FINANCIAL CONDUCT AUTHORITY

Broadening retail access to the long-term asset fund

Consultation Paper
CP22/14**

August 2022

How to respond

We are asking for comments on this Consultation Paper (CP) by **10 October 2022**.

You can send them to us using the form on our website.

Or in writing to:

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1 Summary

Why we are consulting

1.1 The Long-Term Asset Fund (LTAF) is a new category of authorised open-ended fund. The LTAF has been designed to enable investors to invest in long-term illiquid assets through an authorised fund vehicle.

1.2 Long-term illiquid assets include venture capital, private equity, private debt, property and infrastructure. They can provide a useful alternative investment opportunity for investors who are able to bear the risks of such investments. An ability to invest in long-term illiquid assets, through appropriately designed and managed investment vehicles, is also important to supporting economic growth and the transition to a low-carbon economy. While these investments can have a higher risk of loss than diversified portfolios of listed equities or bonds, they can also potentially deliver higher long-term returns in exchange for less or no immediate liquidity.

1.3 Promotion of the LTAF is currently restricted to professional investors, certified and self-certified sophisticated investors, and certified high net worth individuals (HNWI). Such investors can decide whether an investment proposition is right for them or take advice on it. It does not imply that we consider investment in any specific long-term or illiquid asset is appropriate for all investors in these groups.

1.4 Some retail investors seek out non-traditional investments in a search for diversification or higher returns. The LTAF may enable such diversified investment propositions, managed to appropriately high standards. On the other hand, there is a risk that retail investors may be overly reassured by the fund's authorised status or not fully understand the illiquid nature and corresponding risk of the underlying assets. When we consulted on creating the LTAF regime, we asked discussion questions about whether, and how, we can safely permit future wider retail access to such funds.

1.5 We designed robust governance requirements around the LTAF. It must satisfy appropriate regulatory standards to enable investors who understand the risks of investing in long-term illiquid assets to invest with confidence. Given the regulatory standards that LTAFs must meet, and following consultation feedback, we do not want to impose unnecessary restrictions on where consumers can invest. We want investors to be able to access suitable investments that match their attitude to risk.

1.6 This consultation therefore sets out proposals for broadening the retail distribution of the LTAF to more categories of retail investors, whilst including further investor protections. We set out proposals to treat the LTAF as a Restricted Mass Market Investment (RMMI), in line with PS 22/10 (Strengthening our financial promotion rules for high-risk investments). This will enable a broader range of retail investors to access the LTAF whilst ensuring investors understand the risks involved and can absorb potential losses.

Who this applies to

1.7 This consultation will primarily be of interest to:

- consumer groups
- 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 long-term insurance contracts
- fund distributors

This consultation paper affects consumers who are looking for non-traditional investment funds, in a search for diversification or higher yield. These funds, which are designed to be managed to high standards, could be part of a retail investment portfolio or a pension scheme.

What we want to change

1.8 We are consulting on proposals to broaden the distribution of the LTAF to retail investors, with certain restrictions. We are proposing treating the LTAF as a Restricted Mass Market Investment. Our proposals would also increase the amount of exposure that some other authorised retail funds (including Funds of Alternative Investment Funds (FAIFs)), can have to the LTAF.

1.9 We are consulting on proposals to align some LTAF rules with the investor protection rules that apply to other retail authorised funds, including:

- full engagement with unitholders about any proposed fundamental or significant changes to the fund
- regular investor updates to be provided in the event of a suspension of dealing
- arrangements for the conduct of unitholder meetings
- restrictions on what types of payments and charges can be taken from LTAF unit classes made available to retail clients.

1.10 We are also consulting on proposals to remove the 35% restrictions on illiquid assets in unit-linked products, where the investor is a qualifying default pension scheme. This would give LTAFs equivalent status to other illiquid assets which can meet the conditions for securing an appropriate degree of consumer protection. It would enable firms to develop unit-linked products which contain other kinds of illiquid assets, but only under the same terms that currently apply to LTAFs – meaning that they can only be sold to default pension schemes.

Outcome we are seeking

1.11 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 and can bear the risks of such investments, seeking the potential for higher long-term returns in exchange for less or no immediate liquidity. We think that retail investors should be given that choice, in light of the governance and controls that surround an LTAF.

1.12 Our proposals would expand the group of investors that LTAF providers can distribute to. There will be no obligation for firms to produce and distribute LTAFs for retail investors, or for investors to use only LTAFs to invest in long-term, illiquid assets. Not all LTAFs would necessarily be appropriate for all retail investors. Based on discussions with investment managers that invest in illiquid assets, investment platforms, and industry associations, we are aware that it may take some time before a significant number of LTAFs are produced and are widely marketed.

1.13 In thinking about how to evolve the distribution regime for the LTAF, we have regard to the priority outcomes set out in our Business Plan, specifically that consumers:

- are sold suitable products and services and receive good treatment
- get products and services which are fair value
- understand the information they are given and make timely and informed decisions as a result

Measuring success

1.14 We consider success would be that some LTAFs are established and offered to a wide range of retail investors. Restricted retail investors would have to undertake appropriateness assessments to ensure they understand the investment risks and redemption terms, before they can invest up to 10% of their investible assets in total (certain assets being excluded from this calculation) into the LTAF and other RMMI products, as part of a wider diversified investment portfolio.

1.15 The LTAFs would need to operate to high standards and not require any special supervisory intervention for our proposals to be successful. We will review the uptake of the LTAF, their distribution and the nature of LTAF funds on an ongoing basis as the first funds are launched.

Next steps

A summary line of next steps

1.16 We welcome feedback on our proposals by 10 Oct 2022.

1.17 We will consider all feedback. Subject to the responses received, we will look to publish a final policy statement and final Handbook rules early in 2023.

2 The wider context

The harm we are trying to reduce/prevent

2.1 In November 2021, we published PS 21/14 (A new authorised fund regime for investing in long term assets) setting out our response to feedback received to Consultation Paper CP21/12 and finalising our proposal for a new category of authorised open-ended fund called the Long-Term Asset Fund (LTAF).

2.2 The LTAF regime creates a category of authorised open-ended fund designed specifically to facilitate investment in long-term, illiquid assets. These include asset classes such as venture capital, private equity, private debt, real estate and infrastructure. Such investments can be higher risk than diversified portfolios of listed equities or bonds, however they have the potential for higher long-term returns in return for less or no immediate liquidity.

2.3 The liquidity profile of these assets is not suitable for open-ended funds that offer daily dealing. The LTAF structure provides for better liquidity management by allowing redemptions no more than once a month, and mandatory notice periods of at least 90 days for all redemptions to come into effect. Only firms meeting the full requirements for UK authorised alternative investment fund managers (AIFMs) are permitted to launch and manage LTAFs, and there are additional significant controls around how the manager manages the fund.

2.4 Broadening the distribution scope of the LTAF further into retail could benefit retail investors. Offering a wider range of products to investors facilitates choice and creates greater potential for optimal portfolios, with a better balance of investment types with differing liquidity. Conversely, restricting choice of products creates an opportunity cost to retail investors, as wealthier and more sophisticated investors can already invest into LTAFs. Additionally, by including long-term illiquid assets in their portfolios, investors could potentially earn higher returns. The assets could provide increased diversification and therefore reduce overall portfolio risk.

2.5 On the other hand, several risks to retail investors need to be mitigated. The assets held in an LTAF are less liquid than normally allowed in retail funds, and investors may not understand this distinction, so we need to balance these different factors. There is a vast range of illiquid assets, with varying risk profiles. Additionally, the current LTAF investor protection rules are based on those for more professional fund structures and lack certain safeguards provided by retail authorised funds, such as on procedures for fundamental or significant changes to the fund, disclosure of a suspension of dealing and controls over types of payments that can be made out of fund assets. LTAF rules will need to be more closely aligned with retail fund structures in these areas.

2.6 CP21/12 included a discussion chapter seeking views for broadening the promotion of the LTAF to a wider retail audience beyond the Non-Mainstream Pooled Investments (NMPI) permitted categories. This was because the LTAF is subject to more stringent governance and diversification requirements than a typical NMPI product like an unregulated collective investment scheme.

2.7 In January 2022, after publication of the LTAF regime and final rules, the FCA published CP 22/2 (Strengthening our financial promotion rules for high-risk investments, including crypto assets), which proposed changes to the wider retail investment marketing regime. This work aims to ensure our financial promotion regime is robust and remains fit for purpose, especially in an environment where investment promotions are distributed to a mass audience at increasing speed via online platforms and through social media.

2.8 Feedback from the discussion chapter of the LTAF Consultation Paper (CP) favoured wider retail distribution:

- Many respondents disagreed with our proposal to initially treat the LTAF as an NMPI, as its promotion would be as restricted as if it were an unauthorised fund, despite it offering greater levels of protection. They argued that there would be little incentive for firms to launch the LTAF as an NMPI, and it would likely undermine its success.
- Respondents variously suggested approaches to broadening distribution, including strengthening product governance guidance, requiring clients to take investment advice, or applying a maximum proportion, for example, 10% of an investor's investable assets to be held in LTAFs. Alternatively, some suggested that the existing appropriateness tests offered sufficient protection to widen the scope of distribution.
- Many respondents did not think it was appropriate for the Financial Conduct Authority (FCA) to prevent retail investors from accessing the LTAF and argued that by preventing retail access, the FCA would be forcing retail investors to invest in higher-risk, potentially unregulated or speculative assets in search for higher returns.

2.9 Given the feedback from the CP, we signalled in PS 21/14 our plan to consult on proposals to amend the LTAF distribution rules to enable a broader range of retail consumers to invest in LTAFs in a controlled way. We consider it appropriate to offer retail investors the choice to invest in the highly regulated and authorised LTAF in a controlled way.

2.10 This work also aligns with the recommendations of an ongoing government review of the UK funds regime, where the government and FCA are working to support a wider range of more efficient investments better suited to investors' needs. The LTAF is part of achieving that objective and – bolstered by the continued work of the Productive Finance Working Group (PFWG) – enhances the UK's funds offering. The PFWG is an industry-led group that aims to develop practical solutions to the barriers to investing in long-term, less liquid assets. The Group was convened in November 2020 by the Bank of England, HM Treasury and the FCA.

2.11 The PFWG recommended that the FCA reviews the application of the Financial Promotion rules to the LTAF, including the classification of the LTAF as an NMPI, once LTAFs are established. In addition, they requested the FCA to consider further the appropriateness of applying this framework to the LTAF as part of its review of the potential safe distribution to retail investors more broadly.

How it links to our objectives

2.12 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 objective of securing an appropriate degree of protection for consumers. Our proposal will allow a broader range of consumers to access investments with potentially different risk/return and liquidity characteristics as part of a well-governed and controlled authorised fund. Our proposals therefore look to balance retail investor demand against the need to ensure they are not taking excessive and undisclosed risks.

2.13 In formulating our proposals to secure an appropriate degree of protection for consumers, we have considered the degree of risk associated with investing in an authorised open-ended fund that is predominantly exposed to illiquid assets. We have also considered the degree of risk associated with expanding distribution to retail investors, and the operational and disclosure rules required to ensure they are fairly treated. We think the proposals in this paper will secure an appropriate degree of protection for retail investors in LTAFs. This takes into account the lower levels of experience and expertise of retail investors, their need to access their investments and their ability to absorb losses.

The Consumer Duty

2.14 All firms that manufacture, manage or distribute the LTAF to retail investors and retail clients must comply with the Consumer Duty (PS 22/9, A New Consumer Duty). The Consumer Duty sets a higher, clearer standard by requiring firms to ensure their products and services are fit for purpose and offer fair value. It also requires firms to give their customers the support and information they need when they need it. Overall, we expect the Duty to help consumers make effective choices and act in their interests. It will create a fairer and more consumer-focused playing field on which firms can compete and innovate to deliver good consumer outcomes.

Wider effects of this consultation

2.15 Broadening the scope of LTAF distribution could lead to higher returns and/or increased diversification for retail investors and therefore reduce their overall portfolio risk. For example, a 0.6% a year increase in net returns (after fees) could result in a 25% increase of total net return over 40 years. One report (here) 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. On the other hand, LTAFs may invest into fixed assets, infrastructure, or complex financial products, many of which are illiquid assets. Investors who do not remain invested for the long term may not get back all their money, and it may take many years to make a profit on the investment.

2.16 Firms will benefit from the ability to reach a broader target market, simultaneously meeting consumer needs, whilst diversifying their investor base, increasing the probability of a successful launch, and consequently holding a more diversified range of assets within the fund.

2.17 Benefits to the wider economy may occur due to greater opportunities for investment in long-term, productive finance assets. More investment funding is therefore likely to flow into long-term projects, which will benefit countries like the UK, lowering the cost of capital. In aggregate, we expect these flows to lead to increased investment levels with further growth and production multipliers.

2.18 As LTAFs have notice periods of at least 90 days, the FCA understands that under the current ISA regulations, units in LTAFs would not be qualifying investments for a Stocks and Shares (Individual Savings Account) ISA. Some market participants consider that ISA eligibility could facilitate widening access to the LTAF. Tax matters, including but not limited to the ISA regime, are a matter for HM Treasury and HMRC.

Unintended consequences of our intervention

2.19 As part of this consultation, we are keen to hear other examples of potential consequences as a result of the proposed changes.

Q1: Do you have any comments on our assessment of the effects of our proposals?

Equality and diversity considerations

2.20 We have considered the equality and diversity issues that may arise from the proposals in this Consultation Paper. Overall, we do not consider that these proposals in isolation materially impact any of the groups with protected characteristics under the Equality Act 2010. We will continue to consider the equality and diversity implications during the consultation period and welcome your input. We will revisit the implications when making final rules. In the meantime, we welcome your views on this.

Q2: 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 Broadening retail investment coverage

3.1 In this chapter we set out in more detail our proposals for making LTAFs accessible to direct investment by a wider range of retail investors, while ensuring an appropriate level of protection.

Restricted Mass Market Investments

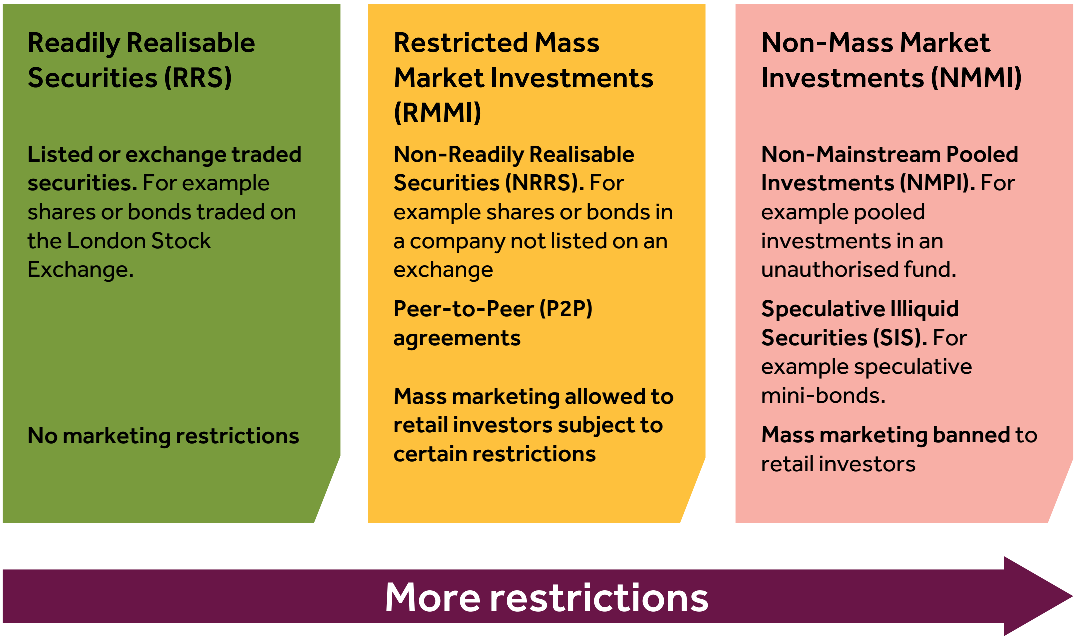
3.2 We propose to recategorise a unit in an LTAF as an RMMI in line with PS 22/10 (Strengthening our financial promotion rules for high-risk investments). This means that in addition to high net worth and sophisticated retail investors, restricted retail investors will be able to invest up to 10% of their investable assets into an LTAF or other RMMI products (in total).

3.3 The LTAF already has strong governance, oversight and controls built in as an authorised fund, and will now include a number of further investor protections that we are carrying over from other authorised retail funds, which are above and beyond those for many other RMMI products. We will therefore not be requiring the same 24-hour cooling off period that will be applied to other products categorised as RMMI.

3.4 The LTAF is currently an NMPI, so it would be included in the Non-Mass Market Investments (NMMI) product category under PS 22/10 rules. This would put it alongside the Qualified Investor Scheme (QIS), an authorised fund for professional and institutional investors which does not offer the same level of protections or have the same restrictions as an LTAF.

3.5 We do not think NMMI is the appropriate category for the LTAF because it is not proportionate for an FCA-authorised fund that has to adhere to strict requirements to be categorised in the same way as unauthorised funds. Given that the LTAF must employ a prudent spread of risk, taking into account the investment objectives, policy and strategy of the LTAF, can only be launched and managed by a full-scope UK AIFM, and has stronger governance / disclosure rules than a QIS, we do not think it should have the same level of restrictions that are imposed on NMMIs. This is consistent with the consultation feedback.

Figure 1: Financial Promotion marketing restrictions product categories



3.6 Under NMPI rules, promoters can only contact customers already known to be eligible under those rules. We are aware that firms want to be able to contact retail investors widely about LTAFs, while accepting that on further enquiry into an investor's profile, knowledge and experience, it may become apparent the product is not appropriate for them.

3.7 We are also aware that many consumers are interested in higher return investments than are currently on offer, especially in a low interest rate environment. Increasing interest rates are unlikely to change this behaviour, given the historically low base from which these increases are arising.

3.8 The LTAF has safeguards which make it appropriate for there to be fewer restrictions on its distribution than the NMPI rules require. It has been designed to align the fund's dealing frequency with the illiquidity of its underlying assets, including by requiring a minimum 90-day notice period and dealing no more frequently than monthly. Only full-scope UK AIFMs can launch and manage LTAFs. They are subject to detailed prudential and conduct requirements. The LTAF is also required to meet diversification, disclosure and valuation requirements.

3.9 These controls mean that whilst there may be significant inherent investment risk in the underlying assets, and an investor will not have access to daily liquidity, there are sufficient controls to ensure that those retail investors [to whom we propose LTAFs can be promoted] are made aware of the risks and are assessed as being well placed to deal with them. We therefore think it is appropriate to allow retail access to the LTAF in a controlled way and as part of a diversified investment portfolio.

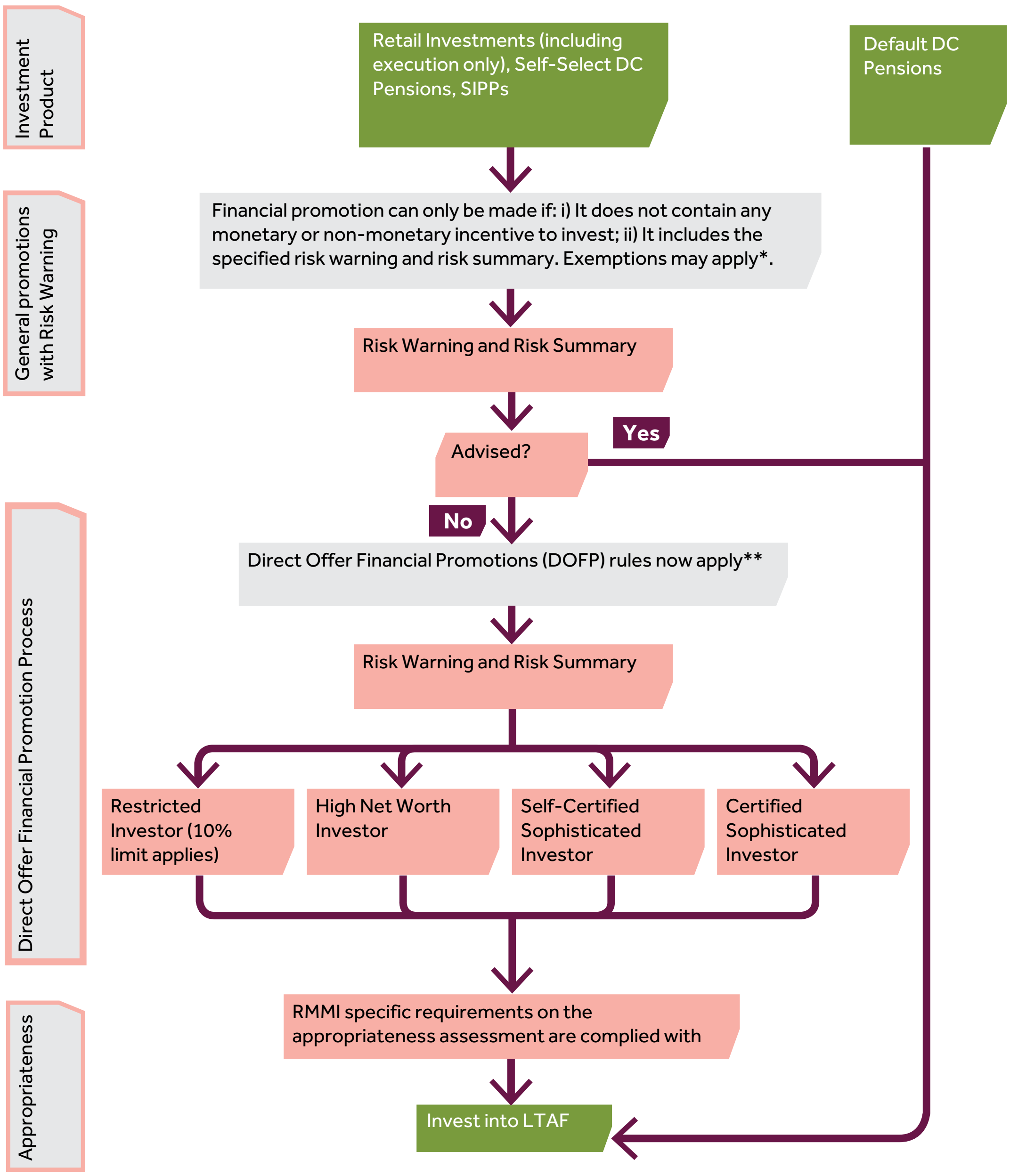
3.10 Subject to the outcome of the consultation, we generally propose applying the same COBS rules that apply to other RMMI set out in PS 22/10, apart from the 24-hour cooling off period. We are also proposing changes to the rules and guidance in COLL to:

- enable a Non-UCITS (Undertakings for Collective Investment in Transferable Securities) Retail Scheme (NURS), set up as a fund of alternative investment funds (NURS FAIF – an existing form of alternative retail authorised fund), to invest up to 35% of its value into units of a single LTAF and up to a maximum of 50% of its value in LTAFs in total.
- switch off the enhanced due diligence provisions for FAIFs that invest into LTAFs.
- apply rules on notification of fund changes, unitholder registration, conduct of unitholder meetings, fees and fund suspension, in line with other retail funds.
- recategorise the LTAF as an RMMI product.

3.11 Given the governance, controls and restrictions built into the LTAF regime and the fact it is an authorised fund we do not think it is necessary to apply the same positive frictions that were suggested for other RMMI products. We propose the same ban on inducements to invest as we apply for other RMMIs.

Q3: **Do you agree that the LTAF should be recategorised as a RMMI (as per PS 22/10), from its previous category as NMPI, thus broadening retail access to include restricted investors?**

Figure 2: Retail Consumer Journey



* Financial Promotions Order exemptions.
** DOFP will apply in almost all cases where the investor is un-advised.

Risk Warnings

3.12 Behavioural testing which informed the RMMI risk warnings (here) found that short, sharp, plain language was much more effective at helping consumers to understand the investment than previous examples of risk warnings.

3.13 We therefore propose a specific risk warning for the LTAF, including specific references to investment horizon, liquidity and redemptions, as shown below. The rules and guidance on how the risk warning should be displayed are aligned with existing RMMI requirements set out in COBS 4.12A and COBS 4 Annex 1R.

3.14 For example, a financial promotion must not contain any design feature which has the intent or effect of reducing the visibility of the risk warning. We also expect that firms take the Accessibility Standards into account when displaying their risk warning, to ensure it is sufficiently legible, prominent and contrasting to the background.

3.15 The general rules and guidance in PS 22/10 covering all financial promotions would remain and would still be relevant to disclosures and risk warnings for purposes other than high-risk investments.

3.16 We are proposing a template for the risk information summary to be displayed for the LTAF. For a digital promotion, this information would be presented in a box when a consumer clicks on the link in the risk warning. The language used in our proposals is informed by that used in the RMMI behavioural testing. If firms move away from the wording in the template, they must record their rationale for each divergence for example, if something would be misleading or irrelevant for their offering. The summary will still need to adhere to overall guidelines, such as only taking around two minutes to read and be in consumer-friendly language.

3.17 Firms should continue to provide further risk information specific to their business model and the product or service promoted (as per COBS 4.5.2R and COBS 4.5A.3UK) aside from that included in the risk summary box, to ensure the whole of the promotion is clear, fair and not misleading. This risk information should also be succinct and in plain English. Outside digital mediums, the risk warning should be provided in a durable medium, unless the medium means this isn't possible.

3.18 A firm must not communicate or approve a financial promotion for a LTAF unless it contains the following risk warning:

> This is a high-risk investment, and you do not have protection against poor performance. Only invest if you're prepared to wait to get your money back. Assets in this fund take a long time to buy and sell. It will take several years to make any money on your investment.

3.19 Where the number of characters contained in the financial promotion is restricted by a third party, the following risk warning must be used instead:

> This is a high-risk investment, so only invest if you're prepared to wait to get your money back.

3.20 Where the financial promotion is communicated by way of a website, mobile application or other digital medium, the risk warning must also include the following text:

> Take 2 mins to learn more.

3.21 This must then link to a two-minute risk summary in a pop-up box (or equivalent). Firms must tailor the dealing date, dealing frequency, notice period and other specifics of their LTAF to the risk summary text.

Risk summary template

Estimated reading time: 2 min

Due to the illiquidity of the LTAF fund structure, the Financial Conduct Authority (FCA) considers this investment to be high risk.

1. What are the key risks?
   - You should be ready to invest for the long term and the value of your investment may go up or down.
   - LTAFs can invest into fixed assets, infrastructure, or complex financial products, all of which are hard to sell. Investors who do not remain invested for the long term may not get back all their money. It may take many years to make a profit on the investment.
   - The firm selling the LTAF may not have carried out checks on the fund's suitability to you. You should carry out your own research, so that you understand what you are investing in.

2. If you decide to exit early you won't get your money back quickly
   - This LTAF accepts requests to sell units only [once] a month and there is also a [90 day] waiting period before the value of your units is determined and you receive your money. This means that:
   - If you choose to sell your units on [2 January], and the trading day is the 15th of the month, you won't get any money back until [approx. 20 April], assuming a few extra days for the trade to close and funds to transfer.
   - The value of the units you sell will be at the price set on [15 April].
   - Once your redemption request has been approved, you cannot cancel your request.

3. It will take a long time to make profits
   - Even if the assets the LTAF invests in are successful, it will likely take several years to get your money back and make a profit.
   - LTAFs will rarely make payments of income. You should not expect to get your money back this way.

4. Don't put all your eggs in one basket
   - Putting all your money into a single investment or type of investment, for example, is risky. Spreading your money across different investments makes you less dependent on any one investment to do well.
   - Depending on financial advice based on individual circumstances, you should carefully consider the amount of exposure to high-risk investments you wish to take.

5. You are unlikely to be protected if something goes wrong
   - Protection from the Financial Services Compensation Scheme (FSCS), in relation to claims against failed regulated firms, does not cover poor investment performance. Try the FSCS investment protection checker here.
   - Poor investment performance is not covered by the Financial Ombudsman Service (FOS). If you have a complaint against an FCA-regulated firm, FOS may be able to consider it. Learn more about FOS protection here.
   - If you are interested in learning more about how to protect yourself, visit the FCA's website here.

3.22 The risk summary template wording is in line with our proposed guidance for matters to be covered within the LTAF appropriateness test. If firms change the risk information, either inside or outside of the risk summary, they should also consider covering this within their appropriateness test (and vice versa with additional topics covered in appropriateness tests). Outside digital mediums, the risk summary should be provided in a durable medium, unless the medium means this isn't possible.

Q4: Do you agree with the wording of the proposed LTAF risk warning and risk summary? Please explain your answer and suggest alternative drafting if appropriate.

3.23 We propose not to require the 24-hour cooling off period required for other products in the RMMI category. Cooling off periods are intended to protect investors that may have made a rushed decision. However, no other funds, not even daily dealt retail funds, have cooling off periods. In any case, a rushed decision is unlikely for investors in a fund with minimum monthly dealing and minimum 90-day notice period. Lastly, all prospective investors will be advised or will have to take an appropriateness test prior to investing, so there is sufficient time to reconsider investing.

3.24 We consider that this is a balanced view on protections vs. friction, given the LTAF is an authorised fund, with robust governance requirements.

Q5: Do you agree that when investors buy units in an LTAF, they should not have to comply with the 24-hour cooling off period?

Protections for retail fund investors

3.25 Our rules for mainstream retail authorised funds (UCITS schemes and NURS) include measures designed to ensure that retail investors in a fund are treated fairly and given adequate information in a timely way. We propose to extend some of these rules to LTAFs that accept investment from consumers classified as restricted investors. For example, we propose to apply most of the detailed rules for maintaining a register of unitholders in an authorised unit trust or authorised contractual scheme (shareholder registers for open-ended investment companies are governed by secondary legislation). We do not propose to include rules relating to unit certificates, as we believe it is unlikely that any firms will wish to issue certificates for LTAFs.

3.26 We also propose to limit the types of payment that can be taken from the scheme property of an LTAF, to align with UCITS / NURS rules. This includes rules on the ability to charge a performance-related fee and to take charges from capital instead of income.

3.27 It is important that retail investors are given information so they can understand the terms and implications of the LTAF's dealing arrangements and the applicable notice period. We already require the fund prospectus to set out clearly the terms of the dealing structure and notice period, with worked examples so that retail investors can understand the redemption terms and implications, as per COLL 15.4.5R(16). However, retail investors do not usually ask to see the prospectus, so the key information document for the LTAF (as required by the PRIIPs Regulation) will be the main form of pre-sale disclosure. It will need to be provided to retail investors and must include a description of the main dealing features, as well as the fund's aims and the key risks of investing in it.

3.28 As with other retail authorised funds, we will require (for example, change of objective or policy) to be approved by a meeting of unitholders and full information to be given to investors in advance about any proposed significant changes to the fund (for example, fee increases). Finally, we will require regular updates to be provided to investors in the event of a suspension of dealing.

3.29 We propose applying the following disclosure and other rules that apply to Authorised Fund Managers (AFMs) managing UCITS schemes and NURS, to AFMs managing LTAFs:

- Copying and applying the relevant change notification provisions in COLL 4.3.4R through to COLL 4.3.9G, and COLL 4.3.11R through to COLL 4.3.13G into COLL 15.5 for LTAFs
- Applying the rules on conduct of unitholder meetings in COLL 4.4 through COLL 15.5.12R
- Copying the rules for registration of AUT / ACS unitholders in COLL 6.4 into COLL 15.7 for LTAFs
- Copying the rules on payments for LTAF unit classes made available to retail clients in COLL 6.7 into COLL 15.8
- Copying the fund suspension rules in COLL 7.2.1R(2B) and (2C), into COLL 15.10.3R for LTAFs

Q6: Do you agree that the retail fund rules noted above should be applied to LTAFs with retail investors?

Q7: Should the LTAF regime have any other additional protections that are already available for mass-market retail fund regimes?

Direct Offer Financial Promotion Rules

3.30 Classifying the LTAF as an RMMI means that LTAFs can generally be mass-marketed. Should the firm wish to move beyond general mass marketing and the prospective investor is not receiving a personal recommendation, Direct Offer Financial Promotion (DOFP) rules apply. PS 22/10 provides detailed guidance to firms on how to apply the DOFP rules.

3.31 Before communicating the DOFP, the firm, or other person communicating the DOFP obtains the retail client's full name; and having obtained the retail client's name, communicates to that retail client the following personalised risk warning.

> [Client name] this is a high-risk investment, and you do not have protection against poor performance. Only invest if you're prepared to wait to get your money back. Assets in this fund take a long time to buy and sell. It will take several years to make any money on your investment. Take 2 mins to learn more.

The "take two minutes to learn more" risk summary should then be communicated to the client, either as a further pop-up box (or equivalent), or via a durable medium. All personalised risk warnings and risk summaries should meet all the requirements previously stated above.

3.32 Under DOFP rules, the firm must then categorise the unadvised prospective investor as either a certified high net worth investor, a certified sophisticated investor, a self-certified sophisticated investor, or a certified 'restricted' investor according to our Handbook rules. To be a restricted investor, the individual must sign a declaration to say they have not in the last 12 months, and will not in the next 12 months, invest more than 10% of their net assets (net assets do NOT include: primary residence, pension (or any pension withdrawals) or any rights under qualifying contracts of insurance) in RMMIs.

3.33 As set out in PS 22/10 our rules require that the RMMI must be considered appropriate before a client's application or order for a RMMI in response to a DOFP can be made. However, our rules allow firms to gather the information necessarily to conduct the assessment, and complete its assessment, prior to the DOFP being shown. We expect that most firms will conduct their appropriateness assessment prior to the DOFP being shown so that they can implement this as part of their client on-boarding alongside other requirements in the consumer journey such showing the personalised risk warning, client categorisation and any Anti-Money Laundering/Know Your Customer checks that may be required. We detail the LTAF specific appropriateness requirements in the section below.

3.34 Once these steps have been completed, the firm can then send out a DOFP, either as a document or via another medium. This targeted promotion is now permitted to include a 'manner of response' which enables prospective investors to clearly request a firm to invest their money or includes a form for them to do so.

Appropriateness Assessment

3.35 If the client is non-advised, the firm must conduct an appropriateness assessment on the potential investor under our rules in COBS 10 or COBS 10A. These rules require firms to consider the investor's knowledge and experience in the relevant investment field. We will apply the same restrictions on the ability of firms to re-assess appropriateness as we apply for other RMMIs to ensure this process is consistent. We will also provide guidance on the topics that firms should cover as part of the appropriateness assessment under COBS 10. Advised clients do not need to take an appropriateness assessment.

3.36 Firms will need to consider the PROD rules (PROD 3.2.1R for manufacturers and PROD 3.3.1R for distributors) when manufacturing and distributing units in LTAFs. The AFM will only need to carry out an appropriateness test if the firm is selling units directly to the retail investor and it is aware, or ought reasonably to be aware, that the sale is in response to a DOFP. Otherwise, the distributor will carry out the test under the rules in COBS 10A. Should the appropriateness assessment be successful, the investor can now place their money with the firm. This ensures the rules apply at the right point in the consumer journey.

Q8: Do you agree that the LTAF should require an appropriateness test for all potential retail investors?

Funds of Alternative Investment Funds

3.37 We received feedback to CP 21/12 on better enabling the NURS FAIF regime to invest into LTAFs. On this basis, we propose to amend COLL 5.7.7R (in the case of LTAFs) to enable a FAIF (including multi-asset funds structured as a FAIF) to invest up to a maximum of 35% in a single LTAF, provided that the requirements of COLL 5.7.7R(3) are met.

3.38 Investment by a FAIF into an LTAF is possible provided the LTAF's liquidity, redemption policy and dealing arrangements (as part of the overall portfolio of assets held in the FAIF) are sufficient for the FAIF to be able to meet its obligations in respect of redemptions (see proposed new rule in COLL 5.7.7R(3)(b)). In addition, if appropriate, the AFM of the FAIF must have considered how many second schemes the FAIF should invest in to ensure that it can meet its redemption obligations (COLL 5.7.7R(3)(c)). This means that the AFM of a FAIF must ensure that the timing of valuations of an LTAF into which the FAIF invests aligns with the valuation and redemption timing of the FAIF. Wherever appropriate, the AFM may need to consider how many second schemes the investing scheme should invest in to ensure that that scheme can meet its redemption obligations.

3.39 In terms of due diligence requirements, we propose not to apply COLL 5.7.9R(1) and (2) for FAIFs investing into units of LTAFs, given the level of investor protection required for LTAFs already.

COLL 5.7.9R (1) and (2)

These rules state that a NURS FAIF must not invest in units of second schemes unless:

1. The AFM has carried out appropriate due diligence on each of the second schemes and:
   - is satisfied, on reasonable grounds and after making all reasonable enquiries, that each of the second schemes complies with relevant legal and regulatory requirements, and;
   - has taken reasonable care to determine that:
     - i. 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;
     - 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; and
     - iii. each of the second schemes is regularly audited by an independent auditor in accordance with international standards on auditing; and
2. The AFM must carry out appropriate due diligence as detailed above on those schemes on an ongoing basis.

3.40 We propose applying a total upper investment limit of 50% of a FAIF into LTAFs, to stay under the Funds with Inherently Illiquid Assets (FIIA) threshold. Over 50%, the FAIF would become a FIIA. We welcome views from respondents on whether we should apply a total upper limit and, if so, what level it should be set at.

Q9: **Do you agree with the proposal to enable a FAIF to invest up to 35% into a single LTAF?**

Q10: **Should we apply a limit to the value, as a percentage of the Net Asset Value (NAV), that a FAIF can invest in multiple LTAFs?**

Q11: **Do you agree that COLL 5.7.9R (1) and (2) should be switched off for FAIFs that invest in units of LTAFs, given the existing detailed LTAF due diligence rules?**

4 Broadening pension scheme coverage

4.1 In this chapter we outline our proposals to amend the rules for unit-linked products (the 'permitted links' rules) to extend the distribution of LTAFs and other illiquid assets to members of Defined Contribution (DC) pension schemes and more widely by:

- permitting the broadening of the distribution of LTAFs via self-select options in qualifying schemes, subject to similar protections to those that currently apply to default arrangements
- extending the distribution of LTAFs where investors in a long-term, unit-linked product have appropriate professional support on fund selection; and
- giving equivalent status to that currently afforded to LTAFs via the permitted links rules to other illiquid assets where the unit-linked product is part of the default arrangement of a qualifying scheme

4.2 Historically, industry stakeholders told us that the existing 20%/35% cap on illiquid investments within any unit-linked fund meant that firms found it difficult to market funds that invest in illiquid assets to DC schemes. DC schemes typically constructed their default arrangements from a number of funds, generally using funds which are considered to be liquid, as part of a wider diversified portfolio.

4.3 In PS21/14 we amended the permitted links rules where the unit-linked contract forms part of the default arrangement of qualifying schemes. We removed the 35% limit for LTAF-linked funds that form part of the default arrangement of a qualifying scheme, while keeping requirements on insurers to provide risk warnings and ensure that the fund is suitable for the ultimate investors. To ensure these proposals only applied to default arrangements, we introduced conditional permitted LTAFs and made them available only in relation to default arrangements. As a result, the LTAF would not be available for retail investors investing outside a qualifying scheme's default arrangement.

4.4 Responsibility for deciding the proportion of the default arrangement which is invested in illiquid assets (such as the LTAF) falls primarily on the trustees (of an occupational scheme) or on the operator of a workplace scheme (an insurer or Self-Invested Pension Plan (SIPP) operator). In PS21/14 we added guidance clarifying that the insurer is expected to consider the concentration risks of including the LTAF in a default arrangement when complying with the conditions for the use of conditional permitted LTAFs.

4.5 Investment in LTAFs via unit-linked funds above the 35% limit currently only applies for default arrangements in qualifying schemes, not self-select options available to members of a qualifying scheme, and not for workplace pensions that are not a qualifying scheme or for non-workplace personal pensions. The 35% limit continues to apply for the other investments that a default arrangement may make in other conditional permitted links.

4.6 Although most respondents to our previous consultation welcomed our proposals, several respondents said that while the proposed rules would work well for the LTAF in a default arrangement context, the 35% limit may continue to create challenges for unit-linked investment in other illiquid assets, even where they form part of a default and are professionally managed. Several respondents said that the current rule only allowing LTAF distribution to default arrangements is overly restrictive. They pointed out that outside the default arrangement landscape, there are other balanced managed investment arrangements where the provider designs and governs the portfolio on the investor's behalf. Investors in these strategies (which could be found in non-workplace pension products, for example) could therefore also benefit from exposure to LTAFs.

4.7 Respondents made clear that they were not proposing LTAFs be made available for stand-alone investment in a unit-linked wrapper without access to any supporting guidance and choice architecture. For example, an LTAF should not be a self-select fund option in a pension product (workplace or non-workplace) without appropriate guidance and choice architecture. However, looking at the potential for wider retail distribution, they felt that investors in a long-term unit-linked product who had either professional support on fund selection or are guided through an appropriate choice architecture, should be able to invest in an LTAF. In their view, given the degree of substitutability between authorised funds and unit-linked funds, if future distribution rules will allow LTAFs to be sold to retail investors, they should also allow for the distribution of unit-linked LTAFs to such investors.

4.8 We clarified in PS 21/14 that we remained open to potentially extending the distribution of the LTAF where investors in a long-term unit-linked product have either professional support on fund selection or are guided through an appropriate choice architecture.

4.9 We therefore propose to permit the broadening of the distribution of LTAFs in qualifying schemes beyond the default arrangement, to self-select options. This is subject to guidance stating that the insurer must satisfy itself that protections are in place to prevent investors over-exposing themselves to the LTAF-linked fund, which in practice may consist of preventing individuals from investing in the LTAF to a greater extent than the level of investment by the default arrangement of the same qualifying scheme. We view this as an important protection for self-select investors.

4.10 We also propose to make rules extending the distribution of the LTAF more widely where investors in a long-term unit-linked product have appropriate professional support on fund selection – this would include investors in non-workplace pensions and workplace pensions that are not qualifying schemes. For the moment, we propose that such investments would only be possible outside qualifying schemes where the individual has been advised, but we are open to suggestions that ensure an equivalent level of consumer protection as part of the consultation process. The requirement for insurers to ensure that the fund is suitable and redeemable for investors continues to apply.

4.11 Investment in LTAFs by self-select pension scheme members, and through unit-linked SIPPs more widely, will also remain subject to any applicable marketing restrictions in COBS 4 and other relevant Handbook requirements.

4.12 Previous CP responses have indicated that the 35% cap remains a significant constraint within the permitted links rules for structures other than LTAFs that seek to offer unit-linked investors exposure to illiquid assets. It also potentially means the LTAF would have an advantage over other fund structures, in particular the QIS and directly invested unit-linked funds, because the cap would apply to these structures but not to a conditional permitted LTAF. A more coherent regulatory approach would treat all fund structures (and direct investments) the same in this respect.

4.13 In PS 21/14, we recognised the points made by respondents about the constraints of the current 35% limit on conditional permitted links and the perceived potential advantage afforded to the development of the LTAF over other fund structures.

4.14 We therefore propose to give equivalent status to other illiquid assets where the conditions for securing an appropriate degree of consumer protection can be met. We propose to do this by removing restrictions on illiquid assets in unit-linked, as we did for LTAF, where the investor is the default arrangement of a qualifying scheme. This would enable firms to develop unit-linked products which contain other kinds of illiquid assets, but only under the same terms that currently apply to LTAFs – i.e.: that they can only be sold to a qualifying scheme's default arrangement.

4.15 This is because the LTAF comes with protections that do not apply to other illiquid asset types, so allowing other illiquid assets to be sold, for example, to self-select customers, would be inappropriate. It would however 'level the playing field' for other kinds of fund structures such as, closed-ended structures, direct investment into the assets by the insurer in the context of products for defaults (which form the bulk of the market for unit-linked business). The same requirements around risk warnings, appropriateness assessments and concentration risk that currently apply to the LTAF will continue to apply to other illiquid assets.

Q12: Do you agree with our proposals to extend distribution of the LTAF beyond defaults in qualifying schemes?

Q13: Do you agree with our proposals to extend distribution of the LTAF more widely where investors in a long-term unit-linked product have appropriate professional support on fund selection as above?

Q14: Do you agree with our proposal to make rules to give equivalent status to that of LTAFs under the permitted links rules to other illiquid assets where the conditions for securing an appropriate degree of consumer protection can be met?

Self-Invested Personal Pensions (SIPPs)

4.16 The amount of capital that SIPPs are required to hold is determined by the nature of the assets that they administer. Some SIPP providers administer schemes that allow clients to invest in less easily realisable asset classes, and that can be difficult or costly to transfer to another provider or to wind up. A SIPP provider that administers such schemes is required to hold more capital than a SIPP provider administering 'standard assets'.

4.17 The capital adequacy rules for SIPP providers therefore distinguish between standard assets and non-standard assets. To be treated as a standard asset, the rules require any investment held in a SIPP to be capable of being readily realisable within 30 days. Where a SIPP provider administers client plans that contain non-standard assets, it must hold additional capital (a capital surcharge) to provide additional client protection in the event of the firm exiting the market. As the notice period is at least 90 days, the LTAF will therefore be considered a non-standard product for SIPPs.

Q15: Do you consider there to be any unintended consequences from categorising the LTAF as a non-standard product for SIPPs?

Annex 1
Questions in this paper

Q1: **Do you have any comments on our assessment of the effects of our proposals?**

Q2: **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.**

Q3: **Do you agree that the LTAF should be recategorised as a RMMI (as per PS 22/10), from its previous category as NMPI, thus broadening retail access to include restricted investors?**

Q4: **Do you agree with the wording of the proposed LTAF risk warning and risk summary? Please explain your answer and suggest alternative drafting if appropriate.**

Q5: **Do you agree that when investors buy units in an LTAF, they should not have to comply with the 24-hour cooling off period?**

Q6: **Do you agree that the retail fund rules noted above should be applied to LTAFs with retail investors?**

Q7: **Should the LTAF regime have any other additional protections that are already available for mass-market retail fund regimes?**

Q8: **Do you agree that the LTAF should require an appropriateness test for all potential retail investors?**

Q9: **Do you agree with the proposal to enable a FAIF to invest up to 35% into a single LTAF?**

Q10: **Should we apply a limit to the value, as a percentage of the Net Asset Value (NAV), that a FAIF can invest in multiple LTAFs?**

Q11: **Do you agree that COLL 5.7.9R (1) and (2) should be switched off for FAIFs that invest in units of LTAFs, given the existing detailed LTAF due diligence rules?**

Q12: **Do you agree with our proposals to extend distribution of the LTAF beyond defaults in qualifying schemes?**

Q13: Do you agree with our proposals to extend distribution of the LTAF more widely where investors in a long-term unit-linked product have appropriate professional support on fund selection as above?

Q14: Do you agree with our proposal to make rules to give equivalent status to that of LTAFs under the permitted links rules to other illiquid assets where the conditions for securing an appropriate degree of consumer protection can be met?

Q15: Do you consider there to be any unintended consequences from categorising the LTAF as a non-standard product for SIPPs?

Annex 2
Cost benefit analysis

Summary

1. This Annex sets out our assessment of the costs and benefits of new rules for broadening retail distribution of the LTAF. The LTAF is a category of authorised open-ended fund designed to enable authorised funds to invest efficiently in long-term, illiquid assets. The distribution of the LTAF is currently restricted to professional investors, certified HNWI and sophisticated retail investors. Subject to certain restrictions, our proposals broaden the distribution of the LTAF to restricted investors, increase the amount of exposure that some other authorised retail funds can have to the LTAF, and broaden pension scheme coverage to self-select options in qualifying schemes and investors in long-term unit linked products.

2. We consider that our proposals will enable investment in long-term illiquid assets, including productive finance, to be a viable option for investors who understand and are able to bear the risks of such investments, and who are seeking the potential for higher long-term returns in return for less or no immediate liquidity. We consider the potential benefits of our proposals are:

- A wider range of products being offered to retail investors creating greater potential for optimal portfolios, with a better balance of investment types with different liquidity. Additionally, investors could potentially earn higher returns.
- Firms may benefit from increased assets under management providing the required scale to launch an LTAF fund. The introduction of the LTAF may increase the flexibility of firms to offer different investment products, to better target investors' needs and may increase the firm's revenue.
- While retail expansion is not expected to directly lead to an increase in the likelihood of new LTAFs being produced, increasing the overall market size could be the tipping point for firms looking to produce LTAFs, leading to a broader range of investment opportunities for consumers.
- Benefits to the wider economy may occur due to greater opportunities for investment in long term, productive finance assets.

3. However, benefits will be highly dependent on the degree to which consumers choose to take advantage of the new products offered.

4. As firms do not have to change their practices, we believe that familiarisation costs, that is reading and learning about our rules, will be the main direct costs to firms resulting from the proposals. For firms that choose to manufacture and/or distribute LTAFs to retail investors, we would expect them to incur costs in updating their IT systems. Firms will also incur change and governance costs to make prospectus enhancements that make additional disclosures on liquidity and enact other protections.

5. We do not believe that retail investors will incur direct costs from our proposals. However, there are potential risks with broadening the distribution of LTAFs such as retail investors making unsuitable investments and not fully understanding the illiquid nature and commensurate risk associated with the underlying assets in which an LTAF invests. We believe the rules set out in the original LTAF regime (see PS21/14) and the additional rules proposed mitigate these risks. We therefore believe the costs to consumers are limited under our proposals.

Introduction

6. 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'.

7. 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

8. In PS 21/14, we finalised rules for LTAFs and indicated that we would consult on broadening the retail distribution of LTAFs, subject to certain restrictions.

9. The LTAF regime was launched as an NMPI, therefore, the distribution of LTAF's is restricted to professional investors and sophisticated retail investors. Retail investors (who are not classified as HNWI or sophisticated investors) cannot directly access the LTAF, which is seen as a constraint on the LTAF's chances of commercial success.

10. Given the governance requirements and regulatory standards that the LTAF must meet, and following consultation feedback, we do not think it is proportionate for the LTAF to be part of the NMPI category. Retail investors who are searching for diversification and higher yield, and who understand the liquidity and valuation risks associated with the underlying assets in which an LTAF invests, may benefit from the diversified investment proposition the LTAF enables.

11. In PS 21/14, we also amended the permitted links rules where the unit linked contract forms part of the default arrangement of an occupational or workplace DC pension scheme, and clarified we remain open to potentially extending the distribution of the LTAF where investors in a long-term unit-linked product have either professional support on fund selection or are guided through an appropriate choice architecture.

12. Currently, investment in LTAFs via unit-linked funds applies for default arrangements in occupational or workplace pensions, not self-select options available to pension scheme members, and not for non-workplace personal pensions. However, market participants expressed that narrowing the scope of LTAF distribution to DC defaults was overly restrictive. Many also said that the 35% limit may continue to create challenges for unit-linked investments in illiquid assets through permitted links to long-term contracts of insurance. Investors in long-term unit-linked products who have either professional support on fund selection or are guided through an appropriate choice architecture, could benefit from exposure to LTAFs, subject to protective mechanisms.

Summary of our proposed interventions

13. We propose categorising LTAFs as RMMI instead of NMPI. The proposed changes will expand potential distribution to restricted investors. These are retail investors who in response to a direct offer financial promotion, are subject to appropriateness assessments and agree to invest no more than 10% of investable assets in RMMI products, along with some other restrictions.

14. These additional restrictions include a risk warning for LTAFs with a link to further prescribed risk information, and requirements for a LTAF's prospectus to disclose how the fund manager will manage the fund where liquidity issues arise, including:

- an explanation of the risks associated with the scheme investing in inherently illiquid assets and how these might crystallise
- a description of the liquidity tools and arrangements the AFM would propose to use
- details of the circumstances in which these tools and arrangements would typically be deployed and the likely consequences for the investor

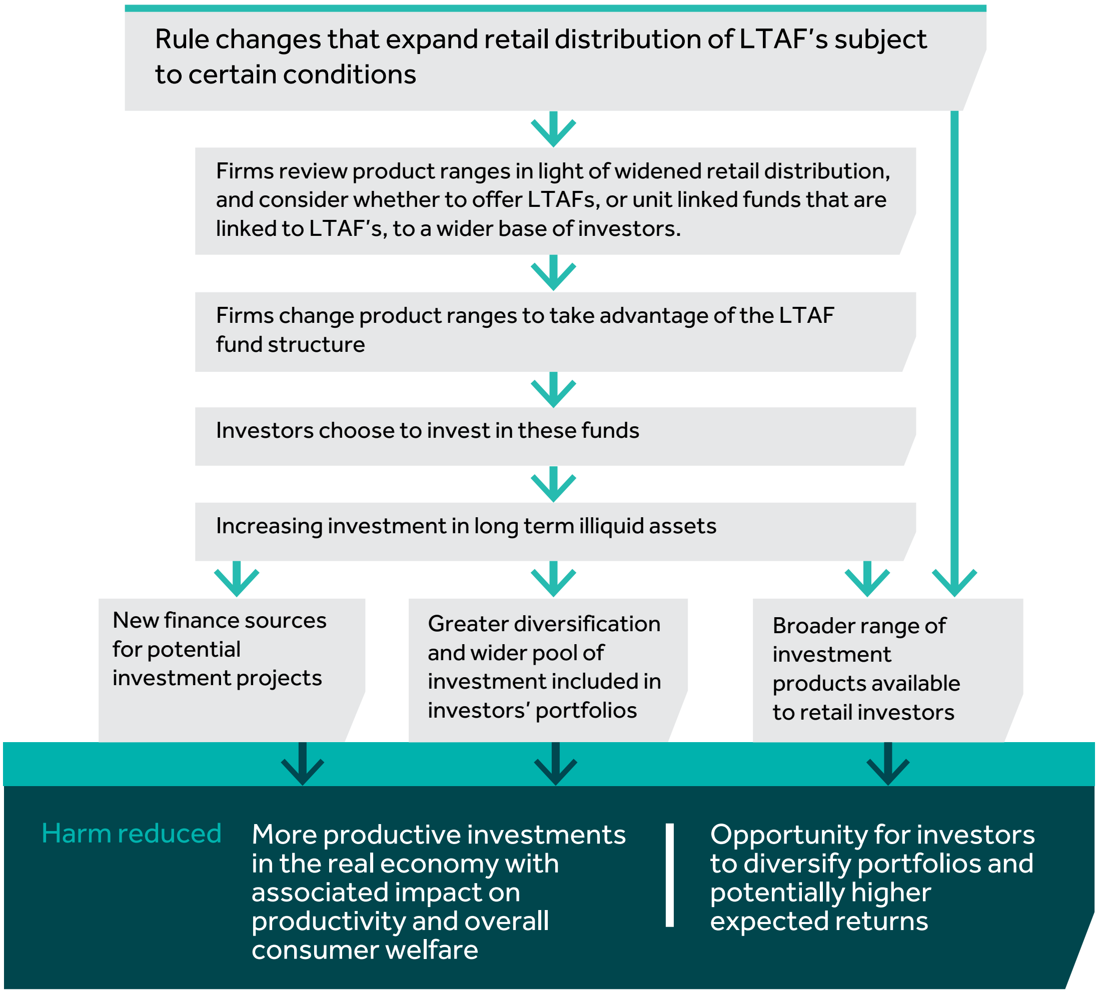
15. We would expect this to be disclosed in the prospectus for wholesale investors in any case but would have explicitly proposed rules for retail distribution.

16. Additionally, we will:

- enable funds of alternative investment funds to invest more of its value into LTAFs, whilst ensuring that the liquidity, redemption and dealing terms for the LTAF are appropriate to the FAIF. Multi-asset funds which are structured as FAIFs will also be permitted to invest in LTAFs.
- facilitate self-select DC pension access to the LTAF, subject to terms that prevent individuals from investing in the LTAF to a greater extent than the level of investment by the default option of the same scheme.
- extend distribution to retail investors in long-term unit-linked products that have professional support on fund selection or are guided through an appropriate choice architecture
- remove restrictions so that unit-linked funds sold to DC defaults can hold other illiquid assets in the same way that they can currently hold LTAFs

17. The following figure sets the causal chain by which we expect to see our proposal reduce the harm described above.

Figure 1: Causal Chain



Baseline

18. As industry has indicated, there are certain barriers to the creation of LTAFs currently, including restricted retail distribution. Therefore, without intervention, we expect the market to continue as it currently operates, with a limited number of LTAFs to be produced or distributed. While retail expansion is not expected to directly lead to an increase in the likelihood of new LTAFs being produced, increasing the overall market size in a reasonably constructive manner could be the tipping point for firms looking to produce LTAFs.

19. 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 will most likely remain weak in 2022 due to recent geopolitical and supply chain uncertainties, with business investment expected to increase over the next year and fall back in 2024 (see page 16).

20. 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

21. 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.

Benefits of our proposals

Benefits to firms

22. Benefits to firms from widening the retail distribution of LTAFs, may include increased assets under management providing the required scale to launch an LTAF fund. This means they are more likely to reach the optimum size needed to hold a diversified range of illiquid assets. The introduction of the LTAF may increase the flexibility of firms to offer different investment products, to better target investors' needs and may increase the firm's revenue. As the LTAF has a long investment horizon, if a firm were to successfully launch an LTAF, the LTAF could provide the firm with a guaranteed income over a longer period than their other fund offerings. This might assist with the firm's financial forecasts and future strategic plans.

23. 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 retail investors

24. The proposed rule changes will benefit relevant investors insofar as they allow firms to provide a broader range of long-term investment choices. 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 potential higher investment returns and/or a reduction in portfolio risk. The LTAF may enable such diversified investment propositions, managed to appropriately high standards, especially if retail investors can invest with confidence that they are doing so only alongside sophisticated institutional investors who are well placed to understand the risks. Investors in self-select pension options and long-term unit linked products will also be able to access the LTAF subject to certain conditions.

25. Benefits to retail investors are dependent on firms adopting new practices and the degree to which they 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

26. Benefits to the wider economy may occur due to greater opportunities for investment in long term, productive finance assets. More investment funding is therefore likely to flow into long-term UK projects and at a potentially cheaper price. This will increase amount of investment undertaken, ultimately leading to higher growth and thus benefit investors who use these investments or goods derived from these productive investments.

27. 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 investors.

Costs of our proposals

Costs to firms

28. Our proposed rules changes are '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. Firms will only choose to manufacture and/or market LTAFs to retail investors if they think their private benefits will outweigh the costs.

Familiarisation and legal costs

29. 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 direct costs to firms resulting from the proposals.

30. We estimate familiarisation costs using standard assumptions.

31. 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 187 Alternative Investment Fund Managers, managers of unit linked funds and investment platforms [distributors] that we think will be interested in our proposal.

32. We have estimated the costs of this to firms using assumptions on the time taken to read the document, which is 41 pages long. We assume that there are 300 words per page and reading speed is 100 words per minute.

33. This means that the document would take about two 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.

34. 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 £176,000.

Table 1: familiarisation costs

Firm Size	Number of firms	Number of compliance staff needed to read the document	Total familiarisation cost
Large	42	20	£112,110
Medium	83	5	£52,254
Small	62	2	£12,063
Total Industry	187	-	£176,426

35. We would expect firms that choose to market LTAFs to retail investor to incur some legal costs as they seek to understand the scope of the new distribution rules and how they can comply with these new rules. We estimate that firms would have to review 20 pages of legal text, with per firm costs of £3,236 for large firms, £1,216 for medium and £159 for small firms.

IT Changes

36. If firms choose to manufacture and/ or market LTAFs to retail investors, they may incur some discretionary costs in updating their IT systems to implement changes that will enable distribution to restricted investors.

37. Funds that are directly marketing LTAFs will need to:

- Build in the risk warning for LTAFs and the associated risk information linked within this
- Build in appropriateness test questions and answer fields and introduce alternative question sets for reassessment
- Build in the declaration form for investors to certify they are investing no more than 10% of their net assets in RMMI products

38. Investment platforms and distributors will likely have existing systems and procedures in place that will need to be modified to meet these requirements. We estimate indicative per firm IT costs using the standardised cost model. For firms that choose to market LTAFs to retail investors, we estimate one-off per firm IT costs of £446,210 for large firms, £123,121 for medium firms and £27,804 for small firms.

39. However, the extent to which firms will have to implement IT changes to comply with rules will vary and be dependent on the level of existing infrastructure in place that can be modified. Some firms already offer authorised funds investing in illiquid 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 illiquid assets, they are not obliged to change them in a prescriptive way to increase that holding.

Change and governance

40. Our proposed rules will require firms that choose to market LTAFs to restricted investors to make prospectus enhancements that disclose how the fund manager will manage the fund where liquidity issues arise. These firms also need to provide full information to investors about any proposed fundamental or significant change to the fund (for example, change of control and suspension) and regularly update investors in the event of suspension of dealing. This will trigger a review of documentation involving compliance, legal and internal sales departments. There may be disparities between firms on the costs they incur as we understand some will have these systems in place already.

41. We estimate indicative per firm costs using the standardised cost model. For firms that choose to operate LTAFs and market them to retail investors, we estimate one-off per firm governance costs of £19,146 for large firms, £7,057 for medium firms and £1,039 for small firms.

42. We do not believe that it is reasonably practicable for us to quantify and monetise overall compliance costs. This is because we do not think we can reasonably predict the take up of LTAFs with widened retail distribution 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

43. We do not believe that retail investors will incur direct costs from our proposals. However, there are potential risks with broadening the distribution of LTAFs. For example, there is a risk some retail investors may make unsuitable investments. 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 in which an LTAF invests.

44. However, we believe requirements set out in the original LTAF regime, and the appropriateness tests for all retail investors and risk warnings on all retail documentation and platforms we are proposing mitigate these risks. As a result, we believe the costs to consumers of making unsuitable purchases or paying high prices for their investments are limited under our proposals. These costs may be incurred by consumers for whom the investment is inappropriate but proceed anyway despite our measures.

45. 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

46. We will incur some costs in authorising and supervising LTAFs. We intend to incorporate the oversight of the LTAF within our existing supervisory framework. We will not incur any additional costs for LTAFs with widened retail distribution under our proposals. Overall 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.

Q16: **Do you have any comments on our cost benefit analysis?**

Q17: **Do you have any specific comments on the cost benefit analysis from the perspective of an investment platform? We welcome evidence and data on potential costs to investment platforms.**

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 (LRRA) 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).

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.

9. 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.

10. 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 retail investors have the information they need to understand fully the risks involved in funds that invest in inherently illiquid assets.

11. 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.

12. 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

13. 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

14. 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

15. 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 investors should take responsibility for their decisions

16. We are proposing to permit the direct marketing of LTAFs to restricted retail investors, subject to appropriateness assessments, with a 10% limit on investible assets, and other restrictions.

17. In addition, we are proposing to facilitate self-select DC pension access to the LTAF, but on similar terms as is already allowed for default DC schemes. We are also proposing to allow retail investors in unit linked products to buy the LTAF where they have taken advice and remove restrictions so that unit-linked funds sold to DC defaults can hold other illiquid assets in the same way that they can currently hold LTAFs.

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

18. 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.

19. The authorised fund manager must publish a prospectus for each authorised fund it manages, which is made available to prospective investors on demand. In line with the rules for other open-ended funds that invest in inherently illiquid assets (FIIA), we propose that an LTAF's prospectus should disclose how the fund manager will manage the fund where liquidity issues arise.

20. 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.

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 [delete if dealt with separately]

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.

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 Chapter 2 of the Consultation Paper.

Legislative and Regulatory Reform Act 2006 (LRRA)

27. We have had regard to the principles in the LRRA 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.

Annex 4
Treasury recommendations about economic policy

1. We consider that our proposals are consistent with the aspects of the government's economic policy to which the FCA should have regard.

2. 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.

3. 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 5
Abbreviations used in this paper

Abbreviation	Description
AFM	Authorised Fund Manager
AIFM	Alternative Investment Fund Manager
CP	Consultation Paper
DB	Defined Benefit
DC	Defined Contribution
DOFP	Direct Offer Financial Promotion
FAIF	Fund of Alternative Investment Funds
FCA	Financial Conduct Authority
FOS	Financial Ombudsman Service
FSCS	Financial Services Compensation Scheme
HMRC	Her Majesty's Revenue and Customs
HMT	Her Majesty's Treasury
HNWI	High Net Worth Individual
ISA	Individual Savings Account
LTAF	Long Term Asset Fund
NMMI	Non-Mass Market Investment
NMPI	Non-Mainstream Pooled Investment
NURS	Non-UCITS Retail Scheme
PFWG	Productive Finance Working Group
PRIIPs	Packaged Retail Investment and Insurance Products

Abbreviation	Description
PS	Policy Statement
RMMI	Restricted Mass Market Investment
SIPP	Self-Invested Personal Pension
UCITS	Undertakings for the Collective Investment in Transferable Securities
UK	United Kingdom
QIS	Qualified Investor Scheme

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Appendix 1
Draft Handbook text

LONG-TERM ASSET FUND (AMENDMENT) INSTRUMENT 2022

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 137A (The FCA's general rules);
(b) section 137D (FCA general rules: product intervention);
(c) section 137R (Financial promotion rules);
(d) section 137T (General supplementary powers);
(e) section 138C (Evidential provisions);
(f) section 139A (Power of the FCA to give guidance);
(g) section 238(5) (Restrictions on Promotion);
(h) section 247 (Trust scheme rules);
(i) section 248 (Scheme particulars rules);
(j) section 261I (Contractual scheme rules); and
(k) section 261J (Contractual scheme particulars rules);

(2) regulation 6(1) 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
Conduct of Business sourcebook (COBS)	Annex B
Collective Investment Schemes sourcebook (COLL)	Annex C

Notes

E. In the Annexes to this instrument, the "notes" (indicated by "*Editor's note:*" or "**Note:**") are included for the convenience of readers but do not form part of the legislative text.

Citation

F. This instrument may be cited as the Long-Term Asset Fund (Amendment) Instrument 2022.

By order of the Board
[*date*]

Annex A

Amendments to the Glossary of definitions

Insert the following definition in the appropriate alphabetical position. All the text is new and is not underlined.

[*Editor's note*: The changes shown in this Annex are to the version of the Handbook as at 1 February 2023, incorporating the definitions and amendments made by the Financial Promotions and High-Risk Investments Instrument 2022.]

conditional permitted illiquid assets	in relation to *conditional permitted links*, and in respect of a *firm's* business with *linked policyholders*, any *permitted link* or *conditional permitted link* (other than a *conditional permitted long term asset fund*) that has a similar liquidity profile to that of a *conditional permitted long-term asset fund*.

Amend the following definitions as shown.

income property	(1)	the amount available for income allocations calculated in accordance with *COLL* 6.8.3R(3A) and not including any amount for the time being standing to the credit of the *distribution account*.
	(2)	(in relation to a *long-term asset fund*) the amount available for income allocations under *COLL* 15.8.18R(5) and not including any amount for the time being standing to the credit of the *distribution account*.
non-mainstream pooled investment	any of the following *investments*:	
	…	
	~~(ba)~~	~~a *unit* in a *long-term asset fund*;~~
	…	
redemption charge	an amount levied by the *operator* of a *scheme* upon the *redemption* of *units*, in the case of an *authorised fund* under *COLL* 6.7.7R (Charges on buying and selling units) or, in relation to a *long-term asset fund*, *COLL* 15.8.15FR (Charges on buying and selling units).	
restricted mass market investment	any of the following:	
	…	
	(c)	a *P2P portfolio*;

(d) a *unit* in a *long-term asset fund*.

Annex B

Amendments to the Conduct of Business sourcebook (COBS)

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

[*Editor's note*: The changes shown in this Annex are to the version of the Handbook as at 1 February 2023, incorporating the amendments made by the Financial Promotions and High-Risk Investments Instrument 2022.]

4 Communicating with clients, including financial promotions

…

4.12A Promotion of restricted mass market investments

…

Risk warning

…

4.12A.11 R (1) For the purposes of *COBS* 4.12A.10R, the *financial promotion* must contain:

…

(c) the following risk warning if the *financial promotion* relates to a *unit* in a *long-term asset fund*:

> **This is a high-risk investment, and you do not have protection against poor performance. Only invest if you're prepared to wait to get your money back. Assets in this fund take a long time to buy and sell. It will take several years to make any money on your investment.**

(2) Where the number of characters contained in the risk warning in (1) exceeds the number of characters permitted by a third-party marketing provider:

…

(c) the following risk warning must be used if the *financial promotion* relates to a *unit* in a *long-term asset fund*:

> **This is a high-risk investment, so only invest if you're prepared to wait to get your money back.**

…

(5) (a) A *firm* must omit the words "and you are unlikely to be protected if something goes wrong" from the risk ~~warning~~ warnings required by ~~(1)~~ (1)(a) or (1)(b) if the conditions in (5)(b) apply.

…

…

(8) Where the *financial promotion* relates to a *unit* in a *long-term asset fund*, the appropriate risk summary required by (3)(a)(ii) or (4)(b) (see *COBS* 4 Annex 1R(7) (Risk summary for units in a long-term asset fund)) must be adapted to reflect the characteristics of the relevant *LTAF*, particularly the *dealing* arrangements for the *LTAF* and the applicable 'notice period'.

…

Direct offer financial promotions

4.12A.14 G …

(3) *COBS* 4.12A.18R (First condition: cooling off period) does not apply where a *direct offer financial promotion* to a *retail client* relates only to a *unit* in a *long-term asset fund*.

4.12A.15 R (1) Unless permitted by *COBS* 4.12A.17R, and subject to (2), ~~and~~ (3) and (4), a *firm* must not:

(a) *communicate* a *direct offer financial promotion* relating to a *restricted mass market investment* to a *retail client* unless the conditions in *COBS* 4.12A.18R (cooling off period), *COBS* 4.12A.20R (personalised risk warning), *COBS* 4.12A.21R (categorisation) and *COBS* 4.12A.28R (appropriateness) are satisfied; or

(b) *approve* a *direct offer financial promotion* relating to a *restricted mass market investment* for *communication* to a *retail client* unless the *firm* is satisfied that the conditions in *COBS* 4.12A.18R (cooling off period), *COBS* 4.12A.20R (personalised risk warning), *COBS* 4.12A.21R (categorisation) and *COBS* 4.12A.28R (appropriateness) will be satisfied in relation to each *communication* of the *direct offer financial promotion*~~.~~,

…

(4) Where the *direct offer financial promotion* relates only to a *unit* in a *long-term asset fund*:

(a) the condition in *COBS* 4.12A.18R (cooling off period) does not apply; and

(b) the condition in *COBS* 4.12A.20R (personalised risk warning) does not need to be satisfied if the *retail client* has previously received a *direct offer financial promotion* relating to a *unit* in a *long-term asset fund* from the same *person* that would otherwise need to satisfy the condition.

4.12A.16 G The effect of *COBS* 4.12A.15R and related provisions in this section is that:

(1) a personalised risk warning and cooling off period are only required on the first occasion that a *firm*, or other *person communicating* an *approved direct offer financial promotion*, *communicates* a *direct offer financial promotion* relating to a *restricted mass market investment* (other than a *unit* in a *long-term asset fund*) to a particular *retail client*;

(1A) where a *direct offer financial promotion* relates only to a *unit* in a *long-term asset fund*:

(a) a personalised risk warning is required only on the first occasion that a *firm*, or other *person communicating* an *approved direct offer financial promotion*, *communicates* a *direct offer financial promotion* to a particular *retail client*; and

(b) a cooling off period is not required;

…

…

First condition: cooling off period

4.12A.18 R …

(3) This condition does not apply if the *direct offer financial promotion* relates only to *units* in a *long-term asset fund*.

…

Second condition: personalised risk warning

4.12A.20 R (1) Subject to (1A) below, the ~~The~~ second condition is that before *communicating* the *direct offer financial promotion*, the *firm*, or other *person communicating* the *direct offer financial promotion*:

…

(1A) Where the *direct offer financial promotion* relates to a *unit* in a *long-term asset fund*, the second condition is that before *communicating* the *direct offer financial promotion*, the *firm*, or other *person communicating* the *direct offer financial promotion*:

(a) obtains the *retail client's* full name; and

(b) having obtained the *retail client's* name, communicates to that *retail client* the following personalised risk warning:

[*Client* name], this is a high-risk investment, and you do not have protection against poor performance. Only invest if you're prepared to wait to get your money back. Assets in this fund take a long time to buy and sell. It will take several years to make any money on your investment. Take 2 mins to learn more. [*Editor's note*: if made, the last sentence in this text will be underlined in the final rules.]

(2) If the *direct offer financial promotion* is, or is to be, *communicated* by means of a website, mobile application or other digital medium, the personalised risk warning in (1)(b) or (1A)(b) must:

…

(3) If the *direct offer financial promotion* is, or is to be, *communicated* other than by means of a website, mobile application or other digital medium:

(a) the personalised risk warning in (1)(b) or (1A)(b) must be:

…

…

(6) The personalised risk warning required by (1)(b) or (1A)(b) and the risk summary required by (2)(b) must comply with *COBS* 4.12A.40R to *COBS* 4.12A.42R.

…

(8) Where the *financial promotion* relates to a *unit* in a *long-term asset fund*, the appropriate risk summary required by (2)(b) or (3)(a)(ii) (see *COBS* 4 Annex 1R(7) (Risk summary for units in a long-term asset fund)) must be adapted to reflect the characteristics of the relevant *LTAF*, particularly the *dealing* arrangements for the *LTAF* and the applicable 'notice period'.

…

Fourth condition: appropriateness

…

4.12A.28 R (1) The fourth condition applies where the *firm* itself or the *person* who will:

(a) *arrange* or *deal* in relation to a *non-readily realisable security;* ~~or~~

(b) facilitate the *retail client* becoming a *lender* under a *P2P agreement* or a *P2P portfolio*; or

(c) *arrange* or *deal* in relation to a *unit* in a *long-term asset fund*, or *issue* such a *unit*,

is aware, or ought reasonably to be aware, that an application or order is in response to the *direct offer financial promotion*.

…

4.12A.29 G …

(2) The *firm* or *person* in *COBS* 4.12A.28R(1) can gather information for the purpose of assessing, and undertake its assessment of, whether a *restricted mass market investment* is appropriate for a *retail client* before the end of ~~the~~ such 'cooling off period' as may be required by *COBS* 4.12A.18R.

…

Requirements of digital personalised risk warnings and digital risk summaries

4.12A.40 R The relevant personalised risk warning in *COBS* 4.12A.20R(2) and the relevant risk summaries in *COBS* 4.12A.11R(3)(a)(ii) and *COBS* 4.12A.20R(2)(b) must be:

…

(2) clearly legible, contained within its own border and with bold and underlined text as indicated in *COBS* 4.12A.20R(1)(b), *COBS* 4.12A.20R(1A)(b) and *COBS* 4 Annex 1R;

…

…

4.12B Promotion of non-mass market investments

…

Purpose and overview of the rules

4.12B.5 G …

(5) (a) *Firms* must also comply with *COBS* 4.12B.7R(1)(b) and the *rules* in *COBS* 4.12B.14R to *COBS* 4.12B.30R (see (b) below) where:

(i) the *financial promotion* relates to a *non-mass market investment* ~~other than a *unit* in a *long-term asset fund*~~; and

…

…

…

(7) The table below explains how the *rules* apply and to which *non-mass market investments* the *rules* apply, after the provisions in *COBS* 4.12B.4R have been applied.

Handbook provision	**Description of the provision**	**Which investments does the provision apply to**	**When does the provision apply**
…			
COBS 4.12B.14R and *COBS* 4.12B.15R	*Firms* must ensure that a personalised risk warning and summary of the risks is made available to the *client* and a period of at least 24 hours (the 'cooling off period') is applied before the *financial promotion* is *communicated*	All *non-mass market investments* except for~~,~~ ~~(1) *units* in *long-term asset funds*; and (2)~~ in relation to the personalised risk warning and summary of risks, *securities* in a *closed-ended investment fund* applying for, or with, a *premium listing* and which complies with the requirements of *LR* 15	Before the *financial promotion* is *communicated* to a certified high net worth investor, self-certified sophisticated investor or certified sophisticated investor, in reliance on the relevant exemption in *COBS* 4.12B.7R(5)
COBS 4.12B.17R	Restrictions on monetary and non-monetary	All *non-mass market investments*	At the time the *financial promotion* is

	benefits being included within the *financial promotions*	~~except for *units* in *long-term asset funds*~~	*communicated* to a certified high net worth investor, self-certified sophisticated investor or certified sophisticated investor, in reliance on the relevant exemption in *COBS* 4.12B.7R(5)
COBS 4.12B.20R, *COBS* 4.12B.21R, *COBS* 4.12B.24R, and *COBS* 4.12B.26R	*Firms* must ensure that a risk warning is provided to the *client*	All *non-mass market investments* except for ~~(1) *units* in *long-term asset funds*; and (2)~~ *securities* in a *closed-ended investment fund* applying for, or with, a *premium listing* and which complies with the requirements of *LR* 15	At the time the *financial promotion* is *communicated* to a certified high net worth investor, self-certified sophisticated investor or certified sophisticated investor, in reliance on the relevant exemption in *COBS* 4.12B.7R(5)
…			

…

Promotions to certified high net worth investors, certified sophisticated investors or self-certified sophisticated investors

4.12B.10 R (1) *COBS* 4.12B.10R to *COBS* 4.12B.31G apply to *financial promotions* which:

(a) relate to *non-mass market investments* ~~unless the only *non-mass market investment* to which the *financial promotion* relates is a *unit* in a *long-term asset fund*~~; and

…

…

Sophisticated and high net worth investors: guidance on certification by authorised person and reliance on self-certification

…

4.12B.44 G …

(2) (a) For example, a *retail client* whose *investment* experience is limited to mainstream *investments* such as regularly traded *securities* issued by *listed companies*, *life policies* or *units* in *regulated collective investment schemes* (other than *qualified investor schemes* ~~or *long-term asset funds*~~) is generally unlikely to possess the requisite knowledge to adequately understand the risks associated with investing in *non-mass market investments*.

…

~~Long-term asset funds~~

~~4.12B.48~~ ~~G~~ ~~A *firm* which wishes to promote *units* in a *long-term asset fund* to a *retail client* in circumstances where the firm considers the financial promotion to be an excluded communication (see *COBS* 4.12B.4R(1)) should have regard to its duties under the *Principles* and the *client's best interests rule*. As explained in *COLL* 15.1.4G (Long-term asset funds – explanation), *long-term asset funds* are *authorised funds* which are intended only for professional clients and for retail clients who are sophisticated investors or *certified high net worth investors*.~~ [Deleted.]

…

4 Annex 1 **R** **Risk summaries**

This Annex belongs to *COBS* 4.12A.11R, COBS 4.12A.20R, *COBS* 4.12B.14R and *COBS* 4.12B.21R.

…

…	…
7	Risk summary for *units* in a *long-term asset fund*
	Estimated reading time: 2 min Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be high risk. **What are the key risks?** **1. You could need to invest for the long-term and the value of your investment may go up or down.** • LTAFs can invest into fixed assets, infrastructure, or complex financial products, all of which are relatively hard to sell. Investors who do not remain invested for the long-term may not get back all their money. It may take many years to make a profit on the investment.

- The firm selling the LTAF may not have carried out checks. You should carry out your own research, so that you understand what you are investing in.

2. If you decide to exit early you won't get your money back quickly

- This LTAF accepts requests to sell units only [once a month] and there is also a [90 day] waiting period before the value of your units is determined and you receive your money. This means that:
    - If you decide to sell your units on the [2nd January], and the day on which requests to redeem units are carried out is the 15th of the month, you won't get any money back until [approx. 20th April], assuming a few extra days for the money to be transferred to you.
    - The value of the units you sell will be determined on the [15th April if it is a business day, or else the next business day after it].
    - Once your redemption request has been approved, you cannot cancel your request.

3. It will take a long time to make profits

- Even if the assets the LTAF invests in are successful, it will probably take several years to get your money back and make a profit.
- LTAFs will rarely make payments of income. You should not expect to get your money back this way.

4. Don't put all your eggs in one basket

- Putting all your money into a single investment or type of investment is risky. Spreading your money across different investments makes you less dependent on any one to do well.
- A good rule of thumb is not to invest more than 10% of your money in high-risk investments.

5. You are unlikely to be protected if something goes wrong

- Protection from the Financial Services Compensation Scheme (FSCS), in relation to claims against failed regulated firms, does not cover poor investment performance. Learn more about FSCS protection here [https://www.fscs.org.uk/check/investment-protection-checker/].
- Protection from the Financial Ombudsman Service (FOS) does not cover poor investment performance. If you have a complaint against an FCA-regulated platform, FOS may be able to consider it. Learn more about FOS protection here https://www.financial-ombudsman.org.uk/consumers].

…

4 Annex 5 **R** **Restricted investor statement**

This Annex belongs to *COBS* 4.12A.22R.

RESTRICTED INVESTOR STATEMENT
…   For the purposes of this statement **high-risk investments are**: peer-to-peer (P2P) loans; investment based crowdfunding; units in a long-term asset fund; and unlisted debt and equity (such as in companies not listed on an exchange like the London Stock Exchange).
…

…

10 **Appropriateness (for non-advised services) (non-MiFID and non-insurance-based investment products provisions)**

10.1 **Application**

…

10.1.2 R (1) This chapter applies to a firm which:

(a) *arranges* or *deals* in relation to a:

…

(iii) *derivative*; ~~or~~

(iv) *warrant*~~,~~; or

(v) *unit* in a *long-term asset fund*,

with or for a *retail client*, other than in the course of *MiFID or equivalent third country business*; ~~or~~

(b) facilitates a *retail client* becoming a lender under a *P2P agreement*; or

(c) *issues* a *unit* in a *long-term asset fund* to a *retail client*,

and the *firm* is aware, or ought reasonably to be aware, that the application or order is in response to a *direct offer financial promotion*.

…

…

10.2 Assessing appropriateness: the obligations

…

Restricted mass market investments

10.2.9 G (1) When determining whether a *client* has the necessary knowledge to understand the risks involved in relation to a *restricted mass market investment*, a *firm* should consider asking the *client* questions that cover, at least, the matters in:

(a) …; ~~or~~

(b) *COBS* 10 Annex 2G in relation to *P2P agreements* or *P2P portfolios*; or

(m) *COBS* 10 Annex 3G in relation to *units* in a *long-term asset fund*.

…

10.4 Assessing appropriateness: when it need not be done

…

10.4.3 G As explained in *COBS* 4.12A.33G, *COBS* 10.4 is not relevant for the purpose of complying with the *rules* requiring an appropriateness assessment under *COBS* 4.12A in relation to *restricted mass market investments*.

…

10A Appropriateness (for non-advised services) (MiFID and insurance-based investment products provisions)

…

10A.2 Assessing appropriateness: the obligations

…

Restricted mass market investments

10A.2.11 G …

Assessing appropriateness: units in long-term asset funds

10A.2.12 G When determining whether a *client* has the necessary knowledge and experience to understand the risks involved in relation to a *unit* in a *long-term asset fund* (see *COBS* 4.12A (Promotion of restricted mass market investments)), a *firm* should consider asking the *client* questions that cover, at least, the matters in *COBS* 10 Annex 3G (Assessing appropriateness: units in a long-term asset fund).

…

10A.4 Assessing appropriateness: when it need not be done due to type of investment

…

Other non-complex financial instruments

…

10A.4.2A G As explained in *COBS* 4.12A.33G, *COBS* 10A.4 is not relevant for the purpose of complying with the *rules* requiring an appropriateness assessment under *COBS* 4.12A in relation to *restricted mass market investments*.

Insert the following Annex after *COBS* 10 Annex 2G. The text is new and not underlined.

10 Annex 3 G Assessing appropriateness: units in a long-term asset fund

This Annex belongs to *COBS* 10.2.9G(1)(c).

When determining whether a *retail client* has the necessary knowledge to understand the risks involved in relation to a *long-term asset fund*, a *firm* should consider asking the *client* questions that cover, at least, the following matters:

(1) the possibility that the *client* could see the value of the amount they invest go down;

(2) the potential illiquidity of *LTAFs* and their underlying assets;

(3) the possibility that it could take the *client* many years to make a profit on the *money* they invest, and that payments of income may be limited or non-existent;

(4) that due to the *dealing* frequency and 'notice period' after a *redemption* request has been accepted (see *COLL* 15.8.12R (Dealing: redemption of units):

(a) the *client* will not know the value of the proceeds of *redemption* until the end of the notice period; and

(b) it will take at least [period of time] for the *client* to receive the proceeds of *redemption*;

(5) the risk of the *LTAF's* investments failing and the associated risk of the *client* losing all of the *money* invested;

(6) the extent to which the protection of the *Financial Ombudsman Service* or *FSCS* apply to the investment activity (including the fact that these services do not protect investors against poor investment performance);

(7) the nature of the *client's* contractual relationships with the *authorised fund manager* (including its role in assessing and making underlying investments);

(8) the benefits of diversification and that *retail clients* should not generally invest more than 10% of their net assets in *restricted mass market investments*;

(9) where the *units* in the *LTAF* are, or are to be, *dealt* or *arranged* by another *firm* ('AF'):

(a) the nature of the *client's* contractual relationships with (AF);

(b) the role of AF and the scope of the service it provides to *clients* (including the extent of the due diligence that AF undertakes in relation to *units* in *LTAFs* that it *deals* in or *arranges*); and

(c) the risk to any management and administration of the *client's* investment in the event of AF becoming insolvent or otherwise failing.

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*;

(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*~~.~~<u>; and</u>

<u>(6)</u> <u>(only in respect of a *linked fund* included in the *default arrangement* of a *qualifying scheme*) *conditional permitted illiquid assets*.</u>

21.3.16 R The conditions for the property in *COBS* 21.3.15R to be a *conditional permitted link* are that an *insurer* must ensure, on a continuing basis, that:

<u>(-1)</u> <u>(only in respect of *conditional permitted long-term asset funds* to be held other than in connection with a *qualifying scheme*) the *policyholder* has received a *personal recommendation*, or investment management services, from a *firm*, as to the suitability of the investment for the *policyholder*;</u>

…

(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*~~ <u>(only in respect of *conditional permitted illiquid assets*) the *linked fund* investing in *conditional permitted illiquid assets* may only be included in the *default arrangements* of a *qualifying scheme*</u>.

…

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* <u>or *conditional permitted illiquid assets*</u>, 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*~~ <u>those *investments*</u>.

<u>21.3.18 A</u> <u>R</u> <u>The assessment in *COBS* 21.3.16R(2), in relation to a *linked fund* which is included in an individual pension arrangement under a *qualifying scheme* in circumstances where the member self-selects the *linked assets*, must include ensuring that the total exposure of that individual pension arrangement to *conditional permitted long-term asset funds* is not greater than the exposure to *conditional permitted long-term asset funds* and/or *conditional permitted illiquid assets* which would be considered suitable</u>

and appropriate if that member were invested in the *qualifying scheme's default arrangement.*

Annex C

Amendments to the Collective Investment Schemes sourcebook (COLL)

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

[*Editor's note*: The changes shown in this Annex are to the version of the Handbook as at 1 February 2023, incorporating the amendments made by the Financial Promotions and High-Risk Investments Instrument 2022.]

1 Introduction

…

1.2 Types of authorised fund

…

Types of authorised fund – explanation

1.2.2 G …

(3) (a) A *qualified investor scheme* 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*~~ *non-mass market investments* (see *COBS* 4.12B (Promotion of non-mass market investments).

…

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

(i) *professional clients*; and

(ii) *retail clients* who are sophisticated investors, ~~or~~ *certified high net worth investors* or 'restricted investors',

~~on the same terms as *non-mainstream pooled investments*~~ in accordance with the *rules* on the promotion of *restricted mass market investments* (see *COBS* 4.12A (Promotion of restricted mass market investments)).

…

…

…

5 Investment and borrowing powers

…

5.1 Introduction

…

Indicative overview of investment and borrowing powers

5.1.4 G This table belongs to *COLL* 5.1.2G(2).

Scheme investments and investment techniques	Limits for *UCITS schemes*		Limits for *non-UCITS retail schemes*	
	Permissible investment	Maximum limit	Permissible investment	Maximum limit
…				
Unregulated *schemes*, *qualified investor schemes*, and *long-term asset funds*	No	N/A	Yes	20% (C) (D)
…				
Note:	Meaning of terms used:			
…				
"(C)"	In the case of a *non-UCITS retail scheme* operating as a *FAIF* there is no maximum limit unless the *FAIF* is investing in *LTAFs* - see COLL 5.7.7R.			
…				

…

5.7 Investment powers and borrowing limits for NURS operating as FAIFs

…

Purpose

5.7.2 G …

(2) One example of the different investment and borrowing powers under the *rules* in this section for *non-UCITS retail schemes* operating as *FAIFs* is the power to invest up to 100% of the value of the *scheme property* in *schemes* other than *LTAFs* to which *COLL* 5.7.7R (Investment in collective investment schemes) applies. A *FAIF* may not hold more than 50% in value of its *scheme property* in *units* of *LTAFs* (see *COLL* 5.7.7R(3)).

…

…

Investment in collective investment schemes

5.7.7 R (1) A *non-UCITS retail scheme* operating as a *FAIF* must not invest in *units* in a *collective investment scheme* (second *scheme*) unless the second *scheme*:

(a) is a *scheme* which satisfies the criteria in *COLL* 5.6.10R(1)(a) to (d);~~, or~~

(b) meets each of the requirements in ~~(1) to (4):~~ (2)(a) to (d); or

(c) provided the conditions in (3) are satisfied, is a *long-term asset fund*.

(2) A *FAIF* may invest in a second *scheme* under this paragraph if:

~~(1)~~ (a) the second *scheme* operates on the principle of the prudent spread of risk;

~~(2)~~ (b) the second *scheme* is prohibited from investing more than 15% in value of the property of that *scheme* in *units* in *collective investment schemes* or, if there is no such prohibition, the *non-UCITS retail scheme's authorised fund manager* is satisfied, on reasonable grounds and after making all reasonable enquiries, that no such investment will be made;

~~(3)~~ (c) the participants in the second *scheme* must be entitled to have their *units* redeemed in accordance with the *scheme* at a *price*:

~~(a)~~ (i) related to the net value of the property to which the *units* relate; and

~~(b)~~ (ii) determined in accordance with the *scheme*; and

~~(4)~~ (d) where the second *scheme* is an *umbrella*, the provisions in ~~(1)~~ (2)(a) to ~~(3)~~ (c) above and *COLL* 5.7.5R (Spread: general) apply to each *sub-fund* as if it were a separate *scheme*.

(3) A *FAIF* may invest in *units* in a second *scheme* which is a *long-term asset fund* provided:

(a) the investment does not result in the *FAIF* holding more than 50% in value of its *scheme property* in *units* of *LTAFs*;

(b) the *long-term asset fund's* liquidity, *redemption* policy and *dealing* arrangements are sufficient for the *FAIF* to be able to meet its obligations in respect of *redemptions*; and

(c) if appropriate, the *authorised fund manager* has considered whether the *FAIF's* holdings of *units* of different *LTAFs* are diversified enough so that it can meet its *redemption* obligations.

…

Due diligence requirements

5.7.9 R (1) A *non-UCITS retail scheme* operating as a *FAIF* must not invest in *units* in *schemes* in *COLL* 5.7.7R ~~(1)~~(2)(a) to ~~(3)~~(2)(c) ('second *schemes*') unless the *authorised fund manager* has carried out appropriate due diligence on each of the second *schemes* and:

…

…

15 Long-term asset funds

15.1 Introduction

…

Long-term asset funds: eligible investors

15.1.3 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)~~ *COBS* 4.12A (Promotion of restricted mass market investments).

…

Long-term asset funds – explanation

15.1.4 G (1) *Long-term asset funds* are *authorised funds* which are intended only for *professional clients* and for *retail clients* who are sophisticated investors, ~~or~~ *certified high net worth investors* or ‘restricted 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)~~ *COBS* 4.12A (Promotion of restricted mass market investments).

(2) 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)~~ *COBS* 4.12A (Promotion of restricted mass market investments) and who also meets the criteria in *COLL* 15 Annex 1R.

…

15.3 Constitution

…

Table: contents of the instrument constituting the fund

15.3.6 R This table belongs to *COLL* 15.3.5R.

…		
3	**Constitution**	
	The following statements:	
	…	
	(9)	for an *ACS*:

		(a)	the *contractual scheme deed*:			
			…			
			(iv)	states that *units* may not be *issued* to a *person* other than a *person*:		
				…		
				(B)	to whom *units* in a *long-term asset fund* may be promoted under ~~*COBS* 4.12B.7R~~ *COBS* 4.12A (Promotion of restricted mass market investments);	
			…			
			(vii)	states:		
				…		
				(B)	where a transfer of *units* is allowed by the *scheme* or, where appropriate, the *sub-fund*~~,~~ in accordance with (A)(ii), *units* may only be transferred in accordance with the conditions specified by *FCA rules*, including that *units* may not be transferred to a *person* other than a *person*:	
					…	
					(ii)	to whom *units* in a *long-term asset fund* may be promoted under ~~*COBS* 4.12B.7R~~ *COBS* 4.12A (Promotion of restricted mass market investments); and
			~~(vii)~~ (viii)	states that for a *limited partnership scheme*, the *scheme* is not dissolved on any *person* ceasing to be a *limited partner* or *nominated partner* provided that there remains at least one *limited partner*;		
		…				
…						

…

15.4 Prospectus and other pre-sale notifications

…

Table: contents of a long-term asset fund prospectus

15.4.5 R This table belongs to *COLL* 15.4.2R.

…				
14	**Fees, charges and expenses**			
	A description of all fees, charges and expenses, including:			
	(1)	…		
	(2)	the payments that may be made out of the *scheme property* to any *person* whether by way of *remuneration* for services, reimbursement of expense, or charge or other payment and for each category of *remuneration*, expense, charge or payment the following should be specified:		
		…		
		(b)	if notice has been given to *unitholders* of the *authorised fund manager's* intention to:	
			…	
			(iii)	change the basis of the treatment of a payment from the *capital property* set out in ~~*COLL* 15.8.16R(2) (Payments)~~ *COLL* 15.8.15IR (Allocation of payments to income or capital) and *COLL* 15.6.15PR(2) (Payments: classes available only to professional clients) (as applicable),
			particulars of that introduction or increase and when it will take place; and	
		(c)	if, in accordance with ~~*COLL* 15.8.16R(2) (Payments)~~ *COLL* 15.8.15IR (Allocation of payments to income or capital) and *COLL* 15.6.15PR(2) (Payments: classes available only to professional clients) (as applicable), all or part of the *remuneration* or expense are to be treated as a capital charge:	
			…	
	…			
…				
17	**Issue of units in ACSs: eligible investors**			
	(1)	A statement that *units* may not be *issued* to a *person* other than to a *person*:		

		…	
		(b)	to whom *units* in a *long-term asset fund* may be promoted under ~~*COBS* 4.12B.7R~~ *COBS* 4.12A (Promotion of restricted mass market investments).
	…		
18	**Transfer of units in ACSs**		
	…		
	(2)	A statement that where transfer of *units* is allowed by the *instrument constituting the fund* and *prospectus* in accordance with (1)(b), *units* may only be transferred in accordance with the conditions specified by *FCA rules,* including that *units* may not be transferred to a *person* other than a *person*:	
		…	
		(b)	to whom *units* in a *long-term asset fund* may be promoted under ~~*COBS* 4.12B.7R~~ *COBS* 4.12A (Promotion of restricted mass market investments).
	…		
…			

…

15.5 Annual report and investor relations

…

Alterations to the scheme and notices to unitholders

15.5.10 R (1) (a) ~~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*.~~ The *authorised fund manager* must, by way of an *extraordinary resolution*, obtain prior approval from the *unitholders* for any proposed change to the *scheme* which, in accordance with (1)(b), is a fundamental change.

(b) A fundamental change is a change or event which:

(i) changes the purposes or nature of the *scheme*;

(ii) may materially prejudice a *unitholder*;

(iii) alters the risk profile of the *scheme*; or

(iv) introduces any new type of payment out of the *scheme property*.

(2) (a) ~~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.~~ The *authorised fund manager* must give prior written notice to *unitholders* in respect of any proposed change to the operation of a *scheme* that, in accordance with (2)(b), constitutes a significant change.

(b) A significant change is a change or event which is not fundamental in accordance with (1) but which:

(i) affects a *unitholder's* ability to exercise their rights in relation to their investment; or

(ii) would reasonably be expected to cause the *unitholder* to reconsider their participation in the *scheme*; or

(iii) results in any increased payments out of the *scheme property* to an *authorised fund manager* or any other *director* of an *ICVC* or an *associate* of either; or

(iv) materially increases other types of payment out of *scheme property*.

(c) The notice period in (2)(a) must be of a reasonable length (and, if the *scheme* has *unitholders* who are *retail clients*, must not be less than 60 *days*).

(2A) (a) The *authorised fund manager* must inform *unitholders* in an appropriate manner and timescale of any notifiable changes that are reasonably likely to affect, or have affected, the operation of the *scheme*.

(b) A notifiable change is a change or event, other than a fundamental change under (1) or a significant change under (2), which a *unitholder* must be made aware of unless the *authorised fund manager* concludes that the change is insignificant.

(3) Alterations affecting only a particular *sub-fund* or *class* of *units* may be approved in accordance with (1), ~~or~~ (2) or (2A) for the particular *sub-fund* or *class* of *units*, with the consent of, or, as the case may be, notice to, the relevant *unitholders*.

…

Alterations to the scheme and notices to unitholders: guidance

15.5.11 G (1) ~~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.~~ The *guidance* in *COLL* 4.3.5G (Guidance on fundamental changes) applies to *COLL* 15.5.10R(1) as if:

(a) in *COLL* 4.3.5G(2), the references to *COLL* 4.3.4R(2)(a) to *COLL* 4.3.4R(2)(c) were references to *COLL* 15.5.10R(1)(a)(i) to (iii); and

(b) in *COLL* 4.3.5G(2)(a), the reference to *COLL* 7.6.2R was a reference to that *rule* as applied by *COLL* 15.10.4R (Schemes of arrangement).

(2) The *guidance* in *COLL* 4.3.7G (Guidance on significant changes) applies to *COLL* 15.5.10R(2) as if the references to *COLL* 4.3.6R were references to *COLL* 15.5.10R(2).

(3) The *guidance* in *COLL* 4.3.9R (Guidance on notifiable changes) applies to *COLL* 15.5.10R(2A) as if the reference to *COLL* 4.3.8R was a reference to *COLL* 15.5.10R(2A).

Change events relating to feeder LTAFs

15.5.11A R (1) Where the *authorised fund manager* of a *feeder LTAF* is notified of any change in respect of its *qualifying master LTAF* which has the effect of a change to the *feeder LTAF*, the *authorised fund manager* must:

(a) classify it as a fundamental change, significant change or a notifiable change to the *feeder LTAF* in accordance with the *rules* in this *COLL* 15.5.10R; and

(b) (i) for a fundamental change, obtain approval from the *unitholders* by way of an *extraordinary resolution*;

(ii) for a significant change, give written notice to *unitholders* of that change; or

(iii) for a notifiable change, comply with *COLL* 15.5.10R(2A).

(2) The actions required by (1)(b)(i) and (1)(b)(ii) must be carried out as soon as reasonably practicable after the *authorised fund manager* of the *feeder LTAF* has been informed of the relevant change to the *qualifying master LTAF*.

15.5.11B	G	(1)	The *authorised fund manager* of the *feeder LTAF* should assess the change to the *qualifying master LTAF* in terms of its impact on the *feeder LTAF*. For example, a change to the investment objective and policy of the *qualifying master LTAF* that alters its risk profile would constitute a fundamental change for the *feeder LTAF*. In order for the *feeder LTAF* to continue investing in the *qualifying master LTAF*, the *authorised fund manager* of the *feeder LTAF* should obtain the approval of *unitholders* by way of an *extraordinary resolution*, or else make a proposal to invest in a different *qualifying master LTAF*. This should be done in accordance with *COLL* 15.9 (Operational requirements for feeder LTAFs).
		(2)	Not all changes affecting the *qualifying master LTAF* will have the same significance for the *feeder LTAF* and its *unitholders*. For example, a change to how the prices of the *units* in the *qualifying master LTAF* are published might not be a significant change for the *feeder LTAF* if the prices of its own *units* continue to be published in the same way.
		(3)	Where the *authorised fund manager* of the *feeder LTAF* receives insufficient notice of the intended change to the *qualifying master LTAF* to be able to seek the prior approval of *unitholders* to any fundamental change or to inform them at least 60 *days* in advance of any significant change, it should nevertheless use reasonable endeavours to inform them of the change as soon as possible so that they can make an informed judgement about the merits of continuing to invest in the *feeder LTAF*.

Meetings of unitholders and service of notices

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.~~ The provisions of *COLL* 4.4 (Meetings of unitholders and service of notices) apply to:

(a) an *authorised fund manager* of an *AUT*, *ACS* or *ICVC*;

(b) any other *director* of an *ICVC*;

(c) a *depositary* of an *AUT*, *ACS* or *ICVC*,

where such *AUT*, *ACS* or *ICVC* is a *long-term asset fund*.

…

(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*.~~ [Deleted.]

…

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

…

~~The register of unitholders: AUTs or ACSs~~

15.7.12 R ~~(1)~~ ~~The *authorised fund manager* or the *depositary* 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 those *units*.~~

~~(3)~~ ~~The *authorised fund manager* or the *depositary* 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 *depositary* of an *AUT* or *ACS* of any information it 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*.~~ [Deleted.]

Title and the register of unitholders: AUTs or ACSs

15.7.12A R (1) This *rule* applies in relation to a *AUT* and an *ACS* which is a *long-term asset fund*.

(2) (a) Either:

(i) the *manager* or the *trustee* (as nominated in the *trust deed*); or

(ii) the *authorised contractual scheme manager* or the *depositary* of the *ACS* (as nominated in the *contractual scheme deed*);

must establish and maintain a *register* of *unitholders* as a *document* in accordance with this *rule*.

(b) The *manager* or *trustee* or the *authorised contractual scheme manager* or *depositary*, in accordance with their duties under (2)(a), must exercise all due diligence and take all reasonable steps to ensure the information contained on the *register* is at all times complete and up to date.

(c) The *register* must contain:

(i) the name and address of each *unitholder* (for joint *unitholders*, no more than four need to be registered);

(ii) the number of *units* of each *class* held by each *unitholder*;

(iii) the date on which the *unitholder* was registered for *units* standing in their name; and

(iv) the number of *units* of each *class* currently in *issue*.

(d) No notice of any trust (express, implied or constructive) which may be entered in the *register* is binding on the *manager* or *trustee*, or the *authorised contractual scheme manager* or *depositary*.

(e) The *register* is conclusive evidence of the *persons* entitled to the *units* entered in it.

(f) The *person* responsible for the *register* in (2)(a) must:

(i) take reasonable steps to alter the *register* on receiving written notice of a change of name or address of any *unitholder*;

(ii) make the *register* available for inspection free of charge in the *United Kingdom* by or on behalf of any *unitholder* (including the *manager* or *authorised contractual scheme manager*), during office hours;

(iii) supply free of charge to any *unitholder*, or their authorised representative, a copy of the entries on the *register* relating to that *unitholder* on request;

(iv) where a *unitholder* defaults on paying for the *issue* or *sale* of *units*, make an alteration or deletion in the *register* to compensate for the default after which the *manager* or *authorised contractual scheme manager* becomes entitled to those *units* (until those *units* are either cancelled or re-sold and paid for); and

(v) carry out any conversion of *units* allowed for by paragraph (5) below after consultation with the *manager* or *trustee* or the *authorised contractual scheme manager* or *depositary*, as appropriate.

(3) (a) Subject to (3)(c), if no *person* is entered in the *register* as the *unitholder* of a *unit*, the *authorised fund manager* of the *AUT* or *ACS* must be treated as the *unitholder* of each such *unit* which is in *issue*.

(b) Where *units* are transferred to the *authorised fund manager*, the *units* need not be cancelled and the *authorised fund manager* need not be entered on the *register* as the new *unitholder*.

(c) 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*.

(4) (a) Every *unitholder* of an *AUT* is entitled to transfer *units* held on the *register* by an instrument of transfer in any form that the *person* responsible for the *register* may approve, but that *person* is under no duty to accept a transfer unless it is permitted by the *trust deed* or *prospectus*.

(b) Provided:

(i) the requirements in *COLL* 15.8.7R (Transfer of units in an ACS) are satisfied; and

(ii) transfers of *units* are allowed by the *contractual scheme deed* and *prospectus* in accordance with the conditions specified by *rules*,

every *unitholder* of an *ACS* is entitled to transfer *units* held on the *register* by an instrument of transfer in any form that the *person* responsible for the *register* may approve, but that *person* is under no duty to accept a transfer unless it is permitted by the *contractual scheme deed* and *prospectus*.

(c) Every instrument of transfer of *units* of an *AUT* or *ACS* must be signed by, or on behalf of, the *unitholder* transferring the *units* (or, for a *body corporate*, sealed by that *body corporate* or signed by one of its *officers* (or in Scotland, two of its *officers*)) authorised to sign it and, unless the transferee is the *authorised fund manager*, the transferor must be treated as the *unitholder* until the name of the transferee has been entered in the *register*.

(d) In the case of an *AUT* or *ACS*, every instrument of transfer (stamped as necessary) must be left for registration, with the *person* responsible for the *register*, accompanied by:

(i) any necessary documents that may be required by legislation; and

(ii) any other evidence reasonably required by the *person* responsible for the *register*.

(e) In the case of an *AUT* or *ACS*, the details of an instrument of transfer must be kept for a period of six years from the date of its registration.

(f) In the case of an *AUT* or *ACS*, on registration of an instrument of transfer, a record of the transferor and the transferee and the date of transfer must be made on the *register*.

(5) Where there is more than one *class* of *units* offered for *issue* or *sale*, the *unitholder* has a right to convert from one to the other, provided that doing so would not contravene any provision in the *prospectus*.

[**Note**: See also *COLL* 15.8.7R (Transfer of units in an ACS) and the related *guidance* in *COLL* 15.8.8G in relation to transfers of *units* in an *ACS*.]

…

15.8 Valuation, pricing, dealing and income

…

Transfer of units in an ACS

15.8.7 R …

(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*:

…

(b) to whom *units* in a *long-term asset fund* may be promoted under ~~*COBS* 4.12B.7R~~ *COBS* 4.12A (Promotion of restricted mass market investments).

…

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:

…

(b) *units* in a *long-term asset fund* may be promoted to that *person* under ~~*COBS* 4.12B.7R~~ *COBS* 4.12A (Promotion of restricted mass market investments).

…

…

15.8.15 G …

Payments: application of rules to classes made available to retail clients

15.8.15A R (1) The *rules* and *guidance* in *COLL* 15.8.15BR to *COLL* 15.8.15PR apply in respect of any *classes* which are which are intended for, or *sold*, promoted or otherwise made available to *retail clients*.

(2) *COLL* 15.8.15BR to *COLL* 15.8.15PR may be applied to *classes* that are intended for, or *sold*, promoted or otherwise made available to *professional clients*.

(3) *COLL* 15.8.15BR to *COLL* 15.8.15PR apply as specified in the table in (4).

(4) This table belongs to (3).

Rule	*ICVC*	*Authorised fund manager*	*Depositary* of an *ICVC*, *AUT* or *ACS*
COLL 15.8.15BR	x	X	X
COLL 15.8.15CG	x	X	X
COLL 15.8.15DG	x	X	
COLL 15.8.15ER	x	X	

COLL 15.8.15FR		X	
COLL 15.8.15GG		X	
COLL 15.8.15HR		X	
COLL 15.8.15IR		X	X
COLL 15.8.15JG		X	X
COLL 15.8.15KR	x	X	
COLL 15.8.15LG	x	X	
COLL 15.8.15MR	x	X	X
COLL 15.8.15NG		X	X
COLL 15.8.15OR	x	X	
Note: "x" means "applies" but not every paragraph in every *rule* will necessarily apply.			

Payments out of scheme property

15.8.15B R (1) The only payments which may be recovered from the *scheme property* of a *long-term asset fund* are those in respect of:

(a) remunerating the parties operating the *authorised fund*;

(b) the administration of the *authorised fund*; or

(c) the investment or safekeeping of the *scheme property*.

(2) No payment under this *rule* can be made from *scheme property* if it is unfair to (or materially prejudices the interests of) any class of *unitholders* or potential *unitholders*.

(3) Paragraphs (1) and (2) do not apply to any payments in relation to any taxation payable by the *authorised fund*.

		(4)	Paragraphs (1) and (2) do not permit payments to third parties for the safekeeping or administration of *units* on behalf of *unitholders* rather than on behalf of the *authorised fund*.
	Payments out of scheme property: guidance		
15.8.15 C	G	(1)	Details of permissible types of payments out of *scheme property* are to be set out in full in the *prospectus* in accordance with *COLL* 15.4.5R(14) (Table: contents of a long-term asset fund prospectus).
		(2)	An *authorised fund manager* should consider whether a payment to an *affected person* is unfair because of its amount or because it confers a disproportionate benefit on the *affected person*.
		(3)	*COLL* 15.8.15BR(2) does not invalidate a payment that gives rise to a difference between the rights of separate *classes* of *unit* that relates solely to the payments that may be taken out of *scheme property*.
		(4)	Payments to third parties as referred to in *COLL* 15.8.15BR(4) include payments to *platform service providers* and other similar platform services.
	Performance fees		
15.8.15 D	G	(1)	For the *authorised fund manager's* periodic charge or for payments out of *scheme property* to the *investment adviser*, the *prospectus* may permit a payment based on a comparison of one or more aspects of the *scheme property* or *price* in comparison with fluctuations in the value or price of property of any description or index or other factor designated for the purpose (a "performance fee").
		(2)	Any performance fee should be specified in the appropriate manner in the *prospectus* and should be consistent with *COLL* 15.8.15BR. In determining whether the performance fee is consistent, the *authorised fund manager* should have regard to factors such as: (a) where it is made on the basis of performance of the *authorised fund* against any index or any other factor, that benchmark must be reasonable given the investment objectives of the *authorised fund* and must be consistently applied; (b) the performance fee may be based on performance above a defined positive rate of return (the "hurdle rate"), which may be fixed or variable; (c) where (a) or (b) applies, the benchmark or hurdle rate may be carried forward to future accrual periods; (d) the period over which it accrues and the frequency with which it crystallises should be reasonable; and

(e) except where allowed by *COLL* 15.8.15BR(1), there are to be no arrangements to adjust the *price* or value of *sale* or repurchase transactions in respect of performance fees accrued or paid if the transactions occur within the accrual period of the charge.

(3) In accordance with *COLL* 15.4.5R(14) (Table: contents of a long-term asset fund prospectus) the *prospectus* should contain the maximum amount or percentage of *scheme property* that the performance fee might represent in an *annual accounting period*. This disclosure should be given in plain language together with examples of the operation of the performance fee.

15.8.15E R Any performance fee specified in the *prospectus* must be calculated on the basis of the *scheme's* performance after deduction of all other payments out of *scheme property*.

Charges on buying and selling units

15.8.15F R (1) No *person* other than the *authorised fund manager* may impose charges on *unitholders* or *potential unitholders* when they buy or sell *units*.

(2) An *authorised fund manager* must not make any charge or levy in connection with:

(a) the *issue* or *sale* of *units* except where a *preliminary charge* is made in accordance with the *prospectus* of the *scheme* which must be:

(i) a fixed amount; or

(ii) calculated as a percentage of the *price* of a *unit*; or

(iii) calculated as a percentage of the amount being subscribed; or

(b) the *redemption* or *cancellation* of *units*, except a *redemption charge* made in accordance with the *prospectus* current at the time the relevant *units* were purchased by the *unitholder*.

Charges on buying and selling units: guidance

15.8.15G G (1) To introduce a new charge for the *sale* or *redemption* of *units*, or any new category of remuneration for its services or increase the rate stated in the *prospectus*, the *authorised fund manager* will need to comply with:

(a) *COLL* 15.4.5R (Table: contents of a long-term asset fund prospectus);

(b) *COLL* 15.5.10R (Alterations to the scheme and notices to unitholders) (see also the *guidance* in *COLL* 15.5.11G); and

(c) *COLL* 15.5.11AR (Change events relating to feeder LTAFs) (see also the *guidance* in *COLL* 15.5.11BG).

(2) A *redemption* charge may be expressed in terms of amount or percentage. It may also be expressed as diminishing over the time during which the *unitholder* has held the *units* or be calculated on the basis of the *unit price* performance of the *units*. However, any *redemption* charge should not be such that it could be reasonably regarded as restricting any right of *redemption*.

(3) The *prospectus* should contain a statement as to the determination of the order in which *units* that have been acquired at different times by a *unitholder* are to be taken to be *redeemed* or cancelled for the purpose of imposing the *redemption charge*.

(4) When a *preliminary charge* is calculated as a percentage of the price of a *unit*, the percentage amount should be added to:

(a) the price of a *unit* (for a *single-priced authorised fund*); or

(b) the *issue* price (for a *dual-priced authorised fund*).

Charges for the exchange of units in an umbrella

15.8.15H R For a *scheme* which is an *umbrella*, an *authorised fund manager* must not make a charge on an exchange of *units* in one *sub-fund* for *units* in another *sub-fund* unless the amount of the charge is not more than the amount stated in the current *prospectus*.

Allocation of payments to income or capital

15.8.15I R (1) The *authorised fund manager* must determine whether a payment is to be made from the *income property* or *capital property* of an *authorised fund*, and in doing so the *authorised fund manager* must:

(a) pay due regard to whether the nature of the cost is income related or capital related and the objective of the *scheme*; and

(b) agree the treatment of any payment with the *depositary*.

(2) Where, for any *class* of *units* for any *annual accounting period* (see *COLL* 15.8.18R(2) (Income)), the amount of the *income property* is less than the income distributed, the shortfall must, as from the end of that period, be charged to the *capital account* and must not subsequently be transferred to the *income account*.

Allocation of payments to income or capital: guidance

15.8.15 J	G	(1)	Any payment as a result of effecting transactions for the *authorised fund* should be made from the *capital property* of the *scheme*.
		(2)	Other than the payments in (1), all other payments should be made from *income property* in the first instance but may be transferred to the *capital account* in accordance with *COLL* 15.8.15IR(1) (Allocation of payments to income or capital).
		(3)	For payments transferred to the *capital property* of the *scheme* in accordance with (2), the *prospectus* should disclose the matters in *COLL* 15.4.5R(14) (Table: contents of a long-term asset fund prospectus).
		(4)	If the *authorised fund manager* wishes to make a change in relation to the allocation of payments, the procedures in *COLL* 15.5.10R (Alterations to the scheme and notices to unitholders) will be relevant.
	Prohibition on promotional payments		
15.8.15 K	R	(1)	No payment may be made from *scheme property* to any *person*, other than a payment to the *authorised fund manager* permitted by the *rules* in *COLL*, for the acquisition or promotion of the *sale* of *units* in an *authorised fund*.
		(2)	Paragraph (1) does not apply to the costs an *authorised fund* incurs preparing and printing the *key information document*, provided the *prospectus* states, in accordance with *COLL* 15.4.5R(14) (Table: contents of a long-term asset fund prospectus), that these costs are properly payable to the *authorised fund manager* from *scheme property*.
	Prohibition on promotional payments: guidance		
15.8.15 L	G	Examples of payments which are not permitted by *COLL* 15.8.15KR include:	
		(1)	*commission* payable to intermediaries (such payments should normally be borne by the *authorised fund manager*);
		(2)	payments or costs in relation to the preparation or dissemination of *financial promotions* (other than costs allowed under *COLL* 15.8.15KR(2)).
	Payments of liabilities on transfer of assets		
15.8.15 M	R	(1)	Where the *scheme property* of an *LTAF* is transferred to a second *authorised fund* (or to the *depositary* for the account of the *authorised fund*) in consideration of the *issue* of *units* in the second *authorised fund* to *unitholders* in the first *scheme*, (2) applies.

(2) The *ICVC* or the *depositary* of the *ICVC*, *ACS* or *AUT* as the successor in title to the property transferred may pay out of the *scheme property* any liability arising after the transfer which, had it arisen before the transfer, could properly have been paid out of the property transferred, but only if:

(a) there is nothing in the *instrument constituting the fund* of the *LTAF* expressly forbidding the payment; and

(b) the *authorised fund manager* is of the opinion that proper provision was made for meeting such liabilities as were known or could reasonably have been anticipated at the time of the transfer.

Exemptions from liability to account for profits

15.8.15N 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 any *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*.

Allocation of scheme property

15.8.15O R For a *scheme* that is an *umbrella*, any assets to be received into, or any payments out of, the *scheme property* that are not attributable to one *sub-fund* only must be allocated by the *authorised fund manager* between the *sub-funds* in a manner that is fair to the *unitholders* of the *umbrella* generally.

Payments: classes available only to professional clients

15.8.15P R (1) This *rule* applies to *classes* that are intended for, or *sold*, promoted or otherwise made available only to *professional clients* unless the provisions in *COLL* 15.8.15BR to *COLL* 15.8.15PR have been applied in accordance with *COLL* 15.8.15AR(2).

(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*.

~~Payments~~ Movable or immovable property: ICVCs

15.8.16 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*.~~ [Deleted.]

[*Editor's note:* This text has been moved to *COLL* 15.8.15PR(2).]

…

15.10 Termination, suspension, and schemes of arrangement

…

Suspension

15.10.3 R …

(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, which:

(a) is clear, fair and not misleading;

(b) draws *unitholders'* particular attention to the exceptional circumstance which resulted in the suspension; and

(c) informs *unitholders* how to obtain the information detailed in (4A).

(4A) The *authorised fund manager* must ensure that it publishes (on its website or by other general means) sufficient details to keep *unitholders* appropriately informed about the suspension including, if known, its likely duration.

…

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

…
For the purposes of the *rule* on qualified investors in a *long-term asset fund* which is an *ACS* (see *COLL* 15.1.3R(2)), the *authorised contractual scheme manager* must take reasonable care to ensure that ownership of *units* in the *scheme* is only recorded in the *register* for a *person*:

…	
(2)	to whom *units* in a *long-term asset fund* may be promoted ~~to that *person*~~ under ~~*COBS* 4.12B.7R~~ *COBS* 4.12A (Promotion of restricted mass market investments).

…

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
…				
COLL 15.7.6R(2)(g)	…			
COLL 15.7.12AR(2)(f)	Instruments of Transfer (*person* responsible for the *register*)	Full details	From registration	6 years
…				

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