property* of a *long-term asset fund* must, except where otherwise provided by the *rules* in this chapter, consist only of one or more of the following to which it is dedicated:
- (1) any *specified investment*:
 - (a) within articles 74 to 86 of the *Regulated Activities Order*;
 - (b) within article 89 (Rights to or interests in investments) of the *Regulated Activities Order* where the right or interest relates to a specified investment within (a);
 - (2) (to the extent not within (a)), an interest in a loan which has been originated by the *long-term asset fund* or in which the *long-term asset fund* participates, provided that:
 - (a) the loan was not originated to:
 - (i) a natural person;
 - (ii) a *fund*;
 - (iii) a *firm*;
 - (iv) an *affiliated company* of a *firm*; or
 - (v) a *person* who intends to use, or uses, the credit for the purpose of investing in a *security*, *derivative*, *cryptoasset derivative*, an *unregulated transferable cryptoasset*, *precious metals* or a *commodity contract* within (5);
 - (b) the investment in the loan does not give rise to any conflict of interest; and
 - (c) none of the following *persons* has a commercial interest in the loan:

- (i) the *authorised fund manager*;
 - (ii) a *relevant person*;
 - (iii) a *person* providing services to the *authorised fund manager*; or
 - (iv) an *affiliated company* or an *associate* of any *person* in (i) to (iii);
- (3) an interest in an immovable under [COLL 15.6.18R] (Investment in property);
 - (4) *precious metals*; or
 - (5) a *commodity* contract traded on an *RIE* or a *recognised overseas investment exchange*.

Investment in collective investment schemes

- 15.6.9 R (1) Subject to (2), a *long-term asset fund* may invest in *units* in a *scheme* (a ‘second scheme’) only if the second *scheme* is:
- (a) a *regulated collective investment scheme*; or
 - (b) a *scheme* not within (a) where the *authorised fund manager* has taken reasonable care to determine that:
 - (i) it is the subject of an independent annual audit conducted in accordance with international standards on auditing;
 - (ii) the calculation of the net asset value of each of the second *schemes* and the maintenance of their accounting records is segregated from the investment management function;
 - (iii) it (and any master *scheme* to whose *units* it is dedicated) is prohibited from investing in the *long-term asset fund*, or, if there is no such prohibition, the *authorised fund manager* is satisfied, on reasonable grounds and after making all reasonable enquiries, that no such investment will be made by either the second *scheme* or any *fund* in which the second *scheme* invests; and
 - (iv) it operates in accordance with the principle of prudent risk spreading as described in [COLL 15.6.3R].

- (2) A *long-term asset fund* must not invest more than 20% in value of the *scheme property* in *units* in second *schemes* which are unregulated *schemes*, *qualified investor schemes* or *long-term asset funds* unless the *authorised fund manager* has carried out appropriate due diligence on each of the second *schemes* and has taken reasonable care to determine that, after making all reasonable enquiries and on reasonable grounds, the second *scheme* complies with relevant legal and regulatory requirements.
- (3) The *authorised fund manager* of a *long-term asset fund* with more than 20% in value of the *scheme property* invested in one or more second *schemes* which are unregulated *schemes*, *qualified investor schemes* or *long-term asset funds* must carry out appropriate due diligence on those *schemes* on an ongoing basis.

Investment in a collective investment scheme that is an umbrella

- 15.6.10 R Where the second *scheme* in [COLL 15.6.9R] is an *umbrella*, the provisions apply to each *sub-fund* as if it were a separate *scheme*.
- 15.6.11 G
- (1) The *guidance* at COLL 5.7.11G applies to an *authorised fund manager* of a *long-term asset fund* carrying out due diligence for the purpose of [COLL 15.6.9R], as if that *guidance* related to [COLL 15.6.9R].
 - (2) Where COLL 5.7.11G(10) refers to COLL 6.3 (Valuation and pricing), that reference should be read as if it were a reference to [COLL 15.8.2R] (Valuation, pricing and dealing).
 - (3) In addition to the *guidance* at COLL 5.7.11G the *authorised fund manager* should, as part of its due diligence process, consider whether the property of each of the second *schemes* is held in safekeeping by a third party, which is subject to prudential regulation and independent of the investment manager of the second *scheme* and, if not, what controls over the property of the second *scheme* are in place to protect investors.
 - (4) Further specific requirements relating to due diligence apply to the *authorised fund manager* of a *long-term asset fund* under the *rules* in this chapter and in articles 18 to 20 of the *AIFMD level 2 regulation*.

Delivery of property under a transaction in derivatives or a commodities contract

- 15.6.12 R
- (1) An *authorised fund manager* must take reasonable care to determine the following when entering into any transaction in *derivatives* or any *commodity* contract which may result in any asset becoming part of the *scheme property*:
 - (a) if it is an asset in which the *scheme property* could be invested, that the transaction:
 - (i) can be readily closed out; or

- (ii) would at the expected time of delivery relate to an asset which could be included in the *scheme property* under the *rules* in this chapter; or
- (b) in any other case, that the transaction can be readily closed out.
- (2) An *authorised fund manager* may acquire an asset within (1) if its determination has proved incorrect and if it determines that acquisition is in the interests of the *unitholders*, provided it has the consent of the *depository*.
- (3) Any asset within (1) acquired in accordance with (2) may form part of the *scheme property* despite any other *rule* in this chapter until the position can be rectified.

Cover for transactions in derivatives and forward transactions

- 15.6.13 R (1) A transaction in *derivatives* or a forward transaction may be entered into only if the maximum exposure, in terms of the *principal* or *notional principal* created by the transaction to which the *scheme* is or may be committed by another *person*, is covered globally under (2).
- (2) Exposure is globally covered if adequate cover from within the *scheme property* is available to meet the *scheme's* total exposure taking into account any reasonably foreseeable market movement.
- (3) The total exposure relating to *derivatives* held in a *long-term asset fund* may not exceed the net value of the *scheme property*.
- (4) No element of cover may be used more than once.

Valuation of an OTC derivative

- 15.6.14 R A transaction in an *OTC derivative* must be capable of valuation which it will only be if the *authorised fund manager* having taken reasonable care determines that, throughout the life of the *derivative* (if the transaction is entered into), it will be able to value the *investment* concerned with reasonable accuracy:
- (1) on the basis of the pricing model; or
 - (2) on some other reliable basis reflecting an up-to-date market value;
- which has been agreed between the *authorised fund manager* and the *depository*.

Continuing nature of limits and requirements

- 15.6.15 R (1) An *authorised fund manager* must, as frequently as necessary to ensure compliance with [COLL 15.6.13R(2)] and [COLL 15.6.13R(4)], re-calculate the amount of cover required in respect of *derivatives* and forward transactions in existence under this chapter.
- (2) *Derivatives* and forward transactions may be retained in the *scheme property* only so long as they remain covered globally under [COLL 15.6.13R].
- (3) An *authorised fund manager* must use a risk management process enabling it to monitor and measure as frequently as appropriate the risk of a *scheme's derivatives* positions and their contribution to the overall risk profile of the *scheme*.

Permitted stock lending

- 15.6.16 R (1) The *ICVC*, or the *depository* at the request of the *ICVC*, or the *depository* of an *AUT* or *ACS* at the request of the *authorised fund manager*, may enter into a *repo* contract or a *stock lending arrangement* within section 263B of the Taxation of Chargeable Gains Act 1992 (without extension by section 263C).
- (2) The *depository* must ensure that the value of any *collateral* for the *stock lending arrangement* is at all times at least equal to the value of the securities transferred by the *depository*.
- (3) In the case of the expiry of validity of any *collateral*, the duty in (2) is satisfied if the *depository* or the *authorised fund manager*, as appropriate, takes reasonable care to determine that sufficient *collateral* will be transferred by close of business on the *day* of expiry.

General power to borrow

- 15.6.17 R (1) The *ICVC* or *depository* of an *AUT* or *ACS* (on the instructions of the *authorised fund manager*) may borrow money for the use of the *authorised fund* on terms that the borrowing is to be repayable out of the *scheme property*.
- (2) The *authorised fund manager* must ensure that the *authorised fund's* borrowing does not, on any *day*, exceed 30% of the net value of the *scheme property* and must take reasonable care to ensure that arrangements are in place that will enable borrowings to be closed out to ensure such compliance.
- (3) In this *rule* “borrowing” also includes any arrangement (including a combination of *derivatives*) designed to achieve a temporary injection of money into the *scheme property* in the expectation that the sum will be repaid.

- (4) Where the limit in (2) is breached, the *authorised fund manager* must take action in accordance with the principles set out in [COLL 15.7.3R(3)] to [COLL 15.7.3R(5)] (Duties of the authorised fund manager: investment and borrowing powers) to deal with that breach.

Investment in property

- 15.6.18 R (1) Any investment in land or a building held within the *scheme property* of a *long-term asset fund* must be in an immovable within (2).
- (2) For an immovable:
- (a) it must be situated in a country or territory identified in the *prospectus*;
 - (b) the *authorised fund manager* must have taken reasonable care to determine that the title to the interest in the immovable is a good marketable title; and
 - (c) the *authorised fund manager* of an *AUT* or *ACS* or the *ICVC* must have received a report from an *appropriate valuer* that:
 - (i) contains a valuation of the interest in the immovable (with and without any relevant existing mortgage); and
 - (ii) states that in the *appropriate valuer's* opinion the interest in the immovable would, if acquired by the *scheme*, be capable of being disposed of at that valuation in a timeframe which is consistent with the *LTAF's* liquidity profile and redemption policy;
 - (d) unless (c) is satisfied, the *authorised fund manager* of an *AUT* or *ACS* or the *ICVC* must have received a report from an *appropriate valuer* valuing the interest in the immovable and stating that:
 - (i) the immovable is adjacent to or in the vicinity of another immovable included in the *scheme property*; and
 - (ii) in the opinion of the *appropriate valuer*, the total value of the interests in both immovables would at least equal the sum of the price payable for the interest in the immovable and the existing value of the interest in the other immovable; and
 - (e) it must not be bought:
 - (i) if it becomes apparent to the *authorised fund manager* that the report in either (c) or (d) could no longer reasonably be relied upon; or

- (ii) at a price more than 105% of the valuation relevant to the interest for that immovable in the report in either (c) or (d).
- (3) Any contents of any building may be regarded as part of the relevant immovable.
- (4) An *appropriate valuer* must be a person who:
 - (a) has knowledge of and experience in the valuation of immovables of the relevant kind in the relevant area;
 - (b) is qualified to be a *standing independent valuer* of an *authorised fund* or is considered by the *scheme's standing independent valuer* to hold an equivalent qualification;
 - (c) is independent of the *ICVC*, the *depository* and each of the *directors* of the *ICVC* or of the *authorised fund manager* and *depository* of the *AUT* or *ACS*; and
 - (d) has not engaged himself or any of his *associates* in relation to the finding of the immovable for the *scheme* or the finding of the *scheme* for the immovable.

Investment in overseas property through an intermediate holding vehicle

- 15.6.19 R (1) An overseas immovable may be held by a *scheme* through an *intermediate holding vehicle* whose purpose is to enable the holding of immovables by the *scheme* or a series of such *intermediate holding vehicles*, provided that the interests of *unitholders* are adequately protected. Any investment in an *intermediate holding vehicle* for the purpose of holding an overseas immovable shall be treated for the purposes of this section as if it were a direct investment in that immovable.
- (2) An *intermediate holding vehicle* must be wholly owned by the *scheme* or another *intermediate holding vehicle* or series of *intermediate holding vehicles* wholly owned by the *scheme*, unless and to the extent that local legislation or regulation relating to the *intermediate holding vehicle* holding the immovable requires a proportion of local ownership.
- 15.6.20 G (1) The *authorised fund manager* may transfer capital and income between an *intermediate holding vehicle* and the *scheme* by the use of inter-company debt if the purpose of this is for investment in immovables and repatriation of income generated by such investment. In using inter-company debt, the *authorised fund manager* should ensure the following:
- (a) a record of inter-company debt is kept in order to provide an accurate audit trail; and

- (b) interest paid out on the debt instruments is equivalent to the net rental income earned from the immovables after deduction of the *intermediate holding vehicle's* reasonable running costs (including tax).
- (2) An *intermediate holding vehicle* should undertake the purchase, sale and management of immovables on behalf the scheme in accordance with the *scheme's* investment objectives and policy.
- (3) Wherever reasonably practicable, an *intermediate holding vehicle* should have the same auditor and accounting reference date as the *scheme*.
- (4) The accounts of any *intermediate holding vehicle* should be consolidated into the annual and interim reports of the *scheme*.
- (5) The *authorised fund manager* should provide sufficient information to enable the *depository* to fulfil its duties under *COLL* in relation to the immovables held through an *intermediate holding vehicle*.

Investment limits for immovables

- 15.6.21 R The following limits apply in respect of immovables held as part of the *scheme property*:
- (1) the amount secured by mortgages over any immovable must not exceed 100% of the latest valuation by an *appropriate valuer* under [COLL 15.6.18R(2)(c) or [COLL 15.6.18R(2)(d)] or [COLL 15.6.22R], as appropriate;
 - (2) no option may be granted to a *person* to buy or obtain an interest in any immovable comprised in the *scheme property* if this might unduly prejudice the ability to provide *redemption*; and
 - (3) the total of all premiums paid for options to purchase immovables must not exceed 10% of the *scheme* value in any 12-month period, calculated at the date of the granting of the option.

Standing independent valuer and valuation

- 15.6.22 R (1) In relation to the appointment of a valuer the *authorised fund manager* must:
- (a) at the outset appoint the *standing independent valuer* with the approval of the *depository* and likewise upon any vacancy; and
 - (b) ensure that any immovables in the *scheme property* are valued by an *appropriate valuer* (*standing independent valuer*) appointed by the *authorised fund manager*.

- (2) The following apply in relation to the functions of the *standing independent valuer*:
- (a) the *authorised fund manager* must ensure that the *standing independent valuer* appointed under (1), procures the valuation of all the immovables held within the *scheme property*, on the basis of a full valuation with physical inspection (including, where the immovable is or includes a building, internal inspection) at least once a year;
 - (b) for the purposes of (a), any inspection in relation to adjacent properties of a similar nature and value may be limited to that of only one such representative property;
 - (c) the *authorised fund manager* must ensure that the *standing independent valuer* values the immovables, on the basis of a review of the last full valuation, at least once a *month*;
 - (d) if either the *authorised fund manager* or the *depository* becomes aware of any matter which appears likely to:
 - (i) affect the outcome of a valuation of an immovable; or
 - (ii) cause the valuer to decide to value under (a), instead of under (c),
 it must immediately inform the *standing independent valuer* of that matter;
 - (e) the *authorised fund manager* must use its best endeavours to ensure that any other *affected person* reports to the *standing independent valuer* immediately upon that *person* becoming aware of any matter within (d); and
 - (f) any valuation by the *standing independent valuer* must be undertaken in accordance with UKVPS 3 and 2.3 of UKVPGA 2 of the RICS Valuation – Global Standards 2017 UK national supplement 2018 (the RICS Red Book) or, in the case of overseas immovables, on an appropriate basis but subject to any provisions of the *instrument constituting the fund*.
- (3) In relation to immovables:
- (a) any valuation under this *rule* has effect, until the next valuation under this *rule*, for the purposes of the value of immovables; and
 - (b) an agreement to transfer an immovable or an interest in an immovable is to be disregarded for the purpose of the valuation of the *scheme property* unless it reasonably appears to the *authorised fund manager* to be legally enforceable.

- 15.6.23 G In considering whether a valuation of overseas immovables by the *standing independent valuer* is made on an appropriate basis for the purpose of [COLL 15.6.22R(2)(f)], the *authorised fund manager* should consider whether that valuation was made in accordance with internationally accepted valuation principles, procedures and definitions as set out in the International Valuation Standards published by the International Valuation Standards Council.

Valuation of investments – good market practice

- 15.6.24 R Subject to any legal requirements which apply to the valuation of *investments* held or to be held in the *scheme property* of a *long-term asset fund*, the *authorised fund manager* of a *long-term asset fund* which carries on the valuation function itself must follow good market practice to value the *investments* held or to be held in the *scheme property*.

[Note: See FUND 3.9 (Valuation) and articles 67 to 71 of the AIFMD level 2 regulation.]

Due diligence – good market practice

- 15.6.25 R Subject to any applicable legal requirements, the *authorised fund manager* of a *long-term asset fund* must use good market practice to:
- (1) establish, implement and apply written policies and procedures on due diligence; and
 - (2) implement effective arrangements for ensuring that investment decisions on behalf of the *long-term asset fund* are carried out in compliance with the objectives, investment strategy and, where applicable, the risk limits of the *scheme*.

[Note: See articles 18 to 20 of the AIFMD level 2 regulation.]

- 15.6.26 G The *authorised fund manager* may use an appropriate code of good market practice for the purposes of conducting due diligence on *investments* held or to be held in the *scheme property*.

15.7 Powers and responsibilities of the authorised fund manager and the depositary

Application

- 15.7.1 R This section applies to:
- (1) an *authorised fund manager* of an *AUT*, *ACS* or an *ICVC*;
 - (2) any other *director* of an *ICVC*;
 - (3) the *depositary* of an *AUT*, *ACS* or an *ICVC*; and

- (4) an *ICVC*,
which is a *long-term asset fund*.

Functions of the authorised fund manager

- 15.7.2 R (1) The *authorised fund manager* must manage the *scheme* in accordance with:
- (a) the *instrument constituting the fund*;
 - (b) the applicable *rules*;
 - (c) the most recently published *prospectus*; and
 - (d) for an *ICVC*, the *OEIC Regulations*.
- (2) The *authorised fund manager* must carry out such functions as are necessary to ensure compliance with the *rules* that impose obligations on the *authorised fund manager* or *ICVC*, as appropriate.
- (3) The *authorised fund manager* must:
- (a) make decisions as to the constituents of the *scheme property* in accordance with the investment objectives and policy of the *scheme*;
 - (b) instruct the *depository* how rights attaching to the ownership of *scheme property* are to be exercised;
 - (c) take action immediately to rectify any breach of the pricing methodology set out in the *prospectus*, which must (unless the *authorised fund manager* determines on reasonable grounds that the breach is of minimal significance) extend to payment of money:
 - (i) by the *authorised fund manager* to *unitholders* and former *unitholders*;
 - (ii) by the *ACD* to the *ICVC*;
 - (iii) by the *ICVC* to the *ACD*;
 - (iv) by the *authorised fund manager* of the *AUT* or *ACS* to the *depository*; or
 - (v) by the *depository* (for the account of the *AUT* or *ACS*) to the *authorised fund manager*;
 - (d) ensure where relevant that the *ICVC* complies with the relevant obligations imposed by, and when appropriate exercises the relevant powers provided under, the *OEIC Regulations*;

- (e) maintain such records as are necessary to enable the *authorised fund manager* or the *ICVC*, as appropriate, to comply with and demonstrate compliance with the rules in this sourcebook and also in the case of an *ICVC*, the *OEIC Regulations*; and
- (f) maintain for a period of six years a daily record of the *units* held, acquired or disposed of by the *authorised fund manager* including the classes of such *units*, and of the balance of any acquisitions and disposals.

Duties of the authorised fund manager: investment and borrowing powers

- 15.7.3 R (1) An *authorised fund manager* may give instructions to deal in the *scheme property*.
- (2) An *authorised fund manager* must avoid the *scheme property* being used or invested contrary to any provision in [COLL 15.6] (Investment and borrowing powers).
- (3) An *authorised fund manager* must immediately on becoming aware of any breach of [COLL 15.6] take action, at its own expense, to rectify that breach.
- (4) An *authorised fund manager* must take the action in (3) immediately, except in circumstances where doing so would not be in the best interests of *unitholders*, in which case the action must be taken as soon as such circumstances cease to apply.
- (5) An *authorised fund manager* must not postpone taking action in accordance with (3) unless the *depository* has given its consent.

Duties of the ACD or the authorised contractual scheme manager of a co-ownership scheme: umbrella schemes

- 15.7.4 R Where reasonable grounds exist for an *ACD* of an *ICVC*, or an *authorised contractual scheme manager* of a *co-ownership scheme* which is an *umbrella*, to consider that a foreign law contract entered into by the *ICVC* or *authorised contractual scheme manager* on behalf of the *co-ownership scheme* may have become inconsistent with the principle of limited recourse stated in the *instrument constituting the fund* of the *ICVC* or *co-ownership scheme* (see [COLL 15.3.6R(3)(5)] and [COLL 15.3.6R(3)(6)]), the *ACD* or *authorised contractual scheme manager* of the *co-ownership scheme* must:
- (1) promptly investigate whether there is an inconsistency; and
 - (2) if the inconsistency still appears to exist, take appropriate steps to remedy that inconsistency.

- 15.7.5 G In deciding what steps are appropriate to remedy the inconsistency, the *ACD* or *authorised contractual scheme manager* of the *co-ownership scheme* should have regard to the best interests of the *unitholders*. Appropriate steps to remedy the inconsistency may include:
- (1) where possible, renegotiating the foreign law contract in a way that remedies the inconsistency; or
 - (2) causing the *ICVC* or the *authorised contractual scheme manager* on behalf of the *co-ownership scheme* to exit the foreign law contract.

Duties of the depositary

- 15.7.6 R
- (1) The *depositary* is responsible for the safekeeping of all the *scheme property*.
 - (2) The *depositary* must:
 - (a) take all steps to ensure that transactions properly entered into for the account of the *scheme* are completed;
 - (b) take all steps to ensure that instructions properly given by the *authorised fund manager* in respect of the exercise of rights related to *scheme property* are carried out;
 - (c) ensure that any *scheme property* in registered form is as soon as reasonably practicable registered in its name or that of its nominee or delegate, as appropriate;
 - (d) take into its custody or control all documents of title of the *scheme property* other than in respect of *derivatives* or forward transactions;
 - (e) ensure that any resulting benefit of a *derivatives* or forward transaction is received by itself in respect of the *scheme*;
 - (f) hold and deal with any income received in respect of the *scheme property* in accordance with [COLL 15.8.17R] (Income);
 - (g) take reasonable care to ensure that the *scheme* is managed by the *authorised fund manager* in accordance with:
 - (i) the investment objectives, policy and strategy set out in the *LTAF's* most recent *prospectus*;
 - (ii) [COLL 15.6] (Investment and borrowing powers);
 - (iii) [COLL 15.8.2R] (Valuation, pricing and dealing);
 - (iv) [COLL 15.8.17R] (Income); and

- (v) any provision of the *instrument constituting the fund* or the *prospectus* that relates to the provisions in (ii) to (iv);
 - (h) where applicable, comply with its obligations under *COLL 15.2.6R* (Appointment of external valuer or authorised fund manager with knowledge, skills and experience of valuing long-term assets);
 - (i) keep records so as to comply with the *rules* in this sourcebook and so as to demonstrate such compliance; and
 - (j) be responsible for any other duties as set out in the *instrument constituting the fund*.
- (3) If a relevant *ICVC* ceases to have any *directors*, the *depository* may act in accordance with *COLL 6.5.6R* (*ICVC* without a director).
- (4) This *rule* applies to the *depository* of a *long-term asset fund* to the extent the provisions are consistent with the requirements of the *AIFMD level 2 regulation*.

[**Note:** Articles 88 to 90 of the *AIFMD level 2 regulation* make provision relating to custody and safekeeping of *scheme property*. The *AIFMD level 2 regulation* applies to the *depository* of a *long-term asset fund* because an *LTAF* must be managed by a *full-scope UK AIFM*.]

Delegation

- 15.7.7 G (1) The delegation of *AIFM management functions* by a *full-scope UK AIFM* is subject to the *rules* in *FUND 3.10* (Delegation) and articles 75 to 82 of the *AIFMD level 2 regulation*. See also regulation 26 of the *AIFMD UK regulation*.
- (2) The *authorised fund manager* of a *long-term asset fund* is required to possess the knowledge, skills and experience necessary to understand the activities of the *LTAF* and cannot rely on a delegation arrangement to satisfy the requirement (see [*COLL 15.2.4R*]).
- 15.7.8 G (1) This paragraph applies where the *authorised fund manager* delegates portfolio management of particular assets to a third party under *FUND 3.10* (Delegation).
- (2) Where (1) applies, the *authorised fund manager* will need to retain adequate risk management systems to identify, measure and monitor the risks relevant to the *long-term asset fund's* investment strategy in accordance with the requirements in *FUND 3.7* (Risk management) and the applicable requirements of the *AIFMD level 2 regulation*.

[**Note:** See *FUND 3.7* (Risk management) and articles 38 to 47 of the *AIFMD level 2 regulation*.]

Delegation and responsibility for regulatory obligations

- 15.7.9 G *Directors of an ICVC, authorised fund managers and depositaries* should also have regard to SYSC 8 (Outsourcing). SYSC 8.1.6R states that a *firm* remains fully responsible for discharging all of its obligations under the *regulatory system* if it outsources crucial or important operational functions or any relevant services and activities.

Conflicts of interest

- 15.7.10 R (1) The *authorised fund manager* and the *depository* must ensure that any transaction in respect of the *scheme property* undertaken with an *affected person* is on terms at least as favourable to the *scheme* as any comparable arrangement on normal commercial terms negotiated at arm's length with an independent third party.
- (2) Paragraph (1) is subject to any provision in the *instrument constituting the fund* and the *prospectus* imposing a prohibition in relation to any type of transaction.

[**Note:** See articles 30 to 36 of the *AIFMD level 2 regulation*.]

The register of unitholders: AUTs or ACSs

- 15.7.11 R (1) The *authorised fund manager* or the *depository* of an *AUT* or *ACS* (in accordance with their responsibilities as set out in the *instrument constituting the fund*) must maintain a *register of unitholders* as a document in accordance with this *rule*.
- (2) The *register* must contain:
- (a) the name and address of each *unitholder* (for joint *unitholders* no more than four need to be registered);
 - (b) the number of *units* (including fractions of a *unit*) of each *class* held by each *unitholder*; and
 - (c) the date on which the *unitholder* was registered in the *register* for the *units* standing in his name.
- (3) The *authorised fund manager* or the *depository* of an *AUT* or *ACS* (as appropriate) must take all reasonable steps and exercise all due diligence to ensure the *register* is kept complete and up to date.
- (4) Where relevant, the *authorised fund manager* must immediately notify the *depository* of an *AUT* or *ACS* of any information he receives which may affect the accuracy of any entry in the *register*.

- (5) In the case of a *limited partnership scheme*, unregistered *units* may be held by the *authorised contractual scheme manager* as the agent for the *scheme* provided the *authorised contractual scheme manager* is not entered in the *register* as the new *unitholder*.

Application of assessment of value, assessment of investment valuations, due diligence, conflicts of interest and liquidity management and independent director rules

- 15.7.12 R [COLL 15.7.13R] to [COLL 15.7.20R] apply to an *authorised fund manager* of an *AUT*, *ACS* or *ICVC*.

Assessment of value

- 15.7.13 R (1) An *authorised fund manager* must conduct an assessment at least annually for each *scheme* it manages of whether the payments out of *scheme property* set out in the *prospectus* are justified in the context of the overall value delivered to *unitholders*.
- (2) In carrying out the assessment required by (1), the *AFM* must, separately for each *class of units* in a *scheme*, consider at least the matters set out in COLL 6.6.21R (Table: minimum considerations – assessment of value).
- 15.7.14 G The *guidance* in COLL 6.6.22G applies to interpreting the requirements of COLL 6.6.21R as applied by [COLL 15.7.13R].
- 15.7.15 E Failure by an *AFM* to take sufficient steps to address any instance where a *scheme's* charges are not justified in the context of the overall value delivered to *unitholders* may be relied on as tending to establish contravention of COBS 2.1.1R or COBS 2.1.4R as applicable.

Assessment of investment valuations, due diligence, conflicts of interest and liquidity management

- 15.7.16 R (1) An *authorised fund manager* of a *long-term asset fund* must conduct an assessment at least annually of how it has managed the *LTAF* in the best interests of the *LTAF*, the *LTAF's* investors and the integrity of the market (see COBS 2.1.4R (AIFMs' best interests rules)).
- (2) In carrying out the assessment required by (1), the *authorised fund manager* must consider at least the matters set out in COLL 15.7.17R (Table: minimum considerations – valuation of investments, due diligence, conflicts of interest and liquidity management assessment).

Table: minimum considerations – assessment of investment valuations, due diligence, conflicts of interest and liquidity management

15.7.17 R This table belongs to [COLL 15.17.16R].

1	Valuation of investments	
	(1)	Where the <i>authorised fund manager</i> performs the valuation function itself:
	(a)	how the methodologies maintained by the <i>authorised fund manager</i> to value the <i>LTAF's investments</i> represent good market practice;
	(b)	where a methodology maintained by the <i>authorised fund manager</i> was changed or modified in relation to the valuation of a particular <i>investment</i> , the rationale for that change;
	(c)	the rationale for any material change to the valuation of an <i>investment</i> held in the <i>scheme property</i> during the relevant period; and
	(d)	the consistency of valuation of the <i>LTAF's investments</i> with those of the other <i>AIFs</i> managed by the <i>authorised fund manager</i>
	(2)	Where an <i>external valuer</i> has been appointed, the <i>authorised fund manager's</i> assessment during the relevant period of how:
	(a)	the <i>external valuer</i> satisfied <i>FUND 3.9.7R(3)</i> (Performance of the valuation function);
	(b)	the <i>authorised fund manager</i> was satisfied that it could demonstrate the matters specified in <i>FUND 3.9.9R</i> (Appointment of an external valuer); and
	(c)	the <i>authorised fund manager</i> was satisfied that it could demonstrate the matters specified in <i>FUND 3.10.2R(2)(f)</i> (General delegation requirements).
2	Due diligence	
	In relation to due diligence carried out on <i>investments</i> , how that due diligence was carried out in accordance with good market practice (see [COLL 15.6.25R] (Due diligence – good market practice)).	
3	Conflicts of interest	
	In relation to conflicts of interest	

	(1)	how any conflicts of interest identified by the <i>authorised fund manager</i> under SYSC 10.1.23R (Additional requirements for an AIFM) and article 30 of the <i>AIFMD level 2 regulation</i> have been avoided, managed, monitored and (where applicable) disclosed under SYSC 10.1.24R (Additional requirements for an AIFM) and articles 31 to 36 of the <i>AIFMD level 2 regulation</i> ; and
	(2)	how, in relation to each conflict of interest identified, those actions were in the best interests of the <i>LTAF</i> , the <i>LTAF's</i> investors and the integrity of the market.
4	Liquidity management	
	In relation to the management of liquidity of the <i>long-term asset fund</i> :	
	(1)	how the liquidity profile of the <i>LTAF</i> , taking into account borrowing (if any), has been consistent with its redemption policy;
	(2)	where monitoring of the liquidity risk of the <i>LTAF</i> , including the results of any stress tests, has identified any liquidity management issues, how these were addressed in the best interests of the <i>LTAF</i> , the <i>LTAF's</i> investors and the integrity of the market;
	(3)	where the <i>authorised fund manager</i> has sold an <i>investment</i> held in the <i>scheme property</i> of the <i>LTAF</i> at a price adjusted to reflect the <i>authorised fund manager's</i> need to meet <i>redemption</i> requests, how that price was determined to be in the best interests of the <i>LTAF</i> , the <i>LTAF's</i> investors and the integrity of the market; and
	(4)	how decisions to apply or refrain from applying any <i>dilution levy</i> or adjustment to <i>sales</i> and <i>redemptions</i> of <i>units</i> ensured that all investors in the <i>LTAF</i> were treated fairly, including those investors who were dealing in <i>units</i> of the <i>LTAF</i> , and those investors who (as applicable) were already invested or remained invested in the <i>LTAF</i> .
	[Note: See FUND 3.6.3R (Liquidity systems and procedures) and articles 46 to 49 of the <i>AIFMD level 2 regulation</i> .]	

Independent directors

- 15.7.18 R (1) An *authorised fund manager* must ensure that at least one quarter of the members of its *governing body* are independent natural *persons*. If the *AFM's governing body* comprises fewer than eight members, the *AFM* must instead ensure that at least two of its members are independent natural *persons*.

- (2) The *authorised fund manager*, in appointing an independent member of its *governing body*, must determine whether such a member is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, that member's judgement.
- (3) The *authorised fund manager* must take reasonable steps to ensure that independent members appointed to its *governing body* have sufficient expertise and experience to be able to make judgements on whether the *AFM* is managing each *scheme* in the best interests of *unitholders*.
- (4)
 - (a) Independent members of an *AFM's governing body* must be appointed for terms of no longer than five years, with a cumulative maximum duration of ten years.
 - (b) If an independent member is appointed to more than one *governing body* within an *AFM's group*, the cumulative maximum duration of ten years referred to in (a) is calculated by adding the durations of each separate appointment and discounting periods during which appointments overlapped to avoid double counting.
 - (c) In relation to a *person* who served as an independent director of an *AFM's governing body* before 1 October 2019, the five-year term(s) and cumulative maximum duration of ten years run from that date.
- (5) Independent members are not eligible for reappointment to an *AFM's governing body* until five years have elapsed from the end of the ten-year period referred to in (4).
- (6) The terms of *employment* on which independent members are appointed must be such as to secure their independence.

15.7.19 G The *guidance* in *COLL* 6.6.26G applies to interpreting the requirement for independence in *COLL* 15.7.18R.

Allocation of responsibility for compliance to an approved person

- 15.7.20 R
- (1) An *AFM* must allocate responsibility for ensuring its compliance with [*COLL* 15.7.13R], [*COLL* 15.7.16R], [*COLL* 15.7.18R] and *COBS* 2.1.4R (AIFM's best interests rules) to an *approved person*.
 - (2) Where the chair of the *AFM's governing body* is an *approved person*, the *AFM* must allocate the responsibility set out in (1) to that *person*.

[**Note:** See *SYSC* 24 (Senior managers and certification regime: Allocation of prescribed responsibilities).

15.8 Valuation, pricing, dealing and income

Application

15.8.1 R This section applies to:

- (1) an *authorised fund manager* of an *AUT*, *ACS* or an *ICVC*;
- (2) any other *director* of an *ICVC*;
- (3) the *depository* of an *AUT*, *ACS* or an *ICVC*; and
- (4) an *ICVC*,

which is a *long-term asset fund*.

Valuation, pricing and dealing

- 15.8.2 R
- (1) The value of the *scheme property* is the net value of the *scheme property* after deducting any outstanding borrowings (including any capital outstanding on a mortgage of an immovable).
 - (2) Any part of the *scheme property* which is not an *investment* (save an immovable) must be valued at fair value.
 - (3) For the purposes of (2), any charges that were paid, or would be payable, on acquiring or disposing of the asset must be excluded from the value of that asset.
 - (4) The value of the *scheme property* of an *authorised fund* must, save as otherwise provided in this section, be determined in accordance with the provisions of the *instrument constituting the fund* and the *prospectus*, as appropriate.
 - (5) The *scheme* must have a *valuation point* on each *dealing day* and there must be at least one *valuation point* every *month*.
 - (6) The *authorised fund manager* must prepare a valuation in accordance with (4) for each relevant type of *unit* at each relevant *valuation point*.
 - (7) The price of a *unit* must be calculated on the basis of the valuation in (6) in a manner that is fair and reasonable as between *unitholders*.
 - (8) In respect of each *valuation point* under (5), the *authorised fund manager* must publish in an appropriate manner the price of any type of *unit* based on the valuation carried out in accordance with (6).
 - (9) The *authorised fund manager* must also provide on request to any *unitholder* at any time an estimated price for any type of *unit* in the *scheme*.

- (10) The period of any *initial offer* and how it should end must be set out in the *prospectus* and must not be of unreasonable length.

Profits from dealing as principal

- 15.8.3 R (1) Where an *authorised fund manager*:
- (a) accepts instructions to *sell* and *redeem units* as *principal*; and
 - (b) is able to execute a *sale* instruction by *selling units* it has *redeemed* at the same *valuation point*, without placing its own capital at risk,
- subject to (2), the *AFM* must not retain for its own account, or the account of any of its *associates*, the difference between the *price* at which a *unit* was *redeemed* (before deduction of any *redemption charge*) and the *price* at which the same *unit* was sold (after deduction of any *preliminary charge*). Any such difference must be allocated in a way that is fair to *unitholders*.
- (2) In calculating the profit arising under (1), the *AFM* may offset any loss it incurs at the same *valuation point*, calculated in accordance with (3), when dealing as *principal* in relation to:
- (a) a *unit issued* at that *valuation point* to fulfil a *sale* instruction that cannot be matched against any *redeemed unit* or any other *unit* of that *class* held by the *manager* as *principal*; and
 - (b) a *unit redeemed* and *cancelled* at that *valuation point*.
- (3) The amount of the loss referred to in (2) is:
- (a) for *units issued* in accordance with (2)(a), the difference between the *issue price* of a *unit* and the *sale price* of that *unit*, less any *preliminary charge*;
 - (b) for *units cancelled* in accordance with (2)(b), the difference between the *cancellation price* of a *unit* and the *redemption price* of that *unit*, before any *redemption charge* is applied.
- (4) Where any loss arising under (2) is greater than any profit arising under (1), that loss cannot be offset against any profit arising at a subsequent *valuation point*.
- (5) This *rule* applies to the *redemption* and *sale* of *units* of different *classes* at the same *valuation point*, if those *classes* are treated as one for the purpose of [COLL 15.8.6R] (Issues and cancellations of units in multiple classes).

- 15.8.4 G (1) The *authorised fund manager* may commit its own capital to hold *units* for *dealing as principal* and may seek to profit from gains in the value of the *units* it holds, when it *issues* or *redeems units* at one *valuation point* then *sells* or *cancels* them at a later *valuation point*. However, it should not profit from situations in which it is not exposed to an equal risk of loss if the *units* fall in value, or from the ability to match simultaneous *sales* and *redemptions* at different *prices* at no risk to its own capital.
- (2) The *AFM* may allocate any amount arising under [COLL 15.8.3R(1)] (Profits from dealing as principal) in the interests of investors by paying it into *scheme property* for the benefit of all *unitholders*. Alternatively, the *AFM* may redistribute it individually among the transacting investors.
- (3) Where the *AFM* intends to allocate a payment to *scheme property*, it should determine if the amount (when added to any other amounts of the same kind relating to that *class* of *units*) would, if taken into account in the *scheme's* valuation, affect the accuracy of the *unit prices* to four significant figures. If so, and subject to (4) below, the amount should be accrued in each subsequent valuation of the *scheme* until the payment is transferred. Such payments into *scheme property* should be made regularly and no less frequently than payments for the *AFM's* management charge are transferred out of *scheme property*.
- (4) The calculation to be performed under [COLL 15.8.3R] (Profits from dealing as principal) should be carried out in relation to each *valuation point* of the *scheme* on a timely basis. Where it is not practical to do this before *unit prices* are calculated and published, the *AFM* should ensure that the accrual represents a reasonable estimate of the total payment it intends to make to *scheme property*.

Issues and cancellations of units

- 15.8.5 R (1) The *authorised fund manager* must:
- (a) ensure that at each *valuation point* there are at least as many *units* in *issue* of any *class* as there are *units* registered to *unitholders* of that *class*; and
- (b) not do or omit anything that would, or might, confer on itself a benefit or advantage at the expense of a *unitholder* or potential *unitholder*.
- (2) For the purposes of (1) the *authorised fund manager* may take into account *sales* and *redemptions* after the *valuation point*, provided it has systems and controls to ensure compliance with (1).

- (3) The *authorised fund manager* must arrange for the *issue* and *cancellation* of *units* and pay money or assets to or from the *depository* for the account of the *scheme* as required by the *prospectus*.
- (4) The *authorised fund manager* must keep a record of *issues* and *cancellations* made under this *rule*.
- (5) The *authorised fund manager* may arrange for the *ICVC*, or instruct the *depository* of the *AUT* or *ACS*, to *issue* or *cancel units* where the *authorised fund manager* would otherwise be obliged to *sell* or *redeem* the *units* in the manner set out in the *prospectus*.
- (6) Where the *authorised fund manager* has not complied with (1), it must correct the error as soon as possible and must reimburse the *scheme* any costs it may have incurred in correcting the position, subject to any reasonable minimum level for such reimbursement as set out in the *prospectus*.

Issues and cancellations of units in multiple classes

- 15.8.6 R If a *long-term asset fund* has two or more *classes* of *unit* in *issue*, the *authorised fund manager* may treat any or all of those *classes* as one for the purpose of determining the number of *units* to be *issued* or *cancelled* by reference to a particular *valuation point*, if:
- (1) the *depository* gives its prior agreement; and
 - (2) the relevant *classes*:
 - (a) have the same entitlement to participate in, and the same liability for *charges*, expenses and other payments that may be recovered from, the *scheme property*; or
 - (b) differ only as to whether income is distributed or accumulated by periodic credit to capital, provided the *price* of the *units* in each *class* is calculated by reference to undivided shares in the *scheme property*.

Transfer of units in an ACS

- 15.8.7 R (1) Where transfer of *units* in an *ACS* is allowed by its *contractual scheme deed* and *prospectus* in accordance with the conditions specified by *FCA rules*, the *authorised contractual scheme manager* of the *ACS* must take reasonable care to ensure that *units* are only transferred if the conditions specified by the *FCA* under (2) are met.

(2) The *FCA* specifies that for the purposes of (1), and for the purposes of [COLL 15.3.6R(3)(9)(a)(vii)(B)] (Table: contents of the instrument constituting the fund) and [COLL 15.4.5R(18)(2)] (Table: contents of long-term asset fund prospectus), *units* in the ACS may only be transferred to a *person*:

- (a) who is a:
 - (i) *professional ACS investor*; or
 - (ii) *large ACS investor*; or
 - (iii) *person* who already holds *units* in the *scheme*; and
- (b) to whom *units* in a *long-term asset fund* may be promoted under COBS 4.12.4R.

[**Note:** In COBS 4.12, a reference to a *qualified investor scheme* includes a *long-term asset fund*. This is because of the extended meaning of *qualified investor scheme* in *rules* and *guidance* outside of COLL.]

15.8.8 G The *FCA* recognises that some transfers of *units* arise by operation of law (such as upon death or bankruptcy of the *unitholder*, or otherwise) and are accordingly outside the control of the *authorised contractual scheme manager*. The *authorised contractual scheme manager* is expected to comply with its responsibilities under [COLL 15.8.10R] (Redemption of ACS units in an LTAF by an authorised contractual scheme manager) in those cases by *redeeming* those *units*.

Responsibilities of the authorised contractual scheme manager in relation to ACS units

15.8.9 R (1) The *authorised contractual scheme manager* of an *authorised contractual scheme* which is a *long-term asset fund* must take reasonable care to ensure that rights or interests in *units* in the *scheme* are not acquired by any *person* from or through an *intermediate unitholder in a long-term asset fund*, unless:

- (a) that *person* is a:
 - (i) *professional ACS investor*; or
 - (ii) *large ACS investor*; or
 - (iii) *person* who already holds *units* in the *scheme*; and
- (b) *units* in a *long-term asset fund* may be promoted to that *person* under COBS 4.12.4R.

- (2) The *authorised contractual scheme manager* will be regarded as complying with (1) to the extent that it can show that it was reasonable for it to rely on relevant information provided by another *person*.

[**Note:** In *COBS* 4.12, a reference to a *qualified investor scheme* includes a *long-term asset fund*. This is because of the extended meaning of *qualified investor scheme* in *rules and guidance* outside of *COLL*.]

Redemption of ACS units in an LTAF by an authorised contractual scheme manager

- 15.8.10 R The *authorised contractual scheme manager* of a *long-term asset fund* which is an ACS must *redeem units* in the *scheme* as soon as practicable after becoming aware that those *units* are vested in anyone (whether as a result of *subscription* or transfer of *units*) other than a *person* meeting the criteria in *COLL* 15 Annex 1R(1) and (2) (ACS Long-Term Asset Funds: eligible investors).

Sale and redemption

- 15.8.11 G (1) The *authorised fund manager* of a *long-term asset fund* is required to ensure that the investment strategy, liquidity profile and redemption policy for the *scheme* are consistent (see *FUND* 3.6.2R (Alignment of investment strategy, liquidity profile and redemption policy)).
- (2) Given the type of *investments* that a *long-term asset fund* is likely to hold in its *scheme property*, the *FCA* does not consider it possible for a *long-term asset fund* to operate arrangements for the *sale and redemption* of *units* that do not involve the use of notice periods or cut-off points of a reasonable length.
- (3) The maximum period between *dealing days* for a *long-term asset fund* will depend on the reasonable expectations of the target investor group and the particular investment objectives and policy of the *scheme*. For instance, for a *scheme* aiming to invest in large infrastructure projects, the expectation would be that it is reasonable to have a longer period between *dealing days* for liquidity reasons.
- (4) The *authorised fund manager* of a *long-term asset fund* must also comply with the *AIFMD level 2 regulation*, which contains detailed requirements about liquidity management taking into account the *long-term asset fund's* investment strategy, liquidity profile and *redemption* policy. See, for example, articles 46 to 49 of the *AIFMD level 2 regulation*.

- 15.8.12 R (1) The *authorised fund manager* must, at all times during the *dealing day*, be willing to effect the *sale* of *units* to any eligible investor (within any conditions in the *instrument constituting the fund* and the *prospectus* which must be fair and reasonable as between all *unitholders* and potential *unitholders*) for whom the *authorised fund manager* does not have reasonable grounds to refuse such *sale*.
- (2) The *authorised fund manager* must, at all times during the *dealing day*, effect a *redemption* on the request of any eligible *unitholder* (within any conditions in the *instrument constituting the fund* and the *prospectus*) of *units* owned by that *unitholder*, unless the *authorised fund manager* has reasonable grounds to refuse such *redemption*.
- (3) On agreeing to a *redemption* of *units* within (2), the *authorised fund manager* must pay the full proceeds of the *redemption* to the *unitholder* within any reasonable period specified in the *instrument constituting the fund* or the *prospectus*, unless it has reasonable grounds for withholding payment.
- (4) Payment of proceeds on *redemption* must be made by the *authorised fund manager* in any manner provided for in the *prospectus* which must be fair and reasonable as between redeeming *unitholders* and continuing *unitholders*.

Property Authorised Investment Funds

- 15.8.13 R (1) The *authorised fund manager* of a *long-term asset fund* that is also a *property authorised investment fund* must take reasonable steps to ensure that no *body corporate* holds more than 10% of the net asset value of that *scheme* (the “maximum allowable”).
- (2) For the purposes of (1), a *body corporate* shall not be treated as holding more than the maximum allowable to the extent that:
- (a) the *body corporate* holds *units* in a *unit trust scheme* which holds *shares* in the *property authorised investment fund*; and
 - (b) in their capacity as *trustees* of the *unit trust scheme*, the *trustees* are chargeable in the *United Kingdom* either to income tax or to corporation tax.
- (3) Where the *authorised fund manager* of a *property authorised investment fund* becomes aware that a *body corporate* holds more than the maximum allowable, he must:
- (a) notify the *body corporate* of that event;
 - (b) not pay any income distribution to the *body corporate*; and

(c) *redeem or cancel units* forming the *body corporate's* holding down to the maximum allowable within a reasonable time-frame.

(4) For the purpose of (3)(c), a reasonable time-frame means the time-frame which the *authorised fund manager* reasonably considers to be appropriate having regard to the interests of the *unitholders* as a whole.

15.8.14 G Reasonable steps to monitor the maximum allowable include:

- (1) regularly reviewing the *register*; and
- (2) taking reasonable steps to ensure that *unitholders* are kept informed of the requirement that no *body corporate* may hold more than 10% of the net asset value of a *property authorised investment fund*.

Payments

- 15.8.15 R
- (1) An *ICVC* must not incur any expense in respect of the use of any movable or immovable property unless the *scheme* is *dedicated* to such investment or such property is necessary for the direct pursuit of its business.
 - (2) Payments out of the *scheme property* may be made from *capital property* rather than from income, provided the basis for this is set out in the *prospectus*.

Exemption from liability to account for profits

15.8.16 G Except as provided in [COLL 15.8.3R] (Profits from dealing as principal), an *affected person* is not liable to account to another *affected person* or to the *unitholders* of the *scheme* for any profits or benefits it makes or receives that are made or derived from or in connection with:

- (1) *dealings* in the *units* of a *scheme*; or
- (2) any transaction in *scheme property*; or
- (3) the supply of services to the *scheme*;

where disclosure of the non-accountability has been made in the *prospectus* of the *scheme*.

Income

- 15.8.17 R
- (1) A *long-term asset fund* must have:
 - (a) an *annual accounting period*;
 - (b) a *half-yearly accounting period*; and

(c) an *accounting reference date*;

the details of which must be set out in the *prospectus*.

- (2) *COLL 6.8.2R(2) to COLL 6.8.2R(7) (Accounting periods) also apply to the half-yearly accounting period and annual accounting period of a long-term asset fund.*
- (3) *A long-term asset fund must have an annual income allocation date, which must be within four months of the accounting reference date.*
- (4) *A long-term asset fund may have an interim income allocation date and interim accounting periods and if it does, the interim income allocation date must be within a reasonable period of the end of the relevant interim accounting period as set out in the prospectus.*
- (5) *COLL 6.8.3R(3) (Income allocation and distribution) to COLL 6.8.3AG (Allocation of income to difference classes of unit) also apply to a long-term asset fund.*

15.9 Operational requirements for feeder LTAFs

Application

15.9.1 R This section applies as follows:

- (1) [*COLL 15.9.2R*] to [*COLL 15.9.6R*] apply to the *authorised fund manager of a feeder LTAF*;
- (2) [*COLL 15.9.6R*] also applies to:
 - (a) an *ICVC* that is a *feeder LTAF*; and
 - (b) any *person* acting on behalf of either the *feeder LTAF* or the *authorised fund manager of the feeder LTAF*; and
- (3) [*COLL 15.9.7R*] applies to the *authorised fund manager of a long-term asset fund* which operates as a *qualifying master LTAF* to a *feeder LTAF*.

Pre-investment requirements of the authorised fund manager of a feeder LTAF

15.9.2 R Before investing in the *qualifying master LTAF*, the *authorised fund manager of the feeder LTAF* must:

- (1) be satisfied on reasonable grounds that it can obtain from the *qualifying master LTAF* all the information necessary to comply on an ongoing basis with the rules in *COLL*;

- (2) having consulted with the *depository* of the *feeder LTAF*, be satisfied on reasonable grounds that the *depository* of the *feeder LTAF* can obtain from the *qualifying master LTAF*, the *operator* of the *qualifying master LTAF* or the *depository* of the *qualifying master LTAF* all the information necessary to comply with its duties under [COLL 15.7.6R] (Duties of the depository); and
- (3) inform the *authorised fund manager* of the *qualifying master LTAF* of the date on which the *feeder LTAF* will begin to invest into the *qualifying master LTAF* as a *feeder LTAF*.

Ownership of units in a feeder LTAF

- 15.9.3 R The *authorised fund manager* of a *feeder LTAF* must take reasonable care to ensure that its *units* are not owned, including beneficially owned, by the *qualifying master LTAF* or any other *scheme* in which the *qualifying master LTAF* invests.

Charges made by the qualifying master LTAF or its operator to a feeder LTAF on investment or disposal

- 15.9.4 R (1) Where the *operator* or the *authorised fund manager* of a *qualifying master LTAF* imposes any charge which is, or is equivalent in effect to, a *preliminary charge* or *redemption charge* on the *feeder LTAF* for the acquisition or disposal of *units* in the *qualifying master LTAF*, the *authorised fund manager* of the *feeder LTAF* must pay to the *feeder LTAF* an amount equal to such charge within four *business days* following the relevant acquisition or disposal.
- (2) In this *rule*, where the *operator* or *authorised fund manager* of a *qualifying master LTAF* requires any addition to or deduction from the consideration paid on the acquisition or disposal of *units* in the *qualifying master LTAF* which is, or is equivalent in effect to, a *dilution levy* made in accordance with the *instrument constituting the fund* and the *prospectus*, it is to be treated as part of the *price* of the *units* and not as part of any *preliminary charge* or *redemption charge* referred to in (1).

Avoidance of opportunities for market timing

- 15.9.5 R The *authorised fund manager* of a *feeder LTAF* must take appropriate measures to co-ordinate the timing of the *feeder LTAF's valuation points* and *dealing days* with those of its *qualifying master LTAF*, including the publication of *dealing prices*, in order to avoid market timing of their *units*, and prevent arbitrage opportunities.

Inducements

- 15.9.6 R Where, in connection with an *investment* in the *units* of the *qualifying master LTAF*, a distribution fee, commission or other monetary benefit is received by:

- (1) a *feeder LTAF*;
- (2) an *authorised fund manager* of a *feeder LTAF*; or
- (3) any *person* acting on behalf of (1) or (2),

that fee, commission or other monetary benefit must be paid into the *scheme property* of the *feeder LTAF* within four *business days* of receipt of that fee, commission or other monetary benefit.

Obligations to unitholders of a qualifying master LTAF

- 15.9.7 R Where the *qualifying master LTAF* is an *authorised fund*, the *authorised fund manager* of the *qualifying master LTAF* must not, if it would unfairly prejudice the interests of *unitholders* of the *qualifying master LTAF* other than the *feeder LTAF*, provide or make available information to the *authorised fund manager* of the *feeder LTAF* without at the same time also providing or making available that information to the *unitholders* of the *qualifying master LTAF* other than the *feeder LTAF*.

15.10 Termination, suspension, and schemes of arrangement

Application

- 15.10.1 R This section applies to:
- (1) an *authorised fund manager* of an *AUT*, *ACS* or an *ICVC*;
 - (2) any other *director* of an *ICVC*;
 - (3) the *depository* of an *AUT*, *ACS* or an *ICVC*; and
 - (4) an *ICVC*,
- which is a *long-term asset fund*.

Termination

- 15.10.2 R For a *long-term asset fund* the provisions in *COLL 7.3* to *COLL 7.5* will apply as appropriate as if *COLL 7* applied to *long-term asset funds*.

Suspension

- 15.10.3 R (1) The *authorised fund manager* may, with the prior agreement of the *depository*, and must without delay, if the *depository* so requires, within any parameters which are fair and reasonable in respect of all the *unitholders* in the *scheme* and which are set out in the *prospectus*, temporarily suspend *dealings* in *units* of the *scheme*, a *sub-fund* or a *class*.

- (2) Any suspension within (1) must only be where the *authorised fund manager* has determined that due to exceptional circumstances the suspension of *dealings* is in the interests of *unitholders* or potential *unitholders*, and the *authorised fund manager* must have regard to the interests of all the *unitholders* in the *scheme* in reaching such an opinion.
- (3) At the commencement of suspension under (1), the *authorised fund manager* must immediately inform the *FCA* of the suspension and the reasons for it.
- (4) The *authorised fund manager* must ensure that a notification of the suspension is made to *unitholders* of the *authorised fund* as soon as practicable after suspension commences.
- (5) The *authorised fund manager* and the *depository* must ensure that the suspension only continues for as long as it is justified having regard to the interests of the *unitholders*.
- (6) The suspension of *dealings* in units must cease, as soon as (2) no longer applies.
- (7) The *authorised fund manager* and the *depository* must formally review the suspension at least every 28 *days* and inform the *FCA* of the results of this review and any change to the information provided in (3).
- (8) The *authorised fund manager* must inform the *FCA* immediately of the resumption of *dealings*.

Schemes of arrangement

- 15.10.5 R In relation to an *ICVC*, *ACS* or an *AUT* which is a *long-term asset fund*, the provisions in *COLL 7.6* (Schemes of arrangement) will apply as appropriate to the *authorised fund manager*, any other *directors* of the *ICVC* and the *depository* as if *COLL 7.6* applied to a *long-term asset fund* and did not exclude *unitholders* becoming *unitholders* in another *long-term asset fund*.

15 Annex **1R ACS Long-term asset funds: Eligible investors**

This Annex belongs to [<i>COLL 15.1.4R</i>] and [<i>COLL 15.1.5G</i>].	
For the purposes of the rule on qualified investors in a <i>long-term asset fund</i> which is an <i>ACS</i> (see [<i>COLL 15.1.4R(2)</i>]), the <i>authorised contractual scheme manager</i> must take reasonable care to ensure that ownership of <i>units</i> in the <i>scheme</i> is only recorded in the <i>register</i> for a <i>person</i> :	
(1)	who is a:
	(a) <i>professional ACS investor</i> ;

	(b)	<i>large ACS investor;</i>
	(c)	<i>person who already holds units in the scheme; and</i>
(2)	to whom <i>units</i> in a <i>long-term asset fund</i> may be promoted to that <i>person</i> under <i>COBS 4.12.4R</i>	
[Note: In <i>COBS 4.12</i> , a reference to a <i>qualified investor scheme</i> includes a <i>long-term asset fund</i> . This is because of the extended meaning of <i>qualified investor scheme</i> in <i>rules</i> and <i>guidance</i> outside of <i>COLL</i> .]		

...

Amend the following text as shown.

Schedule 1 Record keeping requirements

Sch 1.1 G 1 Record keeping requirements

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
...				
<i>COLL 14.3.6R</i>	...			
<u><i>COLL 15.2.6R(3)</i></u>	<u><i>Depository's determination that the authorised fund manager has the knowledge, skills and experience to value the LTAF's assets</i></u>	<u>The determination and the reasons for making the determination</u>	<u>As implicit from the rules in COLL</u>	<u>6 years</u>
<u><i>COLL 15.5.12R(2)</i></u>	<u>Minutes of meetings (AFM)</u>	<u>Full details</u>	<u>As implicit from the rules in COLL</u>	<u>6 years</u>
<u><i>COLL 15.7.2R(3)(e)</i></u>	<u>General record keeping obligations (AFM)</u>	<u>Full details</u>	<u>As implicit from the rules in COLL</u>	<u>As implicit from the rules in COLL</u>

<u>COLL</u> <u>15.7.2R(3)(f)</u>	<u>Units held, acquired or disposed of (AFM)</u>	<u>Daily record of units held, acquired or disposed of by the AFM</u>	<u>As implicit from the rules in COLL</u>	<u>6 years</u>
<u>COLL</u> <u>15.7.6R(2)(h)</u>	<u>General record keeping obligation (depository)</u>	<u>Full details</u>	<u>As implicit from the rules in COLL</u>	<u>As implicit from the rules in COLL</u>
<u>COLL</u> <u>15.8.5R(4)</u>	<u>Issues and cancellations of units (AFM)</u>	<u>Full details</u>	<u>As implicit from the rules in COLL</u>	<u>As implicit from the rules in COLL</u>
...				

Schedule 2 Notification requirements

...

Sch 2.2 G 1 Notification requirements

Handbook reference	Matter to be notified	Contents of notification	Trigger event	Time allowed
...				
<u>COLL 14.2.2R</u>	...			
<u>COLL 15.4.2R</u>	<u>Prospectus and revisions</u>	<u>Full documents</u>	<u>Before marketing commences</u>	<u>Immediate</u>
<u>COLL 15.5.2R(5)</u>	<u>Annual, half yearly and quarterly reports</u>	<u>Copy of report</u>	<u>End of annual or half-yearly accounting period, or quarterly reporting period</u>	<u>Immediately on publication</u>
<u>COLL 15.19.3R(3) and</u>	<u>Suspension and resumption of dealing (AFM)</u>	<u>Details, including reason for suspension</u>	<u>Occurrence</u>	<u>Immediate</u>

<u>COLL</u> <u>15.10.3R(8)</u>				
-----------------------------------	--	--	--	--

